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Stock Update

Result Update

Gateway Distriparks Ltd

An operationally in-line Q4; Outlook positive

Logistics	Sharekhan code: GATEWAY	
Reco/View: Buy ↔	CMP: Rs. 76	Price Target: Rs. 91 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain a Buy on Gateway Distriparks Limited (GDL) with a revised SOTP-based PT of Rs. 91 as we factor in healthy operational performance for Rail.
- For Q4FY2022, GDL reported broadly in-line operational performance while net earnings beat was led by lower depreciation, higher other income and tax refund.
- Expect healthy volume growth and sustained operational profitability for Rail to continue. The CFS division is expected to improve upon operational profitability.
- GDL to undertake Rs. 200 crore CAPEX plan over the next two to three years for setting up two satellite rail terminals.

Gateway Distriparks Limited (GDL) reported broadly in-line operational performance while net earnings beat was led by lower depreciation (non-renewal of Punjab Conware lease), higher other income (Rs. 12 crore gain from land sale) and tax refund (Rs. 22 crores related to pre-amalgamation) for Q4FY2022. The consolidated revenues grew by 2.5% y-o-y to Rs. 359 crore with rail revenues rising by 8.1% y-o-y (volume growth of 16% y-o-y) while CFS revenues dipped by 12% y-o-y (volume dip of 5.8% y-o-y with the elimination of Punjab Conware volumes from February 2022). Rail reported an EBITDA/TEU decline of 9% y-o-y (adjusted for other income) while CFS witnessed a 17.5% y-o-y dip (amalgamation related costs, labour costs, fuel costs). Adjusted consolidated net profit of Rs. 51.8 crore was up 12.9% y-o-y. The management expects healthy volume growth and sustained operational profitability for Rail while CFS operational profitability improves along. It would be undertaking an Rs. 200 CAPEX plan majorly for setting up two satellite rail terminals over the next two to three years.

Key positives

- Rail registers volume growth of 16.2% y-o-y and 6% q-o-q.
- Net debt reduces to Rs. 298 crore from Rs. 374 crore in Q3FY2022.
- Higher other income, lower depreciation and tax refund lead to a reported consolidated net profit of Rs. 85 crore, up 85% y-o-y.

Key negatives

- CFS EBITDA/TEU declined by 17.5% y-o-y and 14% q-o-q affected by amalgamation related expenses, increase in labour costs and higher fuel costs.

Management Commentary

- The rail volumes can grow at mid to higher teens y-o-y for FY2023 provided the GDP growth rate is 8-9%. It would maintain Rs. 9000/TEU EBITDA plus-minus 10% for Rail in FY2023.
- CFS volumes can grow by 3-5% on like to like basis (excluding Punjab conware which contributed 1 lakh TEU per annum) for FY2023. It expects CFS EBITDA/TEU at Rs. 2200-2300 for FY2023.
- The company would incur Rs. 60 crores each for setting up two satellite terminals. It would incur Rs. 200 crore CAPEX for both verticals over the next two to three years.

Revision in estimates – We have increased our net earnings estimates for FY2023-FY2024E factoring in lower depreciation charges..

Our Call

Valuation –Maintain Buy with a revised PT of Rs. 91: GDL is slated to benefit from sustained EXIM growth and benefits accruing from the commissioning of DFC going ahead. It has not only been able to maintain the operational profitability of rail but has only been able to increase its market share in a key region of operations. Its capacity expansion plans are expected to provide the next round of growth. Its deleveraged balance sheet and strong cash flow generation going ahead are expected to improve interest coverage ratios despite capacity expansions. We retain a Buy rating on the stock with a revised price target of Rs. 91 factoring higher rail performance.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	1,179.3	1,373.7	1,536.6	1,721.9
OPM (%)	26.5	26.8	27.6	27.7
Adjusted PAT	94.5	190.6	218.8	261.5
% YoY growth	86.5	101.8	14.8	19.5
Adjusted EPS (Rs.)	1.9	3.8	4.4	5.2
P/E (x)	40.3	20.0	17.4	14.5
P/B (x)	2.6	2.4	2.5	2.5
EV/EBITDA (x)	14.1	11.5	10.0	8.8
RoNW (%)	6.7	12.2	13.5	16.4
RoCE (%)	8.9	12.1	15.2	17.8

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		↔	

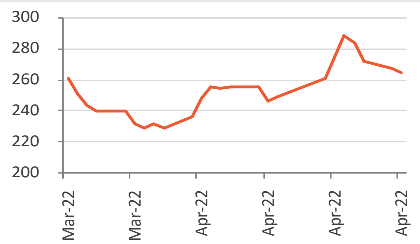
Company details

Market cap:	Rs. 3,805 cr
52-week high/low:	Rs. 87/65
NSE volume: (No of shares)	1.3 lakh
BSE code:	543489
NSE code:	GATEWAY
Free float: (No of shares)	33.9 cr

