

Estimate change 

TP change

Rating change 

CMP: INR689

TP: INR820 (+19%)

Buy

Subdued demand in Southern states impact tonnage growth; volumes expected to improve in FY25

Network expansion to play a key role in volume growth

Bloomberg	VRLL IN
Equity Shares (m)	88
M.Cap.(INRb)/(USD\$b)	60.3 / 0.7
52-Week Range (INR)	799 / 483
1, 6, 12 Rel. Per (%)	-7/-17/10
12M Avg Val (INR M)	107

Financial Snapshot (INR b)

Y/E MARCH	2024E	2025E	2026E
Sales	29.0	33.5	39.5
EBITDA	3.9	4.8	6.0
Adj. PAT	0.9	1.8	2.6
EBITDA Margin (%)	13.5	14.5	15.3
Adj. EPS (INR)	10.2	20.0	29.2
EPS Gr. (%)	-45.6	96.0	45.5
BV/Sh. (INR)	114.8	124.9	144.2

Ratios

Net D:E	0.2	0.2	0.1
RoE (%)	9.1	16.7	21.7
RoCE (%)	11.5	16.1	20.5
Payout (%)	58.1	49.4	34.0

Valuations

P/E (x)	67.3	34.3	23.6
P/BV (x)	6.0	5.5	4.8
EV/EBITDA(x)	16.0	12.8	10.2
Div. Yield (%)	0.9	1.5	1.5
FCF Yield (%)	0.2	2.8	5.2

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	60.2	60.2	64.2
DII	28.1	29.0	20.8
FII	2.5	2.2	4.2
Others	9.1	8.5	10.9

FII Includes depository receipts

- VRL Logistics (VRL)'s 3QFY24 revenue grew 8% YoY/4% QoQ to ~INR7.4b (est. INR7.7b). Volumes increased 8% YoY to 1.09m tons in 3QFY24. The sluggish demand in Southern States, attributed to an unfavorable spread of the monsoon, affected volume growth. Realization per ton stood at INR 6,669 (flat YoY and QoQ).
- EBITDA margins stood at 12.8%, against our estimate of 14.0%. The margins were adversely impacted by higher employee costs. Further, increased costs have not been passed on to customers, leading to pressure on EBITDA margins. EBITDA stood at INR944m (13% below our estimate of INR 1.08b).
- APAT declined 64% YoY to INR 137m (vs. our estimate of INR 335m). Weak operating performance, higher depreciation, interest expense, and lower other income dragged APAT.
- During 9MFY24, revenues grew 9% YoY to INR21.2b. EBITDA margins stood at 13.6%. APAT declined 36% YoY to INR671m.
- Tonnage growth in 9MFY24 was adversely impacted by the slowdown in agro commodity volume in Southern states, which contribute ~40-45% to tonnage. Further, VRLL did not raise freight rates in 9MFY24 as retail diesel prices remained stable. The company is looking to increase prices post general election as fuel prices are expected to change. VRLL expects a tonnage growth of 15% in FY25 as demand picks up. We cut our FY24/FY25/FY26 EPS estimates by ~30%/18%/11% to factor in lower-than-expected volume growth and margins. We expect VRL to clock a CAGR of 13%/14%/14%/16% in volume/revenue/EBITDA/PAT over FY23-26. We retain our BUY rating with a revised TP of INR820 (based on 28x FY26E EPS).

Highlights from the management commentary

- Tonnage growth was primarily driven by the expansion of the branch network and a transition of volumes to organized players, following the implementation of GST, along with the reduction in the turnover limit of e-invoicing, among other factors.
- VRL did not increase the freight rate as retail fuel prices remained stable in India for more than a year. However, management expects fuel prices to fluctuate following the general elections, providing an opportunity to implement freight price increases.
- VRL expects tonnage growth rate for 4QFY24 and FY24 to be around 8-10%, and 15% plus in FY25. Revenue growth is expected to be stronger in FY25 with higher tonnage growth and higher freight rates. The target ROCE during favorable conditions is around 25-26%, primarily driven by higher freight rates and some tonnage growth.
- EBITDA margin is expected to be around 13-14% in 4QFY24 and FY24.

