"Conference Call with Mr. Sanjeev Jain, Director - Finance of Gati Limited"

January 06, 2014

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Moderator: Ladies and gentlemen good day and welcome to the conference call with Mr. Sanjeev Jain, Director - Finance of Gati Limited hosted by Emkay Global Financial Services. 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. Should you need assistance during the conference call, please signal an operator by pressing * followed by 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kenin Jain of Emkay Global. Thank you and over to you sir.

Kenin Jain: Good evening sir. Thank you for joining us today and we would once again thank Mr. Sanjeev Jain for his time and the broader context of the call will be to just get some sense on how Gati will be placed if economic trajectory recovers over next 6, 12, and 18 months. So I will hand over the call to Mr. Sanjeev Jain. Thanks a lot sir.

Sanjeev Jain: Thank you very much. Good afternoon ladies and gentlemen. I welcome you in the conference and thank you for connecting. It gives me great pleasure to connect with all of you and discuss about Gati and its group, our performance and plans ahead. While we are closing our second quarter , I will give you a broad perspective about our performance barring very specific information. I would like to take this call in the following manner, brief about Gati Group, the restructuring and alignment of business verticals in the last 2 years, our key focus areas and what we plan ahead and post that, whatever questions you have, we would be able to take those questions.

Gati Group is primarily into express distribution, supply chain solutions, E-commerce logistics and cold chain capabilities.. Gati came into being in 1989 when it pioneered the express distribution and supply chain solutions in the country. The express distribution is slightly different than conventional transportation. It is a time sensitive movement of commercial packages on door-to-door delivery concept. Gati, the pioneer in express distribution is the first to do this concept in the country. We have developed multi-model capabilities over the last 2 decades and deliver more than 5 million commercial packages per month by road, air, rail and by sea. The company commends number one position in the industry. It is followed by other competitors. The next player is Safexpress which is around 70% of size followed by XPS, Blue Dart and rest of the people are smaller players like FedEx, Spoton and there are couple of other small players who are part of the express industry.

The current market size is over 12,000 crores. Gati operates in pan India network on hub and spoke model. Its network is second to the India Post and we are present in every nook and corner of the country. We are there in 653 districts out of total 657. We are headquartered in Hyderabad having 4 zonal offices and 16 large Express Distribution Centers (EDC) across country, 62 Gati Distribution and Warehouse Centers (GDW) with host of small offices, branches, franchises and 2.5 million state-of-the-art warehousing capacity across major locations. The company is listed on BSE/NSE and has a distinguished board of Directors, Mr. K. L. Chugh is the Chairman of the company since its inception. Mr. Chugh comes from the background of ITC. The other prominent Directors are Mr. Sunil Alagh who comes from the background of Britannia, Mahendra Agarwal is the Promoter and Director on the board. The other people are very distinguished citizens, ex-IAS officers and Mr. N. Srinivasan who happens to be ex-senior partner of Deloitte. Other than one Promoter-Director, Mr. Mahendra Agarwal, rest of the directors are independent directors. The company is managed by operating board which is a management committee headed by all professionals in their respective fields.

Coming to what we have done in the last 2 years, the major restructuring in our business and realignment of our business verticals. Gati had moved its entire Express distribution and Supply Chain business vertical as on 1st April 2012 to a separate joint venture company known as Gati-Kintetsu Express Private Limited. So baring three verticals which are E-commerce, international freight forwarding and fuel stations. Rest of the businesses moved to a joint venture company in which Kintetsu Worldwide Express, a Tokyo-listed Japan company made 30% investment. Thus, in the new joint venture company, Gati holds 70% stake and KWE Japan holds 30% stake. KWE infused Rs. 268 crores to acquire 30% stake. They have nominated two Directors on the board of Joint Venture Company and one Director in the parent company.

Kintetsu is a leading freight forwarding organization. Its parent company is Kintetsu Railway which is $17 billion Company and Kintetsu's logistic arm is a $4 million company operating in 30 countries having offices in 200 cities and one of the leading organization. The joint venture business are being managed by Gati team and KWE brings huge amount of value in terms of driving the quality initiatives, sharing the world class logistics and warehousing processes. One major development which we were looking from KWE is the business synergies. For this, both the organizations have put their joint sales team . While the synergy benefits in the past have been quite modest, but the pipeline is now thick and we believe that going forward synergy benefit would be significant and will be more tangible from quarter 4 onwards. This is about our major restructuring.

