Sharekhan by BNP PARIBAS

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Gateway Distriparks Ltd

Expect growth revival in FY2025; Upgrade to BUY

Logistics	Sharekhan code: GATEWAY
Reco/View: Buy ↑	CMP: **Rs. 98**
Price Target: **Rs. 121** ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We upgrade Gateway Distriparks Limited (GDL) to BUY with an unchanged PT of Rs. 121, expecting growth revival led by rise in domestic manufacturing and EXIM growth.
- For Q4FY2024, GDL reported lower-than-expected performance owing to below-estimated volumes in rail and deteriorating operational profitability in CFS led by one-offs.
- For FY2025, management retained double-digit volume growth for rail although EBITDA/TEU may come lower at Rs. 9,500 versus earlier guidance of Rs. 9,700. CFS is expected to stay muted with EBITDA/TEU maintained at Rs. 1,500.
- The company is yet finalising plans for the addition of two new terminals at a capex of Rs. 100-200 crore per terminal, while Jaipur ICD continues to face land issues.

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		↔	

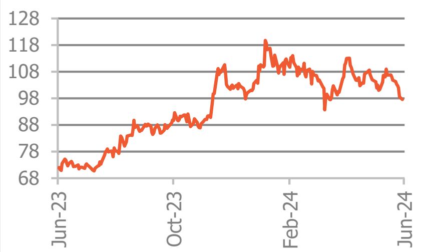
Company details

Market cap:	Rs. 4,872 cr
52-week high/low:	Rs. 121/64
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	12.4
DII	42.6
Others	12.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.9	-8.5	-3.8	35.7
Relative to Sensex	-10.4	-12.0	-14.8	13.9

Sharekhan Research, Bloomberg

Gateway Distriparks Limited (GDL) reported lower-than-expected performance for Q4FY2024 owing to below-estimated volumes in the rail business and weak operational profitability in the CFS business. Consolidated revenue for Q4FY2024 stood at Rs. 375 crore (almost flat y-o-y) owing to almost flat rail revenue (volume dipped 7.5% y-o-y affected by the Red Sea crisis), while CFS revenue declined by 8% y-o-y (realisation dipped 8%, affected by increased competitive intensity). EBITDA/TEU (including other income) for rail remained resilient at Rs. 9,800-9,900, while CFS deteriorated to Rs. 1,300 (excluding one-offs). Overall, consolidated operating profit/net profit declined by 10.8% y-o-y/19.7% y-o-y at Rs. 83.2 crore/Rs. 55 crore (over 20% below our estimates). For FY2025, management has retained double-digit volume growth for rail, while EBITDA/TEU may come down to Rs. 9,500 (earlier Rs. 9,700) on account of the expected rise in discounting at Ludhiana and Kashipur. CFS is expected to remain muted with EBITDA/TEU guidance retained around Rs. 1,500. The company is yet to finalise plans for the addition of two new terminals at a capex of Rs. 100-200 crore per terminal, while Jaipur ICD continues to face land issues.

Key positives

- Rail realisations were up 7% y-o-y on account of the busy season surcharge levied by railways.
- Rail EBITDA/TEU at Rs. 9,800-9,900 came in higher than expectations despite the EXIM imbalance.

Key negatives

- Rail volumes declined by 7.5% y-o-y on account of the Red Sea crisis, which led to higher freight rates and a decline in low-value commodities bookings like waste paper and scrap in Ludhiana and Kashipur.
- CFS EBITDA/TEU came in at Rs. 1,300, excluding one-offs, getting affected by increased competitive intensity.

Management Commentary

- The company has retained its double-digit volume growth for rail in FY2025. Rail EBITDA/TEU is expected to be around Rs. 9,500 versus earlier guidance of Rs. 9,700 on account of the expected increase in discounting at Ludhiana and Kashipur. CFS EBITDA/TEU guidance is broadly maintained close to Rs. 1,500.
- Management expects structural growth in manufacturing and EXIM growth to drive volumes for the rail division. It is capable of doing double stacking of 45-50% post the dedicated freight corridor (DFC) reaching JNPT and Faridabad double stacking.
- The company continues to be involved in the legal process for Jaipur ICD and is expecting the ICD to be operational in FY2026.

