

# VRL Logistics

Estimate change

TP change

Rating change



Bloomberg	VRL IN
Equity Shares (m)	88
M.Cap.(INRb)/(USDb)	59.1 / 0.7
52-Week Range (INR)	773 / 483
1, 6, 12 Rel. Per (%)	1/-1/5
12M Avg Val (INR M)	134

## Financial Snapshot (INR b)

Y/E MARCH	2023	2024E	2025E
Sales	26.5	29.8	35.5
EBITDA	4.0	4.3	5.9
Adj. PAT	1.7	1.4	2.6
EBITDA Margin (%)	15.2	14.4	16.5
Adj. EPS (INR)	18.8	15.3	30.0
EPS Gr. (%)	6.4	-18.4	95.3
BV/Sh. (INR)	110.5	119.9	140.0

## Ratios

Net D:E	0.2	0.2	0.0
RoE (%)	39.7	13.3	23.1
RoCE (%)	35.2	14.4	21.1
Payout (%)	13.5	38.7	33.0

## Valuations

P/E (x)	36.2	44.3	22.7
P/BV (x)	6.2	5.7	4.9
EV/EBITDA(x)	15.3	14.4	10.2
Div. Yield (%)	0.7	0.9	1.5
FCF Yield (%)	-1.6	0.6	4.0

## Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	60.2	64.2	69.6
DII	29.0	25.1	14.4
FII	2.2	2.2	5.8
Others	8.6	8.5	10.2

FII Includes depository receipts

CMP: INR676

TP: INR780 (+15%)

Buy

**Delay in festive demand drags down performance; 2H likely to be better**

## Network expansion to play a key role in volume growth

- VRL Logistics (VRL)'s 2QFY24 revenue grew 8% YoY/5% QoQ to ~INR7.1b (est. INR7.4b). Volumes increased by 8% YoY to 1.04m tons in 2QFY24; however, they were affected by the delay in the festive season by a month. Festive season-linked demand will drive strong volumes in 3QFY24. Realization stood at INR6,681 per ton (flat YoY/QoQ).
- EBITDA margins stood at 12.9% (est. 15.3%), affected by lower volumes, an increase in bulk fuel prices, and higher freight, handling and servicing costs. EBITDA stood at INR918m (est. INR1.13b).
- APAT declined 37% YoY to INR194m (est. INR394m) due to high operating costs, higher depreciation and interest expenses. Debt increased to INR2.9b as of Sep'23 from INR1.8b as of Mar'23 due to higher capex in 1HFY24.
- VRL did not raise freight rates in 2Q as retail diesel prices remained stable. The company is looking to increase prices by 5-10% for contractual customers in 3Q, which should support margins. We cut our FY24E/FY25E EPS by ~25%/9% to factor in lower-than-expected volume growth and margins. We expect VRL to clock a CAGR of 15%/16%/21%/26% in volume/revenue/EBITDA/PAT over FY23-25. We retain our BUY rating with a revised TP of INR780 (based on 26x FY25E EPS).**

## Highlights from the management commentary

- VRL is looking to increase freight rates by 5-10% in 3Q for contractual customers, which account for ~20% of the tonnage.
- FY24 capex is pegged at INR3.5b for the purchase of trucks.
- Due to the delay in the onset of the festive season by a month, logistics demand for cloth and textile consignments was low in 2QFY24, which will drive healthy volumes in 3QFY24. In Oct'23, VRL saw 16% tonnage growth.
- Tonnage growth is projected to be around 13% in FY24 (16% in 2HFY24). For FY25, tonnage growth is expected to be ~15%.

## Valuation and view

- We expect VRL to clock a 15% volume CAGR over FY23-25, with network expansion particularly in untapped markets like the eastern, northern and western regions. Further, the ongoing transition of customers from the unorganized sector amid heightened compliance requirements imposed by GST is likely to benefit organized Pan-India players like VRL.
- Volumes in 2Q were affected by a delayed festive season and uneven rainfall patterns across India. However, volumes are expected to pick up in 2HFY24. Factoring in lower volume growth and flat realization growth in 1HFY24, we cut our FY24E/FY25E EPS by ~25%/9%. We maintain BUY with a revised TP of INR780 (based on 26x FY25E EPS). We believe growth will be driven by continued branch network expansion going forward.

