

Gateway Distriparks

Reco: Hold

Stock Update

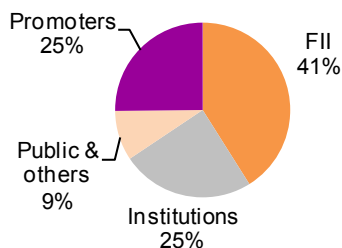
Freight volume outlook for FY2018 positive; short-term trade imbalance to play spoilsport

CMP: Rs254

Company details

Price target:	Rs290
Market cap:	Rs2,763 cr
52-week high/low:	Rs325/209
NSE volume: (No of shares)	12.4 lakh
BSE code:	532622
NSE code:	GDL
Sharekhan code:	GDL
Free float: (No of shares)	8.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.3	8.1	-6.7	1.3
Relative to Sensex	-6.5	-2.7	-10.1	-16.6

Key points

- Freight outlook for FY2018 to improve owing to railway action plan:** The Union Railway Ministry unveiled key freight-related initiatives on March 2, which highlights its action plan to bring back traffic lost in recent years to the road sector. The Railways is targeting 8.5% YoY growth in its freight revenue for FY2018, primarily through an increase in cargo volume (expects 6% YoY rise in volume to 1165mt). The Railway's key initiatives to improve cargo volume will be long-term contracts (not less than three years), whereby customers may get discounts in the range of 1.5-35% based on incremental growth in volume (customers are required to offer at least 1mt of traffic per annum). The noteworthy factor for 6.5% targeted growth in FY2018 factors in 9.9% YoY growth in container services. Additionally, the government has identified 35 clusters (accounting for 50% of total freight movement in the country) for building multi-modal logistics parks, with the National Highways Authority of India (NHAI) as the nodal agency (state governments to provide land while private players are expected to develop and operate the multi-modal logistics parks).
- Short-term volume to see uptick while EXIM imbalance to affect near term margins:** The cargo handled at major ports have grown by 6.5% YoY during April-February 2017 vs a 4.3% YoY growth in FY2016. The signs of improvement in cargo volume at major ports, especially at Chennai, Vizag, Kochi and Mumbai will benefit GDL, as was the case in Q3FY2017. Further, container rail volume has grown by 1.9% YoY during April-February 2017 as against a 5.4% YoY decline in FY2016. However, in the short term, exports have started showing growth (up 1.1% YoY during April-January 2017). The rising imbalance due to the fall in imports (down 5.7% YoY) can increase empty running costs for logistics companies, in turn affecting the Operating Profit Margin (OPM) of companies like GDL.
- Maintain Hold with unchanged price target of Rs290:** The outlook for improvement in freight volume in FY2018 looks promising although the current imbalance in EXIM trade and higher competitive intensity are likely to affect the company's financials in the near term. Improvement in the global trade environment and revival in OPM in the two businesses (Rail and Cold Chain) will be the key monitorables going forward. Although GDL's structural growth story over the long term remains intact (owing to a range of services, leadership in CFS and Rail businesses and a healthy balance sheet), the near-term uncertainties are likely to weigh on its valuation. Consequently, we maintain a 'Hold' rating with an unchanged price target (PT) of Rs290.
- Risk:** The risk to our call is an earlier-than-expected revival in the demand environment and an improvement in the OPM.

Valuation (consolidated)

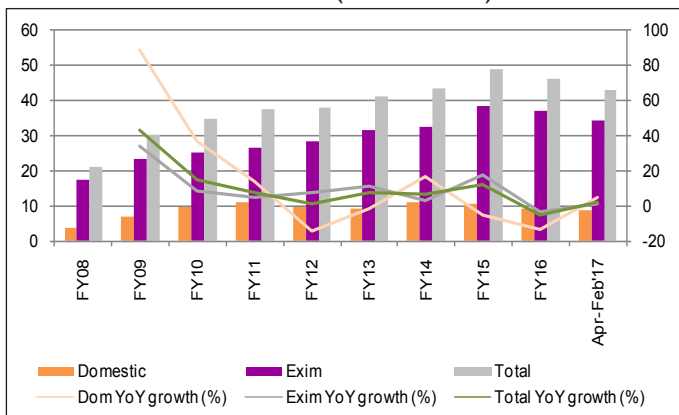
Particulars	FY14	FY15	FY16	FY17E*	FY18E*
Sales	1,008.1	1,105.0	1,046.1	1,139.8	1,249.5
YoY growth (%)	6.1	9.6	(5.3)	9.0	9.6
EBITDA (Rs cr)	258.6	320.4	243.9	229.2	262.9
Margin (%)	25.7	29.0	23.3	20.1	21.0
Adjusted net profit	142.0	187.8	123.6	95.8	119.9
EPS (Rs)	13.1	17.3	11.4	8.8	11.0
YoY growth (%)	12.0	32.1	(34.1)	(22.6)	25.2
P/E (x)	19.4	14.7	22.3	28.9	23.1
EV/EBITDA (x)	11.3	8.7	11.2	12.1	10.7
P/BV (x)	3.3	2.9	2.9	2.9	3.0
RoCE (%)	13.3	16.6	12.9	13.2	15.2
RoNW (%)	17.5	21.3	13.2	10.1	13.0

*Adjustment in accounting of Snowman Logistics from subsidiary to associate company

Container rail volume shows relative improvement in domestic and EXIM trade

The Container Rail volume during April-February 2017 has grown by 1.9% YoY, affected by weak domestic volume (up 5.2% YoY) while EXIM volume is up by 1.0% YoY. We are seeing a gradual uptick in domestic volume and a slight increase in EXIM volume. During FY2016, the Container Rail volume fell by 13.2% YoY in the domestic market while EXIM volume dropped by 3.3% YoY, leading to the overall volume falling by 5.4% YoY.

