

November 05, 2017

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Rating	Accumulate
Price	Rs376
Target Price	Rs370
Implied Upside	-1.6%
Sensex	33,686
Nifty	10,453

(Prices as on November 03, 2017)

#### Trading data

Market Cap. (Rs bn)	34.3
Shares o/s (m)	91.2
3M Avg. Daily value (Rs m)	57.7

#### Major shareholders

Promoters	67.38%
Foreign	11.58%
Domestic Inst.	11.04%
Public & Other	10.00%

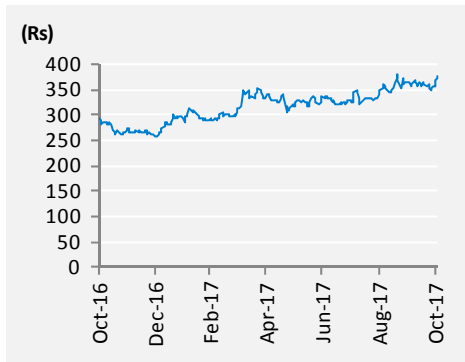
#### Stock Performance

(%)	1M	6M	12M
Absolute	3.5	11.2	32.8
Relative	(3.4)	(1.5)	9.9

#### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	11.3	12.1	-6.9
2019	13.5	15.5	-12.5

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



Source: Bloomberg

VRL 2QFY18 results were largely in line with estimates with revenue at Rs4.5bn (up 0.4% YoY), EBITDA margins at 12.3% vs. 11.1% YoY & PAT at Rs216m (up 55.8%YoY). Key highlight has been (i) In GT segment while environment was challenging & activity was sluggish due to post-GST chaos & protests (leading to 10% dip in volumes), 11% higher realisations helped post flattish revenues (ii) Steady performance in BT segment in seasonally lean quarter with 7% revenue growth (iii) Margin improvement of 127bps YoY was a combination of price hikes, lower cost due to sluggish volumes in GT segment & better utilisation of owned fleet leading to lower lorry hire charges. VRL has announced buy-back of equity shares at the price not exceeding Rs460/share aggregating upto Rs414m via openmarket route and promoters won't participate in the same. Though management didn't comment on whether buy-back is in lieu of dividend, we believe this is an efficient way of paying back to share holders (and straight away saving on dividend distribution tax to the tune of ~Rs80m)

VRL sounded positive on the GST rollout for its GT business as GST implementation would help avoid time losses at check-posts resulting in lower transit time, higher utilisation & hence increased availability of GT vehicles. Some effect is already visible in terms of increased inquiries and lower transit time on select routes, however quantification of sustainable improvement in all these parameters can only be done towards end of FY18 once the e-way bill is introduced by the central government.

■ **Valuation and Outlook:** VRL commands premium valuations, with stock currently trading at 28.1x FY19E PER, considering it being one of the largest organised players with the largest base of drivers on rolls (~8000); Strong balance sheet & cash flow generation. **We maintain our 'Accumulate' stance with target price of Rs370 (rolling it over to Sept-19 and valuing it at 25x Sept-19E PER.)**

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	11.3	13.5
Growth (%)	6.1	(29.6)	45.7	20.0
Net DPS (Rs)	5.0	4.0	—	5.6

Profitability & Valuation	2016	2017	2018E	2019E
EBITDA margin (%)	15.5	12.1	13.1	13.1
RoE (%)	23.9	13.4	17.8	19.3
RoCE (%)	15.4	11.6	15.7	17.7
EV / sales (x)	2.1	2.0	1.8	1.6
EV / EBITDA (x)	13.7	16.4	13.6	12.0
PE (x)	34.2	48.6	33.3	27.8
P / BV (x)	6.7	6.3	5.6	5.1
Net dividend yield (%)	1.3	1.1	—	1.5

