

16 November 2024

India | Equity Research | Q2FY25 results review

## VRL Logistics

Logistics

### The star performer

VRL Logistics' (VRL) Q2FY25 EBITDA was 27.2% and 11.1% above our and consensus estimates, respectively. Key points: 1) Revenue rose 12.7% YoY driven by both realisation and volume uptick; 2) EBITDA margin improved YoY/QoQ to 16.6% due to higher realisation and operational efficiencies; 3) added 12 new branches; 4) Q2 capex stood at INR 698mn; and 5) Board has declared interim dividend of INR 5/share. Going ahead, management has guided for: i) Capex of INR 3.5bn in H2FY25 (including the vehicle capex); ii) 80-100 branch additions every year, and iii) vehicle capex of INR 450-500mn (quarterly). VRL's Q2 result came as a breather in an otherwise lacklustre quarter for surface logistics companies. Maintain **BUY** with TP of INR 655, based on 27x FY26E EPS.

### A rare case of simultaneous realisation and volume uptick

VRL's Q2FY25 EBITDA of INR 1.3bn (up 45% YoY) was ahead of our and street estimates. Key points: 1) Volume rose 4.3%/2.1% YoY/QoQ to 1,093kte; 2) EBITDA/te improved QoQ to INR 1,216 (INR 876 in Q2FY24 and INR 811 in Q1FY25), on account of increase in realisation/te (up 8.4% YoY) and improved operational efficiencies. 3) Increase in bulk purchase of fuel from refineries (up 510bps YoY to 35.51%) with lesser costs (by INR 2-2.5/litre) resulted in better control on fuel expenses; 4) control on dependency on outside vehicles resulted in reduction of lorry hire charges; 5) EBITDA margin improved YoY/QoQ to 16.6% (Q2FY24: 12.9%, Q1FY25: 11.9%); 6) sound EBITDA to cashflow conversion. Cashflow from operations stood at INR 2.3bn compared to EBITDA of INR 2.2bn in H1FY25 due to working capital unlocking.

### A turnaround case

During Q2FY25 concall, management highlighted that a price increase of 5-6% across customer categories (taken in Jun'24) has been absorbed. Hence, average realisation for Q2FY25 was up 7.7% QoQ (apart from base price, other charges have also increased). Despite subdued industry volume growth and price hike, VRL's volume grew 4.3% YoY. Furthermore, enhanced operating efficiencies resulted in EBITDA margin springing back to 16.6%. The company plans to incur capex of INR 3.5bn in H2FY25 which includes: 1) Mysore capex of INR 200-220mn, 2) Bengaluru capex of INR 2.5bn, 3) vehicle capex of INR 400-500mn every quarter. Bengaluru capex will yield savings of INR 190-200mn a year for the company.

### Financial Summary

| Y/E March (INR mn) | FY23A  | FY24A  | FY25E  | FY26E  |
|--------------------|--------|--------|--------|--------|
| Net Revenue        | 26,485 | 28,886 | 32,784 | 36,784 |
| EBITDA             | 4,017  | 3,934  | 5,155  | 5,818  |
| EBITDA Margin (%)  | 15.2   | 13.6   | 15.7   | 15.8   |
| Net Profit         | 3,232  | 886    | 1,596  | 2,124  |
| EPS (INR)          | 36.6   | 10.1   | 18.2   | 24.3   |
| EPS % Chg YoY      | 6.4    | (46.3) | 80.6   | 33.0   |
| P/E (x)            | 27.4   | 51.0   | 28.2   | 21.2   |
| EV/EBITDA (x)      | 13.1   | 14.3   | 11.2   | 9.6    |
| RoCE (%)           | 14.5   | 7.7    | 9.9    | 11.2   |
| RoE (%)            | 43.6   | 10.3   | 16.1   | 19.7   |

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### Market Data

|                     |          |
|---------------------|----------|
| Market Cap (INR)    | 45bn     |
| Market Cap (USD)    | 534mn    |
| Bloomberg Code      | VRLL IN  |
| Reuters Code        | VRLL BO  |
| 52-week Range (INR) | 799 /494 |
| Free Float (%)      | 40.0     |
| ADTV-3M (mn) (USD)  | 1.2      |

| Price Performance (%) | 3m    | 6m     | 12m    |
|-----------------------|-------|--------|--------|
| Absolute              | (1.4) | (5.9)  | (23.6) |
| Relative to Sensex    | 0.5   | (12.0) | (43.1) |

| ESG Score   | 2022 | 2023 | Change |
|-------------|------|------|--------|
| ESG score   | NA   | 62.6 | NA     |
| Environment | NA   | 48.9 | NA     |
| Social      | NA   | 61.1 | NA     |
| Governance  | NA   | 74.6 | NA     |

