

Logistics

Target price Rs86

Earnings revision

(%)	FY21E	FY22E
Sales	↓ 28.2	↓ 24.4
EBITDA	↓ 58.2	↓ 49.6
EPS	↓ NM	↓ NM

Target price revision

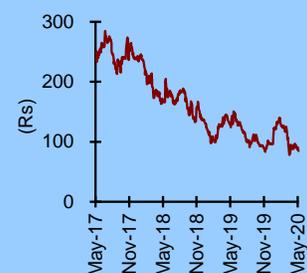
Rs86 from Rs128

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	30.0	30.0	30.2
Institutional investors	57.6	55.9	56.7
MFs and other	17.8	19.2	19.5
FIs / Banks	7.2	7.2	7.2
Insurance Cos.	2.4	2.4	2.4
FII	30.2	27.1	27.6
Others	12.4	14.1	13.1

Source: CMIE

Price chart



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Gateway Distriparks

HOLD

Maintained

Rs85

Deleveraging plans suffers a setback

The acquisition of Snowman Logistics (Snowman) by Adani Logistics may not go through ([Exchange release](#)). The sale of ~40% stake in Snowman held by Gateway Distriparks (GDL) was supposed to bring in Rs2.96bn for GDL. It was also a key element in bringing GDL's net debt down by Rs2.5bn-3bn by Mar'21. GDL's net debt (as at 30th Sep'19) was Rs7.3bn and, given our reduced FY21E earnings to factor in the Covid-19 impact, 'net debt to EBITDA' based on 30th Sep'19 debt of GDL expands to 5.2x. We expect FY21E EBITDA to drop ~55% YoY driven by both contractions in rail and CFS earnings. While we don't see solvency issues (most of the Blackstone debt was funded by NCDs) yet, cancellation of the Snowman deal will make FY21E a tough year for GDL. Maintain HOLD with a revised target price of Rs86/share (earlier: Rs128).

- **Deleveraging to take backseat with stalling of asset sales.** GDL raised 7-year bonds to acquire rail business stake from Blackstone and was planning to make early repayment of Rs2.5bn-3bn by Mar'21 on the back of asset sales. With delay in sale of Snowman stake (~40%), deleveraging will clearly take a backseat. The other planned non-core asset sales would also get delayed, i.e. land sales in different terminals including the 22-acre plot at Kochi which GDL owns and had earlier guided to sell out. Previously, sales proceeds from Chandra CFS were used to repay Rs500mn of NCDs.
- **We reduce FY21E/FY22E EBITDA by 58/50% to factor-in Covid-19 impact.** This factors-in 56/41% EBITDA decline for CFS and 59/53% EBITDA decline for the rail business in FY21E/FY22E. Increasing rail coefficient of ports like JNPT can potentially help pure-play exim players like GDL, as utilisation of Viramgam can ramp up. Yet, with stressed earnings and elevated leverage, FY21E 'net debt to EBITDA' may appear elevated at 5.2x.
- **Deemed as an essential service, Snowman's business appeared favourably poised to counter lockdown effects.** Management noted that the business has not been adversely affected by the lockdown and demand for storage has increased from segments such as seafood, meat, poultry, QSR products, butter and healthcare products. Export cargo, accounting for approximately 30% of the volumes handled by Snowman, is being stored leading to an increase in warehousing occupancy. Imported products, accounting for approximately 5% of Snowman's volumes have not been affected as these commodities are essential goods comprising of pharmaceutical products imported regularly to India. Also, a global e-commerce giant has partnered with Snowman for the delivery of FMCG perishables including vegetables, fruits, eggs, frozen food and groceries (announced in Mar'20).
- **Expect moderation of GDL's capex plans.** Company's capex for FY21E/FY22E was previously guided at Rs1.5bn, which can be curtailed.

