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VRL Logistics

Hitting the growth highway

INITIATING COVERAGE

INSTITUTIONAL EQUITY RESEARCH

PhillipCapital

VRL Logistics Ltd (VRLL IN)

Hitting the growth highway

INDIA | LOGISTICS | Initiating Coverage

12 October 2015

VRL has emerged as one of India's leading pan-India logistics and parcel-delivery service providers with strong brand equity backed by over 38 years of operations. The promoters have demonstrated a consistent track record of growth and operational efficiency. Buoyancy in domestic trade and policy initiatives like GST and the new transport bill would emerge as key growth drivers. Accordingly, we expect a re-rating in the company's valuation with (1) predictable and strong operating margin, (2) scale up in operating cash flows, (3) healthy return ratios, and (4) high earning visibility (CAGR of 33% over FY15-17). We initiate coverage with a BUY recommendation.

Leader in road transport

VRL has garnered a leading player status in surface logistics and parcel services in India over the past three decades. It currently operates a fleet of 4,074 vehicles (3,701 goods carriers and 373 passenger buses) with 624 branches. Its robust transportation network in 28 states and 4 union territories provides general-parcel and priority-parcel deliveries and courier and full-truckload (FTL) services. Its hub-and-spoke model enabled it to facilitate last-mile connectivity to remote areas in India. Goods transportation is 77% of its revenue while revenue from passenger buses is ~20%. Revenue CAGR over FY10-15 was 19%.

Diversified customer base and revenue mix

The company has a diverse mix of end markets across several industries/sectors — no single customer accounted for > 1% of its revenues in FY15. This revenue mix has helped it to keep its bad debts to a minimum (not more than ~ Rs 1mn in a year). The revenue from 'paid' and 'to pay' customers (excluding FTL) is around 10% and 59% respectively — these are primarily small and medium enterprises, distributors, and traders. Thus, the company has a speedy cash-conversion cycle ensuring lower working capital requirements.

Predictable healthy margins and consistent operating performance

VRL has kept control on major costs such as diesel (tie-ups with oil companies and recently introduction of biodiesel) and repair and maintenance (in-house maintenance facilities and tie-ups with suppliers). It operates with its own fleet to (1) reduce dependence on hired vehicles, (2) retain control on costs, value chain and service quality, and (3) establish reputation for reliable and timely delivery. These advantages have enabled the company to garner some pricing power and report a healthy margin of 16.3% in FY15. Decrease in diesel prices and operating costs would be favourable for the company and it could earn margins of 16.8%/17.4% in FY16/17.

GST and transport bill will be growth catalysts

The proposed implementation of GST is likely to remove current multiple taxation and 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.

Outlook and valuation

At its CMP of Rs. 374, the company trades at a FY16/17 P/E of 26.9x/21.2x.We expect revenue CAGR of 12% to Rs 21bn over FY15-17 with fleet addition at CAGR of 6%. Revenue growth would primarily come from goods transport business (13%CAGR) while bus operations should see 9% CAGR. Higher RoCE, RoE, and FCF of Rs 1.5/1.7bn in FY16/17 should lead to a re-rating. VRL's growth prospects look promising and leave scope for upside. We assign a P/E of 25x to our FY17 earnings to arrive at our price target of Rs 442.

BUY

CMP Rs 374

TARGET RS 442 (+ 18%)

COMPANY DATA

O/S SHARES (MN) :	91
MARKET CAP (RSBN) :	35
MARKET CAP (USDBN) :	0.5
52 - WK HI/LO (RS) :	478 / 261
LIQUIDITY 3M (USDMN) :	3.4
PAR VALUE (RS) :	10

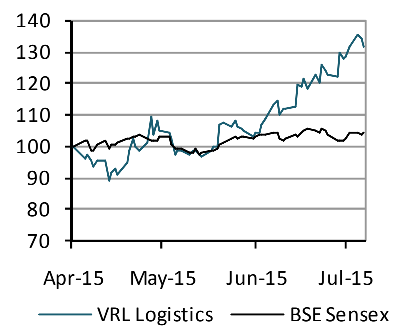
SHARE HOLDING PATTERN, %

PROMOTERS :	69.6
FII / NRI :	15.8
FI / MF :	8.7
NON PROMOTER CORP. HOLDINGS :	6.1
PUBLIC & OTHERS :	5.2

PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-4.3	13.0	na
REL TO BSE	-12.9	17.1	na

PRICE VS. SENSEX



Source: Phillip Capital India Research

KEY FINANCIALS

Rs mn	FY15	FY16E	FY17E
Net Sales	16,712	18,632	21,013
EBIDTA	2,729	3,134	3,653
Net Profit	876	1,266	1,613
EPS, Rs	10.7	13.9	17.7
PER, x	37.4	26.9	21.2
EV/EBIDTA, x	13.3	12.0	10.1
P/BV, x	9.6	7.7	6.1
ROE, %	25.6	28.4	28.6
Debt/Equity (%)	1.3	0.9	0.6

Source: PhillipCapital India Research Est.

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Dominant position in road logistics/focus on LTL

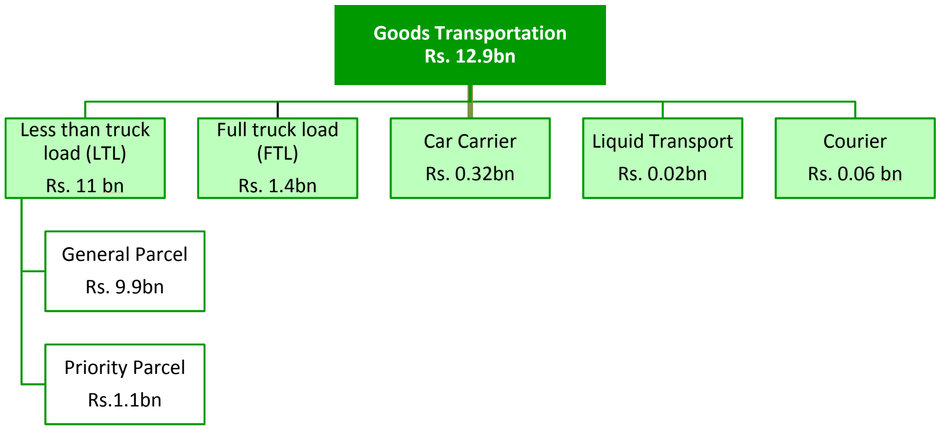
VRL is a leading player in surface logistics and parcel services in India with a fleet of ~4,074 vehicles including 3,701 goods carriers and 373 passenger buses. Goods transportation (GT) is its primary business and contributes ~77% to revenues while revenue from passenger buses is ~20%. GT segment serves various industries and sectors (FMCG, textiles, furniture, pharmaceuticals, rubber, plastics, metals, and automotive parts). This large and diverse base of customers has enabled VRL to ensure that the company is not dependent on any particular set of customers for revenues. No single customer contributed more than 1% of its revenue from goods transport.

LTL is transportation of relatively small freight. It covers general parcel and priority parcel

We expect goods transport business to be a game changer for the company with focus on less-than-truck-load (LTL) supported by an efficient hub-and-spoke arrangement. The general-parcel and priority-parcel deliveries, which mainly account for LTL, contribute ~66% of the total revenue while courier and full-truckload (FTL) services account for ~8.8% of FY15 revenue. A significantly higher proportion of LTL helps the company to get better margins and flexibility in pricing. In LTL, the rates are charged differently for general and parcel deliveries based on weight, volume, and distance; for FTL, rates are mainly fixed on a per-kilometre basis.

