

Sector: Logistics
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 132	
Price Target: Rs. 150	↔

↑ Upgrade ↔ No change ↓ Downgrade

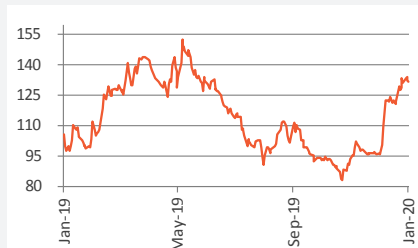
Company details

Market cap:	Rs. 1,430 cr
52-week high/low:	Rs. 154/81
NSE volume: (No of shares)	2.1 lakh
BSE code:	532622
NSE code:	GDL
Sharekhan code:	GDL
Free float: (No of shares)	7.6 cr

Shareholding (%)

Promoters	30.0
FII	26.8
DII	29.1
Others	14.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	38.4	40.9	15.9	27.0
Relative to Sensex	40.3	33.3	6.9	11.4

Sharekhan Research, Bloomberg

The adjusted consolidated net profit of Gateway Distriparks Limited (GDL) came under pressure both on a y-o-y and q-o-q basis on account of a steep decline in its CFS volume (overall decline in port volume and letting go of its unprofitable volume). However, the rail business continued to show healthy volume growth (up 8% y-o-y) and sustained profitability (EBITDA/TEU up 0.9% q-o-q). On a like-to-like basis, GDL net revenue/operating profit/adjusted net profit declined by 8%/15%/50% respectively (not comparable on a y-o-y basis on account of the consolidation of its rail business). GDL redeemed Rs. 50 crore NCDs through a stake sale in Chandra CFS facility and expects further redemption of Rs. 200 crore NCDs on receipt of funds from Snowman Logistics stake sale (expected to complete by FY2020 end). Post de-leveraging, GDL would be planning Rs. 150 crore capex over the next two years predominately in its rail business by setting up two satellite terminals. Over the near term however, the management expects the CFS business to remain under pressure while its rail business will maintain healthy volume growth and sustained profitability. The GDL stock has risen 28% since it has been upgraded it to Buy (report dated 19 August, 2019) lead by sale of its Chandra CFS facility and Snowman Logistics stake. We have lowered our earnings estimate for FY2020-FY2021 factoring lower volume and OPM for its CFS business. We introduce our FY2022 earnings estimate in this note. GDL's current valuation at 6.1x EV/EBITDA and 1.1x P/B over FY2022E earnings provides comfort. Hence, we retain Buy on the stock with unchanged price target of Rs. 150 (rolling forward valuation to FY2022).

Key positives

- ♦ Rail business sustains healthy volume growth and profitability.
- ♦ De-leveraging of balance sheet through redemption of Rs. 250 crore NCDs on track.

Key negatives

- ♦ CFS volumes registers a steep decline affecting overall revenue and profitability.
- ♦ ADGFT notice related to Rs. 100 crore SEIS income accounted by GDL pertaining to FY2016-FY2018.

Our Call

Valuation – Maintain Buy with a unchanged PT of Rs. 150: The GDL stock has risen 28% since we upgraded it to Buy (report dated 19 August, 2019) lead by sale of its Chandra CFS facility and Snowman Logistics stake. We have lowered our earnings estimate for FY2020-FY2021 factoring lower volume and OPM for its CFS business. We introduce our FY2022 earnings estimate in this note. We believe in the current sluggish trade environment, GDL's focus on de-leveraging and maintaining profitability in CFS and Rail verticals should gradually drive net earnings growth going ahead. Further, GDL's current valuation at 6.1x EV/EBITDA and 1.1x P/B over FY2022E earnings provides comfort. Hence, we retain Buy on the stock with unchanged price target of Rs. 150 (rolling forward valuation to FY2022).

Key Risks

Erosion in rail and CFS profitability owing to elongated weakness in trade environment.

Valuation (Consolidated)

	Rs cr			
Particulars	FY19	FY20E*	FY21E	FY22E
Revenue	430.6	1,267.7	1,416.2	1,494.1
OPM (%)	19.1	20.8	20.8	21.1
Adjusted PAT	84.6	50.3	60.5	79.1
% YoY growth	2.3	(40.6)	20.4	30.7
Adjusted EPS (Rs.)	7.8	4.6	5.6	7.3
P/E (x)	16.9	28.4	23.6	18.1
P/B (x)	1.1	1.1	1.1	1.1
EV/EBITDA (x)	25.8	8.0	6.9	6.1
RoNW (%)	7.2	3.8	4.6	5.9
RoCE (%)	3.9	7.1	8.7	9.8

Source: Company Data; Sharekhan estimates; *Gateway Rail consolidated line-by-line