Apart from that, Gati also restructured its shipping business .For last 3-4 years , we were not making money in this business. We moved entire shipping asset and business into a 100% subsidiary known as Gati Ship Limited. Subsequently, we did multiple initiatives to bring down our losses. We sold 40% stake in Gati Ship and also sold 3 loss-making ships. Now Gati Ship operates only two vessels, Gati Pride and Gati Majestic. Gati pride runs on the East Coast of India between Chennai to Port Blair and Yangon and other vessel, the bigger one is in partnership with Tata Steel known as International Shipping Logistic (ISL). So ISL, and Gati Ship jointly operate Kandla - Cochin sector through Gati Majestic. Gati Ship is still running into losses, but losses have come down significantly in view of selling of the loss making ships and we believe that the losses should further come down in this year. We are also looking that either we should further scale down our investment in the business in terms of diluting our stake further to become a minority partner or completely exit the shipping business.

Our key focus is now E-commerce business with end-to-end logistics services, reverse logistics and COD management and integrated cold chain with a steady growth plan in the express distribution and supply chain business. I will give few highlights about our E-commerce division. We believe that logistic is the backbone of digital economy. The customer behavior globally changing and more and more people are buying through teleshopping and internet. The E-commerce business last year has grown by 88% and it now stands at 16 billion which is now supposed to become 56 billion by 2023. The current logistic cost for retailer is around over 15% and most of them are struggling to control the logistic cost and it seems that most of them will choose to outsource to the organized players like Gati. Our E-commerce division provides end-to-end logistic solutions to the e-tailers apart from the last mile delivery. It provides a wholesome of value-add services like cash on delivery, reverse logistic, packaging and e-fulfillment center. We serve almost all the major retailers. So we have Star CJ who is one of the largest retailers in the country , than we have Jasper, Amazon. We are a major service provider for Amazon,Telebrand, Growthways, etc and the major deal which now we have recently signed is Snapdeal. Snapdeal, we plan to do a bigger business with them in the time to come. Today we have around 15,000 packages delivery per day which we are targeting to take to 30,000 by this year end. Two years back, we used to do a small business of E-commerce. It was Rs. 12 crores. Last year we had a revenue of Rs. 25 crores and this year we are expecting a revenue of Rs. 65-70 crores. The business is highly profitable. The current EBITDA margin is over 17%. The current market of E-commerce logistic is around Rs. 800 crores and it is going to increase significantly in the next couple of; years.

Coming to our major business which is part of the joint venture, it is the major business of the group. Our almost 70% of the business is controlled by our joint venture companyLast year. In the quarter one, it grew by 20% year-on-year with a healthy mix of growth in yield and the weight and in the H1, we had revenue of around 510 crores. We believe that JV company will do a business of around Rs. 1050 crores in this financial year with a healthy EBITDA of around 10% plus. We have a pan-India network. We run a fleet size of 4500 trucks in the country. Out of which, 400s are owned by us. Rest are all long-term lease through our vendors' network and these vendors have been working with us for last many years. They work under our overall processes of branding. So customer has the same feel. We provide the services through multi-modal. We are leader on the road. Then we also run parcel trains. We are the largest operator in parcel trains. We run around 18 trains per month between Kalyan, Calcutta and Guwahati and between Bangalore, Calcutta and Guwahati. We also have air capability. We are distinct number 2 after Blue Dart and we book our space directly with the airlines and also with the agents and co-loaders.

Our network runs through a hub and spoke model. We have 4 zonal offices and 16 large express distribution centers and also around 62 Gati distribution and warehouse centers. After that, we have host of branches, then customer con;venience centers, franchises. Overall we have a network of over 600 offices across the country. The business is consistently growing. It is 11% historical legacy EBITDA margin. Last year we had EBITDA margin of 10%.

