

BUY

TP: Rs 205 | ▲ 36%

VRL LOGISTICS

Logistics

17 August 2020

Insipid Q1 but steady recovery bodes well

Lockdown-induced disruptions catalysed a steep 70% YoY decline in VRL Logistics' (VRL) Q1FY21 topline to Rs 1.6bn. Strict cost control measures contained operating loss at Rs 339mn. From the lows in April (~5%), VRL's GT utilisation has ticked up steadily to 70-75% of normal currently, and is expected to revert to pre-Covid levels by Nov-Dec. New client addition and traction from some end-verticals (agri, pharma) are encouraging. We prune our FY22 earnings by 6% but maintain our TP at Rs 205 on rollover. BUY.

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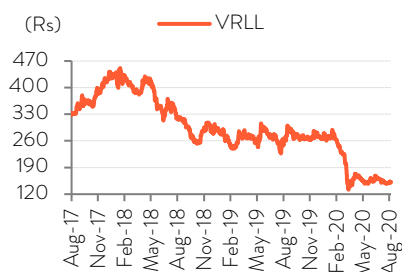
GT tonnage recovering: VRL's goods transport (GT) revenue fell 65% YoY due to muted freight availability and lockdown-induced disruptions. Realisation increased 5% YoY. After abysmal ~5% utilisation in April, GT tonnage scaled up to 25-30% of pre-Covid levels in May, 65-70% in June, and 70-75% at present. VRL expects operations to normalise by November-December. People transport (PT) revenue fell 95% YoY, affected by government regulations.

Ticker/Price	VRL IN/Rs 151
Market cap	US\$ 182.5mn
Shares o/s	90mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 302/Rs 130
Promoter/FPI/DII	68%/5%/21%

Source: NSE

Cost controls mitigated EBITDA loss: Despite the revenue slump, VRL contained EBITDA losses at Rs 339mn through cost controls. Staff costs fell 28% YoY, aided by lower incentives to drivers, salary cuts and branch-level manpower optimisation. The company also negotiated Rs 40mn of rental concessions for Q1. VRL expects ~Rs 100mn/quarter of staff cost savings to continue over Q2-Q4FY21, though further rentals savings are unlikely. The company is confident of recouping Q1 losses and posting net profit in FY21.

STOCK PERFORMANCE



Source: NSE

Beneficiary of industry formalisation: VRL gained several new clients in Q1 as smaller peers were unable to provide optimum service owing to supply disruptions. These accounts added 6-8% to volumes and are expected to be sticky. With its wide network and market leadership, we believe VRL will be a key beneficiary of LTL industry consolidation in India.

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	1,813	3,150	3,479
Adj. net profit (Rs mn)	919	901	(126)	863	1,011
Adj. EPS (Rs)	10.2	10.0	(1.4)	9.6	11.2
Adj. EPS growth (%)	(0.7)	(2.0)	(114.0)	(783.7)	17.2
Adj. ROAE (%)	14.8	14.3	(2.1)	14.0	14.9
Adj. P/E (x)	14.9	15.2	(108.2)	15.8	13.5
EV/EBITDA (x)	6.1	4.9	8.4	4.9	4.5

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE (AS REPORTED)

