

BSE SENSEX

59,934

S&P CNX

17,877

CMP: INR649
TP: INR860 (+32%)
Buy


Stock Info

Bloomberg	VRLL IN
Equity Shares (m)	88
M.Cap.(INRb)/(USDb)	57.4 / 0.7
52-Week Range (INR)	719 / 328
1, 6, 12 Rel. Per (%)	4/41/86
12M Avg Val (INR M)	187
Free float (%)	30.4

Financials Snapshot (INR b)

Y/E March	2022	2023E	2024E
Net Sales	23.9	28.5	30.9
EBITDA	4.0	4.8	5.6
Adj. PAT	1.6	2.1	2.7
Adj. EPS (INR)	18.1	24.0	30.8
EPS Gr. (%)	255.3	32.1	28.6
BV/Sh. (INR)	73.8	91.7	134.1

Ratios

Net D/E (x)	0.2	0.2	-0.1
RoE (%)	25.6	28.9	27.3
RoCE (%)	24.0	25.3	24.0
Payout (%)	44.1	25.1	11.5

Valuations

P/E (x)	35.8	27.1	21.1
P/BV (x)	8.8	7.1	4.8
EV/EBITDA (x)	14.5	12.4	10.1
Div. Yield (%)	1.2	0.9	0.9
FCF Yield (%)	3.3	1.7	3.9

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

To exit Bus operations; to focus on the high growth Goods Transport

- VRLL announced the sale of its Bus division for INR2.3b to Vijayanand Travels Pvt. (VTPL), an entity owned by the promoter group. The slump sale is being undertaken on the basis of an independent valuation obtained from Grant Thornton Bharat and has been executed at an arms-length basis. The transaction is subject to the receipt of requisite approvals.
- As per the management, average revenue per passenger in the Bus segment has been declining, while costs have been on a rise. VRLL has been unable to pass on the cost increase to customers due to rising competition. The majority of its Bus fleet is above nine years old and is due for replacement, which will require a higher capex. VRLL has seen a sharp drop in capacity utilization of Buses to 50% in FY22 from 60% in FY18. Due to the above-mentioned concerns and a weakening outlook, the management has decided to exit this business.
- Sale of the Bus segment is a positive for VRLL as the management will be able to better focus on the high growth Goods Transport business. The proceeds accruing to VRLL will be used to partially fund truck fleet additions. It may take on lower debt than that estimated earlier. EBITDA margin can be better in FY24 than that expected earlier as the Bus segment was generating lower margin and was a drag on overall profitability. We have revised our FY24 EPS upwards by 8% to incorporate a higher EBITDA margin and lower debt. We now expect VRLL to clock a revenue/EBITDA/PAT CAGR of ~14%/17%/30% over FY22-24. The stock trades at 21x FY24E EPS. We maintain our Buy rating with a revised TP of INR860 (28x FY24E EPS).

Overall performance to improve with the sale of the low growth Bus business

- VRLL is selling its Bus segment, which is engaged in Passenger transportation and currently owns a fleet of 277 buses. It operates buses in Karnataka, Maharashtra, Andhra Pradesh, Telangana, and Goa.
- The sale, at INR2.3b, is in line with the valuation of its Bus operations as conducted by Grant Thornton Bharat and its net worth is INR0.35b. VRLL is likely to see a net cash inflow of INR1.9b after taxes.
- The Bus segment has been struggling with low capacity utilization, lesser margin, an ageing fleet, and excessive competition from the Railways and regional Airlines with an increase in new routes and capacities.

Valuation and view

- We have revised our FY24 EPS estimate upwards by 8% to incorporate improved profitability, with a better EBITDA margin and lower debt in FY24.
- We now expect VRLL to clock a revenue/EBITDA/PAT CAGR of ~14%/17%/30% over FY22-24. The stock trades at 21x FY24E EPS. We maintain our Buy rating, with a revised TP of INR860 (28x FY24E EPS).

