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Rating	Accumulate
Price	Rs146
Target Price	Rs162
Implied Upside	11.0%
Sensex	17,083

(Prices as on October 14, 2011)

Trading data

Market Cap. (Rs bn)	15.7
Shares o/s (m)	107.9
3M Avg. Daily value (Rs m)	53

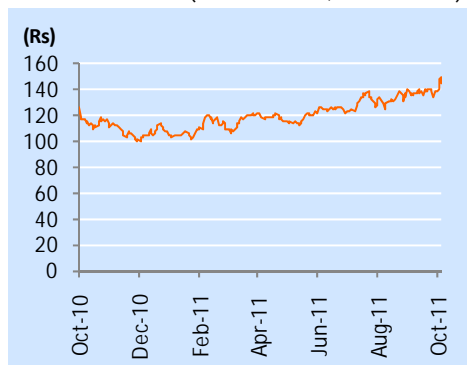
Major shareholders

Promoters	40.48%
Foreign	26.78%
Domestic Inst.	12.72%
Public & Other	20.02%

Stock Performance

(%)	1M	6M	12M
Absolute	5.6	19.9	22.4
Relative	3.4	33.1	39.0

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



Source: Bloomberg

■ **Results slightly ahead of estimates:** Gateway Distriparks' (GDL's) standalone revenues stood at Rs601m, a growth of 43% YoY; however, flat (-1%) QoQ. Volumes were flat sequentially; however, higher realisations (+3% QoQ) led to better-than-expected top-line performance. Though dwell time decreased from 12.5 days in Q1FY12 to 11 days, new services and a change in container mix (container weights) led to increased realisations. Strong top-line growth led to continued good performance on the margin front, reported at 56.8% for Q2FY12. On account of the company coming under full tax this year, PAT growth stood subdued at 11% YoY and 1% QoQ at Rs226m.

■ **Drop in Chennai volumes result in sequentially flat CFS volumes:** In Q1FY12, Chennai operated at abnormally high utilizations exceeding 100%, thereby, leading to certain inefficiencies. This was corrected during this quarter, which led to Chennai's volumes reducing by 17% QoQ. Overall volumes remained flat sequentially; however, grew 13% YoY.

■ **Rail business going strong:** Rail business continued to do well in Q2FY12 on the back of a continuous improvement in volumes and increase in contribution from EXIM cargo, resulting in better efficiencies. Rail volumes grew 36% YoY and 10% QoQ to 43,057 TEUs, translating into a 29% YoY increase in revenues in Q2FY12. As a result, Rail EBITDA grew 74% YoY to Rs164.5m, translating into a profit of Rs51.3m for the quarter as against a loss of Rs33.5m in Q2FY11. The company's focus continues on the Exim side and expects to increase the share of Exim cargo in their volume mix to 80%+ from the current 76%.

■ **Valuations:** We are valuing CFS and the cold chain business at PER of 13x FY13 which gives us a value of Rs132/share. Further, we are valuing the rail business at P/B of 1.25, with a 10% holding company discount. This translates into Rs29/share, assuming Blackstone's stake at a midpoint of 43.5%, thereby, GDL's stake at 56.5%. The SOTP value works out to Rs162. We maintain '**Accumulate**'.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	5,166	6,034	6,748	7,784
Growth (%)	14.6	16.8	11.8	15.3
EBITDA (Rs m)	1,249	1,640	2,066	2,474
PAT (Rs m)	791	968	1,249	1,558
EPS (Rs)	7.3	9.0	11.6	14.4
Growth (%)	(0.8)	22.3	29.1	24.7
Net DPS (Rs)	3.0	4.5	5.5	6.0

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	24.2	27.2	30.6	31.8
RoE (%)	12.3	14.1	17.1	19.5
RoCE (%)	10.2	10.6	11.2	12.8
EV / sales (x)	3.3	2.6	2.3	2.0
EV / EBITDA (x)	13.6	9.6	7.5	6.2
PE (x)	19.8	16.2	12.6	10.1
P / BV (x)	2.4	2.2	2.1	1.9
Net dividend yield (%)	2.1	3.1	3.8	4.1

