



India Equities  
Logistics

Initiating Coverage

## Gateway Distriparks

**BUY**

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**CMP** Rs 65  
**Target Price** Rs 83

Investment horizon 12 months  
Sensex 11,403  
Nifty 3,420

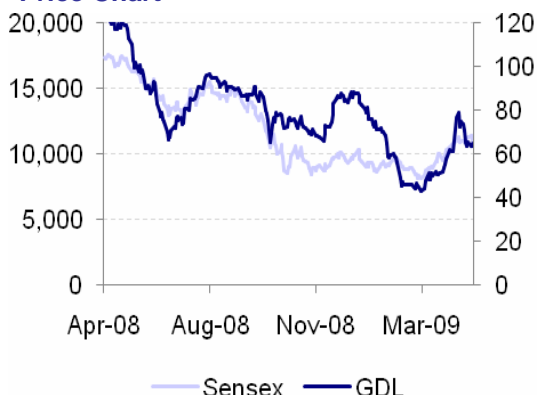
### Stock Details

BSE Code 532622  
NSE Code GDL  
Reuters Code GATE.BO  
Bloomberg Code GSPL IN  
Market Cap (Rs cr) 699  
Beta 0.69  
52 W Low / High (Rs) 132.70 / 42.25  
Avg Daily Volume 2,41,955  
Face Value (Rs) 10

### Shareholding Pattern (%)

Promoters 45.56  
MF/Banks/Indian FIs 18.92  
FII / NRIs / OCBs 24.33  
Indian Public 11.19

### Price Chart



### Investment Rationale

**Domestic cargo movement & early mover advantage in Rail business to remain key factors:** Looking at the tremendous growth over the past years and the significant potential in the Indian Logistics industry, the Government has a plan to initiate new railway line of 10,300km and to complete phase-I of dedicated freight corridor (DFC) between Mumbai-Delhi and Ludhiana-Kolkata with a total outlay of Rs 2,618bn under Eleventh Five Year Plan (2007-2012). Gateway Distriparks Limited (GDL) is the largest private sector player in Rail Haulage business with 14 rakes in its portfolio. GDL has an edge over other players due to its early entry in to Rail Haulage business which makes it possible to secure healthy contracts from chemical and construction material companies before other players. GDL plans to capture good market share by increasing its revenues with aggressive capex plan of Rs 182.0cr for next two years. In spite of reduction in EXIM volume, domestic cargo volume has remained broadly stable. We expect Rail Vikas Yojana & DFC to improve capacity of the existing rail infrastructure and size of the domestic market.

**CFS<sup>1</sup> business will continue to be major driver for GDL's revenues:** CFS business is a very high margin business (as high as 45-50% of net margin). GDL has 4 main CFS placed at strategic locations and 2 ICDs which ensures strong revenues and margins for GDL. We expect revenues from this business to grow on the back of its expansion at Kochi CFS and ICDs at Faridabad and Ludhiana. The company plans to spend Rs 230.0cr over the period of next two years for expanding its existing facilities.

**Valuation:** We have valued the stock on a weighted average price based on DCF and Relative Valuation (EV/EBITDA & Price/Sales) methods. We have assigned 60% weight to DCF method and 40% weight to Relative Valuation. As per our weighted average methodology, we have arrived at a target price of Rs 83 which represents a potential upside of 27.7%. Considering the growth potential within the industry and the company's efforts to expand its market size, **we recommend a Buy on the stock considering a 12 months investment horizon with a Target Price of Rs 83.**

### Exhibit 1: Financial Summary

Particulars	FY2007	FY2008	FY2009E	FY2010E	FY2011E
Net Sales (Rs cr)	160.96	267.89	446.25	562.01	647.41
Total Income (Rs cr)	185.93	281.97	456.10	570.87	655.74
PAT (Rs cr)	77.63	74.06	88.24	97.23	102.42
PAT Margin (%)	41.75%	26.27%	19.35%	17.03%	15.62%
EBIDTA Margin (%)	50.34%	38.63%	37.70%	37.50%	37.50%
EPS (Rs)	8.42	6.40	8.19	9.03	9.51
P/E (x)	15.26	15.40	6.58	7.20	6.84
P/BV (x)	1.92	1.76	0.87	0.92	0.81
RoE (%)	12.54	11.45	13.26	12.77	11.82
RoCE (%)	11.26	9.89	9.27	8.46	7.60
EV/Sales (x)	5.57	4.00	1.49	1.50	1.34

Source: Company data, Parsoli Research



*GDL operates a network of CFS/ICDs at various strategic location across India*

*In the scenario of global slowdown, GDL's realization per container is going up due to unwillingness of the importers to taking delivery resulting in to higher ground rent*

*Out of 14 rakes held by the company, it uses 3 rakes are used for EXIM trade and remaining rakes are used for domestic trades*

## **Investment drivers**

### **CFS business will remain cash cow on the back of higher ground rent**

CFS is an off-dock facility whereas ICDs are generally located in the hinterland. GDL is an established & largest Private sector player in CFS/ICDs business and operates 4 main CFS facility at JNPT (Mumbai), Chennai, Vishakhapatnam and Kochi, and 2 ICD at Garhi (Haryana) and Sahnewal (Ludhiana). GDL commands a market share of approximately 20% in the JNPT CFS, India's largest container handling port. It is amongst the few CFSs that provide a single point contact for customs clearance. At various CFS/ICDs, the company provides varieties of services such as packaging, labeling, sorting and inspection. CFS business is very high net margin business as high as 45-50% because the company charges ground rent for parking of containers for its clients against no variable cost involved. In addition of this, for building up of any CFS/ICDs, the major cost involved is only purchasing of land. The company also provides a range of value added services such as general and bonded warehousing service, palletizing, shrink wrapping and other administrative services.

The company registered 23.3% yoy growth to Rs 191.4cr in CFS business in FY2008 due to a 48.1% yoy increase in container volume during the same period. However in FY2009, the company witnessed a decline in volume due to overall slowdown in the economic activity. In the scenario of the declining volume sequentially every quarter in FY2009, the realization per container increased 22.7% qoq to Rs 8,996 on the back of unwillingness of importers to take container deliveries, which resulted in to higher ground rent, translating into higher realizations for the company. Going forward, we expect realization per container to go up on higher ground rent and unwillingness of importers to take container deliveries till the economic slowdown. World Bank projected container traffic to increase to 21.0mn TEUs<sup>2</sup> (Twenty Feet Equivalent Units) by FY2015. We expect that as the economy revives and EXIM activity will peak up its pace, container volume of CFS business should increase and start generating higher revenues for the company.

### **Early mover advantage in Rail business to benefit in capturing larger market share**

GDL is the largest private sector player in Rail Haulage business. GDL's Rail Haulage business is managed by Gateway Rail Freight Ltd (GRFL). After a public sector player (Concor), GDL also has the first mover advantage in Rail Haulage business against all the 13 private sector players which have the same license to operate on Indian Railway network. In 2007, the company signed a concessional agreement with Indian Railways for the period of 20 years for operating container trains. Currently, the company has 14 rakes which are used for transporting containers from one port to another port using Indian Railway's network. Out of this, 3 rakes are used for EXIM trade and remaining rakes are used for domestic trades. The company is also largest mover of refrigerated cargo in the private sector. Rail Haulage business is very capital intensive business so this acts as an entry barrier to the other companies.

Though the profitability is still in red mainly due to higher depreciation & amortization and interest burden, revenues from this business increased significantly. Rail Haulage business is long gestation project for making profits. Due to its early entry, the company made its strong presence on the most important routes such as JNPT-Delhi and its half of the trains runs on the same route. The company holds around 20% market share by handling approximately 2,50,000 TEUs in FY2008 due to early mover advantage and prime location of CFS. The company has also established a regular frequency network train between Mundra



*GDL has invested total Rs 919.1cr in its three different segments as on Q3FY2009*

*GDL plans to invest Rs 230.0cr over the period of two years for expanding its existing facilities*

*We believe an investment of Rs 182.0cr for acquiring rakes over the period of next two years and benefit of early mover to increase revenues of Rail Haulage business*

and Pipavav. The company is also planning to expand its network on Sanehwal route. In addition to this, the company made it possible to grab regular orders from chemical and construction material companies. We expect that increasing revenues, due to an early mover advantage, would help the company to capture good market share in this business. In addition, the company is planning to set up its third facility at Kalamboli after Garhi and Sanhewal facilities. We expect this additional facility at Kalamboli to boost future revenues.