In the last one and half years, there has been pressure on our margins. Margins have slightly declined because of frequent hike in the diesel prices. We have taken couple of initiatives in terms of improving our processes and reducing our costs. We have signed up a strategic contract with the global consulting company IBM. IBM is known for its IT capabilities, but IBM is also highly diversified into consulting. IBM and Gati Group have jointly designed the business transformation exercise. Under this exercise, known as Project Udaan within Gati, IBM is doing major transformation project which has impact on cost optimization. IBM and Gati have agreed to improve the profitability by minimum 1% to 1.5% at EBITDA level. IBM will share 70% of its fees only when there is outcome of those initiatives. So this is a strategic agreement between Gati and IBM which is outcome based. We believe that the outcome of this exercise will be seen from quarter 4 onwards and we expect a significant improvement in our EBITDA.

The second important focus area for Gati after E-commerce is Gati Kausar. Gati Kausar is a 100% subsidiary of Gati. We bought 100% stake in this company in 2006 and this is the second largest reefer truck network in the country after Snowmen. Cold chain is a highly potential area and Gati board has decided to take full advantage of the opportunity available in cold chains. Currently Gati Kausar has a network of 215 own reefer trucks and has intent to set up 10 large warehouses in the country. So we are exploring small dilution in our equity to raise growth capital. The discussions are at advance stage and we believe that in the next 3-4 months, we should be divesting minority stake to raise growth capital and put up 10 large warehouses in the next 2.5 years. Mr. Manish Agarwal, son of Mr. Mahendra Agarwal, MD, is completely involved in the business and he is located in Ghaziabad which is the headquarters of Kausar and he is driving the next phase of business growth. We believe that Gati Kausar will be the second largest integrated cold chain solutions provider in the country and will take full advantage of opportunity available in the cold chain.

Gati Ship as I said has been incurring losses for last 4-5 years. We have lost significant money in Gati Shipping. Management has taken significant amount of initiatives to reduce these losses in the last 2 years. As a first step, we have hived off the business into a separate company known as Gati Ship Ltd. We sold three loss making ships and we have also diluted our stake to the extent of 40%. So currently we are holding only 60%. The losses have come down, though still it is making losses. So we are left now with two ships. One ship is on the East Coast and one ship is being run in partnership with ISL on the West Coast of India. Our strategy is to completely stop the bleed in the business. We are still looking for further dilution in terms of becoming a minority partner or completely exiting the business in the next 2-3 quarters.

We have one more interesting business which is a part of our 100% subsidiary known as Gati Import and Export Trading Limited. This company is doing a unique supply chain contract with the Taj Group of Hotel. The company has signed a large supply chain management contract with the entire range of Taj Group of Hotels barring South zones. In which, we have taken over complete supply chain of Taj Group of Hotels including procurement of the inventories, warehousing them and distribution as per the hotels' requirement. This is the first true integrated supply chain contract and we are developing this vertical to provide similar solution to other big hotels in the country. This business is now growing consistently.

Now coming to our overall debts and borrowing of the company. Gati Group is single mindedly focused on reduction of debts in the last 1.5 years we have repaid Rs. 150 crores of debt and we have been consistently trying to reduce it and we have decided to manage our growth without increasing the debt. The current debt size in the company is as follows; Gati currently as on December 2013 has a debt of Rs. 204 crores which primarily is a foreign currency bond, FCCB around 22 million which is maturing for payment in December 2016. Gati KWE has reduced its debt from the peak of Rs. 330 crores to currently Rs. 185 crores. So Gati KWE, Gati Kintetsu has modest debt and ideally leveraged balance sheet. Gati Ship has Rs. 66 crores of debts out of which, around Rs. 57 crores is a leased borrowing which is basically the creation of assets and a loan obligation because one ship is on the financial lease. Rest of the businesses has very modest loans. Gati Kausar has a loan of around Rs. 25 crores which is primarily because of fleet size. Then rest of the businesses practically has no debt. The total debt of the entire Gati Group is around Rs. 480 crores which is a combination of working capital limits and term loan and the larger amount is the foreign currency bond. The key takeaway of our discussion today is that we as a company have streamlined our internal processes, cleaned up our debts, restructured our businesses and we are now poised for the growth. We have seen significant amount of growth coming in the quarter one and we have seen similar momentum building up in quarter 2. We have completed H1 and broadly our growth numbers in the overall company will be around 17% in H1. This 17% is maintainable and our guidance for 13-14 that we should have growth around 17%-18%. As a business, we are focused now on the development of two businesses where we are very bullish, one is E-commerce business and cold chain businesses. These businesses will drive our growth for the next 2-3 years. Gati Kausar is now setting up 10 large cold chain warehouses. We would maintain our debt size around Rs. 480 crores which is ideal for the size of the business and growth we are witnessing now. Our FCCB will be repaid through disposal of land parcel. We have large land parcel in the country. So we are planning to dispose these lands as and when we get a better pricing and pay off FCCB bond before it is due for payment. With the improvement in our overall financial structuring, two credit rating agencies, ICRA and CARE both have rated our JV company as A- and Gati as BBB+. We have the guidance of distinguished board of directors who have interactive and interventionist approach in terms of looking into the major developments in the company. We also believe that we are in the right sector and in the next phase of economy growth and bull market,Logistic industry would be the largest beneficiary and a company like Gati which is listed company , having a pan-India network, focusing on growing businesses of E-commerce and cold chain will be the right beneficiary. Gati Shipping, we have spoken that we are determined to resolve Gati Ship in terms of diluting our stake or completely exiting the business. Promoters have also started de-pledging their shares and in the next 2 quarters there would be de-pledged to a great extent and the important news is that we are looking significant amount of synergy benefit with our Japanese partner which will be more tangible from quarter 4 onwards of this year. This is a brief about our major developments in the business.

