

BUY

TP: Rs 205 | ▲ 33%

VRL LOGISTICS

Logistics

22 June 2020

Inspid quarter

VRL Logistics' (VRL) Q4FY20 print was weak. Revenue/EBITDA (ex. Ind-AS 116) declined 3%/48% YoY, induced by the lockdown. PAT plummeted 85% YoY to Rs 31mn. Though a dismal quarter, some positives indicate steady recovery for VRL, viz. 50-60% truck utilisation in June, apparent market share gain visible from new client wins, and a comfortable liquidity position. We slash our FY21/FY22 EPS estimates by 79%/12% and lower our Mar'21 TP to Rs 205 (vs. Rs 230) set at an unchanged 20x FY22E EPS. Maintain BUY.

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GT revenue flat, PT plunges: Goods transport (GT) revenue was flat YoY as 1% tonnage growth was offset by a slight drop in realisation. People transport (PT) revenue plunged 21% YoY despite a 5% increase in realisation, as passenger numbers declined 25% due to fewer buses in operation (337 vs. 381 in Q4FY19). Management estimates revenue/EBITDA loss of Rs 500mn/Rs 300mn in Q4.

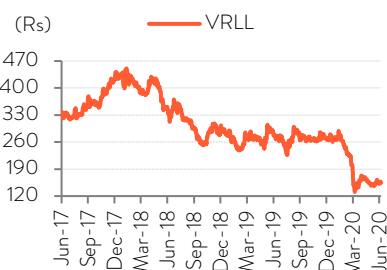
Ticker/Price	VRL IN/Rs 155
Market cap	US\$ 183.9mn
Shares o/s	90mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 302/Rs 130
Promoter/FPI/DII	68%/5%/21%

Source: NSE

Sharp margin contraction: EBITDA margin (adj. for Ind-AS 116) contracted 540bps YoY to 6.3% as freight expenses/staff costs rose 380bps/155bps YoY. VRL did not generate any revenue during the last few days of Q4FY20, but incurred fixed expenses towards salaries, vehicle taxes, and compensation to drivers and labourers which contributed to margin contraction. Diesel procurement cost also increased slightly, exerting further pressure on margins.

STOCK PERFORMANCE

Key positives: In this tumultuous period, we draw comfort from (1) the gradual pick-up in demand – utilisation at 50-60% of normal levels in June, (2) addition of new customers (6-8% increase) – indicative of market share gain, (3) easing operational hurdles – such as better driver and labour availability, and (4) comfortable liquidity – reflected in its decision to not opt for moratorium. VRL's balance sheet remains strong as well (net debt/EBITDA of 0.6x). We expect a weak FY21 marred by a dismal Q1, followed by strong recovery in FY22.



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	19,223	21,095	21,185	19,190	22,158
EBITDA (Rs mn)	2,342	2,440	2,983	2,070	3,227
Adj. net profit (Rs mn)	926	919	901	127	919
Adj. EPS (Rs)	10.2	10.2	10.0	1.4	10.2
Adj. EPS growth (%)	32.7	(0.7)	(2.0)	(86.0)	626.1
Adj. ROAE (%)	16.3	14.8	14.3	2.0	14.3
Adj. P/E (x)	15.1	15.2	15.5	110.4	15.2
EV/EBITDA (x)	6.9	6.3	5.1	7.5	4.8

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE (COMPARABLE, ADJ. FOR IND-AS 116 IMPACT)

