Sharekhan
by BNP PARIBAS

Gateway Distriparks

Rail division continues to ride fast despite disruptions

Sector: Logistics
Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 83**	
Price Target: **Rs. 110**	↓

↑ Upgrade ↔ No change ↓ Downgrade

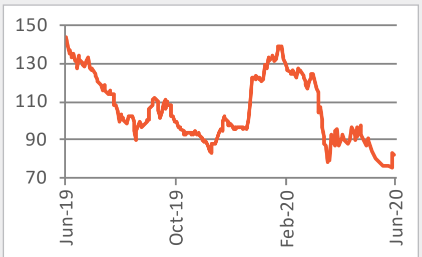
Company details

Market cap:	Rs. 899 cr
52-week high/low:	Rs. 148/73
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	30.2
FII	27.2
DII	29.5
Others	13.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-9.0	-33.5	-15.4	-40.4
Relative to Sensex	-17.2	-24.8	-0.1	-27.0

Sharekhan Research, Bloomberg

Gateway Distriparks Limited (GDL) reported better-than-expected operational performance for Q4FY2020, which was driven by the Rail division. The CFS division was affected by disruptions caused in international ocean transport, domestic road transport and closure of client's business activities due to COVID-19-led lockdown. Snowman Logistics (GDL holds 40.25% stake) performed well with single digit q-o-q growth in revenue, improvement in OPM and lower net loss. The rail business continued to show strong volume growth (up 17% y-o-y) and sustained profitability (EBITDA/TEU up 4.5% q-o-q). On a like-to-like basis, GDL's net revenue declined 2% y-o-y while adjusted net profit declined by 45.3% y-o-y (reported financials not comparable on a y-o-y basis on account of the consolidation of its rail business). GDL expects overall volume for FY2021 to be at 75-80% of FY2020 level on account of disruption caused by COVID-19. DFC's Rewari to Palanpur line is expected to be operational by September 2021 which should aid in healthy volume growth. The company is planning to raise funds through equity which is to be decided on May 10, 2020 board meeting. It had already prepaid Rs. 110 crore NCDs out of total Rs. 550 crore and has payment commitment of Rs. 275 crore over a year's time period. Hence, it targets to reduce its consolidated debt from equity fund raising and will then be going ahead with expansion in its rail business. We have lowered our earnings estimate for FY2021-FY2022 factoring lower volume on account of COVID-19 pandemic. GDL's current valuation of 5.7x EV/EBITDA and 0.7x P/B over FY2022E earnings provides comfort to investors. Hence, we retain a Buy rating on the stock with revised price target of Rs. 110 (led by downward revision in earnings estimates).

Key positives

- Rail business sustains healthy volume growth and profitability.
- De-leveraging of balance sheet through redemption of NCDs.

Key negatives

- CFS volumes and profitability continue to suffer.
- Snowman Logistics stake sale arbitration may take time to get resolved.

Our Call

Valuation –Maintain Buy with a revised PT of Rs. 110: GDL's rail business and cold chain business continue to fare well in the current environment owing to being categorized in essential services. The CFS business may remain under pressure in FY2021 while gradually improving in FY2022. We believe GDL's deleveraging plan along with healthy profitability in the rail division should gradually drive net earnings growth during FY2022. We have lowered our earnings estimate for FY2021-FY2022 factoring in lower volumes on account of COVID-19 pandemic. GDL's current valuation at 5.7x EV/EBITDA and 0.7x P/B over FY2022E earnings provides comfort to investors. Hence, we retain a Buy rating on the stock with revised price target of Rs. 110 (led by downward revision in earnings estimates).

