

Gateway Distriparks

Q2FY11/ Introduce FY13

18 November 2010

Buy

Target Price: Rs126

CMP: Rs116*

Upside: 10%

*as on 16 November 2010

CFS performance surprises

Gateway Distriparks' (GDL) Q2 results were better than expectations on account of strong performance by the CFS segment. While Chennai CFS continued to report higher volumes, Punjab Conware operations started to stabilise. The rail segment profitability improved with focus on EXIM business and is poised for a strong growth with terminal capacity expansion.

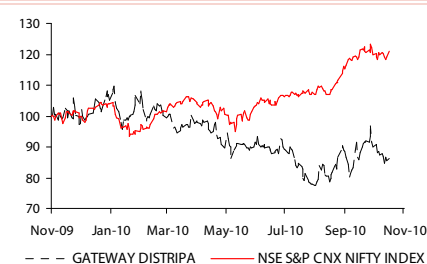
- **Results in-line:** GDL's Q2 consolidated income grew 4.6% YoY to Rs1,404mn, 3.1% lower than estimated on back of lower than expected revenue in the rail business. This was 7.9% higher QoQ, on back of higher volume in CFS and the rail division sequentially. Standalone revenue was up 6.2% YoY to Rs420mn, 8.8% higher than our estimate.
- **Introduce estimates for FY13:** We introduce FY13 with revenue growth estimate of 15.0% to Rs7,907mn, while EBITDA is estimated to increase 11.2% to Rs1961mn. Profitability margins are likely to remain stable with a 85bp contraction expected in OPM to 24.8% and a 39bp decline in NPM to 13.0% in FY13. PAT is estimated at Rs1,026mn and EPS at Rs9.5.
- **Upgrade to Buy:** We upgrade our rating on GDL to Buy with a revised target price of Rs126 (earlier Rs112), valuing the company at 14x one year forward (September-2012) earnings and 8x FY12 EV/EBITDA. At CMP, the stock is trading at 13.9x and 8.0x one-year forward P/E and EV/EBITDA respectively.

Key Data

Bloomberg Code	GDPL IN
Reuters Code	GATE.BO
Current Shares O/S (mn)	108.0
Diluted Shares O/S(mn)	108.0
Mkt Cap (Rsbn/USDmn)	12.3/270.5
52 Wk H / L (Rs)	148/99
Daily Vol. (3M NSE Avg.)	334393.0
Face Value (Rs)	10

USD = Rs45.6

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
GDL	(3.3)	(5.2)	(14.7)
NIFTY	(2.2)	17.2	17.1

Source: Bloomberg, Centrum Research
*as on 16 November 2010

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Y/E March (Rsmn) (Standalone)	Q2FY11	Q2FY10	YoY (%)	Q1FY10	QoQ (%)	Q2FY11E	Variance (%)
Net sales	420	396	6.2	382	10.1	387	8.8
Transportation cost	55	49		51		44	
% of sales	13.0	12.3	65bp	13	(39)bp	11.4	153bp
Employee costs	18	13		20		16	
% of sales	4.2	3.2	100bp	5.2		4.2	
Other op expenses	139	140		131		130	
% of sales	33.2	35.5	(229)bp	34.4	(119)bp	33.7	(56) bp
Operating profit	209	194	7.7	180	16.1	196	6.7
OPM (%)	49.7	49.0	65bp	47.1	257bp	50.6	(97)bp
Depreciation	34	38		36		39	(11.9)
Interest	4	2		5		6	
Other income	19	7		4		10	
PBT	190	162	17.5	142	33.5	161	
Provision for tax	(13)	(18)		(10)		(11.4)	
-effective tax rate	(6.7)	(11.2)		(6.9)		(7.1)	
PAT (adjusted)	202	180	12.7	152	33.2	172	17.8
NPM (%)	48.2	45.4	275bp	39.8	836bp	44.5	369 bp
EPS (adjusted) (Rs)	1.9	1.7		1.4		1.6	