Y/E Mar (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Revenue	4,978	5,129	(2.9)	5,573	(10.7)	21,185	21,095	0.4
Freight, handling and servicing cost	3,641	3,557	2.4	3,940	(7.6)	14,943	14,743	1.4
% of sales	73.1	69.3	379bps	70.7	242bps	70.5	69.9	64bps
Employee expenses	957	906	5.7	973	(1.6)	3,805	3,667	3.8
% of sales	19.2	17.7	157bps	17.5	177bps	18.0	17.4	58bps
Other expenses	67	67	(0.1)	64	3.7	294	245	19.9
% of sales	1.3	1.3	4bps	1.2	19bps	1.4	1.2	23bps
Total expenditure	4,664	4,529	3.0	4,977	(6.3)	19,042	18,655	2.1
EBITDA	314	600	(47.7)	595	(47.3)	2,143	2,440	(12.2)
EBITDA margin (%)	6.3	11.7	(540bps)	10.7	(438bps)	10.1	11.6	(145bps)
Depreciation	257	255	0.8	258	(0.2)	1,031	1,006	2.5
EBIT	57	345	(83.6)	338	(83.2)	1,112	1,434	(22.5)
Other income	24	19	31.1	24	2.1	103	79	30.2
Interest expenses	36	37	(4.4)	27	31.4	115	109	6.1
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
PBT	46	326	(86.0)	335	(86.4)	1,100	1,405	(21.7)
PBT margin (%)	0.9	6.4	(545bps)	6.0	(509bps)	5.2	6.7	(147bps)
Taxes	15	121	(88.0)	70	(79.2)	156	486	(67.8)
Effective tax rate (%)	32.0	37.1	(513bps)	21.0	1,105bps	21.0	32.0	(1,105bps)
Reported PAT	31	205	(84.9)	264	(88.3)	944	919	2.7
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
Adjusted PAT	31	205	(84.9)	264	(88.3)	944	919	2.7
Adjusted PAT margin (%)	0.6	4.0	(338bps)	4.7	(412bps)	4.5	4.4	-
Adjusted EPS (Rs)	0.3	2.3	(84.9)	2.9	(88)	10.4	10.2	2.7

Source: Company, BOBCAPS Research

FIG 2 – QUARTERLY PERFORMANCE (AS REPORTED)

Y/E Mar (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Revenue	4,978	5,129	(2.9)	5,573	(10.7)	21,185	21,095	0.4
Freight, handling and servicing cost	3,388	3,557	(4.7)	3,739	(9.4)	14,103	14,743	(4.3)
% of sales	68.1	69.3	(128bps)	67.1	97bps	66.6	69.9	(332bps)
Employee expenses	957	906	5.7	973	(1.6)	3,805	3,667	3.8
% of sales	19.2	17.7	157bps	17.5	177bps	18.0	17.4	58bps
Other expenses	67	67	(0.1)	64	3.7	294	245	19.9
% of sales	1.3	1.3	4bps	1.2	19bps	1.4	1.2	23bps
Total expenditure	4,412	4,529	(2.6)	4,776	(7.6)	18,203	18,655	(2.4)
EBITDA	566	600	(5.6)	797	(28.9)	2,983	2,440	22.2
EBITDA margin (%)	11.4	11.7	(32bps)	14.3	(292bps)	14.1	11.6	251bps
Depreciation	453	255	77.4	408	11.0	1,675	1,006	66.6
EBIT	113	345	(67.1)	389	(70.8)	1,307	1,434	(8.8)
Other income	24	19	31.1	24	2.1	103	79	30.2
Interest expenses	105	37	183.0	86	21.6	367	109	238.1
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
PBT	33	326	(90.0)	326	(90.0)	1,043	1,405	(25.7)
PBT margin (%)	0.7	6.4	(570bps)	5.9	(519bps)	4.9	6.7	(174bps)
Taxes	11	121	(90.6)	68	(83.3)	142	486	(70.8)
Effective tax rate (%)	34.7	37.1	(246bps)	20.9	1,378bps	13.6	34.6	(2,095bps)
Reported PAT	21	205	(89.6)	258	(91.7)	901	919	(2.0)
Extraordinary income/(expense)	-	-	-	-	-	-	-	-
Adjusted PAT	21	205	(89.6)	258	(91.7)	901	919	(2.0)
Adjusted PAT margin (%)	0.4	4.0	(357bps)	4.6	(420bps)	4.3	4.4	0bps
Adjusted EPS (Rs)	0.2	2.3	(89.6)	2.9	(91.7)	10.0	10.2	(2.0)

