Sharekhan by BNP PARIBAS

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Stock Update

Gateway Distriparks Limited

Rail vertical continues to outshine; Outlook positive

Logistics	Sharekhan code: GDL	Result Update

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. 118**	
Price Target: **Rs. 150**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

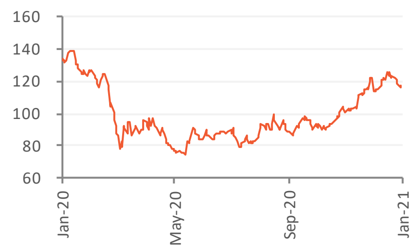
Company details

Market cap:	Rs. 1,467 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	25.5
DII	28.6
Others	13.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.2	26.4	30.2	-12.0
Relative to Sensex	-5.3	4.6	-1.8	-30.9

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on Gateway Distriparks Limited (GDL) with arevised SOTP-based PT of Rs. 150 due to its attractive valuations and an improved growth and profitability outlook for its key verticals.
- For Q3FY2021, GDL reported better-than-expected operational performance led by its Rail division. Strong operational performance along with lower interest expense leads to beat on net earnings.
- Strong volume growth outlook during FY2023 and FY2024 led by improving EXIM trade environment, commissioning of western DFC line and phase II JNPT expansion.
- Capex of Rs. 120 crore over the next two years for setting up two satellite rail terminals. Consolidated net debt reduced to Rs. 494 crore from Rs. 681 crore in FY2020.

Gateway Distriparks Limited (GDL) reported better-than-expected operational performance leading to strong beat on net profitability.Consolidated revenues grew5.0% y-o-y to Rs. 313.8 crore driven by strong volumes in Rail (up 8.8% y-o-y) and improved realization for CFS (up 8.7% y-o-y). The company saw strong sequential improvement in both CFS and Rail volumes since the beginning of October 2020 with the revival in EXIM trade. The EBITDA/TEU for Rail stood robust at Rs. 9009/TEU (up 25.3% y-o-y, up 17.8% q-o-q) led by volume improvement, faster turnaround time and a 5% discount on Rail charges. CFS EBITDA/TEU too improved by 36.7% y-o-y to Rs. 2880 (down 14.7% q-o-q on account of ground rent income in Q2FY2021). Hence, overall OPM was much higher than estimated at 26.3% (up 606 bps y-o-y, up 146 bps q-o-q) leading to a 36.4% y-o-y (up 26.6% q-o-q) jump in operating profit to Rs. 82.6 crore. Strong operational performance along with lower interest expense (down 32.7% y-o-y, down 17.7% q-o-q) led to consolidated net profit of Rs. 32.7 crore (versus adjusted net profit of Rs. 8.4 crore in Q3FY2020). The company expects early two-digit volume growth (combined CFS and Rail) for FY2023 while FY2024 is expected to be blockbuster year with strong volume offtake expected from commissioning of DFC corridor and fourth terminal at JNPT. The profitability in CFS in terms of EBITDA/TEU is expected to be Rs. 2900-3000/TEU as industry volume picks up and company's increasing value added services like last mile transportation. The Rail EBITDA/TEU may correct to Rs. 8000/TEU as it may have to pass on some part of improved margins to customers with commissioning of DFC. GDL has also deleveraged its balance sheet bringing down its consolidated net debt from Rs. 681 crore in FY2020 to Rs. 494 crore as of Q3FY2021. Its net debt/equity has come down from 0.51x to 0.34x over the same period. The company would be incurring capex of Rs. 120 crores over the next two years for setting up two satellite terminals in Rail division. We have fine-tuned our estimates for FY2021E-FY2023E factoring improved profitability in both CFS and Rail verticals. GDL's current valuation of 5.7x EV/ EBITDA and 1.0x 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 arevised price target of Rs. 150.

Key positives

- Better than expected EBITDA/TEU for both CFS and Rail
- Expect strong volume growth in FY2023 and FY2024 with DFC commissioning and JNPT ph-II.
- Export Import imbalance has been coming down

Key negatives

- Part of improved Rail margins may get passed to customers with DFC commissioning.

Our Call

Valuation –Maintain Buy with a revised PT of Rs. 150: GDL has been able to maintain strong operational profitability in CFS and have been improving rail profitability over the trailing three quarters. The company has also been benefitting from improved EXIM trade environment and reducing trade imbalance. The outlook for the company stays positive with commissioning of DFC and fourth terminal at JNPT which should aid in strong volume offtake and sustained healthy margins. Further, its deleveraged balance sheet followed by a revival in capex plans is likely to aid in reviving net earnings going ahead. We have fine-tuned our estimates for FY2021E-FY2023E factoring improved profitability in both CFS and Rail verticals. GDL's current valuation of 5.7x EV/EBITDA and 1.0x 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 a revised price target of Rs. 150.