LTL is the main contributor to the company's revenues with better margins and flexibility in pricing

Revenue drivers of goods transportation for VRL (FY15)



Source: Company, PhillipCapital India Research

Diversified customer base and revenue source

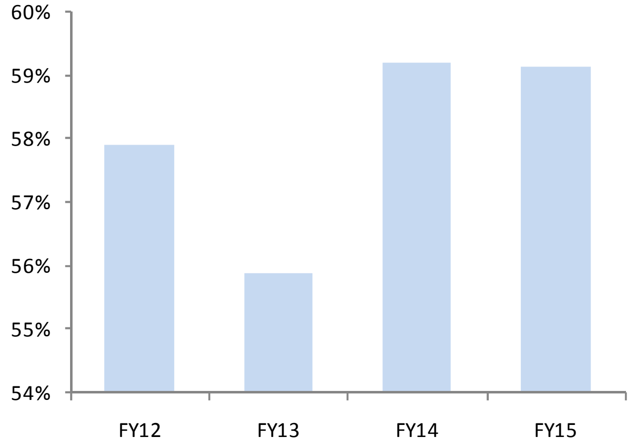
VRL operates through a hub-and-spoke model enabling transport of various parcel sizes and countrywide last-mile connectivity. It has 48 transportation hubs (seven owned). At the end of FY15, its operating infrastructure comprised of 652 branches (20 owned) and 325 agencies in 977 locations. These help the company to aggregate small parcels and maximize capacity utilization of vehicles.

The company operates across several sectors, which offer a diverse mix of customers. No single customer contributed more than 1% of revenue from goods transportation in FY15. The revenue from 'paid' and 'to pay' customers (excluding FTL) is around 10% and 59% respectively — these are primarily small and medium enterprises, distributors, and traders. Its revenue mix has helped it to keep its bad debts below Rs 1mn in a year.

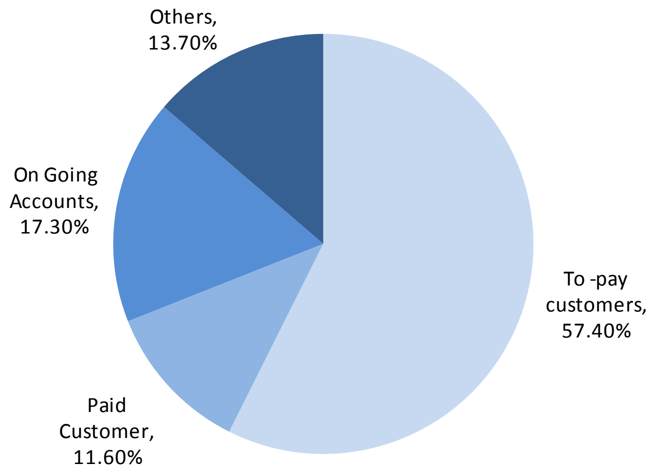
In the 'to pay' option, customers do not pay charges at the time of booking — the person to whom the goods are to be delivered or the consignee has to pay freight upon collection of the good.

GST: *The proposed implementation of Goods and Service Tax (GST) is expected to remove the current multiple taxation and benefit the logistics sector. The company is well poised to accelerate its growth (as VRL operates through hub-and-spoke model) once the opportunities presented by GST roll out.*

'To pay' customers' share in goods transport business



Share of "Paid" & "To-pay" customers in FY15



Source: Company, Phillip Capital India Research

The company plans to increase its portion of owned hubs along with expanding capacities through considerable addition of logistics and storage capacities. VRL is also accumulating a significant number of branches in the northern, central, and eastern regions of India.

Presence in India - vast network

Source: Company, PhillipCapital India Research

State	Agencies	Branches	Transhipment Hubs
Karnataka	75	155	10
Tamil Nadu	34	106	6
AP	45	84	8
Maharashtra	59	71	6
Gujarat	19	29	3
Telengana	21	28	2
Kerala	15	25	2
UP	15	17	2
Delhi	11	19	0
MP	0	23	1
Rajasthan	8	14	0
Punjab	6	13	1
Haryana	7	7	3
West Bengal	7	9	1

Strong operating matrix support healthy margins

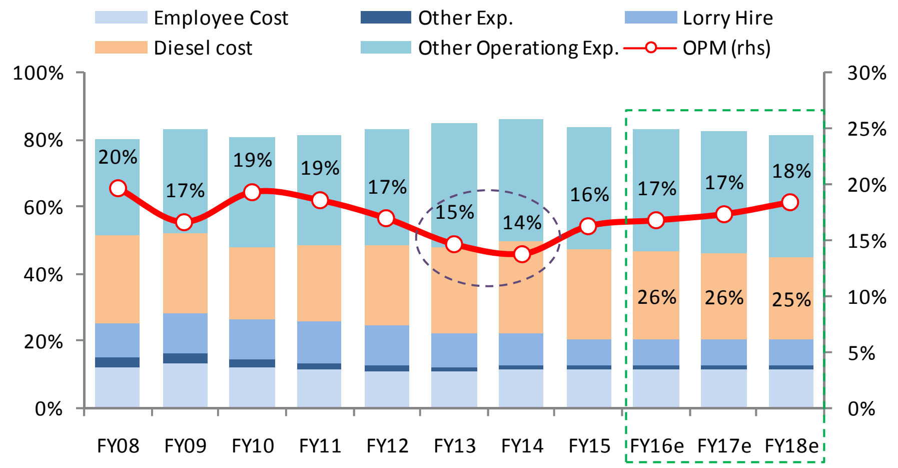
VRL operates with its own fleet to (1) reduce dependence on hired vehicles, (2) retain control on value chain and service standards, and (3) establish a reputation for reliable and timely delivery. It has dedicated in-house maintenance facilities, accessibility to spare parts and fuel, and in-house software technology capabilities. These facilities reduce expensive on-road repairs and out-of-route trips and minimize downtime due to breakdowns. It also has a re-engineering department and a tyre repair unit at Hubballi (in North Karnataka) to increase the useful life of tyres and engines.

Costs-saving measures include in-house maintenance facilities, in-house software, increased usage of bio diesel, tyre repair units, and tie-ups with tyre and fuel companies

Ashok Leyland & VE Commercial (Volvo) have built their own spare parts yard in VRL's premises — this allows VRL to obtain extra parts at processing-plant rates and saves money on conveying expenses. For tyres, it has a tie up with Michelin India Tires and CEAT at competitive rates. VRL's in-house innovation group has created software applications (ERP) to track timely service and spare-part substitutions, which helps in expanding the proficiency and life of its trucks.

VRL has modified some vehicles with lighter and longer bodies to allow higher payloads without abusing acceptable payload limits. This helps VRL to expand its capacity of the truck and help in better utilization of the vehicle.

Operating matrix (expenses as % of revenue)



In FY13 and FY14, VRL had lower margins due to the Telangana issue

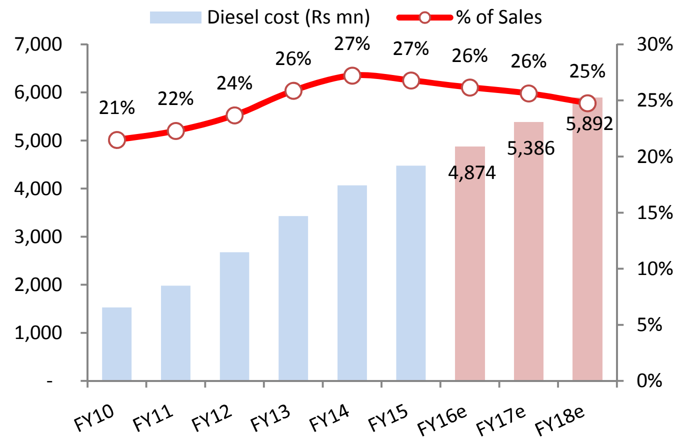
Source: Company, Phillip Capital India Research Estimates

Fuel (diesel) is a major component of operating expenses accounting for 25-28% of sales and has a direct impact on its operating margins. The company operates two own consumer diesel pumps located at Hubballi and Chitradurga in Karnataka to ensure quality fuel supply at reduced cost. Its own pumps contributed 25% of total procurement of fuel while IOC contributed 54%, HP 19%, and BP 3% (FY15). VRL has a tie up with nearly 100 designated fuel pump retailers across the country for re fuelling during transits and for availing fuel at a discounted price. The payment by fleet cards enables discounts and extended credit periods. Company has started using bio diesel (BD), which currently contributes 12% of its total quantity— BD is ~Rs 5 per litre (~10%) cheaper than normal diesel. Currently, the company is buying it from Kakinada, Andhra Pradesh. Biodiesel is easy to store and the company expects its contribution to increase up to 20%, which will help in lowering its diesel costs.

