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Institutional Equity

Logistics

Gateway Distriparks

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Shareholding (%)

Foreign Promoter	*24.9*
Indian Promoter	*13.4*
FII's	*35.7*
FI's/Banks	*7.0*
Others	*19.0*

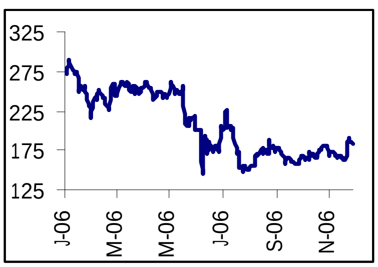
Share price performance

52-week high/low (Rs) 299/137

	-1m	-3m	-12m
Abs (%)	1.3	5.7	-29.4
Rel* (%)	-2.8	-9.2	-74.7

*to Nifty

Stock chart



Continues to disappoint, downgraded to 'HOLD'

Gateway Distriparks Limited (GDL), a player in the fast growing logistics sector, has reported yet another quarter of disappointing results. Since we do not foresee any recovery in the near term, we are revising our earnings estimates for FY07E and FY08E downwards, and downgrading our recommendation from 'Buy' to 'Hold'.

Despite the increase in Mumbai CFS capacity, its utilization levels are disappointing. In contrast, the operating rates at the ICD at Delhi, CFS at Chennai and CFS at Vizag, have increased. However, in our view, this is not sufficient to compensate for the shortfall at the Mumbai CFS, GDL's cash cow. Revenues from Mumbai facility dropped by 6.5% in Q2FY07 despite an increase in TEUs handled. Increasing cost and drop in dwell time squeezed EBITDA margins by 420 bps in H1FY07 over H1FY06. Mumbai CFS is likely to see the entry of new players; this may further impact the company's margins, going forward.

The rail container business is another dampener to GDL's business profile. In our view, the business is likely to break-even only towards the end of FY08.

Taking into consideration these major concerns, we are revising our earnings estimates downward by 21.8% in FY07E and 32.2% in FY08E. We are downgrading our recommendation from 'BUY' to 'HOLD'.

The key Investment highlights are:

- Mumbai CFS continues to disappoint: The Mumbai CFS contributed 90% of GDL's operating profits in H1FY07. During the past few quarters, however, its performance has consistently declined. Despite an increase in capacity from 180000 TEUs to 210000TEUs, the capacity utilization levels dropped from 96% in H1FY06 to 81% in H1FY07.

Hold

Rs184

November 30, 2006

Market cap
Rs bn 17
US$ mn 372

Avg 3m daily volume
1,261,330
Avg 3m daily value
USD mn 4.7

Shares outstanding (mn)
92

Reuters
GATE.BO/GDL.NS

Bloomberg
GDPL IN

Sensex
13,696
Nifty
3,955

Year-end	Sales	YoY	EBITDA	YoY	NP	YoY	EPS	PE	EV/EBITDA	PSR	PBR	RoE	RoCE	DPS	Div Yield
March	(Rs m)	(%)	(Rs m)	(%)	(Rs m)	(%)	(Rs)	(x)	(x)	(x)	(x)	(%)	(%)	(Rs)	(%)
FY2004	592	0.0	274	0.0	191	0.0	3.0	61.6	47.4	3.4	14.5	23.5	23.4	2.3	1.2
FY2005	937	58.3	520	89.6	348	81.7	4.6	39.7	30.4	3.3	8.3	21.0	18.5	2.3	1.2
FY2006E	1,386	48.0	837	60.9	722	107.7	7.8	23.5	22.3	2.8	2.9	12.5	12.0	3.0	1.6
FY2007E	1,505	8.6	859	2.7	796	10.3	8.6	21.3	18.5	2.6	2.7	12.7	11.3	3.4	1.8
FY2008E	1,893	25.8	1,079	25.6	929	16.7	10.1	18.3	14.5	2.4	2.5	13.5	13.0	3.4	1.8

