



## “Gati Limited Q2 FY17 Earnings Conference Call”

**November 4, 2016**



**MANAGEMENT:** **MR. BALA AGHORAMURTHY – PRESIDENT & WHOLE-TIME DIRECTOR, GATI LIMITED**  
**MR. DHRUV AGARWAL – CHIEF STRATEGY OFFICER, GATI LIMITED**  
**MR. PETER JAYAKUMAR – DEPUTY CHIEF FINANCIAL OFFICER, GATI LIMITED**  
**MR. AMIT PATHAK – COMPANY SECRETARY & CHIEF INVESTOR RELATIONS, GATI LIMITED**

**MODERATORS:** **MR. ABHIJIT MITRA – ICICI SECURITIES LIMITED**



*Gati Limited*  
*November 4, 2016*

**Moderator:** Ladies and gentlemen, good day and welcome to the Gati Limited Q2 FY17 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the 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. Abhijit Mitra from ICICI Securities. Thank you and over to you, sir.

**Abhijit Mitra:** Good evening, ladies and gentlemen. Welcome you to Q2 FY17 Results call of Gati. From the management side, we have today Mr. Bala Aghoramurthy – President & Whole-Time Director; Mr. Dhruv Agarwal – Chief Strategy Officer; Mr. Peter Jayakumar – Deputy CFO and Mr. Amit Pathak – Company Secretary as well as the Chief Investor Relations.

Without further ado, I would like to handover the floor to management for brief discussion on the results and then we can have Q&A session to follow it up. Thanks.

**Bala Aghoramurthy:** This is Bala Aghoramurthy and I am here with my entire Gati team. So welcome to Gati's second quarter FY16-17 results discussion. I thank you all for your participation given that it is a Friday evening, so thank you very much.

We shall take you through some of the external and internal developments that have happened through the quarter. We will follow this up with the financial performance of the company and its main verticals and thereafter we shall take any questions that you may have with respect to the performance.

So moving on to the external developments. Many of you might be aware that cumulative growth in the index of industrial production for the period April to August as reported over the corresponding previous year stands at (-0.3%) indicating very clearly that the manufacturing activity continues to be on a proper putting and the business environment is sluggish. E-Commerce sector showed a seasonal stagnation in Q2 driven by consumer behavior of awaiting the festival sales that happens post Q2.

Industry reports is just declining YoY Q2 performance across major e-tailers. As you are aware there was an extended disruption in the key Karnataka-Tamil Nadu border due to political unrest. The positive big development has been with regards to the passage of the GST bill and of course the further ratification by the state legislators and the confirmation yesterday on the slab rate. And with expectation on increased consumer spending buoyed by increased monsoon in large part of the country and the Seventh Pay Commission bounty bodes well for the consumer economy and will have a robust from every part of the business including the logistics sector.



*Gati Limited*  
*November 4, 2016*

The major developments in the group through this quarter are as follows. At the outset of one would say it has been a challenging quarter with a modest performance. E-Com growth has been affected by the slowdown in e-tailers volumes due to reduced consumer discounts and the anticipated festival season. In terms of topline our revenue in e-commerce grew 3% YoY for Q2. Last call we had spoken about a shop floor automation project that we were undertaking. I am happy to share that the pan-India shop floor automation project for package level visibility has been completely stabilized across our network. It has been much appreciated by the customers. The benefits are beginning to show with tangible improvement in the service levels.

Further automation initiatives include successful commissioning of our first automatic arm sorter which helps in revenue assurance and term profit volume metric weight. 3PL contract logistics business has registered 26% YoY growth for this quarter. This is in line with our strategy for providing integrated end-to-end logistics addition in a closed GSC environment.

Gati Kausar first refrigerated express distribution center has now commenced commercial operations. Another very significant and major development in the group is as follows. Gati Limited has formalized investment in a leading multi-channel order management technology company called Brown Tape Technologies Private Limited. This will enable Gati to emerge as a central player in the e-commerce ecosystem by offering fully integrated fulfillment cum technology solutions directly to the large online seller base in India.

Gati fulfillment services will enable sellers to seamlessly manage and fulfill orders from across multiple marketplaces using a single window platform. The investment by Gati is to the tune of Rs. 18.5 crores.

I now handover to my colleague Mr. Peter to take you through the financials of Q2 and the first half.

**Peter Jayakumar:**

Thank you, Bala. I would like to start with Gati's consolidated numbers. Gati's consolidated comprises of the Gati's standalone then Gati-Kintetsu, Kausar, GIETL, APAC and other subsidiaries. The current quarter we closed at Rs. 428 crores and the corresponding quarter last year was at Rs. 407 crores indicating an increase of 5% YoY. And when you compare it with the previous quarter the figure is Rs. 428.0 crores which is almost flat on a QoQ basis.

