

GATEWAY DISTRI PARKS

LOGISTICS

BUY

Target Price: Rs 252

Stable quarter; competition intensifies

Q3 Rail volume declined 4% QoQ (up 8% YoY; Concor volume down 2% QoQ, up 11% YoY) on intermittent impact of rising trade imbalance (imports growing faster than exports); management highlighted slower volume growth for hinterland based cargo, though port volumes have grown YoY. EBITDA margin was stable QoQ (despite rising competitive intensity) on hub-and-spoke benefits from Viramgam terminal (to JNPT), lowering cargo imbalance impact.

CFS[^] vol declined 5% QoQ on soft vol at Chennai/Vizag; expected to recover. JNPT vol was largely stable, as rise in share of DPD# was led by higher share of CFS players only. **We cut FY19/20E EBITDA by ~15%** to factor in slower volume growth (rail & CFS) and rising competitive intensity. Maintain **BUY** with SoTP-based TP of Rs 252 (Rs 58 for CFS, Rs 166 for rail, Rs 28 for Snowman) vs. Rs 300 earlier.

CMP : Rs 197
Potential Upside : 28%

MARKET DATA

No. of Shares : 109 mn
Free Float : 74%
Market Cap : Rs 21 bn
52-week High / Low : Rs 292 / Rs 195
Avg. Daily vol. (6mth) : 200,059 shares
Bloomberg Code : GDPL IB Equity
Promoters Holding : 26%
FII / DII : 39% / 26%

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:** GDPL affected a hike of Rs 1,000 per/teu across ports, but given its long-term arrangements with shipping lines, only ~50% has flown through. Given railways' ongoing upgradation on north western route, GDPL had to operate higher rates for import evacuation (27 vs. 22 QoQ: on lease). This pushed fixed overheads up
- ◆ **CFS:** Blended EBITDA margin improved QoQ to Rs 2,266/teu (YTD at Rs 2,140). Krishnapatnam CFS volumes improved to >1,500 teu/month, and expected to improve further with port volume growth (YTD EBITDA at Rs 5 mn)
- ◆ **Snowman Logistics:** Q3 revenue grew 5% YoY (up 11% QoQ) on 10% growth in warehousing revenue and stable transportation revenue. EBITDA margin expanded to ~26% (23% in Q3FY17), warehousing margin improved QoQ to 35% (27% in Q2) on higher utilization to 80% (73% last year) which is expected to continue

Financial summary (Consolidated)

Y/E March	FY17	FY18E	FY19E	FY20E
Sales (Rs mn)	3,934	3,977	4,186	4,411
Adj PAT (Rs mn)	741	819	942	1,085
Con. EPS* (Rs)	-	9.0	11.5	14.5
EPS (Rs)	6.8	7.5	8.7	10.0
Change YOY (%)	(18.2)	10.5	15.0	15.1
P/E (x)	28.8	26.1	22.7	19.7
RoE (%)	7.3	8.3	10.1	11.9
RoCE (%)	6.9	6.4	7.2	8.5
EV/E (x)	24.7	26.6	25.7	24.3
DPS (Rs)	7.0	7.0	7.0	7.0

Source: *Consensus broker estimates, Company, Axis Capital, CMP as on 16 Feb 2018

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

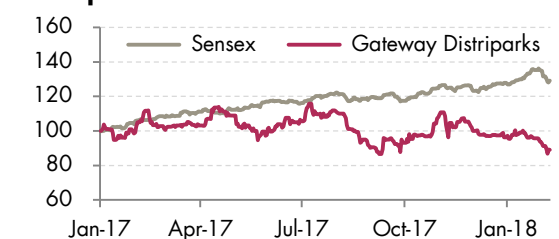
Note: Rail business considered as an Associate and hence not consolidated line-by-line

Key drivers – Segmental operating margin

(Rs/ teu)	Q4'17	Q1'18	Q2'18	Q3'18
Blended CFS	2,110	2,064	2,083	2,266
Rail margin@	6,152	5,412	6,514	6,349
Cold chain (%)	13.7	19.3	21.4	26.3