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- **Increasing competition at Mumbai CFS results in margin erosion**: Higher profit margins of the CFS business in Mumbai have attracted new players in the business. This, in turn, has lowered GDL's margins. Realizations per TEU dropped by 8.6% in H1FY07 over H2FY06.
- **Container rail business, yet to have an impact on profitability**: Backward integration into running of container trains between the Delhi ICD and other stations has started. However, we believe that the break-even from this is way-off as the utilization levels are on the lower side.
- **Acquisition of Snowman is more topline than bottomline accretive:** Recently, GDL acquired a 50.1% stake in Snowman Frozen Food (Snowman) for Rs481.2mn. We believe that this acquisition is likely to have a higher visibility over the long term; even during the long term, the acquisition would, at best, add less than 5% to the company's overall EBITDA.
- **Core earnings under pressure:** GDL's core EBITDA is likely to decline in H2FY07 due to pressure on margins.
- **Earnings under pressure:** Lower growth in sales and drop in EBITDA margins has slowed down the growth rate in earnings. We expect the earnings to grow at a 13% CAGR over the period FY06-FY08E, as against the 94% CAGR registered during the past two years.
- **Valuations:** At the current market price of Rs184, GDL is trading at 21.3xFY07E and 18.3xFy08E earnings. With lower utilization at Mumbai CFS and increased time span required for the rail container business to break-even, we do not foresee a major upside for the stock. Moreover, the stock has underperformed the market in the past six months. Hence we are downgrading our recommendation from 'Buy' to 'Hold'

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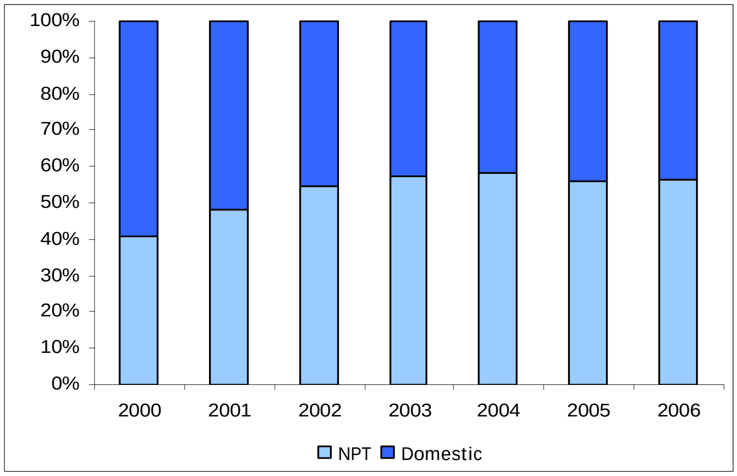
Investment Rationale

Capacity utilization at the JNPT CFS: The JNPT port has seen a 12% growth in the containers handled in FY06; the containing handling capacity is likely to increase at a 20% CAGR over the next five years.

Chart 1. Comparison of Container Traffic at JNPT to Total Container Traffic

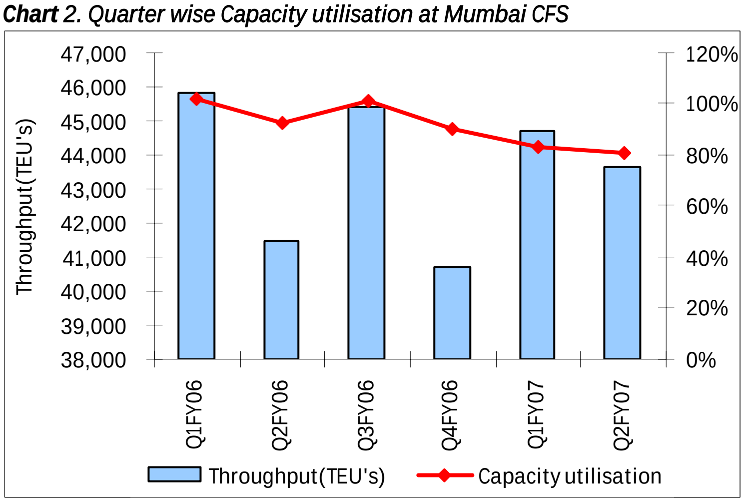


Source: IISL research, company

Despite an increase in capacities, the capacity utilization at the CFS Mumbai dropped and the volumes handled registered a flat growth.

