

13/04/2015

VRL Logistics Limited

Product Note

Issue Summary

Price Band (Rs)	195	205
Market Lot	65 Equity shares	
Face Value	Rs 10	
Opens on	15 th Apr' 15	
Closes on	17 th Apr' 15	
Fresh Issue	~Rs. 117 crores	
Offer for sale	1.7116 cr shares	
P/E FY15 Annualised	18x	19x

Company & Business Profile

VRL is one of the leading pan-India surface logistics and parcel delivery service providers. The company owns and operates the largest fleet of commercial vehicles in the private sector in India (Source: Limca Book of Records, 2013, data as of May 2012). It provides general parcel and priority parcel delivery (less than truckload services, "LTL"), courier and full-truckload ("FTL") services through their widespread transportation network in 28 States and four Union Territories across India. Their 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 their operations.

Objects of the Issue

Offer For Sale: Company will not receive any proceeds from the Offer for Sale by the Selling Shareholder and the proceeds received from the Offer for Sale will not form part of the Net Proceeds.

The Fresh Issue: The activities for which funds are being raised by the Company through this Issue, after deducting the proceeds from the Offer for Sale and Issue related expenses for the Company are:

1. Purchase of goods transportation vehicles
2. Repayment/pre-payment, in full or part, of certain borrowings availed by the Company
3. General corporate purposes

Issue break-up

Net Issue	No. of Shares (Lacs)	%
QIB's	~150	50
NIB	~34	15
Retail	~80	35
Total	~264	100

Investment Positives

- **Pan India presence:** VRL is a well established brand name in the transportation industry in India with over 38 years of operations. Its goods transportation network spans across 28 States and four Union Territories across India.
- **Integrated hub-and-spoke operating model ensuring efficient consignment distribution:** Hub-and-spoke operating model enables it to transport various parcel sizes and provide its customers with access to multiple destinations for booking and delivery of goods, and provide "last mile" connectivity to even remote locations in India. This involves

BRLM

- ICICI Securities Ltd
- HSBC Securities & Capital Markets (I) Pvt Ltd

Listing

BSE, NSE

effective consolidation of goods from multiple locations at its transshipment hubs, which are continuously operated on a 24X7 basis throughout the year, and re-distribution thereof to their respective destinations, resulting in operating and cost efficiencies, optimal capacity utilization of its transportation vehicles, rationalization of routes, as well as flexibility in operation, allocation and optimal utilization of resources including manpower. This operating model also enables it to cater to a wide range of customers who require multiple pickups and delivery points, to focus our operations on aggregating parcels, and on selective routes, to combine parcel delivery (LTL) and FTL freight to maximize revenue per operating vehicle. VRL's expansive and integrated hub-and-spoke operating model therefore enables it to optimize its operating margins and profitability.

- **Large fleet of owned vehicles ensuring reliable, quality services:** As of December 31, 2014, VRL's goods transportation fleet included 3,546 owned vehicles, of which 1,166 vehicles were less than five years, 2,375 were debt free and 1,235 were fully depreciated.
- As of December 31, 2014, it owned and operated 455 buses (including 53 staff buses), of which 399 were less than five years, 87 were debt free and six were fully depreciated.

Concerns

- Inability to pass on any increase in fuel costs & other expenses
- Higher dependence on centralised hub at Hubballi
- Competition from existing and new players.
- Risk of accidents and damage or theft of cargo.
- Low freight volumes and passenger occupancy due to a slowdown in the overall economic environment.

Financials

Restated Consolidated Financial Information of Profits and Losses:

Particulars Rs in crs	For the nine months	For the year ended 31 March				
	ended 31 December 2014	2014	2013	2012	2011	2010
Revenue						
Revenue from operations	1,273.81	1,493.78	1,325.50	1,130.38	888.80	711.35
Other income	5.57	9.99	9.83	4.90	4.11	3.27
Total revenue	1,279.38	1,503.78	1,335.32	1,135.28	892.92	714.61
Expenses						
Operating expenses	899.07	1,091.17	962.65	791.12	603.36	467.79
Employee benefits expense	145.68	174.46	148.26	128.92	104.48	89.98
Finance costs	44.99	59.91	59.12	65.14	47.91	50.84
Depreciation and amortisation expense	69.18	86.62	82.34	69.60	50.93	46.42
Other expenses	15.14	21.58	19.37	18.44	15.09	15.76
Total expenses	1,174.05	1,433.74	1,271.74	1,073.21	821.78	670.79
Profit before exceptional item and tax	105.33	70.04	63.59	62.06	71.14	43.82
Add: Exceptional item (refer note 9 of Annexure 5)	-	6.64	-	-	-	-
Profit before tax	105.33	76.68	63.59	62.06	71.14	43.82
Current tax (net of MAT credit)	33.23	13.74	9.53	8.40	3.03	0.07
Deferred tax	0.41	5.76	8.35	-23.05	16.45	15.00
Profit for the period/year	71.69	57.18	45.70	76.72	51.66	28.75