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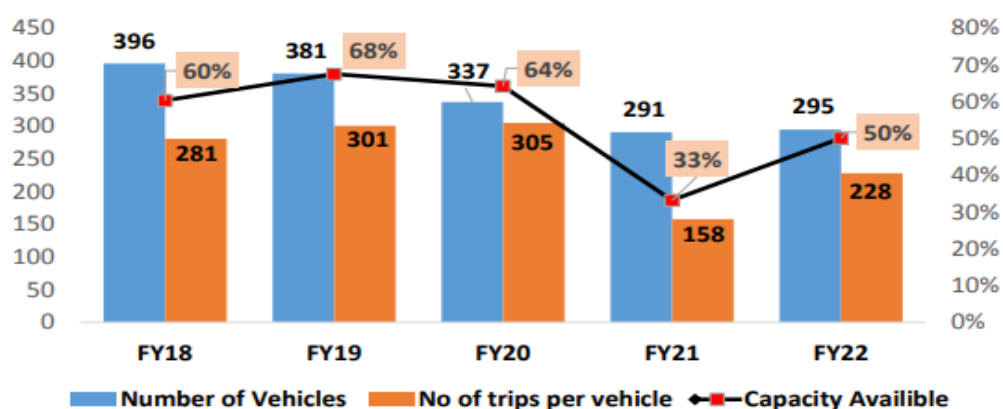
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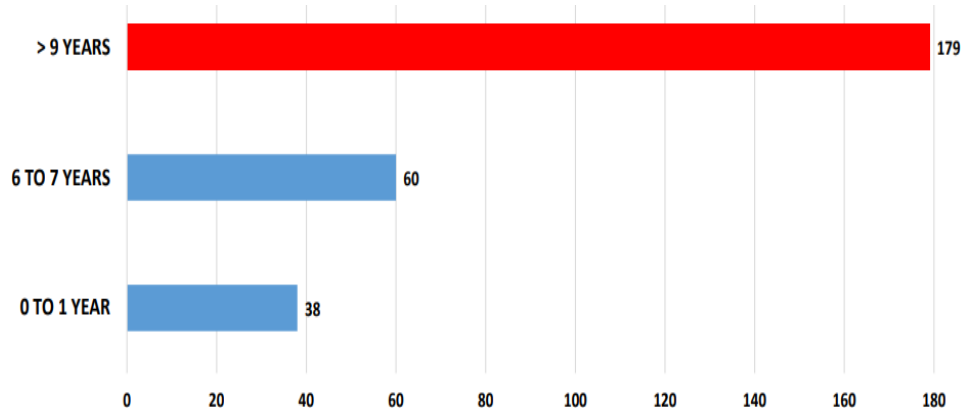
Bus division – Operational parameters and concerns

Exhibit 1: Overall capacity utilization for the Bus segment is on a declining trend



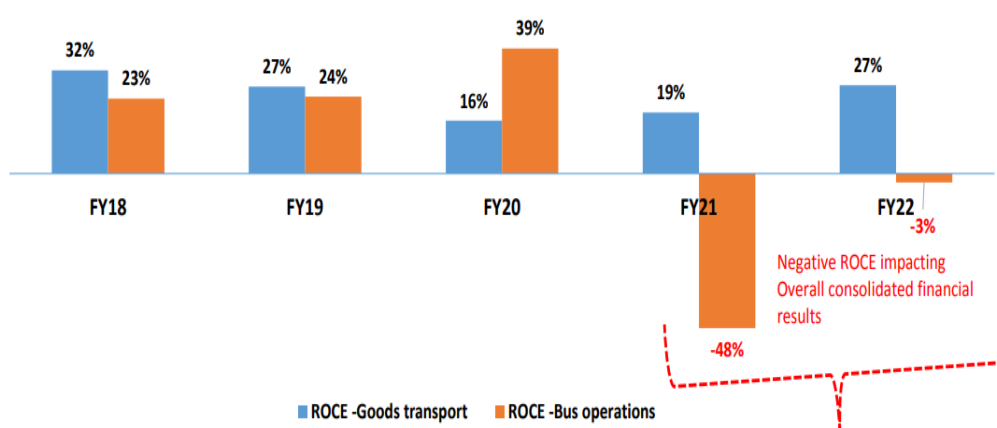
Source: Company, MOFSL

Exhibit 2: Ageing of the fleet is a concern, with more than 65% of the fleet size above nine years

