VRL LOGISTICS LIMITED

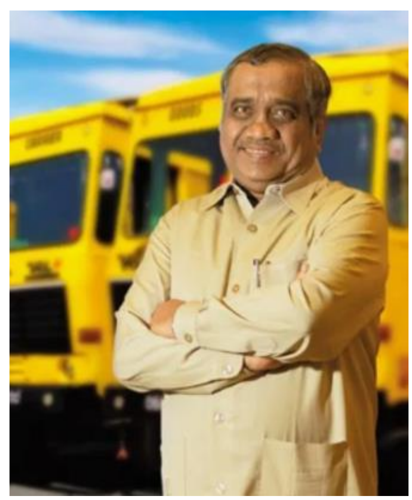
Largest Fleet Owner in Goods Transportation

Vijayanand Roadlines Limited ("the Company" or "VRL") operates predominantly in the Logistics and Transport Industry. VRL, a company that started with only one truck 4 decades ago, today owns the largest fleet of commercial vehicles in India. With 5093 commercial vehicles, 693 branches, 166 agencies and 47 Transhipment hubs, the Company offers services across 22 States and 5 Union Territories in India.

VRL primarily provides the following services:

- Goods Transportation – Goods and Courier Services
- Bus Operations – Passenger Travel by road
- Sale of Power – Wind Power Generation
- Air Transport Services – Charter Plane and Priority Cargo Services

How was VRL born?



VRL started as a goods transportation proprietary firm in 1976 by Dr. Vijay Sankeshwar in Gadag, North Karnataka. Sankeshwar post his graduation chose a risky path of leaving his father's printing business and starting his own transport business against the wish of his family. Though there were initial financial setbacks due to heavy investment and losses, none discouraged Sankeshwar, rather he went on purchasing trucks and expanding the customer base to become one of the largest operators in the goods transport industry. Most players back then were dependent on 3rd party vehicles so, owning fleet allowed VRL to provide better quality services over its competitors. Realising the difficulties faced by employees, Sankeshwar took employee welfare seriously which turned out to be another success factor. Later on, VRL diversified into other industries like passenger transport, air chartering and wind power generation. In 2003, VRL entered into the Limca Book of World Records as the largest fleet owner of commercial vehicles in the private sector in India. In 2015, the Company got listed on BSE and NSE. Vijay Sankeshwar was awarded Padma Shri in 2020.

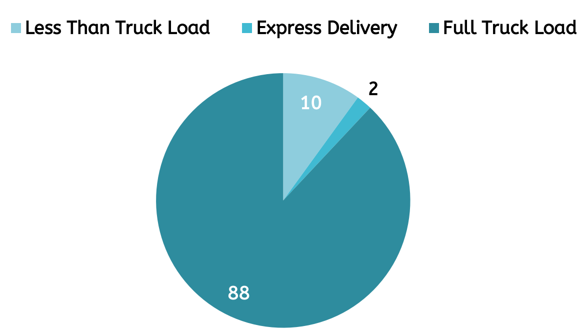
Indian Logistics Industry

- As per India Brand Equity Foundation (IBEF), the logistics sector in India has been growing at 10.5% YoY till 2019. By 2022, the market size of the logistics sector in India is expected to reach $215 billion.
- As per Agility Insights, India ranked 2nd in the 2019 Agility Emerging Markets Logistics Index, which ranks Emerging Countries based on their logistics performance.
- Implementation of Goods and Services Tax (GST), relaxed Foreign Direct Investment (FDI) regulations and granting of Infrastructure status has benefited the logistics industry. With infrastructure status, logistics sector can now get credit at competitive rates and on a long-term basis. While relaxed FDI norms will boost investments that will ultimately improve the infrastructure and warehousing facilities.
- GST has reduced unnecessary movement between warehouses in each state which was done earlier to reduce the Central Sales Tax. Now multiple small warehouses can be consolidated into a few large warehouses promoting the development of better facilities like automation and advanced safety measures etc.
- National Highway Authority of India reported that it had accomplished the construction of 3,979 kms of national highways in FY20, this is in sync with the Government's increased focus on improving logistics. The Government of India has targeted to construct 65,000 kms of highways by 2022 and 2,000 kms of coastal connectivity roads have been identified for development to improve the supply chain.
- According to India Ratings, the Logistics sector is expected to have a gradual and prolonged recovery from the pandemic shock unlike a sharp V-shaped recovery over FY21.
- According to India Ratings, even though the Government had relaxed norms for inland logistics companies during the lockdown, yet volume is expected to decline by 10-15% in FY21 as the consumption demand could take longer to recover.

Indian Goods Transportations Industry

- As per NITI Aayog, road freight transportation dominated the goods transportation industry with a 59% share in FY20.
- Indian road logistics market which is worth $100 billion has grown annually at 9-10% CAGR in the last 10 years which can be attributed to high economic growth and infrastructure investments. The market is expected to grow at 9- 10% annually over the next 5 years.
- Road Transport Industry has been dominated by Full Truck Load (FTL) service providers while Less than Truck Load (LTL) and Express Delivery models are less competitive allowing business houses that operate in LTL business to have higher margins.