@ Adj. for interest outgo on Redeemable Pref share

Price performance



Management interaction takeaways

◆ Rail highlights

- GDPL increased double stacking discounts by Rs ~300/teu YoY (through trade discounts) and under frame cost remained elevated (up Rs 150/teu YoY) – capping rail margin
- Faridabad volume increased to 3,000 teu/month despite rising competitive intensity; management expects to maintain market share given network benefits
- Management suggested haulage charges should be fixed on per train and not on per teu basis – this will improve efficiency
 - Per teu basis is 75% of companies' variable cost
- No specific update on Blackstone's stake (still under discussion): to be primarily funded through internal accruals and debt

◆ CFS highlights

- Viramgam has helped save imbalance deficit to the tune of Rs 45 mn YTD, despite the company having not yet set up its ICD facility (ministry approval received, commissioner approval expected in Q4)

◆ Capex

- Rail: Rs 1 bn for purchase of extra land for Viramgam facility; no capex for rakes, as it will be taken on lease
- Snowman: Rs 1 bn to increase pallet capacity from ~100k teu to ~125k teu); and
- CFS: Only maintenance capex

◆ Snowman highlights

- Krishnapatnam warehousing facility (inaugurated ~2 weeks ago) running at 50% capacity utilization; to improve 15% p.m. It currently has ~100k pallet, target ~125k pallet in FY19 (capex of Rs 1bn)
- Revenue from Ikea arrangement expected FY19 onwards

Exhibit 1: Results update

(Rs mn)	Quarter ended (Standalone)					Consolidated		
	Dec-17	Dec-16	% Chg	Sep-17	% Chg	FY18E	FY17	% Chg
Net sales	804	832	(3)	802	0	3,977	3,934	1
EBITDA	160	193	(17)	156	2	855	911	(6)
Other income	60	78	(24)	40	50	130	123	6
PBIDT	219	272	(19)	196	12	985	1,034	(5)
Depreciation	60	51	-	58	-	273	265	-
Interest	18	6	-	19	-	43	53	-
PBT	141	214	(34)	119	19	669	715	(6)
Tax	38	51	-	42	-	146	150	-
Minority Interest	0	0	-	0	-	296	176	-
Reported PAT	102	164	(37)	77	33	819	741	11
No. of shares (mn)	109	109	-	109	-	109	109	-
EBITDA margin (%)	19.9	23.2	-	19.5	-	21.5	23.2	-
PBIDT margin (%)	27.3	32.6	-	24.4	-	24.8	26.3	-
EPS (Rs.)	0.9	1.5	(37)	0.7	33	7.5	6.8	11

Source: Company, Axis Capital

Exhibit 2: Segmental performance

	Q3FY18	Q3FY17	YoY growth	Q2FY18	QoQ growth	FY18E	FY17	YoY growth
Segmental Revenue (Rs mn)	2,904	2,876	1.0%	3,024	-3.9%	11,803	11,570	2.0%
CFS	970	999	-2.9%	976	-0.5%	3,977	3,915	1.6%
Rail	1,934	1,877	3.0%	2,048	-5.6%	7,826	7,655	2.2%
Volume (in TEUs)								
CFS	97,104	98,024	-0.9%	101,929	-4.7%	410,042	382,186	7.3%
Rail	58,720	54,472	7.8%	61,254	-4.1%	230,174	219,064	5.1%
Realization per TEU (Rs mn)								
CFS	9,992	10,189	-1.9%	9,571	4.4%	9,700	10,244	-5.3%
Rail	32,936	34,458	-4.4%	33,435	-1.5%	34,000	34,942	-2.7%
Segmental EBITDA (Rs mn)	569	587	-3.1%	587	-3.1%	2,259	2,246	0.6%
CFS	220	246	-10.5%	212	3.6%	855	911	-6.1%
Rail	349	341	2.3%	375	-6.9%	1,404	1,335	5.2%
EBITDA Margin (%)	19.6	20.4	-	19.4	-	19.1	19.4	-
CFS	22.7	24.6	-	21.8	-	21.5	23.3	-
Rail	18.0	18.2	-	18.3	-	17.9	17.4	-
EBITDA per TEU (Rs)								
CFS	2,266	2,509	-9.7%	2,083	8.8%	2,085	2,383	-12.5%
Rail ^	6,349	6,697	-5.2%	6,511	-2.5%	6,100	6,095	0.1%
Snowman Logistics								
Revenue	498	476	4.6%	448	11.1%	1,910	1,892	0.9%
Adj. EBITDA	131	110	18.9%	96	36.9%	400	364	9.9%
EBITDA margin (%)	26.3%	23.1%	-	21.4%	-	20.9%	19.2%	-
Adj. PBT	3	(20)	-112.9%	(37)	-107.0%	(68)	(155)	N.A.
PBT margin (%)	0.5%	-4.2%	-	-8.3%	-	-3.6%	-8.2%	-
Adj. Net Profit	3	(20)	-113.0%	(37)	-107.0%	(61)	(23)	N.A.