Moving on to EBITDA, at a console level current quarter is at Rs. 30.8 crores corresponding quarter last year YoY was at Rs. 32 crores. In the previous quarter we closed at Rs. 36.8 crores. Coming to PBT, the figure for the current quarter is at Rs. 11.4 crores, corresponding quarter last year is at Rs. 11.1 crores and the previous quarter was at Rs. 15.7 crores. Coming to the PAT, Q2 FY17 is at Rs. 8.4 crores and last year for the same quarter the figure was at almost the similar. However, in the previous quarter that is Q1 FY17 the figure was Rs. 11.8 crores.



*Gati Limited*  
*November 4, 2016*

From Gati's console we move on to the half year numbers of Gati console to give a better view. H1 FY17 the total income stands at Rs. 857 crores corresponding to Rs. 821 crores of H1 FY16. That is a handsome increase of 4%. Coming to EBITDA, it stands at Rs. 67.6 crores against Rs. 66 crores an increase of 2%. Similarly the growth story continues at the PBT level on a H1 basis. H1 FY17 is at Rs. 27.1 crores and the corresponding figures of H1 FY16 was at Rs. 24.8 crores indicating a growth of 9%.

The same growth continues to the PAT level at Rs. 20.2 crores versus Rs. 18.1 crores that translates again to about 11% on the bottom line. Now we move on to the Gati's standalone piece. For Q2 FY17 the total income is at Rs. 134.7 crores against Rs. 123.9 crores of last year. That is YoY indicating a growth of 9%. QoQ the figure of the last quarter is at Rs. 131 crores indicating a flat growth of about 3%. EBITDA at Q2 is at Rs. 22.5 crores compared to Rs. 18.9 crores YoY and Rs. 50.4 crores QoQ.

PBT current quarter is Rs. 14.7 crores against Rs. 10.1 crores of Q2 FY16. And again Rs. 6.1 crores of Q1 FY17. PAT is at Rs. 14.5 crores against Rs. 9.7 crores of corresponding quarter last year and Rs. 4.9 crores of the previous years.

Now from here we move on to the H1 numbers of Gati's standalone. H1 FY17 the total income stands at Rs. 265.7 crores against Rs. 243.9 crores again indicating a good growth rate of 9%. Moving on to the EBITDA level, Rs. 38 crores is at H1 FY17 against Rs. 30.9 crores of H1 FY16. That translates into a smart increase of about 23%. PBT this current H1 FY17 is Rs. 20.7 crores against Rs. 14.4 crores of H1 FY16 again translating into a growth of 34%.

There is increased at PAT level also to Rs. 19.3 crores versus Rs. 13.3 crores. From Gati's standalone let us move on to our flagship company that is Gati Kintetsu Express Private Limited. Q2 FY17 the figure is Rs. 286.6 crores. When you compare this with the corresponding quarter of last year that is YoY the figure was Rs. 280.9 crores indicating a growth rate of about 2%. But when you compare to the previous quarter it is almost flat. The previous quarter figure was Rs. 282 crores indicating a nominal growth rate of 1%.

EBITDA, current quarter is Rs. 22 crores and the corresponding quarter of last year was Rs. 21.5 crores indicating a 2% growth. Previous quarter is at Rs. 21.1 crores. Coming to PAT. Current quarter is Rs. 9.9 crores versus Rs. 9.7 crores in YoY that is the corresponding quarter of last year versus Rs. 9.3 crores in the previous quarter which remains flat again.

Now coming to the half yearly figure, we closed H1 FY17 at Rs. 569 crores against Rs. 566 crores a nominal increase of about Rs. 3 crores. EBITDA Rs. 43.1 crores against Rs. 41.5 crores indicating a growth of 4%. PAT level it is Rs. 19.1 crores against Rs. 17.1 crores which translates to a growth of 12%.

Moving on to Gati Kausar, this quarter we closed at Rs. 11.1 crores against Rs. 12.4 crores of YoY and Rs. 11.8 crores of the previous quarter which remains flat. PAT is at 0.2% versus it



*Gati Limited*  
*November 4, 2016*

remains the same when compared to the previous quarter and also the last quarter that is Rs. 2 crores.

Moving on to the half yearly numbers of Gati Kausar, half year H1 FY17 we closed at Rs. 22.9 crores versus Rs. 26.4 crores of the corresponding half year last year. PAT is at Rs. 4.1 crores in H1 FY17 against Rs. 3 crores of H1 FY16.