Anticipating the increase in the container handling capacity at JNPT, GDL has increased its capacity from 180,000TEUs to 210,000TEUs in FY07. While the increased capacity has come on stream, the capacity utilization at this CFS has dropped from 90% to 81% in H1FY07. The volume growth at the CFS has also been

***Chart 2.** Quarter wise Capacity utilisation at Mumbai CFS*



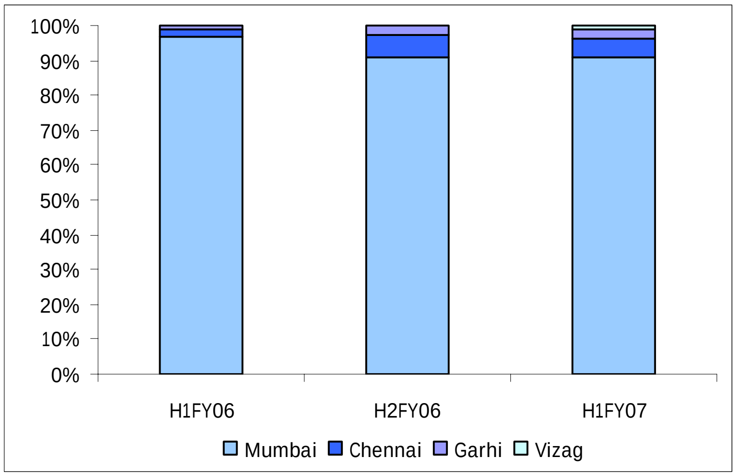
Source: IISL research, company

disappointing, despite the increase in capacities (see chart 2); GDL handled 88370 TEUs in H1FY07, only marginally higher than 87289 TEUs handled in H1FY06. We believe that such flat growth can be attributed to the rising competitive pressures that have lowered the company's utilization levels, impacting the bottom-line significantly.

Stiff competition at the Mumbai CFS is likely to keep GDL's capacity utilization and volumes at current levels.

We believe that the capacity utilization will remain at the current levels; also, we do not see any trigger that may lead to any increase in the TEUs handled. Though the third JNPT container handling terminal has commenced operations in March 2006, we believe that stiff competition at the JNPT port may neutralize the volumes at the Mumbai CFS, this is despite the increasing containers handled by the port. We, therefore, foresee a bearish performance from GDL that derives 90% of its operating profits from Mumbai CFS (see chart 3).

***Chart** 3. Contribution to Operating Profit*



Source: IISL research, company

Table 1. Existing and Forthcoming CFS at JNPT

Existing CFS	Capacity (TEUs)	Future coming CFS	
JNP-CWC	60000	Ameya- CFS	48000
CWC Kalamboli	48000	JWC Logistic Park(ICD)	55000
CWC-D'Node	90000	Priti Logistic (ICD)	15000
MEARSK	90000	SOL Logistic CFS	1,15,000
CONWARE	72000	Forbes -Gokak- CFS	40000
GATEWAY DISTRIPARK	216000	CWC CFS Logistic Park	72000
CONCOR DRT	72000	Maersk CFS -D node	60000
BALMER LAWRIE	75000	M/s Thakur CFS	1,39,500
CWC Distripark	60000	M/s PNP Maritime- CFS	82000
Sea Bird MarineService	50000		**372000**
Allcargo(Trans India)	120000		
ULA	25000		
Maharashtra State Ware Housing Corporation	36000		
	1014000		

Source: IISL research, company

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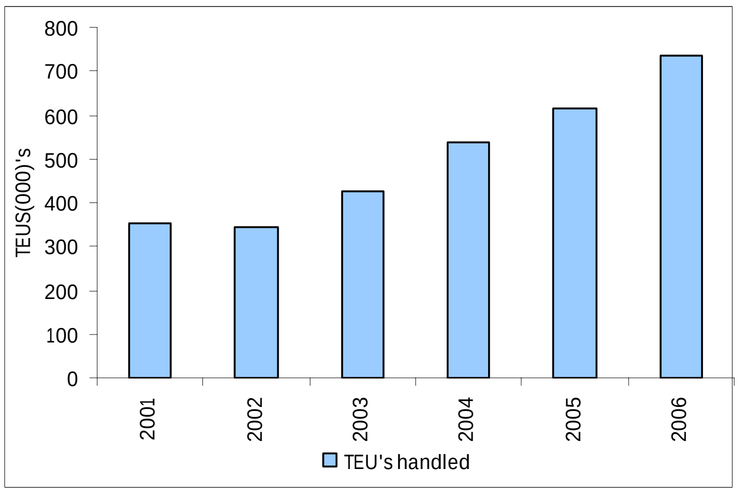
Chennai has emerged as the hub for leading automobile companies. The increase in the commercial activity during the past five years has translated into a 16% CAGR growth in container traffic at the Chennai port.

