Sharekhan by BNP PARIBAS

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Stock Update

Gateway Distriparks Limited

Trade environment continues to improve

Logistics	Sharekhan code: GDL	Company Update

Summary

- We retain Buy on Gateway Distriparks Limited (GDL) with a revised SOTP-based PT of Rs. 140 due to attractive valuations and an improving growth and profitability outlook for its key verticals.
- Container volumes at ports and railways see growth momentum picking up during November. Merchandise exports and imports trade show improving trend.
- Snowman logistics to expand capacities to cater to upcoming opportunities in Covid-19 vaccine storage and transportation.
- GDL to expand capacity in the rail segment post current de-leveraging plan. To benefit from restructuring exercise to merge GDL, Gateway Rail, and Gateway East.

Gateway Distriparks Limited (GDL) is expected to benefit from improving trade volumes since September 2020, with November 2020 maintaining the growth momentum. Major ports container volumes for November 2020 rose by 11.2% y-o-y to 12,321 tonne after showing 6%+ y-o-y growth during the preceding two months. Indian railways container volumes have risen by 12.5% y-o-y to 5.4 million tonne, where domestic volumes surged by 23.1% y-o-y to 1.1 million tonne and EXIM volumes grew by 10% y-o-y to 4.3 million tonne. Rail container volumes during September/October had grown 7.5%/9.3%, with domestic volumes rising by 11.0%/15.9% and EXIM volumes growing by 6.7%/7.9%, respectively. Non-petroleum and non-gems and jewellery exports witnessed strong growth of 11.9% y-o-y and 6.5% y-o-y during September and October, respectively, before staying at almost flat level (-0.6% y-o-y) for November 2020 at $19.26billion. Non-oil and non-gold imports marginally dipped by 0.8% y-o-y to $22.25billion after witnessing a decline of 11.6% y-o-y and 8% y-o-y, respectively, during September and October. The improving trade environment both domestically and EXIM bode well for GDL for both its Rail and CFS business. Further, Snowman Logistics (in which GDL holds 40% stake) is expected to be one of the beneficiaries in storage and transportation of Covid-19 vaccines domestically. Snowman is increasing its cold storage capacity (already has storage capability of up to -30C) from 31 cold storages (in 15 cities) to 33 cold storages (in 17 cities), which would aid in capturing business of Covid-19 vaccines. It would be expanding pellet capacity by 12,000 at four locations to increase its pellet capacity to 1,17,000. The company's restructuring exercise to merge GDL, Gateway Rail, and Gateway East into a single entity is expected to improve earnings, cash flow management, debt servicing, and operational synergies among others. In its rail business, it would undertake growth capex by setting up two ICDs at a capex of Rs. 140 crore to be spread over three years once its de-leveraging plan is over. GDL's current valuation of 6.2x EV/EBITDA over FY2023E earnings provides enough headroom, considering improving trade environment, its improving operational profitability, focus on deleveraging, and revival of capex plans. Hence, we retain our Buy rating on the stock with a revised price target (PT) of Rs. 140.

Our Call

Valuation –Retain Buy with a revised PT of Rs. 140: We expect GDL's operational profitability in both its key verticals CFS and rail to improve upon with improving trade environment. Further, the outlook for its cold chain business (Snowman Logistics) is expected to be positive, driven by high demand for Covid-19 vaccine storage and transportation. Additionally, the company's focus on deleveraging balance sheet followed by a revival in capex plans is likely to aid in reviving net earnings going ahead. The company is also expected to reap benefits from commencement of the DFC. GDL's current valuation of 6.2x its EV/EBITDA over FY2023E earnings provides enough headroom considering improving trade environment, improving operational profitability, focus on deleveraging, and revival of capex plans. Hence, we retain our Buy rating on the stock with a revised PT of Rs. 140.

