

29th ANNUAL
REPORT
2011-12

CREATING NEW
BENCHMARKS



VRL LOGISTICS LIMITED

OUR VISION

To become the premier company that cuts across various business segments and emerges as the torchbearer of each segment that the Group ventures into.



OUR MISSION

To provide the highest quality service to our customers by continuously increasing cost efficiency and maintaining delivery deadlines. To encourage our employees / workforce to strive for quality and excellence in everything they do. To promote team work and create a work environment that encourages talent and brings out the best in our employees.



Head Office



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COMPANY INFORMATION

BOARD OF DIRECTORS

Vijay Sankeshwar
Chairman & Managing Director

Anand Sankeshwar
Managing Director

Darius Pandole
Nominee Director

J.S. Korlahalli
Director

Prabhakar Kore
Director

Sudhir Ghate
Director

C. Karunakara Shetty
Director

CHIEF FINANCIAL OFFICER
Sunil Nalavadi

COMPANY SECRETARY
Aniruddha Phadnavis

AUDITORS
M/s H.K. Veerbhadrappa & Co.
Chartered Accountants
Hubli

M/s Walker, Chandio & Co
Chartered Accountants
Mumbai

LEGAL ADVISOR
R.B. Gadagkar

CORPORATE OFFICE
Giriraj Annexe
Circuit House Road
Hubli – 580 029
Karnataka
Phone: 0836-2237511
Fax: 0836-2256612
E-mail: headoffice@vrllogistics.com

BANKERS
The Shamrao Vithal Co-Operative Bank Ltd.
Saraswat Co-operative Bank Ltd.
HDFC Bank Ltd.
ICICI Bank Ltd.
IDBI Bank Ltd.
Kotak Mahindra Bank Ltd.
NKGSB Co-Operative Bank Ltd.
AXIS Bank
ING Vysya Bank
State Bank of Mysore
UCO Bank
Union Bank of India

BOARD COMMITTEES

AUDIT COMMITTEE
Sudhir Ghate – Chairman
J.S. Korlahalli
C. Karunakara Shetty
Darius Pandole

FINANCE COMMITTEE
Vijay Sankeshwar – Chairman
Anand Sankeshwar
J.S. Korlahalli

REMUNERATION COMMITTEE
J.S. Korlahalli – Chairman
C. Karunakara Shetty
Sudhir Ghate
Darius Pandole

FIXED DEPOSIT COMMITTEE
Vijay Sankeshwar – Chairman
Anand Sankeshwar
C. Karunakara Shetty
Darius Pandole

SHAREHOLDERS AND INVESTORS GRIEVANCE COMMITTEE
Sudhir Ghate – Chairman
C. Karunakara Shetty
J.S. Korlahalli
Darius Pandole

IPO COMMITTEE
Vijay Sankeshwar Chairman
Anand Sankeshwar
J.S. Korlahalli
Darius Pandole

SELECTION COMMITTEE
Sudhir Ghate
J.S. Korlahalli
Hosamani
Darius Pandole

REGISTERED OFFICE
18th KM, NH 4, Bangalore Road, Varur
Hubli – 581 207, Karnataka
Phone: 0836-2237613 Fax: 0836-2237614
E-mail: varurho@vrllogistics.com
Website: www.vrllogistics.com

REGISTRAR TO FIXED DEPOSIT SCHEME
Karvy Computer Share Private Ltd.
Plot No.17 to 24, Vittalrao Nagar, Madhapur
Hyderabad – 500 081

OUR BOARD OF DIRECTORS



Mr. Vijay Sankeshwar
Chairman & Managing Director



Mr. Anand Sankeshwar
Managing Director



Mr. J.S. Korlahalli
Non-Executive
Director



Dr. Prabhakar Kore
Non-Executive
Director



Mr. Sudhir Ghatge
Non-Executive
Director



Mr. C. Karunakara Shetty
Non-Executive
Director



Mr. Darius Pandole
Non-Executive
Nominee Director
(w.e.f. 21 April 2012)

Mr. Vijay Sankeshwar

Chairman & Managing Director and Promoter of the Company, he is actively involved in the day-to-day affairs of the Company. He holds a Bachelor's Degree in Commerce from Karnatak University, Dharwad. He was a former Member of Parliament and was elected from the Dharwad (North) constituency in the 11th, 12th and 13th Lok Sabha elections and is presently a sitting member of the Legislature Council of the State of Karnataka. He was a member of Several Central committees such as the Committee of Finance between 1996 and 1997, the Consultative Committee, Ministry of Surface Transport between 1996 and 2000 and the Committee of Transport and Tourism between 1998 and 2000. He has over three decades of experience in the transport industry. He has received various awards including the 'Udyog Ratna' in 1994 by the Institute of Economic Studies, New Delhi, Aaryabhat Award in 2002, Sir M. Visvesvaraya Memorial Award in 2007 and Transport Samrat in 2008. He started the Company in the year 1976 as a proprietary concern with a single truck and a big vision for his business.