And moving on to the debt provisions, we have managed to hold on to the same level it is at Rs. 487 crores in September versus Rs. 486 crores in June. The breakup remaining the same on a company-to-company basis.

With that I come to the end of the financial section. Over to Bala.

**Bala Aghoramurthy:** So thank you friends. You heard the key developments and the key highlights and also the financials. We are now happy to take any questions that you may have.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

We will take the first question from the line of Mayur Gathani from OHM Group. Please go ahead.

**Mayur Gathani:** Couple of questions. Just wanted to understand on this acquisition of Brown Tape, can you throw some more light as to how do it help us? And secondly, any updates on the FCCB issue? And what is your outlook for H2?

**Dhruv Agarwal:** Hi Mayur, Dhruv here. I will answer your first question. So we have taken a strategic stake in Brown Tape. And essentially what this will allow us to do is to grow our e-commerce logistics verticals a lot more aggressively because we are going to provide end-to-end solutions to the large online seller community out there. Essentially what will be enabling the sellers to do is to sell on multiple websites marketplaces' websites, their own website all form a single pool of inventory which they can look at and manage for single window.

So that is how it is going to help Gati. On FCCB on the question, I take it to.

**Mayur Gathani:** Sir, just one question. Are you saying this seller means the vendors were selling into the online players or the online players itself will benefit from this technology?

**Dhruv Agarwal:** The vendors selling it to the online players or that have their own websites. So essentially just to give you an example say I am a vendor I sell shoes and I am selling on Amazon, Flipkart, Snap deal and shoes.com which is my own website essentially we will enable this vendor to sell on all four websites all out of the single pool of inventory. So the inventory lies in our fulfillment center. Say you place an order through shoes.com it lands into the FC with pick



*Gati Limited*  
*November 4, 2016*

pack process deliver take out with COD somebody else orders from Amazon.com comes to the same fulfillment center same pool of inventory and gets processed.

So it is integrated products combining the multi-channel order management platform on to our logistics network which will help sellers do a lot more from the same pool of inventory and with a lot more ease.

**Mayur Gathani:** And when you say strategic stake means what percentage can you help us with that?

**Dhruv Agarwal:** So our stake will be in the range of around 20% to 26% and we would a minor stakeholder but we can get into the details of the deal more offline, Mayur.

**Mayur Gathani:** Sure. Let me know on the other question, please?

**Peter Jayakumar:** Okay, I will take the question on FCCB. If you have seen the note which is part of the accounts the status quo the matter is still pending adjudication and is sub judice now.

**Mayur Gathani:** Couple more is, what is the outlook for H2 I mean do we see any improvements on the outlook side and how is your railway business done?

**Bala Aghoramurthy:** Yeah, so the rail business has done quite well, Mayur. It has actually clocked a healthy double digit growth. The outlook for the second half we will stake fear of any numerical guidance. Having said that I want to put it across as saying it is one of cautious optimism. I think we are seeing signs as we start H2 that things will be good. So I think we will look forward to that playing it out.

**Mayur Gathani:** You see I mean at least we were growing at on a quarter-on-quarter basis around 30% to 50% on the e-com side. This quarter it is up to 3%, you have an explanation that quarter 3 could be a good quarter and hence a drop in quarter 2. So what kind of an outlook do we have for e-com especially?

**Dhruv Agarwal:** Mayur, it is tough to give a projection but the peak season that just went by was really good for us. In the month of October coming to November has been quite excellent. So we should be growing over last year and I think in Q4 of this year and definitely in Q1 of the following financial year once we launch Gati fulfillment services along with this investment in Brown Tape I think we should be seeing a good healthy growth moving forward for our e-com vertical.

