

GATEWAY DISTRI PARKS

LOGISTICS

29 AUG 2017

Quarterly Update

BUY

Target Price: Rs 270

One off quarter

Gateway Distriparks' (GDPL's) Q1 was marred by subdued Rail business performance due to (a) operational issues with Railways' line at Ajmer (one of the key routes for GDPL) – this led to lower volumes as well as higher operating cost and (b) higher share from low-margin 40 ft containers and continued mismatch in EXIM volumes, resulting in higher empty running cost and competitive intensity (paucity of exports).

CFS volumes grew 3% YoY (up ~5% QoQ) despite competitive pressure at Vizag; however operating margin declined YoY (flattish QoQ) on lower dwell time at JNPT due to DPD# – while this may keep CFS margin under pressure, we do not expect significant volume loss. Expect macro recovery to drive operating leverage benefits across Rail and CFS given under-utilized terminal capacity. Maintain **BUY** with TP of Rs 270 (Rs 85 for CFS, Rs 160 for rail, Rs 25 for Snowman).

CMP : Rs 237
Potential Upside : 14%

MARKET DATA

No. of Shares : 109 mn
Free Float : 75%
Market Cap : Rs 26 bn
52-week High / Low : Rs 292 / Rs 209
Avg. Daily vol. (6mth) : 242,315 shares
Bloomberg Code : GDPL IB Equity
Promoters Holding : 25%
FII / DII : 41% / 24%

Key highlights

In compliance with IND AS, GDPL reported Gateway Rail Freight (50% owned) as a JV. As current consolidated financials (CFS business only) is only ~40% of aggregate EBITDA (CFS and Rail), we highlight segmental performance:

- ♦ **Rail:** EBITDA margin declined 12% QoQ to Rs 5,410/teu (FY17 margin at Rs 6,100) on (a) higher opex at Ajmer (additional rakes on lease) for faster evacuation and (b) continued higher per teu discount and under-frame charges (empty running). **Management maintained no meaningful market share loss across NCR and Ludhiana in Q1**
- ♦ **CFS:** Management highlighted intensifying competition at Vizag, resulting in margin pressure for ex-JNPT CFS (details not shared); **overall operating margin (Rs/teu) declined 2% QoQ to Rs 2,064/teu**. While volumes will recover with macro recovery, operating margin growth may remain capped given lower dwell time overall
- ♦ **Snowman:** Q1 revenue declined 7% YoY (up 6% QoQ) on pricing pressure and relatively lower warehouse utilization (73% vs. 74% in Q1FY17). Such **lower utilization coupled with adverse product mix (higher share of low-margin chilled business) led to decline in EBITDA margin** (19.3% vs. 29% in Q1FY17)

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	3,879	3,934	4,372	4,722
Adj PAT (Rs mn)	907	741	985	1,168
Con. EPS* (Rs)	-	-	10.4	13.5
EPS (Rs)	8.3	6.8	9.1	10.7
Change YOY (%)	(51.7)	(18.2)	32.9	18.6
P/E (x)	28.4	34.7	26.1	22.0
RoE (%)	9.3	7.3	10.0	12.3
RoCE (%)	7.4	6.9	7.5	8.8
EV/E (x)	25.5	29.4	27.6	25.3
DPS (Rs)	7.0	7.0	7.0	7.0

Source: *Consensus broker estimates, Company, Axis Capital

#Direct-to-Port-Delivery ; ^CFS – Container Freight Station

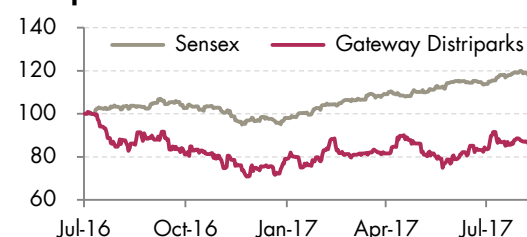
Note: Rail business considered as an Associate and hence not consolidated line-by-line

Key drivers – Segmental operating margin

(Rs/ teu)	Q2'17	Q3'17	Q4'17	Q1'18
Mumbai CFS	2,075	2,395	1,766	N.A.
Blended CFS	2,393	2,509	2,110	2,064
Rail margin*	6,640	6,697	6,152	5,412
Cold chain (%)	29.1	23.1	13.7	19.3