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

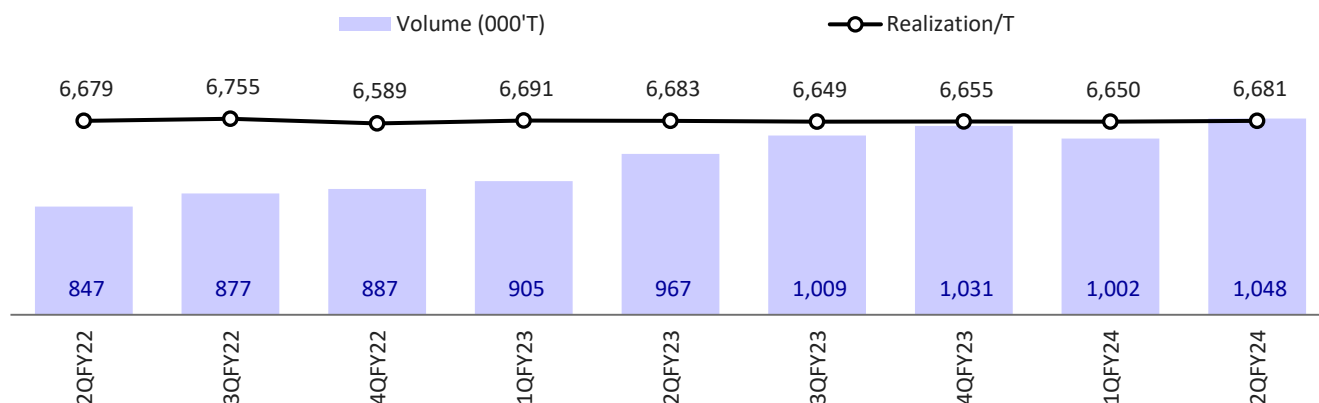
MotilalOswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

## Quarterly performance

Y/E March (INR m)	FY23				FY24E				FY23		FY24E		
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE					Var. vs Est
<b>Net Sales</b>	<b>6,143</b>	<b>6,545</b>	<b>6,815</b>	<b>6,982</b>	<b>6,742</b>	<b>7,093</b>	<b>7,869</b>	<b>8,091</b>	<b>26,485</b>	<b>29,796</b>	<b>7,383</b>	<b>(4)</b>	
YoY Change (%)	48.5	2.8	13.3	17.6	9.7	8.4	15.5	15.9	17.9	12.5	12.8		
<b>EBITDA</b>	<b>913</b>	<b>930</b>	<b>1,033</b>	<b>1,141</b>	<b>1,019</b>	<b>918</b>	<b>1,102</b>	<b>1,247</b>	<b>4,017</b>	<b>4,286</b>	<b>1,130</b>	<b>(19)</b>	
Margins (%)	14.9	14.2	15.2	16.3	15.1	12.9	14.0	15.4	15.2	14.4	15.3		
YoY Change (%)	153.0	-17.9	-12.1	-0.7	11.7	-1.3	6.7	9.3	5.2	6.7	21.4		
Depreciation	334	384	421	453	489	522	525	518	1,591	2,055	490		
Interest	120	139	151	133	163	185	180	179	543	706	155		
Other Income	30	22	45	47	89	60	70	68	143	287	42		
<b>PBT before EO expense</b>	<b>488</b>	<b>429</b>	<b>506</b>	<b>602</b>	<b>456</b>	<b>271</b>	<b>467</b>	<b>618</b>	<b>2,025</b>	<b>1,812</b>	<b>527</b>		
Extra-Ord expense	-134	0	-114	-1,322	0	-5	0	0	-1,571	-5	0		
<b>PBT</b>	<b>622</b>	<b>429</b>	<b>620</b>	<b>1,924</b>	<b>456</b>	<b>276</b>	<b>467</b>	<b>618</b>	<b>3,596</b>	<b>1,816</b>	<b>527</b>		
Tax	123	122	128	-7	117	77	118	156	364	457	133		
Rate (%)	19.8	28.4	20.7	-0.4	25.6	27.8	25.2	25.2	10.1	25.1	25.2		
<b>Reported PAT</b>	<b>499</b>	<b>307</b>	<b>492</b>	<b>1,932</b>	<b>339</b>	<b>199</b>	<b>349</b>	<b>462</b>	<b>3,232</b>	<b>1,360</b>	<b>394</b>		
<b>Adj PAT</b>	<b>365</b>	<b>307</b>	<b>378</b>	<b>610</b>	<b>339</b>	<b>194</b>	<b>349</b>	<b>462</b>	<b>1,661</b>	<b>1,355</b>	<b>394</b>	<b>(51)</b>	
YoY Change (%)	NA	-37.9	-33.1	16.6	-6.9	-36.7	-7.5	-24.2	9.2	-18.4	28.3		
Margins (%)	5.9	4.7	5.5	8.7	5.0	2.7	4.4	5.7	6.3	4.5	5.3		

