

India

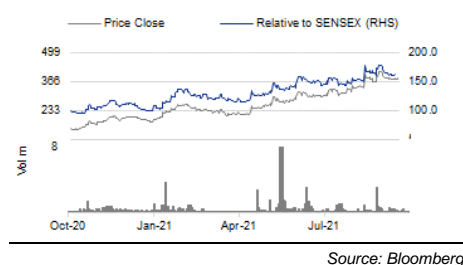
**REDUCE** (no change)

Consensus ratings*:	Buy 13 Hold 0 Sell 1
Current price:	Rs398
Target price:	Rs290 ▲
Previous target:	Rs242
Up/downside:	-27.1%
InCred Research / Consensus:	-27.4%
Reuters:	VRL.NS
Bloomberg:	VRL IN
Market cap:	US\$471m Rs35,192m
Average daily turnover:	US\$2.0m Rs146.0m
Current shares o/s:	88.3m
Free float:	30.4%

\*Source: Bloomberg

**Key changes in this note**

- Increase FY22F EBITDA by 38%.
- Increase FY23F EBITDA by 12%.



Price performance	1M	3M	12M
Absolute (%)	8.1	30.5	166.9
Relative (%)	5.8	17.0	79.0

Major shareholders	% held
Promoter and Promoter Group	69.6
Nippon India	5.7
ICICI Prudential	3.3

**Analyst(s)**



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

**Dipen VAKIL**  
T (91) 22 4161 1551  
E dipen.vakil@incredcapital.com

# VRL Logistics Ltd

## Strong show, but headwinds on the horizon

- 2QFY22 EBITDA of Rs1.1bn was 29% of FY22 EBITDA, ahead of our Rs0.8bn estimate due to strong volume in goods transport (GT) segment.
- We raise our target price to Rs290 (from Rs242) considering the strong performance in 2QFY22. We maintain our Reduce rating on the stock.

### Tariff hike and volume growth in GT segment drives results

Sales (Rs6.4bn) were 16% above our estimate. VRL's strong yoy and qoq performance was partly due to the fact that the yoy and qoq quarters were marred by Covid. When compared to 3QFY21, sales/ EBITDA grew 13%/ 15%. On a yoy basis, sales grew 45% due to a 40% growth in Goods Transport (GT) segment sales (Rs5.7bn). Bus Transport (BT) segment sales (Rs503m) witnessed a sharp growth 186% qoq/ 200% yoy. Despite a 20% yoy rise in fuel cost/ litre, EBITDA grew 30% yoy aided by higher GT volume (up 30% yoy).

### Robust growth in GT volume, turnaround in bus transport segment

EBITDA of GT segment (89% of VRL's 2QFY22 sales) grew 38% yoy to Rs1.1bn due to 7% yoy tariff hike and 30% yoy volume growth (vs. 2.5% avg. growth in FY16-20). Operating expense of GT segment grew 40% yoy, in line with GT EBITDA growth. BT sales grew 200% yoy as passenger volumes increased by ~200% yoy. As a result, VRL reported an EBITDA profit of Rs3m for the BT segment.

### Multiple pressures are likely on EBITDA margin in 2HFY22-23F

We expect EBITDA margin to decline from 17.8% in 2QFY22 to 12% in FY23 due to the commissioning of DFC in 2HFY22. The 46% rise in diesel price/litre since 4QFY20 is a headwind. We expect employee costs to increase in 2HFY22-23F due to likely salary hike, post the 16% yoy decline in salary costs in FY21. VRL has increased tariff in GT segment by 8% in Jul 2021. We believe, this will only offset the increase in fuel cost/ litre since Jun 2020 as diesel price/litre has risen 40% since Jun 2020, when VRL had taken the last tariff hike of 10%. Fuel costs (including lorry hire) were 36% of sales in FY21. Thus, we believe that the tariff hike in Jul 2021 is essential to offset the increase in fuel cost/litre since Jun 2020.

