

VRL Logistics

License to grow

INDIA | LOGISTICS | IPO Update

13 April 2015

Strong foothold in Road Logistics

VRL Logistics Ltd (VRL) is one of the leading pan-India logistic and parcel delivery service provider. It operate largest fleet of ~4,000 vehicles including 3,546 goods carrier and 455 passenger buses with 624 branches and 346 agencies. The company provides General Parcel and Priority Parcel delivery (less than truckload services), courier and full-truckload services with a strong transportation network in 28 states and 4 Union Territories across India. VRL operate through a hub and spoke model enabling to transport various parcel size and provide last mile connectivity to remote areas in India and has established brand name with over 38 years of operations. Goods transpiration is primary business for the company and contributes 76% to revenue while revenue from passenger buses is ~20%. The company has reported revenue CAGR of 20% to Rs 14.9bn over FY10-14.

Diversified customer base and revenue source

The company has a diverse mix of end markets across several industry sectors and no single customer contributed more than 1% of revenue from goods transportation in FY14. The revenue mix has also helped to manage bad debts to minimum not exceeded Rs 1mn in past. The revenue from "Paid" and "to Pay" customers (excluding FTL) is around 10% and 59% respectively who are primarily small and medium enterprises, distributors and traders. This helps company to realize cash immediately and ensure lower working capital requirements.

Strong operating performance with healthy margins

VRL operate with owned fleet to reduce dependence on hired vehicles and retain control on value chain and service quality and establish a reputation for reliable and timely delivery of consignments. The company has dedicated in-house maintenance facilities, accessibility of spare parts and fuel and in-house software technology capabilities. These facilities reduce expensive on-road repairs and out-of-route trips and minimize downtime due to breakdown. It also has a re-engineering department and a tyre repair unit at Hubballi to increases the useful life of tyres and engines. The company has reported healthy margins in range of 13.8% to 19% over FY10 to 9MFY15.

GST and Transport Bill could provide significant benefits

The proposed implementation of goods and service tax (GST) is expected to remove the current multiple taxation and is expected to benefit the logistics sector particularly interstate movement of goods. The transport bill proposes a unified vehicle registration system and a simplified system of transport permits which will significantly improve operating efficiencies and reduce operational cost for passenger transportation business.

Issue details

The Issue comprises of the fresh issue of Rs 1.7bn and an Offer for Sale of 17.1mn equity share by Private equity firm NSR PE Mauritius LLC (14.5mn) and Promoters (2.56mn). Post-issue, promoter shareholding will decline from 77.5% to 69.8% (higher band) while NSR will hold 5.2% and Public at 25%. The company plans to use IPO money for purchase of 248 new goods transportation vehicles for Rs 674 mn and repay debt of Rs 280m.

Valuation

At the upper band of Rs 205, the stock is priced at 19.6x FY15 annualized earning and P/BV of 4.2x. The company has healthy margin and return ratios (13% -17% RoCE). Considering leadership position in road transport and growth opportunities, we recommend Subscribe at upper price band.

Subscribe

COMPANY DATA

ISSUE OPENS	15 April 2015
ISSUE CLOSES	17 April 2015
PRE-ISSUE EQUITY SHARES	85.5 mn
PRICE BAND	Rs 195 to Rs 205
NO OF SHARES TO BE ISSUED	5.7 to 6 mn
P/E @ FY15 (annualized)	19.6X
EARNINGS UPPER PRICE BAND	
ISSUE SIZE	Rs 4.67bn
PROPOSED MKT CAP. (AT UPPER BAND)	Rs 18.7bn

KEY FINANCIALS

Rs mn	FY13	FY14	9Mth
Net Sales	13,255	14,938	12,738
EBIDTA	1,952	2,067	2,139
Net Profit	457	505	717
EPS, Rs	5.0	5.5	7.9
PER, x	40.9	37.0	19.5*
EV/EBIDTA, x	12.2	11.5	na
P/BV, x	6.5	6.1	4.2*
ROE, %	12.9%	13.3%	na
Debt/Equity (%)	1.76	1.68	1.43