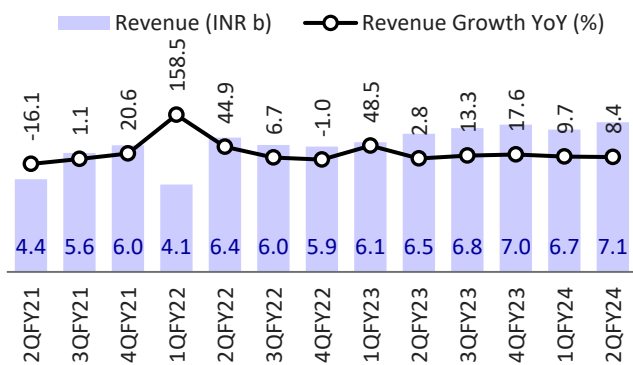
## Story in charts – 2QFY24

Exhibit 1: Volumes increased 8% YoY



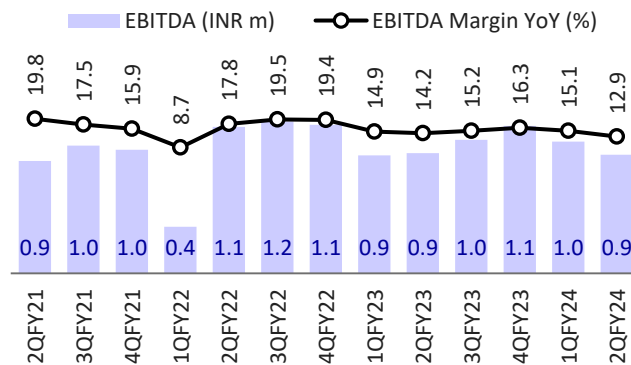
Source: Company, MOFSL

Exhibit 2: Revenue up ~8% YoY driven by volume growth



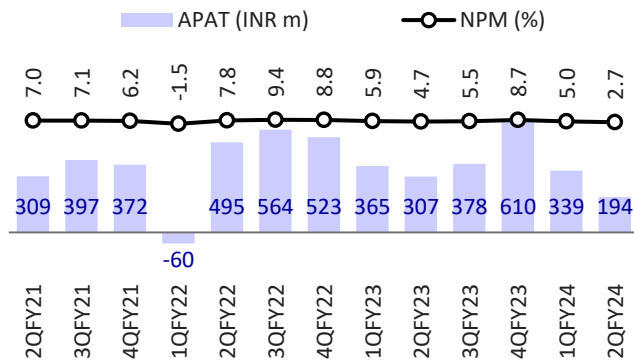
Source: Company, MOFSL

Exhibit 3: EBITDA margin at ~13% due to higher operating expenses



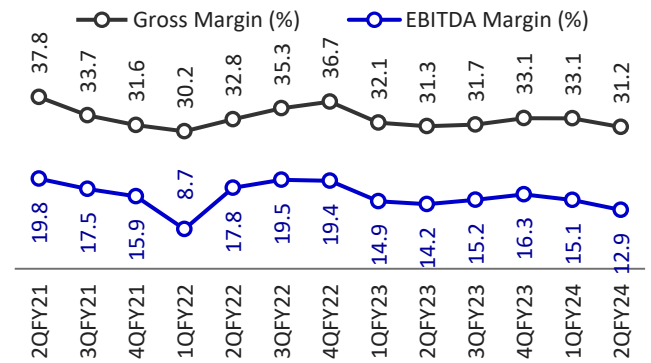
Source: Company, MOFSL

Exhibit 4: PAT and margin trends



Source: Company, MOFSL

Exhibit 5: Margins contracted in 2QFY24 on QoQ basis



Source: Company, MOFSL



## Highlights from the management commentary

### Operational highlights

- VRL handled ~1.04m tons in 2QFY24 (+8% YoY, +5% QoQ). Tonnage growth was primarily due to growth in branch network, higher share of volume from existing customers, and a shift of volumes to organized players with the implementation of GST, reduction in turnover limit of e-invoicing, etc.
- Tonnage growth in 2QFY24 would have been around 12% if the festive season had not been delayed by a month.
- Realization stood at INR6,681 per ton (flat YoY and QoQ each) in 2QFY24. The contribution of new branches to tonnage growth stood at 4.45% in 2Q.
- The delay in the onset of the festive season by a month in 2Q resulted in lower logistics demand for cloth and textile consignments. The same is expected to benefit in 3QFY24. In Oct'23, VRLL witnessed 16% tonnage growth.
- It takes around 2-3 months for a new branch to reach 100 tons per month.
- Net debt increased to INR2.8b as of Sep'23 from INR1.7b in Mar'23, primarily due to a capex of INR2b and dividend payment in 1HFY2424.
- In 2QFY24, the board approved the sale/transfer of its Aviation Business to a promoter group company for a consideration of INR170m. All applicable clearances and approvals have been received from the concerned regulatory authorities. The transaction-related profit before tax of INR4.8m (net of expenses) has been accounted as an Exceptional item.
- The increase in debt, rental expenses and amortization led to higher interest expenses during the quarter.
- Rent expenses have gone up due to the increase in the number of branches.
- Lorry hire charges have decreased on YoY and QoQ basis due to low dependency on hired vehicles during the current quarter.

### GT segment

- In 2QFY24, the number of GT vehicles increased to 5,782 as of Sep'23 from 5,628 as of Jun'23.