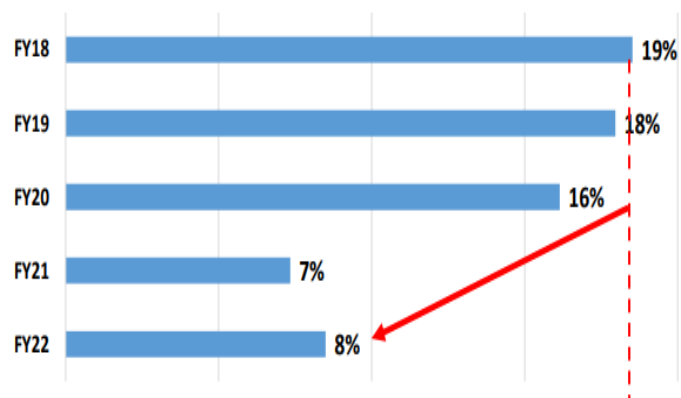


Source: Company, MOFSL

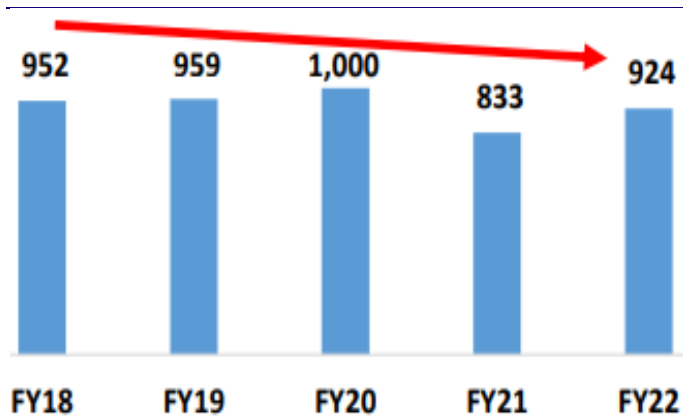
Exhibit 3: RoCE for the Bus division has been a drag for VRLL



