Sharekhan by BNP PARIBAS

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Stock Update

Result Update

Gateway Distriparks Ltd

EXIM sluggishness impacts Q1; Retain BUY

Logistics	Sharekhan code: GATEWAY
Reco/View: Buy ↔	CMP: **Rs. 101**
	Price Target: **Rs. 121** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

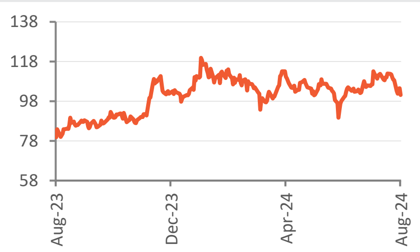
Company details

Market cap:	Rs. 5,049 cr
52-week high/low:	Rs. 121 / 78
NSE volume: (No of shares)	1.3 lakh
BSE code:	543489
NSE code:	GATEWAY
Free float: (No of shares)	33.8 cr

Shareholding (%)

Promoters	32.3
FII	11.8
DII	43.6
Others	12.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.0	0.0	-9.3	26.5
Relative to Sensex	-4.2	-10.0	-20.6	5.8

Sharekhan Research, Bloomberg

Summary

- We retain BUY on Gateway Distriparks Limited (GDL) with an unchanged PT of Rs. 121, expecting growth revival led by rise in domestic manufacturing and EXIM growth.
- For Q1FY2025, GDL reported lower-than-expected consolidated revenue, led by a dip in rail volumes. OPM was higher than estimates, led by q-o-q improvement in CFS EBITDA/TEU, while rail EBITDA/TEU stayed healthy.
- For FY2025, management would be providing rail volume growth guidance post Q2FY2025 due to the current sluggish EXIM demand. Although it would be targeting double-digit volume growth for rail.
- The company is planning to exit the highly competitive CFS operations and is evaluating part land sales at various locations. We believe it would aid in increased focus on rail and improve balance sheet strength.

Gateway Distriparks Limited (GDL) reported lower-than-expected consolidated revenue at Rs. 353 crore (down 4.5% y-o-y), led by a dip in rail volumes (down 8.8% y-o-y) and accounting adjustment in CFS revenue (Rs. 8.42 crore lower as revenue would be reported net offing of discounts from Q1). Overall, rail and CFS revenue fell 11% y-o-y and 3% y-o-y, respectively. Consolidated OPM at 24% (down 177 bps y-o-y) came in higher than our estimate of 23.1% owing to better-than-expected CFS EBITDA/TEU at Rs. 1,350 (Rs. 700 during Q4FY2024), while rail EBITDA/TEU stood at Rs. 9,400 in Q1FY2025 (Rs. 9,800 in Q4FY2024). Overall, consolidated operating profit and net profit lagged our estimates and were down 11% y-o-y and 23% y-o-y at Rs. 84.9 crore and Rs. 48.7 crore, respectively. Considering weak EXIM demand and loss of market shares in Ludhiana and Kashipur markets y-o-y, the company would provide rail volume guidance post Q2FY2025. It may be slightly lower than its earlier guidance of double-digit volume growth. Considering the high competitive intensity, management plans to exit CFS operations and is evaluating the sale of part land parcels at Nhava Seva, Cochin, Vizag, and Chennai. The proceeds may be utilised through the addition of one more ICD terminal. Its Jaipur ICD land remains under litigation and is expected to complete construction in 12-15 months post the start of work.

Key positives

- CFS EBITDA/TEU improved to Rs. 1,350 in Q1FY2025 from Rs. 700 in Q4FY2024.
- Management plans to exit the CFS business owing to high competitive intensity and is evaluating the sale of land parcels at Nhava Seva, Cochin, Vizag, and Chennai.

Key negatives

- Rail volumes declined by 8.8% y-o-y on account of the Red Sea crisis, higher freight rates, and a decline in low-value commodities bookings like waste paper and scrap in Ludhiana and Kashipur.
- Management would be providing rail volume growth guidance post Q2FY2025 due to weak EXIM demand.

Management Commentary

- The company is expected to provide FY2025 guidance after a quarter as Red Sea issues still continue. Growth might be slightly lower than the earlier targeted double-digit volume growth for FY2025. It is changing its pricing strategy and expects to gain volumes in Q2FY2025.
- Currently, the company has five locations for CFS, out of which it is de-notifying Krishnapatam because of stoppage of container business there. Part of the Krishnapatam land is sold to Snowman. It is evaluating assets and ongoing business at its land in Cochin, Vizag, Chennai, and Nhava Seva.
- It did not incur much capex in Q1. It retained Rs. 200 crore capex for FY2025 majorly for Jaipur land acquisition and one more terminal in North.

Revision in estimates – We have fine-tuned our net earnings estimates for FY2025-FY2026.

