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Q4FY21 result review and earnings revision

Logistics

Target price: Rs232

Earnings revision

(%)	FY22E	FY23E
Sales	-	↓ 2.7
EBITDA	↑ 12.9	↑ 13.4
PAT	↑ 104.1	↑ 68.9

Target price revision

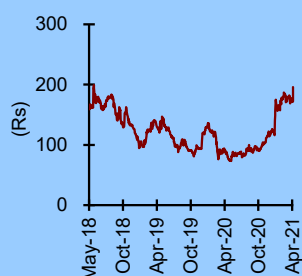
Rs232 from Rs197

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	30.2	32.1	32.1
Institutional investors	53.6	54.0	56.4
MFs and other	19.0	19.7	20.4
FIs / Banks	0.0	0.0	0.0
Insurance Cos.	8.4	8.3	7.7
FII	26.2	26.0	28.3
Others	14.2	13.8	11.5

Source: CMIE

Price chart



Gateway Distriparks

BUY

Maintained

Rs196

Rail EBITDA up 52%YoY, 28%QoQ

Gateway Distriparks' (GDL) Q4FY21 result witnessed higher than expected topline and EBITDA. Topline at Rs3.5bn was up 17% YoY (I-Sec 3.2bn) and **EBITDA was up 48% YoY**. Rail segment EBITDA/teu surprised with 32% YoY and 10% QoQ jump in EBITDA/teu to Rs9,926/teu. Increase in rail share for EXIM transportation continues to help players like GDL. Net debt continues to reduce from Rs4.9bn to Rs 4.4bn QoQ. Management reiterated its plans to spend ~Rs2bn of capex for satellite terminals around NCR to help increase GDL market share. Advent of DFC (Rewari – Palanpur to Mundra and Pipavav ports) should complete by Mar 23 (as per management) allowing increased volume and operational tailwinds. We maintain BUY with SoTP-based revised target price of Rs232/share (earlier Rs 197/share).

- ▶ **Rail EBITDA/teu up 52% YoY and 28% QoQ -- positive surprise** mainly due to better than expected margin performance at Rs 9926/teu (I-Sec Rs 8574/teu). This has positive implications for Concor as well. Rail volumes (teu) were up 15% YoY at 77,772teu (7.6% higher than expected). Management continues to guide for Rs8,000/teu EBITDA for rail business; provided volume driven operating leverage persists and the Indian railway rebate on laden and empty containers is withdrawn. Rebates introduced by IR has also helped margins in Q4FY21.
- ▶ **CFS performance was lower than expected.** Lower-than-expected EBITDA/teu at Rs2,412/teu against Rs2800/teu expected. CFS volumes were up 6.5% YoY while improving 10.5% QoQ. CFS revenues are up 20% YoY and 10.5% QoQ. We have considered a much lower EBITDA/teu trajectory for FY22/23E YoY. Yet, the current Covid induced disruption may again lead to surprise in margins for Q1FY22.
- ▶ **Snowman; primed for a turnaround.** Topline grew at 5% YoY. While warehousing segment reported nearly flat revenue YoY, EBITDA was up (high *double-digit* increase). Transportation EBITDA continues to drag. Management highlighted pharma and e-commerce revenues are growing at 20-25%. Ice cream revenues are also growing at 15% CAGR. This is also reflecting in product mix with ecommerce contributing ~5% of topline from near 0% YoY. Pharma share in the topline has also continues to increase. Greenfield 8,000 pallets capacity addition and brownfield 26,000 pallets capacity addition is ongoing. Base capacity is 107,450 pallets across 35 locations.
- ▶ **Maintain BUY.** GDL remains a direct play on: i) Theme of rail freight progressively gaining share over road, accentuated by DFC, ii) cold chain logistics opportunity in India augmented by increased focus on pharma vertical, given its 40% controlling stake in Snowman Logistics; and iii) meaningful deleveraging 'net debt to market cap' at ~33%. Meaningful value unlocking cannot be ruled out.