Mr. Anand Sankeshwar

Managing Director and Promoter of the Company, he spearheads our marketing operations and is actively involved in the day-to-day affairs of the Company. He holds a Bachelor's Degree in Commerce from Karnatak University, Dharwad. He has more than two decades of experience in the transport industry. He has been awarded the 'Youth Icon' award in 2004 by Annual Business Communicators of India and 'Marketing Professional of the Year' in the year 2005 by the Indra Group of Companies. He was also awarded the Best 2nd Generation Entrepreneur by TIE Global, USA in 2010.

Mr. J.S. Korlahalli

A Non-Executive Director of the Company, is the president of Shri Krishna Shikshana Samsthe, Gadag. He is a member on the advisory committee of the Manorama Institute of Management Studies, Gadag, and is also a Managing Committee member of Adarsh Shikshana Samiti, Gadag. He has a post graduate degree in commerce from Karnatak University and is an outstanding academician. As an academician he holds several positions of honour such as Member of the Senate and Academic Council, Karnatak University and Member of the Board of Studies in Commerce and Management Studies, Karnatak University. He has over 45 years of experience in the industry.

Dr. Prabhakar Kore

A Non-Executive Director of the Company, is the Chancellor of Karnataka Lingayat Education University and the Chairman of Karnataka Lingayat Education Society. He is a Commerce graduate from Karnatak University and is involved in various activities such as Education, Agriculture, Co-operative endeavor, community building and politics. He is currently a Member of the Parliament from Belgaum, Karnataka. He is the recipient of several awards and recognitions such as "Life time achievement award for Education, Service and Commitment to Society by Veerashaiva Society of North America", "Suvarna Karnataka Rajyothsava Award" for outstanding contribution in the field of education by the Government of Karnataka and an Honorary Doctorate from the Karnatak University. He has over 38 years of experience in the industry.

Mr. Sudhir Ghate

A Non-Executive Director of the Company, holds a Bachelor's Degree in Commerce from Mysore University and is a fellow member of the Institute of Chartered Accountants of India. He was a partner at Ganesh and Sudhir, Chartered Accountants, Mangalore between 1982 and 1994. He is a Managing Director of Magnum Intergrafiks Private Limited, a national advertising, design and communication company accredited with the Indian News Paper Society, a member of Audit Bureau of Circulation and Advertising Agency Association of India. He was a member of National Council of Textiles Design, New Delhi between 2002 and 2004 and he is a member of the National Executive Committee of the Advertising Agency Association of India since 2004.

Mr. C. Karunakara Shetty

A Non-Executive Director of the Company, holds a post graduation degree in Commerce from Karnatak University, Dharwad and is also a Certified Associate member of Indian Institute of Bankers (CAIIB). He was employed with Vijaya Bank between 1974 and 1998. He has over 20 years of experience in the banking industry. Currently, he is the Managing Director of Bhagavathi Chits Private Limited, which is also a member of Bangalore Stock Exchange.

Mr. Darius Pandole

Mr. Darius Pandole is a Non-Executive Nominee Director of the Company. He has been a partner at New Silk Route Advisors Pvt. Ltd. since its inception in February 2006, and manages the firm's private equity investment operations. He has outstanding academic background. He has obtained degree in Arts (Economics) from Harvard and an MBA from the University of Chicago. In 1997, he joined the investment team at the IndOcean Fund (established by Chase Capital Partners and Soros Fund Management), amongst the first private equity funds to be established in India. In February 1999, he co-founded and served as managing director of IndAsia Fund Advisors Pvt. Ltd. He joined IDFC PE Ltd. in February 2003, and was the executive director, and later chief operating officer of this asset management company that managed the India Development Fund, an infrastructure focused private equity fund. He was a Indian junior national squash champion and has represented the country at various squash tournaments. He has been appointed as a Director on the Board of the Company w.e.f. 21 April 2012

