Angel Broking™

Service Truly Personalized

India Research

Gateway Distriparks

Buy

CMP: Rs 182

Target Price: Rs 216 (12 Months)

Vaishali Jajoo

Tel: 022 – 4040 3800 Ext: 344

e-mail: vaishali.jajoo@angeltrade.com

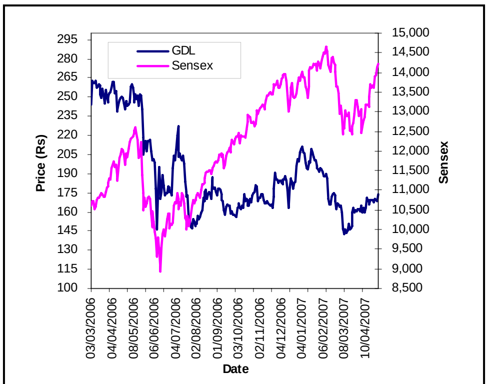
Anand Shah

Tel: 022 – 4040 3800 Ext: 334

e-mail: anand.shah@angeltrade.com

Sector	Logistics
Market Cap (Rs cr)	1639
Beta	1.1
52 WK High / Low	266/138
Avg Daily Volume	246844
Face Value (Rs)	10
BSE Sensex	14078
Nifty	4151
BSE Code	532622
NSE Code	GDL
Reuters Code	GATE.BO
Bloomberg Code	GDPL@IN

Shareholding Pattern (%)	
Promoters	38.5
MF/Banks/Indian FIs	12.8
FII/ NRIs/ OCBs	38.9
Indian Public	9.8



Q4FY2007 Result Update

Performance Highlights

- **Strong volume growth:** Gateway Distriparks (GDL) reported a strong volume growth of 26.4% YoY and 13.6% QoQ in terms of throughput (TEUs handled) which stood at 65,180 for Q4FY2007. The growth was on account of higher volumes across its facilities particularly Chennai and ICD Garhi. The unexpected jump in Chennai volumes was due to change in port policy which now allows for more traffic getting routed via CFS. While the JNPT CFS continues to account for majority volume, its contribution to total volumes has gone down from 78.9% in Q4FY2006 to 67.1% in the current quarter.
- **Topline growth driven by higher volumes:** On a consolidated basis, GDL reported a topline growth of 43.3% YoY at Rs 46.9cr largely driven by higher volumes and contribution of almost Rs 6cr from Snowman Foods (Cold Chain business) which the company acquired in the last quarter. Adjusted for Snowman, the realisations from its core CFS business dipped 1.9% YoY and 7.8% QoQ.
- **Margins continue to be under pressure:** At the operating front, GDL continues to face margin pressure as its OPM declined to 46.5% compared to 55.3% during same period last year largely on account of higher transportation expenses (due to inclusion of rail haulage at ICD Garhi) and a loss incurred on account of Snowman Foods. However, GDL managed to arrest a decline at EBITDA level (as observed last quarter) as the operating profits grew by 20.5% YoY to Rs 21.8cr.
- **Net Profit growth in line:** GDL reported a growth of 10.8% YoY in bottomline at Rs 19.8cr owing to high other income and strong volume growth. However, the bottomline growth was slightly muted owing to higher depreciation, which grew by 61% YoY on account of huge capex.

Exhibit 1: Key Financials

Y/E March (Rs cr)*	**FY2006**	**FY2007**	**FY2008E**	**FY2009E**
Net Sales	**138.6**	**161.0**	**211.5**	**344.4**
% chg	*45.0*	*16.2*	*31.4*	*62.8*
Net Profit	**72.3**	**77.4**	**90.7**	**116.4**
% chg	*109.0*	*7.1*	*17.3*	*28.3*
OPM (%)	60.4	50.3	52.0	43.2
EPS (Rs)	**7.8**	**8.4**	**9.8**	**12.6**
P/E (x)	23.2	21.7	18.5	14.4
P/BV (x)	2.9	2.7	2.5	2.3
RoE (%)	12.6	12.5	13.3	15.6
RoCE (%)	11.8	10.1	12.5	15.7
EV/Sales (x)	9.8	8.4	6.4	3.9
EV/EBITDA (x)	16.2	16.7	12.3	9.1

*Source: Company, Angel Research, *All Figures on Consolidated Basis*

Exhibit 2: Q4FY2007 Operational Performance

Throughput	Q4FY2007	Q4FY2006	% YoY	Q3FY2007	% QoQ
Mumbai	43,706	40,704	*7.4*	39,203	*11.5*
Delhi	4,386	2,430	*80.5*	5,816	*(24.6)*
GDL (Standalone)	48,092	43,134	*11.5*	45,019	*6.8*
Chennai	14,213	7,085	*100.6*	10,122	*40.4*
Vizag	2,875	1,350	*113.0*	2,233	*28.8*
Total TEUs	65,180	51,569	*26.4*	57,374	*13.6*
Revenue/ TEU	6,296	6,418	*(1.9)*	6,829	*(7.8)*
EBITDA/ TEU	3,495	3,583	*(2.4)*	3,536	*(1.2)*

