February 02, 2022

Virgo Laminates Limited: [ICRA]A+ (Stable)/[ICRA]A1 assigned for enhanced amount and reaffirmed for existing limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Term Loans	42.00	42.80	[ICRA]A+(Stable); assigned/reaffirmed
Fund-based Limits – CC	32.50	125.00	[ICRA]A+(Stable); assigned/reaffirmed
Non-fund based limits	11.50	11.50	[ICRA]A1; reaffirmed
Long Term/Short Term-Unallocated	0.00	0.20	[ICRA]A+(Stable)/ [ICRA]A1; assigned/ reaffirmed
Total	**86.00**	**179.50**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of Virgo Laminates Limited (VLL), Virgo Industries (VI), Virgo Decors Private Limited (VDPL), and Virgo Boards Limited (VBL) (referred to as the Group or the Virgo Group) as these entities have strong operational, financial and managerial linkages. In FY2021, VDPL and VBL were merged into VLL, hence ICRA's ratings factors in the consolidated view of VLL and VI. The merger of VI into VLL is under process and is planned to be completed by the end of FY2022.

The rating action takes into account the healthy ramp-up in capacity utilisation of the new plants, supported by improved domestic demand as well as increased exports from its Gujarat plant. Consequently, the operating income is expected to witness robust growth of over 25% in FY2022. With healthy accruals, the Group's financial risk profile has improved over the years resulting in limited dependence on external borrowings and a comfortable liquidity position. ICRA expects its credit profile to remain strong with Total Debt/OPBIDTA at ~1.5 times in FY2022 compared to 1.8 times in FY2021. The rating continues to note the extensive experience of the promoters, and the brand strength of 'Virgo' in the laminates business, given its dominant market share as one of the leading players in India, backed by expanding capacity and nationwide distribution network.

The ratings, however, are constrained by the Group's high working capital intensity, given the long credit period extended to distributors to increase its market share as well as high inventory requirements to maintain availability of stocks at multiple locations. Further, the business remains exposed to intense competition from large players as well as small unorganised players, which limits pricing flexibility. The Group is exposed to raw material price risks and any adverse foreign exchange rate fluctuations, though it has not faced any major impact over the last few years. ICRA notes the capital withdrawal risk for VI, as it is a partnership firm.

The Group has undertaken sizeable capacity expansion of ~Rs. 110 crore during FY2019-FY2021, though the utilisation of the same could not ramp up till FY2021 due to the Covid-19 pandemic. However, the capacity utilisation has started improving in the current financial year. The Group does not have any major capex plans in the near to medium term, and the cash flow from operations will be largely deployed towards deleveraging the balance sheet.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Virgo Group will continue to benefit from its established brand and distribution network, and its healthy financial profile.

Key rating drivers and their description

Credit strengths

Healthy growth in scale with ramp-up in capacity utilisation – Supported by strong uptick in volume offtake and market share gains, the Virgo Group reported a compounded annual growth rate (CAGR) of ~23% during FY2017-FY2021. While its revenue was impacted in Q1 FY2021 by the Covid-19 restrictions, the company was able to register a modest growth of 5% YoY in FY2021. The Group witnessed strong growth during YTD FY2022, and it is likely to register YoY revenue growth of over 25% in FY2022, driven by the ramp-up in capacity utilisation. To increase exports, the Group had undertaken capex and set up a plant in Gujarat to cater to the exports market. It had set up another plant in Andhra Pradesh to further penetrate the domestic market in South India. The ramp-up in capacity utilisation of these plants is expected to drive the growth over the medium term.

Established track record of promoters in laminates industry with healthy distribution network – The Virgo Group is one of the largest players in terms of sales volumes in the domestic laminates market, with a distribution network of 31 depots and ~6,000 dealers. The annual sales volume was ~18.6 million sheets in FY2021. However, being a relatively new entrant and with more dealings in the domestic market, its average realisations are lower than other large laminate manufacturers.

Strong financial profile – The Group's profitability levels continue to be healthy with operating profit margin at 18.9% in FY2021 (provisional) amid consistently increasing revenues. The capital structure is conservative with limited dependence on external debt due to healthy cash accruals with gearing at 0.74 times as on March 31, 2021. The debt coverage metrics are strong, as reflected in interest coverage of 7.3 times and DSCR of 4.4 times in FY2021(provisional). The coverage metrics moderated during the last two years as the Group had undertaken debt-funded capex, part of which was funded by interest-bearing unsecured loans from promoters. Out of the total debt of Rs. 255 crore as of March 2021, about 50% is unsecured loan from promoters, which is subordinated to the bank debt and does not have any scheduled maturity. With ramp-up in utilisation of the newly added capacity, the coverage metrics are likely to strengthen further with Total Debt/OPBIDTA expected to remain below 1.5 times over the medium term. 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 remained high at around 100 days due to a large number of product variants and the associated raw material stocking. Also, as a part of the Group's penetration strategy for capturing the market share, the company has been historically extending high credit period to its customers. Despite an improvement in the receivable cycle over the last three to four years, it still remains high, thereby resulting in a working capital intensity of ~55% in FY2021.