Chennai: Intensifying competition in CFS business: Chennai is the second-largest port of India; the port is likely to handle a million TEUs in the current year. The boom in manufacturing units in Chennai has triggered the growth in import and export activities. Chennai has emerged as the hub for leading automobile companies like Ford, Hyundai, and Ashok Leyland. In addition, companies like Hindustan Motors, TVS, and MRF have also set up their manufacturing plants in the city. Recently, global leaders like BMW also have opted for the city to set up a new car assembly plant; Hyundai has also decided to set up its second plant near its existing facility in Chennai. Such increase in the commercial activity has triggered the growth at Chennai port. The container traffic has grown at 16% CAGR over the past five years, and is likely to continue its growth momentum, going forward (see chart 4).

Chart 4. TEU's Handled at Chennai Port



Source: IISL research, company

Enhanced capacity levels at the Chennai CFS increased the volumes handled by the company from 6929 TEUs in Q1FY07 to 10212 TEUs in Q2FY07. Nevertheless, the profitability of this facility continues to remain lower than its other facilities.

GDL's performance at the Chennai CFS : To take advantage of the growing container traffic at Chennai, GDL has expanded its capacity from 40000 TEUs in FY06 to 60000 TEUs in FY07. The volumes handled by GDL's Chennai subsidiary increased from 6929 TEUs in Q1FY07 to 10212 TEUs in Q2FY07.

Despite an increase in the container traffic, intensifying competition is likely to cap GDL's realizations from the Chennai port. We continue to believe, that the current increase in the capacity utilisation at Chennai CFS is not sufficient enough to offset any decrease in utilization levels at the Mumbai CFS.

The Chennai CFS contributed 14% to the total TEUs handled by GDL in H1FY07; this is higher than the full-year contribution of 11% in FY06. Despite the growth in TEUs, the EBITDA contribution of Chennai CFS has been only 5.6% in H1FY07, as against 2.2% in H1FY06. This clearly indicates that the profitability of the CFS is lower at Chennai due to stiff competition. Therefore, a significant growth in volumes may not imrpove its contribution to net profits, going forward.

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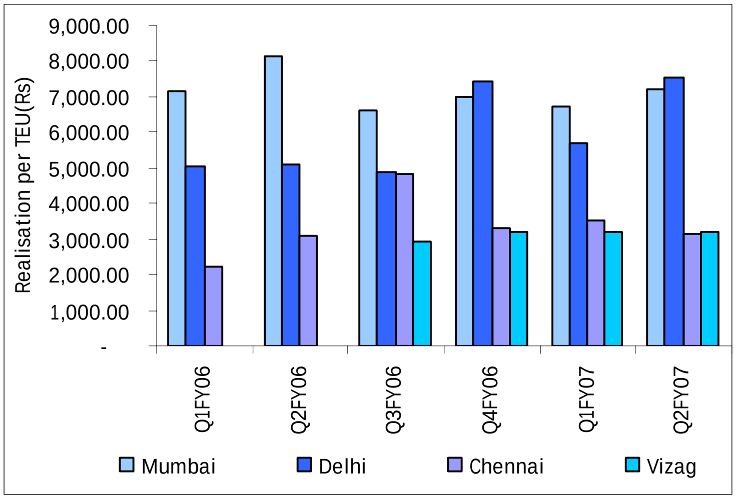
Chart 5. Comparison -Realisation Per TEU



Source: IISL research, company

GDL's train services are expected to break-even in FY08.

Container train services-Delay in breakeven: GDL's container train services commenced operations in Q1FY07; the services, though gaining momentum, are yet to become operationally profitable. GDL started with its train services with two trains in May06; the same has now increased to 14 trains in September 2006 and 19 in October 2006. We expect GDL's train services to stabilize and break-even in FY08 as and when the volumes, utilization, and frequency of the trains increase.

GDL acquired a 50.1% stake in Snowman, one of the country's leading cold chain transporters.

