VRL Logistics

IPO Note

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Issue Open: April 15, 2015
Issue Close: April 17, 2015

VRL Logistics (VRL) is among the leading pan-India passenger and goods transportation companies. It has an established brand name in the transportation industry in India with one of the largest fleet of commercial vehicles in the private sector. Goods transportation is the primary business of the company accounting for ~76% of the overall revenues (for 9MFY2015). It also provides luxury bus services across South and West of India. Additionally, it has operations that include courier services, hotel (restaurant) operations, sale of power (Wind Power business) and air chartering services.

Main business to benefit from improving macro condition: VRL's main business, which is goods transportation, has one the largest fleet size that serves a broad range of industries, including the fast moving consumer goods (FMCG) sector as well as other industries including food, textiles, apparel, furniture, appliances, pharmaceutical products, rubber, plastics, metal and metal products, wood, glass, automotive parts and machinery. We believe that the policy reforms, lower inflation levels and interest rate cuts will provide boost to commercial activity in the country. On the back of said outcomes, the main business and especially Less than Truck Load business (LTL - which is a high margin business), stands to benefit from improving macro conditions.

GST implementation to benefit the logistics sector: At present, the duty and taxation structure is such that the goods are taxed multiple times (while crossing boundaries) as they move across the country. The varying taxation system across 29 states and seven union territories has obstructed the creation of national network. The planned GST is expected to eradicate multiple taxes and tariffs at state level and proposes taxation at the national level. In our view, this will benefit the logistics sector and especially major players like VRL. VRL has a pan India presence with agencies, branches and hubs spread out across the country.

Outlook and Valuation: The company's net sales have grown at a CAGR of 18.9% over FY2011 to ₹1,494cr in FY2014. The EBITDA margin has been declining (from 18.7% in FY2011 to 13.8% in FY2014) but has recovered well in 9MFY2015 to the level of 17.0%. The net profit has grown at a CAGR of 15.3% over FY2011-FY2014. At the higher end of the price band, the stock is valued at 19.6x its FY2015E annualized earnings which we believe is attractive considering that similar logistic companies like Transport Corp trades at 25.0x its FY2015E earnings. **Considering the improving economic outlook, its pan-India presence and resonable valuations, we recommend a Subscribe to the issue at the upper price band.**

Key Financials

Y/E March (₹ cr)	FY2012	FY2013	FY2014
Net Sales	1,130	1,325	1,494
% chg	*27.2*	*17.3*	*12.7*
Adj. Net Profit	77	46	52
% chg	*125.7*	*(40.4)*	*14.0*
OPM (%)	17.0	14.7	13.8
EPS (₹)	10.9	6.5	6.1
P/E (x)*	24.4	40.9	35.9
P/BV (x)*	10.0	6.5	6.1
RoE (%)	47.8	19.2	17.5
RoCE (%)	15.8	12.9	13.4
EV/Sales (x)*	2.2	1.9	1.6
EV/EBITDA (x)*	12.8	12.6	11.4

*Source: Company, Angel Research; Note: *The above numbers are considering subscription at the upper end of the price band*

