

India

**REDUCE** (no change)

Consensus ratings\*: Buy 12 Hold 0 Sell 1

Current price: Rs536  
 Target price: ▲ Rs426  
 Previous target: Rs387  
 Up/downside: -20.5%  
 InCred Research / Consensus: -41.0%

Reuters:  
 Bloomberg: VRL IN  
 Market cap: US\$652m  
 Rs47,312m  
 Average daily turnover: US\$2.2m  
 Rs162.5m  
 Current shares o/s: 88.3m  
 Free float: 35.8%  
 \*Source: Bloomberg

**Key changes in this note**

- Reduce FY24F EBITDA by 8% and introduce FY25F estimates.
- Raise target price to Rs426 from Rs387.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.1)	(11.7)	20.6
Relative (%)	1.0	(9.4)	19.2

Major shareholders	% held
Promoter and Promoter Group	64.2
IDFC Mutual Fund	4.8
ICICI Prudential	3.3

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# VRL Logistics Ltd

## Third consecutive quarter of weak margins

- 3QFY23 EBITDA of Rs1.2bn declined 8% yoy due to weak margin in the goods transport (GT) segment.
- We believe disappointment is likely in volume and margins in FY24F-25F. We have increased our target price to Rs426 from Rs387 earlier; Retain REDUCE.

### Weak margin in the core goods transport (GT) segment

VRL Logistics' 3QFY23 sales (Rs7.7bn)/ EBITDA (Rs1.2bn) grew 13% yoy/ dipped 8% yoy, respectively. EBITDA margin (15.4%) dipped 360bp yoy due to (a) a 498 bp yoy fall in GT EBITDA margin. VRL attributed GT EBITDA margin dip to higher lorry hire (Rs689m; up 35% yoy) because of strong volume growth (15% yoy) being met by more hired lorries. Going ahead, VRL Logistics gave guidance of a 15-16% EBITDA margin in the GT segment, similar to 2-3QFY23. EBITDA margin rose by 185bp qoq due to a rebound in the bus segment's EBITDA (Rs188m vs. Rs38m qoq).

### We believe 15-20% yoy volume growth (next 2-3 years) is unlikely

While VRL Logistics is optimistic of 15-20% GT volume CAGR over 2-3 years, we note that avg. quarterly volume CAGR of 2QFY22-3QFY23 (vs. FY20 – pre-Covid) is just 7%, similar to historical growth. High yoy growth in last three quarters was due to the low base effect.

### Other developments: sale of non-core assets, proposed buyback

In 3Q/ 2QFY23, VRL sold its bus / power assets for Rs2.3bn/ Rs529m, respectively. Around 90% of the money has been received. Regulatory approval for both transactions were obtained in Jan 2023. PBT of Rs1.9bn on the transactions are not a part of 3QFY23. VRL approved the buyback of 0.875m shares (1% of total shares) for Rs700/ share.

### Segment-wise analysis

GT segment (94% of VRL Logistics' 3QFY23 EBITDA): Sales (Rs6.8bn) grew 13% yoy with the volume rising 15% yoy. Opex grew 20% yoy, despite just a 2% yoy rise in diesel prices. Thus, EBITDA (Rs1.1bn) dipped 13% yoy. VRL has implemented a 5% tariff hike in mid-Dec 2022 for non-contractual customers (~60% of the company's volume). BT segment's sales (Rs0.9bn) grew 17% yoy and EBITDA rose to Rs188m (up 70% yoy).

### Disappointment likely in EBITDA margin and volume in FY24F-25F

We expect the GT segment's EBITDA margin to fall from 16.1% in 9MFY23 to 14% in FY25F due to commissioning of the dedicated freight corridor (DFC) in FY24F-25F, which could dent the road sector's margins. We factor in a 7% GT volume CAGR (FY23F-25F).

### Raise target price to Rs426 from Rs387; maintain REDUCE rating

We reduce our FY24F EBITDA by 8% and introduce FY25F estimates. We roll forward our target price to Mar 2024F, raising it to Rs426 (from Rs387) and maintain REDUCE rating. We value the core business at 10x EV/EBITDA FY25F (similar to its three-year median). While the stock price of VRL Logistics has declined by 25% from its peak, we are cautious on the road logistics sector due to the impending risk from the DFC. Upside risk is the delay in the shift of cargo from road to rail, which could boost VRL Logistics' cargo volume.

### Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	17,629	23,867	29,604	26,717	28,581
Operating EBITDA (Rsm)	2,475	3,973	4,464	3,711	4,069
Net Profit (Rsm)	451	1,601	3,121	987	1,259
Core EPS (Rs)	5.0	17.5	19.7	11.3	14.4
Core EPS Growth	(49.4%)	247.5%	12.6%	(42.8%)	27.6%
FD Core P/E (x)	106.18	29.55	15.09	47.46	37.20
DPS (Rs)	4.0	8.0	5.0	5.0	6.0
Dividend Yield	0.75%	1.49%	0.93%	0.93%	1.12%
EV/EBITDA (x)	20.96	13.29	11.49	13.67	12.45
P/FCFE (x)	22.64	18.27	13.64	98.09	80.80
Net Gearing	67.5%	84.4%	48.0%	41.8%	38.1%
P/BV (x)	7.92	7.26	5.36	5.04	4.67
ROE	7.4%	24.8%	22.7%	10.9%	13.0%
% Change In Core EPS Estimates			15.28%	(21.46%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Third consecutive quarter of weak margins

Figure 1: Results update

(Rs. m)	Quarter ended				
	3QFY23	3QFY22	% Chg	2QFY23	% Chg
<b>Net Sales</b>	<b>7,688</b>	<b>6,784</b>	<b>13</b>	<b>7,307</b>	<b>5</b>
Freight, handling cost	5,376	4,474	20	5,101	5
Other costs	1,126	1,020	10	1,215	-7
<b>EBITDA</b>	<b>1,186</b>	<b>1,290</b>	<b>-8</b>	<b>992</b>	<b>20</b>
Other income	45	49	-9	22	104
Depreciation	421	444	-5	429	-2
Interest	151	118	28	146	4
Tax	167	172		125	
Adjusted PAT	492	605	-19	315	56
EBITDA margin (%)	15.4	19.0		13.6	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Volume CAGR of the GT segment

(%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
GT volume CAGR from FY20	5.8	3.4	10.1	7.3	8.7	7.1

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Segment-wise breakdown

(Rs m)	3QFY23	3QFY22	% Chg	2QFY23	% Chg
<b>Sales</b>	<b>7,688</b>	<b>6,784</b>	<b>13</b>	<b>7,307</b>	<b>5</b>
Goods transport	6,751	5,961	13	6,500	4
Bus transport	873	748	17	732	19
Others	64	74	-14	75	-15
<b>EBITDA</b>	<b>1,186</b>	<b>1,290</b>	<b>-8</b>	<b>992</b>	<b>20</b>
Goods transport	1,113	1,280	-13	1,011	10
Bus transport	188	111	70	38	394
Others	-115	-100	na	-57	na
<b>EBITDA margin %</b>	<b>15.4</b>	<b>19.0</b>		<b>13.6</b>	
Goods transport	16.5	21.5		15.6	
Bus transport	21.6	14.8		5.2	
Others	-179.8	-134.8		-76.1	
<b>% of EBITDA from GT</b>	<b>94</b>	<b>99</b>		<b>102</b>	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: 3QFY22 key operating metrics

(%)	YoY	QoQ
Growth in Goods transport tariff	-2	0
Growth in Goods transport volume	15	4
Growth in freight, handling and servicing cost	20	5
Growth in fuel price	2	0

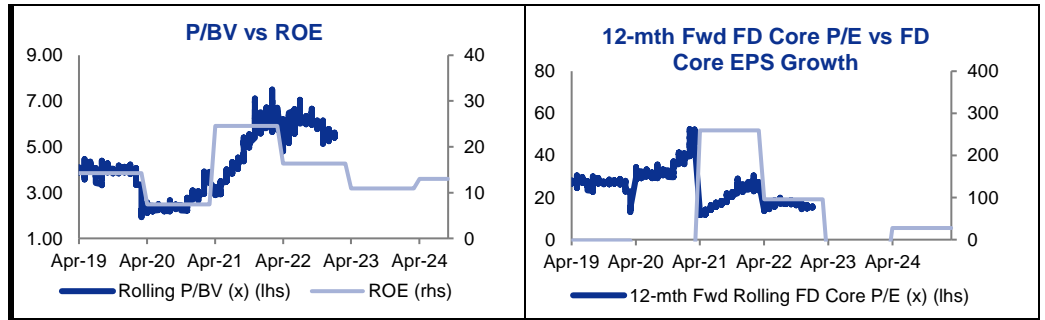
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