Source: Company Data; PL Research

## Key Highlights from the Concall

- In the GST chaos, July GT volumes were down ~21% YoY however situation improved gradually and aided by festive demand in September, company ended with 10% volume de-growth YoY in Q2FY18
- GST is expected to change the transportation model to hub & spoke with larger hubs, longer lead distances and more proportion of LCL traffic benefitting large organised players like VRL. However, the change will be gradual.
- Company has witnessed lower transit time on select routes with blended reduction of 4-5% in transit time, leading to better utilisation of own fleet and lower lorry hire charges (Rs250m vs. Rs330m YoY)
- Business activity has recovered post July's low however it is still sluggish with October GT volumes almost flattish. Management is confident of improvement from here on with lot of inquiries coming including from new/first time clients.
- BT segment has done well in the quarter and targets for margins in the range of 15-16% however business is quite volatile where pricing is very dynamic depending on peer pricing due to presence of large number of unorganised players.
- Company incurred a cost of Rs45m in Q2FY18 as it was required to pay GST under reverse charge mechanism (RCM) while taking goods/services from unregistered dealers. However govt has withdrawn such requirement till March 2018 and hence such cost is not expected to be incurred in H2. However management hinted at some hike in employee cost.
- **Capex:** Capex will be required for larger infrastructure as and when GST story pans out however it will be gradual and will take another 1-2 years. Currently it is witnessing better efficiency and higher utilisation of fleet and hence doesn't intend to add any fleet in H2FY18. In H1FY18, it has done capex to the tune of ~Rs270m (Rs200m+ in GT, Rs50m+ in land, building, equipments etc and balance in BT segment).

With no intention to add fleet in either of segments, capex would be driven by some investment in building, equipments etc and Surat transshipment hub, which is progressing as per plan.

**Exhibit 1: Q4FY17 result overview (Rs m)**

Y/e March	Q2FY18	Q2FY17	YoY gr (%)	Q1FY18	H1FY18	H1FY17	YoY gr (%)
<b>Net Sales</b>	<b>4,519</b>	<b>4,501</b>	<b>0.4</b>	<b>4,919</b>	<b>9,438</b>	<b>9,087</b>	<b>3.9</b>
<b>Expenditure</b>							
Raw Materials*	3,063	3,277	(6.5)	3,307	6,371	6,478	(1.7)
<i>% of Net sales</i>	<i>67.8</i>	<i>72.8</i>	<i>(5.02)</i>	<i>67.2</i>	<i>67.5</i>	<i>71.3</i>	
Personnel*	839	670	25.2	830	1,668	1,331	25.3
<i>% of Net sales</i>	<i>18.6</i>	<i>14.9</i>		<i>16.9</i>	<i>17.7</i>	<i>14.6</i>	
Other	60	55	7.7	60	119	109	9.1
<i>% of Net sales</i>	<i>1.3</i>	<i>1.2</i>		<i>1.2</i>	<i>1.3</i>	<i>1.2</i>	
Total Expenditure	3,962	4,002	(1.0)	4,196	8,158	7,918	3.0
<b>EBITDA</b>	<b>558</b>	<b>498</b>	<b>11.9</b>	<b>722</b>	<b>1,280</b>	<b>1,169</b>	<b>9.5</b>
<i>Margin (%)</i>	<i>12.3</i>	<i>11.1</i>	<i>127 bps</i>	<i>14.7</i>	<i>13.6</i>	<i>12.9</i>	<i>70 bps</i>
Depreciation	243	267	(8.9)	242	485	505	(3.8)
<b>EBIT</b>	<b>314</b>	<b>231</b>	<b>35.9</b>	<b>480</b>	<b>795</b>	<b>664</b>	<b>19.6</b>
Interest	31	66	(53.3)	42	73	132	(45.2)
Other Income	27	24	12.6	58	84	47	81.0
<b>PBT</b>	<b>310</b>	<b>189</b>	<b>64.2</b>	<b>496</b>	<b>806</b>	<b>578</b>	<b>39.4</b>
Tax	94	50	87.2	159	253	175	44.4
<i>Tax Rate (%)</i>	<i>30.3</i>	<i>26.6</i>		<i>32.0</i>	<i>31.3</i>	<i>30.3</i>	
<b>Adjusted PAT</b>	<b>216</b>	<b>139</b>	<b>55.8</b>	<b>338</b>	<b>554</b>	<b>403</b>	<b>37.3</b>
<b>Reported PAT</b>	<b>216</b>	<b>139</b>	<b>55.8</b>	<b>338</b>	<b>554</b>	<b>403</b>	<b>37.3</b>

Source: Company Data, PL Research

\*With some upward revision in minimum wage in certain states, there is a marginal increase in employee cost, however major portion of higher employee cost on books in the Q2FY18 & H1FY18 is due to change in accounting treatment in shifting of certain portion of operating cost to employee cost.

