

BUY

TP: Rs 235 | ▲ 54%

VRL LOGISTICS

Logistics

09 November 2020

Strong quarter; volume growth slated to revive in H2

VRL Logistics' (VRL) Q2FY21 print beat our estimates on all fronts. Revenue decline eased to 16% YoY (-20% est.) as the GT segment (-6%) bettered our estimate. Stellar EBITDA margin expansion of 580bps in Q2 alleviates our concerns around VRL's asset-heavy model. Improving demand traction and market share gains signal a volume revival in H2. Margins are also likely to remain healthy. Baking in the strong beat, we raise our FY22/FY23 EPS by 8% each and roll forward to a revised Dec'21 TP of Rs 235 (vs. Rs 205). BUY.

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GT realisation strong, volume growth likely in H2: VRL's goods transport (GT) revenue fell 6% YoY but outperformed other road LTL operators such as TCI Express (-21% YoY) and Gati (-19%). GT volumes were down ~15% YoY, but price hikes catalysed a 10% YoY rise in realisations. After a muted July-August, volumes were flat YoY in September and higher in October. This combined with a low base should drive higher YoY GT volumes in H2, barring any economic shocks. The bus segment, however, posted a 78% YoY decline in revenue, affected by restrictive regulations.

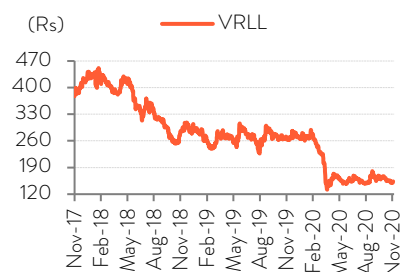
Stellar margin expansion: Despite its asset-heavy model, VRL managed EBITDA margin expansion of 580bps YoY to 20%. An uptick in GT realisation, higher bio-diesel usage (53% vs. 33% in Q2FY20), and higher share of owned trucks (~93% vs. 90%) lifted gross margins 430bps YoY, while salary cuts led to a 22% decline in staff costs. Management expects some cost savings to continue and guided for 15-16% EBITDA margin in H2 (~13% in H2FY20).

Market gains sustainable: Operational issues faced by unorganised truckers have helped VRL gain new clients (stable at ~8% of revenue). These clients are likely to remain with VRL given its better service and compliance. LTL consolidation in favour of organised players should be a key volume driver ahead.

Ticker/Price	VRL IN/Rs 153
Market cap	US\$ 186.1mn
Shares o/s	90mn
3M ADV	US\$ 0.6mn
52wk high/low	Rs 295/Rs 130
Promoter/FPI/DII	68%/3%/21%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	21,095	21,185	18,127	21,646	23,810
EBITDA (Rs mn)	2,440	2,983	2,067	3,230	3,567
Adj. net profit (Rs mn)	919	901	116	932	1,093
Adj. EPS (Rs)	10.2	10.0	1.3	10.3	12.1
Adj. EPS growth (%)	(0.7)	(2.0)	(87.1)	701.7	17.3
Adj. ROAE (%)	14.8	14.3	1.9	14.4	15.8
Adj. P/E (x)	15.0	15.3	118.7	14.8	12.6
EV/EBITDA (x)	6.2	5.0	7.5	4.8	4.4

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE (AS REPORTED)