Key risk

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	1,138.8	1,187.1	1,301.1
OPM (%)	21.1	26.0	25.1	25.1
Adjusted PAT	50.7	70.7	85.0	111.5
% YoY growth	(40.2)	39.5	20.3	31.1
Adjusted EPS (Rs.)	4.1	5.7	6.8	8.9
P/E (x)	29.0	20.8	17.3	13.2
P/B (x)	1.1	1.0	1.0	1.0
EV/EBITDA (x)	8.7	7.0	6.6	5.7
RoNW (%)	3.8	5.1	5.8	7.5
RoCE (%)	6.8	7.9	8.4	9.9

Source: Company; Sharekhan estimates

Strong operational profitability leads to beat on net earnings

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Strong volume growth expectations with DFC and JNPT phase II commissioning

The company expects early two-digit volume growth (combined CFS and Rail) for FY2023 while FY2024 is expected to be blockbuster year with strong volume offtake expected from commissioning of DFC corridor and fourth terminal at JNPT. The profitability in CFS in terms of EBITDA/TEU is expected to be Rs. 2900-3000/TEU as industry volume picks up and company's increasing value added services like last mile transportation. The Rail EBITDA/TEU may correct to Rs. 8000/TEU as it may have to pass on some part of improved margins to customers with commissioning of DFC. GDL has also deleveraged its balance sheet bringing down its consolidated net debt from Rs. 681 crore in FY2020 to Rs. 494 crore as of Q3FY2021. Its net debt/equity has come down from 0.51x to 0.34x over the same period. The company would be incurring capex of Rs. 120 crores over the next two years for setting up two satellite terminals in Rail division.

Key Conference call takeaways

- The rail division saw improved profitability led by volume improvement, increased turnaround time due to non-operational of passenger trains and 5% discount on railway charges which is valid till 30th april 2021. From 1st May 2021, expect Rail EBITDA/TEU to stabilize around Rs. 8000 to Rs. 8200.
- The Palanpur to Pipavav DFC line is expected to be ready by September end. It would take another 12 to 15 months thereafter for connection with JNPT.
- The company expects early double digit volume growth (CFS and Rail combined) in FY2023. It expects FY2024 to be much stronger with DFC line getting commissioned along with fourth terminal at JNPT.
- The company would focus on maintaining CFS EBITDA/TEU at Rs. 2900-3000 led by improved industry volumes and company's increasing value added services like last mile transportation. In Rail, the company might have to share part of the improved margins with customers with commissioning of DFC. Rail EBITDA/TEU may come down around Rs. 8000.
- In Snowman, the company is investing Rs. 70 crores over 3-4 months which will increase capacity by 12-15%. The revenue mix at Snowman is Pharma 10%, QSR 10%, Sea food 18%, Agri 15%, Ice cream 10%, confectionary 10% and balance others. Snowman owns 264 trucks and 100 third party trucks. About one-third revenue is contributed from transportation. The ratio is expected to remain same between warehousing and transportation.
- Snowman operated at 85% capacity utilization in Q3.
- The company expects shortage of containers to get resolved by Q4FY2021 end. CFS volumes have gone up and operators are running at full capacity. The CFS pricing pressure is bottoming out.
- GDL's consolidated net debt reduced to Rs. 494 crore from Rs. 681 crore in FY2020 end.
- The company would be setting up two to three ICDs over two to three years with 35 acre facilities each. It would be investing about Rs. 60-75 crores per location. Overall, it expects Rs. 200 crores to be invested.

Results (Consolidated) Rs cr

Particulars	Q3FY21	Q3FY20	YoY%	Q2FY21	QoQ%
Net sales	**313.8**	**298.9**	**5.0**	**262.5**	**19.5**
Operating expenses	231.2	238.4	-3.0	197.3	17.2
EBITDA	**82.6**	**60.5**	**36.4**	**65.2**	**26.6**
Depreciation	32.8	33.5	-2.3	33.0	-0.8
Other income	2.5	5.5	-55.1	4.4	-43.9
Interest	17.7	26.3	-32.7	21.5	-17.7
PBT	**34.6**	**6.3**	**451.5**	**15.2**	**128.4**
Taxes	2.0	-3.4	-	10.9	-81.7
Extraordinary items	0.0	8.1		0.0	
PAT before MI	32.6	17.8	83.8	4.3	665.0
Minority interest	-0.1	1.2	-	0.0	-
APAT	32.7	8.4	288.5	4.2	674.3
Margin (%)					
EBITDA	26.3%	20.2%	606 bps	24.9%	146 bps
NPM	10.4%	2.8%	762 bps	1.6%	882 bps
Effective tax rate	5.8%	-54.0%	-	71.9%	-

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 – Healthy volume and profitability outlook for both CFS and Rail

The company expects early two-digit volume growth (combined CFS and Rail) for FY2023 while FY2024 is expected to be blockbuster year with strong volume offtake expected from commissioning of DFC corridor and fourth terminal at JNPT. The profitability in CFS in terms of EBITDA/TEU is expected to be Rs. 2900-3000/TEU as industry volume picks up and company's increasing value added services like last mile transportation. The Rail EBITDA/TEU may correct to Rs. 8000/TEU as it may have to pass on some part of improved margins to customers with commissioning of DFC. GDL has also deleveraged its balance sheet bringing down its consolidated net debt from Rs. 681 crore in FY2020 to Rs. 494 crore as of Q3FY2021. Its net debt/equity has come down from 0.51x to 0.34x over the same period. The company would be incurring capex of Rs. 120 crores over the next two years for setting up two satellite terminals in Rail division.

■ Valuation – Retain Buy with a revised price target of Rs. 150

GDL has been able to maintain strong operational profitability in CFS and have been improving rail profitability over the trailing three quarters. The company has also been benefitting from improved EXIM trade environment and reducing trade imbalance. The outlook for the company stays positive with commissioning of DFC and fourth terminal at JNPT which should aid in strong volume offtake and sustained healthy margins. Further, its deleveraged balance sheet followed by a revival in capex plans is likely to aid in reviving net earnings going ahead. We have fine-tuned our estimates for FY2021E-FY2023E factoring improved profitability in both CFS and Rail verticals. GDL's current valuation of 5.7x EV/EBITDA and 1.0x 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 a revised price target of Rs. 150.

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	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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