

VRL Logistics

Estimate change

TP change

Rating change



Bloomberg	VRLL IN
Equity Shares (m)	88
M.Cap.(INRb)/(USDb)	60.3 / 0.7
52-Week Range (INR)	773 / 483
1, 6, 12 Rel. Per (%)	-3/25/1
12M Avg Val (INR M)	132

Financial Snapshot (INR b)

Y/E MARCH	2023	2024E	2025E
Sales	26.5	30.9	36.7
EBITDA	4.0	4.9	6.1
Adj. PAT	1.7	1.9	2.9
EBITDA Margin (%)	15.2	16.0	16.5
Adj. EPS (INR)	18.8	22.1	33.0
EPS Gr. (%)	6.4	17.3	49.7
BV/Sh. (INR)	110.5	126.6	149.7

Ratios

Net D:E	0.2	0.2	0.1
RoE (%)	39.7	18.6	23.9
RoCE (%)	35.2	18.3	22.6
Payout (%)	13.5	26.9	30.0

Valuations

P/E (x)	36.5	31.1	20.8
P/BV (x)	6.2	5.4	4.6
EV/EBITDA(x)	15.4	12.5	10.2
Div. Yield (%)	0.7	0.9	1.5
FCF Yield (%)	-1.6	0.5	1.9

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	64.2	64.2	69.6
DII	25.1	24.2	13.6
FII	2.2	2.4	5.4
Others	8.5	9.3	11.5

FII Includes depository receipts

CMP: INR690

TP: INR825 (+20%)

Buy

Weak volumes and high employee costs hit earnings

Branch additions to play a key role in volume growth

- VRL Logistics (VRL)'s 1QFY24 revenue grew 10% YoY to ~INR6.7b vs. our estimate of INR7.1b (-3% QoQ), primarily led by volumes. Volumes rose 10.7% YoY to 1.0m tons in 1QFY24 from 0.9m tons in 1QFY23.
- EBITDA margin was at 15.1% in 1QFY24 (vs. our est. of 16.4%), hurt by lower volumes, and higher employee costs & other expenses. EBITDA stood at INR1.0b (+12% YoY) against our estimate of INR1.2b. Weak operating performance with higher depreciation and interest expenses led to a 7% YoY decline in APAT to INR340m for the quarter.
- During the quarter, volumes were hurt by delays in monsoon in certain regions that impacted Agri commodity-related volumes adversely. The depreciation and interest costs rose as VRL entered into some long-term lease agreements for trans-shipment hubs, which led to creation of Right to Use assets. The net debt rose temporarily as VRL executed share buy backs in 1QFY24 and also had capex requirements.
- During 4QFY23, the Board had given an in-principle approval for the sale/transfer of the 'Transportation of Passengers by Air' business by way of a slump sale (including to related party), subject to receipt of all applicable clearances from authorities. On 28th Jul'23, the company executed the business transfer arrangement for the same (effective transfer date – 31st Jul'23). VRL will receive the entire amount (INR170m) during 2QFY24.
- While 1QFY24 was muted, volumes are likely to improve in the coming quarters. VRL expects 15% volume growth in FY24 with margin in the 16-17% range. The focus on branch additions remains intact and VRL is looking to add 100 branches in FY24E. As the share of organized players is likely to grow in the coming years, the outlook appears promising for established Pan-India players like VRL. We cut our FY24E/25E EPS by ~13%/2% to factor in near-term softness in demand. Reiterate BUY with a revised TP of INR825 (based on 25x FY25E EPS).**

Highlights from the management commentary

- The increase in tonnage (+11% YoY) is primarily due to the expansion of the branch network. The strategy to expand the branch network will continue with the additions of 20-25 new branches per quarter.
- The average fuel cost fell to INR87.3/lit in 1QFY24 from INR93/lit in 1QFY23. About 32% of the total fuel procurement was done directly from refineries.
- VRL has introduced a barcode/QR mechanism for handling consignments. Although there were some initial interruptions, the operations are now back on track. The implementation of QR codes has significantly improved the turnaround time for vehicles, reducing it to 2-3 hours from 4-5 hours.
- The rise in employee costs is due to increase in employee strength, branch count, and internal promotions for key employees. Higher finance cost is led by higher lease liability resulting from IND AS accounting and a rise in debt.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Valuation and view

