



“GATI Limited Q1FY14 Earnings Conference Call”

November 07, 2013



MAIN SPEAKERS: **MR. SANJEEV JAIN, DIRECTOR FINANCE,**
MR. PETER JAYAKUMAR, DEPUTY CFO,
MR. VSN RAJU, COMPANY SECRETARY



*Gati Limited Conference Call
November 07, 2013*

Moderator

Ladies and gentlemen, good morning and welcome to Gati Limited Q1FY14 Earnings Conference Call. We have with us on the call today Mr. Sanjeev Jain, Director Finance; Mr. Peter Jayakumar, Deputy CFO; and Mr. VSN Raju, Company Secretary. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sanjeev Jain. Thank you and over to you, Mr. Jain.

Sanjeev Jain

Thank you . A very good morning ladies and gentlemen. It is our pleasure to connect with you again on the occasion of quarter one Financial Year 2013-2014 of Gati Group Accounts. We are pleased to inform that this quarter has been a good quarter . In Quarter one, we have registered a growth of 13% on a quarter on quarter basis and 22% on a year on year basis in our operating revenue. Our growth in the quarter one has set the momentum for the financial year 2013-14. Yesterday, our Board approved the accounts, which were disseminated to the stock exchanges and are also available on our website.

Before we discuss the financial performance of the company, I wish to take few minutes to update you about the key highlights of quarter one of this financial year. To begin with Gati, there is a good news that we got favourable arbitration award against Air India on 17th September 2013 . The Arbitral Tribunal has passed this award directing Air India to pay Gati, a net sum of Rs.26.82 crore towards our various claims, damages, and interests and costs. In case Air India does not comply with the award within 30 days, Air India shall be liable to pay interest of 18% per annum. We are taking further steps to securitize our dues from Air India. You may be aware that this arbitration was going on for the last four years and finally it has come in our favour.

Another good news is that shareholders have approved 30% dividend for the financial year 2012-13 at the AGM held yesterday. This declaration is consistent with our past track record that we have been consistently paying dividend to our shareholders.

On our E-commerce division, the company has increased its delivery capabilities of E-commerce to deliver more than 10,000 packages per day. Today we have a fleet strength of 500 vehicles. Our E-commerce delivery capabilities are one of the best in the country . In the E-Commerce segment, we have launched unique service of AM-PM delivery in seven metro cities wherein we can deliver shipments within 12 hours for the order placed before 12 p.m. This is unique in the country. Our E-commerce division continues to roll out new services for our customers.

In our E-commerce division, we are serving major clients like Snapdeal, Amazon, Telebrand, StarCJ. And our service range starts from pick up of the inventory from the client warehouses,



*Gati Limited Conference Call
November 07, 2013*

packaging the shipment till last mile delivery and including reverse logistics for some of these customers.

Coming to our flagship company, Gati-Kintetsu Express Private Limited, the company has crossed Rs. 250 crore income in quarter 1. It registered growth of 4.5% quarter on quarter and 20% growth compared to quarter 1 of last year. The synergy benefits with KWE have started flowing gradually. We have quantified the synergy benefit to the tune of Rs.30 million in Quarter 1. The synergy benefits are slow, but are growing steadily.

Coming to our cold chain business Gati Kausar, we continue to have discussions with some of the strategic partners to infuse growth capital in the company. We are also setting up our first cold warehouse facility near Gurgaon for which we are in an advanced discussion with couple of business partners and other stakeholders to help set up this first cold warehouse of Gati Kausar.

On Gati Ship Limited, we are running one vessel in partnership with ISL, a Tata group company. It has completed eight voyages in quarter one with improved capacity utilisation. A total of 10 voyages have been completed successfully on the West Coast of India between Kandla and Cochin since its inception .

This is the snapshot of the growth in different companies. Coming to the financial performance for Quarter 1 for the financial year 2013-14, I will first take up Gati's consolidated accounts. Our total income for the quarter 1 is Rs. 366.9 crore with an EBITDA of Rs. 28.7 crore. Our EBITDA margins are 8% and our Profit Before Tax is Rs. 10 crore. Our total operating revenue grew by 22% on a year-on-year basis and 13% on a quarter-on-quarter basis. The EBITDA of the Company at consolidated level, also improved by 38% compared to quarter 1 of last year.

Coming to Gati's standalone, the listed entity of the group, the income for the first quarter is Rs. 79.9 crore, which has an EBITDA margin of 6% and PBT of Rs.17 million for the first quarter. The revenue has grown by 19% year on year and 5% on a quarter on quarter basis. The EBITDA has decreased quarter on quarter due to expansion of E-commerce networks in the company.

