"Gati Limited Q4 FY16 Results Conference Call"

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Moderator: Good Morning Ladies and Gentlemen Welcome to the Gati Limited Q4 FY16 Results Conference Call hosted by Systematix Shares & Stocks Limited. 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 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. Jigar Kamdar. Thank you and over to you, sir.

Jigar Kamdar: Thank you, Good Morning Ladies and Gentlemen and a warm Welcome to the conference call of Gati Limited to discuss the financial performance for the fourth quarter FY16. On behalf of the Systematix Shares & Stocks we would like to thank the Gati management for taking out the time of their busy schedule. Gati management will be represented by Mr. Sanjeev Jain – Director (Finance), Gati Limited; Mr. Bala Aghoramurthy – President and Whole time Director of Gati-Kintetsu Express Private Limited; Mr. Dhruv Agarwal – Executive Vice President, Gati-Kintetsu Express Private Limited; Mr. Peter Jayakumar – Deputy CFO, Gati-Kintetsu Express Private Limited.

I would now request Mr. Sanjeev Jain to brief you about the financial performance for the fourth quarter of FY16 then we will be starting the Q&A session. So I will be now handing over the call to Mr. Sanjeev Jain. Thanks a lot, sir. Over to you Mr. Sanjeev sir.

Sanjeev Jain: Thank you, Jigar, thank you very much. Good morning, friends, welcome to Gati's fourth quarter 2015-2016 results discussion. I thank you for your participation. We will take you through the financial performance of the company and its main vertical followed by your questions.

Before we discuss our financial numbers it is important to understand the background of the Indian economy since it has strong linkage with our business and more particularly with the manufacturing sectors. So let us have a look on the macroeconomic indicators which impacts our business. While IIP at 2% year-on-year growth in Feb'16 is a good indication but is not consistent to reflect turnaround unless it maintains a long-term trend.

Second, the capital goods production has been negative for the cumulative period. However, there have been two major positive guidelines by the government which are helpful to our business. The first one is the recent government announcement allowing 100% FDI in market place e-retailers, this works well for our E-commerce vertical as it is expected to attract more investment and better growth of the sectors. Also placing of 25% cap on sales from single entity can affect seller dynamics and will be favorable to 3PL service providers. With the growing trend of Internet and Smartphone penetration in the country will also help proliferate E-commerce and related services.

The next guidelines is on food processing where government has allowed 100% FDI that will help organized cold chain sector and thereby our company Gati Kausar.

Let me appraise you the main developments in quarter four of our group. Our consolidated group revenue grew by 3% compared to quarter-on-quarter and also year-on-year basis, though it is a modest growth but this is consistent and continuous. In the last call I discussed that we see consistent improvement for quarter three onwards which is reflected in quarter four as well. In fact, in this quarter Gati clocked the highest revenue ever in any of the previous quarters and this improvement in performance is across all financial parameters including EBIDTA which increased by 140 basis points on quarter-on-quarter basis. PBT increased 54% quarter-on-quarter. In the last quarter we had Rs.15 Crores of PBT and in this quarter we have got Rs.24 Crores PBT.

Our E-commerce logistics revenue crossed Rs.60 Crores mark in the quarter registering 52% year-on-year growth. For the year FY16 we crossed Rs.200 Crores mark and our other businesses which is a part of E-commerce ecosystem EFC that also grew very handsomely from Rs.6 Crores last year to Rs.25 Crores in this financial year 2015-2016.

Thus overall EFC and E-commerce revenue grew to Rs.232 Crores compared to Rs.134 Crores last year. The board was also pleased to announce a dividend of Re.1 per share which accounts to 50% of the paid-up capital. So this is consistent with our dividend declaration policy that company has been rewarding its shareholders consistently.

Other major development is related to the Air India arbitration which got endorsed by Delhi High Court and Delhi High Court directed Air India to deposit interim money of Rs.22.5 Crores this money has been made over to the company. Company yesterday received Rs.22.5 Crores, so this is one major milestone completed in the history of this litigation.

Our cold chain company Gati Kausar will be launching its first cold chain warehouse in quarter one of FY 2016-2017. One more important development, Company has regained West-East Round Trip Parcel Train tender which will help us reestablish its full business potential in this flagship lane. You may recollect that couple of quarters back we lost this tender and that impacted our Parcel Train business badly which now we believe will be made up.

On operational side, company has been emphasizing on technology so there is a lot of investment in the shop floor automation across all our operating units which will greatly help us in better accuracy, visibility and control of our cargo.

So these are some of the important developments about the group. I will take you through now the financial performance of each of the vertical.