* Adj. for interest outgo on Redeemable Pref share

Price performance



Management interaction takeaways

- ◆ Container Train Operators (CTOs) are in talks to revise their prices upwards by 3-4% to partially pass through the rising overheads, esp empty running costs – if implemented, this will be positive for CTOs' profitability
- ◆ Management refrained from sharing operational details on Rail business' empty running losses, per teu discount etc for competitive reasons, which restricts our analysis of its operational performance
- ◆ Import volumes continue to drive overall volumes, while exports remained muted; Export - Import mismatch further aggravated to 35:65 now vs. 45:55 earlier. INR appreciation had further slowed export volume uptick
- ◆ Given paucity of Export volumes, competitive intensity remains heightened (almost 2x capacity available at NCR and Ludhiana vs. current run rate) – resulting in higher discounts
- ◆ Viramgam terminal started operations on July 15, 2017 and is yet to contribute meaningfully to reduce empty running losses; no impact on Q1FY18 financials
- ◆ While management is keen to buy back Blackstone's stake in Gateway Rail, negotiations on valuations etc. are still going on
- ◆ Krishnapatnam CFS reported EBITDA break-even; operational from Mar'17
- ◆ **Snowman:** Management targets to expand its EBITDA margin with an increase in its utilization/ occupancy rate and improvement in overall product mix – higher share from frozen products, which command higher margin as well

Exhibit 1: Segmental performance

	Q1FY18	Q1FY17	YoY growth	Q4FY17	QoQ growth	FY17	YTD FY16	YoY growth
Segmental Revenue (Rs mn)	2,661	2,782	-4.4%	3,077	-13.5%	11,570	11,300	2.4%
CFS	988	963	2.5%	935	5.6%	3,915	3,851	1.7%
Rail	1,673	1,819	-8.0%	2,142	-21.9%	7,655	7,448	2.8%
Volume (in TEUs)								
CFS	95,700	92,467	3.5%	91,095	5.1%	382,186	361,207	5.8%
Rail	51,000	52,024	-2.0%	57,641	-11.5%	219,064	203,187	7.8%
Realization per TEU (Rs mn)								
CFS	10,319	10,418	-1.0%	10,261	0.6%	10,244	10,663	-3.9%
Rail	32,810	34,965	-6.2%	37,161	-11.7%	34,942	36,657	-4.7%
Segmental EBITDA (Rs mn)	474	584	-18.9%	523	-9.4%	2,246	2,556	-12.1%
CFS	198	232	-14.9%	192	2.8%	911	1,062	-14.2%
Rail	276	352	-21.5%	331	-16.5%	1,335	1,494	-10.6%
EBITDA Margin (%)	17.8	21.0	-	17.0	-	19.4	22.6	-
CFS	20.0	24.1	-	20.6	-	23.3	27.6	-
Rail	16.5	19.3	-	15.4	-	17.4	20.1	-
EBITDA per TEU (Rs)								
CFS	2,064	2,509	-17.7%	2,110	-2.2%	2,383	2,940	-18.9%
Rail ^	5,412	6,758	-19.9%	6,152	-12.0%	6,095	7,353	-17.1%
Snowman Logistics								
Revenue	478	507	-5.7%	446	7.3%	1,892	2,249	-15.8%
Adj. EBITDA	92	147	-37.4%	61	50.8%	364	486	-25.3%
EBITDA margin (%)	19.3%	29.1%	-	13.7%	-	19.2%	21.6%	-
Adj. PBT	(33)	20	-263.7%	(45)	-26.4%	(155)	118	N.A.
PBT margin (%)	-7.0%	4.0%	-	-10.2%	-	-8.2%	5.2%	-
Adj. Net Profit	(21)	18	-216.1%	63	-133.2%	(23)	205	N.A.

