

# VRL Logistics Ltd

## Fast mover

VRL Logistics Ltd is India's leading surface logistics and parcel delivery company with one of the largest fleet size of ~4000 goods transport vehicle. VRL operates on a pan-India level through its 624 branches of which 48 act as strategic transshipment hubs. Integrated hub and spoke model has led to improved operational efficiency as it enables VRL to transport parcels of various sizes and provides multiple points of access to its clients for booking and delivery of goods. VRL also owns and operates 455 passenger buses across central and south India. Freight logistics contributes ~76% of total revenues while ~21% comes from passenger transportation segment. Wind power generation forms a small part of the company's overall business contributing ~2% towards total revenues.

**The issue:** This is an offer for sale cum fresh issue. Offer for sale is made by PE investor NSR-PE Mauritius LLC who will be offering 1.45cr equity shares along with the promoters who will be selling 0.25crs equity shares. The company plans to raise Rs. 117crs by issuing ~0.57cr fresh equity shares.

**Objects of the issue:** Of the Rs. 117 cr raised, Rs. 67.4 cr will be used for purchasing new trucks, Rs. 28cr will be used to repay debt and the remaining amount will be used for general corporate purposes.

## Valuation

At the upper end of Rs195-205 price range, the stock is valued at 14.7x FY16E EPS of Rs13.9. Peers like Gati and Transport Corporation of India Trade in the range of 18x-25x. We note that apart from plain vanilla surface logistics, these peers also provide niche services like express delivery, ecommerce delivery and supply chain management and therefore trade at higher multiples. Nevertheless, with the improving macroeconomic environment, contribution of freight transportation via road is poised to increase and VRL with its largest fleet size, superior track record, strong brand name, diverse client base, and vast management experience is all set to benefit from the opportunities provide by the sector. Recommend investors to **Subscribe**.

## Financial summary

Y/e 31 Mar (Rs cr)	FY14	FY15E	FY16E	FY17E
Revenues	1,494	1,679	1,924	2,229
yoy growth (%)	12.7	12.4	14.5	15.9
Operating profit	207	269	324	382
OPM (%)	13.8	16.0	16.8	17.1
Pre-exceptional PAT	51	93	127	166
Reported PAT	57	93	127	166
yoy growth (%)	25.1	62.9	36.5	30.7
EPS (Rs)	5.9	10.9	13.9	18.2
P/E (x)	34.7	18.8	14.7	11.3
P/BV (x)	5.7	4.9	3.5	3.1
EV/EBITDA (x)	10.2	7.5	6.0	4.9
Debt/Equity (x)	1.2	0.9	0.6	0.5
RoE (%)	20.8	28.0	28.4	29.2
RoCE (%)	17.1	24.2	27.0	29.6

Source: RHP, India Infoline Research

Note: per share ratios based on diluted equity, price assumed at Rs205 for EV calculations

## Rating: **Subscribe**

Issue opens:	15-Apr-15
Issue closes:	17-Apr-15
Price band (Rs):	195-205

### Issue details

Face value (Rs)	10
Issue size (Rs cr)	450-467
Issue type	100% Book building
Industry	Logistics