Source: Company, Centrum Research

Y/E Mar (Rsmn)*	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	EPS (Rs)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	4,520	66.0	1,471	32.6	796	8.2	7.4	12.5	11.9	15.5	9.3
FY10	5,166	14.3	1,249	24.2	791	(0.5)	7.3	12.3	11.0	15.5	10.9
FY11E	5,598	8.4	1,445	25.8	819	3.5	7.6	12.1	10.8	15.0	9.3
FY12E	6,876	22.8	1,764	25.7	919	12.2	8.5	12.9	10.8	13.4	7.4
FY13E	7,907	15.0	1,961	24.8	1,026	11.7	9.5	13.6	11.5	12.0	6.6

Note: * Consolidated figures, Source: Company, Centrum Research Estimates

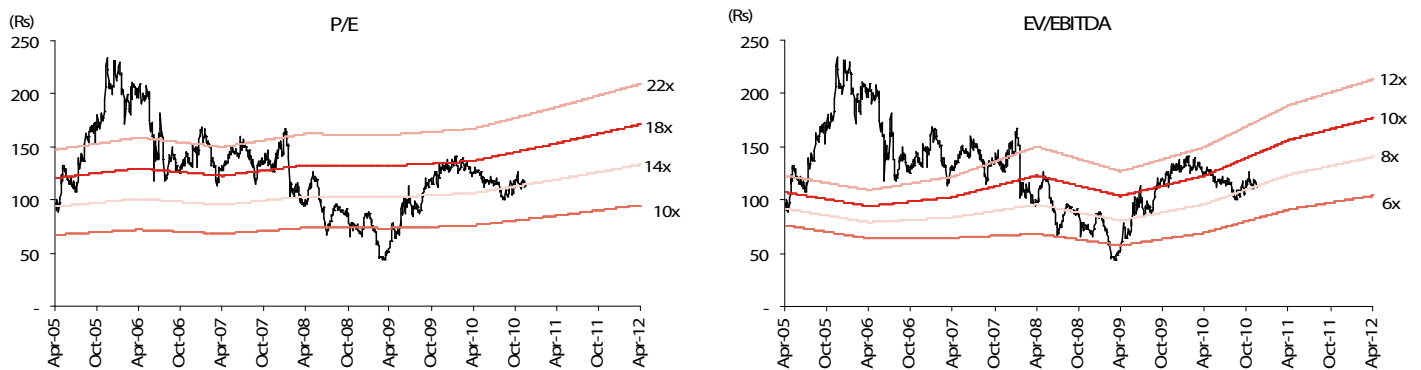
Please refer to important disclosures/disclaimers in Appendix A

Upgrade to Buy with target price of Rs126

We upgrade our rating on GDL to Buy with a revised target price of Rs126 (earlier Rs112), valuing the company at 14x one year forward (September-2012) earnings. The target price also discounts 8x FY12 EV/EBITDA. At CMP, the stock is trading at 13.9x and 8.0x one-year forward P/E and EV/EBITDA respectively.

We believe that post receiving the Blackstone funds; the company’s capex in rail business is on track and will help achieve revenue growth ahead. Further, the expansion planned in the CFS segment will help improve profitability margins going ahead.

Exhibit 1: Valuations to continue at current levels (one-year rolling forward P/E and EV/EBITDA multiples)



Source: Bloomberg, Company, Centrum Research Estimates

Introduce FY13 estimates

We introduce FY13 with revenue growth estimate of 15.0% to Rs7,907mn, while EBITDA is estimated to increase 11.2% to Rs1961mn. Profitability margins are likely to remain stable with a 85bp contraction expected in OPM to 24.8% and a 39bp decline in NPM to 13.0% in FY13. PAT is estimated at Rs1,026mn and EPS at Rs9.5.

Exhibit 2: FY13 estimates reflect stable growth ahead

Particulars (Rsmn)	Estimates			Growth (%)		
	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
Revenue	5,598	6,876	7,907	8.4	22.8	15.0
EBITDA	1,445	1,764	1,961	15.7	22.0	11.2
PAT	819	919	1,026	3.5	12.2	11.7
EPS (Rs)	7.6	8.5	9.5	3.5	12.2	11.7
Margins (%)						
EBITDA	25.8	25.7	24.8	164 bp	(17)bp	(85)bp
PAT	14.6	13.4	13.0	(69)bp	(127)bp	(39)bp
Volume (TEUs)						
CFS	330,120	379,230	411,750	8.6	14.9	8.6
GRFL (Rail + ICD)	128,718	163,535	190,931	16.4	27.0	16.8

Source: Centrum Research Estimate

With the expected expansion in the CFS segment (Chennai and Kochi) we estimate GDL’s FY13 CFS volumes to grow at 8.6% YoY to 411,740 TEUs.

