

Q1FY22 result review

Logistics

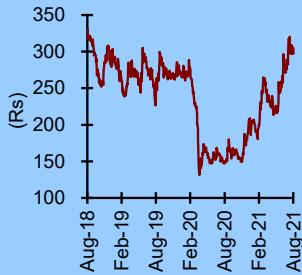
Target price: Rs380

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	68.1	69.6	69.6
Institutional investors	22.8	21.7	20.7
MFs and other	20.1	18.7	18.5
Banks & FIs	0.0	0.0	0.0
Insurance Cos.	0.0	0.0	0.0
FIs	2.7	3.0	2.2
Others	9.1	8.7	9.7

Source: BSE

Price chart



Research Analyst:

Abhijit Mitra

abhijit.mitra@icicisecurities.com
+91 22 6637 7289

BUY

Maintained

Rs302

Volume growth can lead to earnings upside

VRL Logistics (VRL) reported lower than expected Q1FY22, with EBITDA margin of ~8.6% vis-à-vis 16% QoQ. There has been a sharp increase in diesel prices (procured diesel prices for VRL went up 6.3% to Rs84/litre), yet VRL could maintain gross margin at 30.8% (31.9% QoQ). This has been helped with the decrease in lorry hire charges, hamaali, rent etc. Goods transportation (GT) segment witnessed ~ 28% QoQ decline in volumes and 2% QoQ decline in realisations (change in route mix). Number of GT vehicles have increased by 54 (9 electric vehicles) during Q1FY22. VRL has also ordered 15-20 busses; new additions targetted profitable routes for continuity of service. Capex in Q1FY22 stood at Rs380mn; capex target for FY22E stays at Rs500-600mn. We maintain BUY on VRL with a target of Rs380/share.

Conference call scheduled on Monday, August 9th at 10:30am IST. Register at [Link](#)

- ▶ **GT segment EBITDA declined on account of lower volumes.** ~28% QoQ revenue growth decline consisted of ~28% volume decline and 2% QoQ realisation decline. Due to such an adverse impact on operating leverage on account of lower volumes, GT EBITDA declined to 11.2% from 18.1% QoQ. Despite increase in diesel prices, VRL has been able to maintain gross margins. Procurement of Bio-fuel was at 13.49% of total quantity, increased 8.58% QoQ and decreased 17.54% YoY. (Q4FY21 was 4.91% of total quantity, Q1FY21 was 31.03% of total quantity). **Nine new branches have been added in Q1FY22, VRL has also started to highlight 46 hubs in the investor presentation instead of 45 hubs – business pickup is expected from Gujarat hub in FY22E.** July, '21 witnessed ~10% price hikes and higher volumes (similar to pre-pandemic levels). This should allow for significant expansion for gross margins and earnings, unless diesel prices shoot up again.
- ▶ **Pandemic can be an opportunity to downsize costs.** VRL has earlier included a large part of the contractual workforce (drivers and *hamaali*) into the payroll. The move left VRL with an inflated cost structure with asset-heavy model in an environment where 90% of routes plied in the country did not have return loads. FY21 gave an opportunity to regain some of the cost advantages, utilise 'labour boards', make the cost structure more variable and even increase lorry hire and reduce own fleet as much as possible. This shows in a commendable cost performance for FY21, with employee costs reducing by ~ 7% YoY. **The same shows in an extremely commendable gross margin performance in Q1FY22 despite rise in fuel costs.**
- ▶ **Passenger transport revenues declined ~69% QoQ.** VRL is again looking at selective route expansion to ensure business sustainability of the passenger transport segment. Further, one can expect significant earnings ramp-up as inter/intra state travel resumes.

Market Cap	Rs26.7bn/US\$360mn
Reuters/Bloomberg	VRLL.BO / VRLL IN
Shares Outstanding (mn)	88.3
52-week Range (Rs)	320/148
Free Float (%)	30.4
FII (%)	2.2
Daily Volume (US\$'000)	1,716
Absolute Return 3m (%)	41.8
Absolute Return 12m (%)	106.0
Sensex Return 3m (%)	11.6
Sensex Return 12m (%)	44.3

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	21,185	17,629	24,409	25,234
EBITDA(Rs mn)	2,983	2,475	3,322	3,889
Net Income (Rs mn)	900	450	1,188	1,678
EPS (Rs)	10.0	5.1	13.5	19.0
P/E (x)	30.1	58.8	22.3	15.8
CEPS (Rs)	28.5	23.2	31.0	36.7
EV/E (x)	10.8	12.6	9.2	7.6
Dividend Yield	2.3	1.3	1.7	1.7
RoCE (%)	10.1	6.2	12.1	15.6
RoE (%)	14.6	7.5	17.7	21.1

Table 1: Q1FY22 result review

(Rs mn)