Y/E Mar (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY1	H1FY20	YoY (%)
Revenue	4,393	5,238	(16.1)	1,601	174.4	5,993	10,635	(43.6)
Freight, handling and servicing cost	2,734	3,484	(21.5)	1,244	119.7	3,978	6,976	(43.0)
% of sales	62.2	66.5	(428bps)	77.7	(1,548bps)	66.4	65.6	77bps
Employee expenses	743	950	(21.8)	666	11.5	1,409	1,875	(24.9)
% of sales	16.9	18.1	(123bps)	41.6	(2,469bps)	23.5	17.6	587bps
Other expenses	47	72	(35.0)	29	59.5	76	164	(53.4)
% of sales	1.1	1.4	(31bps)	1.8	(77bps)	1.3	1.5	(27bps)
Total expenditure	3,523	4,507	(21.8)	1,940	81.7	5,463	9,015	(39.4)
EBITDA	869	732	18.8	(339)	NM	531	1,620	(67.2)
EBITDA margin (%)	19.8	14.0	582bps	(21.2)	4,094bps	8.9	15.2	(638bps)
Depreciation	388	415	(6.4)	419	(7.3)	807	814	(0.9)
EBIT	481	317	51.7	(757)	NM	(276)	805	NM
Other income	25	31	(17.7)	23	10.0	49	55	(11.4)
Interest expenses	90	88	1.9	104	(13.6)	193	176	10.0
Extraordinary income/(expense)	-	-	NM	-	NM	-	-	NM
PBT	417	260	60.4	(838)	NM	(421)	684	NM
PBT margin (%)	9.5	5.0	453bps	(52.4)	6,185bps	(7.0)	6.4	(1,346bps)
Taxes	108	(87)	NM	(211)	NM	(103)	63	NM
Effective tax rate (%)	25.9	(33.5)	5,948bps	25.2	78bps	24.4	9.1	1,526bps
Reported PAT	309	347	(11.1)	(627)	NM	(318)	622	(151.2)
Extraordinary income/(expense)	-	-	NM	-	NM	-	-	NM
Adjusted PAT	309	347	(11.1)	(627)	NM	(318)	622	NM
Adjusted PAT margin (%)	7.0	6.6	40bps	(39.2)	4,621bps	(5.3)	5.8	(1,116bps)
Adjusted EPS (Rs)	3.4	3.8	(11.1)	(6.9)	NM	(3.5)	6.9	NM

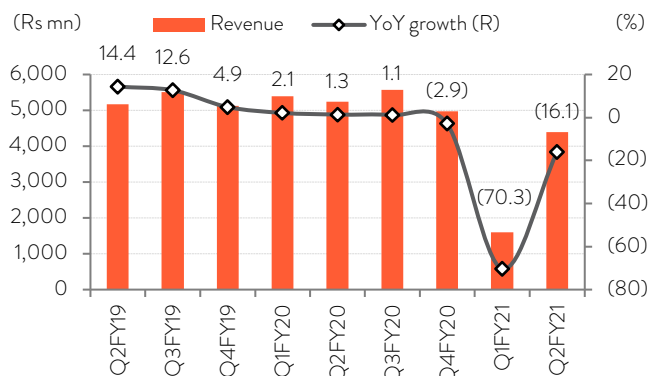
Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL PERFORMANCE

Y/E Mar (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY1	H1FY20	YoY (%)
Goods transport								
Revenue	4,077	4,319	(5.6)	1,482	175.0	5,560	8,549	(35.0)
EBITDA	797	585	36.3	(301)	NM	497	1,214	(59.1)
EBITDA margin	19.6	13.5	601bps	(20.3)	3,983bps	8.9	14.2	(527bps)
EBIT	512	294	74.0	(612)	NM	(100)	650	NM
EBIT margin	12.5	6.8	574bps	(41.3)	5,381bps	(1.8)	7.6	(940bps)
Passenger transport								
Revenue	168	745	(77.5)	53	217.0	221	1,785	(87.6)
EBITDA	(12)	46	NM	(61)	NM	(73)	252	NM
EBITDA margin	(7.3)	6.2	(1,354bps)	(115.2)	10,790bps	(33.2)	14.1	(4,731bps)
EBIT	(57)	(19)	NM	(112)	NM	(169)	118	NM
EBIT margin	(34.2)	(2.6)	(3,167bps)	(210.6)	17,642bps	(76.5)	6.6	(8,313bps)