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

### Previous Reports

07-08-2024: [Q1FY25 results review](#)

22-05-2024: [Q4FY24 results review](#)

## Outlook and valuation: Expect margins to remain healthy

Unlike peers, VRL is into asset-heavy PTL business and operating leverage plays a very important role in its business as fixed cost is higher and it has to be absorbed through higher volume growth or higher realisation to maintain its margins. In this quarter, we witnessed both – a rare phenomenon. Further, margins improved in Q2FY25 on the back of improvement in realisation and operational efficiency. Also, the management has guided for capex of INR 3.5bn for H2FY25. Going forward, we have assumed volume growth of 7.5% for FY25 and 10% for FY26, while assuming improvement in realisation/te by 7.1% and 2% for FY25 and FY26, respectively. We continue to recommend VRL as one of our preferred picks in logistics space as the worst seems to be over for the company. We maintain **BUY** with TP of INR 655, based on 27x FY26E EPS.

### Key risks

**Key upside risk:** Better than expected price hike, ability to increase volumes further.

**Key downside risk:** Stiff competition from shifting freight traffic to rail leading to an increase in cost pressures for asset-heavy LTL players like VRL Logistics.

### Q2FY25 conference call takeaways

- Q2FY25 was marked by substantial revenue growth, improved profit margins, and robust cashflow.
- The company has successfully implemented freight rate hikes across all sectors and geographies, which has helped in bringing back its operational margins.
- The operations were normal during the quarter. The improvement in operational efficiencies in Q2FY25 led to improvement in EBITDA margin. This resulted in improvement in operational efficiencies such as increase in kms covered by own vehicles, better turnaround time (TAT) of vehicles, increase in load factor of vehicles, control on dependency of hired vehicles etc. Further, due to the control on dependency of hired vehicles, lorry hire reduced from ~7% to 5.5%.
- Revenue growth was primarily on account of increase in freight rates (~8% YoY) and volume growth (~4% YoY). Freight realisation per ton increased by ~8% from INR 6,681/te to INR 7,241/te. The volume growth was primarily due to enhanced branch network.
- Improvement in bulk purchase: Bulk purchase from refineries as a percent of total quantity increased by 5.1% from ~30% to ~35.5%. Average procuring cost was INR 85.91 in Q2FY25 vs INR 87.81 in Q2FY24. The price difference is INR 2/ltr to INR 2.5/ltr between the refinery price and the retail price.
- Capex: The company has slowed down its vehicle capex and incurred INR 180mn during Q2FY25. Further, it has invested ~INR 430mn to expand its transshipment hub facility in Mangalore and is planning to add similar facilities in Mysore and Bengaluru. For Mysore, the remaining investment will be INR 200-220mn, and for Bengaluru, the investment will be in the range of INR 2.4bn-INR 2.5bn. For H2FY25, the company plans to incur capex of INR 3.5bn which includes: 1) Mysore capex of INR 200-220mn, 2) Bengaluru capex of INR 2.5bn, 3) vehicle capex of INR 400-500mn every quarter. In FY26, major capex would be towards vehicle additions.
- With improvements in cashflow and lower capex, net debt of the company reduced to INR 2.6bn.

- Rationale for Bangalore capex: The facility was already taken on lease for its operations, for which VRL is paying rent of INR 15mn/month. This apart, VRL has kept deposit of INR 90mn for this facility and opportunity cost of that would be ~INR 10mn. The net effective savings for the company will be in the range of INR 190mn-INR 200mn a year.
- Branch Addition: Company added 54 new branches in H1FY25 (12 branches in Q2FY25). Closed -16 branches. Total number of branches as on Q2FY25 end was 1,247. Further, it added ~250+ branches in the past 2 years and these branches are contributing 8-10% of total tonnage on booking basis. The company has added ~82 branches (in past 12 months) and these branches contributed ~2.5% to the tonnage.
- Net debt: Net debt decreased from INR 2.62bn as on FY24 end to INR 2.59bn as on H1FY25 end. Further, management has guided for increase in net debt by INR 1bn due to higher capex in H2FY25. Number of GT vehicles increased from 5,994 in FY24 to 6,158 in H1FY25. Net vehicles increased by 164 in H1FY25.
- Fixed costs: Fixed costs stand at 30-35% of revenue. The key item includes 1) employee cost, 2) rental expenses (8 -9% of revenue) and 3) vehicle insurance and vehicle taxes. These will grow by ~7-8% annually.