(Rs m)	FY23F		FY24F		FY25F
	Old	New	Old	New	
Sales	27,197	29,604	28,918	26,717	28,581
% change		9		-8	
EBITDA	4,216	4,464	4,033	3,711	4,069
% change		6		-8	
PAT	1,513	1,735	1,269	987	1,259
% change		15		-22	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>17,629</b>	<b>23,867</b>	<b>29,604</b>	<b>26,717</b>	<b>28,581</b>
<b>Gross Profit</b>	<b>5,812</b>	<b>7,951</b>	<b>9,024</b>	<b>7,663</b>	<b>8,098</b>
<b>Operating EBITDA</b>	<b>2,475</b>	<b>3,973</b>	<b>4,464</b>	<b>3,711</b>	<b>4,069</b>
Depreciation And Amortisation	(1,598)	(1,680)	(1,691)	(1,889)	(1,880)
<b>Operating EBIT</b>	<b>877</b>	<b>2,293</b>	<b>2,773</b>	<b>1,822</b>	<b>2,190</b>
Financial Income/(Expense)	(240)	(263)	(428)	(488)	(488)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	<b>637</b>	<b>2,030</b>	<b>2,345</b>	<b>1,334</b>	<b>1,702</b>
Exceptional Items		69	1,872		
<b>Pre-tax Profit</b>	<b>637</b>	<b>2,099</b>	<b>4,217</b>	<b>1,334</b>	<b>1,702</b>
Taxation	(187)	(498)	(1,096)	(347)	(442)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>451</b>	<b>1,601</b>	<b>3,121</b>	<b>987</b>	<b>1,259</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>451</b>	<b>1,601</b>	<b>3,121</b>	<b>987</b>	<b>1,259</b>
Recurring Net Profit	451	1,548	1,735	987	1,259
<b>Fully Diluted Recurring Net Profit</b>	<b>451</b>	<b>1,548</b>	<b>1,735</b>	<b>987</b>	<b>1,259</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>2,475</b>	<b>3,973</b>	<b>4,464</b>	<b>3,711</b>	<b>4,069</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	784	(203)	(78)	101	(59)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense		69	1,872		
Other Operating Cashflow					
Net Interest (Paid)/Received	(240)	(263)	(428)	(488)	(488)
Tax Paid	(187)	(498)	(1,096)	(347)	(442)
<b>Cashflow From Operations</b>	<b>2,833</b>	<b>3,078</b>	<b>4,734</b>	<b>2,978</b>	<b>3,080</b>
Capex	(393)	(1,929)	(2,617)	(2,500)	(2,500)
Disposals Of FAs/subsidiaries	1	15			
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>(392)</b>	<b>(1,914)</b>	<b>(2,617)</b>	<b>(2,500)</b>	<b>(2,500)</b>
Debt Raised/(repaid)	(326)	1,426	1,334		
Proceeds From Issue Of Shares	(295)	(297)	933		
Shares Repurchased					
Dividends Paid	(353)	(707)	(437)	(437)	(525)
Preferred Dividends					
Other Financing Cashflow	(1,415)	(1,626)	350		
<b>Cash Flow From Financing</b>	<b>(2,389)</b>	<b>(1,204)</b>	<b>2,180</b>	<b>(437)</b>	<b>(525)</b>
Total Cash Generated	51	(40)	4,297	40	55
<b>Free Cashflow To Equity</b>	<b>2,114</b>	<b>2,589</b>	<b>3,451</b>	<b>478</b>	<b>580</b>
<b>Free Cashflow To Firm</b>	<b>2,808</b>	<b>1,594</b>	<b>2,685</b>	<b>1,106</b>	<b>1,208</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	185	145	2,783	3,097	3,152
Total Debtors	639	673	888	802	857
Inventories	395	459	503	454	486
Total Other Current Assets	543	435	848	776	823
<b>Total Current Assets</b>	<b>1,762</b>	<b>1,711</b>	<b>5,023</b>	<b>5,128</b>	<b>5,317</b>
Fixed Assets	9,581	11,321	12,170	12,507	13,128
Total Investments	24	9	9	9	9
Intangible Assets					
Total Other Non-Current Assets	619	762	762	762	762
<b>Total Non-current Assets</b>	<b>10,224</b>	<b>12,092</b>	<b>12,941</b>	<b>13,279</b>	<b>13,899</b>
Short-term Debt	159	278	6,978	6,978	6,978
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	1,309	1,257	1,853	1,746	1,821
<b>Total Current Liabilities</b>	<b>1,468</b>	<b>1,534</b>	<b>8,831</b>	<b>8,724</b>	<b>8,799</b>
Total Long-term Debt	4,059	5,366			
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>4,059</b>	<b>5,366</b>			
Total Provisions	488	386	386	386	386
<b>Total Liabilities</b>	<b>6,015</b>	<b>7,287</b>	<b>9,217</b>	<b>9,110</b>	<b>9,185</b>
Shareholders Equity	5,971	6,516	8,747	9,297	10,031
Minority Interests					
<b>Total Equity</b>	<b>5,971</b>	<b>6,516</b>	<b>8,747</b>	<b>9,297</b>	<b>10,031</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	(16.8%)	35.4%	24.0%	(9.8%)	7.0%
Operating EBITDA Growth	(17.0%)	60.5%	12.4%	(16.9%)	9.6%
Operating EBITDA Margin	14.0%	16.6%	15.1%	13.9%	14.2%
Net Cash Per Share (Rs)	(45.65)	(62.24)	(47.96)	(44.38)	(43.75)
BVPS (Rs)	67.59	73.76	100.00	106.29	114.68
Gross Interest Cover	2.38	5.32	4.88	2.90	3.49
Effective Tax Rate	29.3%	23.7%	26.0%	26.0%	26.0%
Net Dividend Payout Ratio	78.4%	46.1%	35.0%	44.3%	41.7%
Accounts Receivables Days	16.79	10.03	9.62	11.54	10.59
Inventory Days	10.62	9.79	8.53	9.17	8.38
Accounts Payables Days					
ROIC (%)	8.0%	21.9%	22.4%	13.7%	16.2%
ROCE (%)	9.2%	21.2%	20.3%	12.0%	13.7%
Return On Average Assets	5.7%	13.9%	10.6%	8.1%	9.3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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