May 31, 2019

VRL Logistics Limited: Long-term rating upgraded to [ICRA]A+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based- Cash Credit	123.95	123.95	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Positive)
Fund Based- Term Loan	8.41	8.41	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Positive)
Total	**132.36**	**132.36**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade favourably factors in the strong business and financial profile of VRL Logistics Limited (VRL), characterised by healthy profitability and return indicators, strong cash accruals, robust debt coverage indicators and comfortable liquidity profile. The rating action factors in the expected benefits to the company from the revision in axle load norms from July 2018, wherein the load carrying capacity of the existing owned fleet will increase by 8-10% on an average, improving asset utilisation and returns. 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.

The rating also factors in its established position 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. With a diversified client base leading to revenue diversification across various industries, the company's dependence on business from any particular industry is limited.

The rating, however, is constrained by VRL's asset-intensive business model and the susceptibility of its profit margins and asset utilisation to domestic economic activity, apart from entailing capital expenditure in every fiscal. Though the company registered a healthy YoY revenue growth of 10% in FY2019, its profitability metrics were under pressure in H1 FY2019 on account of a lag in passing the increase in fuel costs through higher freight rates. Further, the debt outstanding increased to Rs. 141 crore as on March 31, 2019 from Rs. 81 crore as on March 31, 2018 due to the capex being undertaken by the company. Nevertheless, the leverage and coverage indicators are expected to remain comfortable owing to modification in the capex plans post revision in axle load norms, wherein the company has significantly curtailed its plan for addition of new goods transport vehicles. ICRA also notes that externalities such as increase in fuel costs, bridge and toll charges, and labour expenses, which VRL may not be able to pass on to the customers in the entirety, could have an adverse impact on its profit margins. It is also exposed to high regulatory risks in both the good transport and passenger bus operations segments.

Going forward, the scale and mode of funding of future capital expenditure, and VRL's ability to increase the realisations and maintain high utilisation level for its fleet to sustain its profitability levels would be the key rating sensitivities.

Outlook: Stable

ICRA believes that VRL will continue to benefit from its established position in the market, strong customer base and favourable regulatory developments. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure leads to deterioration in capitalisation and coverage indicators, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

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 4,779 vehicles (including 4,398 goods transport vehicles and 381 passenger buses), and operational infrastructure facilities spread across 938 locations. In addition, it has a captive body-building and maintenance facilities, which along with tie-ups with manufacturers of spare parts and tyres as well as fuel suppliers, helps VRL to enjoy operational synergies and cost savings.

Large share of revenues from high-margin LTL segment: The LTL freight service involves consolidation and transport of freight from numerous customers to multiple destinations, generating higher net revenue per vehicle than 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 operating model that entails consolidation of goods from multiple locations at transhipment hubs and redistribution thereof to respective destinations. The LTL business continues to be the main revenue driver and margin contributor and accounted for 70% of the total revenues in FY2018 and FY2019.

Healthy profitability and robust debt coverage metrics: The company has a strong financial profile, marked by healthy profitability indicators, strong cash accruals and comfortable capital structure as reflected by a low gearing of 0.20 times as on March 31, 2019. VRL incurred a capex of Rs. 211 crore in FY2019, of which Rs. 190 crore was incurred towards the goods transportation segment. As a major portion of its capex was met through internal accruals, the net debt increased to Rs. 129 crore as on March 31, 2019 from Rs. 63 crore as on March 31, 2018.

Expected to benefit from regulatory developments such as revision in axle load norms: The recent revision in axle load norms benefitted logistics players like VRL by increasing the load carrying capacity of trucks, thus improving the asset utilisation and increasing average billing per trip. Apart from that, it helped in deferring the purchase of new trucks, thus reducing the overall cost of operations. Further, regulatory developments like implementation of GST and E-way are likely to result in greater inter-state movement of goods, reduction in turnaround time of vehicles, consolidation of warehouse facilities, greater demand for logistic services apart from a shift in preference from unorganised to organised logistic service providers due to greater compliance and technology requirements.