Note: * RER and P/BV are annualized considering IPO at higher band

Source: PhillipCapital India Research

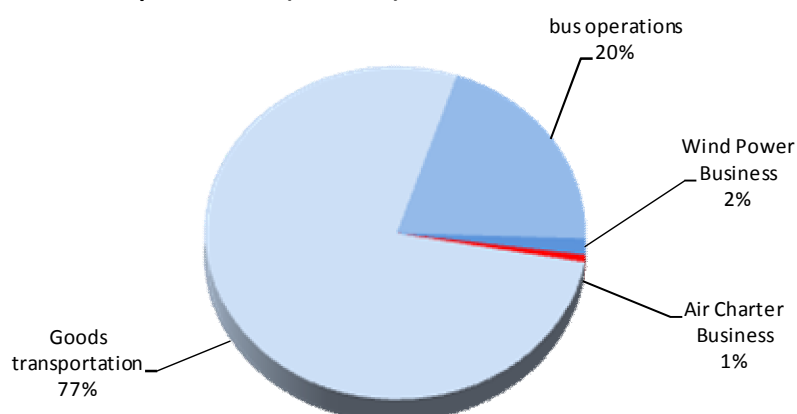
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Strong Revenue growth of CAGR 20% (FY10-FY14)

Road freight traffic is expected to show CAGR growth of 8% - 9% in 2018-2019, majorly on the back of improvement in infrastructure network which will facilitate speedy, door to door services. It cater to requirements of various Industries like FMCG, food, textiles, apparel, furniture, appliances, pharmaceutical products, rubber, plastics, metal and metal products, wood, glass, automotive parts and machinery. VRL top customer contribute not more than 1% the top line from the goods transportation business which allows the company to pass on a significant portion of any rise in the operating cost. VRL is well placed to take any increase in demand in the near future. Out of the 624 branches, Company operates 48 branches (seven owned) which serve as strategic transshipment hubs. Also VRL plans to increase the portion of owned hubs as well as expand its capacities. VRL intends to expand its fleet of trucks by 248 no in FY16e and add a significant number of branches in the northern, central and eastern regions of India apart from the increasing the depth of the existing network. Revenue from this segment has grown from Rs 8.6bn in FY12 to 11.3bn in FY14 a CAGR growth of 15% and in 9MFY15 Company reported revenue of Rs 9.7bn. This segment contributes around ~ 85% to the revenue.

Revenue break up of 9MFY14 (Rs 9.7bn)



Source: Company, PhillipCapital India Research

The company also has a business vertical of luxury bus services, provides services in states like Karnataka, Maharashtra, Goa, Andhra Pradesh, Telengana , Tamil Nadu, Gujarat ,Rajasthan etc. VRL provides booking services to cater more clients through E-Commerce players like www.vrlbus.in, www.makemytrip.com etc. This Segment has shown a growth of CAGR 19% over (FY12 – FY14). In 9MFY15 VRL has given away revenue of Rs 2.6bn, which is 20% of the top line. We believe that this segment has a huge potential to grow in future as company will encash its geographical presence to this business vertical.

