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Rating	Accumulate
Price	Rs334
Target Price	Rs335
Implied Upside	.3%
Sensex	30,465
Nifty	9,428

(Prices as on May 20, 2017)

Trading data

Market Cap. (Rs bn)	30.4
Shares o/s (m)	91.2
3M Avg. Daily value (Rs m)	68.5

Major shareholders

Promoters	69.57%
Foreign	10.35%
Domestic Inst.	8.35%
Public & Other	11.73%

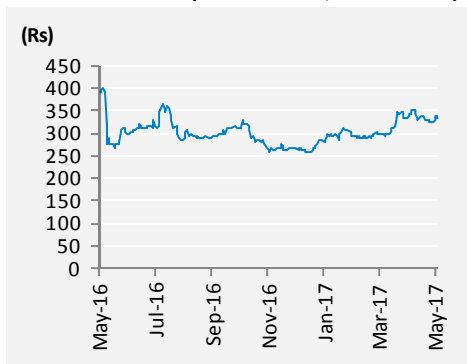
Stock Performance

(%)	1M	6M	12M
Absolute	(2.0)	25.5	(15.4)
Relative	(5.9)	9.0	(35.4)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	11.2	12.4	(9.7)
2019	13.4	15.5	(13.8)

Price Performance (RIC: VRL.LO, BB: VRL IN)



Source: Bloomberg

VRL 4QFY17 results were below estimates primarily due to poor performance in Bus Transportation (EBIT loss of Rs43m Vs Ple of profit of Rs114m). This swing resulted in a 36% decline in PAT to Rs84m for Q4FY17 Vs Ple of Rs196m. VRL has added 38buses in FY17, however local competition kept the fill factor around 80% Vs 85% in FY16. Further, higher operating costs primarily diesel up 28% YoY to Rs59.9 and lower availability of Bio-diesel vs last year led to weak EBIDTA margin of 2.9% Vs 18.7% YoY. Similarly, due to lull in Goods Transport (GT) business, management decided to offer some discounts in the market place to garner higher volumes which really didn't work as envisaged. For FY17, GT business volume growth was flat and value growth was 5%. Receivables continue to be low at 15 days as 55.4% business continue to be To Pay option and another 12.4% business is Paid Option. Ongoing accounts constitute 20% and top 10 Customers only account for 6% of the business.

VRL sounded positive on the GST rollout for its GT business as GST implementation would help avoid transit time losses of almost 25% at various check-posts. This would facilitate higher utilisation and turnaround time resulting in increased availability of GT vehicles and hence volumes. VRL has guided for a capex of Rs 0.7-0.8bn in FY18 which hinges on the demand uptick post GST. We are downgrading our FY18/FY19 estimates primarily factoring in lower volume growth expectations in both GT/BT businesses which is resulting in earnings cut by 3.5% and 5.4% in FY18/FY19E. We also revise our Target price to Rs335 from Rs361 earlier valuing it at 25x FY19E PER.

Valuation and Outlook: VRL trades at **29.8x FY18E and 24.9x FY19E PER which limits any immediate upsides till the volume growth picks up significantly.** However, the stock commands premium valuations considering being an Organised player with the largest base of drivers on rolls ~8000; Strong balance sheet and cash flow generation. We have downgraded the stock to "Accumulate" as the stock has had one issue or the other consistently in the last few quarters impacting the performance and these seems to be coming in without any guidance on these. The stock trades at a premium and for the frequent inconsistencies, we are downgrading the stock to "Accumulate".

Key financials (Y/e March)

	2016	2017	2018E	2019E
Revenues (Rs m)	17,225	18,031	19,598	21,564
Growth (%)	3.0	4.7	8.7	10.0
EBITDA (Rs m)	2,677	2,182	2,567	2,825
PAT (Rs m)	1,002	705	1,017	1,221
EPS (Rs)	11.0	7.7	11.2	13.4
Growth (%)	6.1	(29.7)	44.4	20.0
Net DPS (Rs)	5.0	4.0	4.5	5.5

Profitability & Valuation

	2016	2017	2018E	2019E
EBITDA margin (%)	15.5	12.1	13.1	13.1
RoE (%)	23.9	13.8	17.9	19.4
RoCE (%)	15.4	11.6	15.4	17.3
EV / sales (x)	1.9	1.8	1.6	1.4
EV / EBITDA (x)	12.3	14.7	12.2	10.7
PE (x)	30.4	43.2	29.9	24.9
P / BV (x)	5.9	5.6	5.1	4.6
Net dividend yield (%)	1.5	1.2	1.3	1.6

