

COMPANY UPDATE

Amit Agarwal
agarwal.amit@kotak.com
+91 22 6218 6439

VRL LOGISTICS LTD

PRICE: Rs.320
TARGET PRICE: Rs.375

RECOMMENDATION: BUY
FY19E P/E: 20.7x

Healthy Outlook

VRL has reported weak numbers for FY17, due to factors like weak business environment, demonetisation in Q3FY17, increased employee cost and Kaveri river water issue in southern India. However, going forward, we expect things to improve for the company on the back of 1) Government initiatives to improve road infra; 2) GST Act and Motor vehicle Act; 3) Effective management of fuel cost; 4) Effective internal control systems; 5) a strong Management team and 6) Healthy GDP growth. We estimate earnings CAGR of 39% over FY17 to FY19E with improvement in EBITDA margins and return ratios of the company. We value the stock at 24x FY19 earnings and Maintain BUY with an increased TP of Rs 375 (from Rs 340)

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	18,030	20,180	22,180
Growth (%)	4.4	11.9	9.9
EBITDA	2,179	2,857	3,272
EBITDA margin (%)	12.1	14.2	14.8
PBT	1,080	1,751	2,115
Net profit	728	1,173	1,417
EPS (Rs)	8.0	12.9	15.5
Growth (%)	-39.2	61.1	20.8
CEPS (Rs)	18.4	24.3	27.6
Book value (Rs/share)	59.3	65.1	73.5
Dividend/share (Rs)	5.0	6.0	6.0
ROE (%)	13.5	19.8	21.1
ROCE (%)	21.5	27.3	29.4
Net cash (debt)	-348	-740	-720
Net WC (Days)	7.7	12.8	16.7
EV/EBITDA (x)	13.6	10.5	9.2
P/E (x)	40.3	25.0	20.7
P/Cash Earnings	17.5	13.3	11.7
P/BV (x)	5.4	4.9	4.4

Source: Company, Kotak Securities - Private Client Research

Effective systems attracts customers

VRL has a large and diverse base of customers in the goods transportation business, developed around its hub-and-spoke operating model serving various industry verticals. Effective payment systems, complete regulatory compliance, efficient online booking system and a very large fleet operating Pan India enables the company to attract business both from the organized as well the unorganized sector. Going forward also, we expect VRL to keep attracting business from the unorganized sector as we approach implementation of GST.

Currently, VRL has a fleet of 3921 trucks and 451 luxury buses (all owned) enabling the company to reduce dependence on hired vehicles, retain control of the value chain and service quality, and establish a reputation for reliable and timely delivery of consignments. The variety of goods transportation vehicles in the fleet also enables the company to serve a diverse mix of consignments. Above all, the company operates its trucks in less than truck load segment (LTL) which is premium and more immune to slowdown in trade.

Vehicles owned by the company in key segment

Numbers	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Trucks	3,088	3,352	3,649	3,739	3,921	4,186	4,502
Buses	502	522	435	431	451	471	490
Total	3,590	3,874	4,084	4,170	4,372	4,656	4,992

Source: Company, Kotak Securities - Private Client Research

All of the above factors enables the company to:

- Attract volumes even during weak economic conditions
- Command premium pricing
- Provide quality and timely service
- Provide integrated service
- Keep utility levels of vehicles high and get benefits of high operating leverage

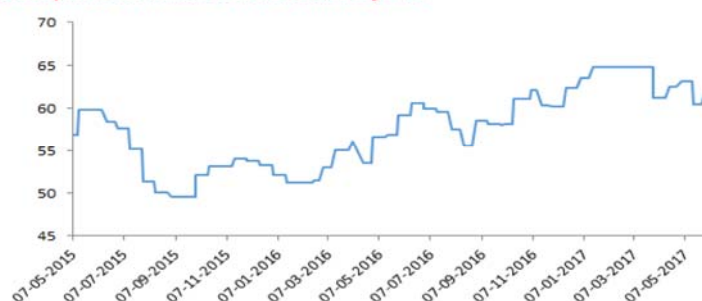
Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

Volatile diesel prices not a major concern for VRL

Fuel amounts to 40 % of the total operating costs in the freight industry, comprising the largest proportion of it. Therefore, a rise in diesel prices adversely affects transporters profitability. VRL Logistics operates two consumer diesel pumps located at Varur and Chitradurga in the State of Karnataka to ensure quality fuel supply and reduced fuel costs. In addition, its drivers are required to purchase fuel only from certain designated pumps during transit to ensure that it procures its fuel at competitive rates and also maintain the quality of fuel. All such payments are cash-less. In addition, VRL has incentives for drivers for fuel efficiency of the vehicles they drive.