Shareholding (%)

Promoters	32.1
FII	19.4
DII	32.8
Others	15.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.4	-	-	-
Relative to Sensex	10.8	-	-	-

Sharekhan Research, Bloomberg

An operationally in-line quarter

Gateway Distriparks Limited (GDL) reported an in-line operational performance for Q4FY2022. The consolidated revenues at Rs. 359 crore (up 2.5% y-o-y, up 2.8% q-o-q) was led by healthy growth in the rail division while CFS was affected by the non-renewal of the lease of Punjab Conware from February 2022. Rail revenues grew by 8.1% y-o-y (+5.5% q-o-q) to Rs. 275 crores aided by strong volume growth of 16.2% y-o-y (+6.0% q-o-q). The CFS revenues declined by 12.3% y-o-y (-5.1% q-o-q) to Rs. 83.9 crore due to pressure on realizations (realization per TEU were down 6.9% y-o-y although up 3.6% q-o-q) while volumes were down 5.8% y-o-y (-8.3% q-o-q) as Punjab Conware did not contribute from February 2022 onwards (5000TEUs during January 2022). The consolidated operating margin at 26.4% in Q4FY2022 was marginally below our estimate. The EBITDA/TEU for the CFS business at Rs. 1993/TEU remained under pressure both y-o-y and q-o-q on account of the inclusion of merger-related expenses, increase in variable payments, rise in labour costs and higher fuel costs which were not passed on to end consumers. The EBITDA/TEU for Rail remained strong at Rs. 9029 (-9.0% y-o-y, +0.1% q-o-q) benefiting from rail rebate charges getting extended till FY2022 end. Hence, the overall operating profit was almost flat y-o-y (+1.5% q-o-q) at Rs. 94.9 crore which was in line with our estimate. The adjusted consolidated net profit of Rs. 51.8 crore was up 12.9% y-o-y on account of lower depreciation (non-renewal of Punjab Conware lease), higher other income (Rs. 12 crore gain from land sale) and tax refund (Rs. 22 crores related to pre-amalgamation).

Expect Rail to continue strong performance with improvement in CFS

The company remained optimistic about the demand environment going ahead with the expectation of EXIM growth sustaining. The management expects rail volumes to grow by mid to higher teens y-o-y for FY2023 provided the GDP growth rate is 8-9%. It would maintain Rs. 9000/TEU EBITDA plus-minus 10% for Rail in FY2023. The CFS volumes are likely to grow by 3-5% y-o-y on like to like basis (excluding Punjab conware which contributed 1 lakh TEU per annum) for FY2023. It expects CFS EBITDA/TEU at Rs. 2200-2300 for FY2023. On the capacity expansion front, it would be incurring Rs. 60 crore each for setting up two satellite terminals in the northern region to improve its reach and market share over the next two to three years.

Conference Call Key Takeaways

- **Q4FY2022 performance:** The rail division continued to perform exceptionally well. It was also aided by Rs. 12 crores exceptional gain on account of the sale of 2 acres of land out of 90 acres in Garhi to the Haryana government for the construction of a road project. The quarter had Rs. 22 crore tax refund-related to pre-amalgamation tax filing for separate entities. It would be paying a 17.47% MAT rate until FY2027.
- **Guidance:** The rail volumes can grow at mid to higher teens y-o-y for FY2023 provided the GDP growth rate is 8-9%. It would maintain Rs. 9000/TEU EBIplus-minusinus 10% for Rail in FY2023. CFS volumes can grow by 3-5% on like to like basis (excluding Punjab conware which contributed 1 lakh TEU per annum) for FY2023. It expects CFS EBITDA/TEU at Rs. 2200-2300 for FY2023.
- **Rail discounts & price increase:** The discount of 5% and 25% on laden and empty containers by Indian Railways would get over from 1st May 2022 and 1st August 2022 respectively. The company will be passing on additional costs along with higher fixed costs led by inflation to the end consumer from 1st June 2022 onwards.
- **Capex:** The company would incur Rs. 60 crores each for setting up two satellite terminals apart from incurring costs related to equipment, vehicles, maintenance CAPEX etc. It would incur Rs. 200 crore CAPEX for both verticals over the next two to three years
- **CFS:** The EBITDA/TEU for the CFS business was less than Rs. 2000 on account of the inclusion of merger-related expense, increase in variable payments, rise in labour costs and higher fuel costs which were not passed on to end consumers.
- **Punjab Conware:** The Punjab Conware contributed 5000 TEUs in January month. The company's Mumbai CFS got some benefits from the moving of cargo from Punjab Conware to its CFS.
- **Market share:** Pan-India ICD business is estimated to have grown by 8-9% y-o-y in FY2022. NCR and Faridabad market grew by 15% y-o-y while GDL was able to grow at 32% y-o-y highlighting an increase in market share. The market share of GDL in the NCR market is 15.85%. In Punjab, the company maintained its market share at 35%. The Punjab market grew by 18% y-o-y in FY2022 while GDL grew by 20% y-o-y.

