

## Gateway Distriparks

Q3FY10/ Estimate change

2 February 2010

## Hold

Target Price: Rs111

CMP: Rs128\*

Downside: 13%

\*as on 2 February 2010

## Improving rail mix boosts margin

**Gateway Distriparks' (GDL) Q3 results were mixed as revenue declined, though profitability improved sequentially. We maintain our Hold rating as we await the rail business to turnaround and expect margins to remain stable. At CMP, the stock trades at 13.9x FY11E EPS and appears fully-valued.**

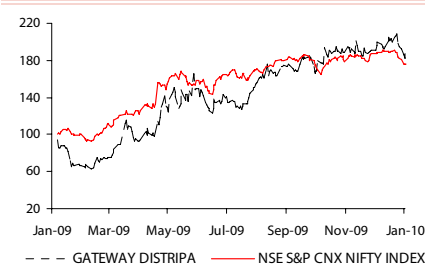
- **Results mixed:** Q3 standalone net sales fell 27.9% YoY to Rs434mn, 6.5% lower than our estimate. Net profit declined 29.6% to Rs202mn, again 6.5% lower than our estimate, even though margin was on expected lines.
- **Estimates revised:** We have lowered our revenue estimates by 1.7% for FY10 and 4.9% for FY11. We have marginally raised EBIDTA margin estimates by 51bp and 48bp respectively. Accounting for lower other income in FY11, FY10E EPS is lower by 0.4% to Rs7.3 and FY11E by 11.1% to Rs9.2.
- **Increasing traction in rail's EXIM business:** GDL's consolidated income grew 5.7% YoY to Rs1,291mn, led by the 52.9% YoY growth in rail revenue to Rs669mn. The up-tick in rail volumes continued and grew 3.3% QoQ to 28,687 TEUs in Q3 on the back of growth in the EXIM business.
- **CFS volume steady, margin improves:** Though CFS volume declined 2.3% QoQ to 77,302 TEUs (standard size of a container), average realisation improved 10.0% QoQ to Rs6,874 per TEU helping post a 382bp QoQ increase in EBITDA margin to 49.6%.

## Key Data

Bloomberg Code	GDPL IN
Reuters Code	GATE.BO
Current Shares O/S (mn)	107.7
Diluted Shares O/S(mn)	107.7
Mkt Cap (Rsbn/USDmn)	13.8/298.5
52 Wk H / L (Rs)	148/42
Daily Vol. (3M NSE Avg.)	191,400
Face Value (Rs)	10

USD = Rs46.4

## One Year Indexed Stock Performance



## Price Performance (%)

	1M	6M	1Yr
GDPL	(6.2)	38.3	87.4
NIFTY	(5.8)	5.7	77.1

Source: Bloomberg, Centrum Research  
\*as on 2 February 2010

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Y/E March (Rsmn) (Standalone)	Q3FY10	Q3FY09	YoY (%)	Q2FY10	QoQ (%)	Q3FY10E	Variance (%)
<b>Net sales</b>	<b>434</b>	<b>602</b>	<b>(27.9)</b>	<b>396</b>	<b>9.7</b>	<b>464</b>	<b>(6.5)</b>
Transportation cost	51	61		49		53	
% of sales	11.8	10.1	166bp	12	(55)bp	11.5	28 bp
Employee costs	14	15		13		16	
% of sales	3.2	2.5	78bp	3.2		3.5	
Other op expenses	140	167		140		152	
% of sales	32.1	27.7	443bp	35.5		32.6	(51)bp
<b>Operating profit</b>	<b>229</b>	<b>359</b>	<b>(36.2)</b>	<b>194</b>	<b>18.3</b>	<b>243</b>	<b>(5.6)</b>
<b>OPM (%)</b>	<b>52.9</b>	<b>59.7</b>	<b>(686)bp</b>	<b>49.0</b>	<b>385bp</b>	<b>52.4</b>	<b>49 bp</b>
Depreciation	37	38		38		41	(8.8)
Interest	5	3		2		5	
Other income	4	10		7		17	
<b>PBT</b>	<b>192</b>	<b>329</b>	<b>(41.6)</b>	<b>162</b>	<b>18.7</b>	<b>214</b>	
Provision for tax	(10)	42		(18)		(1.7)	
-effective tax rate	(5.4)	12.7		(11.2)		(0.8)	
<b>PAT (adjusted)</b>	<b>202</b>	<b>287</b>	<b>(29.6)</b>	<b>180</b>	<b>12.5</b>	<b>216</b>	<b>(6.5)</b>
<b>NPM (%)</b>	<b>46.5</b>	<b>47.7</b>	<b>(112)bp</b>	<b>45.4</b>	<b>113bp</b>	<b>46.5</b>	<b>1 bp</b>
<b>EPS (adjusted) (Rs)</b>	<b>1.9</b>	<b>2.7</b>		<b>1.7</b>		<b>2.0</b>	