- VRLL opened net 28 branches in 2QFY23, taking the total branch network to 1,165 as of Sep'23. The company's volume handling capacity has increased by 84,726 tons (up 13% YoY, up 3% QoQ).
- 120 new branches contributed around 4.5% to total tonnage in 2Q.

- The average diesel procurement cost per litre decreased by 2.05% YoY to INR87.81 in 2QFY24.
- The company will continue to focus on volume growth through the expansion of its branch network.
- Monsoon patterns have not been consistent across the country, leading to lower demand for agricultural produce and a 2-3% reduction in expected tonnage during the quarter.
- 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 expenses during the quarter.
- Employee costs increased due to the addition of employees and branches and increments paid in Sep'23.

#### Scrappage of vehicles and capex

- VRL is taking a proactive approach to prepare for the scrappage policy by implementing a capex plan. As of Sep'23, the company possessed ~900 vehicles older than 15 years, with a combined capacity of 9,990 tons.
- Capex stood at INR1.1b in 2Q and would be INR3-3.5b in FY24.

#### Guidance

- VRL did not increase the freight rate as retail fuel prices remained stable in India for more than a year. However, it will increase freight rates by 5-10% in 3Q for contractual customers, which account for ~20% of tonnage.
- Higher freight rates for contractual customers should help EBITDA margins return to 15-16%.
- Tonnage growth is projected to be around 13% in for FY24, and 16% in 2HFY24. For FY25, tonnage growth is expected to be ~15%.
- The management plans to open 20-25 branches per quarter.
- An annual capex of INR2-2.5b is projected in FY25, mainly funded via internal accruals. Even with a cash outflow of around INR2.5-3b per year, including capex and dividend payments, the debt level will not be significantly impacted.
- Moreover, the company aims to generate INR1.0b of operating cash flow every quarter, which will be utilized for capex. Therefore, debt should stay stable.
- Network expansion will continue, with significant potential for branch growth in the eastern, northern, and western parts of India.
- A new transshipment hub will be added once a part of the debt is repaid in FY25. Around 400-450 vehicles will be added in 2HFY24, and the scrappage of vehicles will be lower in this period.

