Virgo Polymers (India) Limited

April 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term, Term Loans	2.50	1.50	[ICRA]BB+ (Stable); Reaffirmed; Outlook revised from Negative
Long-Term, Fund-based	5.00	10.00	[ICRA]BB+ (Stable); Reaffirmed; Outlook revised from Negative
Long -Term, Unallocated	4.30	0.30	[ICRA]BB+ (Stable); Reaffirmed; Outlook revised from Negative
Short-Term, Non-fund based	16.00	12.00	[ICRA]A4+; Reaffirmed
Short-Term, Unallocated	0.00	4.00	[ICRA]A4+; Reaffirmed
Total	**27.80**	**27.80**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed a long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) assigned to the Rs. 1.50-crore term loans facilities (reduced from Rs 2.50 crore), Rs. 10.00-crore fund-based facilities (enhanced from Rs. 5.00 crore), and Rs. 0.30-crore long-term unallocated (reduced from Rs. 4.30 crore) of Virgo Polymers (India) Limited ('Virgo' or the company)[1]. ICRA has also reaffirmed a short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) assigned to the Rs. 12.00-crore[2] non-fund-based facilities (reduced from Rs. 16.00 crore), and Rs. 4.00 crore short-term unallocated facilities (enhanced from Rs. 0.00 crore) of Virgo. The outlook on the long-term rating is revised to Stable from Negative.

Rationale

The revision in outlook to Stable from Negative considers the healthy growth in revenue witnessed by the company in Q4 FY2017 and 9M FY2018, post the capacity expansion and modest improvement in profitability and coverage metrics. The ratings continue to draw comfort from Virgo's established track record in flexible intermediate bulk carriers (FIBC), it being a part of the Shyam Group of companies, which has strong presence 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 an increasing demand from end-user segments.

The ratings are, however, constrained by Virgo's low profitability on account of its limited pricing power owing to the intense competition from a highly fragmented and commoditised FIBC industry, its moderate scale of operations, and the exposure of Virgo's margins to volatility in polymer prices and forex rates.

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[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *100 lakh = 1 crore = 10 million*

Outlook: Stable

ICRA expects Virgo to benefit from its vast experience in the FIBC manufacturing segment and the extensive track record of the Shyam Group in the polymer trading industry, which provides sourcing advantages. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Established track record in the polymer industry; considerable experience of the promoters - Incorporated in 1985, Virgo is mainly involved in manufacturing FIBC and also deals in polymer trading. Virgo also acts as a del-credere cum consignment stockist (DCA/CS) agent for HPCL Mittal Energy Limited (HMEL). Virgo benefits from a being part of the Shyam Group of companies, which has over three decades of track record in trading petrochemicals and polymers, providing sourcing advantages.

Long-term relationship with customers - Virgo obtains repeat orders from many international customers for its FIBC product due to its well-established relationship. It mainly caters this product to the overseas secondary traders and retailers. Customer concentration for the polymer granules trading segment also remained moderately high as it mainly caters to the polymer processors and other secondary fragmented traders.

Healthy gearing and moderate working capital intensity - Virgo's gearing remained healthy in the range of 0.2-0.5 times since the last few years. The gearing had increased to 0.5 times as on March 31, 2017 compared to the gearing of 0.2 times as on March 31, 2016 due to debt-funded capacity expansion undertaken by the company. It has moderate working capital intensity with the NWC/OI in the range of 7-12% for the last three years.

Healthy demand outlook for FIBC segment - The demand outlook remains favourable for FIBC in both domestic and international markets on the back of increased conversion from other forms of packaging, together with an increasing demand from end-user segments.

