

BSE SENSEX  
58,466

S&P CNX  
17,417

**CMP: INR431**

**TP: INR540 (+25%)**

**Buy**

## VRL VRL LOGISTICS

Recent thematic report on Logistics



### Stock Info

	VRL IN
Bloomberg	VRLL IN
Equity Shares (m)	88
M.Cap.(INRb)/(USD b)	40.2 / 0.5
52-Week Range (INR)	534 / 165
1, 6, 12 Rel. Per (%)	23/57/106
12M Avg Val (INR M)	129
Free float (%)	30.4

### Financials Snapshot (INR b)

Y/E March	2021	2022E	2023E
Net Sales	17.6	22.8	26.2
EBITDA	2.5	3.5	3.8
Adj. PAT	0.5	1.1	1.3
Adj. EPS (INR)	5.1	12.4	14.2
EPS Gr. (%)	-48.9	143.4	14.1
BV/Sh. (INR)	67.6	74.5	82.7

### Ratios

Net D/E (x)	0.2	0.0	-0.1
RoE (%)	7.4	17.5	18.0
RoCE (%)	8.8	17.4	17.5
Payout (%)	78.4	44.3	42.4

### Valuations

P/E (x)	84.5	34.7	30.4
P/BV (x)	6.4	5.8	5.2
EV/EBITDA (x)	15.8	11.1	9.7
Div. Yield (%)	0.9	1.3	1.4
FCF Yield (%)	6.3	4.1	4.9

## Volume growth to drive earnings

- We released our Logistics thematic report recently ([Report link](#)), wherein we highlighted that a) the Logistics sector is set to move towards formalization and b) there would be strong growth opportunities for some of the established players in this space. With a robust growth outlook, we expect strong upside in the stock from current levels.
- The strong tailwinds for VRL would drive consistent growth in volumes and earnings over the next few years. The company would benefit from a) the uptick in economic activity, b) the general price hikes taken post 1QFY22, and c) easing fuel prices (on account of tax cuts).
- VRL is focusing on the high-margin LTL business (driven by the B2B segment) and expanding its network into newer markets. We expect VRL Logistics to clock a revenue/EBITDA/PAT CAGR of ~19%/19%/45% over FY21–24. We reiterate our Buy rating, with TP of INR540/share (35x FY24E EPS).

## Festive demand and easing restrictions result in strong volume uptick; momentum likely to sustain

- The company has seen capacity utilization moving towards pre-COVID levels in the last few months. 2Q saw ~35% YoY growth in volumes, driven by the buildup in festive season inventory and easing of transport restrictions.
- The volume momentum is expected to continue with the pickup in economic activity and normalization of transportation activity. Over the medium-to-long term, we expect growth to be driven by an uptick in the overall Logistics sector (driven by economic growth) and increasing formalization, leading to market share gains in organized players such as VRL.

## Owned fleet to help maintain profitability; focus on branch network expansion to capture higher volumes

- VRL operates its own fleet, which leads to a higher payload. It uses biodiesel (15–25% of its fuel demand is met through biodiesel), which reduces fuel costs. VRL is able to bargain on costs (such as maintenance costs) given its fleet size and scale of operations – this is not possible for those operating with hired vehicles. The operating leverage would play well for VRL as volumes improve.
- With improved demand, VRL looks to add 100 vehicles per quarter in 2HFY22. The company is also adding new branches to capture higher volumes. It looks to add 100 branches over the remaining months of FY22.

## Valuation and view

- With a demand pickup and branch additions in untapped regions, we expect VRL to clock 19% revenue CAGR over FY21–24E. With robust volumes and cost efficiency measures, VRL would be able to maintain its EBITDA margin profile at 14–15% over the next two years.
- We expect the company to clock a revenue/EBITDA/PAT CAGR of ~19%/19%/45% over FY21–24E. The stock trades at 30x FY24 EPS. We maintain our Buy rating, with revised TP of INR540/share (35x FY24E EPS).

