

**BUY**

TP: Rs 305 | ▲ 35%

**VRL LOGISTICS**

Logistics

08 February 2021

## Earnings momentum gathering pace

**VRL Logistics' (VRL) Q3FY21 print had many positives – (1) strong EBITDA growth (+24% YoY), (2) sustained GT realisations despite muted volumes, and (3) buyback of Rs 600mn. A steady economic recovery and limited truck availability are ideal conditions for an asset-heavy trucker such as VRL – we expect it to outpace industry growth and yield strong earnings in the near-to-medium term. We thus raise our target P/E to 22x (vs. 20x), hike FY22/FY23 PAT 13%/12%, and roll over to a new Mar'22 TP of Rs 305 (vs. Rs 235). BUY.**

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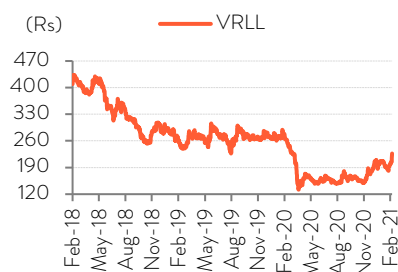
**GT topline driven by realisations:** VRL's goods transport (GT) revenue rose 11% YoY as sedate tonnage growth (+1%) was offset by a 10% rise in realisation. While freight availability has improved, some verticals such as textiles remain below pre-Covid levels. The company continues to add clients across the agriculture, FMCG, paint, and textile verticals, which should boost tonnage from Q4 as economic recovery strengthens. Thanks to an asset-heavy model, its robust realisation trajectory could also sustain as truck supply remains muted owing to a lack of driver availability and liquidity issues with small truckers.

Ticker/Price	VRL IN/Rs 226
Market cap	US\$ 280.0mn
Shares o/s	90mn
3M ADV	US\$ 1.1mn
52wk high/low	Rs 268/Rs 130
Promoter/FPI/DII	68%/3%/20%

Source: NSE

**Margin traction to continue:** Higher realisations negated the rise in fuel prices and lifted gross margin by 83bps. This along with a tight leash on fixed costs – employee cost (-13% YoY), vehicle expense (-2%) and rent (-1%), boosted EBITDA margin by 325bps YoY to 17.5%. Cost savings via productivity gains from closure of unprofitable branches and hubs are sustainable. In tandem with volume recovery, this should augment FY22 margins above FY20/FY21 levels.

## STOCK PERFORMANCE



Source: NSE

**Buyback reflects strong capital allocation:** VRL's board approved a buyback of up to Rs 600mn at Rs 300/sh (non-promoter shareholders only). As scope to deploy free cash at high ROCE is limited in FY21, VRL's decision to reward shareholders reflects its superior capital allocation policy, in our view.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	21,095	21,185	17,358	21,550	23,731
EBITDA (Rs mn)	2,440	2,983	2,397	3,387	3,763
Adj. net profit (Rs mn)	919	901	363	1,051	1,224
Adj. EPS (Rs)	10.2	10.0	4.1	11.9	13.9
Adj. EPS growth (%)	(0.7)	(2.0)	(58.8)	189.5	16.5
Adj. ROAE (%)	14.8	14.3	6.0	17.2	18.4
Adj. P/E (x)	22.2	22.7	55.0	19.0	16.3
EV/EBITDA (x)	8.9	7.2	9.2	6.5	5.9

