November 19, 2019

Virgo Laminates Limited: Ratings of [ICRA]A(Stable) assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund based limits	11.50	11.50	[ICRA]A1; outstanding
Fund-based Limits	11.50	74.50	[ICRA]A(Stable); assigned/outstanding
Total	**23.0**	**86.0**	

**Instrument details are provided in Annexure-1*

Rationale

Given the presence of strong operational, financial and managerial linkages, ICRA has taken a consolidated view of Virgo Laminates Limited (VLL), Virgo Decors Private Limited (VDPL) and Virgo Boards Limited (VBL) and Virgo Industries (VI) (referred to as the Group or the Virgo Group).

The rating reaffirmation takes into account the healthy operating income (OI) growth in FY2019. The improvement in revenues, however, was accompanied with a slight decline in operating margins as well as an increase in Debt/OPBDTA levels. The Group recently availed debt for capacity expansion with focus on increasing export revenue penetration in the South Indian market. This was also accompanied with continued high working capital intensity on account of an elevated receivables cycle. ICRA also takes note of the ongoing merger formalities, where all the companies are being merged under the flagship company VLL. The sales of VI are also being gradually transferred to VLL.

The rating continues to factor in the brand strength of the Virgo Group in the laminates business, given that it is one of the leading players in the domestic market with a nationwide strong distribution network. Also, the extensive experience of the promoters in the laminates industry is a credit strength. The rating also draws comfort from the Group's strong market share in the domestic market, which is steadily growing over the last few years, backed by expanding capacity and distribution network. Moreover, the Group has been able to achieve substantial growth in the current year, led by growing volumes over a broader product portfolio from the existing setup. The ratings continue to positively factor in the strong financial risk profile characterised by healthy debt coverage metrics and strong liquidity position of the Group.

However, the ratings continue to be constrained by the Group's high working-capital intensity, given the long credit periods the Group extends to distributors. This apart, the business remains exposed to intense competition from large players and small unorganised players. The Group is also exposed to raw material price risks and risks of adverse foreign exchange rate fluctuations, though it has not faced any major impact in the last few years.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the Virgo Group will continue to benefit from its experienced promoters and its ongoing capex to increase capacity.

Key rating drivers and their description

Credit strengths

Established track record of promoters in laminates industry with healthy distribution network – The Virgo Group, though a relatively new entrant in the market, has been able to establish a leading position in the domestic market, aided by a distribution network of 30 depots and ~5,000 dealers. The annual sales volume was ~13.3 million sheets in FY2018 and ~14.5 million in FY2019. The Group's turnover was at a CAGR of 28.6% in the last four years, aided by consistent capacity expansion and strong marketing channels. However, being a new entrant and with more dealings in the domestic market, its average realisations are lower than the larger laminate manufacturers, resulting in a relatively lower scale.

Increased capacity and export contribution due to recently enhanced and ongoing capex – The group has been consistently generating growth in its revenues owing to a consistent increase in capacity and healthy utilisation levels of same. The group has the highest volumes in terms of domestic sales but still has limited presence in the exports market than its major competitors. Subsequently, the Group has invested in increasing the capacity to cater the exports market through its plant in Gujarat. It has also invested in setting up a plant in Andhra Pradesh to further penetrate the domestic market in South India. Post commencement of both the plants, the total capacity of the Group will reach 26.5 million sheets per annum.

Strong financial profile – The Group's profitability levels continue to be healthy with operating margin at 18.85% in FY2019 amid consistently increasing revenues. The capital structure is conservative with limited dependence on debt due to healthy cash accruals with strong gearing at 0.86 times in FY2019. The debt coverage metrics are robust, as reflected in interest coverage of 9.39 times and DSCR of 6.81 times in FY2019. Further, the Group's liquidity position is comfortable, with substantial unutilised bank limits.

Credit challenges

High receivables and inventory holding leads to high working capital intensity – The Group's operations are working capital intensive in nature due to the large credit period being extended to customers to capture higher market share. The inventory-holding period of around 100 days also remains high due to the large number of product variants and the associated raw material stocking. The key raw materials are imported from China and have a long lead time of around two months. Also, in order to penetrate the market and capture the market share, the company offers high credit period to its buyers. The credit period ranges up to 120 days. A significant presence in the domestic market compared to the export market also results in high receivable days.

