Sharekhan
by BNP PARIBAS

Gateway Distriparks

Focus on profitability & de-leveraging

Sector: Logistics

Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 88**	
Price Target: **Rs. 115**	↓

↑ Upgrade ↔ No change ↓ Downgrade

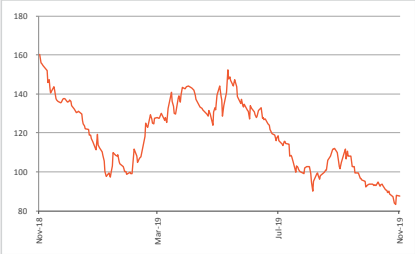
Company details

Market cap:	Rs. 954 cr
52-week high/low:	Rs. 171/81
NSE volume: (No of shares)	1.3 lakh
BSE code:	532622
NSE code:	GDL
Sharekhan code:	GDL
Free float: (No of shares)	7.6 cr

Shareholding (%)

Promoters	30.0
FII	29.9
DII	27.8
Others	12.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.0	-14.2	-32.0	-42.7
Relative to Sensex	-9.5	-20.8	-38.0	-50.5

Sharekhan Research, Bloomberg

Gateway Distriparks Limited (GDL) reported sequential improvement (not comparable y-o-y due to IND AS 116 adjustments) in performance for Q2FY2020. The CFS and Rail verticals reported 6% plus q-o-q improvement in EBITDA per TEU leading to 11% q-o-q rise in consolidated operating profit. The consolidated net revenue was up 3.5% y-o-y aided by rail (volume rise by 9% y-o-y). For rail, an increase in market share in Ludhiana, price hike taken at the start of FY2020 and reduction in variable costs improved profitability despite lower double stacking. The CFS business seems stabilized with healthy realization growth and improved profitability amidst weak trade volumes. Snowman saw an improvement in yield per pellet amidst lower capacity utilization. Going ahead, the management's focus would be on de-leveraging group debt by shedding capacity expansion plans and repaying of debt through internal accruals and non-core asset divestments (GDL would be divesting Chandra CFS for Rs. 47 crore). We expect GDL's profitability to gradually improve upon with improved realizations and cost efficiencies. We have increase our net earnings estimates for FY2020-FY2021 factoring higher profitability for CFS and Rail. GDL's current valuation at 4.7x EV/EBITDA and 0.8x P/B over FY2021E earnings provides comfort. Hence, we retain our Buy rating with revised PT of Rs. 115.

Key positives

- Both CFS and Rail division posts improvement in profitability in terms of EBITDA/TEU.
- Focus on de-leveraging balance sheet as against capacity expansion.

Key negatives

- CFS volumes continue to disappoint.
- Lower double stacking in rail.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 115: We have increased our earnings estimates for FY2020-FY2021 factoring an improvement in profitability in both its CFS and rail verticals. We believe in the current sluggish trade environment, GDL's focus on de-leveraging as against capacity expansion and maintaining healthy profitability in CFS and Rail verticals should gradually drive net earnings growth going ahead. Further, GDL is currently trading at 4.7x EV/EBITDA and 0.8x P/B over FY2021E earnings which provides comfort on valuation. Hence, we retain our Buy rating on the stock with revised PT of Rs. 115.

Key Risks

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

Valuation (Consolidated) — **Rs cr**

Particulars	FY18	FY19	FY20E*	FY21E
Revenue	395.5	430.6	1,326.0	1,467.6
OPM (%)	21.3	19.1	22.7	23.0
Adjusted PAT	82.7	84.6	78.1	93.8
% YoY growth	*11.6*	*2.3*	*(7.7)*	*20.1*
Adjusted EPS (Rs.)	7.6	7.8	7.2	8.6
P/E (x)	11.5	11.3	12.2	10.2
P/B (x)	1.0	0.7	0.8	0.8
EV/EBITDA (x)	10.6	20.0	5.5	4.7
RoNW (%)	8.1	7.2	6.1	7.9
RoCE (%)	6.1	3.9	9.2	11.4

Source: Company Data; Sharekhan estimates
** Gateway Rail consolidated line-by-line*

