

India

HOLD (no change)

Consensus ratings*: Buy 15 Hold 1 Sell 0

Current price:	Rs226
Target price:	Rs225
Previous target:	Rs162
Up/downside:	-0.4%
EIP Research / Consensus:	2.1%

Reuters:	VRL.NS
Bloomberg:	VRL IN
Market cap:	US\$280m
	Rs20,427m
Average daily turnover:	US\$0.9m
	Rs63.0m
Current shares o/s:	90.3m
Free float:	32.0%

*Source: Bloomberg

Key changes in this note

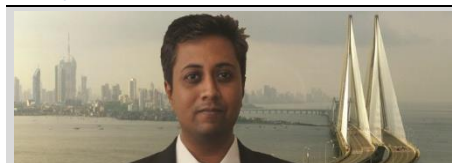
- Increase FY21F EBITDA by 20%
- Increase FY22F EBITDA by 5%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.4	48.1	(14.3)
Relative (%)	4.9	20.8	(31.3)

Major shareholders	% held
Promoter and Promoter Group	68.1
Nippon India	9.9
ICICI Prudential	4.8

Analyst(s)

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VRL Logistics Ltd

Tariff hike of 2QFY21 drives results

- The 3QFY21 EBITDA of Rs988m was 39% of our FY21F, in line with our Rs963m estimate due to strong tariffs for the goods transport (GT) segment.
- We roll forward our target valuations to Mar 2022. We raise our target price to Rs225 (from Rs162) and reiterate our Hold rating.

Tariff hike in GT segment offsets weak bus transport performance

While sales (Rs5.6bn) was 11% ahead of our estimate (Rs5.1bn), EBITDA (Rs988m) was just 2% ahead of our estimate (Rs963m). VRL's sales (Rs5.6bn) was flat yoy as 11% yoy growth in sales of GT segment (Rs5bn) was offset by 45% yoy decline in sales of bus transport (BT) segment (Rs0.5bn). Despite VRL's flat yoy sales, EBITDA rose 24% due to 10% rise in tariff of GT segment and 13% yoy decline in staff cost. VRL's board approved the buyback of a maximum of 2m shares (2.21% of total shares) for a maximum Rs600m. The implied maximum price is Rs300/share (vs. CMP of Rs226).

Analysis of key business verticals

While GT segment's volume (89% of VRL's sales) rose 1% yoy, volumes rose 27% qoq. The 10% rise in tariff in the GT segment drove the 61% yoy rise in the segment's EBITDA. Cost/ volume rose just 2% yoy despite ~25% yoy rise in fuel cost, as staff cost for VRL declined 13% yoy. BT segment sales declined 45% yoy in line with volumes, but rose 211% qoq. As a result, VRL reported EBITDA of Rs47m for BT (down 72% yoy). VRL expects normal BT operations from FY22, which we factor into our estimates.

Maintain Hold with higher target price of Rs225

We raise our FY21F/ 22F/ 23F EBITDA by 20%/ 5%/ 1% to factor in (a) strong pricing in the GT segment in 2Q-3QFY21 and (b) reduction of staff expenses. Consequently, we raise our TP to Rs225, from Rs162, and roll forward our target price to Mar 2022 (from Mar 2021). We retain our Hold rating on VRL, valuing the core business at 9x EV/EBITDA FY23F (20% discount to its median EV/EBITDA of the last three years) due to likely decline in margin in FY22-23F. While VRL was the industry leader in India's road logistics sector as at Mar 2020 in terms of the number of trucks owned, we are cautious on the sector due to the impending risk from the Dedicated Freight Corridor (DFC). The key downside risks are an increase in employee costs and weak tariffs due to increased competition, which could dent the EBITDA margin for VRL. An upside risk is a delay in the commissioning of the DFC which could boost VRL's cargo volume in FY22F.