Source: Company Data; PL Research

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**Exhibit 1: Q2FY12 Result Overview (Rs m) (Standalone)**

Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1 FY12	H1 FY11	YoY gr. (%)
Net Sales	601	420	43.0	610	1,211	802	51.0
EXPENDITURE	259	212	22.6	254	513	414	24.0
Staff cost	23	18	30.0	20	43	37	14.5
<i>% of sales</i>	<i>3.8</i>	<i>4.2</i>		<i>3.3</i>	<i>3.5</i>	<i>4.7</i>	
Transportation	66	55	21.1	64	130	106	22.9
<i>% of sales</i>	<i>11.0</i>	<i>13.0</i>		<i>10.4</i>	<i>10.7</i>	<i>13.2</i>	
Labour charges	21	18	15.6	19	41	36	13.7
<i>% of sales</i>	<i>3.5</i>	<i>4.4</i>		<i>3.2</i>	<i>3.4</i>	<i>4.5</i>	
Other exp	75	57	31.8	80	155	108	42.9
<i>% of sales</i>	<i>12.4</i>	<i>13.4</i>		<i>13.2</i>	<i>12.8</i>	<i>13.5</i>	
Sub contract charges	37	32	17.3	34	71	59	20.4
<i>% of sales</i>	<i>6.2</i>	<i>7.6</i>		<i>5.5</i>	<i>5.9</i>	<i>7.4</i>	
Fees on opt & Mgt of Punjab Conware CFS	37	33	14.1	37	74	68	9.2
<i>% of sales</i>	<i>6.0</i>	<i>7.6</i>		<i>5.8</i>	<i>6.1</i>	<i>8.4</i>	
EBITDA	342	209	63.7	356	698	389	79.7
<i>Margins %</i>	<i>56.8</i>	<i>49.7</i>		<i>58.4</i>	<i>57.6</i>	<i>48.4</i>	
Depreciation	38	34	9.8	39	77	71	8.9
Other Income	22	19	16.1	18	40	23	75.4
EBIT	326	194	68.6	335	662	341	
Financial Expenses	2	4	(36.5)	3	5	9	(46.1)
Adjusted profit before tax	324	190	70.6	333	657	332	97.8
Provision for taxation	98	(13)		110	208	(22)	
<i>Effective Tax Rate %</i>	<i>30.3</i>	<i>(6.7)</i>		<i>33.1</i>	<i>31.7</i>	<i>(6.8)</i>	
Adjusted profit after tax	226	202	11.5	223	449	355	26.5

Source: Company Data, PL Research

Highlights

CFS business

Re-construction of the Punjab Conware CFS: GDL has started demolition work at CFS and expects to have the facility up and running by H2FY13. The total capacity at JNPT shall increase from 216K TEUs pa to 360K pa.

Expansion plans: GDL is considering re-configuration of its existing CFS facilities in order to expand current capacities by 20-30%. Besides, GDL is looking at setting up new facilities in Chennai and Gujarat to capture the growth in port volumes. With regards to its new facility at Kochi, the company expects to have it operational by H2FY13.

Rail Business

Rake utilization & addition: Of the 21 rakes that the company is currently operating, 14 are operating on the EXIM route and 3.5 each for Domestic and Reefer cargo. In order to increase efficiencies, GDL is looking at diverting the rakes from domestic to the EXIM route. During the current fiscal, the company plans to keep its rake count stable at 21; however, will look at adding rakes in FY13, post commencement of rail operations at Asouti.