The rail segment’s (GRFL) performance is expected to be on back of expansion in terminal handling capacities at Garhi and Ludhiana apart from commissioning the ICD at Asoti, Faridabad which is likely to be operational by Q1FY12. We estimate a growth of 27.0% in FY12 and 16.8% in FY13 to 190,931 TEUs.

CFS business surprises, while rail cruises along

Q2 consolidated income grew 4.6% YoY to Rs1,404mn, 3.1% lower than estimated on back of lower than expected revenue in the rail business. This was 7.9% higher QoQ, on back of higher volume in CFS and the rail division sequentially.

Exhibit 3: Consolidated results in-line

Y/E March (Rsmn)	Q2FY11	Q2FY10	YoY (%)	Q1FY11	QoQ (%)	Q2FY11E	Variance (%)
Total Income	1,404	1,341	4.6	1,301	7.9	1,448	(3.1)
Operating profit	374	331	13.1	318	17.7	409	(8.7)
OPM (%)	26.6	24.6	201bp	24.4	223bp	28.3	(163)bp
PAT (adjusted)	205	184	11.1	140	46.1	217	(5.7)
NPM (%)	14.6	13.8	86bp	10.8	382bp	15.0	(40)bp

Source: Company, Centrum Research

Consolidated EBITDA grew 13.1% YoY to Rs374mn on back of margin improvement in JNPT CFS and rail business. EBITDA margin improved 201bp YoY (up 223bp QoQ) to 26.6% on back of a 192bp YoY increase in JNPT (standalone) CFS margins to 51.9% and 159bp YoY improvement in rail business margins to 12.8% in Q2. EBITDA margins at other CFS declined 261bp YoY to 24.7%, mainly on account of the volume based discounts offered at Chennai CFS to attract business in a highly competitive market.

Exhibit 4: Consolidated segmental break-up

Particulars (Rsmn)	Q2FY11	Q2FY10	YoY (%)	Q1FY11	QoQ (%)
Income (includes other income)					
CFS (standalone)	440	403	9.1	386	14.0
CFS (others)	116	91	27.0	91	27.2
Container Rail Logistics	742	754	(1.7)	720	3.1
Cold chain logistics	106	93	14.4	105	1.3
Total	1,404	1,341	4.6	1,301	7.9
EBITDA (Rsmn)					
CFS (standalone)	228	201	13.3	184	24.2
CFS (others)	29	25	14.9	27	4.3
Container Rail Logistics	95	84	12.4	83	13.5
Cold chain logistics	23	20	13.2	23	(2.3)
Total	374	331	13.1	318	17.7
EBITDA margins (%)					
CFS (standalone)	51.9	49.9	192bp	47.6	425bp
CFS (others)	24.7	27.3	(261)bp	30.1	(541)bp
Container Rail Logistics	12.8	11.2	159bp	11.6	117bp
Cold chain logistics	21.4	21.7	(24)bp	22.2	(80)bp
Total	26.6	24.6	201bp	24.4	223bp

Source: Company, Centrum Research

The container rail segment's EBITDA was up 12.4% YoY and 13.5% QoQ to Rs95mn largely on back of higher volumes despite decline in average realisations. The company is now increasing its capacity in the Exim business which is more profitable compared to domestic business, but due to lower lead distances leads to lower realisations. The Exim segment volumes now account for 62% of the rail business up from 40% during FY10; which impacted realisations and margins in the segment.

