GATEWAY DISTRIPARKS LTD.

Q4 FY 2008 update HOLD

PINC RESEARCH

Sector Logistics | CMP Rs 121 | Target Rs 140

STOCK DATA

Market Cap	Rs14bn.
Book Value per share	Rs67
Eq Shares O/S (F.V. Rs.10)	115.6 mn.
Median Vol (12 mths)	520,233 (BSE+NSE)
52 Week High/Low	Rs202 /82
Bloomberg Code	GDPL.IN
Reuters Code	GATE.BO

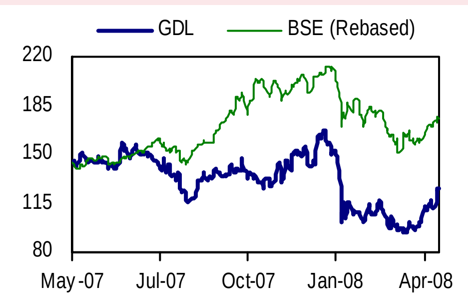
SHAREHOLDING PATTERN (%)

Qtr. Ended	Sep-07	Dec-07	Mar-08
Promoters	39.6	40.7	41.4
MFs/FIs	7.9	11.1	11.9
FIIs	32.4	25.3	23.6
PCBs	7.0	8.8	8.7
Indian Public	13.1	14.1	14.4

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	28.1	17.2	(12.1)
Relative	15.9	19.7	(28.4)

STOCK PRICE PERFORMANCE



KEY HIGHLIGHTS

Gateway Distriparks Ltd's (GDL) Q4FY08 results were in line with our estimates as revenues grew by 78% YoY to Rs835mn. However, it disappointed on the profitability front as net profits slumped 19% to Rs165mn.

- **Volumes drive 78% revenue growth**

Addition of Punjab Conware (PCWC) facility in the Mumbai catchment area contributed to a 53% YoY jump in volumes to 0.1mn TEUs. PCWC helped CFS segment volumes grow by 45% to 88k TEUs. Rail volumes rose 2.6x to 11.7k TEUs due to incremental volumes from domestic rail traffic, supplementing the regular EXIM cargo at the Garhi ICD.

- **OPM contracts 111bps due to higher operating expense**

Higher operating costs at new facilities and larger proportion of loss making domestic rail segment impacted OPM by 111bps to 36%. Accordingly, operating profits grew by a lower rate of 36% to Rs300mn.

- **Spike in fixed costs dampen net profits**

Increasing capex requirements and consequent lower float led to 68% reduction in other income. Apportionment of lump-sum fixed charges paid to PCWC, quadrupling interest costs due to expansion of the rail subsidiary and jump in depreciation led to a 19% decline in net profits to Rs165mn.

VALUATIONS AND RECOMMENDATION

At the CMP of Rs121, the stock trades at a P/E of 11.7x and EV/EBIDT of 7.1x FY10 estimates. GDL continues to invest in rail transport and cold storage, which should yield higher revenues in the long run. Due to its expansion, GDL faces margin pressure in the interim as the new businesses are yet to stabilise and attain scale. Thus, there will be turbulence in earnings for the next few quarters. In view of the rich valuations, mounting start-up costs, capital charges and uncertainty in achieving break even in new businesses, we downgrade our recommendation to 'HOLD' with a 12-month price target of Rs140.

KEY FINANCIALS (CONSOLIDATED)

Rs mn	Quarter Ended			Yr Ended (March)				
	Sep-07	Dec-07	Mar-08	2006	2007	2008	2009E	2010E
Net Sales	640	720	835	1,386	1,610	2,679	4,003	5,174
YoY Gr.(%)	*67.8*	*74.0*	*78.1*	*47.9*	*16.2*	*66.4*	*49.4*	*29.2*
Op. Profits	255	285	300	837	812	1,111	1,465	2,060
Op. Marg.(%)	*39.9*	*39.6*	*35.9*	*60.4*	*50.5*	*41.5*	*36.6*	*39.8*
Net Profits	188	201	165	723	778	740	862	1,196
Eq. Capital	924	1,156	1,156	922	924	1,156	1,156	1,156

KEY RATIOS

	Yr Ended (March)				
	2006	2007	2008	2009E	2010E
Dil. EPS (Rs)	6.3	6.7	6.4	7.5	10.3
ROCE (%)	19.7	15.5	16.6	16.7	18.5
RONW (%)	19.5	13.0	11.4	12.3	15.7
P/E (x)	15.4	14.3	18.9	16.2	11.7
EV/Sales (x)	5.7	5.7	5.0	3.7	3.0
EV/EBDIT (x)	8.4	8.6	10.7	9.4	7.1

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PERFORMANCE OVERVIEW

Net sales driven by higher volumes while fixed costs drive down net profits...