	Q1FY22	Q1FY21	Chg. YoY (%)	Q4FY21	Chg. QoQ (%)
Income from operations					
-Net income from operations	4,114	1,594	158.1	5,969	(31.1)
-Other operating income	23	7		32	
Total income from operations	4,138	1,601	158.5	6,001	(31.1)
Operating expenses	2,888	1,244	132.1	4,106	(29.7)
Gross Margin (%)	42%	28%		45%	
-Employee wages	845	666	26.9	891	
-Other expenses	44	29		48	
Total expenses	3,777	1,940	94.7	5,045	(25.1)
EBITDA	361	(339)	NM	956	(62.3)
EBITDA Margin (%)	8.7	(21.2)		15.9	
Depreciation	377	419	(10.0)	380	(0.9)
Other Income	35	23	51.5	29	22.5
Finance Cost	95	104	(8.5)	92	
Exceptional item	0			0	
PBT	(76)	(838)	NM	513	(114.8)
Tax	-16	-		141	
PAT	(60)	(838)	NM	372	(116.3)
OCI	0	(5)		(0)	
TCI	(60)	(843)	NM	371	(116.3)

Source: Company data, I-Sec research;

Table 2: Q1FY22 segmental performance review

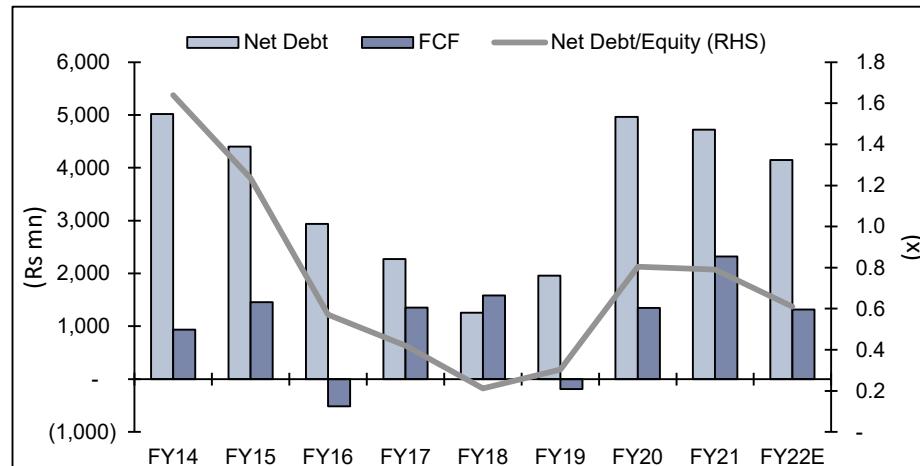
(Rs mn)

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Goods Transport									
Revenue	4,230	4,319	4,525	4,165	1,482	4,077	5,010	5,358	3,848
YoY Growth	3.2	3.1	2.8	0.0	(65.0)	(5.6)	10.7	28.6	159.6
QoQ	1.6	2.1	4.8	(8.0)	(64.4)	175.0	22.9	6.9	0.0
Cost	3,545	3,734	3,917	3,686	1,824	3,280	4,035	4,388	3,418
EBITDA	685	585	608	479	(341)	797	975	970	431
Margin (%)	16.2	13.5	13.4	11.5	(23.0)	19.6	19.5	18.1	11.2
EBIT	412	294	320	142	(612)	512	655	696	145
Margin (%)	9.7	6.8	7.1	3.4	(41.3)	12.5	13.1	13.0	3.8
Bus Transport									
Revenue	1,040	745	947	706	53	168	521	561	176
YoY Growth	3.1	8.1	8.3	(20.5)	(94.9)	(77.5)	(44.9)	(20.5)	238.0
Costs	834	699	777	641	75	180	474	606	214
EBITDA	205	46	170	65	(23)	(12)	47	(44)	(38)
Margin (%)	19.8	6.2	17.9	9.2	(42.6)	(7.3)	9.1	(7.9)	(21.8)
EBIT	137	(19)	108	8	(112)	(57)	17	(92)	(71)
Margin (%)	13.1	(2.6)	11.4	1.1	(210.6)	(34.2)	3.2	(16.5)	(40.5)
Sale of Power									
Revenue	48	96	23	20	48	76	31	21	55
YoY Growth	11.1	17.8	15.0	15.5	1.0	21.1	38.3	15.8	16.6
EBITDA	31	82	7	4	34	64	15	5	39
Margin (%)	63.1	86	30.2	21.3	70.3	85.0	47.2	24.4	70.1
EBIT	2.8	55.3	(20)	(23)	5	37	(12)	(23)	12
Margin (%)	5.7	57.8	(88.2)	(116.0)	10.1	49.3	(36.8)	(107.6)	21.5

Source: Company data, I-Sec research

Chart 1: Net debt increased due to addition of lease liability

Net debt increased from Rs1,014mn as on Mar 31, 2021 to Rs1,122.7mn as on June 30, 2021.



Source: Company data, I-Sec research

Maintain BUY with a target price of Rs380/share

We have factored-in a 6% increase in tonnage volumes for FY22E. We have also assumed double digit % increase in realisation given the sharp spike in diesel rates. The sharp spike in inflation is behind a relatively more muted volume growth assumption. We expect higher volume growth (~10%) in FY23E and lower pricing as diesel prices normalise in FY23E.