Source: Company Data; PL Research

Key Highlights from the Concall

- GST will change the transportation model to hub & spoke with larger hubs, longer lead distances and more proportion of LCL traffic benefitting companies like VRL. However, the change will be gradual.
- Business is back to normal for VRL; however, growth currently is subdued. Unorganised industry had a hit between 20-50% during Nov-Jan period and many SFO's are struggling in the southern region even now.
- VRL ended FY17 with flat volumes (start of the year expectation of 5%) due to weak performance in South India. Volumes are struggling in South India due to poor monsoon and the 15 day disruption in activities observed during the Cauvery dispute.
- Growth in revenues is largely due to growth observed in Western and Northern India. However, VRL still has 38-40% revenue contribution from South.
- Very difficult to pin-point if any particular segment is gaining momentum. Institutional business in general is lack-lustre
- VRL was approached by most CV OEM's in last week of March due to clearing of BS3 inventory, however they avoided adding any new Fleet as the demand is muted currently
- Currently Bangalore-Delhi, Bangalore-Mumbai, Hyderabad-Bangalore and Kerala-Delhi routes are doing great in GT segment.
- Expecting 4-5% volume growth for FY18 in Goods transport segment and 4-5% price hikes. Looking at changing freight rates more frequently depending on the fuel price movements.
- Don't see significant growth in Bus operations currently, not looking at adding more fleet in FY18
- Margins in Bus segment can be in the range of 16-17%, competition and operating costs has hurt the numbers in FY17
- Bio diesel proportion as a percentage of total fuel consumed is now back to 16% in Q4FY17 Vs 3% in Q1FY17 and around 25-30% in FY17. Management sounded higher RM cost for Bio-diesel manufacturers is constraining supply currently.
- Has 48 hubs currently (average 150000 Sqft), no significant investments needed for developing new hubs except for expanding the same hubs when volumes pick up

Exhibit 1: Q4FY17 result overview (Rs m)

Y/e March	Q4FY17	Q4FY16	YoY gr (%)	Q3FY17	FY17	FY16	YoY gr (%)
Net Sales	4,429	4,156	6.6	4,515	18,031	17,218	4.7
Expenditure							
Raw Materials	3,286	2,954	11.3	3,208	12,972	11,856	9.4
<i>% of Net sales</i>	<i>74.2</i>	<i>71.1</i>		<i>71.0</i>	<i>71.9</i>	<i>90.7</i>	
Personnel	674	660	2.2	656	2,661	2,444	8.9
<i>% of Net sales</i>	<i>15.2</i>	<i>15.9</i>		<i>14.5</i>	<i>14.8</i>	<i>18.7</i>	
Other	51	57	(11.4)	58	218	243	(10.5)
<i>% of Net sales</i>	<i>1.1</i>	<i>1.4</i>		<i>1.3</i>	<i>1.2</i>	<i>1.9</i>	
Total Expenditure	4,011	3,671	9.3	3,921	15,851	14,543	9.0
EBITDA	418	486	(14.1)	594	2,180	2,675	(18.5)
<i>Margin (%)</i>	<i>9.4</i>	<i>11.7</i>		<i>13.2</i>	<i>12.1</i>	<i>20.5</i>	
Depreciation	238	229	4.3	239	953	899	5.9
EBIT	179	257	(30.4)	355	1,228	1,775	(30.9)
Interest	51	67	(23.5)	55	238	307	(22.3)
Other Income	21	16	33.2	25	93	82	13.3
PBT	149	206	(27.7)	325	1,082	1,551	(30.2)
Tax	65	74	(12.0)	108	353	517	(31.7)
<i>Tax Rate (%)</i>	<i>43.8</i>	<i>36.0</i>		<i>33.1</i>	<i>32.6</i>	<i>33.4</i>	
Adjusted PAT	84	132	(36.5)	218	729	1,033	(29.4)
Reported PAT	84	132	(36.5)	218	705	1,033	(31.8)

Source: Company Data, PL Research

Exhibit 2: Segmental Breakup (Rs m)