Classification of Goods Transportation Service Providers (%)



Source: Company, Leveraged Growth

- Infrastructure investments in road development, favourable regulations, and a rise in demand will further increase the share of roads in freight transportation, which is expected to capture 70% (currently 65%) of the total freight transport industry. Consumption of these services is expected to increase in remote areas and terrains where railways or other modes of transportation can't reach.
- GST and implementation of the e-way bill have reduced transit times by 60%, due to the implementation of the e-way bill at inter-state border checkpoints the capacity and delivery speed has increased. Also, technology has helped in better tracking, reducing errors in deliveries and increasing overall efficiency.

Indian Passenger Travel (Road) Industry

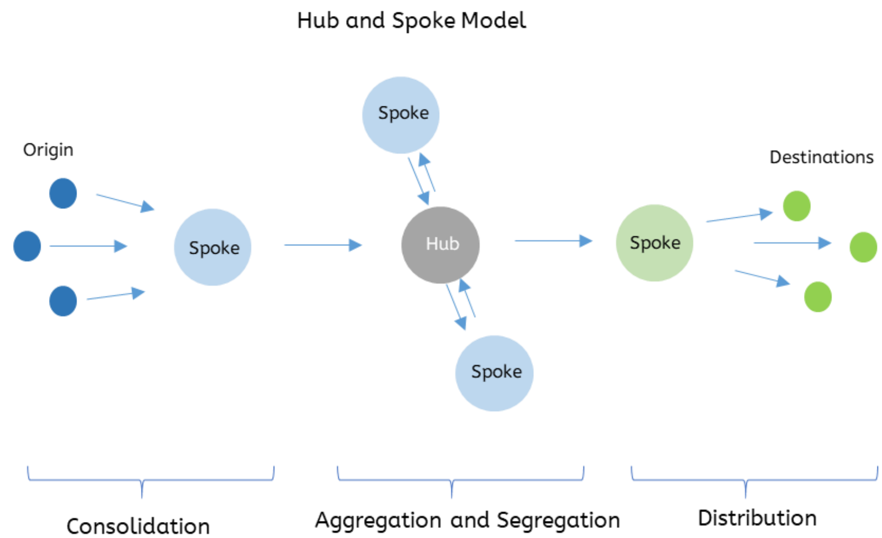
- A research by Asian Development Bank shows that, the road transport is the most dominating mode of passenger traffic in India with approximately 80% of total passenger travel being via roadways.
- The national highway interconnects major cities with a 66,590 km long network. With rising urbanisation, easy availability of seats even at the nth moment and connectivity to the remotest place, bus travel has gained attraction.
- The road transport industry is dominated by 62 state-owned operators. However, most of these are running into losses and have low budgets increasing scope for private operators.

Indian Air Travel & Cargo Industry

- As per IBEF, India's passenger traffic has been growing at a CAGR of 11.13% and stood at 341.05 million in FY20. Moreover, domestic passenger traffic stood at 274.5 million in FY20, and has been growing at a CAGR of 12.91% since FY16.
- As per IBEF, Freight traffic has been increasing at a CAGR of 5.32 % during 2016-2020 from 2.70 million tonnes (MT) to 3.33 MT. Freight Traffic is estimated to grow at a CAGR of 7.27% to reach 4.14 MT in FY23.
- Department for Promotion of Industry and Internal Trade (DPIIT) says FDI equivalent to $2.75 billion has been invested in India's air transport sector including air cargo between April 2000 and March 2020.
- Government has introduced the Krishi Udan scheme under Union Budget 2020-21. This scheme gives airlines financial incentives for both domestic and international routes and to encourage farmers to transport their agricultural products faster at affordable prices.

Business Model

- The asset-intensive model (where own fleet of vehicles and hubs are used in their operations) of the Company when compared with its competitors who operate in the asset-light model (where leased vehicles or hubs are used in day-to-day operations) makes VRL independent of 3rd party players. This way VRL is able to maintain better quality and have flexibility in terms of capacity utilisation. Own fuel stations at key locations like Hubli, Bangalore, Mumbai etc, and in-house software systems have further helped the Company to research and develop better designs for its vehicles.
- VRL has a centralized maintenance facility at Hubli and also, has tie-ups with equipment manufacturers for procuring spares to benefit in terms of cost and exercise economies of scale. Major Original Equipment Manufacturers have outlets on VRL's premises in Hubli.
- Besides the asset-intensive model, VRL also operates in a labour-intensive model (because of their fleet drivers) to ensure complete control of its operations allowing it to maintain quality and flexibility.
- VRL owns most of the vehicles and plants used in all segments that it operates in. Most of its consignment bookings and ticket bookings happen through its own branches present in 906 locations spread across the length and breadth of the Country. However, the Company has a major concentration in the South and the West India.