Intense competition – The company faces intense competition from large organised and small unorganised players in the decorative laminates market. The major organised players include Greenlam Industries Limited, Merino Industries Limited and Century Plyboards India Limited. Being a relatively new entrant, the Group's average realisations remain lower than the larger players, thereby exposing it to competition from unorganised players as well.

Forex and raw material price fluctuation risk – In the absence of a formal hedging mechanism, the Group remains exposed to forex risks. Further, the prices of many key raw materials such as melamine, phenol, etc. are volatile. Given the competitive market, the ability to pass on price increases is limited.

Liquidity position: Adequate

The Virgo Group has **adequate** liquidity position aided by healthy cash accrual. The limit utilisation remains average at consolidated level at around 55%. The higher receivable days remains a concern.

Rating sensitivities

Positive trigger: Significant improvement in the scale of operations along with the timely ramp up in the ongoing capacity expansion may result in an upgrade. The improvement in the working capital intensity below 30% may also trigger an upgrade.

Negative trigger: The rating may be downgraded in the case of the Group's inability of to reduce the working capital intensity from the current levels. The rating can also be downgraded if there are delays in commencement of the operations in fresh facilities and any further addition in long-term debt to fund the capex resulting in TD/OPBDITA of 2.25 times and beyond.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated

About the company

Virgo Laminates Limited (formerly known as Katyani Chemtech (India) Ltd) started operations in the year 2000 with its manufacturing facility located in Dera Bassi, Punjab. It is engaged in the manufacturing high pressure laminates sold under the brand name "Virgo". The plant has an overall area of 4.7 acres and an installed production capacity of 3.6 million sheets per annum. It manufactures laminates with thickness 0.8mm, and 1mm. The company is a part of the Virgo Group, which was founded by Mr. R.P. Arora in 1975, by setting up a rice mill in the Mogha district of Punjab. The Group has since moved into manufacturing and at present has a diversified presence in decorative laminates, plywoods, boards, and aluminium sheets and coils. The Group is one of the largest players in the domestic laminates market with a total annual capacity of around 158 lakh sheets. It is currently managed by Mr. R.P. Arora's sons, namely Mr. Bishamber Dass Arora, Mr. Surender Pal Arora, Mr. Tilak Raj Arora and Mr. Praveen Kumar Arora. The other Group entities which are involved in the manufacturing of laminates are VDPL, VI and VBL. Virgo Plywoods Limited (VPL) is in plywood manufacturing and Virgo Aluminum Limited (VAL) manufactures aluminum sheets and coils.

Key financial indicators (audited)

	FY2018	FY2019*
Operating Income (Rs. crore)	513.75	578.84
PAT (Rs. crore)	70.41	75.55
OPBDIT/OI (%)	19.32%	18.85%
RoCE (%)	32.66%	27.82%
Total Outside Liabilities/Tangible Net Worth (times)	1.17	1.23
Total Debt/OPBDITA (times)	1.30	1.76
Interest Coverage (times)	10.95	9.39
DSCR	7.74	6.81

**based on provisional consolidated numbers*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating		FY2019	FY2018	FY2017
					19-Nov-19	05-Nov-19	06-June-2018	-	-
1	Non- fund based	Short Term	11.50	-	[ICRA]A1	[ICRA]A1	[ICRA]A1;	-	-
2	Fund based/ Cash Credit	Long Term	28.0	-	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A(Stable);	-	-
2	Fund based/Term Loan	Long Term	46.50	14.0	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)	-	-

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non- fund based	NA	NA	-	11.50	[ICRA]A1
NA	Fund based/ Cash Credit	NA	NA	-	28.0	[ICRA]A(Stable)
NA	Fund based/Term Loan	25/09/2018	NA	25/09/2025	31.50	[ICRA]A(Stable)
NA	Fund based/Term Loan	29/08/2018	NA	29/08/2023	15.0	[ICRA]A(Stable)

Source: VLL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Virgo Decors Private Limited	100.0%	Full consolidation
Virgo Boards Limited	100.0%	Full consolidation
Virgo Industries	100.0%	Full consolidation
Virgo Laminates Limited	NA	Full consolidation

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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.

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