

## Externalities impact Q1; price hikes to lend support to margins

Logistics ▶ Result Update ▶ August 6, 2024

TARGET PRICE (Rs): 725

**VRLL's Q1FY25 results were impacted by execution challenges faced due to unfavorable externalities such as: 1) driver shortage due to general elections, and 2) productivity losses due to extreme heat wave in North. Growing cost pressures has prompted VRLL to hike freight rates by 5-10% across customers, which should allay concerns around continued margin contraction over the last two years. The management expects mid-to-high single digit volume growth in FY25 on the back of aggressive branch additions and favorable monsoons supporting the textile and agro commodities. Cut in capex related to vehicle additions should also lend support to the balance sheet till volume growth improves. Factoring in the operational miss in Q1FY25, we cut our PAT 2%/6% for FY25E/26E, respectively. We maintain our BUY rating with Jun-25E TP of Rs725/share based on DCF methodology, implying 29x PER based on FY26E.**

### VRL Logistics: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	26,485	28,886	32,551	36,650	41,414
EBITDA	4,017	3,934	4,750	5,806	6,669
Adj. PAT	1,661	886	1,245	2,172	2,754
Adj. EPS (Rs)	37.0	10.2	14.2	24.8	31.5
EBITDA margin (%)	15.2	13.6	14.6	15.8	16.1
EBITDA growth (%)	7.2	(2.0)	20.7	22.3	14.9
Adj. EPS growth (%)	103.9	(72.4)	39.7	74.5	26.8
RoE (%)	20.4	9.2	12.6	19.5	20.9
RoIC (%)	18.5	10.7	12.2	16.8	19.4
P/E (x)	28.2	52.9	37.7	21.6	17.0
EV/EBITDA (x)	12.1	12.6	10.3	8.3	7.0
P/B (x)	4.8	5.0	4.6	3.9	3.3
FCFF yield (%)	(1.9)	2.8	5.3	4.7	6.8

Source: Company, Emkay Research

### Execution challenges dampen Q1 performance

VRLL reported revenue growth of 8% YoY in Q1FY25 on the back of volumes growing 7% and improvement in realization by 1% YoY on account of better route mix. Customer count increased to 0.9mn and net-branch adds came in at 36 (gross addition of 42 branches). EBITDA stood at Rs869mn (-15% YoY) as increase in freight and handling costs offset the growth in revenues. Operating costs rose 12% YoY owing to: 1) increasing driver incentives, 2) rise in vehicle running costs as kms covered by owned vehicles increased, 3) rise in toll charges from Apr-24, and 4) growing employee costs attributed to annual increments, new hires at branches, and internal promotions. EBITDAM contracted by 317bps YoY. Depreciation costs increased 26% YoY on the back of vehicle additions and increase in lease rentals owing to branches and transshipment hubs. Other income grew 66% YoY on the back of a land parcel sale for Rs114mn. Finance costs increased 39% YoY on the back of higher lease liabilities, while net debt remained stable around Rs2.74bn. Q1 capex was reported at Rs0.5bn. PAT was lower by 60% YoY on the back of muted operating performance.

### Outlook and risks

The management's decision to hike freight rates across customer base should allay concerns around margins contracting over the last two years due to lack of volume growth. With the hope of current trends in monsoons sustaining, we remain hopeful of volumes growing by mid-to-high single digits for FY25 as customers digest the steep price hike. Continued branch additions (at least 100 in FY25) should aid volume trajectory in H2FY25, while paused vehicle addition should lend support to the balance sheet and profitability in times of such turbulence. We model FY24-27E volume CAGR of 10% and realization CAGR of 2% with margins expanding by 250bps over FY24-27E on the back of operating leverage. We await pick-up in volumes on new trade routes in untapped regions along with tapering capex intensity to aid FCF generation and return ratios. **Key risks:** Slowdown in the economy, rise in fuel prices, shortage of labor, competition from unorganized players, and modal shift to rail on the impending commissioning of DFC.