Management of VRL indicated that the company passes on any increase in diesel prices to customers in the form of increase in base freight rate, thereby maintaining the margins. Management also indicated that clients are normally tolerant towards increase in tariffs due to rise in input prices.

Diesel prices in Mumbai for the last 2 years



Source: Bloomberg

VRL is getting GST prepared

Post GST, we could see manufacturers completely outsourcing the supply chain logistics to large fleet operators, who could manage large scale operations for them along with proper paper work for input tax credit. Unorganized players would not be able to provide the required logistics network and maintain technology and paper work demanded by the big manufacturers. Here we may see, significant amount of businesses getting shifted to organized players like VRL. Management of VRL here indicated that the company has already started receiving inquiries from bigger clients for logistical support post GST implementation for bigger warehouses and bigger trucks and VRL is gearing up accordingly for the same.

Table

Highlight	Remark
Shift to bigger and less number of warehouses	Lead to hub and spoke model, to benefit VRL
No check- post	Lower turnaround time for trucks Improved utilization of trucks Requirement of lesser number of trucks
Taxation change	Minimum change in tax outflow
Business opportunity	Increase in compliance may lead to business moving from unorganized to organized sector

Source: Companies, Kotak Securities - Private Client Research

Positioning of VRL in the organized sector post GST

Within organized players, those with a pan-India offering and on-ground hub-and-spoke model like VRL would be best placed to capture the increased business opportunity post GST. Other peers for this opportunity include GATI (good presence in and near metros) and TCI (good presence in north India). VRL Logistics considers itself to have a strong presence on a pan-India basis (central and east India being its weakest links).

Close Peer comparison

Parameters	VRL	GATI	TCI
Truck ownership	90% owned	50% hired	90% hired
Truck business	LTL	LTL and courier	FTL
Business Model	Hub and Spoke	Branch Model	Branch model
Geographical presence	Pan India	Pan India	North India
Average EBITDA margin	~15%	~8 %	~ 5%
Systems	Effective	Moderate	Moderate
Driver management	Payrolls with rewards	Hired	hired
Diversification	Bus service	No	No
Fuel	Owned pumps + tie-ups	No	No

Source: Companies, Kotak Securities - Private Client Research

Motor vehicle Bill makes headway

The Motor Vehicles (Amendment) Bill has finally made some headway with the Lok Sabha passing the bill in April 2017. We expect the bill to take form of an act within six months.

Motor Vehicle Amendment Act proposes a unified vehicle registration system and a simplified system of vehicular and transport permits. This is estimated to significantly improve operating efficiencies and reduce operational costs for the passenger transportation business (bus segment) of VRL by reducing various operational hurdles relating to inter-State transportation of passengers, and simplifying the regulatory framework around vehicle permits and driver licenses

VRL and Motor Vehicle Amendment Act

Highlight	Remark
Unified vehicle registration system	<ul style="list-style-type: none"> ● Removal of inter- state hurdles in bus service ● Opportunity to expand bus service Pan India
Organized framework	Favours VRL over unorganized players
Simplified license norms	Easier for VRL to hire and retain drivers

Source: Industry, Kotak Securities - Private Client Research

No intention to diversify the business

Investors had expressed their concerns in the past on 1) the promoter's interest in entering an unrelated asset heavy making business like civil aviation. 2) Why are the promoters looking to raise funds for the venture through stake sale in VRL and 3) potential risk of inter corporate deposit (ICD) investments by VRL in the civil aviation venture. Management of VRL has allayed investors' concern on the same, by mentioning that "the aviation venture was just a contemplation by the promoters and there is no decision to make any investment in any area in near to medium term". We believe that the above clarification coupled with an improving business environment, would provide valuation support to VRL.

Capex to align with GST

Management of VRL indicated that the capex of the company would be primarily towards purchase of larger and modern trucks, new Volvo buses and expansion of hubs. The upcoming capex would be in sync with the requirement mandated by GST in FY18 and FY19.

Near term capex programme of VRL (Rs mn)

Trucks	1200	1400
Buses	200	200
Other vehicles	100	100
Hubs	300	300
Total	1800	2000

Source: Company

Improvement in performance going forward

We estimate that the various legislative changes like GST Act, Motor Vehicle Amendment Act and Scrappage policy to yield benefits for VRL from FY19 with benefits increasing further in FY20/FY21. Healthy GDP growth, improvement in trade and various road infra projects of the government would add to the growth of the company.

