

BSE SENSEX  
58,351

S&P CNX  
17,388

**CMP: INR624**

**TP: INR730 (+17%)**

**Buy**

Motilal Oswal values your support in the Asiamoney Brokers Poll 2022 for India Research, Sales, Corporate Access and Trading team. We request your ballot.



#### Stock Info

Bloomberg	VRLL IN
Equity Shares (m)	91
M.Cap.(INR b)/(USD b)	55.1 / 0.7
52-Week Range (INR)	719 / 292
1, 6, 12 Rel. Per (%)	-11/30/92
12M Avg Val (INR m)	183
Free float (%)	30.4

#### Financials Snapshot (INR b)

Y/E March	2022	2023E	2024E
Net Sales	23.9	28.6	33.7
EBITDA	4.0	5.1	5.9
Adj. PAT	1.6	2.0	2.3
Adj. EPS (INR)	18.1	22.8	26.0
EPS Gr. (%)	255.3	25.7	13.9
BV/Sh. (INR)	73.8	90.5	110.5

#### Ratios

Net D/E (x)	0.2	0.2	0.1
RoE (%)	25.6	27.7	25.8
RoCE (%)	24.0	24.4	21.8
Payout (%)	44.1	26.3	23.1

#### Valuations

P/E (x)	34.4	27.4	24.0
P/BV (x)	8.5	6.9	5.6
EV/EBITDA (x)	14.0	11.3	9.5
Div. Yield (%)	1.3	1.0	1.0
FCF Yield (%)	3.4	1.7	4.1

## On expansion mode aided by bright future ahead

In this report, we present the key takeaways from VRL's FY22 Annual Report.

### Strong position in the less-than-truck-load segment with robust asset base and enviable network

- VRL Logistics Ltd (VRL), with its large asset base of 4,816 trucks, continues to focus on the high-margin less-than-truck-load (LTL) segment. The trucks have a total carrying capacity of 71,056 tonnes.
- Additionally, the company also has good infrastructure setup including several owned premises comprising branches, offices and transshipment hubs.
- The market for organized players is likely to expand gradually as several commodities such as leather goods, betel nut, coconut products that were earlier transported by the unorganized players are now being transported by the organized ones. Reforms in the form of GST and e-way bills along with the impact of Covid-19 have led to the gradual improvement in share of organized logistics players as several small unorganized players moved out of the market.
- VRL is on track to capitalize on the growth opportunity in the LTL segment. It has rolled out a large capex plan to be completed within the next two years. The company is looking to add branches aggressively in areas where it has lesser presence, like eastern India, which would allow it to cater to higher volumes and capitalize on its existing network.

### Asset ownership focus unlike competitors helps in more stabilized operations and leads to better efficiency

- VRL at present is one of largest fleet owners in India with a load carrying capacity of 71,056 tonnes.
- With asset ownership, VRL is able to derive cost savings from the economies of scale through various tie-ups with fuel suppliers and vehicle manufacturers for supply of spare parts, tyres, etc. This also with ongoing in-house R&D initiatives has enabled VRL to utilize its vehicles for a significantly longer term vis-à-vis the industry and also at materially lesser maintenance costs.

### Prepares to capitalize on the growth opportunity with a large capex plan of adding 1,600 trucks

- VRL recently announced the purchase of 1,600 customized trucks (with ~25,000t capacity) comprising 1,000 trucks of TATA LPT 2818 make, 200 trucks of TATA LPT 1415 make, 100 trucks of TATA 610 SFC make, 200 trucks of Ashok Leyland 1920 make and 100 trucks of Ashok Leyland 4620 make with a total capex of INR5.6b spread over the next 12-18 months.
- The capex would result in a net capacity addition of ~13,000t (around 20% of existing capacity), and would allow VRL to cater to the expected industry volume growth and reduce its dependence on hired vehicles.
- The order also includes an addition of significant number of Trailer vehicles that would be used to move parcels over routes having higher load volumes to improve service levels.

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

**Saurabh Dugar - Research analyst** (Saurabh.Dugar@motilaloswal.com)

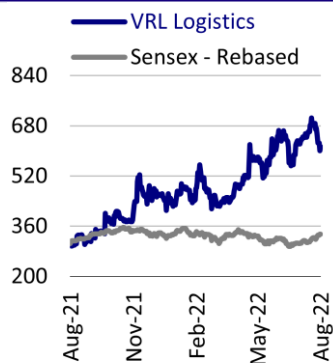
**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**Shareholding pattern (%)**

As On	Jun-22	Mar-22	Jun-21
Promoter	69.6	69.6	69.6
DII	13.6	15.1	18.5
FII	5.4	3.6	2.2
Others	11.5	11.7	9.7

FII Includes depository receipts

**Stock's performance (one-year)****Branch addition in newer areas to help garner more volumes**

- The company has identified: a) several locations in eastern India to open new branches and b) certain towns and areas in the vicinity of its existing network that offer potential to garner additional freight volume.
- In FY22, VRL has added 91 branches and is further looking to add branches into select pockets of eastern India and also the northeastern States.
- The branch expansion would lead to addition of many new customers and help service existing customers in the areas covered by the new branches.

**Exiting non-core businesses such as Power; focusing on the high-growth Goods transport business**

- To focus on the high-growth LTL Goods transportation business, management has decided to exit from the non-core Power business.
- VRL recently entered into a Memorandum of Understanding with Ratna Cements (Yadwad) for the sale of its Wind Power generation business on a going concern basis, by way of slump sale for a consideration of INR480m. The deal is expected to close by 1HFY23.
- The Wind Power Undertaking of VRL initially comprised 34 wind turbine generators having a capacity of 42.5MW. As of date, the said project consists of 32 wind turbine generators with a capacity of 40MW.
- VRL also sold one of its Aircraft in 4QFY22.