### Exhibit 1: VRL Logistics' Q2FY25 performance review

| (INR mn)              | Q2FY25       | Q2FY24       | Chg. YoY (%) | Q1FY25       | Chg. QoQ (%) | FY24          | FY23          | Chg. YoY (%) |
|-----------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|
| <b>Revenue</b>        | <b>7,995</b> | <b>7,093</b> | 12.7         | <b>7,272</b> | 9.9          | <b>28,886</b> | <b>26,485</b> | 9.1          |
| -Operating expenses   | 5,197        | 4,882        | 6.5          | 4,979        | 4.4          | 19,668        | 17,990        | 9.3          |
| Gross Margin (%)      | 35.0         | 31.2         |              | 31.5         |              | 31.9          | 32.1          |              |
| -Employee wages       | 1,358        | 1,184        | 14.7         | 1,321        | 2.8          | 4,851         | 4,149         | 16.9         |
| -Other expenses       | 110          | 109          |              | 102          |              | 433           | 330           |              |
| <b>Total expenses</b> | <b>6,665</b> | <b>6,176</b> | 7.9          | <b>6,404</b> | 4.1          | <b>24,952</b> | <b>22,469</b> | 11.1         |
| <b>EBITDA</b>         | <b>1330</b>  | <b>918</b>   | 44.9         | <b>868</b>   | 53.1         | <b>3934</b>   | <b>4,017</b>  | (2.0)        |
| EBITDA Margin (%)     | 16.6         | 12.9         |              | 11.9         |              | 13.6          | 15.2          |              |
| Depreciation          | 638          | 522          | 22.2         | 615          | 3.7          | 2,162         | 1,591         | 35.8         |
| Other Income          | 25           | 60           | (58.4)       | 148          | (83.1)       | 211           | 143           | 47.1         |
| Finance Cost          | 224          | 185          | 21.1         | 226          |              | 779           | 543           | 43.3         |
| Exceptional item      | -            | 3            |              | -            |              | 3             | 1,571         |              |
| PBT                   | <b>492</b>   | <b>268</b>   | 84.0         | <b>175</b>   | 181.1        | <b>1208</b>   | 3596          | (66.4)       |
| Tax                   | 135          | 77           | 75.8         | 42           |              | 319           | 364           | (12.2)       |
| <b>PAT</b>            | <b>357</b>   | <b>191</b>   | 87.3         | <b>134</b>   | 167.7        | <b>889</b>    | <b>3,232</b>  | (72.5)       |
| OCI                   | (9)          | (2)          |              | 4            |              | 15            | 10            |              |
| <b>TCI</b>            | <b>348</b>   | <b>189</b>   | 84.6         | <b>137</b>   | 153.7        | <b>904</b>    | <b>3,242</b>  | (72.1)       |
| Volume (Kte)          | 1,093        | 1,048        | 4.3          | 1,070        | 2.1          | 4,276         | 3,912         | 9.3          |
| Realization (INR/te)  | 7,241        | 6,681        | 8.4          | 6,723        | 7.7          | 6,676         | 6,669         | 0.1          |
| EBITDA (INR/te)       | 1,216        | 876          | 38.9         | 811          | 49.9         | 920           | 1,051         | (12.5)       |

Source: I-Sec research, Company data

### Exhibit 2: Shareholding pattern

| %                       | Mar'24 | Jun'24 | Sep'24 |
|-------------------------|--------|--------|--------|
| Promoters               | 60.2   | 60.2   | 60.2   |
| Institutional investors | 29.9   | 29.9   | 29.4   |
| MFs and others          | 25.2   | 24.3   | 24.3   |
| FIs/Banks               | 0.1    | 1.2    | 1.0    |
| Insurance               | 1.6    | 0.2    | 0.2    |
| FIIIs                   | 3.0    | 3.8    | 3.9    |
| Others                  | 9.9    | 10.3   | 10.4   |