**Alok Deora - Research analyst** (Alok.Deora@motilaloswal.com)

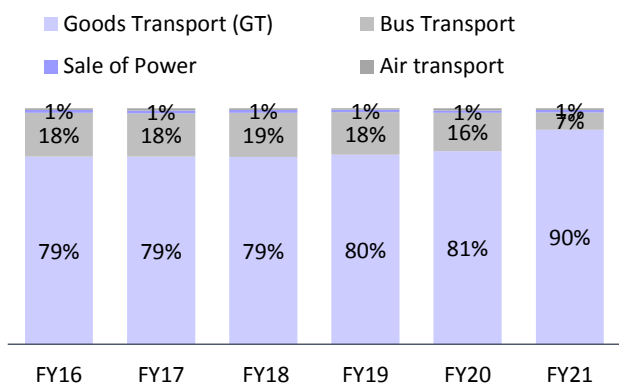
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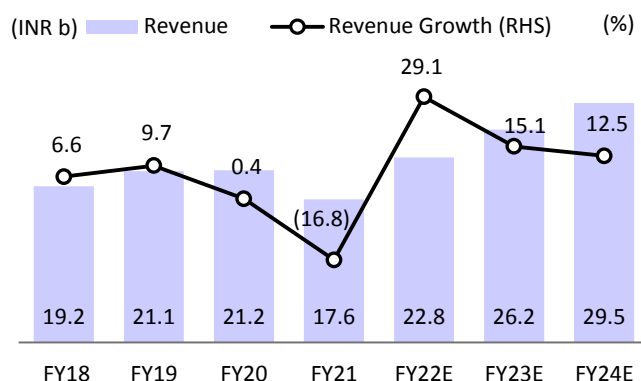
## Financial story in charts