Exhibit 5: Rail and CFS volumes increase both YoY and sequentially

Operating performance	Q2FY11	Q2FY10	YoY (%)	Q1FY11	QoQ (%)
CFS volume (TEUs)	83,495	79,088	5.6	75,769	10.2
CFS realisation (Rs / TEU)	6,653	6,249	6.5	6,293	5.7
Rail volume (TEUs)	31,565	27,762	13.7	28,456	10.9
Rail realisation (Rs / TEU)	23,499	27,171	(13.5)	25,287	(7.1)

Source: Company, Centrum Research

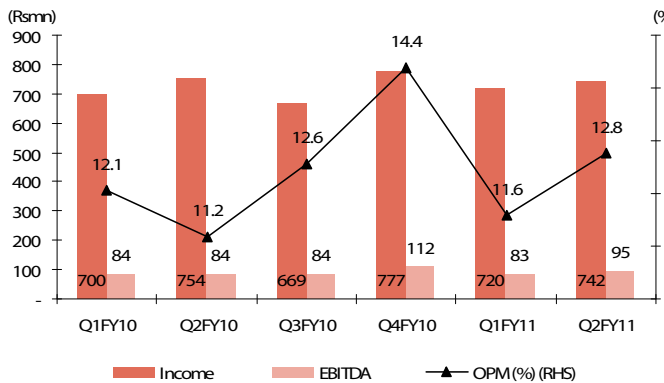
Consolidated EBITDA 13.1% higher YoY on back of 13.3% YoY growth in JNPT CFS and 12.4% YoY growth in rail business

Rail profitability to improve with higher EXIM volumes

Gateway Rail Freight's (GRFL), GDL's rail subsidiary, revenue was flat at Rs742mn (down 1.7% YoY, but up 3.1% QoQ), primarily on account of lower realisations. While the rail container volumes grew 13.7% YoY (and 10.9% QoQ) to 31,565 TEUs, the average realisation declined 13.5% YoY to Rs23,499 per TEU impacting the overall rail revenue.

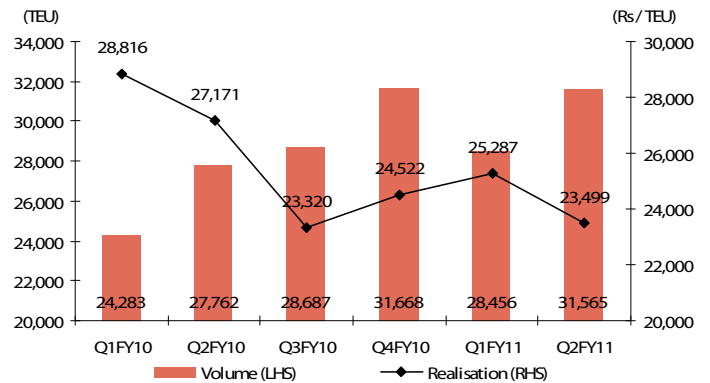
However, GRFL's operating profitability improved 159bp YoY and 117bp QoQ to 12.8% as volume mix continued to tilt in favour of EXIM containers, it was at 62% in Q2 compared to 65% in Q1FY11 and 49% in Q4FY10. The company has now shifted its focus towards the exim business in-order to improve profitability and is targeting to achieve 90% Exim volume by the end of current quarter.

Exhibit 6: Overall profitability of rail business improved



Source: Company, Centrum Research

Exhibit 7: Volumes increase while realisations decline



Source: Company, Centrum Research

The subsidiary continued to make losses at the net level with a loss of Rs33mn in Q2FY11 vs. a net loss of Rs23mn in Q2FY10 and Rs43mn in Q1FY11. The three rakes bought in Q1FY11 was operational during Q2, taking the total fleet to 21 rakes.

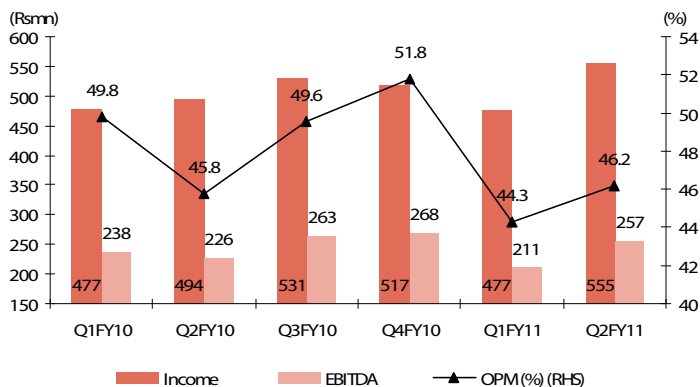
Capex on track post receiving Blackstone funds

Blackstone invested Rs3bn in Q2 by subscribing to Compulsorily Convertible Preference Shares (CCPS) of GRFL after receipt of necessary regulatory approvals. The company plans to maintain the current fleet at 21 rakes and focus on terminal expansion. The company plans to expand rail siding capacity at Garhi and Ludhiana apart from commissioning the ICD at Asoti, Faridabad which is likely to be operational by Q1FY12.