Source: Company, Axis Capital

^Rail margin adjusted for interest on Redeemable Pref shares issued by GRFL to GDPL

Exhibit 2: Results update

(Rs mn)	Quarter ended (Standalone)					Consolidated		
	Jun-17	Jun-16	% Chg	Mar-17	% Chg	FY17	FY16	% Chg
Net sales	809	803	1	744	9	3,934	3,879	1
EBITDA	141	168	(16)	119	18	911	1,019	(11)
Other income	80	40	100	113	(29)	123	169	(27)
PBIDT	221	208	6	233	(5)	1,034	1,188	(13)
Depreciation	58	57	-	53	-	265	275	-
Interest	16	7	-	6	-	53	49	-
PBT	147	144	2	174	(15)	715	864	(17)
Tax	27	48	-	18	-	150	297	-
Minority Interest	0	0	-	0	-	176	337	-
Reported PAT	120	97	24	156	(23)	741	907	(18)
No. of shares (mn)	109	109	-	109	-	109	109	-
EBITDA margin (%)	17.4	20.9	-	16.1	-	23.2	26.3	-
PBIDT margin (%)	27.3	25.9	-	31.3	-	26.3	30.6	-
EPS (Rs)	1.1	0.9	24	1.4	(23)	6.8	8.3	(18)

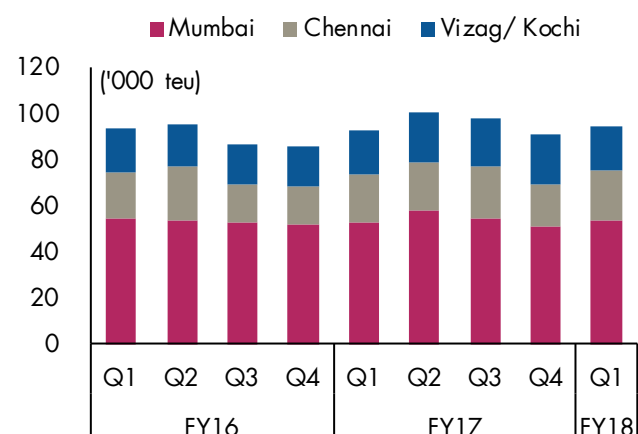
Source: Company, Axis Capital

Exhibit 3: SoTP based target price of Rs 270

Business	GDL's stake	Valuation criterion	TP based on FY19E earnings
CFS business	100%	15x P/E	85
Rail (Gateway Rail Freight)#	50%	20x EV/EBITDA	160
Snowman (cold chain)	40%	Current market cap; 20% holding company discount	25
SoTP based TP (Rs/ sh)			270
CMP (Rs)			237
Stock upside			14%

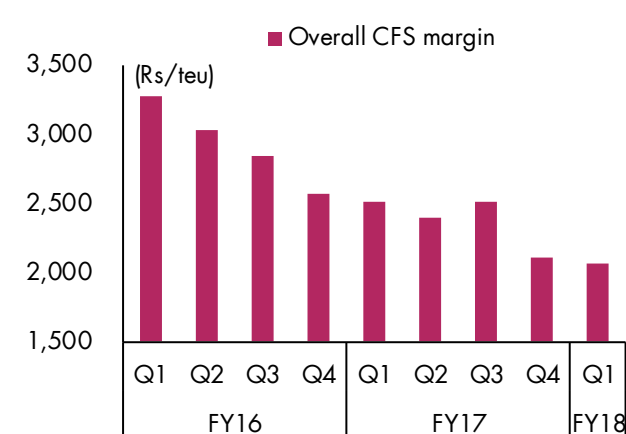
Source: Company, Axis Capital #Assuming Blackstone stake at 50%