Y/e March	Q4FY17	Q4FY16	YoY gr (%)	Q3FY17	FY17	FY16	YoY gr (%)
Segment Revenue							
Goods transport	3,574	3,363	6.3	3,542	14,249	13,563	5.1
Bus transport	759	703	8.0	862	3,262	3,176	2.7
Segment Results (EBIT)							
Goods transport	285	270	5.6	346	1,280	1,488	(14.0)
Bus transport	(43)	78	(154.5)	64	120	517	(76.8)
EBIT Margin (%)							
Goods transport	8.0	8.0	(5)bps	9.8	9.0	11.0	(1.99)
Bus transport	(5.6)	11.1	(1,676)bps	7.5	3.7	16.3	(12.6)

Source: Company Data, PL Research

Exhibit 3: Segmental Snapshot (Rs m)

	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Goods-Transport							
Revenue	3,428	3,375	3,363	3,541	3,598	3,542	3,574
EBITDA	555	463	370	456	424	461	421
<i>EBITDA Margin (%)</i>	<i>16.2%</i>	<i>13.7%</i>	<i>11.0%</i>	<i>12.9%</i>	<i>11.8%</i>	<i>13.0%</i>	<i>11.8%</i>
Fleet Size	3713	3739	3872	3872	3904	3910	3,941
Bus-Transport							
Revenue	687	839	703	912	729	862	759
EBITDA	102	229	132	204	20	128	22
<i>EBITDA Margin (%)</i>	<i>14.9%</i>	<i>27.3%</i>	<i>18.7%</i>	<i>22.4%</i>	<i>2.7%</i>	<i>14.8%</i>	<i>2.9%</i>
Fleet Size	368	368	381	425	425	419	419
Bio fuel (~% of total fuel qty)	36%	35%	24%	3%	20%	6%	16%
Diesel (Rs./litre)	45.1	48.5	46.7	52.1	53.5	56.2	59.9

Source: Company Data, PL Research

Earnings estimate revised downwards

We revise our estimates for FY18/FY19 downwards factoring in lower volume growth in GT segment. Also, we have modelled for lower growth in the BT segment considering increase in local competition.

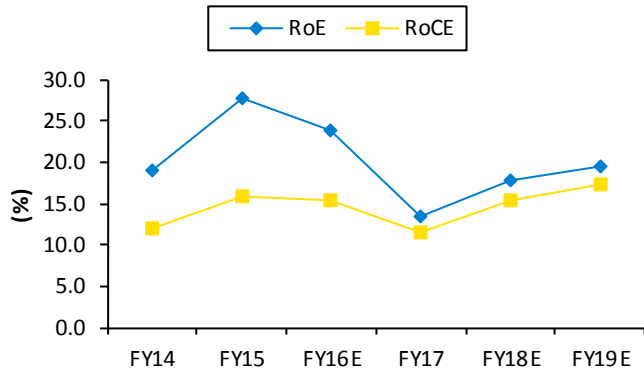
Exhibit 4: Change in Estimates

	Revised estimates		Earlier estimates		% revision	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Net sales (Rs m)	19,598	21,564	20,352	22,820	(3.7)	(5.5)
Adj. PAT (Rs m)	1,017	1,221	1,069	1,333	(4.8)	(8.4)
EPS (Rs)	11.2	13.4	11.7	14.6	(4.6)	(8.3)
Revenues						
GT	15,499	17,109	16,059	18,084	(3.5)	(5.4)
BT	3,523	3,875	3,718	4,156	(5.2)	(6.8)