Coming to the consolidated numbers for the quarter four and for the entire financial year 2015-2016, let me just read it out. In quarter four 2015-2016, company had revenue of Rs.433 Crores as compared to Rs.420 Crores in the last quarter which has an impact of 3% growth on quarter-on-quarter basis and also 3% growth on year-on-year basis. As I said, Rs.433 Crores is the highest revenue in a one quarter.

Our EBITDA for the quarter four was Rs.43 Crores, as compared to Rs.33 Crores in the last quarter which reflect 18% improvement on quarter-on-quarter and 12% growth on year-on-year basis. The PBT also improved from Rs.15.8 Crores to Rs.24.3 Crores this reflects a handsome growth of 54% on quarter-on-quarter and 33% on year-on-year basis. The PAT for the quarter is Rs.20 Crores compared to Rs.11 Crores last quarter.

Taking to the full financial year compared to 2014-2015, and 2015 -2016. Our revenue has modest growth of 1% and closed the financial year at revenue of Rs.1, 681 Crores compared to Rs.1, 662 Crores last year. Because our performance was not up to mark in quarter one and quarter two the company has registered EBITDA at Rs.145 Crores for the full year as compared to Rs.153 Crores last year.

Our PBT for the full year is Rs.64 Crores compared to Rs.78 Crores last year and PAT, profit after-tax is Rs.49 Crores compared to Rs.56 Crores. So these are the total financial numbers at consolidated level for quarter four and also for the year 2015-2016. And important point to note is that our E-commerce business which is the most focused and most exciting business to grow the revenue mix is increasing. Last year E-commerce business constituted only 8% now it has become in two digits, 12%. So this growing trend of E-commerce business in the overall revenue mixes of the growth which is a very healthy sign for the organization.

The reflection of continuous improvement can be better appreciated or understood when you see the number of H1 and H2 because that shows that how the situation started to improve in quarter three and getting reflected in quarter four. So I am just comparing the number of H1 for the financial year 2015-2016 with H2 of 2015-2016. Our revenue for H2 is Rs.853 Crores compared to Rs.828 Crores, this reflects a growth of 3% and this growth is primarily led by our E-commerce business which grew from Rs.128 Crores last year became over Rs.207 Crores in this financial year.

Our EBITDA for H2 is Rs.79 Crores as compared to Rs.66 Crores of H1 which reflects a growth of 21%. Coming to PBT, PBT for H2 is Rs.40 Crores as compared to Rs.24 Crores reflecting a growth of 62%. So if you see that H2 is significantly improved as H1 of 2015-2016 and this improvement is reflected in multiple ways, a modest growth in revenue but continues growth in revenue and stringent control on operating cost and people cost and better utilization of our capacity.

The financial number of the listed company Gati standalone which has got three businesses vertical E-commerce, fuel stations and freight forwarding. The numbers are as follows, in quarter four the standalone entity had a top-line of Rs.131 Crores compared to Rs.122 Crores in quarter three, and it reflects a quarter-on-quarter growth of 7% and 11% on year-on-year basis. This growth is primarily led by a significant growth in our E-commerce business. Our EBITDA for the quarter is Rs.15 Crores as compared to Rs.10 Crores in the last quarter, which reflects a 54% growth on quarter-on-quarter basis and 43% growth on year-on-year basis. PBT is Rs.7 Crores compared to Rs.1 Crores in quarter three, there is significant jump in PBT and in the same way there is a significant improvement in PAT.

Coming to on yearly number for standalone, Gati standalone top-line is now close to Rs.500 Crores the precise number is Rs.498 Crores compared to Rs.454 Crores which reflects a growth of 10%. This growth of 10% in the total revenue has a growth of 60% in our E-commerce vertical. So our E-commerce vertical in the financial year 2015-2016 grew by 60%. Our EBITDA for total year 2015-2016 is Rs.56 Crores compared to Rs.52 Crores last year which reflect a growth of 6%.

Our PBT for the full year is Rs.22 Crores compared to Rs.28 Crores last year since last year we had higher dividend by Rs.9 Crores and hence the PBT of last year is higher. PAT is also reflected because of dividend payout was higher last year so, PAT for 2015-2016 is Rs.19.8 Crores as compared to Rs.23.9 Crores. So this is Gati standalone number for the quarter and for the full financial year.

