

**RESULT UPDATE****Apurva Doshi**

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**GATI LTD****PRICE: Rs.82****TARGET PRICE: Rs.120****RECOMMENDATION: BUY****CONS. FY09E P/E: 17.0x**

**GATI reported disappointing Q4FY08 and FY08 results which are below our estimates on profitability side. This is due to expenses on account of the air freighter business, brand development expenses and losses of its foreign and cold chain subsidiary. However we maintain FY09 earning estimates. Recommend BUY with unchanged price target of Rs.120 (46% upside potential).**

- Net sales for Q4FY08 were at Rs.1.5 bn, up 26.6% YoY, and up 5.3% on sequential basis. This is primarily due to robust 69.1% YoY, 37.2% sequential growth in the revenues of the coast to coast shipping business due to addition of new ships in the previous quarter. The express distribution and supply chain division recorded 18.8% YoY growth that included revenues of approximately Rs.190 mn out of airfreight operations.
- However, EBIDTA margins during Q4FY08 were down 220 bps YoY due to significant rise in operating cost. This was primarily due to expansion of airfreight operations.
- EBIDTA for Q4FY08 was at Rs.122 mn, down 1.5% YoY and up 6.6% on a sequential basis.
- Interest cost of the company has gone up in Q4FY08 as the company has taken loans to fund its expansion plans in express distribution, air freight and shipping business.
- The other income of the company includes Rs.181.5 mn on assignment of right to a vessel under construction. Basically the company has sold its rights of a vessel under construction and opted to buy second hand vessel.
- PAT for Q4FY08 was at Rs.15.4 mn down 78.9% YoY and down 52.2% on a sequential basis, thereby translating into quarterly diluted EPS of Rs.0.2 and CEPS of Rs.0.7.
- PAT was impacted on account of losses of the air freight business and provision for the mark to market forex derivate loss of Rs.150.8 mn.

**Summary table - Cons (Rs mn)**

year end June	FY07	FY08E	FY09E
Sales	5,680	7,219	8,754
Growth (%)	23.5	27.1	21.3
EBITDA	434	486	753
EBITDA margin (%)	7.6	6.7	8.6
Net profit	214	196	451
Net debt	1,420	928	1,377
EPS (Rs)	3.0	2.3	4.8
Growth (%)	11.7	(8.6)	130.0
DPS (Rs)	0.8	0.9	1.0
ROE (%)	12.3	7.1	11.4
ROCE (%)	10.0	9.3	13.4
EV/Sales (x)	1.5	1.1	1.0
EV/EBITDA (x)	19.3	16.2	11.0
P/E (x)	27.7	35.4	17.0
P/BV (x)	4.0	1.8	1.7

Source: Company, Kotak Securities - Private Client Research

**Consolidated Financials**

- For FY08 on consolidated basis the revenues of the company have grown by 27.1% on YoY basis to Rs.7.2 bn. This is primarily due to robust 31.7%YoY growth in the revenues of the express distribution and supply chain division that included revenues of approximately Rs.620 mn out of airfreight operations.
- However the EBIDTA margins were down 90 bps to 6.7%. This was due to the fact that during FY08, the company incurred one-time expenses of approx. Rs.50 mn for ramping up the airfreight business and it also spent Rs.84 mn as brand development expenses. These were being done for revamping the GATI brand.
- While the expenses are recorded in FY08 the benefits out of this are expected to accrue to the company over a period of years.
- PAT for FY08 was at Rs.196 mn, down 8.6% on YoY basis, thereby translating into FY08 fully diluted EPS of Rs.2.1 and CEPS of Rs.4.1.
- PAT was impacted by around Rs.30 mn on account of its loss on foreign subsidiaries and loss of Rs.15.8 mn for its cold chain subsidiary i.e. Kausar India.
- If we were to exclude these losses than the results are in line with our estimates