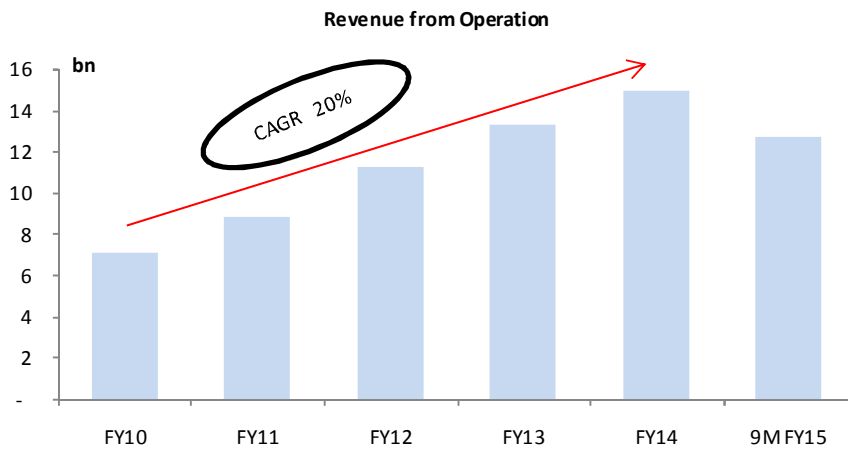
VRL Fleet growth

Vehicles Owned	FY10	FY11	FY12	FY13	FY14	9M FY15
Small Vehicles	180	171	139	122	122	122
Light Commercial Vehicles	842	892	883	883	882	934
Heavy Commercial Vehicles	1,480	1,575	1,916	1,941	2,210	2,361
Car Carriers	-	-	102	102	102	102
Tankers	7	7	27	27	23	14
Cranes	10	10	12	13	13	13
Total goods Transportation Owned	2,519	2,655	3,079	3,088	3,352	3,546
YoY Growth		17.1	3.5	14.7	5.2	(18.6)
Bus Fleet	211	323	449	502	522	455
YoY Growth		(5.8)	16.6	17.0	4.0	(4.7)
Total Fleet	2,730	2,978	3,528	3,590	3,874	4,001
YoY Growth		9.1	18.5	1.8	7.9	3.3

Source: Company, PhillipCapital India Research

The company also has Wind power generation and air charter services and hospitality. These contribute 1.5% and .5% respectively to the revenue.

Revenue CAGR of 20% FY10-14



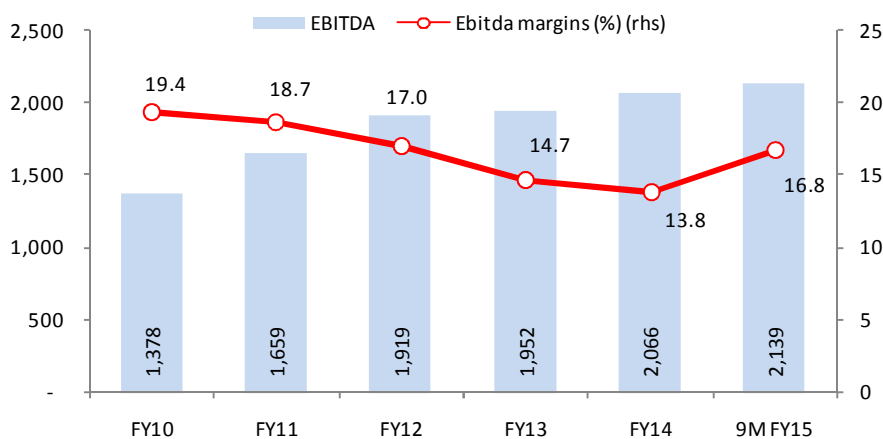
Source: Company, PhillipCapital India Research

Healthy margins through cost optimization

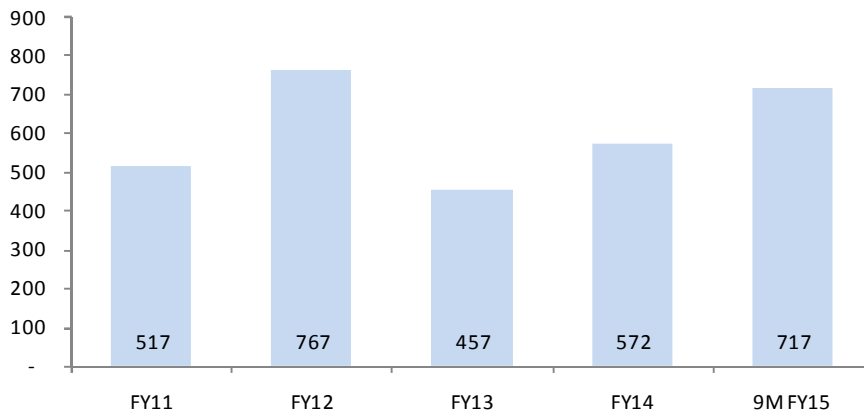
VRL has demonstrated his capacity of optimizing its resources and controlling its cost. VRL has In-house maintenance and technology capabilities workshop for tyres in Hubballi, Karnataka. VRL's in-house technology team has developed software applications to track on timely service and spare part replacements which helps in increasing the efficiency of the Truck.