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Valuation and view

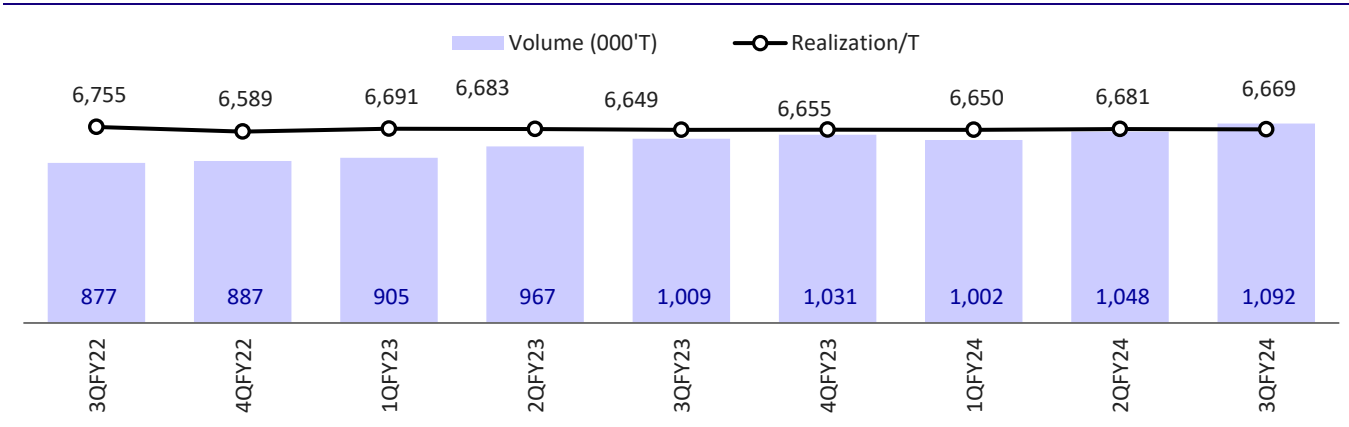
- We expect VRL to clock a 13% volume CAGR over FY23-26, with network expansion particularly in untapped markets such as the eastern, northern, and western regions. Further, the ongoing transition of customers from the unorganized sector amid heightened compliance requirements imposed by GST is likely to benefit organized Pan-India players such as VRL.
- Volumes in 3Q and 9M of FY24 were affected by uneven rainfall patterns across India and general slowdown in the economy, especially in the textile and agro-commodities, which forms the major product segment for the company. Volumes are expected to pick up in FY25 post general elections with new branch additions in eastern and northern locations. Factoring in lower volume growth and flat realization growth in 9MFY24, we cut our FY24/FY25/FY26 EPS estimates by ~30%/18/11%. We reiterate our BUY rating with a revised TP of INR820 (based on 28x FY26E EPS). We believe growth will be driven by continued branch network expansion going forward.

Quarterly performance

Y/E March (INR m)	FY23				FY24E				FY23	FY24E	FY24	INR m
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	Var. vs Est
Net Sales	6,143	6,545	6,815	6,982	6,742	7,093	7,367	7,799	26,485	29,001	7,733	(5)
YoY Change (%)	48.5	2.8	13.3	17.6	9.7	8.4	8.1	11.7	17.9	9.5	13.5	
EBITDA	913	930	1,033	1,141	1,019	918	944	1,048	4,017	3,930	1,083	(13)
Margins (%)	14.9	14.2	15.2	16.3	15.1	12.9	12.8	13.4	15.2	13.5	14.0	
YoY Change (%)	153.0	-17.9	-12.1	-0.7	11.7	-1.3	-8.6	-8.1	5.2	-2.2	4.8	
Depreciation	334	384	421	453	489	522	568	569	1,591	2,148	525	
Interest	120	139	151	133	163	185	213	210	543	771	180	
Other Income	30	22	45	47	89	60	24	42	143	215	70	
PBT before EO expense	488	429	506	602	456	271	187	311	2,025	1,225	448	
Extra-Ord expense	-134	0	-114	-1,322	0	-5	0	0	-1,571	-5	0	
PBT	622	429	620	1,924	456	276	187	311	3,596	1,230	448	
Tax	123	122	128	-7	117	77	50	78	364	322	113	
Rate (%)	19.8	28.4	20.7	-0.4	25.6	27.8	26.9	25.2	10.1	26.2	25.2	
Reported PAT	499	307	492	1,932	339	199	137	232	3,232	908	335	
Adj PAT	365	307	378	610	339	194	137	232	1,661	903	335	(59)
YoY Change (%)	NA	-37.9	-33.1	16.6	-6.9	-36.7	-63.7	-61.9	9.2	-45.6	-11.3	
Margins (%)	5.9	4.7	5.5	8.7	5.0	2.7	1.9	3.0	6.3	3.1	4.3	