**Valuation and view**

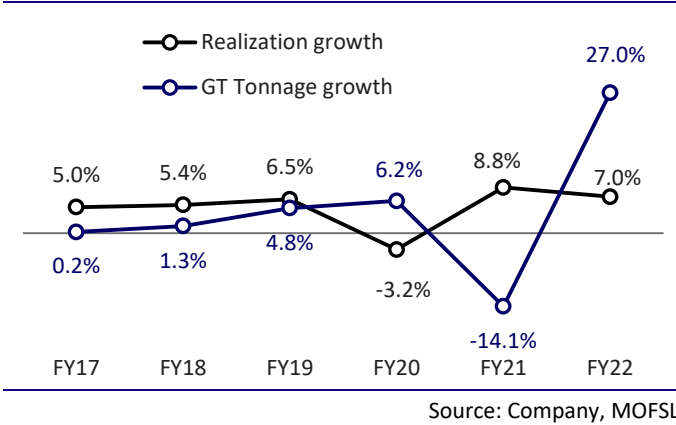
- VRL is well placed given its strong presence in the LTL segment, focus on branch expansion, and tight cost control. Its comfortable balance sheet position and strong cash flow generation ability will enable it to meet its capex requirements for future growth.
- With the share of organized players likely to improve notably over the next few years, the outlook for established national players such as VRL appears bright.
- We expect 19% revenue CAGR, with a faster addition of branches in untapped regions. With robust volume and cost efficiency measures, we expect a healthy EBITDA margin of 17-18% over the next two years.
- We forecast a revenue/EBITDA/PAT CAGR of ~19%/21%/20% over FY22-24, respectively. **Maintain BUY with a TP of INR730 (premised on 28x FY24E EPS).**

## Highlights from the Annual Report

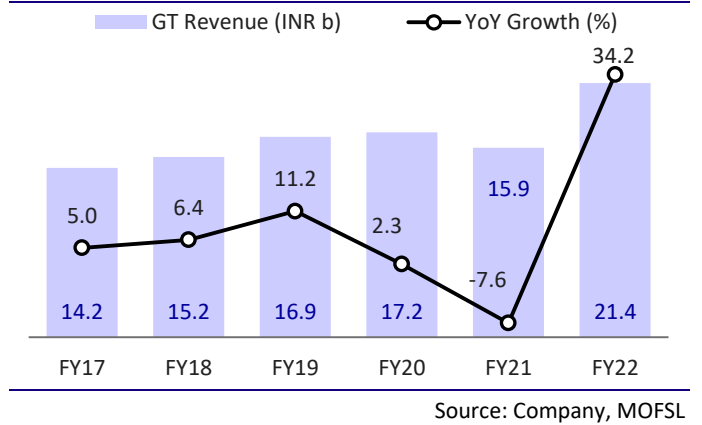
### Freight segment volumes posted a stellar rise in FY22

- VRL saw strong growth in freight volumes as the Covid-related disruption eased.
- The company was able to increase its tonnage by 27% YoY that was driven by a pick-up in industry growth and addition of new branches leading to market share gains.

**Exhibit 1: Volume grew 27% YoY in FY22**



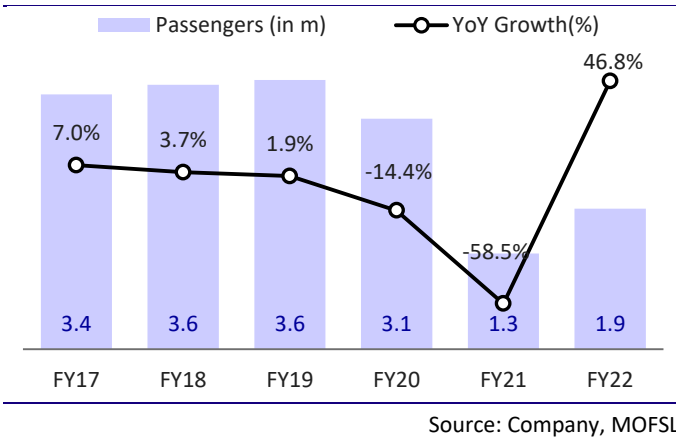
**Exhibit 2: Robust revenue growth driven by volumes**



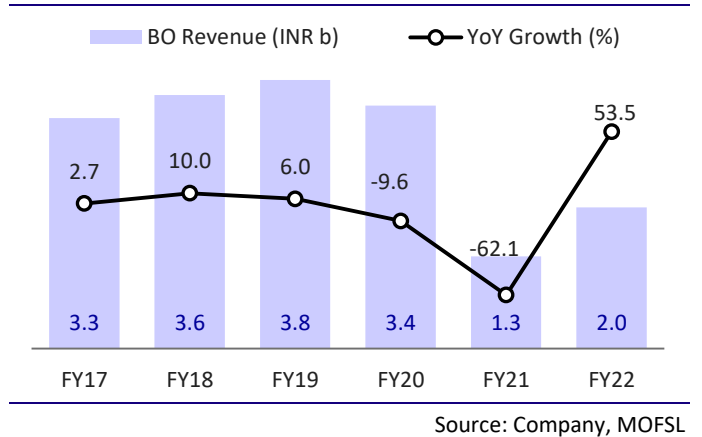
### Bus segment also experienced improved traction

- The bus segment was severely impacted during the pandemic, as passenger movement was adversely affected.
- With the Covid-19 restrictions easing in FY22, the segment recovered well supported by the sharp rise in the number of passengers.