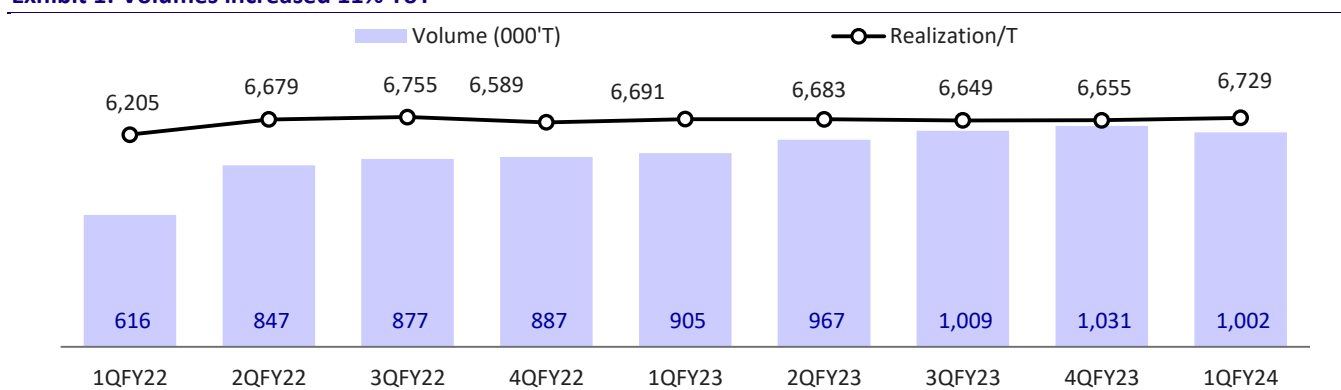
- We expect VRL to clock 16% volume CAGR over FY23-25, with faster addition of branches in untapped regions. The implementations of GST, e-way bills and reduction of e-invoicing turnover limit have facilitated the transition of businesses to the organized sector and VRL is a key beneficiary to this.
- Factoring in lower volume growth in 1QFY24 and flattish realization growth during FY24, we cut our FY24E/FY25E EPS by ~13%/2%. We expect VRL to clock revenue/EBITDA/PAT CAGR of 18%/23%/32% over FY23-25. **Reiterate BUY with a revised TP of INR825 (based on 25x FY25E EPS).**

Quarterly performance

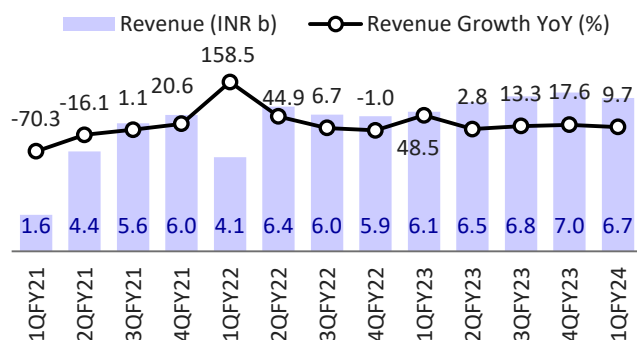
Y/E March (INR m)	FY23				FY24E				INR m			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY23	FY24E	FY24 1QE	Var. vs. Est
Net Sales	6,143	6,545	6,815	6,982	6,742	7,655	8,233	8,225	26,485	30,855	7,103	(5)
YoY Change (%)	48.5	2.8	13.3	17.6	9.7	17.0	20.8	17.8	17.9	16.5	15.6	
EBITDA	913	930	1,033	1,141	1,019	1,217	1,342	1,362	4,017	4,940	1,165	(13)
Margins (%)	14.9	14.2	15.2	16.3	15.1	15.9	16.3	16.6	15.2	16.0	16.4	
YoY Change (%)	153.0	-17.9	-12.1	-0.7	11.7	30.8	29.9	19.4	5.2	23.0	27.6	
Depreciation	334	384	421	453	489	490	495	508	1,591	1,982	452	
Interest	120	139	151	133	163	140	130	135	543	568	134	
Other Income	30	22	45	47	89	42	40	44	143	215	50	
PBT before EO expense	488	429	506	602	456	629	757	763	2,025	2,605	629	
Extra-Ord expense	-134	0	-114	-1,322	0	0	0	0	-1,571	0	0	
PBT	622	429	620	1,924	456	629	757	763	3,596	2,605	629	
Tax	121	122	128	-7	117	159	191	192	364	656	158	
Rate (%)	19.5	28.4	20.7	-0.4	25.6	25.2	25.2	25.2	10.1	25.2	25.2	
Reported PAT	501	307	492	1,932	339	471	566	571	3,232	1,948	470	(28)
Adj PAT	367	307	378	610	339	471	566	571	1,661	1,948	470	(28)
YoY Change (%)	NA	-38	-33.1	16.6	-7.5	53	49.9	-6.4	9.2	17.3	28.1	
Margins (%)	6.0	4.7	5.5	8.7	5.0	6.1	6.9	6.9	6.3	6.3	6.6	