Valuation and Outlook

We see VRL as a Logistics player which has created a niche for itself in the transport industry and a player who has overcome the nuances of the industry through effective practices within the company. This has enabled the company to outperform its peers in every financial parameter. The GST Act and Motor Vehicle Act is expected to improve business prospects of the company with full benefits accruing from FY19E. We have smoothen the earnings for FY18 on a low base of FY17 and now expect the company to report an EPS of Rs.12.9 in FY18 (from Rs.14.2). Overall we expect estimate earnings CAGR of 39% over FY17 to FY19E with improvement in EBIDTA margins and return ratios of the company. We value the stock at 24x FY19 earnings and maintain **BUY** with an increased TP of Rs 375 (from Rs 340)

We recommend BUY on VRL Logistics Ltd with a price target of Rs.375

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
16-Jun	ARTKPOW	Shyamsurat Rajbali Singh	S	1,23,717	16.2
16-Jun	ASHIKACR	Mohit Kumar	B	52,782	32.5
16-Jun	BRIGHTBR	Priyanka Finance Pvt Ltd	S	75,000	81.0
16-Jun	BRIGHTBR	Crest Capital & Investment	B	90,000	80.8
16-Jun	COSMOFILMS	Indiabulls Mutual Fund	B	99,644	423.0
16-Jun	COSMOFILMS	Ambrish Jaipuria	S	1,00,000	423.0
16-Jun	GSS	Jhaveri Trading & Investment Pvt Ltd	B	3,05,061	27.5
16-Jun	GSS	Javed Faizullah Tapia	S	4,60,000	27.5
16-Jun	KISAN	Hayyan Ali Malallaha Lawati	B	1,50,000	92.0
16-Jun	KISAN	Sallee TradeFin Limited	S	1,66,619	92.1
16-Jun	KRISHFAB	Sunil Kumar Gupta	B	1,08,200	8.0
16-Jun	KRISHFAB	Roma Panubhai Shah	S	18,500	8.0
16-Jun	KRISHFAB	Aarp Organisers Pvt Ltd	S	50,000	8.0
16-Jun	MACPLASQ	Smithblock Financial Services Pvt Ltd	B	50,000	276.4
16-Jun	MACPLASQ	Jayneel Securities Pvt Ltd	S	50,000	276.4
16-Jun	PANACHE	Ambe Projects Limited	B	53,000	21.6
16-Jun	PANACHE	Kamlesh S Jain	S	62,000	21.6
16-Jun	PIONAGR	Sangeeta Aggarwal	S	39,480	9.9
16-Jun	SANKHYAIN	Sarah Faisal Hawa	S	60,598	56.9
16-Jun	UNISH	Durgaprasad Mudigunda	B	1,17,000	25.3
16-Jun	UNISTRMU	Ramesh Suresh Patil	B	80,000	5.5
16-Jun	UNISTRMU	Vinali Bhumi Shah	S	74,978	5.5
16-Jun	VCU	Urmila H Dhokad	B	85,000	12.1
16-Jun	VCU	Shapoorji Pallonji & Co Ltd	S	1,76,000	12.1
16-Jun	VIVIDHA	Ashlar Securities Pvt Ltd	S	26,41,328	1.3
16-Jun	VIVIDHA	Smithblock Financial Services Pvt Ltd	B	25,71,298	1.3

Source: bseindia.com

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Tata Motors-	282	3.4	NA	4.3
Kotak Mahindra Bank	983	2.1	NA	4.2
Ultratech Cement	4,125	2.0	NA	0.2
Losers				
Lupin Ltd	1,131	(4.3)	NA	3.3
Sun Pharma	529	(2.7)	NA	5.0
Cipla Ltd	537	(2.3)	NA	1.1

Source: Bloomberg

RATING SCALE

Definitions of ratings

BUY	– We expect the stock to deliver more than 12% returns over the next 9 months
ACCUMULATE	– We expect the stock to deliver 5% - 12% returns over the next 9 months
REDUCE	– We expect the stock to deliver 0% - 5% returns over the next 9 months
SELL	– We expect the stock to deliver negative returns over the next 9 months
NR	– Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
RS	– Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	– Not Available or Not Applicable. The information is not available for display or is not applicable
NM	– Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	– Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

