

December 06, 2022

VRL Logistics Limited: Ratings reaffirmed, Outlook revised to Positive, 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	126.00	147.50	[ICRA]A+; reaffirmed/ assigned, Outlook revised to positive from stable
Long-term Fund-based – Term Loan	84.98	88.55	[ICRA]A+; reaffirmed/ assigned, Outlook revised to positive from stable
Long-term – Unallocated	0.02	0.05	[ICRA]A+; reaffirmed/ assigned, Outlook revised to positive from stable
Total	211.0	236.10	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook on the long-term rating of VRL Logistics Limited (VRL) to Positive factors in the expectation that the company will sustain its growth momentum in its core goods transport (89% of sales for FY2022) segment in the near to medium term, driven by a stable demand environment and ongoing fleet expansion/replacement programme, which in turn shall improve its operational efficiencies. The company reported top line growth of 36% and 38% YoY in FY2022 and H1 FY2023, respectively, reflecting the recovery in demand to pre-Covid levels. The growth in top line is expected to be driven by expansion in branch network, addition of new customers, increase in infrastructure backup, increase in its own fleet, enhancements in the transshipment hubs and branches, and route optimisation in-line with the increase in tonnage. The rating also factors in the established position of VRL 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. With a diversified client base and revenue diversification across various industries, the company's dependence on business from any particular industry is limited. Its largest fleet of owned vehicles, combined with its captive body-building and maintenance facilities, provides considerable operational synergies and competitive advantage. The company's debt coverage metrics and interest coverage remain comfortable as reflected by Debt/OPBITDA of 1.3 times and interest coverage of 9.1 times as March 31, 2022. ICRA also notes that the company has exited its wind power segment and the bus passenger business primarily to focus on the high-margin goods transport segment. The consideration received from the proceeds is expected to be used for funding the ongoing capex and reduction in debt levels and shall support its liquidity profile.

The rating, however, is constrained by high operating leverage with the asset-intensive business model of VRL and, consequently, the negative impact on profit margins and asset utilisation as witnessed during the Covid-19 pandemic. 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 sustain its market position while maintaining a robust credit profile. The outlook also conveys the expectation that its credit profile will be further strengthened through fleet expansion and divestment of its non-core portfolio.

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 5,472 vehicles (including 5,193 goods transport vehicles and 279 passenger buses), as of September 30, 2022, and operational infrastructure facilities spread across 1,045 branches. 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, helps it enjoy operational synergies, cost savings and competitive advantages.

Healthy revenue growth witnessed in FY2022 and H1 FY2023 – VRL reported healthy revenue growth of 36% in FY2022 and 38% in H1 FY2023 on YoY basis owing to healthy demand and economic revival post covid pandemic, which led to increase in tonnage by 27% in FY2022 and 7% increase in realisations. The company witnessed sales growth of 34% in goods transport and 57% in the bus passenger segment. The increase in tonnage was on account of addition of new customers, expansion of its network by opening of new branches in untapped markets, and shifting customers from unorganised transport service providers to organised service providers on account of reforms in GST and e-way bill compliance norms. Apart from the better economic conditions and festive seasons in H1 FY2023, the increase in tonnage in the goods transport segment is also due to the company's network expansion, which is expected to support its revenue growth in the near to medium term.

Large share of revenues from high-margin LTL segment – 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 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 transshipment hubs and their redistribution at respective destinations. The LTL business continues to be the main revenue driver and margin contributor, accounting for 79% of its total revenues in FY2022. VRL also operated other businesses in the last two years, including bus passenger transport, wind power generation and air passenger transport, which remained low margin businesses. In H1 FY2023, it entered an agreement to exit its non-core businesses (wind power and bus passenger) and focus only on its high-margin goods transport business, which is expected to support its financial metrics, going forward.