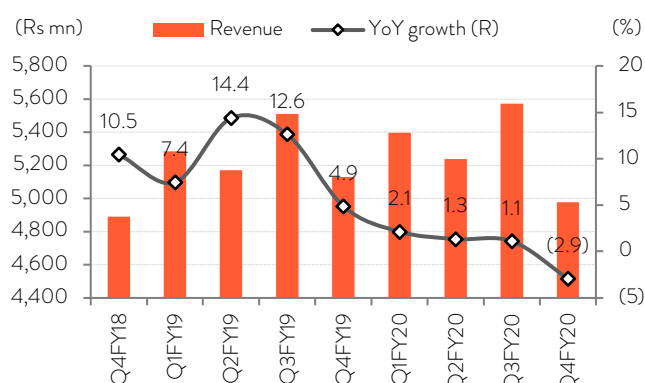
Source: Company, BOBCAPS Research

FIG 3 – SEGMENTAL PERFORMANCE (COMPARABLE, ADJ. FOR IND-AS 116 IMPACT)

Y/E Mar (Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Goods transport								
Revenue	4,165	4,164	0.0	4,525	(8.0)	17,239	16,853	2.3
EBITDA	256	553	(53.7)	422	(39.3)	1,534	2,052	(25.3)
EBITDA margin	6.2	13.3	(714bps)	9.3	(317bps)	8.9	12.2	(328bps)
EBIT	97	416	(76.6)	272	(64.3)	933	1,521	(38.6)
EBIT margin	2.3	10.0	(765bps)	6.0	(368bps)	5.4	9.0	(361bps)
Passenger transport								
Revenue	706	888	(20.5)	947	(25.4)	3,437	3,803	(9.6)
EBITDA	35	88	(59.9)	154	(77.0)	414	414	0.0
EBITDA margin	5.0	10.0	(494bps)	16.3	(1125bps)	12.0	10.9	116bps
EBIT	20	28	(30.8)	104	(81.2)	238	166	43.5
EBIT margin	2.8	3.2	(41bps)	11.0	(825bps)	6.9	4.4	256bps