**Mayur Gathani:** And on the Kausar side we only have one operation right now, right?

**Dhruv Agarwal:** Say again?

**Mayur Gathani:** On the Gati Kausar cold chain we only have one being operational as of now?



*Gati Limited*  
*November 4, 2016*

- Bala Aghoramurthy:** That is right. So there is one cold store operational in the northern part of India. In fact we had our the commercial operations have already commenced and in a formal launch and inauguration we did provide visibility to opening up two more cold stores in two other parts of the country in the course of next 8 to 9 months.
- Mayur Gathani:** Next 8 to 9 months, two more at least?
- Bala Aghoramurthy:** Two more plus of course we are also looking at rented space in between to the extent that it makes business sense.
- Moderator:** Thank you. We have the next question from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.
- Rakesh Vyas:** Few questions from my side. First, can you just highlight as to in the standalone there is very high other operating income this quarter. What is this relate to?
- Peter Jayakumar:** See this Rs. 131 crores includes a Rs. 13.86 crores is the total amount of Rs. 131.1 crores includes Rs. 13.86 crores of dividends on GKPL. So if you look at the bottom line of Rs. 14.42 crores it includes a dividend of Rs. 13.86 crores.
- Rakesh Vyas:** Which is the other income?
- Peter Jayakumar:** Other operating income, yeah.
- Rakesh Vyas:** Secondly, can you just highlight as to what was the exact e-commerce business and what was the EFC revenue in this quarter?
- Dhruv Agarwal:** E-com business topline was about Rs. 47 crores in Q2 and versus Rs. 45 crores of last year. And this was about a 3% YoY growth in revenue and it is almost an 18% YoY growth in terms of the number of packages we carried. In terms of the EFC revenue, our EFC revenue in this quarter was around Rs. 2.5 crores to Rs. 3 crores. We have one FC running right now at the moment but again as part of Gati Fulfillment Services we will be rolling out more Fulfillment Centers in the coming months.
- Rakesh Vyas:** And how does this Rs. 2.5 crores to Rs. 3 crores stack up against in the previous quarter and the last year same quarter, sir?
- Dhruv Agarwal:** I do not have the numbers but it will be less than last year's number. We were running a few more FCs last year but larger marketplaces actually took the decision to take the Fulfillment Centers into their own logistics arms over the last one year. Our EFC has come down to that extent.



*Gati Limited*  
*November 4, 2016*

**Rakesh Vyas:** And sir, given that we were building for higher capability for e-commerce over last few quarters, does that have any impact on the margins that we would have realized in this particular quarter on the e-commerce?

**Dhruv Agarwal:** Margins are around the same. What happens I will tell you? Previously we should carry a lot more of heavier goods and over the last two quarters we have actually made a targeted push into carrying the smaller packages which is the everyday volumes. So hence since our revenue growth has only been 3% the package volume growth has been around 18%. So we actually carrying a lot more smalls in our networks now. And accordingly we have also changed around our last mile fleet. So if you were on some of the other calls we have always had a higher number of four-wheelers and fewer two-wheelers. And now slowly we are changing that strategy around to get more two-wheelers and reduce the number of four-wheelers. So we have managed to maintain our margins due to these changes on the ground.

**Rakesh Vyas:** And sir, can you guide us the Gati Kausar you were saying that the PAT is around Rs. 2 crores?

**Peter Jayakumar:** No, there was some mistake I think when I read it. It is Rs. 2 crores loss.

**Rakesh Vyas:** Okay fine.

**Peter Jayakumar:** Out of this quarter it is Rs. 2 crores and also the corresponding quarter of last year it is again at Rs. 2 crores. Last year it is Rs. 3.17 crores and previous quarter it is Rs. 2.05 crores. Current quarter it is Rs. 2.01 crores negative. My apologies on that.

**Rakesh Vyas:** And can you just also highlight what is the EBITDA in Kausar business currently, sir this quarter and preceding quarter if you can just give these numbers?

**Peter Jayakumar:** Yeah, current quarter it is almost flat at Rs. 0.9 million and the previous quarter it was Rs. 3.4 million.

**Moderator:** Thank you. We have the next question from the line of Ankit Panchmatiya from iDirect. Please go ahead.

**Ankit Panchmatiya:** To understand the KWE business, can you please throw some light regarding how are the business on that side in terms of volumes has been shaping up because even the trucking rates are being on the rise since past 2 months. So just wanted to understand regarding the same?

**Bala Aghoramurthy:** Sure, sorry what was the last comment you made, Ankit?

**Ankit Panchmatiya:** The trucking rates for past two months have been on the rise may be because of good harvest season, so just wanted to understand?



*Gati Limited*  
*November 4, 2016*

**Dhruv Agarwal:**

Okay, so let me explain to you. Let me explain the KWE business. So in terms of the sub phase we have actually done quite well. We have a good high single digit chart weight growth. So the surface business has actually picked up momentum. If you remember the same business we actually explained I think in Q1 we had a significant setback because we were trying to introduce a new technology across our operations. That technology has now been completely stabilized. So in the course of the quarter we were quite well placed with the technology and in terms of service level. So our surface business has actually picked up and we only expect it to get better as we move forward.

In air we had a bit of a setback and the setback was of course you would have been following many of the competition news as well. There has been at least one case of a new airline coming into the air business. So they have actually changed the landscape of the air competition that exists. Of course these are aircraft so in that sense they have an advantage to start off.