Source: PL Research

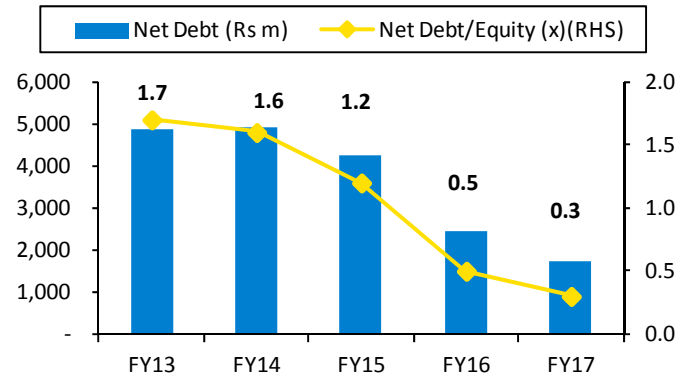
Snapshot in charts

Exhibit 5: VRL's Return ratios should bounce back from FY18



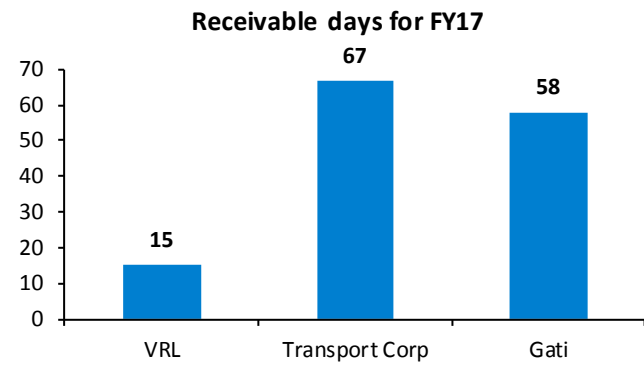
Source: Company Data, PL Research

Exhibit 6: Debt inching down gradually, B/S strong at net D/E of 0.3



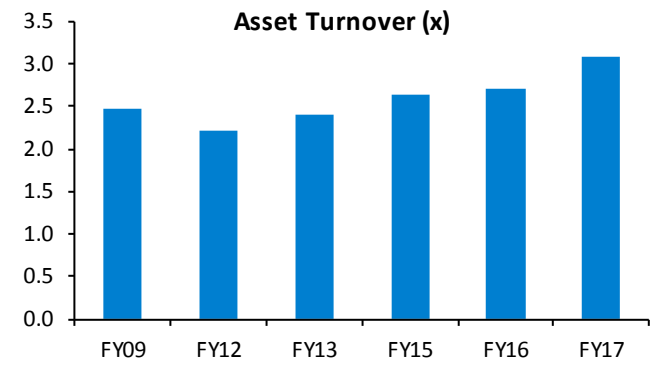
Source: Company Data, PL Research

Exhibit 7: Most efficient WC management amongst listed peers



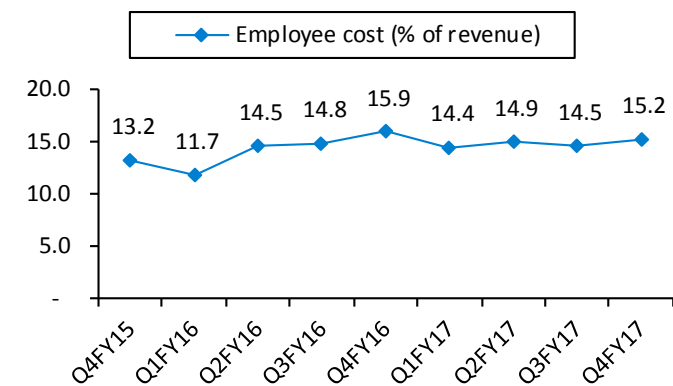
Source: Company Data, PL Research

Exhibit 8: Asset turn above 3x in GT segment



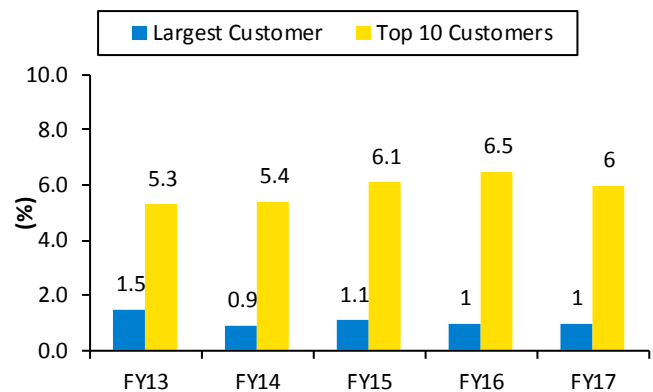
Source: Company Data, PL Research

Exhibit 9: Employee cost stabilizing at current levels



Source: Company Data, PL Research

Exhibit 10: Well diversified customer base



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Net Revenue	17,225	18,031	19,598	21,564
Raw Material Expenses	11,850	12,972	14,012	15,418
Gross Profit	5,375	5,059	5,585	6,146
Employee Cost	2,455	2,661	2,783	3,019
Other Expenses	243	216	235	302
EBITDA	2,677	2,182	2,567	2,825
Depr. & Amortization	900	982	1,005	1,025
Net Interest	307	240	166	125
Other Income	69	93	100	120
Profit before Tax	1,540	1,053	1,496	1,795
Total Tax	538	348	479	574
Profit after Tax	1,002	705	1,017	1,221
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	1,002	705	1,017	1,221
Avg. Shares O/S (m)	91.2	91.2	91.2	91.2
EPS (Rs.)	11.0	7.7	11.2	13.4