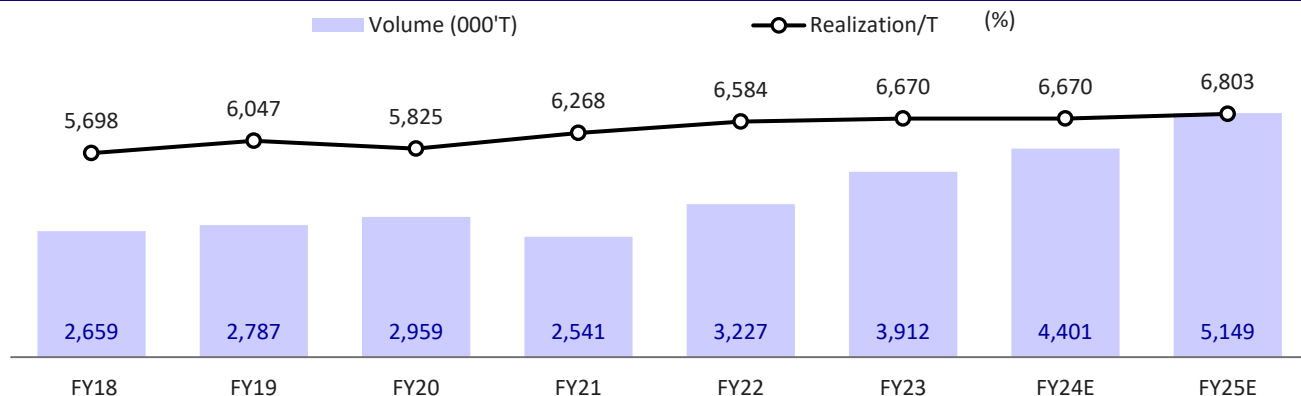
#### Exhibit 6: Our revised forecasts

(INR m)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	29,796	30,590	-2.6	35,457	36,708	-3.4
EBITDA	4,286	4,782	-10.4	5,868	6,058	-3.1
<b>EBITDA Margin (%)</b>	<b>14.4</b>	<b>15.6</b>	<b>-124.8</b>	<b>16.5</b>	<b>16.5</b>	<b>5</b>
PAT	1,355	1,812	-25.2	2,647	2,914	-9.2
<b>EPS (INR)</b>	<b>15.3</b>	<b>20.5</b>	<b>-25.2</b>	<b>30.0</b>	<b>33.0</b>	<b>-9.2</b>