Coming to our gross financial numbers for 2012-13, we had a revenue size at consol level around Rs. 1300 crores with an EBITDA of around 100 crores which sums up at EBITDA of 8%, overall consol level. Our overall guidance for 13-14 that we would cross Rs. 1500 crores of the revenue mark at consol level. Our EBITDA would improve to overall EBITDA will be around Rs. 127-130 crores and we have PBT around Rs. 40-45 crores and net profit of around 30 crores. So this is my broad numbers, broad guidance for this 2013-14. Overall we are optimistic about our business and which also reflects on that share price surge in the last 4-5 weeks. We believe that whole sector of logistics is being re-rated in terms of capabilities and the company like Gati which has as large network has significant undervaluation of share price which is being re-invented. So gentlemen and ladies, thank you very much for this opportunity. I am open to questions and you can ask anything which is related to our business.

Moderator: Thank you very much sir. Participants we will now begin with the question and answer session. We have the first question from the line of Viraj Mehta from Franklin Templeton. Please go ahead.

Viraj Mehta: Just a couple of questions. One between the JV and the E-commerce business itself, I wanted to understand how do you distinguish what business goes to which arm because I am sure there will be some intersegment transfer that could also happen because E-commerce business would use KWE as the last chain I guess. If you can just throw some light on this, the relationship between these two arms of yours?

Sanjeev Jain: Sure, it is a good question. Both the businesses, our express distribution business and E-commerce business, they are sitting in two entities separately. While the E-commerce business is a part of Gati which is a listed entity, the entire express distribution business is a part of joint venture Company with the KWE. So on accounting terms, the two things which are important to be understood that any related business transaction between GKE, our JV company and Gati is at arm's length pricing. So both the companies have signed arm's length transaction. In terms of pure accounting, at consol level, the transactions between GKE and Gati, they are eliminated when we consol both the accounts. In terms of business network relationship, the entire front end that means customer interface, our delivery boy's , delivery capabilities that is being developed are part of Gati. The backend network which GKE has already developed is utilized by Gati on arm's length pricing. So there is no overlapping of network and in terms of accounting this get eliminated as intercompany transaction and in terms of pricing, this is arm's length.

Viraj Mehta: So let us say if there is any incremental business, let us say tomorrow you go and sign Flipkart on your board, so that would come only to E-commerce and will not go to KWE?

Sanjeev Jain: In that sense, I think little more clarification is required. When you see entity wise, if the Gati signs Flipkart, certainly the entire revenue will flow from Flipkart to Gati and this will go in the books of Gati, but Gati will use the network of GKPL to a great extent. So out of Rs. 100 earned from Flipkart, probably Rs. 50-60 will also flow to GKPL as revenue. So GKPL as a standalone entity will certainly be the beneficiary of that revenue. So E-commerce growth will also benefit the GKEPL, but when you consol both Gati and GKEPL, these intercompany transactions will be eliminated.

Viraj Mehta: So when you actually mentioned 17% to 18% margins for the E-commerce business that is including the margins that KWE would make or that is excluding the margins that they would make?