Story in charts – 1QFY24

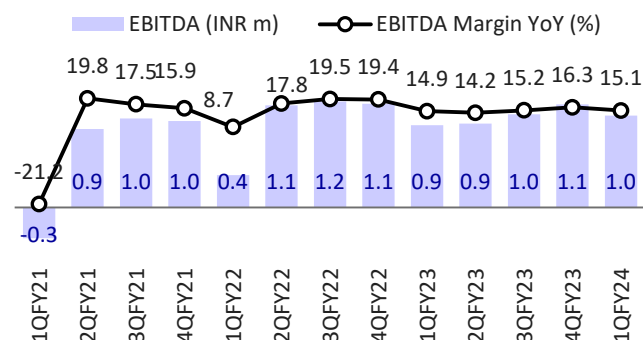
Exhibit 1: Volumes increased 11% YoY



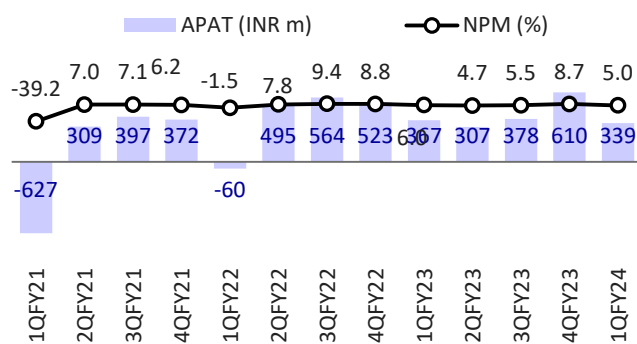
Source: Company, MOFSL

Exhibit 2: Revenue up ~10% YoY driven by volume growth

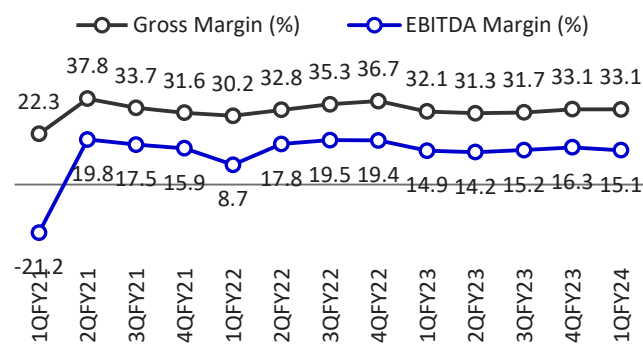
Source: Company, MOFSL

Exhibit 3: EBITDA margin at 15% due to higher depreciation and employee expenses

Source: Company, MOFSL

Exhibit 4: PAT and margin trends

Source: Company, MOFSL

Exhibit 5: Margins contracted in 1QFY24 on QoQ basis

Source: Company, MOFSL



Highlights from the management commentary

Operational highlights

- After sale of non-core businesses, VRL is now a pure play GT operator.
- VRL handled ~1m tonnes in 1QFY24 (+11% YoY, -3% QoQ). Tonnage growth was primarily due to growth in branch network and shift of volumes to organized players with implementation of GST, reduction of turnover limit of e-invoicing, etc.
- Realization stood at INR6,729 per tonne (+1% YoY and QoQ each) in 1QFY24. New branches are offering competitive rates on the connected routes.
- Net debt has increased to INR1.94b in 1QFY24 from INR1.68b in Mar'23, primarily due to the buy-back transaction undertaken. Borrowing cost is expected to increase to 8.0% in FY24.