**GATI Ltd. - June end**

(Rs mn)	Standalone						Consolidated				
	Q4FY08	Q4FY07	YoY (%)	Q3FY08	QoQ (%)	FY08	FY07	YoY (%)	FY08	FY07	YoY (%)
<b>Net Sales</b>	<b>1,541</b>	<b>1,220</b>	<b>26.3</b>	<b>1,464</b>	<b>5.3</b>	<b>5,521</b>	<b>4,574</b>	<b>20.7</b>	<b>7,219</b>	<b>5,680</b>	<b>27.1</b>
cost of goods sold	-	-	-	-	-	-	-	-	1,131	974	-
staff cost	198	150	31.8	163	21.2	702	578	21.4	759	607	24.9
operating exp.	1,052	946	11.1	983	7.0	3,661	2,972	23.2	4,114	3,082	33.5
Admin exp.	104	-	-	151	(31.1)	527	478	10.1	572	489	16.9
Repairs & Maintenance	12	-	-	23	(47.1)	73	64	14.8	73	64	14.9
Brand building Exp.	54	-	-	30	80.3	84	30	183.2	84	30	183.2
Total Expenditure	1,420	1,097	29.5	1,350	5.2	5,047	4,122	22.5	6,733	5,246	28.3
<b>EBIDTA</b>	<b>122</b>	<b>123</b>	<b>(1.5)</b>	<b>114</b>	<b>6.6</b>	<b>474</b>	<b>452</b>	<b>4.8</b>	<b>486</b>	<b>434</b>	<b>12.0</b>
Other income	218	22	915.3	3	-	234	37	540.4	240	42	475.5
Depreciation	51	31	65.7	33	57.5	146	111	31.3	184	112	64.3
<b>EBIT</b>	<b>289</b>	<b>114</b>	<b>153.2</b>	<b>84</b>	<b>243.2</b>	<b>562</b>	<b>378</b>	<b>48.9</b>	<b>542</b>	<b>363</b>	<b>49.0</b>
Interest	27	15	74.7	36	(25.1)	97	58	68.6	113	59	93.0
PBT	262	99	165.4	48	442.9	465	320	45.3	428	305	40.6
Extra. (loss) / gain	(221)	-	-	(8)	-	(151)	-	-	(151)	-	-
Tax & deferred tax	25	26	(2.7)	8	216.5	77	87	(11.4)	82	90	(9.7)
<b>PAT</b>	<b>15.4</b>	<b>72.9</b>	<b>(78.9)</b>	<b>32.2</b>	<b>(52.2)</b>	<b>237.8</b>	<b>233.6</b>	<b>1.8</b>	<b>196</b>	<b>214</b>	<b>(8.6)</b>
Equity share Capital	169.3	144.7		161.0		169.3	144.7		169.3	144.7	
Eq. sh o/s (mn) FV Rs. 2	84.7	72.4		80.5		84.7	72.4		80.5	72.4	
Diluted shares mn	93.3	93.3		93.3		93.3	93.3		93.3	93.3	
<b>Ratios</b>											
Operting profit margin (%)	7.9	10.1	-220 bps	7.8	+10 bps	8.6	9.9	- 130 bps	6.7	7.6	- 90 bps
Cost of goods / net sales (%)	-	-		-		-	-		73.4	79.8	
Staff cost / net sales (%)	12.9	12.3		11.2		12.7	47.4		13.7	49.8	
Operating exp / net sales (%)	68.2	77.6		67.1		66.3	243.6		74.5	252.6	
Admin / net sales (%)	6.7	-		10.3		9.5	39.2		10.4	40.1	
Brand exp / net slaes (%)	3.5	-		1.9		5.5	1.9		5.5	1.9	
Tax / PBT (%)	61.9	26.1		16.4		24.4	27.0		29.4	29.7	
<b>EPS Reported (Rs)</b>	<b>0.2</b>	<b>1.0</b>		<b>0.4</b>		<b>2.8</b>	<b>3.2</b>		<b>2.4</b>	<b>3.0</b>	
Diluted EPS	0.2	0.8		0.3		2.5	2.5		2.1	2.3	
Diluted CEPS	0.7	1.1		0.7		4.1	3.7		4.1	3.5	

Source: Company, Kotak Securities - Private Client Research

**Segmental table**

(Rs mn)	Standalone						Consolidated				
	Q4FY08	Q4FY07	YoY (%)	Q3FY08	QoQ (%)	FY08	FY07	YoY (%)	FY08	FY07	YoY (%)
<b>Revenues</b>											
Exp. Dist & Supply Chain	1,244	1,047	18.8	1,251	(0.5)	4,800	3,942	21.8	5,345	4,059	31.7
Coast to Coast - shipping	295	174	69.1	215	37.2	724	636	13.8	724	636	13.8
Fuel Stations									1,153	989	16.6
<b>PBIT (Rs. mn)</b>											
Exp. Dist & Supply Chain	88	115	(23.9)	82	7.4	422	431	(2.1)	387	406	(4.6)
Coast to Coast - shipping	244	27	803.3	42	478.0	323	102	216.3	323	102	216.3
Fuel Stations									14	11	29.1
<b>PBIT %</b>											
Exp. Dist & Supply Chain	7.0	11.0	(35.9)	6.5	7.9	8.8	10.9	(19.6)	7.2	10.0	(27.5)
Coast to Coast - shipping	82.7	15.5	434.1	19.6	321.3	44.7	16.1	177.9	44.7	16.1	177.9
Fuel Stations									1.2	1.1	10.7