Source: RHP, VRL Logistics Limited

Restated Consolidated statement of assets and liabilities:

Rs in crs	As at 31 December	As at 31 March				
Particulars	2014	2014	2013	2012	2011	2010
Equity and liabilities						
Shareholders' funds						
Share capital	85.54	85.54	181.17	70.70	70.70	70.70
Reserves and surplus	251.28	221.01	108.23	116.62	62.85	35.92
	336.81	306.55	289.40	187.32	133.55	106.62
Non-current liabilities						
Long-term borrowings	213.13	252.88	285.16	403.51	252.73	215.11
Deferred tax liabilities (net)	83.23	83.36	77.60	69.25	92.30	75.85
Other long term liabilities	8.87	8.87	8.66	7.83	7.81	7.63
Long-term provisions	4.89	2.64	2.91	2.16	0.14	0.41
	310.11	347.75	374.34	482.74	352.98	298.99
Current liabilities						
Short-term borrowings	104.48	109.43	93.84	72.90	88.57	63.24
Trade payables	6.37	9.31	5.02	5.56	2.50	5.40
Other current liabilities	205.39	182.53	165.51	176.09	147.82	123.40
Short-term provisions	9.73	22.37	37.08	7.72	9.11	21.83
	325.97	323.63	301.45	262.27	248.01	213.86
Total	972.90	977.93	965.18	932.33	734.53	619.47
Assets						
Non-current assets						
Fixed assets						
Tangible assets	693.75	739.36	710.09	694.20	498.81	469.02
Intangible assets	0.81	0.97	0.20	0.38	1.17	1.92
Capital work-in-progress	14.61	14.04	14.03	10.02	40.25	11.53
Non-current investments	0.11	0.11	0.08	0.13	0.13	0.13
Long-term loans and advances	81.88	91.00	96.66	91.67	77.83	49.88
Other non-current assets	2.54	2.52	0.72	1.23	0.54	1.12
	793.69	848.00	821.78	797.61	618.72	533.59
Current assets						
Inventories	16.69	13.48	9.68	8.73	6.08	6.96
Trade receivables	88.33	79.96	85.39	78.52	68.80	49.56
Cash and bank balances	12.99	15.09	15.44	13.60	15.14	17.44
Short-term loans and advances	25.89	19.81	18.55	15.15	11.11	11.13
Other current assets	35.31	1.60	14.34	18.72	14.68	0.80
	179.21	129.93	143.40	134.72	115.81	85.88
Total	972.90	977.93	965.18	932.33	734.53	619.47

*Source: RHP, VRL Logistics Limited

Restated Consolidated statement of cash flows:

Rs in crs Particulars	For the nine months ended 31 December 2014	For the year ended 31 March				
		2014	2013	2012	2011	2010
Cash flows from operating activities						
Profit before tax	105.33	76.77	63.59	62.06	71.14	43.83
Adjustments for :						
Depreciation and amortisation expense	69.18	86.62	82.34	69.60	50.93	46.42
Interest expense	44.99	59.84	59.12	65.14	47.91	50.84
Interest income	-0.20	-0.27	-0.32	-0.22	-0.22	-0.18
Dividend income	-0.00	-0.01	-0.03	-0.01	-0.02	-0.02
(Profit)/loss on sale of fixed assets (net)	0.83	0.79	0.31	0.03	1.48	1.55
Advances and bad debts written off	0.07	1.18	0.01	0.75	0.24	0.91
Provision for doubtful advances and debts	0.35	0.25	0.43	0.05	0.26	0.74
Credit balance written back	-0.12	-0.76	-0.61	-0.39	-0.14	-0.04
Adjustment for exceptional item	-	-6.64	-	-	-	-
Operating profit before working capital changes	220.42	217.76	204.84	197.03	171.59	144.06
Adjustments for :						
(Increase) / decrease in trade receivables	-8.38	5.30	-7.30	-9.77	-19.51	-5.71
(Increase) in loans and advances and other current assets	-10.56	-2.37	-18.42	-8.65	-3.27	-2.42
(Increase) / decrease in inventories	-3.21	-3.79	-0.95	-2.66	0.88	-0.09
Increase / (decrease) in trade payables, other liabilities and provisions	5.74	1.27	-2.06	5.70	15.64	6.25
Cash generated from operating activities	204.01	218.17	176.10	181.66	165.33	142.09
Direct taxes paid (net of refunds)	-18.13	-14.91	-13.12	-15.73	-18.60	-4.85
Net cash generated from operations (A)	185.88	203.26	162.98	165.92	146.74	137.24
Cash flows from investing activities						
Purchase of fixed assets (including capital advance)	-60.14	-109.36	-91.41	-244.05	-135.18	-50.39
Proceeds from sale of fixed assets	1.64	19.06	0.74	0.89	3.16	13.64
Proceeds from advance towards sale of land	10.00	-	-	-	1.60	-
Encashment / (placement) of fixed deposits with bank	-0.22	-1.10	0.56	0.59	-0.31	-0.62
Sale / (purchase) of non-current investments	-	-0.03	0.05	-0.00	-	-
Interest received	0.02	0.35	0.19	0.25	0.10	0.12
Dividend income received	0.01	0.01	0.03	0.01	0.02	0.02
Net cash (used in) investing activities (B)	-48.69	-91.07	-89.84	-242.31	-130.61	-37.24
Cash flows from financing activities						
Proceeds from issue of shares (including securities premium)	-	-	125.00	-	-	-
Proceeds from / (repayment of) public deposits (net)	-	-2.60	-6.07	-3.09	0.77	10.40
Proceeds from / (repayment of) unsecured loans from/to corporates (net)	-	-	-0.55	-24.60	25.05	0.10
Proceeds from short term borrowings (net)	-4.94	15.58	21.49	8.93	0.29	25.10
Proceeds from long term borrowings	83.36	119.26	93.18	302.87	137.94	89.39
Repayment of long term borrowings	-112.39	-127.59	-210.80	-123.41	-99.59	-167.15
Dividend paid and tax thereon	-60.38	-56.36	-30.40	-17.26	-37.14	-13.24
Interest and processing fees paid	-45.14	-60.13	-62.06	-62.97	-44.46	-50.57
Share issue expenses	-	-	-1.05	-4.35	-2.17	-
Net cash (used in)/generated from financing activities (C)	-139.49	-111.83	-71.26	76.13	-19.32	-105.97
Net increase / (decrease) in cash and cash equivalents (A + B + C)	-2.29	0.37	1.88	-0.26	-3.20	-5.97
Cash and cash equivalents at the beginning of the period /year	15.04	14.68	12.79	13.06	16.26	22.22
Cash and cash equivalents at the end of the period / year	12.75	15.04	14.68	12.79	13.06	16.26
Cash and cash equivalents comprise:						
Cash on hand	3.29	3.66	3.77	3.60	2.36	2.34
Cheques / drafts on hand/ in transit	-	0.42	0.57	0.87	1.01	0.99
Balances with banks						
- in current accounts	9.42	10.72	8.21	7.53	9.17	12.82
- in deposit accounts (with maturity upto 3 months)	0.01	0.05	1.89	0.64	0.37	0.06
Cash in transit	0.02	0.19	0.24	0.15	0.15	0.05
	12.74	15.04	14.68	12.79	13.06	16.26