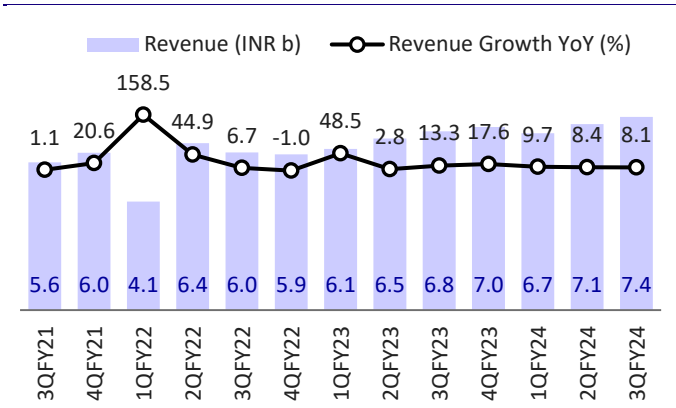
Story in charts – 3QFY24

Exhibit 1: Volumes increased 8% YoY



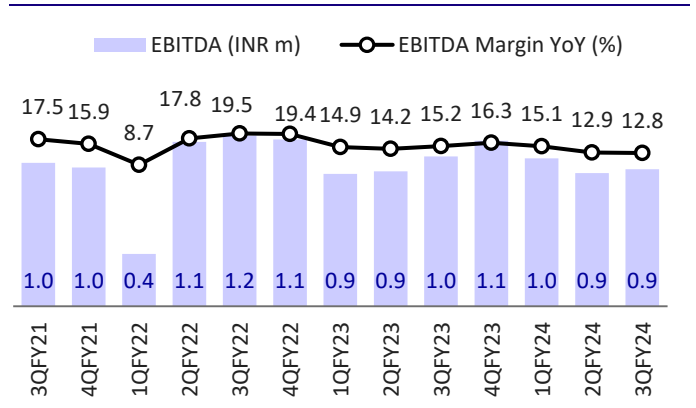
Source: Company, MOFSL

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



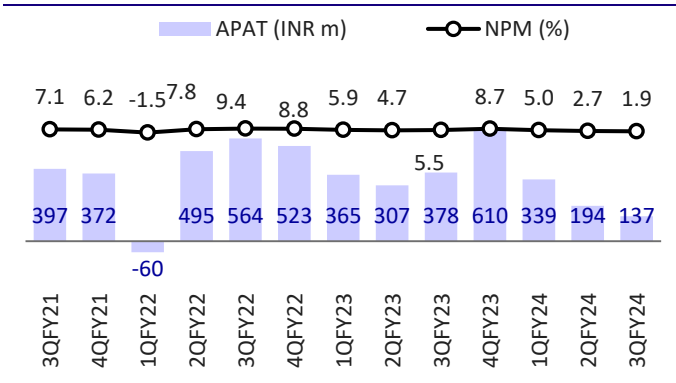
Source: Company, MOFSL

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



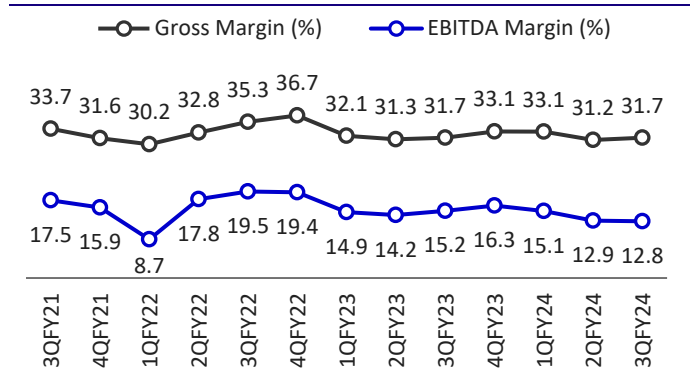
Source: Company, MOFSL

Exhibit 4: PAT and margin trends



Source: Company, MOFSL

Exhibit 5: Margins remained flat in 3QFY24 on a QoQ basis



Source: Company, MOFSL



Highlights from the management commentary

Operational highlights

- VRL handled ~1.09m tons in 3QFY24 (+8% YoY, +4% QoQ). Tonnage growth primarily stemmed from the expansion of the branch network and a transition of volumes to organized players following the implementation of GST, along with the reduction in the turnover limit for e-invoicing, etc.
- Among the product segments, agro-commodity volumes declined 5% YoY during the quarter, while textile goods saw a 14% growth in 3MFY24 (3% in 9MFY24). Organized players represent 20-25% of the agro commodities and textile transportation market, with unorganized players dominating the remainder.
- Realization per ton stood at INR 6,669 (flat YoY and QoQ) due to stable fuel prices.
- The contribution of new branches to tonnage growth stood at ~4% in 3Q and 2.7% in 9MFY24.
- Net debt increased to INR2.7b as of Dec'23 from INR1.7b in Mar'23, primarily due to an increase in lease liabilities, resulting from the addition/expansion of new branches.
- Depreciation and finance costs are increasing due to IND AS accounting, adversely impacting PAT margins.
- Interest expenses other than IND AS adjustments was ~INR 60m, while depreciation due to IND AS adjustments is ~INR360m, with a total impact of ~INR 500m in 3QFY24.
- Utilization levels from hub-to-hub transportation are approximately 60-65%.
- Capex was lower in 3QFY24 due to subdued tonnage growth. Management expects capex of INR 2.6b in FY24 (INR 2.2b spent in 9MFY24).

GT segment

- In 3QFY24, the number of GT vehicles increased to 5,966 as of Dec'23 from 5,782 as of Sep'23.