Our joint venture company, Gati-Kintetsu, did its highest income in the Quarter 1. The company has crossed a mark of Rs. 250 crore in Quarter 1 with an EBITDA margin of 9% and Profit Before tax Rs. 14.4 crore, which works out to 6%. In terms of growth, the total growth has been 4.5% on a quarter on quarter basis and 20% year on year. EBITDA also increased by 5% year on year and remained virtually flat as compared to the previous quarter because of certain cost escalations.



*Gati Limited Conference Call
November 07, 2013*

The performance of our Cold Chain division which is a subsidiary known as Gati Kausar India Limited, the revenues have been Rs. 12.6 crore with an improved EBITDA margin of 13%. The EBITDA is Rs. 1.6 crore and there is a marginal loss at PBT level which is Rs. 8 million due to higher depreciation since we have taken around 65 vehicles in Quarter 3 and Quarter 4 of the last financial year. The current fleet size of Gati Kausar is 215 which is second largest refer trucking network in the country.

On Gati Ship, which has not been doing well for quite some time, there is a marginal improvement in this quarter. The income is to the tune of Rs. 8.7 crore with a negative EBITDA of around Rs. 1 cr., and the total loss at PBT (Profit Before Tax) level is Rs. 47 million. While there is growth in the income to the extent of over 100% on a quarter on quarter basis and 35% on a year on year basis, but overall the company is still incurring losses. The operating partnership with ISL on West Coast, Kandla and Cochin, has stabilised in quarter 1. Gati Ship has completed eight voyages in Quarter 1 and total number of voyages completed so far are 10, and there is improved capacity utilisation. In the month of October, the sector has generated some marginal profits. We believe that our partnership with ISL will continue to strengthen. This sector will generate sufficient profit and it can turn around the company. We continue to explore further divestments in Gati Ship Limited.

On loans or debt movement in our group, primarily the debts are in two companies i.e. Gati-Kintetsu Express and Gati Limited. At GKEPL, the debt movement has been stagnated. We have not allowed further debts. The debt in Gati-KWE stands at Rs. 189 crore. This is almost the same as compared to quarter 4. In fact, despite the growth of 20%, we have been managing with the internal accruals and we continue to repay the debt as and when they are due for repayment.

At Gati level, the debt has increased slightly from Rs. 189 crore to Rs. 201 crore. The growth of around Rs. 11 crore is primarily because there has been an exchange fluctuation impacting FCCB loan. Whenever there is rupee depreciation, the loan amount increases. So, to that extent the loans of Gati have increased. Otherwise, Gati's loans are also stagnated... The overall loan at Gati is Rs.201 cr., out of which Rs.139 crore is FCCB bonds. There are small borrowings to the extent of around Rs.50 cr. This is our update on the financial and major highlights of the group. I declare the floor open for any questions. Thank you very much and we can take your questions now.

Moderator

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Pritesh Cheddha from Emkay Global.

Pritesh Cheddha

Sir, can you explain the note three in the notes of your accounts...

Sanjeev Jain

Which note are you referring to?



Pritesh Cheddha ...in your results?

Sanjeev Jain Yes.

Pritesh Cheddha Company has been allotted 34,57,000 optionally convertible debentures of face value 100.

Sanjeev Jain Ok. This is an optionally convertible debenture issued by Amrit Jal. Amrit Jal is the holding company, a promoter-driven company which is commissioning three power projects in the state of Sikkim. Gati is an anchor investor in these projects. Gati has a equity investment and some amount of loan. These loans have now been converted into optionally convertible debentures which is payable within a period of 18 months and convertible after a period of one year. This carries an interest of 14.5%.

Pritesh Cheddha Optionally convertible debentures?

Sanjeev Jain Yes.

Pritesh Cheddha Convertible into equity?

Sanjeev Jain Yes. Convertible into equity.

Pritesh Cheddha Why, what is the rationale for putting Rs. 35 crore there?

Sanjeev Jain Gati has already invested a small equity in these power projects. In fact, Gati was the anchor investor. Gati Board has also approved for certain financial assistance in the past. This financial assistance which were lying as loans in the books of Gati has now been converted into OCD. This is basically a movement from loan to power company into an optional convertible debentures since there is all likelihood of liquidity event in Amrit Jal at the holding level of the power project.

Pritesh Cheddha How about incremental investments in these businesses?

Sanjeev Jain We have not made any incremental equity investment in these businesses.