Source: Company, Axis Capital

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

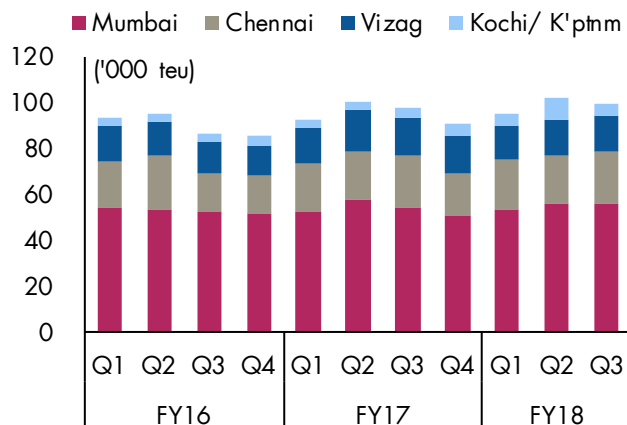
Exhibit 3: SoTP based target price of Rs 252 on FY20E

Business	GDL's stake	Valuation criterion	TP based on FY20E earnings
CFS business	100%	12x P/E	58
Rail (Gateway Rail Freight)#	50%	20x EV/EBITDA	166
Snowman (cold chain)	40%	Current market cap; 20% holding company discount	28
SoTP based TP (Rs/ sh)			252
CMP (Rs)			197
Stock upside			28%

