Sharekhan by BNP PARIBAS

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Gateway Distriparks Ltd

In-line Q4; Upgrade to Buy

Logistics	Sharekhan code: GATEWAY
Reco/View: Buy ↑	CMP: Rs. 66
	Price Target: Rs. 80 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

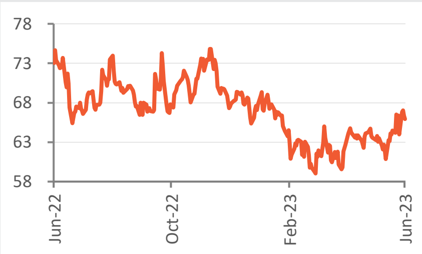
Company details

Market cap:	Rs. 3,295 cr
52-week high/low:	Rs. 77 / 59
NSE volume: (No of shares)	1.3 lakh
BSE code:	543489
NSE code:	GATEWAY
Free float: (No of shares)	33.8 cr

Shareholding (%)

Promoters	32.3
FII	14.1
DII	39.8
Others	13.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.3	7.2	-2.3	-9.7
Relative to Sensex	2.5	2.1	-0.9	-22.4

Sharekhan Research, Bloomberg

Summary

- We upgrade Gateway Distriparks Limited (GDL) to Buy with a revised price target of Rs. 80, rolling forward our valuation multiple to FY2025 earnings and considering improving export-import growth outlook.
- For Q4FY2023, GDL reported largely in-line operational performance while one-off write offs of prior-period expenses led to PAT beat. CFS operational profitability stays under pressure.
- For FY2024, the management expects double digit revenue growth for rail while flattish to marginal 1-2% revenue growth for the CFS division.
- Company will incur Rs. 300 crore of capex over FY2024-FY2025 on two new terminals, upgradation of existing terminals, Jaipur ICD, replacement in vehicle fleet and leasing three rakes.

Gateway Distriparks Limited (GDL) reported broadly in-line operational performance while one-off write backs of provisions in other income led to better-than-expected net profit for Q4FY2023. Consolidated revenues were up 5% y-o-y to Rs. 377 crore (revenues including other income were up 6% y-o-y for the rail division and lower by 3% y-o-y for CFS). EBITDA/TEU (including other income) for rail and CFS stood at Rs. 9625 and Rs. 1570. EXIM imbalance, lower double stacking and higher fixed costs in the CFS division affected overall OPMs (lower 167bps y-o-y/190 bps q-o-q at 24.8%). Write back of provisions made in prior periods of ~Rs. 10 crore in other income led to a 32% y-o-y rise in adjusted net profit at Rs. 68.5 crore (higher than our estimate). For FY2024, the management expects double-digit revenue growth for rail while flattish to marginal 1-2% revenue growth for CFS. Its key NCR belt has been seeing a 10% m-o-m rise in exports during April and May. The company will be incurring Rs. 300 crore capex over FY2024-FY2025 on two new terminals, upgradation of existing terminals, Jaipur ICD, replacement in vehicle fleet and leasing 3 rakes (in FY2024).

Key positives

- EBITDA/TEU (including other income) for rail sustained strong at Rs. 9625/TEU.
- NCR grew by only 2% while it has grown by 4-5%. In Ludhiana, market grew by 4-5% while it has grown by 6%.

Key negatives

- CFS EBITDA/TEU including other income at Rs. 1570 was affected by increased fixed costs.
- Jaipur ICD terminal is delayed by a quarter with commissioning now expected by FY2024 end.

Management Commentary

- The company expects double-digit revenue growth in rail while flattish to marginal 1-2% y-o-y growth in CFS for FY2024. It targets Rs. 10,000/TEU and Rs. 2000/TEU EBITDA in rail and CFS respectively, over the long term.
- Exports has been suffering in H2FY2023 while it has seen upward trend from March. It is evaluating new terminals in North and Central India. NCR belt is seen 10% m-o-m increase in volumes during April and May for exports.
- It has seen upward trend with market share in Uttarakhand increasing to 32% from 25%. Volumes per month has risen to 3000 TEUs in March from 2500. It expects 50,000 TEU per annum volumes in FY2024 while over two years it targets it to increase to 72,000 per annum.

