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Gateway Distriparks Limited

Improving growth and profitability outlook

Logistics	Sharekhan code: GDL	Result Update

3R MATRIX	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 90**	
Price Target: **Rs. 110**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

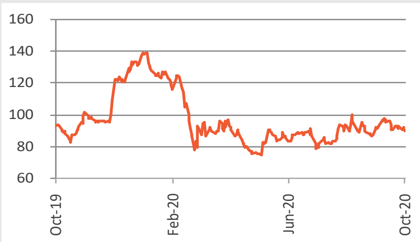
Company details

Market cap:	Rs. 1,127 cr
52-week high/low:	Rs. 138/71
NSE volume: (No of shares)	2.1 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	-1.1	13.6	-0.9	-3.1
Relative to Sensex	-5.5	8.2	-18.8	-2.4

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on Gateway Distriparks Limited (GDL) with an unchanged SOTP-based PT of Rs. 110 due to attractive valuations and an improving growth and profitability outlook for its key verticals.
- For Q2FY2021, GDL reported lower-than-expected revenues while OPM remained broadly in-line. Net profit gets affected due to higher effective tax rate. Amalgamation exercise to be completed in 8-10 months.
- GDL continues to focus on de-leveraging post funds raised through rights issue. Company planning capex in rail segment by setting up two ICDs at an outlay of Rs. 140 crore over three years.
- Snowman Logistics is eyeing potential opportunities for transporting COVID vaccines (once launched domestically). To go ahead with capacity expansion at four locations.

Gateway Distriparks Limited (GDL) reported lower-than-expected consolidated revenues, while OPM remained in line. Net profit was affected by a higher effective tax rate. Consolidated revenues declined 19.2% y-o-y to Rs. 262.5 crore as volumes in both CFS (down 25.7% y-o-y) and Rail (down 15.7% y-o-y) segments declined. However, EBITDA/TEU for CFS improved by 38.5% y-o-y while that of rail increased by 7.4% y-o-y. Hence, overall OPM broadly remained in-line at 24.9% (up 287 bps y-o-y) leading to a smaller dip in operating profit (down 8.7% y-o-y). Higher OPM, higher other income and lower interest expense limited the decline in PBT to 7.2% y-o-y. However, a higher effective tax rate (owing to provision on dividend income as per IND-AS accounting standards) for the quarter dragged down consolidated net profit by 75.1% y-o-y to Rs. 4.2 crore. The company expects improving trade environment to limit volume decline in both CFS and Rail segments to 10% y-o-y for FY2021. The company has also been paring its consolidated debt with Rs. 116 crore funds raised through a rights issue. 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, operational synergies among others. The restructuring is expected to take another eight to ten months to complete. Subsequent to the de-leveraging plan it would undertake growth capex for the Rail segment by setting up two ICDs at a capex of Rs. 140 crore to be spread over three years. In Snowman, GDL is pursing future opportunities with respect to transportation of COVID-19 vaccines (once it gets launched domestically). Further, it would be expanding pellet capacity by 12,000 at four locations to increase its pellet capacity to 1,17,000. We have fine-tuned our estimates for FY2021E factoring dip in volumes in Q2FY2021. We introduce FY2023E earnings in this note. GDL's current valuation of 5.2x EV/EBITDA and 0.8x P/B over FY2023E 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

- OPM remained in line with expectations despite a weakness in overall volumes.
- Focus on de-leveraging remains with subsequent revival of capex.

Key Negatives

- Higher effective tax rate affects net earnings, although this is expected to reverse.
- Dedicated freight corridor (DFC) timelines continue to extend.

Our Call

Valuation –Maintain Buy with a unchanged PT of Rs. 110: The company's operational profitability outlook for both CFS and Rail segments is expected to sustain while normal volumes are expected to revert by Q3FY2021. 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. We have fine-tuned our estimates for FY2021E factoring dip in volumes in Q2FY2021. We introduce FY2023E earnings in this note. GDL's current valuation of 5.3x EV/EBITDA and 0.8x P/B over FY2023E 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 Risks

Erosion in rail and CFS segments' profitability owing to elongated weakness in 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)	22.3	20.6	18.2	13.3
P/B (x)	0.9	0.8	0.8	0.8
EV/EBITDA (x)	7.4	6.6	6.1	5.3
RoNW (%)	3.8	4.0	4.3	5.9
RoCE (%)	6.8	7.2	7.4	8.7

Source: Company; Sharekhan estimates

Revenues lower than expectation, OPM stay in-line, higher tax outgo affects net profit

Consolidated revenue declined by 19.2% y-o-y but rose 3.9% q-o-q to Rs. 262.5 crore (lower than our estimate), mainly led by a 22.3% y-o-y (up 10.7% q-o-q) decline in rail division revenues while CFS revenues declined by 12.2% y-o-y (down 7.6% q-o-q). Both divisions registered a decline in volumes y-o-y, however, were up q-o-q. The Rail division reported a decline of 15.7% y-o-y (up 18% q-o-q) in volume while CFS volume declined by 25.7% y-o-y (up 20.8% q-o-q). However, the company reported in-line OPM at 19.7% (up 287 bps y-o-y, down 279 bps q-o-q). The imbalance in EXIM volumes led to no opportunities arising for double staking during July-August 2020 that affected margins in its rail division. Overall, operating profit declined by 8.7% y-o-y (down 6.6% q-o-q) to Rs. 65.2 crore. Further, higher other income and lower interest expense limited decline in PBT at 7.2% y-o-y. However, a higher effective tax rate (provision on dividend income as per IND-AS standard) during the quarter led to 75.1% y-o-y decline in consolidated net profit at Rs. 4.2 crore.

