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India | Equity Research | Q1FY25 results review

VRL Logistics

Logistics

Price hikes to ameliorate the impact of lower volumes

VRL Logistics' (VRL) Q1FY25 EBITDA was 14.4% and 17.5% below our and consensus estimates, respectively. Key points: 1) Shipments rose 6.8% YoY (below expected) on manpower unavailability; 2) EBITDA margin declined QoQ to 11.9% (Q4FY24: 13.7%) due to higher unabsorbed operating cost; 3) 36 new branches were added and contributed 3.55% of overall volume; and 4) Q1 capex stood at INR 496.3mn. For FY25, management has guided for i) nearly double-digit volume growth; ii) 100+ branch addition, and iii) quarterly capex of INR 450-500mn. Taking cognisance of management's commentary and Q1FY25 performance, we have lowered our volume growth estimates by 150-200bps for FY25/26E. Our FY25/26E EPS has been pruned by 20%/15%. Maintain **BUY** with a revised TP of INR 655 (earlier INR 770) based on 27x FY26E EPS. We continue to recommend VRL as one of our preferred picks in logistics space as the worst seems to be over for the company.

EBITDA performance below expectations

VRL's Q1FY25 EBITDA of INR 869mn missed our and street estimates. Key points: 1) Volume rose 6.8% YoY (down 5.3% QoQ) to 1,170kte (I-Sec estimate: 1,192te); 2) EBITDA/te declined QoQ to INR 812 (INR 1,017 in Q1FY24 and INR 932 in Q4FY24); 3) EBITDA margin declined QoQ to 11.9% (Q1FY24: 15.1%, Q4FY24: 13.7%); 5) VRL added 36 (net addition) new branches which accounted for ~3.55% of total tonnage in Q1FY25; 6) GT carrying capacity increased to 88,198te (86,405te in Q4FY24end); 7) GT vehicles increased to 6,177 in Q1FY25 from 5,994 at FY24-end; and 8) company incurred capex of INR 496.3mn in Q1. Going ahead, management expects close to double-digit volume growth and improvement in EBITDA margin led by price hike in FY25.

VRL hiked price by 5-6%; capex plans recalibrated with growth

During Q1FY25 concall, management highlighted that a price increase of ~5-6% across customer categories was taken in Jun'24. Hence, average realisation for Jul'24 was up 5-6% with volume growth of 7%. Management expects some volume loss initially due to the price hike but expects double digit volume growth overall. Furthermore, management expects growth in agri commodities (unlike last year) led by favourable monsoons in South India.

Management has revised down its capex guidance for FY25 to INR 450-500mn per quarter compared to INR 3bn initially, mainly due to lower vehicle purchases. However, it is considering to acquire a few land parcels for opening new branches.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	26,485	28,886	32,722	37,382
EBITDA	4,017	3,934	4,665	5,712
EBITDA Margin (%)	15.2	13.6	14.3	15.3
Net Profit	3,232	886	1,319	2,123
EPS (INR)	36.6	10.1	15.1	24.3
EPS % Chg YoY	6.4	(46.3)	49.3	60.9
P/E (x)	28.5	53.1	35.5	22.1
EV/EBITDA (x)	15.0	16.4	13.7	10.9
RoCE (%)	14.5	7.7	8.4	11.5
RoE (%)	43.6	10.3	13.4	20.1

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Market Data

Market Cap (INR)	47bn
Market Cap (USD)	559mn
Bloomberg Code	VRLL IN
Reuters Code	VRLL BO
52-week Range (INR)	799 /511
Free Float (%)	40.0
ADTV-3M (mn) (USD)	1.1

Price Performance (%)	3m	6m	12m
Absolute	(3.7)	(22.2)	(25.4)
Relative to Sensex	(10.1)	(31.1)	(45.0)

Earnings Revisions (%)	FY25E	FY26E
Revenue	(0.7)	(2.3)
EBITDA	(5.3)	(5.3)
EPS	(20.0)	(15.0)

Previous Reports

22-05-2024: [Q4FY24 results review](#)

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

Outlook and valuation: Margin trajectory likely to improve

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 its margins. During Q1FY25, margins were impacted due to higher unabsorbed operating cost on account of lower-than-expected volume growth and increased fixed costs (rents etc.).

The volume growth for YTD FY25 has been subdued at 7%; however, management expects volume growth of close to double digit in FY25; remaining nine months are likely to perform better led by favourable monsoon in south India.

