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Company update and
recommendation change

Logistics

Target price: Rs134

Earnings revision

(%)	FY22E
Sales	↑ 3.1
EBITDA	↑ 3.0
EPS	NM

Target price revision

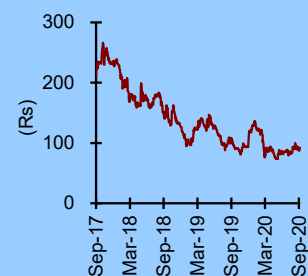
Rs134 from Rs88

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	30.0	30.2	30.2
Institutional investors	55.9	56.8	55.8
MFs and other	19.2	19.6	19.0
FIs / Banks	7.2	7.2	7.1
Insurance Cos.	2.4	2.4	2.4
FII	27.1	27.6	26.9
Others	14.1	13.0	14.0

Source: CMIE

Price chart



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Gateway Distriparks

BUY

Upgrade from HOLD

Holding structure simplified; prepared for next phase of growth

Rs92

Gateway Distriparks' (GDL) Board has approved: i) amalgamation of Gateway East India (GEI) with GDL, and ii) amalgamation of GDL (post-merger with GEI) with Gateway Rail (GRFL). For amalgamation of GEI with GDL, no consideration will be given to the shareholders of GEI since it is a wholly-owned subsidiary of GDL. For amalgamation of GDL with GRFL, the shareholders of GDL will receive equity shares of GRFL in the ratio 1:4. GRFL will get listed and GDL will cease to exist. GDL holds 99.85% stake in GRFL. Promoter shareholding remains largely unchanged post the scheme at 32.12%. Amalgamation into GRFL was expected on account of the existing category-I Rail licence being in the name of GRFL. We upgrade GDL to BUY from Hold with a revised target price of Rs134 (earlier Rs88).

- **Rationale for amalgamation / merger.** The amalgamation, reverse merger and the corresponding listing of GRFL highlights the management's business priority for the Rail intermodal logistics business vis-à-vis CFS business. This will also allow better cashflow management as, while GRFL was becoming an important source of cashflow, NCDs were in the parent entity. This will also allow better access to growth capital by leveraging up the consolidated balance sheet. CFS cashflows can be better utilised to accelerate capex for satellite rail terminals for the NCR.
- **Upgrade to BUY.** With no unpleasant surprises from simplification of group structure, the focus shifts to GDL's (in future GRFL's) journey to capture incremental Rail business share. The journey will start with the endeavour to increase the current 13% market share in the NCR by trying to go deep and create satellite terminals. This would entail additional capex and additional debt, hence managing the balance sheet is paramount – FY22E 'Net Debt to EBITDA' (2.2x) appears quite manageable. GDL had ~Rs2.7bn of NCD repayment scheduled for FY21. Post rights issue of Rs1.15bn and repayment of similar amount, GDL has repaid ~Rs2.25bn, leaving a small repayment due for rest of FY21.
- **Time to diversify away from container traffic.** As Dedicated Freight Corridor (DFC) keeps getting delayed, perhaps it is time to look into other segments of Rail freight as well. With the extent of Indian Railways' capex in augmenting the key freight routes – 18 high-density routes of a combined 36,000km carry 96% of freight, has witnessed maximum investment in quadrupling of lines, electrification in the past five years – it makes sense to diversify away from container transport. As the wait for DFC continues, freight capacity is being unlocked across the network. What is required is corporate involvement in improving accessibility and loading/unloading infra at some of the freight stations connected to this network. With Indian Railways consistently gaining freight market share amid the pandemic, a good opportunity presents itself to GDL.

