

Logistics

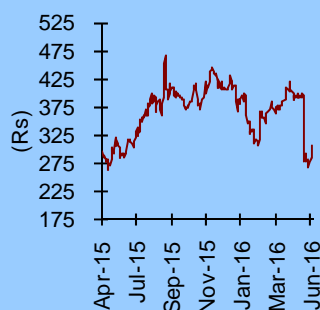
Target price Rs332

Shareholding pattern

	Sep '15	Dec '15	Mar '16
Promoters	69.6	69.6	69.6
Institutional investors	19.0	24.3	23.7
MFs and UTI	8.2	6.6	6.6
FIs/Banks	0.0	0.0	0.0
FII	10.8	17.6	17.1
Others	11.4	6.1	6.7

Source: NSE

Price chart



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INDIA

VRL Logistics

ADD

Maintained

Rs305

Back to fundamentals

Reason for report: Company update

We hosted VRL Logistics' management in Mumbai. Key takeaways from the meetings were: 1) core business fundamentals remain intact, and management expects implementation of GST and the proposed Road Transport Bill to positively impact organised goods transport players, 2) new initiatives such as e-toll (VRL has registered ~1,200 vehicles) will lead to increased efficiency in road transport, while VRL has also started exploring new business opportunities like air cargo transport (using Indigo on select routes), 3) management reiterated that the earlier announcement regarding proposed promoter investment in a regional civil aviation business will be undertaken in a personal capacity if it is pursued, and VRL balance sheet (in the form of loans and advances, corporate guarantees, etc.) will not be utilised in any of promoters' personal ventures.

- **Core business fundamentals remain intact:** Tonnage volume growth, which was flat in FY16, is anticipated to revive with hopes of a good monsoon and recovery in the rural economy where VRL is more exposed. Driver shortage is a key issue the company is dealing with, especially with the proliferation of taxi aggregators, etc. The company effects large pay revisions once in 5-6 years (similar to Jul'15 pay hike to all employees) and no meaningful pay revisions are expected in the near term. VRL has registered ~1,200 vehicles for e-toll, which offers ~10% discount in toll rates in addition to reduced waiting times. VRL has also entered air cargo transport vertical utilising Indigo's belly space on select routes.
- **GST and Road Transport Bill implementation can be key drivers:** Management was hopeful of GST Bill getting passed in the Upper House during the monsoon session, and its likely implementation by FY17. VRL, like other organised truck operators, is likely to benefit from shift in volumes from unorganised to organised sector. Management also anticipates the Road Transport and Safety Bill, 2014 (which is currently in draft form) to be tabled in Parliament soon. Implementation of the Bill will likely see scrapping of goods transport vehicles, which are more than 12-15 years old. VRL has ~700-800 vehicles that are more than 12 years old. Further, management estimates the industry to scrap ~2.5mn vehicles based on their discussions with various stakeholders. Management expects a potential shortage of trucks post the implementation since most truck owners are small fleet owners who are unlikely to maintain capacity due to balance sheet constraints. This in turn can be beneficial to freight rates, and large organised players like VRL.
- **Personal investment proposed by promoters in civil aviation:** Management reiterated that the aviation venture idea is still at a very nascent stage, and will be done in a personal capacity (funding, etc), if pursued. VRL's balance sheet will not be utilised for any personal ventures of the promoters.
- **Multiple rerating dependent on GST and ring-fencing balance sheet:** The premature announcement on the aviation venture has eroded investor confidence in a company disciplined on capital allocation (FY16 RoCE of ~24%) and cashflow generation. Clarity on GST, and any resolution to ring-fence VRL's balance sheet (seen as protecting minority shareholder interests) would be key triggers for multiple rerating. We maintain our **ADD** rating on the stock.

Market Cap	Rs27.8bn/US\$417mn	Year to Mar	FY15	FY16P	FY17E	FY18E
Reuters/Bloomberg	VRLL.BO / VRLL IN	Revenue (Rs bn)	16.8	17.3	19.3	22.3
Shares Outstanding (mn)	91.2	Rec. Net Income (Rs bn)	0.9	1.0	1.3	1.7
52-week Range (Rs)	467/266	EPS (Rs)	10.7	11.2	14.1	18.7
Free Float (%)	30.4	Cash EPS	20.9	21.1	24.6	30.2
FII (%)	17.1	P/E (x)	28.6	27.1	21.2	16.0
Daily Volume (US\$/'000)	1,757	EV/E (x)	10.8	10.6	9.1	7.5
Absolute Return 3m (%)	(14.1)	OCF / share (Rs)	27.1	22.9	27.1	31.1
Sensex Return 3m (%)	8.4	FCF / share (Rs)	17.1	6.4	5.5	14.3

Please refer to important disclosures at the end of this report

Summary financials (consolidated)

Table 1: Earning Statement
(Rs mn, year ending March 31)