### Shareholding pattern

(%)	Pre IPO	Post IPO
Promoters	77.21	69.57
Others	22.79	30.43

### Share reservation

	(%)
QIB	50
Non institutional	15
Retail	35

### Company management

Vijay Sankeshwar	CMD
Anand Sankeshwar	Managing Director
Sunil Nalavdi	CFO

### Issue manager

BRLM	ICICI Sec, HSBC
Registrar	Karvy Computershare
Listing	BSE, NSE

## Research Analyst:

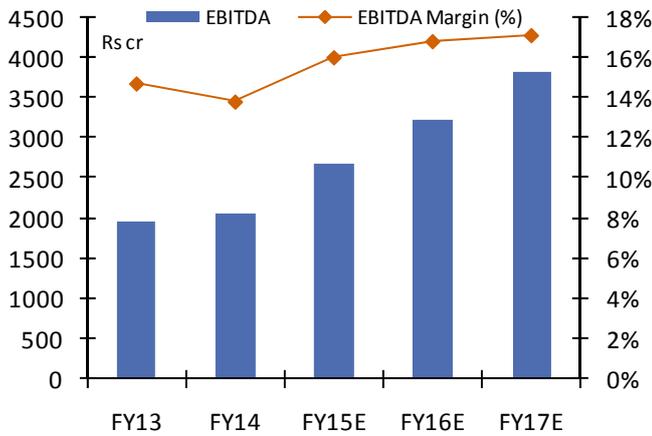
Pratik Tholiya

research@indiainfoline.com

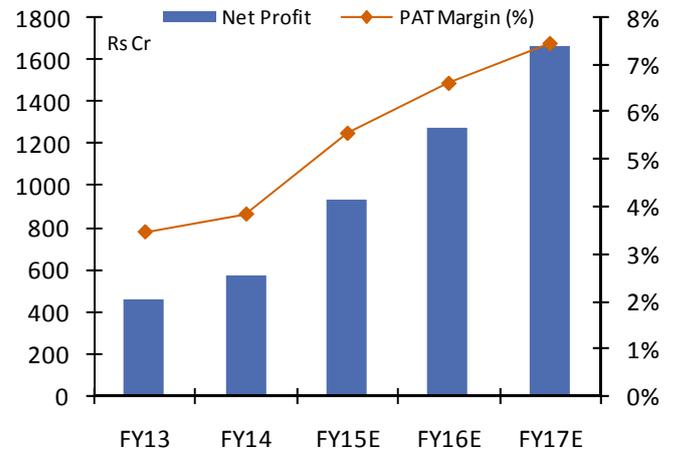
### Strong growth track record

VRL's revenue and PAT CAGR over FY10-14 stood at ~20% and ~19% respectively in spite of a challenging economic environment. With the improving economic scenario and strengthening business sentiments, freight volumes are expected to witness strong pickup. VRL's strength lies in its long standing relations with Ashok Leyland that has helped it in procuring trucks and spares parts at 10-30% cheaper than the market rates. Also, due to its sheer size, VRL has managed to negotiate favorable diesel price from IOC and hence reduced its operating costs as fuel forms one third of the total operating expenses. We expect VRL to register strong earnings CAGR of ~43% over FY14-17E led by 330 bps OPM expansion. This will result in strong free cash flows and help in bringing down the D/E ratio below 1x.

#### OPM set to expand

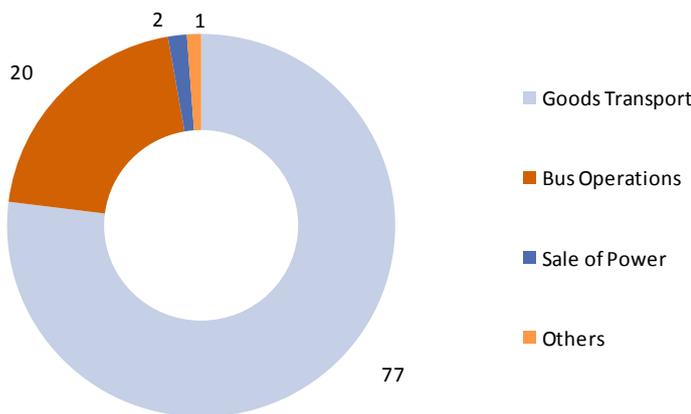


#### ... leading to robust growth in PAT



Source: Company, India Infoline Research

#### Revenue breakup-9M FY15 (%)



Source: Company, India Infoline Research

#### Key risks

Key risks include inability to fully pass on any increase in toll charges, fragmented nature of the industry with the presence of large number of truck operators from the unorganized segment offering services at lower rates and delay in economic revival resulting in slower off take in industrial activity.

## 'Best Broker of the Year' – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

## 'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

## 'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

## Other awards



### Recommendation parameters for fundamental reports:

**Buy** – Absolute return of over +15%

**Accumulate** – Absolute return between 0% to +15%

**Reduce** – Absolute return between 0% to -10%

**Sell** – Absolute return below -10%

**Call Failure** - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

India Infoline Group (hereinafter referred as IIFL) is engaged in diversified financial services business including equity broking, DP services, merchant banking, portfolio management services, distribution of Mutual Fund, insurance products and other investment products and also loans and finance business. India Infoline Ltd ("hereinafter referred as IIL") is a part of the IIFL and is a member of the National Stock Exchange of India Limited ("NSE") and the BSE Limited ("BSE"). IIL is also a Depository Participant registered with NSDL & CDSL, a SEBI registered merchant banker and a SEBI registered portfolio manager. IIL is a large broking house catering to retail, HNI and institutional clients. It operates through its branches and authorised persons and sub-brokers spread across the country and the clients are provided online trading through internet and offline trading through branches and Customer Care.