- VRL opened net 23 branches in 3QFY23, taking the total branch network to 1,188 as of Dec'23. The company's volume handling capacity increased to 87,477 tons (+10% YoY and QoQ).
- The company incurred capex of INR 250m during the quarter.
- 118 new branches contributed around ~4% to total tonnage in 3Q.
- Diesel consumption increased 9.8% due to the addition of new vehicles and their increased mileage. The average procurement cost per liter of diesel decreased ~1% YoY to INR 88.83 in 3QFY24 from INR 89.34 in 3QFY23.
- Procurement from refineries as a percentage of total quantity increased by 14.5% to 21.9% in 3QFY24 from 7.4% in 3QFY23.
- Toll charges increased due to an increase in toll plazas to 1,367 in 3QFY24 from 1,204 in 3QFY23 and also due to an increase in toll tariff for owned vehicles.
- The company will continue to focus on newer branches and interstate movements, which are already yielding positive results.
- The increase in employee costs was driven by the addition of new employees at new branches, as well as salary increments.

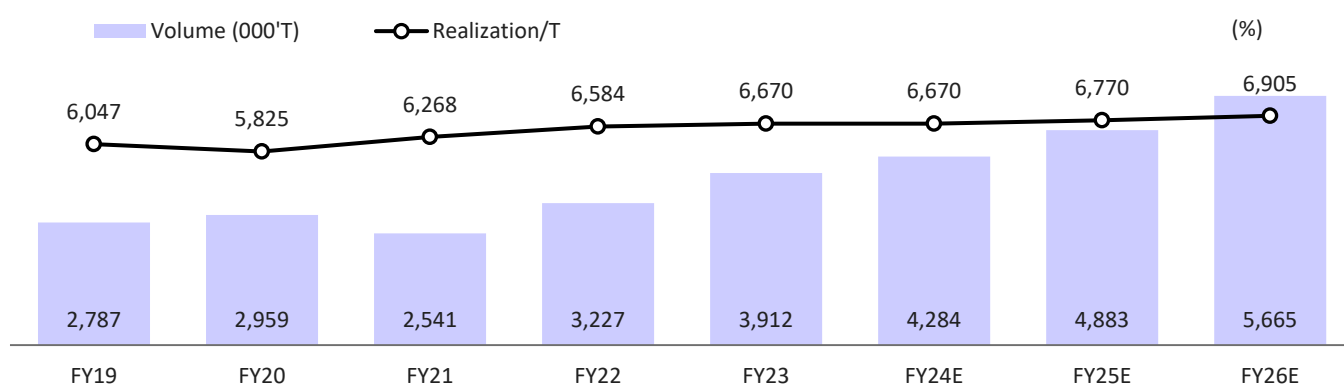
Guidance

- VRL did not increase the freight rate as retail fuel prices remained stable in India for more than a year. However, management expects fuel prices to fluctuate following the general elections, providing an opportunity to implement freight price increases.
- Tonnage growth rate for 4QFY24 and FY24 is projected to be around 8-10%, and 15% plus in FY25. Revenue growth is expected to be stronger in FY25 with higher tonnage growth and higher freight rates.
- EBITDA margin is expected to be around 13-14% in the 4QFY24 and FY24.
- VRL plans to continue its strategy of expanding branches, aiming to add 25-30 branches per quarter.
- The target ROCE during favorable conditions is around 25-26%, primarily driven by higher freight rates and some tonnage growth.
- An annual capex of INR 2.8-3b is projected for FY25. Capex cycle of the company is directly proportionate to tonnage growth. Higher capex can be expected in the event of increased tonnage growth.
- Network expansion will continue, with significant potential for branch growth in the eastern, northern, and western parts of India.

