RESULT REVIEW

BUY
TP: Rs 325 | ⮝ 24%

VRL LOGISTICS | Logistics | 10 February 2020

Soft quarter as macro challenges continue

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VRL Logistics' (VRLL) Q3FY20 revenue grew at a tepid 1% YoY, with the goods/people transport segments growing at +3%/–8% YoY as the macro slowdown continued to take a toll. EBITDA/PBT (adj. for Ind-AS 116) fell 15%/20% YoY, below estimates. Lower tax rates contained the decline in PAT to 0.5% YoY. While growth is likely to be soft in the near term, we continue to like VRLL for its established moats in the LTL space and robust cash flows. We prune estimates and marginally revise our Mar'21 TP to Rs 325.

Goods transport (GT) – tonnage rises, realisations muted: VRLL's discount-led customer acquisition strategy yielded a robust tonnage increase of 11% YoY in Q3FY20, but realisations declined 7%, capping GT revenue growth at a tepid 2.8%. A bulk of the volume growth came from new customers, while demand from existing customers was flat. The Surat transshipment hub is scaling up well (+25% QoQ). We expect GT segment growth to remain muted for the next few quarters, with sustainable recovery contingent upon economic revival.

People transport (PT) – consolidation over: In Q3, PT revenue dropped 8% YoY. The number of passengers declined 11% YoY, owing to a reduction in fleet size (354 buses vs. 381 in Q3FY19), while realisations rose 4%. Consolidation of PT operations is largely over as the current operating routes are fairly profitable. VRLL aims to replace 40-50 buses where licences are set to expire soon.

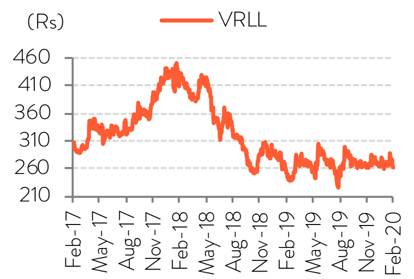
Margin pressure continues: VRLL's EBITDA margin (adj. for Ind-AS 116) contracted 195bps to 10.7% due to higher repair & maintenance and driver charges. GT EBITDA margin dropped 380bps YoY, but PT saw a 45bps rise.

Reiterate BUY: We pare FY20-FY22 earnings estimates by 1-2% and move to a revised Mar'21 TP of Rs 325 vs. Rs 330 earlier.

Ticker/Price	VRLL IN/Rs 263
Market cap	US$ 333.2mn
Shares o/s	90mn
3M ADV	US$ 0.3mn
52wk high/low	Rs 316/Rs 222
Promoter/FPI/DII	68%/6%/20%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	19,223	21,095	21,421	23,248	25,002
EBITDA (Rs mn)	2,342	2,440	3,180	3,550	3,818
Adj. net profit (Rs mn)	926	919	1,084	1,177	1,343
Adj. EPS (Rs)	10.2	10.2	12.0	13.0	14.9
Adj. EPS growth (%)	32.7	(0.7)	17.9	8.6	14.2
Adj. ROAE (%)	16.3	14.8	16.2	16.3	17.3
Adj. P/E (x)	25.7	25.9	21.9	20.2	17.7
EV/EBITDA (x)	11.1	10.3	7.8	7.0	6.4

Source: Company, BOBCAPS Research

FIG 1 – QUARTERLY PERFORMANCE – (EXCL. IND-AS 116 IMPACT)