GT segment

- In 1QFY24, the number of GT vehicles decreased to 5,628 as of Jun'23 from 5,671 as of Mar'23. During the same period, a total of 254 new GT vehicles were added. Additionally, 297 vehicles were sold or scrapped.
- The decline in fuel costs positively impacted EBITDA. The average fuel procurement cost decreased to INR87.5/lit in 1QFY24 from INR93/lit in 1QFY23. During the current quarter, ~32% of the fuel was procured directly from refineries (~28% in 4QFY23).

- VRL added 21 new branches during the quarter which significantly expanded its presence in untapped markets. The company's focus on achieving volume growth will persist through the expansion of its branch network.
- As a result of the increase in capex and the adoption of Ind AS 116 accounting standard, a portion of rent has been reclassified as depreciation leading to higher depreciation expense during the quarter.
- Increase in number of employees due to addition of new branches and internal promotions on selective basis led to increase in employee costs during the quarter.
- VRL has introduced a barcode/QR mechanism for handling consignments. Although there were some initial interruptions, the operations are now back on track. The implementation of QR codes has significantly improved the turnaround time for vehicles, reducing it to 2-3 hours from 4-5 hours.
- Due to the reduction in the threshold limit for e-invoice and increase in compliance requirements under GST, there is an ongoing trend of customers transitioning to organized players like VRL from the unorganized sector.

Scrappage of vehicles and capex

- VRL is taking a proactive approach to prepare for the Scrapping policy by implementing an aggressive capex plan. As of Jun'23, the company possessed 981 vehicles older than 15 years, with a combined capacity of 9,990 tons.
- The company invested INR870m in capex during the quarter and expects to incur capex to the tune of INR850-900m per quarter in FY24.

Guidance

- Even though the internal changes and the introduction of barcoding/QR coding systems affected the volumes in 1QFY24, management remains optimistic about achieving volume growth of 15%+ in FY24/FY25.
- EBITDA margin to be maintained at 16-17%.
- Management plans to open 20-25 branches per quarter.
- The company is planning to expand its operations by adding two more owned fuel pumps in Delhi and Ambala, which will complement the existing six pumps. This strategic move is expected to help the company in better controlling fuel costs and ultimately leading to an improvement in EBITDA margin.
- Since VRL is expanding in new geographies, it will focus on increasing its market share and customer addition. Management indicated that price hike will only be taken in case EBITDA margin falls below 16%, otherwise the company will focus on expansion and market share gains.

