



Issue Size (Rs in mn)	1170
Offer for Sale (mn shares)	17.1
Offer for Sale (Rs in mn)	3330-3500
Price band	195-205
Issue opens	13-Apr-15
Issue Closes	17-Apr-15
Minimum Application	65
Multiple Application	65
Listing	BSE / NSE

Overview: VRL logistics Ltd was founded in 1976 by Dr.Vijay Sankeshwar in Gadag, a small town in North Karnataka and from there it has gradually expanded its services across 27 states. VRL is nationally renowned logistics and transport company which is also currently has largest fleet ownership of commercial vehicles in India with a fleet of 3874 vehicles Including 328 tourist buses & 3546 goods transport vehicles for 9mths FY15. VRL operates through a network of 624 branch and 346 franchisees to cater valuable customers and are in the process of expanding services to northern and eastern regions of India.

Services offered by VRL: VRL offers services ranging from logistics, to travels, courier, air charter and power generation services. Under logistics this is sub divided into "general parcel" and "priority cargo", these involve movement of consignments of varying size and weight across the country which is transported to the transshipment hubs on a less than truck load (LTL) and a full truck load (FTL) basis. It also provides the option of door collection and door delivery to the customers at a cost.

Barriers to Entry: The barriers to entry seem limited as there are existing players in niche segments of such services. Although it requires deep pockets for initial investments, we do not believe that it would restrict entrants in such a business environment. VRL does have a competitive advantage in terms of reach having wider network coverage for providing logistic services coupled with better bargaining power in acquiring vehicles from vendors and in-house technology enabling to stem up higher operational efficiency. We consider that, it would take competitors a reasonable amount of time to replicate this kind of geographical reach along with the modernization in technology with logistic services.

Objective of the issue: The proceeds of the issue will be utilized with the allocation of ₹674.15mn purchase of approximately 248 goods transportation vehicles along with expansion plans along with ₹280mn towards the retirement of debt. VRL is looking at expansion in the northern and eastern regions.

Financial: VRL Logistics operational income for 9mths FY15 was ₹12,738mn with net profit of ₹716.9mn. 76% revenues were generated from "good transport business", while 20% came from the bus operations and remaining from product and other services. FY13 operational revenues came in at ₹ 13,255mn with a net profit of ₹571.8mn, While in FY14 revenues stood at ₹14,937mn with a net profit of ₹571.8mn. The operating margins for FY13 and FY14 have been compressed due to the increasing diesel cost as a result of which it has not been able to pass this cost to the end customer. The 9MFY15 margins stood at 16.8% which has once again increase from the low of 13.8% which was due to more self utilization rather than outsourcing business. We believe margins could sustain as diesel prices have declined during most of Q4 a big benefit to a company such as VRL.

Recommendation: The business model entails providing logistic services within the national borders of the country. The growth of the business would be accelerated with the overall health of the economy. There would be a constant need to increase the fleet size to boost revenues which make the business capital intensive which can be a concern as funding requirements would be large. As VRL could witness some seasonality in the business although they have diversified service offering. VRL should trade at 8x an EV/EBIDTA given the strong cash earnings. Given the current expansion, wide geographic reach and strong cash flows we believe valuation there is room for upside and we would recommend a "SUBSCRIBE" to the issue.

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