Foray into the cold chain business:The boom in retail sector is expected to increase the demand for movement of frozen and chilled foods in the domestic market. GDL has been planning to enter the cold chain business for over 12 months. GDL acquired a 50.1 % stake in Snowman, one of the country's leading cold chain transporters, for a consideration of Rs.481.2mn. Snowman moves 9000 tonnes of frozen foods every month within India. Currently, the company has 16 cold stores with a total capacity of 8600 pallets, and over 90 refrigerated trucks to handle different products. Snowman undertakes services such as transporting goods from the vendor locations, storing, invoicing, and delivering to retail outlets. For the first 5 months of the current fiscal, Snowman reported a revenue of Rs116.3mn and an EBITDA of Rs20mn.

GDL's expansions in the CFS, ICDs, and cold chain businesses are likely to make it a pan-India player, going forward. Nevertheless, as these new businesses are in a growth phase, JNPT CFS will continue to remain as the company's cash cow.

GDL's expansions to provide pan–India presence: GDL's aims to expand its CFS and ICD facilities to tap higher volumes and to provide better logistic services. During the past two years, it has been diversifying and developing CFS and ICDs in new areas at new locations such as Chennai, Vizag, and Garhi.

- **Faridabad**: GDL has acquired land at Faridabad (near Delhi) to set up another rail- linked ICD over the next 12-18 months. The rail-linked ICD will help GDL provide cost effective end-to-end services to its clients by eliminating trans-shipment of containers.
- **Kochi port**: Recently, GDL entered into a JV with the Chakiat Group to set up a CFS near Vallarpadam at the Kochi port. GDL will have a 60% stake in the

terminal; the remaining will be held by the Chakiat group that handles shipping-related activities. The Chakiat group has a stake in International Container Transshipment Terminal (ICTT) at Vallarpadam in Kochi port; this ensures captive flow of containers from ICTT. The CFS is likely to cost Rs250m and have a handling capacity of 15,000 TEUs per annum. The facility will be developed in three phases over the next 2-3 years.

GDL's new facilities in the CFS and ICD business and new avenues in the logistics business, are still in a growing phase. We, therefore, believe that the JNPT CFS will continue to remain as GDL's cash cow in the near term.

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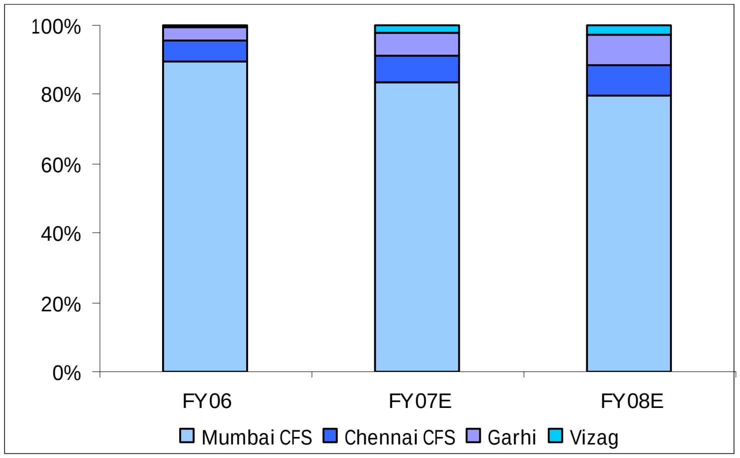
Financial Analysis:

GDL's revenues are likely to grow at an 18% CAGR over the next two years.

Revenues to grow at a steady rate : GDL's revenues have grown at a 53% CAGR over the past two years. Intensifying competition in the CFS business, however, is expected to slow down the growth in revenues; GDL's revenues are likely to grow at 17% CAGR over FY06-FY08E .We believe the drop in contribution to revenue from the Mumbai CFS from 90% in FY06 to 80% in FY08E will be the reason for the slow down in revenue growth.