- **DFC:** The completion of DFC does not seem possible by June 2023. In the best-case scenario, it would get completed by December 2023.
- **Rail Road dynamics:** The trucking rates in some cases have risen by 25% but lightweight cargo surprisingly has not seen a shift to railways. With Rail discounts getting over, the dynamics have shifted to reliability and transit time. The company expects a gradual shift of cargo volumes from road to rail going ahead.
- **Debt:** Earlier the company guided for 2:1 Net Debt to EBITDA but with improvement in cash flows, it is looking at 1.5:1 Net Debt to EBITDA.
- **Lower depreciation:** Lower depreciation was on account of Punjab Conware handed back with completion of the agreement on 31st January 2022.

Results (Consolidated) Rs cr

Particulars	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Net sales	**359.1**	**350.3**	**2.5**	**349.3**	**2.8**
Operating expenses	264.2	255.0	3.6	255.8	3.3
EBITDA	**94.9**	**95.3**	**-0.4**	**93.5**	**1.5**
Depreciation	28.8	32.2	-10.3	33.4	-13.7
Other income	6.0	2.9	109.0	6.8	-11.6
Interest	16.2	17.3	-6.6	16.1	0.6
PBT	**55.8**	**48.6**	**14.8**	**50.7**	**10.1**
Taxes	3.8	2.2	73.9	3.1	21.0
Extraordinary items	33.2	0.0	-	0.0	-
PAT before MI	**85.2**	**46.4**	**83.6**	**47.6**	**79.2**
Minority interest	0.2	0.6	-59.8	-0.5	-
APAT	**51.8**	**45.9**	**12.9**	**48.1**	**7.8**
Margin (%)					
EBITDA	26.4%	27.2%	-77 bps	26.8%	-33 bps
NPM	14.4%	13.1%	133 bps	13.8%	66 bps
Effective tax rate	6.8%	4.5%	231 bps	6.2%	61 bps

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Strong growth outlook led by changing consumer preferences and macro pick-up

is one of the key sectors, which showed a strong revival post-COVID-19 pandemic that affected the overall trade environment both domestically and globally. Domestic indicators such as e-way bill generations, FASTag collections, Indian rail volume, domestic ports volume, and foreign trade are showing clear signs of revival. Further, organized domestic logistics players have been able to improve their business, led by user industry's preference towards credible supply chain management in wake of the impact of COVID on supply chain operations. Further, the third-party logistics (3PL) industry has seen faster improvement in operations, led by segments such as e-commerce, pharma, and FMCG. Hence, we have a positive view of the sector.

■ Company outlook - Healthy volume and profitability outlook to sustain

The company is expected to benefit from a healthy improvement in EXIM volumes along with a pickup in domestic volumes. The domestic economy reverts to a high growth trajectory with the easing of covid led concerns. It is also focusing on increasing operational profitability of both CFS and Rail business which has started to show positive results. On the dedicated freight corridor (DFC), the company is expected to benefit from a gradual shift of volumes from road to rail. GDL has also deleveraged its balance sheet bringing down its consolidated net debt from Rs. 681 crores in FY2020 to Rs. 298 crores as of FY2022. The company is now embarking on capacity expansion with Rs. 120 crore to be spent over the next two to three years for setting up two satellite terminals in the northern region to increase reach and market share.

■ Valuation - Retain Buy with a revised price target of Rs. 91

GDL is slated to benefit from sustained EXIM growth and benefits accruing from the commissioning of DFC going ahead. It has not only been able to maintain the operational profitability of rail but has only been able to increase its market share in a key region of operations. Its capacity expansion plans are expected to provide the next round of growth. Its deleveraged balance sheet and strong cash flow generation going ahead are expected to improve interest coverage ratios despite capacity expansions. We retain a Buy rating on the stock with a revised price target of Rs. 91 factoring higher rail performance.

Valuation Summary

Particulars	Methodology	Value (Rs per share)
Rail	10x FY2024 EV/EBITDA	77
CFS	8.5x FY2024 EV/EBITDA	15
Less: Net Debt		6
Cold Chain	Value of Snowman Logistics	5
Total		**91**

Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Gateway Distriparks	17.4	14.5	10.0	8.8	2.5	2.5	13.5	16.4
Mahindra Logistics	50.4	34.4	12.9	10.3	4.6	4.1	10.7	13.9
TCI Express	42.7	35.1	30.7	25.0	10.2	8.1	26.8	25.9
Transport Corporation of India	20.9	18.9	13.7	12.2	3.2	2.8	16.7	15.9

Source: Sharekhan Research

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 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's 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) to remain intact. Due to comfort on valuation, we have a Buy rating on the stock.

Key Risks

- Deterioration in the trade environment leads to a 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

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

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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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