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India | Equity Research | Results update

VRL Logistics

Logistics

Shining bright; plans to add 80-100 branches in FY26

VRL Logistics' (VRL) Q3FY25 EBITDA performance was 26%/23% ahead of our and consensus' numbers. Key points: 1) Realisation (up 10% YoY) led improvement in both EBITDA and EBITDA margin; 2) volume grew 1% YoY/QoQ (9MFY25: 4% YoY). 3) Incurred capex of INR 2.8bn in Q3 (9MFY25: INR 4bn); 4) 64 new branches were added in 9MFY25 (closed 25; net addition 39); plans to add 80-100 branches in FY26. Taking cognisance of 9M performance, we raise FY25E EPS by 13%, however, lower it by 9.3% for FY26E owing to higher interest and depreciation. We roll-forward valuation to FY27E with a revised TP of INR 700 (earlier: 655) on an unchanged multiple of 27x. Maintain **BUY**.

Better-than-expected EBITDA

VRL's Q3FY25 EBITDA of INR 1.66bn (up 63.3% YoY) was 26%/23% ahead of our and street's estimates. Key points: 1) Volume rose ~1% YoY/QoQ to 1,104kte; 2) EBITDA/te improved YoY/QoQ to INR 1,507 (INR 1,216 in Q2FY25 and INR 863 in Q3FY24) on account of increase in realisation/te (up 10.8% YoY), improved operational efficiencies and cost optimisation. 3) Bulk purchase of fuel from refineries has increased to 39.89% vs 35.53% QoQ, resulting in better control on fuel expenses (current price differential is ~5-6%). 4) Added 64 new branches in 9MFY25 (closed: 25; net addition: 39 branches); 5) incurred capex of INR 4bn in 9MFY25; Q3FY25 capex was INR 2.8bn mainly led by purchase of property in Bengaluru, Mysore and Mangalore. 6) Net debt increased to INR 4.65bn (mainly due to property additions). Management has guided for low single digit volume growth for the next two quarters, post which it could be 8-10%.

Price hikes absorbed; volume growth likely from Q2FY26

During Q3FY25 concall, management mentioned that price hike (5-6%; taken in Jun'24) across customer categories has been absorbed with an average increase of 8-10%. Also, the company has simplified its pricing mechanism, which has been well accepted by customers. However, volume growth is likely to stay subdued over the next two quarters, though improvement is likely from Q2FY26.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	28,886	31,889	33,998	37,269
EBITDA	3,934	5,511	5,877	6,297
EBITDA Margin (%)	13.6	17.3	17.3	16.9
Net Profit	886	1,803	1,927	2,273
EPS (INR)	10.1	20.6	22.0	26.0
EPS % Chg YoY	(46.3)	104.0	6.9	18.0
P/E (x)	51.5	25.2	23.6	20.0
EV/EBITDA (x)	14.5	10.5	9.5	8.6
RoCE (%)	7.7	11.0	11.0	11.5
RoE (%)	10.3	18.0	17.8	18.5

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Market Data

Market Cap (INR)	45bn
Market Cap (USD)	519mn
Bloomberg Code	VRLL IN
Reuters Code	VRLL BO
52-week Range (INR)	718 /432
Free Float (%)	40.0
ADTV-3M (mn) (USD)	0.5

Price Performance (%)	3m	6m	12m
Absolute	(6.7)	(3.0)	(24.5)
Relative to Sensex	(3.8)	(2.3)	(32.7)

ESG Score	2023	2024	Change
ESG score	62.6	NA	NA
Environment	48.9	NA	NA
Social	61.1	NA	NA
Governance	74.6	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	(2.7)	(7.6)
EBITDA	6.9	1.0
EPS	13.0	(9.3)

Previous Reports

16-11-2024: [Q2FY25 results review](#)

07-08-2024: [Q1FY25 results review](#)

Outlook: Expect better performance in near-medium term

VRL stands out among its peers set as margins are back to normalised level on the back of price hike though volume growth still remains tepid as the industry is going through a tough phase. The volume growth is expected to improve Q2/Q3FY26 onwards (as per management commentary) as the economy improves. Further, the price hike undertaken has been fully absorbed in the market and the management has guided for sustainable EBITDA of ~18%. Further, in our estimates, we have reduced volume growth to 6% (earlier 10%) and increased EBITDA margin to 17.3% (earlier 15.8%) for FY26E, in line with the management guidance. We roll-forward valuation to FY27E with a revised target price of INR 700 (earlier: 655) on an unchanged multiple of 27x. Maintain **BUY** and recommend VRL as our top pick among surface logistics players.

