VRL Logistics Limited

Instrument	Amount (Rs. Crore)	Rating Action September 2016
Long-term scale - Term Loan	159.64 (reduced from 221.75)	[ICRA]BBB+ (stable); upgraded from [ICRA]BBB (stable)
Long-term scale - Fund Based	98.95 (increased from 109.57)	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (stable)

ICRA has upgraded the long term rating assigned to Rs 258.59 crore (reduced from Rs 331.32 crore) term loans and fund based limits of VRL Logistics Limited (VRL) from [ICRA]BBB (pronounced as ICRA triple B) to **[ICRA]BBB+** (pronounced as ICRA triple B plus). The outlook assigned on the long term rating is ***stable***[1].

The rating upgrade takes into account the improvement in the leverage levels of the company with reduction of debt levels on the back of healthy cash accruals and controlled capital expenditure. The debt levels of VRL have reduced from Rs 285 crore as on September 30, 2015 to Rs 262 crore as on March 31, 2016 and further to Rs 234 crore as on June 30, 2016. The rating continues to positively factor in the healthy operating profit margins in both the passenger and goods transportation segments. Despite the dip in profitability in the last three quarters due to pressure on realizations and increase in employee expenses, ICRA notes that the profit margins and return indicators of VRL continue to remain healthy. Further, ICRA continues to derive comfort from VRL's established market position in road transportation segment, especially in Southern, Western and Northern India, having the largest fleet of owned vehicles in the country which combined with captive body-building and maintenance facilities provide considerable operational synergies. Moreover, VRL's profit margins are also boosted by larger share of revenue generated from high margin less-than-truck load segment (68.5% of FY2015-16 revenue) viz-a-viz limited presence in low margin full-truck load segment (7.9% of FY2015-16 revenue). ICRA also positively factors in the diversified customer base with no significant revenue concentration on any of its customers.

The rating is, however, constrained by VRL's asset intensive business model of owning captive fleet which despite providing operational synergies could affect the vehicle utilization and margins in case of reduction in cargo volumes in the country, apart from requiring substantial capital expenditure every fiscal. High levels of capital expenditure incurred in the past, which have predominantly been sponsored through debt have resulted in modest coverage indicators. Despite the strong profit margins of VRL the high dividend payouts every year have also constrained the free cash flows for the company.

ICRA also notes that externalities such as increase in bridge and toll charges and fuel costs which the company may not be able to pass on to the customers in its entirety could have an adverse impact on the profit margins. The company is also exposed to high regulatory risks (with respect to licenses and taxation) in both the good transport and passenger bus operations segment.

Going forward, the scale and mode of funding of future capital expenditure and the ability of VRL to maintain high utilization level for its fleet would be the key rating sensitivity factors.

Company Profile

Founded in 1976 by Mr. Vijay Sankeshwar, VRL Logistics Limited (VRL) is engaged in the business of providing transportation of goods and passenger services across India. VRL also operates in three other business segments: wind power generation, courier services and air charter business. The company has a goods transportation fleet of 3,872 owned vehicles as of June 30, 2016 with a widespread transportation network across 28 States and four Union Territories of India and in the passenger bus operations segment the company has 425 buses as on June 30, 2016 offering luxury bus services across the states of Karnataka, Maharashtra, Goa, Andhra Pradesh, Telangana, Tamil Nadu, Gujarat and Rajasthan. The company currently has 34 windmills in Gadag (Karnataka) with a total capacity of 42.5MW supported by a 20-year PPA (power purchase agreement) with the Hubli Electricity Supply Company Ltd (HESCOM). The company has been listed

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

on NSE and BSE w.e.f. 30th April 2015 post a successful IPO where VRL logistics was over-subscribed 74 times. The promoter family has an equity share of 69.57% in VRL as on June 30, 2016.

Recent Results

VRL Logistics Limited reported operating income (OI) of Rs 1,727 crore and profit after tax (PAT) of Rs 102.31 crore for the year ended March 31, 2016 as against an OI of Rs 1,675 crore and PAT of Rs 91.31 crore for the year ended March 31, 2015. In Q1'FY2016-17 VRL reported an OI of Rs 459 crore and PAT of Rs 26.47 crore as against an OI of Rs 448 crore and PAT of Rs 36.40 crore in Q1'FY2014-15.

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