Our flagship joint venture company Gati-Kintetsu Express Private Limited the financial number for the quarter and for the full year are as follows. The total income of our joint venture company for the quarter four is Rs.287 Crores which is exactly same as quarter three. The top-line in quarter four is almost flat though different products grew at different pace but on total basis the revenue numbers are flat. Though there is a marginal improvement in EBITDA, the EBITDA for the quarter four is Rs.27.5 Crores compared to Rs.26.3 Crores which reflects a 5% growth on quarter-on-quarter and 3% growth on year-on-year basis. PBT also has a modest growth compared to quarter three; it stands at Rs.17.8 Crores as compared to Rs.17 Crores in quarter three which reflects an improvement of 5% on quarter-on-quarter basis and 14% on year-on-year basis.

Number of full financial year for Gati-Kintetsu is for the whole year, Rs.1, 142 Crores as compared to the same number last year. So revenue on full year basis was also flat and EBITDA because of the implication in quarter one and quarter two the EBITDA is down, the EBITDA for the full year is Rs.95 Crores as compared to Rs.116 Crores which reflects a de-growth of 18% on full year basis. In a similar manner, the PBT is Rs.57 Crores compared to Rs.74 Crores last year, a negative growth of 23%. At PAT level, our PAT for the full year is Rs.44 Crores as compared to Rs.57 Crores last year reflecting a de-growth of 23%. So while quarter three onwards there is an improvement but on the full year basis the company has a flat growth and negative growth at profitability level.

Gati Kausar has been improving its financial performance, in quarter four the performance of Gati Kausar which is our cold chain company and in the stage of expanding into cold chain warehouses the financial numbers are as follows: the top-line of Gati Kausar for the quarter four is Rs.12 Crores as compared to Rs.11.2 Crores. So the revenue grew by 7% and a marginal de-growth on year-on-year basis. EBITDA improved significantly, EBITDA at quarter four is Rs.1.4 Crores compared to Rs, 9 million in quarter three which reflect a 43% growth on quarter on quarter basis.

On full year basis Gati Kausar has got the total top-line of Rs.49.4 Crores compared to Rs.46 Crores of last year, this shows a growth of 7%. EBITDA at Rs.4.7 Crores compared to Rs.2.5 Crores last year has an improvement of 88%. Gati Kausar as we have been discussing for last couple of quarters has been expanding its coal chain warehouses and the first cold chain warehouses is now ready for launch in this quarter. We expect to launch it by of May n near Gurgaon.

An important indication of financial performance and financial condition of the company is its debt position, as we said the debt position of company is stable, we are now close to Rs.501 Crores which has increased from Rs.469 Crores in the last quarter but this increase is primarily led by the NCD from the private equity fund Mandala Capital to fund the cold chain warehouses of Gati Kausar. So baring Rs.35 Crores additional withdrawal of NCD, the debt position is lower as compared to last quarter. So debt position is quite well managed and company is rightly geared.

So friends these are some of the financial performance of our main vertical. I open the floor for your questions. Thank you very much

Moderator: Thank you. Ladies and gentlemen, we will now have the question and answer session. We will take the first question from the line of Ankit Panchamatiav from ICICI Securities. Please go ahead.

Ankit Panchamatia: Sir, this is regarding the money which we have received from Air India so, how are we planning to use that money? And the second question is what would be our E-commerce revenue for the quarter?

Sanjeev Jain: Thank you, Ankit. As I said that regarding the Air India matter this is the second level of judgment, the company won at arbitration level and the same judgment was endorsed by Delhi High Court and this money is interim money. In fact, the total money is much larger but this is interim money of Rs.22.5 Crores, company will primarily use this on E-commerce business expansion because this money has been received at the parent company level. So the major utilization of the money will be for the E-commerce expansion so this is the first answer and your second question was regarding?

Ankit Panchamatia: E-commerce revenues for Q4.

Sanjeev Jain: E-commerce revenue has grown handsomely in the quarter to Rs.63 Crores. Overall for the full financial year our E-commerce business has crossed Rs.200 Crores mark which we discussed in the last call also, it is exactly Rs.207 Crores which reflect a 62% growth on year-on-year basis.

Ankit Panchamatia: And sir, what would be our capacity at this point of time for E-commerce division?

Dhruv Agarwal: Hi, Ankit. Dhruv here. We have a capacity of around 72,000 deliveries per day, so we have not increased our capacity much over the last quarter but we had more effective utilization of our fleet.

Ankit Panchamatia: Right. I think so in the earlier quarter, we had close down certain pin codes which were not profitable in nature. So the current margins can that be reflected because of the non-profitable routes which we have stopped serving and would this be sustainable in nature in the subsequent quarters?

Dhruv Agarwal: So Ankit, the closure of very limited number of pin codes last quarter. We are now rightly updated as far as capacity is concerned. Our reflection of profitability is of course is the growth of E-commerce which is highly profitable business and this margins is not only sustainable but is expected to increase gradually.

