

VRL's Q2FY25 EBITDA beat street/our estimates by 22%/25%, respectively, as realizations improved 8% YoY owing to price hikes undertaken across customers. Management's plan to acquire transshipment hubs via internal accruals and borrowings is expected to strain VRL's balance sheet and return ratios in the near term, but given the strategic nature of the investment, should be value accretive over the long term. With various players announcing freight hikes, investor concerns around volume trajectory should abate, in our view. Factoring in the beat in Q2, we increase our EBITDA estimates by 9%/8% for FY25/26, respectively, but cut our PAT estimates by 4% for FY26 owing to higher depreciation and interest expenses. We are maintaining our BUY rating given the inexpensive valuations (CMP implies 24x FY26E PER, vs LTA of 35x). Our revised Sep-25E TP stands at Rs625 based on DCF methodology.

VRL Logistics: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	26,485	28,886	32,136	36,067	40,755
EBITDA	4,017	3,934	4,983	5,980	6,757
Adj. PAT	1,661	886	1,178	1,933	2,531
Adj. EPS (Rs)	37.0	10.2	13.5	22.1	28.9
EBITDA margin (%)	15.2	13.6	15.5	16.6	16.6
EBITDA growth (%)	7.2	(2.0)	26.6	20.0	13.0
Adj. EPS growth (%)	103.9	(72.4)	32.2	64.1	31.0
RoE (%)	20.4	9.2	12.0	17.7	19.9
RoIC (%)	18.5	10.6	12.1	14.2	16.8
P/E (x)	27.1	50.9	38.3	23.3	17.8
EV/EBITDA (x)	11.6	12.1	10.0	8.3	7.1
P/B (x)	4.6	4.8	4.4	3.9	3.3
FCFF yield (%)	(1.9)	2.9	0.0	4.9	6.7

Source: Company, Emkay Research

Freight rate hikes bolster margins

VRL reported revenue growth of 13% YoY in Q2FY25 on the back of volumes growing 4%, and improvement in realization by 8% YoY on account of price hikes taken in Jul-24 of up to 10% to shift inflationary costs onto the customer. Gross margins expanded by 382bps YoY on the back of COGs increasing meagerly by 6%. EBITDA stood at Rs1.3bn (+45% YoY). Cost efficiencies improved owing to: 1) lower hiring of outsourced vehicles; 2) increase in bulk procurement of fuel; and 3) higher utilization of owned vehicles. SG&A expenses remained flat on YoY basis. EBITDAM expanded by 369bps YoY. Depreciation costs increased 22% YoY on the back of vehicle additions. Finance costs rose 21% YoY, while net debt declined 1% at Rs2.6bn for period ended Sep-24 vs Mar-24. Q2 capex was reported at Rs698mn. PAT was up 80% YoY on the back of strong operating performance. Interim dividend of Rs5/sh has been declared.

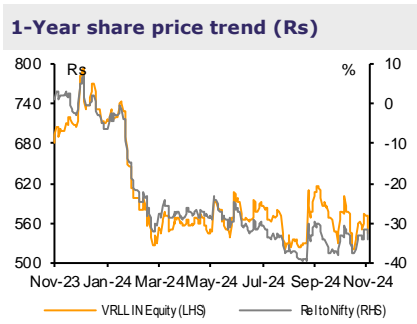
Outlook and risks

Management's plans of acquiring strategic transshipment hubs at Bengaluru and Mysuru for a capex of ~Rs2.7bn, financed by internal accruals and external borrowings (up to Rs1.5bn), is likely to strain the company's balance sheet and return ratios. While recurring impact of these transactions on cash flows will be limited in the medium term (lease rentals will be substituted by interest outgo), over the long term, these investments seem necessary given the nature of the business. Absorption of rate hikes in Q2 across customer base should allay concerns around margins contracting over the last two years due to lack of volume growth as well as rising costs. In line with trends visible during Q2, we expect volumes to grow by mid-single digits for FY25 as customers digest the steep price hike. We model FY24-27E volume CAGR of 9% and realization CAGR of 3% with margins expanding by 300bps over FY24-27E on the back of operating leverage and rate hikes. **Key risks:** Slowdown in the economy, rise in fuel prices, shortage of labor, competition from unorganized players, and modal shift to rail on the impending commissioning of DFC.