### Maintain Reduce with a higher target price of Rs290/share

We raise our FY22F/23F EBITDA by 38%/ 12%, respectively, to factor in strong performance in 2QFY22. We raise our TP to Rs290, from Rs242, valuing the core business at 9x EV/EBITDA FY23F (20% discount to its median EV/EBITDA multiple of the last three years) due to likely decline in margin in 2HFY22F-23F. We maintain Reduce rating on the stock. 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 (DFC). An upside risk is a delay in the shift of cargo from road to rail, which could boost VRL's cargo volume in 2HFY22-23F.

Financial Summary	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
Revenue (Rsm)	21,095	21,185	17,629	23,651	26,722
Operating EBITDA (Rsm)	2,440	2,983	2,475	3,825	3,169
Net Profit (Rsm)	919	901	451	1,304	731
Core EPS (Rs)	10.2	10.0	5.0	14.8	8.3
Core EPS Growth	(0.2%)	(1.9%)	(49.4%)	192.6%	(43.9%)
FD Core P/E (x)	39.15	39.93	78.98	26.99	48.14
DPS (Rs)	5.5	7.0	4.0	10.0	5.0
Dividend Yield	1.38%	1.76%	1.00%	2.51%	1.26%
EV/EBITDA (x)	15.27	13.54	16.01	9.88	11.49
P/FCFE (x)	88.24	8.24	16.84	15.51	19.68
Net Gearing	19.7%	71.5%	67.5%	40.5%	18.6%
P/BV (x)	5.57	5.83	5.89	5.51	5.27
ROE	14.8%	14.3%	7.4%	21.1%	11.2%
% Change In Core EPS Estimates				152.37%	51.61%
InCred Research/Consensus EPS (x)				1.07	0.44

SOURCES: INCRED RESEARCH, COMPANY REPORTS

## Strong show, but headwinds on the horizon

**Figure 1: Result update**

(Rs. m)	Quarter ended				
	2QFY22	2QFY21	% Chg	1QFY22	% Chg
<b>Net Sales</b>	<b>6,364</b>	<b>4,393</b>	<b>45</b>	<b>4,138</b>	<b>54</b>
Freight, handling cost	4,273	2,734	56	2,888	48
Other costs	957	790	21	889	8
<b>EBITDA</b>	<b>1,133</b>	<b>869</b>	<b>30</b>	<b>361</b>	<b>214</b>
Other income	18	25	-31	35	-50
PBIDT	1,151	895	29	396	191
Depreciation	396	388	2	377	5
Interest	98	90	9	95	3
<b>PBT</b>	<b>657</b>	<b>417</b>	<b>58</b>	<b>-76</b>	<b>-962</b>
Tax	162	108		-16	
<b>Reported PAT</b>	<b>495</b>	<b>309</b>	<b>60</b>	<b>-60</b>	<b>-919</b>
EBITDA margin (%)	17.8	19.8		8.7	
<b>EBT margin (%)</b>	<b>10</b>	<b>9</b>		<b>-3</b>	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Segment-wise breakdown**

(Rs m)	2QFY22	2QFY21	% Chg	1QFY22	% Chg
<b>Sales</b>	<b>6,364</b>	<b>4,393</b>	<b>45</b>	<b>4,138</b>	<b>54</b>
Goods transport	5,688	4,077	40	3,848	48
Bus transport	503	168	200	176	186
Others	173	148	17	114	52
<b>EBITDA</b>	<b>1,133</b>	<b>869</b>	<b>30</b>	<b>361</b>	<b>214</b>
Goods transport	1,098	797	38	431	155
Bus transport	3	-12		-38	
Others	32	84	-62	-32	-200
<b>EBITDA margin %</b>	<b>17.8</b>	<b>19.8</b>		<b>8.7</b>	
Goods transport	19.3	19.6		11.2	
Bus transport	0.6	-7.3		-21.8	
Others	18.4	57.1		-27.9	
<b>% of EBITDA from goods transport</b>	<b>97</b>	<b>92</b>		<b>119</b>	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: 2QFY22 key operating metrics**