**Aggressive expansion plan to boost future revenues**

GDL has four CFS and two ICD operational in various parts of the country. The company has already invested Rs 919.1cr as on Q3FY2009.

**Exhibit 2: Segmental Capital Employed by GDL**

<b>Segments</b>	<b>Capital Employed*(Rs cr)</b>
CFS/ICDs	265.0
Rail Haulage	573.4
Cold Chain	80.7
<b>Total Capital Employed</b>	<b>919.1</b>

*Source: Company*

*\*as on Q3 FY 2009*

The company has a very aggressive plan to expand terminal network for its CFS business. The company has a plan to expand annual capacity of its Kochi CFS to 52,000 TEUs from existing 12,000 capacities by Q1 FY 2010. Apart from this, the company is also planning two ICDs in Faridabad and Ludhiana. The company plans 36,000 TEUs annual capacity at Faridabad and 55,000 TEUs annual capacity at Ludhiana. We expect new facility at Faridabad would complete by December 2010. The company plans to spend Rs 230.0cr over the period of next two years for expanding its existing facilities. We expect new facilities at Faridabad and Ludhiana and expansion of existing facilities at Kochi to boost future revenues of the company in the coming years.

The company operates its Rail Haulage business through its subsidiary GRFL. Currently, GRFL has 14 rakes operational on Indian Railway network for its Rail Haulage business. The company plans to acquire 28 more rakes in next 18 months to expand this business quickly. The company has already spent Rs 130.0cr till December for FY2009 in Rail Haulage business and further plans to spend Rs 182.0cr for acquiring rakes over the period of next two years. We expect aggressive expansion plan at the early stage would increase volume and so revenues. This would help the company to capture regular clients and good market share.

The company runs its Cold Chain business using its subsidiary, Snowman Frozen Foods Ltd (SFFL). GDL acquired this company with 50.1% ownership interest while remaining acquired by Mitsubishi. SFFL has a strong client base including companies like HLL, Mother Dairy, Amul and ITC. There is growing demand for cold chain operation, led by FMCG companies. SFFL currently has 16 stores spread across the country with total capacity of approximately 10,500 pallets<sup>3</sup>. The company also operates a fleet of approximately 90 reefer trucks. The company recently started new facility at Nagpur and Ahmadabad for 300 pallets and 1,200 pallets respectively. The company plans to almost double the existing capacity to 20,000 pallets by the end of FY2010 and for that it plans to invest additional Rs 45.0cr over the next two years. We foresee good potential in Cold Chain business as very few players operate in this market and spoilage of perishable goods is around 25% to its production just because of non-availability of Cold storage



*The company's domestic volume is fairly stable and not impacted much due to overall slowdown in the economy*

*We believe activities such as Rail Vikas Yojana would provide GDL to increase its domestic volume with increase in the size of the domestic industry*

*Providing cold stores and refrigerated trucks, the company can retain clients of multi product container importer which require services both for perishable and non perishable products*

facilities. Going forward, we expect a good contribution in the company's revenues on the back of the growth potential and company's expansion plans in this business.

### **Domestic cargo movement to increase Rail Haulage business revenues**

In India, around 50% of EXIM cargo is containerized. We expect containerized cargo movement to increase consistently as in many developed countries where containerized cargo movement is approximately 70% of total EXIM cargo movement. The level of containerization is increasing every year by almost 5%.

GDL's Rail Haulage business can be divided in to two parts considering its cargo movement, domestic and EXIM. While the domestic cargo movement and growth depend upon the internal growth, EXIM movement pegged to EXIM container traffic growth. The company has total 14 rakes which it uses to transfer customer's goods on Indian Railway's network. Out of 14 rakes, the company added 1 rake recently. It uses 6 rakes on Garhi-JNPT (EXIM) and Garhi-Kalamboli (domestic) route, 3 rakes in Eastern India which caters to coastal Orissa and northern Orissa, 2 rakes in northern India which caters to Haryana and Punjab and 2 rakes caters to Rajasthan. The company currently feels approximately 10% reduction in volume sequentially in every month in its EXIM business given the global slowdown. However, the company is very comfortable with the kind of performance in the domestic side and expects this trend to continue and not seeing any downfall as far as domestic business is concerned. The company's domestic volume is fairly stable and not impacted much due to overall slowdown in the economy.

We also expect domestic volume to remain stable in the short to medium term inspite of a slowdown in the economy and it will grow in the long term as the company has very good contracts with chemical and construction material companies. Additionally, we expect domestic penetration of container based cargo movements to increase which is at a very low level currently. We expect Rail Vikas Yojana to improve capacity of the existing rail infrastructure and size of the market. DFC will also result in a quantum jump in capacity and the hinterland connectivity to ports. 11<sup>th</sup> Five Year Plan expects container traffic to touch approximately 14.2mn TEUs by FY2012 at a CAGR of 18.0%. Moreover, as the existing good contracts with various companies would maintain its current domestic share, activities such as Rail Vikas Yojana would provide GDL to increase its domestic volume with increase in the size of the domestic industry.

### **Diversification into Cold Chain business to complement its core business**

GDL generates most of its revenues from its CFS business which is the company's core business. In 2006, the company acquired 50.1% shareholding in SFFL (Snowman Frozen Foods Ltd), which operates 16 cold stores and a fleet of refrigerated trucks in various major cities. The company provides total cold chain logistics solutions to its customers for products like seafood, dairy products, ice cream, fruits & vegetables, retail and food service. SFFL currently has total capacity of approximately 10,500 pallets. The company recently started new facility at Nagpur and Ahmadabad for 300 pallets and 1,200 pallets respectively.

The company uses refrigerated trucks mainly for perishable products which have a chance of early spoilage. The company can not provide full services to the container holder of perishable products at its CFS. By diversifying in to Cold Chain business, the company can extend its client base by providing its service to the client of perishable goods. As the company provides cold stores to its clients, it can charge ground rent from its client. Providing cold stores and refrigerated trucks, the company can retain clients of multi product container importer which require services both for perishable and non perishable products.

*GDL addresses the container traffic emanating not only from the key gateway ports of India with considerable container handling capacity but also address the requirements of the hinterlands located deeper in the country*

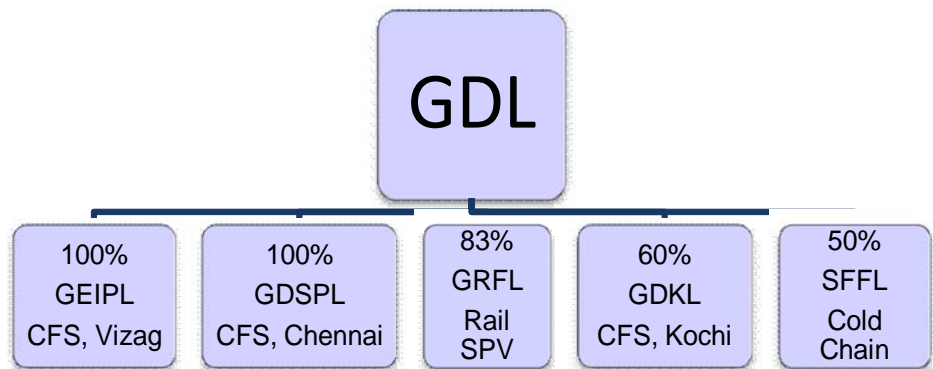
*The company also provides a range of value added services such as general and bonded warehousing service, palletizing, shrink wrapping and other administrative services*

*GDL also provides end-to end logistics solutions through its container rail haulage subsidiary, GRFL and cold chain solutions through its subsidiary, Snowman Frozen Foods*

## Company Overview

GDL is one of the largest port related logistics support services provider in India, promoted by three Singapore based business groups (Windmill group, the Thakral group and Parameswara Holdings Ltd.) and Mr. Prem Kishan Gupta and Prism International Pvt. Ltd. based in India. GDL addresses the container traffic emanating not only from the key gateway ports of India with considerable container handling capacity but also address the requirements of the hinterlands located deeper in the country. GDL's business can be divided into three main categories: CFS business (characterized by high-margin business), Railway Haulage business and Cold Chain business. The company is India's leading CFS/ICDs operator, with operation in key locations such as JNPT, Chennai, Kochin and Vizag. Among these four operational locations, JNPT and Chennai are the top most locations in India for container traffic. For FY2008, JNPT accounted for more than 50% of the total containerized traffic handled out of India, by handling over 4mn TEUs and port at Chennai, which is the country's second biggest container, handled over 1mn TEUs. The company also has an ICD at strategic locations of Garhi Harsaru, Haryana. GDL offers varieties of services at its CFS/ICDs such as packaging, labeling, sorting and inspection. In addition, the company also provides a range of value added services such as general and bonded warehousing service, palletizing, shrink wrapping and other administrative services. It is amongst the few CFSs that provide a single point contact for customs clearance. GDL also provides end-to end logistics solutions through its container rail haulage subsidiary, GRFL and cold chain solutions through its subsidiary, Snowman Frozen Foods. The company also started container rail operations through its subsidiary, Gateway Rail Freight Limited (GRFL). The company currently has 14 rakes which it runs on Indian Railway network.