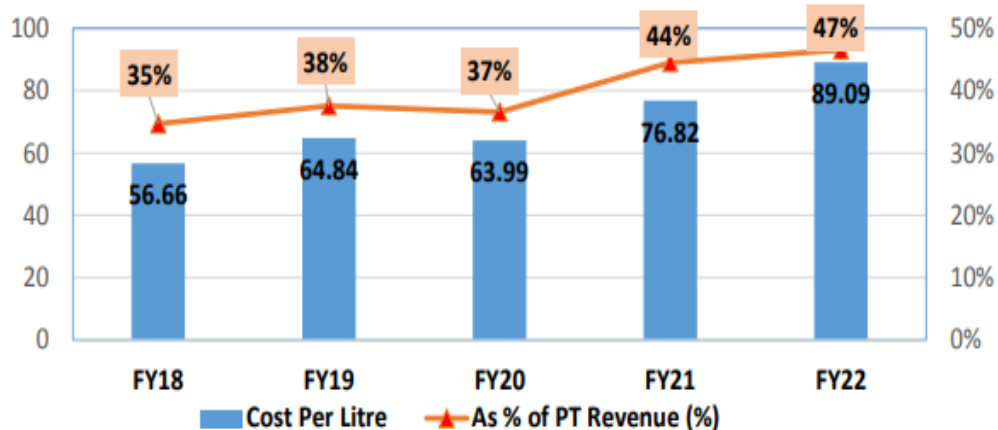
Source: Company, MOFSL

Exhibit 4: Contribution of the Bus division to total revenue

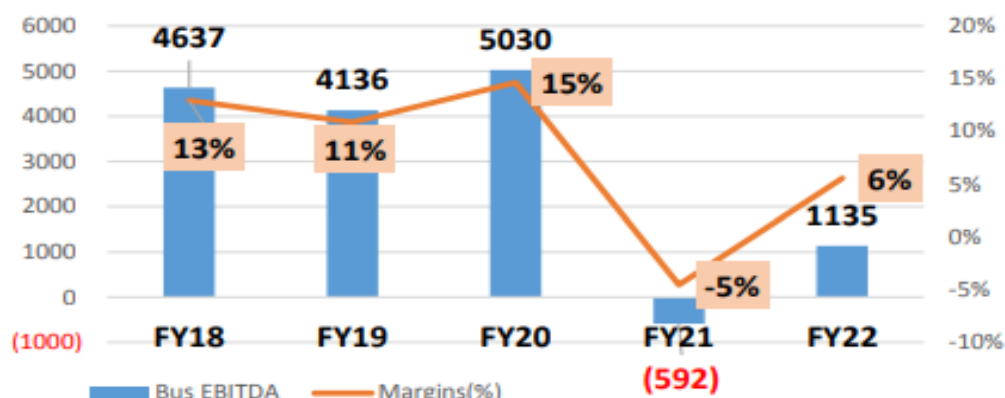
Source: Company, MOFSL

Exhibit 5: Average revenue per passenger has been on a downtrend...

Source: Company, MOFSL

Exhibit 6: ..while operating costs have been on an uptrend

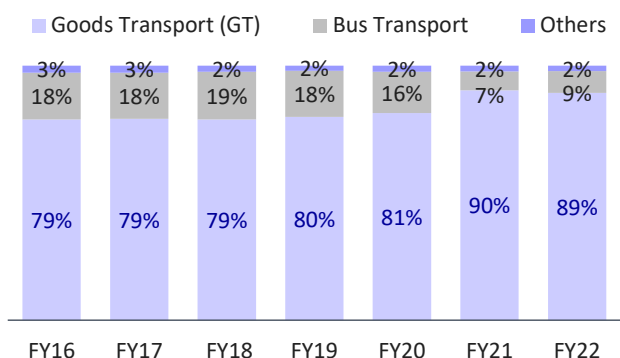
Source: Company, MOFSL

Exhibit 7: Margin lower on account of lesser revenue/passenger and higher operating costs