Source: Company, MOFSL

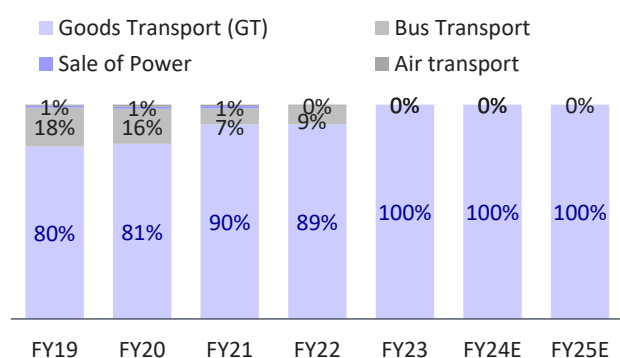
## Financial story in charts

**Exhibit 1: Expect volumes to clock 15% CAGR over FY24-25**



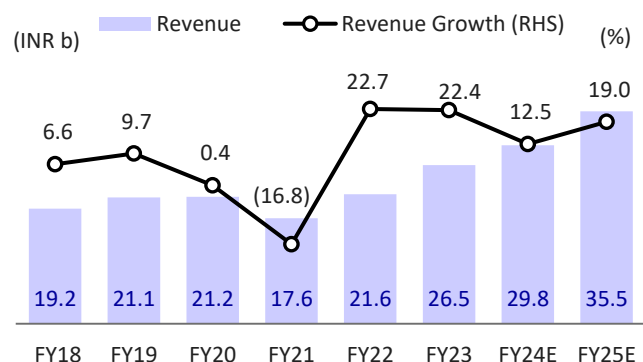
Source: Company, MOFSL

**Exhibit 2: VRL is a pure play goods transportation company**



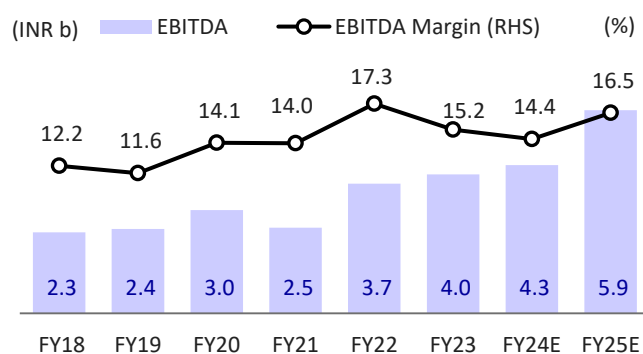
Source: Company, MOFSL

**Exhibit 3: Shift to organized operators to drive revenue**



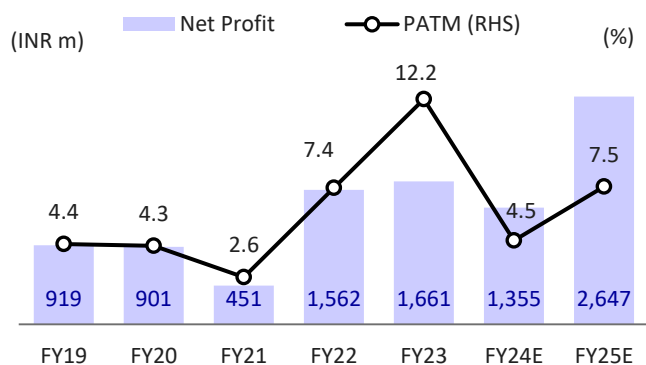
Source: Company, MOFSL

**Exhibit 4: Margin to improve with higher volumes**



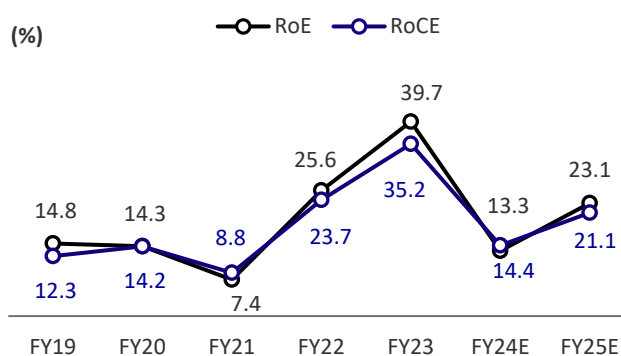
Source: Company, MOFSL

**Exhibit 5: Strong operating performance to drive PAT**



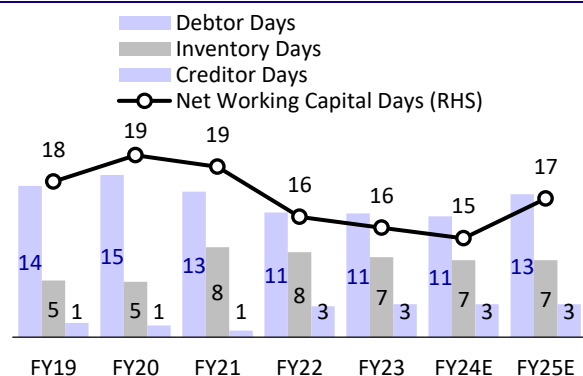
Source: Company, MOFSL

Exhibit 6: Return ratios



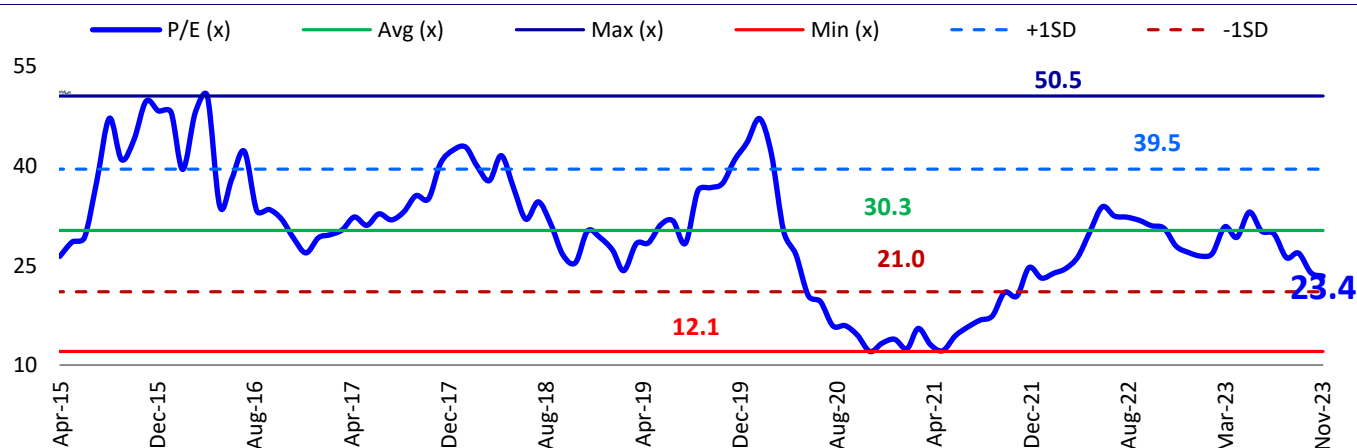
Source: Company, MOFSL

Exhibit 7: Comfortable working capital position



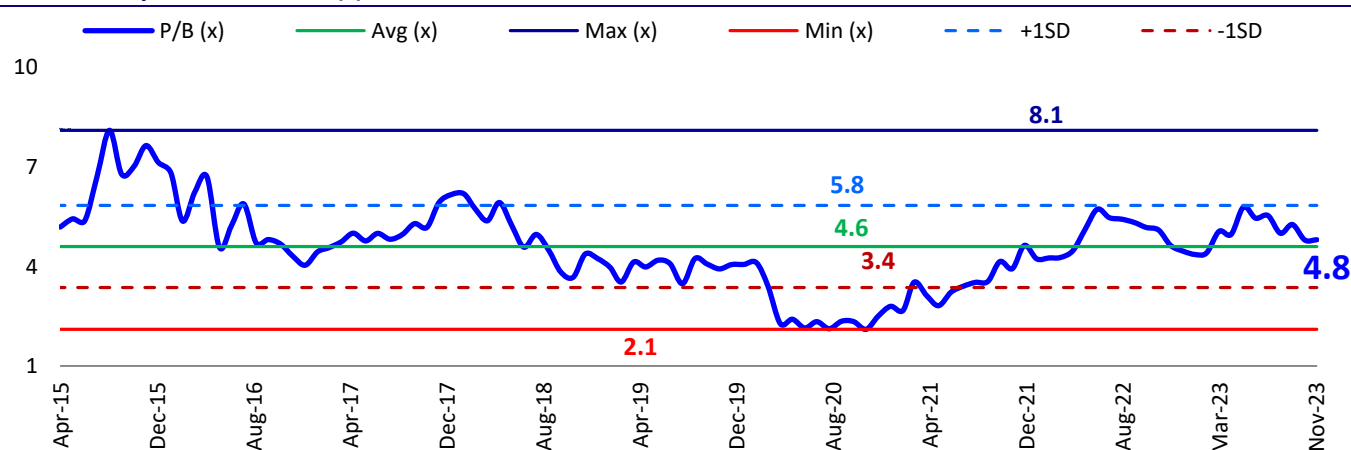
Source: Company, MOFSL

Exhibit 8: One-year forward P/E (x)



Source: Company, MOFSL

Exhibit 9: One-year forward P/B (x)



Source: Company, MOFSL