Target Price – 12M	Sep-25
Change in TP (%)	(7.4)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	21.3
CMP (14-Nov-24) (Rs)	515.4

Stock Data	Ticker
52-week High (Rs)	799
52-week Low (Rs)	494
Shares outstanding (mn)	87.5
Market-cap (Rs bn)	45
Market-cap (USD mn)	534
Net-debt, FY25E (Rs mn)	4,980
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	105.3
ADTV-3M (USD mn)	1.2
Free float (%)	-
Nifty-50	23,533
INR/USD	84.4
Shareholding, Sep-24	
Promoters (%)	60.2
FPIs/MFs (%)	3.9/25.5

Price Performance			
(%)	1M	3M	12M
Absolute	(10.4)	(1.4)	(23.6)
Rel. to Nifty	(4.3)	1.1	(36.9)

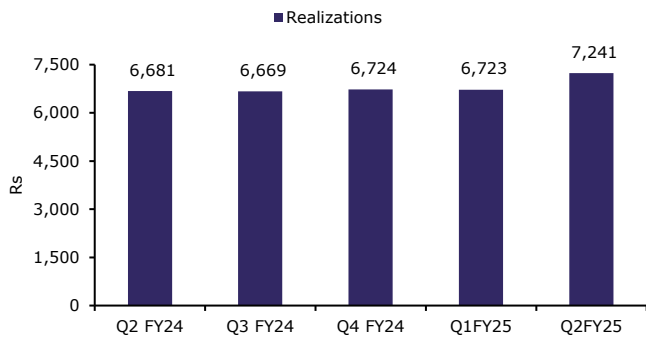


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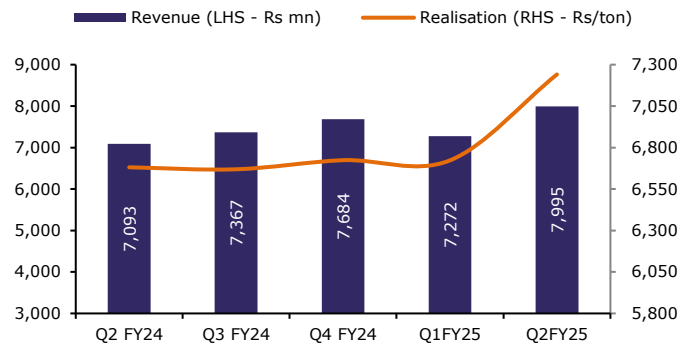
Story in Charts

Exhibit 1: Q2FY25 – Realizations grew 8% YoY aiding...



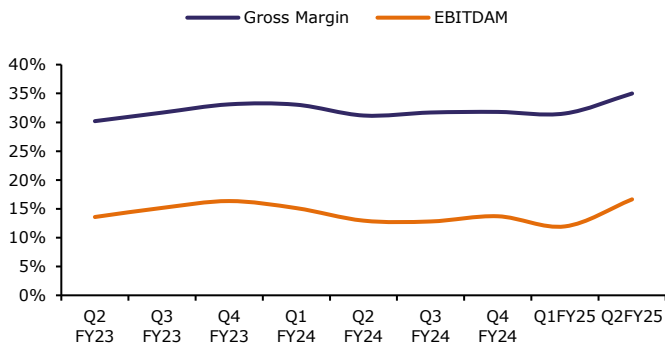
Source: Company, Emkay Research

Exhibit 2: ...revenue growth of 13% YoY



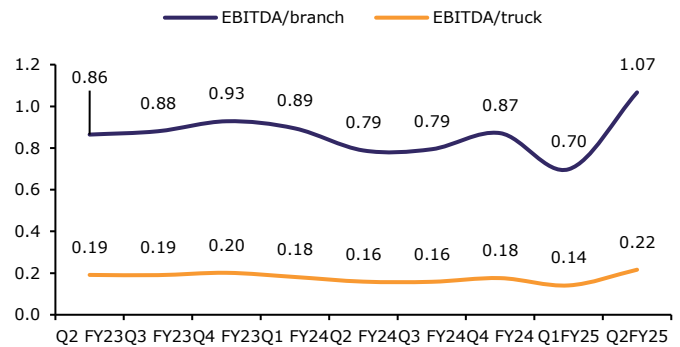
Source: Company, Emkay Research

Exhibit 3: Margins improved YoY and QoQ due to freight rate hikes...



