VRL Logistics Limited

April 27, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund Based - Cash Credit	98.95	123.95	[ICRA]A (Positive); Upgraded from [ICRA]A- (Stable)
Fund Based - Term Loan	106.51	8.41	[ICRA]A (Positive); Upgraded from [ICRA]A- (Stable)
Total	**205.46**	**132.36**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating assigned to the Rs. 132.36-crore (reduced from Rs. 205.46 crore) term loans and fund-based limits of VRL Logistics Limited (VRL) from [ICRA]A- (pronounced ICRA A minus) to [ICRA]A (pronounced ICRA A). The outlook on the long-term rating has been revised from Stable to Positive.

Rationale

The rating upgrade takes into account the sustained improvement in the company's debt coverage indicators on the back of healthy cash accruals and limited debt-funded capital expenditure. In the nine months ending on December 31, 2017, VRL reported an improvement in its profit margins supported by an increase in the realisation in goods and passenger transport business and efficiencies post implementation of the Goods and Services Tax (GST). Further, ICRA's rating continues to derive comfort from VRL's established market position in the less than truck load (LTL) road transportation segment, especially in southern, western and northern India. VRL has the largest fleet of owned vehicles in the country, which combined with the captive body-building and maintenance facilities, provides considerable operational synergies. ICRA also positively factors in VRL's diversified sectoral base with no significant revenue concentration on any of its customers.

The rating, however, is constrained by the moderation in revenue growth in FY2017 and 9M FY2018 due to stagnant goods transport volumes. ICRA also notes that 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 the customers in the entirety, could have an adverse impact on profit margins. VRL's asset-intensive business model of owning a captive fleet could affect vehicle utilisation and margins in case of reduction in cargo volumes, apart from necessitating substantial maintenance capital expenditure in every fiscal. The company 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 the ability of VRL to increase the realisations and maintain high utilisation level for its fleet to sustain its profitability levels would be the key rating sensitivities.

Outlook: Positive

ICRA believes that VRL will continue to benefit from its established position in the market, strong customer base and favourable regulatory developments. The outlook maybe revised to Stable if decline in profitability and increase in borrowings levels adversely impact the financial risk profile.

Key rating drivers

Credit strengths

Established player in road logistics: VRL has an extensive network, especially in southern, western and northern India. It has the largest fleet of owned vehicles in the country alongside captive body-building and maintenance facilities which provide considerable operational synergies.

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. LTL business continues to be the main revenue driver and margin contributor this segment accounted for as ~69% of the total revenue of VRL in FY2017 and 9M FY2018.

Moderate revenue growth; margins remain healthy: In FY2016 and FY2017, the company experienced a modest revenue growth of 3% and 4%, respectively, post healthy growth during FY2012–FY2015. The revenue growth improved marginally to 5% in 9M FY2018 owing to improvement in realisation in passenger and goods transportation businesses, efficiencies post implementation of GST and improvement in goods transport volumes in Q3 post slowdown in Q1 and Q2 of FY2018. The operating profitability remained healthy due to the presence in the high-margin LTL segment.

Substantial reduction of debt levels and improvement in leverage and liquidity: The net debt levels for the company reduced from Rs. 176 crore as on March 31, 2017 to Rs. 46 crore as on December 31, 2017, resulting in an improvement in the net gearing from 0.32 times as on March 2017 to 0.08 times as on December 2017.

Efficiency gains post GST implementation: With the implementation of GST, the industry is now expected to see a consolidation of warehouse facilities, greater inter-state movement of goods, greater demand for logistic services and a shift in preference from unorganised to organised logistic service providers due to greater compliance and technology requirements. Besides, it there has been an increase in the distance covered by vehicles due to withdrawal in check posts, resulting in an improvement in efficiency by 6-8% for VRL.

Credit challenges

Exposure to cyclicality in economy: The revenue growth and margins of the company are vulnerable to slowdown in economic activity and goods movement, especially given the intensely competitive and highly fragmented industry structure. In the passenger transport segment, the company is exposed to seasonality, which results in volatility in revenues and margins.

Asset intensive business model: The company primarily operates through a fleet of owned vehicles and at present has a fleet of more than 4,400 vehicles. This exposes VRL's margins to volatility in freight volumes. Also, the company's capital-intensive model of 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.

Profitability exposed to fluctuations in input costs: 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.

Proposed large capex plans: The company plans to incur a capex of Rs. 550 crore in FY2019 and FY2020, wherein Rs. 200-300 crore will be met through internal accruals and the balance will be met through bank borrowings. This will lead to a sizeable increase in debt. However, it is expected that VRL's coverage indicators will continue to be comfortable, supported by its strong operating profitability.

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 scrappage policy could result in replacement capex and higher costs.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

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 further 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 LTL, FTL 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 406 owned passenger buses as of December 31, 2017. It follows an asset-heavy model, wherein it has one of the largest fleet of trucks in India comprising a commercial fleet of 4,360 vehicles (including 406 buses and 3,989 goods transport vehicles) as of December 31, 2017. The company 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)

	FY2016	FY2017
Operating Income (Rs. crore)	1727.0	1803.1
PAT (Rs. crore)	102.3	70.5
OPBDIT/OI (%)	15.8%	12.1%
RoCE (%)	21.4%	15.6%
Total Debt/TNW (times)	0.5	0.3
Total Debt/OPBDIT (times)	1.0	0.8
Interest Coverage (times)	8.9	9.1
NWC/OI (%)	5.6%	6.3%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating April 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2017 October 2016	Date & Rating in FY2016 September 2015
Term Loan	Long Term	8.41	**7.98**	**[ICRA]A (Positive)**	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB (Stable)**
Cash Credit	Long Term	123.95	**47.73**	**[ICRA]A (Positive)**	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (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	May 2017	-	March 2020	8.41	[ICRA]A (Positive)
NA	Cash Credit	May 2017	-	-	123.95	[ICRA]A (Positive)

Source: VRL Logistics Limited

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About ICRA Limited:

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