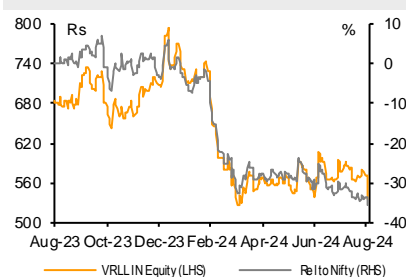
Target Price – 12M	Mar-25
Change in TP (%)	(6.5)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	35.2
CMP (06-Aug-24) (Rs)	536.1

Stock Data	Ticker
52-week High (Rs)	799
52-week Low (Rs)	511
Shares outstanding (mn)	87.5
Market-cap (Rs bn)	47
Market-cap (USD mn)	559
Net-debt, FY25E (Rs mn)	1,891
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	95.7
ADTV-3M (USD mn)	1.1
Free float (%)	-
Nifty-50	23,993
INR/USD	84.0
<b>Shareholding, Jun-24</b>	
Promoters (%)	60.2
FPIs/MFs (%)	3.8/25.6

### Price Performance

(%)	1M	3M	12M
Absolute	(7.1)	(3.7)	(25.4)
Rel. to Nifty	(5.9)	(9.9)	(39.4)

### 1-Year share price trend (Rs)



### Anshul Agrawal

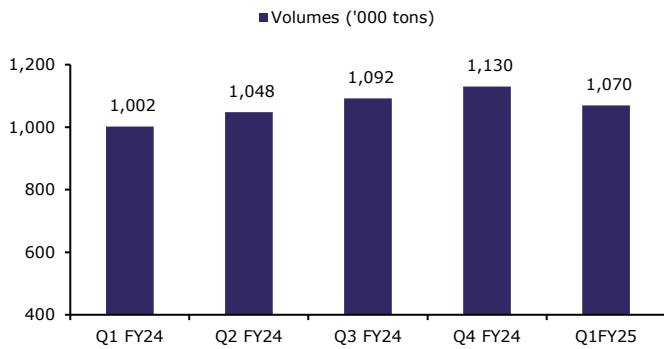
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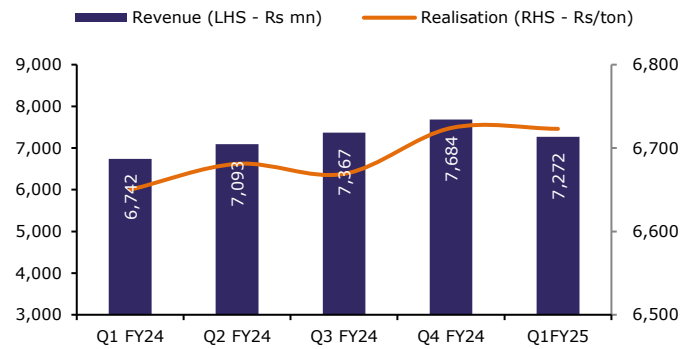
# Story in Charts

