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Sharekhan
Your guide to the financial jungle

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Gateway Distriparks

Reco: Buy

Stock Update

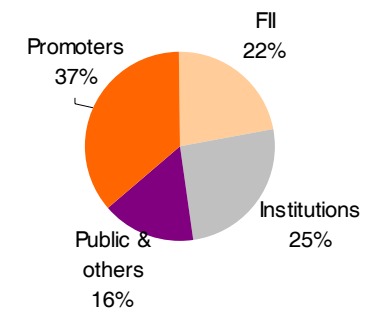
Will find a gateway through the hike in haulage charges

CMP: Rs310

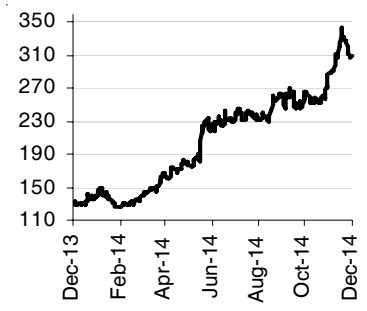
Company details

Price target:	Rs340
Market cap:	Rs3,374 cr
52 week high/low:	Rs350/124
NSE volume: (no. of shares)	3.6 lakh
BSE code:	532622
NSE code:	GDL
Sharekhan code:	GDL
Free float: (no. of shares)	6.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.3	16.6	41.0	145.7
Relative to Sensex	4.2	8.1	17.7	75.2

Key points

- Railways have announced a steep hike in haulage charges of 25-41% applicable from December 5, 2014, post 14-24% hike done during FY2013. Further, railways have also imposed a 10% congestion surcharge on rail traffic originating in all ports.
- Our analysis of the past; the rail freight players (namely Concor and Gateway Distriparks Ltd [GDL]) have passed on the increased cost to their clients and GDL intends to do the same with immediate effect this time as well. We believe the light-weight cargo (upto 15T) which forms roughly 5-6% of the overall rail volumes for GDL might get affected due to rate hike. Thus, the overall effect on GDL's financial should be limited. However, we are factoring in 30-40BPS negative effect on the margins of GDL's business.
- Over the long term, the outlook of the rail freight business is extremely favourable given the investments in dedicated freight corridors (that would increase railway freight capacities significantly). Moreover, we remain optimistic on the secular growth story of improving macro-economic environment having a positive effect on the logistic companies like Concor and GDL. Major positive triggers for the sector in terms of GST rollout and DFC remains intact. We maintain our Buy rating on GDL with a price target of Rs340 and we have a positive view on Concor.

Valuations (consolidated)

Particulars	FY2012	FY2013	FY2014	FY2015E	FY2016E
Sales (Rs cr)	817	950	1,008	1,071	1,080
Growth YoY (%)	*36*	*16*	*6*	*6*	*1*
EBITDA (Rs cr)	244	240	259	302	319
Margins (%)	29.9	25.2	25.7	28.2	29.5
Adjusted net profit (Rs cr)	132	127	142	164	182
EPS (Rs)	12.2	11.7	13.1	15.1	16.8
Growth YoY (%)	*36*	*(4)*	*12*	*15*	*11*
PER (x)	25.4	26.5	23.7	20.5	18.5
EV/EBITDA (x)	13.6	14.7	13.7	11.4	10.7
P/BV (x)	4.4	4.2	4.0	3.8	3.6
RoCE (%)	16.4	14.2	13.3	14.6	16.2
RoNW (%)	18.4	16.5	17.5	19.0	20.1

Railways increase haulage charges by 25-41% - highest increase in above 30T category

The Indian Railways has decided to increase the haulage charges in the range of 25-41% with effect from December 5, 2014. The sharpest increase of 41% is for containers that carry 30 tonne or more. Additionally, railways have also imposed a 10% congestion surcharge on rail traffic originating in all ports. This increase in haulage charges has been the highest of the earlier hikes in January 2011 (up 2-3%), December 2012 (up 8-22%) and April 2013 (2-7%).