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 – QUARTERLY PERFORMANCE**

Y/E Mar (Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
<b>Revenue</b>	<b>5,634</b>	<b>5,573</b>	<b>1.1</b>	<b>4,393</b>	<b>28.3</b>	<b>11,628</b>	<b>16,207</b>	<b>(28.3)</b>
Freight, handling and servicing cost	3,733	3,739	(0.1)	2,734	36.6	7,711	10,715	(28.0)
% of sales	66.3	67.1	(83bps)	62.2	402bps	66.3	66.1	21bps
Employee expenses	846	973	(13.0)	743	14.0	2,255	2,848	(20.8)
% of sales	15.0	17.5	(243bps)	16.9	(188bps)	19.4	17.6	182bps
Other expenses	66	64	3.6	47	42.0	143	228	(37.4)
% of sales	1.2	1.2	3bps	1.1	11bps	1.2	1.4	(18bps)
Total expenditure	4,646	4,776	(2.7)	3,523	31.9	10,109	13,791	(26.7)
<b>EBITDA</b>	<b>988</b>	<b>797</b>	<b>24.0</b>	<b>869</b>	<b>13.7</b>	<b>1,518</b>	<b>2,416</b>	<b>(37.2)</b>
EBITDA margin (%)	17.5	14.3	324bps	19.8	(225bps)	13.1	14.9	(185bps)
Depreciation	411	408	0.6	388	5.8	1,218	1,222	(0.4)
<b>EBIT</b>	<b>577</b>	<b>389</b>	<b>48.5</b>	<b>481</b>	<b>20.0</b>	<b>301</b>	<b>1,194</b>	<b>(74.8)</b>
Other income	51	24	115.1	25	101.6	100	79	26.9
Interest expenses	83	86	(3.7)	90	(7.1)	277	262	5.5
Extraordinary income/(expense)	-	-	NM	-	NM	-	-	NM
<b>PBT</b>	<b>545</b>	<b>326</b>	<b>67.2</b>	<b>417</b>	<b>30.8</b>	<b>124</b>	<b>1,010</b>	<b>(87.7)</b>
PBT margin (%)	9.7	5.9	383bps	9.5	19bps	1.1	6.2	(517bps)
Taxes	148	68	117.1	108	36.7	45	131	(65.4)
Effective tax rate (%)	27.1	20.9	623bps	25.9	118bps	36.4	12.9	2,348bps
<b>Reported PAT</b>	<b>397</b>	<b>258</b>	<b>54.0</b>	<b>309</b>	<b>28.7</b>	<b>79</b>	<b>880</b>	<b>(91.0)</b>
Extraordinary income/(expense)	-	-	NM	-	NM	-	-	NM
<b>Adjusted PAT</b>	<b>397</b>	<b>258</b>	<b>54.0</b>	<b>309</b>	<b>28.7</b>	<b>79</b>	<b>880</b>	<b>(91.0)</b>
Adjusted PAT margin (%)	7.1	4.6	242bps	7.0	2bps	0.7	5.4	(475bps)
Adjusted EPS (Rs)	4.4	2.9	54.0	3.4	28.7	0.9	9.7	(91.0)

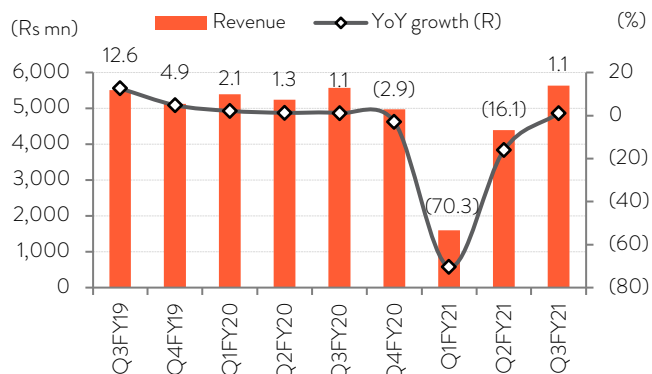
Source: Company, BOBCAPS Research

**FIG 2 – SEGMENTAL PERFORMANCE**

Y/E Mar (Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
<b>Goods transport</b>								
Revenue	5,010	4,525	10.7	4,077	22.9	10,570	13,074	(19.2)
EBITDA	975	608	60.5	797	22.4	1,472	1,822	(19.2)
EBITDA margin	19.5	13.4	604bps	19.6	(8bps)	13.9	13.9	(1bps)
EBIT	655	320	104.4	512	28.0	554	970	(42.8)
EBIT margin	13.1	7.1	599bps	12.5	52bps	5.2	7.4	(217bps)
<b>Passenger transport</b>								
Revenue	521	947	(44.9)	168	210.5	742	2,731	(72.8)
EBITDA	47	170	(72.1)	(12)	NM	(26)	421	NM
EBITDA margin	9.1	17.9	(884bps)	(7.3)	1,639bps	(3.5)	15.4	(1,893bps)
EBIT	17	108	(84.4)	(57)	NM	(152)	225	NM
EBIT margin	3.2	11.4	(815bps)	(34.2)	3,745bps	(20.5)	8.2	(2,876bps)