Exhibit 4: CFS volumes largely stable QoQ

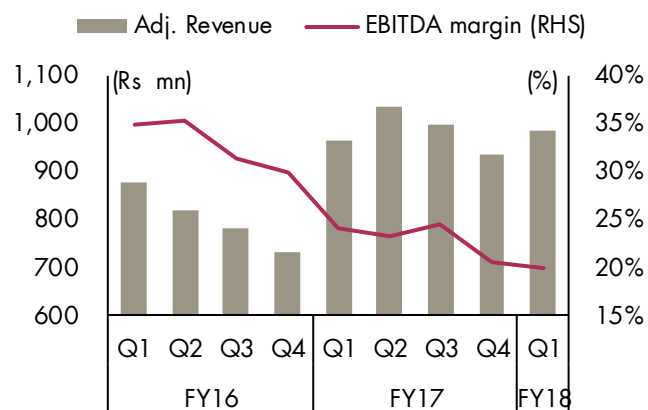


Source: Company, Axis Capital

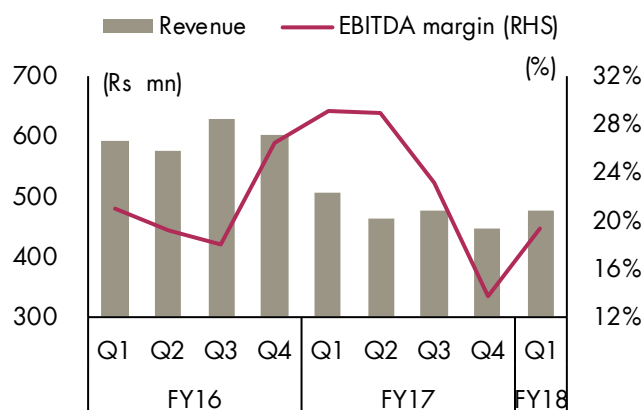
Exhibit 5: Blended margin decline on lower dwell time



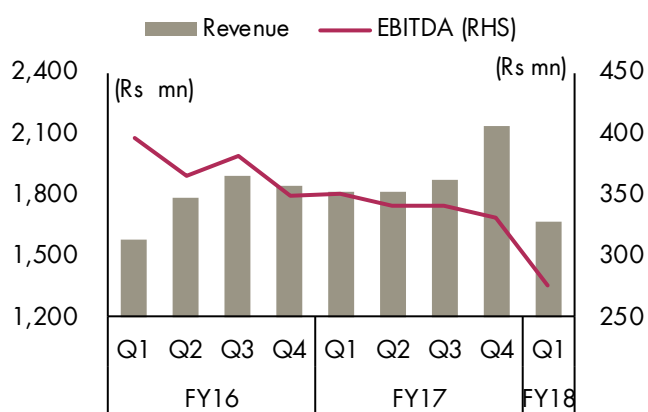
Source: Company, Axis Capital

Exhibit 6: CFS business performance


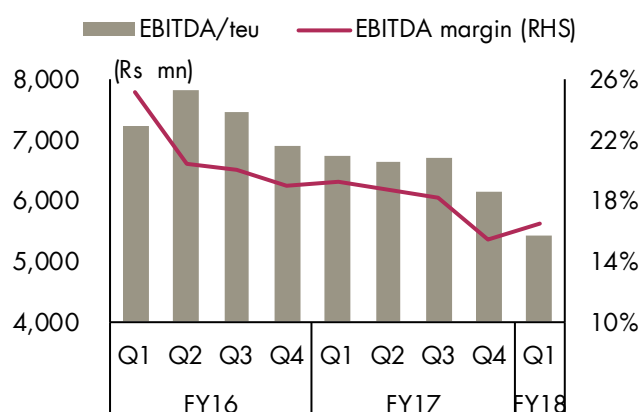
Source: Company, Axis Capital

Exhibit 7: Snowman's business performance


Source: Company, Axis Capital

Exhibit 8: Rail volumes impacted by one-time disruption...


Source: Company, Axis Capital

Exhibit 9: ... higher empty running/ discounts continues


Source: Company, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	3,879	3,934	4,372	4,722
Other operating income	-	-	-	-
Total operating income	3,879	3,934	4,372	4,722
Cost of goods sold	(2,247)	(2,372)	(2,709)	(2,922)
Gross profit	1,632	1,562	1,662	1,800
<i>Gross margin (%)</i>	<i>42.1</i>	<i>39.7</i>	<i>38.0</i>	<i>38.1</i>
EBITDA	1,019	911	978	1,082
<i>EBITDA margin (%)</i>	<i>26.3</i>	<i>23.2</i>	<i>22.4</i>	<i>22.9</i>
Depreciation	(275)	(265)	(273)	(281)
EBIT	744	646	705	801
Net interest	(49)	(53)	(43)	(39)
Other income	169	123	130	141
Profit before tax	864	715	793	903
Total taxation	(297)	(150)	(178)	(212)
<i>Tax rate (%)</i>	<i>34.3</i>	<i>21.0</i>	<i>22.5</i>	<i>23.5</i>
Profit after tax	567	565	614	690
Minorities	2	-	-	-
Profit/ Loss associate co(s)	338	176	371	478
Adjusted net profit	907	741	985	1,168
<i>Adj. PAT margin (%)</i>	<i>23.4</i>	<i>18.8</i>	<i>22.5</i>	<i>24.7</i>
Net non-recurring items	-	-	-	-
Reported net profit	907	741	985	1,168