FINANCIAL HIGHLIGHTS

(Rs. in Lacs)

Particulars	Amount
Total Income	113527.83
EBIDTA	19792.33
PBT	6206.49
Net Profit	4105.88

OUR KEY CUSTOMERS

Apollo Tyres
Arvind Mills
Ashok Leyland
Asian Paints
AMW Ltd.
Bajaj Auto
Berger Paints
Bharati Airtel
Britannia Industries
Cadbury India
Cadila Pharma

Carrier Air Conditioner
Cipla
Colgate Palmolive
Emami
Eureka Forbes
Fleet Guards
Samsung Electronics
Glaxosmithkline
Glenmark Pharmaceuticals
Godrej & Boyce
Grasim Industries

Ingram Micro
ITC Food Division
JCB India
Johnson & Johnson
Kirloskar Oil Engines
Kalyani Steels
Larsen & Toubro
LG Electronics
Mahindra & Mahindra
Michelin Tyres
Monsanto

Mukand Steels
Neelkamal Industries
Pidilite Industries
Puma Sports India
Ranbaxy Lab
Raymonds
SKF
Tata Motors
Videocon
Valvoline
VIP (Blow Past)
Wipro

The above List of Customers is neither complete nor exhaustive; its purpose is merely to showcase VRL's customer engagements.



GENERAL
PARCEL



EXPRESS
CARGO



PASSENGER
SERVICE



COURIER
SERVICES



CAR CARRIER
SERVICES



TANKER
SERVICES



AVIATION



WIND ENERGY



CHAIRMAN'S MESSAGE

On behalf of the Board of Directors, I am pleased to present the annual report of VRL Logistics Limited (the "Company") for the financial year ended 31 March 2012.

The Company has crossed the mark of Rs.1000 crores in revenue during the year. Total revenues for the financial year 2011-12 clocked Rs.1135.28 crores as compared to Rs.892.92 crores for the earlier year. Profit after tax for the year stood at Rs.41.06 crores as against Rs.50.98 crores for the earlier year.

Financial year 2011-12 was the year of capacity addition, both in terms of fleet as well as related infrastructure. The Capital Expenditure plans of the Company formulated prior to the proposed public issuance were implemented in total despite the Company not proceeding with the said IPO due to unfavorable market conditions. The year witnessed a fleet addition of 343 trucks, majority of which are the higher capacity 20 tonner vehicles of Ashok Leyland make and a fleet addition of 134 buses which comprised of 60 high end Volvo Multi-axle vehicles as also 74 Sleeper / Seater vehicles. The fleet addition also included the addition of 102 Car carrying vehicles and 20 tankers for liquid transportation marking our entry into these new business verticals which involve relatively lesser manpower and infrastructure facilities such as transshipments / godowns etc. The total capital expenditure on fleet addition was Rs.90.89 crores during the year.

Apart from the same, new properties comprising of Land / Buildings were added at Belgaum, Raichur and Bangalore. The centralized vehicle maintenance facilities at Varur also were significantly expanded to accommodate the fleet increase for the future periods. Balance work was also completed on the Gadag and Bijapur properties of the Company. This infrastructure addition resulted in a financial outlay of Rs.59.52 crores.

The Fleet addition in the Passenger travel division of the Company is depictive of an aggressive approach adopted by us. The bus fleet addition warranted the establishment

of new routes as well as adding schedules on existing routes which involves an element of gestation. During this gestation period, the Company aggressively reduced prices on new routes to stifle competition. The same resulted in a severe pressure on the profitability margins of this business division and affected the Company as a whole too. This has resulted in lower profitability in financial year 2011-12. I however take pleasure in stating that this aggressive stance has started yielding positive results and the operations of the additional fleet have more or less stabilized at present. I expect the Company to greatly benefit from increased revenues and margins as a result of these actions in the years to come.

The Goods transportation business continued to remain exciting. The Company could increase its revenues on the back of increased volumes which in turn were enabled on account of the increased fleet. We are in the process of identifying and occupying key godowns to serve as transshipment hubs in places critical to our business. As was seen from the Bangalore transshipment example, which brought about significant business growth in the past, we propose to operate larger transshipment hubs at places such as Nagpur, Ahmedabad, Chennai, Vizag, Karur, Solapur and the like. The Express Cargo division continues to grow at a consistent pace and I anticipate a significant growth in the near future. The thought of our Company not being able to capitalize on the opportunities that lie ahead owing to fleet / infrastructure shortage cause a concern when I introspect the business of the Company. It would not be out of place to state here that the revenues of the Company have increased by over 27% when compared with the earlier year and this was despite the discouraging IIP and other economic indicators pervading the earlier fiscal.