Source: Company, Leveraged Growth

- The ‘Hub-and-Spoke’ operating model increases capacity utilization. This model starts with registering and collecting of consignments by the booking office. The goods are consolidated at a spoke and shipped to a hub from where the goods are consolidated as per destination spoke, from where the consignment is delivered.
- VRL has a well-diversified customer base of corporates and traders with an exclusive focus on B2B services.
- VRL provides door-to-door services with the express delivery option along with delivering LTL consignments to enterprises. This enables the Company to generate a higher margin by charging higher prices due to lower competition in the LTL segment than the FTL model.
- The Company’s business model caters to the following consumer segments:
    - Domestic Goods Transportation
    - Air Chartering Service to Corporates
    - Priority Courier Service for Documents
    - Luxury Bus Operations
    - Sale of Renewable Power and CERs (Certified Emission Reductions) or Carbon Credits

COVID-19 – Facing Turbulent Tides

Since the Company operates in a labour-intensive business model, the severe shortage of labour and drivers due to COVID-19 has adversely affected the operations. Even though the Company was able to run during the national-wide lockdown as the goods transport sector provides essential services, the Company lost revenues worth ₹50 crore and Profit after Tax (PAT) declined by almost 89%. The current restrictions have reduced the operational efficiency of the Company because of increased health safety checks and restrictions on the number of workers on-site leading to lower capacity utilisation. The situation going back to normal is still uncertain due to the rising number of corona cases, moreover the Company’s high debt can have an adverse impact on VRL’s financials in FY21.

Differentiating Strategies

1. Own Fleet and Infrastructure

- VRL has a strategic advantage because it owns a large fleet of vehicles. Apart from 4,754 trucks, 337 buses, 2 aircraft, 47 transhipment hubs with advanced facilities, the Company also owns fuel stations at key locations and software systems enabling them to reduce operational costs, improve quality and tackle issues immediately. Own buses ensure safer and better services. Overall, the Company is free to decide payload, route and control its operations.
- The asset-heavy model is said to be advantageous for road logistics to ensure on-time delivery in India, based on research conducted by Deloitte. The Company has outperformed peers in the past 10 years with 12% CAGR in revenue. Currently, third-party vehicles account for only 8-10% of total kilometres covered by the goods transport business.
- VRL has invested in IT infrastructure which connects all agencies, branches, hubs and vehicles which enables real-time tracking of operations.
- VRL benefits by higher payload, better margins due to the elimination of intermediaries and by deciding on the safety measures. All buses are equipped with CCTVs cameras inside the cabin, anti-sleep devices and anti-collusion devices.

2. In-House Research and Development

Having an in-house research facility, the Company is able to design its vehicles to make them lighter and durable. When vehicles are lighter they can carry additional goods still adhering to all Government regulations related to weights. The trucks are able to carry an excess of 1.5 to 2 tons due to this design which in-turn increases the margin. Also, the Company can track fuel consumption on a real-time basis.

3. Large Network

The Company serves at 906 locations across the country. The ‘Hub-and-Spoke’ model improves utilisation and reduces the cost in the case of LTL and express delivery consignments. This distribution model needs transhipment hubs at multiple locations to be effective. VRL owns 47 hubs spread across 22 states and 5 union territories. A large network has helped the Company gain a large customer base because customers prefer a service provider who is present at both source location and destination.

Most players in the industry own less than 5 trucks and have a small customer base, hence LTL service is less profitable for them. While, its competitor Mahindra logistics serves only 500 locations or 12 cities.

4. Cost Management & Reduction Strategies

- Cost efficiency is a part of VRL’s vision. The Company maintains an efficient working capital model by serving customers only with pre-paid or payment on receipt options reducing the trade receivable days.
- The Company has centralised maintenance facility and sourcing of spares, in-house designing and tie-up with Indian Oil Corporation to benefit from economies of scale.
- Further, the Company has reduced the overall distance covered by 3rd party vehicles to only 8 to 10% of the total distance travelled because they are expensive that ends up impacting the margins of the Company. VRL uses hired vehicles only when it reaches 100% utilization level of its own vehicles and incurs lease expenses only when they are used in business operations.
- 81 branches that were not adding any value were shut down and 49 branches were opened in most profitmaking locations.

- In FY20, VRL controlled total key costs, by using biofuel instead of diesel and procuring fuel directly from refineries. VRL is even planning to increase the life of spares and is changing the maintenance schedule to reduce the cost of consumables.

SWOT Analysis

Strengths

1. **Own Vehicles and Systems**: The Company has its own fleet and infrastructure which helps the Company to customize vehicles as required and reduce the dependence on 3rd party vehicles or services. VRL has a strategic advantage because this improves quality of service and helps in tackling issues immediately. Own buses ensure safer rides and the Company is free to decide payload, route and control its operations. All these help VRL to have on-time delivery, enhancing overall service quality and customer satisfaction.