Y/E Mar (Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	1,601	5,396	(70.3)	4,978	(67.8)
Freight, handling and servicing cost	1,244	3,492	(64.4)	3,388	(63.3)
% of sales	77.7	64.7	1,301bps	68.1	966bps
Employee expenses	666	925	(28.0)	957	(30.4)
% of sales	41.6	17.1	2,446bps	19.2	2,237bps
Other expenses	29	92	(67.9)	67	(55.9)
% of sales	1.8	1.7	14bps	1.3	50bps
Total expenditure	1,940	4,508	(57.0)	4,412	(56.0)
EBITDA	(339)	888	NM	566	NM
EBITDA margin (%)	(21.2)	16.5	(3,761bps)	11.4	(3,253bps)
Depreciation	419	400	4.7	453	(7.5)
EBIT	(757)	488	NM	113	NM
Other income	23	24	(3.4)	24	(4.9)
Interest expenses	104	88	18.1	105	(1.2)
Extraordinary income/(expense)	-	-	-	-	-
PBT	(838)	424	NM	33	NM
PBT margin (%)	(52.4)	7.9	(6,021bps)	0.7	(5,301bps)
Taxes	(211)	150	NM	11	NM
Effective tax rate (%)	25.2	35.3	(1,012bps)	34.7	(951bps)
Reported PAT	(627)	275	NM	21	NM
Extraordinary income/(expense)	-	-	-	-	-
Adjusted PAT	(627)	275	NM	21	NM
Adjusted PAT margin (%)	(39.2)	5.1	(4,426bps)	0.4	(3,961bps)
Adjusted EPS (Rs)	(6.9)	3.0	NM	0.2	NM

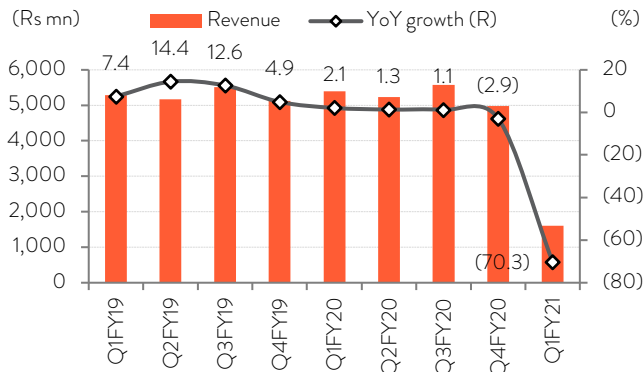
Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL PERFORMANCE

Y/E Mar (Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Goods transport					
Revenue	1,482	4,230	(65.0)	4,165	(64.4)
EBITDA	(341)	629	(154.2)	479	(171.2)
EBITDA margin	(23.0)	14.9	(3,788bps)	11.5	(3,451bps)
EBIT	(612)	356	(272.0)	142	(531.7)
EBIT margin	(41.3)	8.4	(4,967bps)	3.4	(4,467bps)
Passenger transport					
Revenue	53	1,040	(94.9)	706	(92.5)
EBITDA	(23)	205	(111.0)	65	(134.7)
EBITDA margin	(42.6)	19.8	(6,233bps)	9.2	(5,177bps)
EBIT	(112)	137	(181.6)	8	(1,498.6)
EBIT margin	(210.6)	13.1	NM	1.1	NM