**Exhibit 1: Q1FY25 – Volumes grew 7% YoY aiding...**



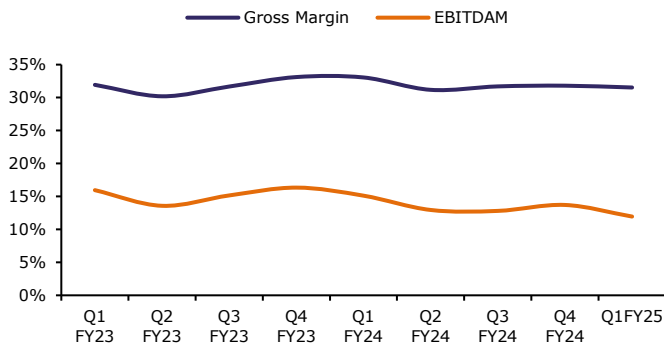
Source: Company, Emkay Research

**Exhibit 2: ...revenue growth of 8% YoY**



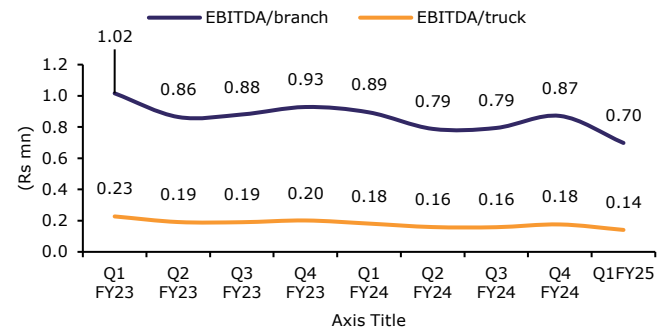
Source: Company, Emkay Research

**Exhibit 3: Margins see exertion YoY and QoQ...**



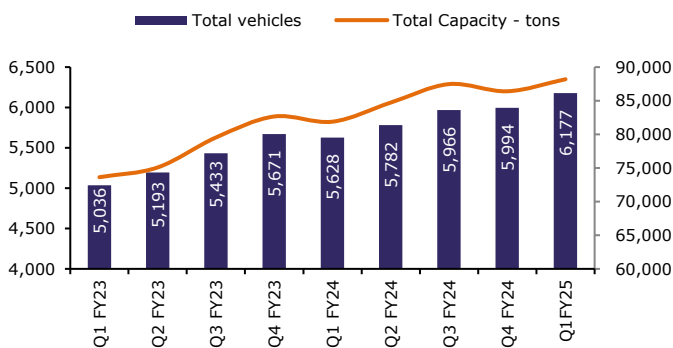
Source: Company, Emkay Research

**Exhibit 4: ...with per-unit profitability inching down on YoY and QoQ basis**



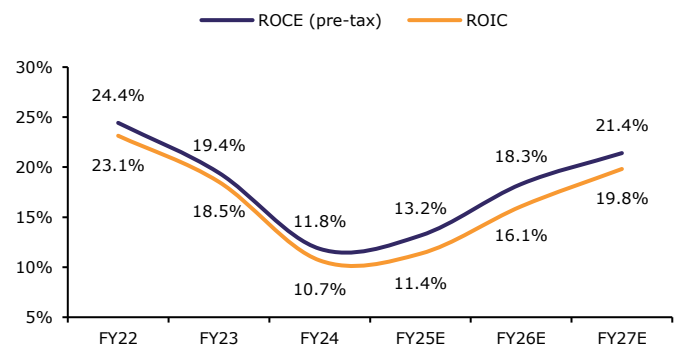
Source: Company, Emkay Research

**Exhibit 5: Continued rationalization in vehicle additions...**



Source: Company, Emkay Research

**Exhibit 6: ...tapering capex to aid improvement in return ratios**



Source: Company, Emkay Research

**Exhibit 7: Summary of quarterly financials**

VRL Logistics (Rs mn)	Q1FY24	Q4FY24	Q1FY25	YoY	QoQ
Net sales	6,742	7,684	7,272	8%	-5%
Operating Expenses	(5,723)	(6,631)	(6,403)	12%	-3%
Freight, handling, and servicing cost	4,514	5,240	4,979	10%	-5%
Employee Costs	1,112	1,282	1,321	19%	3%
Other operating Expenses	97	108	102	5%	-5%
Gross Profit	2,228	2,444	2,293	3%	-6%
EBITDA	1,019	1,053	869	-15%	-18%
Margins	15.1%	13.7%	11.9%		
Depreciation	(489)	(583)	(615)	26%	6%
EBIT	530	471	254	-52%	-46%
Other Income	89	38	148	66%	287%
Interest	(163)	(218)	(226)	39%	4%
PBT	456	291	176	-61%	-40%
Tax	(117)	(76)	(42)		
PAT	339	215	134	-60%	-38%
Adj. PAT	339	215	134	-60%	-38%
EPS (Rs)	3.84	2.46	1.54	-60%	-38%