Credit challenges

Moderate scale of operations with thin and fluctuating profitability indicators - The company has a moderate scale of operations, with an operating income (OI) of Rs. 91.2 crore in FY2017 (PY 85.4crore). The revenue witnessed a healthy growth in 9M FY2018 at ~Rs. 88.1 crore, mainly driven by a growth in FIBC sales following the capacity expansion undertaken in the preceding year. Its operating profit margin and net profit margin remained low in the range of 1.5-2.6% and 0.2-0.5% in the recent years and are susceptible to volatility in polymer prices and forex rates

Stiff competition limits pricing flexibility - The company faces intense competition in the highly fragmented FIBC manufacturing segment, which limits its pricing flexibility.

Moderate coverage indicators - Due to thin profit margins, the coverage indicators have been moderate for the company, with the interest coverage and TD/OPBDITA in the range of 0.9-1.4 times and 1.3-4 times, respectively in the last few years.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

Virgo is a part of the Shyam Group of companies and is involved in manufacturing FIBC bags out of their manufacturing facilities in Chennai, Tamil Nadu. Incorporated in 1985 as Virgo Polybags Private Limited, with an initial capacity of 180MTPA, its current installed capacity stands at 4800 MTPA. The company sells its products to numerous players both in the domestic and international markets. It also operates as a DCA/CS agent for HMEL for polypropylene in Tamil Nadu, Kerala and Pondicherry, and Karnataka. It caters to the bulk packaging needs of various Industries pan-India as well as, tranships to 10 countries in four continents across the globe.

In FY2017, Virgo reported a net profit of Rs. 0.32 crore on an OI of Rs. 91.2 crore, as compared to a net profit of Rs. 0.33 crore on an OI of Rs. 85.4 crore in the previous year.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	85.4	91.2
PAT (Rs. crore)	0.3	0.3
OPBDIT/ OI (%)	1.5%	1.7%
RoCE (%)	10.0%	8.7%
Total Debt/ TNW (times)	0.2	0.5
Total Debt/ OPBDIT (times)	2.3	4.0
Interest Coverage (times)	0.9	1.4
NWC/ OI (%)	7%	8%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	**Amount Rated (Rs. crore)**	**Amount Outstanding (Rs. crore)**	**Date & Rating Apr 2018**	**Date & Rating FY2017 March 2017**	**Date & Rating FY2017 April 2016**	**Date & Rating FY2016 April 2015**
1	Term Loans	Long-Term	1.50	**1.50**	**[ICRA]BB+ (Stable)**	**ICRA]BB+ (Negative)**	**[ICRA]BB+ (Stable); reaffirmed**	**[ICRA]BB+ (Stable); Assigned**
2	Cash Credits	Long-Term	10.00	**10.00**	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Negative)**	**[ICRA]A4+; reaffirmed**	**[ICRA]A4+ Assigned**
3	Unallocated	Long-Term	0.30	**0.30**	**[ICRA]BB+ (Stable);**	**[ICRA]BB+ (Negative)**	**-**	**-**
4	Letter of Credit/ Buyers Credit*	Short-Term	10.00	**10.00**	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+Reaffirmed**	**[ICRA]A4+; Reaffirmed**
5	Bank Guarantee	Short-Term	2.00	**2.00**	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+; Reaffirmed**	**-**
6	Unallocated	Short-Term	4.00	**4.00**	**[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	Jan 2018	-	Mar 2022	1.50	[ICRA]BB+; (Stable)
NA	Cash Credit	-	-	-	10.00	[ICRA]BB+; (Stable)
NA	Unallocated Limits	-	-	-	0.30	[ICRA]BB+; (Stable)
NA	LC	-	-	-	10.00	[ICRA]A4+
NA	Bank Guarantee	-	-	-	2.00	[ICRA]A4+
NA	Unallocated Limits	-	-	-	4.00	[ICRA]A4+

Source: Virgo Polymers (India) Limited

ANALYST CONTACTS

K Ravichandran
0 44 4596 4301
ravichandran@icraindia.com

Sai Krishna
0 44 4596 4304
sai.krishna@icraindia.com

Abhishwet Dhete
044 4297 4312
abhishwet.dhete@icraindia.com

RELATIONSHIP CONTACT

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

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

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

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
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