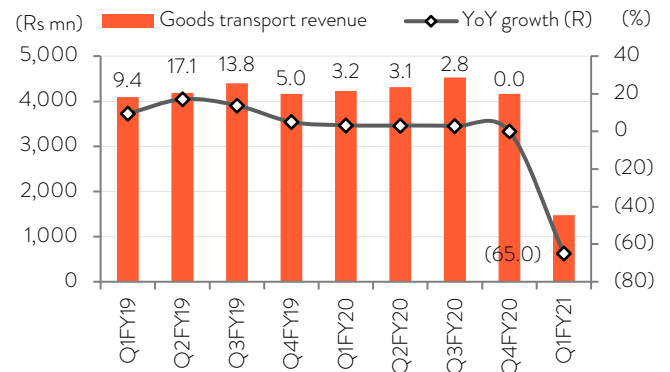
Source: Company, BOBCAPS Research

FIG 3 – REVENUE DECLINED 70% YOY IN Q1FY21



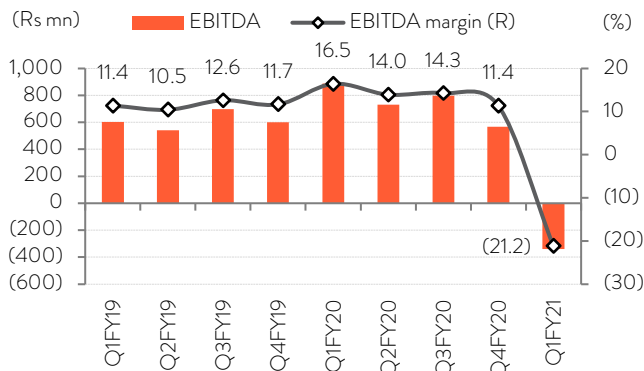
Source: Company, BOBCAPS Research

FIG 4 – GT SEGMENT REVENUE SLUMPED 65% YOY



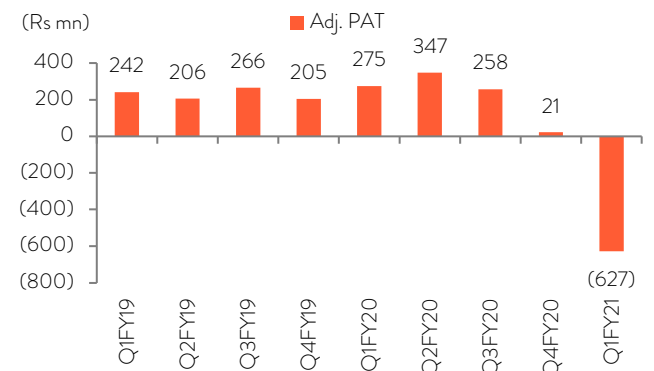
Source: Company, BOBCAPS Research

FIG 5 – REPORTED AN EBITDA LOSS OF RS 339MN



Source: Company, BOBCAPS Research

FIG 6 – NET LOSS STOOD AT RS 627MN IN Q1FY21



Source: Company, BOBCAPS Research

Earnings call highlights

- GT tonnage has increased steadily MoM through April-July. In April, VRLL operated at just 4-5% of the previous year's tonnage levels – this has steadily improved to 25-30% in May, 60-65% in June, and 70-75% currently. Management expects to reach normal levels by November-December, barring any further disruptions to operations.
- The company is witnessing healthy traction from agri-products, pharma, construction and building material, and electronic goods. Textile and auto spare parts tonnage was subdued.
- GT realisation increased ~5% YoY. Due to a diesel price rise at the end of June, VRLL has taken another 4-5% price hike. Future increases in freight rates would depend on diesel movement.
- Several new clients were added during the pandemic as competitors were unable to serve their needs. About 6-8% of Q1 volumes were from the new clients. VRLL expects these customers to continue even after normalcy returns.
- South India accounts for 40% of revenue, followed by the western (20-25%) and northern (20-25%) regions. The remaining 15% of revenue is accounted for by east, central and northeastern states.
- Bus segment revenue plunged 95% YoY due to government regulations restricting operations of buses during the pandemic. Management does not expect to reach over 40% of normal operating levels in FY21.
- Staff costs declined to Rs 665mn vs. Rs 925mn in Q1FY20, driven by salary reductions, lower incentives to drivers and porters, and branch-level manpower management. The company expects Rs 100mn/quarter of staff cost savings to continue.
- VRLL received Rs 40mn of rental concessions in Q1. About 80-90% of landlords waived off rentals for April, while some have provided discounts for the whole of FY21.
- All capex plans stand deferred till the business reaches normal operations. Old trucks will be scrapped.
- Net debt stands at Rs 1.9bn. Cash flow during Q1 was supported by good collections of outstanding receivables. VRLL is currently using 60-65% of working capital limits.

Valuation methodology

Factoring in the Q1FY21 performance, we now expect a net loss of Rs 126mn in FY21 vs. net profit of Rs 127mn projected earlier. We also lower our FY22 earnings estimate by 6%. Rolling valuations over, we maintain our Sep'21 target price at Rs 205, set at an unchanged 20x TTM Sep'22E EPS.