Source: Company, Emkay Research

**Exhibit 8: Actuals vs estimates (Q1FY25)**

(Rs mn)	Actual	Estimate	Consensus	Variation	
		(Emkay)	estimate		
			(Bloomberg)	Emkay	Consensus
Revenue	7,272	7,271	7,355	0%	-1%
EBITDA	869	974	981	-11%	-11%
EBITDA Margin	12%	13%	13%	-145 bps	-138 bps
PAT	134	199	178	-32%	-25%

Source: Company, Emkay Research

**Exhibit 9: Change in estimates**

Particulars (Rs mn)	FY25E			FY26E		
	Old	New	Change	Old	New	Change
Revenue	32,402	32,551	0.5%	37,135	36,650	-1.3%
EBITDA	4,781	4,750	-0.7%	6,059	5,806	-4.2%
EBITDA Margin (%)	14.8	14.6	-16 bps	16.3	15.8	-47 bps
EBIT	2,196	2,167	-1.3%	3,279	3,096	-5.6%
PAT	1,274	1,245	-2.3%	2,313	2,172	-6.1%
EPS (Rs)	14.6	14.2	-2.3%	26.4	24.8	-6.1%

Source: Company, Emkay Research

**Exhibit 10: We value VRL at Rs 725/share**

Particulars (Rs mn)	FY24	FY25E	FY26E	FY27E	FY30E	FY35E
Revenue	28,886	32,551	36,650	41,414	57,461	89,910
NOPLAT	1,303	1,622	2,313	2,808	3,714	5,811
Non-cash items	2,162	2,583	2,710	2,910	3,719	6,358
Change in WC	59	(129)	(160)	(186)	(233)	(248)
Capex	(2,848)	(1,992)	(2,968)	(2,748)	(2,018)	(3,157)
FCFF	676	2,084	1,895	2,784	5,182	8,765
WACC	13%					
Terminal growth	5%					
PV of CFs (FY24-35E)	26,711					
PV of terminal value	37,546					
Total EV	64,257					
(Less) Net Debt	2,610					
Total Equity value	61,647					
Total no. of shares: Jun-24 (mn)	87					
<b>Target price/share (Rs) Jun-25E</b>	<b>725</b>					

Source: Company, Emkay Research

## Concall highlights

- The management has given margin guidance of 15-16% by FY26 and volume guidance of 12%-14% YoY growth. FY25 would see mid-to-high single digit volume growth as hike in freight rates (+6% YoY) could lead to some impact in volumes.
- The management cut volume guidance to 7%-8% for FY25 on the back of increase in freight rates taken across segments (5%-10%).
- Capex guidance cut to ~Rs2bn with slow ramp up in new vehicle additions. Debt level is at Rs2.74bn.
- The company expects better performance in Q2FY25 on the back of strong demand from textile and agro commodities due to strong monsoons in the South.
- The management plans to add >100 branches in FY25.
- Volumes were impacted due to heat wave in North, driver displacement, and few customers shifting momentarily toward competitors. Operations were majorly hit by absenteeism due to elections for drivers and loading/unloading.
- Undertaken price hike of 5-10% in Jun-end across segments (5%-10%). July saw 6% realization improvement and ~7% YoY growth in volumes.
- Customer base has expanded to 0.9mn customers (from 0.8mn in Q1FY24).
- Long-overdue price hikes were taken to absorb costs. Management expects competition to follow suit and take such hikes giving the increasing cost curve for the entire industry.
- Delays in transshipment orders were impacted due to unavailability of labour which also resulted in underutilization of space (majorly in Delhi).
- 36 branches were added in the quarter, which aided improvement in tonnage by 3.55%.
- Km-wise dependence on hired vehicles have decreased. Shortage of drivers has resulted in the company increasing drivers' incentives.
- Q1 capex of Rs0.5bn; 1,161 employees added YoY majorly due to increase in branch network and in proportion to the growth in tonnage.
- Bulk fuel procurement, as a percentage of total quantity, increased to 33% from 31% last quarter as average procuring cost per litre of diesel is down 1.56% from Rs87.54 to Rs86.18.

