

22 May 2024

India | Equity Research | Q4FY24 results review

## VRL Logistics

Logistics

### Better-than-expected performance

VRL Logistics' (VRL) Q4FY24 EBITDA was 12.4%/7.8% ahead of our/consensus estimates. Key points: 1) Shipments grew 9.6% YoY (better than expected). 2) EBITDA margin improved QoQ to 13.7% (Q3FY24: 12.8%) due to volume growth and decline in fuel cost. 3) New branches (opened in FY24) contributed 2.87% of overall volumes. 4) 83 new branches were added (net addition) in FY24. 5) VRL incurred capex of INR 2.9bn in FY24. For FY25, management has guided for: 1) volume growth of 12–15% in FY25. 2) 100 branch additions (50 branches in Q1FY25). 3) Capex of INR 3bn. Given the recent correction in the stock prices, we upgrade VRL to **BUY** from Add with an unchanged TP of INR 770/share based on 27x FY26E EPS.

### Better-than-expected EBITDA performance

VRL's Q4FY24 EBITDA of INR 1.05bn was ahead of our/consensus estimates. Key points: 1) Volume rose 9.6% YoY (3.5% QoQ) to 1,130kte; volume growth was better than our expectation. 2) EBITDA/te has improved QoQ INR 932 (INR 1,107 in Q4FY23 and INR 864 in Q3FY24). 3) EBITDA margin improved QoQ to 13.7% (Q4FY23: 14.9%; Q3FY24: 12.8%). 4) VRL added 83 (net addition) new branches in Q4FY24; branches opened in FY23 (184 branches) accounted for ~6.74% of total tonnage in FY24. 5) Total goods transport's (GT) carrying has increased to 86,405te. 6) The company incurred capex of INR 2.9bn FY24. 7) Customer base increased to 0.9mn. 8) Number of GT vehicles increased to 5,994 (FY23: 5,671 vehicles). Going ahead, management expects volume growth of ~12–15% and an improved EBITDA margin in FY25.

### Higher volume growth to improve margins

While volume growth for Q3FY24 and Q4FY24 was primarily impacted by subdued demand from southern states (accounts for ~40–45% volumes; grew by mere ~2% YoY) due to unfavourable monsoon spread. Segmentally, volumes growth in agro commodities and textiles, together accounting for ~30% of total volume, remained subdued. Agro-commodities grew by 4–5% YoY, while textile grew by 6% YoY. Further, as per management, volumes growth in the textile segment is improving and shall improve further. Management indicated the benefit of lower fuel prices was not passed on, and in case of any rise in the fuel price, VRL may take price hikes, which will be an added advantage. We believe, volume growth of 12–15% and price-hikes if any, may improve the margins substantially.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	26,485	28,886	32,948	38,269
EBITDA	4,017	3,934	4,927	6,030
EBITDA Margin (%)	15.2	13.6	15.0	15.8
Net Profit	3,232	889	1,650	2,497
EPS (INR)	36.6	10.2	18.9	28.6
EPS % Chg YoY	6.4	(46.3)	86.8	51.3
P/E (x)	31.1	57.9	31.0	20.5
EV/EBITDA (x)	14.6	15.9	12.6	10.0
RoCE (%)	14.5	7.7	10.1	13.0
RoE (%)	43.6	10.4	16.6	22.9

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#### Market Data

Market Cap (INR)	51bn
Market Cap (USD)	615mn
Bloomberg Code	VRLL IN
Reuters Code	VRLL BO
52-week Range (INR)	799 /517
Free Float (%)	40.0
ADTV-3M (mn) (USD)	1.0

Price Performance (%)	3m	6m	12m
Absolute	(0.3)	(16.4)	(11.0)
Relative to Sensex	(1.6)	(29.0)	(30.8)

#### Previous Reports

07-02-2024: [Q3FY24 results review](#)

08-11-2023: [Q2FY24 results review](#)

## FY24 performance snapshot

Overall volumes of the company grew by 9.2% YoY to 4,276kte in FY24. Revenue grew by 9.3% YoY, largely driven by volumes growth while realisation/te was largely stable. Revenue break-up for FY24 includes: 1) LTL: 90.8%. 2) FTL: 8%. 3) Others: 1.2%.