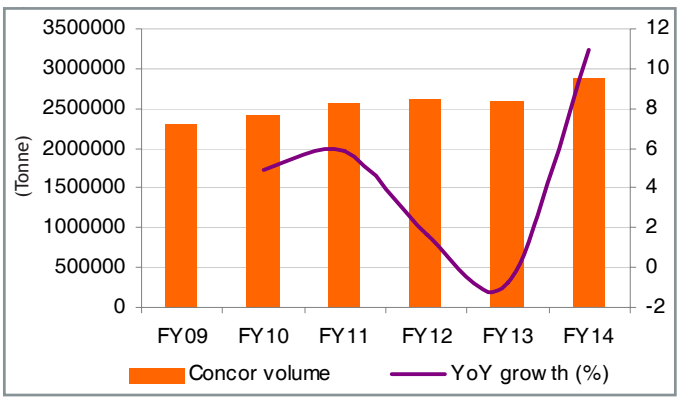
Railway haulage charges per TEU (1001 to 1050 km)

Particulars	1-Jan-10	1-Jan-11	(%) change	1-Dec-12	(%) change	1-Apr-13	(%) change	5-Dec-14	(%) change
Upto 10T				10,158		10,890	7.2	13,726	26.0
upto 20T	10,826	11,099	2.5	13,554	22.1	13,753	1.5	17,408	26.6
20T to 26T	13,965	14,280	2.3	15,515	8.6	16,633	7.2	21,112	26.9
26T to 30T								23,612	
Above 30T	15,515	15,981	3.0	17,329	8.4	18,577	7.2	26,226	41.2
Empty container single deck	7,037	7,215	2.5	8,810	22.1	8,205	-6.9	10,295	25.5
Empty flat wagons	6,496	6,660	2.5	8,133	22.1	7,574	-6.9	9,609	26.9

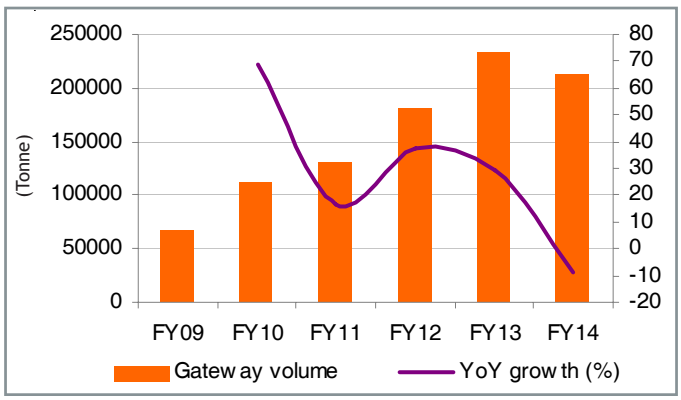
Impact assessment of similar hike in the past - ability to pass through

As mentioned earlier the railways increased haulage charges during December 2012 to April 2013 twice on an aggregate, increasing the charges by 14-24%. The increase in railway haulage charges pose a threat to movement of containers through rail route especially in light-weight category which can get shifted to movement via roads. During FY2014 when the haulage charges were increased we had witnessed Container Corporation of India (Concor)'s volume up by 11% while GDL witnessed a dip by 9% (owing to closure of short haulage routes). Concor had increased its realisation by 2% in order to increase the market share while GDL increased its realisation by 16% year on year (YoY). Consequently, GDL posted a 361-basis point (BPS) improvement in margins while Concor witnessed decline in margins by 167BPS.