VRL Logistics: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	26,485	28,886	32,551	36,650	41,414
Revenue growth (%)	22.4	9.1	12.7	12.6	13.0
EBITDA	4,017	3,934	4,750	5,806	6,669
EBITDA growth (%)	7.2	(2.0)	20.7	22.3	14.9
Depreciation & Amortization	1,591	2,162	2,583	2,710	2,910
EBIT	2,425	1,773	2,167	3,096	3,759
EBIT growth (%)	5.4	(26.9)	22.2	42.9	21.4
Other operating income	0	0	0	0	0
Other income	143	211	335	403	497
Financial expense	543	779	840	592	568
PBT	2,025	1,205	1,662	2,908	3,687
Extraordinary items	1,571	5	0	0	0
Taxes	364	319	418	736	933
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	3,232	891	1,245	2,172	2,754
PAT growth (%)	101.9	(72.4)	39.7	74.5	26.8
Adjusted PAT	1,661	886	1,245	2,172	2,754
Diluted EPS (Rs)	37.0	10.2	14.2	24.8	31.5
Diluted EPS growth (%)	103.9	(72.4)	39.7	74.5	26.8
DPS (Rs)	5.1	0.0	5.0	5.0	5.0
Dividend payout (%)	13.7	0.0	35.1	20.1	15.9
EBITDA margin (%)	15.2	13.6	14.6	15.8	16.1
EBIT margin (%)	9.2	6.1	6.7	8.4	9.1
Effective tax rate (%)	18.0	26.5	25.1	25.3	25.3
NOPLAT (pre-IndAS)	1,989	1,303	1,622	2,313	2,808
Shares outstanding (mn)	87.5	87.5	87.5	87.5	87.5

