Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Gateway Distriparks Limited

Trade environment gaining momentum

Logistics	Sharekhan code: GDL	Company 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. 174**	
Price Target: **Rs. 210**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

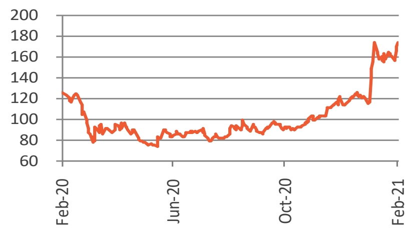
Company details

Market cap:	Rs. 2,177 cr
52-week high/low:	Rs. 182/71
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	23.7	73.7	90.7	37.3
Relative to Sensex	21.4	57.7	57.5	13.7

Sharekhan Research, Bloomberg

Summary

- We retain Buy on Gateway Distriparks Limited (GDL) with a revised SOTP-based PT of Rs. 210, as we see further room for upside considering improving growth and profitability outlook for its key verticals.
- Container volumes at ports and railways see growth momentum picking up during January 2021. Merchandise exports and imports trade show an improving trend.
- 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) is expected to benefit from improving trade volumes since September 2020, with January 2021 maintaining the growth momentum. Major ports container volumes for January 2021 rose by 6.5% y-o-y to 13,746 tonne. Indian railways container volumes have risen by 16.7% y-o-y to 6.3 million tonne, where domestic volumes surged by 23.1% y-o-y to 1.3 million tonne and EXIM volumes grew by 15.1% y-o-y to 4.9 million tonne. Non-petroleum and non-gems and jewellery exports witnessed strong growth of 14.1% y-o-y for January 2021 at $22.44 billion. Non-oil and non-gold imports registered 5.8% y-o-y rise to $26.34 billion. The improving trade environment both domestically and EXIM bode well for GDL for both its rail and CFS business. The company expects early two-digit volume growth (combined CFS and Rail) for FY2023, while FY2024 is expected to be a blockbuster year with strong volume offtake expected from the commissioning of DFC corridor and fourth terminal at JNPT. 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 crore over the next two years for setting up two satellite terminals in the rail division. GDL's current valuation of 7.8x its EV/EBITDA and 1.5x P/B over FY2023E earnings leaves further room for upside, considering its improving operational profitability, focus on deleveraging, and revival of capex plans. Hence, we retain a Buy rating on the stock with a revised PT of Rs. 210.

Trade environment gaining momentum: GDL is expected to benefit from improving EXIM and domestic trade environment along with healthy profitability in both its CFS and rail verticals. The profitability in CFS in terms of EBITDA/TEU is expected to be Rs. 2,900-3,000/TEU as industry volume picks up and due to the company's increasing value-added services such as last mile transportation. Rail EBITDA/TEU may correct to Rs. 8,000/TEU, as it may have to pass on some part of improved margins to customers with the commissioning of DFC.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 210: GDL has been able to maintain strong operational profitability in CFS and has 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. GDL's current valuation of 7.8x its EV/EBITDA and 1.5x P/B over FY2023E earnings leaves further room for upside, considering its improving operational profitability, focus on deleveraging, and revival of capex plans. Hence, we retain a Buy rating on the stock with a revised PT of Rs. 210.

Key Risks

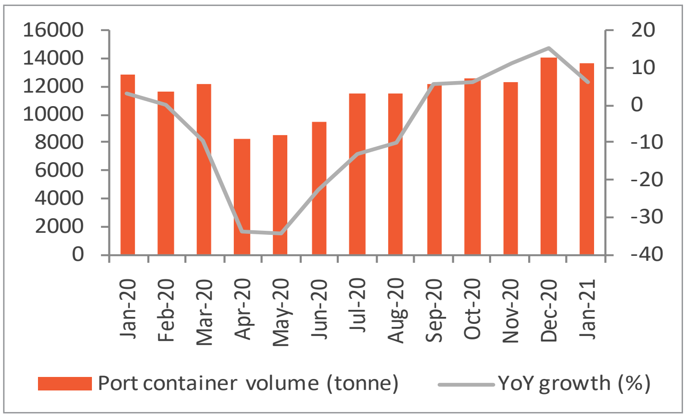
Erosion in rail and CFS segments' profitability owing to elongated weakness in the trade environment.