Our Call

Valuation – Retain BUY with an unchanged PT of Rs. 121: GDL has been showing resilient performance despite EXIM imbalance and sustained pressure in the CFS business, led by rising competition. The company continues to benefit from its core NCR region. The divestment of its CFS business is expected to aid in increasing its focus on its rail business and improving its balance sheet strength. We believe the company remains on track to benefit from an expected improvement in exports going ahead, although it is expected to face pressures, especially in its CFS business, in the near term. The stock is currently trading at an EV/EBITDA of ~13x/10x its FY2025E/FY2026E earnings, which we believe provides further room for upside, given the expected revival in domestic manufacturing and EXIM growth. Hence, we retain BUY on the stock with an unchanged price target (PT) of Rs. 121.

Key Risks

Erosion in the rail and CFS segments' profitability due to a weak trade environment.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenue	1,420.9	1,536.1	1,653.7	1,912.7
OPM (%)	25.9	24.7	23.9	25.8
Adjusted PAT	239.9	256.2	248.6	342.2
YoY growth (%)	25.9	6.8	(3.0)	37.6
Adjusted EPS (Rs.)	4.8	5.1	5.0	6.8
P/E (x)	21.0	19.7	20.3	14.8
P/B (x)	3.0	2.8	2.6	2.4
EV/EBITDA (x)	14.9	14.5	13.5	10.3
RoNW (%)	14.0	13.7	12.2	15.2
RoCE (%)	13.0	13.4	12.9	15.9

Source: Company; Sharekhan estimates

Conference Call Key Takeaways

- **Guidance:** The company is expected to provide FY2025 guidance after a quarter as Red Sea issues still continue. Growth might be slightly lower than the earlier targeted double-digit volume growth for FY2025. The company is changing its pricing strategy and expects to gain volumes in Q2FY2025. The effective tax rate for FY2025 and FY2026 is expected to be 6-7%.
- **Outlook:** India's EXIM volumes are expected to grow at 5-6% y-o-y in FY2025. It is trying to regain lost volumes in low-value products.
- **Asset divestment:** Currently, the company has five locations for CFS, out of which it is de-notifying Krishnapatam because of stoppage of container business there. Part of the Krishnapatam land is sold to Snowman. It is evaluating assets and ongoing business at its land in Cochin, Vizag, Chennai, and Nhava Seva. It wants to get out of the CFS business because it does not see any uptick in business because of competitive intensity. Its land at Nhava Seva should alone give a good valuation. From the proceeds, it may look at adding one more terminal in rail.
- **Q1FY2025 highlights:** Q1FY2025 was affected by the election period and a slowdown in EXIM volumes with demand in the U.S. and Europe staying weak. The company maintained its market share in the North, while it lost its market share in Uttarakhand and Ludhiana y-o-y. The import of waste paper dropped by 30% y-o-y at Kashipur and 10% y-o-y at Ludhiana. Rail EBITDA per TEU stood at Rs. 9,400 and that for CFS at Rs. 1,400. EBITDA margins went down. In Q1FY2025, it has changed its accounting policy related discounts by netting it out from revenue from Q1, which impacted CFS business by Rs. 8.43 crore.
- **Market performance:** Ludhiana market saw a 15-20% y-o-y dip in the overall market, while NCR stayed flat in Q1FY2025. Waste paper volumes comprised 20% of its overall volumes (Ludhiana – 22-25%, Kashipur – 80%) and scrap paper had an additional 5%. It has increased its market share in NCR from 16% to 17% y-o-y. Ludhiana market share has gone down from 28% to 22.5% y-o-y but it is higher q-o-q. In Uttarakhand, it has a 25% market share. ICD EXIM volumes for the NCR market were 2.9 lakh TEUs in Q1FY2025, down from 3 lakh TEUs in Q4FY2024 and a comparable amount the previous year. Market volumes in Ludhiana were 65,000 TEUs as opposed to 80,000/75,000 in Q4FY2024 and Q1FY2024. Market volumes in Uttarakhand range from 20,000 to 25,000 TEUs. The country's rail coefficient is 27%, while it is at 70-80% for NCR, Ludhiana, and its addressable markets.
- **Jaipur:** The litigation on the land is still going on. It plans to make a full-fledged ICD at Jaipur. It would commence operations there in 12-15 months after the start of work.
- **Capex:** It did not incur much capex in Q1. It retained Rs. 200 crore capex for FY2025, majorly for land acquisition in Jaipur and one more terminal in the North.
- **Debt:** Its gross and net debt stands at Rs. 310 crore and Rs. 245 crore, respectively.