Consolidated PAT improve q-o-q with higher profitability in Rail and CFS

GDL reported consolidated revenue of Rs. 325 crore, a growth of 5.1% y-o-y on a like-to-like basis (including rail vertical revenue during Q2FY2019). The revenues were primarily driven by rail business (revenue up 10.4% y-o-y) led by volume growth of 7.5% y-o-y and realization growth of 2.7% y-o-y (per TEU basis). The market share gain in Ludhiana (40% from 36% in FY2019) along with price hike taken from April 2019 led to a healthy revenue growth for its rail division. The CFS vertical reported 9.5% y-o-y decline in volume while realization improved by 4.8% y-o-y. On the operating profitability front, both CFS and rail vertical reported 6% plus q-o-q (y-o-y not comparable due to adoption of IND AS 116 from April 2019) increase in EBITDA/TEU. Hence, the operating profit grew 10% q-o-q to Rs. 71.5 crore. The consolidated net profit rose 19.5% q-o-q to Rs. 17 crore (adjusting for Rs. 54.8 crore income booked under Service Export from India Scheme (SEIS) for Q1FY2020. The CFS vertical reported net loss for Q2FY2020 on account of higher interest and depreciation charge due to IND AS 116 accounting. Snowman Logistics reported net loss of Rs. 14 crore for Q2FY2020 on account of lower utilization (77%, revenue growth of 1% y-o-y to Rs. 584 crore) and increased interest and depreciation charge.

Capex to take back seat and focus on de-leveraging

GDL had earlier envisaged Rs. 100 crore capex for rail for three terminals for FY2020 against which it will now be spending on only one terminal. The lower volumes and handling of DPD volumes has led to the cutting down on capex for the time being. In Snowman too, the company will be focusing on increasing yield per pellet rather than expanding capacity. The focus of the management would be to bring down its group debt by Rs. 250-300 crore by March 2021. As of September 2019, the rail debt stood at Rs. 140 crore while CFS debt at Rs. 656 crore. To start with, the company will be divesting its entire stake in Chandra CFS at Chennai for Rs. 47 crore. Going ahead, it would be looking at paring debt through internal accruals, minimal capex and divestment of non-core assets.

Conference Call Key Takeaways

- **Healthy Rail division performance:** The rail vertical showed improved performance with volumes up 7.5% y-o-y (up 9% q-o-q) owing to the increased capacity and a pickup in demand in the Ludhiana market. The rail revenues grew 10% y-o-y (up 5.6% q-o-q) which was led by both an increase in volume and price increase taken by the company from start of the fiscal year. Further EBITDA/TEU for rail grew 19% y-o-y (up 6% q-o-q) which was led partly by IND AS adjustments and partly by price increase and lower cost.
- **CFS business to stabilize:** The management expects CFS business to stabilize from here on, thus expecting improvement in volumes. Currently, the company is handling almost 50% DPD volumes at Nhava Sheva while much lower at other places.
- **Chandra CFS sale:** The company's board approved the sale of its entire stake in Chandra CFS subsidiary in Chennai for Rs. 47 crore. It will be closing the deal in 45 days from today. The cash accruals and SEIS income from April 2019 till the closure of the deal would be received by GDL. The entire proceeds will be utilized in paying NCD debenture holders.
- **Market share gain/loss:** The company's market share in NCR dropped to 12.7% from 13% while it increased its market share in Ludhiana from 36% to 40%.
- **SEIS income recognition:** The company booked SEIS income of Rs. 32 crore/Rs. 32.5 crore/Rs. 37.7 crore in FY2016/FY2017/FY2018 respectively. It is yet to lodge a claim for FY2019 SEIS income. Its CFS business booked Rs. 52 crore SEIS income pertaining to FY2018-FY2019. Regarding the denial of SEIS benefit to the industry leader by DGFT, the company does not see any risk to its SEIS income but it will have to wait and see the outcome.
- **DFC update:** The management expects part of eastern and western DFC to be operational in 2019 while 2020 should see entire DFC operational. The company expects transit time reduction, assurance and reliability with DFC gets operational. With DFC getting operational, the management expects 15-20% increase in volume over two to three years and 50% volume increase after five years in EXIM trade.

- **Snowman performance:** The capacity utilization for Q2FY2020 stood at 70% versus 82% in Q2FY2019. However, it has witnessed average 7% increase in yield per pellet this year. It will be focusing on QSR, FMCG etc to increase yield. It will not be incurring any capex this year due to low utilization. It has purchased land in Krishnapatnam & Siliguri and currently is in process of taking land clearances. The current capacity of Snowman stood at 1,04,343 pellets.
- **Capex:** GDL would not be incurring any capex for time being due to lower volumes and DPD volumes. As against its earlier capex plan of Rs. 300 crore spread over three terminals, it would only doing capex for one terminal this year.
- **Debt reduction:** The management would be focusing on reducing debt at group level then investing in asset creation. It targets to bring down debt by Rs. 250-300 crore before March 2021. As of Sept 2019, CFS division has a debt of Rs. 656.5 crore and rail has a debt of Rs. 140 crore. The management would be looking at non-core asset divestment over few quarters along with monetizing its land bank to reduce debt.