Key Risks

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

Valuation(Consolidated) Rs cr

Particulars	FY19	FY20*	FY21E	FY22E
Revenue	430.6	1,237.2	1,073.7	1,285.9
OPM (%)	19.1	21.1	21.4	21.5
Adjusted PAT	84.6	50.7	34.1	68.0
% YoY growth	2.3	(40.2)	(32.6)	99.2
Adjusted EPS (Rs.)	7.8	4.7	3.1	6.3
P/E (x)	10.6	17.7	26.3	13.2
P/B (x)	0.7	0.7	0.7	0.7
EV/EBITDA (x)	19.4	6.6	7.2	5.7
RoNW (%)	7.2	3.8	2.6	5.2
RoCE (%)	3.9	6.8	5.6	7.6

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

Steep decline in CFS volumes offset healthy rail operations: GDL reported a consolidated revenue of Rs. 299 crore, falling by 2.0% y-o-y on a like-to-like basis (including rail vertical revenue during Q4FY2019). The revenues were primarily driven by the rail business (revenue up 8.7% y-o-y) led by volume growth of 17.4% y-o-y,while realizations declined by7.4% y-o-y (per TEU basis). The CFS vertical reported a steep decline of 22.9% y-o-y (down 10.5% q-o-q) in volume while realisation declined by 1.5% y-o-y (down3.2% q-o-q). GDL's CFS business was impacted due to disruption in global ocean, domestic road transport and partial or complete closure of its clients' business activity. Operating profitability (EBITDA/TEU) of CFS business declined owing to a steep fall in volumes, while rail vertical reported improvement q-o-q (y-o-y not comparable due to adoption of IND AS 116 from April 2019), which led to operating profit growth of 6.4% q-o-q to Rs. 64.4 crore. The consolidated net profit grew31.8% q-o-q to Rs. 11.1 crore (adjusting for a Rs. 8.1 crore income booked from entire stake sale in its Chandra CFS facility in Q3FY2020). The CFS vertical reported a net loss for Q4FY2020 on account of higher interest and depreciation charge due to IND AS-116 accounting.

Focus on debt repayment before expansion in rail: GDL redeemed Rs. 110 crore of non-convertible debentures (NCDs)during FY2020 out of Rs. 550 crore. The company has Rs. 275 crore of payments for FY2021 including Rs. 160 crore NCDs due by April 2021. Hence, the company in its scheduled board meeting on May 10, 2020 will consider raising funds through the equity route. Post fund-raising, it will go ahead with the expansion plans in its rail vertical. The company is targeting to pare down its consolidated debt to Rs. 400 crores by FY2021 from Rs. 763 crore as on FY2020 end. At Snowman, GDL will be going ahead with its capex plan to add 7,200 pellets at three locations. It will be incurring Rs. 60 crore capex during FY2021 for Snowman Logistics.

Key result highlights from Concall

- **Volume guidance for CFS and Rail:** The management expects volume to improve in 2QFY2021 and expects to do 60% of normal volumes during H1FY2021 and 80% in H2FY2021. Overall, the aggregate volumes for FY2021 are expected to be 75-80% of FY2020 volumes.
- **Fund raising:** The management is targeting to bring down its consolidated debt to Rs. 400 crore by FY2021 as against Rs. 763 crore in FY2020. The company during its board meeting scheduled on May 10, 2020 will decide upon raising of funds through QIP, preference shares, rights issue, etc. The company will be raising funds through equity dilution as against taking debt.
- **Capacity expansion plans:** The company will be undertaking capacity expansion in its rail division post raising funds through equity dilution. In Snowman, it would undertake Rs. 60 crore capex for FY2021 for addition of 7,200 pellets at three locations.
- **Repayment of NCDs:** The company repaid Rs. 110 crore NCDs (Rs. 270 crore NCDs were due in April 2021) out of the total NCDs of Rs. 550 crore. It has to pay Rs. 275 crore during FY2021 comprising Rs. 160 crore bond with interest, interest on term loans and scheduled repayment of loans.
- **Snowman stake sale:** The management did not comment on Snowman Logistics acquisition by Adani Logistics as the matter is currently subjudiced.
- **Snowman logistics verticals performance:** Snowman Logistics currently has an occupancy of 92% versus 82-83% during pre-COVID time period. In the transportation segment, 50% of the trucks are idle as drivers are yet to return. Transportation contributes little to EBITDA as against Warehousing. Going ahead the management expects further improvement in occupancy levels.
- **Market share:** The company's current market share at Ludhiana is 35-36% being a leading provider while in NCR it has a market share of 13%.
- **DFC update:** The management estimates new Rewari to New Palanpur line to be fully available by September 2021 which should bring 15-20% volume growth.
- **Debt position:** The company's consolidated debt stood at Rs. 763 crore and net debt at Rs. 651 crore as on FY2020. Its standalone debt was at Rs. 168 crore and net debt at Rs. 108 crore. Snowman's debt stood at 61.8 crore and net debt at Rs. 60.06 crore.