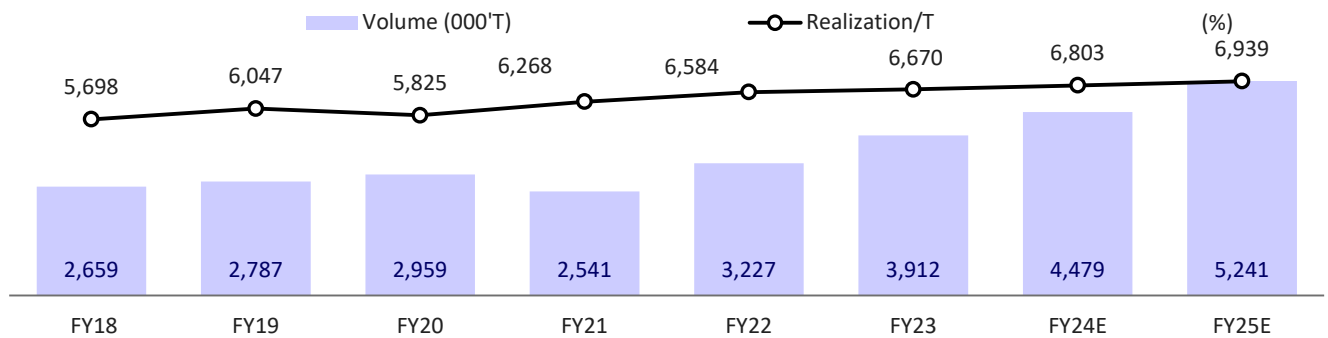
Exhibit 6: Our revised forecasts

(INR m)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	30,855	31,517	-2.1	36,718	37,506	-2.1
EBITDA	4,940	5,144	-4.0	6,061	6,304	-3.8
EBITDA Margin (%)	16.0	16.3	-31.1	16.5	16.8	-30
PAT	1,948	2,234	-12.8	2,916	2,972	-1.9
EPS (INR)	22.1	25.3	-12.8	33.0	33.6	-1.9