**Exhibit 3: Passenger traffic improved with easing COVID restrictions**



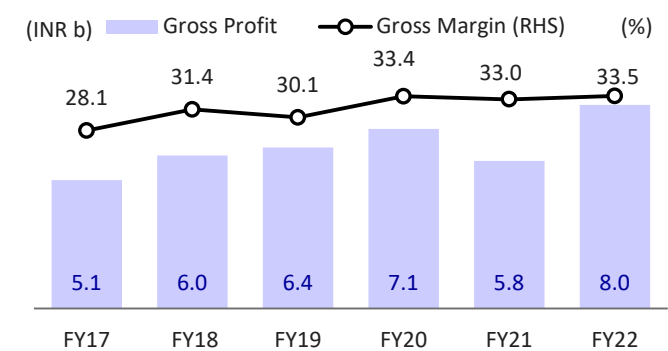
**Exhibit 4: Bus operations revenue showed sharp recovery**



### Margins healthy despite a rise in fuel and other costs

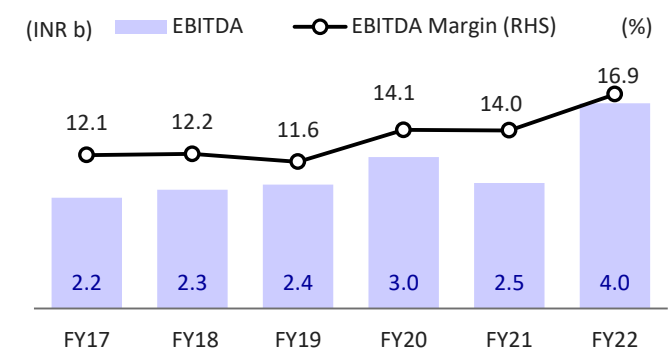
- VRL has managed to maintain strong profitability with its owned fleet operations and constant focus on creating efficiency in operations.
- With improving volumes and enhanced branch network, the company has been able to increase its payload that has helped it to save costs and perk up its operating performance.

**Exhibit 5: Gross margin maintained at 33.5% in FY22**



Source: Company, MOFSL

**Exhibit 6: EBITDA margin improved further**

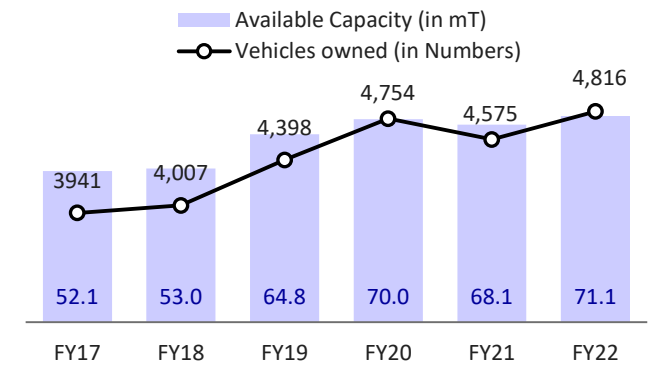


Source: Company, MOFSL

**High asset base of diverse fleet**

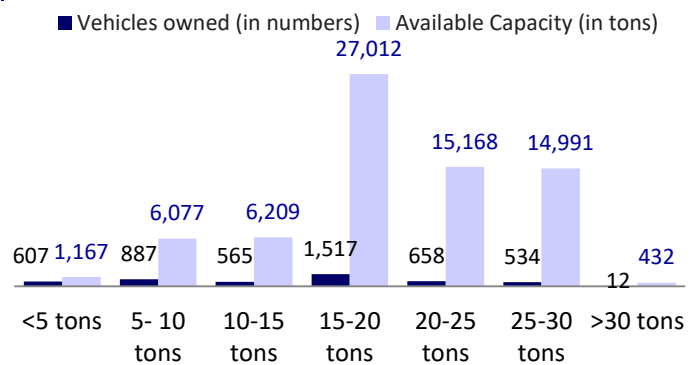
- VRL is one of the largest asset owners in the industry and is well placed to capitalize on the growth opportunities presented by the logistics sector.
- VRL operates its own fleet of 4,816 trucks (capacity: 71,056t) and 295 buses as of Mar'22.
- The company selectively outsources trucks but continues to drive a majority of its operations using its owned vehicles only.

**Exhibit 7: Owned fleet of trucks**



Source: Company, MOFSL

**Exhibit 8: Fleet across tonnage categories (FY22)**



Source: Company, MOFSL

## Benefits of asset ownership

### Cheaper fuel costs

- Procurement of fuel directly from refineries and private petroleum companies.
- Usage of Bio fuel (6% of total fuel consumption in FY22) helps in reducing overall fuel expenses.
- Tie ups with fuel pumps across India for fueling during transits.
- Usage of RFID tags to monitor real-time fuel usage

### Dedicated in-house maintenance and vehicle body design facilities

- In-house maintenance program designed to increase the life of vehicles.
- Technology to fabricate lighter and longer bodies to reduce the overall weight of the vehicle and ensure higher payload.
- Sourcing of longer customized chassis resulting in additional space v/s outside vehicles.
- Monitoring system in place for real-time fuel usage.

### Genuine spare parts procurement at competitive rates

- The company is able to directly procure spare parts from smaller manufacturers or OEMs.
- Management is able to get deals on tyres, battery procurement, etc. that reduces costs. It uses its proprietary ERP system to keep a tab on costs.

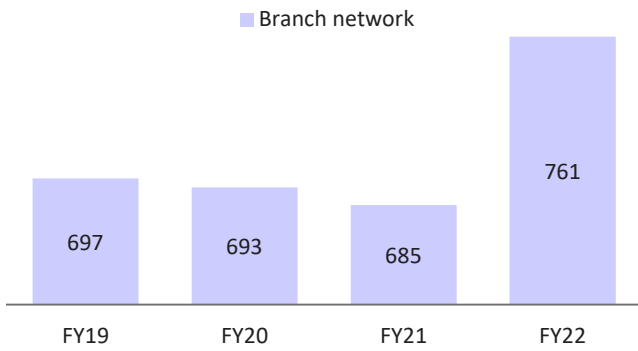
### Capex plan in place

- VRL has announced a purchase of 1,600 customized trucks (with ~25,000t capacity) comprising 1,000 trucks of TATA LPT 2818 make, 200 trucks of TATA LPT 1415 make, 100 trucks of TATA 610 SFC make, 200 trucks of Ashok Leyland 1920 make and 100 trucks of Ashok Leyland 4620 make with a total capex of INR5.6b spread over the next 12-18 months.
- The planned capex (including registration, insurance cost, etc.) will be funded by debt and internal accruals.
- The capex would result in a net capacity addition of ~13,000t (around 20% of existing capacity), and would allow VRL to cater to the expected industry volume growth and reduce its dependence on hired vehicles.
- The proposed 1,600 vehicles are likely to be having the latest features and technology that would help in reduction of maintenance time, fewer stop overs, and better efficiency leading to better uptime.