Comfortable debt coverage metrics – The company has a comfortable financial profile, marked by healthy profitability indicators, strong cash accruals and comfortable capital structure as indicated by low gearing of 0.80 time as on March 31, 2022. Further, the Total Debt/OPBITDA remained comfortable at 1.3 times and interest coverage of 9.1 times in FY2022 owing to healthy profitability. The total debt/OPBITDA increased to 1.6 times in H1 FY2023 owing to sharp increase in lease liabilities; however, it continues to remain at a comfortable level. The company is expected to incur capex of ~Rs. 560 crore in FY2023 and H1 FY2024 for addition of new vehicles. The same is expected to be funded by internal accruals and proceeds from the sale of VRL's wind power and passenger bus businesses.

Credit challenges

Exposure to cyclicity 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 any 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, such as restrictions during the pandemic.

Exposure to regulatory risks – The company, by its presence in the goods and passenger 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 usage of bio-diesel as an alternative and green fuel. The consumption of the same was to the tune of 6.1% of total consumption in FY2022, which demonstrates VRL's commitment to greenhouse gas (GHG) reduction. In fact, the company has played a vital role in environmental development and has generated income from trading possible GHG emission reductions from its windmill project in the past. Emissions and waste generated by VRL are within the permissible limits set by the Central Pollution Control Board (CPCB)/ State Pollution Control Board (SPCB) and it has not received any legal notice from CPCB/ SPCB. 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. The company has adopted a scrappage policy for retirement of old vehicles and has increased the number of e-vehicles such as local auto rickshaws, delivery vans and forklifts. This not only allows the company to reduce emissions but also supports its operational efficiency.

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 trans-shipment 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 and financial flexibility to avail more credit lines, if required. The liquidity is also supported by free cash and liquid investments of Rs. 11.8 crore as on March 31, 2022, along with undrawn term loans for capex to be incurred in FY2022. Overall, ICRA expects VRL to comfortably meet its near-term commitments through internal accruals. Further, the company is expected to receive proceeds from the sale of its bus passenger business in the near term, which is expected to support the liquidity profile.

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 lower than-expected 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 as a goods transportation service provider and further 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. The company had 32 windmills at Gadag with a total capacity of 40 MW, supported by a 20-year power purchase agreement (PPA) with the Hubli Electricity Supply Company Limited. However, in Q2 FY2023, the company executed a business transfer agreement for the sale of its wind power business on a slump sale basis for sale consideration of Rs. 52.85 crore. Also, in Q2 FY2023, the company received approval from the Board for sale/transfer of its bus operations to a promoter group company, Vijayanand Travels Private Limited, by way of slump sale at a consideration of Rs. 230 crore.

The company reported revenues of Rs. 1,447.9 crore with operating margins of 14.9% and net profits of 5.7% in H1 FY2023.

Key financial indicators

Audited	FY2021	FY2022
Operating income	1,762.9	2,393.7
PAT	45.3	160.3
OPBDIT/OI	14.1%	17.0%
PAT/OI	2.6%	6.7%
Total outside liabilities/Tangible net worth (times)	1.0	1.1
Total debt/OPBDIT (times)	1.7	1.3
Interest coverage (times)	6.6	9.1

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	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of September 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				6-Dec-2022	29-Sept-2021	6-Jul-2020	31-May-2019
1 Fund Based Working Capital	Long term	147.50	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2 Fund-based – Term Loan	Long term	88.55	88.55	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3 Unallocated	Long term	0.05	-	[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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan-I	FY2020	NA	FY2027	42.38	[ICRA]A+(Positive)
NA	Term Loan-II	FY2019	NA	FY2027	15.97	[ICRA]A+(Positive)
NA	Term Loan-III	FY2022	NA	FY2027	28.00	[ICRA]A+(Positive)
NA	Term Loan-IV	FY2020	NA	FY2027	2.20	[ICRA]A+(Positive)
NA	Working capital facilities	NA	NA	NA	147.50	[ICRA]A+(Positive)
NA	Unallocated	NA	NA	NA	0.05	[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

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