

**View** – Even with high competition intensity and uncertainty in fuel cost, there are signs of improvement in business sentiment with a likely a tonnage growth of 7-8%. This likely to help the company able to achieve its targeted revenue growth of 10% YoY for FY19, in our view. Hence, we continue to be positive on the company's growth prospects, with an estimated CAGR growth of 13% for FY18-21E in earnings and continue to maintain **Accumulate** with a TP ₹ 300.

### Lowered tonnage growth guidance to 7-8% for FY19

For Q3FY19, the numbers were in-line with our estimates. Revenue from operations grew 14.4%YoY and 6.6% QoQ to ₹ 5,169.9mn, from ₹ 5,284.7mn in the last quarter. EBITDA grew 12.7% YoY and 28.9% QoQ to ₹ 696.6mn, from ₹ 540.6mn in the last quarter, with the EBITDA margin remaining flat YoY at 12.6% and an improvement from 10.5% in the previous quarter, due to better cost control by reduction in lorry hire from market. Operating expenses rose 15.2% YoY to ₹ 3,805.7mn, an increase of 4.2% QoQ. The rise in operating expenses YoY was primarily due to an increase in fuel cost. The ratio of fuel cost-to-sales grew from 23% to 25.88% YoY (down from 26.5% QoQ). The fuel procurement cost also rose 18% YoY to ₹ 67.5 per liter (remained flat QoQ). The net profit grew 5.5% YoY and 28.8% QoQ to ₹ 265.8mn, from ₹ 241.9mn in the previous quarter. The management lowered tonnage growth guidance to 7-8%, from 10%, primarily due to increase in competitive intensity in FY19.

### Change in axle norms lead to additional 10% improvement in tonnage capacity

During Q3FY19, the goods transport business grew 13.7% YoY and 5% QoQ to ₹4,402.5mn, from ₹ 4,192.8mn in the previous quarter. The tonnage grew 5% (7% for 9MFY19) and realisation grew by 9% YoY. The company could reduce freight cost charged to select customers due to decline in fuel cost. Further increase/ decrease in freight rates is dependent on the fuel cost. During the quarter, due to changes in axle load norms, the management could enhance capacity of 1766 vehicles. An additional 670 tonnes was added to the existing fleet. The remaining existing fleet tonnage addition is likely to be completed by the end of Q4FY19.

### Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	5,512	4,893	12.6	5,170	6.6
Total Expense	4,815	4,275	12.6	4,629	4.0
EBITDA	697	618	12.7	541	28.9
Depreciation	253	245	3.2	252	0.4
EBIT	444	373	19.0	289	53.8
Other Income	12	37	(66.4)	23	(47.6)
Interest	36	20	80.0	20	84.8
EBT	420	389	19.0	292	43.6
Tax	154	137	12.1	86	78.9
RPAT	266	252	5.5	206	28.8
APAT	266	252	5.5	206	28.8
			(bps)		(bps)
Gross Margin (%)	31.0	32.5	(151)	29.4	157
EBITDA Margin (%)	12.6	12.6	1	10.5	219
NPM (%)	4.8	5.2	(33)	4.0	83
Tax Rate (%)	36.7	35.3	141	29.4	725
EBIT Margin (%)	8.0	7.6	43	5.6	247

CMP	₹ 249
Target / Upside	₹ 300 / 20%
BSE Sensex	36,395
NSE Nifty	10,889

### Scrip Details

Equity / FV	₹ 903mn / ₹ 10
Market Cap	₹ 23bn
	US\$ 317mn
52-week High/Low	₹ 446/₹ 248
Avg. Volume (no)	46,574
NSE Symbol	VRLOG
Bloomberg Code	VRLL IN

### Shareholding Pattern Dec'18(%)

Promoters	68.1
MF/Banks/FIs	15.8
FII	7.8
Public / Others	6.9

### Valuation (x)

	FY19E	FY20E	FY21E
P/E	20.3	19.2	14.8
EV/EBITDA	9.5	9.3	6.9
ROE (%)	17.5	16.9	20.5
RoACE (%)	15.3	14.8	17.7

### Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	21,272	23,763	26,506
EBITDA	2,468	2,495	3,287
PAT	1,111	1,172	1,528
EPS (₹)	12.3	13.0	16.9

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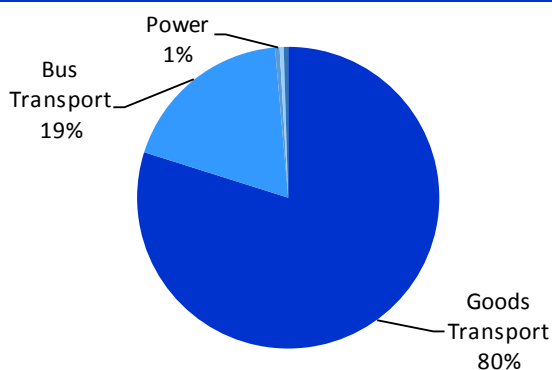
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During the quarter, ₹ 530mn was invested in new vehicle addition (83 nos.) of higher tonnage (20 tons) with the enhancement in capacity for higher tonnages was completed for existing 300 vehicles. The decision to buy additional vehicles will depend on the progress of increase in capacity of existing vehicles during Q4. The management also stated that the bio-diesel usage at 20.81% (9MFY19 +8% YoY; Q3FY19-17.07%) is likely to be maintained. The lead distance travelled by own vehicles was flat YoY with dependence on outside vehicles remaining at 9-10%.