Expenditures such as Toll costs, permit costs, tyre costs, etc. over which we cannot have control pose a great challenge as the movement in these costs is only northwards and not everything can be passed on to the end customer. I am however confident of the Company's

ability to sustain the operating margins which would be enabled by keeping a vigil over other costs and continually striving to develop internal efficiencies. The focus of our top management team for the coming year would be to trigger a significant growth in the tonnage being transported by us as also to capitalize on freight business which other industry players find difficult to manage. Our senior team has demonstrated success in enabling Corporate customers to save on their freight costs by implementing innovative methods of moving their cargo which is possible only because of our unique vehicle body design.

During the year, the validation exercise in respect of the power units generated by the Windmills upto December 2010 was completed. The Company could thereby recognize revenues from the sale of Certified Emission Reduction Units to the tune of Rs.10.14 crores. The Courier and Air Chartering businesses posted marginal growth in revenues and we intend to operate these divisions on the existing scale.

Overall, the business growth of the Company during the last year was satisfactory and I am confident that the depression of profit margins, which has resulted from a conscious entry strategy in the Passenger travel division, would be set right in the ensuing fiscal as the Company would reap benefits of fleet addition.

The IPO plans of the Company could not materialize owing to unfavorable market conditions. To augment the capital resources of the Company, a decision was taken to explore the option to raise equity on private placement basis. Accordingly, during the month of December 2011, the Company reached an understanding with NSR PE Mauritius LLC, a South-East Asia-focused private equity firm. NSR, which stands for New Silk Route, is an investor of repute and I believe that the financial partnership forged with them would help the Company scale new heights. I also expect the Company to benefit from their experience and expertise in various functional areas. The Company had entered into binding Shareholders Agreement & Share Purchase and Subscription Agreement. The said Private Equity deal involves a fresh investment of Rs.125 crores by NSR by way of 0.001% Compulsorily Convertible Participating Preference Shares (CCPPS), which would be convertible into equity shares of the Company based on the financials for the year 2012-13. The said deal also included a partial stake sale by Mr. Anand Sankeshwar, the Managing Director and existing shareholder of the Company. The positive outcome of Private Equity Investment in the company would further intensify the focus of VRL's Board and the entire management team to build on our market leading positions and practice strong corporate governance while

enhancing value for all our shareholders. The investment is not only about raising capital, which would help us meet our growth needs, but also build the foundation of a mutually beneficial lasting partnership.

Our commitment to growth, profitability and financial stability start with operating in and expanding into strategically chosen geographic markets while providing value-added services that benefit our customers. While selectively expanding our geographic footprint to meet our customers' needs, we aim to focus on creating the essential logistic infrastructure to help enable this growth. Today VRL is present in all the major cities with an unparalleled transshipment and branch network. We also aim to continuously build on our competitive market position by seeking opportunities for the development of new facilities in locations that enhance our current network and complement our customers' business and expansion plans. We would continue to scrutinize the business processes to remove all non-essential costs without compromising the safety, security, quality or punctuality of our operations. In my view this approach would equip the Company to suitably tackle the current high fuel price environment and sustain the current profit margins.

In recognition of our safety, technology, sustainability & Customer Service, the Company bagged Apollo Fleet of the Year Award and Frost & Sullivan's 2012 India Logistics voice of customer awards for achieving excellence in logistics. These awards are an apt recognition for our existing abilities which we would only strive to improve on in the days to come.

I maintain that the employees of VRL are its biggest strength of all and I thank one and all for their dedication, commitment and sincere contribution to the growth of the Company. The substantial enhancement in the emolument structure effected in the last year was an attempt to enable our employees to maintain their present standard of living in the backdrop of the ever growing inflationary trends encompassing almost all commodity prices. I am confident of the ever increasing support of all the employees in the Company's business endeavor in the days to come.

I also take this opportunity to express my heartfelt thanks to our customers, bankers, financial institutions, business associates and industry bodies as also governmental organizations for their support and co-operation.

With best wishes,

VIJAY SANKESHWAR
CHAIRMAN & MANAGING DIRECTOR

HUBLI
10 July 2012