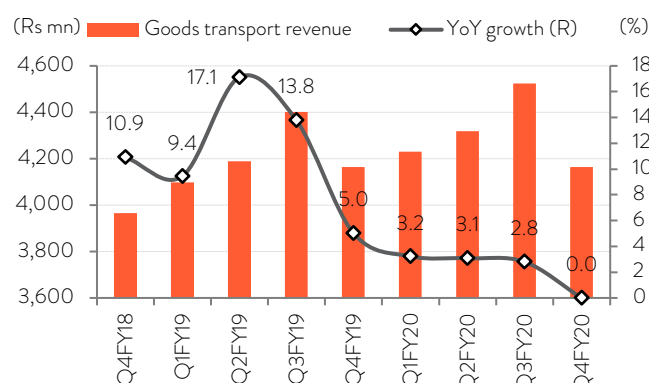
Source: Company, BOBCAPS Research

FIG 4 – REVENUE DECLINED 3% YOY IN Q4FY20



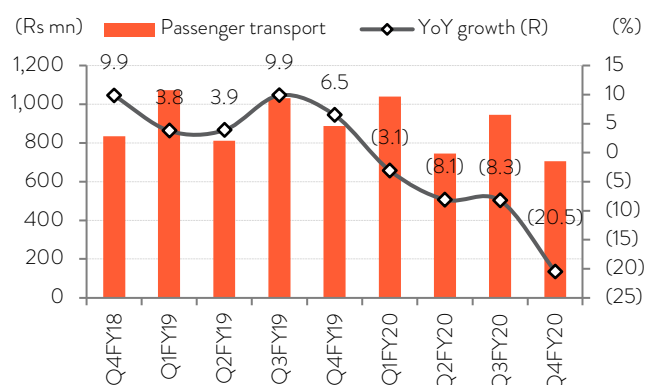
Source: Company, BOBCAPS Research

FIG 5 – GT SEGMENT REVENUE WAS FLAT YOY



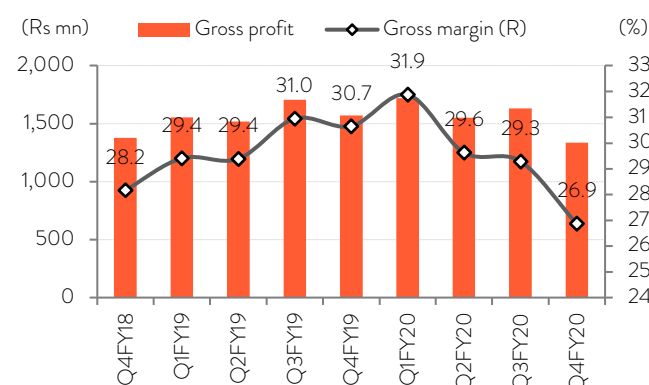
Source: Company, BOBCAPS Research

FIG 6 – PT REVENUE DECLINED 21% YOY



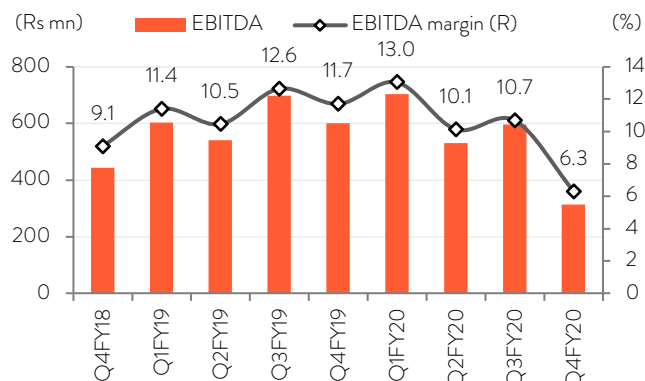
Source: Company, BOBCAPS Research

FIG 7 – GROSS MARGIN CONTRACTED 380BPS YOY



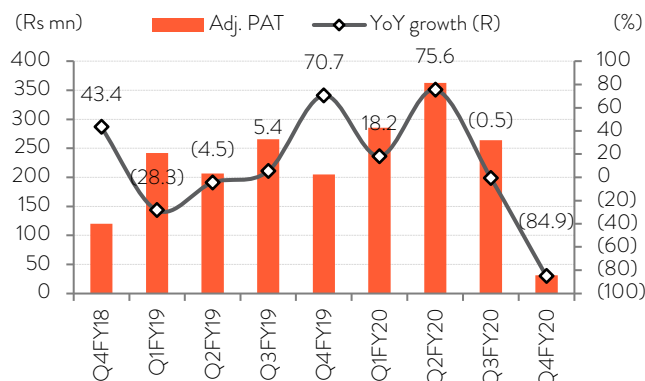
Source: Company, BOBCAPS Research

FIG 8 – EBITDA MARGIN (ADJ. FOR IND-AS 116) CONTRACTED 540BPS YOY TO 6.3%



Source: Company, BOBCAPS Research

FIG 9 – PAT (ADJ. FOR IND-AS 116) DECLINED BY 85% YOY



Source: Company, BOBCAPS Research

Earnings call highlights

- Management estimates potential revenue/EBITDA loss due to the national lockdown at Rs 500mn/Rs 300mn in Q4FY20.
- After a dismal April-May, GT vehicles have reached 50-60% of pre-Covid utilisation levels in June.
- The PT segment did not generate any revenue during April-May but has started operations in June under strict government restrictions, viz. 50% occupancy and limited movement in states.
- VRL’s total customer base has increased by 6-8% in Q4 as new clients (mostly first-time engagements) were added in states such as Gujarat, Karnataka and Rajasthan. Thanks to its asset-intensive model, the company could ensure truck availability which helped it gain share from other players. Though these are mostly to-pay and paid customers, the company aims to retain them through its superior service quality.
- VRL has taken a freight rate hike in sync with market trends. However, profitability benefits are likely to be offset by the increase in diesel prices and state tax hikes over the last few days.
- Textiles (~12% revenue contribution vs. 15-16% pre-Covid), auto spare parts and education items are some of the commodities that have been sluggish. Agricultural products, pesticides, construction material, pharma and consumer goods have witnessed an uptick.
- Availability of drivers and labourers has improved in recent weeks after facing some hurdles in the initial phase of lockdown. Drivers are on the company’s payroll, lowering the risk of non-availability.

- VRL's monthly fixed cost run-rate is Rs 500mn. Cost reduction measures include salary cuts across the board in Q1FY21 and steps to increase spare part utilisation.
- The company has requested a full rent waiver in Apr'20 and a majority (90%+) of its landlords have obliged.
- Gross debt currently totals Rs 2.1bn, up from Rs 1.8bn at end-FY20. Net debt is at Rs 2bn, up from Rs 1.2bn. The company has not opted for moratorium and continues to comfortably service debt and interest obligations.
- VRL does not intend to incur any capex or pay out any dividend in FY21.

