August 30, 2024

VRL Logistics Limited: Ratings reaffirmed; Outlook revised to Stable

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+ reaffirmed; Outlook revised to Stable from Positive
Long-term Fund-based – Term Loan	224.05	224.23	[ICRA]A+ reaffirmed; Outlook revised to Stable from Positive
Long-term – Unallocated	0.18	0.0	-
Total	**371.73**	**371.73**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook to Stable from Positive for VRL Logistics Limited (VRL) factors in the likely moderation in VRL's debt protection metrics against ICRA's expectations, amid debt-funded capex plans in FY2025. The company's earnings profile in the recent quarters are affected by stable freight rates and persistent inflationary scenario. While the company has recently hiked the freight rates, a sustained expansion in the operating margins remains to be seen.

The rating remains supported by VRL's established position in the less-than-truck load (LTL) segment, its extensive network in the country and the promoter's experience of more than four decades in the road logistics industry. The rating also considers the stable demand environment and fleet expansion/replacement programme undertaken by the company and increase in the branch network, which is expected to deepen the penetration levels and improve its overall operational efficiency. The company reported a top line growth of 9% in FY2024, driven by expansion in branch network, and addition of new customers, supporting the increase in tonnage handled. However, the revenue growth remained limited due to stable freight rates, which are linked to retail fuel rates. Further, the company faced operational challenges in Q1 FY2025, which impacted the tonnage handled. However, the recent price hike undertaken in July 2024 would support its revenue, which is expected to grow by 10-15% in FY2025. 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 bodybuilding and maintenance facilities provides operational synergies and competitive advantages. The financial profile remains supported by stable cash accruals, robust debt protection metrics and adequate liquidity profile.

The rating, however, is constrained by the high operating leverage with VRL's asset-intensive business model, and consequently, the negative impact on profit margins and asset utilisation, as witnessed in the past. ICRA also notes that external factors, 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 the profit margins, going forward. The company remains exposed to regulatory risks in the goods transport segment.

The Stable outlook reflects ICRA's opinion that VRL's credit profile will remain healthy and be supported by its established position in the market, and a strong customer base, which would improve its earnings and cash flows amid a strong business profile. Strengthening of its fleet, and expansion of the branch network and expected return from the same are likely to be visible from the current 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, (6,177 vehicles, as of June 30, 2024), and operational infrastructure facilities spread across 1,245 branches, including 50 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 – VRL's scale of operations remains large with top line of Rs. 2,888.6 crore in FY2024. VRL reported a moderate revenue growth of 9% in FY2024 on a YoY basis, driven by expansion in branch network, addition of new customers, supporting the increase in tonnage handled. However, the growth remained limited owing to steady freight rates, which are linked to retail fuel rates, and the impact of slower demand in southern states due to unfavourable monsoon spread and commodities related to the agricultural sector. In Q1 FY2025, the company faced operational challenges owing to the General Elections and heat wave in the northern region, which impacted the tonnage handled, restricting the revenue growth to 8% on a YoY basis and a decline of 5% on a QoQ basis. However, the recent price hike undertaken in July 2024, would support its revenue, which is expected to grow by 10-15% in FY2025.

Healthy financial profile – Although the company's debt coverage metrics and interest coverage were impacted in FY2023 and FY2024, largely on account of increase in lease liabilities and addition of long-term loans to fund the fleet expansion programme, the financial profile remains healthy, as reflected by above average interest coverage of 5.0 times and DSCR of 1.7 times, as on March 31, 2024. The debt coverage metrics are expected to remain at similar levels in the near term owing to debt-funded capex plans in FY2025. ICRA notes that the lease liability has peaked and is not expected to increase significantly in near to medium term as witnessed in past 2 years. ICRA, however, notes that in the medium term, the debt protection metrics and interest coverage are likely to improve with expected increase in the operating margins on the back of recent hike in freight rates. Following a large capex spend in the recent years including the expected one in FY2025, the company is likely to incur lower capex, going forward, which should support the credit metrics compared to the current level.

Aggressive branch expansion in recent past to boost growth prospects in the near-to-medium term – The company's LTL freight service involves transportation of consignments from multiple customers in a single vehicle 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 ~91% of its total revenues in FY2024. Given this model, VRL's reach and penetration across the cities through branch addition remain critical for its growth. The company has incrementally added 560 branches and five transhipment hubs between FY2022 and Q1 FY2025, totalling to 1,245 branches and 50 transhipment hubs (as on June 30, 2024), along with allied warehousing needs, which are expected to support its top line from the current fiscal, when the full impact of these investments starts flowing in. In FY2023 and FY2024, VRL has exited all its non-core businesses to focus only on its high-margin goods transportation business, which also supported its credit profile.

Credit challenges

Margins remains vulnerable to cyclicality in economy along with stiff competition and high inflation; moderation in debt metrics witnessed – VRL's revenue growth and margins are vulnerable to slowdown in economic activities and goods movement of various industries. The company's operating margins declined to 13.7% in FY2024 and 12.0% in Q1 FY2025 from 15.2% in FY2023 owing to steady freight rates, which are linked to retail fuel prices and under absorption of fixed overheads.

The operating margins have also been impacted in FY2024 and Q1 FY2025 due to under utilisation of recently added transhipment hub space (under lease). The debt protection metrics witnessed some deterioration in FY2024 compared to FY2023 levels, and are expected to remain range bound in FY2025, with meaningful improvement likely from FY2026.

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 licences 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 external factors – External factors, 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 environmental risk for the entity as the company operates in the logistic sector. To manage the emissions, VRL is actively transitioning its fleet to operate sustainably and in an environment-friendly manner, with a significant portion of its capital expenditure dedicated to this initiative. VRL has added electric and CNG vehicles for fuel conservation. Its vehicles undergo regular maintenance and comply with all environmental laws, ensuring that emissions are maintained within the permissible limits. 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 continuation of business, thereby impacting the operations favourably.