Exhibit 6: Our revised forecasts

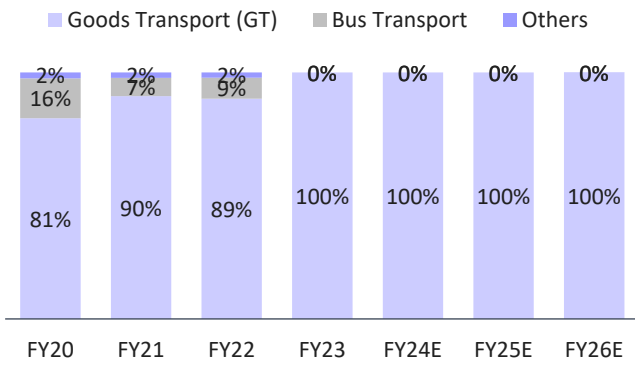
(INR m)	FY24E			FY25E			FY26E		
	Rev	Old	Chg(%)	Rev	Old	Chg(%)	Rev	Old	Chg(%)
Net Sales	29,001	29,663	-2.2	33,496	35,003	-4.3	39,526	40,953	-3.5
EBITDA	3,930	4,217	-6.8	4,847	5,288	-8.3	6,029	6,374	-5.4
EBITDA Margin (%)	13.5	14.2	-66.6	14.5	15.1	-64	15.3	15.6	-31
PAT	903	1,293	-30.2	1,770	2,164	-18.2	2,575	2,901	-11.2
EPS (INR)	10.2	14.6	-30.2	20.0	24.5	-18.2	29.2	32.8	-11.2

Source: Company, MOFSL

Financial story in charts**Exhibit 7: Expect volumes to clock 13% CAGR over FY23-26**