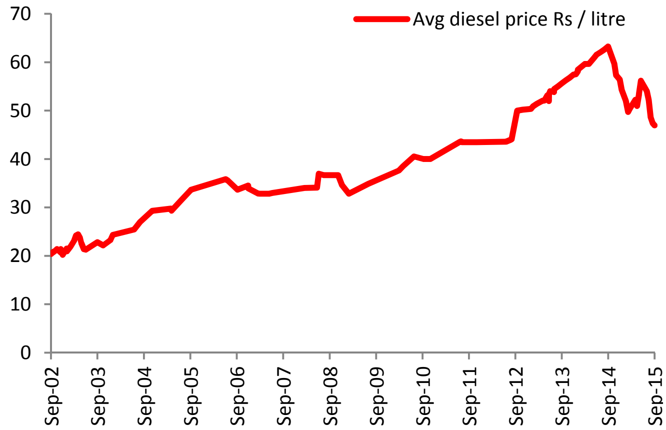
VRL expects bio diesel to constitute 20% of its total diesel requirements from about 12% currently — leading to cost savings

The company has a total employee strength of ~16,000 employees with 7,000 drivers on their pay roll. The drivers performance is assessed in terms of safety, time taken for trips, distances covered, fuel utilization and helpful existence of tires. We expect these internal methods will help the company to report healthy margins.

Diesel cost as % of revenue



Average diesel prices



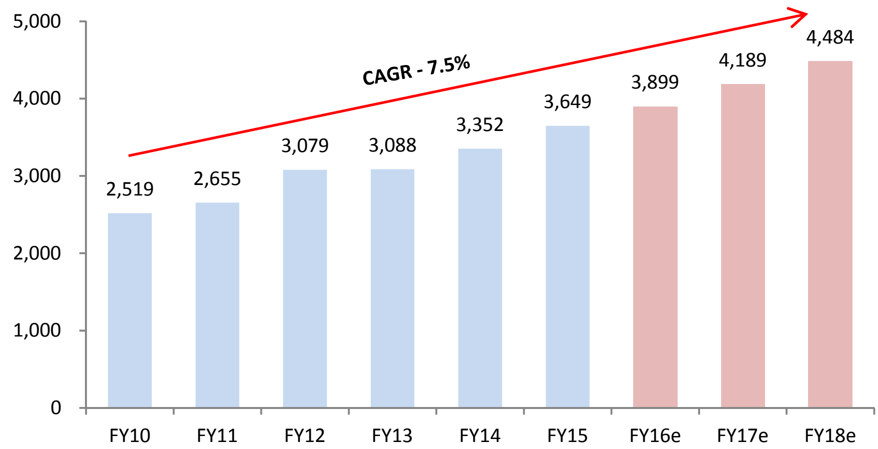
Source: Company, IOC, Phillip Capital India Research Estimates

Vehicle addition to support growth

Goods transport vehicles CAGR was 8% over FY10-15. This segment operates through 3,701 owned vehicles, out of which 2,461 or 66% were heavy commercial vehicles (1QFY16). We expect VRL to add 250 vehicles in FY16 and 290 in FY17 — about 7% growth in both years. Its fleet includes 1,298 (35%) vehicles that are less than five years old and the average age of its goods fleet is eight years. Vehicle addition will help the company to cover more geographies and expand its business.

VRL to add 248 Ashok Leyland vehicles (30- AL1212 and 218 – AL 3723) using IPO money

Vehicle addition in goods transport (no)



Source: Company, Phillip Capital India Research Estimates

AL 1212 – 30 Vehicle @Rs 1.6mn per vehicle

AL3723 – 3723 – 218 Vehicle @Rs 2.86mn per vehicle

Goods Transport vehicles

Year	Small Vehicle	Light Commercial Vehicles	Heavy Commercial Vehicles	Car Carrier	Tanker	Cranes	Total Vehicles Owned
FY10	180	842	1,480	-	7	10	2,519
FY11	171	892	1,575	-	7	10	2,655
FY12	139	883	1,916	102	27	12	3,079
FY13	122	883	1,941	102	27	13	3,088
FY14	122	882	2,210	102	23	13	3,352
FY15	120	975	2,423	102	16	13	3,649
1QFY16	120	988	2,461	102	17	13	3,701

Source: Company, Phillip Capital India Research

Key benefits of owned vehicles:
- Considerably reduce hiring and operational costs
- Reduce dependence on third-party hired vehicles
- Superior control over time-bound delivery
- Improved service quality and ensure reliable quality services

Improved utilisation and proposed transportation bill – key trigger for bus transport

VRL is a private operator of passenger buses, focused on high-density urban commuter markets; it operates with 373 owned buses. Its passenger transportation network covers key cities across seven states. VRL has pioneered the country's largest commercial bus route from Bangalore to Jodhpur, nearly 2000 km, which is one of the longest routes operated by any passenger service provider in the country. The company also has a business of luxury bus services in states such as Karnataka, Maharashtra, Andhra Pradesh, Telangana, Gujarat, and Rajasthan.

VRL foresees significant improvement in operating efficiencies and a decline in operational costs with the proposed Transport Bill. This bill proposes a unified vehicle registration system and a simplified system of vehicular and transport permits, which will help to ease various operational difficulties relating to inter-state transportation of passengers. Addition of new vehicles in this segment depends on this bill.

Major bus routes and fare (Rs)

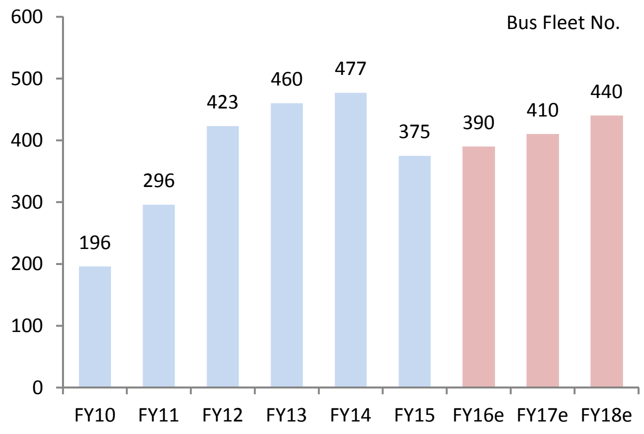
Route	KM	Duration	Fare	Route	KM	Duration	Fare
Davanagere to Bangalore	328	5 hr	400/450	Pune to Nagpur	860	14 hr	800/1400
Bellary to Bangalore	399	6 hr	460/540	Pune to Belgaum	412	6 hr	550/1800
Chennai to Bangalore	412	6 hr	568/800	Hyderabad to Goa	847	14 hr	950/1000
Bangalore to Davanagere	375	6 hr	310/1800	Bangalore to Hyderabad	530	8 hr	850/900
Goa to Pune	653	10 hr	600/650	Pune to Bangalore	836	13 hr	100/1400
Pune to Goa	623	10 hr	700	Goa to Hyderabad	880	14 hr	850/900
Nagpur to Pune	849	14 hr	800/1200	Hyderabad to Bangalore	545	9 hr	850/900
Hubli to Hyderabad	480	8 hr	900/1200	Mumbai to Belgaum	647	10 hr	550/1800
Bangalore to Goa	753	12 hr	500/800	Mangalore to Bangalore	461	7 hr	550/700
Shirdi to Hyderabad	754	12 hr	710/854	Visakhapatnam to Bangalore	1044	17 hr	1100
Bangalore to Bellary	395	6 hr	460/650	Bangalore to Visakhapatnam	1078	17 hr	1100
Ahmedabad to Pune	804	13 hr	700/1600	Hyderabad to Shirdi	779	12 hr	700/850
Hyderabad to Hubli	495	8 hr	900/950	Mumbai to Goa	860	14 hr	600
Goa to Mumbai	771	12 hr	600/650	Hyderabad to Mumbai	837	13 hr	800/850
Bangalore to Pune	835	13 hr	900/1500	Hyderabad to Mangalore	892	14 hr	1200
Goa to Bangalore	764	12 hr	500/700	Bangalore to Mangalore	447	7 hr	550/750
Bangalore to Chennai	400	6 hr	568/800	Jodhpur to Bangalore		10 hr	2500