CFS margins impacts overall performance

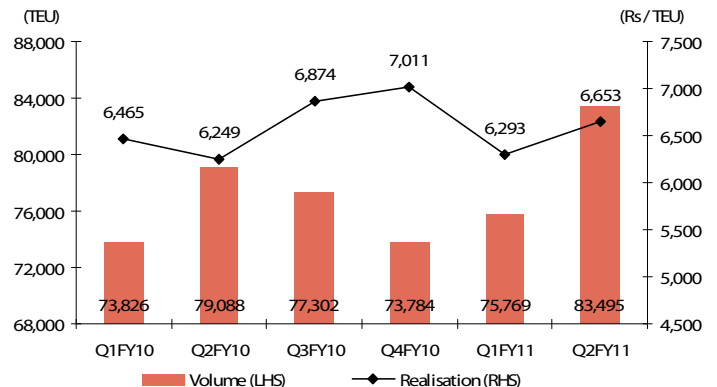
Container handled by the CFS division increased 5.6% YoY and 10.6% QoQ to 83,495 TEUs on back of higher volumes at Chennai and JNPT CFS. Mumbai (JNPT + Punjab Conware) volumes were up 9.4% QoQ to 56340 TEUs as the operations at Conware started to stabilize post the fire in Q4FY10. Chennai volumes were also up 10.6% QoQ to 19743 TEUs and continued its better performance on back of expanded capacity. GDL is also expanding its capacity at Kochi with the allotment of a new land outside the new Vallarpadam International Container Transshipment Terminal (ICTT).

Exhibit 8: CFS performance improves



Source: Company, Centrum Research

Exhibit 9: on higher volumes and stable realisations



Source: Company, Centrum Research

Financials - Consolidated

Exhibit 10: Income Statement

Y/E March (Rsmn)	FY09	FY10E	FY11E	FY12E	FY13E
Revenue	4,520	5,166	5,598	6,876	7,907
YoY growth (%)	66.0	14.3	8.4	22.8	15.0
Operating expenses	2,442	3,232	3,190	3,895	4,547
% of sales	54.0	62.6	57.0	56.7	57.5
Employee Cost	198	227	336	426	490
% of sales	4.4	4.4	6.0	6.2	6.2
Admin & other expenses	409	458	627	791	909
% of sales	9.0	8.9	11.2	11.5	11.5
Total expenditure	3,049	3,917	4,152	5,112	5,946
EBITDA	1,471	1,249	1,445	1,764	1,961
EBITDA margin (%)	32.6	24.2	25.8	25.7	24.8
Depreciation	445	455	457	497	538
EBIT	1,027	794	989	1,267	1,423
Interest expenses	202	195	223	181	181
Other income	109	125	59	78	82
PBT	934	724	824	1,164	1,324
Provision for tax	159	(79)	10	217	247
Effective tax rate (%)	17.0	(11)	1.2	18.6	18.6
Minority Interest	(21)	12	(5)	29	51
PAT	796	791	819	919	1,026
YoY growth (%)	8.2	(0.5)	3.5	12.2	11.7
PAT margin (%)	17.6	15.3	14.6	13.4	13.0