Financial Summary

	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue (Rsm)	21,095	21,185	17,258	21,388	22,258
Operating EBITDA (Rsm)	2,440	2,983	2,513	2,158	2,706
Net Profit (Rsm)	919	901	428	25	370
Core EPS (Rs)	10.2	10.0	4.7	0.3	4.1
Core EPS Growth	(0.2%)	(1.9%)	(52.6%)	(94.2%)	1,405.0%
FD Core P/E (x)	22.22	22.66	47.78	830.09	55.16
DPS (Rs)	5.5	7.0	10.0	10.0	5.0
Dividend Yield	2.43%	3.10%	4.42%	4.42%	2.21%
EV/EBITDA (x)	8.89	8.33	9.58	11.18	8.57
P/FCFE (x)	50.09	4.68	12.49	24.31	14.90
Net Gearing	19.7%	71.5%	63.8%	76.8%	58.7%
P/BV (x)	3.16	3.31	3.59	4.24	4.32
ROE	14.8%	14.3%	7.2%	0.5%	7.8%
% Change In Core EPS Estimates			1,000.52%	(152.38%)	6.20%
EIP Research/Consensus EPS (x)			1.81	0.03	0.31

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 08 FEB 2021

2QFY21 tariff hike drives results

Figure 1: Result update

(Rs. m)	Quarter ended			2QFY21	% Chg
	3QFY21	3QFY20	% Chg		
Net Sales	5,634	5,573	1	4,393	28
Freight, handling cost	3,733	3,739	-0	2,734	37
Other costs	913	1,037	-12	790	16
EBIDTA	988	797	24	869	
Other income	51	24	115	25	102
PBIDT	1,039	821	27	895	
Depreciation	411	408	1	388	6
Interest	83	86	-4	90	-7
PBT	545	326	67	417	
Tax	148	68		108	
Reported PAT	397	258	54	309	
EBIDTA margin (%)	17.5	14.3		19.8	

SOURCES: EIP RESEARCH, COMPANY REPORTS

Figure 2: Segment-wise breakdown

(Rs m)	3QFY21	3QFY20	% Chg	2QFY21	% Chg
Sales	5,634	5,573	1	4,393	28
Goods transport	5,010	4,525	11	4,077	23
Bus transport	521	947	(45)	168	211
Others	103	101	2	148	(30)
EBITDA	988	797	24	869	14
Goods transport	975	608	61	797	22
Bus transport	47	170	(72)	(12)	(485)
Others	(35)	19	(280)	84	(141)
EBITDA margin %	17.5	14.3		19.8	
Goods transport	19.5	13.4		19.6	
Bus transport	9.1	17.9		(7.3)	
Others	(33.8)	19.2		57.1	
% of EBITDA from goods transport	99	76		92	

SOURCES: EIP RESEARCH, COMPANY REPORTS

Figure 3: Key operating metrics

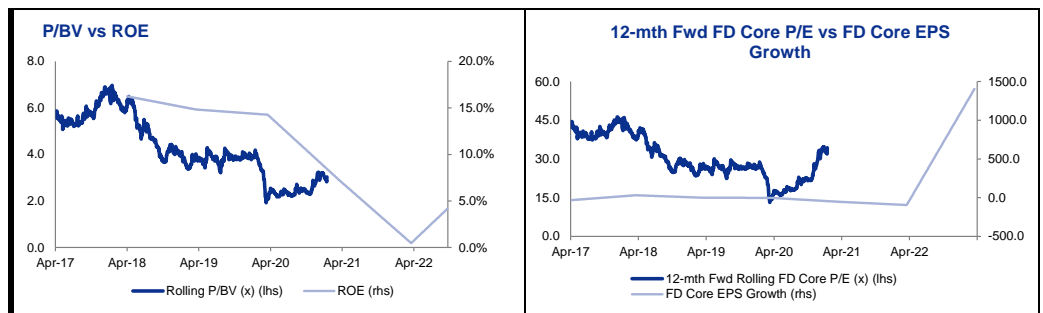
(%)	YoY	QoQ
Growth in Goods transport tariff	10	(3)
Growth in Goods transport volume	1	27

SOURCES: EIP RESEARCH, COMPANY REPORTS

Figure 4: Earnings Revision

(Rs m)	FY21F		FY22F		FY23F	
	Old	New	Old	New	Old	New
Sales	15,836	17,258	20,175	21,388	22,146	22,258
% change		9		6		1
EBITDA	2,089	2,513	2,062	2,158	2,677	2,706
% change		20		5		1
PAT	39	428	(47)	25	349	370
% change		996		(152)		6