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	2,025	1,205	1,662	2,908	3,687
Others (non-cash items)	0	0	0	0	0
Taxes paid	(856)	(264)	(418)	(736)	(933)
Change in NWC	249	3,400	222	148	172
Operating cash flow	3,183	4,239	4,554	5,219	5,908
Capital expenditure	(4,085)	(2,848)	(1,992)	(2,968)	(2,748)
Acquisition of business	0	0	0	0	0
Interest & dividend income	18	335	403	497	557
Investing cash flow	(1,445)	(2,433)	(2,893)	(3,959)	(3,838)
Equity raised/(repaid)	0	(9)	0	0	0
Debt raised/(repaid)	356	1,002	0	(750)	(700)
Payment of lease liabilities	0	0	0	0	0
Interest paid	(543)	(779)	(840)	(592)	(568)
Dividend paid (incl tax)	442	0	437	437	437
Others	(2,022)	(1,954)	(598)	(466)	(465)
Financing cash flow	(1,768)	(1,739)	(1,001)	(1,370)	(1,296)
Net chg in Cash	(29)	66	660	(110)	774
OCF	3,183	4,239	4,554	5,219	5,908
Adj. OCF (w/o NWC chg.)	3,432	7,639	4,776	5,367	6,080
FCFF	(902)	1,392	2,562	2,251	3,161
FCFE	(1,428)	948	2,125	2,156	3,149
OCF/EBITDA (%)	79.3	107.7	95.9	89.9	88.6
FCFE/PAT (%)	(44.2)	106.5	170.8	99.3	114.3
FCFF/NOPLAT (%)	(45.3)	106.8	157.9	97.3	112.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	883	875	875	875	875
Reserves & Surplus	8,875	8,583	9,390	11,125	13,442
Net worth	9,758	9,458	10,265	12,000	14,317
Minority interests	0	0	0	0	1
Deferred tax liability (net)	461	672	672	672	672
Total debt	1,791	2,793	2,793	2,043	1,343
Total liabilities & equity	12,011	12,923	13,730	14,715	16,333
Net tangible fixed assets	9,985	11,982	12,905	14,308	15,289
Net intangible assets	2	3	3	3	3
Net ROU assets	4,826	7,011	6,398	6,245	6,190
Capital WIP	384	236	236	236	236
Goodwill	0	0	0	0	0
Investments [JV/Associates]	9	9	9	9	9
Cash & equivalents	116	183	902	786	1,648
Current assets (ex-cash)	3,595	2,716	2,839	3,077	3,354
Current Liab. & Prov.	6,907	9,217	9,562	9,948	10,397
NWC (ex-cash)	1,203	1,144	1,273	1,434	1,620
Total assets	12,011	12,923	13,730	14,715	16,332
Net debt	1,675	2,610	1,891	1,257	(305)
Capital employed	12,011	12,923	13,730	14,715	16,333
Invested capital	16,016	20,141	20,580	21,989	23,103
BVPS (Rs)	111.6	108.1	117.4	137.2	163.7
Net Debt/Equity (x)	0.2	0.3	0.2	0.1	0.0
Net Debt/EBITDA (x)	0.4	0.7	0.4	0.2	0.0
Interest coverage (x)	0.2	0.4	0.3	0.2	0.1
RoCE (%)	19.4	11.8	13.6	18.2	20.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	28.2	52.9	37.7	21.6	17.0
P/CE(x)	14.4	15.4	12.3	9.6	8.3
P/B (x)	4.8	5.0	4.6	3.9	3.3
EV/Sales (x)	1.8	1.7	1.5	1.3	1.1
EV/EBITDA (x)	12.1	12.6	10.3	8.3	7.0
EV/EBIT(x)	20.0	27.9	22.5	15.6	12.4
EV/IC (x)	3.0	2.5	2.4	2.2	2.0
FCFF yield (%)	(1.9)	2.8	5.3	4.7	6.8
FCFE yield (%)	(3.0)	2.0	4.5	4.6	6.7
Dividend yield (%)	0.9	0.0	0.9	0.9	0.9
DuPont-RoE split					
Net profit margin (%)	6.3	3.1	3.8	5.9	6.7
Total asset turnover (x)	2.6	2.3	2.4	2.6	2.7
Assets/Equity (x)	1.3	1.3	1.4	1.3	1.2
RoE (%)	20.4	9.2	12.6	19.5	20.9
DuPont-RoIC					
NOPLAT margin (%)	7.5	4.5	5.0	6.3	6.8
IC turnover (x)	2.0	1.7	1.8	2.0	2.1
RoIC (%)	18.5	10.7	12.2	16.8	19.4
Operating metrics					
Core NWC days	16.6	14.5	14.3	14.3	14.3
Total NWC days	16.6	14.5	14.3	14.3	14.3
Fixed asset turnover	1.3	1.2	1.1	1.1	1.1
Opex-to-revenue (%)	16.9	18.3	18.2	18.1	18.0

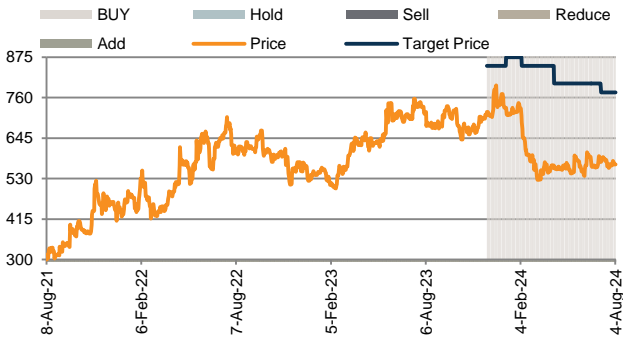
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jul-24	577	775	Buy	Anshul Agrawal
21-May-24	583	800	Buy	Anshul Agrawal
08-Apr-24	559	800	Buy	Anshul Agrawal
22-Feb-24	580	850	Buy	Anshul Agrawal
06-Feb-24	689	850	Buy	Anshul Agrawal
15-Jan-24	716	875	Buy	Anshul Agrawal
07-Jan-24	731	875	Buy	Anshul Agrawal
24-Dec-23	739	850	Buy	Anshul Agrawal
01-Dec-23	720	850	Buy	Anshul Agrawal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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