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹85.5cr

Offer Size: 2.3cr Shares

Post Eq. Paid up Capital: ₹9.1cr

Issue size (amount)**: ₹451cr - ₹468cr

Price Band**: ₹195-205

Post-issue implied mcap**: ₹1,779cr-1,870cr

Promoters holding Pre-Issue: 77.2%

Promoters holding Post-Issue: 69.6%

*Note:**at Lower and Upper price band respectively*

Book Building

QIBs	At least 50%
Non-Institutional	At least 15%
Retail	At least 35%

Post Issue Shareholding Pattern

Promoters Group	69.6
MF/Banks/Indian FIs/FIIs/Public & Others	30.4

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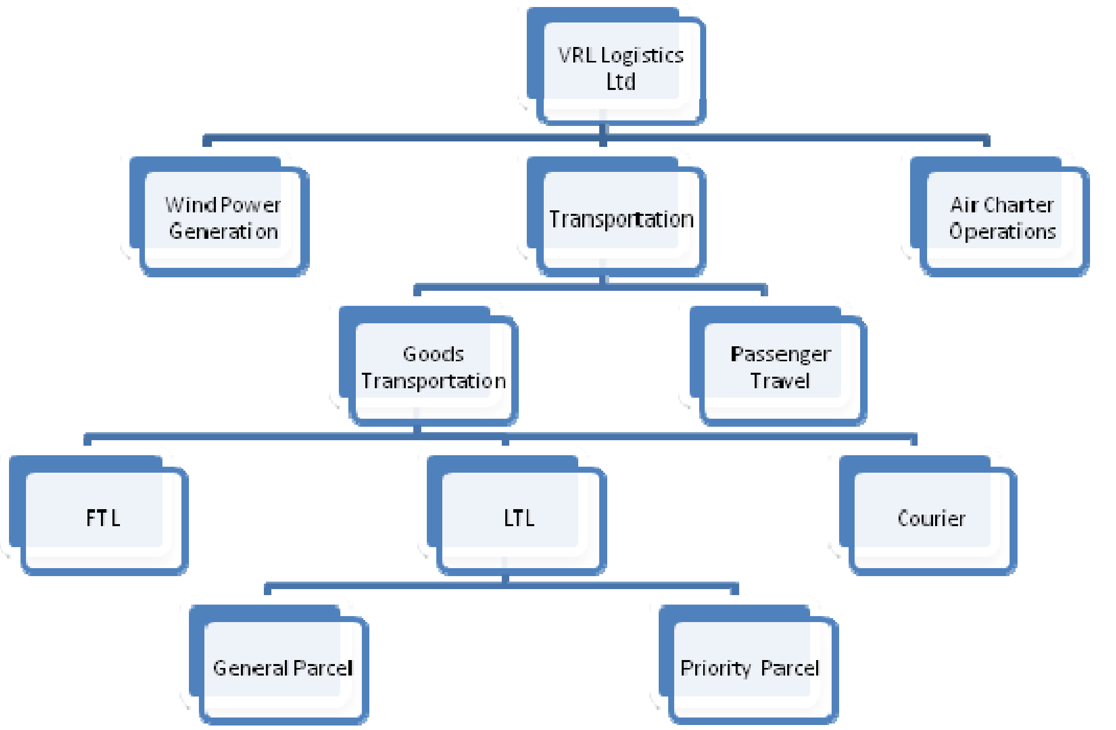
Company Background

VRL is one of the leading pan-India surface logistics and parcel delivery service providers. It has the largest fleet of commercial vehicles in the private sector in India. It provides general parcel and priority parcel delivery (less than truckload [LTL] services), courier and full-truckload ("**FTL**") services through its widespread transportation network in 28 States and four Union Territories across India. As of September 30, 2014, the company had 603 branches (583 leased branches and 20 owned branches) and 346 agencies across India, and of 603 branches, 48 (41 leased branches and seven owned branches) served as strategic transhipment hubs for operations.

Goods transportation is the primary business of the company accounting for ~76% of its overall revenues (for 9MFY2015). As of December 31, 2014, the goods transportation fleet included 3,546 owned vehicles. A large fleet, mostly owned by the company, enables it to reduce dependence on hired vehicles. The company also provides luxury bus services (focused on high density urban commuter cities) across the States of Karnataka, Maharashtra, Goa, Andhra Pradesh, Telengana, Tamil Nadu, Gujarat and Rajasthan. As of December 31, 2014, it owns and operates 455 buses. Bus operations accounted for ~20% of the overall revenues for 9MFY2015. The revenue from other operations includes courier services, hotel (restaurant) operations, sale of power (Wind Power business) and air chartering services.