Sanjeev Jain: No, that is the margin which Gati is making on an E-commerce basis. GKEPL margins which had around 10% at EBITDA level, they are reflected in their business. That does not share this 17%-18%.

Viraj Mehta: So if I actually add them up, then even if let us say 50% revenue flows to that business. So the total EBITDA margin in the business is close to what 20%-23%. Would that be correct?

Sanjeev Jain: Of what?

Viraj Mehta: Of the total revenue, Gati would have…

Sanjeev Jain: Gati's 17%-18% EBITDA margin is after factoring the cost came into the GKEPL. So the Gati E-commerce business that is being transported on the network of GKEPL. So Gati will pay those costs to the GKEPL. The 17%-18% EBITDA margin which I am indicating on Gati's E-commerce business is after factoring the costs after making the payment to the GKPL.

Viraj Mehta: So when you mentioned that we expect around 70 crores of revenue this year, what I am trying to understand is in next 3-5 years, are we working with a broader number in mind that we need to be here in this business in 3 years or 5 years' time. Can you share that?

Sanjeev Jain: To precisely answer that question, recently IBM who is doing transformation exercise had done a vision 20-20 exercise with us. So we are creating a vision for 20-20 and we believe that our E-commerce business is not a potential of 50%-60% year-on-year growth and is a business which should grow 100% year-on-year. We are looking for a revenue target of over Rs. 1200 crores by 2020.

Viraj Mehta: Just in E-commerce?

Sanjeev Jain: Just in E-commerce in Gati.

Viraj Mehta: And would there be significant...

Sanjeev Jain: There is a huge business potential available in E-commerce. We need not sell these services. What we need to do is to understand and deliver the cash on delivery in the next 2 days. So there is no selling required for E-commerce business. In the E-commerce business, the biggest selling tool is our capabilities to manage the COD in T plus two days or transaction plus one day, plenty of business. So E-commerce business is dependent on how quickly we expand our network which currently is 15,000 packages per day which we target to take to 30,000 packages per day by this year end. So if we have the network and we could manage our commercial processes including the COD management, there is no dearth of business. The business can grow not by 100%, probably 150% year-on-year.

Viraj Mehta: So if we come to the main business, which is Gati KWE. Currently last year, I think we ended roughly 900 odd crores of revenue.

Sanjeev Jain: So precisely Rs. 895 crores last year.

Viraj Mehta: What is the total market and what is the market share in this business?

Sanjeev Jain: The market of express distribution in the country is estimated to be around Rs. 12,000 crores.

Viraj Mehta: So we are less than 10% market share.

Sanjeev Jain: And within this, there are different products. So there is express distribution which is by Surface we have the market share of around 16%. Then there is air product where Blue Dart is dominant player, we are distinct number two. Then parcel train movement, we are the leader. There are many people who are in container trains, but parcel trains are not run the way we run the parcel trains. We run around 18 parcel trains every month. So in different segments, different market share is there. In road express, we are the leader where we have announced 17%-18% market share.

Viraj Mehta: Just last couple of questions. Do we see the margins going up or do we see improvement in margins in this business a) due to your international joint venture and b) also because you increase in scale in next 2-3 years.

Sanjeev Jain: The EBITDA margin in our express distribution historically has been around 11%. So we are doing couple of initiatives in terms of improving the EBITDA margin. First as you rightly said, there is operating leverage available that means if the business increases, we need not increase our network proportionately. We have required networks created well in advance. So we have a good network available which can take care of the growth of next 2years. Second the synergy benefits which you are expecting with the KWE had been modest in the last 1.5 years. The focus has now come with the senior team who is working how we harness the full potential of relationship with the KWE. So synergy benefit from the quarter 4 onwards should be bigger. Synergy benefit will drive the growth. Synergy benefit in quantifiable manner in last quarter one was around Rs. 5 crores. We have now thick pipeline. We have signed couple of big customers like Sharp whom we have provided around 1 lakh 25 thousand square feet in Chennai. We have recently signed a very interesting contract with Boeing. Going forward, the synergy benefit through this joint pipeline, sales pipeline will be bigger. Bigger initiative is our relationship with the IBM which we have signed with the intent to improve the EBITDA margins. IBM will get paid their fees only when they demonstrate that profit has improved and realized.

