



Quick Insight Update

VRL Logistics Ltd.



Industry	Transportation - Logistics
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CMP	₹161.5
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M Cap (₹ bn)	₹14.59bn
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Buy Range	₹160-170
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Target	₹190-200
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Recommendation	BUY
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Investment Argument

- **10% YoY growth in GT Realisation** – VRL Logistics' (VRL) Q2FY21 print revenue decline eased to 16% YoY to ₹4,393mn as the Goods transport (GT) segment outperformed other LTL competitors even though revenue fell 6% YoY to ₹4077mn. Stellar EBITDA margin expansion of 580bps to 19.8% despite the company's asset-heavy model. GT tonnage dropped ~15% YoY in Q2FY21. Volumes declined YoY in Jul-Aug'20, whereas Sep'20 was flat. The trend of sequential improvement in volumes continued, with YoY tonnage growth in Oct'20. VRL expects volumes to grow in H2FY21 if economic recovery remains on course. Tonnage decline (15% YoY) was partially offset by increase in realisation by 10% YoY and 7% QoQ due to price hikes. We don't expect these realisation to sustain in 2HFY21 given the intense competitive pricing.
- **Goods Transport EBITDA margin improved due to operational efficiencies** – Goods Transport EBITDA margin was up ~600bps YoY (19.6% in Q2FY20) led by price hikes, limited operational fleet (~700 own trucks not deployed in Q2FY21) and lower lorry hire cost to sales (6.5% in Q2FY21 v/s 8.6% in Q2FY20). Gross margin expansion was also enabled by higher usage of Biofuel – 53.2% in Q2FY21 vs. 31% in Q1FY21 and rebate on vehicle taxes provided by the government in April-May which were accounted for in Q2FY21. Expect margins to normalise to ~16% in 2HFY21 as operations scale back subsequently increasing overhead expenses. Among end-user industry verticals, agricultural products, pesticides, seeds, Agri-equipment and pharma performed well in Q2FY21. Traction in textiles, the largest industry vertical for the company with 15-16% steady-state revenue share, is yet to pick up fully. Management expects textile volumes to improve in 2HFY21. Salary cuts for employees and lower incentive-based pay to drivers amid low volumes also aided EBITDA margin. Staff cost has declined to ₹740mn from ₹950mn in Q2FY20, implying savings of ₹70mn/month. As per the management, salary cuts will largely be reversed in Oct'20 but employee costs may remain lower by ₹50mn/month on a YoY basis. Biofuel procurement cost (₹62/ltr) was 9-10% lower than diesel (₹68/ltr). Biofuel usage is likely to come down in winter months, especially in the non-southern regions
- The company incurred ₹100mn of capex in 1HFY21 and does not envisage a substantial outlay for H2. Future fleet addition would be contingent on volumes picking up and availability of third-party hired vehicles which are currently handling ~6.5% of GT tonnage and can go up to 12-15%.
- VRL had scrapped 200 vehicles since last year and will continue to scrap 25-30 vehicles every quarter, in the absence of any scrappage policy from the government
- The company had not observed any shift from road to rail for the commodities it handles.
- Passenger transport's (PT) revenue plunged 78% YoY to ₹168mn as some government regulations still restrict smooth operations of buses a measure that was begun to contain the pandemic. Passenger volumes have declined 82% YoY while realisation had inched up 4-5%YoY. Expect near-term demand headwinds, coupled with intense competition and limited capacity addition, to limit Passenger transport's operations.
- Net debt reduced to ₹1.1bn from ₹1.9bn in Q1FY21. In the absence of any major capex outgo, healthy cash flow generation has been used to repay debt. Debt is likely to go down to ₹300-400mn by end-FY21.

