

BUY

TP: Rs 230 | ▲ 34%

VRL LOGISTICS

Logistics

17 April 2020

Correction offers attractive entry point

Covid-19 is likely to have a sharper near-term impact on VRL Logistics (VRL) vs. logistics peers due to its high operating leverage and focus on the hard-hit trucking space. But long-term value creation levers – vast network, large clientele, balance sheet quality, cost and capital efficiency – remain firmly in place. Sombre near-term prospects merit a steep cut – we slash FY21/FY22 EPS by 49%/22%, trim our target FY22E P/E to 20x vs. 22x, and move to a lower Mar'21 TP of Rs 230 (vs. Rs 325). Maintain BUY on favourable risk-reward post correction.

Sayan Das Sharma
 research@bobcaps.in

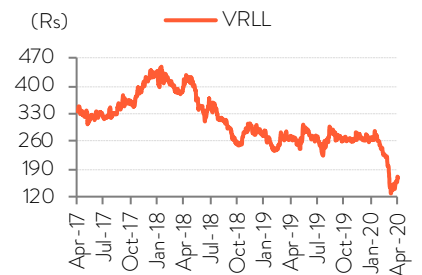
Tumultuous operating climate: Amidst the national lockdown, VRL is combating several issues including a plunge in demand, obstacles to truck movement and manpower shortages in the goods transport segment. Its bus operations have also been stalled. Even after the lockdown is lifted, it may take 2-3 weeks for trucking operations to normalise. VRL's profitability is likely to be among the worst hit in our logistics coverage due to its higher operating leverage vs. peers, stemming from its asset-intensive business model. We therefore build in a revenue/EBITDA decline of 3%/13% in FY21.

Ticker/Price	VRL IN/Rs 171
Market cap	US\$ 202.3mn
Shares o/s	90mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 316/Rs 130
Promoter/FPI/DII	68%/5%/21%

Source: NSE

Equipped to weather the storm: We expect VRL to weather the industry turmoil due to its strengths of (1) low leverage (0.3x FY20E debt/EBITDA), (2) lean working capital (13 days), (3) wide network (917 locations, 47 hubs), and (4) large, diversified clientele (top 10 clients form only 5% of revenue). We anticipate a growth revival from Q4FY21 onwards and bake in 11%/23% topline/EBITDA growth in FY22.

STOCK PERFORMANCE



Likely industry consolidation a positive: Industry sources suggest that a number of small fleet operators may be forced to shut down operations amidst the pandemic-led trade slowdown. Industry consolidation should enable VRL to cement its leadership in the fragmented LTL segment.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	19,223	21,095	21,112	20,463	22,733
EBITDA (Rs mn)	2,342	2,440	3,106	2,694	3,313
Adj. net profit (Rs mn)	926	919	1,026	598	1,048
Adj. EPS (Rs)	10.2	10.2	11.4	6.6	11.6
Adj. EPS growth (%)	32.7	(0.7)	11.7	(41.8)	75.3
Adj. ROAE (%)	16.3	14.8	15.1	8.2	13.7
Adj. P/E (x)	16.7	16.8	15.1	25.9	14.8
EV/EBITDA (x)	7.5	6.9	5.3	6.2	4.9

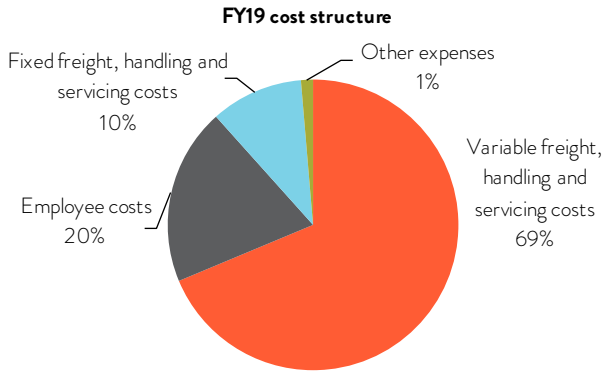
Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.

