ICRA

May 31, 2017

VRL Logistics Limited

Summary of rated instruments

Instrument	Rated Amount (in crore)	Rating Action
Fund-based – Cash Credit	98.95	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Fund-based – Term Loan	106.51 (reduced from 159.64)	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Total	**205.46 (reduced from Rs 258.59 crore)**	

Rating action

ICRA has upgraded the long term rating assigned to Rs Rs. 205.46-crore[1] (reduced from Rs 258.59 crore) term loans and fund based limits of VRL Logistics Limited (VRL) from [ICRA]BBB+ (pronounced as ICRA triple B plus) to [ICRA]A- (pronounced as ICRA A minus). The Outlook assigned on the long term rating is 'Stable'.

Rationale

The rating upgrade takes into account the sustained improvement in the company's debt coverage indicators on the back of healthy cash accruals and limited capital expenditure. The net debt levels of VRL have reduced from Rs 245 crore as on March 31, 2016 to Rs 174 crore as on March 31, 2017. Despite the dip in profitability in FY2017 due to increase in competitive pressure in the passenger transport segment and pressure on goods transport volumes and realizations, ICRA notes that the debt coverage indicators of VRL continue to remain healthy. VRL's capital expenditure plans in the near to medium term remain moderate and are not expected to lead to any increase in leverage levels going forward. 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. 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 the continued pressure on VRL's revenues and profitability in FY2017 due to high competition, modest growth in goods transport volumes and stagnant realizations. ICRA also notes that externalities such as increase in fuel costs, bridge and toll charges and labour expenses 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. VRL's asset intensive business model of owning captive fleet could affect the vehicle utilization and margins in case of reduction in cargo volumes, apart from requiring substantial maintenance capital expenditure every fiscal. Moreover, the high dividend payouts every year have also constrained the free cash flows for the company. 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.

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

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

Key rating drivers

Credit strengths

- Established player in road logistics with extensive network especially in Southern, Western and Northern regions; has largest fleet of owned vehicles in the country
- Higher revenue share from the high-margin less-than-truck load(LTL) segment (68.3% of the total revenues in FY2017) and limited presence in the low-margin full-truck load(FTL) segment (8.0% of total revenues) coupled with economies of scale yield better margins than peers
- Well-diversified customer base spread across industry segments, with the top 10 customers accounting for less than 6.5% of the revenues
- Reduction in debt levels and improvement of liquidity with limited working capital limits utilization
- GST implementation is expected to consolidate warehouse facilities and hence result in greater demand for logistics players

Credit weaknesses

- Revenue growth and margins are vulnerable to slowdown in economic growth; especially given the highly competitive and fragmented industry structure
- Moderation in revenue growth in FY2016 and FY2017; Reduction in operating profit margin due to increase in competitive pressure in the passenger transport and pressure on goods transport volumes and realizations
- Externalities such as increase in fuel costs, labour charges and bridge toll charges could adversely impact profit margins
- Exposed to high regulatory risks in both the good transport and passenger bus operations segment
- Surface transport industry suffers from an acute driver shortage which could affect vehicle utilization levels

Description of key rating drivers:

VRL has a large fleet size of owned trucks and buses providing scale economies apart from allowing the company to meet customers' requirements better than smaller or more limited carriers. VRL's presence is the most conspicuous in the goods transportation business, which contributed 78.6% of the company's top-line in FY2017. Within the goods transportation segment, VRL's concentration is mainly focused on the high-margin 'less-than-truck load segment' which contributed 68.3% of the total revenue in FY2017. With its large self-owned fleet, the company is well positioned to operate in the less-than-truck load segment. Muted demand for goods transit, given the low freight demand conditions in the industrial and consumer segments has resulted in revenues remaining stagnant and margins witnessing a dip for the company.

VRL operates passenger services in high-density urban commuter markets such as Bangalore, Mumbai, Pune, Hyderabad, Ahmedabad, Jodhpur and Panjim with connections to tier two cities such as Hubli, Bijapur, Belgaum, Mangalore, Hospet among others. This division contributes to 18.0% of the top-line of the company. The division which witnessed de-growth by 4% in FY2016, with phasing out of older vehicles and no major new vehicle additions witnessed a growth of 3% in FY2017 on the back of new vehicle addition. Stiff competition in several key routes has resulted in a dip in the vehicle occupancy and average revenue per passenger in FY2017 impacting the profitability of the division.

VRL's asset intensive business model requires substantial funding which given the high dividends was largely funded through bank loans resulting in a high gearing level of 3.95 times as on March 31, 2012. However, there has been a significant improvement in the leverage levels of the company with gearing reducing to 0.34 times as on March 31, 2017 with reduction of debt levels on the back of healthy cash accruals and controlled capital expenditure apart from fresh equity infusion of Rs 117 crore during the initial public offering in April 2015. The net debt levels of VRL have reduced from Rs 245 crore as on March 31, 2016 to Rs 174 crore as on March 31, 2017.

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below

Links to applicable criteria:

Corporate Credit Ratings: A Note on Methodology

About the company:

Founded in 1976 by Mr. Vijay Sankeshwar, VRL Logistics Limited (VRL) is involved 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 (3941 owned vehicles as of March 31, 2017), with a widespread transportation network across 23 states and four union territories of India. In the passenger bus operations segment (419 buses as of March 31, 2017) the company offers luxury bus services across Karnataka, Maharashtra, Goa, Andhra Pradesh, Telangana, Tamil Nadu, Gujarat and Rajasthan. The company currently has 33 windmills in Gadag, Karnataka, with a total capacity of 41.25 MW, supported by a 20-year PPA (power purchase agreement) with the Hubli Electricity Supply Company Ltd (HESCOM). The company was listed on NSE and BSE on April 30, 2015, through an IPO. The promoter family had an equity stake of 69.57% in VRL as on March 31, 2017.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				May-17	**Sep-16**	**Aug-15**	**Feb-14**
1	Cash Credit	Long Term	98.95	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable)
2	Term Loan	Long Term	106.51	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable)

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

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated Rs crore	Current Rating and Outlook
Cash Credit	-	-	-	98.95	[ICRA]A- (Stable)
Term Loan	-	-	Feb-2020*	106.51	[ICRA]A- (Stable)

** Represents the farthest maturity date among the various maturity dates for different term loans*

Source: VRL Logistics Limited

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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