*Source: Company, Angel Research, *Figures on Consolidated Basis*

Key Developments

- **51:49 JV with Concor for Garhi ICD:** During the current quarter, Concor and GDL entered into an agreement to set up a JV to construct and operate a rail linked double stack container terminal at Garhi Harsaru, Gurgaon. GDL's 100% subsidiary, Gateway Rail Freight Pvt Ltd, will have a 51% stake in the JV and Concor will have the remaining 49% stake. This JV will replace the existing agreement between Concor and GDL to run trains from ICD Garhi. GDL's existing ICD at Garhi would also be transferred to this JV along with excess land at the facility for which GDL will receive lease rentals. The total cost of setting up the JV is estimated at Rs 70cr. The double stack facility is expected to commence operations within 12-18 months and could achieve size similar to Concor's Tughalaqabad ICD. The JV with Concor will help GDL ramp up the volumes at its Garhi ICD and would give GDL the right to start running its own trains immediately as against previous agreement which prohibited GDL to run its own trains until another year. GDL has already placed order for two rakes, which are expected to be delivered during May 2007. We expect GDL to order a total of 4 rakes for FY2008 and more in FY2009 as its other ICDs at Faridabad and Ludhiana become operational.

- **Acquisition of Snowman Foods:** During the previous quarter, GDL announced its foray into the cold chain logistics segment by acquiring 50.1% stake in Snowman Frozen Foods Ltd for a net cash consideration of Rs 48.1cr. Snowman is the largest player in the organised cold chain logistics segment having a pan-India distribution network. Given the wide distribution network of Snowman and huge growth opportunities in cold chain logistics industry, GDL stands to benefit in the long run moving in the direction of becoming an integrated logistics player. For the current quarter, Snowman Foods reported revenue of Rs 5.7cr and a loss at operating level of Rs 1.4cr. FY2008 is expected to be a year of consolidation for Snowman Foods and is expected to break even at operating level.

- **Punjab Conware CFS Deal:** During the previous quarter, GDL had bagged an operations and management (O&M) contract for managing Punjab Conware, a Punjab Government owned container freight station (CFS), located 7km from JNPT, Mumbai for a period of 15 years. GDL will be required to pay a one-time upfront fee of Rs 35cr and an annual fee of Rs 10cr for the contract. The CFS has a total capacity of 150,000 TEUs. The O&M contract for Punjab Conware CFS provides GDL with an established platform to exploit the opportunities arising out of extensive growth at JNPT terminal. It will also help GDL offer an increased range of services and cater to a larger client base which it couldn't do earlier due to lack of capacity. For the current quarter, no contribution from this CFS has been included as it was only recently acquired. For FY2008E, we expect this CFS to clock a volume of 51,000 TEUs. However, Realisation and EBITDA/TEU are expected to be at a 25-30% discount to GDL's JNPT CFS owing to comparatively poorer infrastructure.

Outlook and Valuation

The recent JV with Concor is a positive step taken by GDL as it would help the company leverage Concor's expertise in container train movement to launch itself in this segment. We see huge potential in the double stacked container terminal being developed jointly by Concor and GDL owing to strategic location of ICD Garhi to cater to the NCR region traffic. Further, GDL would now be allowed to run its own container trains much earlier than we anticipated and would start generating revenue in FY2008 itself. GDL's signing of the Punjab Conware deal has helped the company address the capacity constraint at JNPT and would allow it to cater to a larger client base. The acquisition of Snowman Foods will help GDL become an integrated logistics service provider and is expected to turn value accretive in FY2008. However, due to lack of clarity in terms of operational details, we haven't factored the same in our estimates. We continue to remain positive on the overall prospects of the company owing to immense growth potential of container traffic in India. **We maintain our BUY recommendation on the stock along with a 12 months price target of Rs 216 (DCF Fair value of Rs 207 for GDL + Rs 9 per share for Punjab Conware deal).**

Q4FY2007 Performance (Consolidated)

Y/E Mar (Rs Cr)	Q4FY2007	Q4FY2006	*% Chg*	FY2007	FY2006	*% Chg*
Net Sales	46.9	32.7	*43.3*	161.0	138.6	*16.2*
Other Income	6.4	6.2	*3.0*	24.5	11.0	*123.1*
Total Income	53.3	38.9	*36.9*	185.5	149.6	*24.0*
EBITDA	21.8	18.1	*20.5*	81.1	83.7	*(3.1)*
OPM (%)	46.5	55.3		50.3	60.4	
Interest	0.2	0.6	*(66.6)*	1.2	2.5	*(53.4)*
Depreciation	4.6	2.8	*62.6*	13.9	10.6	*31.3*
Profit Before tax	23.5	20.9	*12.1*	90.5	81.5	*11.0*
Tax	4.2	3.0	*42.4*	13.9	9.1	*51.9*
Profit After tax	19.8	17.9	*10.8*	77.4	72.3	*7.0*
EPS	2.1	1.9		8.3	7.9	

Angel Broking Limited

Research Team Tel: 4040 3800 E-mail: research@angeltrade.com Website: www.angeltrade.com