

India

REDUCE (no change)

Consensus ratings*: Buy 12 Hold 0 Sell 1	
Current price:	Rs499
Target price: ▲	Rs387
Previous target:	Rs290
Up/downside:	-22.4%
InCred Research / Consensus:	-25.8%
Reuters:	VRL.NS
Bloomberg:	VRL IN
Market cap:	US\$589m
	Rs44,110m
Average daily turnover:	US\$1.9m
	Rs139.1m
Current shares o/s:	88.3m
Free float:	30.4%
*Source: Bloomberg	

Key changes in this note

- Raise FY22F EBITDA by 4%.
- Raise FY23F EBITDA by 33%.
- Increase TP to Rs387 from Rs290.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	13.0	16.8	150.0
Relative (%)	13.8	18.7	113.7

Major shareholders	% held
Promoter and Promoter Group	69.6
Nippon India	4.9
IDFC sterling value fund	4.1

Analyst(s)



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VRL Logistics Ltd

Goods segment tariff hike drives results

- 3QFY22 EBITDA of Rs1.3bn was 33% of FY22F EBITDA, a tad above our estimate of Rs1.1bn due to recovery in bus transport (BT) segment.
- We increase our TP to Rs387, rolling it forward to Mar 2023F; retain REDUCE.

Tariff hike in GT segment & turnaround in BT segment drives results

3QFY22 sales (Rs6.8bn) of VRL Logistics grew 20% yoy, similar to the growth in its goods transport (GT) segment's sales (Rs6bn, up 19% yoy). Bus transport (BT) segment's sales (Rs748m) also witnessed a sharp 44% yoy growth. Despite a 13% yoy rise in fuel cost/litre, EBITDA grew 31% yoy aided by (a) a 12% yoy tariff hike in GT segment, and (b) recovery in BT segment (EBITDA up 134% yoy).

Rise in diesel price offset by tariff hike

GT segment's sales (Rs6bn; 88% of VRL's 3QFY22 sales) grew 19% yoy driven by a 12% yoy tariff rise. Operating expenses of GT segment grew 16% yoy, mainly due to a 13% yoy rise in diesel price. As a result, GT segment's EBITDA grew 31% yoy to Rs1.3bn. BT segment's sales grew 44% yoy as passenger volume increased 42% yoy. As a result, VRL reported EBITDA of Rs111m in BT segment (up 134% yoy).

Multiple pressure likely on EBITDA margin in FY23F-24F

We expect EBITDA margin to decline from 19% in 3QFY22 to 14% in FY24F (similar to that in FY20) due to (a) complete commissioning of Dedicated Freight Corridor (DFC) likely in FY24F which could dent road logistics industry volume and EBITDA margin, and (b) VRL's employee cost expected to increase in FY23-24F after a 16% yoy decline in salary costs in FY21. VRL stated that it has raised salaries by ~10% in Jan 2022. Salaries account for ~20% of VRL's sales. A 10% rise in salary cost dents EBITDA margin by ~200bp.

Increase TP to Rs387 from Rs290; maintain REDUCE rating

We raise our FY22F/23F EBITDA by 4%/ 33% to factor in the delayed commencement of DFC to FY24F. We roll forward our target price (TP) on VRL to Mar 2023F, raising it to Rs387 (from Rs290 earlier) and maintain REDUCE rating on it. We value the core business at 9x EV/EBITDA FY24F (similar to its median three-year EV/EBITDA multiple of 9.6x). While VRL is the industry leader in India's road logistics sector, we are cautious on the sector due to the impending risk from the Dedicated Freight Corridor. Upside risk: Any delay in the shift of cargo from road to rail could boost VRL's cargo volume.