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY %	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY07	1,610	16.2	812	50.5	778	7.7	7.2	13.0	12.3	19.7	13.7
FY08	2,714	68.6	1,024	37.7	736	(5.5)	6.8	11.6	10.7	20.0	14.7
FY09	4,510	66.2	1,461	32.4	796	8.2	7.4	12.5	11.9	17.3	10.4
FY10E	5,234	16.1	1,387	26.5	784	(1.5)	7.3	12.2	9.2	17.6	8.6
FY11E	6,590	25.9	1,779	27.0	992	26.6	9.2	14.3	9.2	13.9	6.7

Note: \* Consolidated figures

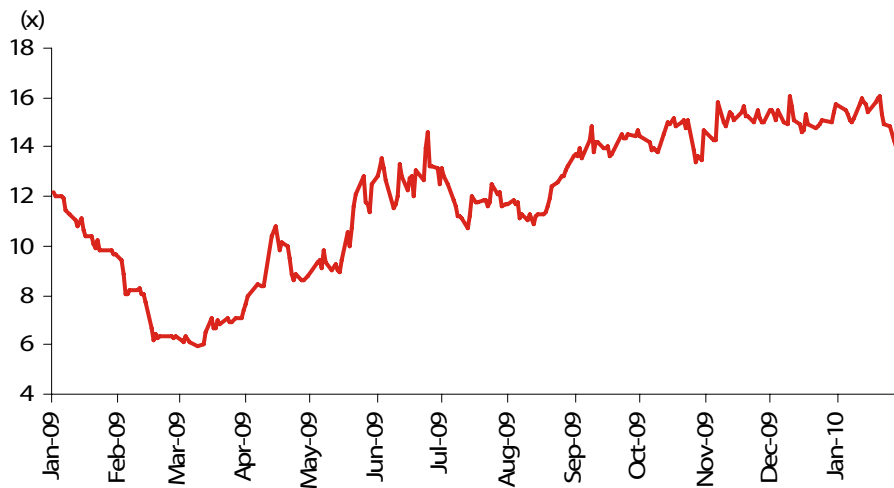
Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

### Maintain Hold with target price of Rs111

We maintain our Hold rating with a target price to Rs111, valuing the company at 10x one-year rolling forward earnings. At CMP, the stock trades at 13.9x FY11E EPS (consolidated) and at 14.4x on one-year forward basis, looking a tad expensive. However, improving rail business and margins makes us reiterate our Hold rating on the stock.

#### Exhibit 1: Valuations to languish for a while (one-year rolling P/E multiple)



Source: Bloomberg, Centrum Research

### Estimates revised

We have revised our estimates to reflect the lower-than-expected revenue growth and lower other income. Revenue estimates have been lowered by 1.7% for FY10 and 4.9% for FY11. Based on expectations of improvement in margins ahead, we have marginally raised EBITDA margin estimates by 51bp and 48bp, respectively. However, due to lower other income, our PAT estimates are cut 11.1% for FY11E. Effectively, EPS has been lowered by 0.4% to Rs7.3 for FY10 and 11.1% to Rs9.2 for FY11.