Results (Consolidated) **Rs cr**

Particulars	Q2FY20*	Q2FY19	YoY%	Q1FY20	QoQ%
Net sales	325.1	104.5	211.0	314.1	3.5
Operating expenses	253.6	85.4	196.8	249.2	1.8
EBITDA	71.5	19.1	274.3	64.9	10.1
Depreciation	32.9	8.3	298.0	32.4	1.7
Other income	3.5	2.5	39.8	3.4	4.9
Interest	25.7	3.0	745.7	25.8	-0.3
PBT	16.3	10.3	58.6	10.1	61.3
Taxes	-1.6	3.2	-	-8.2	-
Extraordinary items				44.3	
PAT before MI	17.9	7.1	153.1	62.6	-71.4
Minority interest	1.0	-10.3	-	4.2	-
APAT	17.0	17.4	-2.5	14.2	19.8
Margin (%)					
EBITDA	22.0%	18.3%	372 bps	20.7%	131 bps
NPM	5.2%	16.6%	-	4.5%	71 bps
Effective tax rate	-9.7%	31.3%	-	-80.9%	-

Source: Company Data, Sharekhan Research;
**Not comparable y-o-y due to Gateway Rail Consolidation and adoption of IND AS 116 since April 1st 2019*

Outlook

Improving business outlook: GDL witnessed improvement in profitability sequentially during Q2FY2020 in terms of EBITDA per TEU for both its rail and CFS verticals. The management expects CFS business to stabilize from hereon with improvement of volumes going ahead. In the rail vertical, it has been able to improve its market share in Ludhiana and improve upon its variable costs leading to increased profitability. Further, with DFC getting operational by 2021 end should aid in improvement in volume. Hence, we believe the company's outlook to be on an improving trajectory going ahead for both its CFS and rail verticals.

Valuation

Maintain Buy with a revised PT of Rs. 115: We have increased our earnings estimates for FY2020-FY2021 factoring improvement in profitability in both its CFS and rail verticals. We believe in the current sluggish trade environment, GDL's focus on de-leveraging as against capacity expansion and maintaining healthy profitability in CFS and Rail verticals should gradually drive net earnings growth going ahead. Further, GDL is currently trading at 4.7x EV/EBITDA and 0.8x P/B over FY2021E earnings which provides comfort on valuation. Hence, we retain our Buy rating on the stock with revised PT of Rs. 115.

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Gateway Distriparks	12.2	10.2	5.5	4.7	0.8	0.8	6.1	7.9
Container Corporation of India	33.7	23.7	19.4	16.5	2.5	2.3	10.8	12.1

Source: Sharekhan Research

About company

GDL Group is an integrated inter-modal logistics service provider having three verticals. It operates 7 Container Freight Stations in Nhava Sheva, Chennai, Vizag, Kochi and Krishnapatnam. GatewayRail, India's largest private intermodal operator, provides rail transport service through it 4 Inland Container Depots (ICD) at Gurgaon, Faridabad, Ludhiana, Ahmedabad and Domestic Container Terminal (DCT) at Navi Mumbai. GDL and GatewayRail together have a capacity to handle 2.1 million TEUs per annum with 31 train sets, 500+ trailers and warehousing space of 1.73 million square feet across its 12 Container Terminals. Snowman Logistics Limited (SLL), it's third vertical, is India's leading cold chain logistics company with Pan India presence at 31 locations in 15 cities.

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 CFS 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 and cold chain 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 of the cold chain business.

Additional Data

Key management personnel

Mr. PREM KISHAN DASS GUPTA	Chairman
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	22.9
2	Amansa Holdings Pvt Ltd	8.68
3	ICICI Prudential Asset Management	8.3
4	Life Insurance Corp of India	7.08
5	Mirae Asset Global Investments Co	6.12
6	Gupta Prem Kishan Dass	4.06
7	SBI Funds Management Pvt Ltd	2.61
8	Schroders PLC	2.57
9	Dimensional Fund Advisors LP	2.51
10	State of Kuwait	2.44

Source: Bloomberg

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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