**Exhibit 1: Share of GT increases over last few years**



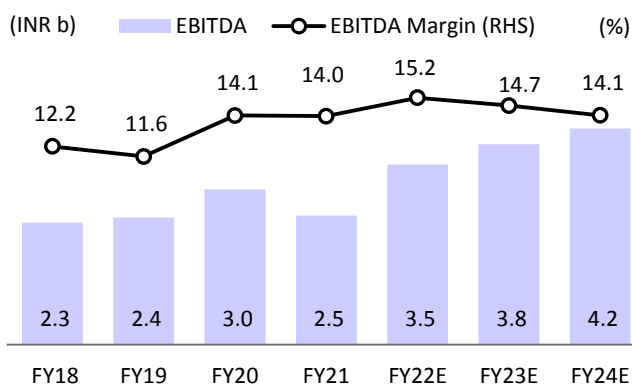
Source: Company, MOFSL

**Exhibit 2: Pickup in economic activity to drive revenue**



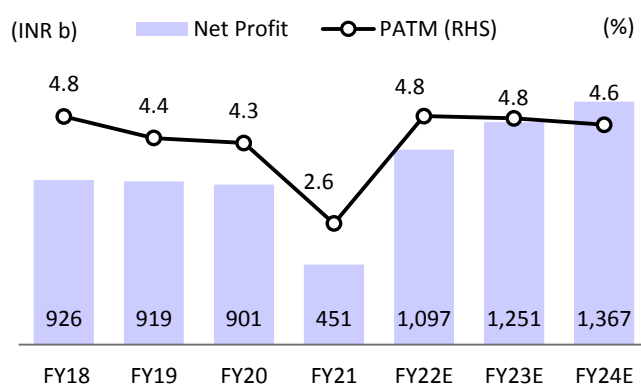
Source: Company, MOFSL

**Exhibit 3: Margins to remain stable**



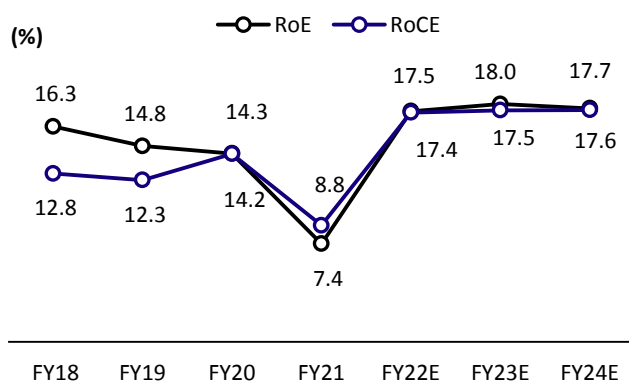
Source: Company, MOFSL

**Exhibit 4: Strong operating performance to drive PAT**



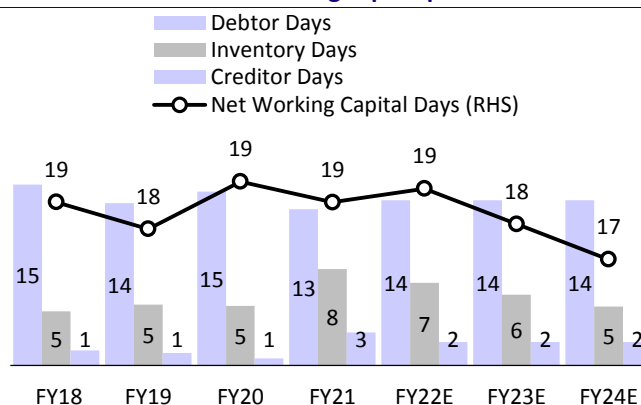
Source: Company, MOFSL

**Exhibit 5: Return ratios to rebound to over 15%**



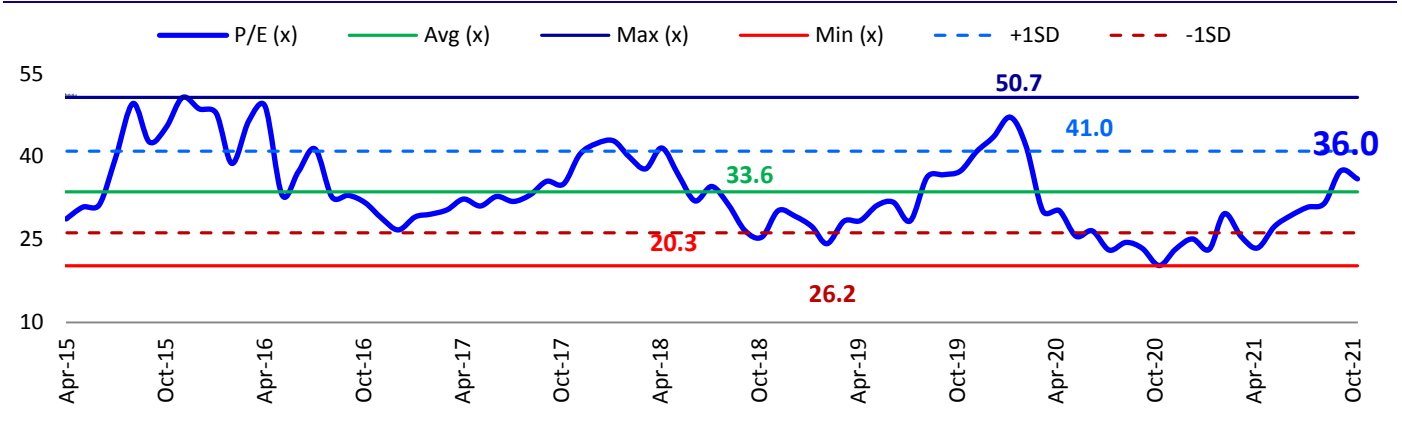
Source: Company, MOFSL

**Exhibit 6: Comfortable working capital position**



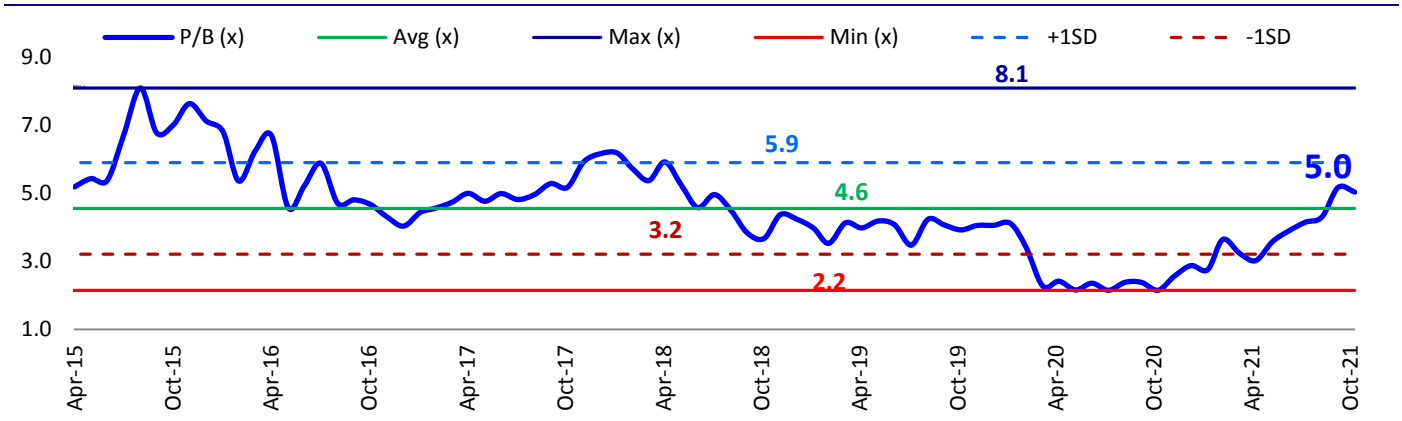
Source: Company, MOFSL

**Exhibit 7: One-year forward P/E (x)**



Source: Company, MOFSL

**Exhibit 8: One-year forward P/B (x)**



Source: Company, MOFSL

## Financials and valuations

### Income Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Sales</b>	<b>19,223</b>	<b>21,095</b>	<b>21,185</b>	<b>17,629</b>	<b>22,762</b>	<b>26,210</b>	<b>29,475</b>
Change (%)	6.6	9.7	0.4	-16.8	29.1	15.1	12.5
Gross Margin (%)	31.4	30.1	33.4	33.0	31.8	31.3	31.0
<b>EBITDA</b>	<b>2,342</b>	<b>2,440</b>	<b>2,983</b>	<b>2,475</b>	<b>3,452</b>	<b>3,849</b>	<b>4,152</b>
Margin (%)	12.2	11.6	14.1	14.0	15.2	14.7	14.1
Depreciation	976	1,006	1,675	1,598	1,696	1,885	2,032
<b>EBIT</b>	<b>1,366</b>	<b>1,434</b>	<b>1,307</b>	<b>877</b>	<b>1,756</b>	<b>1,965</b>	<b>2,121</b>
Int. and Finance Charges	114	109	367	368	424	433	442
Other Income	142	79	103	129	135	142	149
<b>PBT</b>	<b>1,394</b>	<b>1,405</b>	<b>1,043</b>	<b>637</b>	<b>1,467</b>	<b>1,673</b>	<b>1,827</b>
Tax	468	486	142	187	370	422	460
Effective Tax Rate (%)	33.6	34.6	13.6	29.3	25.2	25.2	25.2
<b>Reported PAT</b>	<b>926</b>	<b>919</b>	<b>901</b>	<b>451</b>	<b>1,097</b>	<b>1,251</b>	<b>1,367</b>