GDL's net revenues zoomed by 78% to Rs835mn on back of a 53% growth in volumes to 0.1mn TEUs. This includes PCWC, which was incorporated into the company during H1FY08. GDL is changing its business profile from that of a pure CFS operator to a multi modal logistic player. The newer verticals of rail and cold storage have lesser margins as compared to CFS operations. Also, these new businesses are yet to break even and as a result, OPM declined by 111bps to 36%. Consequently, operating profits grew by 36% to Rs300mn.

GDL drew extensively from its cash reserves to fund its rail expansion leading to a 68% decline in other income. Also, there were higher amortisation/apportionments of goodwill (for Snowman Frozen Foods), management fees for operating PCWC and rail license fees. This, along with higher interest and depreciation expenses led to a decline in net profits by 19% to Rs165mn.

CFS Segment

While volumes improved by 45% to 88k TEUs on back of addition of newer facilities like the PCWC CFS in Mumbai and Kochi CFS, revenues grew by a modest 21% to Rs525mn following a decline in realisations (down 16% to Rs5,960/TEU). This was a result of increased competition in the Mumbai catchment area. Thus, EBIT margins declined by 230bps to 44.7%. GDL's Mumbai facility continues to command a major chunk of volumes (76%) with Chennai, Vizag and Kochi contributing the balance.

Market share in Mumbai falls; however retains leadership position...

After a dominant run of enhancing its market leadership for the past two quarters, intense competition led to a slippage in GDL's market share by 60bps to 16.6% in the Mumbai catchment area. GDL still continues to be the market leader in the region.

Volumes at Mumbai Catchment Area (TEUs)

	Q4FY08	Q3FY08	QoQ Gr. (%)	FY08
JNPT	3,37,868	3,08,749	9.4	12,60,925
NSICT	3,90,408	3,88,544	-	15,08,056
GTIPL	3,63,220	3,32,698	9.2	12,90,862
TOTAL PORT TRAFFIC	**1,091,496**	**10,29,991**	**6.0**	**40,59,843**
Catchment Vol. (~37%)	4,03,854	3,81,097	6.0	1,50,2142
GDL's CFS Vol.	66,856	67,454	-	2,51,728
Mkt. Share (%)	16.6	17.7	(1.1)	16.1

Source: JNPT, Company

Rail Segment

Procedural delays hampering start of JV with CONCOR, presently all rakes plying domestic operations...

GDL has formed a 51:49 JV with CONCOR to carry EXIM cargo from Mumbai to NCR. This route contributes ~40% of the total EXIM hinterland traffic estimated at ~5.5mn TEUs. To capture this opportunity, GDL has embarked on an expansion spree. It currently has six rakes and envisages a further capex of Rs2.2bn for addition of 18 rakes by FY09. GDL will deploy these rakes on the EXIM and domestic routes. The lease agreement with CONCOR has run into procedural delays and there is lack of clarity on when the JV will commence operations. We have factored in commencement of the JV in H2FY09 with a ramp up during FY10. Till then, GDL will be forced to run its rakes on the domestic route. At present, GDL is running all its six rakes in the domestic route. Four of its rakes have been deployed on the Mumbai-Delhi route for refrigerated rail operations and 2 rakes have been deployed for transport of commodities in the Haryana-Orissa route.

For Q4FY08, the rail business revenues surged by 89% to Rs246mn QoQ. However, it incurred an operational loss of Rs46mn as lack of return cargo impacted margins. Also, fixed expenses and amortisation further increased the loss. We believe that rail operations would turn OPM positive in FY09 consequent to improvement in threshold volumes. In FY10, this segment should be profitable on account of full fledged operations of EXIM traffic through the JV with CONCOR.