Based on Q1FY25 performance, we have lowered our volume growth estimates for FY25/26E from 150-200bps while factoring in a blended price increase of 4.5% for FY25 and 2% for FY26. Hence, our EPS estimates have been reduced by 20%/15%, respectively. We maintain **BUY** with a revised target price of 655/share (earlier INR 770/share) based on 27x FY26E EPS. Given VRL's recent underperformance and improving prospects, we recommend it as one of our preferred picks in logistics space, though we will keep a close tab on volumes.

Exhibit 1: Earnings revision

(INR mn)	FY25E			FY26E		
	New	Old	% chg	New	Old	% chg
Revenue	32,722	32,948	(0.7)	37,382	38,269	(2.3)
EBITDA	4,665	4,927	(5.3)	5,712	6,030	(5.3)
PAT	1,319	1,649	(20.0)	2,123	2,496	(15.0)

Source: I-Sec research, Company data

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.

Q1FY25 conference call takeaways

- Management expects close to double digit volume growth on annual basis. It expects volume growth of 12-14% in FY26 while EBITDA margin may grow 15-16%. In Jul'24, realisation improved by ~5-6% with tonnage growth of ~7%.
- During the quarter, VRL faced many challenges and many disturbances in operations due to 1) long absenteeism of drivers and loading/unloading staff during elections; and 2) heatwaves in northern parts of the country.
- The absenteeism of drivers and loading/unloading staff has resulted in 1) delay in services in many transshipment hubs; and 2) lower utilisation of resources such as vehicles, good arms tasks, etc. and to maintain workflow. In order to keep the operations running, VRL appointed temporary workforce with higher rates and raised driver earnings and incentives for several routes.
- During Q1FY25, the unavailability of manpower and delay in services in some key transshipment hubs resulted in temporary disruption in bookings. As a result, volume was also impacted.
- Additional cost issues were resolved by end-Jun'24 and efficient operations have already begun.
- The growth in revenue was primarily on account of volume growth with only a marginal increase in realisation. The improvement in realisation was on account of 1) the lane mix; and 2) price hike in Jun'24.

- EBITDA declined due to: 1) Higher vehicle running cost- due to more kilometres covered; 2) increase in rates of driver earnings and incentives; 3) increase in employee cost by ~1.5% of revenue; and 4) increase in rent expenses on account of increase in branches and space in key transshipment hubs during the year.
- Fuel cost is a major cost in operations ---30% of operation cost. Fuel cost decreased by ~1% of revenue mainly on account of flat fuel price in the last one year and procurement from refineries increased from 31.7% to 33.3% on YoY basis.
- Lorry hire charges as % to revenue was lower due to increase in owned vehicles.
- In Q1FY25, VRL invested around INR 496mn in capex which is predominantly for truck addition. VRL's own tonnage capacity reached around 86te at Jun24-end. Management plans to incur capex of ~INR 2bn on vehicles in FY25.
- Managements expects additional growth from new branches as well as upcoming expansion of network. It is targeting to add ~100 branches in FY25, of which ~36 branches have been added in Q1FY25.
- The lease cost portion in depreciation is INR 390mn and in interest cost it is INR 160mn.
- VRL's customer base increased from 0.8mn to 0.9mn.

Exhibit 2: VRL Logistics' Q1FY25 performance review

(INR mn)	Q1FY25	Q1FY24	Chg. YoY (%)	Q4FY24	Chg. QoQ (%)	FY24	FY23	Chg. YoY (%)
Revenue	7,272	6,742	7.9	7,684	(5.4)	28,886	26,485	9.1
-Operating expenses	4,979	4,514	10.3	5,240	(5.0)	19,668	17,990	9.3
Gross Margin (%)	31.5	33.1		31.8		31.9	32.1	
-Employee wages	1,321	1,112	18.8	1,282	3.1	4,851	4,149	16.9
-Other expenses	102	97		108		433	330	
Total expenses	6,403	5,723	11.9	6,631	(3.4)	24,952	22,469	11.1
EBITDA	869	1019	(14.7)	1053	(17.5)	3934	4,017	(2.0)
EBITDA Margin (%)	11.9	15.1		13.7		13.6	15.2	
Depreciation	615	489	25.7	583	5.5	2,162	1,591	35.8
Other Income	148	89	66.4	38	287.4	211	143	47.1
Finance Cost	226	163	38.7	218		779	543	43.3
Exceptional item	-	0		-		3	1,571	
PBT	176	456	(61.4)	291	(39.6)	1208	3596	(66.4)
Tax	42	117	(64.3)	76		319	364	(12.2)
PAT	134	339	(60.4)	215	(37.6)	889	3,232	(72.5)
OCI	4	3		17		15	10	
TCI	138	342	(59.6)	232	(40.5)	904	3,242	(72.1)
Volume (Kte)	1,070	1,002	6.8	1,130	(5.3)	4,276	3,912	9.3
Realization (INR/te)	6,723	6,650	1.1	6,724	(0.0)	6,676	6,669	0.1
EBITDA (INR/te)	812	1,017	(20.2)	932	(12.9)	920	1,051	(12.5)