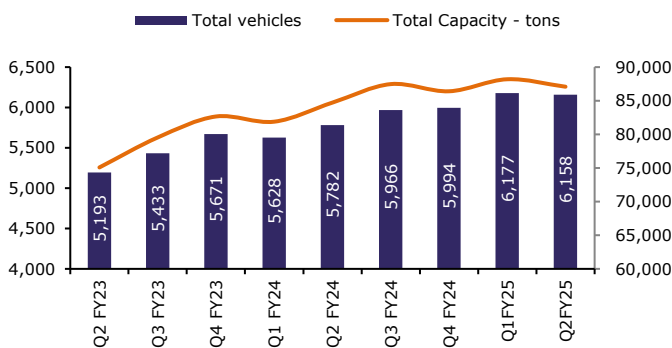
Source: Company, Emkay Research

Exhibit 4: ...with per-unit profitability shooting up on YoY and QoQ basis



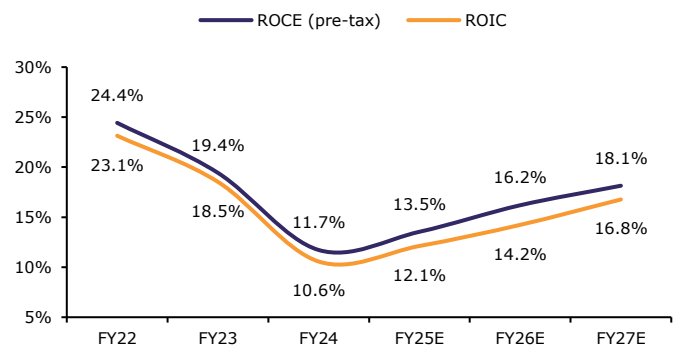
Source: Company, Emkay Research

Exhibit 5: Rationalization in vehicle additions continue



Source: Company, Emkay Research

Exhibit 6: Return ratios to improve despite elevated capex in FY25



Source: Company, Emkay Research

Exhibit 7: Summary of quarterly financials

(Rs mn)	Q2FY24	Q1FY25	Q2FY25	YoY	QoQ
Net sales	7,093	7,272	7,995	13%	10%
Operating Expenses	(6,175)	(6,403)	(6,665)	8%	4%
Freight, handling, and servicing cost	4,882	4,979	5,197	6%	4%
Employee costs	1,184	1,321	1,358	15%	3%
Other operating expenses	109	102	110	0%	7%
Gross Profit	2,211	2,293	2,798	27%	22%
EBITDA	918	869	1,330	45%	53%
Margins	12.9%	11.9%	16.6%		
Depreciation	(522)	(615)	(638)	22%	4%
EBIT	396	254	692	75%	173%
Other income	60	148	25	-58%	-83%
Interest	(185)	(226)	(224)	21%	-1%
Extra ordinary items	5	114			
PBT	276	176	493	79%	180%
Tax	(77)	(42)	(135)	76%	224%
PAT	199	134	358	80%	167%
Adj. PAT	194	21	358	84%	NA
EPS (Rs)	2.28	1.54	4.10	80%	167%

Margins (%)	Q2FY24	Q1FY25	Q2FY25	YoY (bps)	QoQ (bps)
Gross margin	31.2%	31.5%	35.0%	382	347
EBITDA	12.9%	11.9%	16.6%	369	469
EBIT	5.6%	3.5%	8.7%	307	517
EBT	3.9%	2.4%	6.2%	228	375
PAT	2.8%	1.8%	4.5%	167	263

Source: Company, Emkay Research

Exhibit 8: Actuals vs estimates (Q2FY25)

(Rs mn)	Actual	Estimate (Emkay)	Consensus estimate (Bloomberg)	Variation	
				Emkay	Consensus
Revenue	7,995	7,905	7,868	1%	2%
EBITDA	1,330	1,067	1,090	25%	22%
EBITDA Margin	17%	14%	14%	314 bps	279 bps
PAT	358	208	225	72%	59%