Key risk

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

Valuation (Consolidated) Rs cr

Particulars	FY20	FY21E	FY22E	FY23E
Revenue	1,237.2	1,124.3	1,246.1	1,365.0
OPM (%)	21.1	23.6	21.9	21.9
Adjusted PAT	50.7	54.9	62.0	84.6
% YoY growth	(40.2)	8.3	13.0	36.5
Adjusted EPS (Rs.)	4.1	4.4	5.0	6.8
P/E (x)	27.9	25.7	22.8	16.7
P/B (x)	1.1	1.0	1.0	1.0
EV/EBITDA (x)	8.5	7.7	7.2	6.2
RoNW (%)	3.8	4.0	4.3	5.9
RoCE (%)	6.8	7.2	7.4	8.7

Source: Company; Sharekhan estimates

3R MATRIX

	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 113**	
Price Target: **Rs. 140**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

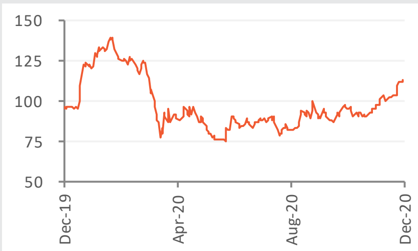
Company details

Market cap:	Rs. 1,412 cr
52-week high/low:	Rs. 138/71
NSE volume: (No of shares)	1.3 lakh
BSE code:	532622
NSE code:	GDL
Free float: (No of shares)	8.5 cr

Shareholding (%)

Promoters	32.1
FII	25.9
DII	27.7
Others	14.3

Price chart



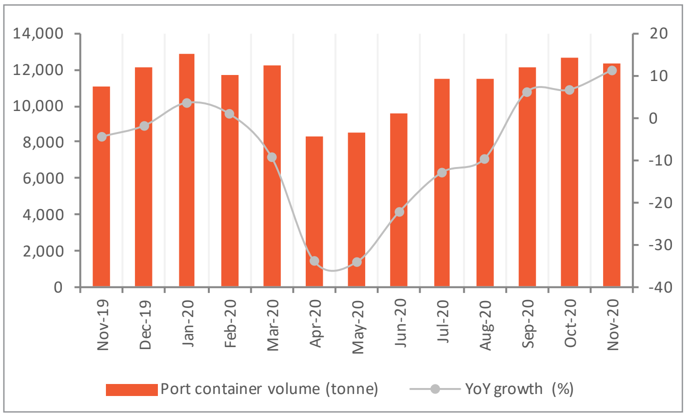
Price performance

(%)	1m	3m	6m	12m
Absolute	15.9	23.0	27.1	17.9
Relative to Sensex	9.4	2.8	-10.4	3.4