### Other Concall highlights

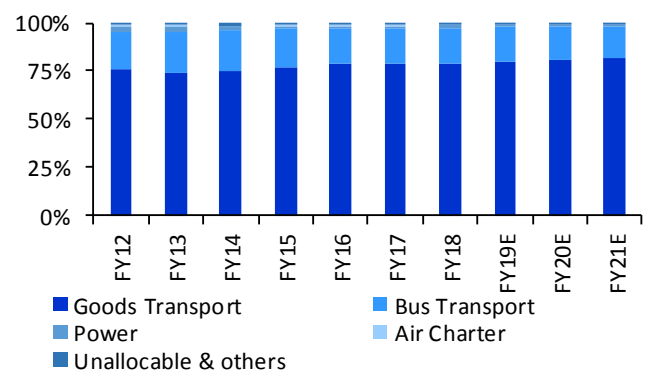
- Capex as on Dec'18 was at ₹ 1480mn which include Land & Building at ₹ 830mn (Surat Facility – ₹ 660mn) and new vehicle addition at ₹ 530mn.
- Surat facility likely to be ready by Mar'19 with expected demand of 150-200 trucks in that region.
- Priority business (Express cargo) revenue for the quarter at ₹1500-1800mn
- As per the management, its LTL freight rates are 10-12 % less compared to express and air cargo.
- 90-92% of business realised from LTL customers with the rest from FTL customers.
- There was a net addition of 309 goods vehicles (18 tons and above – 84 vehicles; 8 tons and below – 243 vehicles; Sold/Scrapped - 18) taking the total count to 4316 vehicles as on Dec'18
- Passenger business segment grew by 9.9% YoY and 27.3% QoQ to ₹ 811mn, from ₹ 811mn in the last quarter. There was also reduction of 21 buses taking the count to 385.
- The increase in revenue was due to passenger growth of 1.44% YoY; realisation growth of 8% YoY and occupancy levels growth of 3% YoY.