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Revenue	**5,573**	**5,512**	**1.1**	**5,238**	**6.4**	**16,207**	**15,966**	**1.5**
Freight, handling and servicing cost	3,940	3,806	3.5	3,686	6.9	11,302	11,186	1.0
% of sales	70.7	69.0	166bps	70.4	34bps	69.7	70.1	(33bps)
Employee expenses	973	944	3.0	950	2.4	2,848	2,761	3.1
% of sales	17.5	17.1	32bps	18.1	(68bps)	17.6	17.3	28bps
Other expenses	64	65	(0.8)	72	(10.9)	228	179	27.4
% of sales	1.2	1.2	(2bps)	1.4	(22bps)	1.4	1.1	29bps
Total expenditure	4,977	4,815	3.4	4,708	5.7	14,378	14,126	1.8
EBITDA	**595**	**697**	**(14.6)**	**530**	**12.3**	**1,829**	**1,840**	**(0.6)**
EBITDA margin (%)	10.7	12.6	(196bps)	10.1	56bps	11.3	11.5	(24bps)
Depreciation	258	253	1.8	258	(0.0)	774	751	3.1
EBIT	**338**	**444**	**(23.9)**	**273**	**23.9**	**1,055**	**1,089**	**(3.1)**
Other income	24	12	94.1	31	(22.8)	79	61	29.9
Interest expenses	27	36	(25.1)	25	7.2	80	72	11.5
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
PBT	**335**	**420**	**(20.3)**	**278**	**20.2**	**1,054**	**1,078**	**(2.2)**
PBT margin (%)	6.0	7.6	(161bps)	5.3	69bps	6.5	6.8	(25bps)
Taxes	70	154	(54.5)	(84)	(183.3)	142	364	(61.1)
Effective tax rate (%)	21.0	36.7	(1,574bps)	(30.2)	5,118bps	21.0	25.6	(464bps)
Reported PAT	**264**	**266**	**(0.5)**	**362**	**(27.0)**	**913**	**714**	**27.8**
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
Adjusted PAT	**264**	**266**	**(0.5)**	**362**	**(27.0)**	**913**	**714**	**27.8**
Adjusted PAT margin (%)	4.7	4.8	(8bps)	6.9	(217bps)	4.7	4.3	-
Adjusted EPS (Rs)	2.9	2.9	(0.5)	4.0	(27)	10.1	7.9	27.8

Source: Company, BOBCAPS Research

FIG 2 – QUARTERLY PERFORMANCE – (AS REPORTED INCL. IND-AS 116 IMPACT)

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Revenue	**5,573**	**5,512**	**1.1**	**5,238**	**6.4**	**16,207**	**15,966**	**1.5**
Freight, handling and servicing cost	3,739	3,806	(1.8)	3,484	7.3	10,715	11,186	(4.2)
% of sales	67.1	69.0	(195bps)	66.5	57bps	66.1	70.1	(395bps)
Employee expenses	973	944	3.0	950	2.4	2,848	2,761	3.1
% of sales	17.5	17.1	32bps	18.1	(68bps)	17.6	17.3	28bps
Other expenses	64	65	(0.8)	72	(10.9)	228	179	27.4
% of sales	1.2	1.2	(2bps)	1.4	(22bps)	1.4	1.1	29bps
Total expenditure	4,776	4,815	(0.8)	4,507	6.0	13,791	14,126	(2.4)
EBITDA	**797**	**697**	**14.3**	**732**	**8.9**	**2,416**	**1,840**	**31.3**
EBITDA margin (%)	14.3	12.6	165bps	14.0	33bps	14.9	11.5	339bps
Depreciation	408	253	61.1	415	(1.6)	1,222	751	62.9
EBIT	**389**	**444**	**(12.4)**	**317**	**22.6**	**1,194**	**1,089**	**9.6**
Other income	24	12	94.1	31	(22.8)	79	61	29.9
Interest expenses	86	36	139.4	88	(1.8)	262	72	266.7
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
PBT	**326**	**420**	**(22.3)**	**260**	**25.4**	**1,010**	**1,078**	**(6.3)**
PBT margin (%)	5.9	7.6	(176bps)	5.0	89bps	6.2	6.8	(52bps)
Taxes	68	154	(55.8)	(87)	(178.2)	131	364	(64.1)
Effective tax rate (%)	20.9	36.7	(1,580bps)	(33.5)	5,443bps	20.9	25.6	(472bps)
Reported PAT	**258**	**266**	**(2.9)**	**347**	**(25.7)**	**880**	**714**	**23.2**
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
Adjusted PAT	**258**	**266**	**(2.9)**	**347**	**(25.7)**	**880**	**714**	**23.2**
Adjusted PAT margin (%)	4.6	4.8	(19bps)	6.6	(200bps)	4.6	3.9	-
Adjusted EPS (Rs)	2.9	2.9	(2.9)	3.8	(26)	9.7	7.9	23.2