Source: Company, MOFSL

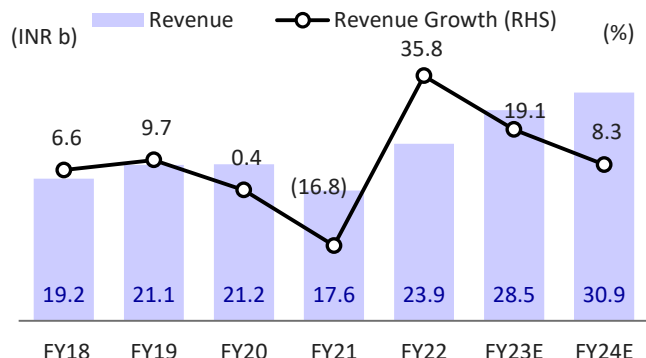
Financial story in charts

Exhibit 8: Share of GT increases over the last few years



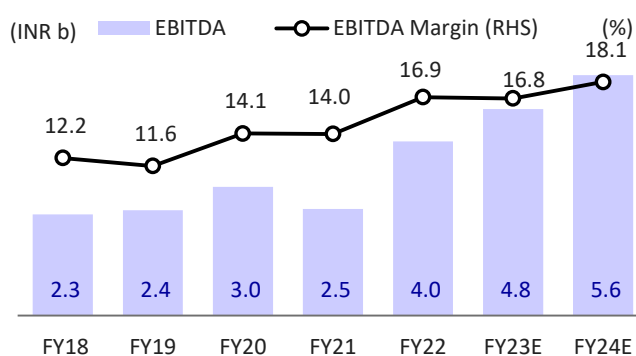
Source: Company, MOFSL

Exhibit 9: Shift to organized operators to drive revenue



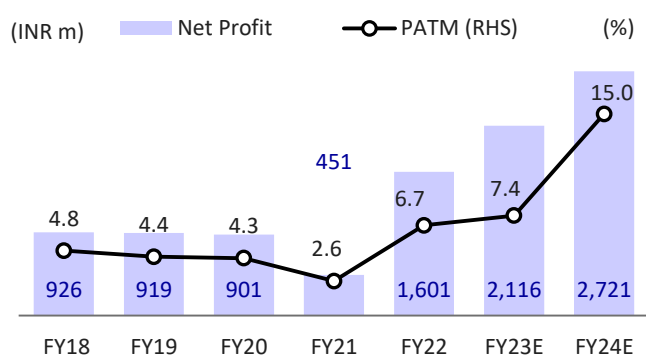
Source: Company, MOFSL

Exhibit 10: Margin to improve post-sale of the Bus division



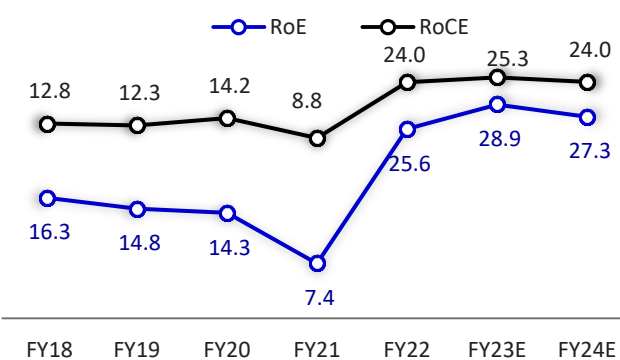
Source: Company, MOFSL

Exhibit 11: Strong operating performance to drive PAT



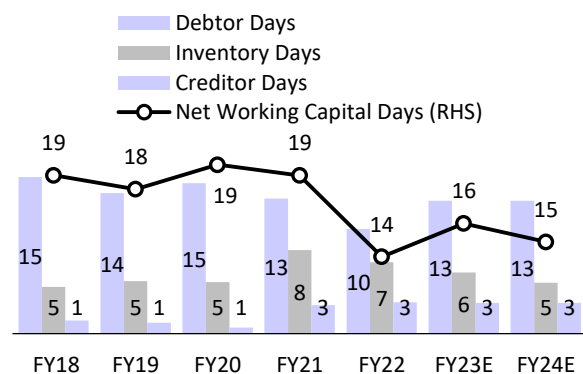
Source: Company, MOFSL

Exhibit 12: Return ratios remain elevated

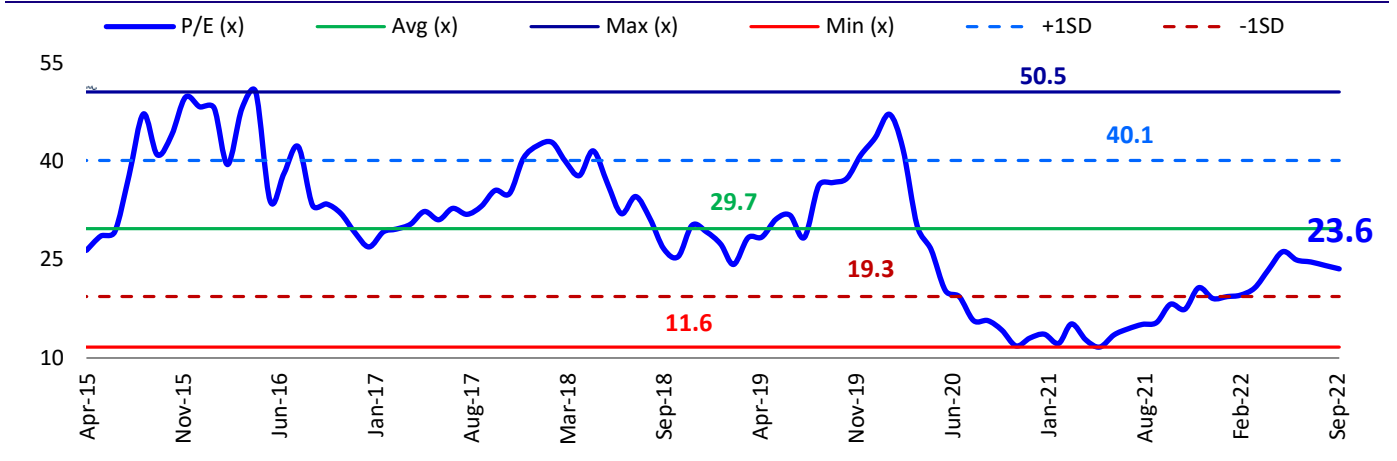


Source: Company, MOFSL

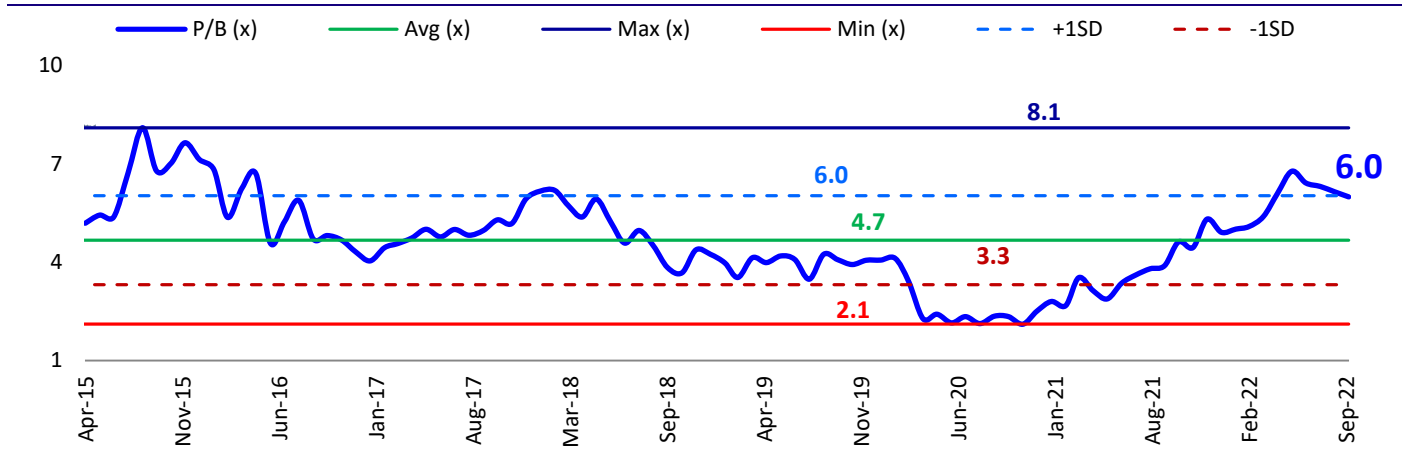
Exhibit 13: Comfortable working capital position



Source: Company, MOFSL

Exhibit 14: One-year forward P/E ratio (x)

Source: Company, MOFSL

Exhibit 15: One-year forward P/B ratio (x)

Source: Company, MOFSL

Valuation and view

- Sale of the Bus segment is a positive for VRLL as the management will be able to better focus on the high growth Goods Transport business. The proceeds accruing to VRLL will be used to partially fund