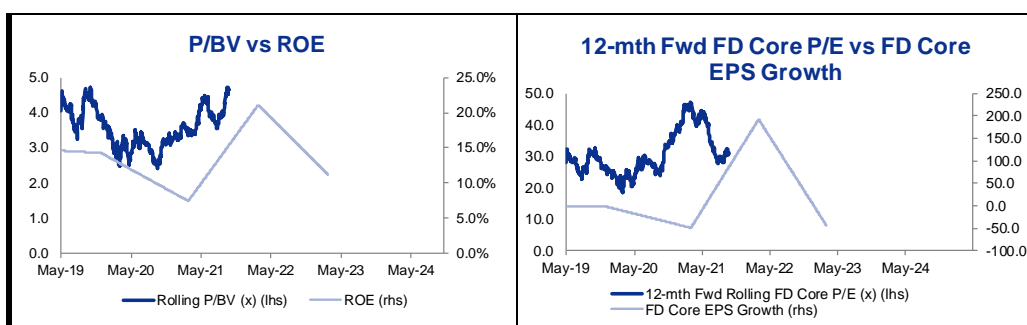
(%)	YoY	QoQ
Growth in Goods transport tariff	7	11
Growth in Goods transport volume	30	33
Growth in Bus Transport tariff	0	-4
Growth in Bus Transport volume	200	197
Growth in freight, handling and servicing cost	56	48
Growth in fuel price	20	4

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: Earnings revisions**

(Rs m)	FY22F		FY23F	
	Old	New	Old	New
Sales	20,581	23,651	22,225	26,722
% change		15		20
EBITDA	2,765	3,825	2,827	3,169
% change		38		12
PAT	517	1,304	482	731
% change		152		52

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**BY THE NUMBERS**

**Profit & Loss**

(Rs mn)	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
<b>Total Net Revenues</b>	<b>21,095</b>	<b>21,185</b>	<b>17,629</b>	<b>23,651</b>	<b>26,722</b>
<b>Gross Profit</b>	<b>6,352</b>	<b>7,082</b>	<b>5,812</b>	<b>7,718</b>	<b>8,160</b>
<b>Operating EBITDA</b>	<b>2,440</b>	<b>2,983</b>	<b>2,475</b>	<b>3,825</b>	<b>3,169</b>
Depreciation And Amortisation	(1,006)	(1,675)	(1,598)	(1,765)	(1,852)
<b>Operating EBIT</b>	<b>1,434</b>	<b>1,307</b>	<b>877</b>	<b>2,060</b>	<b>1,318</b>
Financial Income/(Expense)	(29)	(264)	(240)	(322)	(343)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	<b>1,405</b>	<b>1,043</b>	<b>637</b>	<b>1,738</b>	<b>975</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>1,405</b>	<b>1,043</b>	<b>637</b>	<b>1,738</b>	<b>975</b>
Taxation	(486)	(142)	(187)	(435)	(244)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>919</b>	<b>901</b>	<b>451</b>	<b>1,304</b>	<b>731</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>919</b>	<b>901</b>	<b>451</b>	<b>1,304</b>	<b>731</b>
Recurring Net Profit	919	901	451	1,304	731
<b>Fully Diluted Recurring Net Profit</b>	<b>919</b>	<b>901</b>	<b>451</b>	<b>1,304</b>	<b>731</b>