VRL's customer base has increased to 0.9mn. VRL added 97 new branches, closed 14 branches in FY24 (total branches increased to 1,209, as of FY24-end), branches added in FY23 (184 branches) contributed 6.74% of total tonnage. Number of GT vehicles increased to 5,994 (5,671 in FY23). Net debt rose to INR 2.6bn (vs INR 1.7bn in FY23). VRL incurred capex of INR 2.9bn in FY24 (INR 4.1bn in FY23).

## Valuation: Focus on volume growth and margins

Unlike peers, VRL is into asset-heavy PTL business and operating leverage plays a very important role in its business, as fixed cost is higher and it has to be absorbed through higher volume growth or higher realisation to maintain margins.

In FY24, EBITDA margins were impacted due to lower-than-expected volume growth, stable realisation and increased fixed costs. However, for FY25, management has guided for: 1) volume growth of 12-15% in FY25; 2) 100 branch addition (50 branches in Q1FY25); and 3) capex of INR 3bn; which are expected to improve the margins. Further, in case of any increase in fuel rates, VRL may take price hike, which will be an added advantage. Given the recent correction in the stock prices, we upgrade the stock to **BUY** from Add with an unchanged TP of INR 770/share based on 27x FY26E EPS.

## Key risks

**Key upside risk:** Better-than-expected price hike, ability to increase volumes further.

**Key downside risk:** Stiff competition from shifting freight traffic to rail leading to an increase in cost pressures for asset-heavy LTL players like VRL Logistics.

## Q4FY24 conference call takeaways

- **Key growth drivers:** Revenue growth is mainly driven by volume growth and majority of the volume growth is coming from new branch additions.
- **New branch additions:** Branches added in FY23 (184 branches) has contributed ~6.7% of total tonnage and branches added in FY24 (83 branches) has contributed 2.8% of tonnage. The company plans to open 100+ new branches in FY25 and 50+ branches in Q1FY25 (already opened 40 branches).
- **Increase in the customer base:** Customer base has increased to 0.9mn in FY24, from 0.08mn FY23 due to better service levels and increased GST compliance.
- **Impact on volume growth:** Subdued macro environment has further impacted volume growth in Q4FY24. While the southern market volumes grew by 2% YoY (origination-basis), north and eastern markets' volumes grew by 15% and 20%, respectively. North-eastern volumes grew by 25% YoY and other geographies' volumes grew by ~10%. Segmentally, volumes growth in agro commodities and textiles – together accounting for ~30% of total volume, remained subdued. Agro-commodities grew by 4–5% YoY, while textile grew by 6% YoY. Other commodities grew by ~10%.
- **No price hike:** The increase in realisation/te is mainly due to change in route mix; not because of the price hike.
- **Bulk purchases:** Bulk purchases increased to 31–32% in Q4FY23.
- **Capex plans:** The company incurred capex of INR 2.9bn in FY24 and planned a capex of INR 3bn for FY25, primarily for GT vehicles.
- **Guidance for FY25:** 1) volume growth of 12–15%; 2) 100 branch addition (50 branches in Q1FY25); and 3) capex of INR 3bn.

**Exhibit 1: VRL Logistics' Q4FY24 performance review**

(INR mn)	Q4FY24	Q4FY23	Chg. YoY (%)	Q3FY24	Chg. QoQ (%)	FY24	FY23	Chg. YoY (%)
<b>Revenue</b>	7,684	6,982	10.1	7,367	4.3	28,886	26,485	9.1
-Operating expenses	5,240	4,670	12.2	5,032	4.1	19,668	17,990	9.3
Gross Margin (%)	31.8	33.1		31.7		31.9	32.1	
-Employee wages	1,282	1,084	18.3	1,273	0.7	4,851	4,149	16.9
-Other expenses	108	88		118		433	330	
<b>Total expenses</b>	<b>6,631</b>	<b>5,841</b>	13.5	<b>6,423</b>	3.2	<b>24,952</b>	<b>22,469</b>	11.1
<b>EBITDA</b>	<b>1053</b>	<b>1141</b>	(7.7)	<b>943</b>	11.7	<b>3934</b>	<b>4,017</b>	(2.0)
EBITDA Margin (%)	13.7	16.3		12.8		13.6	15.2	
Depreciation	583	453	28.7	568	2.7	2,162	1,591	35.8
Other Income	38	47	(18.7)	24	58.3	211	143	47.1
Finance Cost	218	133	63.8	213		779	543	43.3
Exceptional item	-	1,322		-		3	1,571	
PBT	291	1924	(84.9)	187	55.9	1208	3596	(66.4)
Tax	76	(7)	(1110.8)	50		319	364	(12.2)
<b>PAT</b>	<b>215</b>	<b>1932</b>	(88.8)	<b>136</b>	57.8	<b>889</b>	<b>3,232</b>	(72.5)
OCI	17	4		-1		15	10	
<b>TCI</b>	<b>232</b>	<b>1,936</b>	(88.0)	<b>136</b>	70.9	<b>904</b>	<b>3,242</b>	(72.1)