Chart 6. Contribution to Revenue (%)

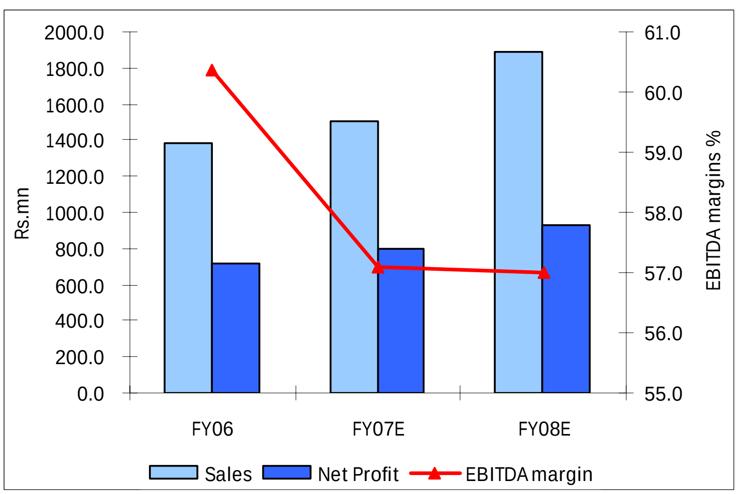


Source: IISL research, company

The company's EBITDA margins are likely to decline by 340 bps during the next two years

EBITDA margins to fall by 340bps: During the next two years, we expect GDL's EBITDA margins to decline by 290bps due to higher costs and flat realizations (see chart 7). Although the transportation cost may be recovered through higher handling charges, a reduction in dwell time would result in flat realizations.

Chart 7. Sales ,Net Profit ,EBITDA Margin



Source: IISL research, company

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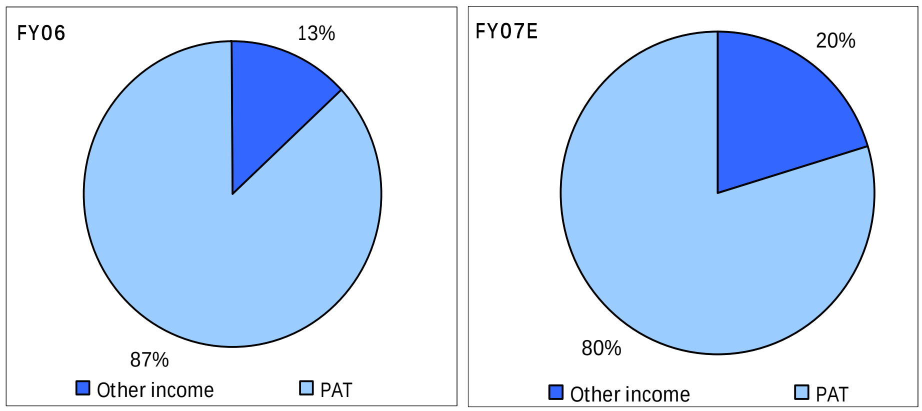
We believe that the quality of net profits is declining due to the increasing contribution of other income and declining contribution of core business revenues.

Declining core earnings: GDL is expected to report a PAT of Rs796mn and Rs.929.1mn in FY07E and FY08E respectively. In Fy07, the quality of earnings may be affected, as non-operating income is likely to constitute over Rs200mn of the bottomline. Consequently, we believe the quality of the net profits is declining due to the increasing contribution from other income and declining contribution of the core business revenues (see chart 8).

Chart 8. Contribution of non-operating income (%)



Source: IISL research, company

Given GDL's disappointing performance and the absence of any potential upside in the near future, we are downgrading our recommendation from 'Buy' to 'Hold'

Valuations: At the current market price of Rs186, GDL is trading at 21.3xFY07E and 18.3xFy08E earnings. Given the low capacity utilization at Mumbai CFS and the continued pressure on EBITDA margins, we do not foresee a major growth in the business. With no potential upside, we are revising our earnings estimates and downgrading our recommendation on the stock from 'Buy' to 'Hold'.

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Financials

Profit & Loss

In Rs million	FY05	FY06	FY07E	FY08E
Net sales	936.6	1385.8	1504.5	1893.4
YoY (%)	58.3	47.9	8.6	25.8
Total expenses	416.6	549.2	645.7	814.5
Power and Fuel	11.0	0.0	0.0	0.0
Employee Costs	34.7	76.8	64.7	67.5
Operating & other Expens	366.2	453.7	565.9	728.0
Selling Expenses	4.6	18.7	15.0	18.9
EBIDTA	520.1	836.6	858.9	1079.0
YoY (%)	89.6	60.9	2.7	25.6
EBIDTA (%)	55.5	60.4	57.1	57.0
Other income	12.9	110.0	202.3	141.4
PBIDT	533.0	946.6	1,061.2	1,220.4
Interest	49.3	25.4	16.0	10.9
Gross profit	483.7	921.1	1,045.1	1,209.5
Depreciation	65.1	106.0	120.2	156.0
PBT and extra ordinary	418.5	815.1	924.9	1,053.4
Extra ordinary items	0.0	0.0	0.0	0.0
PBT	418.5	815.1	924.9	1,053.4
(-) Tax	71.0	93.4	128.9	124.3
Tax/ PBT	17.0	11.5	13.9	11.8
PAT	347.5	721.7	796.0	929.1
Adjusted net profit	347.5	721.7	796.0	929.1
YoY (%)	81.6	107.7	10.3	16.7

