

January 13, 2022

Virgo Aluminium Limited: Ratings reaffirmed; assigned for enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term – Fund-based/ Non-fund based limits	42	74	[ICRA]BBB+(Stable)/[ICRA]A2 reaffirmed/assigned
Long-term: Term loans	12	40.7	[ICRA]BBB+(Stable) reaffirmed/assigned
Short-term/Non-fund Based	0	3.3	[ICRA]A2; assigned
Long-term/Unallocated	1	0	-
Total	55	118	

*Instrument details are provided in Annexure-1

Rationale

The rating action considers a likely improvement in Virgo Aluminium Limited’s (VAL) performance in FY2022, driven by a supportive demand and better price-cost dynamics resulting in improved operating margin (OPM) and cash accruals. This follows a moderate financial performance in FY2021, wherein its operating income (OI) remained muted and OPM declined to 7.1% compared to 8.9% in FY2020 due to higher managerial remuneration, as well as higher logistics expenses in a few consignments. However, the OPM has significantly improved to 20.2% in 6M FY2022 owing to higher realisation. Consequently, the operating profits and debt protection metrics in FY2022 are expected to be considerably better against FY2021. VAL has partly repaid the unsecured loans and the balance reduced to ~Rs. 41 crore as on date from Rs. 68 crore as on March 31, 2021, while a certain portion is anticipated to be converted into equity by FY2022 end.

The ratings continue to be supported by an established promoter group, widespread distribution network and its well-established relationships with customers. ICRA derives comfort from the company’s moderately healthy financial risk profile, characterised by comfortable coverage indicators. However, the ratings continue to be constrained by its modest operating scale, risks related to fluctuation in raw material prices and foreign currency rates, as well as competition from other players in the industry. ICRA draws comfort from the company’s shared brand name, promoters and marketing channels, apart from its financial flexibility.

The Stable outlook on [ICRA]BBB+ rating reflects ICRA’s opinion that VAL will continue to benefit from its experienced promoters, brand name and marketing channels.

Key rating drivers and their description

Credit strengths

Established position of promoters in laminates business and widespread distribution network – The Virgo Group was established by Mr. R. P. Arora, in 1975, by setting up a rice mill in the Moga district of Punjab. The Group gradually moved into manufacturing and at present has a diversified presence in decorative laminates, aluminium sheets and coils, plywoods and boards. With two decades of experience in the business, the promoters share long-standing relationships with suppliers and buyers. It also derives comfort from the strengthening position of the Virgo brand.

Moderately healthy financial risk profile – The company has a moderately healthy financial risk profile with healthy net worth of Rs. 94 crore as on March 31, 2021. Moreover, its coverage indicators remained healthy with interest coverage of 5.86 times as on March 31, 2021 on account of low interest cost and moderate profitability.

Significant capex provides revenue visibility – The capex undertaken has added another 18,000 MT of annual capacity to the already existing 18,000 MT, thereby taking VAL’s total capacity to 36,000 MT annually. The company is expecting the fresh facility to commence operations in the current fiscal. The revenues are expected to be ramped up from FY2023, when the full potential of the fresh plant will be realised.

Credit challenges

Decline in operating margins in FY2021 – The company’s operating margins declined in FY2021 to 7.1% from 8.9% in FY2020 owing to higher managerial remuneration as well as higher logistics expenses in a few consignments. However, an improvement in its performance is expected in FY2022, driven by supportive demand and better price-cost dynamics. Consequently, the operating profits and debt protection metrics in FY2022 are likely to be considerably better compared to FY2021. It has partly repaid the unsecured loans and the balance reduced from Rs. 68 crore as on March 31, 2021 to ~Rs. 41 crore as on date, and a certain portion is further expected to be converted into equity by FY2022 end

Exposure to raw material price volatility – Since most of the raw materials used by the company is in the form of imported aluminium scrap, the prices of which are directly driven by aluminium prices on the London Metal Exchange (LME), VAL faces pricing risks. Further, any adverse variation on the LME prices may directly impact the company’s profitability. Thus, in the absence of any hedging mechanism and limited exports compared to import volumes, it is exposed to raw material volatility risk.

