

September 29, 2021

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	123.95	126.00	[ICRA]A+ (Stable); reaffirmed
Long-term Fund-based – Term Loan	8.41	84.98	[ICRA]A+ (Stable); reaffirmed
Long-term – Unallocated	-	0.02	[ICRA]A+ (Stable); reaffirmed
Total	132.36	211.0	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to factor in the established position of VRL Logistics Limited (VRL, the company) in the less-than-truck load (LTL) road transport segment, its extensive network in the country and the promoters' 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 coverage indicators 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. It has the largest fleet of owned vehicles in the country, which combined with the captive body-building and maintenance facilities, provides considerable operational synergies and competitive advantage. The company's debt coverage metrics and interest coverage remains comfortable as reflected by Debt / OPBITDA of 1.7 times and interest coverage of 6.7 times as on March 2021.

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 during Covid-19 related lockdown in Q1 FY2021 and during the second wave in Q1 FY2022. The company reported revenues of Rs. 1,762.9 crore in FY2021 against Rs. 2,118.5 crore in FY2020 owing to Covid-related disruptions in H1 FY2021. As lockdown-related restrictions eased and economic activity revived, the freight availability for VRL also improved. Its LTL, full truck load (FTL) and supply chain management businesses benefited from the pickup in manufacturing activity and consumer demand. Further, ICRA notes that the company had adopted various cash conservation methods, such as curtailment of capex plans, rationalisation of maintenance activities and vehicle tax payments, where possible, and focus on bio-diesel, which have supported its operating margins at 14.0% in FY2021 (14.1% in FY2020). 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 is also exposed to high regulatory risks in both the goods transport and passenger bus operations segments.

ICRA's Stable outlook factors in the company's established position in the market, strong customer base and its healthy financial profile.

Key rating drivers and their description

Credit strengths

Established player in road logistics – VRL is an established logistics service provider in India with the largest fleet of owned vehicles in the country, comprising a fleet of 4,879 vehicles (including 4,588 goods transport vehicles and 291 passenger buses),

as of June 30, 2021 and operational infrastructure facilities spread across 884 locations. 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.

Large share of revenues from high-margin LTL segment – The LTL freight service involves transportation of consignment belonging to multiple customers in single vehicle 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 80% of the total revenues in FY2021.

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 0.70 time as on March 31, 2021. Despite the Total Debt / OPBITDA increasing to 1.7 times as on March 2021 from 1.5 times as on March 2020, owing some moderation in profitability in FY2021 from Covid-19 related disruption, it continues to remain at a comfortable level.

Credit challenges

Exposure to cyclicity in economy, given direct linkage to business growth of industries – The revenue growth and margins of the company are vulnerable to slowdown in economic activity and goods movement of various industries. However, with a diversified client base and revenue diversification across various industries, the company's dependence on business from any particular industry is limited. Additionally, VRL is exposed to seasonality in its passenger transport (PT) segment as witnessed during the first and second waves of the Covid virus in Q1 FY2021 and Q2 FY2022, respectively, which resulted in sharp dip in revenues and profitability in those quarters.

Asset intensive business model – The company primarily operates through a fleet of owned vehicles and has a fleet of 4,879 vehicles as of June 30, 2021. 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 the restrictions due to 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, could result in replacement capex requirement and higher costs in the near to medium term.

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.

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. 18.34 crore as on March 31, 2021 along with undrawn term loans for capex to be incurred in FY2022.

Rating sensitivities

Positive factors – ICRA could upgrade VRL's rating if the company demonstrates improvement in debt coverage metrics along with strengthening of 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 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 operates in other business segments, including wind power generation and air passenger transport. The company currently has 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.

The company reported revenues of Rs. 413.8 crore with operating margins of 8.7% and net losses of 1.5% in Q1 FY2022.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	2,118.5	1,762.9
PAT (Rs. crore)	90.1	45.1
OPBDIT/OI (%)	14.1%	14.0%
PAT/OI (%)	4.3%	2.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.0
Total Debt/OPBDIT (times)	1.5	1.7
Interest Coverage (times)	8.1	6.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of August 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				29-Sept-2021	6-Jul-2020	31-May-2019	27-Apr-2018	
1 Fund based bank facilities	Long-term	126.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	
2 Term Loans	Long-term	84.98	84.98	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	
3 Unallocated	Long-term	0.02	-	[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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
Axis Bank Ltd	Term Loan-I	FY2019	NA	FY2025	27.27	[ICRA]A+ (Stable)
Federal Bank Ltd	Term Loan-II	FY2019	NA	FY2027	25.21	[ICRA]A+ (Stable)
HDFC Bank Ltd	Term Loan-III	FY2022	NA	FY2027	13.55	[ICRA]A+ (Stable)
Kotak Mahindra Bank Ltd	Term Loan-IV	FY2020	NA	FY2027	18.96	[ICRA]A+ (Stable)
ICICI Bank Ltd	Cash Credit	NA	NA	NA	6.00	[ICRA]A+ (Stable)
SVC Co-op Bank Ltd	Cash Credit	NA	NA	NA	95.00	[ICRA]A+ (Stable)
Saraswat Co-op Bank Ltd	Overdraft limit	NA	NA	NA	25.00	[ICRA]A+ (Stable)
-	Unallocated	NA	NA	NA	0.02	[ICRA]A+ (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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