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## Company update

## Logistics

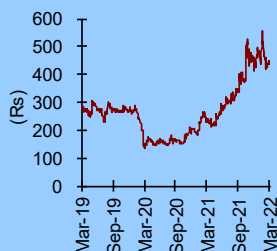
Target price: Rs600

## Shareholding pattern

	Jun '21	Sep '21	Dec '21
Promoters	69.6	69.6	69.6
Institutional investors	20.7	20.4	20.2
MFs and other	18.5	17.8	16.7
Banks & FIs	0.0	0.0	0.0
Insurance Cos.	0.0	0.0	0.0
FIs	2.2	2.6	3.5
Others	9.7	10.0	10.2

Source: BSE

## Price chart



## VRL Logistics

BUY

Maintained

Rs445

## Volume outlook remains strong

As the industry prepares for diesel price hikes, VRL Logistics' (VRL) management highlights a key difference between current and past inflationary cycles, namely the compliance process driven shift toward organised sector players. This places VRL in a much better stead in the current inflationary environment (vs the past cycle of FY13-14 where persistently high diesel prices pulled down volume growth to 2%). Compliance is forcing this shift, allowing newer industry customers to seek out VRL's support as a transportation partner. This allows management to i) guide for 15-20% volume growth, ii) target 100-150 branch additions in FY23E after adding ~100 branches in FY22E and iii) guide for a significant capex toward fleet addition (details yet to be announced). Maintain BUY.

- **Management expects 15-20% volume growth in Goods segment.** Significant traction is being seen from previously inaccessible industries like cashew, betel nuts, leather products, coconut products, hardware market in Punjab and surrounding areas, tea leaves market in Assam, etc. Management sees significant rise in scope of volume increase from new customers in markets in UP and surrounding areas. Customers want to shift to organised sector as organised players like VRL can provide i) better MIS, ii) better compliance and iii) updation in GST portal about their transaction. VRL has already opened 80 branches in FY22E and another 10-15 branches are in the pipeline. Management is looking to add 100-150 branches in FY23E and sees potential of opening around 60 branches in UP alone. VRL used to be operate ~8 branches in UP. The new branches are breaking even in less than three months as per management. In 9MFY22, VRL opened 60 branches which contributed ~ 2% of tonnage. Old branches are contributing 15-20% YoY growth.
- **Update on the Surat Hub.** VRL used to transport a lot of products from Surat to south market, but was unable to carry products from Surat to north, north east and other markets. With the network expansion underway, Surat is not only able to carry product to south but also to other markets. Management expects 18-20% YoY volume growth in the Surat hub.
- **Shifted to retail purchase of diesel.** 35-40% of fuel was previously consumed from bulk purchase (owned 6 pumps). Now 100% of quantity is procured from retail pumps. Currently procured diesel prices are still lower than Q3FY22 average. Bio fuel is still not comparable to the retail diesel prices which is available from market resulting in bio-diesel contributing 2-3% of the fuel mix.
- **Management expects to undertake considerable capex for fleet addition.** Utilisation level of vehicles is almost at peak levels. The decision to add own vehicles come on the back of i) cost benefit analysis of own vs leased out vehicles and ii) government announced scrappage policy.

Market Cap	Rs39.2bn/US\$514mn
Reuters/Bloomberg	VRLL.BO / VRLL IN
Shares Outstanding (mn)	88.3
52-week Range (Rs)	591/201
Free Float (%)	30.4
FII (%)	3.5
Daily Volume (US\$'000)	1,924
Absolute Return 3m (%)	(0.7)
Absolute Return 12m (%)	88.8
Sensex Return 3m (%)	1.0
Sensex Return 12m (%)	18.3

Year to Mar	FY21	FY22E	FY23E	FY24E
Revenue (Rs mn)	17,629	24,104	27,189	30,805
EBITDA (Rs mn)	2,475	3,910	5,017	5,603
Net Income (Rs mn)	450	1,442	2,180	2,618
EPS (Rs)	5.1	16.3	24.7	29.6
P/E (x)	87.2	27.2	18.0	15.0
CEPS (Rs)	23.2	35.3	45.3	50.6
EV/E (x)	17.8	11.1	8.3	7.1
Dividend Yield	0.9	1.8	1.8	1.8
RoCE (%)	6.2	15.6	22.3	26.5
RoE (%)	7.5	21.5	26.7	25.9

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## Maintain BUY with a target price of Rs600/share

We maintain 20x P/E FY24E valuation multiple. We maintain BUY with a target of Rs600/share.

### Key risks

Key upside risk: Higher volumes leading to better operational leverage as manufacturing activity recovers. Key downside risk: Increased competitive pressures from shifting freight traffic to rail leading to increased cost pressures for asset-heavy LTL players like VRL Logistics.