### Focus on branch network expansion

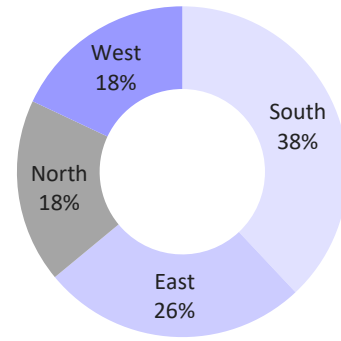
- VRL is continuously adding new branches especially in the unexplored regions.
- This would allow it to cater to higher volumes and gain market share.

**Exhibit 9: Continuously adding new branches**



Source: Company, MOFSL

**Exhibit 10: Share of new branches added in FY22**

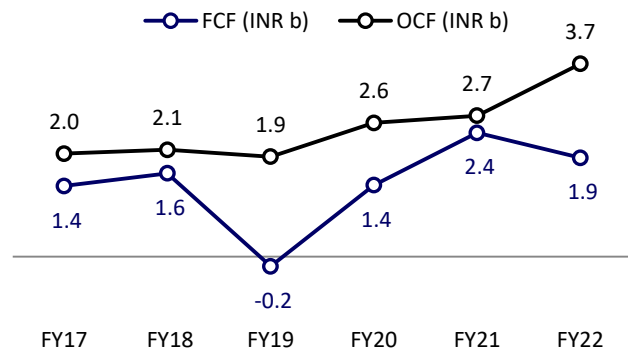


Source: Company, MOFSL

**VRL has a comfortable balance sheet**

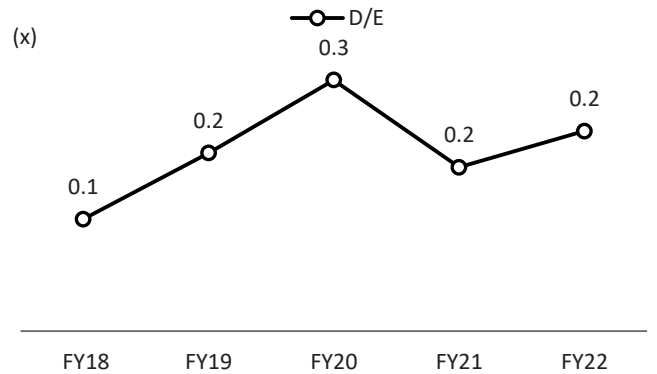
- Despite owning such a large fleet of assets, VRL is comfortably placed in terms of its balance sheet strength.
- Strong operating performance and working capital have led to strong cash flow generation that has allowed VRL to maintain its balance sheet strength.