Viraj Mehta: So just last question. What kind of IT systems do we have in the company to make sure that all the packages are picked up correctly and weighted correctly and there is no siphoning of that happen within that system?

Sanjeev Jain: Just to give a perspective that our CIO, Mr. Ravi Kumar is rated as one of the best CIO in the country for last couple of years consistently. Gati is early in terms adoption of ERP solutions. We have the world-class home grown transportation management system and warehouse management systems. We are the first company who has automated the entire delivery system with our partners who deliver the cargo to customers and it get reflected immediately in terms of our server. We provide complete end-to-end visibility to our customer by giving them the track and trace facilities. We spent significant amount of money in terms of technology. So in terms of IT, probably we have a biggest leverage in the industry.

Moderator: Thank you. We have the next question from the line of Vinay Nair from Rare Enterprises. Please go ahead.

Vinay Nair: Sir you have FCCB of USD 22 million outstanding. Can you explain to me how the conversion price of this instrument will be and what is the time period during which this will be done?

Sanjeev Jain: Our FCCB of 22 million is due for repayment in December 2016. It has a conversion price at Rs. 38 which has a further restructured conversion clause where the price is benchmarked with the investors' price. We are engaged with the bondholder and they are inclined for phased payments rather than conversion.

Vinay Nair: So that is still under negotiation, it has not been finalized.

Sanjeev Jain: All these conditions are part of the bond. We are engaged with the bondholder and we have broad understanding that as and when we are able to sell our surplus land, we will be making the payment in tranches..

Vinay Nair: So sir if I use this Rs. 38.51 p which is mentioned in your annual report and there is a currency rate also 52.2285. If I do that calculation, then it means that there will be a dilution of approximately 3 crores shares if this entire conversion happens.

Sanjeev Jain: There are two answers to this. As I said that, conversion clause has a restructuring clause . It is not simple Rs. 38. This is a benchmarked with the price with the investors' price. The mechanism to arrive at the conversion is the valuation done by two merchant bankers appointed by the respective parties. In sum conversion process is a restructured process. While technically, it is Rs. 38 with an exchange rate of Rs. 52 , but it has some other dynamics and mechanism as well .

Vinay Nair: Which is not mentioned in the annual report or which has been.

Sanjeev Jain: This is mentioned in the bond. The bond is listed at the Singapore stock exchange and full bond is available with the Trustees .

Vinay Nair: So you were saying that you were trying to get to a situation where you actually repay the amount rather than wait for the conversion.

Sanjeev Jain: We have discussions with the bondholder. They want to get it repaid over a period of time before the due date of December 2016. We are trying to dispose land parcel and as and when we dispose this land parcel, we can prepay to the bondholder and earn some discount.

Vinay Nair: So in your opinion, the most likely scenario would be that you would end up repaying the amount rather than getting it converted.

Sanjeev Jain: Not getting it converted, yes.

Vinay Nair: Because if hypothetically it were to get into conversion, then there will be a lot of dilution and the promoter holding..

Sanjeev Jain: If you go by face value what you are saying, that is correct.

Moderator: Thank you. We have the next question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Sir first on the shipping business. You said you will either look at exiting the business or sell a good amount of stake again. Just wanted to understand on selling, if the action of selling the business is taken, what will be the liability for us in terms of cash, any payment or debt that we have to pay because you said one of the ship is in lease.

Sanjeev Jain: Yes. We have made an assessment that we either further dilute our investment into the Gati Ship through a strategic partnership or we discontinue the business Overall, the valuation of asset and liability is virtually same. We may require to fund a small amount to close the business.

Madan Gopal: By selling and paying, it will be equally that is what you are saying.

Sanjeev Jain: Yes. In terms of asset and liabilities, we have two large properties which is the office building where the shipping business is headquartered and there is a big large guest house. Then the two ships which are still operational and then the liabilities, bank borrowing of around Rs. 9.5 crores and a liability through lease finance of Gati Pride .

Madan Gopal: Sir second on the cold chain business, you are referring to raising money at the cold chain business level. So if you can tell me what is the additional investment that you are looking over the next two years in this business and what kind of margins that they can deliver and also to just get a feel on what is the incremental ROC?