Steep decline in CFS volumes offset healthy rail operations: GDL reported consolidated revenue of Rs. 299 crore, registering a growth of 1.4% y-o-y on a like-to-like basis (including rail vertical revenue during Q3FY2019). The revenues were primarily driven by the rail business (revenue up 9.2% y-o-y) led by volume growth of 7.9% y-o-y and realization growth of 1.2% y-o-y (per TEU basis). The market share gain in Ludhiana along with price hike taken from April 2019 led to a healthy revenue growth for its rail division. The CFS vertical reported a steep 14.6% y-o-y (down 10.4% q-o-q) decline in volume while realization improved by 1.6% y-o-y (up 0.7% q-o-q). On the front of operating profitability (EBITDA/TEU), CFS reported a material decline owing to a steep decline in volumes while rail vertical reported marginal improvement q-o-q (y-o-y not comparable due to adoption of IND AS 116 from April 2019). Hence, the operating profit de-grew by 15% q-o-q to Rs. 60.5 crore. The consolidated net profit declined 50.3% q-o-q to Rs. 8.4 crore (adjusting for Rs. 8.1 crore income booked from entire stake sale in its Chandra CFS facility). The CFS vertical reported net loss for Q3FY2020 on account of higher interest and depreciation charge due to IND AS 116 accounting.

Expect Snowman Logistics deal to complete by current fiscal year end: GDL redeemed Rs. 50 crore NCDs recently by offloading its entire stake in the Chandra CFS facility. Further, it expects to complete its 40.25% stake sale (worth Rs. 296 crore) in Snowman Logistics before the current fiscal year thereby allowing it to further redeem NCDs worth Rs. 200 crore. Post deleveraging its balance sheet it would be going ahead with expansion in its rail business (two satellite terminals) which would be funded from Rs. 150 crore capex plan over the next two years.

Conference Call Key Takeaways

- ♦ **Rail division sustains healthy performance:** The rail vertical showed improved performance with volumes up 7.9% y-o-y owing to the increased capacity and a pickup in demand in the Ludhiana market. The rail revenues grew 9% y-o-y which was led by both an increase in volume and price increase taken by the company from start of the fiscal year. Further EBITDA/TEU for rail grew 17% y-o-y (up 0.9% q-o-q) which was led partly by IND AS adjustments and partly by price increase and lower cost.
- ♦ **CFS business affected by steep decline in volumes:** CFS volumes registered a steep volume decline of 14.6% y-o-y (down 10.4% q-o-q) during Q3FY2020 which was led by overall decline in port volumes and giving up on low profitable volumes.
- ♦ **Chandra CFS sale proceeds utilized to pay off NCDs:** GDL paid off Rs. 50 crores NCDs from the proceeds received from the sale of its entire stake in its Chandra CFS subsidiary in Chennai.
- ♦ **Snowman deal to complete FY2020 end:** During the quarter, the company had signed share purchase agreement to offload its entire 40.25% stake in Snowman Logistics for Rs. 296 crore. The said transaction is expected to be completed by March 31, 2020. The proceeds from the sale will be utilized in redeeming Rs. 200 crore NCDs to deleverage its balance sheet.
- ♦ **ADGFT notice questioning SEIS income:** GDL received a notice from ADGFT questioning SEIS income amounting Rs. 100.7 crores accounted by the company related to the period FY2016 to FY2018. The company will be filing its response and believes the income was correctly availed by the company. Further, GDL would also be lodging a SEIS claim pertaining to FY2019 during Q4FY2020 amounting ~Rs. 56 crore (Rs. 18 crore CFS plus Rs. 38 crore rail) which it expected to receive in FY2021.
- ♦ **Capex of Rs. 150 crore over next two years:** Post the deleveraging of balance sheet, GDL would be looking at the expansion of its rail business for which it has identified two locations for satellite terminals. It would be incurring Rs. 150 crore capital expenditure over the next two years predominately for the two terminals.
- ♦ **DFC update:** The management expects part of DFC to be operational by December 2020 while the entire run is expected to be operational in FY2022. The company expects transit time reduction, assurance and reliability with DFC gets operational. With DFC getting operational, the management expects 15-20% increase in volume over two to three years and 50% volume increase after five years in EXIM trade.