2. **'Hub-and-Spoke' Model:** The 'Hub-and-Spoke' operating model requires an optimum number of hubs, having too many hubs increases fixed cost which will become a burden for the Company in case there is a business downturn while a very small number of hubs cannot ensure operational efficiency. VRL has 47 hubs, while Mahindra Logistics Ltd has only 35 hubs and Bluedart Express Ltd has 1600+ hubs.

3. **Network**: VRL is present in 22 states and 5 union territories serving 906 locations allowing it to be a market leader in the LTL goods transportation. This network increases customer base since a consignment can be easily transported from any location to other without any hassle.

4. **Cost-Effectiveness**: Large volumes of sales, centralised sourcing of vehicles and spares has helped the Company to achieve economies of scale. VRL has tied up with Indian Oil for all its fuel requirements across the Country which has reduced 1% of the fuel cost. Attaching fast tags saves time and cost. Negotiating with banks to reduce interest rates has helped in reducing net debt from ₹17,396 lakh to ₹6,277 lakh. Also, the Company benefited by enrolling in Pradhan Mantri Rojgar Protsahan Yojana (PMRPY) which would save ₹89.41 lakh per year for 3 years because the Government of India will be paying completely for Employee Provident Fund (EPF) and Employee Pension Scheme (EPS).

5. **In-house Research and Development**: In-house research enabled VRL to experiment with newer technologies or products on vehicles and design them to increase utilization, the life of the asset and decrease maintenance cost. The Company has been able to design vehicles such that they are lighter and longer allowing them to transport higher payloads. This improves the margins of the business.

6. **Diversified Customer Base**: VRL serves diverse industries while most are B2B customers. Trucks vary in terms of capacity, materials they carry and design to ensure it is suitable to carry all types of goods. Top 10% of customers contribute less than 4% towards the top line reducing the concentration risk in case the top clients of the Company switch to other service providers.

Sectors VRL Serves

Source: Company

Weaknesses

1. **Lack of own infrastructure at few locations**: In contrary to the Company's model of owning the infrastructure, in few locations like Chennai, Delhi, Hyderabad, Bengaluru, Pune, Kolkata, etc. it operates with the help of long-term leases, which restricts business operations to a certain extent because VRL is unable to implement its best practices and techniques on leased vehicles and hubs. VRL is losing the additional margins it could have generated if its best practices were in place.

2. **Labour Shortage**: The Company is highly dependent on labour and drivers for its day-to-day operations. Supply of trained drivers and labour is low, making the company vulnerable to disruptions in operations due to labour agitations.

3. **Capital Expenditure**: Although the asset-intensive model has several advantages, yet the Company is at risk of incurring huge CapEx at frequent intervals due to replacement costs. This is likely to raise the burden of the debt. Several states have norms that vehicles after certain age can't be used, such norms can even become applicable in other states soon which will reduce the useful life of the fleet resulting in significant rise in replacement cost.

Opportunities

1. **Government Initiatives**: Revision in Safe Axle Weights for goods transport vehicles by the transport division of Ministry of Road Transport and Highways, allows carrying of heavier weights on goods transport vehicles. This enables VRL to carry higher payload at the same cost resulting in better profit margins. Certain key legislative changes regarding bus operations to reduce competition are expected in the near term in favour of organized private sector players.

2. **GST**: The implementation of GST is a boon for the Company because customers will prefer direct delivery instead of storing at warehouses at each state, a procedure followed earlier and so, the demand for LTL business will go up. GST will encourage customers of the unorganised sector to shift to the organised sector.

3. **E-way bill and Fast Tag:** Earlier verification of documents and inter-state vehicle movement permissions consumed about 60% of the time taken to reach the destination with implementation of e-way bill and fast tag, the freight transport industry is largely benefited especially the organized players because it is easy for them to adapt to the changes compared to small and unorganised players.

4. **COVID-19:** Due to the outbreak of the pandemic, the demand for Charter Air Services has increased because it increases safety and reduces the time taken in comparison to regular passenger flights due to lesser number of passengers, says Indigo.

Threats

1. **Driver Shortage**: The road transport industry suffers due to driver shortage which also impacts VRL. Although VRL provides good pay benefits and work environment, shortages are still prevalent. This can be tackled only with joint industry efforts says the management.

2. **Road Network**: VRL is majorly dependent on roads and highways for its operations. There can be several factors that are out of control of the Company like political unrest, adverse weather conditions, natural disasters and poor maintenance of roads which can impact transport of both passenger travel and goods transport businesses.

Michael Porter's 5-Forces Analysis

Barriers of Entry

- **Huge capital investment**: The asset-intensive model requires a high amount of capital along with the cost incurred during the replacement of assets. Moreover, depending on 3rd party vehicles is always a less preferred solution as certain key benefits are lost.
- **Government regulations**: Buses and trucks require permits and approvals from both State and Central Governments for smoother movement. Regulations often change which can make it difficult for small truck operators to adapt and adhere to.
- **Land:** Any company that is planning to set up facilities in major cities in the coming years would require acres of land. The land is already expensive in these cities and companies need a large piece of land in permissible limits. This can further increase the capital required.