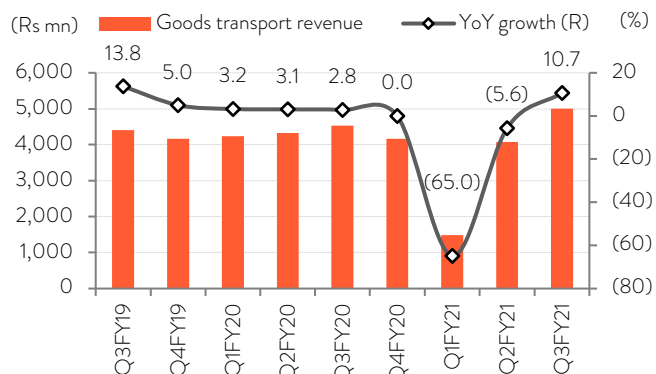
Source: Company, BOBCAPS Research

**FIG 3 – REVENUE GREW 1% YOY**



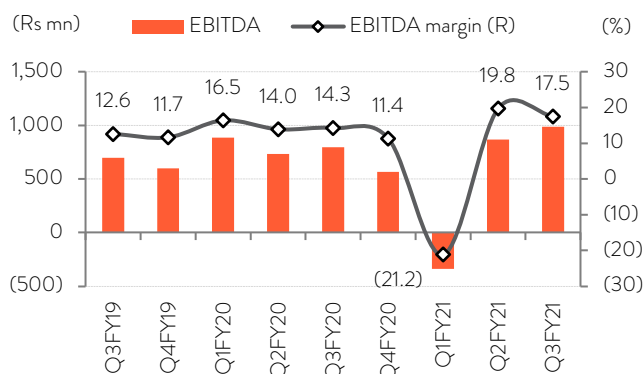
Source: Company, BOBCAPS Research

**FIG 4 – DOUBLE-DIGIT GROWTH RETURNED IN GT**



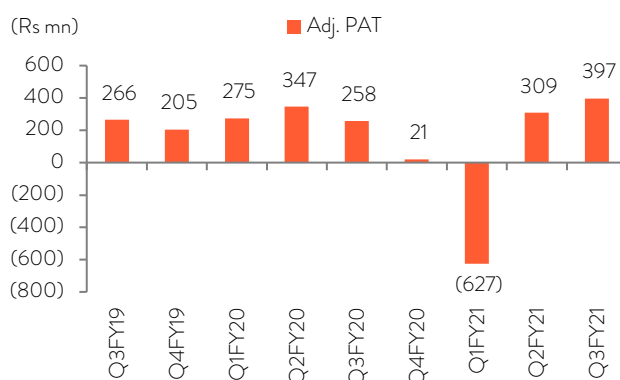
Source: Company, BOBCAPS Research

**FIG 5 – EBITDA MARGIN REMAINED STRONG**



Source: Company, BOBCAPS Research

**FIG 6 – ADJ. PAT JUMPED 54% YOY**



Source: Company, BOBCAPS Research

## Valuation methodology

VRL's Q3FY21 revenue was below our estimate but EBITDA and earnings beat expectations. Baking this in, we trim our FY21 revenue estimate by 4% but raise our EBITDA forecast by 16% and now expect PAT of Rs 363mn vs. Rs 116mn earlier. We believe VRL will be a prime beneficiary of the steady increase in economic activity and also the shortage in trucking capacity. Thus, we raise our FY22/FY23 EBITDA estimates by 5% each and PAT by 12% each.

Given the robust earnings outlook, we upgrade our target P/E multiple to 22x from 20x. This combined with earnings revision and rollover of valuations leads to a higher Mar'22 target price of Rs 305 vs. Rs 235 earlier. Retain BUY.

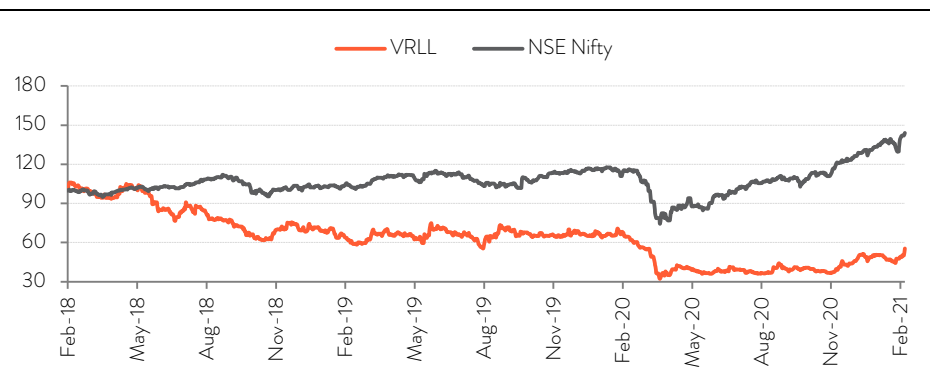
We like several aspects of VRL's fundamentals – (1) a strong balance sheet (0.6x FY20 net debt/EBITDA), (2) wide branch and hub network (878 locations, 47 hubs), (3) large, diversified client base spread across a range of industries, (4) strong OCF and FCF generation, and (5) robust capital allocation. The company is currently trading at reasonable valuations of 19x/16x FY22E/FY23E EPS, below its median five-year multiple of >20x. Given an improving volume trajectory, sustained market share gains and robust operating margin traction, VRL is an imminent rerating candidate, in our view.

