Prabhudas Lilladher

Gateway Distriparks

Success of rail ops remains to be seen

May 30, 2008

Rating	**Not Rated**
Price	Rs102
Target Price	NA
Implied Upside	NA
Sensex	16,416

(Prices as on May 30, 2008)

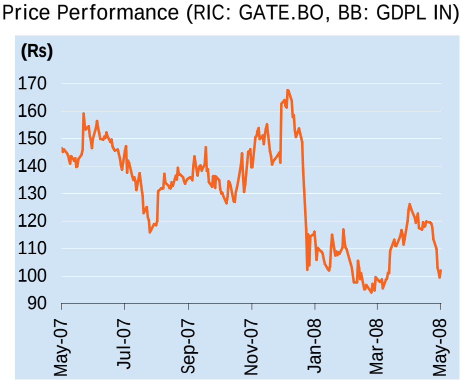
Trading Data	
Market Cap. (Rs bn)	11.8
Shares o/s (m)	115.6
Free Float	58.6%
3M Avg. Daily Vol ('000)	763.6
3M Avg. Daily Value (Rs m)	86.2

Major Shareholders	
Promoters	41.4%
Foreign	22.8%
Domestic Inst.	13.1%
Public & Others	22.7%

Stock Performance

(%)	1M	6M	12M
Absolute	(19.1)	(26.9)	(30.4)
Relative	(14.1)	(11.7)	(44.3)

Price Performance (RIC: GATE.BO, BB: GDPL IN)



Source: Bloomberg

- **Operations at JNPT:** With Gateway Distriparks (GDL) acquiring the Punjab Conware facility, volumes at JNPT are picking up. The original facility is operating at 80-85% utilisation, while Punjab Conware is operating at 50% utilisation, which results in an overall utilisation of 70%. The company expects this to go up to 80% in FY09. Besides, with competitive pressures easing, prices at JNPT are stabilising.
- **Container rail business:** GDL has currently deployed eight rakes on four domestic routes and is likely to add four more shortly. It also plans to scale-up operations to 20-25 trains by the end of FY09. This business is likely to breakeven in FY09. At the EBIDTA level, it is expected to generate reasonable returns. However, on account of high interest and depreciation, profits after taxes are likely to be insignificant in FY09.
- **Capex plans:** The company has planned capex of Rs2.8-3bn in FY09. Of this, Rs2bn is towards acquisition of rakes, Rs0.5-0.6bn is towards the cold chain business and Rs0.3-0.5bn is towards the CFS business.
- **Financials:** As per our first cut estimates, we expect topline growth of 39.7% in FY09 and 41.5% in FY10. However, operating margin is expected to decline on account of change in revenue mix due to the company's foray into container rail business. The company's PAT is expected to grow by 21.4% in FY09 and 41.3% in FY10. Our EPS estimate for FY09 and FY10 stands at Rs8.1 and Rs11.4 respectively. The stock trades at 12.6x FY09 and 8.9x FY10.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	1,610	2,679	3,590	5,080
Growth (%)	*16.2*	*66.4*	*34.0*	*41.5*
EBITDA (Rs m)	812	1,035	1,475	2,022
PAT (Rs m)	778	741	935	1,322
EPS (Rs)	8.4	6.4	8.1	11.4
Growth (%)	*7.5*	*(24.0)*	*26.3*	*41.3*
Net DPS (Rs)	3.0	4.0	5.0	6.0

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	*50.5*	*38.6*	*41.1*	*39.8*
RoE (%)	*13.0*	*11.1*	*12.3*	*15.1*
RoCE (%)	*12.1*	*10.3*	*12.2*	*14.9*
EV / sales (x)	4.6	3.8	2.8	1.8
EV / EBITDA (x)	9.1	9.9	6.9	4.6
PE (x)	12.1	15.9	12.6	8.9
P / BV (x)	1.5	1.6	1.5	1.3
Net dividend yield (%)	*2.9*	*3.9*	*4.9*	*5.9*

Source: Company Data; PL Research

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Management representatives:
Mr. R. Kumar, Deputy CEO

Q: What is the status of operations at JNPT?

A: Operations at JNPT are picking up with the takeover of the Punjab Conware facility. Besides, prices are also stabilising with the easing of competitive pressures. Our current capacity at JNPT stands at 366,000 TEUs, of which 150,000 TEUs is contributed by the Punjab Conware facility.

The Punjab Conware facility is operating at 50% capacity utilisation, while our original facility is operating at 80-85% utilisation, thereby resulting in total utilisation of 70%. We expect scale-up of operations at the Punjab Conware facility in FY09 and hence push up total utilisation to 80%. Average realisations at the Punjab Conware facility are lower as the import-export mix at the facility is 30:70, whereas the ratio is the opposite for the original facility, which thereby results in a larger component of ground rent.

Q: What is the agreement with Punjab Conware?

A: We have taken over the Punjab Conware facility under a 15 years operations and management agreement for which we have paid a one-time fee of Rs350m and shall pay them a fixed fee of Rs100m plus cost escalation linked to WPI annually. To refurbish this facility, we incurred an investment of Rs200m.

Q: Can you give us some details regarding the company's other CFS facilities?