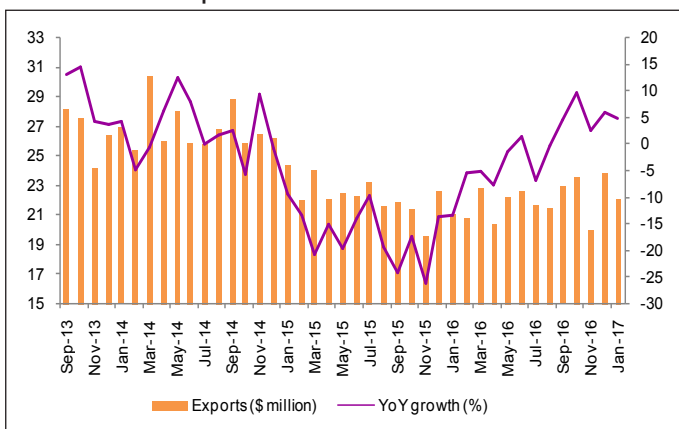
Trend in rail container volume (million tonne)



Port traffic shows some sign of improvement in GDL's area of operations

The volume of cargo handled at the major domestic ports is expected to have risen by 6.5% YoY during April-February 2017 as against a growth of 4.3% in FY2016. An improvement at the Paradip, Mormugao, Visakhapatnam, Kandla and Kochi ports is expected to have supported the growth during April-February 2017. However, volumes at JNPT, Ennore and Kolkata have shown a declining trend. Further, container volume for the same period is up 2.7% YoY as against an increase of 2.98% YoY during FY2016. The early signs of improvement in volume in cargo handled at major ports, especially at Chennai, Vizag, Kochi and Mumbai, is beneficial for GDL as was the case in Q3FY2017.

Trend in India's exports



Traffic at major ports (in '000 tonne)

Ports	April-Feb'17	April-Feb'16	YoY growth (%)
Kolkata	44,525	45,541	-2.2
Paradip	80,613	68,770	17.2
Visakhapatnam	55,532	51,966	6.9
Kamarajar (Ennore)	27,296	29,003	-5.9
Chennai	45,562	45,366	0.4
VO Chidambaranar	35,162	33,320	5.5
Kochi	22,590	20,511	10.1
New Mangalore	35,931	32,141	11.8
Mormugao	28,984	18,019	60.9
Mumbai	57,573	56,087	2.6
JNPT	56,192	58,616	-4.1
Kandla	96,336	91,109	5.7
Total	5,86,296	5,50,449	6.5

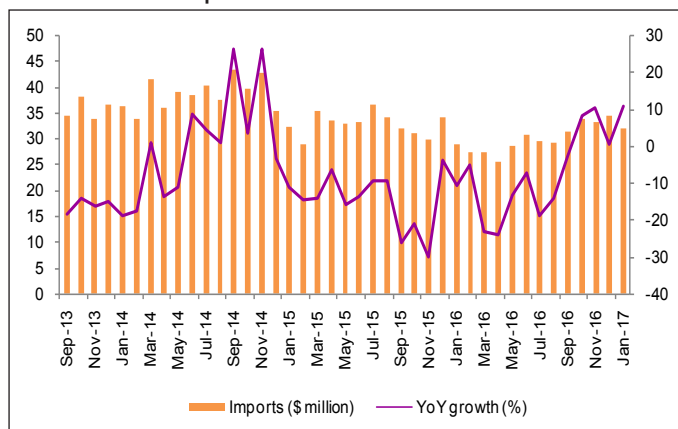
Container traffic at major ports (in '000 TEUs)

Ports	April-Feb'17	April-Feb'16	YoY growth (%)
Kolkata	696	603	15.4
Paradip	2	5	-60.0
Visakhapatnam	332	262	26.7
Kamarajar (Ennore)	-	-	-
Chennai	1,359	1,417	-4.1
VO Chidambaranar	579	550	5.3
Kochi	446	381	17.1
New Mangalore	82	68	20.6
Mormugao	28	23	21.7
Mumbai	39	41	-4.9
JNPT	4,086	4,103	-0.4
Kandla	6	2	200.0
Total	7,655	7,455	2.7

India's EXIM trade continues to show imbalance - may increase empty running costs

India's cumulative exports during April-January 2017 are up by 1.1% YoY to \$221 billion while imports for the same period are down by 5.7% YoY to \$307 billion. While exports have started registering growth, the rising imbalance due to the fall in imports can increase empty running costs for logistics companies.

Trend in India's imports





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