The company has also developed a GPRS System to monitor consignments on a real-time basis. The bulk ordering of spare parts and fuel, allow company to enjoy discounts from market price. Company has tie-ups with Ashok Leyland and Indian Oil Corporation respectively. VRL's one of major Commodity cost is Diesel, which is 27% of the revenue in 9MFY2015. In FY14 and 9MFY15 Company has shown a margin of 13.8% and 16.8% respectively, with a EBITDA of 2.0bn and 2.13bn in FY14 and 9MFY15. We expect these cost optimization methods and favorable movements in commodity prices will help company to report health set of margin going forward.

EBITDA and OPM Trend

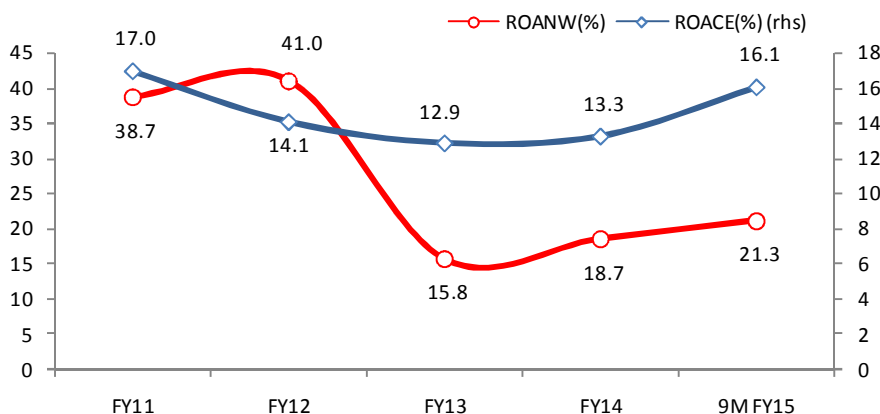


Source: Company, PhillipCapital India Research

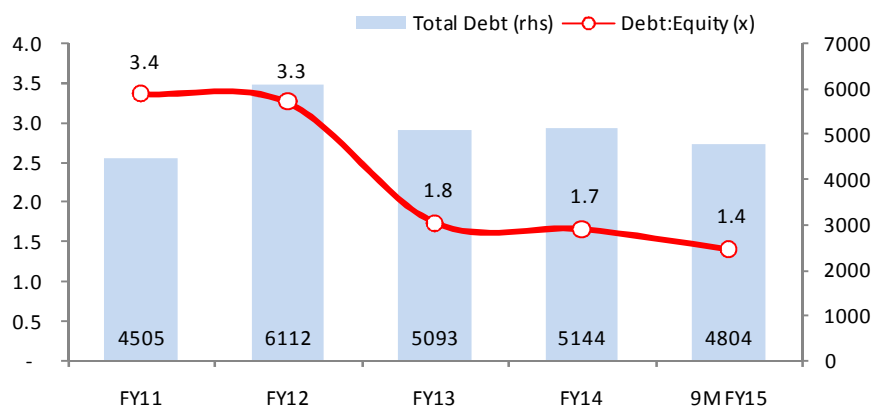
PAT CAGR of 19% FY10-14


Source: Company, PhillipCapital India Research

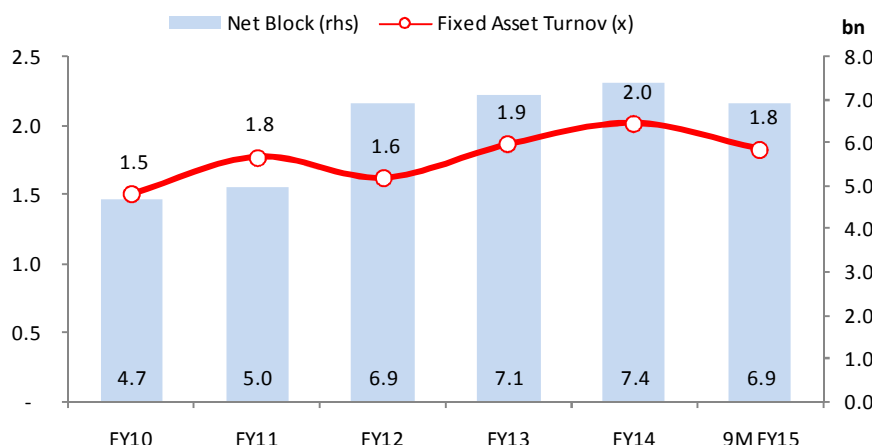
The company has shown a PAT CAGR growth of 19% over FY10-FY14. For 9MFY15 it has reported a PAT of Rs 717mn. The debt of Rs 4.7bn in 9FY15 is expected to come down by Rs 280mn post IPO resulting in decline in D/E from 1.7x to 1.4x. The company has managed its working capital effectively with net working capital excluding cash at 10 to 13% of sales with around 70% revenue from “paid ”and “to pay” customers. In FY14 the company has paid the dividend of Rs 342mn, a payout ratio of 68% in FY14.