### Exhibit 3: GDL's Organisation Structure



*Source: Company*

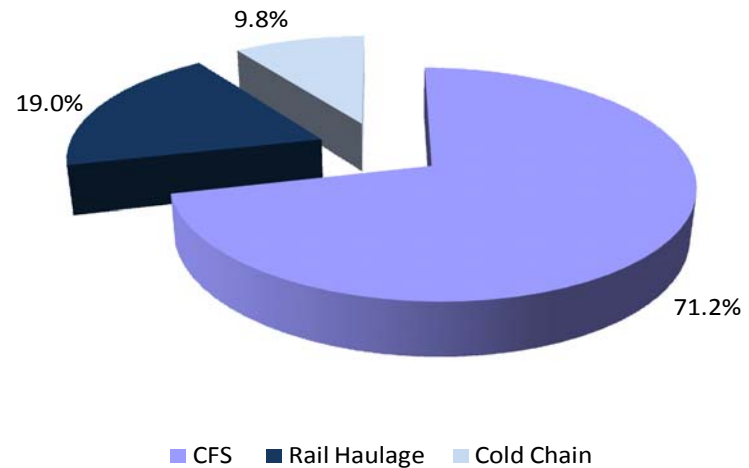
The company generates its revenues mainly from CFS business since beginning. However, the company is now focusing on other segments like Railway Haulage and Cold Chain Solution business for generating its revenues and for diversifying its revenue model.

*The company generates its revenues mainly from CFS business*

*CFS business is a very high margin business as the company can charge ground rent with no variable cost involved*

*The company holds around 20% market share by handling approximately 2,50,000 TEUs in FY 2008 due to early mover advantage and prime location of CFS*

**Exhibit 4: GDL's operating revenue break up (FY2008)**



Source: Company

**A) CFS Business:** CFS business is a very high margin business as key asset is only land & facilities within the CFS and the company can charge ground rent with no variable cost involved. GDL operates CFS catering to west coast traffic through Navi Mumbai and ICD at Garhi Harsaru, Haryana on the outskirts of Delhi to cater to the demand from Northern hinterlands. Following are the details of company's CFS and ICDs located in different parts of the country:

1. JNPT & Punjab Conware CFS (Navi Mumbai): The company operates one of the largest CFS at JNPT, which is its main revenue contributor, located few kilometers away from the port. The company holds around 20% market share by handling approximately 2,50,000 TEUs in FY2008 due to early mover advantage and prime location of CFS. The company has 4,56,000 TEUs capacity annually, combining all its CFS facilities and 1,51,000 TEUs capacity annually, combining all its ICDs facilities. In December 2006, the company got the Operation & Management contract for Punjab Conware CFS from Punjab Government. This contract was against upfront fees of Rs 35.0cr and Rs 1.0cr annual fees for the contract term of 15 years.
2. Chennai CFS: Chennai is the 2<sup>nd</sup> largest port after JNPT in India. The Company has 100% stake in GDSPL (Gateway Distriparks South Pvt Ltd), which is engaged in the business of running a CFS at Chennai. Currently, GDL has the annual capacity of 60,000 TEUs on its Chennai CFS with approximately 6% market share.

**Exhibit 5: CFS Facilities of GDL**

Locations	Land Area in acres	Annual Capacity (TEUs)
Navi Mumbai (JNPT)*	62	366,000
Chennai	19	60,000
Vizag (Vishakhapatanam)	20	18,000
Kochin	20	12,000
<b>Total CFS capacity</b>		<b>456,000</b>

Source: Company

\*including Punjab Conware CFS in Navi Mumbai



*GDL has 4,56,000 TEUs capacity annually, combining all its CFS facilities and 1,51,000 TEUs capacity annually, combining all its ICDs facilities*

*Garhi Harsaru ICD is strategically located which has capacity of 60,000 TEUs annually*

*GDL operates at 24,000 TEUs annual capacity on its Vizag CFS*

### **Exhibit 6: ICD Facilities of GDL**

<b>Locations</b>	<b>Land Area in acres</b>	<b>Annual Capacity (TEUs)</b>
Garhi Harsaru	90	60,000
Faridabad	66	36000*
Ludhiana (Sahnewal)	33	55000*
<b>Total ICD capacity</b>		<b>151,000</b>

Source: Company

\*proposed capacity

- Vizag CFS (Vishakhapatnam): The Company had 74% stake in GEIPL (Gateway East India Pvt Ltd), which is engaged in the business of running a CFS at Visakhapatnam. The company acquired remaining 26% stake predicting it as a growing CFS. The company now operates at 24,000 TEUs annual capacity on its Vizag CFS. This port at the East coast has a potential to grow as it provides strategic location to trade with other major eastern countries such as Singapore, etc.
- Kochi CFS: The Company has 60% stake in GDKL (Gateway Distriparks Kerala Ltd), which is in the process of setting up a CFS at Kochi. The company has a capacity of 12,000 TEUs annually at Kochi CFS and it plans to expand it for another 40,000 TEUs annual capacity.

The company has 3 ICDs facilities in different parts of the country as follows:

- Garhi Harsaru ICD: This ICD is located near Gurgaon, South Delhi and caters service to North India. This ICD is strategically located which has capacity of 60,000 TEUs annually.
- Sahnewal (Ludhiana) ICD: The setting up of this ICD is still under process and the company has proposed 55,000 TEUs annual facility.
- Faridabad ICD: This facility is also in pipeline and the company is planning to set up 33,000 TEUs annual capacity.

**B) Rail Haulage business:** The Company has approximately 83.0% ownership interest in GRFL (Gateway Rail Freight Ltd), which is engaged in the business of operating container trains and rail linked ICD at Garhi Harsaru. This also includes road transportation for last mile connectivity. The company has 14 rakes operational for this business. Out of 14 rakes, the company added 1 rake recently. It uses 6 rakes on Garhi-JNPT (EXIM) and Garhi-Kalamboli (domestic) route, 3 rakes in Eastern India which caters to coastal Orissa and northern Orissa, 2 rakes in northern India which caters to Haryana and Punjab and 2 rakes caters to Rajasthan. In 2007, the company signed concessional agreement with Indian Railways for the period of 20 years for operating container trains. Rail based container business is the fastest growing business in India as the Government of India allowed 14 private companies to operate in this business to increase competition against an established player Concor with 160 rakes in its portfolio and a network of 60 CFS/ICDs. GRFL plans to construct Rail linked Inland Container Depot (ICD) on the plots of land acquired at Faridabad in Haryana and Ludhiana in Punjab and increases its rolling stock of rakes to carry containers for both domestic and EXIM trade on Indian Railways network.