We maintain our target price at Rs380/share (20x FY23E). We have assumed a higher volume growth trajectory for FY23E. Also better price performance in FY21 allows for increase in margin assumptions for FY22E.

Key risks

Key upside risk: higher volumes leading to better operational leverage as manufacturing activity recovers. Key downside risk: increased competitive pressures from shifting freight traffic to rail leading to increased cost pressures for asset-heavy LTL players like VRL Logistics.

Financial summary

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Revenue from operations	21,185	17,629	24,409	25,234
Goods transport	17,122	15,928	19,957	20,855
Passenger transport	3,423	1,303	3,712	3,627
Wind	186	176	200	200
Air charter	198	118	254	266
Others	256	104	286	286
Operating Expenses	18,203	15,154	21,086	21,344
EBITDA	2,983	2,475	3,322	3,889
% margins	14.1%	14.0%	13.6%	15.4%
Other Income	103	129	125	125
Depreciation & Amortisation	1,675	1,598	1,549	1,565
Gross Interest	367	368	310	206
Profit before tax & exceptional item	1,043	637	1,589	2,243
Exceptional Item	-	-	-	-
Profit before tax	1,043	637	1,589	2,243
Less: Taxes	142	187	400	565
Less: Minority Int. & Asso.				
Profit	1	1	1	1
Net Income (Reported)	900	450	1,188	1,678

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	1,999	2,051	2,747	2,498
of which cash & cash eqv.	134	185	486	189
Total Current Liabilities &				
Provisions	465	669	722	724
Net Current Assets	1,535	1,382	2,025	1,774
Investments	1	1	1	1
Net Fixed Assets	9,896	9,537	9,441	9,329
Intangible assets	8	6	6	6
Capital Work-in-Progress	44	61	61	61
Goodwill	-	-	-	-
Other non-current assets	222	330	330	330
Total Assets	11,704	11,317	11,865	11,502
Liabilities				
Borrowings	5,095	4,906	4,706	3,106
Deferred Tax Liability	440	440	440	440
Other long term liabilities	-	-	-	-
Equity Share Capital	903	883	883	883
Reserves & Surplus	5,265	5,088	5,835	7,072
Net Worth	6,169	5,971	6,719	7,956
Total Liabilities	11,704	11,317	11,865	11,502

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Net Profit before tax	1,043	637	1,589	2,243
Depreciation	1,675	1,598	1,549	1,565
Non-Cash Adjustments	380	329	310	206
Working Capital Changes	(94)	294	(342)	(46)
Taxes Paid	(431)	(148)	(400)	(565)
Operating Cashflow	2,573	2,711	2,706	3,404
Capital Commitments	(1,227)	(390)	(1,453)	(1,453)
Free Cashflow	1,346	2,321	1,253	1,951
Other investing cashflow	41	73	-	-
Cashflow from Investing				
Activities	(1,185)	(313)	(1,453)	(1,453)
Inc (Dec) in Borrowings	(404)	(1,711)	(510)	(1,806)
Issue of Share Capital	-	(632)	-	-
Dividend paid	(980)	-	(442)	(442)
Cashflow from Financing				
Activities	(1,384)	(2,344)	(951)	(2,248)
Chg. in Cash & Bank balance	3	54	301	(297)

Source: Company data, I-Sec research, *Proforma

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
EPS	10.0	5.1	13.5	19.0
Cash EPS	28.5	23.2	31.0	36.7
Dividend per share (DPS)	7.0	4.0	5.0	5.0
Book Value per share (BV)	68.3	67.6	76.1	90.1
OCF per share	28.5	30.7	30.6	38.5
FCF per share	14.9	26.3	14.2	22.1
Growth (%)				
Net Sales	0.5	(16.6)	38.2	3.4
EBITDA	22.2	(17.0)	34.2	17.1
PAT	(2.0)	(50.0)	163.8	41.2
Valuation Ratios (x)				
P/E	30.1	58.8	22.3	15.8
P/BV	4.4	4.4	3.9	3.3
EV / EBITDA	10.8	12.6	9.2	7.6
EV / Sales	1.5	1.8	1.3	1.2
Operating Ratios				
Employee cost / Sales (%)	17.9	17.7	13.8	14.4
Other Operating exp. / Sales (%)	66.2	66.5	70.8	68.4
Effective Tax Rate (%)	13.6	29.3	25.2	25.2
Total D/E Ratio (x)	0.8	0.8	0.7	0.4
Net D/E Ratio (x)	0.8	0.8	0.6	0.4
OCF yield (%)	9.5	10.2	10.2	12.8
FCF yield (%)	5.0	8.8	4.7	7.4
Return/Profitability Ratios (%)				
EBITDA Margins	14.1	14.0	13.6	15.4
Net Income Margins	4.2	2.6	4.9	6.6
Return on Equity (RoE)	14.6	7.5	17.7	21.1
Return on Capital employed (RoCE)	10.1	6.2	12.1	15.6

Source: Company data, I-Sec research

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