Pritesh Cheddha How about extending loans and advances?

Sanjeev Jain We have not extended any loan in the past two quarters.

Pritesh Cheddha How about intention to invest further?

Sanjeev Jain There is no intent to invest further. The first power project which was commissioned in the middle of May is now fully operational. The project is getting stabilised. General Electric (GE)



*Gati Limited Conference Call
November 07, 2013*

has made an investment of Rs. 257 crore. We believe that our investment in power projects, which is a small investment of about 12%, will double in value and as and when there is a liquidity event in Amrit Jal at holding level, Gati will monetise the investment with far higher returns.

Pritesh Cheddha I am asking in the context, because in the last one, one-and-a-half years you have brought in JV partners at different business segments and you are aiming to reduce debt as well. Such investments actually are contradictory to the other plan. I am just asking you from that perspective.

Sanjeev Jain Your question is valid. We have brought investment into Gati through KWE. There's no fresh investment plan in power projects. These were the existing investments. Gati has not made any further investment in power project nor Gati intends to make any further investment in power projects. In fact, we have done the OCD transaction to get our repayment of loans with higher returns.

Pritesh Cheddha Ok, my second question is in the e-commerce side of the business, how much is the capital invested?

Sanjeev Jain E-commerce business is an asset-light business model. But since we are increasing our delivery capabilities, we have to invest in two-wheeler and four-wheelers. We have to make large recruitments in term of bikers who can deliver these packages. Hence our overall investment in this business is not more than Rs.4-5 cr. But we will continue to invest in these assets which will help us strengthen our network. We want to take our delivery capabilities from current 10,000 packages per day to 20,000 packages per day and that will help us position our E-commerce division to stand at Number 3 in the country after two major players in this vertical.

Pritesh Cheddha You mentioned 10,000 packages a day and Rs.10 crore revenue, what was the peak number in the last quarter?

Sanjeev Jain We have registered revenue of around Rs. 11 crore in e-commerce division. If you recollect, our E-commerce division registered its total revenue to Rs. 25 crore in '12-'13. Compared to Rs.25 crore, the revenue of the first quarter is Rs. 11 crore. Our October run rate is Rs. 4.8 crore.

Pritesh Cheddha Ok. The October run rate is Rs.4.8 crore.

Sanjeev Jain Run rate...

Pritesh Chaddha On a package delivery of?



*Gati Limited Conference Call
November 07, 2013*

Sanjeev Jain Over a package delivery of around 10,000 packages per day.

Pritesh Cheddha So it's about Rs. 120 per package type realisation.

Sanjeev Jain This could be a rough estimate. E-commerce is growing fantastically. It has more than doubled this year. We are looking for a revenue of minimum Rs. 65 crore in the financial year '2013-'14.

Pritesh Cheddha Ok. Thank you.

Moderator Thank you. Next question is from the line of Kavita V from Nirmal Bang Securities.
Kavita Good morning, sir, and congrats.

Sanjeev Jain Very good morning Kavita..

Kavita To begin with the Gati KWE business has grown by 20% y-o-y and it has been growing at this rate from the last two quarters. What is the way ahead? Do you expect this kind of growth rate going forward as well?

Sanjeev Jain In fact, we believe that the growth is quite impressive. Historically Quarter 1 has always been good for the company but we are seeing a distinct trend in pharma, garments and automotive. These verticals are giving us good amount of growth. We believe that our growth should be minimum in the range of 15-20%.

Kavita Ok. Overall the economy is not doing well but our growth rate is quite impressive. Is it that we are gaining market share in this or actually are you seeing a volume surge?

Sanjeev Jain This is a combination of both increase in the weight and the diesel price hike which is passed on to the customers. While the economy is not doing well, we see some of the verticals are quite impressive. If you see the automotive, whilst the car sales have slowed down, but then there is direct linkage that people will use more spare parts, and we are into that business vertical. So couple of verticals are doing well, and we see this growth coming primarily from the sectors in which we are active. I hope that 15-20% growth is quite feasible in this financial year.

Kavita What is the outlook for margins in this business?

Sanjeev Jain EBITDA margins have slightly declined. It is at 9%. Typically the average EBITDA margin in this business is between 10-12%. There has been cost management issue in the past. The volume growth, which happened impressively, was catered through spot hiring of vehicles, which is slightly costly. Operating cost has increased which has impacted our margins. But with Project Udaan which we are doing with IBM, we believe that we will be able to contain



*Gati Limited Conference Call
November 07, 2013*

the cost from quarter 3 and quarter 4. We expect a significant saving in operating costs through the initiatives of IBM.