Credit challenges

Exposure to cyclicality in economy and regulatory risks: The company's revenue growth and margins are vulnerable to slowdown in economic activity and goods movement, especially given the stiff competition amid the highly fragmented industry structure. In the passenger transport segment, it is exposed to seasonality, which results in volatility in revenues and margins.

VRL, by virtue of its presence in the goods and passenger transport industry, is exposed to high regulatory risks (with respect to licenses and taxation). Moreover, restriction on older (commercial diesel) vehicles in few cities and scrappage policy could result in replacement capex requirement and higher costs.

Asset intensive business model: The company primarily operates through a fleet of owned vehicles and at present has a fleet of 4,779 vehicles. This exposes VRL's margins to volatility in freight volume. Moreover, its capital intensive business requires significant investments in terms of regular capital expenditure. However, it offers advantages in terms of better operating profitability than hired vehicles and better control over quality and reliability of services.

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 pass on to customers in the entirety could have an adverse impact on profit margins. The operating profit margins declined to 10.9% in H1 FY2019 from 13.6% in H1 FY2018 due to a lag in passing the increase in fuel costs through higher freight rates. However, its margins recovered in H2 FY2019 post revision in axle load norms.

Liquidity position

VRL's liquidity position is expected to be comfortable with undrawn working capital lines (42% of the drawing power has been utilised on an average in the last 12 months ended March 2019) apart from strong cash accruals (Rs. 147 crore in FY2019, post payment of interim dividend). The company has minimal debt repayments in FY2020 and FY2021, which can be easily serviced from its internal accruals post meeting the capex requirements of approximately Rs. 50 crore in FY2020.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	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 and incorporated in 1983 as Vijayanand Roadlines Private Limited. The company's name was changed to VRL Logistics Limited in 2006. It started as a goods transportation service provider and expanded its service offering to include passenger transportation from 1996. VRL has been listed on the NSE and BSE with effect from April 30, 2015 following a successful IPO, wherein it provided a partial exit to private equity investor, NSR, and raised fresh equity of Rs. 117 crore. It is in the business of providing goods and passenger transportation services across India using a range of road transportation solutions for goods, including less-than-truck load, full-truck load and priority cargo services. It serves as one of the private bus operators in Karnataka, Maharashtra, Andhra Pradesh and Goa and with a fleet of over 381 owned passenger buses as on March 31, 2019. It follows an asset-heavy model, wherein it has one of the largest fleet of trucks in India comprising a commercial fleet of 4,779 vehicles (including 381 buses and4,398 goods transport vehicles) as on March 31, 2019. It also has 33 windmills in Gadag, Karnataka, with a total capacity of 41.25 MW, supported by a 20-year power purchase agreement with the Hubli Electricity Supply Company Limited.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1922.3	2109.5
PAT (Rs. crore)	92.6	91.9
OPBDIT/OI (%)	12.2%	11.6%
RoCE (%)	19.5%	19.6%
Total Debt/TNW (times)	0.1	0.2
Total Debt/OPBDIT (times)	0.3	0.6
Interest Coverage (times)	20.5	22.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date &Rating May 2019	Date & Rating in FY2019 Apr 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2017 Oct 2016
1	Term Loan	Long Term	8.41	**2.5**	**[ICRA]A+ (Stable)**	**[ICRA]A (Positive)**	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**
2	Cash Credit	Long Term	123.95	**27.3**	**[ICRA]A+ (Stable)**	**[ICRA]A (Positive)**	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: 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	Sep 2014		Mar 2020	8.41	[ICRA]A+ (Stable)
NA	Cash Credit	Aug 2013		-	123.95	[ICRA]A+ (Stable)

Source: VRL Logistics Limited

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

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About ICRA Limited:

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For more information, visit www.icra.in

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