**Cash Flow**

(Rs mn)	Mar-19A	Mar-20A	Mar-21A	Mar-22F	Mar-23F
<b>EBITDA</b>	<b>2,440</b>	<b>2,983</b>	<b>2,475</b>	<b>3,825</b>	<b>3,169</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2)	(121)	784	1	6
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(29)	(264)	(240)	(322)	(343)
Tax Paid	(486)	(142)	(187)	(435)	(244)
<b>Cashflow From Operations</b>	<b>1,923</b>	<b>2,456</b>	<b>2,833</b>	<b>3,070</b>	<b>2,588</b>
Capex	(2,112)	(1,227)	(393)	(800)	(800)
Disposals Of FAs/subsidiaries	2		1		
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>(2,110)</b>	<b>(1,227)</b>	<b>(392)</b>	<b>(800)</b>	<b>(800)</b>
Debt Raised/(repaid)	595	3,137	(326)		
Proceeds From Issue Of Shares	105	(560)	(295)		
Shares Repurchased					
Dividends Paid	(497)	(632)	(353)	(883)	(442)
Preferred Dividends					
Other Financing Cashflow	(78)	(3,171)	(1,415)	60	
<b>Cash Flow From Financing</b>	<b>125</b>	<b>(1,226)</b>	<b>(2,389)</b>	<b>(823)</b>	<b>(442)</b>
Total Cash Generated	(62)	3	51	1,446	1,347
<b>Free Cashflow To Equity</b>	<b>408</b>	<b>4,366</b>	<b>2,114</b>	<b>2,270</b>	<b>1,788</b>
<b>Free Cashflow To Firm</b>	<b>(79)</b>	<b>1,596</b>	<b>2,808</b>	<b>2,691</b>	<b>2,231</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-19A</b>	<b>Mar-20A</b>	<b>Mar-21A</b>	<b>Mar-22F</b>	<b>Mar-23F</b>
Total Cash And Equivalents	131	134	185	1,631	2,978
Total Debtors	904	983	639	828	935
Inventories	298	293	395	331	374
Total Other Current Assets	723	720	543	630	697
<b>Total Current Assets</b>	<b>2,056</b>	<b>2,130</b>	<b>1,762</b>	<b>3,420</b>	<b>4,985</b>
Fixed Assets	7,442	9,923	9,581	8,556	7,504
Total Investments	25	25	24	24	24
Intangible Assets					
Total Other Non-Current Assets	254	92	619	619	619
<b>Total Non-current Assets</b>	<b>7,721</b>	<b>10,039</b>	<b>10,224</b>	<b>9,199</b>	<b>8,147</b>
Short-term Debt	100	236	159	4,218	4,218
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	1,137	1,007	1,309	1,522	1,745
<b>Total Current Liabilities</b>	<b>1,237</b>	<b>1,243</b>	<b>1,468</b>	<b>5,739</b>	<b>5,963</b>
Total Long-term Debt	1,307	4,308	4,059		
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>1,307</b>	<b>4,308</b>	<b>4,059</b>		
Total Provisions	775	449	488	488	488
<b>Total Liabilities</b>	<b>3,318</b>	<b>6,000</b>	<b>6,015</b>	<b>6,227</b>	<b>6,451</b>
Shareholders Equity	6,459	6,169	5,971	6,392	6,681
Minority Interests					
<b>Total Equity</b>	<b>6,459</b>	<b>6,169</b>	<b>5,971</b>	<b>6,392</b>	<b>6,681</b>

<b>Key Ratios</b>					
	<b>Mar-19A</b>	<b>Mar-20A</b>	<b>Mar-21A</b>	<b>Mar-22F</b>	<b>Mar-23F</b>
Revenue Growth	9.7%	0.4%	(16.8%)	34.2%	13.0%
Operating EBITDA Growth	4.2%	22.2%	(17.0%)	54.5%	(17.1%)
Operating EBITDA Margin	11.6%	14.1%	14.0%	16.2%	11.9%
Net Cash Per Share (Rs)	(14.12)	(48.81)	(45.65)	(29.28)	(14.03)
BVPS (Rs)	71.50	68.28	67.59	72.35	75.62
Gross Interest Cover	13.20	3.56	2.38	4.88	2.98
Effective Tax Rate	34.6%	13.6%	29.3%	25.0%	25.0%
Net Dividend Payout Ratio	54.1%	70.2%	78.4%	67.8%	60.4%
Accounts Receivables Days	15.75	16.25	16.79	11.32	12.04
Inventory Days	6.68	7.64	10.62	8.32	6.93
Accounts Payables Days					
ROIC (%)	19.5%	15.4%	8.0%	19.7%	14.0%
ROCE (%)	18.7%	14.2%	9.2%	19.8%	12.6%
Return On Average Assets	10.3%	10.6%	5.7%	13.2%	8.3%

SOURCES: INCRED RESEARCH, 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 2020, Anti-Corruption 2020**

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<b>Hold</b>	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
<b>Reduce</b>	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:

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

**Country Ratings**

Definition:

<b>Overweight</b>	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
<b>Neutral</b>	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
<b>Underweight</b>	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.