Bargaining Power of Suppliers

- **Labour and Drivers**: Transport and logistics business is highly dependent on labour and drivers, who are well trained and are willing to travel over long distances. Also, they are prone to accidents on-site or during travel, since not everyone is willing to work under such conditions their bargaining power is high. Formation of trade unions can further strengthen the power of labour especially in decisions related to compensation or wage hikes.

Bargaining Power of Buyers

- **Less Competition:** Goods Transport industry has very few players in the organized sector that own a sufficiently large network that can cover long distances and achieve economies of scale. Further, very few players have the capability to carry various types of commodities in terms of vehicle design. Since only large players can provide better service at a competitive price, it weakens the power of the customers in the goods transport business.

- **Online Ticketing:** Bus operations division has significant competition due to the presence of a large number of state-run operators and private players. Due to increased usage of online booking websites allowing comparison between service providers, buyers tend to have a higher bargaining power.

Rivalry among Competitors

- **Fragmented Market:** The market is fragmented with a large number of players in the unorganized sector making it difficult to achieve leadership in all locations or routes. About 70% of the players own less than 5 trucks. Moreover, small players can easily dominate local markets.
- **Start-ups:** Most start-ups are set to capture the market share using an aggressive pricing strategy even at the expense of profitability. However, large players have an advantage due to their network and diverse customer base spread across different locations and industries.
- **New Entrants:** Indigo a low-cost air travel provider has increased the frequency of its charter air service from June 2020 which was earlier restricted to very few trips a month this can drastically increase competition in the industry. Because for Indigo, Air Travel is the primary focus.

Threat from Substitutes

- **Railways:** Even though railways are a cheaper mode of goods transport with a lower cost per tonne due to low fuel consumption and also time saving, roadways are preferred as they have better connectivity even to the remotest places and can travel over any terrain.
- **Flexibility:** For passenger travel, availing tickets in trains require advance booking, and even though air travel tickets can be booked at the end moment they are too expensive. Buses tend to solve both these issues; they don’t require advance booking and are comparatively cheaper. However, since buses are suitable for short distance travel only both railways (cost-saving) and airways (time-saving) still pose a significant threat for the roadways.

Branding & Other Initiatives

1. Usage of Bio-Fuel

28% of the total fuel used by VRL in FY20 is biofuel. Also, Radio Frequency Identification Devices (RFID) are used in all vehicles to monitor fuel usage. RFIDs help in tracking the fuel type and quantity re-filled.

2. Carbon Credits

The Company has CERs balance of 3,06,431 units which it earned through use of bio-diesel and wind power generation. VRL entered into a long-term agreement with Asian Development Bank (ADB) for purchase of all its carbon credits.

3. Benefits for Drivers

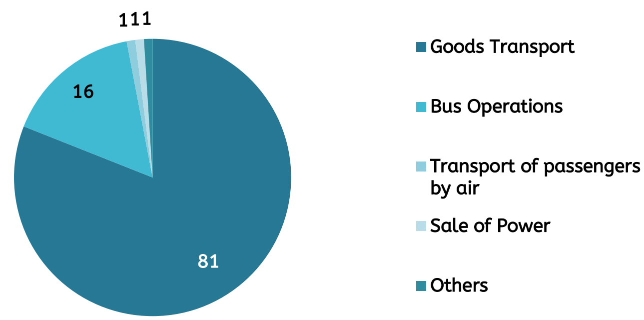
Providing drivers with all the benefits provided to full-time employees and providing incentives based on performance are certain unique benefits. Drivers are registered under the group insurance policy and are provided special training at their Hubli facility. The Company every year conducts awareness programs in rural areas to encourage more people to choose this occupation.

Financial Analysis

1. Segment Analysis

Segment	Revenue (₹ Lakh)			EBIT (₹ Lakh)		
	FY19	FY20	Change %	FY19	FY20	Change %
Goods Transport	1,68,525.16	1,72,392.91	2.30%	15,210.57	11,115.93	-26.92%
Bus Operations	38,032.74	34,371.06	-9.63%	1,657.05	2,331.57	40.71%
Passengers Air Travel	1,072.22	1,982.34	84.88%	460.93	138.12	70.03%
Sale of Power	2,208.51	1,864.74	-15.57%	-215.77	153.76	-28.74%

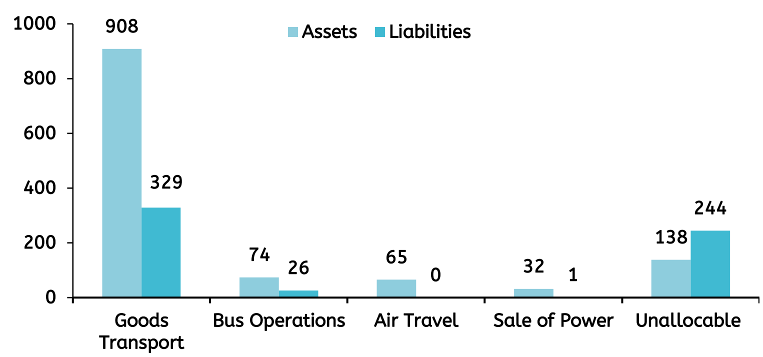
Segment-wise Break up of Revenue (in %) as of FY20



Source: Company, Leveraged Growth

81% of business is generated from goods transport division followed by passenger bus operations which contributed 16% towards total revenue. The Company invests its capital in accordance with the revenue the segment generates.