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	2,689	2,171	2,174	2,326
C/F from Investing	(1,084)	(700)	(700)	(500)
C/F from Financing	(1,546)	(1,573)	(986)	(1,347)
Inc. / Dec. in Cash	59	(102)	488	479
Opening Cash	166	224	122	610
Closing Cash	224	122	610	1,090
FCFF	1,604	1,471	1,474	1,826
FCFE	375	284	1,044	1,055

Key Financial Metrics

Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	3.0	4.7	8.7	10.0
EBITDA (%)	(2.2)	(18.5)	17.7	10.0
PAT (%)	13.1	(29.7)	44.4	20.0
EPS (%)	6.1	(29.7)	44.4	20.0
Profitability				
EBITDA Margin (%)	15.5	12.1	13.1	13.1
PAT Margin (%)	5.8	3.9	5.2	5.7
RoCE (%)	15.4	11.6	15.4	17.3
RoE (%)	23.9	13.8	17.9	19.4
Balance Sheet				
Net Debt : Equity	0.5	0.3	0.2	—
Net Wrkng Cap. (days)	20	18	17	19
Valuation				
PER (x)	30.4	43.2	29.9	24.9
P / B (x)	5.9	5.6	5.1	4.6
EV / EBITDA (x)	12.3	14.7	12.2	10.7
EV / Sales (x)	1.9	1.8	1.6	1.4
Earnings Quality				
Eff. Tax Rate	34.9	33.1	32.0	32.0
Other Inc / PBT	4.5	8.8	6.7	6.7
Eff. Depr. Rate (%)	6.7	7.0	6.8	6.6
FCFE / PAT	37.4	40.3	102.6	86.4

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	5,139	5,412	5,970	6,589
Total Debt	2,623	1,727	1,600	900
Other Liabilities	986	977	1,023	1,051
Total Liabilities	8,747	8,116	8,593	8,539
Net Fixed Assets	7,338	6,870	6,675	6,350
Goodwill	—	—	—	—
Investments	516	536	611	611
Net Current Assets	916	649	1,306	1,578
<i>Cash & Equivalents</i>	<i>196</i>	<i>122</i>	<i>628</i>	<i>1,109</i>
<i>Other Current Assets</i>	<i>1,366</i>	<i>1,377</i>	<i>1,333</i>	<i>1,424</i>
<i>Current Liabilities</i>	<i>646</i>	<i>850</i>	<i>655</i>	<i>956</i>
Other Assets	(22)	61	—	—
Total Assets	8,747	8,116	8,593	8,539

Quarterly Financials (Rs m)

Y/e March	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Net Revenue	4,586	4,501	4,515	4,429
EBITDA	670	498	594	418
<i>% of revenue</i>	<i>14.6</i>	<i>11.1</i>	<i>13.2</i>	<i>9.4</i>
Depr. & Amortization	237	238	239	238
Net Interest	67	66	55	51
Other Income	23	24	25	21
Profit before Tax	389	218	325	149
Total Tax	125	55	108	65
Profit after Tax	265	139	218	84
Adj. PAT	265	139	218	84

Key Operating Metrics

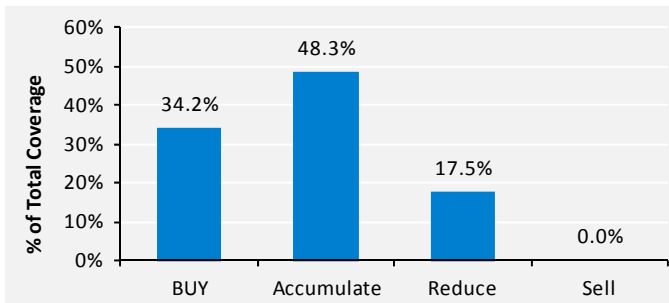
Y/e March	2016	2017	2018E	2019E
Segment Revenues				
Goods Transport	13,563	14,262	15,499	17,109
Bus Operations	3,176	3,262	3,523	3,875
EBIT				
Goods Transport	1,516	1,282	1,503	1,711
Bus Operations	521	120	352	453

Source: Company Data, PL Research.

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Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
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