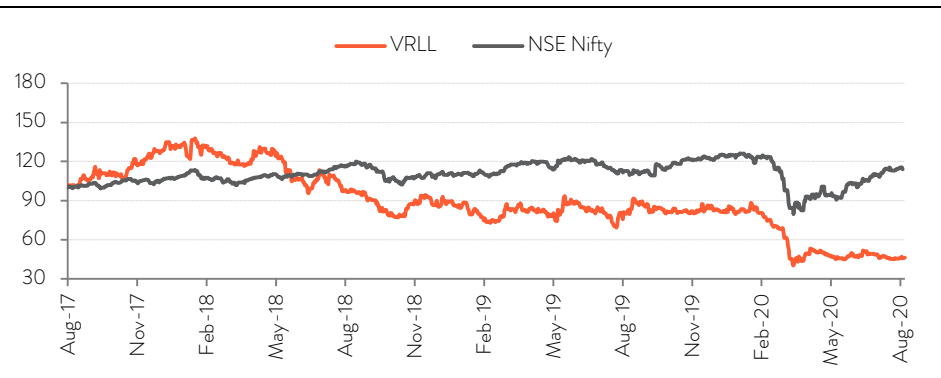
We expect VRLL to withstand the industry turmoil due to inherent strengths in its business model – (1) strong balance sheet (0.6x net debt/EBITDA), (2) wide branch and hub network (917 locations, 47 hubs), (3) large, diversified client base spread across a range of industries, and (4) lean working capital. The company is also expected to be a beneficiary of consolidation in the Indian LTL (less-than-truckload) industry, hastened by the pandemic. Maintain BUY.

FIG 7 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E			FY23E
	Old	New	Change (%)	Old	New	Change (%)	Introduced
Revenues	19,190	18,127	(5.5)	22,158	21,646	(2.3)	23,810
EBITDA	2,070	1,813	(12.4)	3,227	3,150	(2.4)	3,479
EBITDA margin (%)	10.8	10.0	(79bps)	14.6	14.6	0bps	14.6
Adj. PAT	127	(126)	NM	919	863	(6.1)	1,011
Adj. PAT margin (%)	0.7	(0.7)	(136bps)	4.1	4.0	(16bps)	4.2
Adj. EPS (Rs)	1.4	(1.4)	NM	10.2	9.6	(6.1)	11.2

Source: Company, BOBCAPS Research

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- extended lockdown and/or other preventive measures against the pandemic,
- 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)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	21,095	21,185	18,127	21,646	23,810
EBITDA	2,440	2,983	1,813	3,150	3,479
Depreciation	1,006	1,675	1,673	1,698	1,816
EBIT	1,434	1,307	140	1,452	1,664
Net interest income/(expenses)	(109)	(367)	(419)	(423)	(446)
Other income/(expenses)	79	103	111	125	135
Exceptional items	0	0	0	0	0
EBT	1,405	1,043	(169)	1,154	1,352
Income taxes	(486)	(142)	43	(291)	(341)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	919	901	(126)	863	1,011
Adjustments	0	0	0	0	0
Adjusted net profit	919	901	(126)	863	1,011

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	2,093	2,293	1,893
Other liabilities	0	2,651	2,351	1,951	1,651
Equity capital	903	903	903	903	903
Reserves & surplus	5,556	5,265	5,139	5,398	6,409
Shareholders' fund	6,459	6,169	6,043	6,301	7,313
Total liabilities and equities	9,041	11,729	11,310	11,529	11,943
Cash and cash eq.	131	134	257	212	236
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	7,140	7,350	7,381
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	11,310	11,529	11,943

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	1,925	2,576	1,547	2,561	2,827
Interest expenses	109	367	419	423	446
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	1,851	3,038	3,160
Capital expenditures	(2,147)	(1,216)	(644)	(1,355)	(1,290)
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)	(1,990)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	594	406	136	200	(400)
Interest expenses	(109)	(115)	(139)	(153)	(146)
Dividends paid	(497)	(632)	0	(604)	(708)
Other financing cash flows	105	1,840	(580)	(670)	108
Cash flow from financing	94	1,499	(584)	(1,227)	(1,146)
Changes in cash and cash eq.	(62)	3	123	(45)	24
Closing cash and cash eq.	131	134	257	212	236