#### Exhibit 2: Revised estimates to reflect lower margins

Particulars (Rsmn)	Revised		Earlier		Variance (%)	
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Revenue	5,234	6,590	5,322	6,930	(1.7)	(4.9)
EBITDA	1,387	1,779	1,383	1,838	0.3	(3.2)
PAT	784	992	787	1,116	(0.4)	(11.1)
EPS (Rs)	7.3	9.2	7.3	10.4	(0.4)	(11.1)
<b>Margins (%)</b>						
EBITDA	26.5	27.0	26.0	26.5	51bp	48bp
PAT	15.0	15.1	14.8	16.1	19bp	(105)bp

Source: Company, Centrum Research Estimate

We have cut revenue estimate by 1.7% for FY10E and by 4.9% for FY11E

## Revenue flat, profitability improves sequentially

Q3 consolidated income grew 5.7% YoY to Rs1,291mn, led by the 52.9% YoY growth in rail revenue to Rs669mn on back of higher capacity. However total income was lower sequentially, down 3.8% QoQ as average realisations in the rail division declined leading to 11.3% QoQ fall in rail revenue.

EBITDA margin improved 407bp QoQ to 28.7% (down 753bp YoY) as improvement was seen across segments. Consolidated EBITDA increased 12.1% QoQ to Rs371mn led by higher contribution from high-margin CFS segment.

The CFS segment's (standalone + others) EBITDA margin of 49.6% was an improvement of 382bp YoY mainly on back of increase in average dwell time to 10 days from 8.5 days earlier. Increase in the volume of import containers also helped improve margins. JNPT CFS's margin increased 336bp QoQ to 53.3%, while EBITDA rose 16.1% to Rs224mn.

The container rail segment EBITDA remained flat at Rs84mn even though revenue declined 11.3% QoQ as margins improved 140bp on back of higher EXIM volumes.

### Exhibit 3: Consolidated segmental break-up

Particulars (Rsmn)	Q3FY10	Q3FY09	YoY (%)	Q2FY10	QoQ (%)	CTG % (QoQ)
<b>Income (includes other income)</b>						
CFS (standalone)	438	612	(28.4)	403	8.8	2.7
CFS (others)	93	85	10.1	91	2.0	0.1
Container Rail Logistics	669	438	52.9	754	(11.3)	(6.6)
Cold chain logistics	91	88	2.9	93	(2.4)	(0.2)
<b>Total</b>	<b>1,291</b>	<b>1,222</b>	<b>5.7</b>	<b>1,341</b>	<b>(3.8)</b>	<b>(3.9)</b>
<b>EBITDA (Rsmn)</b>						
CFS (standalone)	234	359	(35.0)	201	16.1	8.7
CFS (others)	30	38	(22.0)	25	19.8	1.3
Container Rail Logistics	84	26	220.0	84	(0.2)	(0.1)
Cold chain logistics	23	19	23.0	20	15.0	0.8
<b>Total</b>	<b>371</b>	<b>443</b>	<b>(16.3)</b>	<b>331</b>	<b>12.1</b>	<b>10.8</b>
<b>EBITDA margins (%)</b>						
CFS (standalone)	53.3	58.8	(547)bp	49.9	336bp	
CFS (others)	32.1	45.3	(1,321)bp	27.3	476bp	
Container Rail Logistics	12.6	6.0	656bp	11.2	140bp	
Cold chain logistics	25.6	21.4	419bp	21.7	388bp	
<b>Total</b>	<b>28.7</b>	<b>36.2</b>	<b>(753)bp</b>	<b>24.6</b>	<b>407bp</b>	

Note: \* CTG = Contribution to growth  
Source: Company, Centrum Research

Standalone results marginally lower than expectations. Net sales fell 27.9% YoY to Rs434mn, 6.5% lower than our estimate. Net profit declined 29.6% YoY to Rs202mn, again 6.5% lower than our estimate even as margins were on expected lines.

### Exhibit 4: Rail volumes increase, while CFS registers higher realisation

Operating performance	Q3FY10	Q3FY09	YoY (%)	Q2FY10	QoQ (%)
CFS volume (TEUs)	77,302	77,411	(0.1)	79,088	(2.3)
CFS realisation (Rs / TEU)	6,874	8,994	(23.6)	6,249	10.0
Rail volume (TEUs)	28,687	16,177	77.3	27,762	3.3
Rail realisation (Rs / TEU)	23,320	27,047	(13.8)	27,171	(14.2)