Sanjeev Jain: Last year, Gati Kausar had a revenue of Rs. 46 crores. It has an EBITDA margin of 11%. In fact this cold chain business historically has been a margin of 13%-14%, but in the last two quarters of 12 and 13, we had purchased around 62 new reefer trucks. Deployment happened over a period of time. So margins declined slightly last year. It is back on the same 13% in quarter one and we believe that 13-14, we should have a revenue of around Rs. 55crores with the EBITDA margin of around 13%. Our CAPEX plans are big. So we want to set up around 10 cold chain warehouses in the country in the next 2-3 years of time frame . This roughly will require around 120 crores. So we have decided to infuse growth capital through diluting our minority stake in the company. We are at advanced discussion with couple of investors in terms of selling minority stake and raising growth capital to put up the cold chain warehouses. This business is quite good and has always been cash generating though at PAT level, there have been minor losses due to heavy depreciation and interest. Going forward when this has an integrated revenue comprising both warehousing and transportation, this will be a healthy business in terms of having EBITDA margin in the range of 18%-20%.

Madan Gopal: Sir the 120 crores CAPEX will be over the next 3 years?

Sanjeev Jain: Next 2.5 years.

Madan Gopal: And the entire 120 crores will be coming from the new investor.

Sanjeev Jain: This is a combination of both equity as well as debt.

Madan Gopal: We can assume 70: 30.

Sanjeev Jain: We can assume around 50% debt, 50% equity.

Madan Gopal: And what is the potential of this 120 crores CAPEX sir in terms of revenue if it is fully utilized?

Sanjeev Jain: This business should be around Rs. 250 odd crores in the next 3 years and this will comprise equally the transportation business as well as warehouse business.

Madan Gopal: So this is in terms of sales to investment, it is slightly less than 2 times?

Sanjeev Jain: Yes, almost in that range.

Moderator: Thank you. We have the next question from the line of Pulkit Singhal from Treeline Investment. Please go ahead.

Pulkit Singhal: My question is on the E-commerce business. Going from 15,000 packages per day, if you have to go to 50,000 packages per day, what is the kind of firstly CAPEX required in this. I am assuming as you mentioned as low CAPEX intensity business, but I do not know whether you need to open some more sorting offices etc. or not and then what are the challenges in scaling up from 15,000 to 50,000 in terms of managing the employees, number of employees and attrition etc. maybe you can highlight that.

Sanjeev Jain: Overall E-commerce business is asset light business. What we need is to hire delivery boys, have bikes and four wheelers. Some on our own and some on the lease basis and rest is hiring of small offices across the country. Overall E-commerce business is an asset light, does not require large CAPEX, but in fact developing a network from 15,000 to 50,000 is a complex process. In terms of money investment, this is really modest, may not be more than 5 to 10 crores overall put together, but in terms of the E – Com drive in terms of identification of location, other components of network is reasonable a complex process. We have put a dedicated team, a cross functional dedicated team who is driving the entire expansion on the E-commerce network.

Pulkit Singhal: So what is your competitive advantage in this E-commerce business then stickiness of customers?

Sanjeev Jain: Yes. Competitive advantage to Gati Group is as follows. One, that we have been in this business especially managing cash on delivery for quite some time. We have been dealing with this product for last 8-10 years very successfully. We have proven capabilities of managing COD which is the biggest pain point for the retailers. Second, the biggest plus point for Gati Group is pan-India network. Our network is next to India post and that is the biggest attraction for the retailers. We provide a pan-India network which is not limited to tier I or tier II cities. It goes even deeper and you can find Gati's network every nook and corner of the country. So this network spread across our subsidiaries which are primary the JV Company, the Gati Kintetsu as well as Gati. So the extents of the network, the capabilities to handle the COD and of course the Gati branding because this business in terms of commercial process is very sensitive. One has to handle somebody's money. So the company which is listed which has good governance, with distinguished board of directors, which has a proven capability, certainly would have the competitive advantage.

Pulkit Singhal: To understand so the employee is collecting cash worth Rs. 40,000 for a particular transaction and his monthly salary is very lesser. How do you manage that?