Source: www.redbus.in (Data: August 2015)

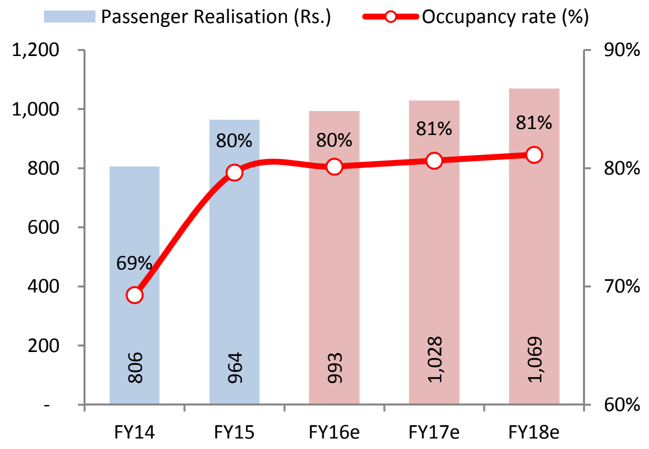
VRL provides booking services through ecommerce portals such as www.vrlbus.in, www.makemytrip.com, and www.redbus.co.into cater to more clients. It has 81 branch offices (of which 74 are leased and seven owned), 739 agencies, and 416 prepaid agencies. VRL has increased direct marketing efforts to enhance margins through optimal route planning and maximizing occupancy levels. It had 79.6% occupancy levels in FY15 and we expect this to improve to 80.1%/80.6% in FY16/17. Average realizations per passenger improved 20% to Rs 964 in FY15 and we expect these to improve by 3.0%/3.5% in FY16/17. Bus segment revenue CAGR was 29% over FY10-15 and we expect it to be 9% to Rs 3.95bn over FY16-17 due to controlled fleet addition.

Over FY16-17, we expect bus-segment revenue CAGR to be 9% to touch Rs 3.95bn in FY17, 19% of total revenues.

Fleet addition in passenger segment



Bus division — passenger realization and occupancy rate

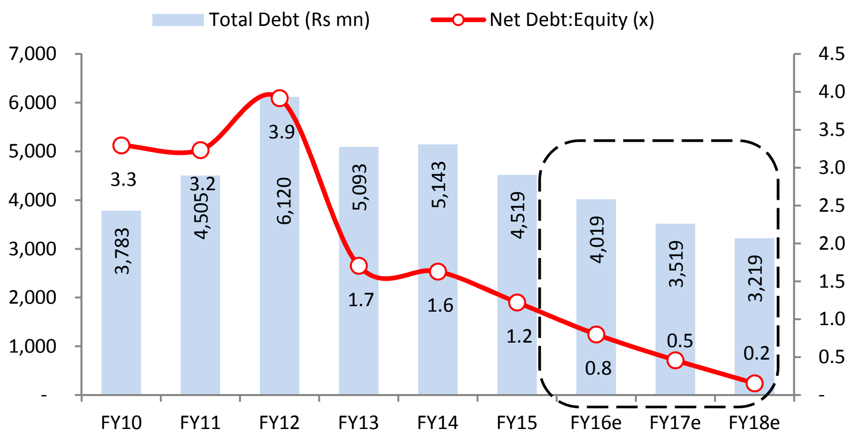


Source: Company, Phillip Capital India Research Estimates

Improving balance sheet to help RoE/RoCE

VRL has utilised part of its IPO proceeds and strong cash flows to reduced leverage. Debt has reduced to Rs 4.51bn in FY15 from Rs 6.1bn in FY12 — net debt/equity to 1.2x from 3.9x. This, along with improvement in operating performance has helped the company to generate attractive return on assets. Operating margins at 16.8-17.4% and asset turnover of 2x should help the company to report RoCEs of ~24.7/27.4% in FY16/17. Annual cash flow of Rs 1.8bn will help reduce debt — we see net debt/equity falling to 0.8x/0.5x in FY16/17.

Net debt/equity to fall to 0.5x in FY17

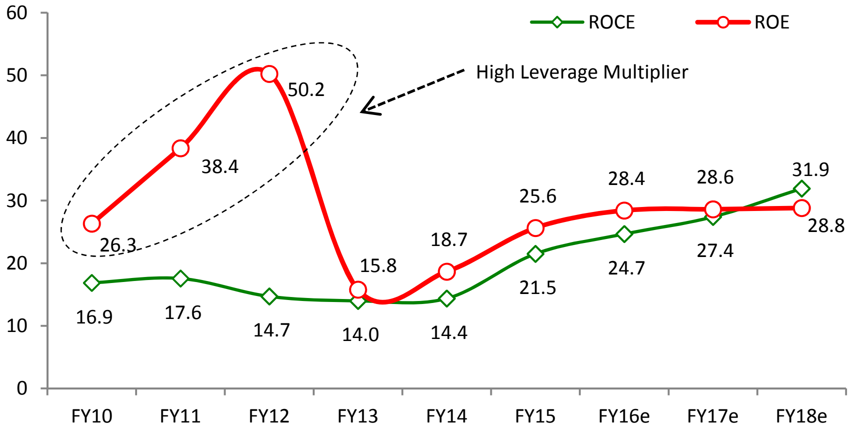


Source: Company, Phillip Capital India Research Estimates

DuPont analysis

DuPont analysis (past and future) points at some triggers for a re-rating. FY10-12 the company had ROEs of more than 25%, mainly due to higher debt (4.7x leverage multiplier), which helped the company to boost its revenue to Rs 11.3bn in FY12 from Rs 6.5bn in FY09 (20% CAGR). In FY15, VRL's RoE has crossed 25% levels, but this time it has been pulled up by higher asset turnover of 2x and comparatively lower leverage multiplier of 2.5x.

Healthy return ratios – RoE (%) and RoCE (%)



Source: Company, Phillip Capital India Research Estimates

We believe the company can capitalise on the expected steady improvement in demand in the coming years and a shift towards organised players. For VRL, we believe that opportunities exist in the form of the new vehicle additions and expansion of its network in the northern and eastern parts of India. As VRL already operates at more than 95% capacity utilisation, it will not take much time to capitalise its new fleet. Therefore, we expect VRL to have an asset turnover of 2.1x in FY17 and lower leverage multiplier of 1.8x in FY17 — this will help the company to report a healthy RoE of 29%.