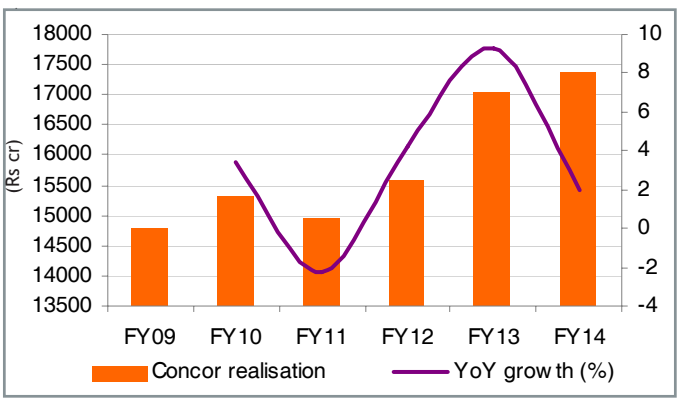
Volume trend for Concor



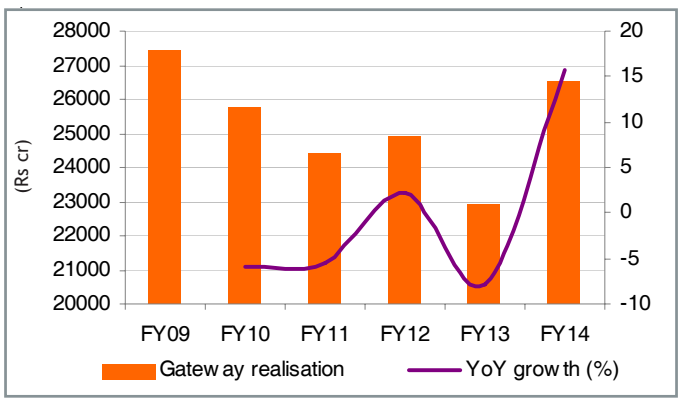
Volume trend for Gateway



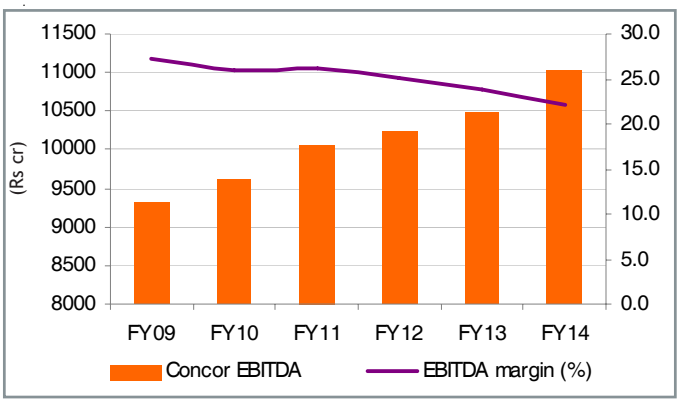
Realisation trend for Concor



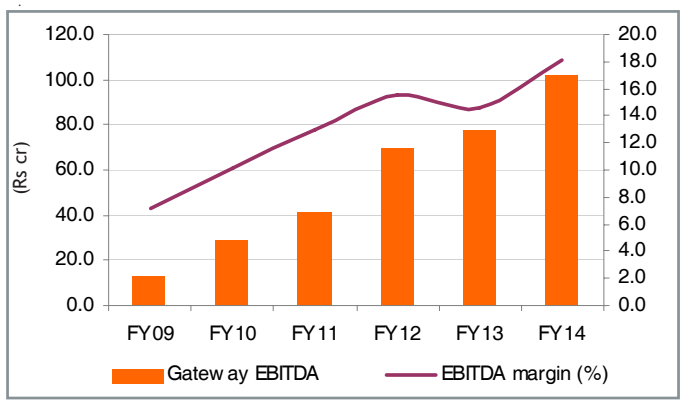
Realisation trend for Gateway



EBITDA margin trend for Concor



EBITDA margin trend for Gateway



Buoyant outlook can withstand cost pressure

Our analysis of the past, the rail freight players (namely Concor and Gateway Distripark; GDL)) have passed on the increased cost to clients and GDL intends to do the same with immediate effect this time around also. We believe the light weight cargo (upto 15T) which forms roughly 5-6% of the overall rail volumes for GDL might get impacted due to rate hike. Thus, the overall impact on GDL's financial should be limited. However, we are factoring 30-40 bps negative impact on margins of GDL's business.