Ankit Panchamatia: Sir, one more question on the balance sheet side. If I understand that the debtor days have increased from 56 days to around 61 days so, how are we kind of managing the collection period?

Sanjeev Jain: The DSO there is slight increase in the days to sales ratio it is around seven days to eight days increased in the year. We are now quite focused and we have taken multiple measures to bring down to the same level of 55 days - 56 days. We have said that in the next two quarters our receivable should improve significantly.

Ankit Panchamatia: And sir, as well on the loans and advances side, so basically that number has been increased by 30% so is there anything which I need to read into that?

Sanjeev Jain: The loan and advances primarily because of TDS for the full financial year. TDS has been adding into that, in fact when we see the number in quarter one of 2016-2017 our loans advances will come down significantly, on account of receipt of Air India which is the largest item in loans and advances.

Ankit Panchamatia: So sir, what would be that amount approximately any idea?

Sanjeev Jain: Around Rs.22.5 Crores then it will come down…

Ankit Panchamatia: That will come down.

Moderator: Thank you. We will take the next question from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.

Pratik Kumar: Sir, my first question is with regards to the E-commerce revenues so, now we have registered 60% growth for the full year which is great but is lower than I mean 100% growth which we use to do earlier. Obviously, this reflects the impact of base. But what kind of growth are we looking at for future, I mean in next two years to three years?

Dhruv Agarwal: Hi, Pratik. Dhruv, here. Yes, actually in this last couple of quarters E-com package volumes overall if you see have come down slightly and so you must be reading that in the papers about the big retailers which is why you know I think we are not able to do 100% year-on-year but with the new regulation coming in the focus is moving from the big e-retailers to the sellers, right and that gives us a lot of opportunity to provide end to end solutions and on board a lot more sellers into the online space. So we are expecting a good growth between 60% to 70% in this year. In terms of current run rate we have already hit a Rs.25 Crores a month kind of run rate now which we are only aiming to improve in the coming months and quarters. And your question about the next couple of years or so, as internet penetrates further and further I think this growth in this sector will continue to come over the next couple of years.

Pratik Kumar: Okay. And we are hearing about some disruptive innovations in this sector like Rivigo which is new I do not know if this is start-up company who is delivering fast in terms of surface express distribution or maybe they are in the freight segment I mean not exactly the express distribution so are they also taking up market share?

Dhruv Agarwal: Typically Q4 from Q3 sees a slight dip but we have kind of gone in the other direction we have grown about 18% quarter-on-quarter as well in terms of Rivigo, others let us chat offline and we can talk more in detail about some of these companies.

Pratik Kumar: Okay. And sir on train business now you have won the round trip contract while earlier you had like only single trip contract which we lost to the competitor then. But is there a sufficient traffic from Kolkata to Mumbai route because we understand that there will be sufficient traffic probably from Bombay to Kolkata route but reverse traffic is it I mean could we face issues on that and now because we have now taken some ex-trains license so we will have now fixed fees of that specific license for next year per month?

Bala Aghoramurthy: Yes, so Pratik let me answer that, you are right, when we had the lanes earlier it was a single way lane, even at that time the market did not exists, we created the market and of course it grew over the five to six years' period that we had the lease with us,. And in the last one year when we didn't have the lease it was with the competitor, the competitor could not sustain and that lane has been surrendered by the competitor. This round trip lease offers a new opportunity for us to similarly do market development work in the reverse direction as well. We are reasonably hopeful because we have a significant presence in the East even in our express distribution business we have always been saying our presence in the East is one of the most competitive presence that we can have in a geography. So we have already initiated efforts, we have contracted many companies and are quite confident that we will do a good job in developing the reverse direction, it might take a little longer but the confidence on developing it is there. Secondly the round trip does not come at a double the cost it is a very incremental cost difference for a single trip and round trip. So the round trip virtually comes at a throw away price for us. As a result, the profitability of the reverse one will equally be maintained.

Pratik Kumar: Okay. Despite having a lower fill factor for the reverse traffic?

Bala Aghoramurthy: That is right. The round trip costing is not double that of a single costing just to help you on the cost it is about 20%-25% thereabout that is it, it is not double.

Pratik Kumar: Okay. And sir, on ground express distribution, I mean B2B segment how is the growth in that specific segment now? And how are we looking at it over next couple of years?