Exhibit 1: Earnings revision

(INR mn)	FY25E			FY26E		
	New	Old	% Chg	New	Old	% Chg
Sales	31,889	32,784	(2.7)	33,998	36,784	(7.6)
EBITDA	5,511	5,155	6.9	5,877	5,818	1.0
PAT	1,803	1,596	13.0	1,927	2,124	(9.3)

Source: I-Sec research

Key risks

Key upside risks: Better than expected price hike, ability to further increase volumes.

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.

Q3FY25 conference call takeaways

- The improved performance was mainly on account of increase in freight rate, cost optimisation, increase in bulk procurement, increase in km run of own vehicles, route optimisation and improvement in the turnaround time (TAT) etc. Further employee cost as % of revenue decreased.
- Revenue growth was mainly on account of freight increase of ~10.8% and 1% volume growth. Management is expecting similar revenue growth for the next two quarters at 10-12% and the volume growth is expected to remain in low single digit. Volume growth may improve Q2/Q3FY26 onwards.
- EBITDA margin has improved to one the highest ever; sustainable level of EBITDA margin is ~18%.
- Bulk purchase increased to 39.89% vs 35.53% in Q2FY25; average fuel procurement cost has reduced to INR 83.53/litre. Current price differential between bulk purchase and normal purchase is ~5-6%.
- Company is targeting 80-100 new branches in FY26.
- Company has incurred total capex of INR 4bn in 9MFY25; Q3FY25 capex was INR 2.8bn; this includes purchase of property in Bengaluru, Mysore and Mangalore. Further, it plans to spend INR 1.5-1.6bn on vehicle capex in FY26/27. Around 6-7% of total vehicle capacity is >15 years.
- Net debt has increased to INR 4.65bn (mainly due to property capex). VRL has completed the purchase of Bengaluru property at INR 2.3bn; it has raised debt of INR 1.85bn at interest of 8.6% and repayment in 9 years. The property will help in reducing its rental cost of ~INR 150mn, and will increase rental income of INR

15mn annually (third party rental income). Out of the total purchase value, land value is ~INR 1.8bn (non-depreciable). As per the management, interest cost is lesser than rental payment for this property. Further, it has acquired Mysore property for ~INR 210mm.

- VRL's collection days are one of the lowest in the industry.
- New branches have contributed ~3% of total tonnage.

Exhibit 2: VRL Logistics' Q3FY25 performance review

(INR mn)	Q3FY25	Q3FY24	Chg. YoY (%)	Q2FY25	Chg. QoQ (%)	FY24	FY23	Chg. YoY (%)
Revenue	8,252	7,367	12.0	7,995	3.2	28,886	26,485	9.1
-Operating expenses	5,089	5,032	1.1	5,197	(2.1)	19,668	17,990	9.3
Gross Margin (%)	38.3	31.7		35.0		31.9	32.1	
-Employee wages	1,379	1,273	8.3	1,358	1.6	4,851	4,149	16.9
-Other expenses	120	118		110		433	330	
Total expenses	6,589	6,424	2.6	6,665	(1.1)	24,952	22,469	11.1
EBITDA	1663	943	76.5	1330	25.1	3934	4,017	(2.0)
EBITDA Margin (%)	20.2	12.8		16.6		13.6	15.2	
Depreciation	646	568	13.7	638	1.2	2,162	1,591	35.8
Other Income	57	24	135.7	25	127.4	211	143	47.1
Finance Cost	241	213	12.9	224		779	543	43.3
Exceptional item	-	-		-		3	1,571	
PBT	834	186	348.6	492	69.4	1208	3596	(66.4)
Tax	240	50	377.8	135		319	364	(12.2)
PAT	594	136	337.8	357	66.1	889	3,232	(72.5)
OCI	(3)	(1)		(9)		15	10	
TCI	591	135	337.6	348	69.6	904	3,242	(72.1)
Volume (Kte)	1,104	1,092	1.1	1,093	1.0	4,276	3,912	9.3
Realization (INR/te)	7,390	6,669	10.8	7,241	2.1	6,676	6,669	0.1
EBITDA (INR/te)	1,507	863	74.6	1,216	23.9	920	1,051	(12.5)