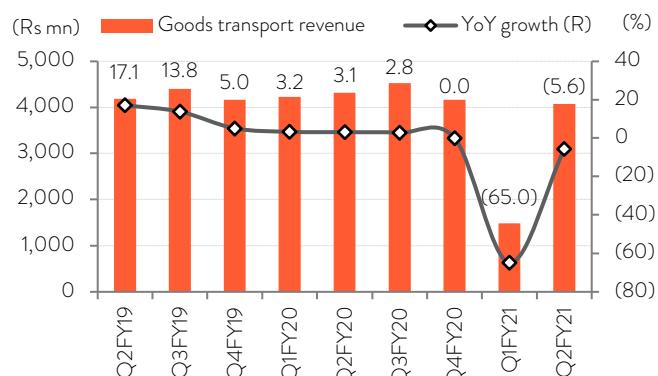
Source: Company, BOBCAPS Research

FIG 3 – REVENUE DECLINE EASED TO 16% YOY



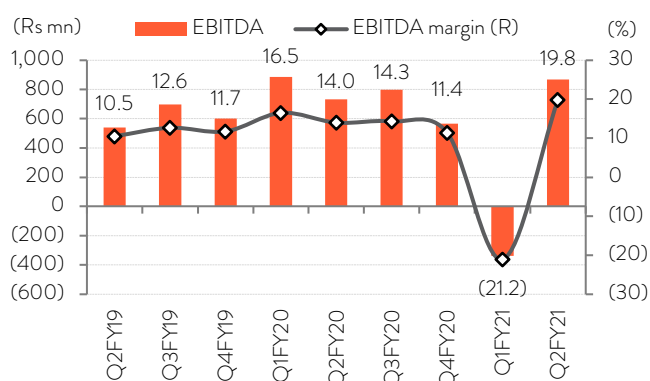
Source: Company, BOBCAPS Research

FIG 4 – GT REVENUE FELL BY 5.6% YOY



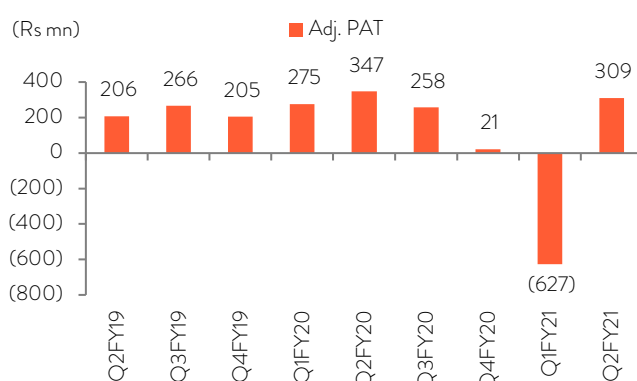
Source: Company, BOBCAPS Research

FIG 5 – EBITDA MARGIN REBOUNDED SHARPLY



Source: Company, BOBCAPS Research

FIG 6 – HIGHER TAXES DRAGGED ADJ. PAT DOWN



Source: Company, BOBCAPS Research

Earnings call highlights

- GT tonnage dropped ~15% YoY in Q2FY21. Volumes declined YoY in July-August, whereas September was flat. The trend of sequential improvement in volumes continued, with YoY tonnage growth in October. VRLL expects volumes to grow in H2FY21 if economic recovery remains on course.
- Among end-user industry verticals, agricultural products, pesticides, seeds, agri-equipment and pharma performed well in Q2. Traction in textiles, the largest industry vertical for VRLL with 15-16% steady-state revenue share, is yet to pick up fully. Management expects textile volumes to improve in H2.
- GT realisation increased by a healthy 10% YoY. After a 4-5% price hike taken in June, the company took a similar hike in Q2 to pass on the increase in fuel prices. A trend of increasing lead distance also aided this. The company has offered discounts to select customers, but realisation was maintained in October.
- Q1 market share gains were sustained in Q2. Higher operating costs and working capital issues have hindered the recovery of unorganised truck operators, who are currently operating only on local routes. This has enabled VRLL to capture market share. Management expects the newly acquired clients to remain with the company given its better service and ease of regulation compliance vis-à-vis unorganised players.
- Bus segment revenue plunged 78% YoY as some government regulations still restrict smooth operations of buses – a measure that was begun to contain the pandemic. Passenger volumes have declined 82% YoY while realisation has inched up 4-5% in Q2.
- Gross margin expansion was enabled by (1) an increase in realisations per tonne, (2) higher usage of biofuel – 53.2% in Q2 vs. 31% in Q1, (3) lower share of hired vehicles in GT tonnage – down to 6.5% from 8.7% in Q2FY20 – resulting in lower lorry hire charges, and (4) rebate on vehicle taxes provided by the government in April-May which were accounted for in Q2. Salary cuts for employees and lower incentive-based pay to drivers amid low volumes also aided EBITDA margin.
- Biofuel procurement cost (Rs 62/ltr) was 9-10% lower than diesel (Rs 68/ltr). Biofuel usage is likely to come down in winter months, especially in the non-southern regions.
- Staff cost has declined to Rs 740mn from Rs 950mn in Q2FY20, implying savings of Rs 70mn/month. Per management, salary cuts will largely be reversed in October but employee costs may remain lower by Rs 50mn/month on a YoY basis.