**Exhibit 1: Q3FY19 Revenue Mix**



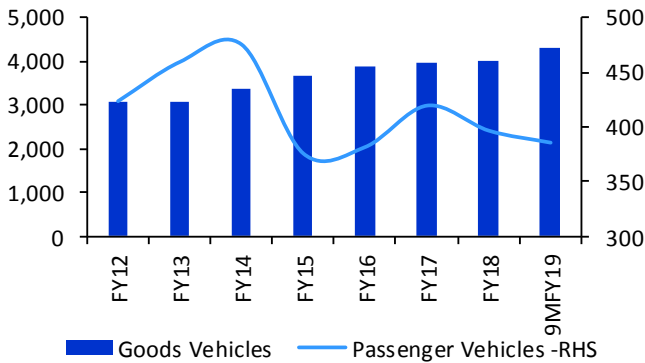
Source: DART

**Exhibit 2: Revenue Mix**



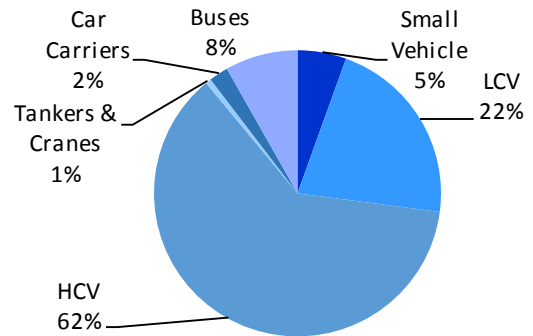
Source: DART

**Exhibit 3: Share of Owned Goods & Passenger vehicles**



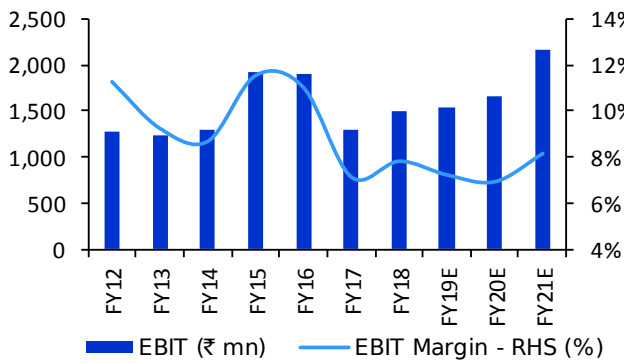
Source: DART

**Exhibit 4: 9MFY19 Vehicle Share**



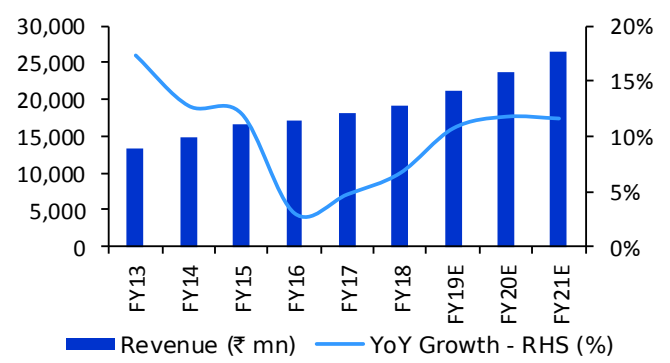
Source: DART

**Exhibit 5: EBIT & EBIT Margin YoY**



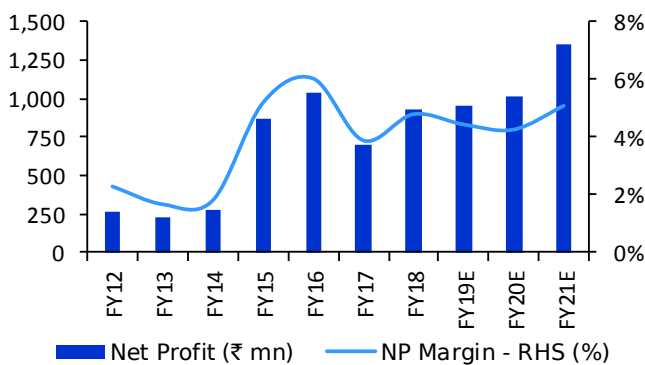
Source: DART

**Exhibit 6: Revenue & Revenue Growth YoY**



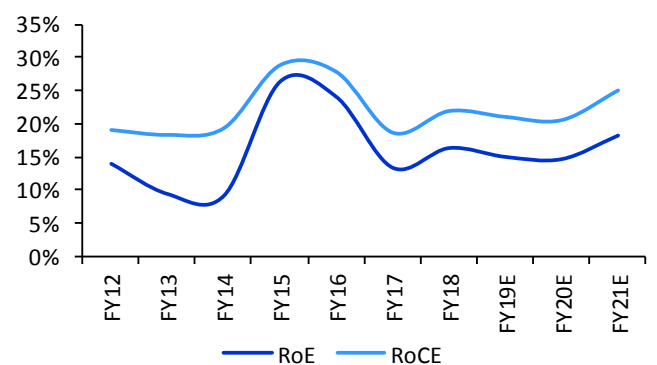
Source: DART

**Exhibit 7: Net Profit & NP Margin YoY**



Source: DART

**Exhibit 8: Return Ratios (%)**



Source: DART

**Profit and Loss Account**

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>19,223</b>	<b>21,272</b>	<b>23,763</b>	<b>26,506</b>
<b>Total Expense</b>	<b>16,789</b>	<b>18,804</b>	<b>21,268</b>	<b>23,220</b>
COGS	13,189	15,103	17,110	18,820
Employees Cost	3,458	3,616	4,040	4,241
Other expenses	142	85	119	159
<b>EBIDTA</b>	<b>2,434</b>	<b>2,468</b>	<b>2,495</b>	<b>3,287</b>
Depreciation	976	840	798	1,098
<b>EBIT</b>	<b>1,458</b>	<b>1,628</b>	<b>1,698</b>	<b>2,189</b>
Interest	114	128	138	147
Other Income	142	85	119	159
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>1,486</b>	<b>1,585</b>	<b>1,679</b>	<b>2,202</b>
Tax	468	474	507	674
RPAT	1,017	1,111	1,172	1,528
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>1,017</b>	<b>1,111</b>	<b>1,172</b>	<b>1,528</b>

**Balance Sheet**

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
<b>Sources of Funds</b>				
Equity Capital	903	903	903	903
Minority Interest	0	0	0	0
Reserves & Surplus	5,029	5,830	6,262	6,837
<b>Net Worth</b>	<b>5,932</b>	<b>6,733</b>	<b>7,165</b>	<b>7,740</b>
Total Debt	923	1,023	1,123	1,223
Net Deferred Tax Liability	808	808	808	808
<b>Total Capital Employed</b>	<b>7,663</b>	<b>8,564</b>	<b>9,096</b>	<b>9,771</b>