Valuation (Consolidated) Rs cr

Particulars	FY20	FY21E	FY22E	FY23E
Revenue	1,237.2	1,138.8	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)	43.0	30.8	25.6	19.5
P/B (x)	1.7	1.5	1.5	1.5
EV/EBITDA (x)	11.5	9.4	9.0	7.8
RoNW (%)	3.8	5.1	5.8	7.5
RoCE (%)	6.8	7.9	8.4	9.9

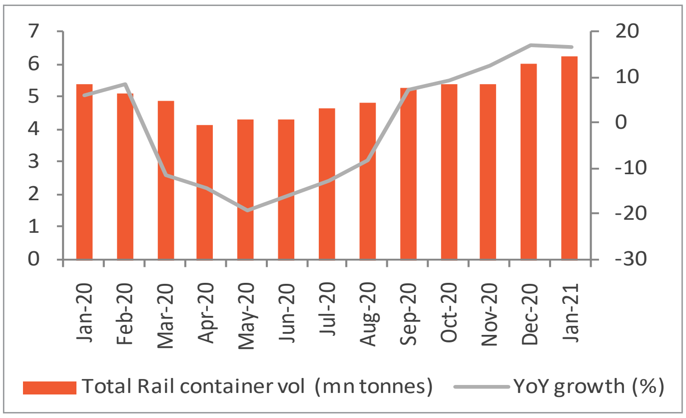
Source: Company; Sharekhan estimates

Major ports container volume trend



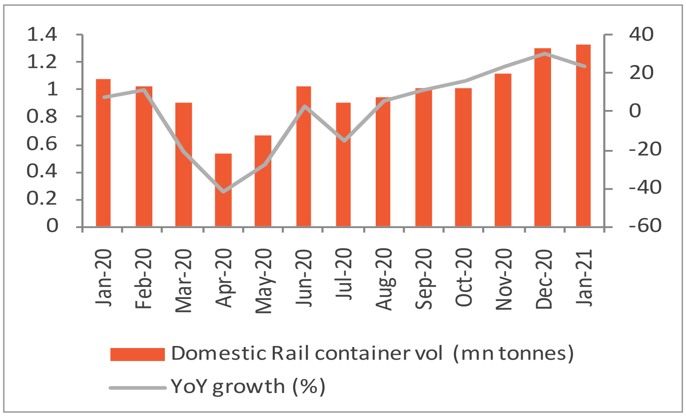
Source: Industry; Sharekhan Research

Railways container volume trend



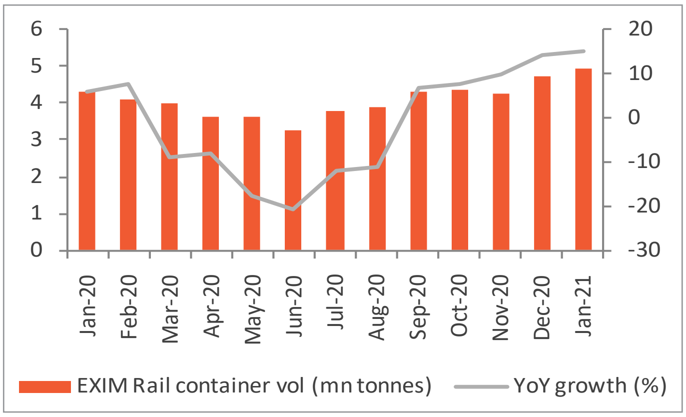
Source: Industry; Sharekhan Research

Railways domestic container volume trend



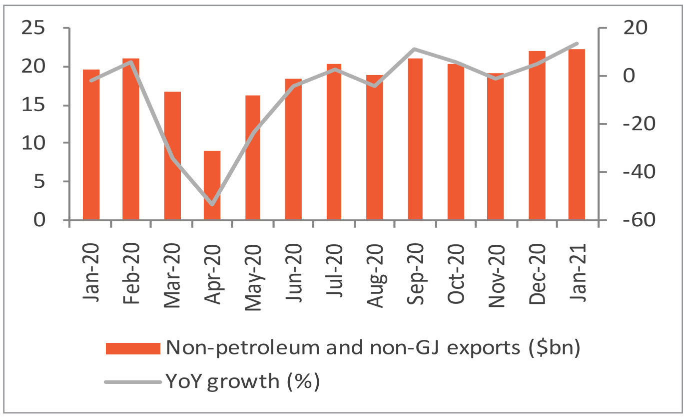
Source: Industry; Sharekhan Research

Railways EXIM container volume trend



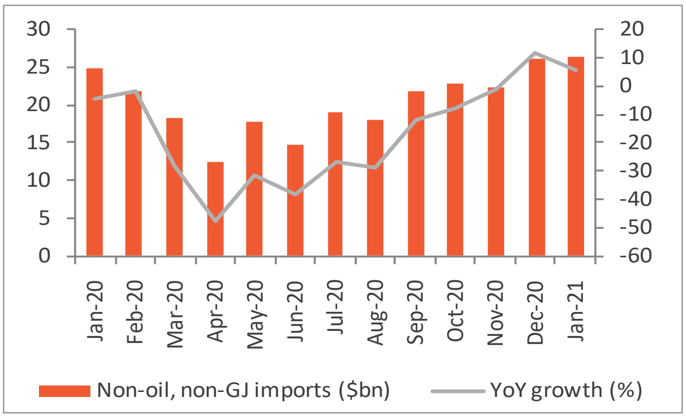
Source: Industry; Sharekhan Research

Merchandise export (Non-oil, GJ) trend



Source: Industry; Sharekhan Research

Merchandise import (Non-oil, GJ) trend



Source: Industry; Sharekhan Research

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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