

VRL Logistics Ltd (VRL IN)

Lower offtake in GT, prospects still promising

INDIA | LOGISTICS | Quarterly Update

3 November 2015

Top takeaways from Q2FY16

- Revenues were flat yoy due to low rainfall and delay in festive season.
- Lower diesel cost due to higher use of biodiesel helped EBIDTA rise 6% to Rs 694mn.
- PAT increase was largely due to lower debt (interest cost at Rs 74mn vs. Rs 151mn yoy).

Key highlights: Sluggish monsoons and delay in festive season (Diwali in November this year), caused lower off-take in good transport (GT) business leading to flat revenues. Bus operation revenue fell 5%, as the number of VRL's buses reduced to 368. Decline in diesel cost to Rs 51/litre (-6% qoq), due to increase in biodiesel contribution to 36%, resulted in lower operating expenses. Higher employee expenses limited EBIDTA margin improvement. Stronger control over debt helped VRL shrink its interest cost, resulting in PAT growth of 34% yoy in an otherwise lacklustre quarter.

Conference call takeaways

- ✘ A truant monsoon and festive season shifting to November resulted in lower GT revenue growth.
- ✘ VRL opened an international branch in Kathmandu, Nepal, but due to the disturbance in that country, it could not generate any GT revenue.
- ✘ Bus division revenue fell due to seasonality and lower number of buses as bus permit expired.
- ✘ Higher increment and incentives to employees translated into 27% yoy increase in employee cost.
- ✓ In its GT business, VRL's periodical review of freight rates led to higher realisation per tonne (up 5% to Rs 5,120).
- ✓ Festival season could see higher tonnage, KM, and realisation for GT business.
- ✓ VRL has maintained its capex guidance of Rs 0.90-1.00bn, with ~200 vehicle additions.
- ✓ VRL will maintain its current debt levels, which will lead to reduced interest cost.

Outlook and valuation: At its CMP, the company trades at a FY16/17 P/E of 28x/22x. We believe that movement will pick up in 2HFY16 due to festive demand. VRL can add more branches, as it is focussing on growth in the northern and eastern parts of the country. Its growth prospects look promising and leave scope for upside. We maintain our valuation at 25x FY17 with a target price of Rs 442 per share.

BUY (Maintain)

CMP RS 388 / TARGET RS 442 (+14%)

COMPANY DATA

O/S SHARES (MN) :	91
MARKET CAP (RSBN) :	37
MARKET CAP (USDBN) :	0.6
52 - WK HI/LO (RS) :	479 / 261
LIQUIDITY 3M (USDMMN) :	3.2
PAR VALUE (RS) :	10

SHARE HOLDING PATTERN, %

	Sep-15	Jun 15
PROMOTERS :	69.6	69.6
FII / NRI :	10.5	15.8
FI / MF :	8.7	8.7
NON PRO :	5.5	6.1
PUBLIC & OTHERS :	5.2	5.2

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	38.7	27.9	21.9
EV/EBIDTA, x	13.7	12.4	10.4
ROE, %	25.6	28.4	28.6
Debt/Equity (%)	1.3	0.9	0.6

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(Rs mn)	Q2FY16	Q2FY15	yoy growth %	Q1FY16	qoq growth %	Comments
Revenue	4,272	4,326	(1.25)	4,479	-4.63	Low off-take due to low monsoon & delay in festive season.
EBITDA	694	653	6.34	832	-16.55	
EBITDA margin (%)	16.26	15.10	116bps	18.58	-232bps	Due to - Lower diesel cost and Higher employee cost
Interest	74	151	(50.61)	103	-27.96	lower debt – resulted in lower Int. cost
Depreciation	224	229	(2.23)	223	0.35	
Other income	23	19	26.87	19	20.44	
PBT	420	292	43.76	525	-20.11	
Tax	130	75	72.11	172	-24.32	
Tax rate (%)	30.94	25.84	510bps	32.66	-172bps	
PAT	290	217	33.89	354	-18.07	
EPS (Rs)	3.2	2.5	25.51	3.9	(18.07)	

Segment wise results

Rs mn	2QFY16	2QFY15	% yoy	H1FY16	H1FY15	% yoy
Net Revenues						
Good Transport	3,428	3,430	(0.1)	6,824	6,445	5.9
Bus Operation	687	726	(5.4)	1,634	1,691	(3.4)
Sale of Power	95	108	(12.1)	166	172	(3.6)
Air Chartering Services	24	20	16.0	51	55	(8.7)
Un-allocable Revenue	39	42	(6.9)	76	76	0.7
Total	4,272	4,326	(1.2)	8,751	8,439	3.7
Segment PBIT						
Good Transport	443	434	2.1	865	820	5.5
Bus Operation	48	(27)	(278.9)	264	120	120.2
Sale of Power	56	72	(22.3)	84	100	(15.7)
Air Chartering Services	(13)	(11)	14.7	(17)	(7)	147.8
PBIT	534	468	14.0	1,196	1,033	15.8
(-)Interest	(74)	(151)	(50.6)	(178)	(305)	(41.7)
(-)Net un-allocable Exp.	(39)	(25)	56.4	(73)	(66)	10.8
PBT	647	644	0.6	1,447	1,404	3.1
PBIT Margin (%)						
Good Transport	12.9	12.7	-	12.7	12.7	-
Bus Operation	6.9	(3.7)	-	16.1	7.1	-
Sale of Power	58.9	66.6	-	50.9	58.2	-
Air Chartering Services	(54.6)	(55.3)	-	(33.7)	(12.4)	-
Total Comp PBIT Margin (%)	12.5	10.8	-	13.7	12.2	-