Bala Aghoramurthy: Right. So express distribution for us, we have both surface and air together something like 2.5% growth in this Q4 over the same quarter last year. In air we had a much more aggressive growth, air was about 7% year-over-year, the surface was closer to a 2% and the totality was about 2.5%. We have initiated a very sharp end strategy now which is going to go after industry by industry sector. It is not just going to customer as we see them as individual customer, so we have said, we will focus on top five industry sectors where we already have a significant presence over the last many years so, we have changed track a little bit on that. Secondly, we have a base of express distribution customers with us, and more recently we have been speaking to them about integrated logistic solution, we have been going to the same customers and pitching for end to end solution to them, this will actually make the customer stickiness a lot better. We are going as an end to end solution provider. About Last three months to six months that is the kind of direction we have taken. So we are quite confident of the years ahead.

Pratik Kumar: Okay. And sir, one last question if I may, sir on your overall guidance for top-line and margins for FY15 which you generally give in the start of the year.

Sanjeev Jain: Our different verticals will grow at different pace while E-commerce will certainly grow about 60%-65% next year. Our overall growth will be in the range of around 15%. So our express business will grow around 15%, supply chain will grow significantly about 40%. So overall we can expect a growth of around 17% next year. The margins would improve around 0.25% to 0.5% incremental improvement.

Moderator: Thank you. We will take the next question from the line of Abhijeet Vora from Sundaram Mutual Fund. Please go ahead.

Abhijeet Vora: Sir, I have further questions on E-commerce itself. I think despite growth slowing down it is still very impressive compare to what other players are doing, are you gaining market share or are you expanding how exactly is this possible sir this 60% growth? Because others used to grow at 60-70 now they are reporting 20-30 you still are growing quite fast.

Dhruv Agarwal: Yes, hi, Abhijeet, Dhruv, here. Actually over the last couple of quarters we also shifted our focus to look at the lower weight categories. Beginning of this year we were doing 60% above 2 kg, 40% less than two kg and now at the end of this year we have kind of change that and doing 60% in less than 2 kg category and 40% in above 2 kg. We have also rolled out more value added services to our existing customers and we have started focusing directly on the seller themselves so, I think a combination of this has resulted in a better top-line also in this quarter we have started optimizing our fleet, etc., quite a bit. So these are some of the broad levels that we did that trickled down and helped us get a good top-line.

Bala Aghoramurthy: Also if I may add, while in the past a lot of focus has been on the top 5-10 E-com player now we have broad based our focus across the sale so our revenues from the rest of the E-com customers that we have has significantly gone up, which is one of the reason why we have been able to do better volumes.

Abhijeet Vora: Okay. Sir, how is the e-fulfillment division doing?

Dhruv Agarwal: Yes, e-fulfillment center, I think was a big win for the company in the last year. End of last year we close with the top line of Rs.6 Crores and this financial year we have closed with a top-line of Rs.25 Crores. In terms of numbers of orders processed we have continued to improve our efficiency within our existing sites and moving forward in this coming financial year we are looking at opening few more fulfillment centers and this will be a high growth segment for us plus this will also allow us to give end-to-end solutions to the seller community. When we tell them that we can do their first mile pick-up, we will do the storage and fulfillment you know picking, packing, etc., and we will do their last mile and reverse that will be quite a big value proposition to the sellers.

Abhijeet Vora: Okay. Will this necessarily improve your margins also because you are focusing on the entire chain rather than one portion of it or not using…

Dhruv Agarwal: No, it should definitely help us improve our margins as well.

Abhijeet Vora: Sure, sir. My second question is on Kintetsu business. The growth is flat is it, for next year your you are guiding for a 15% sort of growth so where is it going to come from and what did not work this year will fall in place next year?

Bala Aghoramurthy: Right. So let me answer that. So in the GKEPL business we have of course expresses distribution both surface and air, then we have a rail business which is our GTS vertical and thirdly, we have the SCM business which is in warehousing, that’s what we do. Now you just heard Dhruv speak about the warehousing, just to give you a glimpse of warehousing business, it has done extremely well even in this year, we have grown near about Rs.20 Crores - Rs.25 Crores both in our 3PL warehousing as well as EFC, etc., this year. We have an ambition of literally doubling this kind of warehousing business in the next year. We have a very healthy pipeline, we have entered April on the strength of this pipeline so, we are confident of the SCM business delivering fabulous results next year. Second one we spoke about was the rail tender that we have won if you recall our conversations in the last two three quarters we were telling you that in a quarter we were getting hit to the extent of about Rs.8 Crores to Rs.9 Crores per quarter. Now that will stand reverse now that we actually have this rail tender back with us also of course this rail tender also offers us the opportunity to develop the backward direction. So the rail business will also do very well. The express distribution like I said this quarter we have done consolidated surface and air together at about 2.5% growth. We have changed track quite significantly, as explained before, to go after industry by industry and to offer end-to-end solution so that the customer's stickiness is improved. We have seen benefit of this in Q4 itself in many-many large customers and we are going to only do better and better on this front. So we are quite confident of the 15% number that you heard about the GKEPL business.