Source: Company, MOFSL

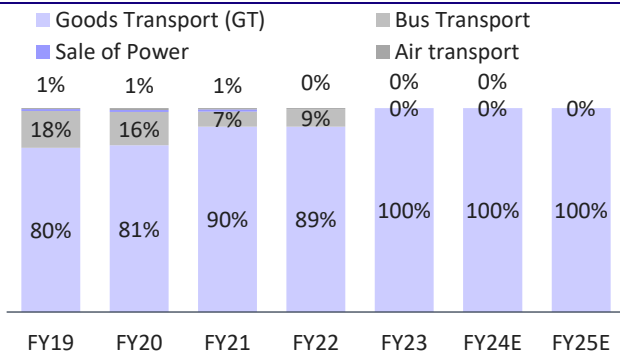
Financial story in charts

Exhibit 7: Expect volumes to clock 16% CAGR over FY24-25



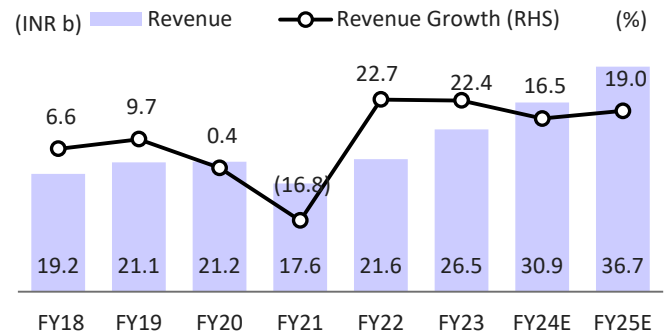
Source: Company, MOFSL

Exhibit 8: VRL is a pure play goods transportation company



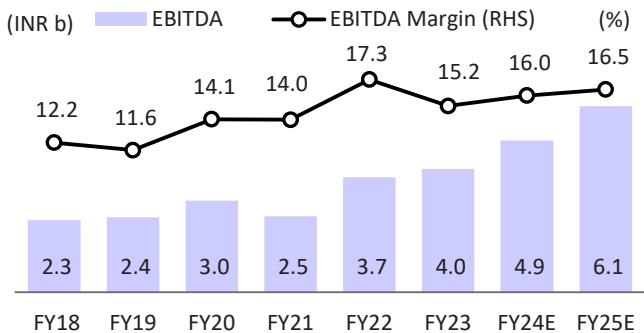
Source: Company, MOFSL

Exhibit 9: Shift to organized operators to drive revenue



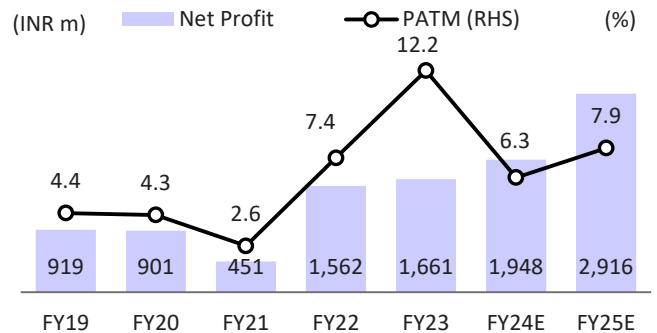
Source: Company, MOFSL

Exhibit 10: Margin to improve with higher volumes



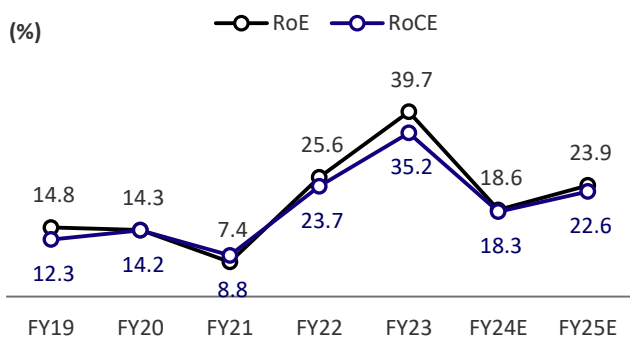
Source: Company, MOFSL

Exhibit 11: Strong operating performance to drive PAT



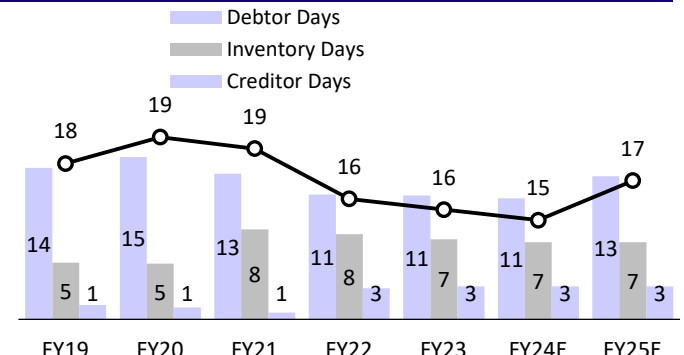
Source: Company, MOFSL

Exhibit 12: Return ratios



Source: Company, MOFSL

Exhibit 13: Comfortable working capital position



Source: Company, MOFSL

Financials and valuations

Income Statement

Y/E March (INR m)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net Sales	21,095	21,185	17,629	21,636	26,485	30,855	36,718
Change (%)	9.7	0.4	-16.8	22.7	22.4	16.5	19.0
Gross Margin (%)	30.1	33.4	33.0	34.5	32.1	32.0	32.0
EBITDA	2,440	2,983	2,475	3,745	4,017	4,940	6,061
Margin (%)	11.6	14.1	14.0	17.3	15.2	16.0	16.5
Depreciation	1,006	1,675	1,598	1,445	1,591	1,982	1,925
EBIT	1,434	1,307	877	2,300	2,425	2,958	4,136
Int. and Finance Charges	109	367	368	422	543	568	495
Other Income	79	103	129	168	143	215	258
PBT	1,405	1,043	637	2,047	2,025	2,605	3,899
Tax	486	142	187	485	364	656	983
Effective Tax Rate (%)	34.6	13.6	29.3	23.7	18.0	25.2	25.2
Extraordinary Items	486	142	187	-40	-1,571	0	0
Reported PAT	919	901	451	1,601	3,232	1,948	2,916
Adj. PAT	919	901	451	1,562	1,661	1,948	2,916
Change (%)	-0.7	-2.0	-50.0	246.6	6.4	17.3	49.7
Margin (%)	4.4	4.3	2.6	7.2	6.3	6.3	7.9

Balance Sheet

Y/E March (INR m)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	903	903	883	883	883	883	883
Total Reserves	5,556	5,265	5,088	5,633	8,875	10,299	12,340
Net Worth	6,459	6,169	5,971	6,516	9,758	11,182	13,224
Deferred Tax Liabilities	738	440	440	386	461	461	461
Total Loans	1,407	1,893	1,196	1,593	2,071	2,071	1,721
Capital Employed	8,604	8,502	7,607	8,496	12,291	13,715	15,406
Gross Block	10,835	15,105	15,850	18,422	21,600	25,600	29,400
Less: Accum. Deprn.	3,785	5,202	6,307	7,442	6,778	8,760	10,685
Net Fixed Assets	7,051	9,903	9,544	10,980	14,822	16,840	18,715
Capital WIP	416	44	61	350	384	384	384
Total Investments	1	1	1	4	0	0	0
Curr. Assets, Loans, and Adv.	2,311	2,304	2,381	2,482	3,711	4,315	5,358
Inventory	298	293	395	459	528	592	704
Account Receivables	795	856	639	673	817	930	1,308
Cash and Bank Balances	131	134	185	140	116	147	198
Cash	126	129	183	82	112	143	194
Bank Balance	5	5	1	5	5	5	5
Others	1,086	1,021	1,162	1,211	2,251	2,646	3,148
Current Liab. and Prov.	1,174	3,750	4,379	5,307	6,626	7,824	9,051
Account Payables	61	35	136	203	143	254	302
Other Current Liabilities	849	3,368	3,911	4,671	6,051	7,065	8,148
Provisions	264	347	332	433	433	505	600
Net Current Assets	1,136	-1,445	-1,998	-2,825	-2,915	-3,509	-3,692
Application of Funds	8,604	8,502	7,607	8,508	12,291	13,715	15,406

