

**RESEARCH**
**[#3 Watch Out] India Strategy | Climate Action**

Taking the bull by the horns

**VRL Logistics | Target: Rs 511 | +35% | BUY**

Recovery, expansion and new customers driving growth

**SUMMARY**
**India Strategy: Climate Action**

- India announces 2070 net zero target, exceeding the global community's expectation in our view
- Other announcements, though ambitious, are largely in line with India's planned energy transition trajectory
- We believe clean energy capex is likely to accelerate across energy efficiency, renewables, EVs and hydrogen

[Click here for the full report.](#)
**VRL Logistics**

- Q2 PAT increased 60% YoY as revenue grew 45% due to strong recovery in goods transport and bus service volumes
- Volume growth ahead from macro recovery, new markets/routes through 100 new offices and customers open to working with organised players
- Retain BUY; we raise FY22-FY23 EPS by 10-19% on higher volume assumptions and roll to a new Sep'22 TP of Rs 511 (vs. Rs 381)

[Click here for the full report.](#)
**Daily macro indicators**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.56	0bps	9bps	71bps
India 10Y yield (%)	6.39	0bps	14bps	50bps
USD/INR	74.87	0.0	(1.0)	(0.6)
Brent Crude (US\$/bbl)	84.71	0.4	6.8	117.4
Dow	35,914	0.3	4.6	33.4
Shanghai	3,544	(0.1)	(0.7)	9.9
Sensex	60,138	1.4	2.3	51.3
India FI (US\$ mn)	29-Oct	MTD	CYTD	FYTD
FII-D	28.2	(145.4)	(70.3)	1,956.9
FII-E	(732.3)	(2,271.4)	6,258.6	(1,067.8)

Source: Bloomberg

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## Taking the bull by the horns

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**India announces several measures at COP26:** India has announced several climate-related targets at COP26 (the 26<sup>th</sup> session of Conference of Parties – the 2021 annual UN climate change conference). These include net zero by 2070 and a slew of 2030 targets, namely 500GW of non-fossil fuel generation capacity, 50% of energy generation from renewable sources, reduction of 1bn tonnes of carbon from its assumed trajectory, and a 45% cut in carbon intensity of GDP (we believe this is above the 2005 level, though we await the formal policy document).

**2070 net zero target a significant development:** As highlighted in our note titled [Climate Colonialism](#) of 25 October 2021, pressure was being built on India to declare its net zero target. As per a report by IPCC (Intergovernmental Panel on Climate Change), the world must achieve net zero by 2050 and 2070 respectively to contain the global temperature rise below 1.5°C and 2°C by 2100 versus pre-industrial levels. We expect most developed economies to commit to a net zero target by 2050 and developing economies to commit to 2070 targets going forward.

**“LIFE” acknowledges disproportionate carbon dump:** India's focus on Lifestyle for Environment (LIFE) indirectly brings out the irony that western countries have much higher living standards and thus very high per capita emission, while they continue to expect a sharp reduction from countries like India with much lower standards of living – the point being that the western lifestyle cannot be protected at the cost of developing countries and that a common minimum living standard must be accepted as a baseline to impose a carbon target on individual countries. As a corollary, poorer countries are likely to insist on US\$ 1tn in green investments from the developed world over ten years.

**Impact on equity market:** We continue to maintain that emitting industries such as coal, steel and refiners will be under pressure while sectors leveraged to energy efficiency, renewable chain, EVs and hydrogen will continue to attract interest. Please see our report [Clean your way up](#) of 9 June 2021 for a detailed climate impact analysis on the equity market.



**BUY**

TP: Rs 511 | ▲ 35%

**VRL LOGISTICS**

| Logistics

| 02 November 2021

### Recovery, expansion and new customers driving growth

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**Strong recovery:** Despite a 200bps YoY drop in EBITDA margin to 17.8%, VRL reported core net income growth of 60% YoY driven by 45% growth in revenue. Margins contracted as higher fuel prices caused diesel cost-to-revenue to rise to 31% vs. 27% YoY. While we expected a recovery in goods transport, the surprise came from bus operations where revenue grew 200% YoY, retracing to H2FY21 levels, albeit still lower than the pre-pandemic norm. Sequentially, net income was at Rs 495mn vs. a loss of Rs 60mn in Q2FY21 as revenue rose 54% over a low base. EBITDA margin also expanded 910bps QoQ.

**Volume growth via recovery, expansion and new focus sectors:** VRL expects over 15% YoY volume growth in FY22 and 10% pricing growth from June-end. It plans to set up 100 new offices to expand to other parts of the country from the south where 60% of business currently originates. In addition, segments such as agro commodities are now open to using organised logistics companies to comply with GST, e-way bill and other regulations. Management expects growth to be broad based as in Q2 which also saw a standout performance from the textile sector. The bus segment has started to improve as restrictions in VRL's key market of Karnataka have reduced.

**Estimates raised:** We raise our FY22/FY23 PAT estimates by 19%/10% on an increase in FY22 assumptions for goods transport volume growth (from 10% to 12%) and bus transport revenue growth (from 15% to 25%).

**Retain BUY:** We roll forward to a revised Sep'22 DCF-based TP of Rs 511 (vs. Rs 381), implying an FY23E P/E of 30.9x – a 46% premium to the two-year mean. Besides raising EPS estimates, we have also increased FCF growth from 5% to 10% in Stage 2 of our three-stage DCF valuation given the company's improving outlook. Key growth drivers include strong macros leading to recovery in goods volumes, control of Covid-19 leading to higher bus traffic, and a drop in fuel charges.

### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	VRL IN/Rs 379
Market cap	US\$ 447.3mn
Free float	30%
3M ADV	US\$ 1.5mn
52wk high/low	Rs 430/Rs 149
Promoter/FPI/DII	70%/3%/19%

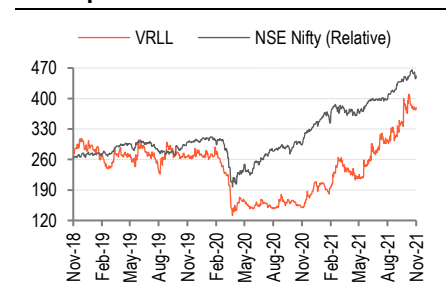
Source: NSE | Price as of 1 Nov 2021

### Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	17,629	22,381	25,868
EBITDA (Rs mn)	2,475	3,430	3,938
Adj. net profit (Rs mn)	451	1,126	1,463
Adj. EPS (Rs)	5.1	12.7	16.6
Consensus EPS (Rs)	5.1	5.8	11.8
Adj. ROAE (%)	7.4	17.2	18.7
Adj. P/E (x)	74.4	29.8	22.9
EV/EBITDA (x)	14.6	10.9	9.2
Adj. EPS growth (%)	(48.9)	149.8	30.0

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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