Planning capex after repaying debts

GDL has been aggressively pursuing its deleveraging plan and has prepaid Rs. 135 crore of non-convertible debentures in the recent past. Further, the company further raised Rs. 116 crore through a rights issue, which was used to repaying NCDs. The company has brought down the total outstanding NCDs from Rs. 550 crore to Rs. 300 crore (of which Rs. 20 crore is due by April 2021, Rs. 78 crores in FY2022 and Rs. 100 crores in FY2023). Post prepayment of NCDs, the company would be undertaking a Rs. 140 crore growth capex plan in its rail vertical over three years, which will be funded through debt. The company would be setting up two satellite terminals. At Snowman, GDL will be going ahead with its capex plan to add 12,000 pellets at four locations which would take its pellet capacity to 1,17,000.

Conference Call Key Takeaways

- **Volume guidance:** The company expects volumes in both the CFS and Rail verticals to decline by 10% y-o-y for FY2021 versus earlier expectation of 20-25% y-o-y decline.
- **Realisation dip in Rail:** The rail realization declined q-o-q due to no double staking opportunities in July-August 2020 on account of EXIM imbalance.
- **Rail expansion:** The company would come up with two ICDs at a total cost of ~Rs. 140 crore over three years and is expected to be funded by debt. The time taken for one satellite terminal is 18-24 months.
- **Amalgamation of Gateway Rail and Gateway East:** The company is undertaking restructuring exercise to merge Gateway Distriparks, Gateway Rail and Gateway East in one entity. The share swap is four shares of Gateway Rail for one share of GDL. Post the amalgamation, the total shares would be 49.96 crore. The company is undertaking the above restructuring exercise to benefit in terms of improved earnings, better cash flow management, better servicing of debt, gaining operational synergies among others. The process is expected to take eight to ten months to get completed. The Rs. 300 crore outstanding NCDs will be transferred to the merged entity.
- **Snowman:** Snowman operated at a 83% capacity utilization during Q2 (90% during Q1) and is currently operating at 86%. The company would be expanding 2,000 pellets in Krishnapatanam, 2,000 pellets in Mumbai, 9000 pellets in Siliguri and Coimbatore. The company is looking at opportunities to cater to demand for transportation of covid vaccine (once launched in Indian markets) as it is currently the only one player having the required capacities and capabilities. Snowman's current debt stands at Rs. 47 crore and will further incur a Rs. 60 crore debt, taking expected debt to Rs. 100 crore by FY2021.
- **Debt repayment:** The company reduced its consolidated debt from Rs. 670 crores in FY2020 to Rs. 509 crore as of September-end. The company is left with Rs. 300 crore NCDs outstanding of which Rs. 20 crores in due by April 2021, Rs. 78 crore in FY2022 and Rs. 100 crore in FY2023.
- **DFC update:** The company expects first section of the Western dedicated freight corridor to become operational by March 2021 (earlier December 2020) while the full line is expected by September 2022 or December 2022.

Results (Consolidated) Rs cr

Particulars	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %
Net sales	**262.5**	**325.1**	**-19.2**	**252.8**	**3.9**
Operating expenses	197.3	253.6	-22.2	182.9	7.9
EBITDA	**65.2**	**71.5**	**-8.7**	**69.9**	**-6.6**
Depreciation	33.0	32.9	0.3	33.4	-1.1
Other income	4.4	3.5	25.6	1.5	187.6
Interest	21.5	25.7	-16.5	23.0	-6.5
PBT	**15.2**	**16.3**	**-7.2**	**15.0**	**0.7**
Taxes	10.9	-1.6	-	3.9	178.0
Extraordinary items	0.0	0.0		0.0	
PAT before MI	4.3	17.9	-76.2	11.1	-61.7
Minority interest	0.0	1.0	-96.4	-0.1	-124.9
APAT	4.2	17.0	-75.1	11.3	-62.5
Margin (%)					
EBITDA	24.9%	22.0%	287 bps	27.6%	-279 bps
NPM	1.6%	5.2%	-361 bps	4.5%	-285 bps
Effective tax rate	71.9%	-9.7%	-	26.0%	4582 bps

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Pace of recovery to be gradual

The Logistics industry had been severely hit by covid pandemic impacting the overall trade environment both domestically as well as globally. Though, the domestic indicators like e-way bill generations, FASTag collections among others highlight toward improvement m-o-m, the international EXIM environment is yet to show clear signs of revival. The EXIM volumes continue to remain weak with frequent imbalance in trade. The competitive intensity remain high as many companies are going after weak volumes in the industry putting pressure on profitability. Hence, we expect the pace of recovery in the logistics industry especially in the EXIM business to be gradual.

■ Company 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 divisions along with improvement in volumes from Q3FY2021 onwards. 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. The management expects programs like "Atmanirbhar Bharat" to benefit the logistics sector. The commencement of the 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 the rail and CFS businesses.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 110

The company's operational profitability outlook for both CFS and Rail segments is expected to sustain while normal volumes are expected to revert by Q3FY2021. 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. We have fine-tuned our estimates for FY2021E factoring dip in volumes in Q2FY2021. We introduce FY2023E earnings in this note. GDL's current valuation of 5.3x EV/EBITDA and 0.8x P/B over FY2023E 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.

Peer valuation

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Gateway Distriparks	18.2	13.3	6.1	5.3	0.8	0.8	4.3	5.9
Container Corporation of India*	22.5	18.5	14.9	10.2	2.2	2.1	8.7	11.6

*Source: Sharekhan Research, * Bloomberg 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

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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