Nifty	12,631
Sensex	43,278
Key Stock Data	
CMP	₹161.5
Market Cap (₹)	₹14.59bn
52W High/Low	₹295.7/120.5
Shares o/s (mn)	90.3
Daily Vol. (3M NSE Avg.)	293,628
Shareholding pattern (%) Sep'20	
Promoter	68.1
DII	23.5
FII	2.9
Public & Others	5.5

(₹ mn)			
Particulars	FY19	FY20	1HFY21
Revenues	21,095	21,185	5,993
EBITDA	2,440	2,143	531
EBITDA Margin (%)	11.6	12.1	8.9
Net Profit	919	958	(318)
EPS (₹)	10.2	10.6	(3.5)
DPS (₹)	5.5	7.0	
RoE (%)	14.8	15.2	
RoCE (%)	12.7	12.5	
P/E (x)	15.8	14.2	
EV/EBITDA (x)	6.4	6.4	
P/BV (x)	2.3	2.4	

Source: Company Data, Way2Wealth Inst Equity

Outlook

Improving demand traction and market share gains signal a volume revival in 2HFY21. Margins are also likely to remain healthy. VRLL's future revenue growth to be driven by shift of share from unorganised to organised LTL operators like VRLL, adherence to compliance by SMEs and rationalisation of vendors and tailing on macroeconomic growth. **VRLL is well-positioned to take advantage of its dominant position in LTL segment on back of its strong network and diversified customer base. Hence, we upgrade to *BUY* with an enhanced target range of ₹190-200**

Financial & Operating Parameters

(₹mn)								
Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	1HFY21	1HFY20	YoY (%)
Revenue	4393	5238	(16.1)	1601	174.4	5,993	10,635	(43.6)
EBITDA	869	732	18.7	(339)	356.3	531	1,620	(67.2)
EBITDA Margin (%)	19.8	14.0		(21.2)		8.9	15.2	
Net Profit	309	347	(11.0)	(627)	149.3	(318)	622	(151.1)
EPS (₹)	3.4	3.8	(10.5)	(6.9)	149.3	(3.5)	6.9	(150.7)

Source: Company Data, Way2Wealth Inst Equity

(₹mn)								
	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	1HFY21	1HFY20	YoY (%)
Revenue								
Goods transport	4,077	4,320	(5.6)	1,482	175.1	5,560	8,554	(35.0)
Bus operations	168	745	(77.5)	53	216.6	221	1,785	(87.6)
EBITDA								
Goods transport	797	585	36.3	(301)	365.2	497	1213.8	(59.1)
Bus operations	(13)	46	(127.8)	(61)	79.0	(73)	251.8	(129.1)
Margin %								
Goods transport	19.6	13.5	601 bps	(20.3)	3984 bps	8.9	14.2	(526) bps
Bus operations	(7.6)	6.2	(1381)bps	(115.1)	10746 bps	(33.2)	14.1	(4730) bps

Source: Company Data, Way2Wealth Inst Equity

Revenue Break Up

(₹mn)					
Particulars	FY17	FY18	FY19	FY20	1HFY21
Goods transport	14,262	15,172	16,860	17,247	5,560
% growth	5.0	6.4	11.1	2.3	(35.0)
Bus operations	3,262	3,587	3,803	3,437	221
% growth	2.7	10.0	6.0	(9.6)	(87.6)
Sale of power	235	217	221	186	124
% growth	9.7	(7.4)	1.7	(15.6)	(14.4)
Air chartering service	160	131	107	198	48
% growth	43.4	(18.1)	(18.3)	84.9	(53.1)
Un-allocable revenue	112	115	104	117	41
% growth	-22	2.8	(10.0)	12.3	(14.8)
TOTAL	18031	19,223	21,095	21,185	5,993
% growth	4.7	6.6	9.7	0.4	(43.6)

Source: Company Data, Way2Wealth Inst Equity

Segment mix % of Total Revenue

(₹mn)					
Segment	FY17	FY18	FY19	FY20	1HFY21
Goods transport	79.1	78.9	79.9	81.4	92.8
Bus operations	18.1	18.7	18	16.2	3.7
Sale of power	1.3	1.1	1	0.9	2.1
Air chartering service	0.9	0.7	0.5	0.9	0.8
Un-allocable revenue	0.6	0.6	0.5	0.6	0.7

Source: Company Data, Way2Wealth Inst Equity

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Name of the Security	VRL Logistics Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	Yes
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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