

**BUY**

TP: Rs 381 | ▲ 27%

**VRL LOGISTICS**

| Logistics

| 09 August 2021

**Lower losses; volume recovery and price increase to drive growth**

- Q1 losses fell to below 10% of last year but declined from strong profits in Q4FY21 as volumes slowed and bus operations continued to bleed
- VRL expects volume recovery at 15% YoY in FY22 which together with the recent 10% price increase should help earnings rebound
- Retain estimates as Jul-Mar implied earnings are less than that for the same period last year. Retain BUY and TP of Rs 381

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**Losses due to Covid-19:** VRL reported a Q1FY22 net income loss of Rs 60mn vs. a loss of Rs 627mn in Q1FY21. The lower loss was due to a milder Covid impact this quarter which allowed the company to achieve EBIT breakeven (margin of -0.4% vs. -47.3% in Q1FY21). Bus operations continued to bleed with a negative adjusted EBIT of -Rs 71mn vs. -Rs 108mn in Q1FY21. Sequentially, overall results were weak as the company had made a decent 9.6% EBIT margin and Rs 372mn in net income in Q4FY21.

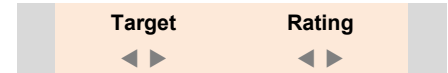
**Volume and price-led recovery ahead:** VRL expects over 15% YoY volume growth in FY22 which together with a 10% increase in pricing from June-end should result in a strong recovery in earnings. The bus segment has also started to improve as restrictions in the company’s key market of Karnataka have reduced. The FY22 capex budget of Rs 500mn is less than half of the average for FY16-FY20 and capacity utilisation is not that high. The company will increase this budget only when volumes start improving consistently for a few quarters.

**Retain estimates:** We retain our FY22 net income estimate at Rs 948mn as implied earnings over Jul’21-Mar’22 are actually lower than the figure reported over Jul’20-Mar’21. Given expected volume and pricing growth, our forecast looks achievable.

**Trading at discount to peers:** VRL is trading close to its two-year peak forward P/E and P/B multiples. However, valuations have fallen steadily over the last two years due to declining earnings and remain at a discount to peers. Based on our reverse DCF analysis with a terminal growth estimate of 5%, the stock is implying 10-year FCF growth of just ~5% which is lower than the historical mean.

**Retain BUY:** Our Jun’22 DCF-based TP stands at Rs 381, implying an FY23E P/E of 25.3x – a 20% premium to the two-year mean. With growth expected to accelerate in FY22-FY23, we believe the above-mean valuation is justified and maintain our BUY rating.

**Key changes**



Ticker/Price	VRL IN/Rs 300
Market cap	US\$ 357.7mn
Free float	30%
3M ADV	US\$ 2.1mn
52wk high/low	Rs 324/Rs 148
Promoter/FPI/DII	70%/3%/19%

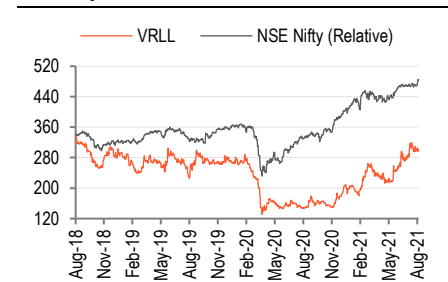
Source: NSE | Price as of 6 Aug 2021

**Key financials**

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	17,629	21,886	25,251
EBITDA (Rs mn)	2,475	3,192	3,762
Adj. net profit (Rs mn)	451	948	1,328
Adj. EPS (Rs)	5.1	10.7	15.0
Consensus EPS (Rs)	5.1	9.1	13.1
Adj. ROAE (%)	7.4	14.7	17.5
Adj. P/E (x)	58.9	28.0	20.0
EV/EBITDA (x)	11.8	9.6	7.8
Adj. EPS growth (%)	(48.9)	110.2	40.2

