

# VRL Logistics Ltd – Positive

## A mixed bag

### Weak topline performance; healthy improvement in margins

VRL logistics (VRL) reported mixed set of numbers during Q4 FY19. Its topline performance remained subdued with ~5% yoy growth as volumes in its two large businesses – a) Goods Transport (GT; volume in tonnage) and Passenger Transport (PT; number of passengers travelled) improved by mere ~1.5% yoy and ~3% yoy respectively. However, healthy improvement witnessed in the EBITDA margins of a) GT business - improved to 13.3% (vis-à-vis 10.1% in Q4 FY18)- largely benefitted from fall in diesel prices and increase in axle load factor, and b) PT business - up 571bps yoy to ~10%, aided overall margin performance. Flat depreciation cost with robust operating performance led to 71% yoy bottoline growth. Going forward, its a) capacity additions- added 421 goods vehicles in FY19; targeting ~100 trucks more in FY20 and b) consistent increase in client base and c) improvement in realization - benefits arising from changes in the axle load norms in relation to MoRTH notification, to led VRL's topline performance over next couple of years. Its ability to passthrough any fluctuations in diesel prices to clients likely to stabilize margins at current levels. At CMP, the stock is trading at ~27x FY19 P/E.

### Industry tailwinds and cost advantages – key positives for VRL

Prioritization of owned vehicles, usage of biodiesels, redemption benefits from IOCL, in-house goods vehicle body design facilities and economies of scale in spares procurement provides cost advantages to VRL. In addition, benefits arising from implementation of GST and e-way bill are benefiting organized players. Also, partly shifting of the freight markets towards less-than-truck load on account of accelerated warehouse consolidation places VRL in a sweet spot.

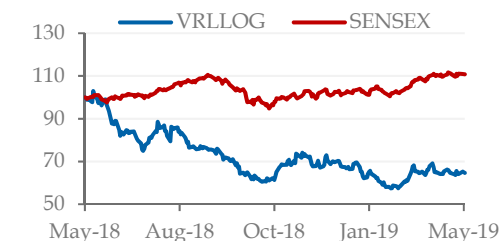
### CMP (Rs) 271

Stock data (As on May 20, 2019)

Sensex:	39,353
52 Week h/l (Rs)	423 / 238
Market cap (Rs mn)	24,690
Enterprise value (Rs mn)	25.866
6m Avg t/o (Rs mn):	15.5
FV (Rs):	10
Div yield (%):	0.7
Bloomberg code:	VRL IN
BSE code:	539118
NSE code:	VRLLOG

Sector: Logistics

### Stock performance



### Shareholding pattern (As of Mar'19 end)

Promoter	68.1%
FII+DII	25.3%
Others	6.6%

### Exhibit 1: Result table

Y/e 31 Mar (Rs mn)	Q4 FY19	Q4 FY18	yoy(%)	Q3 FY19	qoq (%)
<b>Revenue</b>	<b>5,129</b>	<b>4,892</b>	<b>4.9</b>	<b>5,512</b>	<b>(6.9)</b>
Operating Profit	600	444	35.2	697	(13.9)
<b>OPM (%)</b>	<b>11.7</b>	<b>9.1</b>	<b>262 bps</b>	<b>12.6</b>	<b>-94 bps</b>
Other Income	19	21	(13.0)	12	51.1
Depreciation	(255)	(245)	4.0	(253)	0.8
Interest	(37)	(22)	71.2	(36)	2.9
PBT	326	198	64.6	420	(22.3)
Tax	(121)	(78)	55.3	(154)	(21.3)
<b>Reported PAT</b>	<b>205</b>	<b>120</b>	<b>70.7</b>	<b>266</b>	<b>(22.8)</b>

Source: Company, YES Sec – Research

## CONFERENCE CALL HIGHLIGHTS

- ✓ VRL reported ~10% topline growth during FY19, largely aided by higher traction witnessed in GT segment (revenue contribution ~80%; ~12% yoy growth). The segment has witnessed both, tonnage and realization growth, which improved ~5.5% and ~6.5% during FY19 on yoy basis.
- ✓ VRL has managed to maintain its EBITDA margin in the GT segment at ~12% despite impact of higher fuel cost (in H1 FY19). Realization improvement, benign fuel cost during H2 FY19, and revision of safe axle weights for transport vehicles benefited company in maintaining margin.
- ✓ Despite decrease in number of buses (by 15 during FY19 to 381), VRL's passenger segment witnessed ~6% improvement in revenues on yoy basis largely backed by increase in occupancy levels. Also, EBITDA margin in the segment decline to ~11%, as increase in fuel cost doesn't translated into increase in realizations.
- ✓ The management expects a) GST benefits to the organized players and b) consistent improvement in VRL's capacity, and c) increase in customer base to benefit company with higher tonnage volumes.
- ✓ At the company level, operating margin has declined yoy by 60bps (to 11.6%) largely impacted by higher freight, handling and servicing cost. However, the management expects realization improvement, stabilization of diesel prices, and benefit of Safe Axle Weights revisions are likely to translate into margin sustainability at current levels.
- ✓ Notification from MoRTH regarding revision of Safe Axle Weights for transport vehicles helps in adding excess capacity to existing 2584 vehicles upto Q4 FY19. Balance vehicles are in process of

capacity upgradation after being duly certified by the RTO authorities.

- ✓ The company has added 421 goods transport vehicles (1 to 2.5 tons-120 vehicles, 3 tons - 41 vehicles, 7 to 10 tons -102 vehicles, 18 to 23 tons- 57 vehicles, 28 to 30 tons - 101 vehicles) during FY19. 30 vehicles sold/scrapped. Total GT vehicles were 4,398 as on Mar 31, 2019
- ✓ The management has guided for addition of ~100 vehicles during FY20 in GT segment. Bus counts are likely to remain at current levels.
- ✓ The company has incurred ~Rs.2.1bn capex in FY19 (mainly towards vehicles (Rs.840mn) and land and buildings (Rs.1.1bn). The management has moderated its capex guidance to ~Rs.500mn for FY20.

### Exhibit 2: Valuation summary

Y/e 31 Mar (Rs m)	FY16	FY17	FY18	FY19
<b>Revenues</b>	<b>17,225</b>	<b>18,031</b>	<b>19,223</b>	<b>21,095</b>
yoy growth (%)	3.1	4.7	6.6	9.7
<b>Operating profit</b>	<b>2,706</b>	<b>2,182</b>	<b>2,342</b>	<b>2,440</b>
OPM (%)	15.7	12.1	12.2	11.6
<b>Adjusted PAT</b>	<b>1,042</b>	<b>705</b>	<b>926</b>	<b>919</b>
yoy growth (%)	19.1	(32.4)	31.3	(0.7)
EPS (Rs)	11.5	7.8	10.2	10.2
P/E (x)	23.5	34.7	26.4	26.6
EV/EBITDA (x)	9.6	11.7	10.7	10.5
Debt/Equity (x)	0.3	0.2	0.1	0.2
RoE (%)	24.0	13.4	16.3	14.8

Source: Company, YES Sec - Research

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**BUY > 15%**

**ADD 5% to 15%**

**HOLD -15% to +5%**

**SELL > - 15%**

**NOT RATED**

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**NEGATIVE:** Negative is rating given to stocks yet to be formally included in our coverage universe, but we find valuations expensive vis-a-vis fundamentals.

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The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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