Sharekhan Research, Bloomberg

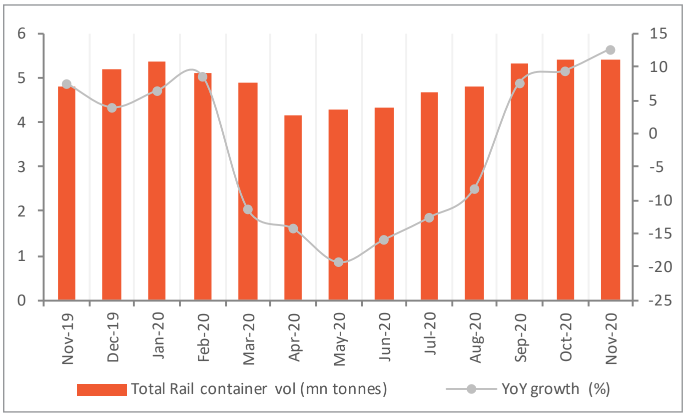
Industry in charts

Major ports container volume trend



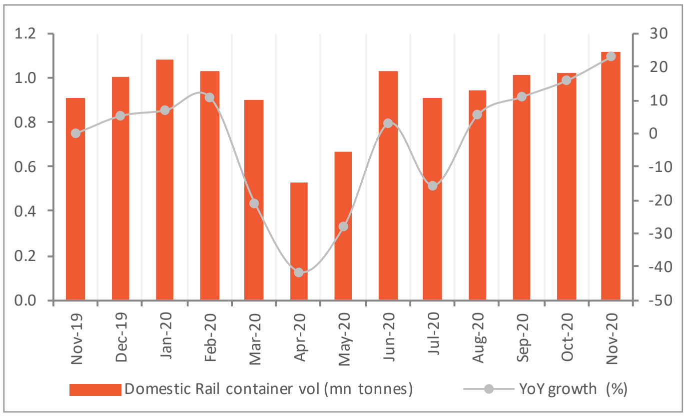
Source: Industry; Sharekhan Research

Railways container volume trend



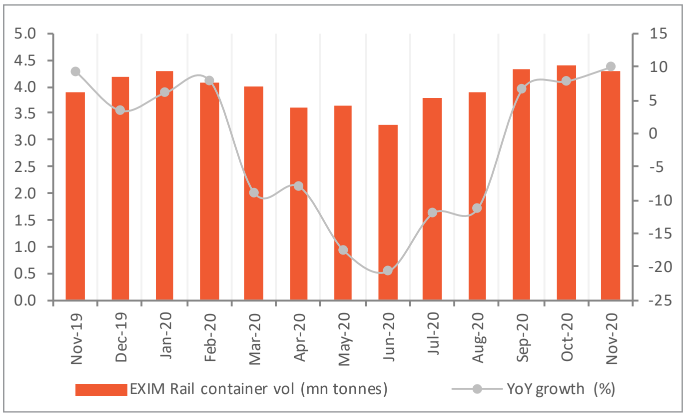
Source: Industry; Sharekhan Research

Railways domestic container volume trend



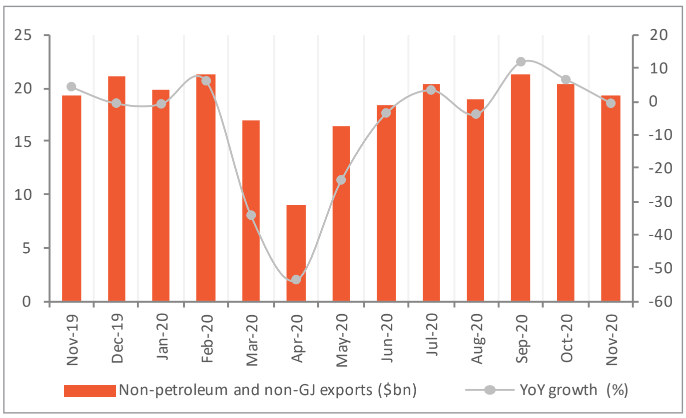
Source: Industry; Sharekhan Research

Railways EXIM container volume trend



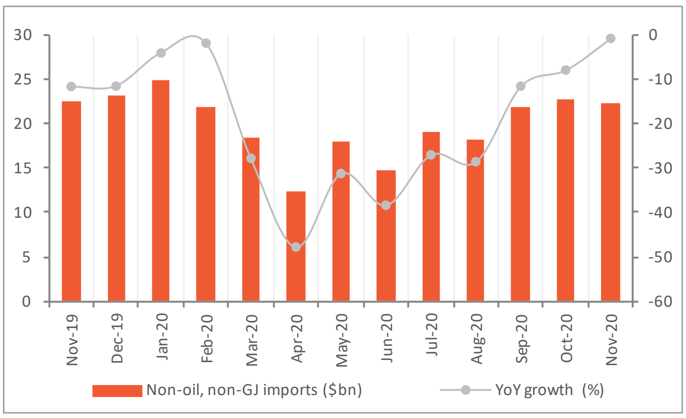
Source: Industry; Sharekhan Research

Merchandise export (Non-oil, GJ) trend



Source: Industry; Sharekhan Research

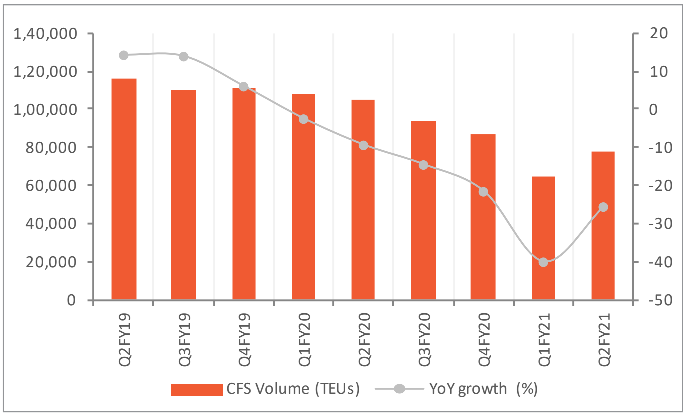
Merchandise import (Non-oil, GJ) trend



Source: Industry; Sharekhan Research

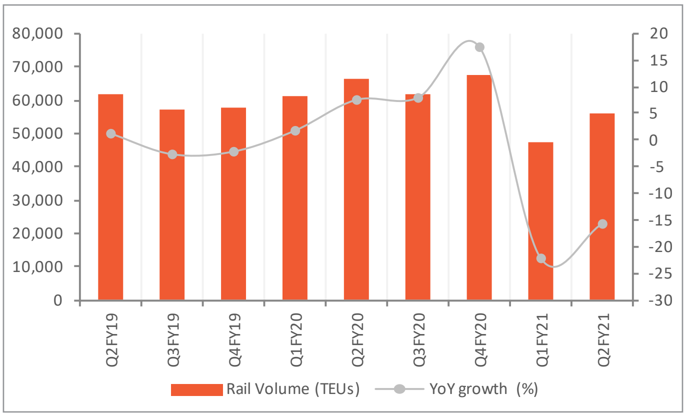
Financials in charts

CFS Volume trend



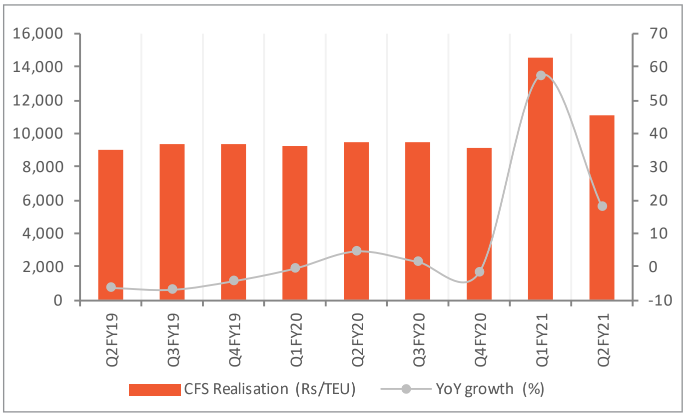
Source: Company, Sharekhan Research

Rail Volume trend



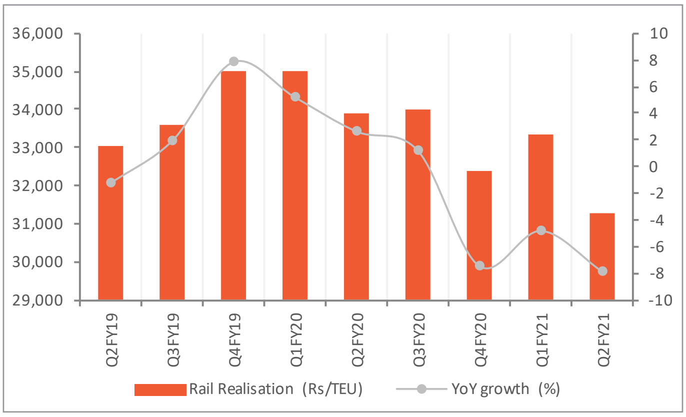
Source: Company, Sharekhan Research

CFS Realisation trend



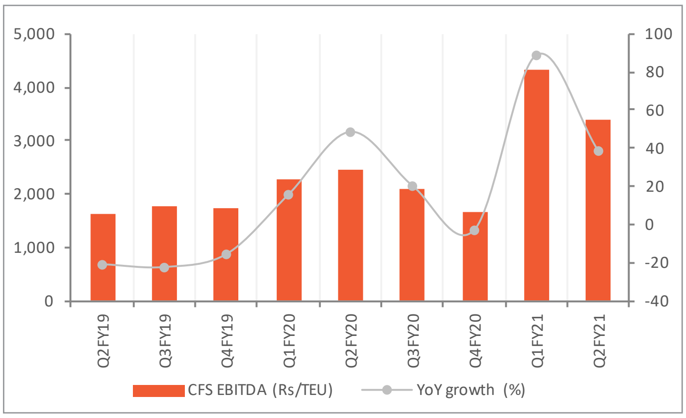
Source: Company, Sharekhan Research

Rail Realisation trend



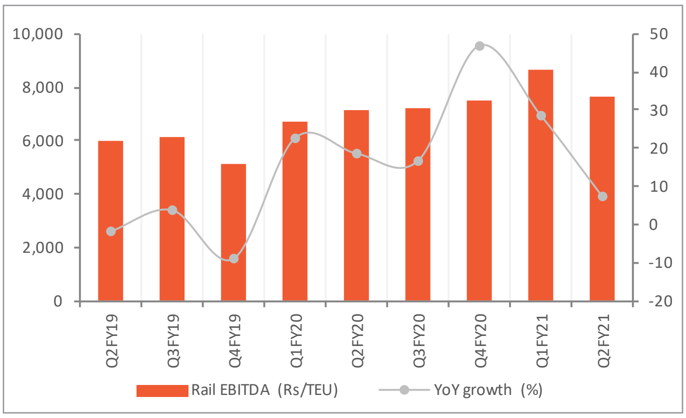
Source: Company, Sharekhan Research

CFS EBITDA trend



Source: Company, Sharekhan Research

Rail EBITDA trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Green shoots visible; Await to gather pace

