December 05, 2023

VRL Logistics Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Working Capital	147.50	147.50	[ICRA]A+(Positive); reaffirmed
Long-term Fund-based – Term Loan	88.55	224.05	[ICRA]A+(Positive); reaffirmed and assigned for the enhanced amount
Long-term – Unallocated	0.05	0.18	[ICRA]A+(Positive); reaffirmed and assigned for the enhanced amount
Total	**236.10**	**371.73**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation on the long-term rating of VRL Logistics Limited (VRL) and continuation of positive outlook factors in the expectation that the company will sustain its growth momentum in near to medium term, driven by a stable demand environment and ongoing fleet expansion/replacement programme and increase in branch network, which in turn is expected to deepen penetration levels and improve its overall operational efficiency. The company reported top line growth of 22% and 9% YoY in FY2023 and H1 FY2024, respectively, driven by expansion in branch network, addition of new customers, thereby supporting the increase in tonnage handled. The growth momentum is expected to continue in H2 FY2024, driven by festive-linked factors and better realisations. The company's debt coverage metrics in FY2023 and H1 FY2024 marginally weakened over FY2022 levels owing to increase in lease liabilities and long-term debt, largely driven by branch expansion and associated warehousing leasing needs, along with a fleet expansion programme.

The debt protection metrics is expected to improve with likely expansion in operating margins on back of improvement in operational efficiency and sustenance of debt levels. With a diversified client base and revenue diversification across various industries, the company's dependence on business from a particular industry is limited. Its largest fleet of owned vehicles, combined with its captive body-building and maintenance facilities provides operational synergies and competitive advantages. The rating remains supported by VRL's established position in the less-than-truck load (LTL) road transport segment, its extensive network in the country and the promoter's experience of more than four decades in the road logistics industry. The financial profile continues to remain strong characterised by healthy cash accruals, robust debt protection metrics and adequate liquidity profile.

The rating, however, is constrained by high operating leverage with asset-intensive business model of VRL and, consequently, the negative impact on profit margins and asset utilisation as witnessed in the past. ICRA also notes that externalities, such as increase in fuel costs and labour expenses, which the company may not be able to entirely pass on to its customers, could have an adverse impact on profit margins, going forward. The company remains exposed to regulatory risks in the goods transport segment.

The Positive outlook reflects ICRA's opinion that VRL will be able to improve its earnings and cash flows amid a strong business profile. Strengthening of its fleet and branch network expansion and expected return from the same are expected to be visible from the next fiscal.

Key rating drivers and their description

Credit strengths

Established player in road logistics – VRL is an established logistics service provider in India with a large fleet of owned vehicles, comprising 5,782 vehicles, as of September 30, 2023, and operational infrastructure facilities spread across 1,165 branches including 49 transshipment hub facilities. In addition, the company has captive body-building and maintenance facilities, which along with tie-ups with manufacturers of spare parts and tyres as well as fuel suppliers, help it enjoy operational synergies, cost savings and competitive advantages.

Large scale of operations with healthy revenue growth witnessed over the years – VRL reported healthy revenue growth of 22% in FY2023 and 9% in H1 FY2024 on a YoY basis, driven by expansion in branch network in untapped markets, addition of new customers and increase in its own fleet, resulting in increase in tonnage. In H2 FY2024, VRL is expected to report higher operating income on a sequential basis owing to healthy demand from various sectors during the festive seasons.

Comfortable debt coverage metrics – Although the company's debt coverage metrics and interest coverage was impacted in FY2023 and H1 FY2024 by increase in lease liabilities and addition of long-term loans to fund the fleet expansion programme, it remained comfortable as reflected by interest coverage of 5.5x and DSCR of 1.8x, as on September 30, 2023. ICRA, however, notes that, going forward, the debt protection metrics and interest coverage are likely to improve with expected improvement in operating margins on the back of improvement in operational efficiency and debt almost at peak levels. Following a large spend in recent years, the company is expected to incur lower capex, going forward, for the addition of new vehicles. The same is expected to be funded only by internal accruals.

Aggressive branch expansion in recent past to boost growth prospects in near to medium term – The company's LTL freight service involves transportation of consignments from multiple customers in single vehicles to multiple destinations; thus, generating higher net revenue per vehicle than its full truck load (FTL) service as the latter involves transportation of a single customer's freight to a single destination. VRL has an integrated hub-and-spoke model that entails consolidation of goods from multiple locations at transhipment hubs and their redistribution at respective destinations. The LTL business continues to be the main revenue driver and margin contributor, accounting for ~90% of its total revenues in FY2023. Given this model, VRL's reach and penetration across cities through branch addition remains critical to its growth. The company has incrementally added 480 branches and four transhipment hubs in FY2022, FY2023 and H1 FY2024, totalling to 1,165 branches and 49 transhipment hubs (as on September 30, 2023), along with allied warehousing needs, which are expected to support its top line from next fiscal when the full impact of these investments start to flow in. During FY2023 and H1 FY2024, VRL has exited all its non-core businesses to focus only on its high-margin goods transport business, which also supported its credit profile.