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	1,087	1,087	1,087	1,087
Reserves & surplus	9,102	9,091	8,476	8,321
Net worth	10,189	10,179	9,563	9,408
Borrowing	487	1,142	1,335	1,035
Other non-current liabilities	-	-	-	-
Total liabilities	10,763	11,404	10,982	10,527
Gross fixed assets	6,307	6,911	7,411	7,911
Less: Depreciation	(3,895)	(4,160)	(4,433)	(4,715)
Net fixed assets	2,411	2,751	2,978	3,196
Add: Capital WIP	188	375	375	375
Total fixed assets	2,600	3,125	3,352	3,571
Total Investment	6,594	6,863	6,863	6,863
Inventory	150	211	211	211
Debtors	424	455	478	523
Cash & bank	228	84	105	(611)
Loans & advances	20	38	87	94
Current liabilities	412	506	887	928
Net current assets	512	423	16	(686)
Other non-current assets	1,057	993	751	779
Total assets	10,763	11,404	10,982	10,527

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	864	715	793	903
Depreciation & Amortisation	275	265	273	281
<i>Chg in working capital</i>	<i>175</i>	<i>200</i>	<i>4</i>	<i>(13)</i>
Cash flow from operations	354	724	761	783
<i>Capital expenditure</i>	<i>(1,130)</i>	<i>(780)</i>	<i>(258)</i>	<i>(528)</i>
Cash flow from investing	(141)	(860)	(258)	(528)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>382</i>	<i>655</i>	<i>193</i>	<i>(300)</i>
<i>Dividend paid</i>	<i>(933)</i>	<i>(610)</i>	<i>(632)</i>	<i>(632)</i>
Cash flow from financing	(729)	(8)	(482)	(970)
Net chg in cash	(516)	(144)	21	(715)

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	8.3	6.8	9.1	10.7
CEPS (Rs)	10.9	9.3	11.6	13.3
DPS (Rs)	7.0	7.0	7.0	7.0
Dividend payout ratio (%)	83.9	102.6	77.2	65.1
GROWTH				
Net sales (%)	(65.1)	1.4	11.1	8.0
EBITDA (%)	(68.8)	(10.6)	7.4	10.6
Adj net profit (%)	(51.7)	(18.2)	32.9	18.6
FDEPS (%)	(51.7)	(18.2)	32.9	18.6
PERFORMANCE				
RoE (%)	9.3	7.3	10.0	12.3
RoCE (%)	7.4	6.9	7.5	8.8
EFFICIENCY				
Asset turnover (x)	0.3	0.4	0.4	0.4
Sales/ total assets (x)	0.3	0.3	0.4	0.4
Working capital/ sales (x)	0.1	0.1	-	-
Receivable days	39.9	42.2	39.9	40.4
Inventory days	19.2	25.5	22.7	21.2
Payable days	42.0	48.7	52.3	52.9
FINANCIAL STABILITY				
Total debt/ equity (x)	-	0.1	0.1	0.1
Net debt/ equity (x)	-	0.1	0.1	0.2
Current ratio (x)	2.2	1.8	1.0	0.3
Interest cover (x)	15.2	12.2	16.4	20.7
VALUATION				
PE (x)	28.4	34.7	26.1	22.0
EV/ EBITDA (x)	25.5	29.4	27.6	25.3
EV/ Net sales (x)	6.7	6.8	6.2	5.8
PB (x)	2.5	2.5	2.7	2.7
Dividend yield (%)	3.0	3.0	3.0	3.0
Free cash flow yield (%)	(3.0)	(0.2)	2.0	1.0

Source: Company, Axis Capital

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