Source: Company, Emkay Research

Exhibit 9: Change in estimates

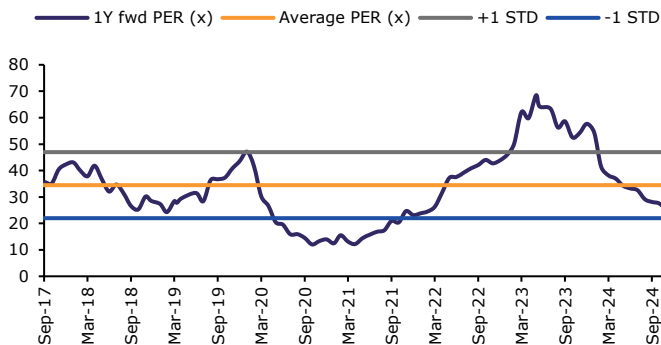
Particulars	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	32,440	32,136	-0.9%	36,526	36,067	-1.3%	41,274	40,755	-1.3%
EBITDA	4,569	4,983	9.0%	5,531	5,980	8.1%	6,456	6,757	4.7%
EBITDA Margin (%)	14.1	15.5	142 bps	15.1	16.6	144 bps	15.6	16.6	94 bps
PAT	1,110	1,178	6.1%	2,015	1,933	-4.1%	2,594	2,531	-2.4%

Source: Company, Emkay Research

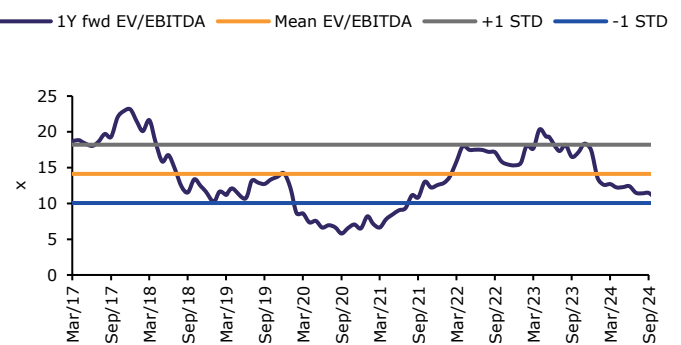
Exhibit 10: We value VRL at Rs625

Particulars (Rs mn)	FY24	FY25E	FY26E	FY27E	FY30E	FY35E
Revenue	28,886	32,136	36,067	40,755	56,544	88,470
NOPLAT	1,303	1,757	2,279	2,794	3,425	5,358
Non-cash items	2,162	2,616	2,929	3,017	3,807	6,487
Change in WC	59	(113)	(154)	(183)	(229)	(244)
Capex	(2,848)	(4,712)	(2,968)	(2,748)	(2,018)	(3,157)
FCFF	676	(451)	2,087	2,880	4,984	8,445
WACC	13%					
Terminal growth	4%					
PV of CFs (FY24-35E)	26,307					
PV of terminal value	31,179					
Total EV	57,485					
(Less) Net Debt	4,980					
Total Equity value	52,506					
Total no. of shares (mn; Sep-24)	87					
Target price/share (Rs) Sep-25E	625					

Source: Company, Emkay Research

Exhibit 11: VRL is trading at 28% discount from its LTA PER...

Source: Company, Emkay Research

Exhibit 12: ...And 24% discount from its LTA EV/EBITDA

Source: Company, Emkay Research

Call highlights

- The management guided tonnage growth for H2FY25 to be 4-5% and maintaining of realization trajectory which will aid improvement in margins.
- H2FY25 is expected to be robust from volumes driven by festivities. They alluded to competition following suit in terms of GPI, hence, growth in tonnage likely to be maintained.
- Capex guidance for FY25: 240-250cr investment toward adding owned facilities in Bangalore, 21-22cr investment toward expansion of owned transshipment area in Mangalore, and ~40cr/quarter investment for vehicle additions.
- Capex requirements to be funded by internal accruals from cash flows to the extent of Rs200-250cr and remainder to be funded through additional borrowings of Rs100-150cr.
- Management alluded to focusing on extensive additions in northern and eastern geographies to enhance the network and offset the low demand across industry. Vehicle additions, otherwise, shall be dependent on improvement in volumes.
- Guidance for additions were 40-50 branches in the next 5 months, totaling up to 80-100 branches by FY25-end in new markets like North East, Uttar Pradesh, Bihar, Jharkhand, and West Bengal. Growth rate in North East is 17-18% compared with South growing at only 3-4%.
- Management guided on depreciation to decline over a period of time and interests on lease to transition to finance costs on the back of transition in ownership of the facilities. Margins are optimum now on the back of transfer of all incremental costs onto the customers.
- Bangalore facility of 25 acres where the current rental expense is Rs15mn per month + Rs90mn deposit, is being converted into a wholly-owned facility. This will not lead to margin accretion due to incremental finance costs of ~8% used to purchase the hub.
- Business has improved operational efficiencies through increase in vehicle utilization, load factor, and turnaround time. Kilometers completed per day has increased 8-10%.
- Net Working capital days for Q2 was 12.
- Industry mix is as follows: Textile 15-18%, Agro commodities 9-10%, Pharma/Hardware/Industrial goods 5-10% each.
- 35-38% of the business are door-to-door deliveries which have similar price points as express players.
- 30-35% of the costs are of fixed nature and rental expenses remain 8-10% of sales.