- The company is currently receiving rent concessions of Rs 2.5mn-3mn/ month, which is likely to continue till the end of FY21.
- Given topline growth along with continued cost savings on some fronts, VRLL is confident of a ~16% EBITDA margin in H2FY21.
- The company has incurred Rs 100mn of capex in H1FY21 and does not envisage a substantial outlay for H2. Future fleet addition would be contingent on volumes picking up and availability of third-party hired vehicles which are currently handling ~6.5% of GT tonnage and can go up to 12-15%.
- VRLL has scrapped 200 vehicles since last year and will continue to scrap 25-30 vehicles every quarter, in the absence of any scrappage policy from the government.
- The company has not observed any shift from road to rail for the commodities it handles.
- Net debt reduced to Rs 1.1bn from Rs 1.9bn in Q1. In the absence of any major capex outgo, healthy cash flow generation has been used to repay debt. Debt is likely to go down to Rs 300mn-400mn by end-FY21.

Valuation methodology

VRL's EBITDA and earnings in Q2FY21 were substantially ahead of our estimates. Baking in this strong beat, we raise our EBITDA estimate for FY21 by 14% and now expect net profit of Rs 116mn vs. a net loss of Rs 126mn earlier. We also raise our FY22/FY23 EBITDA/PAT estimates by 3%/8% each while maintaining our revenue estimates across forecast years. Consequent to upward revision in earnings and rollover, we raise our Dec'21 target price to Rs 235 vs. Rs 205 earlier. This valuation is set at an unchanged 20x Dec'22E TTM EPS.

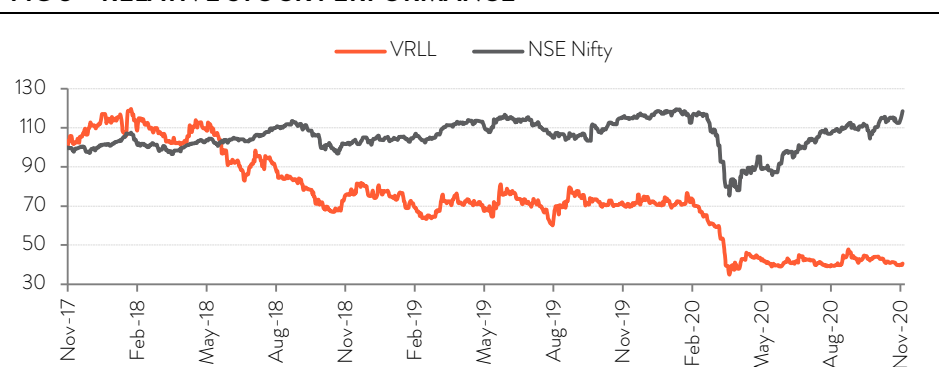
We like several aspects of VRL's fundamentals: (1) strong balance sheet (0.6x FY20 net debt/EBITDA), (2) wide branch and hub network (878 locations, 47 hubs), (3) large, diversified client base spread across a range of industries, and (4) strong OCF and FCF generation. The company is currently trading at attractive valuations of 15x/13x FY22E/FY23E EPS, much below its median five-year multiple of >20x. An improving volume trajectory, sustained market share gains, robust operating margins and a strong balance sheet make VRL an imminent rerating candidate, in our view. Reiterate BUY.