Valuation methodology

We cut our FY21 revenue estimate by 6% to factor in the extended lockdown period since our [last report](#) on 17 April. Due to high operating leverage stemming from an asset-heavy model, the impact on EBITDA/earnings estimates is steeper at 23%/79%. Our earnings forecast is also reduced by higher depreciation and interest costs arising from recalculation of right-to-use assets and lease liability by the company under Ind-AS 116. Revenue/EBITDA/earnings reduction in FY22 is lower at 3%/3%/12% as we expect recovery from H2FY21 onwards. Accordingly, we lower our Mar'21 target price to Rs 205 (vs. Rs 230) set at an unchanged 20x FY22E EPS multiple.

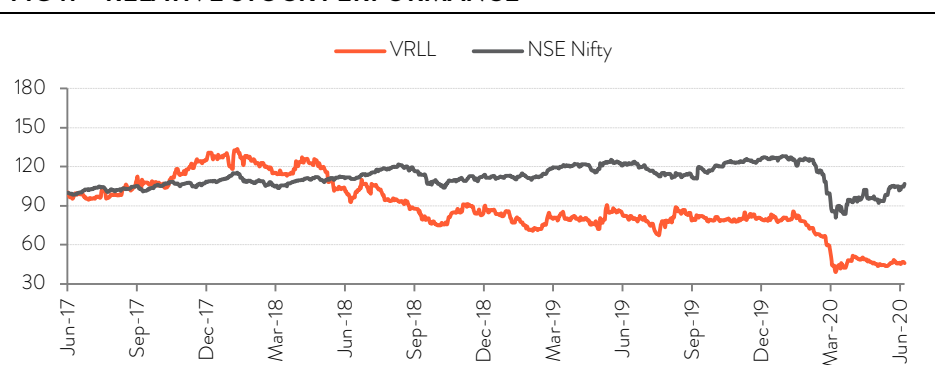
We expect VRL to withstand the industry turmoil due to inherent strengths in its business model – (1) strong balance sheet (0.6x net debt/EBITDA), (2) wide branch and hub network (917 locations, 47 hubs), (3) large, diversified client base spread across a range of industries, and (4) lean working capital.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

FIG 10 – REVISED ESTIMATES

(Rs mn)	FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)
Revenues	20,463	19,190	(6.2)	22,733	22,158	(2.5)
EBITDA	2,694	2,070	(23.2)	3,313	3,227	(2.6)
EBITDA margin (%)	13.2	10.8	(238bps)	14.6	14.6	(1bps)
Adj. PAT	598	127	(78.8)	1,048	919	(12.3)
Adj. PAT margin (%)	2.9	0.7	(226bps)	4.6	4.1	(46bps)
Adj. EPS (Rs)	6.6	1.4	(78.8)	11.6	10.2	(12.3)

Source: Company, BOBCAPS Research | Our forecasts incorporate IND-AS 116 impact

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- extended lockdown and/or other preventive measures against the pandemic spread,
- 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)	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue	19,223	21,095	21,185	19,190	22,158
EBITDA	2,342	2,440	2,983	2,070	3,227
Depreciation	976	1,006	1,675	1,634	1,751
EBIT	1,366	1,434	1,307	436	1,475
Net interest income/(expenses)	(114)	(109)	(367)	(378)	(375)
Other income/(expenses)	142	79	103	111	125
Exceptional items	0	0	0	0	0
EBT	1,394	1,405	1,043	169	1,225
Income taxes	(468)	(486)	(142)	(42)	(306)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	926	919	901	127	919
Adjustments	0	0	0	0	0
Adjusted net profit	926	919	901	127	919