## Financial summary

Table 1: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Revenue from operations</b>	<b>17,629</b>	<b>24,104</b>	<b>27,189</b>	<b>30,805</b>
Goods transport	15,928	21,302	23,763	27,327
Passenger transport	1,303	2,207	2,804	2,849
Wind	176	180	200	200
Air charter	118	130	136	143
Others	104	286	286	286
<b>Operating Expenses</b>	<b>15,154</b>	<b>20,194</b>	<b>22,172</b>	<b>25,202</b>
<b>EBITDA</b>	<b>2,475</b>	<b>3,910</b>	<b>5,017</b>	<b>5,603</b>
% margins	14.0%	16.2%	18.5%	18.2%
Other Income	129	125	125	125
Depreciation & Amortisation	1,598	1,673	1,819	1,850
Gross Interest	368	434	409	377
<b>Profit before tax &amp; exceptional item</b>	<b>637</b>	<b>1,929</b>	<b>2,914</b>	<b>3,500</b>
Exceptional Item	-	-	-	-
<b>Profit before tax</b>	<b>637</b>	<b>1,929</b>	<b>2,914</b>	<b>3,500</b>
Less: Taxes	187	485	734	881
Less: Minority Int. & Asso.	-	-	-	-
Profit	1	1	1	1
<b>Net Income (Reported)</b>	<b>450</b>	<b>1,442</b>	<b>2,180</b>	<b>2,618</b>

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	2,051	2,852	3,110	3,847
of which cash & cash eqv.	185	609	687	1,214
Total Current Liabilities & Provisions	669	714	731	758
<b>Net Current Assets</b>	<b>1,382</b>	<b>2,138</b>	<b>2,379</b>	<b>3,089</b>
Investments	1	1	1	1
Net Fixed Assets	9,537	9,317	8,951	8,554
Intangible assets	6	6	6	6
Capital Work-in-Progress	61	61	61	61
Goodwill	-	-	-	-
Other non-current assets	330	330	330	330
<b>Total Assets</b>	<b>11,317</b>	<b>11,854</b>	<b>11,728</b>	<b>12,041</b>
<b>Liabilities</b>				
Borrowings	4,906	4,706	3,106	1,506
Deferred Tax Liability	440	440	440	440
Other long term liabilities	-	-	-	-
Equity Share Capital	883	883	883	883
Reserves & Surplus	5,088	5,825	7,299	9,211
<b>Net Worth</b>	<b>5,971</b>	<b>6,708</b>	<b>8,182</b>	<b>10,095</b>
<b>Total Liabilities</b>	<b>11,317</b>	<b>11,854</b>	<b>11,728</b>	<b>12,041</b>

Source: Company data, I-Sec research

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22E	FY23E	FY24E
<b>Net Profit before tax</b>	<b>637</b>	<b>1,929</b>	<b>2,914</b>	<b>3,500</b>
Depreciation	1,598	1,673	1,819	1,850
Non-Cash Adjustments	329	434	409	377
Working Capital Changes	294	(332)	(162)	(184)
Taxes Paid	(148)	(485)	(734)	(881)
<b>Operating Cashflow</b>	<b>2,711</b>	<b>3,218</b>	<b>4,246</b>	<b>4,663</b>
Capital Commitments	(390)	(1,453)	(1,453)	(1,453)
<b>Free Cashflow</b>	<b>2,321</b>	<b>1,765</b>	<b>2,794</b>	<b>3,210</b>
Other investing cashflow	73	-	-	-
<b>Cashflow from Investing Activities</b>	<b>(313)</b>	<b>(1,453)</b>	<b>(1,453)</b>	<b>(1,453)</b>
Inc (Dec) in Borrowings	(1,711)	(634)	(2,009)	(1,977)
Issue of Share Capital	(632)	-	-	-
Dividend paid	-	(707)	(707)	(707)
<b>Cashflow from Financing Activities</b>	<b>(2,344)</b>	<b>(1,341)</b>	<b>(2,716)</b>	<b>(2,684)</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>54</b>	<b>424</b>	<b>78</b>	<b>527</b>

Source: Company data, I-Sec research,

Table 4: Key ratios

(Year ending March 31)

	FY21	FY22E	FY23E	FY24E
EPS	5.1	16.3	24.7	29.6
Cash EPS	23.2	35.3	45.3	50.6
Dividend per share (DPS)	4.0	8.0	8.0	8.0
Book Value per share (BV)	67.6	75.9	92.6	114.3
OCF per share	30.7	36.4	48.1	52.8
FCF per share	26.3	20.0	31.6	36.3
<b>Growth (%)</b>				
Net Sales	(16.6)	36.4	12.7	13.2
EBITDA	(17.0)	58.0	28.3	11.7
PAT	(50.0)	220.3	51.1	20.1
<b>Valuation Ratios (x)</b>				
P/E	87.2	27.2	18.0	15.0
P/BV	6.6	5.9	4.8	3.9
EV / EBITDA	17.8	11.1	8.3	7.1
EV / Sales	2.5	1.8	1.5	1.3
<b>Operating Ratios</b>				
Employee cost / Sales (%)	17.7	15.1	15.1	15.3
Other Operating exp. / Sales (%)	66.5	67.2	65.1	65.2
Effective Tax Rate (%)	29.3	25.2	25.2	25.2
Total D/E Ratio (x)	0.8	0.7	0.4	0.1
Net D/E Ratio (x)	0.8	0.6	0.3	0.0
OCF yield (%)	6.3	7.5	9.9	10.9
FCF yield (%)	5.4	4.1	6.5	7.5
<b>Return/Profitability Ratios (%)</b>				
EBITDA Margins	14.0	16.2	18.5	18.2
Net Income Margins	2.6	6.0	8.0	8.5
Return on Equity (RoE)	7.5	21.5	26.7	25.9
Return on Capital employed (RoCE)	6.2	15.6	22.3	26.5

Source: Company data, I-Sec research

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