
Quick
Insight

WAY2WEALTH
Research Desk

VRL Logistics Ltd.

Industry	Transportation - Logistics
CMP	₹169
M Cap (mn)	₹15.25bn
Buy Range	₹155-160
Target	₹180-185
Recommendation	ACCUMULATE
Highlights	➢ Major pent up recovery in Goods transport segment expected in Nov-Dec'20. ➢ Cost savings initiatives enabled improved efficiency Q1FY21. ➢ High operating leverage using own vehicles. ➢ Risk of diesel price increase majorly to be passed on to customers ➢ No major Capex in FY21 to maintain and strengthen balance sheet

20th August 2020

VRL Logistics Ltd

Investment Arguments

- **Outlook –** VRL Logistics reported the muted revenue growth for Q1FY21 & FY20 as the difficult macroeconomic conditions put pressure on both Goods Transport (~81% of revenue) and Bus Segment (~16% of revenue). Both the segments were hit by COVID-19. The asset ownership model operated by the company along with ~20,000 employee base and fluctuation in diesel cost is expected to put huge pressure on margin in FY21. **We expect major uptick for the company from H2FY21 as there is improvement in tonnage in segments like Pharma, Agri-products, construction/building material (like paints etc) with partial opening of the economy. Prioritising the deployment of own fleet thereby reducing dependence on outside vehicles along with cost cutting measures will benefit the company going forward.** Hence, we have an ***ACCUMULATE*** with target range of **₹180-185.**
- **Background –** VRL Logistics (VRLL) is a parcel delivery service provider with pan-India last-mile connectivity. Operates through mainly an owned fleet supplemented by third-party hired vehicles. It has strong brand equity backed by 40+ years of operations. Goods transportation (GT) is 82% of VRLL's revenue while passenger buses account for 16% of total revenue. It operates its own fleet of 5,045 vehicles (4,708 goods carriers and 337 passenger buses) with 689 branches. Its network: 47 transit hubs in 22 states and 5 union territories, providing general-parcel (LTL: less than truck load) and priority-parcel deliveries, and courier and full-truckload (FTL) services. Its hub-and-spoke model enables it to facilitate last-mile connectivity to remote areas in India. It would be one of the major beneficiaries with unlocking post COVID-19 and economic recovery.
- **Revenue declined by 70% YoY along with savings in employee and other expenses in Q1FY21 –** Duringn Q1FY21; VRLL's topline declined 70% to '1.6Bn YoY led by ~65%/95% YoY decline in Goods/Passenger segment. Company reported EBITDA loss of ₹339mn compared to EBITDA of ₹888mn YoY/₹566mn QoQ. On absolute basis, Operating expenses fell 64%YoY/63%QoQ. Employee costs declined 28%YoY/30%QoQ while other expenses fell 68%YoY/56%QoQ.Net debt for VRLL has increased by ₹110-120mn in Q1FY21. It incurred a cash loss of ₹400mn during the quarter, while there was working capital improvement by ₹300mn which restricted the net debt increase during the quarter**.**
- **Goods transport (GT) segment still at 75-80% of normal levels with improvement by Nov-Dec'20 –** In 1QFY21, GT segment revenue was down 65%YoY driven by 70% YoY decline in volumes while realisations were up ~5% YoY. EBITDA loss for Goods segment was at ₹341mn. In Apr'20/May'20/Jun'20, tonnage was at 4-5%/25-30%/60-65% of normal level and in Q2FY21 till date it has reached 75-80% of the normal runrate. In term of profitability, Apr'20 suffered a major loss, which reduced in May'20 and further reduced to marginal loss in Jun'20. In Jul'20, Company has turned PAT positive again. Management expects revenue trend in GT segment to improve by Nov-Dec'20. Over the past 4-5 months, tonnage mix has evolved: Textile segment mix has dipped from 15-16% to 12%, Food segment mix has increased from 8% to 12%, Agri mix from 3% to 12%, Auto spares parts dipped from 6% to 4%, Machinery commodities increased from 4% to 6%, Pharma mix increased from 4-5% to 7-8% and Pesticides moved from 1% to 3%. According to the management, 40% of booking in Goods segment come from South, 20- 25% from West, 20-25% from North and 10-15% from other markets. New customers contributed 6-8% of tonnage volumes during Q1FY20. In Q1FY21, the Company took price hike of 5% and post the recent increase in diesel prices, it has further taken 4-5% hike. Price increase done by the Company is largely in line with peers.