	FY15	FY16P	FY17E	FY18E
Revenue from operations	16,712	17,225	19,243	22,205
Goods transport	12,908	13,563	15,013	17,175
Passenger transport	3,316	3,176	3,685	4,461
Wind	222	214	250	250
Air charter	117	112	117	123
Others	150	161	177	195
Other Income	77	69	72	76
Total Revenue	16,789	17,294	19,316	22,281
Operating Expenses	13,984	14,548	16,117	18,466
EBITDA	2,804	2,746	3,198	3,814
% margins	16.7%	15.9%	16.6%	17.1%
Depreciation & Amortisation	877	900	955	1,046
Gross Interest	586	307	332	231
Profit before tax & exceptional item	1,342	1,540	1,912	2,538
Exceptional Item	37	-	-	-
Profit before tax	1,379	1,540	1,912	2,538
Less: Taxes	467	517	631	837
Less: Minority Int. & Asso. Profit	-	-	-	-
Net Income (Reported)	912	1,023	1,281	1,700

Source: I-Sec research, Company reports

Table 2: Balance Sheet
(Rs mn, year ending March 31)

	FY15	FY16P	FY17E	FY18E
Assets				
Total Current Assets	2,345	2,097	3,103	2,780
of which cash & cash eqv.	166	196	1,094	615
Total Current Liabilities & Provisions	516	1,661	1,666	1,675
Net Current Assets	1,830	437	1,436	1,105
Investments	1	1	1	1
Net Fixed Assets	7,051	7,159	8,329	8,814
Intangible assets	17	17	17	17
Capital Work-in-Progress	91	162	296	296
Goodwill	-	-	-	-
Other non-current assets	25	-	-	-
Total Assets	9,015	7,775	10,078	10,232
Liabilities				
Borrowings	4,481	1,654	3,131	2,131
Deferred Tax Liability	888	904	904	904
Other long term liabilities	85	82	82	82
Equity Share Capital	855	912	912	912
Reserves & Surplus	2,707	4,223	5,049	6,203
Net Worth	3,562	5,135	5,961	7,115
Total Liabilities	9,015	7,775	10,078	10,232

Source: I-Sec research, Company reports

* Note: Borrowings include current maturities of LT debt

Table 3: Cashflow Statement
(Rs mn, year ending March 31)

	FY15	FY16P	FY17E	FY18E
Net Profit before tax	1,379	1,540	1,912	2,538
Depreciation	877	897	955	1,046
Non-Cash Adjustments	564	307	332	231
Working Capital Changes	(216)	(143)	(101)	(148)
Taxes Paid	(287)	(517)	(631)	(837)
Operating Cash flow	2,317	2,084	2,466	2,829
Capital Commitments	(859)	(1,497)	(1,962)	(1,531)
Free Cash Flow	1,459	587	504	1,298
Other investing cashflow	368	-	-	-
Cash flow from Investing Activities	(491)	(1,497)	(1,962)	(1,531)
Inc (Dec) in Borrowings	(1,208)	(1,568)	1,145	(1,231)
Issue of Share Capital	-	1,170	0	-
Dividend paid	(604)	(455)	(455)	(546)
Cash flow from Financing Activities	(1,812)	(853)	690	(1,777)
Chg. in Cash & Bank balance	15	(266)	1,194	(479)

Source: I-Sec research, Company reports

Table 4: Key Ratios
(Year ending March 31)

	FY15	FY16P	FY17E	FY18E
Per Share Data (Rs)				
EPS	10.7	11.2	14.1	18.7
Cash EPS	20.9	21.1	24.6	30.2
Dividend per share (DPS)	7.1	5.0	5.0	6.0
Book Value per share (BV)	41.6	56.4	65.5	78.2
OCF per share	27.1	22.9	27.1	31.1
FCF per share	17.1	6.4	5.5	14.3
Growth (%)				
Net Sales	11.6	3.0	11.7	15.4
EBITDA	29.5	(2.1)	16.5	19.3
PAT	60.0	12.2	25.2	32.7
Valuation Ratios (x)				
P/E	28.6	27.1	21.2	16.0
P/BV	7.3	5.4	4.5	3.8
EV / EBITDA	10.8	10.6	9.1	7.5
EV / Sales	1.8	1.7	1.5	1.3
Operating Ratios				
Employee cost / Sales (%)	11.8	14.2	13.6	13.3
Other Op exp/ Sales (%)	70.2	68.5	68.5	68.4
Effective Tax Rate (%)	33.8	33.6	33.0	33.0
Total D/E Ratio (x)	1.3	0.3	0.5	0.3
Net D/E Ratio (x)	1.2	0.3	0.3	0.2
OCF yield (%)	8.9	7.5	9.1	10.4
FCF yield (%)	5.6	2.1	1.9	4.8
Return/Profitability Ratios (%)				
EBITDA Margins	16.7	15.9	16.6	17.1
Net Income Margins	5.4	5.9	6.6	7.6
Return on Equity (RoE)	25.6	19.9	21.5	23.9

Source: I-Sec research, Company reports

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