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Consolidated quarterly performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
<b>Revenue (post indirect taxes)</b>	<b>4,138</b>	<b>1,601</b>	<b>158.5</b>	<b>6,002</b>	<b>(31.1)</b>
Cost of Revenue	(2,888)	(1,244)	132.1	(4,106)	(29.7)
<b>Gross Profit</b>	<b>1,249</b>	<b>357</b>	<b>250.3</b>	<b>1,896</b>	<b>(34.1)</b>
Gross Margin (%)	30.2	22.3	-	31.6	-
Employee Benefits Expense	(845)	(666)	26.9	(891)	(5.2)
Other Expense	(44)	(29)	49.8	(48)	(7.9)
<b>EBITDA</b>	<b>361</b>	<b>(339)</b>	<b>(206.5)</b>	<b>956</b>	<b>(62.3)</b>
EBITDA margin (%)	8.7	(21.2)	-	15.9	-
Depreciation & Amortization	(377)	(419)	(10.0)	(380)	(0.9)
<b>EBIT</b>	<b>(16)</b>	<b>(757)</b>	<b>(97.9)</b>	<b>576</b>	<b>(102.8)</b>
EBIT margin (%)	(0.4)	(47.3)	-	9.6	-
Other Income	35	23	51.5	29	22.5
Interest Expense	(95)	(104)	(8.5)	(92)	3.8
<b>Total Financials</b>	<b>(60)</b>	<b>(81)</b>	<b>(25.7)</b>	<b>(63)</b>	<b>(4.8)</b>
<b>Income after financial items</b>	<b>(76)</b>	<b>(838)</b>	<b>(90.9)</b>	<b>513</b>	<b>(114.8)</b>
Margin (%)	(1.8)	(52.4)	-	8.5	-
<b>Pretax income</b>	<b>(76.2)</b>	<b>(838.1)</b>	<b>(90.9)</b>	<b>513.1</b>	<b>(114.8)</b>
Taxation	16	211	(92.5)	(141)	(111.1)
% of pretax income before Associates	20.7	25.2	(17.8)	27.6	-
<b>Net income</b>	<b>(60)</b>	<b>(627)</b>	<b>(90.4)</b>	<b>372</b>	<b>(116.3)</b>
Net margin (%)	(1.5)	(39.2)	-	6.2	-

Source: Company

**Fig 2 – Segment performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
<b>Revenues</b>					
Goods Transport	3,848	1,482	159.6	5,358	(28.2)
Bus Operations	176	53	231.8	561	(68.7)
Sale of Power	55	48	15.7	21	165.0
Transport of passengers by air	35	11	225.7	29	19.2
Others	23	7	238.4	32	(27.3)
<b>Total</b>	<b>4,138</b>	<b>1,601</b>	<b>158.5</b>	<b>6,002</b>	<b>(31.1)</b>
<b>EBIT</b>					
Goods Transport	145	(558)	(125.9)	762	(81.0)
Bus Operations	(71)	(108)	(34.1)	(87)	(18.1)
Sale of Power	12	5	146.6	(23)	(152.9)
Transport of passengers by air	(10)	(15)	(36.5)	(4)	131.5
<b>EBIT Margin (%)</b>					
Goods Transport	3.8	(37.7)	-	14.2	-
Bus Operations	(40.5)	(203.6)	-	(15.5)	-
Sale of Power	21.5	10.1	-	(107.6)	-
Transport of passengers by air	(27.3)	(139.8)	-	(14.0)	-

Source: Company

## Valuation methodology

We retain our Jun'22 DCF-based TP at Rs 381, which implies an FY23E P/E of 25.3x – a 20% premium to the historical mean. With growth expected to accelerate in FY22-FY23, we believe the above-mean valuation is justified and maintain our BUY rating.

We have valued the company using a three-stage DCF model comprising a three-year explicit forecast in Stage 1, a seven-year high-growth period in Stage 2 and a terminal period in Stage 3. Stage 2 assumptions are based on market growth, company strategy and historical performance. Our WACC estimate is based on the risk-free rate as on end Jun'21, gearing and estimated beta as on end Jun'21 (based on two-year weekly returns).

**Fig 3 – Key operational assumptions**

Parameter	FY21	FY22E	FY23E	FY24E
Volume Growth YoY (%)	(14.0)	10.0	10.0	7.0
Average Charges per tonne YoY (%)	7.4	14.6	1.8	1.8
Average Charges per tonne ex-Diesel YoY (%)	-	3.0	3.0	3.0
Diesel Prices Delhi (Rs / liter)	73.6	100	100	100
Saving from Biofuels / Direct Procurement from Refineries (%)	5.0	5.0	5.0	5.0
Revenue Growth from Bus Operations YoY (%)	(62.0)	15.0	60.0	10.0

Source: Company, BOBCAPS Research

**Fig 4 – DCF assumptions**

Variable	Assumption	Basis	
Risk Free Rate (%) (A)	6.0	Indian 10-year TB yield as of end-Jun'21	
Equity Risk Premium (%) (B)	6.9	NYU Stern India equity risk premium	
Beta (C)	0.9	Weekly returns over 2 years as of end-Jun'21	
Cost of Equity (%) (D) = A + B x C	12.3		
Cost of Debt (E)	9.0		
Marginal Tax Rate (%) (F)	25.2		
Post-Tax Cost of Debt (%) (G) = E x (1F)	6.73		
Current Debt to Equity (2021) (H)	0.59		
WACC (I) = (1 x D + H x G)/(1 + H)	10.2		
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3 (Terminal)</b>
FCF CAGR (%)	3.5	5.0	5.0