DuPont analysis

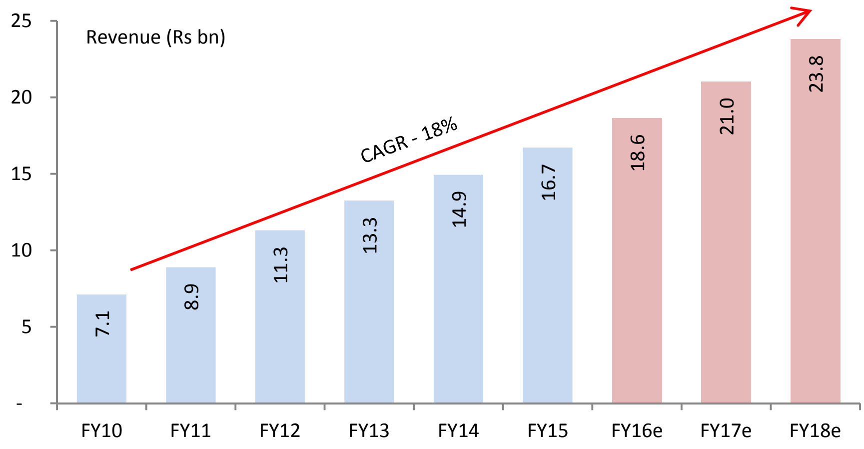
DuPont analysis	Mar-09	Mar-10	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18
Tax Burden (x)	0.6	0.7	0.7	1.2	0.7	0.7	0.7	0.7	0.7	0.7
Interest Burden (x)	0.09	0.46	0.60	0.49	0.52	0.59	0.72	0.79	0.85	0.89
EBIT Margin (%)	10.0	13.3	13.4	11.3	9.3	8.7	11.5	12.4	13.1	14.4
Asset Turnover (x)	1.1	1.3	1.4	1.3	1.5	1.7	1.9	2.0	2.1	2.1
Leverage Multiplier (x)	5.6	5.0	4.7	5.6	3.0	2.9	2.5	2.1	1.8	1.5
RoE (%)	***3.1***	***26.3***	***38.4***	***50.2***	***15.8***	***18.7***	***25.6***	***28.4***	***28.6***	***28.8***

Source: Company, Phillip Capital India Research Estimates

Financials

VRL's FY10-15 revenue CAGR was 19% to Rs 16.7bn. Its total fleet grew to 4,084 vehicles in FY15 from 2,730 in FY10 — an 8% CAGR. We expect revenue CAGR of 12% to Rs 21bn over FY15-17 with fleet addition at CAGR of 6%. Revenue growth would primarily come from goods transport business (13%CAGR) while bus operations should see 9% CAGR.

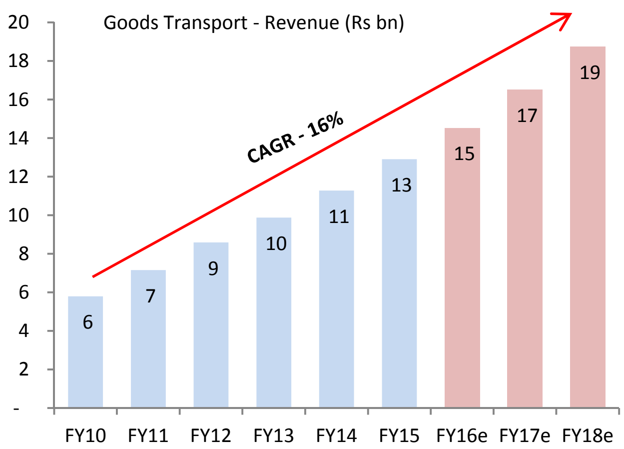
VRL - revenue CARG of 13% over FY15-18



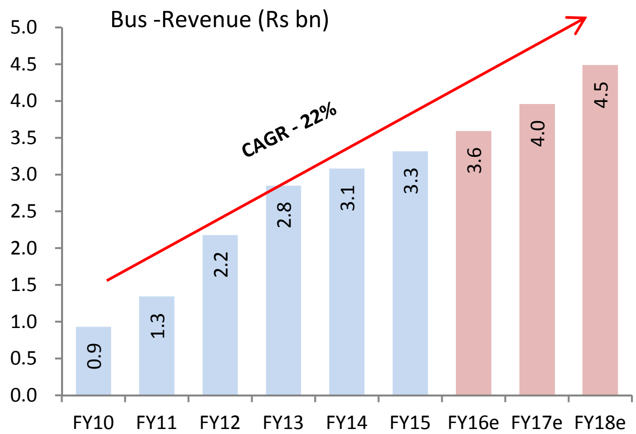
Source: Company, Phillip Capital India Research Estimates

In goods transport, we expect the company to see 13% revenue growth to Rs 14.5bn in FY16 and 14% growth to Rs 16.5bn in FY17, primary on vehicle additions (250/290 in FY16/17), which will help VRL to consolidate its foothold outside southern India.

Goods Transport revenue CAGR of 13% over FY15-18



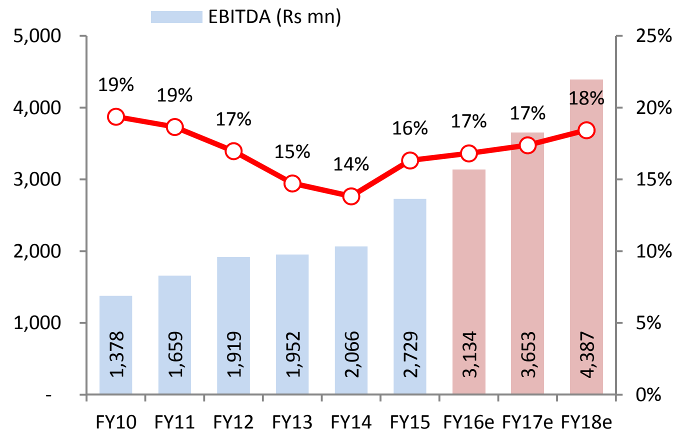
Bus services revenue CAGR of 11% over FY15-18



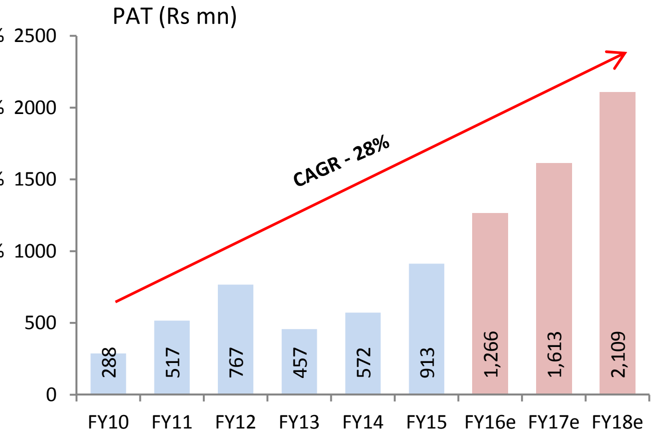
Source: Company, Phillip Capital India Research Estimates

In its bus operation, we estimate revenue of Rs 3.6bn (+8.4%) in FY16 and Rs 3.9bn (+10.2%) in FY17. This growth should come from higher occupancy rates and passenger realizations, as the company starts focusing on higher value and higher occupancy routes.

VRL: EBITDA and OPM trend



VRL : PAT - CAGR of 32% over FY15-18



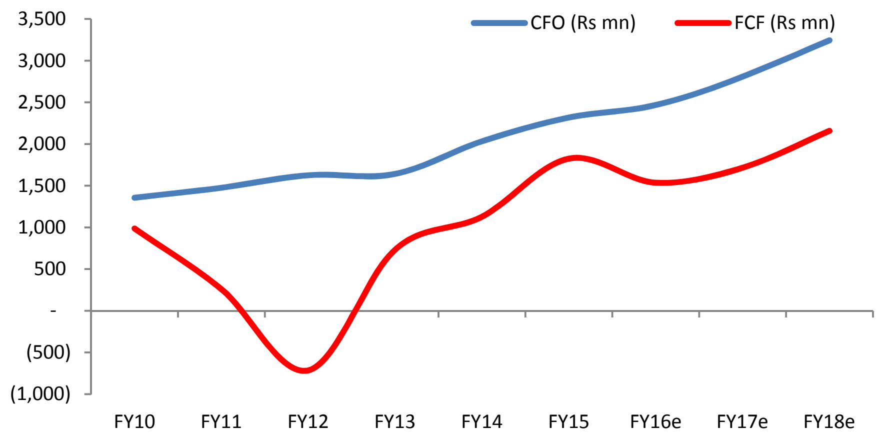
Source: Company, Phillip Capital India Research Estimates

An increase in scale of operations coupled with tight controls on costs has led to healthy operating margins. We expect margins of 16.8% with EBITDA of Rs 3.1bn (+17%) in FY16. Strong margins and lower interest will lead to a healthy net profit of Rs 1.3bn (+39%).