VRL Logistics: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	26,485	28,886	32,136	36,067	40,755
Revenue growth (%)	22.4	9.1	11.3	12.2	13.0
EBITDA	4,017	3,934	4,983	5,980	6,757
EBITDA growth (%)	7.2	(2.0)	26.6	20.0	13.0
Depreciation & Amortization	1,591	2,162	2,616	2,929	3,017
EBIT	2,425	1,773	2,367	3,051	3,740
EBIT growth (%)	5.4	(26.9)	33.5	28.9	22.6
Other operating income	0	0	0	0	0
Other income	143	211	276	433	489
Financial expense	543	779	1,057	897	841
PBT	2,025	1,205	1,586	2,587	3,389
Extraordinary items	1,571	5	0	0	0
Taxes	364	319	408	655	857
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	3,232	891	1,178	1,933	2,531
PAT growth (%)	101.9	(72.4)	32.2	64.1	31.0
Adjusted PAT	1,661	886	1,178	1,933	2,531
Diluted EPS (Rs)	37.0	10.2	13.5	22.1	28.9
Diluted EPS growth (%)	103.9	(72.4)	32.2	64.1	31.0
DPS (Rs)	5.1	0.0	5.0	5.0	5.0
Dividend payout (%)	13.7	0.0	37.1	22.6	17.3
EBITDA margin (%)	15.2	13.6	15.5	16.6	16.6
EBIT margin (%)	9.2	6.1	7.4	8.5	9.2
Effective tax rate (%)	18.0	26.5	25.8	25.3	25.3
NOPLAT (pre-IndAS)	1,989	1,303	1,757	2,279	2,794
Shares outstanding (mn)	87.5	87.5	87.5	87.5	87.5

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	2,025	1,205	1,586	2,587	3,389
Others (non-cash items)	0	0	0	0	0
Taxes paid	(856)	(264)	(408)	(655)	(857)
Change in NWC	249	2,776	(113)	57	68
Operating cash flow	3,183	4,239	4,711	5,383	5,968
Capital expenditure	(4,085)	(2,848)	(4,712)	(2,968)	(2,748)
Acquisition of business	0	0	0	0	0
Interest & dividend income	18	276	433	489	548
Investing cash flow	(1,445)	(2,433)	(5,613)	(3,959)	(3,838)
Equity raised/(repaid)	0	(9)	0	0	0
Debt raised/(repaid)	356	1,002	2,000	0	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(543)	(779)	(1,057)	(897)	(841)
Dividend paid (incl tax)	442	0	437	437	437
Others	(2,022)	(1,954)	(598)	(466)	(465)
Financing cash flow	(1,768)	(1,739)	782	(925)	(868)
Net chg in Cash	(29)	66	(119)	498	1,262
OCF	3,183	4,239	4,711	5,383	5,968
Adj. OCF (w/o NWC chg.)	3,432	7,015	4,598	5,440	6,036
FCFF	(902)	1,392	(1)	2,415	3,220
FCFE	(1,428)	890	(625)	2,007	2,927
OCF/EBITDA (%)	79.3	107.7	94.6	90.0	88.3
FCFE/PAT (%)	(44.2)	99.9	(53.1)	103.9	115.6
FCFF/NOPLAT (%)	(45.3)	106.8	0.0	106.0	115.3