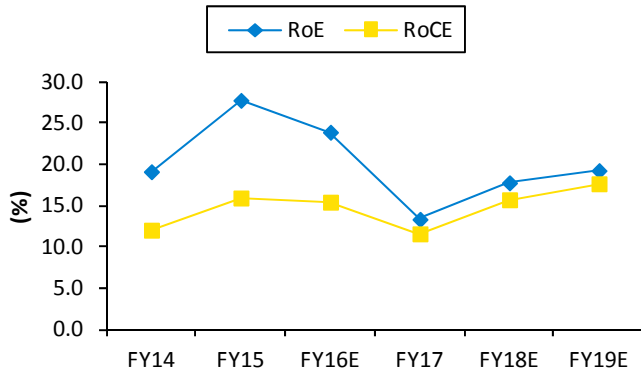
**Exhibit 2: Segmental Breakup (Rs m)**

Y/e March	Q2FY18	Q2FY17	YoY gr (%)	Q1FY18	H1FY18	H1FY17	YoY gr (%)
<b>Segment Revenue</b>							
Goods transport	3,582	3,593	(0.3)	3,750	7,331	7,134	2.8
Bus transport	781	729	7.0	1,033	1,814	1,641	10.5
<b>Segment Results (EBIT)</b>							
Goods transport	338	310	8.9	387	724	649	11.5
Bus transport	(11)	(44)	(75.8)	163	152	98	55.0
<b>EBIT Margin (%)</b>							
Goods transport	9.4	8.6	80 bps	10.3	9.9	9.1	0.78
Bus transport	(1.4)	(6.1)	469 bps	15.8	8.4	6.0	2.4

