India Ratings Affirms Gateway Distriparks at ‘IND AA’/Stable

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India Ratings and Research (Ind-Ra) has affirmed Gateway Distriparks Limited’s (GDL) Long-Term Issuer Rating at ‘IND AA’ and the Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loans	-	-	FY30	INR3,165 (reduced from INR4108.1)	IND AA/Stable	Affirmed
Fund-based limits	-	-	-	INR550	IND AA/Stable/IND A1+	Affirmed
Fund-based limits	-	-	-	INR559	IND AA/Stable/IND A1+	Assigned
Non-fund-based limits	-	-	-	INR915	IND AA/Stable/IND A1+	Affirmed
Non-fund-based limits	-	-	-	INR1,115	IND AA/Stable/IND A1+	Assigned

Analytical Approach: Ind-Ra continues to take a consolidated view of the GDL, its subsidiary Gateway Distriparks (Kerala) Limited (60% stake), Kashipur Infrastructure and Freight Terminal Private Limited (KIFTPL; 99.92%), GDL’s associate company, Snowman Logistics Limited (SLL; ‘IND A’/Stable), and GDL’s joint venture, Container Gateway Limited, for reviewing the ratings.

The affirmation reflects the stable consolidated financial performance, a consistent year-on-year reduction in the overall debt levels and comfortable credit metrics in FY23. Additionally, the agency believes GDL’s strong presence in the inland logistics will help it maintain a strong business and financial profile over the medium term, as measured through consistent growth in its volume growth and growth in the absolute EBITDA, while maintaining the comfortable credit profile.

Key Rating Drivers

Strong Business Profile, Backed by Strategically Located ICDs and CFSs and Robust Rail Operations: GDL's business profile is supported by its integrated presence in inland logistics through container freight station (CFS) and inland container depots (ICDs) and rail operations. The company has the advantage of being located close to the Jawaharlal Nehru Port Trust (JNPT), which is one of the largest container ports in India. Moreover, GDL's CFSs are located across all the key ports in India; the company has a diversified presence in Mumbai, Cochin, Chennai, Krishnapatnam and Visakhapatnam. GDL's CFS business contributes 20%-25% to the consolidated revenue. GDL's consolidated credit profile benefits largely from its rail operations (contributing around 80% to the overall revenue) that are carried through five ICDs, one each in Gurugram, Ludhiana, Faridabad, Viramgam and Kashipur, which are linked to the JNPT, Mundra and Pipavav ports on the west coast through the Indian railway network.

The western rail corridor accounts for the highest share of India's container traffic, which helps GDL derive large EXIM volumes. Additionally, the ability of the company to do double stacking from almost all its ICDs and two of its ICDs (Faridabad and Gurgaon) already connected to dedicated freight corridor (DFC) bolsters the efficiencies, getting translated to the profitability for company's rail and ICD operations.

Moderate Growth in Revenue in FY23, Supported by Rail and ICD Operations: The consolidated revenue grew 3.44% yoy to INR14.2 billion in FY23, driven largely by the growth in the rail and ICD revenue (contributing 80% to the FY23 revenue). The CFS volumes fell 10% yoy, owing largely to the discontinuation of business from the Punjab Conware CFS which was on lease, which the company decided to discontinue after FY22. The CFS volumes increased 10%-12% yoy in FY23, if the volumes coming in from the Punjab Conware are excluded from FY22 as well. GDL reported around 5% yoy growth in the volume in its rail and ICD business, which has contributed to the increase in overall revenue. The overall realisation improved for both the CFS business (to around INR9,200/twenty-foot equivalent unit (TEU) in FY23 from around INR8,700/TEU in FY22) and the rail and ICD segment (to around INR32,500/TEU from around INR32,000/TEU).

Ind-Ra expects the revenue growth in the in the near-to-medium term to be driven mainly by GDL's rail and ICD business segments. This will also be supported by FY24 being the full year of operations of the newly acquired Kashipur ICD (having a capacity of around 60,000TEUs/annum) which was acquired in December 2022. The company reported a revenue of INR3.7 billion in 1QFY24 with volume growth in both the CFS and ICD and rail volume on a yoy basis.