Results (Consolidated) — Rs cr

Particulars	Q4FY20*	Q4FY19	YoY%	Q3FY20	QoQ%
Net sales	**299.1**	**119.9**	**149.4**	**298.9**	**0.1**
Operating expenses	234.7	98.0	139.4	238.4	-1.6
EBITDA	**64.4**	**21.9**	**193.7**	**60.5**	**6.4**
Depreciation	34.4	7.5	361.5	33.5	2.7
Other income	5.1	4.2	21.7	5.5	-8.0
Interest	24.8	3.6	584.5	26.3	-5.4
PBT	**10.2**	**15.0**	**-32.0**	**6.3**	**62.7**
Taxes	-0.9	19.2	-104.7	-3.4	-73.2
Extraordinary items	0.0	280.5		8.1	
PAT before MI	11.1	276.3	-96.0	17.8	-37.4
Minority interest	0.0	-24.5	-100.0	1.2	-99.5
APAT	**11.1**	**20.3**	**-45.3**	**8.4**	**31.8**
Margin (%)					
EBITDA	21.5%	18.3%	325 bps	20.2%	128 bps
NPM	3.7%	16.9%	-1323 bps	2.8%	90 bps
Effective tax rate	-8.9%	127.6%	-	-54.0%	-

*Source: Company; 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: GDL's raildivision is expected to maintain its healthy operational performance being categorized in essential services and has been reliable service for transport through the disruption caused by COVID-19 pandemic. The CFS business is expected to take time to recover as it has been affected by disruption in international ocean transport, domestic road transport and partial or closure of client's business activities. Hence, we expect rail division to aid in supporting earnings while CFS improves from Q3FY2021 onwards. Further, operationalization of DFC should aid improvement in volume and operating efficiencies. 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 revised PT of Rs. 110: GDL's rail business and cold chain business continue to fare well in the current environment owing to being categorized in essential services. The CFS business may remain under pressure in FY2021 while gradually improving in FY2022. We believe GDL's deleveraging plan along with healthy profitability in the rail division should gradually drive net earnings growth during FY2022. We have lowered our earnings estimate for FY2021-FY2022 factoring in lower volumes on account of COVID-19 pandemic. GDL's current valuation at 5.7x EV/EBITDA and 0.7x P/B over FY2022E earnings provides comfort to investors. Hence, we retain a Buy rating on the stock with revised price target of Rs. 110 (led by downward revision in earnings estimates).

About company

Gateway Distriparks Limited (GDL) is an integrated inter-modal logistics service provider. It operates 6 Container Freight Stations in Nhava Sheva, Chennai, Vishakhapatnam, Kochi and Krishnapatnam. Gateway Rail Freight Ltd. (GRFL) is India's largest private intermodal operator providing rail transport service through its 4 Inland Container Depots (ICD) at Gurgaon, Faridabad, Ludhiana, Ahmedabad and a Domestic Container Terminal (DCT) at Navi Mumbai. GDL and GRFL together have a capacity to handle over 2 million TEUs per annum with 31 train sets and, 500+ trailers across its 11 Container Terminals.

Investment theme

With its dominant presence in CFS, rail freight and cold chain businesses, GDL has evolved as an integrated logistics player. The company'sCFS 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 and Managing Director
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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