Change (%)	31.3	-0.7	-2.0	-50.0	143.4	14.1	9.2
Margin (%)	4.8	4.4	4.3	2.6	4.8	4.8	4.6

### Balance Sheet

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	903	903	903	883	883	883	883
Total Reserves	5,029	5,556	5,265	5,088	5,699	6,421	7,257
<b>Net Worth</b>	<b>5,932</b>	<b>6,459</b>	<b>6,169</b>	<b>5,971</b>	<b>6,583</b>	<b>7,304</b>	<b>8,141</b>
Deferred Tax Liabilities	808	738	440	440	440	440	440
Total Loans	812	1,407	1,893	1,196	1,646	1,546	1,446
<b>Capital Employed</b>	<b>7,552</b>	<b>8,604</b>	<b>8,502</b>	<b>7,607</b>	<b>8,668</b>	<b>9,290</b>	<b>10,026</b>
Gross Block	9,044	10,835	15,105	15,850	17,250	18,650	20,050
Less: Accum. Deprn.	2,795	3,785	5,202	6,307	8,003	9,888	11,920
<b>Net Fixed Assets</b>	<b>6,250</b>	<b>7,051</b>	<b>9,903</b>	<b>9,544</b>	<b>9,247</b>	<b>8,762</b>	<b>8,131</b>
Capital WIP	76	416	44	61	61	61	61
<b>Total Investments</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>2,296</b>	<b>2,311</b>	<b>2,304</b>	<b>2,381</b>	<b>4,279</b>	<b>5,484</b>	<b>6,831</b>
Inventory	241	298	293	395	437	431	404
Account Receivables	807	795	856	639	873	1,005	1,131
Cash and Bank Balances	194	131	134	185	1,457	2,306	3,339
Cash	185	126	129	183	1,456	2,305	3,338
Bank Balance	8	5	5	1	1	1	1
Others	1,054	1,086	1,021	1,162	1,512	1,741	1,958
<b>Current Liab. and Prov.</b>	<b>1,071</b>	<b>1,174</b>	<b>3,750</b>	<b>4,379</b>	<b>4,919</b>	<b>5,017</b>	<b>4,997</b>
Account Payables	68	61	35	136	125	144	162
Other Current Liabilities	800	849	3,368	3,911	4,365	4,380	4,280
Provisions	203	264	347	332	429	494	555
<b>Net Current Assets</b>	<b>1,225</b>	<b>1,136</b>	<b>-1,445</b>	<b>-1,998</b>	<b>-640</b>	<b>466</b>	<b>1,835</b>
<b>Application of Funds</b>	<b>7,552</b>	<b>8,604</b>	<b>8,502</b>	<b>7,607</b>	<b>8,668</b>	<b>9,290</b>	<b>10,026</b>