Revision in estimates – We have fine-tuned our net earnings estimates for FY2024-FY2025.

Our Call

Valuation – Upgrade to Buy with a revised PT of Rs. 80: GDL has shown resilient performance in the wake of EXIM imbalance and sustained pressure in CFS business led by increased fixed costs. However, the company is witnessing an improvement in exports especially in its core NCR region which is expected to aid in improving operational profitability going ahead. The company continues to evaluate newer locations for terminals, upgrade existing terminals and hire new rakes for which it has earmarked Rs. 300 capex over the next two years. We believe the company remains on track to benefit from an expected improvement in exports going ahead. We upgrade the stock to Buy with revised price target of Rs. 80, rolling forward our valuation multiple to FY2025 earnings and considering improving EXIM growth outlook.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	1,373.7	1,420.9	1,594.6	1,805.0
OPM (%)	26.8	25.9	25.7	25.1
Adjusted PAT	190.6	239.9	241.0	287.2
% YoY growth	101.8	25.9	0.5	19.2
Adjusted EPS (Rs.)	3.8	4.8	4.8	5.7
P/E (x)	17.2	13.6	13.6	11.4
P/B (x)	2.1	1.9	1.8	1.6
EV/EBITDA (x)	10.0	9.9	8.4	7.0
RoNW (%)	12.2	13.9	12.7	13.8
RoCE (%)	12.1	13.3	14.7	15.8

Source: Company; Sharekhan estimates

An in-line operational performance

Gateway Distriparks Limited (GDL) reported broadly in-line operational performance, while one-off write backs of provisions in other income led to better than expected net profit for Q4FY2023. Consolidated revenues were up 5% y-o-y to Rs. 377 crore (revenues including other income were up 6% y-o-y for rail and lower by 3% y-o-y for CFS). EBITDA/TEU (including other income) for rail and CFS stood at Rs. 9625 and Rs. 1570. EXIM imbalance, lower double stacking and higher fixed costs in the CFS division affected overall OPMs (lower 167bps y-o-y/190 bps q-o-q at 24.8%). Write back of provisions made in prior periods of ~Rs. 10 crore in other income led to 32% y-o-y rise in adjusted net profit at Rs. 68.5 crore (higher than our estimate).

Conference Call Key Takeaways

- **Guidance:** The company expects double-digit revenue growth in rail while flattish to marginal 1-2% y-o-y growth in CFS for FY2024. It targets Rs. 10,000/TEU and Rs. 2000/TEU EBITDA in rail and CFS respectively in the long term. It is evaluating new terminals in North and Central India. NCR belt is seen 10% m-o-m increase in volumes during April and May for exports.
- **Q4FY2023 performance:** Exports has been suffering in H2FY2023 while it has seen upward trend from March. Q4 performance was impacted by EXIM imbalance and lower double stacking. Excluding Punjab Conware, throughput grew by 6.19% y-o-y while revenues increased by 10.5% y-o-y and EBITDA by 1.2% y-o-y. Including other income, blended EBIDA/TEU stood at Rs. 5975. In rail, EBITDA/TEU excluding other income was Rs. 9700 and including it was Rs. 10,000. Rail handled highest throughput in the company's history. CFS EBITDA/TEU including other income stood at Rs. 1600. CFS took hit with increasing fixed costs. Higher other income was on account of reversal of expenses incurred in previous quarters of ~Rs. 10 crores.
- **Jaipur ICD:** The terminal is expected to be operational by FY2024 end. The market size is 10,000 to 12,000 TEUs.
- **Capex:** It will be incurring a Rs. 300 crore capex over FY2024 and FY2025 on two new terminal locations, upgradation of existing terminals, Jaipur ICD and replacement in vehicle fleet. It plans to lease three rakes additions in FY2024.
- **Market share:** NCR grew by only 2% while it has grown by 4-5%. In Ludhiana, market grew by 4-5% while it has grown by 6%. Overall, it has retained its 31% market share in Ludhiana and 17% market share in NCR in FY2023.
- **DFC:** The Dadri-Rewari section double stacking has started from Dadri. Faridabad terminal will start in 2-3 months post which it will have twin hubs viz Gurgaon and Faridabad operating double stacked volumes. In FY2023, 40% of the volume was double stacked. With EXIM improving, double stacking would increase at Faridabad and Viramgam.
- **Kashipur:** It has seen upward trend with market share in Uttarakhand increasing to 32% from 25%. Volumes per month have risen to 3000 TEUs in March from 2500. It expects 50,000 TEU per annum volumes in FY2024 while over two years period it targets it to increase to 72,000 per annum.