Financial Summary

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	21,185	17,629	23,974	27,197	28,918
Operating EBITDA (Rsm)	2,983	2,475	3,968	4,216	4,033
Net Profit (Rsm)	901	451	1,441	1,513	1,269
Core EPS (Rs)	10.0	5.0	16.3	17.1	14.4
Core EPS Growth	(1.9%)	(49.4%)	223.3%	5.0%	(16.1%)
FD Core P/E (x)	50.05	98.99	30.62	29.16	34.76
DPS (Rs)	7.0	4.0	10.0	5.0	5.0
Dividend Yield	1.40%	0.80%	2.00%	1.00%	1.00%
EV/EBITDA (x)	16.60	19.65	11.95	10.90	11.00
P/FCFE (x)	10.33	21.10	28.18	23.50	21.48
Net Gearing	71.5%	67.5%	50.4%	24.4%	2.9%
P/BV (x)	7.31	7.39	6.76	5.80	5.23
ROE	14.3%	7.4%	23.0%	21.4%	15.8%
% Change In Core EPS Estimates			10.50%	106.95%	
InCred Research/Consensus EPS (x)			1.03	0.82	0.61

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Goods segment tariff hike drives results

Figure 1: 3QFY22 results update

(Rs. m)	Quarter ended				
	3QFY22	3QFY21	% Chg	2QFY22	% Chg
Net Sales	6,784	5,634	20	6,364	7
Freight, handling cost	4,474	3,733	20	4,273	5
Other costs	1,020	913	12	957	6
EBITDA	1,290	988	31	1,133	14
Other income	49	51	-4	18	178
PBIDT	1,339	1,039	29	1,151	16
Depreciation	444	411	8	396	12
Interest	118	83	42	98	20
PBT	777	545	43	657	18
Tax	172	148		162	
Reported PAT	605	397	52	495	22
EBITDA margin (%)	19.0	17.5		17.8	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Segment-wise breakdown

(Rs m)	3QFY22	3QFY21	% Chg	2QFY22	% Chg
Sales	6,784	5,634	20	6,364	7
Goods transport	5,961	5,010	19	5,688	5
Bus transport	748	521	44	503	49
Others	74	103	-28	173	-57
EBITDA	1,290	988	31	1,133	14
Goods transport	1,280	975	31	1,098	17
Bus transport	111	47	134	3	
Others	-100	-35	188	32	-415
EBITDA margin %	19.0	17.5		17.8	
Goods transport	21.5	19.5		19.3	
Bus transport	14.8	9.1		0.6	
Others	-134.8	-33.8		18.4	
% of EBITDA from goods transport	99	99		97	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Key operating metrics

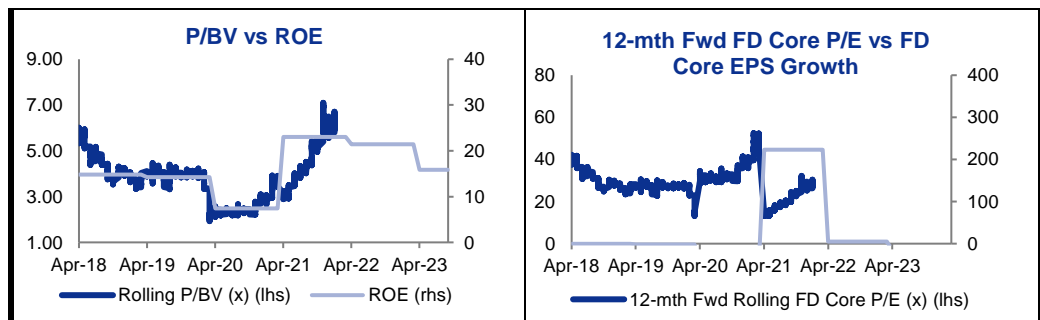
(%)	YoY	QoQ
Growth in Goods transport tariff	12	1
Growth in Goods transport volume	6	4
Growth in Bus Transport tariff	1	7
Growth in Bus Transport volume	42	39
Growth in freight, handling and servicing cost	20	5
Growth in fuel price	20	4