Having said that we have actually put up a very brave fight. We did take a hit on our air business there is no doubt about it. But we have reworked our strategy on what is to be done in a context like this. I think you will see that playing itself out in Q3 and going forward.

Like I said the rail business did very well. We are quite happy. It actually was a significant double digit growth. So rail business is in good direction. We spoke to you about the warehousing business. In the warehousing business, the contract logistics have actually done quite well. I did explain in the beginning that the contractual logistics business actually recorded a 26% YoY growth. That is of course along with the fulfillment centers. The Fulfillment Center had a little bit of change of direction but the contract logistics business is a part of the same warehousing. It clocked a 26% YoY growth.

So that is the particulars in GKE.

**Ankit Panchmatiya:**

And regarding this investments into Brown Tape you said that we would be investing it in Rs. 18.5 crores. So how are we kind of planning to invest this amount or how is the structure?

**Dhruv Agarwal:**

Yeah Ankit, it is a structured deal. And I think we can talk about the deal dynamics or plans in more detail.

**Ankit Panchmatiya:**

And if I want to understand the e-commerce revenues because Q3 usually is a bit heavy quarter for us. So how are we seeing the October and the November, may be October month how has the volumes been?

**Dhruv Agarwal:**

So the peak season has been excellent. Approximately double the number of packages that we carried last year. So it is looking pretty good so far. But typically like last year also we saw like November and December post October did not pick up at the same rate. Probably we see that again November-December will not pick up at the same rate. So however that is why I



*Gati Limited*  
*November 4, 2016*

said earlier that it will be difficult to give guidance right now on that. But peak season was excellent. So far November is looking good. And we should see a growth in the topline at the end of Q3 as well anyhow.

**Moderator:** Thank you. We have the next question from the line of Mayur Gathani from OHM Group. Please go ahead.

**Mayur Gathani:** Sir, can you talk more on the e-fulfillment centers? I mean we only have one operational right now and we had a few earlier on but I think we sell it off or it was absorbed by the online players. So how do you take this forward because you are developing this you are buying a strategic stake in a company and it is all integrated I mean any fulfillment centers your delivery model as well as this backend software everything is a part of it. So you cannot be investing in one of them and your fulfillment takes us feedback?

**Dhruv Agarwal:** No, so Mayur, previously our FCs our Fulfillment Centers were customer specific. So whatever FC was operational, I ran for xyz.com dedicatedly. Now within my Fulfillment Center I am going to have 300, 400, 500 I am just giving an approximate number of sellers that put their product in and we will be fulfilling orders that come from various websites. So there it is just that our customers had change in their strategic thinking and decided to take the Fulfillment Centers into their own logistics companies. But moving forward we are still operating one and we will be rolling out more as we progress on this Gati Fulfillment Services piece.

**Mayur Gathani:** How big is the one that you are currently running?

**Dhruv Agarwal:** One right now is about a lakh square feet.

**Mayur Gathani:** And so we see couple more coming this year I mean any plans or?

**Dhruv Agarwal:** This year probably not. We are looking at ramping up and improving capacity utilization in the one that we are running. But yeah, in Q4 of this year we will be opening another FC. That is on the plan.

**Bala Aghoramurthy:** So Mayur let me add to the response from Dhruv. The fulfillment center we are not as disappointed about the decision by some retailers to pull it in-house. In a context like that our thinking has been how do you disrupt the value in the whole chain we saw on opportunity of going direct to the sellers because the sellers will benefit by what we have to offer both in terms of the fulfillment services as well as now with this investment that we have done in Brown Tape we can go and offer an integrated service to the various seller so the people can actually get information services about logging on to multiple marketplaces and they can use the same inventory to serve orders from multiple marketplaces.



*Gati Limited*  
*November 4, 2016*

So we see an opportunity in going a step back in the supply chain and working directly with the thousands of vendors literally tens and thousands of them in the immediate short term. So our EFC's we are hoping to setup within the course of next three to four months and further ramp up this concept there on.

**Moderator:** Thank you. We have the next question from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

**Rakesh Vyas:** I was referring to the Gati KWE business. We are still seeing margins remaining slightly subdued compared to all the historical numbers have been in the business. So if you can just guide us as to how the outlook looks like as at the pricing power comeback into the system or what will drive us to get to the earlier levels of margins at all?

**Bala Aghoramurthy:** So firstly, I want to again draw your attention, Rakesh, to the automation conversation that I did earlier. With this automation, we have actually demonstrated significant value to the customer already. In the quarter in the month of August and September 19 customers came back to us saying that they are seeing value both in terms of reliability in our supply chains in terms of the service and the quality that we deliver. As a result, we are slowly emerging separate from the PAT.