Nifty	11,312
Sensex	38,220
Key Stock Data	
CMP	₹169
Market Cap (₹)	₹15.25bn
52W High/Low	₹300/121
Shares o/s (mn)	90.3
Daily Vol. (3M NSE Avg.)	226,000
Shareholding pattern (%)	**Jun'20**
Promoter	68.1
DII	21.0
FII	4.1
Public &Others	6.8

(₹ mn)

Particulars	FY18	FY19	FY20
Revenues	19,223	21,095	21,185
EBITDA	2,342	2,440	2,143
EBITDA Margin (%)	12.1	11.6	12.1
Net Profit	926	919	958
EPS (₹)	10.2	10.2	10.6
DPS (₹)	0.0	5.5	7.0
RoE (%)	16.3	14.8	15.2
RoCE (%)	17.1	12.7	12.5
P/E (x)	16.6	16.6	15.9
EV/EBITDA (x)	7.2	6.9	7.9
P/BV (x)	2.6	2.4	2.5

Source: Company Data, Way2Wealth Inst Equity

- **Passenger segment** registered revenue decline of 95% in Q1FY21 with EBITDA loss of ₹23mn. Passenger segment business operations remains at 25-30% of normal runrate in Q2FY21 and could reach 40% by end of FY21 as per the management. In the near term, the number of vehicles could come down as vehicles will be scrapped once license expires and some of them likely to be sold.
- **COVID-19 lockdown had a short-term impact –** The company has a very well diversified customer base; its largest/top-10 customers contributed only 1%/5% of its GT revenues. It has big corporates and small and medium enterprises, distributors, and traders (SMEs contribute 45% of business) as customers. VRLL caters to diverse sectors such as textiles, engineering, auto, agri-products, consumer durables, FMCG and pharma, each contributing .8-15% of revenue; the recent lockdown and subsequent slowdown will hit operations in the short term. Due to social distancing norms, the bus segment can operate at only up to 50% capacity, marring this segment.
- **Cost Saving measures to improve efficiency –** Company is undertook cost initiatives like 1) In Q1FY21, company renegotiated rent and received savings of ₹40mn on Rent (Apr'20 rent was completely waived off); 2) Company is changing schedules to optimize on overall maintenance costs; 3) Company is analysing branch-wise performance to optimize employee costs. Lower employee costs to continue in Q2FY21 and likely to normalize by Q3FY21. It expects reduction of ₹100mn in employee costs on permanent basis; 4) Procurement of Bio-fuel @ 31.03% in Q1FY21 (31.42% in Q1FY20, 18.37% in Q4FY20), procurement of fuel directly from refineries and redemption benefits have helped in curtailing fuel expenses. The company also benefitted from revision in axle load norms for the Goods Transport vehicles in FY20 which continued during the quarter. Introduction of Fast tags on vehicles resulted into lower advance amounts for trip expenses as also resulted in availing a considerable discount on the toll costs. Prioritizing the deployment of own fleet thereby reducing dependence on outside vehicles.
- **High operating leverage with an asset-ownership model –** For 90% of its transportation, it uses its owned fleet, and for 8-10%, outside vehicles, depending on the market situation. It also owns buses in the passenger segment. The asset-ownership model helps it to control costs, customise vehicles for the parcels business, and allows it to provide consistent service and safety. Additionally, it has dedicated in-house vehicle body designing and vehicle maintenance facilities. Moreover, it owns petrol pumps for captive consumption, which provide cost advantages of ₹2-3 per litre; it uses 20-30% bio-diesel, which also significantly reduces fuel costs. It also benefits from higher volume discounts for purchases of spare parts, tyres, and other consumables due to its large fleet. A significant part of the driver salaries it pays is variable (linked to km operated), which helps to control costs during weak demand scenarios.
- **No vehicle addition during the quarter –** The company had added 520 vehicles in GT in FY20 (318 in Q4FY20), including 432 HCVs, to benefit from lower prices pre-BS-VI norms. It has postponed FY21's capital expenditure plan (₹700mn including ₹400mn for buses) due to COVID-19.
- **Muted performance in FY20 –** FY20 revenue remained flat YoY to ₹21.2bn driven 1% tonnage growth and flat realization. The revenue growth was led by Goods transport segment which grew by 2% YoY offset by -10%/ -16% YoY in Bus/Power segment. Air charter service which forms 1% of the revenue saw a sharp jump of 85% YoY. Bus segment witnessed 25% fall in passenger offset by 5% realization growth as total buses declined by ~45 to 337. The company's EBITDA declined by 12% YoY driven by higher operating cost. Margins declined by 150 bps YoY to 10.1% v/s 11.6% in FY19 (peak margin of 16.4% in FY15). PAT came higher 4% YoY to ₹958mn.
- **Risk –** Prolonged manufacturing slowdown to see drop in tonnage.

