

Gateway Distriparks Ltd

Spike in CFS realisations; GRFL turns around

Gateway Distriparks' (GDPL) Q3FY11 results were ahead of expectations, backed by a spike in CFS realisations and lower interest outgo. Debt repayment in the rail business helped limit interest expenses and led to PAT breakeven of rail subsidiary GRFL during the quarter. We maintain our positive outlook on GDPL given the turnaround in the rail business and steady cash flow generation from CFS operations.

Results beat expectations: GDPL's topline increased 23.3% YoY and 14.3% QoQ to Rs 1.6bn in Q3FY11 (against our estimate of Rs 1.4bn), while net profit grew 40% YoY and 37% QoQ to Rs 280mn (Rs 225mn estimated). CFS revenues grew by 25% YoY (+21% QoQ) to Rs 660mn and rail revenues rose 21% YoY (+10% QoQ) to Rs 808mn in the quarter. Cold chain revenue increased 32% YoY (+13% QoQ) to Rs 120mn.

CFS volume uptick continues; realisations improve: While CFS volumes grew by 12% YoY (+4% QoQ), it was the steep 11.5% YoY (+16% QoQ) rise in realisations that came as a pleasant surprise. The stronger realisations were primarily on the back of better utilisation in the Mumbai CFS, partly aided by incremental volumes from new-client *Mersk* and steady improvement in ground rent in Q3FY11.

Rail business turns around with net profit at Rs 3mn: Rail revenue growth of 21% YoY (~10% QoQ) was primarily supported by a 20% YoY (+9% QoQ) rise in rail volumes, while realisations remained flattish in Q3FY11. The continuous shift in container mix to Exim (65% volume contribution from 57% in Q2FY11) aided margin expansion of 80bps YoY and 10bps QoQ to 13% in the rail business (GRFL) in Q3FY11. Margin improvement, coupled with lower interest outgo (debt repayment of Rs 700mn in Q3), helped GRFL report PAT of Rs 3mn in the quarter.

Rake addition on hold; focus on terminal expansion continues: The management has put its rake addition plans on hold, but will continue its expansion plans for terminal development in the rail business, at Faridabad (expected to be operational in Q2FY12), Gurgaon and Ludhiana. In the CFS space, GDPL plans to develop the Vallarpadam, Kochi terminal with an annual capacity of 60,000teu. The management also plans to expand its cold chain capacity (under Snowman) from 16,000 pallets currently to ~26,000 pallets by the end of FY12

Valuation: We maintain our earnings estimates for GDPL and reiterate BUY with a target price of Rs 135.

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 108	Rs 135	BUY	MEDIUM

BSE	NSE	BLOOMBERG
532622	GDPL	GDPL IN

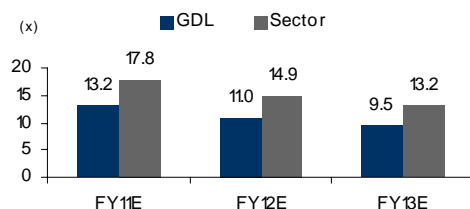
Company data

Market cap (Rs mn / US\$ mn)	11,525 / 251
Outstanding equity shares (mn)	108
Free float (%)	54.1
Dividend yield (%)	3.3
52-week high/low (Rs)	142 / 97
3-month average daily volume	164,122

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
GDPL	108	1.2	(3.8)	(0.0)
Sensex	18,969	(5.5)	(6.6)	4.6

P/E comparison



Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	14.6	13.2	11.0	9.5
P/E @ Target	18.4	16.7	13.9	11.9
EV/EBITDA @ CMP	10.1	8.7	6.3	5.2

Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	5,201	5,976	7,748	9,206
Growth (%)	15.3	14.9	29.6	18.8
Adj net income	791	875	1,051	1,220
Growth (%)	(0.5)	10.5	20.2	16.0
FDEPS (Rs)	7.3	8.1	9.7	11.3
Growth (%)	(0.7)	10.5	20.2	16.0

Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	24.7	24.8	26.6	27.2
EBIT margin	15.9	16.6	19.6	20.5
Adj PAT margin	15.2	14.6	13.6	13.3
ROE	12.3	12.4	13.4	13.4
ROIC	10.5	10.8	11.1	12.4
ROCE	11.8	10.9	10.2	10.5





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	1,588	1,426	11.3
EBITDA	454	400	13.5
Adj net income	280	225	24.4

Source: RCML Research

Above-expected CFS realisations and lower interest outgo aids outperformance

Fig 2 - Quarterly performance

(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
Revenue	1,588	1,288	23.3	1,389	14.3
CFS	660	528	24.9	547	20.6
Rail	808	669	20.8	736	9.8
Cold Chain	120	91	32.1	106	12.7
Cost of Revenues	1,134	917	23.6	1,015	11.7
CFS	345	265	30.3	291	18.7
Rail	703	585	20.1	641	9.6
Cold Chain	86	67	27.5	83	3.1
EBITDA	454	371	22.5	374	21.3
Depreciation	126	117	7.5	114	10.2
Interest	58	49	18.3	62	-6.5
PBT	309	205	50.7	199	55.7
Tax	29	(5)		(7)	
PAT	280	200	40.0	205	36.6
EBITDA margin (%)	28.6	28.8	(20bps)	26.9	170bps
Net profit margin (%)	17.6	15.5	210bps	14.8	280bps

Source: Company, RCML Research

CFS and rail business led the revenue growth

Debt repayment lowered interest outgo

Other key highlights

- ❖ The management has passed through the entire freight rate hike (4–5% hike in January) in the Exim segment, though there will be a lag of one month for a complete pass-along in the domestic space.
- ❖ On account of the steep rail freight hike effected by the Indian Railways in December, GRFL expects to lose volumes of ~400teu per month to road transportation.
- ❖ The rail business continues to maintain a fill factor of ~82–83%. Due to a shift in container traffic from domestic to Exim, GRFL has reported a drop in its average lead distance.
- ❖ The company is operating 9.1rakes in Exim (against 7.6 rakes in Q2FY11), 7.2rakes in Domestic (against 6.3 in Q2) and 2.6 rakes (against 2.1 in Q2) on the reefer circuit in Q3FY11.
- ❖ Owing to infrastructural bottlenecks, the management expects container volumes at the Chennai port to moderate over the next 2–3 quarters.
- ❖ MAT credit benefits are likely to continue in Q4FY11 (Rs 150mn), as per the management, but the effective tax rate of ~28% should resume in FY12.



Operational performance

Fig 3 - Segmental performance – CFS and Rail business

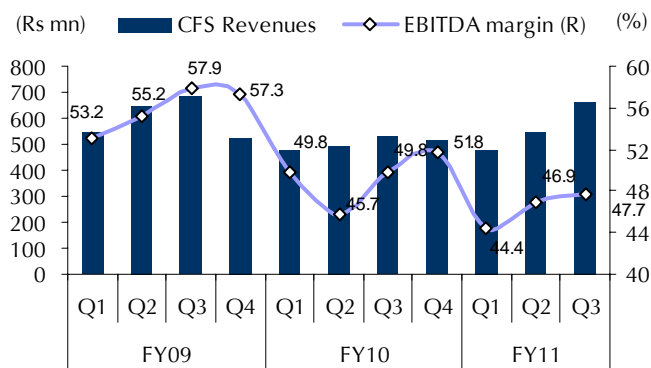
(Rs mn)	Q3FY11	Q3FY10	% Chg YoY	Q2FY11	% Chg QoQ
Volume break up (teu)					
CFS	86,636	77,302	12.1%	83,500	3.8%
Rail	34,494	28,687	20.2%	31,565	9.3%
Realisation (Rs/teu)					
CFS	7,620	6,836	11.5%	6,556	16.2%
Rail	23,421	23,321	0.4%	23,307	0.5%
EBITDA (Rs/teu)					
CFS	3,635	3,407	6.7%	3,073	18.3%
Rail	3,053	2,928	4.3%	3,000	1.8%
EBITDA Margin (%)					
CFS	47.7%	49.8%	210bps	46.9%	80bps
Rail	13.0%	12.6%	40bps	12.9%	10bps