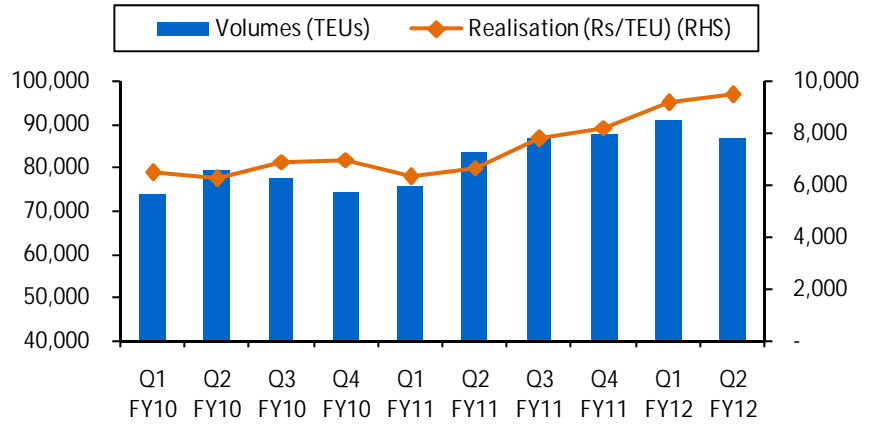
Asouti to commence operations in Q4FY12: Road operations at the company's Asouti ICD are expected to commence in Q4FY12. However, on account of certain connectivity issues arising out of pending government approval (for leasing of rail land), timelines for rail operations remains uncertain.

Cold Chain business

Capex Plans: GDL's current capacity has expanded to 20K pallets from earlier levels of 7K. Further, the company is looking at expanding capacities to 80K pallets over the next 2-3 years. The total outlay towards the same shall be ~Rs0.8bn.