Source: BOBCAPS Research

**Fig 5 – Target price: Implied multiples**

Multiples (x)	Target price	Current price	Consensus 12M forward 2Y mean	Consensus 2Y range	Variance vs. VRL 2Y historical mean (%)
P/E FY23E	25.3	20.0	21.1	8.7 - 32	20.1
EV/EBITDA FY23E	8.8	6.9	NA	NA	NA
P/B FY23E	4.1	3.2	2.3	1.6 - 4.1	78.2

Source: Bloomberg, BOBCAPS Research

**Fig 6 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	EPS CAGR FY21-23E (%)	ROIC (%)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
Container Corp of India	CCRI IN	SELL	521	41	8.1	12.0	8.8	11.6	24.42
TCI Express	TCIEXP IN	HOLD	1421	25	32.1	34.8	26.4	25.1	34.53
Transport Corp of India	TRPC IN	HOLD	431	14	10.3	11.3	13.5	14.6	16.00
VRL Logistics	VRLL IN	BUY	381	72	13.2	19.0	14.7	17.5	25.34

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- slower-than-expected recovery,
- continued losses from the bus segment, and
- drop in diesel cost or rise in biodiesel cost which could reduce the savings on fuel.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Container Corp of India	CCRI IN	5.7	690	521	SELL
TCI Express	TCIEXP IN	0.8	1,463	1,421	HOLD
Transport Corp of India	TRPC IN	0.5	453	431	HOLD
VRL Logistics	VRLL IN	0.4	300	381	BUY

Source: BOBCAPS Research, NSE | Price as of 6 Aug 2021

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>21,185</b>	<b>17,629</b>	<b>21,886</b>	<b>25,251</b>	<b>27,507</b>
EBITDA	2,983	2,475	3,192	3,762	3,860
Depreciation	(1,675)	(1,598)	(1,678)	(1,749)	(1,810)
EBIT	1,307	877	1,514	2,013	2,051
Net interest inc./(exp.)	(367)	(368)	(377)	(366)	(276)
Other inc./(exp.)	103	129	129	129	129
Exceptional items	0	0	0	0	0
EBT	1,043	637	1,266	1,775	1,904
Income taxes	(142)	(187)	(319)	(447)	(479)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>901</b>	<b>451</b>	<b>948</b>	<b>1,328</b>	<b>1,424</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>901</b>	<b>451</b>	<b>948</b>	<b>1,328</b>	<b>1,424</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	35	135	167	193	210
Other current liabilities	174	260	292	318	335
Provisions	208	207	207	207	207
Debt funds	4,308	4,059	4,077	2,056	0
Other liabilities	796	701	701	701	701
Equity capital	903	883	883	883	883
Reserves & surplus	5,265	5,088	6,035	7,364	8,788
Shareholders' fund	6,169	5,971	6,919	8,247	9,672
<b>Total liab. and equities</b>	<b>12,252</b>	<b>11,986</b>	<b>12,983</b>	<b>12,317</b>	<b>11,703</b>
Cash and cash eq.	134	185	2,189	2,525	2,791
Accounts receivables	823	639	794	916	998
Inventories	293	395	491	566	617
Other current assets	565	543	543	543	543
Investments	1	1	1	1	1
Net fixed assets	9,871	9,513	8,257	7,056	6,044
CWIP	0	0	0	0	0
Intangible assets	8	6	6	6	6
Deferred tax assets, net	0	0	0	0	0
Other assets	557	703	703	703	703
<b>Total assets</b>	<b>12,252</b>	<b>11,986</b>	<b>12,983</b>	<b>12,317</b>	<b>11,703</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>2,573</b>	<b>2,711</b>	<b>2,656</b>	<b>3,143</b>	<b>3,266</b>
Capital expenditures	(1,227)	(390)	(422)	(548)	(797)
Change in investments	0	0	0	0	0
Other investing cash flows	42	75	0	0	0
<b>Cash flow from investing</b>	<b>(1,186)</b>	<b>(315)</b>	<b>(422)</b>	<b>(548)</b>	<b>(797)</b>
Equities issued/Others	0	(632)	0	0	0
Debt raised/repaid	(36)	(1,340)	18	(2,021)	(2,056)
Interest expenses	(368)	(372)	(248)	(237)	(147)
Dividends paid	(980)	0	0	0	0
Other financing cash flows	1,384	2,344	230	2,258	2,203
<b>Cash flow from financing</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Chg in cash &amp; cash eq.</b>	<b>3</b>	<b>54</b>	<b>2,004</b>	<b>336</b>	<b>266</b>
<b>Closing cash &amp; cash eq.</b>	<b>134</b>	<b>185</b>	<b>2,189</b>	<b>2,525</b>	<b>2,791</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	10.0	5.1	10.7	15.0	16.1
Adjusted EPS	10.0	5.1	10.7	15.0	16.1
Dividend per share	7.0	4.0	7.5	10.5	11.3
Book value per share	68.3	67.6	78.3	93.4	109.5