The logistics industry was severely hit by COVID-19 pandemic, which affected the overall trade environment both domestically as well as globally. However, the sector is seeing improving trade environment with volumes at ports and railways picking up m-o-m. Other domestic indicators such as e-way bill generations, FASTag collections too highlight improvement on m-o-m basis; the international EXIM environment although has started recovering but is yet to gather pace. Competitive intensity is expected to ease going ahead with improvement in trade volumes. However, the third-party logistics (3PL) industry has seen faster improvement in operations led by segments such as e-Commerce, pharma, and FMCG. Hence, within the logistics industry, 3PL companies are better placed. We wait for recovery to gather pace before turning our sector view to positive for the logistics industry.

■ Company Outlook – Expect volume to get normalised by Q3FY2021 while maintaining healthy profitability

GDL is expected to maintain healthy operational profitability in both its CFS and rail divisions along with improvement in volumes from Q3FY2021. Further, the company expects volumes in both CFS and rail verticals to decline by 10% y-o-y for FY2021 versus earlier expectation of a 20%-25% y-o-y decline. Management expects programmes such as 'Atmanirbhar Bharat' to benefit the logistics sector. Commencement of the DFC is also expected to yield healthy improvement in volumes. It expects the overall logistics sector to grow in double digits over the longer tenure. Hence, we believe the company's outlook will be on an improving trajectory for both the rail andCFS businesses.

■ Valuation – Retain Buy with a revised price target of Rs. 140