Market Cap	Rs24.4bn/US\$327mn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	GATE.BO / GDPL IN	Revenue (Rs mn)	12,920	11,794	12,854	14,170
Shares Outstanding (mn)	124.8	EBITDA(Rs mn)	3,134	3,130	2,853	3,172
52-week Range (Rs)	196/73	Net Income (Rs mn)	1,039	959	854	1,224
Free Float (%)	67.9	EPS (Rs)	8.3	7.7	6.8	9.8
FII (%)	28.3	P/E (x)	23.1	25.0	28.1	19.6
Daily Volume (US\$'000)	606	CEPS (Rs)	19.0	18.2	17.4	20.3
Absolute Return 3m (%)	18.3	EV/E (x)	9.6	9.8	10.6	9.1
Absolute Return 12m (%)	121.4	Dividend Yield	2.6	2.1	2.6	-
Sensex Return 3m (%)	3.4	RoCE (%)	8.8	8.5	7.7	9.0
Sensex Return 12m (%)	55.8	RoE (%)	7.9	6.5	5.8	7.7

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- **Next phase of expansion will see GDL consolidate market share in NCR.** GDL's strategy has always involved setting up of satellite terminals around Garhi (which contributes ~65% to GDL's rail volumes) to capture additional market share. Blackstone's exit was ideally suited to ramp-up investments, delayed by two constraints (capital structure and weak external market). Even without DFC commissioning, the management expects to capture 15-20% of EXIM container traffic traversing via road and entering the extended NCR market. However, the announced rail capex of Rs2,000mn planned over the next three years will not strain the balance sheet in any manner. We expect deleveraging to continue for GDL.

Table 1: Q4FY21 consolidated result review

(Rs mn)	Q4FY21	Q4FY20	% Chg YoY	Q3FY21	% Chg QoQ
Net Revenue	3,503	2,991	17.1	3,138	11.6
Total Expense	2,550	2,345	8.7	2,312	10.3
EBITDA	953	646	47.5	826	15.4
<i>Rail</i>	<i>772</i>	<i>508</i>	52.0	<i>604</i>	27.8
<i>CFS</i>	<i>224</i>	<i>145</i>	54.5	<i>242</i>	-7.5
Depreciation	322	335	(4.0)	328	-1.8
EBIT	631	311	103.2	498	26.7
Other Income	29	55	(48.4)	25	14.9
Interest	173	263	(34.0)	177	-1.9
PBT	486	103	370.0	346	40.5
Exceptional items	-	81		-	
Tax	22	(34)	(164.2)	20	9.2
PAT (Before minority interest)	464	218	112.8	326	42.4

Source: Company data, I-Sec research

Table 2: Q4FY21 result review – key segment details

	Q4FY21	Q4FY20	% Chg YoY	Q3FY21	% Chg QoQ	FY21	FY20	% Chg YoY
CFS								
Volumes (teu)	92,851	87,176	6.5	84,060	10.5	320,012	395,152	(19.0)
Sales	956	800	19.6	866	10.5	3,635	4,233	(14.1)
Realisation/teu	10,296	9,172	12.3	10,296	(0.0)	11,000	9,394	17.1
EBITDA	224	145	54.5	242	(7.5)	1,010	1,369	(26.2)
EBITDA/teu	2,412	1,663	45.0	2,880	(16.2)	3,156	2,146	47.1
Rail								
Volumes (teu)	77,772	67,636	15.0	67,042	16.0	248,504	257,019	(3.3)
Sales	2,546	2,191	16.2	2,273	12.0	8,159	8,686	(6.1)
Realisation/teu	32,737	32,394	1.1	33,897	(3.4)	32,800	35,000	(6.3)
EBITDA	772	508	52.0	604	27.8	2,215	1,876	18.1
EBITDA/teu	9,926	7,511	32.2	9,009	10.2	8,913	7,299	22.1
Snowman Logistics								
Sales	641	610	5.1	602	6.5	2,371	2,402	(1.3)
Warehousing	389	386	0.9	397	(2.1)	1,585	1,506	
Transport	240	216	11.2	324	(26.0)	757	848	
EBITDA	168	154	9.2	165	1.8	650	602	8.0
PAT	(4)	(12)	NM	14	NM	1	(150.1)	NM