Market Cap	Rs11.5bn/US\$156mn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	GATE.BO / GDPL IN	Revenue (Rs mn)	4,306	12,920	10,046	12,829
Shares Outstanding (mn)	124.8	EBITDA(Rs mn)	824	3,134	1,419	2,270
52-week Range (Rs)	144/75	Net Income (Rs mn)	3,652	1,039	(726)	147
Free Float (%)	70.0	EPS (Rs)	29.3	8.3	(5.8)	1.2
FII (%)	27.6	P/E (x)	3.1	11.1	NM	78.4
Daily Volume (US\$'000)	187	CEPS (Rs)	31.9	19.0	4.9	11.9
Absolute Return 3m (%)	10.4	EV/E (x)	22.0	6.1	13.5	8.1
Absolute Return 12m (%)	(12.3)	Dividend Yield	4.9	5.4	-	-
Sensex Return 3m (%)	(10.6)	RoCE (%)	15.3	8.8	1.1	5.0
Sensex Return 12m (%)	(13.5)	RoE (%)	27.6	7.9	(5.3)	1.1

Upgrade to BUY with a revised target price of Rs134/share

Sensitivity

- Every Rs500/teu increase in EBITDA assumption in rail business leads to ~Rs10/share increase in valuations for GDL. Our base case rail EBITDA/teu estimate (FY22) is Rs6,000/teu.
- Every Rs500/teu increase in EBITDA assumption in CFS business leads to ~Rs13/share increase in valuations for GDL. Our base case CFS EBITDA/teu estimate (FY22) is Rs1,696/teu.

As sensitivities show, given the current low base of EBITDA/teu for CFS as well as rail business, higher risks to our valuation is on account of increase in EBITDA estimates for rail and CFS.

Our improved choice of multiples for rail and CFS businesses highlights our relative optimism for the same – post the group structure simplification. Our assumption of total debt excludes ~Rs1.9bn worth of lease liability. We have also factored in for the latest rights issue.

Table 1: SoTP valuation (New)

	Methodology	Enterprise Value (Rs mn)	Valuation (Rs/share)
Gateway Rail Freight	EV/EBITDA, 10x FY22E	15,441	
CFS business	EV/EBITDA, 6x FY22E	4,356	
Total Enterprise value		19,797	
Total Debt		4,919	
Equity Value			119
Snowman Logistics (40% Associate)	Market value adjusted for stake and Holdco discount		14
Total			134

Source: Company data, I-Sec research

Table 2: SoTP valuation (old)

	Methodology	Enterprise Value (Rs mn)	Valuation (Rs/share)
Gateway Rail Freight	EV/EBITDA, 8x FY22E	11,816	
CFS business	EV/EBITDA, 6x FY22E	4,356	
Total Enterprise value		16,172	
Total Debt		8,272	
Equity Value			73
Snowman Logistics (40% Associate)	Market value adjusted for stake and Holdco discount		15
Total			88

Source: Company data, I-Sec research

Change in earnings

We have increase rail volumes for FY22 by 4.5%.

Table 3: Earnings revision

	FY21E			FY22E		
	New	Old	% Chg	New	Old	% Chg
Sales	10,046	10,046	0.0	12,829	12,449	3.1
EBITDA	1,419	1,419	0.0	2,270	2,203	3.0
PAT	(726)	(770)	NM	147	(53.7)	NM

Source: I-Sec research

Table 4: Assumptions change

Rs	FY21E			FY22E		
	New	Old	% Chg	New	Old	% Chg
Rail						
Volume (teu)	223,785	223,785	0.0	257,353	246,164	4.5
Realisation/teu	32,000	32,000	0.0	34,000	34,000	0.0
EBITDA/teu	4,000	4,000	0.0	6,000	6,000	0.0
CFS						
Volume (teu)	319,050	319,050	0.0	428,000	428,000	0.0
Realisation/teu	9,000	9,000	0.0	9,500	9,500	0.0
EBITDA/teu	1,643	1,643	0.0	1,696	1,696	0.0

Source: I-Sec research

Financial summary

Table 5: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Revenue from operations	4,306	12,920	10,046	12,829
Operating Expenses	3,482	9,786	8,626	10,559
EBITDA	824	3,134	1,419	2,270
% margins	19.1%	24.3%	14.1%	17.7%
Depreciation & Amortisation	326	1,333	1,333	1,333
Gross Interest	128	1,026	987	867
Other Income	128	176	165	165
Profit before tax & exceptional item	498	951	(735)	235
Exceptional Item	2,805	81	-	-
Profit before tax	3,303	1,031	(735)	235
Less: Taxes	300	(63)	(184)	59
Add share of profit from JV and associate	649	(55)	(174)	(30)
Net Income (Reported)	3,652	1,039	(726)	147