Outlook and valuation

Over the long term, the outlook of the rail freight business is extremely favourable given the investments in dedicated freight corridors (that would increase railway freight capacities significantly). Moreover, we remain optimistic on the secular growth story of improving macro-economic environment having a positive effect on the logistic companies like Concor and GDL. Major positive triggers for the sector in terms of goods and services tax (GST) rollout and dedicated freight corridor (DFC) remains intact. We maintain our Buy rating on GDL with a price target of Rs340 and we have a positive view on Concor.

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Akzo Nobel India

View: Positive

Viewpoint

A colourful outlook; discounted valuation

CMP: Rs1,385

Key points

- **Strong player in premium decorative paint segment:** Akzo Nobel India (Akzo) is one of the strong players in the premium decorative paint segment and the fourth largest player in the overall domestic paint segment with a market share of 11%. Its Dulux brand is the recognised brand in the premium to mid-premium decorative paint segment in India. With a better economic outlook and efforts to increase its presence in the mass market segment, the launch of a new brand, Duwel, is expected to drive a high double-digit revenue growth in Akzo's decorative paint business over the next few years.
- **Soft raw material prices and operating leverage to support margins:** Like most other paint companies, Akzo would benefit from the softness in the prices of some of the key raw materials. It would also get a boost from better utilisation of its Gwalior facility (whose current capacity utilisation is 35%) that provides scope for operating leverage benefits in the coming years. Hence, we expect the company's OPM to improve to 10% from the current level of 8% over the next two years.
- **Strong balance sheet with buoyant dividend pay-out:** Akzo has one of the strongest balance sheets amongst the peers with no debt and a cash kitty of close to Rs400 crore (after the recent capex programme and strong dividend pay-out of two consecutive years). With improving profitability, the free cash of the company is expected to improve in the coming years. The return ratios have remained strong with the RoE and RoCE remaining in the upwards of 15% and 20% respectively. The company has paid cumulatively a dividend of Rs155 per share in the last two years. With no major capex plan going ahead and cash flow expected to improve, the dividend pay-out is expected to remain strong in the coming years as well.
- **Available at a discount to peers; leaves scope for rating:** Akzo is among the key beneficiaries of improving consumer sentiment especially in urban India and would achieve an earnings growth of over 20% CAGR in the next two to three years. However, it trades at an unjustified discount to its peers (at 27x FY2016E earnings it is at steep discount of 30-35% to Asian Paints and Berger Paints). Thus, we have a positive view on the stock and expect about 20% returns of the stock from the current levels.
- **Key risk:** Any disruption in the improvement of the macro environment and rise in competition in the premium paint segment remain the key risks to Akzo's earnings estimates.

Valuations

Particulars	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Net sales (Rs cr)	2,232.0	2,417.9	2,648.9	2,983.1	3,405.3
Operating profit (Rs cr)	188.5	191.9	231.8	311.1	350.6
Reported PAT (Rs cr)	218.8	150.2	184.1	242.4	275.6
Reported EPS (Rs)	46.9	32.2	39.4	51.9	59.0
OPM (%)	8.4	7.9	8.7	10.4	10.3
PE (x)	29.6	43.2	35.2	26.7	23.5
EV/EBIDTA (x)	28.9	30.1	24.8	18.2	15.8
RoE (%)	17.3	15.4	24.1	35.2	37.8
RoCE (%)	22.6	20.8	32.3	47.0	50.4

Peer comparison

Company	P/E (X)		EV / EBIDTA (x)	
	FY2015E	FY2016E	FY2015E	FY2016E
Asian Paints	49.7	40.3	30.8	25.3
Berger Paints	56.0	46.2	32.1	27.6
Kansai Nerolac	38.1	30.9	23.2	19.1
Akzo Nobel India	35.2	26.7	24.8	18.2

Company background

With a presence of more than 100 years in India, Akzo is one of the significant players in the domestic paint industry. It manufactures and markets a wide range of coatings and speciality chemicals. The company has currently six manufacturing facilities and 88 warehouses in India. Its Dulux brand is a recognised brand in the premium to mid-premium interior and exterior paint segment in India. In 2012, three Akzo group companies in India, namely Akzo Nobel Car Refinishes India, Akzo Nobel Chemical (India) and Akzo Nobel Coating India Pvt Ltd, merged with Akzo and expanded the company's presence in the market with a wide range of coating covering decorative, powder, marine and protective, automotive and aerospace paints. Its speciality chemical business in India deals in more than 30 product groups from under organic peroxides, metal alkyls and polymer additives to pharmaceutical companies.

