July 06, 2020

VRL Logistics Limited: Ratings reaffirmed

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); reaffirmed
Fund Based- Term Loan	8.41	8.41	[ICRA]A+ (Stable); reaffirmed
Total	**132.36**	**132.36**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation favourably factors in the strong financial profile of VRL Logistics Limited (VRL, the company), characterised by healthy cash accruals, robust debt coverage indicators and adequate liquidity profile. The rating also factors in the established position of 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. 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 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 the months of April-May 2020. Revenues from the goods transport (GT) segment improved to around 50-60% of the pre-Covid levels in June with partial lifting of lockdown, while passenger transport (PT) segment continues to face low demand. Notwithstanding the encouraging trend of revenue recovery, the accruals for the full year are expected to be subdued due to the weak performance in H1FY2021.However, ICRA notes that the company has adopted various cash conservation methods such as curtailment of capex plans, rationalization of maintenance activities and vehicle tax payments where possible, focus on bio-diesel, etc. will mitigate the impact on the financial profile to some extent. The company has adequate liquidity in the form of sanctioned working capital lines, which have been enhanced during Q1FY2021 to meet the near-term funding requirements. The company's leverage remains moderate (Debt / adjusted OPBITDA[1] of 0.9 times as on March 2020), which is expected to support its financial flexibility and access to additional credit lines, if required. ICRA also notes that externalities such as increase in fuel costs and labour expenses, which the company may not be able to pass on to the customers in the entirety, could have an adverse impact on profit margins. The company is also exposed to high regulatory risks in both the good transport and passenger bus operations segments.

Going forward, sustained recovery in the revenue from the GT segment and the impact of the lower accruals on the borrowing levels of the company would be the key rating sensitivities.

[1]Adjusted OPBITDA is OPBITDA without considering impact of IndAS116

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 5,091 vehicles (including 4,754 goods transport vehicles and 337 passenger buses), and operational infrastructure facilities spread across 906 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 the company enjoy operational synergies, cost savings and competitive advantage.

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 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 it accounted for 70% of the total revenues in FY2019 and FY2020.

Strong debt coverage metrics: The company has a strong financial profile, marked by healthy profitability indicators, strong cash accruals and comfortable capital structure- low gearing of 0.30 times as on March 31, 2020. VRL incurred a capex of Rs 122 crore in FY2020 of which Rs 111 crore was incurred towards the goods transportation segment. Consequently, the Debt / adjusted OPBITDA increased from 0.6 times as on March 2019 to 0.9 times as on March 2020. Notwithstanding the expected moderation in revenues and profitability in FY2021, ICRA expects VRL's Debt / adjusted OPBTIDA to remain under 2.0 times due to curtailment of capex and dividend outflows.

Credit challenges

Exposure to downturn in economy; negative impact due to ongoing Covid-19 related restrictions: The revenue growth and margins of the company are vulnerable to slowdown in economic activity and goods movement. Revenues from the goods transport (GT) segment improved to around 50-60% of the pre-Covid levels in June with partial lifting of lockdown, while passenger transport (PT) segment continues to face low demand. Additionally, the company is exposed to seasonality in PT segment, which results in volatility in revenues and margins. Notwithstanding the encouraging trend of revenue recovery, the accruals for the full year are expected to be subdued due to the weak performance in H1FY2021.

Asset intensive business model: The company primarily operates through a fleet of owned vehicles and at present has a fleet of 5,091 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 the restrictions due to ongoing Covid-19 pandemic.

Exposure to regulatory risks: The company, by virtue of 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 few cities and the proposed scrappage policy, which may impact the entire Industry, could result in replacement capex requirement and higher costs.

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.

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 company has enhanced its sanctioned fund based working capital limits from Rs 136.0

crore as on March 2020 to Rs 156.0 crore as on June 2020. The company has low term debt repayments in FY2021 and FY2022, which along with curtailment of capex and dividends in FY2021 will support the liquidity profile.

Rating sensitivities

Positive triggers –ICRA could upgrade VRL's rating if the company demonstrates a sustained recovery in revenues and profitability, supported by improved realizations and higher volumes.

Negative triggers– 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/adjusted 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	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 VijayanandRoadlines Private Limited. The company's name was changed to 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 transport of passengers by air. The company currently has 32 windmills in Gadag (Karnataka) with a total capacity of 40 MW, supported by a 20-year power purchase agreement with the Hubli Electricity Supply Company Limited.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	2,109.5	2,118.5
PAT (Rs. crore)	91.9	90.1
OPBDIT/OI (%)	11.6%	14.1%
PAT/OI (%)	4.4%	4.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	1.0
Total Debt/OPBDIT (times)	0.6	0.6
Total Debt/adjusted OPBDIT (times)	0.6	0.9
Interest Coverage (times)	22.5	8.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					6-Jul-2020	31-May-2019	27-Apr-2018	31-May-2017
1	Cash Credit	Long Term	123.95	70.6	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A(Positive)	[ICRA]A- (Stable)
2	Term Loan	Long Term	8.41	0.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A(Positive)	[ICRA]A- (Stable)

Amount in Rs. crore

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

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About ICRA Limited:

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