

VRL Logistics Ltd. (IWL) : "SUBSCRIBE "

13th April, 2015

Promoted by Dr. Vijay Sankeshwar, VRL commenced goods transportation business in Karnataka in 1976 through a proprietary firm. The company became public limited in 1997, changing its name to VRL Logistics Ltd, and received a fresh certificate of incorporation in 2006. Today, VRL is one of the leading pan-India surface logistics and parcel delivery service providers. The Company owned and operated the largest fleet of commercial vehicles in the private sector in India (Source: Limca Book of Records, 2013, data as of May 2012). The Company provides general parcel and priority parcel delivery (less than truckload services, "LTL"), courier and full-truckload ("FTL") services through its widespread transportation network in 28 States and four Union Territories across India. VRL's operational infrastructure for the goods transportation business as of December 31, 2014 comprised 624 branches (comprising 604 leased branches and 20 owned branches) and 346 agencies across India, and of such 624 branches, 48 (41 leased branches and seven owned branches) served as strategic transshipment hubs for its operations. VRL's differentiated service offerings, large integrated hub-and-spoke transportation network, extensive operational and maintenance infrastructure and in-house technology systems have enabled it to develop its brand across India. VRL's goods transportation service business serves a broad range of industries, including the fast moving consumer goods (FMCG) sector as well as other industries including food, textiles, apparel, furniture, appliances, pharmaceutical products, rubber, plastics, metal and metal products, wood, glass, automotive parts and machinery. VRL's extensive network enables it to provide "last mile" connectivity to even remote areas in India which is a compelling value proposition. As of Dec. 31, 2014, VRL's goods transportation fleet included 3,546 owned vehicles. VRL's large fleet, most of which is owned by the Company, enables it to reduce its dependence on hired vehicles, retain control of the value chain and service quality, and establish a reputation for reliable and timely delivery of consignments. The variety of goods transportation vehicles in its fleet also enables it to serve a diverse mix of consignments. The Company's in-house technology systems enable it to improve the service quality and consistency and increase its operating efficiency. VRL also provides luxury bus services across the States of Karnataka, Maharashtra, Goa, Andhra Pradesh, Telengana, Tamil Nadu, Gujarat and Rajasthan. The bus operations are focused on high density urban commuter cities such as Bengaluru, Mumbai, Pune, Hyderabad and Panjim, and also connect tier-2 and tier-3 cities. Its longest route of operation in India stretches from Bengaluru to Jodhpur. As of December 31, 2014, VRL owned and operated 455 buses (including 53 staff buses). As of Dec. 31, 2014, VRL had 81 branch offices, 739 agencies and 416 prepaid agencies for its bus operations business.

For the year ended Dec. 31, 2014, around 75.95% of VRL logistics' total revenue came from goods transportation, which has been its primary business, about 19.5% came from bus operations, and the rest from the car services operated by VRL. Net Sales grew at CAGR of 18% during FY09-FY14 to Rs 1494 cr. The company has managed to reduce its Debt-Equity ratio from the highs of 7.64x in FY06 to 1.69x in FY14, led by substantial cash generation from operational activities. At the upper band of the issue price, VRL is valued at 19x at 9MFY15 Ann. EPS of Rs. 10.67. With due consideration to factors like a) pan-India surface logistics services provider with an established brand and one of the largest distribution networks in India, b) integrated hub-and-spoke operating model ensuring efficient consignment distribution, c) diversified customer base, d) robust financials with strong Balance Sheet, e) cheaper valuations against immediate peer Transport Corporation of India trading at P/E multiple of 25x at FY15E EPS (note: Business models of Gati and Blue Dart are not exactly the same), we recommend "SUBSCRIBE".

Issue date	Apr. 15 - 17, 2015		
Issue size	Rs. 4,680 mn at upper end of the price band (Rs. 1,170 mn – Fresh Issue and Rs. 3,510 mn – Offer for sale)		
Face Value	Rs.10		
Price Band	Rs. 195 - 205 per share		
Lot size	65 equity Shares and in multiples of 65 equity shares thereof		
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%		
Type of issue	Fresh issue: 5.8 mn equity shares Offer for sale: 17 mn equity shares by New Silk Route and Promoters		
Equity shares post issue	9.12 mn equity shares		
Post issue market cap.	Rs. 18.70 bn at upper price band		
Book Running Lead Managers	ICICI Securities HSBC Securities and Capital Markets (India) Pvt. Ltd.		
Registrar to the issue	Karvy Computershare Pvt. Ltd.		
Shareholding Pattern (%)	Pre Issue	Post Issue	
Promoters group	77.2	69.6	
Corporate bodies	22.5	21.4	
Public	0.3	9.1	
Total	100	100	
Y/e 31 Mar (Rs. cr)	9MFY15	FY14	FY13
Total income	1279.4	1503.8	1335.3
EBITDA	219.5	216.6	205
EBITDA Margin (%)	17.2	14.4	15.4
Reported PAT	71.7	50.5	45.7
PAT margin (%)	5.6	3.4	3.4
Post issue EPS (Rs.)	8	6.4	5.1
Equity Capital	85.5	85.5	181.1
Networth	336.8	306.5	289.4
RoE (%)	-	17.5	19.2
RoCE (%)	-	13.4	12.9

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Objects of the issue

The Company proposes to utilize the Net Proceeds towards funding the following objects:

- 1) Offer for sale by private equity firm NSR PE Mauritius LLC and Promoter Group of 1.71cr shares.
- 2) Fresh issue of Rs. 117 crores. The Company plans to utilize the net proceeds (Rs. 117 crore) to purchase goods transportation vehicles worth Rs. 67 crores and repay debt to the tune of Rs. 28 crores.

Concerns

- 1) Fuel costs, toll charges and rent represent some of VRL's most significant operating costs and an increase in such costs or inability to pass on such increases to its customers will adversely affect the results of operations. VRL's business is characterized by high fixed costs, principally due to the ownership of goods transportation vehicles and buses. Historically, the company has been able to pass on the increasing the operating cost to its customers through price hikes.
- 2) VRL's business operations in the goods transportation business and bus operations are dependent on the road network. There are various factors which affect road transport such as political unrest, bad weather conditions, natural calamities, regional disturbances, fatigue or exhaustion of drivers, improper conduct of the drivers/ motormen, accidents or mishaps and third party negligence. Even though it undertakes various measures to avoid or mitigate such factors to the extent possible, some of these could cause extensive damage and affect VRL's operations and/ or condition of the fleet and thereby increase its maintenance and operational cost.

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