Source: I-Sec research, Company data

Exhibit 3: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	60.2	60.2	60.2
Institutional investors	30.7	29.9	29.9
MFs and others	26.8	25.2	24.3
FIs/Banks	0.1	0.1	1.2
Insurance	1.5	1.6	0.2
FIIIs	2.3	3.0	3.8
Others	9.1	9.9	10.3

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
Net Sales	26,485	28,886	32,722	37,382
Operating Expenses	22,469	24,952	28,058	31,670
EBITDA	4,017	3,934	4,665	5,712
EBITDA Margin (%)	15.2	13.6	14.3	15.3
Depreciation & Amortization	1,591	2,162	2,459	2,464
EBIT	2,425	1,773	2,205	3,248
Interest expenditure	543	779	722	580
Other Non-operating Income	143	211	280	170
Recurring PBT	2,025	1,205	1,764	2,838
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	364	321	444	715
PAT	1,661	884	1,319	2,123
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	1,571	3	-	-
Net Income (Reported)	3,232	886	1,319	2,123
Net Income (Adjusted)	3,232	886	1,319	2,123

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	2,448	3,532
of which cash & cash eqv.	903	190	165	1,017
Total Current Liabilities & Provisions	823	900	919	941
Net Current Assets	1,966	1,188	1,530	2,592
Investments	1	1	1	1
Net Fixed Assets	14,820	19,002	19,043	19,079
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	-	-	-	-
Total Assets	18,094	21,240	21,622	22,720
Liabilities				
Borrowings	7,874	11,110	10,610	10,110
Deferred Tax Liability	461	672	672	672
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	883	875	875	875
Reserves & Surplus	8,875	8,583	9,465	11,063
Total Net Worth	9,758	9,458	10,340	11,938
Minority Interest	-	-	-	-
Total Liabilities	18,094	21,240	21,622	22,720

Source Company data, I-Sec research

Exhibit 7: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	7,093	7,367	7,684	7,272
% growth (YOY)	(2.9)	8.1	(1.2)	(72.5)
EBITDA	918	943	1,053	869
Margin %	12.9	12.8	13.7	11.9
Other Income	60	24	38	148
Extraordinaries	5	-	-	-
Adjusted Net Profit	197	136	215	134

Source Company data, I-Sec research

Exhibit 8: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	3,183	4,239	4,134	4,957
Working Capital Changes	(580)	409	(366)	(210)
Capital Commitments	(4,124)	(2,848)	(2,500)	(2,500)
Free Cashflow	(941)	1,392	1,634	2,457
Other investing cashflow	2,679	414	-	-
Cashflow from Investing Activities	(1,445)	(2,433)	(2,500)	(2,500)
Issue of Share Capital	(629)	(141)	-	-
Interest Cost	(124)	(217)	(722)	(580)
Inc (Dec) in Borrowings	(956)	(943)	(500)	(500)
Dividend paid	-	(438)	(437)	(525)
Others	-	-	-	-
Cash flow from Financing Activities	(1,709)	(1,738)	(1,659)	(1,604)
Chg. in Cash & Bank balance	30	68	(25)	852
Closing cash & balance	115	183	165	1,017

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	18.8	10.1	15.1	24.3
Adjusted EPS (Diluted)	36.6	10.1	15.1	24.3
Cash EPS	54.6	34.9	43.2	52.4
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	110.5	108.1	118.2	136.5
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	22.4	9.1	13.3	14.2
EBITDA	7.2	(2.0)	18.6	22.4
EPS (INR)	6.4	(46.3)	49.3	60.9
Valuation Ratios (x)				
P/E	28.5	53.1	35.5	22.1
P/CEPS	9.8	15.4	12.4	10.2
P/BV	4.9	5.0	4.5	3.9
EV / EBITDA	15.0	16.4	13.7	10.9
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	32.1	31.9	31.9	31.9
EBITDA Margins (%)	15.2	13.6	14.3	15.3
Effective Tax Rate (%)	18.0	26.7	25.2	25.2
Net Profit Margins (%)	6.3	3.1	4.0	5.7
Net Debt / Equity (x)	0.7	1.2	1.0	0.8
Net Debt / EBITDA (x)	1.7	2.8	2.2	1.6
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
Profitability Ratios				
RoE (%)	43.6	10.3	13.4	20.1
RoCE (%)	14.5	7.7	8.4	11.5
RoIC (%)	15.0	7.9	8.5	11.7

Source Company data, I-Sec research

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