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	68	61	35	31	36
Other current liabilities	654	705	805	631	850
Provisions	203	264	347	314	363
Debt funds	957	1,551	1,721	1,757	1,557
Other liabilities	0	0	2,651	2,351	2,051
Equity capital	903	903	903	903	903
Reserves & surplus	5,029	5,556	5,265	5,392	5,668
Shareholders' fund	5,932	6,459	6,169	6,295	6,571
Total liabilities and equities	7,815	9,041	11,728	11,380	11,428
Cash and cash eq.	194	131	134	201	220
Accounts receivables	807	795	823	1,314	911
Inventories	241	298	293	265	306
Other current assets	472	492	482	437	504
Investments	26	25	25	25	25
Net fixed assets	6,217	7,013	7,575	6,802	7,102
CWIP	76	416	44	0	0
Intangible assets	7	12	8	8	8
Deferred tax assets, net	(808)	(738)	(440)	(440)	(440)
Other assets	582	594	2,785	2,769	2,793
Total assets	7,815	9,041	11,728	11,380	11,428

Source: Company, BOBCAPS Research | Note: Other liabilities include lease liability; other assets include right-to-use assets. | Our forecasts are as per Ind-AS 116 accounting standards

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	1,902	1,925	2,576	1,760	2,670
Interest expenses	114	109	367	378	375
Non-cash adjustments	(88)	(70)	(297)	0	0
Changes in working capital	40	28	249	(628)	492
Other operating cash flows	0	0	0	0	0
Cash flow from operations	1,968	1,991	2,896	1,510	3,537
Capital expenditures	(346)	(2,147)	(1,216)	(300)	(1,500)
Change in investments	1	1	1	0	0
Other investing cash flows	0	0	(2,940)	(500)	(500)
Cash flow from investing	(346)	(2,147)	(4,155)	(800)	(2,000)
Equities issued/Others	(9)	0	0	0	0
Debt raised/repaid	(1,031)	594	170	36	(200)
Interest expenses	(114)	(109)	(115)	(128)	(125)
Dividends paid	0	(497)	(632)	0	(643)
Other financing cash flows	(397)	105	1,839	(550)	(550)
Cash flow from financing	(1,552)	94	1,262	(643)	(1,518)
Changes in cash and cash eq.	71	(62)	2	67	19
Closing cash and cash eq.	194	131	134	201	220

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	10.2	10.2	10.0	1.4	10.2
Adjusted EPS	10.2	10.2	10.0	1.4	10.2
Dividend per share	0.0	5.5	7.0	0.0	7.1
Book value per share	65.7	71.5	68.3	69.7	72.7

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	0.8	0.7	0.7	0.8	0.7
EV/EBITDA	6.9	6.3	5.1	7.5	4.8
Adjusted P/E	15.1	15.2	15.5	110.4	15.2
P/BV	2.4	2.2	2.3	2.2	2.1

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	66.4	65.4	86.4	75.0	75.0
Interest burden (PBT/EBIT)	102.0	98.0	79.8	38.7	83.1
EBIT margin (EBIT/Revenue)	7.1	6.8	6.2	2.3	6.7
Asset turnover (Revenue/Avg TA)	238.3	252.7	210.8	172.7	202.7
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.6	1.9	1.8
Adjusted ROAE	16.3	14.8	14.3	2.0	14.3

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	6.6	9.7	0.4	(9.4)	15.5
EBITDA	7.4	4.2	22.2	(30.6)	55.9
Adjusted EPS	32.7	(0.7)	(2.0)	(86.0)	626.1
Profitability & Return ratios (%)					
EBITDA margin	12.2	11.6	14.1	10.8	14.6
EBIT margin	7.1	6.8	6.2	2.3	6.7
Adjusted profit margin	4.8	4.4	4.3	0.7	4.1
Adjusted ROAE	16.3	14.8	14.3	2.0	14.3
ROCE	17.1	17.4	13.3	4.0	13.7
Working capital days (days)					
Receivables	15	14	14	25	15
Inventory	5	5	5	5	5
Payables	1	1	1	1	1
Ratios (x)					
Gross asset turnover	2.1	2.1	1.7	1.5	1.6
Current ratio	2.0	2.0	1.8	2.8	1.9
Net interest coverage ratio	11.9	13.2	3.6	1.2	3.9
Adjusted debt/equity	0.1	0.2	0.3	0.2	0.2

Source: Company, BOBCAPS Research

Disclaimer

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)

HISTORICAL RATINGS AND TARGET PRICE: VRL LOGISTICS (VRL IN)



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

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