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In Focus

Gateway Distriparks

Market Performer | **Rs 191** | **November 24, 2006**

Yet another addition to its offerings

Gateway Distriparks announced its acquisition of 50.2% stake in Snowman Frozen Foods Limited, an unlisted company engaged in the business of cold chain logistic services such as storage, handling, transportation and secondary distribution of frozen foods. The company currently has presence across 16 locations in the country. The stake was acquired for Rs 481.2m to be paid through cash raised from the GDR last year. The cost of acquisition appears to be high but Gateway looks at this as an opportunity to make a quick entry in to the cold storage business which would otherwise take a couple of years to set up.

Key Figures *(consolidated but without impact of acquisition)*

Y/e March	FY05	FY06	FY07E	FY08E
Net Sales *(Rs m)*	956	1,389	1,540	2,213
EBITDA *(Rs m)*	525	832	876	1,261
EBITDA Margin (%)	*54.9*	*59.9*	*56.9*	*57.0*
PAT *(Rs m)*	346	675	804	1,010
EPS *(Rs)*	4.6	7.5	8.9	11.2
PER *(x)*	41.4	25.5	21.4	17.0
Cash EPS *(Rs)*	5.6	8.7	10.3	13.1
CPER *(x)*	34.2	22.1	18.6	14.6
EV / EBITDA *(x)*	27.2	16.8	15.9	10.6
RoE (%)	*28.0*	*18.5*	*13.5*	*15.0*
RoCE (%)	*20.7*	*16.2*	*13.1*	*15.3*

About Snowman Frozen Foods

Snowman boasts of a reputed clientele. HLL is one of its largest clients and will continue to remain going forward as well. This acquisition has further provided the Gateway management with an opportunity to partner with Mitsubishi and Nichirei Logistics Group Inc from Japan both of which are existing shareholders of Snowman. Together they will hold 48.7% of the company's equity. While the former is a reputed name in the infrastructure development space the latter is one of the leading players in cold chain management in Japan. Mitsubishi is expected to partner with the Indian Railways in setting up the dedicate freight corridor in the next few years. Therefore the relation thus established with both these players is likely to help Gateway in the long run.

Snowman Foods reported revenues of roughly Rs.250m and a loss of Rs.41.5m in FY06. This year it is expected to report revenues of about Rs.300m and profits of Rs.20m with EBITDA margins of 20%. PAT margins are much lower (about 8%) due to high interest costs and depreciation. It is likely to remain at

(Stock price as on November 24, 2006)

similar levels over the next few years. Currently return ratios are very poor and may continue to look lacklustre in the near term.

Rationale behind the acquisition

While financially, this company obviously does not appear very attractive it will enable Gateway to enter in to the area of cold storage and derisk its business model over the longer term. The cold chain industry is growing at roughly 10%, while the organized sector within it is growing by 25%. With the expected boom in the retail market the growth is likely to sustain and could further improve. Some of the other players (existing and new) in this industry include Radhakrishna Foods and Hospitality Services, Concor and Bharti Retail.

Currently the GDL management expects Snowman to grow in line with the industry but would have more accurate growth plans by the end of this quarter. The company over a period wants to transform itself from being a mere CFS operator to providing a host of logistic services including railway freight movement, cold storage, third party and fourth party logistics, logistic support for port operators etc.

Impact on GDL's numbers

On the current revenue and profit base, this acquisition will add 20% to the top-line and less than 2% to the bottom-line. But it will result in a drop in the existing operating and PAT margins to roughly 51% and 45% as against 57% and 52% currently since margins of the company are much lower than GDL's. However our EPS estimate will improve marginally (by 2%) for FY07E and FY08E from Rs 8.9 and Rs 11.2 to Rs 9.1 and Rs 11.5 respectively. Based on the revised estimates the stock still quotes at steep valuations of 21.4x FY07E and 17.0x FY08E earnings estimates. Maintain ***Market Performer***.