*Source: RHP, VRL Logistics Limited

Shareholding pattern of Promoter and Promoter group as on date of Red Herring Prospectus:

Name of the Shareholder	Pre- Issue		Post- Issue	
	Number of Equity Shares	Percentage Holding (%)	Number of Equity Shares	Percentage Holding (%)
Promoter				
Dr. Vijay Sankeshwar	3,30,75,000	38.67	[●]	[●]
Mr. Anand Sankeshwar	3,25,48,250	38.05	[●]	[●]
Total Holding of the Promoters (A)	6,56,23,250	76.72	[●]	[●]
Promoter Group (other than Promoters)				
Mrs. Lalita Sankeshwar	21,000	0.02	[●]	[●]
Mrs. Vani Sankeshwar	4,00,000	0.47	[●]	[●]
Mrs. Bharati Holkunde	1,750	0.00	[●]	[●]
Total Holding of Promoter Group (other than Promoters) (B)	4,22,750	0.49	[●]	[●]
Total Holding of Promoters and Promoter Group (A+B)	6,60,46,000	77.21	[●]	[●]

Valuations

The company is bringing the issue at price band of Rs. 195-205 at price/earnings (PE) ratio of 19x the upper price band of Rs 205 and 18x the lower price band of Rs 195 on FY2015 annualised earnings. Valuations in our view are lower than its peer.

Sr no	Comparison with listed industry peers	For the year ended on March 31, 2014					
		ValueFace(Rs)	Income in Rs crs	EPSBasic (Rs)	P/E	RoNW (%)	NAV (Rs)
1	VRL Logistics Limited	10	1,503.78	7.21	NA	18.65	35.84
2	Peer Group*						
	Gati Limited	2	1,127.18	2.70	84.30	3.05	87.88
	Transport Corporation of India Limited	2	2,235.68	9.82	25.84	14.58	67.33
3	Industry Composite				55.07		

Retail Category VRL Logistics Limited		
Issue Opens	15-Apr-15	
Issue Closes	17-Apr-15	
Price Band	Rs 195 to Rs 205	
Bid Lot	65 Equity Shares & in multiples thereafter	
Cheque in Favour of	"Escrow Account –VRL IPO – R"	
No. of Shares	Price Per Share	Cheque Amount (Rs.)
	(please tick cut off)	
65	205	13,325
130	205	26,650
195	205	39,975
260	205	53,300
325	205	66,625
390	205	79,950
455	205	93,275
520	205	1,06,600
585	205	1,19,925
650	205	1,33,250
715	205	1,46,575
780	205	1,59,900
845	205	1,73,225
910	205	1,86,550
975	205	1,99,875

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