Segment-wise Classification of Assets and Liabilities (in ₹ Crore) as of FY20



Source: Company, Leveraged Growth

The majority of capital expenditure is incurred in developing goods transport business rather than investing in the air charter business which has low growth prospects allowing VRL to maximize returns.

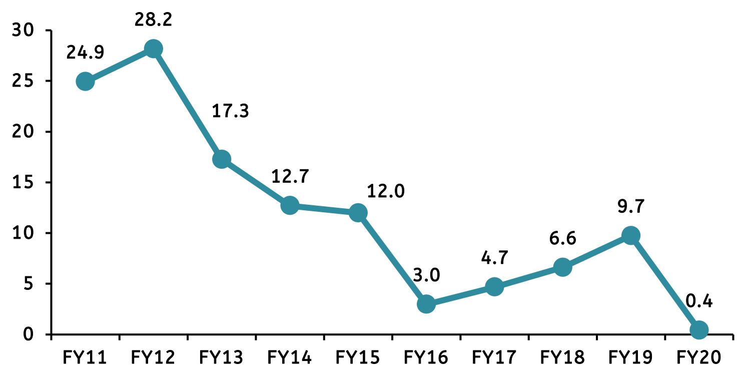
2. Revenue Growth

In FY12, VRL started reducing prices for the new routes in the goods transport segment aggressively to capture a larger market share, that further resulted in a huge spike in revenue. The low growth rate in FY13 and FY14 was mainly because the Company had terminated its association with clients, who failed to meet VRL's credit terms in the past. While regional disturbance in Andhra Pradesh and Telangana caused the revenue erosion in FY15. The large drop in FY16 and FY17 was mainly attributed to economic slowdown followed by demonetisation. However, increase in capacity utilization and occupancy rates led to the gradual recovery in FY18 and FY19.

The entry of start-ups like Blackbuck, Delhivery and Rivigo in the LTL business with aggressive growth strategies have impacted the revenues of the Company substantially. Moreover, the large drop in revenue growth to only 0.43% in FY20 was also due to the virus outbreak. Goods transport has been the Company's major revenue contributor and during to the lockdown VRL was able to function only to a certain extent for the supply of essentials. Moreover, revenue remained constant at ₹41,600 lakh in Q4FY20 with absolutely no growth as the Company's revenue is directly dependent on the industrial activity across the Country.

The situation is likely to continue to FY21 with financials being subdued, because a large part of the business was lost in both goods transport and passenger travel in April and May 2020, that are generally considered to be the peak months for holidays.

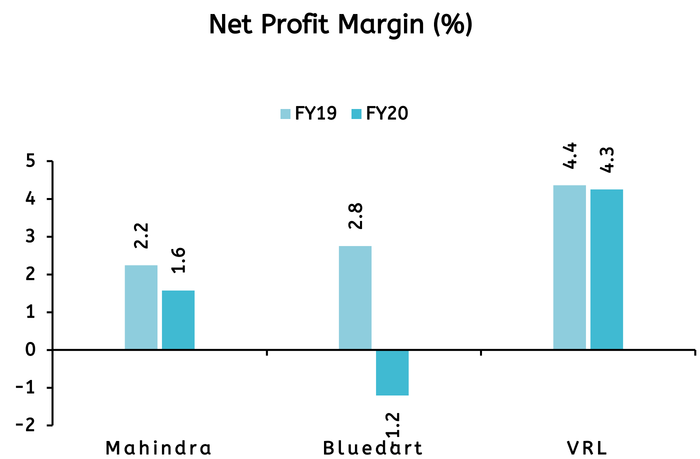
Revenue Growth (%)



Source: Company, Leveraged Growth

3. Profitability

Assets and facilities owned by a company can impact its profits. VRL has better margins than Mahindra Logistics which is asset-light and Bluedart which has too many assets compared to VRL while Bluedart majorly serves in only 7 cities. Hence, VRL with its optimum asset level enjoys the convenience of owning assets and has been efficiently utilizing the same.