Source: Company Data, PL Research

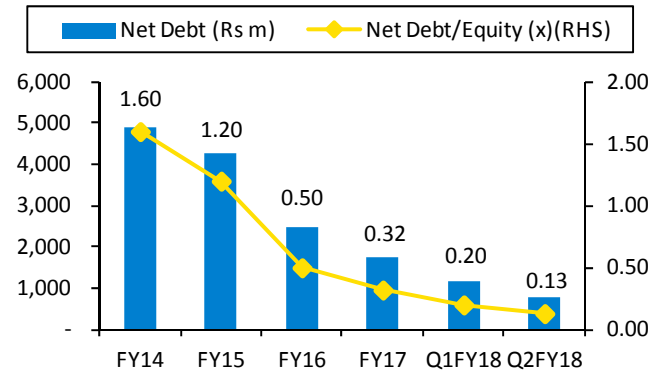
## Snapshot in charts

**Exhibit 3: VRL's Return ratios should bounce back from FY18**



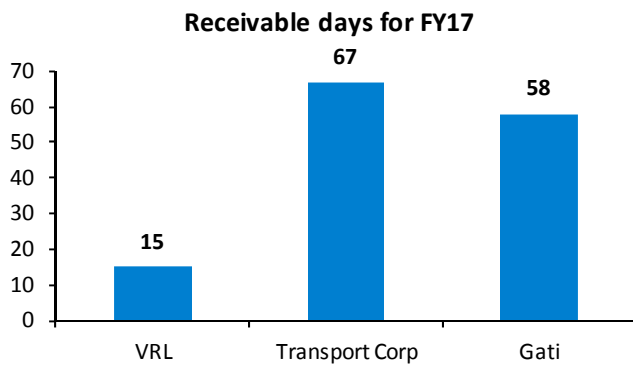
Source: Company Data, PL Research

**Exhibit 4: Debt inching down gradually, B/S strong at net D/E of 0.13**



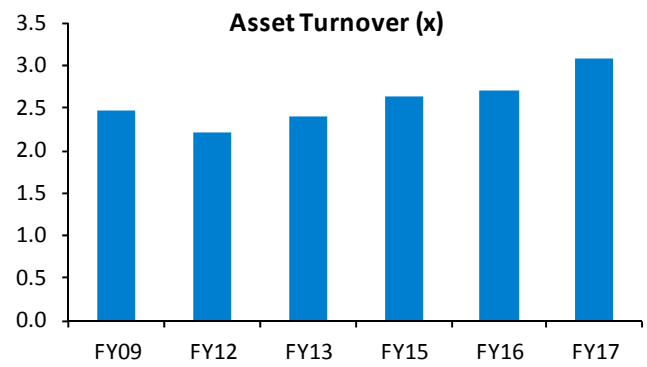
Source: Company Data, PL Research

**Exhibit 5: Most efficient WC management amongst listed peers**



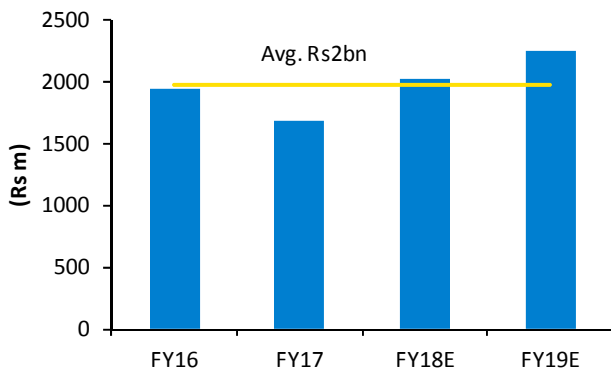
Source: Company Data, PL Research

**Exhibit 6: Asset turn above 3x in GT segment**



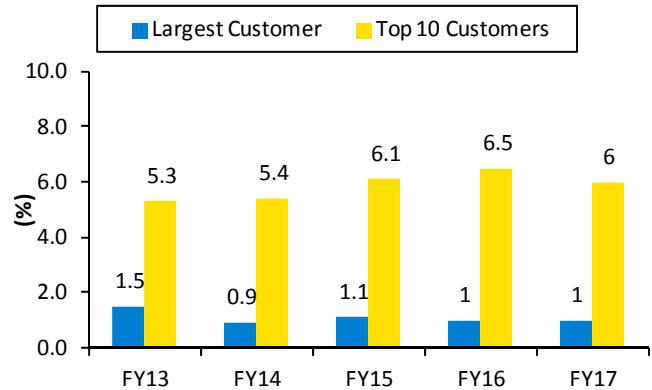
Source: Company Data, PL Research

**Exhibit 7: Average cash profit of Rs2bn over FY16-FY19E**



Source: Company Data, PL Research

**Exhibit 8: Well diversified customer base**



Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2016	2017	2018E	2019E
<b>Net Revenue</b>	<b>17,225</b>	<b>18,031</b>	<b>19,598</b>	<b>21,564</b>
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
<b>EBITDA</b>	<b>2,677</b>	<b>2,182</b>	<b>2,567</b>	<b>2,825</b>
Depr. & Amortization	900	982	1,005	1,025
Net Interest	307	240	166	125
Other Income	69	93	100	120
<b>Profit before Tax</b>	<b>1,540</b>	<b>1,053</b>	<b>1,496</b>	<b>1,795</b>
Total Tax	538	348	479	574
<b>Profit after Tax</b>	<b>1,002</b>	<b>705</b>	<b>1,017</b>	<b>1,221</b>
Ex-Od items / Min. Int.	—	—	—	—
<b>Adj. PAT</b>	<b>1,002</b>	<b>705</b>	<b>1,017</b>	<b>1,221</b>
<b>Avg. Shares O/S (m)</b>	<b>91.2</b>	<b>91.2</b>	<b>90.3</b>	<b>90.3</b>
<b>EPS (Rs.)</b>	<b>11.0</b>	<b>7.7</b>	<b>11.3</b>	<b>13.5</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2016	2017	2018E	2019E
C/F from Operations	2,682	1,947	2,174	2,326
C/F from Investing	(1,072)	(591)	(700)	(700)
C/F from Financing	(1,552)	(1,457)	(893)	(947)
Inc. / Dec. in Cash	58	(101)	581	679
Opening Cash	166	184	116	697
Closing Cash	181	116	697	1,376
FCFF	1,567	1,389	1,474	1,626
FCFE	375	284	644	1,455