Source: Bloomberg, I-Sec research

### Exhibit 3: Price chart



Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 4: Profit & Loss

(INR mn, year ending March)

|  | FY23A         | FY24A         | FY25E         | FY26E         |
|--|---------------|---------------|---------------|---------------|
| <b>Net Sales</b>                       | <b>26,485</b> | <b>28,886</b> | <b>32,784</b> | <b>36,784</b> |
| Operating Expenses                     | 22,469        | 24,952        | 27,630        | 30,966        |
| <b>EBITDA</b>                          | <b>4,017</b>  | <b>3,934</b>  | <b>5,155</b>  | <b>5,818</b>  |
| EBITDA Margin (%)                      | 15.2          | 13.6          | 15.7          | 15.8          |
| Depreciation & Amortization            | 1,591         | 2,162         | 2,459         | 2,464         |
| EBIT                                   | 2,425         | 1,773         | 2,696         | 3,354         |
| Interest expenditure                   | 543           | 779           | 842           | 685           |
| Other Non-operating Income             | 143           | 211           | 280           | 170           |
| <b>Recurring PBT</b>                   | <b>2,025</b>  | <b>1,205</b>  | <b>2,134</b>  | <b>2,839</b>  |
| <b>Profit / (Loss) from Associates</b> | -             | -             | -             | -             |
| Less: Taxes                            | 364           | 321           | 538           | 715           |
| PAT                                    | 1,661         | 884           | 1,596         | 2,124         |
| Less: Minority Interest                | -             | -             | -             | -             |
| Extraordinaries (Net)                  | 1,571         | 3             | -             | -             |
| <b>Net Income (Reported)</b>           | <b>3,232</b>  | <b>886</b>    | <b>1,596</b>  | <b>2,124</b>  |
| <b>Net Income (Adjusted)</b>           | <b>3,232</b>  | <b>886</b>    | <b>1,596</b>  | <b>2,124</b>  |

Source Company data, I-Sec research

### Exhibit 5: Balance sheet

(INR mn, year ending March)

|   | FY23A         | FY24A         | FY25E         | FY26E         |
|---|---------------|---------------|---------------|---------------|
| <b>Total Current Assets</b>                       | <b>2,789</b>  | <b>2,088</b>  | <b>2,422</b>  | <b>3,505</b>  |
| of which cash & cash eqv.                         | 903           | 190           | 136           | 1,021         |
| <b>Total Current Liabilities &amp; Provisions</b> | <b>823</b>    | <b>900</b>    | <b>916</b>    | <b>936</b>    |
| <b>Net Current Assets</b>                         | <b>1,966</b>  | <b>1,188</b>  | <b>1,506</b>  | <b>2,569</b>  |
| Investments                                       | 1             | 1             | 1             | 1             |
| <b>Net Fixed Assets</b>                           | <b>14,820</b> | <b>19,002</b> | <b>20,843</b> | <b>20,879</b> |
| ROU Assets  | -             | -             | -             | -             |
| Capital Work-in-Progress                          | 384           | 236           | 236           | 236           |
| Total Intangible Assets                           | 2             | 3             | 3             | 3             |
| Other assets                                      | 922           | 810           | 810           | 810           |
| Deferred Tax Assets                               | -             | -             | -             | -             |
| <b>Total Assets</b>                               | <b>18,094</b> | <b>21,240</b> | <b>23,399</b> | <b>24,498</b> |
| <b>Liabilities</b>                                |               |               |               |               |
| <b>Borrowings</b>                                 | <b>7,874</b>  | <b>11,110</b> | <b>12,110</b> | <b>11,610</b> |
| <b>Deferred Tax Liability</b>                     | <b>461</b>    | <b>672</b>    | <b>672</b>    | <b>672</b>    |
| provisions  | -             | -             | -             | -             |
| other Liabilities                                 | -             | -             | -             | -             |
| Equity Share Capital                              | 883           | 875           | 875           | 875           |
| Reserves & Surplus                                | 8,875         | 8,583         | 9,742         | 11,341        |
| <b>Total Net Worth</b>                            | <b>9,758</b>  | <b>9,458</b>  | <b>10,617</b> | <b>12,215</b> |
| Minority Interest                                 | -             | -             | -             | -             |
| <b>Total Liabilities</b>                          | <b>18,094</b> | <b>21,240</b> | <b>23,399</b> | <b>24,498</b> |

Source Company data, I-Sec research

### Exhibit 6: Quarterly trend

(INR mn, year ending March)

|                     | Dec-23 | Mar-24 | Jun-24 | Sep-24 |
|---------------------|--------|--------|--------|--------|
| Net Sales           | 7,367  | 7,684  | 7,272  | 7,995  |
| % growth (YOY)      | 8.1    | 10.1   | 7.9    | 12.7   |
| EBITDA              | 943    | 1,052  | 868    | 1,330  |
| Margin %            | 12.8   | 13.7   | 11.9   | 16.6   |
| Other Income        | 24     | 38     | 148    | 25     |
| Extraordinaries     | 0      | 0      | 0      | 0      |
| Adjusted Net Profit | 136    | 215    | 134    | 357    |