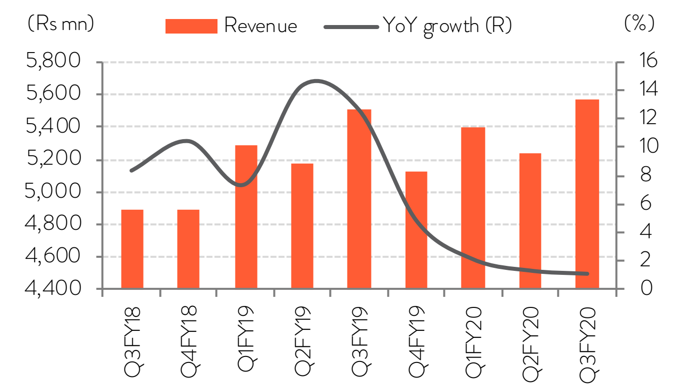
Source: Company, BOBCAPS Research

FIG 3 – SEGMENTAL PERFORMANCE

Y/E Mar (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Goods transport								
Revenue	4,525	4,401	2.8	4,319	4.8	13,074	12,688	3.0
EBITDA	422	579	(27.1)	398	6.1	1,278	1,499	(14.7)
EBITDA margin	9.3	13.2	(383bps)	9.2	12bps	9.8	11.8	(204bps)
EBIT	272	445	(38.9)	251	8.6	836	1,106	(24.3)
EBIT margin	6.0	10.1	(410bps)	5.8	21bps	6.4	8.7	(232bps)
Passenger transport								
Revenue	947	1,032	(8.3)	745	27.0	2,731	2,915	(6.3)
EBITDA	154	163	(5.6)	32	377.2	378	325	16.3
EBITDA margin	16.3	15.8	46bps	4.3	1,194bps	13.8	11.2	270bps
EBIT	104	101	3.1	(21)	(597.3)	218	137	58.8
EBIT margin	11.0	9.8	121bps	(2.8)	1,383bps	8.0	4.7	328bps