Source: Company, RCML Research

Sequential growth in rail volumes despite higher haulage charges on specified commodities

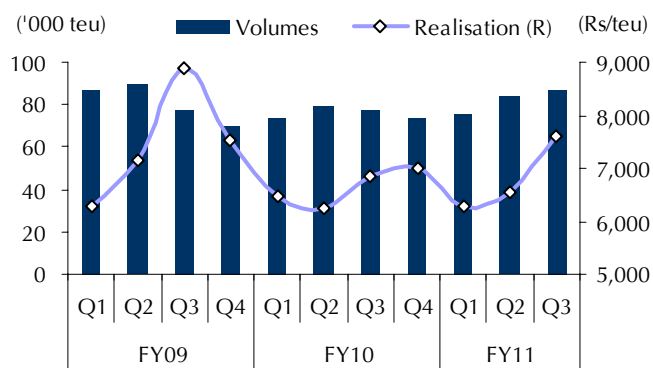
Higher ground rent aids CFS realisation and margins

Fig 4 - CFS revenues rise on higher volumes and realisations



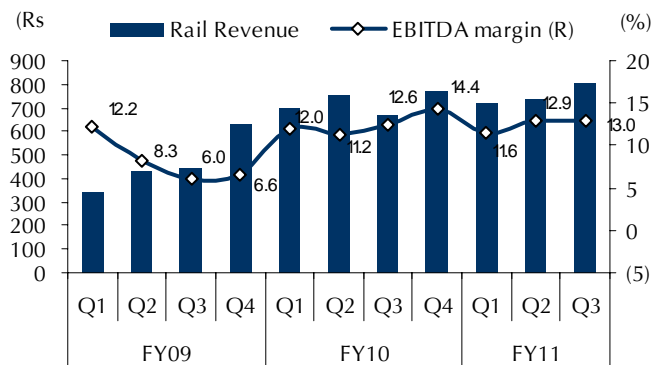
Source: RCML Research, Company

Fig 5 - CFS volume improvement continues; Realisation jumps



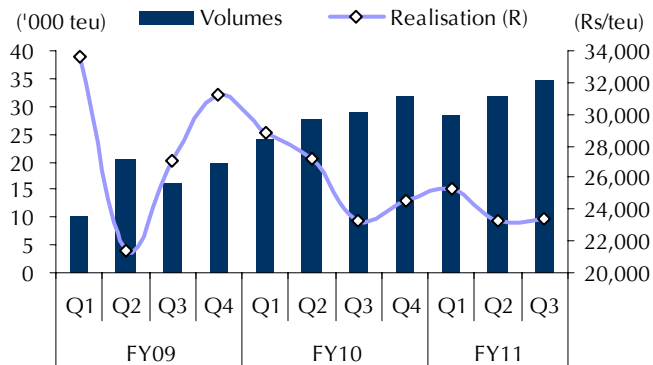
Source: RCML Research, Company

Fig 6 - Rail business margins continue to expand



Source: RCML Research, Company

Fig 7 - Rail volumes improve sequentially



Source: RCML Research, Company



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	5,201	5,976	7,748	9,206
Growth (%)	15.3	14.9	29.6	18.8
EBITDA	1,284	1,484	2,057	2,501
Growth (%)	(12.1)	15.6	38.7	21.6
Depreciation & amortisation	455	490	536	613
EBIT	829	993	1,522	1,888
Growth (%)	(18.4)	19.8	53.2	24.1
Interest	195	240	240	240
Other income	90	144	234	233
EBT	724	897	1,516	1,881
Income taxes	(79)	-	409	583
Effective tax rate (%)	(11.0)	-	27.0	31.0
Extraordinary items	-	-	-	-
Min into / inc from associates	12	23	55	78
Reported net income	791	875	1,051	1,220
Adjustments	-	-	-	-
Adjusted net income	791	875	1,051	1,220
Growth (%)	(0.5)	10.5	20.2	16.0
Shares outstanding (mn)	107.9	107.9	107.9	107.9
FDEPS (Rs) (adj)	7.3	8.1	9.7	11.3
Growth (%)	(0.7)	10.5	20.2	16.0
DPS (Rs)	3.5	3.5	3.5	3.5