Market Cap	Rs9.2bn/US\$122mn	Year to Mar	FY19	FY20E	FY21E	FY22E
Reuters/Bloomberg	GATE.BO / GDPL IN	Revenue (Rs mn)	4,306	12,515	10,066	12,469
Shares Outstanding (mn)	108.7	EBITDA (Rs mn)	824	3,168	1,419	1,957
52-week Range (Rs)	151/71	Net Income (Rs mn)	3,652	2,457	(620)	(152)
Free Float (%)	69.8	EPS (Rs)	33.6	22.6	(5.7)	(1.4)
FII (%)	27.6	P/E (x)	2.5	3.8	NM	NM
Daily Volume (US\$'000)	325	CEPS (Rs)	36.6	34.1	6.2	11.0
Absolute Return 3m (%)	(32.2)	EV/E (x)	20.9	5.1	11.2	7.9
Absolute Return 12m (%)	(34.7)	Dividend Yield	5.3	5.9	-	-
Sensex Return 3m (%)	(23.2)	RoCE (%)	15.6	16.4	1.4	3.7
Sensex Return 12m (%)	(14.7)	RoE (%)	27.6	16.4	(4.3)	(1.1)

Maintain **HOLD** with a revised target price of Rs86/share.

We roll back the previously assumed sale of GDL's 40% stake in Snowman Logistics, which leads to increase in: i) net debt, and ii) value on account of Snowman's investments (at market value).

Table 1: SoTP valuation (new)

	Methodology	Enterprise Value (Rs mn)	Valuation (Rs/share)
Gateway Rail Freight	EV/EBITDA, 8x FY22E	9,847	
CFS business	EV/EBITDA, 8x FY22E	4,356	
Total Enterprise value		14,203	
Total Debt		6,302	
Equity Value			73
Snowman Logistics (40% Associate)	Market value adjusted for stake and Holdco discount		14
Total			86

Source: Company data, I-Sec research

Table 2: SoTP valuation (old)

	Methodology	Valuation (Rs/share)
Gateway Rail Freight	10% discount to the Blackstone deal	58
CFS business	EV/EBITDA, 7x FY22E	70
Total		128

Source: Company data, I-Sec research

Change in earnings

We have factored in earnings decline in FY21E/FY22E. Majority of earnings decline in FY21E is driven by ~20-25% volume decline in rail as well as CFS along with some margin moderation. We have assumed a much muted recovery for GDL compared to other sector peers as none of the peers face as severe test of solvency as GDL does in FY21E. Nevertheless, a stronger recovery in FY22E can surprise us and is the key risk to our target price.

Table 3: Earnings revision

	FY21E			FY22E		
	New	Old	% Chg	New	Old	% Chg
Sales	10,066	14,010	(28.2)	12,469	16,495	(24.4)
EBITDA	1,419	3,394	(58.2)	1,957	3,880	(49.6)
PAT	(620)	1,105	NM	(152)	1,450	NM

Source: I-Sec research

Table 4: Key assumptions

	FY21E			FY22E		
	New	Old	% Chg	New	Old	% Chg
Rail						
Volume	223,785	273,516	(18.2)	246,164	330,000	(25.4)
Realisation/teu	32,000	35,500	(9.9)	34,000	35,500	(4.2)
EBITDA/teu	4,000	8,000	(50.0)	5,000	8,000	(37.5)
CFS						
Volume	319,050	440,730	(27.6)	428,000	475,988	(10.1)
Realisation/teu	9,000	9,682	(7.0)	9,500	9,972	(4.7)
EBITDA/teu	1,800	2,737	(34.2)	2,000	2,605	(23.2)

Source: I-Sec research

Summary financials

Table 5: Profit & Loss statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Revenue from operations	4,306	12,515	10,066	12,469
Operating Expenses	3,482	9,347	8,647	10,512
EBITDA	824	3,168	1,419	1,957
% margins	19.1%	25.3%	14.1%	15.7%
Depreciation & Amortisation	326	1,250	1,290	1,346
Gross Interest	128	940	960	981
Other Income	128	165	165	165
Profit before tax & exceptional item	498	1,144	(665)	(204)
Exceptional Item	2,805	1,576	-	-
Profit before tax	3,303	2,720	(665)	(204)
Less: Taxes	300	272	(166)	(51)
Add share of profit from JV and associate	649	9	(121)	1
Net Income (Reported)	3,652	2,457	(620)	(152)