**GRFL plans to construct Rail linked Inland Container Depot (ICD) on the plots of land acquired at Faridabad in Haryana and Ludhiana in Punjab**

**SFFL operates 16 cold stores and a fleet of refrigerated trucks in various major cities**

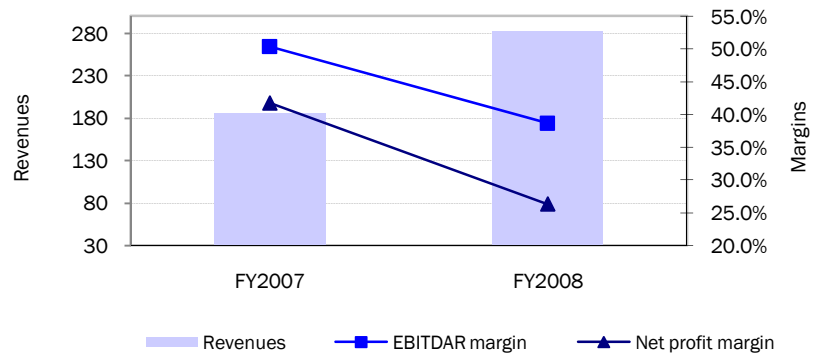
**EBITDA margin for FY2008 declined drastically to 38.6% compared to 46.9% registered in FY2007 due to 105.7% yoy increase in operating expenses**

**C) Cold Chain business:** In 2006, the company acquired 50.1% shareholding in SFFL (Snowman Frozen Foods Ltd), which operates 16 cold stores and a fleet of refrigerated trucks at the various major cities. SFFL has pan India presence and provides total cold chain logistics solutions to its customers for products like seafood, dairy products, ice cream, fruits & vegetables, retail and food service. The Company is in the process of refurbishing its operations and plans to expand its cold stores to new locations. The company recently started new facility at Nagpur and Ahmadabad for 300 pallets and 1,200 pallets respectively. SFFL currently has total capacity of approximately 10,500 pallets.

### FY2008 performance review

On a consolidated basis, total revenues of GDL increased 51.7% yoy to Rs 282.0cr in FY2008 on the back of strong operating revenues. Operating revenues increased 66.4% yoy to Rs 267.9cr mainly due to strong growth in the CFS Segment. The revenues from CFS segment went up by 23.3% yoy to Rs 191.4cr due to a 48.1% yoy increase to 3,30,834 TEUs handled by the company. However, EBITDA margin declined drastically to 38.6% from 46.9% registered in FY2007 due to 105.7% yoy increase in operating expenses mainly on the back of increase in transportation cost due to higher crude oil prices all over the world. Net margin witnessed similar trend and declined to 26.3% from 37.7% registered a year ago on the back of higher operating expenses. Diluted EPS decreased to Rs 6.40 in FY2008 from Rs 8.42 FY2007 due to increase in capital base of the company on the back of bonus issued.

**Exhibit 7: Revenues, EBITDA and net margin (FY2007-FY2008) Rs cr**



Source: Company

### Q3FY2009 Performance review

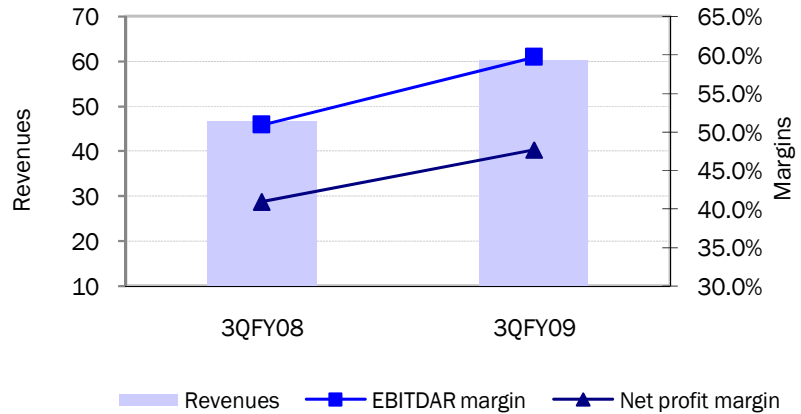
In Q3FY2009, the company's standalone revenues increased by 28.9% yoy to Rs 60.2cr mainly due to strong revenue from Rail Haulage business. Revenues from Rail Haulage business increased to 235.6% yoy to Rs 43.7cr mainly due to increase in average revenue per container. Standalone EBITDA margin increased to 59.7% from 50.9% registered in same quarter last year due to lower operating expenses on the back of decrease in staff cost and selling & distribution expenses. Net margin witnessed similar trend and increased to 47.7% from 40.9% registered in the same quarter previous year on the back of higher efficiency at operating level. Diluted



*Standalone EBITDA margin for Q3FY2009 increased to 59.7% from 50.9% registered in same quarter last year due to lower operating expenses*

EPS increased to Rs 2.56 in Q3FY2009 from Rs 1.59 posted in corresponding quarter, last year.

**Exhibit 8: Quarterly revenues, EBITDA and net margin** **Rs cr**



Source: Company

*Over the next five years, approximately 110 logistics parks and 45mn square feet of warehousing space is expected to be developed across India*

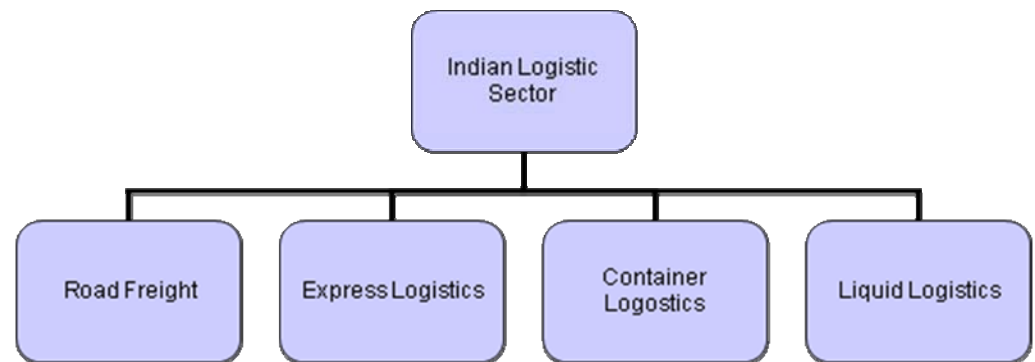
*The time taken for clearing import cargo and shipping export cargo is relatively very high in India*

## Industry Overview

Over the next five years, approximately 110 logistics parks and 45mn square feet of warehousing space is expected to be developed across India by various logistics companies. This upsurge in the logistics and warehousing industry will in turn boost its growth in key locations across the country. While the India logistics sector holds tremendous potential, it forms a very small portion of the total global market for logistics at approximately 2% of the estimated US\$ 5,000bn global logistics industry. Indian ports are grappling with low efficiency as compared to world-class ports such as Singapore. The time taken for clearing import cargo and shipping export cargo is 21 days and 19 days respectively in India as against 3 days and 5 days in Singapore. In terms of railway costs, Indian shippers incur 7.9 cents per km as against Canadian railway cost of 2 cents. Similarly, while in India it takes 8-9 documents for import/export clearance while only 3 are required in Denmark and 2 in Canada.

Indian Logistics sector can be divided primarily into four parts. In India, there are very few major players in this sector which provide one or more kinds of logistic services mentioned below.

### Exhibit 9: Indian Logistics industry



Source: Parsoli Research

Road Freight transport industry generates considerable employment opportunities and is highly fragmented. Express transportation is achieved by using a variety of transportation modes, viz. trucks, vans, trains, passenger aircraft, freight aircraft as well as on-foot delivery. Though express companies prefer surface transport, air transportation is used in cases, where the transit time makes it impossible for goods to be delivered by surface transport. The main players in Road Freight and Express Logistics are TCI, Blue Dart and Gati. Container Logistics can be further classified into container haulage, CFS services and MTO (Multimodal Transport Operator). Bulk Liquid Logistics segment involves sourcing, shipping, storing and distribution of liquids like petroleum products, gas, petrochemicals, inorganic & organic chemicals and vegetable oils.

