

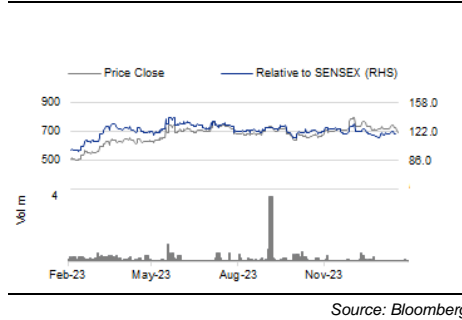
India

REDUCE (no change)

Consensus ratings*:	Buy 11	Hold 1	Sell 1
Current price:	Rs689		
Target price:	Rs500 ▲		
Previous target:	Rs426		
Up/downside:	-27.4%		
InCred Research / Consensus:	-38.7%		
Reuters:	VRL.NS		
Bloomberg:	VRL IN		
Market cap:	US\$726m		
	Rs60,270m		
Average daily turnover:	US\$1.3m		
	Rs112.1m		
Current shares o/s:	88.3m		
Free float:	30.4%		
*Source: Bloomberg			

Key changes in this note

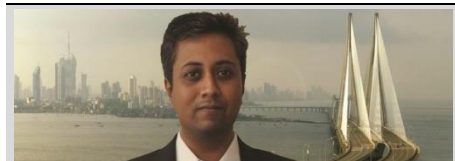
- Introduce FY26F estimates.
- Roll forward our target price to Mar 2025F.



Price performance	1M	3M	12M
Absolute (%)	(5.7)	0.7	33.3
Relative (%)	(5.9)	(9.4)	11.3

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

Research Analyst(s)



Rajarshi MAITRA
T (91) 22 4161 1546
E rajarshi.maitra@incredresearch.com

Parth THAKKAR
T (022) 22 4161 1566
E parth.thakkar@incredresearch.com

VRL Logistics Ltd

Tepid cargo growth; dip in EBITDA margin

- Despite an 8% yoy volume growth and a 0.6% yoy dip in fuel costs in 3Q, EBITDA fell 9% yoy due to flat tariffs and a 21% yoy rise in employee costs.
- We believe the 15-20% yoy volume growth (next two-to-three years) is unlikely and margin over FY25F-26F is likely to remain at the levels seen in 2-3QFY24.
- We roll forward our valuation to Mar 2025F. We maintain REDUCE rating on VRL Logistics with a higher target price of Rs500 (vs. Rs426 earlier).

Weak margin and volume growth

3QFY24 sales (Rs7.4bn) of VRL Logistics (VRL) grew by 8% yoy, driven by similar volume growth and flat tariff yoy. Opex grew 11% yoy, despite an 0.6% yoy dip in fuel prices, due to a 21% yoy rise in employee costs. As a result, EBITDA (Rs0.9bn) dipped 9% yoy. Adjusted PAT (Rs137m) declined by 66% yoy due to a 35% yoy rise in depreciation (by Rs146m yoy). This was in line with capex over Sep 2022-Sep 2023 (Rs5.7bn). We note that the rise in net fixed assets over Sep 2022-Sep 2023 (up 28% yoy) is significantly ahead of sales (up 8% yoy).

We believe 15%+ yoy volume growth (over 2-3 years) is unlikely

While VRL is optimistic of 15%+ goods transport or GT volume CAGR over two-to-three years, we note that average quarterly volume CAGR of 1QFY23-3QFY24 (vs. FY20 – pre-Covid) was just 8%, like its historical trend. Management sees ~10% yoy volume growth in the near term. We factor in 8% volume CAGR over FY24F-26F, in line with historical trend.

Disappointment likely in EBITDA margin over FY25F-26F

We expect VRL's EBITDA margin to remain muted over FY25F-26F (~13% vs. 17.6% goods transport margin in FY23), similar to the level in 2-3QFY24 due to shift of cargo from road to railways after the commissioning of the Dedicated Freight Corridor (DFC) in FY24F-25F. We believe the DFC will drive a gain in cargo market share by rail (from road transport) only on DFC routes, leading to lack of cargo for road haulage players there. We expect this would nudge road haulage players to explore other routes. Thus, while the road haulage industry volume on non-DFC routes would not be affected, competitive intensity could increase. We expect a dip in margins for individual road cargo haulage players even in non-DFC routes in FY24F-26F.