**Exhibit 11: Strong free cash generation**



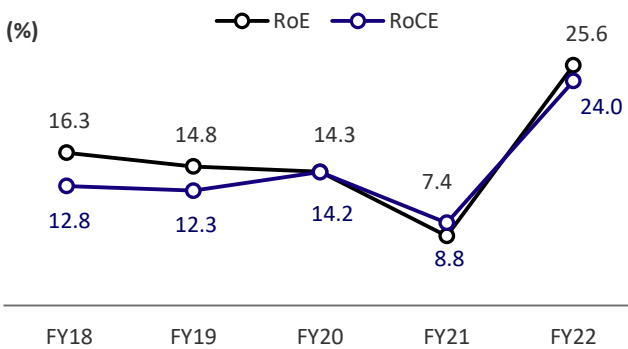
Source: Company, MOFSL

**Exhibit 12: D/E in the comfortable zone**



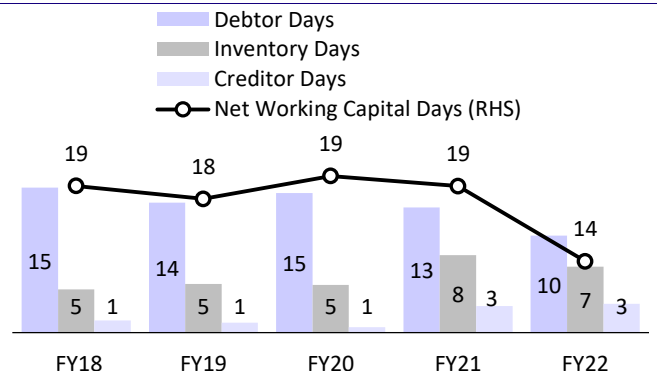
Source: Company, MOFSL

**Exhibit 13: Return ratios remained healthy**



Source: Company, MOFSL

**Exhibit 14: Comfortable working capital position**

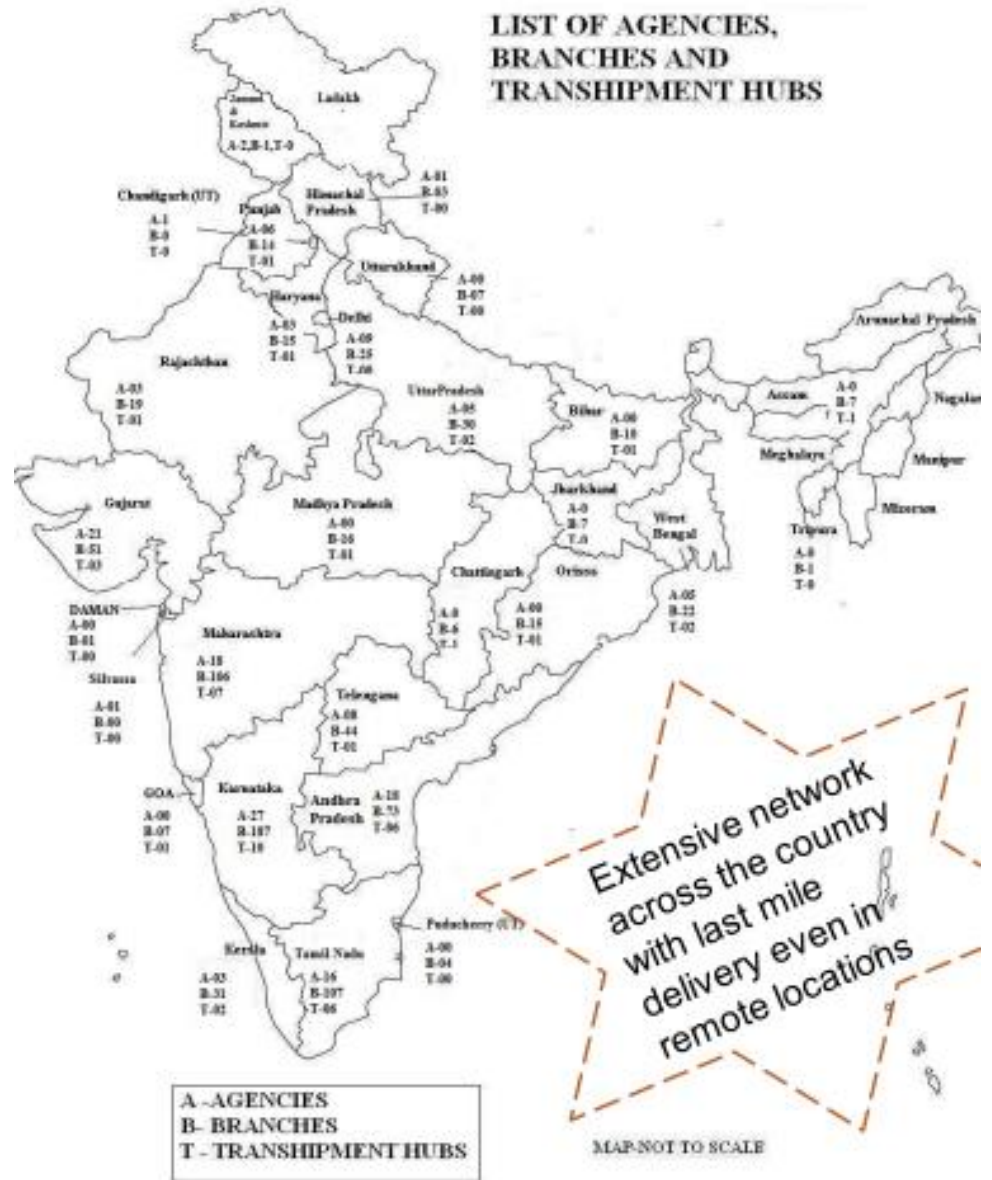


Source: Company, MOFSL

**Network presence**

- VRL is a market leader in LTL segment with a widespread presence across 23 states and five Union Territories.
- It operates with 761 branches, 147 agencies and 48 strategically placed hubs.
- This kind of robust network renders VRL with an edge over its peers.

**Exhibit 15: Well-diversified presence**

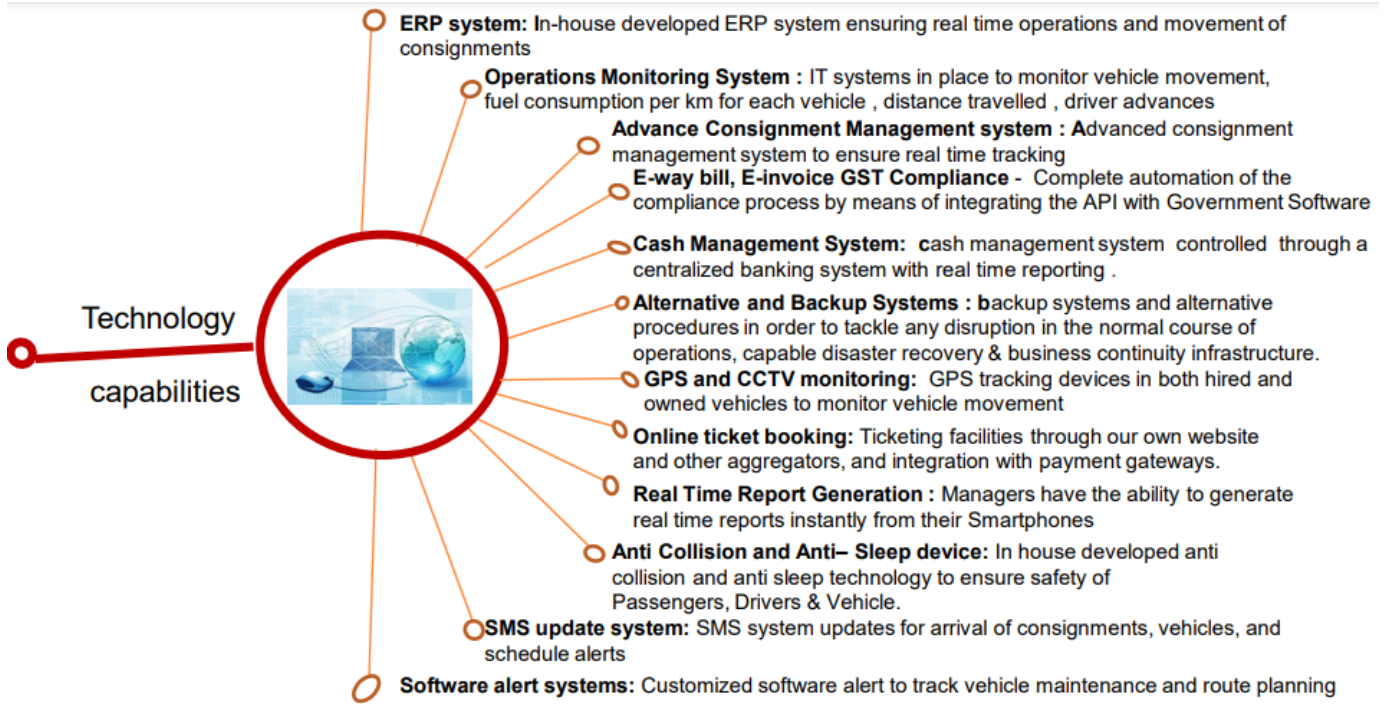


Source: Company, MOFSL

**Technology**

- VRL has its own in-house tech capabilities and is well equipped to monitor its operations on a real-time basis.
- Management is constantly focusing on upgrading technology to ensure sustained operational efficiency.