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	10.2	10.0	(1.4)	9.6	11.2
Adjusted EPS	10.2	10.0	(1.4)	9.6	11.2
Dividend per share	5.5	7.0	0.0	6.7	7.8
Book value per share	71.5	68.3	66.9	69.7	80.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.7	0.7	0.8	0.7	0.7
EV/EBITDA	6.1	4.9	8.4	4.9	4.5
Adjusted P/E	14.9	15.2	(108.2)	15.8	13.5
P/BV	2.1	2.2	2.3	2.2	1.9

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	65.4	86.4	74.8	74.8	74.8
Interest burden (PBT/EBIT)	98.0	79.8	(120.8)	79.5	81.3
EBIT margin (EBIT/Revenue)	6.8	6.2	0.8	6.7	7.0
Asset turnover (Revenue/Avg TA)	252.7	208.3	160.9	194.1	209.5
Leverage (Avg TA/Avg Equity)	1.4	1.6	1.9	1.9	1.7
Adjusted ROAE	14.8	14.3	(2.1)	14.0	14.9

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	(39.2)	73.7	10.5
Adjusted EPS	(0.7)	(2.0)	(114.0)	(783.7)	17.2
Profitability & Return ratios (%)					
EBITDA margin	11.6	14.1	10.0	14.6	14.6
EBIT margin	6.8	6.2	0.8	6.7	7.0
Adjusted profit margin	4.4	4.3	(0.7)	4.0	4.2
Adjusted ROAE	14.8	14.3	(2.1)	14.0	14.9
ROCE	17.4	13.1	1.3	13.3	14.9
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	3.0	2.5	2.4
Net interest coverage ratio	13.2	3.6	0.3	3.4	3.7
Adjusted debt/equity	0.2	0.3	0.3	0.3	0.2

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

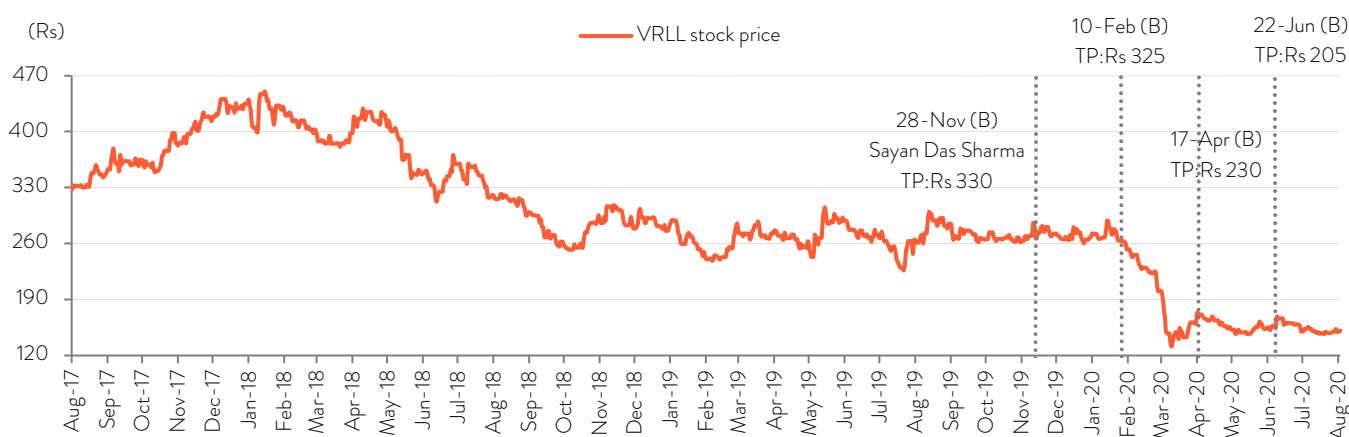
ADD – Expected return from >+5% to +15%

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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