Kavita Can you see those margins going back to 10%.

Sanjeev Jain We believe that our margins should be around 11% in this financial year.

Kavita Ok. On the shipping business, we have clocked Rs.7 crore of revenue in the current quarter.

Sanjeev Jain Yes. Rs.8.7 crore.

Kavita Ok. Rs.8.7 crore. Was there any aberration or do you think this kind of revenues can go on in the coming quarters as well?

Sanjeev Jain This is the minimum revenue we believe that we should register in a quarter. This is the outcome of successful partnership with ISL. We completed eight voyages. Initially in the first five voyages the capacity utilisation was not full. But as we grew and firmed up in the sector, our capacity utilisation has increased significantly. Now, going ahead we believe that every month we should have three to four voyages. We should complete nine to ten voyages in the next quarter with better capacity utilisation. We believe that we should further improve on the revenue front.

Kavita Sir, when you say eight voyages, is it just covering one side route?

Sanjeev Jain This is up and down. The vessel starts from Kandla goes to Cochin, and comes back from Cochin to Kandla.

Peter Jayakumar: It normally takes 10 days but we do it faster. The vessel is quite efficient and is actually just out of dry dock. Hence we are able to do about four voyages in one month. This means better efficiency in the use of the vessel.

Kavita But we are still incurring losses. So when do you think we can at least break-even?

Sanjeev Jain Yes, this is the right question. We have been mulling and yesterday the board had a discussion around containing shipping losses, we are quite serious in turning around the division. There are a couple of other initiatives, including further divestment in the shipping business.

Peter Jayakumar But if you look at the last full year performance, this is the best performance thus far. This is the first quarter where the top line has been the highest when compared to the previous four quarters, so has the bottom line, which means there is improvement. We can't immediately do a U-turn. But then I think we have gone ahead.



*Gati Limited Conference Call
November 07, 2013*

- Kavita** Ok. Sir, this other sales of Rs.11 crore. What is it exactly?
- Sanjeev Jain** Which figure are you referring to?
- Kavita** In the segment revenue, you have given a break-up of EDSC shipping fuel sales and other sales.
- Sanjeev Jain** Anantha, can you just tell us?
- Management** Other sales in the segment pertains to our other trading companies like GIETL.
- Sanjeev Jain** The other sales is referred to our sale in our subsidiary GIETL (Gati Import and Export). Last quarter I briefed that Gati Import and Export signed a good contract with the Taj Hotel in which we manage their complete supply chain. We make procurement of inventories on their behalf, we store and then make a distribution to the entire hotel chain of Taj Hotels. Hence this business is doing well.
- Kavita** Ok. What is your future outlook on this business?
- Sanjeev Jain** We now have four months experience in this business. We are quite satisfied. We are managing their complex supply chain. We believe that the volume with Taj will continue to increase and this itself will become a vertical and we are looking to find out some new hotels for the same services. I hope the volume in GIETL would increase significantly.
- Kavita** Ok. Sir, one last question, on your cold chain you said you are going to build a warehouse in Gurgaon. Can you give some more details on your investment plans
- Sanjeev Jain** Yes. We have identified the location. This is near Gurgaon. We are in discussion with multiple partners who are helping us on the real estate and the technology side. We are in discussion with a large private equity firm who create such warehouses and give them on lease. Those discussions are at an advanced stage. I hope that our first cold chain warehouse should be completed in the next two quarters. And our investment plans are also on. The discussion for growth capital are at an advanced stage. Divestment of Gati Kausar should be completed in this financial year.
- Kavita** But will you be taking further debt?
- Sanjeev Jain** The cold chain warehouse has a combination of both equity infusion and debt. In fact, debt and equity is almost in the same ratio.
- Kavita** All right, sir, I will get back into the queue for further questions. Thank you.
- Sanjeev Jain** You are most welcome.



*Gati Limited Conference Call
November 07, 2013*

Moderator Next question is from the line of Sunil Jain from Nirmal Bang.

Sunil Jain Congratulations on good numbers, sir.

Sanjeev Jain Thank you, Sunil.

Sunil Jain Sir, can you repeat your total debt at different levels?

Sanjeev Jain Yes. Debt is primarily in two companies, which is GKEPL. At GKEPL the debt size is Rs. 189 crore. It has stagnated. It is the same figure as was in quarter 4 of last year. At Gati, it is Rs.201 crore., which has an FCCB component of Rs.139 crore. FCCB has increased by around Rs. 9 crore because the rupee had depreciated. There is an exchange variation in the FCCB component. Otherwise in Gati, the debt component increase is very minimum only because we are constructing head office building for which we are taking external funding.