Source: Company, Centrum Research

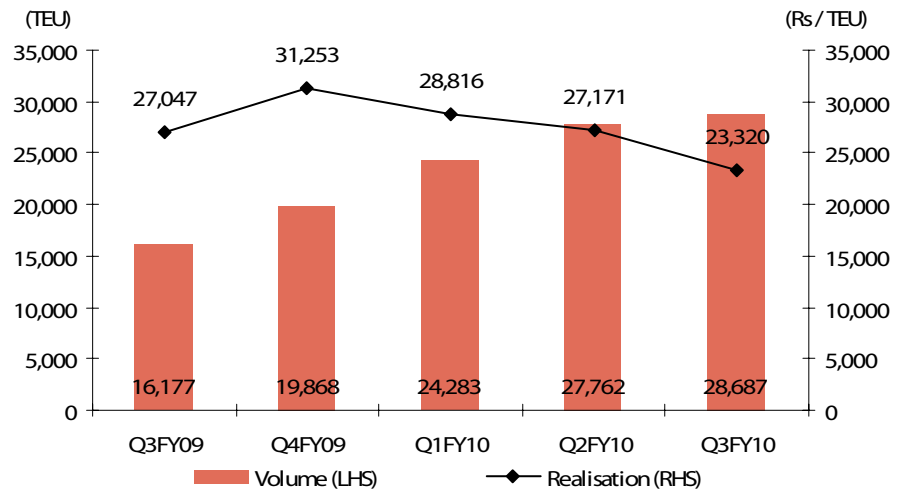
Consolidated income higher on back of 52.9% YoY growth in rail business

Margin expansion seen across businesses as consolidated EBITDA margins increased 407bp QoQ

### Healthy mix of EXIM volumes improves rail's profitability

Gateway Rail Freight's (GRFL), GDL's rail subsidiary, revenue declined 11.3% QoQ to Rs669mn (up 52.9% YoY), primarily on account of lower realisations. Rail volumes remained flat, up 3.3% QoQ (and 77.3% YoY) to 28,687 TEUs on the back of growth in the EXIM business. Volumes have been consistently growing for the last 4 consecutive quarters.

**Exhibit 5: Rail volumes continue their surge for the last 4 quarters**

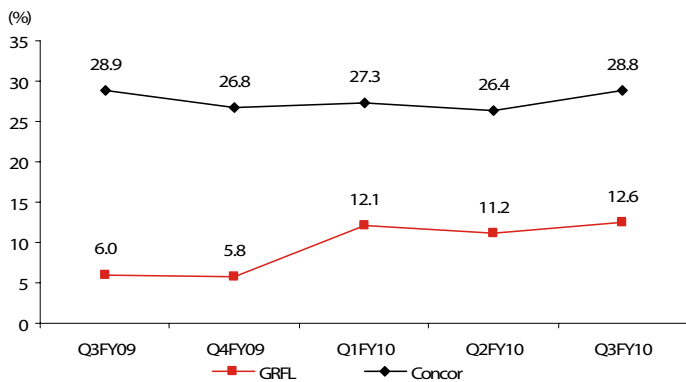


Source: Company, Centrum Research

GRFL's operating profit was flat at Rs84mn despite a revenue decline as margins improved 140bp on back of higher EXIM volumes. The volume mix of EXIM containers improved from 45% in Q1 to 50% in Q3. This also led to the average realisations to decline 14.2% QoQ to Rs23,320 per TEU. We believe this led to lower revenue, but better margin.

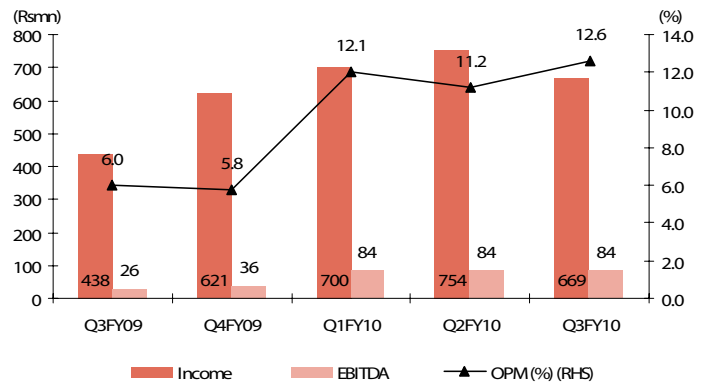
However, the subsidiary continues to make losses at the net level with a loss of Rs27mn for Q3FY10 vs loss of Rs88mn during Q3FY09. The cumulative net loss stands at Rs77mn for 9MFY10 period.