**Key Financial Metrics**

Y/e March	2016	2017	2018E	2019E
<b>Growth</b>				
Revenue (%)	3.0	4.7	8.7	10.0
EBITDA (%)	(2.2)	(18.5)	17.7	10.0
PAT (%)	13.1	(29.6)	44.3	20.0
EPS (%)	6.1	(29.6)	45.7	20.0
<b>Profitability</b>				
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	15.7	17.7
RoE (%)	23.9	13.4	17.8	19.3
<b>Balance Sheet</b>				
Net Debt : Equity	0.5	0.3	0.1	—
Net Wrkng Cap. (days)	20	18	17	19
<b>Valuation</b>				
PER (x)	34.2	48.6	33.3	27.8
P / B (x)	6.7	6.3	5.6	5.1
EV / EBITDA (x)	13.7	16.4	13.6	12.0
EV / Sales (x)	2.1	2.0	1.8	1.6
<b>Earnings Quality</b>				
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	63.3	119.2

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	5,139	5,412	6,025	6,644
Total Debt	2,623	1,727	1,200	900
Other Liabilities	1,008	916	1,023	1,051
<b>Total Liabilities</b>	<b>8,769</b>	<b>8,055</b>	<b>8,248</b>	<b>8,594</b>
Net Fixed Assets	7,338	6,870	6,675	6,350
Goodwill	—	—	—	—
Investments	516	536	561	561
Net Current Assets	916	649	1,011	1,383
<i>Cash &amp; Equivalents</i>	<i>196</i>	<i>122</i>	<i>333</i>	<i>914</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	—	—	—	—
<b>Total Assets</b>	<b>8,769</b>	<b>8,055</b>	<b>8,248</b>	<b>8,294</b>

**Quarterly Financials (Rs m)**

Y/e March	Q3FY17	Q4FY17	Q1FY18	Q2FY18
<b>Net Revenue</b>	<b>4,515</b>	<b>4,429</b>	<b>4,919</b>	<b>4,519</b>
<b>EBITDA</b>	<b>594</b>	<b>418</b>	<b>722</b>	<b>558</b>
<i>% of revenue</i>	<i>13.2</i>	<i>9.4</i>	<i>14.7</i>	<i>12.3</i>
Depr. & Amortization	239	238	242	243
Net Interest	55	51	42	31
Other Income	25	21	58	27
<b>Profit before Tax</b>	<b>325</b>	<b>149</b>	<b>496</b>	<b>310</b>
Total Tax	108	65	159	94
<b>Profit after Tax</b>	<b>218</b>	<b>84</b>	<b>338</b>	<b>216</b>
<b>Adj. PAT</b>	<b>218</b>	<b>84</b>	<b>338</b>	<b>216</b>

**Key Operating Metrics**

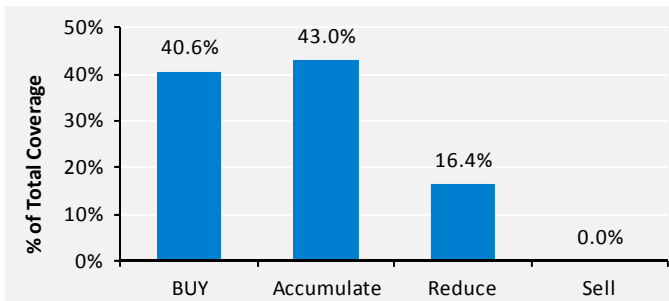
Y/e March	2016	2017	2018E	2019E
<b>Segment Revenues</b>				
Goods Transport	13,563	14,168	15,499	17,109
Bus Operations	3,176	3,243	3,523	3,875
<b>EBIT</b>				
Goods Transport	1,516	1,282	1,503	1,711
Bus Operations	521	120	352	453

Source: Company Data, PL Research.

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