## Financials and valuations

### Income Statement

Y/E March (INR m)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Net Sales</b>	<b>21,095</b>	<b>21,185</b>	<b>17,629</b>	<b>21,636</b>	<b>26,485</b>	<b>29,796</b>	<b>35,457</b>
Change (%)	9.7	0.4	-16.8	22.7	22.4	12.5	19.0
Gross Margin (%)	30.1	33.4	33.0	34.5	32.1	31.0	32.5
<b>EBITDA</b>	<b>2,440</b>	<b>2,983</b>	<b>2,475</b>	<b>3,745</b>	<b>4,017</b>	<b>4,286</b>	<b>5,868</b>
Margin (%)	11.6	14.1	14.0	17.3	15.2	14.4	16.5
Depreciation	1,006	1,675	1,598	1,445	1,591	2,055	2,108
<b>EBIT</b>	<b>1,434</b>	<b>1,307</b>	<b>877</b>	<b>2,300</b>	<b>2,425</b>	<b>2,231</b>	<b>3,760</b>
Int. and Finance Charges	109	367	368	422	543	706	565
Other Income	79	103	129	168	143	287	344
<b>PBT</b>	<b>1,405</b>	<b>1,043</b>	<b>637</b>	<b>2,047</b>	<b>2,025</b>	<b>1,812</b>	<b>3,539</b>
Tax	486	142	187	485	364	457	892
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	-5	0
<b>Reported PAT</b>	<b>919</b>	<b>901</b>	<b>451</b>	<b>1,601</b>	<b>3,232</b>	<b>1,360</b>	<b>2,647</b>
<b>Adj. PAT</b>	<b>919</b>	<b>901</b>	<b>451</b>	<b>1,562</b>	<b>1,661</b>	<b>1,355</b>	<b>2,647</b>
Change (%)	-0.7	-2.0	-50.0	246.6	6.4	-18.4	95.3
Margin (%)	4.4	4.3	2.6	7.2	6.3	4.5	7.5