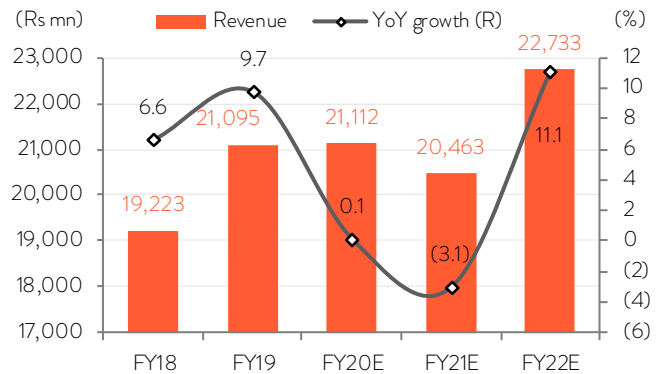


FIG 1 – VRL'S OPERATING LEVERAGE HIGHER THAN PEERS DUE TO ASSET-HEAVY MODEL



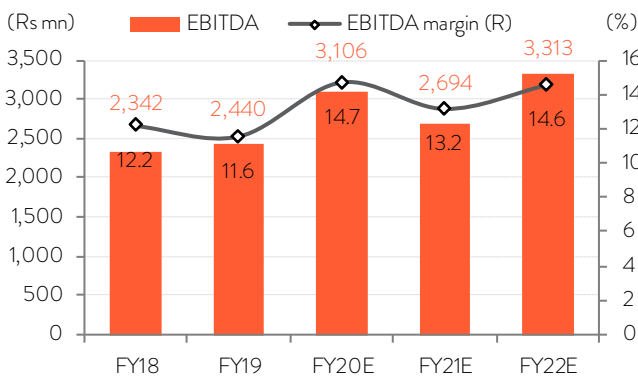
Source: Company, BOBCAPS Research | Fixed freight costs include rent, vehicle insurance, power, taxes, maintenance and security expenses

FIG 2 – REVENUE GROWTH TO TAKE A TUMBLE IN FY21E, EXPECT RECOVERY IN FY22E



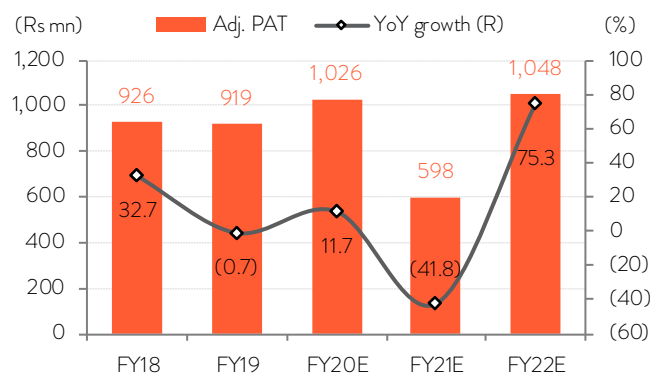
Source: Company, BOBCAPS Research

FIG 3 – EBITDA TO FALL SHARPLY IN FY21E BEFORE BOUNCING BACK IN FY22E



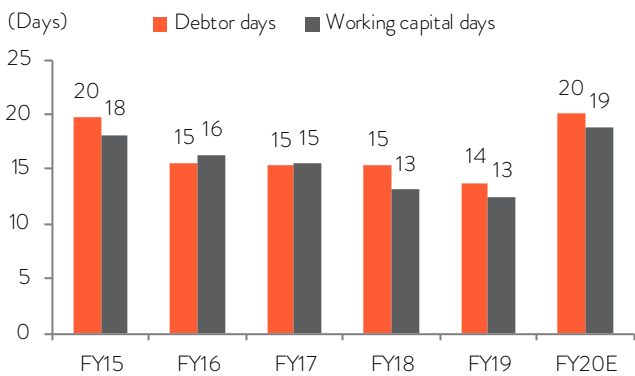
Source: Company, BOBCAPS Research | EBITDA margin jump from FY20 onwards is due to the IND AS-116 impact