Cold Chain operations

In Q4FY08, the cold chain operations of Snowman Frozen Foods, GDL'S 50.1% subsidiary, grew by a healthy 39% in revenues to Rs75mn but incurred an operational loss of Rs7mn. We are yet to gain insight on the cold chain operations. However, the company expects SFF will expand and turn cash positive by H2FY09.

Other expansions

Towards having a network of ICDs (Distripark) in the NCR region, GDL acquired land in Ludhiana and Asoti (Faridabad) for building two ICDs. Pending regulatory approvals, these facilities should be ready by end-FY09 and will augment GDL's rail operations in that region.

OUTLOOK

GDL continues to face the impact of lower volumes in its new segments. This has been further compounded by the delay in commencement of the JV with CONCOR, which will enable GDL to utilise its rakes in the lucrative Mumbai-NCR EXIM route. This was witnessed in Q4FY08 and is likely to continue for 2-3 quarters. However, post stablisation of newer operations and operationalisation of the lease agreement with CONCOR, rail volumes should gain scale, especially in the EXIM segment.

Rail revenues should gain traction post operationalisation of JV with CONCOR…

In the CFS segment, newer facilities like Chennai, Kochi and Vizag should supplement the steady performance in the Mumbai catchment area. In H2FY09 and FY10, post stabilisation of the new segments, GDL's revenue model would consist of sizeable revenues from its mainstay CFS business (aided by PCWC and the Chennai CFS), ICD revenues from Garhi and the new facilities in Faridabad and Ludhiana, rail haulage fee from catering to the NCR-western port route, domestic rail revenues as well as income from its cold storage operations.

In FY09, we expect net sales to accelerate 49% to Rs4bn, buoyed by growth in CFS business and additional revenues from the rail business, which should account for ~1/3rd of revenues. We have not accounted for revenues from the JV with CONCOR for FY09. Rail revenues will be a mix of CONCOR haulage and domestic cargo from the rail business. This new mix will further erode overall margins by ~490bps to 36.6% due to lower margins of domestic rail operations. With higher establishment expenses and amortisation net profits should grow by a mere 17% to Rs862mn.

For FY10, revenues should enhance by 29% to Rs5.2bn, OPM should improve by 320bps post stabilisation of rail operations, wherein we have taken a blend of EXIM and domestic operations, to 40%. Accordingly net profits should rise by 39% to Rs1.2bn.

VALUATIONS AND RECOMMENDATION

Downgrade our recommendation to 'HOLD' in view of delay in JV operation, lack of volumes and high set up costs of new businesses…

At the CMP of Rs121, GDL trades at a P/E of 11.7x and EV/EBDIT of 7.1x its FY10E earnings. We believe GDL should successfully negotiate the transition period and ramp up new businesses over the next 2-3 years. However, there remains uncertainty till the newer businesses achieve scale and rich valuations. Hence we downgrade our recommendation to 'HOLD' with our previous 12-month price target of Rs140.

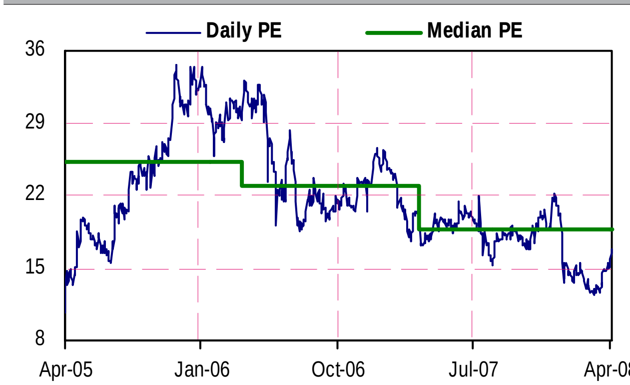
Company description

GDL is one of the leading logistic players in India. It has the largest CFS facility in the Mumbai catchment area and is one of the few players to venture into the pan India container rail freight segment. It is expanding in all its verticals which include CFS', ICDs, container rail and cold chain operations and has finalised a JV with CONCOR for container rail operations from Mumbai to NCR.