### Terms & Conditions and Other Disclosures:-

- This research report ("Report") is for the personal information of the authorised recipient(s) and is not for public distribution and should not be reproduced or redistributed to any other person or in any form without IIL's prior permission. The information provided in the Report is from publicly available data, which we believe, are reliable. While reasonable endeavors have been made to present reliable data in the Report so far as it relates to current and historical information, but IIL does not guarantee the accuracy or completeness of the data in the Report. Accordingly, IIL or any of its connected persons including its directors or subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained, views and opinions expressed in this publication.
- Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by IIFL and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.
- The Report also includes analysis and views of our research team. The Report is purely for information purposes and does not construe to be investment recommendation/advice or an offer or solicitation of an offer to buy/sell any securities. The opinions expressed in the Report are our current opinions as of the date of the Report and may be subject to change from time to time without notice. IIL or any persons connected with it do not accept any liability arising from the use of this document.
- Investors should not solely rely on the information contained in this Report and must make investment decisions based on their own investment objectives, judgment, risk profile and financial position. The recipients of this Report may take professional advice before acting on this information.

- e) IIL has other business segments / divisions with independent research teams separated by 'chinese walls' catering to different sets of customers having varying objectives, risk profiles, investment horizon, etc and therefore, may at times have, different and contrary views on stocks, sectors and markets.
- f) This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to local law, regulation or which would subject IIL and its affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this Report may come are required to inform themselves of and to observe such restrictions.
- g) As IIL along with its associates, are engaged in various financial services business and so might have financial, business or other interests in other entities including the subject company/ies mentioned in this Report. However, IIL encourages independence in preparation of research report and strives to minimize conflict in preparation of research report. IIL and its associates did not receive any compensation or other benefits from the subject company/ies mentioned in the Report or from a third party in connection with preparation of the Report. Accordingly, IIL and its associates do not have any material conflict of interest at the time of publication of this Report.
- h) As IIL and its associates are engaged in various financial services business, it might have:-
  - (a) received any compensation (except in connection with the preparation of this Report) from the subject company in the past twelve months; (b) managed or co-managed public offering of securities for the subject company in the past twelve months; (c) received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) engaged in market making activity for the subject company.
- i) IIL and its associates collectively do not own 1% or more of the equity securities of the subject company/ies mentioned in the report as of the last day of the month preceding the publication of the research report.
- j) The Research Analyst/s engaged in preparation of this Report or his/her relative
  - (a) does not have any financial interests in the subject company/ies mentioned in this report; (b) does not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) does not have any other material conflict of interest at the time of publication of the research report.
- k) The Research Analyst/s engaged in preparation of this Report:-
  - (a) has not received any compensation from the subject company in the past twelve months; (b) has not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) has not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) has not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the research report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

We submit that no material disciplinary action has been taken on IIL by any regulatory authority impacting Equity Research Analysis.

A graph of daily closing prices of securities is available at <http://www.nseindia.com/ChartApp/install/charts/mainpage.jsp>, [www.bseindia.com](http://www.bseindia.com) and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" period in the price chart).

**Published in 2015. © India Infoline Ltd 2015**

**India Infoline Limited (Formerly "India Infoline Distribution Company Limited"), CIN No.: U99999MH1996PLC132983**, Corporate Office – IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel, Mumbai – 400013 Tel: (91-22) 4249 9000 .Fax: (91-22) 40609049, Regd. Office – IIFL House, Sun Infotech Park, Road No. 16V, Plot No. B-23, MIDC, Thane Industrial Area, Wagle Estate, Thane – 400604 Tel: (91-22) 25806650. Fax: (91-22) 25806654 E-mail: mail@indiainfoline.com Website: www.indiainfoline.com, Refer www.indiainfoline.com for detail of Associates.

National Stock Exchange of India Ltd. SEBI Regn. No. : INB231097537/ INF231097537/ INE231097537, Bombay Stock Exchange Ltd. SEBI Regn. No.:INB011097533/ INF011097533/ BSE-Currency, MCX Stock Exchange Ltd. SEBI Regn. No.: INB261097530/ INF261097530/ INE261097537, United Stock Exchange Ltd. SEBI Regn. No.: INE271097532, PMS SEBI Regn. No. INP000002213, IA SEBI Regn. No. INA00000623, SEBI RA Regn.- Applied for

**For Research related queries, write to: Amar Ambani, Head of Research at [research@indiainfoline.com](mailto:research@indiainfoline.com)**

**For Sales and Account related information, write to customer care: [cs@indiainfoline.com](mailto:cs@indiainfoline.com) or call on 91-22 4007 1000**