Roll forward our valuation to Mar 2025F; maintain REDUCE rating

We have made marginal changes in our FY24F/ 25F EBITDA estimates and introduce our FY26 estimates. Over FY24F-26F, we factor in sales/volume/EBITDA CAGR of 7-8% each. We roll forward our valuation to Mar 2025F, valuing VRL at 12x EV/EBITDA (vs. six-year median of 10.3x and current 17.3x FY25F EV/EBITDA). We believe the discount to the current multiple is warranted, considering the likely muted growth and EBITDA margin over FY24F-26F. We maintain our REDUCE rating on VRL with a higher target price of Rs500 (vs. Rs426 earlier). A sharp rise in VRL's volume is an upside risk.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	23,867	26,485	28,539	30,819	33,445
Operating EBITDA (Rsm)	3,973	4,017	3,813	4,020	4,363
Net Profit (Rsm)	1,601	3,232	865	815	914
Core EPS (Rs)	17.5	17.5	9.8	9.3	10.4
Core EPS Growth	247.5%	(0.2%)	(43.8%)	(5.3%)	12.1%
FD Core P/E (x)	38.02	18.83	70.03	73.93	65.97
DPS (Rs)	8.0	5.0	5.0	6.0	7.0
Dividend Yield	1.16%	0.73%	0.73%	0.87%	1.02%
EV/EBITDA (x)	16.71	16.83	18.30	17.32	15.94
P/FCFE (x)	23.51	29.79	326.34	163.13	87.75
Net Gearing	84.4%	68.9%	96.2%	94.9%	91.4%
P/BV (x)	9.34	6.24	6.30	6.11	5.93
ROE	24.8%	19.0%	8.9%	8.4%	9.1%
% Change In Core EPS Estimates			(12.79%)	(35.26%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Tepid cargo growth; dip in EBITDA margin

Figure 1: Results update

(Rs. m)	Quarter ended				
	3QFY24	3QFY23	% Chg	2QFY24	% Chg
Net Sales	7,367	6,815	8	7,093	4
Freight, handling cost	5,032	4,656	8	4,882	3
Other costs	1,392	1,126	24	1,293	8
EBITDA	943	1,033	-9	918	3
Other income	24	45	-46	60	-60
Depreciation	568	421	35	522	9
Interest	213	151	41	185	15
PBT	187	506	-63	271	-31
Tax	50	128		77	
Adjusted PAT	137	378	-64	194	-30
Extraordinary income	0	114		3	
Reported PAT	137	492	-72	197	-31
EBITDA margin (%)	12.8	15.2		12.9	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Volume CAGR of goods transport segment

(%)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
GT volume CAGR from FY20	7.1	8.9	8.1	8.6	7.4

* 4QFY23 CAGR is calculated vs. 4QFY19

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Key metrics

(%)	YoY	QoQ
Growth in Goods transport tariff	-0.4	-1.3
Growth in Goods transport volume	8.2	3.9
Growth in freight, handling & servicing cost	8.1	3.1
Growth in fuel price	-0.6	1.2

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Our revised earnings estimates

(Rs m)	FY24F		FY25F		FY26F
	Old	New	Old	New	
Sales	26,717	28,539	28,581	30,819	33,445
% change		7		8	
EBITDA	3,711	3,813	4,069	4,020	4,363
% change		3		-1	
PAT	987	865	1,259	815	914
% change		-12		-35	

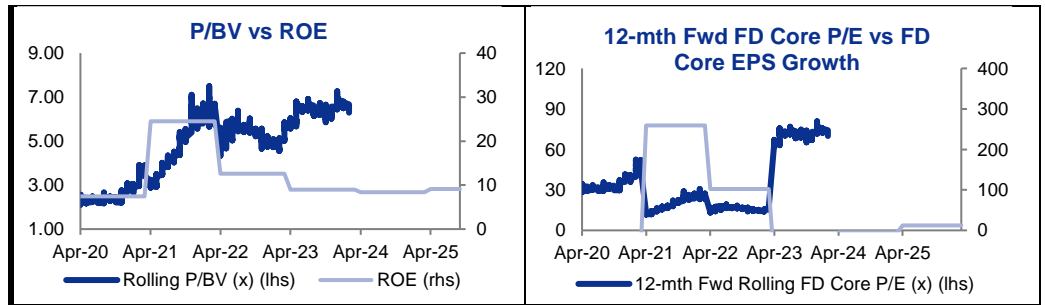
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Last six-year median EV/EBITDA at 10.3x