Moderator: Thank you. The next question is from the line of Shubhankar Ojha from SKS Capital. Please go ahead.

Shubhankar Ojha: Sir, I wanted to understand what is your total due from this year under dispute you said you have got the first trench only, what is the total amount that is due?

Sanjeev Jain: Yes, so this is one of the old disputes for the year 2008 and 2009. The issue got litigated that Gati and Air India had air freighter deal. Gati won this litigation in the tribunal and then Air India challenged in the High Court. High Court also upheld the decision of the tribunal and as part of that litigation process because Air India can still choose to go to the Supreme Court the High Court directed Air India to deposit an interim money of around Rs.22 Crores and after we have satisfied the condition of the order Gati yesterday withdrew this Rs.22crores plus interest which was 50 lakh so total amount we received yesterday was Rs.22.5 Crores. Total amount involve is Rs.27 Crores plus interest at the rate of 18% which is continuing so once the final process of the law is over and final verdict is received, we are likely to receive more amount on this account.

Shubhankar Ojha: Okay. Secondly, sir what is the consolidated debt number in terms of including Gati Kausar and Gati KWE?

Sanjeev Jain: The console debt in the books of group is around Rs.501 Crores out of which the entity wise break up is as follows: at Gati standalone the debt is Rs.290 Crores which include an FCCB Bond around Rs.140 Crores. Gati KWE is Rs.141 Crores and Gati Kausar is Rs.69 Crores so total debt on Gati's book as on March 2016 is Rs.501 Crores.

Shubhankar Ojha: Okay. And finally what is the CAPEX plan that we have for FY17?

Sanjeev Jain: Yes, on CAPEX plan we expect spent almost Rs.25 Crores in each of the major entity which is Gati and Gati-Kintetsu. Gati Kausar CAPEX plan are significantly higher because they are into CAPEX mode in term of building the new Cold chain warehouses. Our CAPEX plans for the next year are in the range of around Rs.72 Crores excluding Gati Kausar.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: My question is sir the debt number what you mentioned is gross or net debt numbers?

Sanjeev Jain: No, they are the gross debt numbers. What do you mean by net debt number?

Achal Lohade: Net of cash and bank balance, if you could cash and bank balance…

Sanjeev Jain: No, surplus cash is separate so almost Rs.50 Crores lying in the surplus cash so, this is the gross debt.

Achal Lohade: Okay. Second question I had was about the Railway License for Bombay Calcutta. Sir recently we are reading quite a bit on coastal shipping what the government is promoting how would that work or how would that impact us over a medium-term?

Dhruv Agarwal: Yes, Achal actually costal shipping is more containerized cargo which is more equivalent to full truck load kind of business which Gati does not do. Our train is a parcel train and it augments our existing surface and air express networks so the two businesses are slightly different.

Achal Lohade: What is your capital employed in each of the segments and what is the return ROCE for FY16 sir?

Sanjeev Jain: You are talking of the company as a whole?

Achal Lohade: Yes, for the segment, the express, E-com and Kausar as well.

Sanjeev Jain: Yes, I will. Capital employed in Gati because Gati has a legacy of 25 years the total capital employed in Gati is Rs.314 Crores and GKEPL is a newer entity with asset-light model so the total capital employed in GKEPL is Rs.300 Crores. Gati Kausar has just started building cold chain warehouses, the total capital employed till date is close to Rs.100 Crores. So total group consolidate capital employed is Rs.729 Crores.

Moderator: Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: Few questions, first on E-commerce business, so can you just highlight as to how is the margin there, how is it changing, and what is our CAPEX plan in that particular business over the next one year to two years?

Dhruv Agarwal: Yes, Rakesh on the margins, etc., our margins continue to be strong at EBITDA level they are in the range of 13% to 15% that has not changed for us over the last couple of years.

Sanjeev Jain: Yes, we are going to spend around Rs.25 Crores in E-commerce in this financial year 2016-2017.

Rakesh Vyas: Okay. And sir, what did the percentage of COD business in the E-commerce?

Sanjeev Jain: Close to 67%.

Rakesh Vyas: Okay. That is actually significant improvement, great. Sir, can you just highlight as to what will be our e-fulfillment strategy from hereon because you are very excited with that opportunity so what is the plan, what is the CAPEX that is expected to be there?