truck fleet additions. It may take on lower debt than that estimated earlier. EBITDA margin can be better in FY24 than that expected earlier as the Bus segment was generating lower margin and was a drag on overall profitability.
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Financials and valuations

Income Statement

Y/E March (INR m)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	19,223	21,095	21,185	17,629	23,937	28,512	30,879
Change (%)	6.6	9.7	0.4	-16.8	35.8	19.1	8.3
Gross Margin (%)	31.4	30.1	33.4	33.0	33.5	32.5	34.0
EBITDA	2,342	2,440	2,983	2,475	4,042	4,786	5,576
Margin (%)	12.2	11.6	14.1	14.0	16.9	16.8	18.1
Depreciation	976	1,006	1,675	1,598	1,680	1,590	1,803
EBIT	1,366	1,434	1,307	877	2,362	3,196	3,773
Int. and Finance Charges	114	109	367	368	431	552	469
Other Income	142	79	103	129	168	185	333
PBT	1,394	1,405	1,043	637	2,099	2,829	3,637
Tax	468	486	142	187	498	713	917
Effective Tax Rate (%)	33.6	34.6	13.6	29.3	23.7	25.2	25.2
Extraordinary Items	0	0	0	0	0	0	-1,900
Reported PAT	926	919	901	451	1,601	2,116	4,621
Adj. PAT	926	919	901	451	1,601	2,116	2,721
Change (%)	31.3	-0.7	-2.0	-50.0	255.3	32.1	28.6
Margin (%)	4.8	4.4	4.3	2.6	6.7	7.4	8.8