**Exhibit 6: GRFL continues to trails Concor's margin**



Source: Company, Centrum Research

**Exhibit 7: Rail lower, but margins improve QoQ**



Source: Company, Centrum Research

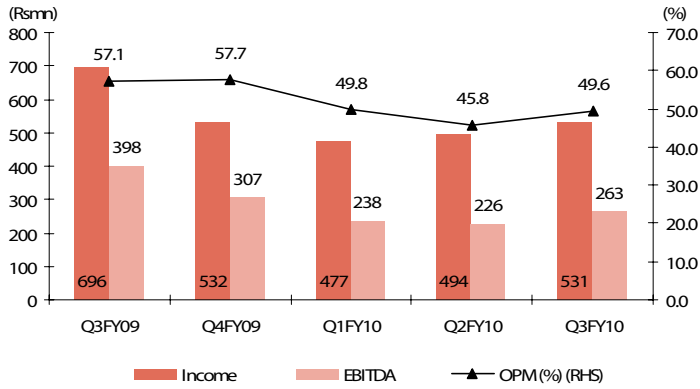
### CFS volumes stable, margins improves sequentially

CFS volume grew 7.1% QoQ while realisations were down 3.3% QoQ

Containers handled by the CFS division remained stable, both QoQ as well as YoY. CFS volumes declined 2.3% QoQ to 77,302 TEUs (down 0.1% YoY). However, average realisation improved 10.0% QoQ to Rs6,874 per TEU helping post a 382bp QoQ increase in EBITDA margin to 49.6%.

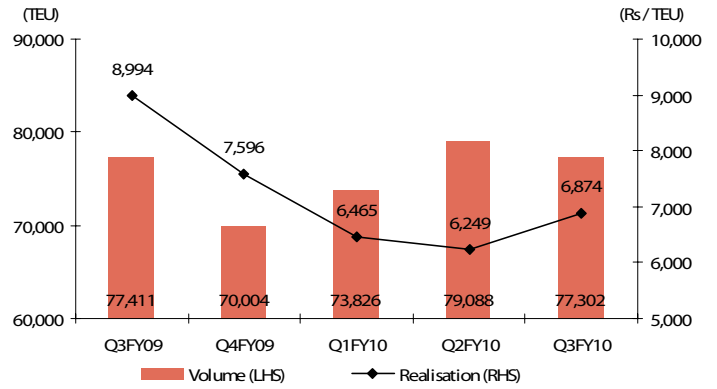
This was mainly on the back of the increase in average dwell time to 10 days from 8.5 days earlier. Increase in the contribution of import containers to total volumes also helped improve margin.

**Exhibit 8: CFS margins improves QoQ**



Source: Company, Centrum Research

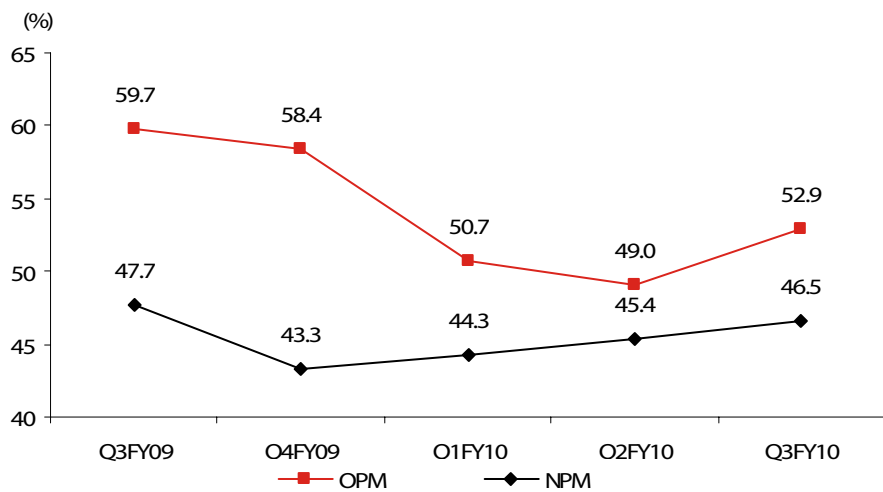
**Exhibit 9: Realisations better, volumes stable**



Source: Company, Centrum Research

Profitability margins for the standalone JNPT CFS showed signs of improvement as EBITDA margins increased 336bp QoQ to 53.3%, on back of lower operating costs. Transportation cost (as a percent age to sales) declined 55bp QoQ while other operating expenses declined 332bp QoQ.