Balance Sheet

In Rs million	FY05	FY06	FY07E	FY08E
Equity capital	750.0	922.0	922.0	922.0
Preference capital	0.0	0.0	0.0	0.0
Reserves	907.3	4,838.0	5,321.7	5,938.5
Net worth	1,657.3	5,760.0	6,243.7	6,860.5
Total borrowings	798.3	318.8	299.3	224.7
Deferred tax	105.7	122.2	190.3	237.9
Total liabilities	2,561.2	6,201.0	6,733.4	7,323.2
Gross block	1,637.2	2,387.2	3,187.1	4,187.1
Less: Acc. depreciation	(214.8)	(365.1)	(485.3)	(641.3)
Net block	1,422.5	2,022.2	2,701.8	3,545.8
CWIP	121.9	134.1	100.0	100.0
Investments	149.3	144.5	2,872.2	2,618.9
Current assets	1,214.8	4,171.6	1,605.8	1,625.5
Debtors	77.0	70.0	76.0	95.6
Cash	875.3	3,526.2	1,000.0	1,000.0
Loans and advances	127.4	0.0	0.0	0.0
Other current assets	135.1	575.5	529.8	529.8
Current liabilities	108.5	108.0	81.0	81.0
Provisions	238.8	163.3	465.4	486.0
Net current assets	867.6	3,900.4	1,059.4	1,058.5
Miscellaneous expenses	0.0	0.0	0.0	0.0
Total assets	2,561.2	6,201.0	6,733.4	7,323.2

Key Ratios

	FY05	FY06	FY07E	FY08E
EPS (Rs)	4.6	7.8	8.6	10.1
Adjusted EPS (Rs)	4.6	7.8	8.6	10.1
CEPS (Rs)	5.5	9.0	9.9	11.8
Book value (Rs)	22.1	62.5	67.7	74.4
Dividend per share (Rs)	2.3	3.0	3.4	3.4
Debt-equity (x)	0.48	0.06	0.05	0.03
ROCE (%)	18.5	12.0	11.3	13.0
ROE (%)	21.0	12.5	12.7	13.5
Valuations				
PE (x)	39.7	23.5	21.3	18.3
Cash PE (x)	33.4	20.5	18.5	15.6
Price/cash flows (x)	37.1	36.7	13.1	15.0
Price/book value (x)	8.3	2.9	2.7	2.5
Dividend yield	1.24%	1.63%	1.84%	1.84%
Market cap/ Sales	14.7	12.2	11.3	9.0
EV/sales (x)	16.9	13.4	10.5	8.5
EV/EBDITA (x)	30.4	22.3	18.5	14.9

Cash Flow

In Rs million	FY05	FY06	FY07E	FY08E
Net profit	347.5	721.7	796.0	929.1
Depn and w/o	65.1	106.0	120.2	156.0
Deferred tax	35.6	16.6	68.1	47.6
Change in working cap	(76.3)	(382.0)	314.8	0.9
Operating cash flow	371.9	462.3	1,299.1	1,133.6
Capex	(514.4)	(717.8)	(765.8)	(1,000.0)
Change in Investments	(149.3)	4.8	(2,727.7)	253.3
Investing cash flow	(663.7)	(713.0)	(3,493.5)	(746.7)
Dividend	(171.0)	(276.8)	(312.3)	(312.3)
Change in equity	668.4	3,657.8	0.0	0.0
Change in debt	607.6	(479.4)	(19.5)	(74.6)
Financing cash flow	1,105.0	2,901.5	(331.8)	(386.9)
Net change in cash	813.3	2,650.8	(2,526.2)	0.0
Opening cash	62.1	875.3	3,526.2	1,000.0
Closing cash	875.3	3,526.2	1,000.0	1,000.0

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Institutional Equity

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