Dhruv Agarwal: So in terms of Gati we are talking to a lot of our customers to see how to roll out and where to roll out the fulfillment centers. Currently we have now in the month of May we have one more fulfillment center going live in Hyderabad and moving forward we will have more clarity on how this grows, where it will grow as time progresses. Right now we have a very strong pipeline which we are in the process of converting but probably we will have a much better idea of the exact numbers or so somewhere in the mid of May. Internally, we are looking at definitely doubling this business in this year.

Rakesh Vyas: So in terms of revenue you are saying but in terms of the overall capacity you still need time to utilize your capacity…

Dhruv Agarwal: So revenue and capacity both we do it on need based Rakesh as and when depends on our customer's need we go ahead and do it. Currently our pipeline is extremely strong and we will definitely be doubling this business in this year but as the months go by we will have a better idea of by how much we will grow it. But currently look at the pipeline it should double from this year's revenue.

Rakesh Vyas: Sure. And sir on the Kintetsu business the margin seems to have been improving over this last full year on quarter-on-quarter basis. We now probably are reporting close to 9.5%-odd margin so where would we see this improvement over the next one year or so the sustainable what is leading to this, can you just throw some light?

Sanjeev Jain: I answered this question. We are expecting margins to grow between 0.25% to 0.5% in the next couple of quarters.

Rakesh Vyas: That is on the average blended basis, right?

Sanjeev Jain: Yes, so 2016-2017 we can expect 10% EBITDA margins in the main company.

Rakesh Vyas: Sorry, main company means KWE, right?

Sanjeev Jain: Yes, that is KWE. Gati KWE is the joint venture company.

Moderator: Thank you. The next question is from the line of Dhruv Bhimrajka from Cresita. Please go ahead.

Dhruv Bhimrajka: My question is regarding the debt mix, I think I miss that part. Can you give me your breakup of the debt in several entities?

Sanjeev Jain: Yes. Our total debt is Rs.501 Crores at group level, the entity wise break up is as follows: Gati standalone is Rs.290 Crores, it has an FCCB debt of around Rs.140 Crores, Gati KWE is Rs.141 Crores and Gati Kausar is Rs.69 Crores, rest of the entity have virtually no debt so total debt as on March 31st, 2016 is Rs.501 Crores.

Dhruv Bhimrajka: Okay. And sir, you talked about the CAPEX plan for 2017, that is Rs.72 Crores excluding the Gati Kausar so how would be the funding metrics and the estimated cost of debt if you have any plans ready for it?

Sanjeev Jain: Yes, so most of these CAPEX will run through internal accruals.

Dhruv Bhimrajka: Okay. Internal accruals, okay. And sir, I read in one of your report, so you have a vision of delivering around 1 million packages by 2020. So how is the plan moving on for that target?

Bala Aghoramurthy: Yes. So just to remind you this 1 billion packages was a combination of our express distribution as well as E-commerce and we had actually 50% of it will be E-commerce, 50% of it will be the rest of the business. On the E-commerce one we have actually made some progress this time, just to give you a sense of it, in this last quarter the E-commerce contributed in terms of number of packages to almost about one-third of the number of packages that we carried while the revenue contribution is where it has as percentage of total the package contribution of E-commerce has moved up significantly from around 15%-18% to now 30% this trend will continue. We need to work harder on the GKEPL business to get it up to that level but we have the plans in place like I explained we have changed track and strategy quite a bit on that side so we will be on track.

Moderator: Thank you. We will take the next question from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.

Pratik Kumar: Sir, on the express distribution part again you mentioned 2.5% growth in this quarter so, was this growth slightly higher 7%-8% previous in Q3? What was the growth in generally Q3 because I have like higher number in notes for the previous quarter?

Bala Aghoramurthy: So this 2.5% when you are explaining that, this 2.5% is Q4 on last year Q4, on last year…

Pratik Kumar: Correct, so that was the growth in Q3, I have the number of 8%-9% in Q3 year-on-year so is that number lower now in Q4?

Sanjeev Jain: When we spoke on Q3, the 9% growth we were indicating about the weight improvement, the increase in the weight, the weight carried, charge weight, volumes, so business is measured in terms of volume and the yield actually. So our volume in quarter three increased by 9% on year-on-year basis. In terms of top-line the quarter four revenue is flat compared to quarter three.

Pratik Kumar: Okay. And then when you say that you have like 15% growth guidance so it is largely volume driven because pricing has also function of fuel prices so, if the fuel prices remain there so the 15% growth guidance is largely volume driven.

Bala Aghoramurthy: This year we do expect some price inflation as well although in our workings we have taken it to be a very modest number so large portion of the growth will come from volume incremental smaller portion will come from price as well. Not just through diesel but every other element of the price.