### 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	9,710	11,482
<b>Net Worth</b>	<b>6,459</b>	<b>6,169</b>	<b>5,971</b>	<b>6,516</b>	<b>9,758</b>	<b>10,593</b>	<b>12,366</b>
Deferred Tax Liabilities	738	440	440	386	461	461	461
Total Loans	1,407	1,893	1,196	1,593	2,071	2,771	2,421
<b>Capital Employed</b>	<b>8,604</b>	<b>8,502</b>	<b>7,607</b>	<b>8,496</b>	<b>12,291</b>	<b>13,826</b>	<b>15,248</b>
Gross Block	10,835	15,105	15,850	18,422	21,600	25,100	27,600
Less: Accum. Deprn.	3,785	5,202	6,307	7,442	6,778	8,832	10,940
<b>Net Fixed Assets</b>	<b>7,051</b>	<b>9,903</b>	<b>9,544</b>	<b>10,980</b>	<b>14,822</b>	<b>16,267</b>	<b>16,659</b>
Capital WIP	416	44	61	350	384	384	384
<b>Total Investments</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>2,311</b>	<b>2,304</b>	<b>2,381</b>	<b>2,482</b>	<b>3,711</b>	<b>4,726</b>	<b>6,945</b>
Inventory	298	293	395	459	528	571	680
Account Receivables	795	856	639	673	817	898	1,263
Cash and Bank Balances	131	134	185	140	116	702	1,962
Cash	126	129	183	82	112	697	1,957
Bank Balance	5	5	1	5	5	4	4
Others	1,086	1,021	1,162	1,211	2,251	2,555	3,040
<b>Current Liab. and Prov.</b>	<b>1,174</b>	<b>3,750</b>	<b>4,379</b>	<b>5,307</b>	<b>6,626</b>	<b>7,551</b>	<b>8,740</b>
Account Payables	61	35	136	203	143	245	291
Other Current Liabilities	849	3,368	3,911	4,671	6,051	6,819	7,869
Provisions	264	347	332	433	433	487	580
<b>Net Current Assets</b>	<b>1,136</b>	<b>-1,445</b>	<b>-1,998</b>	<b>-2,825</b>	<b>-2,915</b>	<b>-2,825</b>	<b>-1,795</b>
<b>Application of Funds</b>	<b>8,604</b>	<b>8,502</b>	<b>7,607</b>	<b>8,508</b>	<b>12,291</b>	<b>13,826</b>	<b>15,248</b>

## 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	15.3	30.0
EPS growth (%)	-0.7	-2.0	-48.9	246.6	6.4	-18.4	95.3
Cash EPS	21.3	28.5	23.2	34.0	36.8	38.6	53.8
BV/Share	71.5	68.3	67.6	73.8	110.5	119.9	140.0
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	38.7	33.0
Valuation (x)							
P/E	66.8	68.2	133.3	38.5	36.2	44.3	22.7
Cash P/E	31.9	23.8	29.3	20.0	18.5	17.6	12.6
EV/EBITDA	24.9	20.5	24.4	16.3	15.3	14.4	10.2
EV/Sales	2.9	2.9	3.4	2.8	2.3	2.1	1.7
P/BV	9.5	10.0	10.1	9.2	6.2	5.7	4.9
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	13.3	23.1
RoCE	12.3	14.2	8.8	23.9	35.2	14.4	21.1
RoIC	12.2	13.8	7.9	22.8	20.0	13.6	21.9
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	2.3
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	0.0

### 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	1,812	3,539
Depreciation	1,006	1,675	1,598	1,680	1,724	2,055	2,108
Direct Taxes Paid	-523	-431	-148	-581	-856	-457	-892
(Inc.)/Dec. in WC	-64	-94	294	-157	581	18	-110
Other Items	98	380	330	667	-2,499	420	221
<b>CF from Operations</b>	<b>1,922</b>	<b>2,573</b>	<b>2,711</b>	<b>3,708</b>	<b>3,183</b>	<b>3,848</b>	<b>4,866</b>
(Inc.)/Dec. in FA	-2,109	-1,200	-330	-1,933	-4,124	-3,500	-2,500
<b>Free Cash Flow</b>	<b>-187</b>	<b>1,373</b>	<b>2,381</b>	<b>1,775</b>	<b>-941</b>	<b>348</b>	<b>2,366</b>
Change in Investments	3	14	15	4	4	0	0
Others	15	0	1	128	2,675	148	143
<b>CF from Investments</b>	<b>-2,091</b>	<b>-1,185</b>	<b>-313</b>	<b>-1,801</b>	<b>-1,445</b>	<b>-3,352</b>	<b>-2,357</b>
Inc./Dec. in net worth	0	0	-632	0	-629	0	0
Inc./Dec. in Debt	596	485	-697	-1,661	-1,019	700	-350
Dividends Paid	-381	-980	0	-1,060	0	-525	-875
Others	-104	-889	-1,014	714	-61	-86	-23
<b>CF from Fin. Activity</b>	<b>110</b>	<b>-1,384</b>	<b>-2,344</b>	<b>-2,008</b>	<b>-1,709</b>	<b>89</b>	<b>-1,248</b>
<b>Inc./Dec. in Cash</b>	<b>-59</b>	<b>3</b>	<b>54</b>	<b>-101</b>	<b>30</b>	<b>586</b>	<b>1,260</b>
Opening Balance	185	126	129	183	82	112	697
<b>Closing Balance</b>	<b>126</b>	<b>129</b>	<b>183</b>	<b>82</b>	<b>112</b>	<b>697</b>	<b>1,957</b>

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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

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