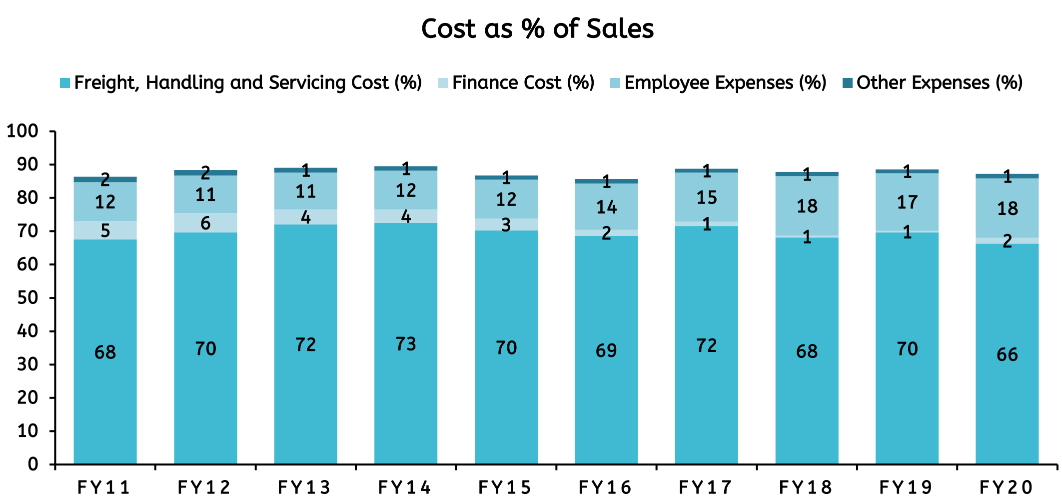


Source: Company, Leveraged Growth

4. Cost Analysis

Most costs are a mix of fixed and variable expenses. Costs related to fuel, driver charges and toll charges are variable which increases directly with sales, while maintenance charges, salaries and rent, etc. remain fixed.

The finance costs declined in FY16 due to high repayment using IPO proceeds and free cash flows. While, employee cost increased from ₹26,607 lakh in FY17 to ₹34,577 lakh in FY18 due to changes in State labour laws, with respect to minimum wages payable to employees, periodic salary increments and increase in the limits relating to Employees' State Insurance (ESI) and gratuity. Moreover, increase in freight, handling and servicing costs in FY17 as a percentage of sales was due to increase in diesel cost and non-availability of bio-diesel. Therefore, the decline in this cost in the following years was due to the same reasons.

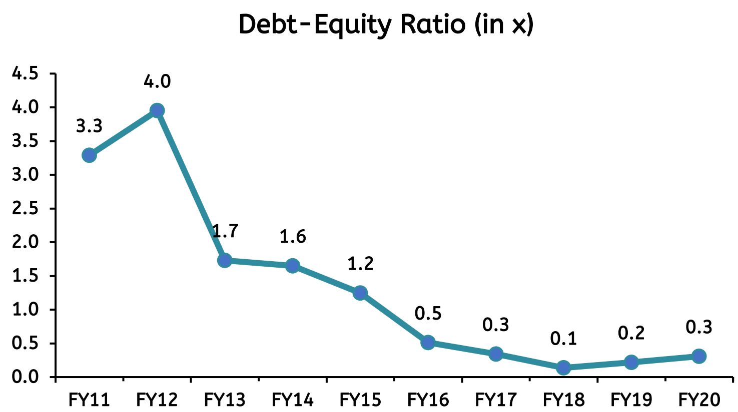


Source: Company, Leveraged Growth

5. Debt-Equity Ratio

The Net debt of the company dropped from FY15 to FY18 because of the repayment of high-cost debts. While in FY19 the debt-equity ratio doubled due to CapEx incurred in a facility at Surat and the purchase of vehicles using debt.

In FY20, the debt-equity ratio increased to 0.3 as VRL's debt increased by ₹49 crores even though CapEx was around ₹122 crore for the same year. The Company even paid dividends of ₹98 crore (including dividend distribution tax) in FY20. This was possible due to the healthy cash flows of the Company. Moreover, the Company was able to pay off all its instalments without taking the benefits of the moratorium. However, VRL is planning not to incur any CapEx or pay dividends in FY21 and maintain low debt levels.



Source: Company, Leveraged Growth

6. Credit Rating

ICRA has assigned a favourable credit rating for VRL. The reasons for this favourable rating are:

- A large proportion of its sales being from the high margin generating LTL segment.
- Healthy profitability position.
- Favourable Government norms related to payloads and GST.
- Own research and maintenance facilities

However, there can be an adverse change in the outlook due to the risk of sales arising from the current pandemic and because the Company is capital-intensive where regular CapEx investments are needed.