Revision in estimates – We have lowered our net earnings estimates for FY2025-FY2026, factoring in lower rail volumes and reduced operational profitability in the CFS business.

Our Call

Valuation – Upgrade to BUY with an unchanged PT of Rs. 121: GDL has been showing resilient performance despite EXIM imbalance and sustained pressure in the CFS business, led by rising competition. The company continues to benefit in its core NCR region. The company continues to evaluate newer locations for terminals, upgrade existing terminals, and hire new rakes, although it is yet to finalise a concrete capex plan for the same. We believe the company remains on track to benefit from an expected improvement in exports going ahead, although it is expected to face pressures, especially in its CFS business, in the near term. The stock is currently trading at an EV/EBITDA of ~12x/10x its FY2025E/FY2026E earnings, which we believe provides further room for upside given the expected revival in domestic manufacturing and EXIM growth. Hence, we upgrade the stock to BUY with an unchanged price target (PT) of Rs. 121.

Key Risks

Erosion in the rail and CFS segments' profitability due to a weak trade environment.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenue	1,420.9	1,536.1	1,691.3	1,912.7
OPM (%)	25.9	24.7	25.1	25.8
Adjusted PAT	239.9	256.2	286.1	342.2
YoY growth (%)	25.9	6.8	11.7	19.6
Adjusted EPS (Rs.)	4.8	5.1	5.7	6.8
P/E (x)	20.3	19.0	17.0	14.2
P/B (x)	2.9	2.7	2.5	2.2
EV/EBITDA (x)	14.5	14.1	12.0	9.8
RoNW (%)	14.0	13.7	13.9	14.9
RoCE (%)	13.0	13.4	14.1	15.7

Source: Company; Sharekhan estimates

Key result highlights from Concall

- **Guidance:** The company has retained its double-digit volume growth for rail in FY2025. Rail EBITDA/TEU is expected to be around Rs. 9,500 versus earlier guidance of Rs. 9,700 on account of the expected increase in discounting at Ludhiana and Kashipur. CFS EBITDA/TEU guidance is broadly maintained close to Rs. 1,500.
- **Outlook:** Management expects structural growth in manufacturing and EXIM growth to drive volumes for the rail division. It is capable of doing double stacking of 45-50% post the DFC reaching JNPT and Faridabad double stacking.
- **Q4FY2024 performance:** Double stacking in rail declined by 5% in Q4FY2024 to 35% from 40%, which was the main reason for profitability coming down. The Red Sea crisis impacted double stacking in Q4FY2024 and it plans to go back to 40% over the next two quarters.
- **Red Sea issue:** The Red Sea impacted rail throughput due to the increase in freight rates and a decline in low-value commodities bookings like waste paper and scrap in Ludhiana and Kashipur. CFS was flat. The issue exists in Q1FY2025 as well, but the worst is over.
- **Market share:** The company has maintained its market share of 16% at NCR and Ludhiana shows a decline in market share to 22% from 30% last year. In Uttarakhand, its market share was 27% in Q4FY2024. In NCR, it witnessed growth in two terminals (5.5% in Garhi) and Ludhiana saw a 30% decline. Kashipur volumes declined 19% q-o-q in Q4FY2024, although volumes were up 8% y-o-y in FY2024.
- **EBITDA/TEU:** Rail EBITDA/TEU for Q4FY2024 stood at Rs. 9,800-9,900, while for FY2024, it was just below Rs. 9,500. For CFS, excluding one-offs in Q4FY2024, EBITDA/TEU stood at Rs. 1,300, while for FY2024, it is was Rs. 1,500 plus.
- **Jaipur ICD:** The company continues to be involved in the legal process and is expecting the ICD to be operational in FY2026. The company would take a call to go for CFS at Jaipur or buy additional land and go for ICD.
- **Volumes handled:** The company handled 3.68 lakh TEU rail volumes and 3.62 lakh CFS volumes totalling 7.3 lakh volumes handled in FY2024.
- **Accounting standard change:** On the CFS side, from next quarter, revenue will be shown as net of discounts or incentives; hence, revenue might look muted, but it will not have any impact on EBITDA.
- **ICD utilisation:** The ICD utilisation at Garhi and Ludhiana is 70% and it is 50% for Faridabad, Kashipur, and Viramgam.
- **Volume mix at ports:** The volume mix port-wise is Mundra 60%, that for Pipavav is 35%, and that for JNPT is 5-7%.
- **Monetisation:** The company plans to monetise Krishnapatnam land of 1 lakh square feet to Snowman, which would convert it into a cold storage facility. GDL would be left with 34-35 acres from 48-49 acres, which it had earlier. Additionally, it is also planning to monetise Kochi land.