Source: Company, PhillipCapital India Research

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
2QFY16	119	1002	2,460	102	17	13	3713

Source: Company, PhillipCapital India Research

Key Parameter

	2QFY16	2QFY15	YOY	1QFY16	QoQ
VRL - Avg. Diesel cost (Rs. Ltr.)	51	NA	NA	54	(5.6)
GT - Realisation per ton	5,120	4,890	4.7	5,007	2.3
Buss Operations:					
No. Vehicle – (No.)	368	NA	NA	373	(1.3)
Occupancy Level (%)	79.6	75.8	383bps	87.0	-736bps
Passenger Realisation (Rs.)	917	927	(1.1)	1,029	(10.9)

Source: Company, PhillipCapital India Research Estimates

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

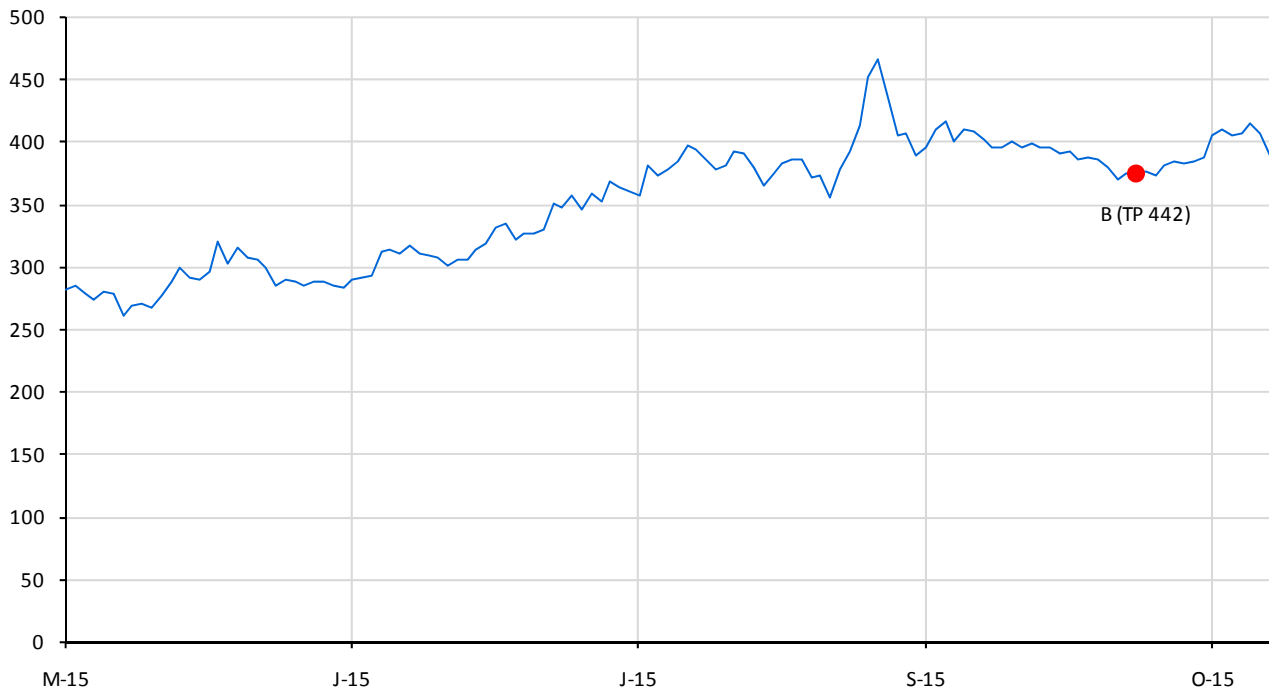
Cash Flow

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)	61.9	38.7	27.9	21.9
PEG (x) - y-o-y growth	2.5	0.6	0.7	0.8
Price/Book (x)	11.5	9.9	7.9	6.3
Yield (%)	1.0	1.0	1.0	1.0
EV/Net sales (x)	2.7	2.2	2.1	1.8
EV/EBITDA (x)	19.5	13.7	12.4	10.4
EV/EBIT (x)	31.1	19.4	16.9	13.8

Stock Price, Price Target and Rating History



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	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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