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IPO Flash

Monte Carlo Fashions

Issue details

Issue opens	: December 3, 2014
Issue closes	: December 5, 2014
Issue size	: Rs342.28 crore to Rs350.43 crore
Offer size	: 5,433,016 equity shares
Face value	: Rs10
QIB portion	: 50% of the issue
Non-institutional portion	: 15% of the issue
Retail portion	: 35% of the issue
Price band	: Rs630 to Rs645

Monte Carlo Fashions (Monte Carlo) is coming out with an initial public offering of 5.43 million equity shares of face value of Rs10 each. This is an offer for sale wherein post-issue the promoter's holding in the company will fall to 63.6% from the current level of 81.1%. The issue is priced at Rs630-645 per share, resulting in an issue size of Rs350 crore at the upper price band. The objects of the issue are to get the benefit of listing on the bourses and to carry out the stake sale of the shareholders (ie the promoter and the promoter company along with Kanchi Investments, which is a 72.26% subsidiary of Samara Capital Partners Fund).

Shareholding pattern

Particulars	Pre-issue		Post-issue	
	No. of shares	%	No. of shares	%
Promoter & promoter group	17,615,304	81.1	13,828,708	63.6
Kanchi Investments*	4,022,990	18.5	2,376,570	10.9
Non-institutions	93,770	0.4	93,770	0.4
Public	-	-	5,433,016	25.0
Total	**21,732,064**	**100.0**	**21,732,064**	**100.0**

*A subsidiary of Samara Capital Partners Fund

Company background

- Monte Carlo was incorporated on July 1, 2008 as a subsidiary of Oswal Woolen Mills Ltd (OWML). Following the demerger from OWML, the business carried out by OWML was transferred to Monte Carlo with effect from April 1, 2011.
- The compnay primarily caters to the premium and mid-premium branded apparel segments for men, women and kids, offering a comprehensive line of woollen, cotton and cotton-blended knitted and woven apparels and home furnishings.
- Monte Carlo operates two manufacturing facilities in Ludhiana, Punjab: the one for its woollen apparels and the other for its cotton apparels. Almost all its woollen knitted products are manufactured in-house. The company also recently commenced in-house manufacturing of some of the cotton T-shirts and thermals in April 2014. For the remaining cotton and cotton-blended products, it follows an asset-light model by outsourcing the production to a network of third-party manufacturers, also known as job work entities.
- As on June 30, 2014, there were 196 Monte Carlo Exclusive Brand Outlets out of which 18 are owned and operated by the company and 178 are owned and operated by different franchisees in India (including 21 discount stores or factory outlets). It also has two franchised Monte Carlo Exclusive Brand Outlets in Dubai and one Monte Carlo Exclusive Brand Outlet in Kathmandu, Nepal.

Key investment positives

- **A leading brand in the organised segment:** As per Technopak Report 2014, Monte Carlo is a leading woollen knitted apparel brand in India in the premium and the mid-premium segment. The brand has been recognised as a superbrand for its woollen knitted apparels in each edition of Consumer Superbrands India since its first edition in September 2004.

- **Nationwide sales and distribution network:** The company's products are available in over 1,300 retail touch points across India. It employs different distribution channels for retailing its products ranging from its own exclusive retail outlets, Monte Carlo Exclusive Brand Outlets (it has a strong network of 196 such exclusive stores), to multi-brand outlets (MBOs) via commissioned agents, who procure orders from the MBOs and act as an interface between the company and the MBOs.