Working capital-intensive operations amid stiff competition in business – VAL is involved in manufacturing aluminium sheets and coils. It faces stiff competition from both organised as well as unorganised players. Further, the operations are working capital intensive and would require higher working capital once the fresh facility commences operations.

Liquidity position: Adequate

The liquidity is **adequate** on account of cushion in the fund-based facilities. Further, the company’s liquidity is supported by the infusion of unsecured loans from promoters.

Rating sensitivities

Positive factors – The ratings might be upgraded if there is steady scale up of operations aided by commencement of fresh plant, while maintaining healthy debt coverage indicators and liquidity profile. Additionally, RoCE above 18%, on a sustained basis, might also trigger an upgrade.

Negative factors – The ratings may be downgraded on account of delay in reaching anticipated operational parameters from the new facility. Debt (excluding promoter loans)/OPBDITA over 3 times, on a sustained basis, can lead to downgrade. Further, deterioration in working capital intensity resulting in weakening in liquidity profile might result in a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Non-Ferrous Metals Industry
Parent/Group Support	None
Consolidation/Standalone	Standalone

About the company

VAL manufactures aluminium sheets and coils used in various end-user industries such as power, automobiles, consumer durables, furniture and architecture application, etc. The company's plant achieved COD in April 2011 and became fully operational in October 2011. The plant manufactures aluminium sheets and coils with an installed capacity of 18,000 MT per annum of sizes varying from 0.1mm to 4mm. VAL is part of the Virgo Group, which is involved in the business of laminate manufacturing. The Virgo Group was started 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 plywoods, boards, decorative laminates and aluminium sheets and coils. The Group is one of the largest players in the domestic laminates market. The company has just completed a capex to add further 18,000 MT of capacity, which is expected to become operational from the current fiscal.

Key financial indicators (audited)

VAL	FY2020(A)	FY2021(A)
Operating Income (Rs. crore)	247.83	251.98
PAT (Rs. crore)	13.98	10.64
OPBDIT/OI (%)	8.88	7.09
PAT/OI (%)	5.62	4.21
Total Outside Liabilities/Tangible Net Worth (times)	1.20	1.89
Total Debt/OPBDIT (times)	4.08	9.32
Interest Coverage (times)	16.36	5.86

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Current Rating (FY2022)		Chronology of Rating History for the past 3 years					
				Date & Rating in		Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
				January 13, 2022	December 30, 2021	September 01, 2020	June 11, 2020	July 25, 2019	April 30, 2019	-	
1	Long-term: Fund-based	Long term	0	-	-	-	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Positive); removed from INC category	[ICRA]BBB+(Stable); moved to INC category	-
2	Long-term/Short-term - Fund based/Non fund Based Limits	Long term/short term	74	-	[ICRA]BBB+(Stable) / [ICRA]A2	[ICRA]BBB+(Stable) / [ICRA]A2	-	-	-	-	-
3	Long-term: Term Loans	Long term	40.7	41.83	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	-	-	-	-	-

4	Short-term/Non-fund Based	Short term	3.3	-	[ICRA]A2	-	[ICRA]A2	[ICRA]A2	[ICRA]A2 ; removed from INC category	[ICRA]A2 ; moved to INC category	-
5	Long-term/Unallocated	Long term	0	-	-	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Positive); removed from INC category	[ICRA]BBB+(Stable); moved to INC category	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term: Fund based	Simple
Long-term/Short-term - Fund based/ Non-fund Based Limits	Simple/Very simple
Long-term: Term Loans	Simple
Short-term/Non-fund Based	Very Simple
Long-term/Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN Number	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long-term/Short-term Fund based/Non-fund Based Limits	-	-	-	74	[ICRA]BBB+(Stable) / [ICRA]A2
-	Long-term: Term Loans	Sep 2021	-	Sep 2026	40.7	[ICRA]BBB+(Stable)
-	Short-term/Non-fund Based				3.3	[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

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