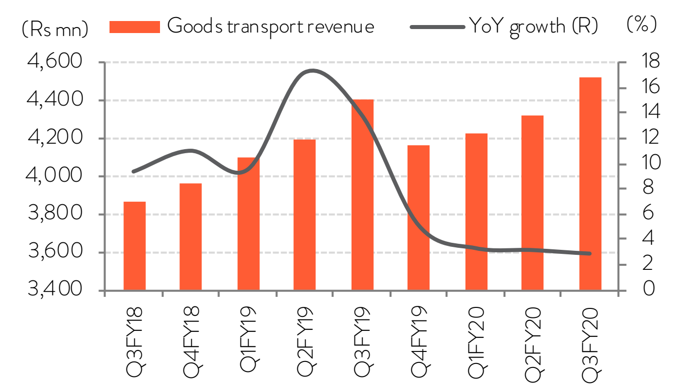
Source: Company, BOBCAPS Research

FIG 4 – REVENUE GREW AT A TEPID 1% YOY…



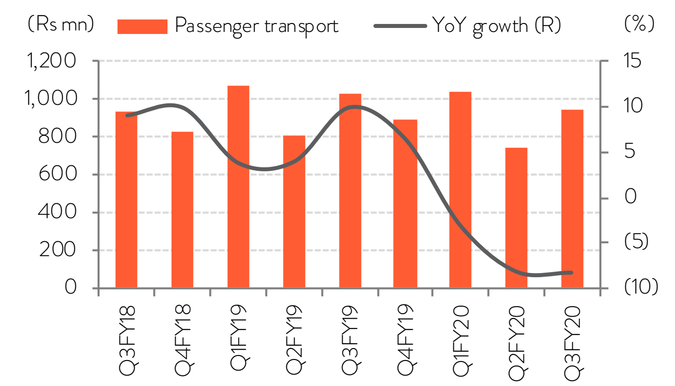
Source: Company, BOBCAPS Research

FIG 5 – …LED BY 3% RISE IN GT REVENUE



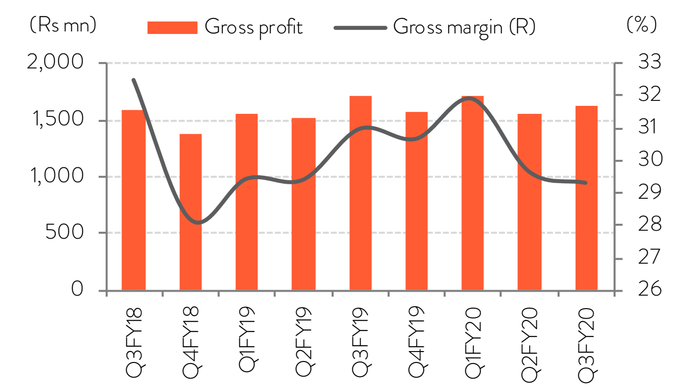
Source: Company, BOBCAPS Research

FIG 6 – PT REVENUE DECLINED 8% YOY



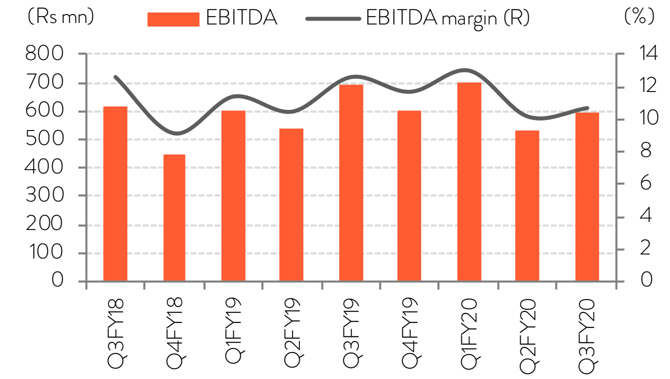
Source: Company, BOBCAPS Research

FIG 7 – GROSS MARGIN CONTRACTED 166BPS YOY



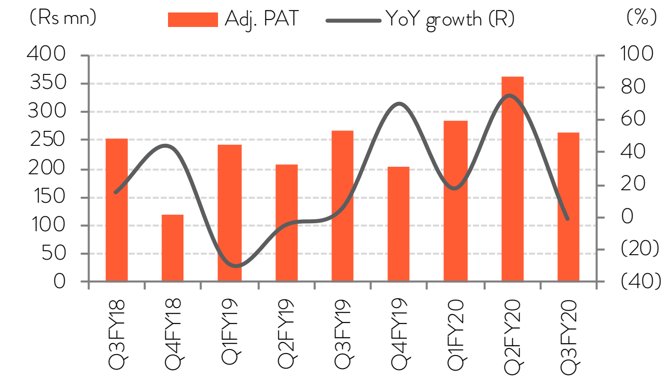
Source: Company, BOBCAPS Research

FIG 8 – EBITDA MARGIN (ADJ. FOR IND-AS 116) CONTRACTED 196BPS YOY TO 10.7% YOY



Source: Company, BOBCAPS Research

FIG 9 – ADJ. PAT (ADJ. FOR IND-AS 116) DECLINED BY 0.5% YOY



Source: Company, BOBCAPS Research

Earnings call highlights

- Management plans to add 100-150 new vehicles in the GT business in Q4FY20, before the BS-VI emission norms kick in, at an outlay of Rs 150mn-200mn. It does not envisage any addition to the GT fleet in the first 6-9 months under the BS-VI regime.
- A total of 40-50 buses will be replaced on existing routes in FY21 for an estimated capex of Rs 200mn. FY21 capex is pegged at Rs 600mn-700mn.
- Given the tough demand climate, the company is targeting different commodities on different routes – tea leaves in the eastern region, spices and cashew nuts in the south, and textiles from Surat.
- VRLL is also offering discounts on its freight rates to both existing and new clients on some routes. This has helped in attracting new customers.