Source: Company, Centrum Research Estimates

Exhibit 11: Balance Sheet

Y/E March (Rsmn)	FY09	FY10E	FY11E	FY12E	FY13E
Equity Share Capital	1,077	1,079	1,079	1,079	1,079
Reserves & Surplus	5,160	5,563	5,814	6,228	6,749
Net worth	6,237	6,642	6,893	7,307	7,828
Secured Loans	2,045	2,099	2,350	1,900	1,900
Total Loan Funds	2,045	2,099	2,350	1,900	1,900
Minority interest	606	625	646	679	701
Deferred Tax Liability	185	187	187	187	187
Total Capital Employed	9,072	9,554	10,076	10,073	10,616
Gross Block	9,333	10,036	10,646	11,451	12,311
Accumulated Depreciation	1,407	1,851	2,307	2,804	3,343
Net Block	7,926	8,186	8,339	8,647	8,968
Capital WIP	206	517	200	150	150
Net Fixed Assets	8,132	8,703	8,539	8,797	9,119
Investments	230	150	170	170	170
Sundry debtors	529	682	690	791	867
Cash & bank balances	593	795	1,148	1,127	1,353
Other Current Assets	26	23	56	55	63
Loans and Advances	249	503	504	619	712
Total current assets	1,396	2,003	2,398	2,592	2,994
Current liabs & prov	694	1,307	1,036	1,490	1,671
Net Current Assets	703	696	1,362	1,101	1,323
Misc exp	7	5	5	5	5
Total Assets	9,072	9,554	10,076	10,073	10,616

Source: Company, Centrum Research Estimates

Exhibit 12: Cash flow

Y/E March (Rsmn)	FY09	FY10E	FY11E	FY12E	FY13E
Profit after Tax	796	791	819	919	1,026
Depreciation	445	455	457	497	538
Provision for deferred tax	16	3	0	0	0
Misc Items	(2)	(3)	0	0	0
CF bf WC change	1,254	1,246	1,276	1,416	1,565
Working capital adj	(240)	208	(313)	176	4
Cash from operation	1,014	1,454	963	1,592	1,569
Capex	(1,847)	(1,006)	(230)	(755)	(860)
Investments	(230)	80	(20)	0	0
Minority Interest	(30)	19	21	33	22
Cash from investing	(2,107)	(907)	(229)	(722)	(838)
Borrowings/ (repayments)	1,829	55	251	(450)	0
Proceeds from sh capital	(635)	40	0	0	0
Dividend paid	(466)	(441)	(631)	(442)	(505)
Cash from financing	729	(346)	(381)	(892)	(505)
Net Cash inc/(dec)	(364)	202	353	(21)	226
Opening Cash Balance	957	593	795	1,148	1,127
Closing Cash Balance	593	795	1,148	1,127	1,353
FCF to firm (FCFF)	(832)	448	733	837	709
FCF per share	(8)	4	7	8	7

Source: Company, Centrum Research Estimates

Exhibit 13: Key Ratios

Y/E March	FY09	FY10E	FY11E	FY12E	FY13E
O/s shares mn (FV-Rs 10)	107.7	107.9	107.9	107.9	107.9
Per share (Rs)					
Fully diluted EPS	7.4	7.3	7.6	8.5	9.5
BVPS	57.9	61.6	63.9	67.7	72.5
Cash/Share	5.5	7.4	10.6	10.4	12.5
Dividend ratios					
DPS (Rs)	3.5	3.5	4.5	4.0	4.0
Dividend yield (%)	3.1	3.1	3.9	3.5	3.5
Dividend payout (%)	48.0	47.7	59.3	47.0	42.1
Turnover ratios (days)					
Debtors turnover	34.2	42.8	44.7	39.3	38.3
Creditors turnover	24.3	42.8	51.7	45.2	51.2
Working cap turnover	61.8	49.4	67.1	65.4	56.0
Asset turnover (x)	0.5	0.5	0.6	0.7	0.7
Return ratios (%)					
RoE	12.5	12.3	12.1	12.9	13.6
RoCE	11.9	11.0	10.8	10.8	11.5
Solvency ratios					
Debt/ Equity (x)	0.3	0.3	0.3	0.3	0.2
Interest coverage (%)	12.8	14.2	14.8	9.8	8.8
Valuation ratios (x)					
P/E	15.5	15.5	15.0	13.4	12.0
P/BV	2.0	1.9	1.8	1.7	1.6
EV/EBITDA	9.3	10.9	9.3	7.4	6.6
EV/Sales	3.0	2.6	2.4	1.9	1.6
M-Cap to Sales	2.7	2.4	2.2	1.8	1.6

Source: Company, Centrum Research Estimates

Appendix A

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