So we want to distance ourselves from competition using real capability, using real value addition to the customer I think that is where we are getting towards. We are very confident that with the direction we have taken we are now kind of ahead of the PAT in that sense. So pricing power will follow. The specific performance in this quarter has also had two separate impact built in. One impact of course is what is common to everybody which is the diesel price hike, the quarter over previous quarter there was an escalation in diesel price.

So there is an impact of that. Having said that the second more important thing is this disruption that we saw at the TN-Karnataka border as a company we were very clear we will focus on delivering service to the customer even in the event of such a crisis. So we took slightly higher cost in order to continue to serve the customers. In fact even sometime in towards the end of September or October I forget September I think there was an article which was picked up in one of these magazines which actually said serving even in times of crisis and there was this Gati thing going across.

We were ourselves the price at that got picked up naturally by the media. So we did come out with very creative solutions to continue service we did not want to disrupt it. It came at a bit of a cost. We are happy that we paid it I think it will pay us dividends in time to come.

**Peter Jayakumar:** That was in Hindu and Hindu Business Lines.

**Rakesh Vyas:** Can you just highlight as to what proportion of the business now is Surface and how much is here?



*Gati Limited*  
*November 4, 2016*

**Bala Aghoramurthy:** So Surface is approximately about 70%. Air will be as it peaks it was closer to about 11% to 12%. Like I said we did have a little bit of a competitive stress last quarter. That proportion would have now come down to about 9%.

**Rakesh Vyas:** Sir, on the e-commerce side of business I was just wondering when you moved to handling lighter cargo you have significantly large number of competition existing. So would that impact the margins in general and is that a deliberate strategy for us to focus incrementally on that segment to which we have till around 6 to 9 months back been slow on and is that to do with the slowdown in the heavyweight cargo business that you are seeing currently? Just some strategy thought process and how the demand and all?

**Dhruv Agarwal:** Yeah, very right. First three odd years we were seeing a lot of sale events throughout the year and inevitably white goods were a part of them. Like before Cricket World Cup, Football World Cup there were TVs in the summer, there was coolers, AC; we did not see a lot of that this year. So as a strategy we said we need to focus and get in and start looking at the smaller packages which is the everyday volume that people buy on a regular basis. So strategically yes, we decide to get in. Point number two on the margin side.

Actually we continue to take the benefit of our existing network across the country and wherever possible and to the maximum volumes possible we actually ride on our existing network. Even in the last mile delivery piece. So you would find that historically our B2B last mile fleet that was delivering only B2B packages.

Today they are also they take a mix of B2B and B2C if it is in their route, if it is pitched to the pin code map to the guy. So that is how we have been kind of keeping our margins going. And the second thing is that we still continue to cover around 19,000 pin codes which nobody else has. So the combination of these two as we have been able to keep our margins at the same levels.

**Rakesh Vyas:** Is there is a difference in the yields between the lighter and the heavy cargo in general?

**Dhruv Agarwal:** Yeah naturally. Heavier cargo pipe in 15 kilos to 20 kilos and these are all 500 grams, 1 kg. So there is a difference.

**Rakesh Vyas:** On per kg basis, I am just wondering?

**Dhruv Agarwal:** There is a difference. More detail numbers if you want to speak we can do it offline.

**Rakesh Vyas:** What is the number of bikers that we employed today and how has that progressed in last one year or so?

**Dhruv Agarwal:** Right now we have about 900 plus in the quarter at the end of around September we had about 900 two-wheelers and about 900 four-wheelers and previously I am just trying to look at my



*Gati Limited*  
*November 4, 2016*

old notes. But I know that in Q1 we had downsized about 300 four-wheelers and in this quarter I think in this quarter also we have reduced about a couple of 100 four-wheelers. So two-wheelers remain the same. And in the peak season of course we had increased it further that is different.

**Rakesh Vyas:**

But that is more temporary, right?

**Dhruv Agarwal:**

That is all variables. So we will be studying the excess capacity someone mid to end November.

**Rakesh Vyas:**

So what is our delivery capacity today?

**Dhruv Agarwal:**

At the end of September it was at about 60,000 deliveries a day. Not much change over Q1.

**Rakesh Vyas:**

And sir, if you can just highlight as to what is the proportion of COD as percentage of sales has that changed in last two quarters and what is the average ticket sizes now for us?

**Dhruv Agarwal:**

It is around 50% to 55% as COD. So it has come down. A year it will be 75% to 80%. Now it is around 50% to 55%.

**Rakesh Vyas:**

And average ticket sizes would also have come down for us?

**Dhruv Agarwal:**

Yes, they would have. The exact number I do not have.