**Exhibit 10: Standalone (JNPT CFS) operating margins witness some improvement**



Source: Company, Centrum Research

## Financials - Consolidated

### Exhibit 11: Income Statement

Y/E March (Rsmn)	FY07	FY08	FY09	FY10E	FY11E
<b>Revenue</b>	<b>1,610</b>	<b>2,714</b>	<b>4,510</b>	<b>5,234</b>	<b>6,590</b>
YoY growth (%)	16.2	68.6	66.2	16.1	25.9
Operating expenses	472	1,232	2,442	2,905	3,591
% of sales	29.3	45.4	54.1	55.5	54.5
Employee Cost	91	163	198	340	395
% of sales	5.7	6.0	4.4	6.5	6.0
Admin & other expenses	234	295	409	602	824
% of sales	14.6	10.9	9.1	11.5	12.5
Total expenditure	797	1,689	3,049	3,847	4,810
<b>EBITDA</b>	<b>812</b>	<b>1,024</b>	<b>1,461</b>	<b>1,387</b>	<b>1,779</b>
EBITDA margin (%)	50.5	37.7	32.4	26.5	27.0
Depreciation	139	292	445	459	492
<b>EBIT</b>	<b>674</b>	<b>732</b>	<b>1,016</b>	<b>928</b>	<b>1,287</b>
Interest expenses	14	20	202	203	221
Other income	250	144	119	37	98
<b>PBT</b>	<b>910</b>	<b>856</b>	<b>934</b>	<b>761</b>	<b>1,165</b>
Provision for tax	139	136	159	(7)	112
Effective tax rate (%)	15.3	15.9	17.0	(1.0)	9.7
Minority Interest	(7)	(15)	(21)	(15)	60
<b>PAT</b>	<b>778</b>	<b>736</b>	<b>796</b>	<b>784</b>	<b>992</b>
YoY growth (%)	7.7	(5.5)	8.2	(1.5)	26.6
PAT margin (%)	48.3	27.1	17.6	15.0	15.1

Source: Company, Centrum Research Estimates

### Exhibit 12: Balance Sheet

Y/E March (Rsmn)	FY07	FY08	FY09	FY10E	FY11E
Equity Share Capital	924	1,156	1,077	1,077	1,077
Reserves & Surplus	5,264	5,311	5,160	5,565	6,117
<b>Net worth</b>	<b>6,188</b>	<b>6,467</b>	<b>6,237</b>	<b>6,643</b>	<b>7,194</b>
Secured Loans	75	215	2,045	2,260	2,450
<b>Total Loan Funds</b>	<b>75</b>	<b>215</b>	<b>2,045</b>	<b>2,260</b>	<b>2,450</b>
Minority interest	483	636	606	3,744	3,744
Deferred Tax Liability	150	169	185	185	185
<b>Total Capital Employed</b>	<b>6,896</b>	<b>7,487</b>	<b>9,072</b>	<b>12,831</b>	<b>13,573</b>
Gross Block	4,373	7,186	9,333	10,233	11,253
Accumulated Depreciation	714	1,001	1,407	1,866	2,358
Net Block	3,660	6,185	7,926	8,367	8,895
Capital WIP	1,103	466	206	150	200
<b>Net Fixed Assets</b>	<b>4,763</b>	<b>6,651</b>	<b>8,132</b>	<b>8,517</b>	<b>9,095</b>
<b>Investments</b>	<b>0</b>	<b>0</b>	<b>230</b>	<b>240</b>	<b>260</b>
Sundry debtors	182	317	529	574	632
Cash & bank balances	2,068	957	593	4,052	4,234
Other Current Assets	29	35	26	63	79
Loans and Advances	80	162	249	262	329
Total current assets	2,360	1,472	1,396	4,950	5,275
Current liabs & prov	227	645	694	883	1,065
<b>Net Current Assets</b>	<b>2,133</b>	<b>827</b>	<b>703</b>	<b>4,067</b>	<b>4,210</b>
Misc exp	0	9	7	7	7
<b>Total Assets</b>	<b>6,896</b>	<b>7,487</b>	<b>9,072</b>	<b>12,831</b>	<b>13,573</b>