Source Company data, I-Sec research

### Exhibit 7: Cashflow statement

(INR mn, year ending March)

|  | FY23A        | FY24A        | FY25E        | FY26E        |
|--|--------------|--------------|--------------|--------------|
| <b>Operating Cashflow</b>              | <b>3,183</b> | <b>4,239</b> | <b>4,525</b> | <b>5,094</b> |
| Working Capital Changes                | (580)        | 409          | (372)        | (178)        |
| Capital Commitments                    | (4,124)      | (2,848)      | (4,300)      | (2,500)      |
| <b>Free Cashflow</b>                   | <b>(941)</b> | <b>1,392</b> | <b>225</b>   | <b>2,594</b> |
| <b>Other investing cashflow</b>        | <b>2,679</b> | <b>414</b>   | -            | -            |
| Cashflow from Investing Activities     | (1,445)      | (2,433)      | (4,300)      | (2,500)      |
| Issue of Share Capital                 | (629)        | (141)        | -            | -            |
| Interest Cost                          | (124)        | (217)        | (842)        | (685)        |
| Inc (Dec) in Borrowings                | (956)        | (943)        | 1,000        | (500)        |
| Dividend paid                          | -            | (438)        | (437)        | (525)        |
| Others                                 | -            | -            | -            | -            |
| Cash flow from Financing Activities    | (1,709)      | (1,738)      | (279)        | (1,709)      |
| <b>Chg. in Cash &amp; Bank balance</b> | <b>30</b>    | <b>68</b>    | <b>(54)</b>  | <b>885</b>   |
| Closing cash & balance                 | 115          | 183          | 136          | 1,021        |

Source Company data, I-Sec research

### Exhibit 8: Key ratios

(Year ending March)

|                             | FY23A | FY24A  | FY25E | FY26E |
|-----------------------------|-------|--------|-------|-------|
| <b>Per Share Data (INR)</b> |       |        |       |       |
| Reported EPS                | 18.8  | 10.1   | 18.2  | 24.3  |
| Adjusted EPS (Diluted)      | 36.6  | 10.1   | 18.2  | 24.3  |
| Cash EPS                    | 54.6  | 34.9   | 46.4  | 52.5  |
| Dividend per share (DPS)    | -     | -      | -     | -     |
| Book Value per share (BV)   | 110.5 | 108.1  | 121.4 | 139.7 |
| Dividend Payout (%)         | -     | -      | -     | -     |
| <b>Growth (%)</b>           |       |        |       |       |
| Net Sales                   | 22.4  | 9.1    | 13.5  | 12.2  |
| EBITDA                      | 7.2   | (2.0)  | 31.0  | 12.9  |
| EPS (INR)                   | 6.4   | (46.3) | 80.6  | 33.0  |
| <b>Valuation Ratios (x)</b> |       |        |       |       |
| P/E                         | 27.4  | 51.0   | 28.2  | 21.2  |
| P/CEPS                      | 9.4   | 14.8   | 11.1  | 9.8   |
| P/BV                        | 4.7   | 4.8    | 4.2   | 3.7   |
| EV / EBITDA                 | 13.1  | 14.3   | 11.2  | 9.6   |
| Dividend Yield (%)          | -     | -      | -     | -     |
| <b>Operating Ratios</b>     |       |        |       |       |
| Gross Profit Margins (%)    | 32.1  | 31.9   | 33.7  | 33.0  |
| EBITDA Margins (%)          | 15.2  | 13.6   | 15.7  | 15.8  |
| Effective Tax Rate (%)      | 18.0  | 26.7   | 25.2  | 25.2  |
| Net Profit Margins (%)      | 6.3   | 3.1    | 4.9   | 5.8   |
| Net Debt / Equity (x)       | 0.7   | 1.2    | 1.1   | 0.9   |
| Net Debt / EBITDA (x)       | 1.7   | 2.8    | 2.3   | 1.8   |
| Total Asset Turnover (x)    | 1.9   | 1.7    | 1.6   | 1.6   |
| Inventory Turnover Days     | 9     | 6      | 8     | 8     |
| Receivables Days            | 14    | 13     | 12    | 12    |
| Payables Days               | 2     | 2      | 2     | 2     |
| <b>Profitability Ratios</b> |       |        |       |       |
| RoE (%)                     | 43.6  | 10.3   | 16.1  | 19.7  |
| RoCE (%)                    | 14.5  | 7.7    | 9.9   | 11.2  |
| RoIC (%)                    | 15.0  | 7.9    | 10.1  | 11.4  |

Source Company data, I-Sec research

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