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	1,246	1,365	1,587	1,833
Non-cash adjustments	2	23	146	229
Changes in working capital	173	(476)	(167)	(175)
Cash flow from operations	1,422	912	1,566	1,887
Capital expenditure	(1,014)	(966)	(1,000)	(1,000)
Change in investments	80	-	-	-
Other investing cash flow	164	-	-	-
Cash flow from investing	(770)	(966)	(1,000)	(1,000)
Issue of equity	40	-	-	-
Issue/repay debt	55	-	-	-
Dividends paid	(283)	(353)	(318)	(318)
Other financing cash flow	-	2,150	-	-
Change in cash & cash eq	464	1,743	248	570
Closing cash & cash eq	1,057	2,800	3,048	3,618

Economic Value Added (EVA) analysis

Y/E March	FY10	FY11E	FY12E	FY13E
WACC (%)	11.4	11.7	11.7	11.8
ROIC (%)	10.5	10.8	11.1	12.4
Invested capital (Rs mn)	8,709	9,678	10,292	10,785
EVA (Rs mn)	(79)	(85)	(63)	57
EVA spread (%)	(0.9)	(0.9)	(0.6)	0.5

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	795	2,800	3,048	3,618
Accounts receivable	682	766	940	1,161
Inventories	-	-	-	-
Other current assets	527	405	526	625
Investments	150	150	150	150
Gross fixed assets	10,036	11,019	12,019	13,019
Net fixed assets	8,186	8,679	9,143	9,529
CWIP	517	500	500	500
Intangible assets	-	-	-	-
Deferred tax assets, net	(187)	(187)	(218)	(293)
Other assets	5	5	5	5
Total assets	10,673	13,116	14,094	15,295
Accounts payable	968	429	526	650
Other current liabilities	52	60	77	92
Provisions	287	270	283	290
Debt funds	2,099	2,099	2,099	2,099
Other liabilities	625	648	703	-
Equity capital	1,079	3,229	3,229	3,229
Reserves & surplus	5,563	6,381	7,176	8,935
Shareholder's funds	6,642	9,610	10,405	12,164
Total liabilities	10,673	13,116	14,094	15,295
BVPS (Rs)	61.6	69.1	76.5	92.8

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	24.7	24.8	26.6	27.2
EBIT margin	15.9	16.6	19.6	20.5
Net profit margin	15.2	14.6	13.6	13.3
ROE	12.3	12.4	13.4	13.4
ROCE	11.8	10.9	10.2	10.5
Working Capital & Liquidity ratios				
Receivables (days)	42	44	40	42
Inventory (days)	-	-	-	-
Payables (days)	60	57	31	32
Current ratio (x)	2.0	8.1	7.5	7.3
Quick ratio (x)	1.4	7.3	6.6	6.4
Turnover & Leverage ratios (x)				
Gross asset turnover	0.5	0.6	0.7	0.7
Total asset turnover	0.5	0.5	0.6	0.6
Interest coverage ratio	4.2	4.1	6.3	7.9
Adjusted debt/equity	0.3	0.2	0.2	0.2
Valuation ratios (x)				
EV/Sales	2.5	2.2	1.7	1.4
EV/EBITDA	10.2	8.8	6.4	5.2
P/E	14.7	13.3	11.1	9.6
P/BV	1.8	1.6	1.4	1.2



Quarterly trend

Particulars	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11
Revenue (Rs mn)	1,288	1,388	1,299	1,389	1,588
YoY growth (%)	6.3	12.9	3.5	3.6	23.3
QoQ growth (%)	(4.0)	7.8	(6.4)	6.9	14.3
EBITDA (Rs mn)	254	230	199	260	328
EBITDA margin (%)	19.7	16.6	15.3	18.7	20.7
Adj net income (Rs mn)	200	253	140	205	280
YoY growth (%)	(10.3)	95.9	(15.5)	19.7	40.0
QoQ growth (%)	16.8	26.5	(44.5)	46.0	36.6

DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	85.2	109.4	97.4	69.4	64.8
Interest burden (PBT/EBIT)	91.9	87.3	90.3	99.6	99.7
EBIT margin (EBIT/Revenues)	22.5	15.9	16.6	19.6	20.5
Asset turnover (Revenues/Avg TA)	51.4	51.4	50.2	56.9	62.6
Leverage (Avg TA/Avg equity)	138.1	157.3	146.4	135.9	130.2
Return on equity	12.5	12.3	10.8	10.5	10.8

Company profile

Gateway Distriparks (GDL) is engaged in three line of operations – Container Freight Station (CFS), rail haulage (through subsidiary, Gateway Rail Freight) and cold storage (through subsidiary, Snowman Frozen Foods). The company has four CFS located at JNPT, Chennai, Vizag and Kochi. In its rail haulage business, GDL handles both Exim as well as domestic containers from its terminals at Grahi (Gurgaon) and Sahnewal (Ludhiana).

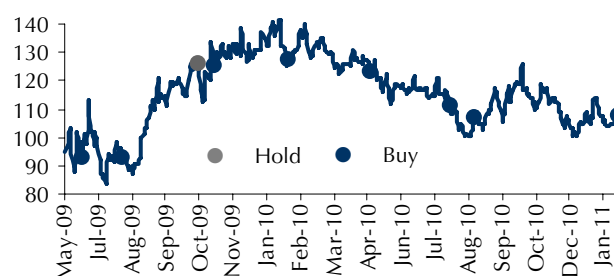
Shareholding pattern

(%)	Jun-10	Sep-10	Dec-10
Promoters	36.9	36.9	38.1
FIs	24.7	23.7	23.8
Banks & FIs	21.5	20.0	17.5
Public	16.9	19.4	20.6

Recommendation history

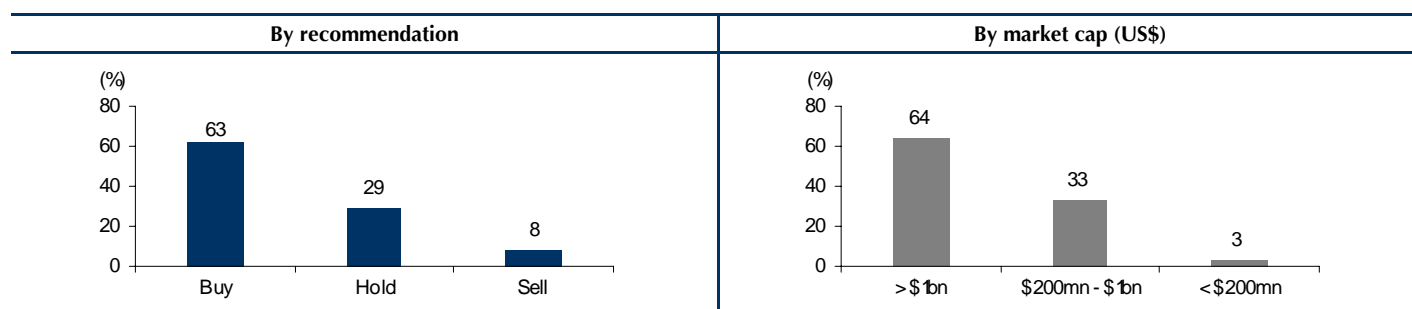
Date	Event	Reco price	Tgt price	Reco
19-Jun-09	Initiating Coverage	93	125	Buy
31-Jul-09	Results Review	93	125	Buy
24-Oct-09	Results Review	126	125	Hold
11-Nov-09	Company Update	130	154	Buy
30-Jan-10	Results Review	127	154	Buy
3-May-10	Results Review	124	154	Buy
27-Jul-10	Results Review	111	135	Buy
24-Aug-10	Company Update	107	135	Buy
28-Jan-11	Results Review	108	135	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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