Exhibit 1: Structure



Source: Company, Angel Research

Issue Details

The issue comprises of Fresh Issue of equity shares of ₹10 each in the price band of ₹195-₹205 aggregating up to ₹117cr; and offer for sale by private equity firm NSR PE Mauritius LLC and Promoter Group of 1.71cr shares. The issue constitutes 25% of the post issue paid-up equity share capital of the company.

Exhibit 2: Share Holding pattern

Particulars	Pre-Issue		Post-Issue	
	No. of shares	(%)	No. of shares	(%)
Promoter and Promoter Group	6,60,46,000	77.2%	6,34,80,000	69.6%
NSR	1,92,54,912	22.5%	47,04,912	5.2%
Others	2,35,250	0.3%	2,30,58,567	25.3%
Total	8,55,36,162	100%	9,12,43,479	100%

Source: Company, Angel Research

Objects of the Fresh Issue

- Purchase of goods transportation vehicles amounting to ₹67cr.
- Repayment/pre-payment, in full or part, of certain borrowings availed by the company amounting to ₹28cr.
- The balance, which is contingent upon the issue price will be utilised for general corporate purpose.

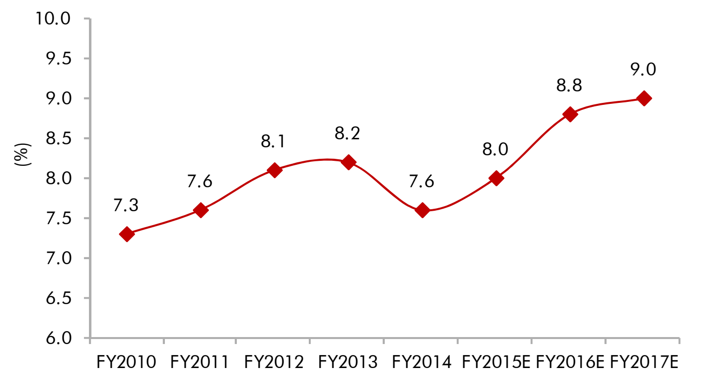
Investment Arguments

Economic revival augers well for Goods Transportation Business

VRL derives majority of its revenue from the goods transportation business (~76% of total). It has the distinction of owing one of the largest fleets in the private sector, if not the largest. As of 31st December, 2014, the company's fleet strength stood at 3,546 vehicles serving a broad range of industries, including the fast moving consumer goods (FMCG) sector as well as other industries including food, textiles, apparel, furniture, appliances, pharmaceutical products, rubber, plastics, metal and metal products, wood, glass, automotive parts and machinery.

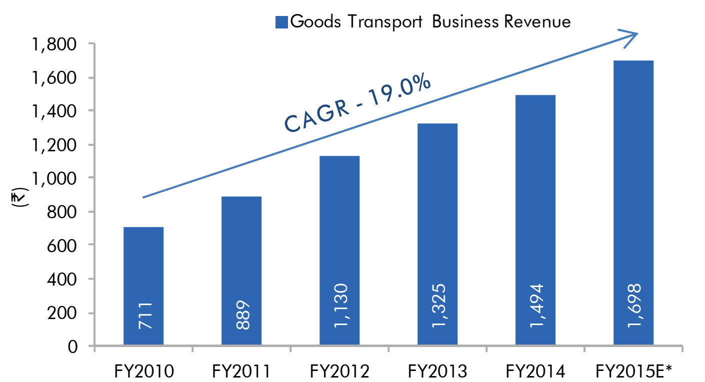
We believe that the policy reforms, lower inflation levels and resultant rate cuts will provide boost to commercial activity in India. On the back of said outcomes, the main business of the company should perform well with improving macro condition.