Sunil Jain This includes both your long-term, short-term and whatever repayable within one year?

Sanjeev Jain This includes total debt.

Sunil Jain Total debt?

Sanjeev Jain Yes.

Sunil Jain And how much is repayable in this current year?

Sanjeev Jain The current year repayment both in Gati and GKEPL are to the extent of around Rs. 70 crore.

Sunil Jain Ok. Rs.70 crore is repayment?

Sanjeev Jain Yes.

Sunil Jain Sir, capex for the current year?

Sanjeev Jain We have a capex plan of around Rs.20 crore, which is a combination of buying around 100 vehicles in the main company, GKEPL, and few vehicles in Gati Kausar.

Sunil Jain Ok. What about the warehouse?

Sanjeev Jain We'll incur this capex in quarter 2 and quarter 3 primarily.

Sunil Jain You had spoken about this warehouse?



*Gati Limited Conference Call
November 07, 2013*

- Sanjeev Jain** Yes. Our first warehouse which should be commissioned in this financial year, is primarily on lease basis. We will have very small capex on that front.
- Sunil Jain** Will this include... Rs.20 crore will be at all the levels?
- Sanjeev Jain** Rs.20 crore is the total capex in the group.
- Sunil Jain** In the group. Sir, I have a question on the investment by Amrit Jal. If I see your FY13 balance sheet, in associate companies investment, I see the investment in advances to Rs.15 crore...
- Sanjeev Jain** Yes.
- Sunil Jain** ...Whereas this investment is Rs.35 crore. Is the figure clubbed somewhere as well?
- Sanjeev Jain** Yes, the figure is clubbed . Gati in the last couple of years had made two types of investment in the power project. We have done a small equity investment which is valued around Rs. 18 crore on face value, which is equity investment in the power project, which is also at the holding company level. In the last couple of years, the board also approved certain financial assistance to Gati Infrastructure Limited (GIL). Those are clubbed into advances in the balance sheet and those advances had now been converted into optionally convertible debentures, getting interest of 14.5%. They are repayable within a period of 18 months and at the option of the company are redeemable and can be converted into equity within one year.
- Sunil Jain** But when I see the balance sheet, in this transaction with associate group company, the advances to associate companies is around Rs.15 crore, and investment is Rs.20 crore.
- Sanjeev Jain** Can you repeat the question?
- Sunil Jain** Is the investment Rs.20 crore.
- Sanjeev Jain** Investment where?
- Sunil Jain** So that includes investment in this Infra company of around Rs.18 crore; and the advances is only Rs.15 crore. So where is the other figure? I am not able to reconcile from your balance sheet.
- Sanjeev Jain** I will give you a separate update on this Sunil?
- Sunil Jain** Ok.fine. No problem. Sir, apart from this, the Air India case which you have won, whether Air India can go to a higher court, to maybe High Court or Supreme Court?



*Gati Limited Conference Call
November 07, 2013*

- Sunil Jain** Apart from this, the Air India case which you have won, whether Air India can go to a higher court, or Supreme Court?
- Sanjeev Jain** Yes. Certainly they have the right to appeal. But if I just give you the quality of the order which has come, it is very clear. It is a 70-page order. The arbitrator is ex Chief Justice of India and the two judges from the High Courts. This has come from a reputed, arbitration background. The arbitration can be challenged only on technical grounds. Certainly Air India has a right to appeal, and most likely they may go for an appeal, but we have filed a caveat to securitise our dues. Hence we have gone to the High Court and we are requesting them that before Air India does something, our rights of this order must be preserved.
- Sunil Jain** Do you mean to say that whatever money is due to you, you will get that money or you will securitize it with some bank guarantee?
- Sanjeev Jain** Yes. There are two processes. Air India will certainly go to appeal because that's how the public sector normally works. But we have to protect our interest. So we are going to the High Court to request the High Court that Air India might divest their assets, they may be incurring losses. There are certain other grounds we have taken, and we are requesting to the court to securitize our money. Either Air India should give us some assets or they should make some part payment or they should give us some bank guarantee.
- Sunil Jain** Ok fine. Ok sir, great. All the best for the future sir.
- Sanjeev Jain** But it is a very detailed order and coming from renowned background of the judges.
- Sunil Jain** Ok, sir. Great. Thank you.
- Sanjeev Jain** Thanks.
- Moderator** Next question is from the line of Chitan Sheth from SKS Capital & Research.
- Chitan Sheth** Coming again to that Air India arbitration, the date was ending on 18th October, right? So we are of view that you have collected the Rs.26.8 crore arbitration money from Air India. Now you are saying that they can again go for appeal on a hold up. Have we received the money?
- Sanjeev Jain** No, Chitan, we have not received the money. The arbitration award says that if Air India fails to clear within one month, which actually expired on 18th October, then they are liable to pay us 18% on that amount? But Air India reserves the right of 90 days to go for a higher appeal. They still have time. But after 18th October, we have a right to collect 18% interest on the amount which the arbitrator has directed Air India to pay to us.
- Chitan Sheth** Right. So it's on a hold at this moment, right?