Source: I-Sec research, Company data

**Exhibit 2: VRL Logistics' goods transport's Q4FY24 performance review**

GT (INR mn)	Q4FY24	Q4FY23	Chg. YoY (%)	Q3FY24	Chg. QoQ (%)	FY24	FY23	Chg. YoY (%)
Revenue	7,722	7,029	9.9	7,391	4.5	29,097	26,629	9.3
YoY Growth (%)	9.9	17.0		7.7		9.3	23.8	
QoQ Growth (%)	0.0	2.5		0.0				
Cost	6,669	5,888	13.3	6,447	3.4	25,163	22,516	11.8
EBITDA	1,053	1,141	(7.7)	943	11.7	3,934	4,113	(4.3)
Margin (%)	13.6	16.2		12.8		13.5	15.4	
EBIT	509	735	(30.8)	400	27.2	1,984	2,569	(22.8)
Margin (%)	6.6	10.5		5.4		6.8	9.6	
Volume (Kte)	1,130	1,031	9.6	1,092	3.5	4,276	3,912	9.3
Realization (Rs/te)	6,724	6,654	1.1	6,669	0.8	6,676	6,669	0.1
EBITDA (Rs/te)	932	1,107	(15.8)	864	7.9	920	1,051	(12.5)

Source: I-Sec research, Company data

**Exhibit 3: Shareholding pattern**

%	Sep'23	Dec'23	Mar'24
Promoters	60.2	60.2	60.2
Institutional investors	31.2	30.7	29.9
MFs and others	27.4	26.8	25.2
FIs/Banks	0.0	0.1	0.1
Insurance	1.7	1.5	1.6
FIIIs	2.1	2.3	3.0
Others	8.6	9.1	9.9

Source: Bloomberg, I-Sec research

**Exhibit 4: Price chart**


Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 5: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Net Sales</b>	<b>26,485</b>	<b>28,886</b>	<b>32,948</b>	<b>38,269</b>
Operating Expenses	22,469	24,952	28,021	32,239
<b>EBITDA</b>	<b>4,017</b>	<b>3,934</b>	<b>4,927</b>	<b>6,030</b>
EBITDA Margin (%)	15.2	13.6	15.0	15.8
Depreciation & Amortization	1,591	2,162	2,254	2,281
EBIT	2,425	1,773	2,673	3,749
Interest expenditure	543	779	617	581
Other Non-operating Income	143	211	150	170
<b>Recurring PBT</b>	<b>2,025</b>	<b>1,205</b>	<b>2,206</b>	<b>3,339</b>
<b>Profit / (Loss) from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Taxes	364	321	556	841
PAT	1,661	884	1,650	2,497
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	1,571	5	-	-
<b>Net Income (Reported)</b>	<b>3,232</b>	<b>889</b>	<b>1,650</b>	<b>2,497</b>
<b>Net Income (Adjusted)</b>	<b>3,232</b>	<b>889</b>	<b>1,650</b>	<b>2,497</b>