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Net Revenues	21,095	21,185	17,258	21,388	22,258
Gross Profit	6,352	7,082	5,752	6,489	7,136
Operating EBITDA	2,440	2,983	2,513	2,158	2,706
Depreciation And Amortisation	(1,006)	(1,675)	(1,684)	(1,771)	(1,858)
Operating EBIT	1,434	1,307	829	387	848
Financial Income/(Expense)	(29)	(264)	(259)	(354)	(354)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	1,405	1,043	570	33	494
Exceptional Items					
Pre-tax Profit	1,405	1,043	570	33	494
Taxation	(486)	(142)	(143)	(8)	(123)
Exceptional Income - post-tax					
Profit After Tax	919	901	428	25	370
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	919	901	428	25	370
Recurring Net Profit	919	901	428	25	370
Fully Diluted Recurring Net Profit	919	901	428	25	370

Cash Flow

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
EBITDA	2,440	2,983	2,513	2,158	2,706
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2)	(121)	325	(155)	(58)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(29)	(264)	(259)	(354)	(354)
Tax Paid	(486)	(142)	(143)	(8)	(123)
Cashflow From Operations	1,923	2,456	2,436	1,640	2,171
Capex	(2,112)	(1,227)	(800)	(800)	(800)
Disposals Of FAs/subsidiaries	2				
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	(2,110)	(1,227)	(800)	(800)	(800)
Debt Raised/(repaid)	595	3,137			
Proceeds From Issue Of Shares	105	(560)			
Shares Repurchased					
Dividends Paid	(497)	(632)	(903)	(903)	(452)
Preferred Dividends					
Other Financing Cashflow	(78)	(3,171)	43		
Cash Flow From Financing	125	(1,226)	(860)	(903)	(452)
Total Cash Generated	(62)	3	775	(63)	919
Free Cashflow To Equity	408	4,366	1,636	840	1,371
Free Cashflow To Firm	(79)	1,596	2,045	1,295	1,825

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Cash And Equivalents	131	134	910	847	1,766
Total Debtors	904	983	777	962	1,002
Inventories	298	293	242	299	312
Total Other Current Assets	723	720	647	738	757
Total Current Assets	2,056	2,130	2,575	2,846	3,836
Fixed Assets	7,442	9,923	8,995	8,024	6,966
Total Investments	25	25	25	25	25
Intangible Assets					
Total Other Non-Current Assets	254	92	92	92	92
Total Non-current Assets	7,721	10,039	9,112	8,141	7,083
Short-term Debt	100	236	4,544	4,544	4,544
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	1,137	1,007	1,001	1,181	1,194
Total Current Liabilities	1,237	1,243	5,546	5,725	5,738
Total Long-term Debt	1,307	4,308			
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	1,307	4,308			
Total Provisions	775	449	449	449	449
Total Liabilities	3,318	6,000	5,994	6,174	6,186
Shareholders Equity	6,459	6,169	5,693	4,814	4,733
Minority Interests					
Total Equity	6,459	6,169	5,693	4,814	4,733

Key Ratios					
	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue Growth	9.7%	0.4%	(18.5%)	23.9%	4.1%
Operating EBITDA Growth	4.2%	22.2%	(15.8%)	(14.1%)	25.4%
Operating EBITDA Margin	11.6%	14.1%	14.6%	10.1%	12.2%
Net Cash Per Share (Rs)	(14.12)	(48.81)	(40.22)	(40.92)	(30.75)
BVPS (Rs)	71.50	68.28	63.01	53.29	52.38
Gross Interest Cover	13.20	3.56	2.03	0.85	1.87
Effective Tax Rate	34.6%	13.6%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	54.1%	70.2%	211.3%	3,671.3%	122.0%
Accounts Receivables Days	15.75	16.25	18.60	14.84	16.10
Inventory Days	6.68	7.64	8.47	6.63	7.37
Accounts Payables Days					
ROIC (%)	19.5%	15.4%	7.5%	4.0%	9.5%
ROCE (%)	18.7%	14.2%	9.0%	4.8%	9.7%
Return On Average Assets	10.3%	10.6%	5.8%	3.3%	6.6%

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

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1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

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Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.