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Revised earnings estimates

(Rs m)	FY22F		FY23F		FY24F
	Old	New	Old	New	
Sales	23,651	23,974	26,722	27,197	28,918
% change		1		2	
EBITDA	3,825	3,968	3,169	4,216	4,033
% change		4		33	
PAT	1,304	1,441	731	1,513	1,269
% change		10		107	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenue	21,185	17,629	23,974	27,197	28,918
Gross Profit	7,082	5,812	7,914	8,819	9,200
Operating EBITDA	2,983	2,475	3,968	4,216	4,033
Depreciation And Amortisation	(1,675)	(1,598)	(1,776)	(1,906)	(2,048)
Operating EBIT	1,307	877	2,193	2,310	1,985
Financial Income/(Expense)	(264)	(240)	(272)	(293)	(293)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	1,043	637	1,921	2,017	1,692
Exceptional Items					
Pre-tax Profit	1,043	637	1,921	2,017	1,692
Taxation	(142)	(187)	(480)	(504)	(423)
Exceptional Income - post-tax					
Profit After Tax	901	451	1,441	1,513	1,269
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	901	451	1,441	1,513	1,269
Recurring Net Profit	901	451	1,441	1,513	1,269
Fully Diluted Recurring Net Profit	901	451	1,441	1,513	1,269

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	2,983	2,475	3,968	4,216	4,033
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(121)	784	(651)	(142)	(63)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(264)	(240)	(272)	(293)	(293)
Tax Paid	(142)	(187)	(480)	(504)	(423)
Cashflow From Operations	2,456	2,833	2,565	3,277	3,254
Capex	(1,227)	(393)	(1,000)	(1,400)	(1,200)
Disposals Of FAs/subsidiaries		1			
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	(1,227)	(392)	(1,000)	(1,400)	(1,200)
Debt Raised/(repaid)	3,137	(326)			
Proceeds From Issue Of Shares	(560)	(295)			
Shares Repurchased					
Dividends Paid	(632)	(353)	(883)	(442)	(442)
Preferred Dividends					
Other Financing Cashflow	(3,171)	(1,415)	60		
Cash Flow From Financing	(1,226)	(2,389)	(823)	(442)	(442)
Total Cash Generated	3	51	742	1,436	1,612
Free Cashflow To Equity	4,366	2,114	1,565	1,877	2,054
Free Cashflow To Firm	1,596	2,808	1,987	2,320	2,497

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash and Equivalents	134	185	927	2,362	3,975
Total Debtors	983	639	1,079	1,224	1,301
Inventories	293	395	336	381	405
Total Other Current Assets	720	543	637	708	746
Total Current Assets	2,130	1,762	2,978	4,675	6,427
Fixed Assets	9,923	9,581	8,745	8,238	7,390
Total Investments	25	24	24	24	24
Intangible Assets					
Total Other Non-Current Assets	92	619	619	619	619
Total Non-current Assets	10,039	10,224	9,388	8,882	8,034
Short-term Debt	236	159	4,218	4,218	4,218
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	1,007	1,309	1,132	1,251	1,327
Total Current Liabilities	1,243	1,468	5,350	5,469	5,545
Total Long-term Debt	4,308	4,059			
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	4,308	4,059			
Total Provisions	449	488	488	488	488
Total Liabilities	6,000	6,015	5,838	5,957	6,033
Shareholders' Equity	6,169	5,971	6,529	7,600	8,427
Minority Interests					
Total Equity	6,169	5,971	6,529	7,600	8,427

Key Ratios					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	0.4%	(16.8%)	36.0%	13.4%	6.3%
Operating EBITDA Growth	22.2%	(17.0%)	60.3%	6.3%	(4.3%)
Operating EBITDA Margin	14.1%	14.0%	16.6%	15.5%	13.9%
Net Cash Per Share (Rs)	(48.81)	(45.65)	(37.25)	(21.00)	(2.75)
BVPS (Rs)	68.28	67.59	73.90	86.02	95.39
Gross Interest Cover	3.56	2.38	5.20	5.22	4.48
Effective Tax Rate	13.6%	29.3%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	70.2%	78.4%	61.3%	29.2%	34.8%
Accounts Receivables Days	16.25	16.79	13.08	15.45	15.94
Inventory Days	7.64	10.62	8.30	7.11	7.27
Accounts Payables Days					
ROIC (%)	15.4%	8.0%	20.9%	22.5%	20.0%
ROCE (%)	14.2%	9.2%	21.4%	20.9%	16.8%
Return On Average Assets	10.6%	5.7%	14.1%	13.9%	11.2%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 - 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CGET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

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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.

Sector Ratings

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.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
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.