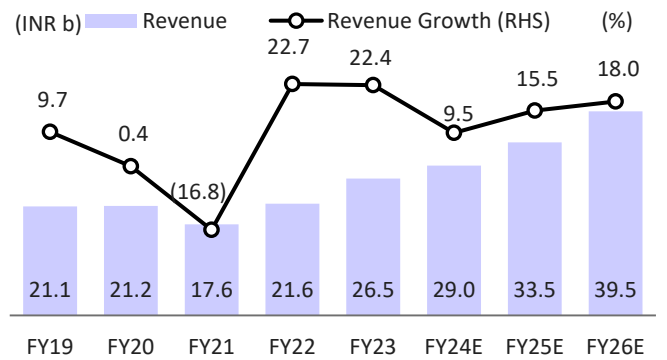
Source: Company, MOFSL

Exhibit 8: VRL is a pure play goods transportation company



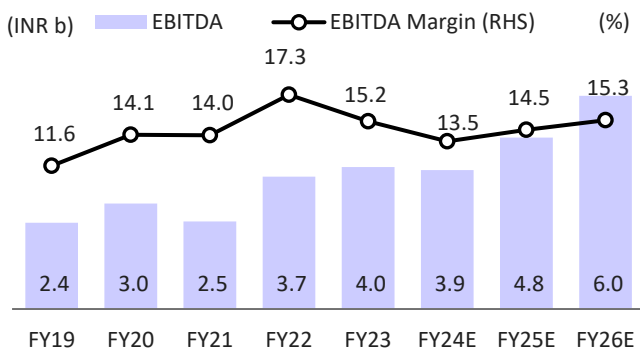
Source: Company, MOFSL

Exhibit 9: Shift to organized operators to drive revenue



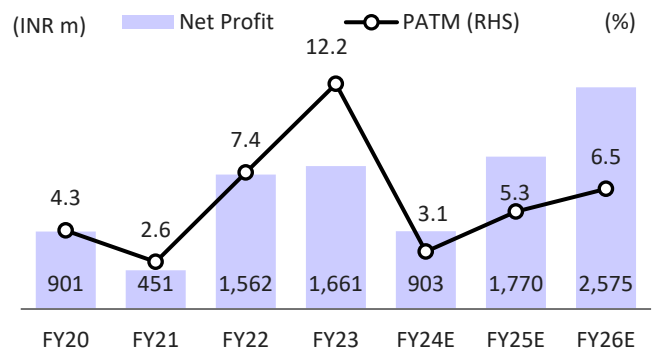
Source: Company, MOFSL

Exhibit 10: Margin to improve with higher volumes



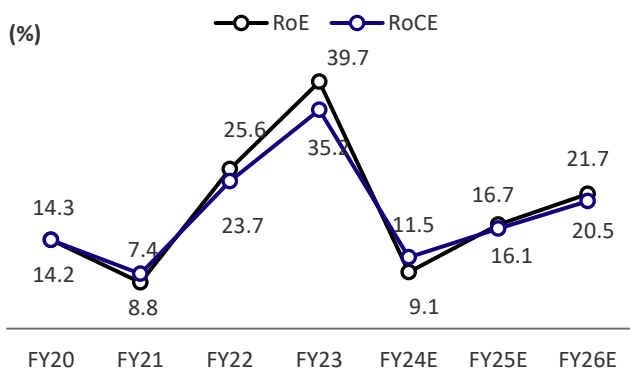
Source: Company, MOFSL

Exhibit 11: Strong operating performance to drive PAT



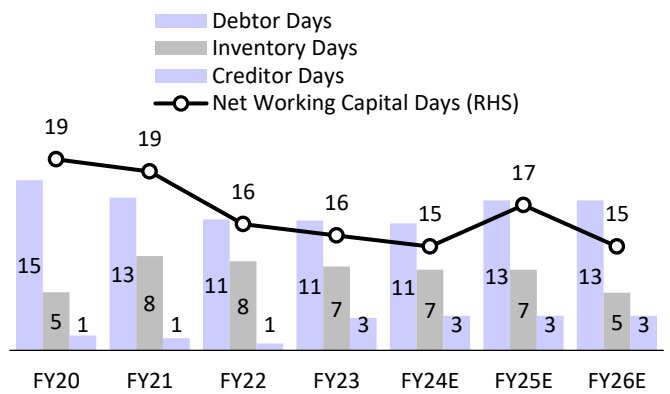
Source: Company, MOFSL

Exhibit 12: Return ratios



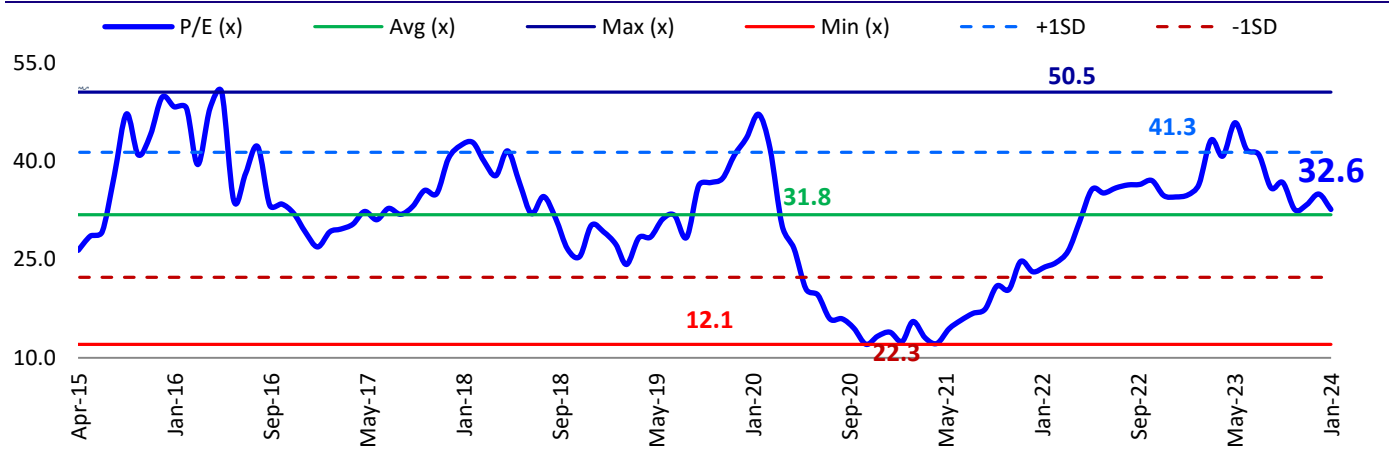
Source: Company, MOFSL

Exhibit 13: Comfortable working capital position



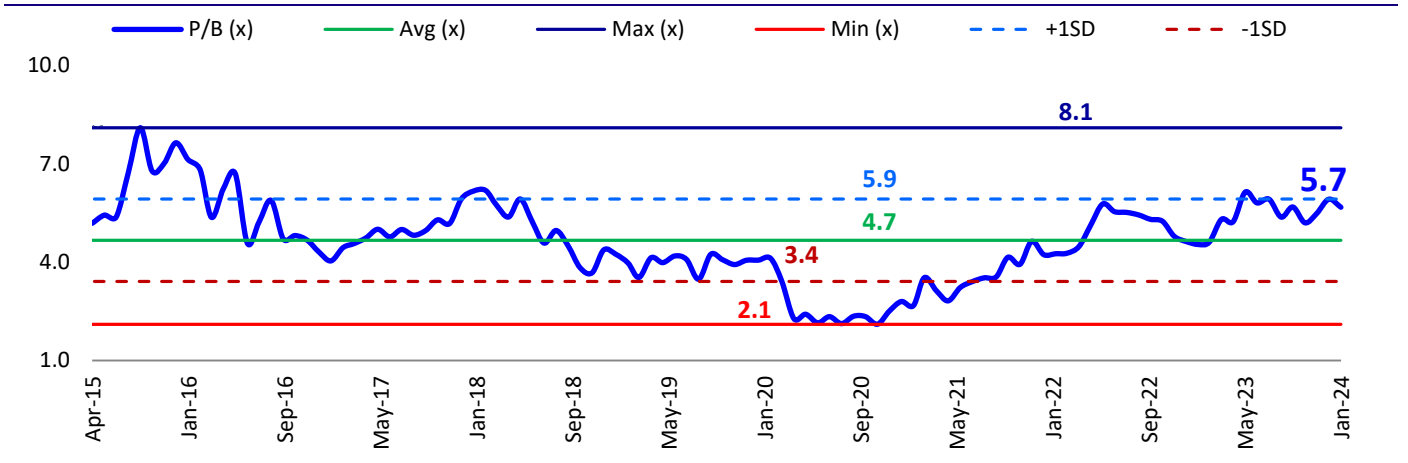
Source: Company, MOFSL

Exhibit 14: One-year forward P/E (x)



Source: Company, MOFSL

Exhibit 15: One-year forward P/B (x)



Source: Company, MOFSL