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	1.3	1.7	1.4	1.2	1.0
EV/EBITDA	9.2	11.8	9.6	7.8	7.1
Adjusted P/E	30.1	58.9	28.0	20.0	18.6
P/BV	4.4	4.4	3.8	3.2	2.7

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	86.4	70.7	74.8	74.8	74.8
Interest burden (PBT/EBIT)	79.8	72.7	83.6	88.2	92.8
EBIT margin (EBIT/Revenue)	6.2	5.0	6.9	8.0	7.5
Asset turnover (Rev./Avg TA)	192.3	145.5	175.3	199.6	229.0
Leverage (Avg TA/Avg Equity)	1.7	2.0	1.9	1.7	1.3
<b>Adjusted ROAE</b>	<b>14.3</b>	<b>7.4</b>	<b>14.7</b>	<b>17.5</b>	<b>15.9</b>

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	0.4	(16.8)	24.1	15.4	8.9
EBITDA	22.2	(17.0)	29.0	17.9	2.6
Adjusted EPS	(2.0)	(48.9)	110.2	40.2	7.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	14.1	14.0	14.6	14.9	14.0
EBIT margin	6.2	5.0	6.9	8.0	7.5
Adjusted profit margin	4.3	2.6	4.3	5.3	5.2
Adjusted ROAE	14.3	7.4	14.7	17.5	15.9
ROCE	14.3	9.2	15.5	19.6	19.9
<b>Working capital days (days)</b>					
Receivables	14	13	13	13	13
Inventory	5	8	8	8	8
Payables	1	3	3	3	3
<b>Ratios (x)</b>					
Gross asset turnover	3.5	1.4	1.7	1.9	2.0
Current ratio	0.7	0.7	1.5	2.2	3.7
Net interest coverage ratio	3.6	2.4	4.0	5.5	7.4
<b>Adjusted debt/equity</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>0.2</b>	<b>0.0</b>

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

## Disclaimer

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

**BUY** – Expected return >+15%

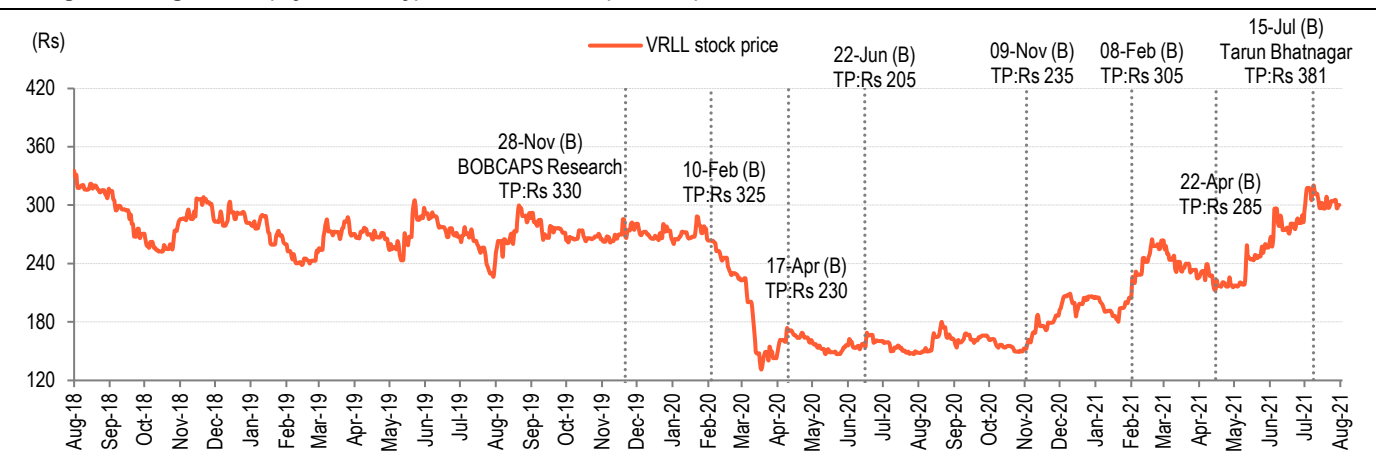
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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

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