- Once the demand climate improves, management plans to take calibrated rate hikes for the new customers acquired through discounted rates, while retaining them through its superior services.
- The company has closed a few branches/agencies which were not scaling up as intended. It currently has 917 locations across the country.
- The company has internally classified both general and priority parcels as door-to-door service. Together, this segment contributes ~25% of total GT revenue at present. Priority parcels (~10% growth in tonnage in 9MFY20) are growing faster than LTL.

Valuation methodology

VRLL's Q3FY20 earnings were slightly below expectations. We thus trim our earnings estimates by 1-2% for FY20/FY21/FY22, which translates to a revised Mar'21 target price of Rs 325 from Rs 330 earlier – set at an unchanged 22x FY22E EPS. Reiterate BUY.

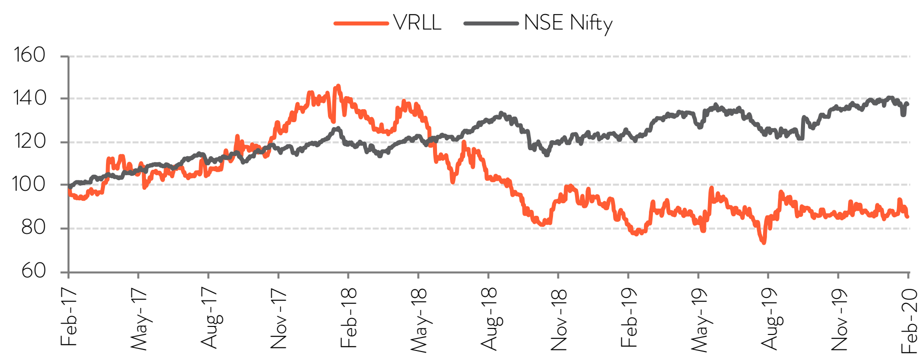
We like VRLL for its strong positioning in the Indian LTL market, its expanding geographic presence (47 hubs, 917 locations), large scale of operations, and robust cash flow generation potential. We expect the company to be a key beneficiary of an economic revival and view it as a preferred cyclical bet among our logistics coverage universe.

FIG 10 – REVISED ESTIMATES – STANDALONE

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	21,580	21,421	(0.7)	23,424	23,248	(0.8)	25,196	25,002	(0.8)
EBITDA	3,261	3,180	(2.5)	3,580	3,550	(0.8)	3,851	3,818	(0.9)
EBITDA margin (%)	15.1	14.8	27bps	15.3	15.3	0bps	15.3	15.3	(2bps)
Adj. PAT	1,103	1,084	(1.8)	1,191	1,177	(1.2)	1,352	1,343	(0.6)
Adj. PAT margin (%)	5.1	5.1	(5bps)	5.1	5.1	(2bps)	5.4	5.4	1bps
Adj. EPS (Rs)	12.2	12.0	(1.8)	13.2	13.0	(1.2)	15.0	14.9	(0.6)