**Applications of Funds**

Net Block	6,250	6,860	6,963	6,665
CWIP	76	176	276	376
Investments	582	682	782	882
<b>Current Assets, Loans &amp; Advances</b>	<b>1,715</b>	<b>1,962</b>	<b>2,340</b>	<b>3,239</b>
Inventories	241	291	391	508
Receivables	807	932	911	944
Cash and Bank Balances	194	155	387	1,061
Loans and Advances	472	583	651	726
Other Current Assets	0	0	0	0
<b>Less: Current Liabilities &amp; Provisions</b>	<b>960</b>	<b>1,117</b>	<b>1,266</b>	<b>1,392</b>
Payables	960	1,117	1,266	1,392
Other Current Liabilities	0	0	0	0
Net Current Assets	754	845	1,075	1,847
<b>Total Assets</b>	<b>7,663</b>	<b>8,564</b>	<b>9,096</b>	<b>9,771</b>

E – Estimates

**Important Ratios**

Particulars	FY18A	FY19E	FY20E	FY21E
<b>(A) Margins (%)</b>				
Gross Profit Margin	31.4	29.0	28.0	29.0
EBIDTA Margin	12.7	11.6	10.5	12.4
EBIT Margin	7.6	7.7	7.1	8.3
Tax rate	31.5	29.9	30.2	30.6
Net Profit Margin	5.3	5.2	4.9	5.8
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	68.6	71.0	72.0	71.0
Employee	18.0	17.0	17.0	16.0
Other	0.7	0.4	0.5	0.6
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.2	0.2	0.2	0.2
Interest Coverage	12.7	12.7	12.3	14.9
Inventory days	5	5	6	7
Debtors days	15	16	14	13
Average Cost of Debt	9.8	13.1	12.8	12.5
Payable days	18	19	19	19
Working Capital days	14	14	17	25
FA T/O	3.1	3.1	3.4	4.0
<b>(D) Measures of Investment</b>				
AEPS (₹)	11.3	12.3	13.0	16.9
CEPS (₹)	22.1	21.6	21.8	29.1
DPS (₹)	0.0	5.2	5.6	7.4
Dividend Payout (%)	0.0	42.5	43.1	44.0
BVPS (₹)	65.7	74.5	79.3	85.7
RoANW (%)	17.9	17.5	16.9	20.5
RoACE (%)	14.7	15.3	14.8	17.7
RoAIC (%)	19.3	20.5	19.8	25.1
<b>(E) Valuation Ratios</b>				
CMP (₹)	249	249	249	249
P/E	22.2	20.3	19.2	14.8
Mcap (₹ Mn)	22,536	22,536	22,536	22,536
MCap/ Sales	1.2	1.1	0.9	0.9
EV	23,265	23,403	23,272	22,698
EV/Sales	1.2	1.1	1.0	0.9
EV/EBITDA	9.6	9.5	9.3	6.9
P/BV	3.8	3.3	3.1	2.9
Dividend Yield (%)	0.0	2.1	2.2	3.0
<b>(F) Growth Rate (%)</b>				
Revenue	6.6	10.7	11.7	11.5
EBITDA	5.6	1.4	1.1	31.7
EBIT	10.2	11.7	4.3	29.0
PBT	26.3	6.7	5.9	31.1
APAT	22.9	9.2	5.5	30.4
EPS	22.9	9.2	5.5	30.4
<b>Cash Flow</b>				
(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	1,599	1,801	1,965	2,513
CFI	(399)	(1,650)	(1,099)	(998)
CFF	(619)	(581)	(628)	(831)
FCFF	1,271	251	965	1,613
Opening Cash	122	194	155	387
Closing Cash	194	155	387	1,061

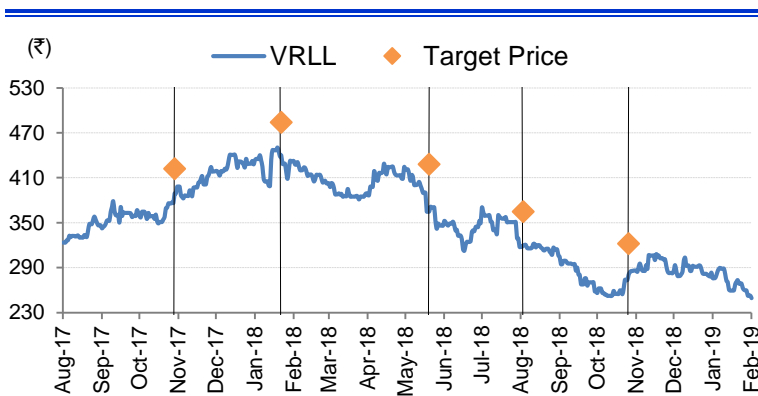
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Nov-17	Accumulate	422	389
Feb-18	Accumulate	484	440
May-18	Accumulate	428	365
Aug-18	Accumulate	365	320
Nov-18	Accumulate	322	281

\*Price as on recommendation date

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