*Gati Limited Conference Call
November 07, 2013*

- Sanjeev Jain** This is on hold at the moment. But as I just briefed Sunil that that is a solid, good quality decision which is unlikely to be entertained
- Chitan Sheth** Ok. Sir, coming back to the fleet size of Kausar, we currently have around 215 vehicles. In the last call we have planned around 300-odd vehicles by the end of this fiscal. I just wanted to know about the number of vehicles that you are adding in this fiscal.
- Sanjeev Jain** Fair. Thus at Gati Kausar, we will take fleet size from currently 215 to 300. Our plans are good. It's a combination of own fleet and the leased vehicles from our business partners. The model which we have in GKEPL, a similar model will be replicated in Gati Kausar. Then it becomes scalable. As far as the main company is concerned, we want to add 100 vehicles in this fiscal, but these vehicles are more of a replacement of the old vehicles.
- Chitan Sheth** Ok. Replacement of old vehicles.
- Sanjeev Jain** Exactly. We will replace... normally, we don't run a vehicle for more than seven years. The seven-year vehicle we keep on returning and replacing with the new vehicles.
- Chitan Sheth** Coming back to e-commerce, sir, as you guided that your plan is to take the per day average run rate of 11,000 packages to 20,000 at the growth rate of 15% right for the full year for the e-commerce?
- Sanjeev Jain** The growth rate of E-commerce is much more different. Last year we had a revenue of Rs. 25 crore which will take it to minimum Rs. 60-65 Crores in this financial year. In the first quarter, in quarter 1 alone, we had a revenue of Rs. 11 crore in E-commerce. The run rate of October was Rs. 4.8 crore. We believe that the run rate will keep on increasing in e-commerce and e-commerce should have a minimum revenue of Rs. 60-65 crore in the financial year '13-'14. This business is not a 15%, 20%; it's a multiplier growth. The growth will keep on doubling year on year.
- Chitan Sheth** Ok. And what kind of margin we have on this business?
- Sanjeev Jain** Yes, this business has an EBITDA margin of around 20%. In this business, apart from our typical distribution services, we also handle value-added services, which is COD- Cash On Delivery collection, and giving money back to the customer. Also packaging and certain other features have been added recently. This entire cost side is almost the same because we do not incur any additional resources for collecting the COD. Thus the EBITDA margin in this business is over 20%.
- Chitan Sheth** Ok Sir, I will get back to you in the queue for further questions. All the best.
- Sanjeev Jain** Thank you.



- Moderator** Next question is from the line of Sunil Jain from Nirmal Bang.
- Sunil Jain** Sir, one question left is about the other income, if you can give us a breakup of the other income. This quarter it was Rs.3.6 crore. Last quarter it was Rs.6.5 crore. What's the breakup?
- Sanjeev Jain** Sunil, last quarter we had a dividend income of around Rs. 3.5 crore from GKEPL. This quarter, that income is not there. This quarter, we have a small surplus, a small profit on sale of land. We had a small land at Agra which we disposed and on which there is a profit of around Rs.1.8 crore.
- Sunil Jain** Rs.1.8 crore?
- Sanjeev Jain** Yes. Rest is interest income on certain advances given to the subsidiaries.
- Sunil Jain** Ok. Fine sir. That's all. Thank you.
- Sanjeev Jain** Thank you.
- Moderator** Next question is from the line of Bhavesh Jain from Ariston Capital.
- Bhavesh Jain** Congratulations on the good results sir.
- Sanjeev Jain** Thank you Bhavesh.
- Bhavesh Jain** Sir, two questions. One, could you give us some status on the power project of the promoters where we have invested around Rs.35 crore? And the second question is related to the pledged shares of the promoter, what is the status? Because in the last con call we've been promised that the pledged shares are starting to decline for this year, but, unfortunately, the promoter shareholding has declined.
- Sanjeev Jain** Yes. Bhavesh, your questions are correct. Let me take the first question, which is regarding the update on power projects. The promoters through their holding company Amrit Jal, are in the process of setting up three power projects in the state of Sikkim. The first power project which is 110 megawatt at Chuzachen has been commissioned mid of May. That power project is now up and running. The power is being generated, money is being collected. It has stabilised. And following the development, GE, General Electric, has made an investment of Rs. 257 crore in that power project. The entire risk of execution of the major power project is over. The power project is the third largest one, the third one in the private sector and the first one in the state of Sikkim. This is the update regarding the status of the power projects. Regarding the pledge of shares, it is correct that the promoter made a commitment that he will shortly start de-pledging his shares. I had an update from him recently and he is in the midst of taking couple of