Source: Company, BOBCAPS Research

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- sharp rise in diesel prices,
- prolonged slowdown in manufacturing activity, and
- any large debt-funded capex plan.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	**19,223**	**21,095**	**21,421**	**23,248**	**25,002**
EBITDA	2,342	2,440	3,180	3,550	3,818
Depreciation	976	1,006	1,645	1,755	1,847
EBIT	1,366	1,434	1,535	1,796	1,970
Net interest income/(expenses)	(114)	(109)	(354)	(325)	(285)
Other income/(expenses)	142	79	101	111	120
Exceptional items	0	0	0	0	0
EBT	1,394	1,405	1,282	1,582	1,806
Income taxes	(468)	(486)	(198)	(405)	(462)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	**926**	**919**	**1,084**	**1,177**	**1,343**
Adjustments	0	0	0	0	0
Adjusted net profit	**926**	**919**	**1,084**	**1,177**	**1,343**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	68	61	62	67	72
Other current liabilities	654	705	716	777	835
Provisions	203	264	268	291	313
Debt funds	957	1,551	1,108	708	208
Other liabilities	0	0	1,919	1,369	819
Equity capital	903	903	903	903	903
Reserves & surplus	5,029	5,556	6,044	6,573	7,178
Shareholders' fund	5,932	6,459	6,947	7,477	8,081
Total liabilities and equities	**7,815**	**9,041**	**11,020**	**10,688**	**10,328**
Cash and cash eq.	194	131	88	375	324
Accounts receivables	807	795	880	1,146	1,370
Inventories	241	298	303	328	353
Other current assets	472	492	500	542	583
Investments	26	25	25	25	25
Net fixed assets	6,217	7,013	7,205	6,780	6,713
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	2,744	2,215	1,685
Total assets	**7,815**	**9,041**	**11,020**	**10,688**	**10,328**

Source: Company, BOBCAPS Research

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Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	1,902	1,925	2,728	2,931	3,191
Interest expenses	114	109	354	325	285
Non-cash adjustments	(88)	(70)	(536)	(550)	(550)
Changes in working capital	40	28	(90)	(297)	(253)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	**1,968**	**1,991**	**2,456**	**2,409**	**2,672**
Capital expenditures	(346)	(2,147)	(800)	(750)	(1,200)
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)**	**(750)**	**(1,200)**
Equities issued/Others	(9)	0	0	0	0
Debt raised/repaid	(1,031)	594	(443)	(400)	(500)
Interest expenses	(114)	(109)	(354)	(325)	(285)
Dividends paid	0	(497)	(596)	(647)	(739)
Other financing cash flows	(397)	105	2,455	0	0
Cash flow from financing	**(1,552)**	**94**	**1,061**	**(1,372)**	**(1,523)**
Changes in cash and cash eq.	**71**	**(62)**	**(43)**	**287**	**(51)**
Closing cash and cash eq.	**194**	**131**	**88**	**375**	**324**

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	10.2	10.2	12.0	13.0	14.9
Adjusted EPS	10.2	10.2	12.0	13.0	14.9
Dividend per share	0.0	5.5	6.6	7.2	8.2
Book value per share	65.7	71.5	76.9	82.8	89.5

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	1.4	1.2	1.2	1.1	1.0
EV/EBITDA	11.1	10.3	7.8	7.0	6.4
Adjusted P/E	25.7	25.9	21.9	20.2	17.7
P/BV	4.0	3.7	3.4	3.2	2.9

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	66.4	65.4	84.5	74.4	74.4
Interest burden (PBT/EBIT)	102.0	98.0	83.5	88.1	91.6
EBIT margin (EBIT/Revenue)	7.1	6.8	7.2	7.7	7.9
Asset turnover (Revenue/Avg TA)	238.3	252.7	216.5	217.8	243.8
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.5	1.5	1.4
Adjusted ROAE	16.3	14.8	16.2	16.3	17.3

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	1.5	8.5	7.5
EBITDA	7.4	4.2	30.3	11.7	7.5
Adjusted EPS	32.7	(0.7)	17.9	8.6	14.2
Profitability & Return ratios (%)					
EBITDA margin	12.2	11.6	14.8	15.3	15.3
EBIT margin	7.1	6.8	7.2	7.7	7.9
Adjusted profit margin	4.8	4.4	5.1	5.1	5.4
Adjusted ROAE	16.3	14.8	16.2	16.3	17.3
ROCE	17.1	17.4	15.8	17.1	19.6
Working capital days (days)					
Receivables	15	14	15	18	20
Inventory	5	5	5	5	5
Payables	1	1	1	1	1
Ratios (x)					
Gross asset turnover	2.1	2.1	1.8	1.8	1.8
Current ratio	2.0	2.0	2.0	2.5	2.6
Net interest coverage ratio	11.9	13.2	4.3	5.5	6.9
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 (VRLL IN)

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

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