FIG 4 – ADJ. PAT TO PLUNGE IN FY21E BUT REBOUND IN FY22E



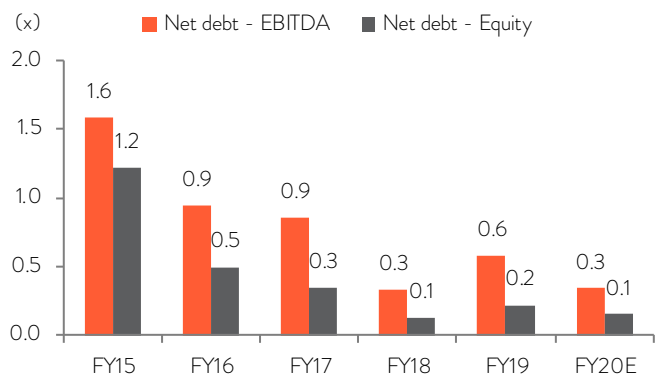
Source: Company, BOBCAPS Research

FIG 5 – WORKING CAPITAL REMAINS LEAN



Source: Company, BOBCAPS Research

FIG 6 – LEVERAGE HAS REDUCED IN RECENT YEARS



Source: Company, BOBCAPS Research

Valuation methodology

The severe trade disruptions afflicted by Covid-19 necessitate a steep cut in near-term growth and profit estimates. We slash our FY21/FY22 earnings estimates by 49%/22%. Considering the headwinds, we also cut our target P/E multiple on FY22E EPS to 20x from 22x earlier and thus move to a lower Mar'21 target price of Rs 230 (Rs 325 earlier). At CMP, the stock trades at 14.7x FY22E EPS, much below its historic one-year forward multiple of >25x.

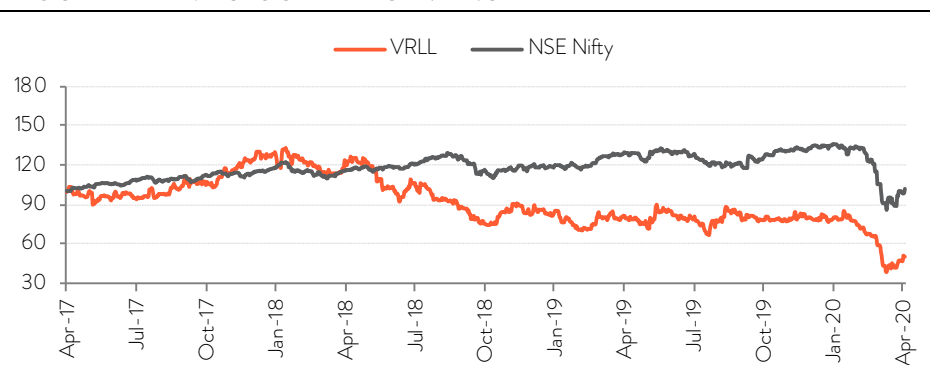
Despite near-term business challenges, we remain confident of VRL's competitive edge and believe it has the ammunition to outpace industry growth in a cyclical upturn. In our view, the price correction in the wake of the pandemic has opened up opportunities to accumulate the stock at bargain valuations for a long-term investment horizon. Maintain BUY.

FIG 7 – REVISED ESTIMATES

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	21,421	21,112	(1.4)	23,248	20,463	(12.0)	25,002	22,733	(9.1)
EBITDA	3,180	3,106	(2.3)	3,550	2,694	(24.1)	3,818	3,313	(13.2)
EBITDA margin (%)	14.8	14.7	(13bps)	15.3	13.2	(211bps)	15.3	14.6	(70bps)
PAT	1,084	1,026	(5.3)	1,177	598	(49.2)	1,343	1,048	(22.0)
PAT margin (%)	5.1	4.9	(20bps)	5.1	2.9	(214bps)	5.4	4.6	(76bps)

Source: Company, BOBCAPS Research

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Prolonged economic and consumption slowdown sparked by Covid-19
- Key SME clients shutting down operations
- Irrational pricing behaviour by competitors

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	19,223	21,095	21,112	20,463	22,733
EBITDA	2,342	2,440	3,106	2,694	3,313
Depreciation	976	1,006	1,645	1,681	1,749
EBIT	1,366	1,434	1,461	1,012	1,564
Net interest income/(expenses)	(114)	(109)	(357)	(324)	(283)
Other income/(expenses)	142	79	101	111	120
Exceptional items	0	0	0	0	0
EBT	1,394	1,405	1,205	799	1,401
Income taxes	(468)	(486)	(179)	(201)	(353)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	926	919	1,026	598	1,048
Adjustments	0	0	0	0	0
Adjusted net profit	926	919	1,026	598	1,048