In FY17, we expect VRL's revenues at Rs 21bn and EBITDA of Rs 3.6bn with operating margin of 17.4%. We expect profit growth of 27% to Rs 1.6bn.

The net working capital is ~10% sales and it can meet additional working capital requirements internally. We expect free cash flow of ~Rs 1.5bn in FY16 and Rs 1.7bn in FY17. RoCE should settle above 27% from FY17 while RoE would be +28%. We believe that GST and transport bill will provide big opportunities to organized players, particularly VRL.

VRL - Free cash and operating cash flow



Source: Company, Phillip Capital India Research Estimates

Outlook and valuation

VRL has successfully negotiated a tricky business area by developing an effective hub-and-spoke model, which is helping the company in expanding its geographical base and successfully managing working capital. We are convinced that VRL will continue to effectively monetise its wide network base in south India while increasing it in northern India. This would enable it to successfully tap the existing buoyancy in addressable markets.

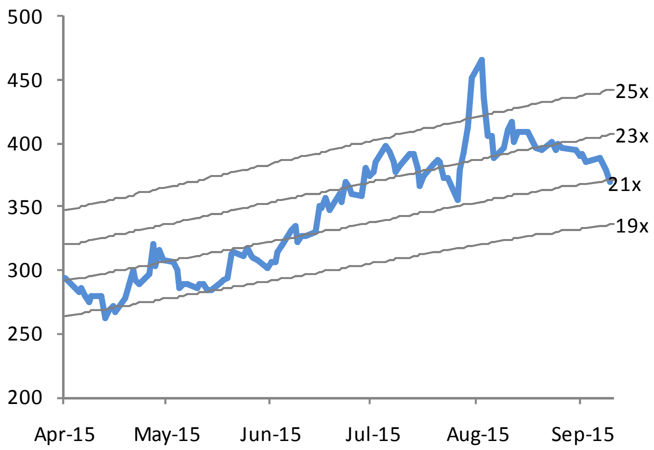
Higher RoCE, RoE, and FCF of Rs 1.5/1.7bn in FY16/17 should lead to a re-rating

Strong operating matrix, lower diesel prices (along with use of biodiesel) and wide customer base will continue to help the company report strong operating margins. In fact, we believe profitability could improve in FY16/17.

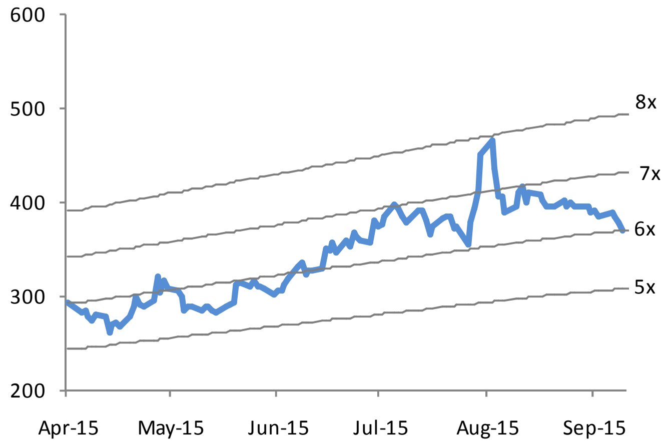
At its CMP of Rs.374, the company trades at FY16/17 PEs of 26.9x/21.2x. We assign a P/E of 25x to our FY17 earnings to arrive at our price target of Rs 442, which takes into account VRL's strong track record, good promoter pedigree, and concentration on operational efficiencies (expanding size and enhancing macro environment for road-freight transport with GST and the new transport bill coming into play). We consider VRL's growth prospects look promising and leave scope for an upside. We initiate coverage with a BUY recommendation.

VRL has stronger operating margins, balance sheet, and cash flows vs. other road freight operators

1yr forward P/E band



P/BV Band



Source: Bloomberg, Phillip Capital India Research Estimates

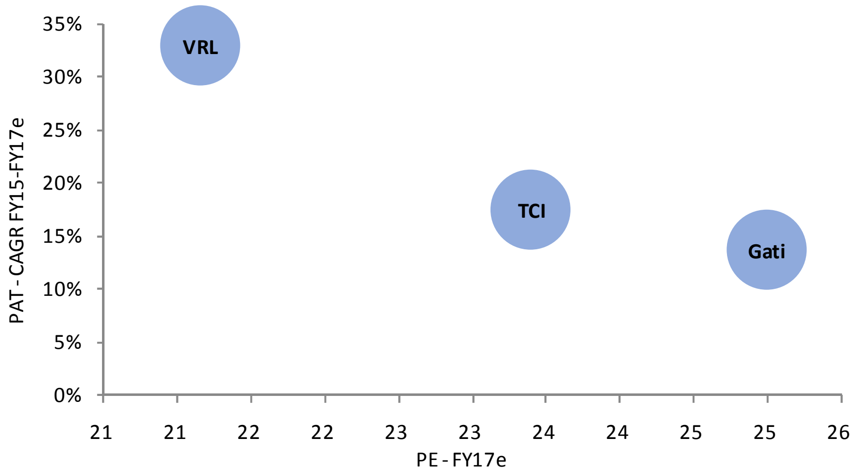
VRL has two listed competitors (TCI, GATI), which operate at average margins of 8%, average ROEs of 11%, and trade at average PEs of 24x on FY17 earnings. VRL's numbers are superior to its peers on all parameters — it operates at a high margin of 17%, ROE of 28%, with a lower PE of 21x on FY17 earnings. We expect a re-rating in the company's valuation given its superior earnings profile and return ratios.

Valuation table

	CMP	M Cap	Rev (Rs mn)		OPM (%)		EPS		ROE %		PE		PB	
			FY16e	FY17e	FY16e	FY17e	FY16e	FY17e	FY16e	FY17e	FY16e	FY17e	FY16e	FY17e
GATI**	160	13,909	19,631	22,857	7.7%	7.8%	5	6	8.3	9.2	29.6	25.0	2.4	2.2
Transport Corp. of India**	296	21,708	26,564	29,365	8.5%	8.7%	11	13	12.6	12.1	25.9	23.4	3.3	2.8
VRL*	374	34,125	18,632	21,013	16.8%	17.4%	14	18	28.4	28.6	26.9	21.2	7.7	6.1

Source: Company, **Bloomberg, *Phillip Capital India Research Estimates,

VRL – higher earning growth with Lower Multiple



Source: Company, Bloomberg, Phillip Capital India Research Estimates

Key Risks

Rise in operating costs

- Fuel costs, toll charges, drivers' salaries and rent represent the most significant operating costs. Any increase in these costs or the company's inability to pass on a rise in cost to customers can dry up operating margins.

Highly competitive industry

- VRL can come under pressure with local players strengthening their operations and the entry of new global players, as it operates in an unorganized and highly competitive industry.

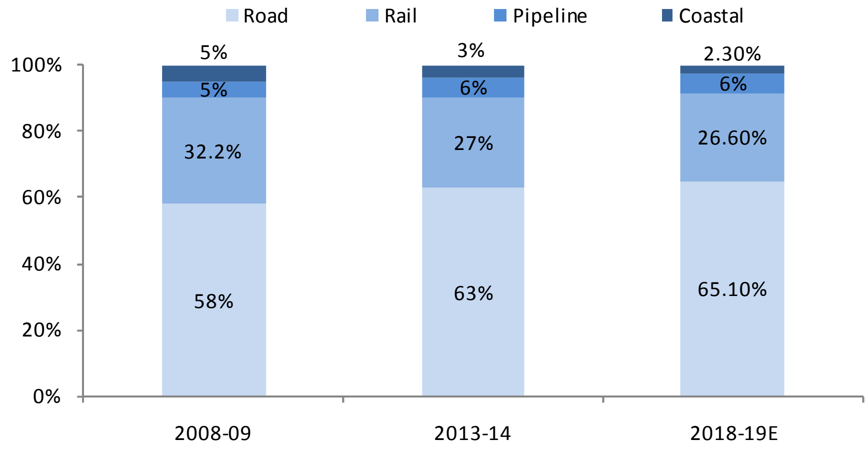
Disruptions in road transportation

- Events such as political unrest, bad weather conditions, regional disturbances, and calamities can affect the company's financials.