Credit challenges

Exposure to cyclicality in economy, given direct linkage to business growth of industries – VRL's revenue growth and margins are vulnerable to slowdown in economic activity and goods movement of various industries. However, with a diversified client base and revenue streams from various industries, the company's dependence on business from a particular industry is limited.

Asset intensive business model – The company primarily operates through a fleet of owned vehicles. This exposes VRL's margins to volatility in freight volumes. Also, the company's capital intensive model of business results in high operating leverage, which makes profit margins susceptible to any downturn in transportation activity.

Exposure to regulatory risks – The company, by its presence in the goods transport industry, is exposed to high regulatory risks (with respect to licenses and taxation). Also, restriction on older (commercial diesel) vehicles in a few cities and the proposed scrappage policy, which may impact the entire industry, have resulted in replacement capex requirement.

Impact of externalities – Externalities, such as increase in fuel costs, bridge and toll charges, and labour expenses, which the company may not be able to entirely pass on to its customers, could have an adverse impact on its profit margins.

Environmental and Social Risks

Environmental considerations: Emission is the key risk for the entity as the company operates in the logistic sector. To mitigate such risks VRL has undertaken initiatives like using bio-diesel and green fuel as an alternative. VRL has taken steps to conserve energy by adding 7 electric and 30 CNG vehicles for fuel conservation. VRL has also roped in an external agency to monitor pollution related compliances and undertake periodic inspections. ICRA expects the company to remain compliant with such norms, going forward, which in turn is expected to support business continuity and VRL's credit profile with respect to any emission norms.

Social considerations: VRL is exposed to social risks such as driver shortage. However, the company has enlisted its drivers on its payroll and extends all statutory benefits to them. The company strives to offer a good work environment and imparts skill development by conducting routine training programmes as well as awareness camps for its drivers. The company has also ensured that bigger transshipment yards are provided with battery operated forklifts instead of diesel-based ones. This ensures better well-being of its workforce and reduces pollution. All these measures ensure a healthy workforce and the continuation of business, thereby impacting the business favourably.

Liquidity position: Adequate

VRL's liquidity position is adequate and is supported by undrawn working capital lines of Rs. 97.1 crore, as on September 30, 2023. The company had free cash and liquid investments of Rs. 11.8 crore as on September 30, 2023, and moderate working capital limit utilisation levels of around 23% for the last 12 months ending in September 2023. Overall, ICRA expects VRL to comfortably meet its near-term commitments through internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade VRL's rating if the company demonstrates improvement in debt coverage metrics along with strengthening of its liquidity profile. Specific credit metrics that could lead to an upgrade include Total Debt/ OPBITDA lower than 1.5 times on a sustained basis.

Negative factors – Negative pressure on VRL's rating could arise if its financial profile weakens for reasons including sharp deterioration in cash accruals or increase in borrowings. Specific credit metrics that could exert negative pressure on the company's ratings include Total Debt/ OPBITDA higher than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the company.

About the company

VRL was founded in 1976 by Dr. Vijay Sankeshwar in Gadag (Karnataka) and incorporated in 1983 as Vijayanand Roadlines Private Limited. The company was renamed as VRL Logistics Limited in 2006. It started out as a goods transportation service provider and expanded its service offering to include passenger transportation from 1996. The company also operated in other business segments, including wind power generation and air passenger transport. However, the company has exited all its non-core businesses to focus only on its high-margin, goods transport business.

Key financial indicators (audited)

Audited	FY2022	FY2023
Operating income	2,163.6	2,648.5
PAT	160.3	323.2
OPBDIT/OI	17.4%	15.2%
PAT/OI	7.4%	12.2%
Total outside liabilities/Tangible net worth (times)	1.1	0.9
Total debt/OPBDIT (times)	1.4	1.8
Interest coverage (times)	8.6	7.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					5-Dec-2023	6-Dec-2022	29-Sept-2021	6-Jul-2020
1	**Fund Based Working Capital**	Long term	147.50	-	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**
2	**Fund-based – Term Loan**	Long term	224.05	229.6	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**
3	**Unallocated**	Long term	0.18	-	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund Based Working Capital	Simple
Long-term Fund-based – Term Loan	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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan-I**	FY2020	NA	FY2027	29.33	[ICRA]A+(Positive)
NA	**Term Loan-II**	FY2019	NA	FY2027	56.00	[ICRA]A+(Positive)
NA	**Term Loan-III**	FY2022	NA	FY2027	36.40	[ICRA]A+(Positive)
NA	**Term Loan-IV**	FY2020	NA	FY2027	2.62	[ICRA]A+(Positive)
NA	**Term Loan-V**	FY2023	NA	FY2028	99.70	[ICRA]A+(Positive)
NA	**Working capital facilities**	NA	NA	NA	147.50	[ICRA]A+(Positive)
NA	**Unallocated**	NA	NA	NA	0.18	[ICRA]A+(Positive)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545300
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Karan Gupta
+91 22 6114 3416
karan.gupta@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches