

BUY

TP: Rs 511 | ▲ 35%

VRL LOGISTICS

| Logistics

| 02 November 2021

Recovery, expansion and new customers driving growth

- 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)

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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%

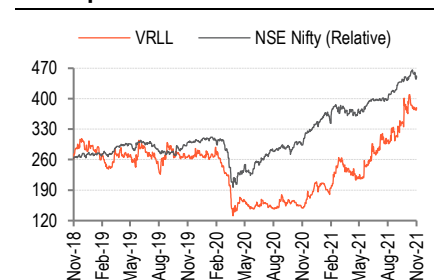
Source: NSE | Price as of 1 Nov 2021

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



Fig 1 – Quarterly performance

(Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	H1FY22	H1FY21	YoY (%)
Revenue (post indirect taxes)	6,364	4,393	44.9	4,138	53.8	10,501	5,993	75.2
Cost of Revenue	(4,273)	(2,734)	56.3	(2,888)	48.0	(7,162)	(3,978)	80.0
Gross Profit	2,090	1,659	26.0	1,249	67.3	3,340	2,015	65.7
Gross Margin (%)	32.8	37.8	(491bps)	30.2	265bps	31.8	33.6	(182bps)
Employee Benefits Expense	(901)	(743)	21.3	(845)	6.6	(1,746)	(1,409)	23.9
Other Expense	(57)	(47)	21.3	(44)	29.2	(101)	(76)	32.3
EBITDA	1,133	869	30.3	361	214.2	1,493	531	181.5
EBITDA margin (%)	17.8	19.8	(199bps)	8.7	909bps	26.5	(1.4)	2,789bps
Depreciation & Amortization	(396)	(388)	2.0	(377)	5.0	(772)	(807)	(4.3)
EBIT	737	481	53.2	(16)	(4,630.9)	721	(276)	(360.9)
EBIT margin (%)	11.6	11.0	63bps	(0.4)	1198bps	6.9	(4.6)	1148bps
Interest Income	18	25	(30.6)	35	(49.6)	53	49	8.5
Interest Expense	(98)	(90)	9.5	(95)	3.3	(193)	(193)	(0.2)
Total Financials	(80)	(64)	25.4	(60)	34.2	(140)	(145)	(3.1)
Income after financial items	657	417	57.5	(76)	(962.2)	581	(421)	(237.9)
% margin	10.3	9.5	83bps	(1.8)	1216bps	5.5	(7.0)	1255bps
Associate Income	0	0	-	0	-	0	0	-
Pretax income	657	417	57.5	(76)	(962.2)	581	(421)	(237.9)
Total Non-Recurring	0	0	-	0	-	0	0	-
Reported Pretax	657	417	57.5	(76)	(962.2)	581	(421)	(237.9)
Taxation	0	0	-	0	-	0	0	-
Total	(162)	(108)	49.8	16	(1,128.0)	(146)	103	(242.4)
% of pretax income before Associates	25	26	(4.9)	21	0.0	45	51	0.0
Net income before minorities	495	309	60.2	(60)	(918.9)	434	(318)	(236.4)
Minorities	0	0	-	0	-	0	0	-
Net income after minorities	495	309	60.2	(60)	(918.9)	434	(318)	(236.4)
Core net income	495	309	60.2	(60)	(918.9)	434	(318)	(236.4)
Net margin (%)	7.8	7.0	74bps	(1.5)	924bps	4.1	(5.3)	945bps

Source: Company, BOBCAPS Research

Fig 2 – Segment performance

(Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	H1FY22	H1FY21	YoY (%)
Revenue								
Goods Transport	5,688	4,077	39.5	3,848	47.8	9,536	5,560	71.5
Bus Operations	503	168	199.5	176	186.1	678	221	207.3
Sale of Power	86	76	13.5	55	54.8	141	124	14.3
Transport of passengers by air	37	38	(1.6)	35	6.0	72	48	48.8
Segment Profit								
Goods Transport	793	558	42.0	145	448.0	938	0	3,60,509.2
Bus Operations	(28)	(54)	(47.3)	(71)	(59.9)	(100)	(162)	(38.5)
Sale of Power	42	37	12.5	12	252.0	54	42	27.8
Transport of passengers by air	5	6	(12.3)	(10)	(151.6)	(5)	(9)	(50.9)
Segment Margin (%)								
Goods Transport	13.9	13.7	24bps	3.8	1018bps	9.8	0.0	983bps
Bus Operations	(5.7)	(32.2)	2,653bps	(40.5)	3,479bps	(14.7)	(73.3)	5,863bps
Sale of Power	48.9	49.3	(45bps)	21.5	2,738bps	38.1	34.1	403bps
Transport of passengers by air	13.3	14.9	(162bps)	(27.3)	4,052bps	(6.4)	(19.4)	1,303bps

Source: Company, BOBCAPS Research

Valuation methodology

We raise our FY22/FY23 PAT estimates by 19%/10% on an increase in our FY22 assumptions for goods transport volume growth (from 10% to 12%) and bus transport revenue growth (from 15% to 25%). On rollover, we arrive at a revised Sep'22 DCF-based TP of Rs 511 (Rs 381 earlier), which implies an FY23E P/E of 30.9x – a 46% premium to the historical two-year 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. Besides raising EPS estimates, we have also increased FCF growth from 5% to 10% in Stage 2 of our DCF valuation given VRL's improving outlook. Our WACC estimate is based on the risk-free rate as on end-Sep'21, gearing and estimated beta as on end-Sep'21 (based on two-year weekly returns).

Fig 3 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	22.4	25.9	28.2	21.9	25.3	27.5	2.3	2.4	2.5
EBITDA	3.4	3.9	4.0	3.2	3.8	3.9	7.5	4.7	4.8
EBIT	1.8	2.2	2.2	1.5	2.0	2.1	15.7	8.7	8.5
Pretax Income	1.5	2.0	2.1	1.3	1.8	1.9	18.8	10.1	9.9
Net Income	1.1	1.5	1.6	0.9	1.3	1.4	18.8	10.1	9.9
EPS	12.7	16.6	17.7	10.7	15.0	16.1	18.8	10.1	9.9

Source: BOBCAPS Research

Fig 4 – Estimates vs. consensus

(Rs bn)	BOBCAPS		Consensus		Variance (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	22.4	25.9	21.7	26.0	3.3	(0.4)
EBITDA	3.4	3.9	3.1	3.7	10.5	6.0
EBIT	1.8	2.2	1.0	1.8	68.5	20.2
Pretax Income	1.5	2.0	0.7	1.5	108.9	34.9
Net Income	1.1	1.5	0.8	1.2	37.7	25.4
EPS (Rs per share)	12.7	16.6	9.1	13.1	40.0	26.9

Source: Bloomberg, BOBCAPS Research

Fig 5 – Key operational assumptions

Parameter	FY21	FY22E	FY23E	FY24E
Volume Growth YoY (%)	(14.0)	12.0	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/litre)	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)	25.0	60.0	10.0

Source: Company, BOBCAPS Research

Fig 6 – DCF assumptions

Variable	Assumption	Basis
Risk Free Rate (%) (A)	6.2	Indian 10-year TB yield as of end-Sep'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-Sep'21
Cost of Equity (%) (D) = A + B x C	12.4	
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)	0.56	
WACC (I) = (1 x D + H x G)/(1 + H)	10.4	
	Stage 1	Stage 2
FCF CAGR (%)	1.5	10.0
		Stage 3 (Terminal)
		5.0

Source: BOBCAPS Research

Fig 7 – 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	30.9	25.0	21.1	8.7 - 32	46.3
EV/EBITDA FY23E	11.3	9.1	NA	NA	NA
P/B FY23E	5.3	4.3	2.3	1.6 - 4.1	130.3

Source: Bloomberg, BOBCAPS Research

Fig 8 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EPS CAGR FY21-23E (%)	ROIC (%)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
Allcargo Logistics	AGLL IN	ADD	135	34.1	3.5	3.4	12.4	14.9	8.7
Container Corp of India	CCRI IN	SELL	521	41.0	8.1	12.0	8.8	11.6	24.4
Mahindra Logistics	MAHLOG IN	BUY	711	111.2	15.7	27.8	16.1	20.5	34.9
TCI Express	TCIEXP IN	HOLD	1531	29.3	34.1	36.8	27.8	26.2	35.0
Transport Corp of India	TRPC IN	HOLD	431	13.9	12.3	11.0	13.5	14.6	16.0
VRL Logistics	VRLL IN	BUY	511	80.2	15.2	20.5	17.2	18.7	30.9

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- slower-than-expected recovery due to a third Covid wave or macro challenges, and
- continued losses from the bus segment.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Allcargo Logistics	AGLL IN	0.9	274	135	ADD
Container Corp of India	CCRI IN	5.4	667	521	SELL
Mahindra Logistics	MAHLOG IN	0.6	637	711	BUY
TCI Express	TCIEXP IN	1.0	1,878	1,531	HOLD
Transport Corp of India	TRPC IN	0.7	688	431	HOLD
VRL Logistics	VRLL IN	0.4	379	511	BUY

Source: BOBCAPS Research, NSE | Price as of 1 Nov 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	21,185	17,629	22,381	25,868	28,181
EBITDA	2,983	2,475	3,430	3,938	4,046
Depreciation	(1,675)	(1,598)	(1,678)	(1,750)	(1,820)
EBIT	1,307	877	1,752	2,188	2,226
Net interest inc./(exp.)	(367)	(368)	(377)	(362)	(262)
Other inc./(exp.)	103	129	129	129	129
Exceptional items	0	0	0	0	0
EBT	1,043	637	1,504	1,955	2,093
Income taxes	(142)	(187)	(379)	(492)	(527)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	901	451	1,126	1,463	1,566
Adjustments	0	0	0	0	0
Adjusted net profit	901	451	1,126	1,463	1,566

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	35	135	171	198	215
Other current liabilities	174	260	296	323	340
Provisions	208	207	207	207	207
Debt funds	4,308	4,059	3,975	1,840	0
Other liabilities	796	701	701	701	701
Equity capital	903	883	883	883	883
Reserves & surplus	5,265	5,088	6,214	7,677	9,243
Shareholders' fund	6,169	5,971	7,097	8,560	10,126
Total liab. and equities	12,252	11,986	13,064	12,419	12,162
Cash and cash eq.	134	185	2,238	2,587	3,140
Accounts receivables	823	639	812	938	1,022
Inventories	293	395	502	580	632
Other current assets	565	543	543	543	543
Investments	1	1	1	1	1
Net fixed assets	9,871	9,513	8,259	7,060	6,115
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
Total assets	12,252	11,986	13,064	12,419	12,162

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	2,573	2,711	2,809	3,268	3,401
Capital expenditures	(1,227)	(390)	(424)	(551)	(875)
Change in investments	0	0	0	0	0
Other investing cash flows	42	75	0	0	0
Cash flow from investing	(1,186)	(315)	(424)	(551)	(875)
Equities issued/Others	0	(632)	0	0	0
Debt raised/repaid	(36)	(1,340)	(84)	(2,135)	(1,840)
Interest expenses	(368)	(372)	(248)	(233)	(133)
Dividends paid	(980)	0	0	0	0
Other financing cash flows	1,384	2,344	332	2,368	1,973
Cash flow from financing	0	0	0	0	0
Chg in cash & cash eq.	3	54	2,054	349	553
Closing cash & cash eq.	134	185	2,238	2,587	3,140

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	10.0	5.1	12.7	16.6	17.7
Adjusted EPS	10.0	5.1	12.7	16.6	17.7
Dividend per share	7.0	4.0	8.9	11.6	12.4
Book value per share	68.3	67.6	80.3	96.9	114.6

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	1.6	2.1	1.7	1.4	1.2
EV/EBITDA	11.5	14.6	10.9	9.2	8.4
Adjusted P/E	38.0	74.4	29.8	22.9	21.4
P/BV	5.6	5.6	4.7	3.9	3.3

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	85.9	89.4	94.0
EBIT margin (EBIT/Revenue)	6.2	5.0	7.8	8.5	7.9
Asset turnover (Rev./Avg TA)	192.3	145.5	178.7	203.0	229.3
Leverage (Avg TA/Avg Equity)	1.7	2.0	1.9	1.6	1.3
Adjusted ROAE	14.3	7.4	17.2	18.7	16.8

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	0.4	(16.8)	27.0	15.6	8.9
EBITDA	22.2	(17.0)	38.6	14.8	2.7
Adjusted EPS	(2.0)	(48.9)	149.8	30.0	7.0
Profitability & Return ratios (%)					
EBITDA margin	14.1	14.0	15.3	15.2	14.4
EBIT margin	6.2	5.0	7.8	8.5	7.9
Adjusted profit margin	4.3	2.6	5.0	5.7	5.6
Adjusted ROAE	14.3	7.4	17.2	18.7	16.8
ROCE	14.3	9.2	17.8	21.0	20.9
Working capital days (days)					
Receivables	14	13	13	13	13
Inventory	5	8	8	8	8
Payables	1	3	3	3	3
Ratios (x)					
Gross asset turnover	3.5	1.4	1.8	2.0	2.0
Current ratio	0.7	0.7	1.5	2.4	4.0
Net interest coverage ratio	3.6	2.4	4.7	6.1	8.5
Adjusted debt/equity	0.7	0.7	0.6	0.2	0.0

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

Disclaimer

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

BUY – Expected return >+15%

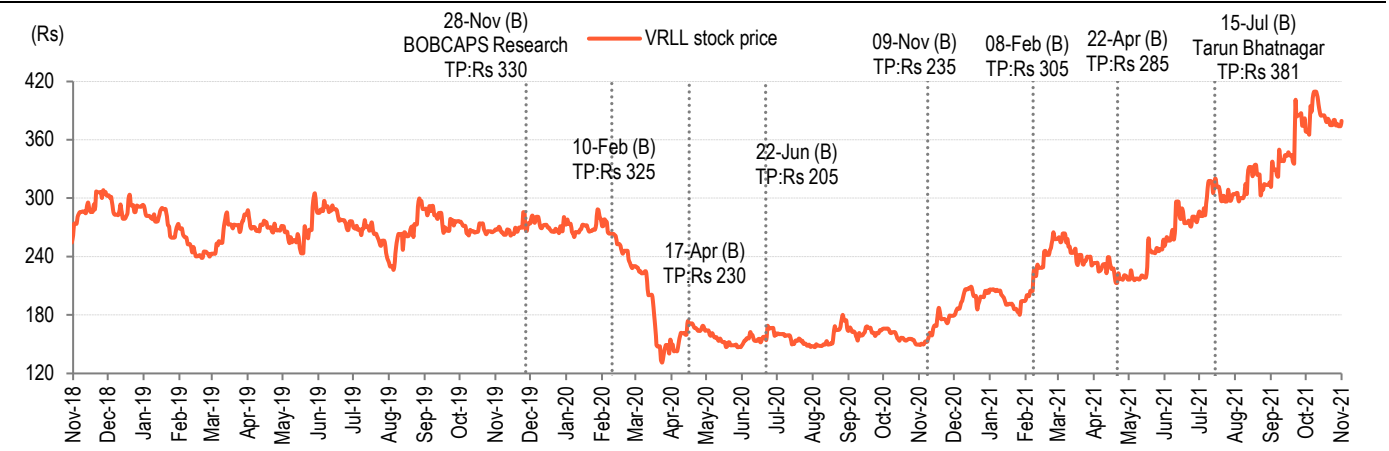
HOLD – Expected return from -6% to +15%

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.

Ratings and Target Price (3-year history): VRL LOGISTICS (VRL IN)



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

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