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Assets				
Total Current Assets	2,164	2,142	2,180	2,618
of which cash & cash eqv.	697	683	1,009	1,168
Total Current Liabilities & Provisions	884	1,113	969	1,198
Net Current Assets	1,281	1,030	1,211	1,420
Investments in JV and associates	1,465	-	-	-
Investments	-	-	-	-
Net Fixed Assets	14,957	14,325	13,592	12,859
Intangible assets	231	205	205	205
Capital Work-in-Progress	16	54	54	54
Goodwill	3,228	3,032	3,032	3,032
Other non-current assets	1,204	2,570	2,570	2,570
Total Assets	22,382	23,253	22,702	22,178
Liabilities				
Borrowings	8,798	9,878	8,718	8,018
Deferred Tax Liability	189	38	38	38
Other long term liabilities	16	13	13	13
MI	98	106	106	106
CCPS	-	-	-	-
Equity Share Capital	1,087	1,087	1,248	1,248
Reserves and Surplus	12,131	12,080	12,527	12,703
Net Worth	13,218	13,167	13,775	13,952
Total Liabilities	22,382	23,253	22,702	22,178

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Profit before tax	3,951	976	(735)	235
Depreciation	325	1333	1333	1333
Non-Cash Adjustments	(2525)	836	842	722
Working Capital Changes	(168)	201	145	(50)
Taxes Paid	112	333	(184)	59
Operating Cashflow	1472	3014	1768	2181
Capital Commitments	(126)	(494)	(600)	(600)
Free Cashflow	1346	2520	1168	1581
Other investing cashflow	(5502)	309	145	145
Cashflow from Investing Activities	(5628)	(185)	(455)	(455)
Inc (Dec) in Borrowings	5141	(1418)	(1160)	(700)
Issue of Share Capital	0	0	1160	0
Finance cost	(113)	(865)	(987)	(867)
Dividend paid	(524)	(1,080)	-	-
Cash flow from Financing Activities	4,503	(3,362)	(987)	(1,567)
Chg. in Cash & Bank balance	347	(534)	326	159

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS	29.3	8.3	(5.8)	1.2
Cash EPS	31.9	19.0	4.9	11.9
Dividend per share (DPS)	4.5	5.0	-	-
Book Value per share (BV)	105.9	105.5	110.3	111.8
OCF per share	11.8	24.1	14.2	17.5
FCF per share	10.8	20.2	9.4	12.7
Growth (%)				
Net Sales	8.9	200.0	(22.2)	27.7
EBITDA	(2.3)	280.4	(54.7)	59.9
PAT	339.1	(71.5)	(169.8)	(120.2)
Valuation Ratios (x)				
P/E	3.1	11.1	NM	78.4
P/BV	0.9	0.9	0.8	0.8
EV / EBITDA	22.0	6.1	13.5	8.1
EV / Sales	4.2	1.5	1.9	1.4
Operating Ratios				
Employee cost / Sales (%)	5.5	4.6	5.9	4.9
Other Operating exp. / Sales (%)	13.3	7.7	8.9	8.5
Effective Tax Rate (%)	9.1	-6.1	25.0	25.0
Net D/E Ratio (x)	0.6	0.7	0.6	0.5
OCF yield (%)	14.7	30.1	15.4	19.0
FCF yield (%)	13.5	25.2	10.2	13.8
Return/Profitability Ratios (%)				
EBITDA Margins	19.1	24.3	14.1	17.7
Net Income Margins	84.8	8.0	(7.2)	1.1
Return on Equity (RoE)	27.6	7.9	(5.3)	1.1
RoCE	15.3	8.8	1.1	5.0

Source: Company data, I-Sec research

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