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	7,219	10,959
Net Worth	5,932	6,459	6,169	5,971	6,516	8,102	11,843
Deferred Tax Liabilities	808	738	440	440	386	386	386
Total Loans	812	1,407	1,893	1,196	1,593	3,043	1,853
Capital Employed	7,552	8,604	8,502	7,607	8,496	11,532	14,082
Gross Block	9,044	10,835	15,105	15,850	18,967	22,067	24,152
Less: Accum. Deprn.	2,795	3,785	5,202	6,307	7,987	9,577	11,379
Net Fixed Assets	6,250	7,051	9,903	9,544	10,980	12,490	12,772
Capital WIP	76	416	44	61	350	350	350
Total Investments	1	1	1	1	1	1	1
Curr. Assets, Loans, and Adv.	2,296	2,311	2,304	2,381	2,473	4,207	6,136
Inventory	241	298	293	395	459	469	423
Account Receivables	807	795	856	639	673	1,016	1,100
Cash and Bank Balances	194	131	134	185	145	1,189	2,952
Cash	185	126	129	183	140	1,184	2,947
Bank Balance	8	5	5	1	5	5	5
Others	1,054	1,086	1,021	1,162	1,197	1,533	1,661
Current Liab. and Prov.	1,071	1,174	3,750	4,379	5,307	5,515	5,176
Account Payables	68	61	35	136	201	234	254
Other Current Liabilities	800	849	3,368	3,911	4,673	4,765	4,364
Provisions	203	264	347	332	433	516	559
Net Current Assets	1,225	1,136	-1,445	-1,998	-2,834	-1,309	960
Application of Funds	7,552	8,604	8,502	7,607	8,496	11,532	14,082

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)							
EPS	10.2	10.2	10.0	5.1	18.1	24.0	30.8
EPS growth (%)	28.4	-0.7	-2.0	-48.9	255.3	32.1	28.6
Cash EPS	21.1	21.3	28.5	23.2	37.1	41.9	51.2
BV/Share	65.7	71.5	68.3	67.6	73.8	91.7	134.1
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	25.1	11.5
Valuation (x)							
P/E ratio	63.4	63.8	65.1	127.3	35.8	27.1	21.1
Cash P/E ratio	30.8	30.5	22.8	28.0	17.5	15.5	12.7
EV/EBITDA ratio	24.8	24.0	19.8	23.6	14.5	12.4	10.1
EV/Sales ratio	3.0	2.8	2.8	3.3	2.5	2.1	1.8
P/BV ratio	9.9	9.1	9.5	9.6	8.8	7.1	4.8
Dividend Yield (%)	0.0	0.8	1.1	0.6	1.2	0.9	0.9
Return Ratios (%)							
RoE	16.3	14.8	14.3	7.4	25.6	28.9	27.3
RoCE	12.8	12.3	14.2	8.8	24.0	25.3	24.0
RoIC	11.9	12.2	13.8	7.9	23.5	26.6	27.2
Working Capital Ratios							
Fixed Asset Turnover (x)	2.2	2.1	1.6	1.1	1.4	1.4	1.3
Asset Turnover (x)	2.5	2.5	2.5	2.3	2.8	2.5	2.2
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
Leverage Ratio (x)							
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	2,829	3,637
Depreciation	976	1,006	1,675	1,598	1,680	1,590	1,803
Direct Taxes Paid	-510	-523	-431	-148	-581	-713	-917
(Inc.)/Dec. in WC	97	-64	-94	294	157	25	-322
Other Items	98	98	380	330	353	368	136
CF from Operations	2,055	1,922	2,573	2,711	3,708	4,099	4,337
(Inc.)/Dec. in FA	-455	-2,109	-1,200	-330	-1,808	-3,100	-2,085
Free Cash Flow	1,600	-187	1,373	2,381	1,899	999	2,252
Change in Investments	12	3	14	15	4	0	0
Others	0	15	0	1	6	-69	249
CF from Investments	-442	-2,091	-1,185	-313	-1,798	-3,169	-1,836
Inc./Dec. in net worth	-387	0	0	-632	0	0	-350
Inc./Dec. in Debt	-1,036	596	485	-697	239	1,450	-1,190
Dividends Paid	0	-381	-980	0	-1,060	-530	-530
Others	-120	-104	-889	-1,014	-1,132	-806	1,333
CF from Fin. Activity	-1,543	110	-1,384	-2,344	-1,953	114	-737
Inc./Dec. in Cash	70	-59	3	54	-43	1,044	1,763
Opening Balance	116	185	126	129	183	140	1,184
Closing Balance	185	126	129	183	140	1,184	2,947

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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