Financials and valuations

Income Statement

Y/E March (INR m)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	21,185	17,629	21,636	26,485	29,001	33,496	39,526
Change (%)	0.4	-16.8	22.7	22.4	9.5	15.5	18.0
Gross Margin (%)	33.4	33.0	34.5	32.1	31.5	32.0	32.0
EBITDA	2,983	2,475	3,745	4,017	3,930	4,847	6,029
Margin (%)	14.1	14.0	17.3	15.2	13.5	14.5	15.3
Depreciation	1,675	1,598	1,445	1,591	2,148	2,174	2,296
EBIT	1,307	877	2,300	2,425	1,781	2,673	3,733
Int. and Finance Charges	367	368	422	543	771	565	600
Other Income	103	129	168	143	215	258	310
PBT	1,043	637	2,047	2,025	1,225	2,366	3,443
Tax	142	187	485	364	322	596	868
Effective Tax Rate (%)	13.6	29.3	23.7	18.0	26.3	25.2	25.2
Extraordinary Items	142	187	-40	-1,571	-5	0	0
Reported PAT	901	451	1,601	3,232	908	1,770	2,575
Adj. PAT	901	451	1,562	1,661	903	1,770	2,575
Change (%)	-2.0	-50.0	246.6	6.4	-45.6	96.0	45.5
Margin (%)	4.3	2.6	7.2	6.3	3.1	5.3	6.5