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

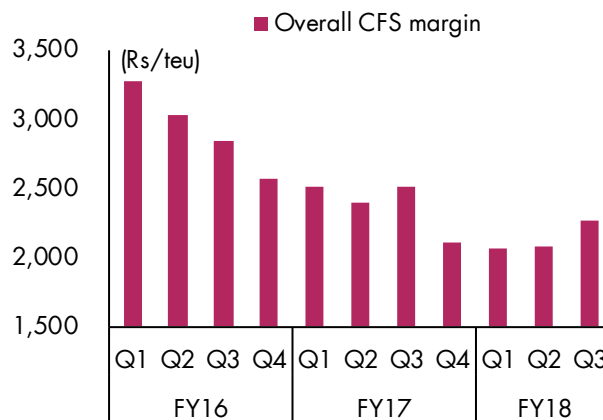
GDPL performance charts

Exhibit 4: CFS volumes – Chennai/Vizag volumes soft



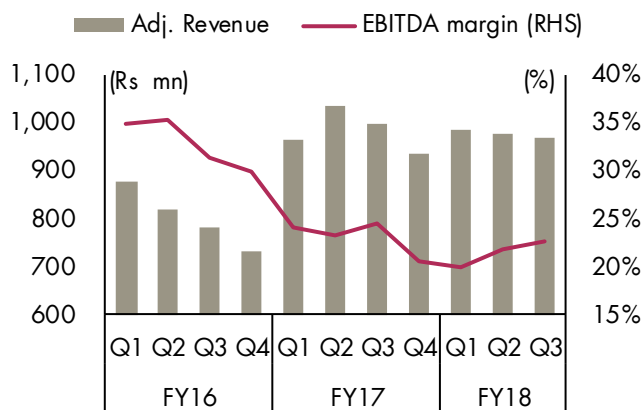
Source: Company, Axis Capital

Exhibit 5: Blended margin improves QoQ



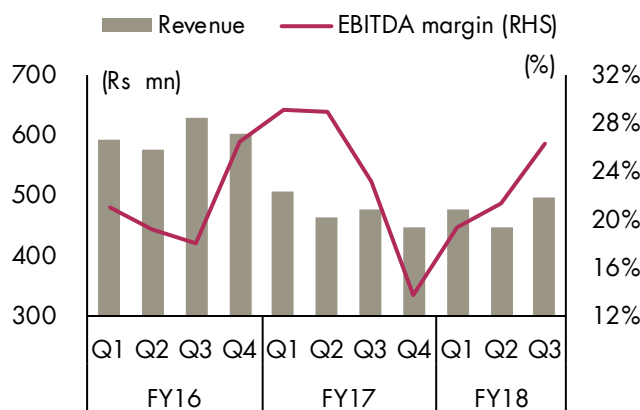
Source: Company, Axis Capital

Exhibit 6: CFS business performance



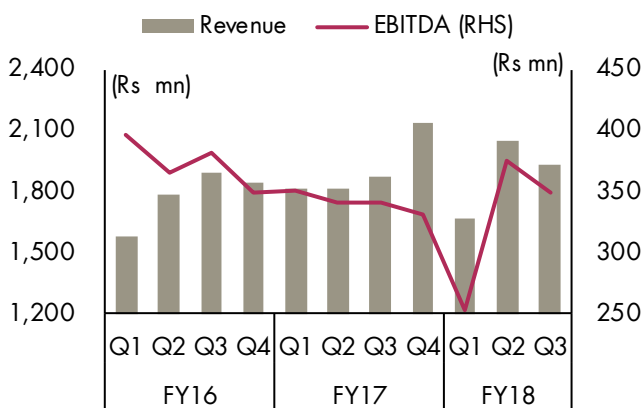
Source: Company, Axis Capital

Exhibit 7: Snowman's business performance



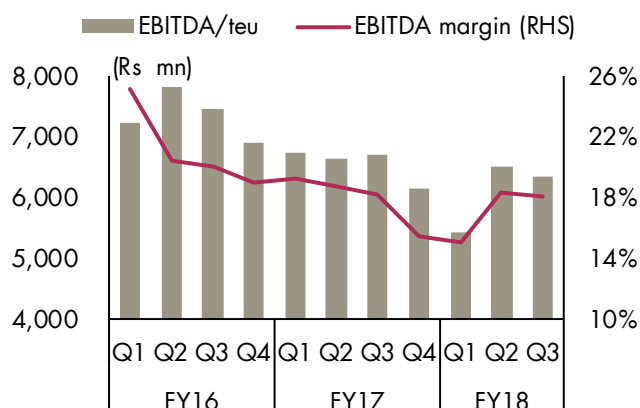
Source: Company, Axis Capital

Exhibit 8: Rail volume largely stable...



Source: Company, Axis Capital

Exhibit 9: ... operating leverage to aid margin improvement



Source: Company, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Net sales	3,934	3,977	4,186	4,411
Other operating income	-	-	-	-
Total operating income	3,934	3,977	4,186	4,411
Cost of goods sold	(2,372)	(2,439)	(2,564)	(2,681)
Gross profit	1,562	1,539	1,622	1,731
<i>Gross margin (%)</i>	<i>39.7</i>	<i>38.7</i>	<i>38.7</i>	<i>39.2</i>
EBITDA	911	855	904	977
<i>EBITDA margin (%)</i>	<i>23.2</i>	<i>21.5</i>	<i>21.6</i>	<i>22.1</i>
Depreciation	(265)	(273)	(281)	(278)
EBIT	646	582	623	699
Net interest	(53)	(43)	(39)	(31)
Other income	123	130	141	152
Profit before tax	715	669	725	819
Total taxation	(150)	(146)	(164)	(222)
<i>Tax rate (%)</i>	<i>21.0</i>	<i>21.8</i>	<i>22.7</i>	<i>27.1</i>
Profit after tax	565	523	560	597
Minorities	-	-	-	-
Profit/ Loss associate co(s)	176	296	382	487
Adjusted net profit	741	819	942	1,085
<i>Adj. PAT margin (%)</i>	<i>18.8</i>	<i>20.6</i>	<i>22.5</i>	<i>24.6</i>
Net non-recurring items	-	-	-	-
Reported net profit	741	819	942	1,085