Exhibit 3: Expected Growth in GDP



Source: Company, Angel Research

Exhibit 4: Goods Transportation Business Trend

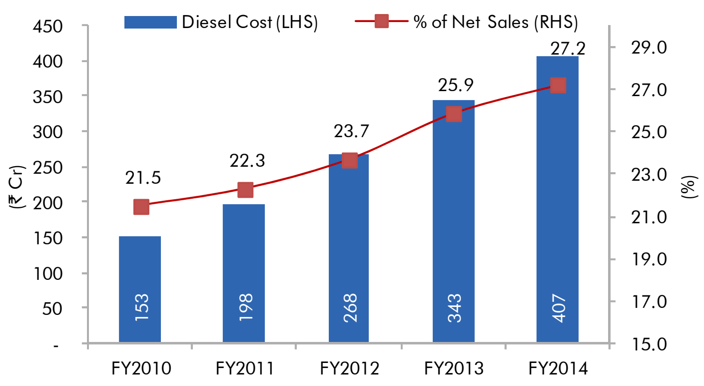


*Source: Company, Angel Research; *Note- FY2015E represents annualized numbers*

Lower Oil prices, a near-term boon

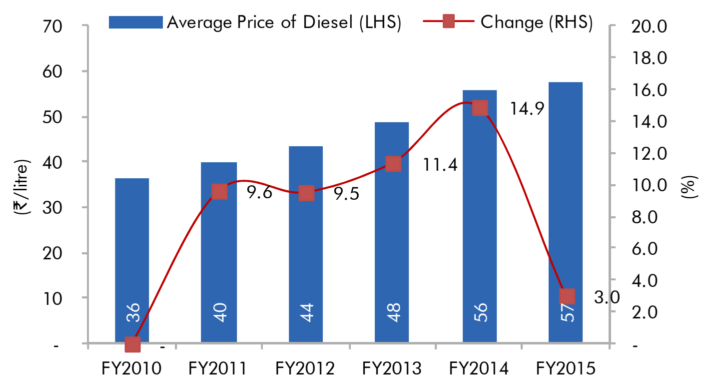
Diesel is a major component of company's operating expenses and all of its vehicles run on diesel. As a percentage of net sales, diesel expense for 9MFY2015 stood at 27.3%. The company has adjusted freight rates periodically in the past when the diesel prices have been on the rise. However, during the IPO meet, the Management stated that the company has not reduced the freight rates during the recent decline in fuel prices. Diesel prices which increased from an average of ₹36/litre in FY2010 to an average of ₹56 in FY2014 started to decline since October 2014 (₹63/litre) and are currently at ~₹52/litre. In the near term, the diesel prices are expected to be at current levels and this will have a favorable impact on the company.

Exhibit 5: Diesel as % of Net sales



Source: Company, Angel Research

Exhibit 6: Average Diesel Price Trend



Source: Company, Angel Research, Indian Oil Corp.

GST implementation to benefit the logistics sector

The much awaited tax reform, GST, targeted to be rolled out by April 1, 2016, is expected to have a positive impact on the logistics sector. At present, the duty and taxation structure is such that the goods are taxed multiple times (while crossing boundaries) as they move across the country. The varying taxation system across 29 states and seven union territories has obstructed the creation of a national network. The planned GST is expected to eradicate multiple taxes and tariffs at state level and proposes taxation at the national level. In our view, this will benefit the logistics sector and especially major players like VRL. VRL has a pan India presence with agencies, branches and hubs spread out across the country.

Additional Fleet to cater to improvement in demand

The share of road transport in India has been increasing in comparison to other modes of transport owing to faster service and point-to-point connectivity. In the coming years, the freight movement by roadways is expected to show robust growth on account of improvement in the economy and improvement in infrastructure. The company intends to utilize a major chunk (₹67cr) from the fresh issue to increase the fleet size of the goods transportation business by adding 248 new vehicles. Although a small addition to its massive fleet, this will enable VRL to be well equipped for any increase in demand in the near future.