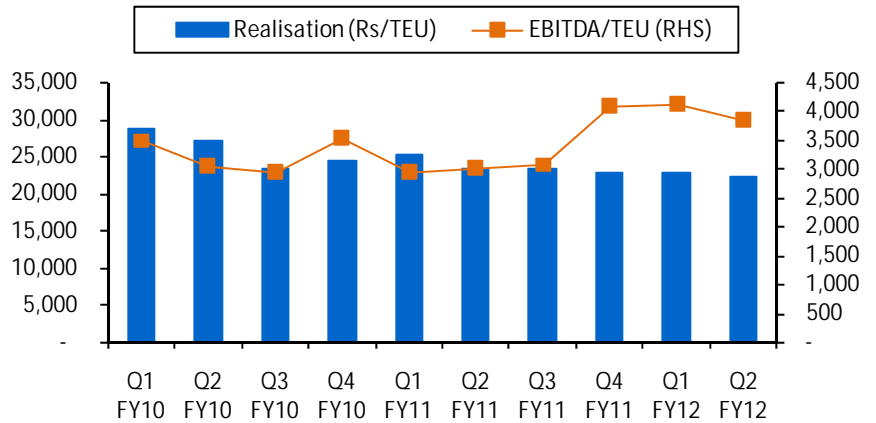
Operating Metrics

Exhibit 2: CFS Realizations continue to inch up



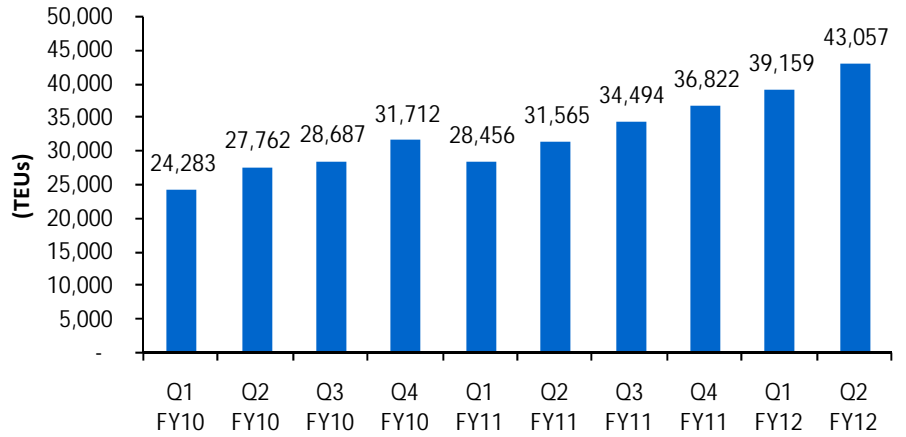
Source: Company Data, PL Research

Exhibit 3: Rail Business Operating parameters stable



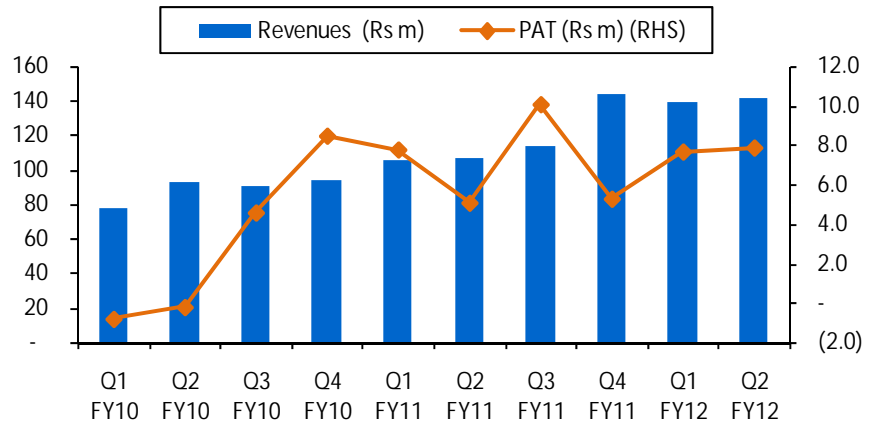
Source: Company Data, PL Research

Exhibit 4: Rail business volume growth continues



Source: Company Data, PL Research

Exhibit 5: Snowman Logistics Financials stable



Source: Company Data, PL Research

Valuations

We are valuing CFS and the cold chain business at PER of 13x FY13 which gives us a value of Rs132/share. Further, we are valuing the rail business at P/B of 1.25, with a 10% holding company discount. This translates into Rs29/share, assuming Blackstone's stake at a midpoint of 43.5%, thereby, GDL's stake at 56.5%. The SOTP value works out to Rs162.

Exhibit 6: SOTP

Valuation of CFS and Cold Chain business

FY13 PAT-CFS Business (Rs m)	995
FY13-PAT- Cold Chain Business (Rs m)	103
Total	1,098
EPS (Rs)	10.2
PER Multiple (x)	13x
Value/share (Rs)	132

Valuation of Rail Business

GDL's equity contribution (Rs m)	2,000
Blackstone's equity contribution (Rs m)	3,000
Total Equity (Rs m)	5,000
GDL's stake assumed at	56.5%
BV attributable to GDL (Rs m)	2,825
Valuation at 1.25x BV (Rs m)	3,531
Equity Value Per Share (Rs)	32.7
Holding Company Discount	10%
Per Share Value (Rs)	29
SOTP Value (Rs/share)	162

Source: PL Research



Income Statement (Rs m)

Y/e March	2010	2011	2012E	2013E
Net Revenue	5,166	6,034	6,748	7,784
Raw Material Expenses	—	—	—	—
Gross Profit	5,166	6,034	6,748	7,784
Employee Cost	357	434	729	841
Other Expenses	3,560	3,960	3,953	4,470
EBITDA	1,249	1,640	2,066	2,474
Depr. & Amortization	455	502	455	466
Net Interest	195	182	159	170
Other Income	125	86	155	165
Profit before Tax	724	1,041	1,607	2,002
Total Tax	(79)	44	353	440
Profit after Tax	803	997	1,253	1,562
Ex-Od items / Min. Int.	12	30	4	4
Adj. PAT	791	968	1,249	1,558
Avg. Shares O/S (m)	107.9	107.9	107.9	107.9
EPS (Rs.)	7.3	9.0	11.6	14.4

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	1,652	683	2,007	2,061
C/F from Investing	(934)	(1,497)	(981)	(879)
C/F from Financing	(516)	1,257	(558)	(678)
Inc. / Dec. in Cash	202	444	468	504
Opening Cash	593	795	1,179	1,647
Closing Cash	795	1,179	1,647	2,150
FCFF	751	(812)	808	980
FCFE	806	(1,707)	1,103	1,230