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Assets				
Total Current Assets	2,110	4,109	4,261	4,023
of which cash & cash eqv.	697	268	537	195
Total Current Liabilities & Provisions	1,064	2,540	2,280	2,351
Net Current Assets	1,047	1,568	1,981	1,672
Investments in JV and associates	1,465	1,465	1,465	1,465
Net Fixed Assets	14,957	14,708	13,918	13,372
Intangible assets	231	231	231	231
Capital Work-in-Progress	16	16	16	16
Goodwill	3,228	3,228	3,228	3,228
Other non-current assets	1,060	1,060	1,060	1,060
Total Assets	22,004	22,285	21,786	20,933
Liabilities				
Borrowings	8,682	7,182	7,182	6,482
Deferred Tax Liability	(9)	(9)	(9)	(9)
Other long term liabilities	16	16	16	16
MI	98	98	98	98
CCPS	-	-	-	-
Equity Share Capital	1,087	1,087	1,087	1,087
Reserves and Surplus	12,131	13,912	13,413	13,260
Net Worth	13,218	14,999	14,501	14,347
Total Liabilities	22,004	22,285	21,786	20,933

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Net Profit before tax	3,303	2,720	(665)	(204)
Depreciation	326	1250	1290	1346
Non-Cash Adjustments	33	795	815	836
Working Capital Changes	(64)	(952)	(143)	(32)
Taxes Paid	300	272	(166)	(51)
Operating Cashflow	3298	3541	1462	1996
Capital Commitments	(126)	(1000)	(500)	(800)
Free Cashflow	3172	2541	962	1196
Other investing cashflow	(5502)	136	266	144
Cashflow from Investing	(5628)	(864)	(234)	(656)
Activities	(5628)	(864)	(234)	(656)
Inc (Dec) in Borrowings	5141	(1500)	0	(700)
Issue of Share Capital	0	0	0	0
Finance cost	(113)	(940)	(960)	(981)
Dividend paid	(524)	(667)	-	-
Cash flow from Financing	4,503	(3,106)	(960)	(1,681)
Chg. in Cash & Bank	2,173	(430)	269	(341)
balance	2,173	(430)	269	(341)

Source: Company data, I-Sec research, *Proforma

Table 8: Key ratios

(Year ending March 31)

	FY19	FY20E	FY21E	FY22E
Per Share Data (Rs)				
EPS	33.6	22.6	(5.7)	(1.4)
Cash EPS	36.6	34.1	6.2	11.0
Dividend per share (DPS)	4.5	5.0	-	-
Book Value per share (BV)	121.6	138.0	133.4	132.0
OCF per share	30.3	32.6	13.4	18.4
FCF per share	29.2	23.4	8.9	11.0
Growth (%)				
Net Sales	8.9	190.6	(19.6)	23.9
EBITDA	(2.3)	284.5	(55.2)	37.9
PAT	339.1	(32.7)	(125.2)	(75.5)
Valuation Ratios (x)				
P/E	2.5	3.8	NM	NM
P/BV	0.7	0.6	0.6	0.6
EV / EBITDA	20.9	5.1	11.2	7.9
EV / Sales	4.0	1.3	1.6	1.2
Operating Ratios				
Employee cost / Sales (%)	5.5	5.1	6.7	5.8
Other Operating exp. / Sales (%)	13.3	8.0	10.4	8.8
Effective Tax Rate (%)	9.1	10.0	25.0	25.0
Net D/E Ratio (x)	0.6	0.5	0.5	0.4
OCF yield (%)	35.7	38.3	15.8	21.6
FCF yield (%)	34.3	27.5	10.4	12.9
Return/Profitability Ratios (%)				
EBITDA Margins	19.1	25.3	14.1	15.7
Net Income Margins	84.8	19.6	(6.2)	(1.2)
Return on Equity (RoE)	27.6	16.4	(4.3)	(1.1)
RoCE	15.6	16.4	1.4	3.7

Source: Company data, I-Sec research

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