Industry - Outlook

In recent years, accessibility, door-to-door service, and reliability have earned road transportation a higher share of both passenger and freight traffic vs. other transport modes. As a result, road transportation has emerged as the dominant segment in India's transportation sector. Both freight and passenger movements by road are expected to expand rapidly in the coming years.

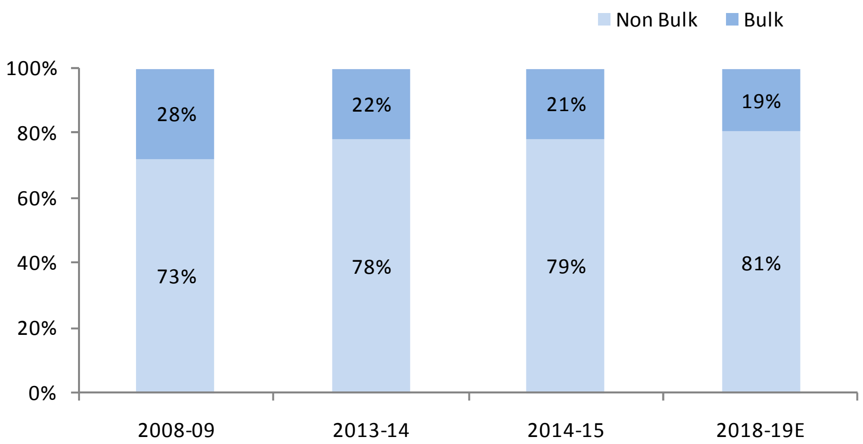
Roads remain the preferred mode for non-bulk transportation



Source: Company, Phillip Capital India Research Estimates

Road freight traffic will grow more swiftly backed with sturdy growth in non-bulk transport through roads and railways' capacity constraints. Freight transport will show robust growth due to substantial investment in the national highway network (which will facilitate speedy delivery) and rising volumes of exports and imports. While road freight-traffic growth should remain moderate in the short term, we expect it to grow at 8-9% CAGR to about 2,200 BTKM in 2018-19 (from around 1,500 BTKM in 2013-14), driven by a revival in freight demand.

Non-bulk freight: Major in road transport



Source: Company, Phillip Capital India Research Estimates

During the post-reform period (1992-93 to 2004-05) volume of freight carried by road was steady at an annual average of 6.5% vs. growth of 4% in rail freight. In India, in the last decade, the share of bulk freight in total traffic through roads has risen to about 63% in 2013-14 from just about 9%.

Freight and passenger movement

	Goods (%)		Passengers (%)	
	Road	Railway	Road	Railway
2005-06	59.9	40.1	87.4	12.6
2006-07	61.4	38.6	86.7	13.3
2007-08	62.0	38.0	86.3	13.7
2008-09	62.5	37.5	86.1	13.9
2009-10	62.8	37.2	86.0	14.0
2010-11	64.3	35.7	85.9	14.1
2011-12	64.5	35.5	85.9	14.1

Note : Data after year 2011-12 is not available

Source: Indian Railways, CRISIL Research

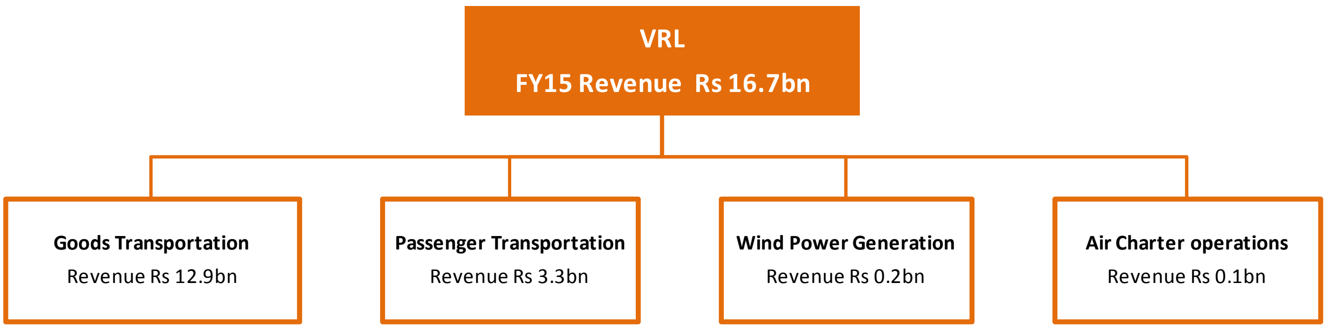
Company Overview

VRL is a surface logistics and parcel-delivery service company with one of the largest fleet of commercial vehicles in the private sector. It provides last-mile connectivity across India through a fleet of 3701 owned goods transport vehicles as of June 2015. VRL works through a hub-and-spoke model.

Its operational infrastructure for goods transportation (as of December 31, 2014) comprised:

- 652 branches (632 leased, 20 owned) and 325 agencies across India in 977 locations.
- 48 (seven owned) trans-shipment hubs.
- 71 new branches added in FY15.

VRL – revenue break up



Source: Company, PhillipCapital India Research

VRL's centralised information technology network connects all its branches, agencies, trans-shipment hubs and other offices enabling seamless real time monitoring of its operations and consignment bookings and delivery status. Its centralised accounting systems also enable it to implement stringent financial controls.

It provides luxury bus services across Karnataka, Maharashtra, Goa, Andhra Pradesh, Telengana, Tamil Nadu, Gujarat, and Rajasthan. Its bus operations are primarily focused on tier-1 cities, but it also connects tier-2 and tier-3 cities. The wide range of passenger buses in its fleet enables VRL to serve varied transportation requirements of customers at different price points.

It also operates car carrier vehicles for transportation of cars, vehicles for liquid transportation, as well as a courier service business across Karnataka. VRL also has minor business interests in wind power and air charter.

Other business segments

Wind-power generation business

- Started in 2006 in Karnataka by setting up a wind farm of 42.5 MW(34 wind turbine generators with individual capacity of 1.25 MW).
- FY15 revenue from sale of power was Rs 161mn and from certified emission reduction units (CERs) was Rs 61mn.

Air charter business

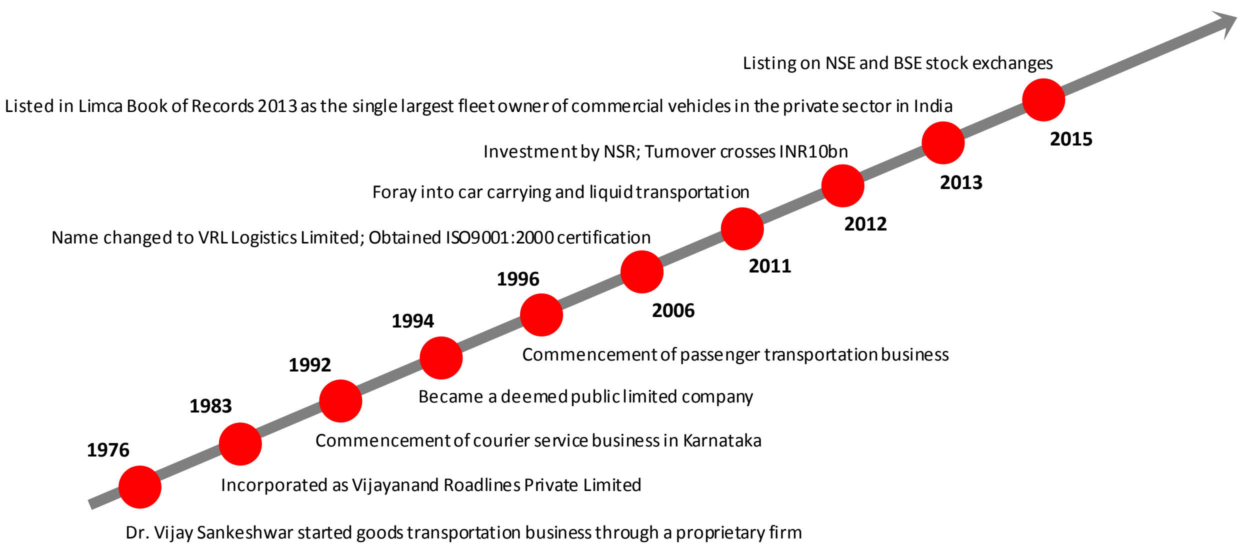
- Started in 2008 for individual and corporate clients.
- VRL purchased a new Premier 1A aircraft from Hawker Beechcraft and a second-hand aircraft from Force Motors.
- The division's FY15 revenues were Rs 117mn.

