



## VRL Logistics Limited

Instrument	Amount (Rs. Crore)	Rating Action August 2015
Long-term scale - Term Loan	221.75 (reduced from 266.62)	[ICRA]BBB (Stable); upgraded from [ICRA]BB+ (Stable)
Long-term scale - Fund Based	109.57 (increased from 108.50)	[ICRA]BBB (Stable); upgraded from [ICRA]BB+ (Stable)

ICRA has upgraded the long term rating assigned to Rs 331.32 crore (reduced from Rs 375.12 crore) term loans and fund based limits of VRL Logistics Limited (VRL) from [ICRA]BB+ (pronounced as ICRA double B plus) to **[ICRA]BBB** (pronounced as ICRA triple B). The outlook assigned on the long term rating is **Stable**.

The rating upgrade takes into account the improvement in financial risk profile with reduction of debt levels and improvement in the liquidity position post the successful IPO completion with fresh equity of Rs 117 crore raised during April'2015. The rating also positively factors in the healthy revenue growth and improvement in operating margins in both the passenger and goods transportation segments over the past 18 months and the strong return indicators of the company. 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, larger share of revenue accounted by high margin general parcel business (75% of FY15 goods transportation revenues) viz-a-viz limited presence in low margin full truck load segment (~11% of FY15 goods transportation revenues) yields better margins than peers which is also a credit positive. ICRA also positively factors in the diversified customer base providing stability to revenues.

The rating is, however, constrained by VRL's asset intensive business model of owning captive fleet which despite providing operational synergies require substantial capital expenditure every fiscal (Rs 99 crore in FY13; Rs. 118 crore in FY14; and Rs. 91 crore in FY15), predominantly sponsored through debt, resulting in moderately high gearing levels and modest coverage indicators (debt service coverage ratio of 1.18 times in FY15 as against 1.08 times in FY14). 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, however, the company in the past has been able to pass on the increase in operational costs to a reasonable extent. Deregulation of diesel prices and staggered removal of fuel subsidies had previously been resulting in decline in the profit margins, However, with the reduction in fuel prices by the oil marketing companies in line with the global crude oil price movement over the last one year (diesel prices have declined by 24% between Aug 2014 and Aug 2015) have helped to revive the profit margins 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.

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 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 3701 owned vehicles as of June 30, 2015 with a widespread transportation network across 28 States and four Union Territories of India and in the passenger bus operations segment the company has 373 buses as on June 30, 2015 offering luxury bus services across the States of Karnataka, Maharashtra, Goa, Andhra Pradesh, Telengana, Tamil Nadu, Gujarat

\* For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications



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

#### **Recent Results**

VRL Logistics Limited reported operating income (OI) of Rs 1,675 crore and profit after tax (PAT) of Rs 91.09 crore for the year ended March 31, 2015 as against an OI of Rs 1,499 crore and PAT of Rs 57.01 crore for the year ended March 31, 2014.

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