### Container Logistics sector

Containerized movement of cargo grew by 19% in FY2008, as compared to the overall growth in export Import trade of 9.5% per annum in recent years. Containerized cargo represents only 30% of India's Export Import Trade, as compared to the global average of over 70%. According to Ministry of Shipping, the combined containerized traffic at all ports stood at 6.2mn TEUs in FY2007. Among all ports in India, JNPT and Chennai together account for approximately 65% of total cargo handled. The containerized traffic in India is expected to grow at 16% CAGR to 13.0mn TEUs between FY2007 and FY2012. The share of containerized cargo is

*Container Logistics can be further classified into container haulage, CFS services and MTO*

*Among all ports in India, JNPT and Chennai together account for approximately 65% of total cargo handled*

*Containerised cargo represents only 30% of India's Export Import Trade, as compared to the global average of over 70%*

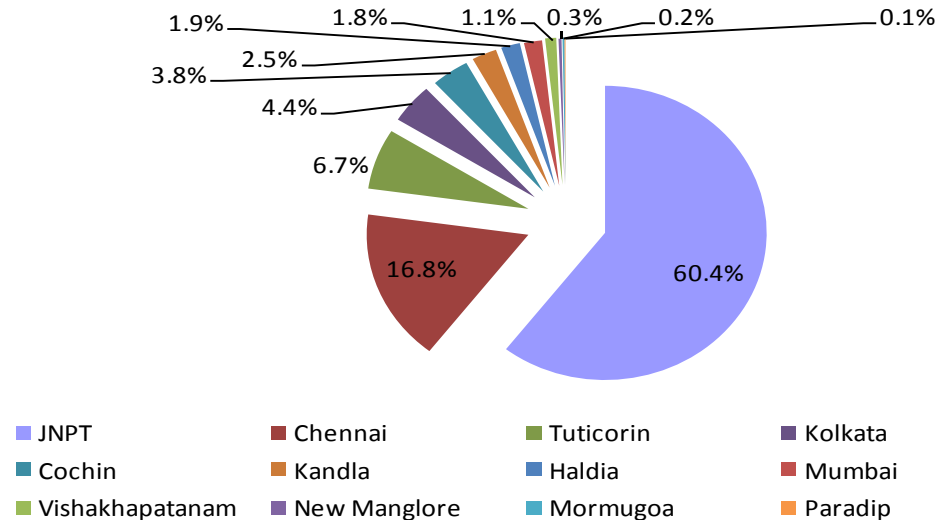
*JNPT accounted for more than 50% of the total containerized traffic handled out of India, by handling over 4mn TEUs*

*Concor has over 93.0% market share based on number of TEUs handled in FY2008*

*GDL plays very important role in the Logistics sector. GDL started its business as a CFS operator and then diversified in to Rail Haulage and Cold Chain business*

approximately 16% of total cargo handled at major ports of India. JNPT accounted for more than 50% of the total containerized traffic handled out of India, by handling over 4mn TEUs. In FY2008, the country's second biggest container port at Chennai handled over 1mn TEUs.

**Exhibit 10: Container traffic at different ports of India**



Source: Indian Port Association

Container Haulage business involves movement of containers between ports and CFS or ICD. MTO business involves transportation of LCL (less than container load) and FCL (full container load) using different modes of transportation like sea, rail and road. The operators act as standalone service providers in the supply chain and acts as a link between customer and various other service providers. Therefore, it hardly owns any asset. CFS business involves containerized transportation to/from ports, stuffing/de-stuffing of containers, general and bonded warehousing and custom clearance. Concor and GDL are in Container Haulage and CFS industries while Allcargo Global is in CFS and MTO industries. About 30% of India's container cargo of approximately 7.0mn TEUs every year is transported by rail and the rest by road ways. In Rail transportation, Concor has over 93.0% market share based on number of TEUs handled in FY2008. GDL has just over 2% of market share and remaining share is divided among few players.

**Regulations for setting up of ICDs & entering into rail haulage business**

After 1992, to monitor the growth of ICD/CFS, a regulatory authority in the form of Inter-Ministerial Group (IMC), under the chairmanship of Additional Secretary (Infrastructure), Ministry of Commerce was set up. Amongst other things, IMC examines the feasibility of ICDs, land requirement, design and layout, equipment, rail head and tariff. Till 2006, there were about 245 ICDs/CFS which had received approvals from IMC.

According to new guidelines, an operator will have to invest in land, terminal, tracks connecting to nearest rail head of Indian Railway and also in rolling stocks/containers. While 11 out of 14 new entrants have Category I license for JNPT to NCR route, 4 companies have opted for route specific license for category II and III. Private operators are required to set up their own terminals with railway siding and allowed to



*An investment of Rs 558bn has been earmarked for National Maritime Development Program (NMDP) port projects in order to handle additional projected traffic of 615mn tonnes at major ports by 2012*

*Increased flows of FDI in automobile, retail and capital goods will boost the need of logistics services*

*Private players are required to pay a license fee of Rs 500mn or Rs 100mn to railways depending on the route on which they operate*

*As per MCA, private players will have to invest on their own in ICDs and wagons which make Rail Haulage business quite capital intensive*

co-use others' terminals.

### **Role played by GDL in Logistics sector**

GDL plays very important role in the Logistics sector. GDL started its business as a CFS operator and then diversified in to Rail Haulage and Cold Chain business which are comparatively not intensified with the competition. GDL has few CFS and ICDs at various strategic locations and started Rail Haulage business very aggressively with 14 rakes currently on its portfolio and it became the largest private in Rail Haulage business. GDL is the largest private sector player in Rail Haulage business. GDL's Rail Haulage business is managed by Gateway Rail Freight Ltd (GRFL). The company has already invested Rs 919.1cr as on Q3FY2009. The company plans to spend Rs 230.0cr over the period of next two years for expanding its existing facilities. The company has already spent Rs 130cr till December for FY2009 in Rail Haulage business and further plans to spend Rs 182.0cr for acquiring rakes over the period of next two years. The company plans to almost double the existing capacity to 20,000 pallets by the end of FY2010 and for that it plans to invest additional Rs 45.0cr over the next two years.

### **Bright future of Logistics sector**

The prospects of Indian Logistics sector is closely related with the growth in key economic indicators such as GDP and foreign trade growth. We expect approximately 6% per annum growth in GDP for the next three years in India. We also expect at least 10-12% per annum growth in foreign trade for the next three years. The industry being driven by rising export with the aid of outsourcing, government investment on port infrastructure and the entry of private players in the industry is undoubtedly on a road to success. Many major companies want to concentrate on their core business activities and they have started outsourcing the logistics function. Increased flows of FDI in automobile, retail and capital goods will further boost the need of logistics services. An investment of Rs 558bn has been earmarked for National Maritime Development Program (NMDP) port projects in order to handle additional projected traffic of 615mn tonnes at major ports by 2012.

### **Exhibit 11: construction of terminal for the Eleventh Five Year Plan**

<b>Ports</b>	<b>Rs bn</b>	<b>Construction Activities</b>
JNPT	34.5	Extension of container berth & construction of terminal-4
Chennai	5.0	Construction of 2 <sup>nd</sup> container terminal
Tuticorin	1.5	Conversion of berth-8 as container terminal
Kolkata	3.5	Installation of flating container handling terminal
Cochin	21.2	Construction of international transshipment terminal
Kandla	2.4	Construction of 12th cargo berth
Haldia	5.3	Development of western dock system
Mumbai	12.3	Construction of 2 off-shore container terminal
Vishakapatanam	1.3	Extension of container terminal
New Manglore	7.0	Construction of container transshipment terminal
Mormugoa	18.5	Construction of cruise-cum-container berth at Bania
Ennore	13.0	Construction of new container terminal

*Source: Working Group for port sector for the Eleventh Five Year Plan*

Favorable investment environment and being a key outsourcing destination for MNCs are likely to drive demand for container traffic in India. With expected rise in container volumes, we believe companies which provide ancillary services like CFS and ICD,



***Rail logistics business faces stiff competition from shipping industry due to capacity and efficiency constraints***

***GDL faces competition from Concor and AllCargo in CFS business***

***We expect early entry of GDL would benefit the company to capture good market share and to grab good contracts of the clients. GDL faces competition in rail haulage service from other 14 players***

***GDL has higher margins compared to Concor, AllCargo and Balmer Lawrie in FY 2008 due to strategic location of its CFS/ICDs***

wagon manufacturers, MTO, container terminal operators, the entire construction sector, etc. would be key beneficiaries. We believe Allcargo Global, Concor and GDL would be major beneficiaries due to increase in containerized traffic. Previously, only basic goods were suitable for shipment in containers. However, today most items can be shipped in a container. It has been estimated that 75% of total general cargo can be containerized. Currently, the containerization level is at 30% as compared to 70% globally which shows that there is still room for growth driven by improvement in infrastructure. The ministry of railway has allowed entry of private players in the rail container business, earlier dominated by Concor, in order to boost container traffic. Fourteen private container train operators have signed the model concession agreement (MCA) with the railways. Private players have to pay a license fee of Rs 500mn or Rs 100mn to railways depending on the route they operate. As per MCA, private players will have to invest on their own in ICDs and wagons which make this business quite capital intensive.