Sound Business Model

VRL intends to further grow its parcel delivery (comprising general parcel and priority parcel delivery) business which has higher rates per load, and incremental revenues with superior margins. More importantly, VRL has a diverse customer base that is spread across all sectors. As of 9MFY2015, their largest customers in the goods transportation business were 1.1% and top ten customers were 6.1% of the total revenue. Ongoing accounts only comprised of 16.3% of revenues and 70% were "Paid" and "To Pay" customers. We believe that the company possesses a very sound business model which will continue to pay off in the long run.

Outlook and Valuation

The company's net sales have grown at a CAGR of 18.9% over FY2011 to ₹1,494cr in FY2014. The EBITDA margins have been declining from 18.7% in FY2011 to 13.8% in FY2014 but have recovered well in 9MFY2015 to the level of 17.0%. The net profit has grown at a CAGR of 15.3% over FY2011-FY2014. At the higher end of the price band, the stock is valued at 19.6x its FY2015E annualized earnings which we believe is attractive considering that Transport Corp, a similar logistic company, trades at 25.0x its FY2015E earnings. **Considering the improving economic outlook, its pan-India presence and attractive valuations, we recommend a Subscribe to the issue at the upper price band.**

Exhibit 7: Valuations

	Y/E March	Sales (₹ cr)	PAT (₹ cr)	EPS (₹)	RoE (%)	P/E (x)	P/BV (x)	EV/Sales (x)
VRL Logistics	**FY2015E***	**1,698**	**96**	**10.5**	**20.0**	**19.6**	**3.9**	**1.4**
Transport Corp. Of India	FY2015E	2,468	87	11.6	14.1	25.0	3.5	0.6

*Source: Company, Angel Research; Note*FY2015E numbers are on annualized basis and considering subscription at the upper end of the price band*

Key risks/concerns

Economic Slowdown: The performance of the sector is dependent on the state of the economy. As a result, a slowdown in the Indian economy will have a negative impact on the performance.

Short term fluctuation in Fuel prices: The company has a policy of revising its freight charges periodically. However, the near term fluctuation in the fuel prices will have a negative impact on the performance.

Profit & Loss (Standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014
Total operating income	1130	1325	1494
% chg	27.2	17.3	12.7
Operating Expenses	791	963	1,091
% chg	31.1	21.7	13.4
Personnel	129	148	174
% chg	23.4	15.0	17.7
Other	18	19	22
% chg	22.2	5.1	11.3
Total Expenditure	938	1,130	1,287
EBITDA	192	195	207
% chg	15.7	1.7	5.8
(% of Net Sales)	17.0	14.7	13.8
Depreciation& Amortisation	70	82	87
EBIT	122	113	120
% chg	25.7	(7.7)	6.3
(% of Net Sales)	7.6	7.4	9.3
Interest & other Charges	65	59	60
Other Income	5	10	10
(% of Net Sales)	0.3	0.6	0.8
Recurring PBT	57	54	60
% chg	15.8	(6.0)	11.9
Exceptional items	-	-	7
PBT (reported)	62	64	77
Tax	(15)	18	20
(% of PBT)	(23.6)	28.1	25.7
PAT (reported)	77	46	57
Extraordinary Expense/(Inc.)	-	-	5
ADJ. PAT	77	46	52
% chg	125.7	(40.4)	14.0
(% of Net Sales)	4.8	3.0	4.0
Basic EPS (₹)	10.9	6.5	6.1
Fully Diluted EPS (₹)	10.9	6.5	6.1
% chg	125.7	(40.4)	(5.8)