**Rakesh Vyas:**

And sir, the number of consolidation centers we are not changing, it remains similar and I think my earlier....

**Dhruv Agarwal:**

Yeah, I think at last count we are close to 19 if I am not mistaken. I do not have the exact number but we have not changed anything on the consolidation centers.

**Rakesh Vyas:**

Just to get slightly more clarity on this Brown Tape. So essentially this is to bring all the sellers on to the common platform which has been in a very challenging task so far on the same marketplace, right?

**Dhruv Agarwal:**

Yeah. So let me just explain little more, Rakesh. What happens essentially say I am a seller and I am selling on say the three major e-tailers, right Flipkart, Amazon, Snap deal. So today either I can do the processing of packages on my own at my own warehouse or I put inventory in Flipkart's Fulfillment Center, Amazon's Fulfillment Center and Snap deal's Fulfillment Center. What this allows us to do is instead of putting this inventory in so many places you just put it in one Gati's Fulfillment Center and we can service orders coming from anywhere which is a challenge on the seller side.



*Gati Limited*  
*November 4, 2016*

**Rakesh Vyas:** But I am just wondering I mean this model would be more useful if you have large number of e-Fulfillment Centers spread across country and thereby providing this service?

**Dhruv Agarwal:** Absolutely.

**Rakesh Vyas:** And I am afraid one year we did probably and I am not too sure I just speak?

**Dhruv Agarwal:** So that is the plan is to roll them out as we go keeping being cost conscious not to just open FCs and then wait for time to fill them up. So as part of strategy we have opened one so that we can test out the integration, we can test out our own internal processes, make changes as we need to and then really go to market in a more aggressive fashion. But even without the FCs being in place there is a great number of sellers that do drop shipping. Meaning they themselves process package the orders and have them ready for shipment which we just go and pick up and deliver.

So this will be equally applicable to them. Because it will be a seamless once their packages are ready to ship it is a click of a button and Gati will be there to pick it up no matter where the order came from, go and do is last mile delivery automated updating to the e-tailers' website, automated inventory update the whole bunch of features.

**Rakesh Vyas:** And this technology has the integration with almost all major e-tailers as of today?

**Dhruv Agarwal:** Yeah, currently almost around it integrates with 20 to 23 various platforms as on today.

**Rakesh Vyas:** Which basically would constitute close to 75% to 80% of the overall sales, right?

**Dhruv Agarwal:** Yeah, 75% to 80% of the major website they are integrated with, yes that is the argument.

**Moderator:** Thank you. Abhijit, your lines are muted for questions. Please go ahead.

**Abhijit Mitra:** Sir, I have few bookkeeping questions. First is, could you give me the breakup on the revenue from e-com Gati-KWE and Gati Kausar?

**Bala Aghoramurthy:** Break up in revenue?

**Abhijit Mitra:** Yeah. Sir, the quarterly revenue?

**Peter Jayakumar:** You see Kausar is a separate subsidiary. And the topline was Rs. 11 crores in Q2 current quarter. That is Kausar. Next is you asked about Gati-Kintetsu, right?

**Abhijit Mitra:** Yeah.



*Gati Limited*  
*November 4, 2016*

**Peter Jayakumar:** Gati-Kintetsu is Rs. 286 crores. Now coming to e-commerce now it is in Gati Limited which is part of Rs. 121 crores. The exact amount is Rs. 37 crores in e-commerce.

**Abhijit Mitra:** And what would be the EBITDA for Gati-KWE?

**Peter Jayakumar:** Gati-KWE is 7.7% as in Rs. 1.9 crores.

**Abhijit Mitra:** So second question is so what is the CAPEX figures and what was the incurred till this first half and what is it for the remainder of the year what is the plan?

**Peter Jayakumar:** We have incurred about Rs. 11 crores till now and the plan is another Rs. 14 crores till the year end. That is about Rs. 25 crores together excluding also.

**Abhijit Mitra:** And this has been spent towards the two-wheeler acquisition is it?

**Peter Jayakumar:** No, this is basically on to the MHE, in IT scanners and we have also bought sorting machines, which are part of automation.

**Dhruv Agarwal:** This is on our material handling equipment's within our hubs and warehouses. IT hardware that we keep using and upgrading and also we are online with an automated sorter in the last quarter. So the Rs. 11 crores constitutes these three things largely.

**Abhijit Mitra:** My third question is I wanted to understand you made a comment saying some of your large customers they shifted their Fulfillment to their own warehouses. So what promoted them because you being in a more efficient player rather your thoughts on this front?