### **Peer comparison**

The Indian logistics market is one of the most rapidly growing sectors in the world with a significant number of freight forwarders, shipping companies, terminal operators, logistics service providers and ware house service providers. Rail logistics business faces stiff competition from shipping industry due to capacity and efficiency constraints. In Rail Haulage business, the company faces competition from other players. Again, transportation through ship costs lesser when compared to rail transportation. We expect Logistics sector to perform well on the back of increased investment on the infrastructure and consumer spending.

Rail transportation industry faces competition from road transport. Railway haulage is a cheaper mode of transportation as compared to roadways. Rail transportation is approximately 25-30% cheaper than roadways over longer distance. In spite of being cost effective, railways' share has remained low because of longer lead-time due to infrastructure bottlenecks at railways. Congested rail network and preference of passenger train over container train are the primary reasons for longer lead-time. However, the share of railways can improve substantially, once the freight corridor commences.

### **Competition within ICDs/CFS industry**

Concor is an established player in CFS/ICD having the network of approximately 60 CFS/ICDs across India. In comparison of Concor, AllCargo and GDL have very few CFS/ICDs. However, we expect competition to intensify in terminal service business as many players such as GDL and AllCargo Global are aggressively increasing their CFS/ICD network across the country. In terminal business, GDL faces competition from Concor and AllCargo. AllCargo had started its first CFS at JNPT in FY2003 and two more CFS at Chennai and Mundra.

### **Competition within Railway Haulage business**

The Government has permitted 14 other companies to operate as rail haulage service provider. Concor has biggest rail based transportation share of over 93% with 2.4mn TEUs handled in India. Government has permitted 14 private companies like Adani Logistics, CWC, GDL, Hind Terminal, Indian Infrastructure & Logistics, Dinesh Emirates, Reliance Industries, Mundra Int. Container Terminal, Sical, Mediterran Shipping Company, Delhi Assam Roadways Corporation, Bothra Shipping, JM Baxi & Co and Pipava Rail Corporation to operate as rail transport service provider. We expect early entry of GDL would benefit the company to capture good market share and to grab good contracts of the clients. GDL faces competition in rail haulage service from other 14 players.



*Delivering good and above industry average margins consistently make GDL an outperformer over other players*

*We expect revenues from CFS business to grow at a CAGR of 10.1% to Rs 375.2cr on the back of improved port capacity as well as increase in company's network of ICDs/CFS*

### Exhibit 12: Peer comparison for FY2008

Ratios	Gateway Distriparks	Allcargo Global	Concor	Balmer Lawrie
EBITDA margin (%)	38.6%	21.7%	26.6%	16.9%
Net margin (%)	26.3%	16.2%	21.4%	16.0%
D/E ratio (%)	0.13	0.27	0.0	0.21
Diluted EPS (Rs)	6.4	28.61	57.86	50.47
Market Capital (Rs cr)	700.1	1721.9	10010.0	480.4

Source: Company data, Parsoli Research

GDL is the first player which started container railway haulage service as a private sector player. GDL has higher margins compared to Concor, AllCargo and Balmer Lawrie in FY2008 due to strategic location of its CFS/ICDs which make it possible to generate higher margin on the back good amount of ground rent. GDL is consistently maintaining its margins well above other player in its industry. In addition, Its D/E Ratio was at comfortable level in FY2008. Delivering good and above industry average margins consistently make GDL an outperformer over other players.

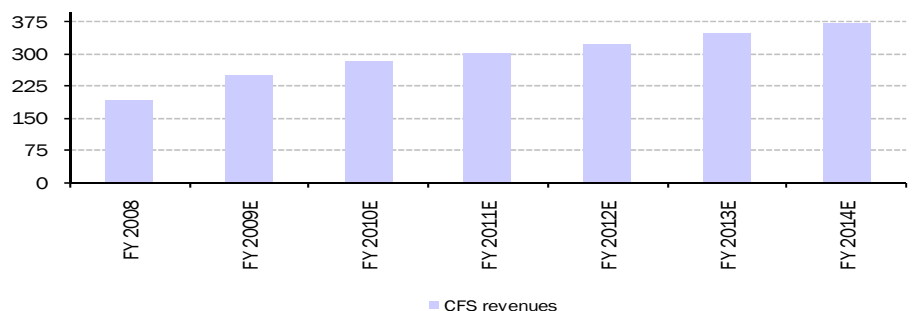
### Financial Performance

#### CFS business continued to post strong growth

We expect revenues from CFS business to grow at a CAGR of 10.1% to Rs 375.2cr on the back of improved port capacity as well as increase in company's network of ICDs/CFS. The company plans to spend Rs 230.0cr over the period of next two years for expanding its existing facilities. We expect new facilities at Faridabad and Ludhiana and expansion of existing facilities at Kochi to boost future revenues of the company in the coming years. Going forward, we expect the company's CFS business to perform well on the back of its various plans for expanding its current facility and setting up new facility across India.

### Exhibit 13: CFS revenues (FY2008-FY2014E)

Rs cr



Source: Company data, Parsoli Research

#### Margin expected to decline due to diversification in lower margin business

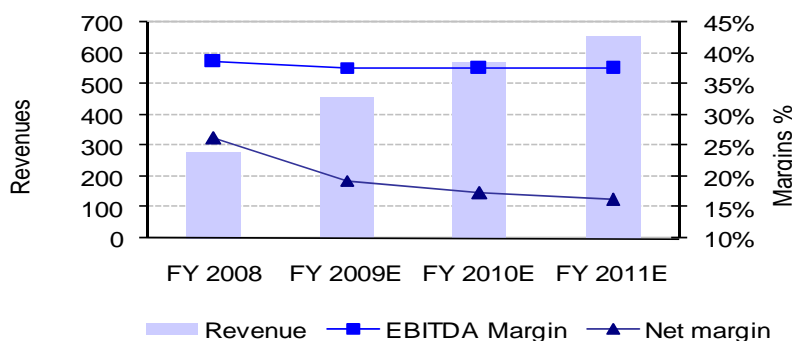
Going forward, we expect margins to decline on the back of company's diversification into Rail Haulage business and Cold Chain business. CFS business of the company



*We expect margins to decline on the back of company's diversification into Rail Haulage business and Cold Chain business in the coming years*

is very high margin business and diversification in the other area would decrease its margin. Currently, Rail Haulage business is not making any profit but generating revenues and putting pressure on margins. Cold chain business of the company, which the company operates through its subsidiary SFFL, generates revenues for the company and started generating nominal profit. However, these both businesses are currently putting pressure on its margins. We believe though the company has diversified in the Logistics space itself by entering in to Rail Haulage and Cold Chain businesses, diversification in to lower margin business to impact the company's current margins. Therefore, we expect EBITDA margin and net margins to decline going forward. Over a period of two years, EBITDA margin is expected to decline by 113 bps to 37.5% and net margin is expected to decline to 17.4% in FY2010.

**Exhibit 14: Revenues and margin expectation (FY2007-FY2010E)**

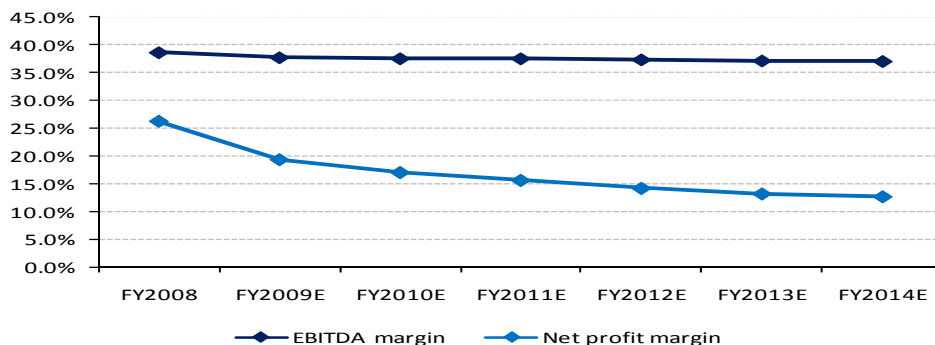


Source: Company data, Parsoli Research

### Positive earnings outlook

Currently, the company has a network of 4 CFS and 2 ICDs at strategic locations. Going forward, the company has a plan to set up ICDs facility at Ludhiana and Faridabad and also planned a capacity expansion of 40,000 TEUs at Kochi CFS. The company also planned to invest Rs 230.0cr for CFS business and Rs 182.0cr for Rail Haulage business. We believe diversification in other businesses will reduce the sole dependency on CFS business and will lead to enhanced profit in the long term. Although diversification in other businesses would reduce margins for the company, we expect strong revenue flow going forward.