Liquidity position: Adequate

VRL's liquidity position is adequate and is supported by undrawn working capital lines of Rs. 129.8 crore, as on July 31, 2024. The company had free cash and liquid investments of Rs. 18.4 crore as on March 31, 2024. Its utilisation of the working capital limit stood at around 32% in the last 12 months ending in July 2024. Overall, ICRA expects VRL to comfortably meet its near-term commitments of Rs. 57.1 crore (debt repayments) in FY2025 through internal accruals. VRL is expected to incur a capex of Rs. 200-300 crore in FY2025, primarily related to transhipment hub and new vehicles, which is likely to be funded by internal accruals and additional term loans.

Rating sensitivities

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

Negative factors – Pressure on VRL's rating could arise if its financial profile weakens due to material weakening in cash accruals or an increase in borrowings. Specific credit metrics that could exert pressure on the company's ratings include Total Debt/ OPBITDA of 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 a private company named Vijayanand Roadlines Private Limited. The company was renamed as VRL Logistics Limited in 2006. It started as a goods transportation service provider and expanded its service offerings 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 transportation business. The company is listed on stock exchange since April 2015.

Key financial indicators (audited)

VRL Standalone	FY2023	FY2024
Operating income	2,648.5	2,888.6
PAT	323.2	88.9
OPBDIT/OI	15.2%	13.7%
PAT/OI	12.2%	3.1%
Total outside liabilities/Tangible net worth (times)	0.9	1.3
Total debt/OPBDIT (times)	1.8	2.6
Interest coverage (times)	7.2	5.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				30-Aug-2024	5-Dec-2023	6-Dec-2022	29-Sept-2021
1	Fund Based Working Capital	Long term	147.50	**[ICRA]A+ (Stable)**	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)
2	Fund-based – Term Loan	Long term	224.23	**[ICRA]A+ (Stable)**	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)
3	Unallocated	Long term	-	-	[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

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	15.47	[ICRA]A+ (Stable)
NA	**Term Loan-II**	FY2019	NA	FY2027	56.00	[ICRA]A+ (Stable)
NA	**Term Loan-III**	FY2022	NA	FY2027	18.88	[ICRA]A+ (Stable)
NA	**Term Loan-IV**	FY2020	NA	FY2027	1.22	[ICRA]A+ (Stable)
NA	**Term Loan-V**	FY2023	NA	FY2029	132.66	[ICRA]A+ (Stable)
NA	**Working capital facilities**	NA	NA	NA	147.50	[ICRA]A+ (Stable)

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

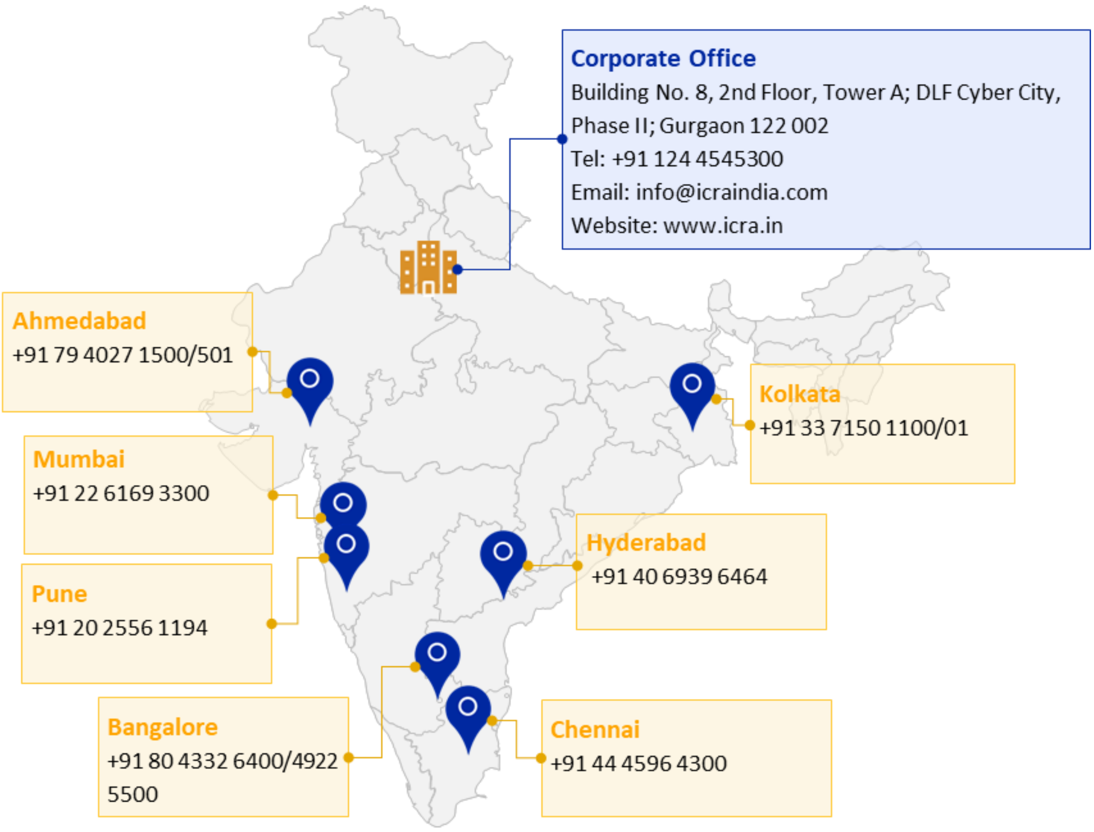
ICRA

ICRA Limited

Registered Office

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

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.