Source: Company, Kotak Securities - Private Client Research

### To acquire balance 26.3% in Kausar

- In December 2007, GATI forayed into cold chain logistics with acquisition of Delhi-based cold chain logistics firm Kausar with 73.7% stake. However the management has approved the acquisition of the balance 26.3% stake in Kausar. Thus going forward it would become 100% subsidiary of the company.
- For 15 month ended June 2008 it reported revenues of Rs.214 mn, EBIDTA margin of 14.5% and net loss of Rs.15.8 mn. Loss is primarily on account of heavy depreciation and interest burden.
- Going forward there is a huge potential for cold chain logistics in India. Currently GATI is in the process of framing its retail cold chain strategy to integrate Kausar with itself with planned investments over the next three year.

### Kausar Financials

(Rs mn)	15M June 08	12M Mar 07	YoY (%)
<b>Net Sales</b>	<b>214</b>	<b>179</b>	<b>20.0</b>
Fleet running cost	169	142	19.1
staff cost	4	2	77.0
Other exp.	10	6	58.7
Total Expenditure	183	151	21.6
<b>EBIDTA</b>	<b>31</b>	<b>28</b>	<b>11.5</b>
Other income	3	8	(61.2)
Depreciation	38	22	73.7
<b>EBIT</b>	<b>(4)</b>	<b>14</b>	<b>(126.5)</b>
Interest	15	4	287.2
<b>PBT</b>	<b>(19)</b>	<b>10</b>	<b>(281.3)</b>
Tax & deferred tax	(3)	4	(171.6)
<b>PAT</b>	<b>(15.8)</b>	<b>6.1</b>	<b>(357.3)</b>
EBIDTA margin (%)	14.5	15.7	down 120 bps

Source: Company, Kotak Securities - Private Client Research

### Growing air freight business

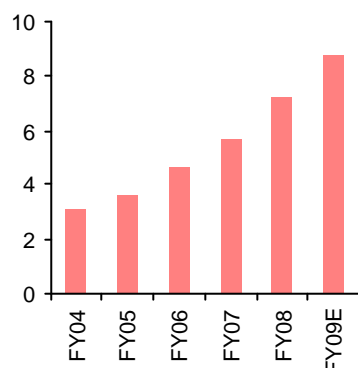
- Currently the company is operating two air freighters on the Delhi-Mumbai-Bangalore route. The Delhi-Mumbai route has received good response and is operating optimal capacities. The third freighter has currently gone for some clearances and it will join the fleet by September 2008. The fourth freighter is expected to be commissioned by December 2008.
- With the third freighter the company would launch the hub and spoke services with the addition of Nagpur to its route. We believe it would lead to higher efficiency in the operations of the air freighters.
- We feel that foray into air cargo with its own freighters is very positive for the overall growth prospect of the company as it can now offer complete end-to-end logistics services with quick and efficient deliveries.

## Valuation & Recommendation

**We recommend BUY on GATI  
with a price target of Rs.120  
(46% Upside)**

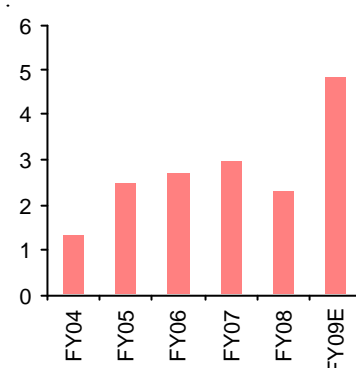
- Going forward we expect strong growth in revenues due to ramping up of the airfreight business and recent addition of new vessels in the shipping division. Also one more vessel with more than 500 TEU capacity is expected to be inducted by October 2008.
- Also the expenses related to start up of air freight business and brand development would be significantly reduced in the following quarters. This would lead to increased revenues and profitability for the company going forward.
- We maintain our earnings estimates and expect the company to report EPS of Rs.4.8 in FY09E.
- At Rs.82, the stock trades at 1.9x book value, 17.0x earnings and 12.2x cash earnings based on FY09E.
- We remain positive on the growth prospects of GATI as we feel that it is ideally poised to take advantage of the booming logistics sector in India with its express distribution, coastal shipping and air freight services.
- We continue to recommend **BUY** on GATI with unchanged price target of Rs.120 which provides 46% upside potential from current levels.
- The price target is derived by assigning a multiple of 25x one year forward earnings estimate of Rs.4.8 for FY09E which yields fair value of Rs.120.
- We recommend **BUY** on GATI.

Cons. Net sales (Rs bn)



Source: Company, Kotak Securities - Private Client Research

Cons. EPS (Rs)



Source: Company, Kotak Securities - Private Client Research