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	883	875	875	875	875
Reserves & Surplus	8,875	8,583	9,324	10,819	12,913
Net worth	9,758	9,458	10,198	11,693	13,787
Minority interests	0	0	0	0	1
Deferred tax liability (net)	461	672	672	672	672
Total debt	1,791	2,793	4,793	4,793	4,793
Total liabilities & equity	12,011	12,923	15,663	17,158	19,253
Net tangible fixed assets	9,985	11,982	15,592	16,879	17,754
Net intangible assets	2	3	3	3	3
Net ROU assets	4,826	7,011	6,398	6,141	6,086
Capital WIP	384	236	236	236	236
Goodwill	0	0	0	0	0
Investments [JV/Associates]	9	9	9	9	9
Cash & equivalents	116	183	(187)	336	1,677
Current assets (ex-cash)	3,595	2,716	2,815	3,043	3,315
Current Liab. & Prov.	6,907	8,593	8,579	8,864	9,204
NWC (ex-cash)	1,203	1,144	1,257	1,411	1,594
Total assets	12,011	13,547	16,287	17,782	19,876
Net debt	1,675	2,610	4,980	4,457	3,116
Capital employed	12,011	12,923	15,663	17,158	19,253
Invested capital	16,016	20,141	23,250	24,434	25,438
BVPS (Rs)	111.6	108.1	116.6	133.7	157.6
Net Debt/Equity (x)	0.2	0.3	0.5	0.4	0.2
Net Debt/EBITDA (x)	0.4	0.7	1.0	0.7	0.5
Interest coverage (x)	0.2	0.4	0.4	0.3	0.2
RoCE (%)	19.4	11.7	13.5	16.2	18.1

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	27.1	50.9	38.3	23.3	17.8
P/CE(x)	13.9	14.8	11.9	9.3	8.1
P/B (x)	4.6	4.8	4.4	3.9	3.3
EV/Sales (x)	1.8	1.7	1.6	1.4	1.2
EV/EBITDA (x)	11.6	12.1	10.0	8.3	7.1
EV/EBIT(x)	19.3	26.9	21.2	16.2	12.9
EV/IC (x)	2.9	2.4	2.2	2.0	1.9
FCFF yield (%)	(1.9)	2.9	0.0	4.9	6.7
FCFE yield (%)	(3.2)	2.0	(1.4)	4.5	6.5
Dividend yield (%)	1.0	0.0	1.0	1.0	1.0
DuPont-RoE split					
Net profit margin (%)	6.3	3.1	3.7	5.4	6.2
Total asset turnover (x)	2.6	2.3	2.2	2.2	2.2
Assets/Equity (x)	1.3	1.3	1.5	1.5	1.4
RoE (%)	20.4	9.2	12.0	17.7	19.9
DuPont-RoIC					
NOPLAT margin (%)	7.5	4.5	5.5	6.3	6.9
IC turnover (x)	2.0	1.7	1.6	1.7	1.8
RoIC (%)	18.5	10.6	12.1	14.2	16.8
Operating metrics					
Core NWC days	16.6	14.5	14.3	14.3	14.3
Total NWC days	16.6	14.5	14.3	14.3	14.3
Fixed asset turnover	1.3	1.2	1.0	1.0	1.0
Opex-to-revenue (%)	16.9	18.3	18.2	17.7	17.9

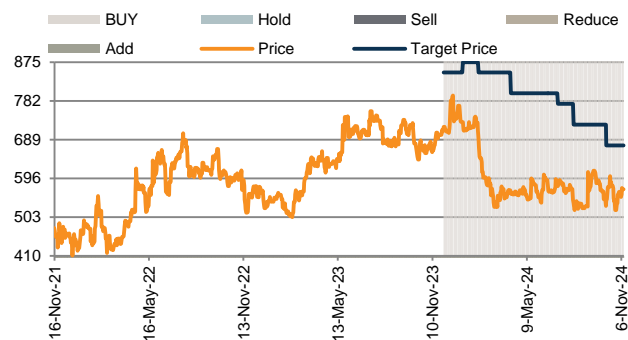
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
22-Oct-24	548	675	Buy	Anshul Agrawal
08-Oct-24	543	675	Buy	Anshul Agrawal
20-Aug-24	535	725	Buy	Anshul Agrawal
06-Aug-24	536	725	Buy	Anshul Agrawal
07-Jul-24	577	775	Buy	Anshul Agrawal
21-May-24	583	800	Buy	Anshul Agrawal
08-Apr-24	559	800	Buy	Anshul Agrawal
22-Feb-24	580	850	Buy	Anshul Agrawal
06-Feb-24	689	850	Buy	Anshul Agrawal
15-Jan-24	716	875	Buy	Anshul Agrawal
07-Jan-24	731	875	Buy	Anshul Agrawal
24-Dec-23	739	850	Buy	Anshul Agrawal
01-Dec-23	720	850	Buy	Anshul Agrawal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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