Balance Sheet

Y/E March (INR m)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	903	883	883	883	883	883	883
Total Reserves	5,265	5,088	5,633	8,875	9,258	10,153	11,854
Net Worth	6,169	5,971	6,516	9,758	10,141	11,037	12,737
Deferred Tax Liabilities	440	440	386	461	461	461	461
Total Loans	1,893	1,196	1,593	2,071	2,771	2,421	2,371
Capital Employed	8,502	7,607	8,496	12,291	13,374	13,919	15,569
Gross Block	15,105	15,850	18,422	21,600	25,100	27,600	29,800
Less: Accum. Deprn.	5,202	6,307	7,442	6,778	8,926	11,100	13,396
Net Fixed Assets	9,903	9,544	10,980	14,822	16,174	16,500	16,404
Capital WIP	44	61	350	384	384	384	384
Total Investments	1	1	4	0	0	0	0
Curr. Assets, Loans, and Adv.	2,304	2,381	2,482	3,711	4,163	5,292	6,094
Inventory	293	395	459	528	556	642	541
Account Receivables	856	639	673	817	874	1,193	1,408
Cash and Bank Balances	134	185	140	116	246	585	756
Cash	129	183	82	112	246	585	756
Bank Balance	5	1	5	5	0	0	0
Others	1,021	1,162	1,211	2,251	2,487	2,872	3,389
Current Liab. and Prov.	3,750	4,379	5,307	6,626	7,346	8,257	7,312
Account Payables	35	136	203	143	238	275	325
Other Current Liabilities	3,368	3,911	4,671	6,051	6,634	7,433	6,341
Provisions	347	332	433	433	474	548	646
Net Current Assets	-1,445	-1,998	-2,825	-2,915	-3,183	-2,964	-1,218
Application of Funds	8,502	7,607	8,508	12,291	13,374	13,919	15,570

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)							
EPS	10.0	5.1	17.7	18.8	10.2	20.0	29.2
EPS growth (%)	-2.0	-48.9	246.6	6.4	-45.6	96.0	45.5
Cash EPS	28.5	23.2	34.0	36.8	34.5	44.6	55.1
BV/Share	68.3	67.6	73.8	110.5	114.8	124.9	144.2
DPS	7.0	4.0	8.0	5.0	6.0	10.0	10.0
Payout (Incl. Div. Tax, %)	84.6	78.4	43.7	13.5	58.1	49.4	34.0
Valuation (x)							
P/E	69.0	134.9	38.9	36.6	67.3	34.3	23.6
Cash P/E	24.1	29.7	20.2	18.7	19.9	15.4	12.5
EV/EBITDA	20.8	24.7	16.5	15.5	16.0	12.8	10.2
EV/Sales	2.9	3.5	2.9	2.3	2.2	1.9	1.6
P/BV	10.1	10.2	9.3	6.2	6.0	5.5	4.8
Dividend Yield (%)	1.0	0.6	1.2	0.7	0.9	1.5	1.5
Return Ratios (%)							
RoE	14.3	7.4	25.6	39.7	9.1	16.7	21.7
RoCE	14.2	8.8	23.9	35.2	11.5	16.1	20.5
RoIC	13.8	7.9	22.8	20.0	10.7	15.6	20.4
Working Capital Ratios							
Fixed Asset Turnover (x)	1.6	1.1	1.3	1.3	1.2	1.3	1.4
Asset Turnover (x)	2.5	2.3	2.5	2.2	2.2	2.4	2.5
Inventory (Days)	5	8	8	7	7	7	5
Debtors (Days)	15	13	13	11	11	13	13
Creditors (Days)	1	3	3	3	3	3	3
Leverage Ratio (x)							
Net Debt/Equity	0.3	0.2	0.2	0.2	0.2	0.2	0.1

Cash Flow Statement

Y/E March (INR m)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	1,043	637	2,099	4,234	1,225	2,366	3,443
Depreciation	1,675	1,598	1,680	1,724	2,148	2,174	2,296
Direct Taxes Paid	-431	-148	-581	-856	-322	-596	-868
(Inc./)Dec. in WC	-94	294	-157	581	23	-92	145
Other Items	380	330	667	-2,499	556	307	291
CF from Operations	2,573	2,711	3,708	3,183	3,631	4,159	5,307
(Inc./)Dec. in FA	-1,200	-330	-1,933	-4,124	-3,500	-2,500	-2,200
Free Cash Flow	1,373	2,381	1,775	-941	131	1,659	3,107
Change in Investments	14	15	4	4	0	0	0
Others	0	1	128	2,675	105	98	95
CF from Investments	-1,185	-313	-1,801	-1,445	-3,395	-2,402	-2,105
Inc./Dec.in net worth	0	-632	0	-629	0	0	0
Inc./Dec.) in Debt	485	-697	-1,661	-1,019	700	-350	-50
Dividends Paid	-980	0	-1,060	0	-525	-875	-875
Others	-889	-1,014	714	-61	-281	-194	-2,106
CF from Fin. Activity	-1,384	-2,344	-2,008	-1,709	-106	-1,418	-3,031
Inc./Dec.) in Cash	3	54	-101	30	130	339	171
Opening Balance	126	129	183	82	117	246	585
Closing Balance	129	183	82	112	246	585	756

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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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