Sharekhan
by BNP PARIBAS

Gateway Distriparks Limited

Improving outlook with focus on deleveraging

Sector: Logistics
Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 80**	
Price Target: **Rs. 110**	↔

↑ Upgrade ↔ No change ↓ Downgrade

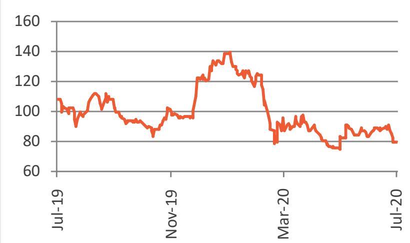
Company details

Market cap:	Rs. 992 cr
52-week high/low:	Rs. 138/71
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	26.9
DII	28.9
Others	14.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.1	-8.7	-42.9	-26.8
Relative to Sensex	-11.7	-27.7	-35.6	-27.4

Sharekhan Research, Bloomberg

Gateway Distriparks Limited (GDL) reported better-than-expected operational performance for Q1FY2020, which was primarily driven by a steep increase in dwell time leading to accrual of ground rent. The consolidated revenues declined 19.5% y-o-y to Rs. 253 crore as volumes in both CFS (down 40% y-o-y) and Rail (down 22% y-o-y) declined. However, EBITDA/TEU for CFS improved by 89% y-o-y benefiting from a surge in import volume and accrual of ground rent. The EBITDA/TEU of rail increased by 28.5% y-o-y as it benefitted from savings in haulage charges led by discounts from Indian Railways and steep increase in dwell time. Hence, the overall OPM rose 697 bps y-o-y (up 611 bps q-o-q) leading to a rise of 8% in operating profit. Strong operational performance led to PBT growth of 48.5% y-o-y while tax outgo (versus tax credit during Q1FY2020) led to consolidated net profit decline of 20% y-o-y to Rs. 11 crore which was much ahead of our expectation of net loss for the quarter. The company has seen improving capacity utilization and expects normal volumes from Q3FY2021 onwards.The company continues to focus on its deleveraging plan with Rs. 135 crore NCDs prepaid in the recent past. The proposed rights issue of Rs. 116 crore is further expected to pare down debt. Subsequently, the company will be incurring Rs. 50 crore growth capex for setting up two satellite terminals which are expected to become operational by 2022. In Snowman, the company would be going ahead with Rs. 70 crore capex at four locations to increase its pellet capacity by 10,000 pellets to 1,17,000.We have increased our FY2021E net earnings factoring in higher profitability achieved in Q1FY2021. GDL's current valuation of 5.0x EV/EBITDA and 0.7x P/B over FY2022E earnings provides comfort while the company's improving operational profitability, focus on deleveraging and revival of capex plans is expected to revive net earnings growth. Hence, we retain a Buy rating on the stock with an unchanged price target of Rs. 110.

Key positives

- Strong profitability in both CFS and Rail verticals in terms of EBITDA/TEU
- Focus on de-leveraging remains with subsequent revival of capex.

Key negatives

- EXIM imbalance and competitive intensity continues.
- DFC to get delayed by three to four months

Our Call

Valuation–Maintain Buy with a unchanged PT of Rs. 110: The company's operational profitability outlook for both CFS and Rail is expected to sustain while normal volumes are expected to revert by Q3FY2021. The company's focus on deleveraging balance sheet followed by revival in its capex plan is likely to aid in reviving net earnings going ahead. The company is also expected to reap benefits from commencement of DFC. We have increased our FY2021E net earnings factoring in higher profitability achieved in Q1FY2021. GDL's current valuation of 5.6x EV/EBITDA and 0.7x P/B over FY2022E earnings provides comfort while company's improving operational profitability, focus on deleveraging and revival of capex plans is expected to revive net earnings growth. Hence, we retain a Buy rating on the stock with unchanged price target of Rs. 110.

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	1,170.0	1,247.6
OPM (%)	19.1	21.1	23.0	21.9
Adjusted PAT	84.6	50.7	48.9	53.9
% YoY growth	2.3	(40.2)	(3.4)	10.1
Adjusted EPS (Rs.)	7.8	4.7	4.5	5.0
P/E (x)	10.2	17.1	17.7	16.0
P/B (x)	0.6	0.7	0.7	0.7
EV/EBITDA (x)	19.0	6.4	6.0	5.6
RoNW (%)	7.2	3.8	3.7	4.1
RoCE (%)	3.9	6.8	7.0	7.3

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

Strong profitability in both Rail and CFS leads to better than expected net earnings

GDL reported a 19.5% y-o-y decline in its consolidated revenue at Rs. 253 crore, mainly led by 25.4% y-o-y decline in rail division revenues while CFS revenues declined by 5.3% y-o-y. Both the divisions registered a decline in volumes due to COVID-19 related lockdown during April 2020. Rail reported a decline of 22% y-o-y in volume while CFS volume declined by 40% y-o-y. However, the company outperformed on OPM front with 697 bps y-o-y rise to 27.6% (up 611 bps q-o-q). Both the divisions benefitted from steep increase in dwell time leading to accrual of ground rent income. Additionally, CFS division also benefitted from a surge in import volumes and Rail division benefitted from savings in rail haulage charges led by discounts given by Indian railways. Hence, overall operating profit grew 7.6% y-o-y to Rs. 69.9 crore. Strong rise in OPM led to PBT growth of 48.5% to Rs. 15 crore. Higher tax outgo versus tax credit during Q1FY2020 led to 20% y-o-y decline in consolidated net profit to Rs. 11 crore which was much ahead than our expectations.