**Exhibit 15: EBITDA and net margin (FY2008-FY2011E)**





*Since the country's growth has positive correlation with Logistics industry, GDL's performance will be affected if India's growth will slow down further*

*We expect market size may get affected by inexperienced new players where efficiency is the major concern*

*Delay from congestion at ports would decrease the number of container handled and would lead to lesser revenues for the company*

*Any changes in oil prices or on tax structure declared by regulatory authorities will have an impact on company's margins*

Source: Company, Parsoli Research

### **Major Concerns**

#### **Economic slowdown may have an adverse impact on company's performance**

The Logistics industry has witnessed strong traffic growth due to robust economic growth in India. However, India faces the risk of economic slowdown in future. The RBI is forecasting a lower GDP year over year and has forecasted a GDP of 5.7% for FY2010 which is lower than earlier forecasts. Since the country's growth has positive correlation with Logistics industry, GDL's performance will be affected if India's growth will slow down going forward.

#### **Entry of new players is likely to intensify competition in Rail business**

Entry of new players in Rail Haulage business is likely to intensify competition as the Government has given permission to total 13 other players apart from GDL and pre-existing giant Concor. Like GDL, many players have started its business by acquiring and operating rakes on Indian Railway's network. However, many players have not started yet and have just taken up the licence. We believe in the long term, other players are likely to start their business and new players would also come in. Entry of the new players and starting of operation of existing players would intensify competition which may leads to dilution of GDL's market share.

#### **Efficiency may shift traffic from railways to roadways thereby affecting company's business prospects**

Since last two years there was a decline in market share of railway based transportation mainly due to efficiency constraints in railways. Though rail transportation is the cheapest mode of transport than road transport, we expect market size to get affected by inexperienced new players where efficiency is the major concern.

#### **Congestion at ports may slow down the growth of the company**

GDL charges ground rent for keeping client's containers in its CFS and can collect more rent by taking containers faster from the port. Any delay from congestion at ports would decrease the number of containers handled and also the duration of keeping the container in its CFS. This would lead to lesser revenues for the company.

#### **Changes in regulatory environment may impact negatively in the long run**

The market in which the company operates is highly regulated. Any changes in oil prices or on tax structure declared by regulatory authorities will have an impact on company's margins. In addition to this, GDL is subject to a variety of agreements. There is no assurance that an agreement between GDL and other party will continue going forward. Any unfavorable regulatory changes will have an adverse effect on the business of Indian logistics companies.

#### **Increase in fuel prices will reduce margins of the company**

The Transportation & handling charge (44% contribution in FY2008) is the major operating cost for the company. The transportation charge mainly depends upon crude oil prices. Though the current prices are at lower level, any sharp rise in the global market may force the Indian Government to hike the domestic fuel prices and thereby would increase the cost of the company.



## Valuation

For valuing the company, we have used the Discounted Cash Flow (DCF) and comparative valuations based on EV/EBITDA and Price (Market capital)/sales multiple. The DCF method values the stream of future cash flows discounted to the present day using the company's Weighted Average Cost of Capital (WACC), and as such is a good measure of the company's value in absolute terms. While a comparative valuation using EV/EBITDA methodology helps in comparing the company's enterprise value with respect to its operating performance prior to non-cash and finance expenditures, Market cap/sales multiple aids in comparing the current market value of the company with respect to its sales as compared with its peers. We have taken a 12 month investment horizon for this stock.

## Comparative valuation

GDL is currently trading at an EV/EBITDA of 10.40x, which is at a discount of 21.1% to the current peer group average of 13.17x. GDL had higher margins as compared to Concor, AllCargo and Balmer Lawrie in FY2008. GDL has an edge over other players due to its high margins and aggressive capex plans, however, looking towards continuously falling volume at different CFS every month, we are assigning least possible multiple for GDL. Therefore, employing a multiple of 5.00x to value the stock, which is almost half than current EV/EBITDA multiple enjoyed by it, on our FY2010 EBITDA estimate of Rs 210.7cr, we arrive at a target price of Rs 81 per share which represents the potential upside of 24.8% from current levels.

The stock currently trades at a Price/TTM Sales of 4.11x, which is at a premium of 28.1% to the current peer group average of 3.21x. GDL had lower price/sales TTM multiple compared to AllCargo but higher multiple compared to other two players. We expect price appreciation of the stock would reflect its sales growth over next 12 months. Therefore, we are assigning Price/TTM Sales 1.50x to value the stock. Employing this target multiple on our FY2010 sales estimate of Rs570.9cr, we arrive at a target price of Rs 80 per share which represents a potential upside of 22.5% from current levels.

## DCF valuation

Using the DCF valuation method, we arrive at a 12 month target price of Rs 85 for the stock, which represents a potential upside of approximately 30.6% from GDL's current levels. We have based our valuation on the following assumptions:

WACC of 13.14%: We have assumed a risk-free rate of 7.50% which is minimum acceptable risk free return available on Indian government long term securities. We have derived the WACC by multiplying the cost of equity (which stands at 14.27%), and tax-adjusted cost of debt (which stands at 8.57%) with 80% weight to its cost of equity and 20% weight to cost of debt. This yielded a WACC of 13.14%.

Terminal growth rate: We have developed an explicit Free Cash Flow (FCF) estimates for FY2009 to FY2014. Thereafter, we have assumed a perpetual growth rate of 3.0%.

## Weighted average price

We assigned a weight of 60% for the DCF method, 20% for EV/EBITDA method

*EV/EBITDA method gives a target price of Rs 81 per share*

*Using the Price/TTM Sales method we arrive at a target price of Rs 80 per share*

*Using the weighted average pricing methodology, we arrive at a target price of Rs 83 per share*



and 20% for the price/sales method, as the weighted average valuation reflects our estimate of intrinsic value. We thereby arrive at a fair value of Rs 83 for the stock considering an investment horizon of 12 months, which indicates a potential upside of 34.2% from current levels.

### Exhibit 16: Weighted Average Pricing for GDL Stock

Pricing Methodologies	Weight assigned	Target price	Weighted average price
Target price using DCF approach	60.0%	84.79	50.87
Target price using EV/EBITDA approach	20.0%	80.97	16.19
Target price using P/sales approach	20.0%	79.50	15.90
Weighted average target price (Rs)			82.97
Current common stock price (Rs)			64.90
Upside/(downside) from current levels			27.84%

Source: Parsoli Research

### Future Outlook and Conclusion

We expect operating revenues to increase at a CAGR of 19.3% between FY2008 and FY2014 to Rs 919.3cr mainly due to the company's CFS business as well as due to its Rail Haulage business on the back of its aggressive plan to expand its network of ICDs/CFS. Currently, the company has 14 rakes to operate on Indian Railway network. In addition, it has a plan to acquire 28 more rakes. The company has a plan to invest Rs 230.0cr and Rs 182.0cr respectively for CFS and Rail Haulage business over a period of next two years. The revenues from CFS business are expected to grow at a CAGR of 9.9% for a period between FY2008 and FY2014 due to an expected increase in realization per container initially and increase in volumes gradually on the back of terminal expansion plan during the same period. Going forward, we expect EBITDA margin and net margin to decline on the back of increase in competition as well as the company's initiative to diversify its core business of CFS into other capital intensive business where it's difficult to generate high margins as previously enjoyed by the company through CFS business.