Revenue Break Up

(₹mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	1601	5396	(70.3)	4978	(67.8)
EBITDA	(339)	888	NM	566	NM
EBITDA Margin (%)	*-21.2*	*16.5*		*11.4*	
Net Profit	(627)	275	NM	21	NM

Source: *Company Data, Way2Wealth Inst Equity*

(₹mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue					
Goods transport	1,482	4,234	(65.0)	4,166	(64.4)
Bus operations	53	1,040	(94.9)	706	(92.5)
EBITDA					
Goods transport	(341)	629	(154.2)	479	(171.2)
Bus operations	(23)	205	(111.2)	65	(135.4)
Margin %					
Goods transport	(23)	14.9	(3787)bps	11.5	(3451)bps
Bus operations	(43)	19.7	(6233)bps	9.2	(5177)bps

Source: *Company Data, Way2Wealth Inst Equity*

(₹mn)

Particulars	FY17	FY18	FY19	FY20
Goods transport	14,262	15,172	16,860	17,247
% growth	*5.0*	*6.4*	*11.1*	*2.3*
Bus operations	3,262	3,587	3,803	3,437
% growth	*2.7*	*10.0*	*6.0*	*(9.6)*
Sale of power	235	217	221	186
% growth	*9.7*	*(7.4)*	*1.7*	*(15.6)*
Air chartering service	160	131	107	198
% growth	*43.4*	*(18.1)*	*(18.3)*	*84.9*
Un-allocable revenue	112	115	104	117
% growth	*(22.0)*	*2.8*	*(10.0)*	*12.3*
TOTAL	**18031**	**19,223**	**21,095**	**21,185**
% growth	***4.7***	***6.6***	***9.7***	***0.4***

Source: *Company Data, Way2Wealth Inst Equity*

As % of Total Revenue

(₹mn)

	FY17	FY18	FY19	FY20
Goods transport	79.1	78.9	79.9	81.4
Bus operations	18.1	18.7	18.0	16.2
Sale of power	1.3	1.1	1.0	0.9
Air chartering service	0.9	0.7	0.5	0.9
Un-allocable revenue	0.6	0.6	0.5	0.6

Source: *Company Data, Way2Wealth Inst Equity*

Technical View

Looking at daily chart, VRL has seen vertical slide during the period of late January, 2020 - March, 2020. In that pessimism, stock fell from its swing high of around 291 to 130. Subsequently, stock has seen a pullback towards 184 and eventually slipped into a consolidation. Since August 15, 2020, stock is trading in a tight range of 184 to 143 as a result daily chart formed a ‘Rectangle’ formation. Of late, we have seen pick up in daily volume activities which is an early indication that stock is poise for a strong up move. Higher side, 184 level will be an immediate resistance and any decisive close above 184 will confirmed its breakout from ‘Rectangle’ formation. **The probable target of said pattern comes near 224. Lower side, 142 – 144 zone will be a strong support on a daily closing basis.**

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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 Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No Yes No
Conflict of Interest	No
Receipt of Compensation	No
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