Expansion post prepayment of Debt

GDL has been aggressively pursuing its deleveraging plan and has prepaid Rs. 135 crore Non-Convertible Debentures in the recent past. The proposed rights issue of Rs. 116 Crores would enable it to further reduce its debt and help deleverage its balance sheet. After the proposed rights issue, the company would have prepaid the entire Rs. 250 crores due in April 2021 and brought down the total outstanding NCDs from Rs. 550 crores to Rs. 300 crores. Post the prepayment of NCDs, the company would be undertaking Rs. 50 crore growth capex plan in its rail vertical spread over two years. The company would be setting up two satellite terminals which are expected to become operational in 2022. At Snowman, GDL will be going ahead with its capex plan to add 10,000pellets at four locations with a capex of Rs. 70 crores which would take its pellet capacity to 1,17,000.

Conference Call Key Takeaways

- **Volume guidance:** The company's average volume for Q1 was around 65% which is on an improving trajectory. By the end of September end it should be doing around 75-80% of volume.From Q3FY2021, the volume is expected to be normalized.
- **CFS profitability:** The company's CFS profitability was higher on account of import volume surge during April and May 2020 while dwell time increased from 8-9 days to 50 days which led to accrual of ground rent income. During July, the dwell time remained longer while the imports have gone down and exports have started to surge.
- **Rail profitability:** Its rail division's profitability was higher due to savings of account of rail haulage charges (25% discount) while it also witnessed sharp increase in dwell time. It expects EBITDA/tone of Rs. 6000 to Rs. 6500 per TEU achievable for H2FY2021.
- **Snowman update:** The company had earlier paused capacity expansion plans due to plans of divesting it but now it would be incurring Rs. 70 crore capex for FY2021. It expects to increase its pellet capacity from 1,07,000 to 1,17,000. After the success of B2B pilot model with Amazon in Mumbai, it is looking at setting up a facility for Amazon in Delhi which is expected to be functional in 8 to 9 months. Snowman operated at an average capacity utilization of 90% during Q1 while as of now it is operating at 87%. The company expects capacity utilization to maintain at 87% in Q2 and hopes of achieving 80% plus capacity utilization for FY2021. The company guided for 29-32% EBITDA margin for FY2021.
- **Capex plan:** Post the prepayment of Rs. 135 crore NCDs (due on April 1, 2021), the company will be undertaking Rs. 50 crore capex spread over two years for setting up two satellite terminals which are expected to be operational in 2022. During the current fiscal, it would only be incurring Rs. 5 crore to Rs. 10 crore each as maintenance capex for its Rail and CFS verticals.
- **Debt position:** The company's consolidated debt at the end of June 2020 stood at Rs. 656 crore and net debt at Rs. 623 crore. It has its repayment schedule of Rs. 15 crore for CFS and Rs. 20 crore for Rail Rs. 22 crore during the current year.
- **DFC update:** The company expects Ajmer to Rewari section of Palanpur to Rewari to become operational by March 2021 (earlier December 2020) while the full line is expected by end of 2021.

Results (Consolidated) — Rs cr

Particulars	Q1FY21	Q1FY20	YoY%	Q4FY20	QoQ%
Net sales	252.8	314.1	-19.5	299.1	-15.5
Operating expenses	182.9	249.2	-26.6	234.7	-22.1
EBITDA	69.9	64.9	7.6	64.4	8.5
Depreciation	33.4	32.4	3.2	34.4	-3.0
Other income	1.5	3.4	-54.2	5.1	-69.8
Interest	23.0	25.8	-10.9	24.8	-7.5
PBT	15.0	10.1	48.5	10.2	47.3
Taxes	3.9	-8.2	-	-0.9	-
Extraordinary items	0.0	44.3		0.0	
PAT before MI	11.1	62.6	-82.2	11.1	0.1
Minority interest	-0.1	4.2	-	0.0	-
APAT	11.3	14.2	-20.4	11.1	1.4
Margin (%)					
EBITDA	27.6%	20.7%	697 bps	21.5%	611 bps
NPM	4.5%	4.5%	-5 bps	3.7%	74 bps
Effective tax rate	26.0%	-80.9%	-	-8.9%	-

Source: Company; Sharekhan Research

Outlook

Expect volume to get normalized by Q3FY2021 while maintaining healthy profitability: GDL is expected to maintain healthy operational profitability in both its CFS and Rail division. Further, the company expects 75-80% of normal volume by Q2FY2020 end and to achieve normal volumes from Q3FY2021 onwards. The management expects programs like "Atmanirbhar Bharat" to benefit the logistics sector. The commencement of DFC is also expected to yield healthy improvement in volumes. It expects overall, the logistics sector to grow at double digit over the longer tenure. Hence, we believe that the company's outlook will be on an improving trajectory for both of its rail vertical andCFS business.

Valuation

Maintain Buy with anunchanged PT of Rs. 110: The company's operational profitability outlook for both CFS and Rail is expected to sustain while normal volumes are expected to revert by Q3FY2021. The company's focus on deleveraging balance sheet followed by revival in its capex plan is likely to aid in revive net earnings going ahead. The company is also expected to reap benefits from commencement of DFC. We have increased our FY2021E net earnings factoring higher profitability achieved in Q1FY2021. GDL's current valuation of 5.6x EV/EBITDA and 0.7x P/B over FY2022E earnings provides comfort while company's improving operational profitability, focus on deleveraging and revival of capex plans is expected to revive net earnings growth. Hence, we retain a Buy rating on the stock with an unchanged price target of Rs. 110.

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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