Forex and raw material price fluctuation risk – The Group remains exposed to forex risks with increasing share of exports, and in the absence of a formal forex hedging mechanism. Further, the prices of many key raw materials such as melamine, phenol, etc, are volatile, which could have a bearing on the production cost. Given the competitive market, the ability to pass on the price hikes is limited.

Stiff competition in industry – 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 (rated [ICRA]AA-/Stable/[ICRA]A1+), Merino Industries Limited and Century Plyboards India Limited (rated [ICRA]AA/Stable/[ICRA]A1+). Being a relatively new entrant, the Group's average realisations remain lower than the larger players, and faces competition from other smaller players as well.

Liquidity position: Adequate

The Group's cash flow from operations are expected to be adequate to meet the regular capex and debt servicing obligations. Its liquidity is supported by cushion in available fund-based working capital bank facilities with average utilisation of ~50% in the past and cash balances of Rs. 12 crore as of March 2021.

Rating sensitivities

Positive factors – Significant improvement in the scale of operations while maintaining profitability and improvement in the working capital intensity could trigger an upgrade. Total Debt/OPBITDA falling below 1.2 times on a sustainable basis might also result in a rating upgrade.

Negative factors – The rating may be downgraded in the case of sustained pressure on operating profitability or deterioration in the working capital intensity which impacts its credit profile. Further, any major debt-funded capex or other factors, which results in Total Debt/OPBIDTA increasing beyond 1.8 times, on a consistent basis, could also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Virgo Laminates Limited, Virgo Industries, Virgo Decors Private Limited and Virgo Boards Limited, which are all enlisted in Annexure-2. In FY2021, Virgo Decors Private Limited and Virgo Boards Limited have been merged into Virgo Laminates Limited.

About the company

Virgo Laminates Limited (formerly known as Katyani Chemtech (India) Ltd) started operations in 2000 with its manufacturing facility located in Dera Bassi, Punjab. It manufactures high pressure laminates with a thickness of 0.8mm and 1mm, which 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. 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 Moga district of Punjab. Later, it shifted to 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 involved in manufacturing laminates are Virgo Industries, VDPL and VBL. VDPL and VBL have been merged into VLL in FY2021. Apart from these, the Group also has Virgo Plywoods Limited (VPL), which is in plywood manufacturing and Virgo Aluminium Limited (VAL), which manufactures aluminium sheets and coils.

Key financial indicators (Consolidated)

VLL Consolidated*	FY2020	FY2021 Provisional
Operating Income (Rs. crore)	722.7	759.5
PAT (Rs. crore)	89.9	92.5
OPBDIT/OI (%)	18.2%	18.9%
PAT/OI (%)	12.1%	12.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.38	1.07
Total Debt/OPBDIT (times)	1.84	1.78
Interest Coverage (times)	8.6	7.3

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

**The Group doesn't prepare consolidated financials, and the same has been estimated by ICRA*

Source: Company data, ICRA Research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)						Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating			Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					Feb-02-2022	Nov-11-2021	Apr-09-2021	-	Nov-19-2019	Nov-05-2019	Jun-06-2018
1	Fund based - Cash Credit	Long Term	125.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Fund based - Term Loan	Long Term	42.80	24.79	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A(Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Non-fund based	Short Term	11.50	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Long Term/Short Term-Unallocated	Long Term/Short Term-	0.20	-	[ICRA]A+(Stable) / [ICRA]A1	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	Simple
Non-fund based	Very Simple
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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based - Cash Credit	NA	NA	NA	125.00	[ICRA]A+(Stable)
NA	Fund based - Term Loan	March 2019	NA	April 2024	42.80	[ICRA]A+(Stable)
NA	Non- fund based	NA	NA	NA	11.50	[ICRA]A1
NA	Long Term/Short Term-Unallocated	NA	NA	NA	0.20	[ICRA]A+ (Stable)/ [ICRA]A1

Source: *Company*

Please click here to view the details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

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

Source: *Company, ICRA Research*

Note: *ICRA has taken a consolidated view of four associate Group/firms while assigning the ratings. Two of the entities have merged into Virgo Laminates Ltd in FY2021.*

**these two entities are now merged with Virgo Laminates Limited*

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