VRL – continuously adding vehicles to the portfolio

YEAR	No. of Vehicle	Turnover (Rs mn)	YEAR	No. of Vehicle	Turnover (Rs mn)
1983-84	8	2.8	1999-00	945	933.7
1984-85	11	4.0	2000-01	1,022	1,207.3
1985-86	15	6.8	2001-02	1,121	1,465.2
1986-87	24	14.0	2002-03	1,202	1,682.6
1987-88	45	19.9	2003-04	1,255	2,041.9
1988-89	81	29.0	2004-05	1,683	2,773.9
1989-90	117	40.5	2005-06	1,891	3,569.5
1990-91	147	70.9	2006-07	2,426	4,429.5
1991-92	215	106.3	2007-08	2,697	5,469.5
1992-93	248	137.5	2008-09	2,668	6,506.6
1993-94	292	176.3	2009-10	2,733	7,162.5
1994-95	398	238.6	2010-11	2,978	8,929.2
1995-96	525	310.5	2011-12	3,529	11,352.8
1996-97	596	418.9	2012-13	3,591	13,353.2
1997-98	621	507.8	2013-14	3,877	15,037.8
1998-99	792	645.9	2014-15	4,087	16,786.6

Source: Company, PhillipCapital India Research

History timeline



Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Net sales	**14,814**	**16,562**	**18,475**	**20,848**
Growth, %	13%	12%	12%	13%
Other Operating Income	124	150	157	165
Total income	14,938	16,712	18,632	21,013
Operating expenses	10,912	11,794	13,037	14,566
Employee expenses	1,745	1,980	2,227	2,499
Other Operating expenses	216	210	234	294
EBITDA (Core)	**2,066**	**2,729**	**3,134**	**3,653**
Growth, %	5.8%	32.1%	14.9%	16.6%
Margin, %	13.8%	16.3%	16.8%	17.4%
Depreciation	866	877	925	1,000
EBIT	**1,200**	**1,852**	**2,209**	**2,653**
Growth, %	6%	54%	19%	20%
Margin, %	8%	11%	12%	13%
Interest paid	599	586	474	415
Other Non-Operating Income	100	77	100	100
Pre-tax profit	**700**	**1,343**	**1,835**	**2,338**
Tax provided	195	467	569	725
Profit after tax	**505**	**876**	**1,266**	**1,613**
(-) Exceptional Expenses	66	36	0	0
Net Profit	**572**	**912**	**1,266**	**1,613**
Growth, %	25%	60%	39%	27%
Margin, %	4%	5%	7%	8%
Net Profit (adjusted)	**505**	**876**	**1,266**	**1,613**
No. of Eq. Sh O/S (m nos)	86	86	91	91

Balance Sheet

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Cash & bank	151	166	455	927
Debtors	800	902	983	1,167
Inventory	135	150	172	193
Loans & advances	1,106	1,079	1,111	1,144
Other current assets	41	74	77	80
Total current assets	2,232	2,371	2,799	3,512
Investments	1	1	1	1
Gross fixed assets	12,167	12,489	13,409	14,500
Less: Depreciation	4,764	5,420	6,345	7,345
Add: Capital WIP	140	91	100	100
Net fixed assets	7,544	7,160	7,164	7,254
Total assets	**9,777**	**9,531**	**9,964**	**10,767**
Current liabilities	487	419	458	579
Provisions	249	144	144	144
Total current liabilities	736	563	603	723
Non-current liabilities	5,143	4,519	4,019	3,519
Deferred Tax Liability	834	888	888	888
Total liabilities	6,713	5,969	5,509	5,129
Paid-up capital	855	855	912	912
Reserves & surplus	2,209	2,707	3,542	4,725
Shareholders' equity	3,064	3,562	4,455	5,637
Total equity & liabilities	**9,777**	**9,531**	**9,964**	**10,767**

Source: Company, PhillipCapital India Research Estimates

Cash Flow

Y/E Mar, Rs mn	FY14	FY15	FY16e	FY17e
Pre-tax profit	768	1,379	1,835	2,338
Depreciation	866	877	925	1,000
Chg in working capital	4	-216	-99	-120
Total tax paid	-149	-287	-569	-725
Other operating activities	544	564	374	315
Cash flow from operating activities	**2,033**	**2,317**	**2,466**	**2,808**
Capital expenditure	-903	-491	-929	-1,091
Other investing activities	-7	0	100	100
Cash flow from investing activities	**-911**	**-491**	**-829**	**-991**
Free cash flow	1,122	1,827	1,637	1,817
Equity raised/(repaid)	0	0	57	0
Debt raised/(repaid)	47	-621	-500	-500
Dividend (incl. tax)	-564	-604	-431	-431
Other financing activities	-608	-587	-474	-415
Cash flow from financing activities	**-1,125**	**-1,812**	**-1,347**	**-1,345**
Net chg in cash	-3	15	289	472

Valuation Ratios

	FY14	FY15	FY16e	FY17e
Per Share data				
EPS (INR)	6.7	10.7	13.9	17.7
Growth, %	3%	60%	30%	27%
Book NAV/ FD share (INR)	33.6	39.0	48.8	61.8
FDEPS (INR)	6.3	10.0	13.9	17.7
CEPS (INR)	16.8	20.9	24.0	28.6
CFOPS (INR)	22.3	25.4	27.0	30.8
DPS (INR)	4.0	4.0	4.0	4.0
Return ratios				
Return on assets (%)	6.3	10.2	13.5	16.1
Return on equity (%)	18.7	25.6	28.4	28.6
Return on capital employed (%)	14.4	21.5	24.7	27.4
Turnover ratios				
Sales/Total assets (x)	1.7	1.9	2.0	2.1
Sales/Net FA (x)	2.0	2.4	2.6	2.9
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Fixed capital/Sales (x)	0.5	0.4	0.4	0.3
Receivable days	19.3	19.4	19.0	20.0
Inventory days	3.8	3.9	4.0	4.0
Payable days	20.6	14.5	14.0	15.0
Working capital days	2.5	8.8	9.0	9.0
Liquidity ratios				
Current ratio (x)	3.0	4.2	4.6	4.9
Quick ratio (x)	2.8	3.9	4.4	4.6
Interest cover (x)	3.4	4.1	5.6	7.3
Dividend cover (x)	1.7	2.7	3.5	4.4
Total debt/Equity (%)	1.7	1.3	0.9	0.6
Net debt/Equity (%)	1.6	1.2	0.8	0.5
Valuation				
PER (x)	59.7	37.4	26.9	21.2
PEG (x) - y-o-y growth	2.4	0.6	0.7	0.8
Price/Book (x)	11.1	9.6	7.7	6.1
Yield (%)	1.1	1.1	1.1	1.1
EV/Net sales (x)	2.6	2.2	2.0	1.7
EV/EBITDA (x)	18.9	13.3	12.0	10.1
EV/EBIT (x)	30.1	18.8	16.3	13.3

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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