Profile of Return Ratios


Source: Company, PhillipCapital India Research

Improving balance sheet


Source: Company, PhillipCapital India Research

Fixed Asset to Fixed Asset Turnover


Source: Company, PhillipCapital India Research

Issue details

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Objective of the Issue

Rs mn Particulars	Est. Schedule of deployment of Net Proceeds			Total
	FY 15e	FY 16e	FY 17e	
Purchase of goods transportation vehicles	Nil	517.81	156.34	674
Repayment of Debt.	Nil	280	-	280
Total				954

Share Holding Pattern

	IPO		
	Current	Lower Band	Higher Band
Promoters (%)	77.5	69.6	69.8
Institutions /PE fund (%)	22.5	5.1	5.2
Others (%)	0	25.3	25.0
Total equity (mn shares)	85.5	91.5	91.2
Issue Size (Rs mn)		4508.0	4679.0

Source: Company, PhillipCapital India Research

Financials

Profit & Loss

Y/E Mar Rs mn	FY11	FY12	FY13	FY14	9M FY15
Revenue from Operation	8,888	11,304	13,255	14,938	12,738
YoY Growth	24.9	27.2	17.3	12.7	(14.7)
Operating Expenses					
Employee cost	1,045	1,289	1,483	1,745	1,457
Operating Expenses	6,034	7,911	9,626	10,912	8,991
Other Expenses	151	184	194	216	151
Total Expenditure	7,229	9,385	11,303	12,872	10,599
EBITDA	1,659	1,919	1,952	2,066	2,139
Ebitda margins (%)	18.7	17.0	14.7	13.8	16.8
Depreciation	509	696	823	866	692
EBIT	1,149	1,223	1,129	1,200	1,447
Interest	479	651	591	599	450
Other Income	41	49	98	100	56
PBT	711	621	636	700	1,053
Tax	195	(147)	179	195	336
Tax Rate	27.4	(23.6)	28.1	27.8	31.9
Current tax	30	84	95	137	332
Deferred tax	164	(231)	84	58	4
PAT	517	767	457	505	717
Extraordinary				66	
Reported PAT	517	767	457	572	717

Source: Company, PhillipCapital India Research

Balance Sheet

Y/E Mar Rs mn	FY11	FY12	FY13	FY14	9M FY15
Share Capital	707	707	707	855	855
Preference share	0	0	1105	0	0
Reserve & Surplus	629	1166	1082	2210	2513
Net Worth	1336	1873	2894	3065	3368
Long term borrowings	2527	4035	2852	2529	2131
Other Long Term Liabilities	78	78	86	89	89
Short term borrowings	886	729	938	1094	1045
Current maturity LT	1014	1270	1217	1432	1539
Total Loan	4505	6112	5093	5144	4804
Deferred tax	923	692	776	834	832
Total Capital Employed	6764	8678	8763	9043	9004
Gross Block	7429	10040	11001	12102	12185
Depreciation	2441	3098	3900	4709	5247
Net Block	5000	6946	7103	7403	6946
CWIP	403	100	140	140	146
Investments	1	1	1	1	1
Current Assets	1942	2276	2408	2235	2636
Inventories	61	87	97	135	167
Trade Receivables	688	785	854	800	883
Cash	151	136	154	151	130
Loans and Advance	889	1068	1152	1108	1078
Total Other Current Assets	152	199	151	41	379
Current liability	582	645	888	736	725
Trade Payables	25	56	50	93	64
Other current liability	464	491	438	393	515
Provisions	93	99	400	250	146
Net working capital	1360	1631	1520	1498	1912
Capital Employed	6764	8678	8763	9043	9004

Source: Company, PhillipCapital India Research

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