Results (Consolidated)

Particulars	Rs cr				
	Q3FY20*	Q3FY19	YoY%	Q2FY20	QoQ%
Net sales	298.9	103.0	190.2	325.1	-8.0
Operating expenses	238.4	83.6	185.1	253.6	-6.0
EBITDA	60.5	19.4	211.8	71.5	-15.3
Depreciation	33.5	8.3	301.8	32.9	1.8
Other income	5.5	1.9	196.3	3.5	57.0
Interest	26.3	3.0	768.2	25.7	2.1
PBT	6.3	9.9	-36.7	16.3	-61.6
Taxes	-3.4	4.2	-180.1	-1.6	113.4
Extraordinary items	8.1			0.0	
PAT before MI	17.8	5.7	212.7	17.9	-1.0
Minority interest	1.2	-10.6	-111.7	1.0	28.4
APAT	8.4	16.2	-48.1	17.0	-50.3
Margin (%)					
EBITDA	20.2%	18.8%	141 bps	22.0%	-173 bps
NPM	2.8%	15.8%	-1294 bps	5.2%	-240 bps
Effective tax rate	-54.0%	42.7%	-	-9.7%	-

Source: Company Data, Sharekhan Research,

*Not comparable y-o-y due to Gateway Rail Consolidation and adoption of IND AS 116 since April 1st 2019

Outlook

CFS still to remain under pressure while Rail to maintain profitability: The steep decline in the CFS volume led by an overall decline in port volumes and letting go unprofitable volume is expected to put pressure on profitability in the near term. However, the management expects a higher single digit volume growth in its rail operations although profitability in terms of EBITDA/TEU is expected to remain flat. Further, operationalization of DFC getting should aid in improvement in volume and operating efficiencies for the company. Hence, we believe the company's outlook to be on an improving trajectory for its rail vertical although the CFS business is expected to be under pressure in the near term.

Valuation

Maintain Buy with a unchanged PT of Rs. 150: GDL stock has risen 28% since we upgraded it to Buy (report dated 19 August, 2019) lead by sale of its Chandra CFS facility and Snowman Logistics stake. We have lowered our earnings estimate for FY2020-FY2021 factoring lower volume and OPM for its CFS business. We introduce our FY2022 earnings estimate in this note. Given the current sluggish trade environment, GDL's focus on de-leveraging and maintaining profitability in CFS and rail verticals should gradually drive net earnings growth going ahead. Further, GDL's current valuation at 6.1x EV/EBITDA and 1.1x P/B over FY2022E earnings provides comfort. Hence, we retain Buy on the stock with unchanged price target of Rs. 150 (rolling forward valuation to FY2022).

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Gateway Distriparks	28.4	23.6	8.0	6.9	1.1	1.1	3.8	4.6
Container Corporation of India*	32.6	23.7	18.9	16.1	3.2	2.2	10.7	12.0

Source: Sharekhan Research, * Bloomberg Estimates

About company

GDL Group is an integrated inter-modal logistics service provider having three verticals. It operates 7 Container Freight Stations in Nhava Sheva, Chennai, Vizag, Kochi and Krishnapatnam. GatewayRail, India's largest private intermodal operator, provides rail transport service through its 4 Inland Container Depots (ICD) at Gurgaon, Faridabad, Ludhiana, Ahmedabad and Domestic Container Terminal (DCT) at Navi Mumbai. GDL and GatewayRail together have a capacity to handle 2.1 million TEUs per annum with 31 train sets, 500+ trailers and warehousing space of 1.73 million square feet across its 12 Container Terminals. Snowman Logistics Limited (SLL), its third vertical, is India's leading cold chain logistics company with Pan India presence at 31 locations in 15 cities.

Investment theme

With its dominant presence in CFS, rail freight and cold chain businesses, GDL has evolved as an integrated logistics player. The company's CFS and cold chain are facing a tough business environment owing to intensive competition amidst a weak macro environment. However, the rail division has started showing resilience with improvement in volume and profitability. Capacity expansion in rail will prove to be beneficial for the company as the trade environment revives. Further, key positive triggers such as the dedicated freight corridor (DFC) remains intact. Due to comfort on valuation, we have a Buy rating on the stock.

Key Risks

- ♦ Deterioration in trade environment leading to higher trade imbalance.
- ♦ Competitive pressure weighing on operational profitability.

Additional Data

Key management personnel

Mr. PREM KISHAN DASS GUPTA	Chairman
Mr. Sachin Surendra Bhanushali	Chief Executive Officer
Mr. Sandeep Kumar Shaw	Chief Financial Officer
Mrs. Veena Nair	Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	PRISM INTL PTE LTD	22.9
2	Amansa Holdings Pvt Ltd	8.68
3	ICICI Prudential Asset Management	8.63
4	Life Insurance Corp of India	7.08
5	Mirae Asset Global Investments Co	6.83
6	Gupta Prem Kishan Dass	4.06
7	Schroders PLC	2.57
8	Dimensional Fund Advisors LP	2.5
9	State of Kuwait	2.44
10	SBI Funds Management Pvt Ltd	2.21

Source: Bloomberg

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