*Gati Limited Conference Call
November 07, 2013*

initiatives to de-pledge his shares. What we believe from my discussion with him is that by end of this fiscal year he should be de-pledging over 50% of his shares which he has pledged. Thus over 50% of his shares should be de-pledged before the close of this financial year. There have been some delays in the de-pledge primarily because the power project commissioning got significantly delayed.

Bhavesh Jain Yes. One more question on the Gati Infrastructure rating that has been given by CARE. This was in March. Are we taking some steps to protect that investment?

Sanjeev Jain Are we...

Bhavesh Jain ...taking some steps to protect the investment? Because the rating has been given as D.

Sanjeev Jain Ok. In fact I will not be in position to comment because Gati Infra has a separate team. They have a Director Finance to Mr. Krishnan (ph). The entire team of Gati Infra is headquartered in Delhi. I do not have a transaction level update from them on this matter. I get updated on strategic initiatives of that group.

Bhavesh Jain Thank you so much.

Sanjeev Jain I can connect you to Mr. Krishnan who is the Director Finance of Gati Infra.

Bhavesh Jain Ok sir.

Moderator The next question is from the line of Manoop Anoj from Subhkaam Ventures.

Manoop Anoj Good morning, Mr. Sanjeev. I have a couple of questions. One on this volume growth. I believe Quarter 1 happens to be the best quarter for the company, right? And if you look at quarter-on-quarter growth, we had about 4% odd or 5% growth. So I am just wondering where is the volume growth coming in. We are talking about volume drop. Year-on-year basis, there is some growth, but on a quarter-on-quarter basis, the volume growth is very muted.

Sanjeev Jain Volume growth on quarter on quarter is also reasonably good. The volume has grown primarily from automotive, pharma sector and garment sectors. The revenue growth year on year is 20%, which is a combination of the growth in the yield, which primarily comes from our ability to pass on the diesel price hike to the customers and the increase in the weight. Thus there's a healthy combination of the weight growth as well as the yield growth. But 4.5% growth on quarter on quarter is also reasonably good compared to the economic scenario we have today.

Manoop Anoj On this Air India matter, you have got this order of Rs.28 crore to be paid to you subject to they choosing to appeal against it. Just wanted to know whether earlier we had this bank



*Gati Limited Conference Call
November 07, 2013*

guarantee being encashed by them. So is this Rs.28 crore in addition to the Rs.28 crore bank guarantee that you already encashed or how is it like?

Sanjeev Jain This is only the bank guarantee encasement. Air India encashed our bank guarantee around 5 years back. That amount is lying as advance recoverable from them.

Manoop Anoj This is not a claim which they have passed. Is this essentially negating the bank guarantee encashment which Air India has resorted to?

Sanjeev Jain We can say it is the same amount but this is basically various claims which Gati made against them. There were certain claims Gati has made against Air India and the court has taken a view on each of these claims and has agreed to most of those claims, aggregating to around Rs. 28 crore along with an interest of 18%, if the payment is delayed due on 18th October. Thus if we get this money it will be a cash infusion in the company and this will neutralise the advance which we are showing in our books of accounts.

Manoop Anoj Ok. And on this other business which you have mentioned, the supply chain management for Taj Hotels and other potential growth, potential of that particular segment to other companies as well, so I just want to know who is essentially bearing the inventory cost of all of these and what kind of margins are we fetching?

Sanjeev Jain Yes. If you see this is a unique opportunity, and a true complex supply chain contract, and the first contract for GATI in the hospitality sector. The chain of large hotels, they have been suffering from a very inefficient way of managing their supply chain because different hotels make their separate different arrangements. Under this arrangement, the entire supply chain issue of those hotels comes to Gati. Thus Gati is responsible for arranging and managing end-to-end supply chain for those hotels right from making procurement from the vendors nominated by Taj, the price is also fixed by Taj. We procure those inventory on behalf of Taj as per the inventory planning given to us. Then we store it into our warehouses. And based on their requirements, we make the local supplies to them. Thus right from procurement to warehousing to distribution, including inventory planning, is all outsourced to us.