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>							
EPS	10.2	10.2	10.0	5.1	12.4	14.2	15.5
EPS growth (%)	28.4	-0.7	-2.0	-48.9	143.4	14.1	9.2
Cash EPS	21.1	21.3	28.5	23.2	31.6	35.5	38.5
BV/Share	65.7	71.5	68.3	67.6	74.5	82.7	92.1
DPS	0.0	5.5	7.0	4.0	5.5	6.0	6.0
Payout (Incl. Div. Tax, %)	0.0	65.2	84.6	78.4	44.3	42.4	38.8
<b>Valuation (x)</b>							
P/E	42.1	42.4	43.2	84.5	34.7	30.4	27.9
Cash P/E	20.5	20.2	15.1	18.6	13.6	12.1	11.2
EV/EBITDA	16.5	16.1	13.4	15.8	11.1	9.7	8.7
EV/Sales	2.0	1.9	1.9	2.2	1.7	1.4	1.2
P/BV	6.6	6.0	6.3	6.4	5.8	5.2	4.7
Dividend Yield (%)	0.0	1.3	1.6	0.9	1.3	1.4	1.4
<b>Return Ratios (%)</b>							
RoE	16.3	14.8	14.3	7.4	17.5	18.0	17.7
RoCE	12.8	12.3	14.2	8.8	17.4	17.5	17.6
RoIC	11.9	12.2	13.8	7.9	18.1	20.9	23.4
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	2.2	2.1	1.6	1.1	1.4	1.5	1.5
Asset Turnover (x)	2.5	2.5	2.5	2.3	2.6	2.8	2.9
Inventory (Days)	5	5	5	8	7	6	5
Debtors (Days)	15	14	15	13	14	14	14
Creditors (Days)	1	1	1	3	2	2	2
<b>Leverage Ratio (x)</b>							
Net Debt/Equity	0.1	0.2	0.3	0.2	0.0	-0.1	-0.2

### Cash Flow Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	1,394	1,405	1,043	637	1,467	1,673	1,827
Depreciation	976	1,006	1,675	1,598	1,696	1,885	2,032
Direct Taxes Paid	-510	-523	-431	-148	-370	-422	-460
(Inc.)/Dec. in WC	97	-64	-94	294	-125	-172	-228
Other Items	98	98	380	330	289	292	293
<b>CF from Operations</b>	<b>2,055</b>	<b>1,922</b>	<b>2,573</b>	<b>2,711</b>	<b>2,957</b>	<b>3,256</b>	<b>3,464</b>
(Inc.)/Dec. in FA	-455	-2,109	-1,200	-330	-1,400	-1,400	-1,400
<b>Free Cash Flow</b>	<b>1,600</b>	<b>-187</b>	<b>1,373</b>	<b>2,381</b>	<b>1,557</b>	<b>1,856</b>	<b>2,064</b>
Change in Investments	12	3	14	15	0	0	0
Others	0	15	0	1	-57	19	33
<b>CF from Investments</b>	<b>-442</b>	<b>-2,091</b>	<b>-1,185</b>	<b>-313</b>	<b>-1,457</b>	<b>-1,381</b>	<b>-1,367</b>
Inc./Dec. in net worth	-387	0	0	-632	0	0	0
Inc./Dec. in Debt	-1,036	596	485	-697	450	-100	-100
Dividends Paid	0	-381	-980	0	-486	-530	-530
Others	-120	-104	-889	-1,014	-192	-396	-434
<b>CF from Fin. Activity</b>	<b>-1,543</b>	<b>110</b>	<b>-1,384</b>	<b>-2,344</b>	<b>-228</b>	<b>-1,026</b>	<b>-1,064</b>
<b>Inc./Dec. in Cash</b>	<b>70</b>	<b>-59</b>	<b>3</b>	<b>54</b>	<b>1,273</b>	<b>849</b>	<b>1,032</b>
Opening Balance	116	185	126	129	183	1,456	2,305
<b>Closing Balance</b>	<b>185</b>	<b>126</b>	<b>129</b>	<b>183</b>	<b>1,456</b>	<b>2,305</b>	<b>3,338</b>

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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