Exhibit 16: Digitalization initiatives to enhance its customer experience

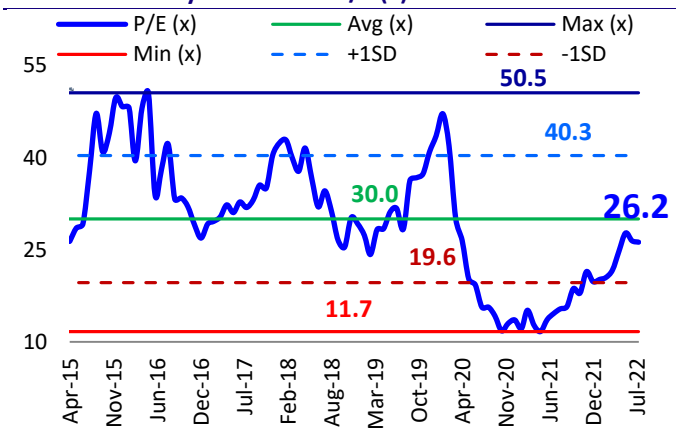


Source: Company, MOFSL

**Valuation and view**

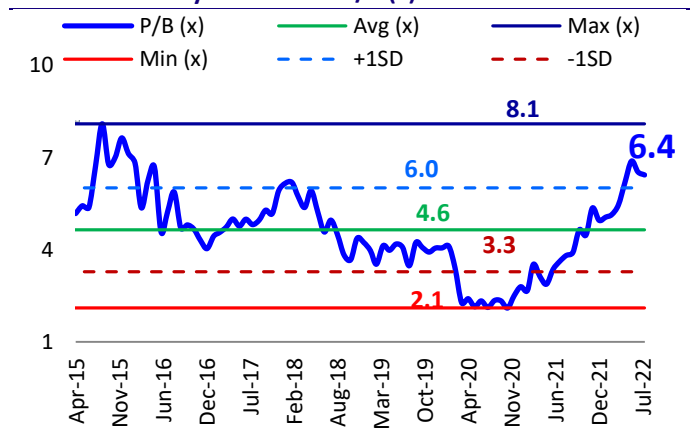
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- We forecast a revenue/EBITDA/PAT CAGR of ~19%/21%/20% over FY22-24, respectively. **Maintain BUY with a TP of INR730 (premised on 28x FY24E EPS).**

Exhibit 17: One-year forward P/E (x)



Source: Company, MOFSL

Exhibit 18: One-year forward P/B (x)



Source: Company, MOFSL



## Risks and concerns

### Sharp increase in fuel prices to hurt profitability

- Fuel costs, toll charges and rent represent some of the most significant operating costs and an increase in such costs or inability to pass on such increases to the customers will adversely affect VRL's operating results.

### Transport-related restrictions to affect the sector negatively

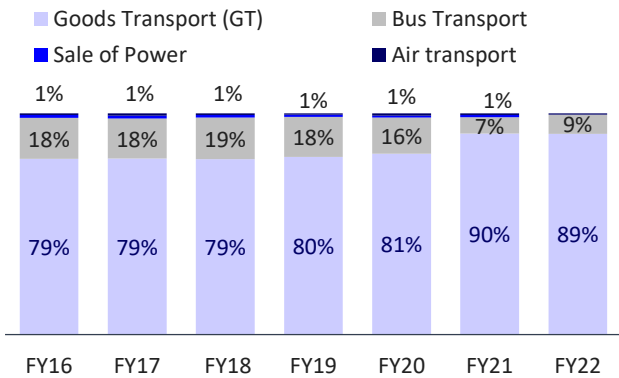
- The business operations in the goods transportation business and bus operations are dependent on the road network.
- There are various factors that adversely affect road transport such as Covid-induced lockdowns, political unrest, bad weather conditions, natural calamities, regional disturbances, fatigue or exhaustion of drivers, improper conduct of the drivers/motormen, accidents or mishaps and third-party negligence.

### Increase in prices of new vehicles

- VRL acquires new vehicles to expand its business or to manage operational efficiencies and reduce the cost of maintenance. If the prices of new goods transportation vehicles and passenger buses increase, it could adversely impact the company's performance.