Fundamental Research Team

Sanjeev Zarbade Capital Goods, Engineering sanjeev.zarbade@kotak.com +91 22 6218 6424	Ritwik Rai FMCG, Media ritwik.rai@kotak.com +91 22 6218 6426	Pankaj Kumar Midcap pankajr.kumar@kotak.com +91 22 6218 6434
Teena Virmani Construction, Cement teena.virmani@kotak.com +91 22 6218 6432	Sumit Pokharna Oil and Gas sumit.pokharna@kotak.com +91 22 6218 6438	Nipun Gupta Information Technology nipun.gupta@kotak.com +91 22 6218 6433
Arun Agarwal Auto & Auto Ancillary arun.agarwal@kotak.com +91 22 6218 6443	Amit Agarwal Logistics, Paints, Transportation agarwal.amit@kotak.com +91 22 6218 6439	Jayesh Kumar Economy kumar.jayesh@kotak.com +91 22 6218 5373
Ruchir Khare Capital Goods, Engineering ruchir.khare@kotak.com +91 22 6218 6431	Jatin Damania Metals & Mining jatin.damania@kotak.com +91 22 6218 6440	K. Kathirvelu Production k.kathirvelu@kotak.com +91 22 6218 6427

Technical Research Team

Shrikant Chouhan shrikant.chouhan@kotak.com 91 22 6218 5408	Amol Athawale amol.athawale@kotak.com +91 20 6620 3350
--	---

Derivatives Research Team

Sahaj Agrawal sahaj.agrawal@kotak.com +91 79 6607 2231	Malay Gandhi malay.gandhi@kotak.com +91 22 6218 6420	Prashanth Lalu prashanth.lalu@kotak.com +91 22 6218 5497	Prasenjit Biswas prasenjit.biswas@kotak.com +91 33 6625 9810
---	---	---	---

Disclosure/Disclaimer

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited. Kotak Securities is one of India's largest brokerage and distribution house.

Kotak Securities Limited is a corporate trading and clearing member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), Metropolitan Stock Exchange of India Limited (MSEI). Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and Portfolio Management.

Kotak Securities Limited is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority as Corporate Agent for Kotak Mahindra Old Mutual Life Insurance Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). We are registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise/warning/ deficiency letters/ or levied minor penalty on KSL for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

We offer our research services to clients as well as our prospects.

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Kotak Securities Limited (KSL) may have proprietary long/short position in the above mentioned scrip(s) and therefore may be considered as interested. The views provided herein are general in nature and does not consider risk appetite or investment objective of particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with KSL. Kotak Securities Limited is also a Portfolio Manager. Portfolio Management Team (PMT) takes its investment decisions independent of the PCG research and accordingly PMT may have positions contrary to the PCG research recommendation. Kotak Securities Limited does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and take professional advice before investing.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.

Details of Associates are available on our website ie www.kotak.com

Research Analyst has served as an officer, director or employee of subject company(ies): No

We or our associates may have received compensation from the subject company(ies) in the past 12 months.

We or our associates have managed or co-managed public offering of securities for the subject company(ies) in the past 12 months: No

We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report. Our associates may have financial interest in the subject company(ies).

Research Analyst or his/her relative's financial interest in the subject company(ies): No

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: Yes

Our associates may have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No.

Kotak Securities Limited has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report.

A graph of daily closing prices of securities is available at www.nseindia.com and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" icon in the price chart).

Kotak Securities Limited. Registered Office: 27 BKC, C. 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: www.kotak.com/www.kotaksecurities.com. Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: NSE INB/INF/INE 230808130, BSE INB 010808153/INF 011133230, MSEI INE 260808130/INB 260808135/INF 260808135, AMFI ARN 0164, PM5 INF000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97. Our research should not be considered as an advertisement or advice, professional or otherwise. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing. Investments in securities market are subject to market risks, read all the related documents carefully before investing. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts. Compliance Officer Details: Mr. Manoj Agarwal. Call: 022 - 4285 8484, or Email: ks.compliance@kotak.com.

- **Level 1:** For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at ks.demat@kotak.com or call us on: Online Customers - 30305757 (by using your city STD code as a prefix) or Toll free numbers 18002099191 / 1800222299, Offline Customers - 18002099292
- **Level 2:** If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at ks.escalation@kotak.com or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at ks.servicehead@kotak.com or call us on 022-42858208.
- **Level 3:** If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Mr. Manoj Agarwal) at ks.compliance@kotak.com or call on 91- (022) 4285 8484.
- **Level 4:** If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach CEO (Mr. Kamlesh Rao) at ceo.ks@kotak.com or call on 91- (022) 4285 8301.