**Dhruv Agarwal:** So Abhijit, this is part of I think you will be reading this in the papers all the time that so they have their internal logistics arms and for whatever reasons they had strategically decided to outsource it and for whatever reason they strategically decided to take it back. So unfortunately we are not preview to those acquisitions for those strategies.

**Abhijit Mitra:** So this might be in a specific geography or across the country?

**Dhruv Agarwal:** No, across.

**Bala Aghoramurthy:** But the way you must see this Abhijit, is that the marketplaces also experiment. Some of the people who are experimenting with outsourcing they have today said okay, we will try insourcing. It is possible they will give it a shot and then again look at outsourcing once again. So these are experiments given that it is a very nascent industry. I think these experiments must be expected. So that is the context.

**Abhijit Mitra:** And in your business plans when you are trying to grow this fulfillment center you are trying to gain the market share with the remainder of the platforms, is it or try to go deeper in the



*Gati Limited*  
*November 4, 2016*

value chain? It was not clear as to how if this one of the large players is doing this how you can counter this and grow your own assessment?

**Dhruv Agarwal:** Yeah sure, so to put it simply Abhijit, if I have put my inventory into e-tailer one fulfillment center I cannot get my orders fulfilled for e-tailers number two from e-tailer number one's fulfillment center. So today you can almost look at it saying that one of the largest sellers selling on reap on major websites they will be putting inventories in three, four different warehouses say within the same geography. Whereas what we will provide him is to cut down that and provide only 1x inventory in a Gati Fulfillment Center and still be able to process fulfill orders coming from any of those three or four major e-tailers' marketplaces. That would be the difference. So we would be enabling the seller to sell online more efficiently and easily.

**Abhijit Mitra:** Probably optimized in the stock levels?

**Dhruv Agarwal:** Yeah, that is a part of it as a lot more fluid but yes, that is a major part of it for sure.

**Abhijit Mitra:** And sir, could you please explain the scope of the contract logistics you offer as a company and what might be the medium-term outlook in terms of the potential?

**Dhruv Agarwal:** So in terms of our 3PL business currently we are servicing across sectors. So automotive spares, apparel, health care, consumer durables across them. And we are finding that a lot of the customers are extremely enthusiastic about the fact that there is a service provider who can do their warehousing and last mile distribution all as one end-to-end solution. So in terms of that we have actually spent the last couple of years targeting and getting into our major industry verticals that we already serviced and we have been able to do that.

And now we are focusing more on growing this piece which is also adding some incremental revenues to our distribution business. So the response from the market is excellent because there is an end-to-end solution provider who can give them first mile warehousing, last mile distribution pan India and we have built an expertise across industry verticals. Was that your question, Abhijit, that is what you are asking, right?

**Abhijit Mitra:** So the warehousing also you will be able to offer as a service?

**Dhruv Agarwal:** Yeah, we are doing that already.

**Abhijit Mitra:** Okay, probably on leased properties?

**Dhruv Agarwal:** Mostly on lease. Customer specific leased at the moment, yes.

**Abhijit Mitra:** So suppose say post GST there is this hub-and-spoke model you will be present in the spoke is it mainly or you can do the long haul do the short listing?



*Gati Limited*  
*November 4, 2016*

**Dhruv Agarwal:** We are already Abhijit, so Gati's network is already a hub-and-spoke network. But in the post GST environment having a player like Gati who can also provide warehousing besides just distribution is going to be a big advantage for us. And that is the capability that we have been building over the last few years which is the doing the warehousing piece. So today we already do so just to give you a quick example a very briefly. Say there is a customer sitting in the NCR region we would pick up say he is in Delhi North we would pick up from all our customers in Delhi North connect that load to our Delhi hub; Delhi hub would break that up in to the long haul routes distribute that to our hub say in the South and the East, other places in the North and the West.

So that is the hub-to-hub movement. And then our feeder vehicles would then say we have come to Hyderabad then my feeder vehicle would take the remainder of that load say to a Vizag and then my last mile guy would go and do the final delivery in Vizag. So we are already on a hub-and-spoke model. Our network is already hub and spoke has been for a long time. We are adding warehousing as a capability to that enabling us to give end-to-end solutions to our customers which are going to be the key thing once GST roles in.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Abhijit Mitra from ICICI Securities for closing comments. Thank you and over to you.

**Abhijit Mitra:** I would just like to hand it over to management for some closing comments if they would want to make any and then we can close the call. Thanks.

**Bala Aghoramurthy:** I appreciate all of you for joining us on the call this Friday evening. So I hope you have got lot of your queries clarified and a good visibility to the business as such. So thank you so much again. Look forward to connecting with you once again later.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of ICICI Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.