A: Besides JNPT, we have CFS facilities at Chennai and Vizag, where the throughput handling capacity stands at 60,000 TEUs and 18,000 TEUs respectively. Operations at Chennai have picked up very well, despite of CFS over capacity. The profits at Chennai have more than doubled from Rs35m in FY07 to Rs85m in FY08 on the back of 50% increase in volume. Over the next one and half years, we expect volumes to remain steady at Chennai and thereafter expect a spurt when the second terminal commences operations. In the meantime, our focus is to improve realisation at Chennai.

We have also acquired 20 acres of land at Kochi to set-up a CFS facility. This facility will be located midways to Kochi and Vallarpadam, where DP World is setting up a port. This facility is likely to be operational over the next couple of years. We have also taken on lease a 10,000 TEU per annum facility owned by a company called Pace at Kochi, which we shall operate for a period of three years.

The company's strategy is to reduce dependence on JNPT as well as capitalise on the surge in container volume in the country.

Q: What was the company's total throughput in FY08?

A: The throughput, inclusive of our ICD and rail operations, for FY08 stood at 367,500 TEUs as against 240,491 TEUs in FY07, thereby representing growth of 53%. Our target is to scale-up volume to 600,000 TEUs by FY10.

Q: What are the developments on the container rail business?

A: We are currently operating eight trains and will scale-up to 12 trains in a short while. We operate on three domestic routes - Orissa to Haryana, Vizag to Kolkata and Delhi to Kalamboli. The Orissa-Haryana route is specially operated for the iron and steel industry, where we provide end-to-end logistic solutions. We transport raw material from Orissa to J Haryana . Between Delhi and Kalamboli, we operate a refrigerated container train. We plan to scale-up our operations to 20-25 trains by end of the year.

Q: What is the current status of the JV with Container Corporation?

A: We had entered into an agreement with Concor in 2005 before container rail licenses were allotted to private players for the Garhi ICD, where Concor would operate the trains while we would undertake cargo handling operations at the Garhi ICD. Post the allotment of licenses to private players, we have entered into a new JV with Concor, where GDL holds 51% stake and Concor holds the remaining 49%.

This new JV entails both parties to run an equal number of trains on the Garhi-Mumbai route as well as share ICD operations. However, though the JV agreement is in place, the JV is not yet operational as certain requirements need to be fulfilled.

Q: What is the quantum of investment that has been made so far in the rail/ICD business?

A: We have made an investment of approximately Rs4bn in the rail/ICD business. This includes the license fee of Rs0.5bn for the 20 year concession, acquisition of 12 rakes at approximately Rs120m/rake, investment in the ICD at Garhi, and investment in trucks and other infrastructure.

Q: What is the planned capex over the next couple of years towards this business?

A: We plan to invest a further Rs2bn in FY09. This will primarily be incurred towards the acquisition of rakes. Our Rail SPV, Gateway Rail Freight Ltd. will raise debt and possibly private equity for this purpose. We are going through the private equity exercise but have not reached conclusion. We also have approvals of Rs1bn each from HDFC and GE Capital. We are going ahead with the Rs1bn from HDFC and we already have debt of Rs20m on our books.

Besides, we plan to capture volumes in the northern region by starting new ICDs. We have already acquired 99 acres of land in Faridabad and Ludhiana for the same. Some of the planned investment will be incurred towards setting up of these two ICDs.

Q: When do you expect this business to breakeven?

A: We expect to breakeven in FY09. At the EBIDTA level, we expect to generate decent money; however, on account of high interest and depreciation costs we may only break even at the PAT level.

Q: What is the growth that you expect on the CFS business over the next couple of years?

A: We expect to grow at 20% on the topline front and 10-15% on the bottomline front over the next two years.

Q: Can you give us an insight on your cold chain business?

A: We have a capacity of 9,000 pallets / tonnes in our cold chain business with over 15 cold stores. Certain locations like Mumbai, Delhi, Bangalore and Chennai are nearly full and hence we are expanding capacity. Besides, we are also setting up new cold stores in Nagpur and Ahmedabad. We plan to scale-up to 20 cold stores over the next two years and double our overall capacity. The capex to be incurred is expected to be to the tune of Rs500-600m.

In our cold chain business, we have two segments - one is the cold store business and the other is the transportation business. The cold store business is more profitable than the transportation business Hence we plan to scale up the cold store business.

Q: What is total capex planned for FY09?

A: Our major capex is planned on the rail business, which is to the tune of Rs2bn. On the CFS side, we are looking at Rs0.3-0.5bn and another Rs0.5-0.6m on the cold chain business

Q: What is the outstanding debt and cash position as on March 31?

A: Our consolidated debt is Rs200m and cash is Rs780m.

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PL's Recommendation Nomenclature

BUY	:	> 15% Outperformance to BSE Sensex	**Outperformer** (OP)	:	5 to 15% Outperformance to Sensex
Market Performer (MP)	:	-5 to 5% of Sensex Movement	**Underperformer** (UP)	:	-5 to -15% of Underperformace to Sensex
Sell	:	<-15% Relative to Sensex			
Not Rated (NR)	:	No specific call on the stock	**Under Review** (UR)	:	Rating likely to change shortly

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