Balance sheet (Standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014
SOURCES OF FUNDS			
Equity Share Capital	71	181	86
Reserves& Surplus	117	108	221
Shareholders' Funds	**187**	**289**	**306**
Total Loans	603	501	505
Other Long Term Liabilities	8	9	9
Long Term Provisions	2	3	3
Deferred Tax Liability (net)	69	78	83
Total Liabilities	**870**	**879**	**907**
APPLICATION OF FUNDS			
Gross Block	1,010	1,106	1,217
Less: Acc. Depreciation	315	395	476
Less: Impairment	-	-	-
Net Block	**695**	**710**	**740**
Capital Work-in-Progress	10	14	14
Lease adjustment	-	-	-
Investments	0	0	0
Long Term Loans and advances	92	97	91
Other Non-current asset	1	1	3
Current Assets	135	143	130
Cash	14	15	15
Loans & Advances	15	19	20
Inventory	9	10	13
Debtors	79	85	80
Other current assets	19	14	2
Current liabilities	62	86	71
Net Current Assets	**72**	**58**	**59**
Misc. Exp. not written off	-	-	-
Total Assets	**870**	**879**	**907**

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2012	FY2013	FY2014
Profit before tax	62	64	77
Depreciation	70	82	87
Change in Working Capital	(16)	17	(2)
Direct taxes paid	15	(18)	(20)
Others	36	18	61
Cash Flow from Operations	**166**	**163**	**203**
(Inc.)/Dec. in Fixed Assets	(231)	(100)	(111)
(Inc.)/Dec. in Investments	(0)	0	(0)
(Incr)/Decr In LT loans & adv.	(15)	(4)	4
Others	3	15	16
Cash Flow from Investing	**(242)**	**(90)**	**(91)**
Issue of Equity	-	110	(96)
Inc./(Dec.) in loans	161	(103)	5
Dividend Paid (Incl. Tax)	(23)	(61)	(40)
Others	(63)	(18)	18
Cash Flow from Financing	**75**	**(71)**	**(113)**
Inc./(Dec.) in Cash	(2)	2	(0)
Opening Cash balances	**15**	**14**	**15**
Closing Cash balances	**14**	**15**	**15**

Key Ratios

Y/E March	FY2012	FY2013	FY2014
Valuation Ratio (x)			
P/E (on FDEPS)	24.4	40.9	35.9
P/CEPS	12.8	14.6	13.5
P/BV	10.0	6.5	6.1
Dividend yield (%)	1.1	2.8	1.8
EV/Net sales	2.2	1.9	1.6
EV/EBITDA	12.8	12.6	11.4
EV / Total Assets	2.8	2.8	2.6
Per Share Data (₹)			
EPS (Basic)	10.9	6.5	6.1
EPS (fully diluted)	10.9	6.5	6.1
Cash EPS	20.7	18.1	16.2
DPS	2.8	7.4	4.0
Book Value	26.5	40.9	35.8
DuPont Analysis			
EBIT margin	10.8	8.5	8.0
Tax retention ratio	1.2	0.7	0.7
Asset turnover (x)	1.5	1.6	1.7
ROIC (Post-tax)	20.6	9.6	10.3
Cost of Debt (Post Tax)	15.4	7.7	8.8
Leverage (x)	3.1	1.7	1.6
Operating ROE	37.0	12.7	12.7
Returns (%)			
ROCE (Pre-tax)	15.8	12.9	13.4
Angel ROIC (Pre-tax)	16.7	13.3	13.9
ROE	47.8	19.2	17.5
Turnover ratios (x)			
Asset TO (Gross Block)	1.3	1.3	1.3
Inventory / Net sales (days)	2.4	2.5	2.8
Receivables (days)	23.8	22.6	20.2
Payables (days)	23.4	23.9	22.2
WC cycle (ex-cash) (days)	15.6	13.3	12.3
Solvency ratios (x)			
Net debt to equity	3.1	1.7	1.6
Net debt to EBITDA	3.1	2.5	2.4
Int. Coverage (EBIT/ Int.)	**1.9**	**1.9**	**2.0**

*Note: *Valuation Ratio at the lower price band*

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Disclosure of Interest Statement	**VRL Logistics**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	*Buy (> 15%)*	*Accumulate (5% to 15%)* *Reduce (-5% to -15%)*	*Neutral (-5 to 5%)* *Sell (< -15)*