Source: Company data, I-Sec research

Conference call takeaways

- **On Rail freight EBITDA/teu -- Management believes that if the Indian Railway rebates go away, but volumes are maintained then Rs 8,000/teu EBITDA is achievable.** Reduction in imbalance, increase in volumes leading to operating leverage, and Indian railways offered rebate of 5% and 25% on laden and empty haulage charges. Management expects, at least 6 months of rebate extension, which is expected to go away by 1st May, 2021. There is no **SEIS income** which is booked in FY21. Of 5 years window for SEIS, Gateway has received it for only three years.
- **Utilisation of rail terminals.** Garhi Harsaru has operated at 52% of terminal capacity, Ludhiana at 50% of capacity and Faridabad at 72%. These are based on capacities which can be ramped up easily based on demand and subject to land purchase. Rail transportation capacity was utilized at 80% for FY21, given the sharp drop in volumes in Q1 and Q2. FY21 NCR volumes were 150,000teu compared to 135,000teu, which is up 11% YoY.
- **Rail competitive intensity.** Market has not followed Concor (TKD terminal) into price increases. Also, NCR market volume has increased by 11% for GDPL while the market shrunk by 5%.
- **DFC commissioning and status.** Rewari to Palanpur which will be commissioned with 25 te axle load, at 100kmph; beyond Palanpur old infra exists which is undergoing work 23 te 25te and conversion to double line – can connect to Mundra by March 23. The benefit that GDPL will enjoy in the interim is from Garhi Harsaru to Palanpur. Speed of train has not improved over Q1/Q2/Q3 -- because lack of passenger trains reduced transit time in Q1FY21 itself. Large amount of signal and telecom work is yet to be completed in Ateli Madar section. Hence this section only operable in day time.
- **Snowman continues to see opportunity.** Pharma vertical is seeing significant traction – Vaccine distribution is happening in small volumes. As other brands of vaccines comes in – that's where Snowman sees an opportunity in storage and distribution. Snowman is present in 15 locations and in the next 2 months they will be in 17 locations. There has to be investment to augment capacity, as pharma and e-commerce revenues are growing at 20-25%. Ice cream revenues is also growing at 15% CAGR.

Earnings change

We have increased rail volumes and margins post Q4FY21 performance. Also, faster deleveraging leads to lower expectations for interest outgo. We have also increased Snowman (associate's) earnings to account for the improved operating performance and improved outlook on the back of i) increasing capacity and ii) improved outlook on volumes and yields.

Table 3: Earnings change

(Rs mn)

	FY22E			FY23E		
	New	Old	% Chg	New	Old	% Chg
Sales	12,854	12,829	0.2	14,170	14,556	(2.7)
EBITDA	2,853	2,527	12.9	3,172	2,798	13.4
Profit before associates	815	369	120.6	1,159	647	79.2
PAT	834	409	104.1	1,201	711	68.9

Source: Company data, I-Sec research

Table 4: Earnings change

	FY22E			FY23E		
	New	Old	% Chg	New	Old	% Chg
Rail						
Volume	265,899	257,353	3.3	305,784	295,956	3.3
Realisation/teu	33,000	34,000	(2.9)	33,000	35,400	(6.8)
EBITDA/teu	8,000	7,000	14.3	8,000	7,000	14.3
CFS						
Volume	428,000	428,000	0.0	428,000	428,000	0.0
Realisation/teu	9,500	9,500	0.0	9,500	9,500	0.0
EBITDA/teu	1,696	1,696	0.0	1,696	1,696	0.0

Source: Company data, I-Sec research

Valuation and key risks

Sensitivity

- Every Rs500/teu increase in EBITDA assumption in rail business leads to ~Rs10/share increase in valuations for GDL. Our base case rail EBITDA/teu estimate (FY22) is Rs6,000/teu.
- Every Rs500/teu increase in EBITDA assumption in CFS business leads to ~Rs13/share increase in valuations for GDL. Our base case CFS EBITDA/teu estimate (FY22E) is Rs1,696/teu.

As sensitivities show, given the current low base of EBITDA/teu for CFS as well as rail business, higher risks to our valuation is due to increase in EBITDA estimates for rail and CFS businesses.

Our assumption of total debt excludes ~Rs1.9bn worth of lease liability.

Gateway Distriparks (BUY): Rail + cold chain + deleveraging = Maximum upside potential

Table 5: SoTP valuation (new)

	Methodology	Enterprise Value (Rs mn)	Valuation (Rs/share)
Gateway Rail Freight	EV/EBITDA, 10x FY23E	24,463	
CFS business	EV/EBITDA, 6x FY23E	4,356	
Total Enterprise value		28,819	
Total Debt		3,099	206
Equity Value			
Snowman Logistics (40% Associate)	Market value adjusted for stake and Holdco discount		26
Total			232

Source: Company data, I-Sec research

Table 6: SoTP valuation (old)

	Methodology	Enterprise Value (Rs mn)	Valuation (Rs/share)
Gateway Rail Freight	EV/EBITDA, 10x FY23E	20,717	
CFS business	EV/EBITDA, 6x FY23E	4,356	
Total Enterprise value		25,073	
Total Debt		3,724	
Equity Value			
Snowman Logistics (40% Associate)	Market value adjusted for stake and Holdco discount		171
Total			197

Source: Company data, I-Sec research

Key risks

Key upside risks: 1) Higher rail volumes due to DFC commissioning, 2) higher rail intermodal share even before DFC commissioning allowing gain for container train operators like Gateway and 3) higher rail and CFS margins as guided by the management can lead to meaningful earnings upside.