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)							
EPS	10.2	10.0	5.1	17.7	18.8	22.1	33.0
EPS growth (%)	-0.7	-2.0	-48.9	246.6	6.4	17.3	49.7
Cash EPS	21.3	28.5	23.2	34.0	36.8	44.5	54.8
BV/Share	71.5	68.3	67.6	73.8	110.5	126.6	149.7
DPS	5.5	7.0	4.0	8.0	5.0	6.0	10.0
Payout (Incl. Div. Tax, %)	65.2	84.6	78.4	43.7	13.5	26.9	30.0
Valuation (x)							
P/E	67.4	68.8	134.5	38.8	36.5	31.1	20.8
Cash P/E	32.2	24.1	29.6	20.2	18.6	15.4	12.5
EV/EBITDA	25.1	20.7	24.7	16.4	15.4	12.5	10.2
EV/Sales	2.9	2.9	3.5	2.8	2.3	2.0	1.7
P/BV	9.6	10.0	10.1	9.3	6.2	5.4	4.6
Dividend Yield (%)	0.8	1.0	0.6	1.2	0.7	0.9	1.5
Return Ratios (%)							
RoE	14.8	14.3	7.4	25.6	39.7	18.6	23.9
RoCE	12.3	14.2	8.8	23.9	35.2	18.3	22.6
RoIC	12.2	13.8	7.9	22.8	20.0	17.7	22.1
Working Capital Ratios							
Fixed Asset Turnover (x)	2.1	1.6	1.1	1.3	1.3	1.3	1.3
Asset Turnover (x)	2.5	2.5	2.3	2.5	2.2	2.2	2.4
Inventory (Days)	5	5	8	8	7	7	7
Debtors (Days)	14	15	13	13	11	11	13
Creditors (Days)	1	1	3	3	3	3	3
Leverage Ratio (x)							
Net Debt/Equity	0.2	0.3	0.2	0.2	0.2	0.2	0.1

Cash Flow Statement

Y/E March (INR m)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	1,405	1,043	637	2,099	4,234	2,605	3,899
Depreciation	1,006	1,675	1,598	1,680	1,724	1,982	1,925
Direct Taxes Paid	-523	-431	-148	-581	-856	-656	-983
(Inc.)/Dec. in WC	-64	-94	294	-157	581	12	-119
Other Items	98	380	330	667	-2,499	353	237
CF from Operations	1,922	2,573	2,711	3,708	3,183	4,295	4,960
(Inc.)/Dec. in FA	-2,109	-1,200	-330	-1,933	-4,124	-4,000	-3,800
Free Cash Flow	-187	1,373	2,381	1,775	-941	295	1,160
Change in Investments	3	14	15	4	4	0	0
Others	15	0	1	128	2,675	39	49
CF from Investments	-2,091	-1,185	-313	-1,801	-1,445	-3,961	-3,751
Inc./Dec. in net worth	0	0	-632	0	-629	0	0
Inc./(Dec.) in Debt	596	485	-697	-1,661	-1,019	0	-350
Dividends Paid	-381	-980	0	-1,060	0	-525	-875
Others	-104	-889	-1,014	714	-61	222	66
CF from Fin. Activity	110	-1,384	-2,344	-2,008	-1,709	-303	-1,159
Inc./(Dec.) in Cash	-59	3	54	-101	30	31	51
Opening Balance	185	126	129	183	82	112	143
Closing Balance	126	129	183	82	112	143	194

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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