Balance sheet (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Paid-up capital	1,087	1,087	1,087	1,087
Reserves & surplus	9,091	8,396	8,135	7,870
Net worth	10,179	9,483	9,222	8,957
Borrowing	1,142	1,335	1,035	735
Other non-current liabilities	-	-	-	-
Total liabilities	11,404	10,902	10,341	9,775
Gross fixed assets	6,911	7,411	7,911	8,411
Less: Depreciation	(4,160)	(4,433)	(4,715)	(4,993)
Net fixed assets	2,751	2,978	3,196	3,418
Add: Capital WIP	375	375	375	375
Total fixed assets	3,125	3,352	3,571	3,792
Total Investment	6,863	6,863	6,863	6,863
Inventory	211	211	211	211
Debtors	455	455	470	495
Cash & bank	84	51	(745)	(1,555)
Loans & advances	38	80	84	88
Current liabilities	506	849	870	895
Net current assets	423	(33)	(829)	(1,634)
Other non-current assets	993	719	736	754
Total assets	11,404	10,902	10,341	9,775

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Profit before tax	715	669	725	819
Depreciation & Amortisation	265	273	281	278
<i>Chg in working capital</i>	<i>200</i>	<i>(2)</i>	<i>1</i>	<i>(5)</i>
Cash flow from operations	724	675	691	670
<i>Capital expenditure</i>	<i>(780)</i>	<i>(227)</i>	<i>(517)</i>	<i>(518)</i>
Cash flow from investing	(860)	(227)	(517)	(518)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>655</i>	<i>193</i>	<i>(300)</i>	<i>(300)</i>
<i>Dividend paid</i>	<i>(610)</i>	<i>(632)</i>	<i>(632)</i>	<i>(632)</i>
Cash flow from financing	(8)	(482)	(970)	(963)
Net chg in cash	(144)	(33)	(796)	(810)

Key ratios

Y/E March	FY17	FY18E	FY19E	FY20E
OPERATIONAL				
FDEPS (Rs)	6.8	7.5	8.7	10.0
CEPS (Rs)	9.3	10.0	11.3	12.5
DPS (Rs)	7.0	7.0	7.0	7.0
Dividend payout ratio (%)	102.6	92.9	80.8	70.2
GROWTH				
Net sales (%)	1.4	1.1	5.2	5.4
EBITDA (%)	(10.6)	(6.1)	5.7	8.1
Adj net profit (%)	(18.2)	10.5	15.0	15.1
FDEPS (%)	(18.2)	10.5	15.0	15.1
PERFORMANCE				
RoE (%)	7.3	8.3	10.1	11.9
RoCE (%)	6.9	6.4	7.2	8.5
EFFICIENCY				
Asset turnover (x)	0.4	0.4	0.4	0.4
Sales/ total assets (x)	0.3	0.3	0.4	0.4
Working capital/ sales (x)	0.1	-	-	-
Receivable days	42.2	41.8	41.0	40.9
Inventory days	25.5	24.7	23.5	22.4
Payable days	48.7	52.4	52.2	52.5
FINANCIAL STABILITY				
Total debt/ equity (x)	0.1	0.1	0.1	0.1
Net debt/ equity (x)	0.1	0.1	0.2	0.2
Current ratio (x)	1.8	1.0	-	(0.8)
Interest cover (x)	12.2	13.5	16.1	22.6
VALUATION				
PE (x)	28.8	26.1	22.7	19.7
EV/ EBITDA (x)	24.7	26.6	25.7	24.3
EV/ Net sales (x)	5.7	5.7	5.6	5.4
PB (x)	2.1	2.3	2.3	2.4
Dividend yield (%)	3.6	3.6	3.6	3.6
Free cash flow yield (%)	(0.3)	2.1	0.8	-

Source: Company, Axis Capital

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Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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