ICRA

March 31, 2017

Virgo Polymers (India) Limited

Instrument	Amount	Rating Action
	In Rs Crore	
Long term, Term Loans	2.50 (enhanced from nil)	[ICRA]BB+ (Negative) / Assigned
Long term, Fund Based	5.00	[ICRA]BB+ (Negative) / Re-affirmed; outlook revised
Long-term, Un-allocated	4.30 (enhanced from nil)	[ICRA]BB+ (Negative) / Assigned
Short term, Non-fund based	16.00 (enhanced from 10.80)	[ICRA]A4+ / Re-affirmed

Instrument Details are provided in Annexure I

Rating Action

ICRA has assigned/ re-affirmed the long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) to the Rs. 2.50 crore[1] (enhanced from nil) term loans, the Rs. 5.00 crore fund-based limits and to the Rs. 4.30 crore (enhanced from nil) un-allocated limits of Virgo Polymers (India) Limited ("Virgo" /"the company"). ICRA has revised the outlook on the long-term rating from Stable to Negative. ICRA has also re-affirmed the short-term rating at [ICRA]A4+ (pronounced ICRA A four plus) [2] for the Rs. 16.00 crore (enhanced from Rs. 10.80 crore) non-fund based limits of Virgo.

Rationale

The outlook revision takes into account Virgo's muted revenue growth in FY 2015–16, despite a healthy increase in sales volume, owing to a sharp fall in realisations on the back of weaker crude prices. This consequently resulted in weaker absorption of fixed costs, leading to contraction in operating margins, and accordingly, a sharp moderation in its coverage metrics. Virgo has also undertaken debt funded capex towards enhancing its production capacity in the current year. As such, unless a notable improvement in Virgo's profitability was to occur, its interest coverage and other debt protection metrics stand to weaken over the near term. The ratings remain constrained by Virgo's low profitability on account of limited pricing power owing to competitive pressures from a highly fragmented and commoditized Flexible Intermediate Bulk Carrier (FIBC) industry; the moderate scale of Virgo's operations, and the exposure of the company's margins to volatility in polymer prices and forex rates.

The ratings however, favourably takes into account, Virgo's established track record in FIBC manufacturing, together with the strong presence of the Group in polymer trading, and the considerable experience of its promoters in the industry, which offers sourcing advantages. The ratings also factor in Virgo's comfortable capital structure and moderate working capital intensity; as well as the favourable demand outlook for FIBC in both domestic and international markets on the back of increased conversion from other forms of packaging, together with increasing demand from end-user segments.

[1] 100 lakh = 1 crore = 10 million

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in / other ICRA Rating publications

Key Rating Drivers

Credit Strengths

- Established track record of company and the group in the polymer industry; considerable experience of promoters
- Established relationship with customers and global suppliers
- Favourable demand outlook for FIBC in both domestic and global markets
- Moderate working capital intensity and healthy capital structure

Credit Weakness

- High competition from a fragmented industry with low entry barriers limits pricing flexibility and puts pressures on margins
- Exposure of margins to volatility in polymer prices and forex
- Interest and repayment burden from recent debt funded capex

Description of key rating drivers highlighted above:

Virgo is part of the Shyam Group of companies, which has an established presence in polymer trading with a track record of over three decades. Virgo is engaged in the manufacture of FIBCs, that finds use in bulk packaging across various industries. The company has been in operation since 1985, and has over the years, built a healthy track record with its export clients, from whom the company has continued to receive repeat orders. Virgo also benefits from the Group's established supply network with global majors such as Exxon Mobile, Saudi Basic Industries Corporation and Basell Asia Pacific Limited. The company has also been able to maintain control over its working capital cycle leading to moderate working capital intensity in the range of 15-20% over the recent fiscals. Gradual accretion to reserves amid relatively low borrowings – which are majorly working capital in nature – has resulted in healthy capital structure with gearing in the range of 0.6x to 1.0x. The overall demand for FIBC remains favourable on the back of increasing migration to the product as a low-cost, light-weight and customisable alternative to traditional forms of bulk packaging, and India, as a low cost production centre is well positioned to cater to the demand.