Key downside risks: 1) Higher-than-expected capex and hence, lower-than-expected deleveraging and 2) higher than expected competitive stress in rail and CFS business.

Financial summary

Table 7: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Revenue from operations	12,920	11,794	12,854	14,170
Operating Expenses	9,786	8,663	10,000	10,998
EBITDA	3,134	3,130	2,853	3,172
% margins	24.3%	26.5%	22.2%	22.4%
Depreciation & Amortisation	1,333	1,314	1,314	1,314
Gross Interest	1,026	795	617	477
Other Income	176	113	165	165
Profit before tax & exceptional item	951	1,134	1,087	1,546
Exceptional Item	81	-	-	-
Profit before tax	1,031	1,134	1,087	1,546
Less: Taxes	(63)	190	272	386
Add share of profit from JV and associate	(55)	14	39	64
Net Income (Reported)	1,039	959	854	1,224

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	2,142	2,616	2,369	3,164
of which cash & cash eqv.	683	1,130	766	1,416
Total Current Liabilities & Provisions	1,113	1,227	1,416	1,537
Net Current Assets	1,030	1,389	953	1,626
Investments in JV and associates	-	-	-	-
Investments	-	-	-	-
Net Fixed Assets	14,325	13,586	13,372	13,158
Intangible assets	205	179	179	179
Capital Work-in-Progress	54	291	291	291
Goodwill	3,032	3,032	3,032	3,032
Other non-current assets	2,570	2,639	2,639	2,639
Total Assets	23,253	22,769	22,119	22,578
Liabilities				
Borrowings	9,878	7,845	7,145	6,445
Deferred Tax Liability	38	22	22	22
Other long term liabilities	13	13	13	13
MI	106	108	108	108
CCPS	-	-	-	-
Equity Share Capital	1,087	1,248	1,248	1,248
Reserves and Surplus	12,080	13,497	13,547	14,706
Net Worth	13,167	14,745	14,795	15,954
Total Liabilities	23,253	22,769	22,119	22,578

Source: Company data, I-Sec research

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Net Profit before tax	976	1,134	1,087	1,546
Depreciation	1333	1314	1314	1314
Non-Cash Adjustments	836	248	472	332
Working Capital Changes	201	149	72	(23)
Taxes Paid	333	230	272	386
Operating Cashflow	3014	2616	2674	2782
Capital Commitments	(494)	(388)	(1100)	(1100)
Free Cashflow	2520	2227	1574	1682
Other investing cashflow	309	629	145	145
Cashflow from Investing Activities	(185)	240	(955)	(955)
Inc (Dec) in Borrowings	(1418)	(1807)	(700)	(700)
Issue of Share Capital	0	1133	0	0
Finance cost	(865)	(619)	(617)	(477)
Dividend paid	(1,080)	(500)	(765)	-
Cash flow from Financing Activities	(3,362)	(1,793)	(2,083)	(1,177)
Chg. in Cash & Bank balance	(534)	1,062	(364)	650

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS	8.3	7.7	6.8	9.8
Cash EPS	19.0	18.2	17.4	20.3
Dividend per share (DPS)	5.0	4.0	5.0	-
Book Value per share (BV)	105.5	118.1	118.5	127.8
OCF per share	24.1	21.0	21.4	22.3
FCF per share	20.2	17.8	12.6	13.5
Growth (%)				
Net Sales	200.0	(8.7)	9.0	10.2
EBITDA	280.4	(0.1)	(8.8)	11.2
PAT	(71.5)	(7.7)	(10.9)	43.2
Valuation Ratios (x)				
P/E	23.1	25.0	28.1	19.6
P/BV	1.8	1.6	1.6	1.5
EV / EBITDA	9.6	9.8	10.6	9.1
EV / Sales	2.3	2.6	2.4	2.0
Operating Ratios				
Employee cost / Sales (%)	4.6	5.7	5.6	5.4
Other Operating exp. / Sales (%)	7.7	7.5	8.5	9.5
Effective Tax Rate (%)	-6.1	16.7	25.0	25.0
Net D/E Ratio (x)	0.7	0.5	0.4	0.3
OCF yield (%)	14.4	10.9	11.2	11.6
FCF yield (%)	12.1	9.3	6.6	7.0
Return/Profitability Ratios (%)				
EBITDA Margins	24.3	26.5	22.2	22.4
Net Income Margins	8.0	8.1	6.6	8.6
Return on Equity (RoE)	7.9	6.5	5.8	7.7
RoCE	8.8	8.5	7.7	9.0

Source: Company data, I-Sec research

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