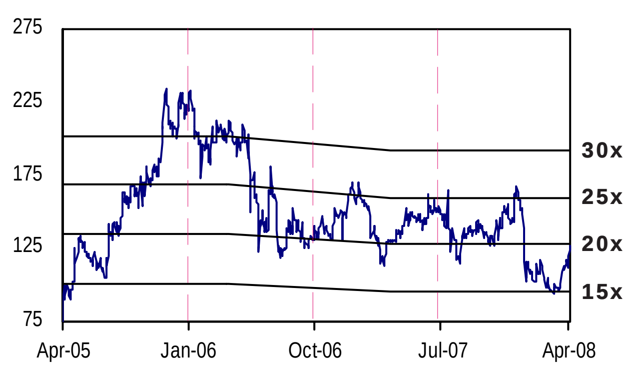
Financial Results for the quarter & year ended 31 March 2008 (Consolidated)

Particulars (Rs Mn)	Quarter Ended			Year Ended		
	31/03/08	31/03/07	Gr %	31/03/08	31/03/07	Gr %
Net Sales	**835**	**469**	**78.1**	**2,679**	**1,610**	**66.4**
Expenditure	**535**	**249**	**115.1**	**1,618**	**798**	**102.7**
Operating Exp	340	131	159.2	999	442	125.9
Staff Cost	46	38	20.7	156	89	75.6
Other expenditure	149	80	87.3	463	267	73.3
Operating profit	**300**	**220**	**36.3**	**1,061**	**812**	**30.7**
Other Income	22	68	(67.7)	141	250	(43.6)
PBDIT	**322**	**289**	**11.7**	**1,202**	**1,061**	**13.3**
Interest	11	4		20	14	
Depreciation	97	45		288	139	
PBT & Extra Ord. Items	**214**	**240**	**(10.9)**	**894**	**909**	**(1.7)**
Extra Ordinary item	26			26		
PBT	**187**	**240**	**(21.9)**	**868**	**909**	**(4.6)**
Tax inc. deferred tax	36	42		142	139	
PAT	**151**	**198**	**(23.5)**	**726**	**770**	**(5.7)**
Minority Interest	(14)	(5)		(14)	(7)	
Net Profit	**165**	**203**	**(18.8)**	**740**	**778**	**(4.9)**
Equity Capital	1,156	923		1,156	923	
Reserves (excl. rev. res.)	-	-		-	5,264	
EPS for the period (Rs)	**1.4**	**2.2**		**6.4**	**8.4**	
Book Value (Rs)	-	-		-	67.0	
OPM(%)	**35.9**	**47.0**		**39.6**	**50.4**	
NPM (%)	18.1	42.1		27.1	47.9	
Expend. (% of net sales)						
Operating Exp	40.8	28.0		37.3	27.5	
Staff costs	5.5	8.1		5.8	5.5	
Other expenses	17.8	16.9		17.3	16.6	

Median PE v/s Daily PE



PE Band



Year Ended March (Figures in Rs mn)

Income Statement	**2005**	**2006**	**2007**	**2008**	**2009E**	**2010E**
Revenues	**956**	**1,386**	**1,610**	**2,679**	**4,003**	**5,174**
Growth (%)	*61.6*	*47.9*	*16.2*	*66.4*	*49.4*	*29.2*
Total Expenditure	**432**	**549**	**797**	**1,568**	**2,538**	**3,114**
Operating Profit	**524**	**837**	**812**	**1,111**	**1,465**	**2,060**
Growth (%)	*21.9*	*59.6*	*(2.9)*	*36.8*	*31.8*	*40.6*
Other Income	10	110	250	141	120	100
EBIDT	**534**	**947**	**1,062**	**1,252**	**1,585**	**2,160**
(-) Interest	46	25	14	20	126	150
(-) Depreciation	72	106	139	201	290	425
(-) Amortisation	-	-	-	163	150	150
PBT & extraordinary items	**416**	**815**	**910**	**868**	**1,018**	**1,435**
(-) Tax provision	70	93	139	142	163	230
(-) Minority Interest	0	(1)	(7)	(14)	(7)	9
Net Profits	**346**	**723**	**778**	**740**	**862**	**1,196**
Growth (%)	80.8	109.0	7.7	(5)	16.6	38.8
Fully diluted Eq. sh. O/s (mn no)	75.0	92.2	92.4	115.6	115.6	115.6
Book Value (Rs)	22	62	67	59	63	69
Basic EPS (Rs)	4.6	7.8	8.4	6.4	7.5	10.3
Diluted EPS (Rs)	**3.0**	**6.3**	**6.7**	**6.4**	**7.5**	**10.3**