Source: I-Sec research, Company data

Exhibit 3: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	60.2	60.2	60.2
Institutional investors	29.9	29.4	29.2
MFs and others	24.3	24.3	24.4
FIs/Banks	1.2	1.0	1.0
Insurance	0.2	0.2	0.2
FIIIs	3.8	3.9	3.6
Others	10.3	10.4	10.6

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)

	FY24A	FY25E	FY26E	FY27E
Net Sales	28,886	31,889	33,998	37,269
Operating Expenses	24,952	26,378	28,122	30,972
EBITDA	3,934	5,511	5,877	6,297
EBITDA Margin (%)	13.6	17.3	17.3	16.9
Depreciation & Amortization	2,162	2,459	2,464	2,468
EBIT	1,773	3,052	3,413	3,829
Interest expenditure	779	922	1,007	961
Other Non-operating Income	211	280	170	171
Recurring PBT	1,205	2,411	2,576	3,039
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	321	607	649	766
PAT	884	1,803	1,927	2,273
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	3	-	-	-
Net Income (Reported)	886	1,803	1,927	2,273
Net Income (Adjusted)	886	1,803	1,927	2,273

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	2,088	3,622	4,998	6,645
of which cash & cash eqv.	190	1,381	2,655	4,135
Total Current Liabilities & Provisions	900	908	919	936
Net Current Assets	1,188	2,713	4,079	5,708
Investments	1	1	1	1
Net Fixed Assets	19,002	20,843	20,379	19,910
ROU Assets	-	-	-	-
Capital Work-in-Progress	236	236	236	236
Total Intangible Assets	3	3	3	3
Other assets	810	810	810	810
Deferred Tax Assets	-	-	-	-
Total Assets	21,240	24,606	25,508	26,668
Liabilities				
Borrowings	11,110	13,110	12,610	12,110
Deferred Tax Liability	672	672	672	672
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	875	875	875	875
Reserves & Surplus	8,583	9,949	11,351	13,011
Total Net Worth	9,458	10,824	12,226	13,886
Minority Interest	-	-	-	-
Total Liabilities	21,240	24,606	25,508	26,668

Source Company data, I-Sec research

Exhibit 7: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	4,239	4,850	5,306	5,553
Working Capital Changes	409	(334)	(91)	(149)
Capital Commitments	(2,848)	(4,300)	(2,000)	(2,000)
Free Cashflow	1,392	550	3,306	3,553
Other investing cashflow	414	-	-	-
Cashflow from Investing Activities	(2,433)	(4,300)	(2,000)	(2,000)
Issue of Share Capital	(141)	-	-	-
Interest Cost	(217)	(922)	(1,007)	(961)
Inc (Dec) in Borrowings	(943)	2,000	(500)	(500)
Dividend paid	(438)	(437)	(525)	(612)
Others	-	-	-	-
Cash flow from Financing Activities	(1,738)	641	(2,032)	(2,073)
Chg. in Cash & Bank balance	68	1,191	1,275	1,480
Closing cash & balance	183	1,381	2,655	4,135

Source Company data, I-Sec research

Exhibit 8: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	10.1	20.6	22.0	26.0
Adjusted EPS (Diluted)	10.1	20.6	22.0	26.0
Cash EPS	34.9	48.7	50.2	54.2
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	108.1	123.8	139.8	158.8
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	9.1	10.4	6.6	9.6
EBITDA	(2.0)	40.1	6.6	7.2
EPS (INR)	(46.3)	104.0	6.9	18.0
Valuation Ratios (x)				
P/E	51.5	25.2	23.6	20.0
P/CEPS	14.9	10.7	10.4	9.6
P/BV	4.8	4.2	3.7	3.3
EV / EBITDA	14.5	10.5	9.5	8.6
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	31.9	35.8	35.8	35.2
EBITDA Margins (%)	13.6	17.3	17.3	16.9
Effective Tax Rate (%)	26.7	25.2	25.2	25.2
Net Profit Margins (%)	3.1	5.7	5.7	6.1
Net Debt / Equity (x)	1.2	1.1	0.8	0.6
Net Debt / EBITDA (x)	2.8	2.1	1.7	1.3
Total Asset Turnover (x)	1.7	1.5	1.4	1.5
Inventory Turnover Days	6	8	8	8
Receivables Days	13	12	12	12
Payables Days	2	2	2	2
Profitability Ratios				
RoE (%)	10.3	18.0	17.8	18.5
RoCE (%)	7.7	11.0	11.0	11.5
RoIC (%)	7.9	11.5	11.8	12.9

Source Company data, I-Sec research

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