Instrument	Rated Amount (₹ Crore)	Rating Action
Fund Based- Cash Credit	123.95	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Positive)
Fund Based- Term Loan	8.41	[ICRA]A+ (Stable); Upgraded from [ICRA]A (Positive)

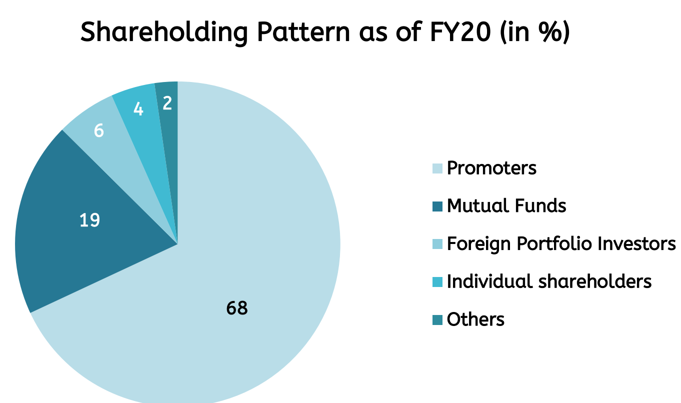
Source: ICRA

Risks

1. **Changes in Government Policies:** Policies are subject to frequent changes. Different states have different policies. For example, restrictions on the usage of vehicles beyond a certain useful life and change in the weight that can be carried by trucks. These regulations can impact the Company's vehicle utilisation.
2. **GST Implementation:** Although GST is an opportunity, the initial transition process is still not clear and especially for small and medium enterprises which constitute a large portion of VRL's customer base. This poses a significant risk of fluctuations in freight volumes.
3. **Pricing:** Due to the presence of a large number of players in road transportation via buses or trucks the market lacks pricing power and cannot pass on rising fuel and other costs.
4. **Cyclicity:** VRL owning a large fleet needs to incur maintenance costs even when vehicles are not used. During a low business season or economic downturn like COVID 19, where revenue is less but cost still remains high, the business is at risk.
5. **Unforeseen Circumstances:** The Company is highly dependent on drivers and labour for their operations that have a significant risk of accidents, due to which it can face significant agitation from labour unions even in case of a minor fault or accident harming them.

Corporate Governance

1. The Company's board consists of 12 directors out of which 4 are Executive Directors, 8 are Independent Directors of which 2 are women.
2. Mr. Anand Sankeshwar, Managing Director (MD) is the son of Dr. Vijay Sankeshwar, Chairman & Managing Director (CMD). No other director is related to another.
3. 4 Board meetings were conducted in 2019 – 20.
4. Promoters hold 68.5% shares in the Company.
5. No Director serves as an Independent Director in more than 7 listed companies. Non-Executive Directors of the Company held no shares or any convertible instruments in the Company.
6. The Company conducts familiarize programme to familiarize the independent directors with the Company, their roles, rights, responsibilities, nature of the industry, etc.



Source: Company, Leveraged Growth

The EndNote

- VRL has a significant risk of CapEx requirement towards replacement cost, but it is planning not to incur any of it in FY21 as it already added 319 new vehicles in Q4FY20 and scrapped 90 vehicles which were old.

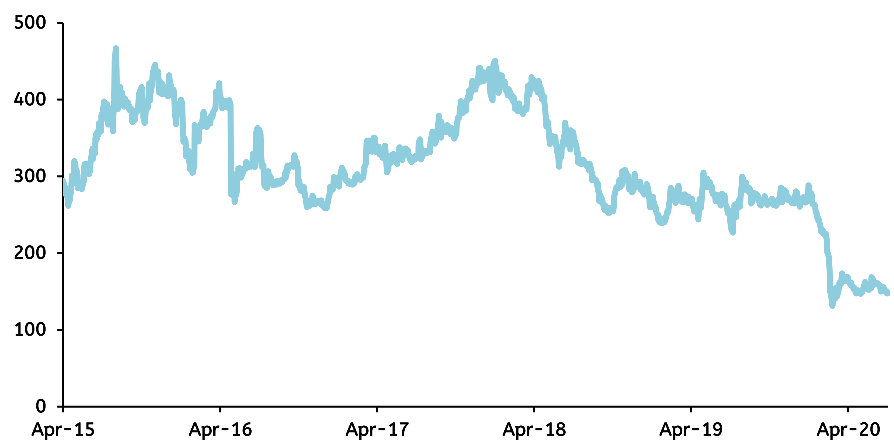
- The asset-intensive model and own research capabilities are the main strengths of the Company because it allows them to have control, flexibility and implement best practices to stay ahead of their competitors.

- To manage the risks rising from the current pandemic situation the Company has decided to cut salaries for its employees. Since the industrial activity has resumed and restrictions on travel have been relaxed the Company's profits may improve in comparison to Q4FY20.

- VRL has a diverse customer base allowing it to generate revenues throughout the year irrespective of the season or economic cycle. For example, during lockdown, VRL could function by serving businesses that manufactures or distributes essential goods.

- The Company invests its CapEx in each of its business segments based on its potential to generate revenue, that ends up further improving the segment. VRL actively divests investments from locations that are less profitable to more profitable locations. All these factors will continue to enhance the growth potential of the Company in the long run and help VRL recover its lost business through its core competencies.

Performance of VRL since IPO



Source: NSE

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