Financials (Consolidated) Rs cr

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Net sales	**375.0**	**377.0**	**-0.5**	**392.9**	**-4.6**
Operating expenses	291.7	283.6	2.9	295.2	-1.2
Operating Profit	**83.2**	**93.4**	**-10.8**	**97.8**	**-14.9**
Depreciation	23.3	25.9	-10.2	23.7	-1.8
Other income	7.1	13.9	-49.0	1.9	266.8
Interest	11.6	11.7	-1.2	11.7	-0.7
PBT	**55.5**	**69.6**	**-20.3**	**64.4**	**-13.8**
Taxes	0.1	2.6	-97.6	1.8	-96.5
Extraordinary items	0.0	0.0		0.0	
PAT before MI	**55.4**	**67.0**	**-17.3**	**62.6**	**-11.5**
Minority interest	0.4	-1.5	-	-0.7	-
APAT	**55.0**	**68.5**	**-19.7**	**63.3**	**-13.1**
Margin (%)			**BPS**		**BPS**
EBITDA	22.2%	24.8%	-257	24.9%	-269
NPM	14.7%	18.2%	-351	16.1%	-145
Effective tax rate	0.1%	3.8%	-364	2.7%	-264

Source: Company Data, Sharekhan Research

Outlook and Valuation

Sector Outlook – 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 volumes, 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 the 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 amid 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 improved 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 the revenue mix tilting towards rail, while CFS remains flat. The company is undertaking 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 an unchanged PT of Rs. 121

Upgrade to BUY with an unchanged PT of Rs. 121: GDL has been showing resilient performance despite EXIM imbalance and sustained pressure in the CFS business, led by rising competition. The company continues to benefit in its core NCR region. The company continues to evaluate newer locations for terminals, upgrade existing terminals, and hire new rakes, although it is yet to finalise a concrete capex plan for the same. We believe the company remains on track to benefit from an expected improvement in exports going ahead, although it is expected to face pressures, especially in its CFS business, in the near term. The stock is currently trading at an EV/EBITDA of ~12x/10x its FY2025E/FY2026E earnings, which we believe provides further room for upside given the expected revival in domestic manufacturing and EXIM growth. Hence, we upgrade the stock to BUY with an unchanged PT of Rs. 121.

Valuation Summary

Particulars	Methodology	Value (Rs./share)
Rail + CFS	12x March 2026 EV/EBITDA	121
Less: Net Debt		9
Cold Chain	Value of Snowman Logistics	9
Total		**121**

Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Gateway Distriparks	17.0	14.2	12.0	9.8	2.5	2.2	13.9	14.9
Mahindra Logistics	98.5	32.0	8.8	6.7	5.3	4.5	6.3	17.2
TCI Express	26.7	22.5	18.3	15.3	5.0	4.2	20.2	20.5
Transport Corporation of India	16.8	14.6	14.1	12.2	2.8	2.3	17.9	17.5

Source: Sharekhan Research

About the company

GDL is an integrated inter-modal logistics service provider. The company operates six container freight stations in Nhava Sheva, Chennai, Vishakhapatnam, Kochi, and Krishnapatnam. Gateway Rail Freight Limited (GRFL) is India's largest private intermodal operator providing rail transport service through its four 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 over 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 amid 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

Prem Kishan Dass Gupta	Chairman and Managing Director
Sachin Surendra Bhanushali	Chief Executive Officer
Sandeep Kumar Shaw	Chief Financial Officer
Veena Nair	Company Secretary and Compliance Officer

Source: Company

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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