Source: Company, Centrum Research Estimates

### Exhibit 13: Cash flow

Y/E March (Rsmn)	FY07	FY08	FY09	FY10E	FY11E
Profit after Tax	778	736	796	784	992
Depreciation	139	292	445	459	492
Provision for deferred tax	28	19	16	0	0
Misc Items	0	9	(2)	0	0
CF bf WC change	945	1,055	1,254	1,243	1,484
Working capital adj	466	(97)	(240)	95	39
<b>Cash from operation</b>	<b>1,411</b>	<b>958</b>	<b>1,014</b>	<b>1,338</b>	<b>1,523</b>
Capex	(2,745)	(2,180)	(1,926)	(844)	(1,070)
Investments	144	0	(230)	(10)	(20)
Minority Interest	475	153	(30)	3,201	0
<b>Cash from investing</b>	<b>(2,126)</b>	<b>(2,027)</b>	<b>(2,186)</b>	<b>2,347</b>	<b>(1,090)</b>
Borrowings/ (repayments)	(244)	141	1,908	215	190
Proceeds from sh capital	27	21	(635)	0	0
Dividend paid	(527)	(203)	(466)	(441)	(441)
<b>Cash from financing</b>	<b>(743)</b>	<b>(42)</b>	<b>808</b>	<b>(226)</b>	<b>(251)</b>
<b>Net Cash inc/(dec)</b>	<b>(1,458)</b>	<b>(1,111)</b>	<b>(364)</b>	<b>3,459</b>	<b>182</b>
Opening Cash Balance	3,526	2,068	957	593	4,052
<b>Closing Cash Balance</b>	<b>2,068</b>	<b>957</b>	<b>593</b>	<b>4,052</b>	<b>4,234</b>
FCF to firm (FCFF)	(1,334)	(1,222)	(912)	494	453
FCF per share	(14)	(11)	(8)	5	4

Source: Company, Centrum Research Estimates

### Exhibit 14: Key Ratios

Y/E March	FY07	FY08	FY09	FY10E	FY11E
O/s shares mn (FV-Rs 10)	92.4	115.6	107.7	107.7	107.7
<b>Per share (Rs)</b>					
Basic EPS	8.4	6.4	7.4	7.3	9.2
Fully diluted EPS	7.2	6.8	7.4	7.3	9.2
CEPS	9.9	8.9	11.5	11.5	13.8
BVPS	67.0	55.9	57.9	61.7	66.8
Cash/Share	22.4	8.3	5.5	37.6	39.3
<b>Dividend ratios</b>					
DPS (Rs)	3.5	3.5	3.5	3.0	3.5
Dividend yield (%)	2.5	2.6	2.8	2.3	2.7
Dividend payout (%)	41.5	55.0	48.0	41.2	38.0
<b>Turnover ratios (days)</b>					
Debtors turnover	28.6	33.6	34.3	38.5	33.4
Creditors turnover	29.5	32.5	24.4	29.6	34.4
Working cap turnover	684.0	199.0	61.9	166.3	229.2
Asset turnover (x)	0.2	0.4	0.5	0.4	0.5
<b>Return ratios (%)</b>					
RoE	13.0	11.6	12.5	12.2	14.3
RoCE	12.3	10.7	11.9	9.2	9.2
<b>Solvency ratios</b>					
Debt/ Equity (x)	0.0	0.0	0.3	0.3	0.3
Interest coverage (%)	1.3	1.7	12.8	14.3	11.7
<b>Valuation ratios (x)</b>					
P/E	19.7	20.0	17.3	17.6	13.9
P/BV	2.1	2.4	2.2	2.1	1.9
EV/EBITDA	13.7	14.7	10.4	8.6	6.7
EV/Sales	6.9	5.6	3.4	2.3	1.8
M-Cap to Sales	8.2	5.8	3.1	2.6	2.1

Source: Company, Centrum Research Estimates

## Appendix A

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