FIG 7 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	18,127	18,127	-	21,646	21,646	-	23,810	23,810	-
EBITDA	1,813	2,067	14.0	3,150	3,230	2.5	3,479	3,567	2.5
EBITDA margin (%)	10.0	11.4	140	14.6	14.9	37	14.6	15.0	37
Adj. PAT	(126)	116	(192.1)	863	932	8.0	1,011	1,093	8.1
Adj. PAT margin (%)	(0.7)	0.6	134	4.0	4.3	32	4.2	4.6	34
Adj. EPS (Rs)	(1.4)	1.3	(192.1)	9.6	10.3	8.0	11.2	12.1	8.1

Source: Company, BOBCAPS Research

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- prolonged manufacturing slowdown owing to the lingering effect of Covid-19,
- sharp rise in diesel prices,
- extended slowdown in manufacturing activity, and
- any large debt-funded capex plan.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	21,095	21,185	18,127	21,646	23,810
EBITDA	2,440	2,983	2,067	3,230	3,567
Depreciation	1,006	1,675	1,610	1,698	1,815
EBIT	1,434	1,307	457	1,532	1,752
Net interest income/(expenses)	(109)	(367)	(412)	(406)	(439)
Other income/(expenses)	79	103	111	125	145
Exceptional items	0	0	0	0	0
EBT	1,405	1,043	155	1,251	1,458
Income taxes	(486)	(142)	(39)	(319)	(364)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	919	901	116	932	1,093
Adjustments	0	0	0	0	0
Adjusted net profit	919	901	116	932	1,093

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	61	35	30	35	43
Other current liabilities	705	569	497	593	652
Provisions	264	347	297	355	390
Debt funds	1,551	1,958	1,893	1,993	1,993
Other liabilities	0	2,651	2,351	1,951	1,651
Equity capital	903	903	903	903	903
Reserves & surplus	5,556	5,265	5,382	5,754	6,301
Shareholders' fund	6,459	6,169	6,285	6,658	7,204
Total liabilities and equities	9,041	11,729	11,353	11,585	11,934
Cash and cash eq.	131	134	237	205	177
Accounts receivables	795	823	993	890	979
Inventories	298	293	250	299	326
Other current assets	492	482	413	493	542
Investments	25	25	25	25	25
Net fixed assets	7,013	7,575	7,204	7,413	7,432
CWIP	416	44	0	0	0
Intangible assets	12	8	8	8	8
Deferred tax assets, net	(738)	(440)	(440)	(440)	(440)
Other assets	594	2,785	2,664	2,694	2,887
Total assets	9,041	11,729	11,353	11,585	11,934

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	1,925	2,576	1,726	2,630	2,908
Interest expenses	109	367	412	406	439
Non-cash adjustments	(70)	(297)	0	0	0
Changes in working capital	28	13	(115)	54	(113)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	1,991	2,660	2,023	3,089	3,235
Capital expenditures	(2,147)	(1,216)	(644)	(1,355)	(1,277)
Change in investments	1	1	0	0	0
Other investing cash flows	0	(2,940)	(500)	(500)	(700)
Cash flow from investing	(2,147)	(4,155)	(1,144)	(1,855)	(1,977)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	594	406	(64)	100	0
Interest expenses	(109)	(115)	(132)	(136)	(139)
Dividends paid	(497)	(632)	0	(559)	(547)
Other financing cash flows	105	1,840	(580)	(670)	(600)
Cash flow from financing	94	1,499	(777)	(1,265)	(1,286)
Changes in cash and cash eq.	(62)	3	102	(31)	(28)
Closing cash and cash eq.	131	134	237	205	177