Balance Sheet	**2005**	**2006**	**2007**	**2008E**	**2009E**	**2010E**
Equity Share Capital	750	922	924	1,156	1,156	1,156
Reserves & Surplus	910	4,830	5,264	5,616	6,073	6,853
Net worth	**1,660**	**5,752**	**6,188**	**6,772**	**7,229**	**8,009**
Total Debt	858	319	75	200	1,200	1,800
Deferred Tax liability	106	122	150	153	288	350
Minority Interest	8	8	483	469	463	472
Capital Employed	**2,632**	**6,201**	**6,896**	**7,594**	**9,179**	**10,630**
Fixed Assets	1,866	2,156	4,715	6,836	8,635	9,895
Net current assets	764	3,900	2,133	750	544	736
Investments	-	144	-	8	-	-
Misc exp.	1	-	48	-	1	-
Total Assets	**2,632**	**6,201**	**6,896**	**7,594**	**9,179**	**10,630**

Year Ended March (Figures in Rs mn)

Cash Flow Statement	2005	2006	2007	2008E	2009E	2010E
PBT & extraordinary items	**419**	**815**	**910**	**868**	**1,018**	**1,435**
Depreciation	65	106	139	201	290	425
Interest & dividend inc.	(4)	(75)	(174)	(141)	(120)	(100)
Interest paid	46	25	14	89	57	150
Misc Exp W/off	14	(11)	(44)	3	115	(70)
Tax paid	(34)	(64)	(75)	(142)	(163)	(230)
(Inc/Dec in working capital	(43)	(492)	446	95	(220)	(92)
Cash from operations	**462**	**304**	**1,215**	**973**	**978**	**1,519**
Net capital expenditure	(515)	(395)	(2,600)	(2,321)	(2,000)	(1,550)
Net investments	(294)	(125)	530	(8)	8	-
Interest recd	2	28	157	141	120	100
Cash from investing activities	**(807)**	**(492)**	**(1,912)**	**(2,188)**	**(1,872)**	**(1,450)**
Issue of eq. shares	667	3,681	20	232	-	-
Change in debt, Minority Int	608	(538)	(244)	112	993	609
Dividend paid	(72)	(328)	(521)	(395)	(399)	(428)
Interest paid	(44)	(28)	(15)	(20)	(126)	(150)
Cash from financing activities	**1,158**	**2,787**	**(761)**	**(72)**	**468**	**32**
Inc/Dec. in cash	**813**	**2,599**	**(1,458)**	**(1,288)**	**(426)**	**100**

Key Ratios	2005	2006	2007	2008E	2009E	2010E
EBIDT (%)	54.8	60.4	50.5	41.5	36.6	39.8
ROACE (%)	30.6	19.7	15.5	16.6	16.7	18.5
ROANW (%)	33.4	19.5	13.0	11.4	12.3	15.7
Sales/Total Assets (x)	0.5	0.6	0.4	0.4	0.4	0.5
Debt:Equity (x)	0.5	0.1	-	-	0.2	0.2
Current Ratio (x)	3.5	15.4	10.4	2.5	1.8	1.9
Debtors (days)	32.9	18.4	41.3	39.8	45.6	48.0
Net working capital (days)	(30.1)	104.2	(22.5)	(34.9)	(14.3)	(15.4)
EV/Sales (x)	9.4	5.7	5.7	5.0	3.7	3.0
EV/EBIDT (x)	16.9	8.4	8.6	10.7	9.4	7.1
P/E (x)	26.2	15.4	14.3	18.9	16.2	11.7
P/BV (x)	5.5	1.9	1.8	2.1	1.9	1.7

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