**FIG 7 – REVISED ESTIMATES**

(Rs mn)	FY21E			FY22E			FY23E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	18,127	17,358	(4.2)	21,646	21,550	(0.4)	23,810	23,731	(0.3)
EBITDA	2,067	2,397	16.0	3,230	3,387	4.9	3,567	3,763	5.5
EBITDA margin (%)	11.4	13.8	241	14.9	15.7	80	15.0	15.9	87
Adj. PAT	116	363	212.2	932	1,051	12.7	1,093	1,224	11.9
Adj. PAT margin (%)	0.6	2.1	145	4.3	4.9	57	4.6	5.2	57
Adj. EPS (Rs)	1.3	4.1	219.3	10.3	11.9	15.3	12.1	13.9	14.5

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 and VRL's inability to pass it on, and
- any large debt-funded capex plan.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>21,095</b>	<b>21,185</b>	<b>17,358</b>	<b>21,550</b>	<b>23,731</b>
EBITDA	2,440	2,983	2,397	3,387	3,763
Depreciation	1,006	1,675	1,634	1,719	1,847
EBIT	1,434	1,307	762	1,668	1,916
Net interest income/(expenses)	(109)	(367)	(408)	(403)	(441)
Other income/(expenses)	79	103	131	145	157
Exceptional items	0	0	0	0	0
EBT	1,405	1,043	485	1,410	1,632
Income taxes	(486)	(142)	(122)	(360)	(408)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>919</b>	<b>901</b>	<b>363</b>	<b>1,051</b>	<b>1,224</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>919</b>	<b>901</b>	<b>363</b>	<b>1,051</b>	<b>1,224</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	61	35	28	35	43
Other current liabilities	705	569	476	590	650
Provisions	264	347	284	353	389
Debt funds	1,551	1,958	1,773	2,023	2,023
Other liabilities	0	2,651	2,351	1,951	1,651
Equity capital	903	903	883	883	883
Reserves & surplus	5,556	5,265	5,028	5,449	6,060
Shareholders' fund	6,459	6,169	5,912	6,332	6,944
<b>Total liabilities and equities</b>	<b>9,041</b>	<b>11,729</b>	<b>10,824</b>	<b>11,285</b>	<b>11,700</b>
Cash and cash eq.	131	134	115	110	156
Accounts receivables	795	823	951	886	975
Inventories	298	293	240	298	325
Other current assets	492	482	395	490	540
Investments	25	25	25	25	25
Net fixed assets	7,013	7,575	6,885	7,218	7,227
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	2,646	2,691	2,885
<b>Total assets</b>	<b>9,041</b>	<b>11,729</b>	<b>10,824</b>	<b>11,285</b>	<b>11,700</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	1,925	2,576	1,997	2,770	3,071
Interest expenses	109	367	408	403	441
Non-cash adjustments	(70)	(297)	0	0	0
Changes in working capital	28	13	(62)	6	(113)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>1,991</b>	<b>2,660</b>	<b>2,343</b>	<b>3,178</b>	<b>3,399</b>
Capital expenditures	(2,147)	(1,216)	(350)	(1,500)	(1,300)
Change in investments	1	1	0	0	0
Other investing cash flows	0	(2,940)	(500)	(500)	(700)
<b>Cash flow from investing</b>	<b>(2,147)</b>	<b>(4,155)</b>	<b>(850)</b>	<b>(2,000)</b>	<b>(2,000)</b>
Equities issued/Others	0	0	(20)	0	0
Debt raised/repaid	594	406	(184)	250	0
Interest expenses	(109)	(115)	(128)	(133)	(141)
Dividends paid	(497)	(632)	0	(630)	(612)
Other financing cash flows	105	1,840	(580)	(670)	(600)
<b>Cash flow from financing</b>	<b>94</b>	<b>1,499</b>	<b>(912)</b>	<b>(1,183)</b>	<b>(1,353)</b>
<b>Changes in cash and cash eq.</b>	<b>(62)</b>	<b>3</b>	<b>581</b>	<b>(5)</b>	<b>46</b>
<b>Closing cash and cash eq.</b>	<b>131</b>	<b>134</b>	<b>115</b>	<b>110</b>	<b>156</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	10.2	10.0	4.1	11.9	13.9
Adjusted EPS	10.2	10.0	4.1	11.9	13.9
Dividend per share	5.5	7.0	0.0	7.1	6.9
Book value per share	71.5	68.3	66.9	71.7	78.6