Acquisition of Strategic ICD at Kashipur Likely to Support Revenue and Profitability: In December 2022, GDL acquired 99.92% of KIFTPL. KIFTPL owns a rail connected ICD (in Kashipur, Uttarakhand). The total 41-acre facility has three rail sidings and 17,000 square feet of warehousing space which will now be available at GDL's disposal. This entity was acquired for around INR1.4 billion out of which INR0.6 billion was funded with new debt and the rest was funded with internal accruals. While in FY23, Kashipur ICD contributed around 9,000TEUs in terms of volume (accounted for three months post acquisition), the likely export volume uptick in that region and the scope for operational efficiency by the management will support the revenue and profitability growth over the medium term.

Stable Profitability in FY23; Scope for Improvement in the Medium Term: While the consolidated EBITDA remained flat yoy at around INR3.6 billion in FY23, the EBITDA/TEU improved moderately to around INR5,270/TEU in FY23 from around INR5,170/TEU in FY22. This is despite an increase in the rail haulage charges on account of a 5% waiver by the Indian Railways on the movement of loaded containers and a decrease in the discount for the movement of empty containers to 15% from 25% earlier, since these are largely pass through. GDL witnessed an EBITDA of INR954 million in 1QFY24 with an EBITDA/TEU of around INR5,300.

An increase in the operations through the Kashipur and the Viramgam terminal and the likely increase in the double stacking/train through the Garhi Harsaru and Viramgam terminals are likely to bolster train productivity over the medium term, according to Ind-Ra.

One section (Dadri to Sanand) of the western DFC is already operational while the remaining sections of the DFC are likely to be commissioned over the 12-15 months ending December 2024, especially its western leg. This is likely to benefit GDL since the company has a strong presence in the western region through its rail-linked ICD network, which provides connectivity to major ports. The reduced dwell time after the commissioning of DFC, increased volume through rail transport, and increased double-stacking volumes will support higher operating efficiencies, which are likely to translate into higher EBITDA for the company over the medium term.

Ind-Ra expects the company's EBITDA to grow over the near-to-medium term, owing to the volume growth, supported by efficiencies likely to be brought in due to more ICDs commencing double stacking and getting connected to DFC.

Healthy Credit Profile Maintained in FY23: The consolidated debt (including lease liabilities) decreased to INR5.3 billion at FYE23 (FYE22: INR6.2 billion), largely on account of the repayment of debt. GDL re-paid additional INR0.34 billion of the term loan in 1QFY24, through internal accruals. The consolidated net leverage (net debt/operating EBIDTA) of GDL remained comfortable despite increasing marginally to 1.24x at FYE23 (FYE22: 1.17x) and the gross interest coverage improved to 8.1x (5.7x). GDL's return on capital employed improved to 11.5% in FY23 (FY22: 10.8%). Additionally, the absence of a share pledge of the promoter's stake now indicates an improvement in the financial flexibility at the promoter level as well.

In 3QFY23, the Income Tax Department conducted a survey at some of the premises of GDL and has kept on record certain documents and information; however, no operations were impacted and no demand has been raised yet. Nonetheless, any further developments will remain monitorable.

Liquidity Indicator - Adequate: On a consolidated basis, Ind-Ra believes GDL's operating cash flows will be sufficient to meet the debt obligations and regular maintenance capex requirements in the medium term. The repayments of the outstanding term loans for the consolidated entity are well spread out (FY24: INR1.8 billion, FY25: INR0.9 billion), which can be comfortably met through internal accruals. GDL, at the consolidated level, paid dividends to the tune of INR0.99 billion in FY23 (FY22: INR0.62 billion), which is likely to continue. However, the company is likely to restrict any significant debt raising to (a) make any significant dividend payments; or (b) fund the expansion capex, including and not limited to INR3 billion for two new ICDs and INR0.5 billion for the completion of the Jaipur ICD, over the next two-to-three years, in Ind-Ra's view. The company's cash flow from operations is likely to remain healthy at around INR3 billion (FY23: INR2.9 billion, FY22 INR3 billion) over the medium term. Moreover, GDL had consolidated cash and equivalents of INR0.75 billion at FYE23 (FYE22: INR1.9 billion) and undrawn fund-based lines of about INR0.9 billion at end-September 2023. The utilisation of fund-based working capital lines remained moderate about 15% over the 12 months ended September 2023.