Results (Consolidated) Rs cr

Particulars	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Net sales	**353.1**	**369.7**	**-4.5**	**375.0**	**-5.8**
Operating expenses	268.2	274.3	-2.2	291.7	-8.1
Operating profit	**84.9**	**95.4**	**-11.0**	**83.2**	**2.0**
Depreciation	26.1	24.9	4.7	23.3	12.1
Other income	4.5	5.2	-12.0	7.1	-35.8
Interest	11.5	11.3	1.8	11.6	-1.0
PBT	**51.9**	**64.4**	**-19.4**	**55.5**	**-6.4**
Taxes	3.5	1.9	83.4	0.1	5647.9
Extraordinary items	0.0	0.0		0.0	
PAT before MI	**48.4**	**62.5**	**-22.6**	**55.4**	**-12.7**
Minority interest	-0.3	-0.5	-32.6	0.4	-172.8
APAT	**48.7**	**62.9**	**-22.7**	**55.0**	**-11.5**
Margin (%)			**BPS**		**BPS**
EBITDA	24.0%	25.8%	-177	22.2%	184
NPM	13.8%	17.0%	-324	14.7%	-87
Effective tax rate	6.8%	3.0%	383	0.1%	671

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Strong growth outlook led by changing consumer preferences and macro pick-up

Logistics is one of the key sectors, which showed an intense revival post-COVID-19 pandemic that affected the overall trade environment domestically and globally. Domestic indicators such as e-way bill generations, FASTag collections, Indian Rail volumes, domestic port volumes, and foreign trade are showing clear signs of revival. Further, organised domestic logistics players have been able to improve their business, led by the user industry's preference towards credible supply chain management in the wake of the impact of COVID on supply chain operations. Further, the third-party logistics (3PL) industry has seen faster improvement in processes, led by segments such as e-commerce, pharma, and FMCG. Hence, we have a favorable view of the sector.

■ Company Outlook – Improving EXIM outlook

The company has been showing a resilient performance amid increased EXIM imbalance. However, we expect this imbalance to correct with a gradual pick-up in exports, especially in its key NCR market. The completion of DFC would further aid in improved volumes. Consequently, we expect overall rail throughput for the company to show healthy growth for the next couple of years. The company is likely to improve upon blended EBITDA/TEU with the revenue mix tilting towards rail, while CFS remains flat. The company is undertaking a capex of Rs. 300 crore for the next two years, which includes upfront payment towards the acquisition of Kashipur ICD, construction spends for greenfield ICD at Jaipur, and setting up a third terminal.

■ Valuation – Retain BUY with an unchanged PT of Rs. 121

GDL has been showing resilient performance despite EXIM imbalance and sustained pressure in the CFS business, led by rising competition. The company continues to benefit from its core NCR region. The divestment of its CFS business is expected to aid in increasing its focus on its rail business and improving its balance sheet strength. We believe the company remains on track to benefit from an expected improvement in exports going ahead, although it is expected to face pressures, especially in its CFS business, in the near term. The stock is currently trading at an EV/EBITDA of ~13x/10x its FY2025E/FY2026E earnings, which we believe provides further room for upside, given the expected revival in domestic manufacturing and EXIM growth. Hence, we retain BUY on the stock with an unchanged PT of Rs. 121.

Valuation Summary

Particulars	Methodology	Value (Rs./share)
Rail + CFS	12x March 2026 EV/EBITDA	122
Less: Net Debt		10
Cold Chain	Value of Snowman Logistics	9
Total		121

Source: Company; Sharekhan Research

About company

GDL is an integrated inter-modal logistics service provider. The company operates six container freight stations in Nhava Sheva, Chennai, Vishakhapatnam, Kochi, and Krishnapatnam. Gateway Rail Freight Limited (GRFL) is India's largest private intermodal operator providing rail transport service through its four Inland Container Depots (ICD) at Gurgaon, Faridabad, Ludhiana, Ahmedabad, and a Domestic Container Terminal (DCT) at Navi Mumbai. GDL and GRFL together handle over 2 million TEUs per annum with 31 train sets and over 500 trailers across its 11 container terminals.

Investment theme

With its dominant presence in CFS, rail freight, and cold chain businesses, GDL has evolved as an integrated logistics player. The company's cold chain is facing a challenging business environment owing to intensive competition amid a weak macro environment. However, the rail division has started showing resilience with improvement in volume and profitability. Capacity expansion in rail will prove to be beneficial for the company as the trade environment revives. Further, critical positive triggers such as the dedicated freight corridor (DFC) remain intact.

Key Risks

- Deterioration in the trade environment leads to a higher trade imbalance.
- Competitive pressure weighing on operational profitability.

Additional Data

Key management personnel

PREM KISHAN DASS GUPTA	Chairman and Managing Director
Sachin Surendra Bhanushali	Chief Executive Officer
Sandeep Kumar Shaw	Chief Financial Officer
Veena Nair	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	PRISM INTL PTE LTD.	24.09
2	ICICI Prudential Asset Management	9.40
3	Mirae Asset Global Investments Co.	8.07
4	SBI Funds Management	6.19
5	SBI Balanced Advantage Fund	6.19
6	HDFC Asset Management Co.	5.88
7	State of Kuwait	5.50
8	Gupta Prem Kishan Dass	4.49
9	Franklin Resources	2.75
10	Vanguard Group Inc.	2.50

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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