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	23,867	26,485	28,539	30,819	33,445
Gross Profit	7,951	8,495	9,023	10,204	11,166
Operating EBITDA	3,973	4,017	3,813	4,020	4,363
Depreciation And Amortisation	(1,680)	(1,591)	(2,117)	(2,374)	(2,608)
Operating EBIT	2,293	2,425	1,696	1,646	1,755
Financial Income/(Expense)	(263)	(400)	(543)	(545)	(520)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	2,030	2,025	1,153	1,102	1,235
Exceptional Items	69	2,208			
Pre-tax Profit	2,099	4,234	1,153	1,102	1,235
Taxation	(498)	(1,002)	(288)	(286)	(321)
Exceptional Income - post-tax					
Profit After Tax	1,601	3,232	865	815	914
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,601	3,232	865	815	914
Recurring Net Profit	1,548	1,546	865	815	914
Fully Diluted Recurring Net Profit	1,548	1,546	865	815	914

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	3,973	4,017	3,813	4,020	4,363
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(203)	(325)	204	(70)	(85)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	69	2,208			
Other Operating Cashflow					
Net Interest (Paid)/Received	(263)	(400)	(543)	(545)	(520)
Tax Paid	(498)	(1,002)	(288)	(286)	(321)
Cashflow From Operations	3,078	4,499	3,186	3,119	3,437
Capex	(1,929)	(4,140)	(5,000)	(2,750)	(2,750)
Disposals Of FAs/subsidiaries	15	(150)			
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	(1,914)	(4,290)	(5,000)	(2,750)	(2,750)
Debt Raised/(repaid)	1,426	1,834	2,000		
Proceeds From Issue Of Shares	(297)	2,138	(613)		
Shares Repurchased					
Dividends Paid	(707)	(442)	(437)	(525)	(612)
Preferred Dividends					
Other Financing Cashflow	(1,626)	(3,129)	384		
Cash Flow From Financing	(1,204)	401	1,334	(525)	(612)
Total Cash Generated	(41)	610	(480)	(155)	75
Free Cashflow To Equity	2,589	2,043	186	369	687
Free Cashflow To Firm	1,594	752	(1,051)	1,156	1,474

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	145	752	272	117	191
Total Debtors	673	817	856	925	1,003
Inventories	459	528	571	616	669
Total Other Current Assets	435	541	588	627	672
Total Current Assets	1,711	2,638	2,287	2,284	2,535
Fixed Assets	11,321	15,197	17,697	18,072	18,215
Total Investments	9	159	159	159	159
Intangible Assets					
Total Other Non-Current Assets	762	922	922	922	922
Total Non-current Assets	12,092	16,279	18,778	19,154	19,296
Short-term Debt	278	281	9,478	9,478	9,478
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	1,257	1,220	1,553	1,635	1,727
Total Current Liabilities	1,534	1,500	11,030	11,113	11,205
Total Long-term Debt	5,366	7,197			
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	5,366	7,197			
Total Provisions	386	461	461	461	461
Total Liabilities	7,287	9,159	11,492	11,575	11,666
Shareholders Equity	6,516	9,758	9,574	9,864	10,165
Minority Interests					
Total Equity	6,516	9,758	9,574	9,864	10,165

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	35.4%	11.0%	7.8%	8.0%	8.5%
Operating EBITDA Growth	60.5%	1.1%	(5.1%)	5.4%	8.5%
Operating EBITDA Margin	16.6%	15.2%	13.4%	13.0%	13.0%
Net Cash Per Share (Rs)	(62.24)	(76.13)	(105.25)	(107.03)	(106.17)
BVPS (Rs)	73.76	110.46	109.45	112.77	116.22
Gross Interest Cover	5.32	4.46	2.22	2.09	2.23
Effective Tax Rate	23.7%	23.7%	25.0%	26.0%	26.0%
Net Dividend Payout Ratio	46.1%	43.2%	50.6%	64.4%	67.0%
Accounts Receivables Days	10.03	10.26	10.70	10.54	10.52
Inventory Days	9.79	10.01	10.27	10.51	10.53
Accounts Payables Days					
ROIC (%)	21.9%	19.6%	10.1%	8.6%	9.0%
ROCE (%)	21.2%	17.0%	10.3%	9.6%	10.1%
Return On Average Assets	13.9%	8.7%	7.0%	6.4%	6.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.