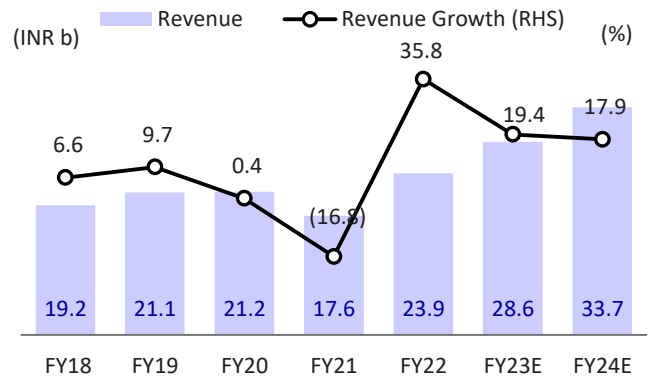
Story in charts

Exhibit 19: Share of Goods segment increasing



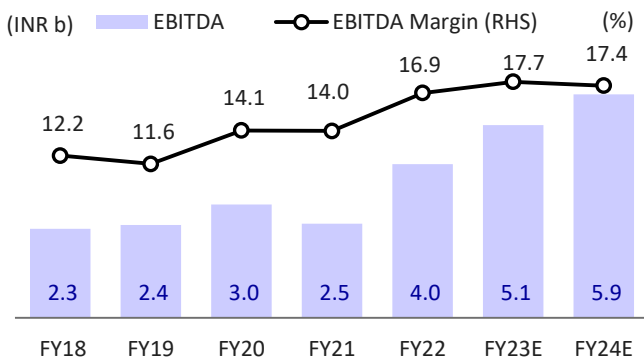
Source: Company, MOFSL

Exhibit 20: Revenue to gain traction going forward



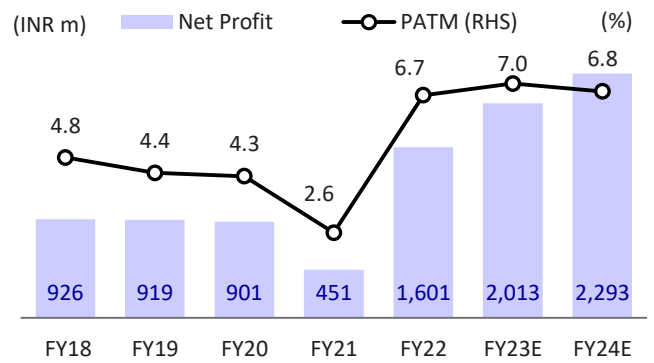
Source: Company, MOFSL

Exhibit 21: Margin to remain robust at ~17% going ahead



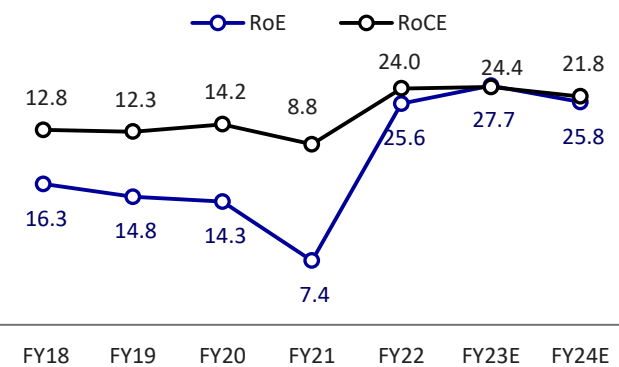
Source: Company, MOFSL

Exhibit 22: PAT to see healthy growth ahead



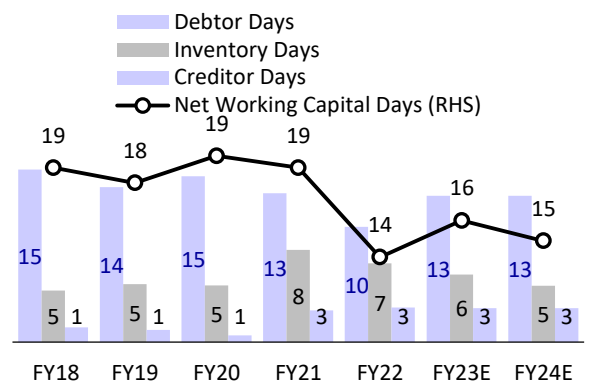
Source: Company, MOFSL

Exhibit 23: Return ratios to remain strong



Source: Company, MOFSL

Exhibit 24: Comfortable working capital position



Source: Company, MOFSL

## Financials and valuations

### Income Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>19,223</b>	<b>21,095</b>	<b>21,185</b>	<b>17,629</b>	<b>23,937</b>	<b>28,589</b>	<b>33,717</b>
Change (%)	6.6	9.7	0.4	-16.8	35.8	19.4	17.9
Gross Margin (%)	31.4	30.1	33.4	33.0	33.5	33.4	32.7
<b>EBITDA</b>	<b>2,342</b>	<b>2,440</b>	<b>2,983</b>	<b>2,475</b>	<b>4,042</b>	<b>5,068</b>	<b>5,879</b>
Margin (%)	12.2	11.6	14.1	14.0	16.9	17.7	17.4
Depreciation	976	1,006	1,675	1,598	1,680	2,010	2,358
<b>EBIT</b>	<b>1,366</b>	<b>1,434</b>	<b>1,307</b>	<b>877</b>	<b>2,362</b>	<b>3,058</b>	<b>3,521</b>
Int. and Finance Charges	114	109	367	368	431	552	733
Other Income	142	79	103	129	168	185	277
<b>PBT</b>	<b>1,394</b>	<b>1,405</b>	<b>1,043</b>	<b>637</b>	<b>2,099</b>	<b>2,691</b>	<b>3,066</b>
Tax	468	486	142	187	498	678	773
Effective Tax Rate (%)	33.6	34.6	13.6	29.3	23.7	25.2	25.2
<b>Reported PAT</b>	<b>926</b>	<b>919</b>	<b>901</b>	<b>451</b>	<b>1,601</b>	<b>2,013</b>	<b>2,293</b>
Change (%)	31.3	-0.7	-2.0	-50.0	255.3	25.7	13.9
Margin (%)	4.8	4.4	4.3	2.6	6.7	7.0	6.8