Manoop Anoj Who is funding it?

Sanjeev Jain Who is funding this?

Manoop Anoj I mean, there is a cycle time, right, from procurement to supply and receiving payment of it. Who is going to fund that? Are they going to advance certain capital to you to run the show or you are essentially funding ?

Sanjeev Jain No. It is essentially funded by us. But the whole arrangement is that while we pay to the vendors once in a month, the customer which is Taj Hotel pays twice in a month. Thus



*Gati Limited Conference Call
November 07, 2013*

virtually there's a minimum investment in the inventory management because we get payment twice from Taj and we make payment to the vendors once in a month. Thus the entire working capital cycle is virtually neutral.

- Manoop Anoj** What kind of margins do we make here?
- Sanjeev Jain** The overall contract has a certain percentage which I am unable to disclose. It is a percentage of total inventory procured. So that covers the cost of the logistics which we incur. And, of course, the inventory we procure is on the agreed pricing, which is paid to us by Taj.
- Manoop Anoj** What's the investment in this division?
- Sanjeev Jain** This is an asset light model. Virtually, there is no asset. We use our own logistics network which is spread across companies. Thus, there is no separate investment in serving this contract.
- Manoop Anoj** Ok. On the shipping division, you have talked about one vessel being monetised now. We have one more vessel, isn't it?
- Sanjeev Jain** We have got two vessels. One is Majestic, and the other is Pride. Majestic is being run in partnership with Tata Group company, ISL, on the west coast of India, Kandla-Cochin. The second vessel Pride is being run on our traditional sector, which is Chennai, Port Blair and Rangoon. It goes to Port Blair to take general cargo because Port Blair is an island, it needs all sorts of cargo. From Port Blair it goes to Yangoon and brings back the logs, the woods.
- Manoop Anoj** What's the capacity utilisation in the second vessel, Pride?
- Management** The freight rates have marginally dropped. This is one of the reasons we are losing money in Pride.
- Manoop Anoj** What's the total net investment in this shipping division?
- Sanjeev Jain** This is an asset heavy division. As on date, the capital employed in this division is to the tune of around Rs. 250 crore.
- Manoop Anoj** One last question. If you can just throw some light on the Gati rail division?
- Sanjeev Jain** Yes. It is a parcel train division of Gati. It is basically a substitute of full truckload. We are the largest parcel train operator in the country. Our turnover from this division is over Rs. 100 crore per annum. We run around 17-18 trains per month between Kalyan - Kolkata and Guwhati, Bangalore-Guwhati, Delhi towards Bangalore. Thus we run trains in various sectors. These trains are leased to us by the Railway Department on a long-term basis. The rentals from the railway are fixed for three years and we get them on competitive basis. We see a huge



*Gati Limited Conference Call
November 07, 2013*

opportunity in the sector because rail is becoming a preferred mode of transportation, being cheaper and being efficient in terms of less damages, and better transit time.

- Manoop Anoj** What margins are we fetching within a 100-crore revenue?
- Sanjeev Jain** Yes, the margins in this business are comparable to full truckloads. They are not comparable as our express distribution. We believe that margins at EBITDA level in this business is around 6-7% as compared to 10% in the express distribution.
- Manoop Anoj** You have quantified the synergy between Gati and Kintetsu at Rs.3 crore. Is this is at the revenue level or at the operating margin level?
- Sanjeev Jain** This is at revenue level. The synergy benefits are slow and steady. We have to work harder in terms of our partner to grow the synergy benefits. Somehow they have been modest in the last three quarters.
- Manoop Anoj** That's it from me. Thank you.
- Moderator** As there are no further questions, I now hand the conference over to Mr. Sanjeev Jain for closing comments.
- Sanjeev Jain** Yes. Thank you, everybody, for participating in the conference. We are very happy to connect. We will continue to have more interaction with analysts and the investor community. We will disseminate more information, We believe that Quarter 1 has set the momentum for growth. We've reaped the benefit of whatever initiatives we have taken in the last two years. 2013-14 overall, will be better performance of Gati as a group, and this performance will be quite distinct from rest of the years. Thank you very much for your participation. Thank you.
- Moderator** Thank you very much. Ladies and gentlemen, on behalf of Gati Limited, that concludes this conference call. Thank you for joining us.