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	14.6	16.8	11.8	15.3
EBITDA (%)	(14.5)	31.3	26.0	19.7
PAT (%)	(0.6)	22.3	29.1	24.7
EPS (%)	(0.8)	22.3	29.1	24.7
Profitability				
EBITDA Margin (%)	24.2	27.2	30.6	31.8
PAT Margin (%)	15.3	16.0	18.5	20.0
RoCE (%)	10.2	10.6	11.2	12.8
RoE (%)	12.3	14.1	17.1	19.5

Balance Sheet

Net Debt : Equity	0.2	—	—	—
Net Wrkng Cap. (days)	—	—	—	—

Valuation

PER (x)	19.8	16.2	12.6	10.1
P / B (x)	2.4	2.2	2.1	1.9
EV / EBITDA (x)	13.6	9.6	7.5	6.2
EV / Sales (x)	3.3	2.6	2.3	2.0

Earnings Quality

Eff. Tax Rate	(10.9)	4.2	22.0	22.0
Other Inc / PBT	17.2	8.2	9.6	8.2
Eff. Depr. Rate (%)	4.5	4.4	3.7	3.5
FCFE / PAT	101.8	(176.4)	88.3	79.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	6,642	7,041	7,596	8,396
Total Debt	2,099	1,205	1,500	1,750
Other Liabilities	812	3,650	3,690	3,740
Total Liabilities	9,554	11,896	12,786	13,886
Net Fixed Assets	8,703	9,697	10,223	10,636
Goodwill	—	—	—	—
Investments	150	150	150	150
Net Current Assets	696	2,049	2,413	3,100
<i>Cash & Equivalents</i>	<i>795</i>	<i>1,179</i>	<i>1,647</i>	<i>2,150</i>
<i>Other Current Assets</i>	<i>1,208</i>	<i>1,595</i>	<i>1,765</i>	<i>2,065</i>
<i>Current Liabilities</i>	<i>1,307</i>	<i>725</i>	<i>999</i>	<i>1,115</i>
Other Assets	5	—	—	—
Total Assets	9,554	11,896	12,786	13,886

Quarterly Financials (Rs m)

Y/e March	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Net Revenue	520	554	610	601
EBITDA	271	320	356	342
<i>% of revenue</i>	<i>52.2</i>	<i>57.8</i>	<i>58.4</i>	<i>56.8</i>
Depr. & Amortization	36	36	39	38
Net Interest	3	3	3	2
Other Income	12	4	18	22
Profit before Tax	244	286	333	324
Total Tax	14	19	110	98
Profit after Tax	230	267	223	226
Adj. PAT	230	267	223	226

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Gateway Rail Freight Ltd.	2,900	3,101	3,710	4,251
Snowman Frozen Foods Ltd.	394	452	497	547
Others (CFS)	1,932	2,340	2,542	2,986
CFS Volumes (TEUs)	304,400	333,422	343,150	403,700
Revenue/TEU (Rs)	6,637	7,019	7,407	7,397
Rail Business Volumes (TEUs)	112,444	131,337	190,107	219,663

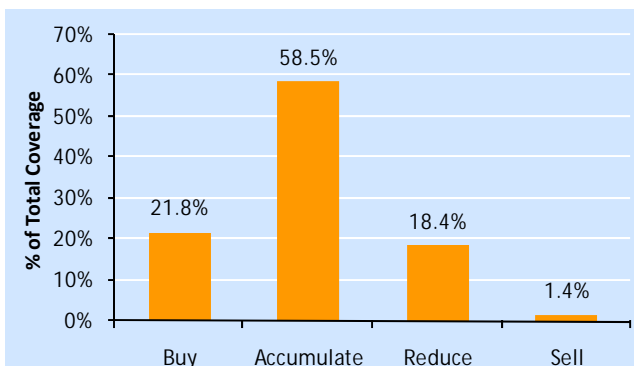
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BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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