GDL invested around INR0.19 billion in its associate SLL to increase its stake to 43.00% from 40.25% during 1HFY24 from its free cash flows and the trend might continue over the medium term; however, the agency believes it will not impact the liquidity.

Exposure to EXIM Trade: GDL continues to be India's leading private sector rail operator and industry player in terms of revenue and volumes, next only to Container Corporation of India. Its operations are highly dependent on global macroeconomic conditions (especially the EXIM business). That being said, GDL has a CFS each at major Indian ports: JNPT, Krishnapatnam, Chennai, Visakhapatnam and Cochin. These ports collectively contributed a significant portion to the combined volumes of the 12 major ports in India. Also, GDL's ICDs are linked through rail services with the ports of Mundra, Pipavav and JNPT. Ind-Ra expects this strong presence will support GDL's volumes.

Standalone Performance: GDL's operating revenue was INR13.96 billion in FY23 (FY22: INR13.60 billion) and the operating EBITDA margins were around 25% (around 26%). The total debt stood at around INR4 billion at FYE23, against cash and equivalents of around INR0.51 billion, resulting in a net leverage (net debt/operating EBITDA) of 0.99x. The gross interest coverage was 8x in FY23 (FY22: 5.8x).

Rating Sensitivities

Positive: A sustained improvement in the revenue and profitability, while achieving continued growth in the operational parameters, leading to the return on capital employed exceeding 15%, and the consolidated net leverage remaining below 1.25x on a sustained basis would lead to a positive rating action.

Negative: Developments that could, individually or collectively, lead to a negative rating actions include:

- a substantial decrease in the container volumes, leading to a decline in the revenue and profit, all on a sustained basis
- higher-than-Ind-Ra-expected debt-funded capex or dividend payouts or lower-than-expected profitability, leading to the consolidated net leverage exceeding 2.25x on a sustained basis

Company Profile

GDL is a leading multimodal integrated logistics company in India. It has a network of five CFSs and five rail-linked ICDs. It is also the promoter of SLL, India's leading temperature-controlled logistics company.

CONSOLIDATED FINANCIAL SUMMARY

Particulars (INR billion)	**FY23**	**FY22**
Operating revenue	14.21	13.74
Operating EBITDA	3.69	3.69
Interest expense	0.45	0.65
Gross adjusted debt (including lease liability)	5.30	6.21
Cash & equivalents	0.75	1.90
Gross interest coverage (x)	8.13	5.70
Net leverage (x)	1.24	1.17
Source: GDL, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Rating Watch/Outlook		
	Rating Type	Rated Limits (million)	Rating	26 July 2022	9 November 2021	12 November 2020
Issuer rating	Long-term	-	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA-/Positiv
Long-term loans	Long-term	INR3,165	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA-/Positiv
Fund-based limits	Long-term/ Short-term	INR1,109	IND AA/Stable/ IND A1+	IND AA/Stable/ IND A1+	IND AA/Stable/IND A1+	IND AA-/Positive/IN A1+
Non-fund-based limits	Long-term/ Short-term	INR2030	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA-/Positive/IN A1+

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instruments	Complexity Indicator
Long-term loans	Low
Fund-based limits	Low
Non-fund-based limits	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Contact

Primary Analyst
Kamal Tapariya
Analyst
India Ratings and Research Pvt Ltd
Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Priyanka Bansal
Associate Director
+91 22 40356148

Chairperson
Krishan Binani
Director
+91 22 40356162

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process