### Balance Sheet

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	903	903	903	883	883	883	883
Total Reserves	5,029	5,556	5,265	5,088	5,633	7,115	8,878
<b>Net Worth</b>	<b>5,932</b>	<b>6,459</b>	<b>6,169</b>	<b>5,971</b>	<b>6,516</b>	<b>7,999</b>	<b>9,762</b>
Deferred Tax Liabilities	808	738	440	440	386	386	386
Total Loans	812	1,407	1,893	1,196	1,593	3,043	4,493
<b>Capital Employed</b>	<b>7,552</b>	<b>8,604</b>	<b>8,502</b>	<b>7,607</b>	<b>8,496</b>	<b>11,428</b>	<b>14,641</b>
Gross Block	9,044	10,835	15,105	15,850	18,967	22,467	25,167
Less: Accum. Deprn.	2,795	3,785	5,202	6,307	7,987	9,996	12,354
<b>Net Fixed Assets</b>	<b>6,250</b>	<b>7,051</b>	<b>9,903</b>	<b>9,544</b>	<b>10,980</b>	<b>12,470</b>	<b>12,813</b>
Capital WIP	76	416	44	61	350	350	350
<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>2,473</b>	<b>4,138</b>	<b>7,261</b>
Inventory	241	298	293	395	459	470	462
Account Receivables	807	795	856	639	673	1,018	1,201
Cash and Bank Balances	194	131	134	185	145	1,112	3,785
Cash	185	126	129	183	140	1,107	3,780
Bank Balance	8	5	5	1	5	5	5
Others	1,054	1,086	1,021	1,162	1,197	1,538	1,813
<b>Current Liab. and Prov.</b>	<b>1,071</b>	<b>1,174</b>	<b>3,750</b>	<b>4,379</b>	<b>5,307</b>	<b>5,530</b>	<b>5,783</b>
Account Payables	68	61	35	136	201	235	277
Other Current Liabilities	800	849	3,368	3,911	4,673	4,778	4,896
Provisions	203	264	347	332	433	517	610
<b>Net Current Assets</b>	<b>1,225</b>	<b>1,136</b>	<b>-1,445</b>	<b>-1,998</b>	<b>-2,834</b>	<b>-1,392</b>	<b>1,479</b>
<b>Application of Funds</b>	<b>7,552</b>	<b>8,604</b>	<b>8,502</b>	<b>7,607</b>	<b>8,496</b>	<b>11,428</b>	<b>14,641</b>

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Basic (INR)</b>							
EPS	10.2	10.2	10.0	5.1	18.1	22.8	26.0
EPS growth (%)	32.7	-0.7	-2.0	-48.9	255.3	25.7	13.9
Cash EPS	21.1	21.3	28.5	23.2	37.1	45.5	52.6
BV/Share	65.7	71.5	68.3	67.6	73.8	90.5	110.5
DPS	0.0	5.5	7.0	4.0	8.0	6.0	6.0
Payout (Incl. Div. Tax, %)	0.0	65.2	84.6	78.4	44.1	26.3	23.1
<b>Valuation (x)</b>							
P/E	60.9	61.3	62.6	122.3	34.4	27.4	24.0
Cash P/E	29.6	29.3	21.9	26.9	16.8	13.7	11.9
EV/EBITDA	23.8	23.1	19.1	22.7	14.0	11.3	9.5
EV/Sales	2.9	2.7	2.7	3.2	2.4	2.0	1.7
P/BV	9.5	8.7	9.1	9.2	8.5	6.9	5.6
Dividend Yield (%)	0.0	0.9	1.1	0.6	1.3	1.0	1.0
<b>Return Ratios (%)</b>							
RoE	16.3	14.8	14.3	7.4	25.6	27.7	25.8
RoCE	12.8	12.3	14.2	8.8	24.0	24.4	21.8
RoIC	11.9	12.2	13.8	7.9	23.5	25.5	25.7
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	2.2	2.1	1.6	1.1	1.4	1.4	1.4
Asset Turnover (x)	2.5	2.5	2.5	2.3	2.8	2.5	2.3
Inventory (Days)	5	5	5	8	7	6	5
Debtors (Days)	15	14	15	13	10	13	13
Creditors (Days)	1	1	1	3	3	3	3
<b>Leverage Ratio (x)</b>							
Net Debt/Equity ratio	0.1	0.2	0.3	0.2	0.2	0.2	0.1

### Cash Flow Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	1,394	1,405	1,043	637	2,099	2,691	3,066
Depreciation	976	1,006	1,675	1,598	1,680	2,010	2,358
Direct Taxes Paid	-510	-523	-431	-148	-581	-678	-773
(Inc.)/Dec. in WC	97	-64	-94	294	157	27	-165
Other Items	98	98	380	330	353	368	455
<b>CF from Operations</b>	<b>2,055</b>	<b>1,922</b>	<b>2,573</b>	<b>2,711</b>	<b>3,708</b>	<b>4,417</b>	<b>4,941</b>
(Inc.)/Dec. in FA	-455	-2,109	-1,200	-330	-1,808	-3,500	-2,700
<b>Free Cash Flow</b>	<b>1,600</b>	<b>-187</b>	<b>1,373</b>	<b>2,381</b>	<b>1,899</b>	<b>917</b>	<b>2,241</b>
Change in Investments	12	3	14	15	4	0	0
Others	0	15	0	1	6	-72	95
<b>CF from Investments</b>	<b>-442</b>	<b>-2,091</b>	<b>-1,185</b>	<b>-313</b>	<b>-1,798</b>	<b>-3,572</b>	<b>-2,605</b>
Inc./Dec. in net worth	-387	0	0	-632	0	0	0
Inc./Dec. in Debt	-1,036	596	485	-697	239	1,450	1,450
Dividends Paid	0	-381	-980	0	-1,060	-530	-530
Others	-120	-104	-889	-1,014	-1,132	-798	-582
<b>CF from Fin. Activity</b>	<b>-1,543</b>	<b>110</b>	<b>-1,384</b>	<b>-2,344</b>	<b>-1,953</b>	<b>122</b>	<b>338</b>
<b>Inc./Dec. in Cash</b>	<b>70</b>	<b>-59</b>	<b>3</b>	<b>54</b>	<b>-43</b>	<b>967</b>	<b>2,673</b>
Opening Balance	116	185	126	129	183	140	1,107
<b>Closing Balance</b>	<b>185</b>	<b>126</b>	<b>129</b>	<b>183</b>	<b>140</b>	<b>1,107</b>	<b>3,780</b>

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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