The domestic FIBC industry is highly fragmented – comprising numerous organised as well unorganised players – owing to the relatively low entry barriers and capital requirement. As such, Virgo faces intense competition that limits its pricing flexibility and puts pressure on margins, which together with its moderate scale of operations has resulted in thin profitability indicators. Despite the company registering a healthy growth in sales volumes, a sharp fall in realisations on the back of weaker crude prices, resulted in muted revenue growth in FY 2015–16. This consequently resulted in weaker absorption of fixed costs – majorly employee expense and G&A – leading to weaker operating margins, and accordingly, a sharp moderation in its coverage metrics during the year. Virgo's margins also remain exposed to volatility in polymer prices and forex rates. The company has also undertaken debt funded capex towards enhancing its production capacity in the current year. With the debt drawn down only in November 2016, the effect of the interest burden on the same would appear over Q4 FY 2016–17 and after. As such, unless a notable improvement in Virgo's profitability was to occur, its interest coverage and other debt protection metrics stand to weaken over the near term, and is a credit negative.

Analytical approach:

Links to applicable criteria

Framework for Liquidity Analysis in Corporate Ratings
<http://www.icra.in/Files/Articles/Framework%20March%202016.pdf>

Corporate Credit Rating Methodology
<http://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf>

About the Company

Part of the Shyam Group of companies, Virgo Polymers (India) Limited is engaged in manufacturing FIBC bags out of its manufacturing facilities in Chennai, Tamil Nadu. Incorporated in 1985 as Virgo Polybags Private Limited with an initial capacity of 180 MTPA, Virgo's current installed capacity stands at 4,800 MTPA. It effects its sales to numerous players in domestic as well as international markets. The company also operates as a Del-Credere agent cum consignment stockist (DCA/CS) for HPCL Mittal Energy Limited (HMEL) for Polypropylene in Tamil Nadu, Kerala and Pondicherry.

The Shyam Group of companies have footprints in diverse businesses – such as polymer processing and trading, and non-banking financing activities – and traces its roots to the business set up in 1986 by Mr. Ram Awtar Ramsisaria in Kolkata. The Group shifted its operational base to Bangalore during the 1980s and commenced trading in plastic granules through different entities. Since then, the group has expanded its operations by several folds, and currently includes multiple trading, manufacturing and investment companies.

For FY 2015–16, Virgo reported a PAT of Rs. 0.33 crore on an operating income of Rs. 85.38 crore as against a PAT of Rs. 0.45 crore on an operating income of Rs. 85.20 crore in FY 2014–15.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month-year & Rating in FY 2017	Month-year & Rating in FY 2016	Month-year & Rating in FY 2014
				March 2017	April 2016	April 2015	February 2014
1	Term Loans	Long Term	2.50	[ICRA]BB+ (Negative)	-	-	-
2	Cash Credit	Long Term	5.00	[ICRA]BB+ (Negative)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3	Unallocated Limits	Long Term	4.30	[ICRA]BB+ (Negative)	-	-	-
4	L/C, Buyers Credit	Short-term	14.00	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
5	Bank Guarantees	Short-term	2.00	[ICRA]A4+	[ICRA]A4+	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loans	November 2016		March 2022	2.50	[ICRA]BB+ (Negative)
Cash Credit	-	-	-	5.00	[ICRA]BB+ (Negative)
Unallocated Limits	-	-	-	4.30	[ICRA]BB+ (Negative)
L/C, Buyers Credit	-	-	-	14.00	[ICRA]A4+
Bank Guarantees	-	-	-	2.00	[ICRA]A4+

Name and Contact Details of the Rating Analyst(s):

K Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Raghunath T
+91 44 4596 4340
raghunath.t@icraindia.com

Kailash Srinivasan
+91 44 4596 4309
kailash.srinivasan@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

ICRA

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata
Mr. Jayanta Roy
Mobile: **+91 9903394664**
Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231

Pune
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

Hyderabad
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500