Results (Consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	Y-o-Y %	Q3FY23	Q-o-Q %
Net sales	**377.0**	**359.1**	**5.0**	**341.1**	**10.5**
Operating expenses	283.6	264.2	7.4	250.2	13.4
Operating Profit	**93.4**	**94.9**	**-1.6**	**90.9**	**2.7**
Depreciation	25.9	28.8	-10.2	25.9	0.1
Other income	13.9	6.0	131.8	2.9	382.4
Interest	11.7	16.2	-27.7	10.5	11.4
PBT	**69.6**	**55.8**	**24.7**	**57.4**	**21.2**
Taxes	2.6	3.8	-31.1	3.6	-27.7
Extraordinary items	0.0	33.2		0.0	
PAT before MI	**67.0**	**85.2**	**-21.4**	**53.8**	**24.5**
Minority interest	-1.5	0.2	-	-1.0	-
APAT	**68.5**	**51.8**	**32.2**	**54.8**	**25.0**
Margin (%)			**bps**		**bps**
EBITDA	24.8%	26.4%	-167	26.7%	-190
NPM	18.2%	14.4%	374	16.1%	210
Effective tax rate	3.8%	6.8%	-304	6.3%	-254

Source: Company; Sharekhan Research

Outlook and Valuation

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

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

■ Company Outlook – Improving EXIM outlook

The company has been showing resilience performance in the midst of increased EXIM imbalance. However, we expect this imbalance to correct with a gradual pick-up in exports especially in its key NCR market. The completion of DFC would further aid in improvement in volumes. Consequently, we expect overall rail throughput for the company to show healthy growth for the next couple of years. The company is likely to improve upon blended EBITDA/TEU with revenue mix tilting towards rail while CFS remains flattish. The company is undertaking a capex of Rs. 300 crore for the next two years, which includes upfront payment towards the acquisition of Kashipur ICD, construction spends for greenfield ICD at Jaipur and setting up a third terminal.

■ Valuation – Upgrade to Buy with a revised price target of Rs. 80

GDL has shown resilient performance in the wake of EXIM imbalance and sustained pressure in CFS business led by increased fixed costs. However, the company is witnessing an improvement in exports especially in its core NCR region which is expected to aid in improving operational profitability going ahead. The company continues to evaluate newer locations for new terminals, upgrade existing terminals and hire new rakes for which it has earmarked Rs. 300 capex over the next two years. We believe the company remains on track to benefit from an expected improvement in exports going ahead. We upgrade the stock to Buy with revised price target of Rs. 80, rolling forward our valuation multiple to FY2025 earnings and considering improving EXIM growth outlook.

Valuation Summary

Particulars	Methodology	Value (Rs per share)
Rail+CFS	9x March 2025 EV/EBITDA	82
Less: Net Debt		7
Cold Chain	Value of Snowman Logistics	5
Total		**80**

Source: Company; Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Gateway Distriparks	13.7	11.5	8.4	7.1	1.8	1.6	12.7	13.8
Mahindra Logistics	77.0	31.5	7.0	5.5	3.9	3.5	5.9	13.1
TCI Express	35.7	28.7	25.1	20.2	8.4	6.7	26.1	26.2
Transport Corporation of India	14.9	13.3	11.2	9.9	2.6	2.2	19.4	18.2

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 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 is facing a challenging 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, critical positive triggers such as the dedicated freight corridor (DFC) remain intact.

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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	PRISM INTL PTE LTD	24.09
2	ICICI Prudential Asset Management	9.40
3	Mirae Asset Global Investments Co	8.07
4	SBI Funds Management	6.19
5	SBI Balanced Advantage Fund	6.19
6	HDFC Asset Management Co	5.88
7	State of Kuwait	5.50
8	Gupta Prem Kishan Dass	4.49
9	Franklin Resources	2.75
10	Vanguard Group Inc	2.50

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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