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	68	61	61	59	66
Other current liabilities	654	705	705	684	760
Provisions	203	264	264	256	285
Debt funds	957	1,551	1,181	708	208
Other liabilities	0	0	1,919	1,369	819
Equity capital	903	903	903	903	903
Reserves & surplus	5,029	5,556	6,274	6,513	6,933
Shareholders' fund	5,932	6,459	7,178	7,417	7,836
Total liabilities and equities	7,815	9,041	11,309	10,492	9,972
Cash and cash eq.	194	131	121	565	520
Accounts receivables	807	795	1,157	1,121	1,246
Inventories	241	298	298	289	321
Other current assets	472	492	492	477	530
Investments	26	25	25	25	25
Net fixed assets	6,217	7,013	7,205	6,603	6,434
CWIP	76	416	0	0	0
Intangible assets	7	12	12	12	12
Deferred tax assets, net	(808)	(738)	(738)	(738)	(738)
Other assets	582	594	2,735	2,137	1,621
Total assets	7,815	9,041	11,309	10,492	9,972

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	1,902	1,925	2,671	2,279	2,797
Interest expenses	114	109	357	324	283
Non-cash adjustments	(88)	(70)	(536)	(550)	(550)
Changes in working capital	40	28	(362)	46	(163)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	1,968	1,991	2,130	2,100	2,367
Capital expenditures	(346)	(2,147)	(800)	(500)	(1,000)
Change in investments	1	1	0	0	0
Other investing cash flows	0	0	(2,760)	0	0
Cash flow from investing	(346)	(2,147)	(3,560)	(500)	(1,000)
Equities issued/Others	(9)	0	0	0	0
Debt raised/repaid	(1,031)	594	(370)	(474)	(500)
Interest expenses	(114)	(109)	(357)	(324)	(283)
Dividends paid	0	(497)	(308)	(359)	(629)
Other financing cash flows	(397)	105	2,455	0	0
Cash flow from financing	(1,552)	94	1,420	(1,156)	(1,411)
Changes in cash and cash eq.	71	(62)	(10)	443	(44)
Closing cash and cash eq.	194	131	121	565	520

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	10.2	10.2	11.4	6.6	11.6
Adjusted EPS	10.2	10.2	11.4	6.6	11.6
Dividend per share	0.0	5.5	3.4	4.0	7.0
Book value per share	65.7	71.5	79.5	82.1	86.7

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	0.9	0.8	0.8	0.8	0.7
EV/EBITDA	7.5	6.9	5.3	6.2	4.9
Adjusted P/E	16.7	16.8	15.1	25.9	14.8
P/BV	2.6	2.4	2.2	2.1	2.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	66.4	65.4	85.2	74.8	74.8
Interest burden (PBT/EBIT)	102.0	98.0	82.5	78.9	89.6
EBIT margin (EBIT/Revenue)	7.1	6.8	6.9	4.9	6.9
Asset turnover (Revenue/Avg TA)	238.3	252.7	210.1	189.7	225.4
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.5	1.5	1.3
Adjusted ROAE	16.3	14.8	15.1	8.2	13.7

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	6.6	9.7	0.1	(3.1)	11.1
EBITDA	7.4	4.2	27.3	(13.3)	23.0
Adjusted EPS	32.7	(0.7)	11.7	(41.8)	75.3
Profitability & Return ratios (%)					
EBITDA margin	12.2	11.6	14.7	13.2	14.6
EBIT margin	7.1	6.8	6.9	4.9	6.9
Adjusted profit margin	4.8	4.4	4.9	2.9	4.6
Adjusted ROAE	16.3	14.8	15.1	8.2	13.7
ROCE	17.1	17.4	14.8	9.5	15.8
Working capital days (days)					
Receivables	15	14	20	20	20
Inventory	5	5	5	5	5
Payables	1	1	1	1	1
Ratios (x)					
Gross asset turnover	2.1	2.1	1.8	1.6	1.7
Current ratio	2.0	2.0	2.4	2.9	2.8
Net interest coverage ratio	11.9	13.2	4.1	3.1	5.5
Adjusted debt/equity	0.1	0.2	0.1	0.0	0.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: VRL LOGISTICS (VRL IN)



B – Buy, A – Add, R – Reduce, S – Sell

Rating distribution

As of 31 March 2020, out of 91 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 54 have BUY ratings, 20 have ADD ratings, 7 are rated REDUCE, 9 are rated SELL and 1 is UNDER REVIEW. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.