We expect Logistics industry to perform well on the back of various infrastructure development activities such as ports expansion/modernization mentioned in the Eleventh Planning Commission report (total outlay Rs 2,618bn) and different expansion plans of GDL for setting up ICDs/CFS. GDL has a strong presence in its core CFS business as it has a strong network of CFS/ICDs at very strategic locations. GDL is the largest private player in the Rail logistics industry and has an early mover advantage in this business which has a plan to capture good market share by expanding ICDs network and acquiring rakes aggressively. Therefore, we expect the company to grow well in its well-established CFS business as well as Rail Haulage business. Again, the company has also diversified into Cold Chain business which really complements its CFS business by retaining large FMCG clients as they have container shipment of perishable and non-perishable products. While CFS network provides full services to clients of non-perishable products, Cold Chain network providers handle clients of perishable products. We expect GDL to have an edge over other players as it has an established CFS business and has an aggressive capex plan to capture good market share in Rail Haulage business by early entry into this business. After a recent correction in the world market, GDL is available at a very attractive market price. Therefore, we strongly expect the stock to perform well for 12 months time horizon on the back of its aggressive expansion plans and its established position in CFS business. **We recommend a BUY on the stock with a Target Price of Rs 83.**

*After a recent correction in the world market, GDL is available at very attractive market price. Therefore, we strongly expect GDL to perform well for 12 months time horizon on the back of its aggressive expansion plans and established position in CFS business*



## Financial Statements

## Exhibit 17: Income Statement (Consolidated)

Rs cr

Particulars	FY2007	FY2008	FY2009E	FY2010E	FY2011E
<b>Net Sales</b>	160.96	267.89	446.25	562.01	647.41
<i>% chg</i>	16.2%	66.4%	66.6%	25.9%	15.2%
Total Expenditure	79.94	164.41	278.02	351.26	404.63
<i>% chg</i>	45.6%	105.7%	69.1%	26.3%	15.2%
<b>EBIDTA</b>	81.02	103.47	168.24	210.75	242.78
<i>Margin (%)</i>	50.3%	38.6%	37.7%	37.5%	37.5%
Other Income	24.97	14.09	9.84	8.86	8.33
Depreciation & Amortisation	13.87	28.77	53.55	70.25	82.22
Interest	1.37	2.03	20.98	30.92	39.82
<b>PBT</b>	90.76	86.76	103.55	118.44	129.07
<i>Margin (%)</i>	48.8%	30.8%	22.7%	20.7%	19.7%
Total Tax	13.88	14.16	16.98	19.42	21.17
<i>(% of PBT)</i>	15.3%	16.3%	16.4%	16.4%	16.4%
<b>PAT</b>	76.88	72.60	86.57	99.02	107.90
Minority Interest	0.74	1.46	1.68	(1.79)	(5.48)
<b>Adj. PAT</b>	77.63	74.06	88.24	97.23	102.42
<i>% chg</i>	7.4%	(4.6%)	19.1%	10.2%	5.3%
<i>Margin (%)</i>	41.75%	26.27%	19.35%	17.03%	15.62%

Source: Company data, Parsoli Research

## Exhibit 18: Balance Sheet

Rs cr

Particulars	FY2007	FY2008	FY2009E	FY2010E	FY2011E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	92.37	115.60	107.71	107.71	107.71
Reserves & Surplus	526.41	531.10	557.95	653.72	758.90
Net Worth	618.78	646.69	665.66	761.43	866.62
Total Loans incl Deffered tax	70.79	101.99	286.04	387.45	481.69
Capital Employed	689.57	748.69	951.71	1148.88	1348.30
<b>APPLICATION OF FUNDS</b>					
Gross Block	437.34	718.60	812.50	990.95	1143.70
Less: Acc. Depreciation	71.35	100.10	53.55	70.25	82.22
<b>Net Block</b>	365.99	618.50	758.95	920.70	1061.48
Capital Work-in-Progress	105.53	46.58	52.81	64.41	74.34
Investments	0.00	0.00	0.00	0.00	0.00
Current Assets	235.95	147.20	220.19	264.41	328.18
Current Liabilities	22.67	64.53	81.22	101.66	116.78
Net Current Assets	213.28	82.66	138.97	162.74	211.41
Miscellaneous Expenditure	4.76	0.93	0.97	1.02	1.07
Capital Deployed	689.57	748.68	951.71	1148.88	1348.30

Source: Company data, Parsoli Research



## Exhibit 19: Key Ratios

Particulars	FY2007	FY2008	FY2009E	FY2010E	FY2011E
<b>Per Share Data (Rs)</b>					
EPS	8.41	6.40	8.19	64.24	69.96
Cash EPS	9.90	8.90	13.16	73.38	80.08
DPS (incl tax on dividend)	5.64	1.79	1.91	2.10	2.22
Book Value	66.99	55.94	61.80	70.69	80.46
<b>Returns (%)</b>					
ROE	12.54	11.45	13.26	12.77	11.82
ROCE	11.26	9.89	9.27	8.46	7.60
Dividend Payout Ratio	0.67	0.28	0.23	0.03	0.03
<b>Valuation Ratios (x)</b>					
P/E	15.26	15.40	6.58	7.20	6.84
P/CashEPS	12.98	11.08	4.09	4.18	3.79
P/BV	1.92	1.76	0.87	0.92	0.81
EV/Total Sales	5.57	4.00	1.49	1.50	1.34
EV/EBITDA	12.79	10.91	4.05	4.05	3.63

Source: Company data, Parsoli Research

## Exhibit 20: Cash Flow Statement

Particulars	FY2007	FY2008	FY2009E	FY2010E	FY2011E
Profit before tax	90.95	85.65	103.55	118.44	129.07
Depreciation & Amortisation	13.86	29.20	53.55	70.25	82.22
Change in Working Capital	44.60	(8.47)	16.91	23.77	18.68
Direct taxes paid & Fringe Benefit Tax	(7.52)	(11.25)	(16.98)	(19.42)	(21.17)
Other Non-cash Exp/(Inc)	(20.37)	(6.91)	16.98	19.42	21.17
Cash Flow from Operations	121.53	88.21	174.01	212.46	229.97
(Inc.)/Dec. in Fixed Assets	(264.99)	(222.98)	(194.00)	(232.00)	(223.00)
Cap WIP	5.27	(92.12)	58.95	(6.23)	(11.60)
Free Cash Flow	(138.19)	(226.89)	38.96	(25.77)	(4.63)
Inc./(Dec.) in Investments	14.44	0.00	0.00	0.00	0.00
Inc./(Dec.) in Capital	0.00	0.00	(7.88)	0.00	0.00
Inc./(Dec.) in Loans	(53.94)	(24.40)	14.05	183.18	96.92
Dividend paid (incl. tax)	(52.12)	(20.71)	(20.58)	(22.67)	(23.89)
Interest paid (Net)	(1.55)	(1.90)	0.00	0.00	0.00
Cash Flow from Financing	(76.11)	(7.05)	98.60	74.25	62.96
Inc./(Dec.) in Cash	(145.81)	(111.12)	71.42	44.86	65.43
Opening Cash balances	352.62	206.81	95.69	167.11	211.96
Closing Cash balances	206.81	95.69	167.11	211.96	277.39

Source: Company data, Parsoli Research



## **Glossary**

**ICD/CFS (Inland Container Depot/Container Freight Station):** The primary function of the CFS or ICD is warehousing and handling of the cargo. CFS/ICD play a critical role in port logistics by providing consolidation/deconsolidation of the cargo, bonded warehousing, custom clearance and logistics services to the final destination. Almost similar in terms of working, CFS is situated near the port and ICD at the hinterland.

**TEUs (Twenty Feet Equivalent Units):** Twenty Feet Equivalent Units are usually built on the basis of ISO standards, and are used for the movement of conventional dry cargo in the containerized form.

**Pallet:** Pallet is a flat transport structure that supports goods in a stable fashion while being lifted by a forklift.

## **Guide to PCL's research approach**

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### **Valuation Methodologies**

We apply the following methodologies to triangulate the 'fair value' for the stock assessed fundamentally:

**DCF valuation:-** The DCF method values the stream of future cash flows discounted to the present day, most often using the company's WACC. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm and Free Cash Flow to Equity. The selection of a particular approach depends on the particular company being researched and valued.

**Comparative valuation:-** In Comparative valuation or Relative valuation, various comparative multiples including Price/Earnings, Price/Sales, Enterprise Value/Sales, EV/EBITDA ratios are used to assess the relative worth and performance of companies which operate in the same industry/industries and are thereby in the same peer group. In general at least two multiples will inform the valuation of every stock.

**Other methodologies:-** Other methodologies such as Dupont Analysis, EVA, Dividend Discount Method and P/NAV are applied where appropriate.

The target price derived from each methodology is then weighted, based on industry characteristics, to provide a weighted average target or 'fair value' for the stock.



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