We expect GDL's operational profitability in both its key verticals, CFS and rail, to improve with better trade environment. Further, the outlook for its cold chain business (Snowman Logistics) is expected to be positive, driven by high demand for Covid-19 vaccine storage and transportation. Additionally, the company's focus on deleveraging balance sheet followed by a revival in capex plans is likely to aid in reviving net earnings going ahead. The company is also expected to reap benefits from commencement of the DFC. GDL's current valuation of 6.2x its EV/EBITDA over FY2023E earnings provides enough headroom, considering the improving trade environment, its improving operational profitability, focus on deleveraging, and revival of capex plans. Hence, we retain our Buy rating on the stock with a revised PT of Rs. 140.

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Mahindra Logistics	44.4	32.0	15.2	12.7	3.9	3.5	10.3	12.7
TCI Express	32.8	27.6	23.6	19.7	7.0	5.8	23.7	23.7
Gateway Distriparks	22.8	16.7	7.2	6.2	1.0	1.0	4.3	5.9

Source: Sharekhan Research

About company

GDL is an integrated inter-modal logistics service provider. The company operates six 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 fourInland 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 the 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	24.1
2	ICICI Prudential Asset Management	8.71
3	Mirae Asset Global Investments Co	8.42
4	Amansa Holdings Pvt Ltd	7.83
5	Life Insurance Corp of India	6.17
6	Gupta Prem Kishan Dass	4.49
7	State of Kuwait	2.98
8	Schroders PLC	2.39
9	Perfect Communications	2.34
10	Vanguard Group Inc	1.52

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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