Source Company data, I-Sec research

### Exhibit 6: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	2,789	2,088	2,574	3,854
of which cash & cash eqv.	903	190	286	1,293
Total Current Liabilities & Provisions	823	900	918	944
<b>Net Current Assets</b>	<b>1,966</b>	<b>1,188</b>	<b>1,656</b>	<b>2,910</b>
Investments	1	1	1	1
Net Fixed Assets	14,820	19,002	19,248	19,466
ROU Assets	-	-	-	-
Capital Work-in-Progress	384	236	236	236
Total Intangible Assets	2	3	3	3
Other assets	922	810	810	810
Deferred Tax Assets	-	-	-	-
<b>Total Assets</b>	<b>18,094</b>	<b>21,240</b>	<b>21,953</b>	<b>23,426</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>7,874</b>	<b>11,110</b>	<b>10,610</b>	<b>10,110</b>
<b>Deferred Tax Liability</b>	<b>461</b>	<b>672</b>	<b>672</b>	<b>672</b>
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	883	875	875	875
Reserves & Surplus	8,875	8,583	9,796	11,769
<b>Total Net Worth</b>	<b>9,758</b>	<b>9,458</b>	<b>10,671</b>	<b>12,644</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>18,094</b>	<b>21,240</b>	<b>21,953</b>	<b>23,426</b>

Source Company data, I-Sec research

### Exhibit 7: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	6,982	7,093	7,367	7,684
% growth (YOY)	15.1	(2.9)	8.1	(1.2)
EBITDA	1,141	918	943	1,053
Margin %	16.3	12.9	12.8	13.7
Other Income	47	60	24	38
Extraordinaries	1,322	5	-	-
Adjusted Net Profit	1,932	197	136	215

Source Company data, I-Sec research

### Exhibit 8: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>3,183</b>	<b>4,239</b>	<b>4,150</b>	<b>5,113</b>
Working Capital Changes	(580)	409	(371)	(246)
Capital Commitments	(4,124)	(2,848)	(2,500)	(2,500)
<b>Free Cashflow</b>	<b>(941)</b>	<b>1,392</b>	<b>1,650</b>	<b>2,613</b>
<b>Other investing cashflow</b>	<b>2,679</b>	<b>414</b>	<b>-</b>	<b>-</b>
Cashflow from Investing Activities	(1,445)	(2,433)	(2,500)	(2,500)
Issue of Share Capital	(629)	(141)	-	-
Interest Cost	(124)	(217)	(617)	(581)
Inc (Dec) in Borrowings	(956)	(943)	(500)	(500)
Dividend paid	-	(438)	(437)	(525)
Others	-	-	-	-
Cash flow from Financing Activities	(1,709)	(1,738)	(1,554)	(1,605)
<b>Chg. in Cash &amp; Bank balance</b>	<b>30</b>	<b>68</b>	<b>96</b>	<b>1,007</b>
Closing cash & balance	115	183	286	1,293

Source Company data, I-Sec research

### Exhibit 9: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	18.8	10.1	18.9	28.6
Adjusted EPS (Diluted)	36.6	10.2	18.9	28.6
Cash EPS	54.6	34.9	44.6	54.6
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	110.5	108.1	122.0	144.6
Dividend Payout (%)	-	-	-	-
<b>Growth (%)</b>				
Net Sales	22.4	9.1	14.1	16.1
EBITDA	7.2	(2.0)	25.2	22.4
EPS (INR)	6.4	(46.3)	86.8	51.3
<b>Valuation Ratios (x)</b>				
P/E	31.1	57.9	31.0	20.5
P/CEPS	10.7	16.8	13.1	10.7
P/BV	5.3	5.4	4.8	4.0
EV / EBITDA	14.6	15.9	12.6	10.0
Dividend Yield (%)	-	-	-	-
<b>Operating Ratios</b>				
Gross Profit Margins (%)	32.1	31.9	31.9	31.2
EBITDA Margins (%)	15.2	13.6	15.0	15.8
Effective Tax Rate (%)	18.0	26.7	25.2	25.2
Net Profit Margins (%)	6.3	3.1	5.0	6.5
Net Debt / Equity (x)	0.7	1.2	1.0	0.7
Net Debt / EBITDA (x)	1.7	2.8	2.1	1.5
Total Asset Turnover (x)	1.9	1.7	1.6	1.7
Inventory Turnover Days	9	6	8	9
Receivables Days	14	13	12	13
Payables Days	2	2	2	2
<b>Profitability Ratios</b>				
RoE (%)	43.6	10.4	16.6	22.9
RoCE (%)	14.5	7.7	10.1	13.0
RoIC (%)	15.0	7.9	10.3	13.4

Source Company data, I-Sec research

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