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

Rakesh Vyas: Sir, can highlight what was the number of packages handled in last fiscal compare to what was it in fiscal 2015?

Bala Aghoramurthy: Let me give you a general sense of it, we are doing something like 2.75 lakh packages a day of course you can take a full year view using this number.

Rakesh Vyas: And what was it last year, sir?

Bala Aghoramurthy: Last year it would have been around 2.4 - 2.5Lakhs per day kind of something broadly.

Rakesh Vyas: Okay. And you said 33% of package is how much that was for last quarter.

Bala Aghoramurthy: In the quarter.

Rakesh Vyas: In the quarter.

Dhruv Agarwal: Over the year, overall we have revenue wise last year E-com contribute 8% to overall Gati, this year it is around 12% to overall Gati.

Rakesh Vyas: Okay. And sir, if you move to a slightly lighter weight cargo in E-commerce the margin profile does not change?

Dhruv Agarwal: No, so lighter weight packages are typically the volumes in that segment are quite steady and a lot of those packages in that go in the metros, etc., so, then margins are quite healthy and the volumes are quite steady. When we service the far away pin codes, hard to reach places, etc., which is Gati strength, our network is our strength that is when we make a much higher margin on across package categories. So looking at that mix and improving our delivery efficiencies we have been able to maintain healthy margins.

Rakesh Vyas: Okay. And sir, this 60-40 mix when do you think it would stabilize over next one year - two years what in terms of strategy what is our plan?

Dhruv Agarwal: No, in terms of strategy if you see a lot of the website are still switching on different product categories, okay. Not all of them do all weight categories so, I think the 60-40 will continue at least for this half, we will have to see in the next half how things change what happens.

Moderator: Thank you. The next question is from the line of Dinoy Jariwala from Sunidhi Securities & Limited. Please go ahead.

Dinoy Jariwala: Sir, on the E-commerce side, if you just help me what is the total warehousing space in our e-fulfillment centers after the Hyderabad coming on stream?

Dhruv Agarwal: We are at about 2.2 lakh square feet after this Hyderabad comes on board it will be around 2.5 lakh square feet for fulfillment centers.

Dinoy Jariwala: Okay. And what would be the average number of e-fulfillment orders we would have serviced in Q4 per day I mean packages per day?

Dhruv Agarwal: Q4 we would have done around 16,000 a day. Actually in the volumes of the EFC there was a slight dip over last quarter because last quarter was what you call the festival season where we were doing kind of 3x of our capacity during that period so, this quarter we did about 16,000 packages a day.

Dinoy Jariwala: And what is our capacity? What was our capacity in Q4?

Dhruv Agarwal: No, capacity remains the same 2.2 lakh square feet, the way these are fitting out is that they are they can do a daily volume of approximately 16,000 to 20,000 but when the sales come then they go to 2x - 3x which these facilities can handle that kind of surge.

Dinoy Jariwala: Yes, so what is the maximum order processing that big facility can handle in the number of orders that you can process.

Dhruv Agarwal: For example, during the Big Billion Day sales during that period of about two weeks odd, we were doing close to 45,000 orders to 50,000 orders a day across the country versus the 16,000 orders - 17,000 orders now we are doing around ..

Dinoy Jariwala: Okay. So basically it means that you can go up to 45,000 to 50,000 orders a day without having to add any further equipment or anything.

Dhruv Agarwal: No further CAPEX required but of course man power fluctuates.

Dinoy Jariwala: Okay. And what is our reach in the E-commerce side in terms of pin codes?

Dhruv Agarwal: Yes, currently we are doing 17,500 pin codes.

Dinoy Jariwala: Okay. And in the E-commerce space the pin codes that we are servicing would be enough to cater to let us say 80%-85% of the market?

Dhruv Agarwal: 80%-85% of the?

Dinoy Jariwala: The overall E-com volumes about 80%-85% of the overall volumes would it come from the 17,000 pin codes?

Dhruv Agarwal: You can say broadly about 50% comes from around 3,000 pin codes to 5,000 pin codes which are the metros, etc., and balance 50% comes from the slightly far away locations that are the non-metro you can say Tier-II, Tier-III and very remote locations.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Jigar Kamdar for closing comments.

Jigar Kamdar: Hello, Yes, thank you very much the Gati Management for taking out time. And thank you all the participants.

Sanjeev Jain: Thank you, Jigar. Thanks all the participants, our pleasure speaking to you. Thanks once again.

Dhruv Agarwal: Thank you.

Moderator: Thank you members of the management team. Ladies and gentlemen, on behalf of Systematix Shares & Stocks, that concludes this conference. Thank you for joining us and you may now disconnect your lines.