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	10.2	10.0	1.3	10.3	12.1
Adjusted EPS	10.2	10.0	1.3	10.3	12.1
Dividend per share	5.5	7.0	0.0	6.2	6.1
Book value per share	71.5	68.3	69.6	73.7	79.7

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.7	0.7	0.9	0.7	0.7
EV/EBITDA	6.2	5.0	7.5	4.8	4.4
Adjusted P/E	15.0	15.3	118.7	14.8	12.6
P/BV	2.1	2.2	2.2	2.1	1.9

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	65.4	86.4	74.8	74.5	75.0
Interest burden (PBT/EBIT)	98.0	79.8	34.0	81.7	83.2
EBIT margin (EBIT/Revenue)	6.8	6.2	2.5	7.1	7.4
Asset turnover (Revenue/Avg TA)	252.7	208.3	160.6	193.2	209.1
Leverage (Avg TA/Avg Equity)	1.4	1.6	1.9	1.8	1.7
Adjusted ROAE	14.8	14.3	1.9	14.4	15.8

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	9.7	0.4	(14.4)	19.4	10.0
EBITDA	4.2	22.2	(30.7)	56.3	10.4
Adjusted EPS	(0.7)	(2.0)	(87.1)	701.7	17.3
Profitability & Return ratios (%)					
EBITDA margin	11.6	14.1	11.4	14.9	15.0
EBIT margin	6.8	6.2	2.5	7.1	7.4
Adjusted profit margin	4.4	4.3	0.6	4.3	4.6
Adjusted ROAE	14.8	14.3	1.9	14.4	15.8
ROCE	17.4	13.1	4.1	13.9	15.7
Working capital days (days)					
Receivables	14	14	20	15	15
Inventory	5	5	5	5	5
Payables	1	1	1	1	1
Ratios (x)					
Gross asset turnover	2.1	1.9	1.4	1.5	1.5
Current ratio	2.0	2.3	2.9	2.4	2.4
Net interest coverage ratio	13.2	3.6	1.1	3.8	4.0
Adjusted debt/equity	0.2	0.3	0.3	0.3	0.3

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

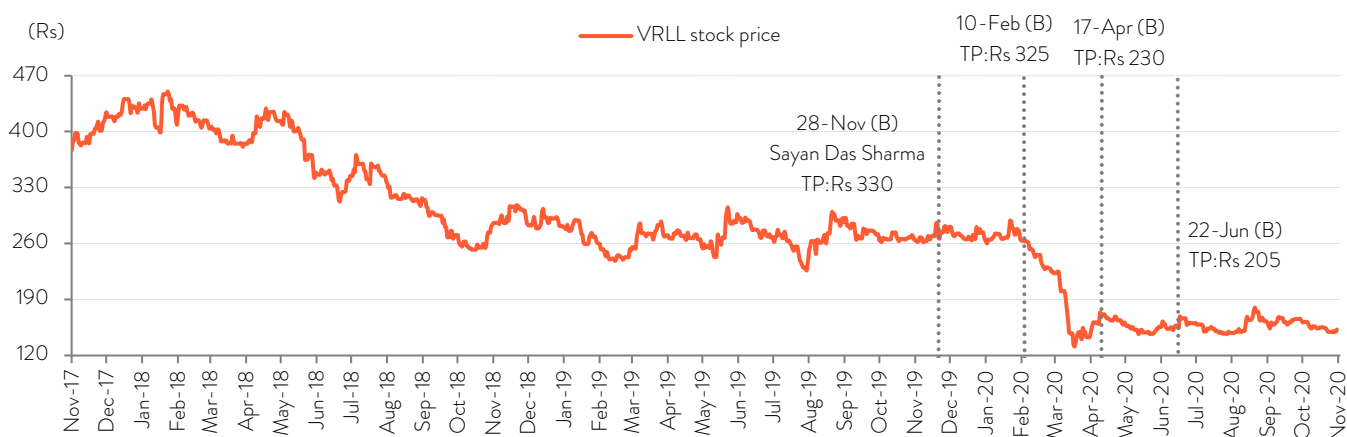
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): VRL LOGISTICS (VRL IN)



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

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