- **Financial performance:** Monte Carlo's revenues grew at a compounded annual growth rate (CAGR) of 16.34% over FY2012-14 while its operating profit and net earnings grew at 13.4% and 5.8% CAGR over the same period.

Key risk

- **Seasonal nature of the business:** As the company caters to winter wear, the seasonal nature of the business and severity of the season have an impact on its performance.

- **Fluctuation in the prices of the raw materials:** Fluctuation in the prices of the raw materials like cotton and wool is another risk to the profitability.

Valuations

At the upper price band of Rs645 the company is priced at a price/earnings ratio of 25.3x its FY2014 earnings while it is offered at 24.7x its FY2014 earnings at the lower price band of Rs630.

Peer comparsion

	EPS (Rs)		PE (x)		RoE (%)	
Particulars	FY13	FY14	FY13	FY14	FY13	FY14
Monte Carlo (at upper band of Rs645)	23.1	25.5	28	25.3	15.1	14.6
Kewal Kiran Clothing	43	54.4	42.7	33.8	22.1	24.6
Raymond	6.6	21.2	73.8	23	3	9.2
Zodiac Clothing	7.3	11.4	54.1	34.6	6.6	8.6

Financials

Profit and Loss statement Rs cr

Particulars	FY2012	FY2013	FY2014	Q1FY15
Total revenue	372.2	404.4	503.7	74.8
Total expense	290.3	333.5	409.6	56.7
EBITDA	81.8	71.0	94.1	18.0
Other income	3.2	12.0	15.2	4.5
Depreciation	6.0	6.8	16.2	6.6
Interest	6.5	3.7	9.3	3.1
PBT	72.6	72.5	83.8	12.8
Tax	23.1	23.6	28.5	4.3
PAT	49.5	48.9	55.3	8.5

Balance Sheet Rs cr

Particulars	FY2012	FY2013	FY2014	Q1FY15
Liabilities				
Equity capital	**18.9**	**21.7**	**21.7**	**21.7**
Reserves and surplus	**131.9**	**302.9**	**358.2**	**366.5**
Net worth	**150.8**	**324.7**	**380.0**	**388.2**
Deferred tax liabilities	**0.4**	**0.9**	**3.5**	**2.9**
Total loans	**61.7**	**67.0**	**89.5**	**113.5**
Long-term loan	43.2	52.5	66.5	59.4
Short-term loan	18.5	14.6	23.0	54.1
Capital employed	**212.8**	**392.6**	**472.9**	**504.6**
Assets				
Net block	**49.1**	**105.4**	**167.3**	**167.0**
Capital WIP	19.3	22.8	20.2	19.0
Investments	**0.0**	**40.0**	**50.0**	**50.0**
Current investments	-	38.5	36.0	50.0
Non-current investments	-	1.5	14.0	0.0
Current assets	**207.4**	**318.5**	**387.4**	**434.2**
Other current assets	0.0	1.5	47.8	6.5
Inventories	110.1	109.3	139.9	182.6
Sundry debtors	72.5	74.1	88.7	85.0
Cash and bank balance	1.3	107.1	82.2	116.7
Loans and advances	23.5	26.6	29.0	43.5
Less: Current liabilities and provisions	**63.0**	**94.0**	**152.0**	**165.7**
Sundry creditors	37.1	40.8	78.9	84.7
Other current liabilities	23.5	48.9	70.8	69.7
Provisions	2.5	4.3	2.3	11.3
Net current assets	**144.4**	**224.5**	**235.4**	**268.5**
Capital employed	**212.8**	**392.6**	**472.9**	**504.6**

Kay ratios

Particulars	FY2012	FY2013	FY2014
Gross profit margin	50.8	48.7	48.2
Operating profit margin	22.0	17.5	18.7
EPS	27.3	23.1	25.5
RoE	32.8	15.1	14.6
PER (at upper band)	23.7	28.0	25.3
PER (at lower band)	23.1	27.3	24.8

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IDBI Bank
LIC Housing Finance
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