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.0	1.0	1.3	1.0	0.9
EV/EBITDA	8.9	7.2	9.2	6.5	5.9
Adjusted P/E	22.2	22.7	55.0	19.0	16.3
P/BV	3.2	3.3	3.4	3.2	2.9

**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	63.6	84.5	85.2
EBIT margin (EBIT/Revenue)	6.8	6.2	4.4	7.7	8.1
Asset turnover (Revenue/Avg TA)	252.7	208.3	157.3	199.5	213.3
Leverage (Avg TA/Avg Equity)	1.4	1.6	1.9	1.8	1.7
Adjusted ROAE	14.8	14.3	6.0	17.2	18.4

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	9.7	0.4	(18.1)	24.2	10.1
EBITDA	4.2	22.2	(19.6)	41.3	11.1
Adjusted EPS	(0.7)	(2.0)	(58.8)	189.5	16.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	11.6	14.1	13.8	15.7	15.9
EBIT margin	6.8	6.2	4.4	7.7	8.1
Adjusted profit margin	4.4	4.3	2.1	4.9	5.2
Adjusted ROAE	14.8	14.3	6.0	17.2	18.4
ROCE	17.4	13.1	7.0	15.7	17.6
<b>Working capital days (days)</b>					
Receivables	14	14	20	15	15
Inventory	5	5	5	5	5
Payables	1	1	1	1	1
<b>Ratios (x)</b>					
Gross asset turnover	2.1	1.9	1.4	1.5	1.5
Current ratio	2.0	2.3	2.8	2.3	2.3
Net interest coverage ratio	13.2	3.6	1.9	4.1	4.3
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%

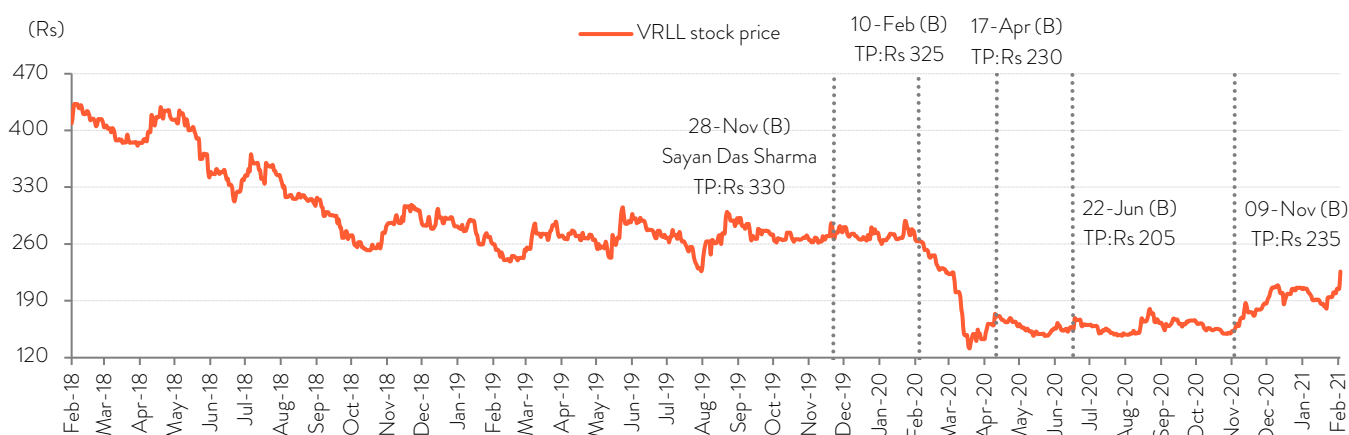
**ADD** – Expected return from >+5% to +15%

**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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