Sanjeev Jain: First that we have put a mix of people. While large amount of people are coming through outsourced agencies, but we have chosen those agencies carefully. We have a standard service level agreement with the people and those are the multinational companies, MNCs, but the location which are very sensitive in terms of large amount of cash, we had deployed the Gati people who have been working with the company for last many years. So there is a mix of people who have been with the network for last many years and also very carefully chosen people from the multinational outsourcing agencies and we have appropriate amount of insurance. We have not seen significant amount of risk in terms of cash handling and we also deployed cash management facilities through bank. We are also taking couple of other initiatives in terms of how to make the cash collection more secured. So there are couple of developments which are happening in terms of that we reduce our risk, but to be very frank we have not seen a significant amount of risk in terms of cash handling.

Pulkit Singhal: What is the employee attrition in the E-commerce business?

Sanjeev Jain: Employee attrition in E-commerce is not something which is exceptional, but as we grow as a company or as a sector, the attrition is significantly high. We do struggle with attrition which is as high as over 15%.

Pulkit Singhal: The kind of E-commerce you are dealing like Snapdeal and Amazon etc. and Star CJ. So how many logistic providers would you typically recruit? Are you one of the three logistic providers or one of the .

Sanjeev Jain: I can give you probably answer very specific to these customers because Star CJ 1.5 years back, we were exclusive one and we actually created franchise network for them and we were exclusive service provider for quite sometime , but as the business of Star CJ grew, they have now probably 2-3 service providers and we are the largest one. In terms of Amazon, they seem to have only two service providers and we may be the second one. The last month, we had significant a business with Amazon. Snapdeal, our relationship is new. Probably they are already working with more than one service provider. The big retailers have minimum 2-3 service providers and depending upon the quality of services, one can be either dominant or a junior partner.

Moderator: Thank you. We have the next question from the line of Chirag Shah from Value Quest Research. Please go ahead.

Chirag Shah: In case of E-commerce business, the revenue which we get is the lump sum amount with the company or the transaction is on per parcel basis?

Sanjeev Jain: The revenue is split into multiple components both in terms of depending upon the weight of the parcel and also it depends that what value-add service we are providing. In certain cases, we provide the packaging. In certain cases, we provide reverse logistics. We also charge for the return to the origin (RTO). So there are various components which we provide to the retailers, but of course the yield is segmented that it is up to 2 kg parcel, 5 kg parcel, 10 kg parcel. It also depend upon the mode whether it is being moved by road or air, but the unit is per kg depending upon the size and the mode.

Chirag Shah: It would be a percentage of the total value of the parcel or how would it be?

Sanjeev Jain: No, it is on the weight of the size, weight of the parcel, mode of the transportation and other component based on the services being provided.

Chirag Shah: So assuming whether it is a simple parcel, there is no packaging value addition done by you. How much do we get? What is the yield per kg provided by road and rail?

Sanjeev Jain: I will give you a ballpark figure. The average yield could be around Rs. 19 to Rs. 20 per kg and this is by road. Air could be probably Rs. 70-80 /KG or could be even higher.

Chirag Shah: And sir then Gati-KWE XPE business, 100% of the business is based on long-term contracts or do we have any spot contracts also?

Sanjeev Jain: This contract is of two types in our express distribution business. One is to be billed customers who are our credit customers. The contracts are normally for 2 to , 3 years, but that is basically the duration technically because we as a service provider also need some period so that we can go back to the customer and look for input cost escalation opportunity. So technically it is 2 years, 3 years contract, but practically it becomes a perpetual contract unless we damage their consignments. In retail, there are two types of business, one is which a predicted sale, is basically where customers are regular and others what you call it walk-in customers.

Chirag Shah: Can you give the ballpark figure, how much would be long-term contracts and walk-in customer? What is the breakup?

Sanjeev Jain: What we call isto be billed customer which is basically our credit customer that comprises almost 80% of business, but our attempt is to grow our retail business because the yield is very high. The payments are upfront and the larger branding available to the market. So our focus is to bring our retail business to the extent of 35% …that is our target.

Chirag Shah: So then the retailer and E-commerce would be similar right because if it is B2C, there would not be much difference in the services.

Sanjeev Jain: The only difference is that in the express distribution, we are basically experts in handling large parcel large and heavy weight parcels. In E-commerce, the segment starts from 0.5 kg, 2 kg, 5 kg, 10 kg. Of course E-commerce also, we now handle from pen drive to sofa sets/large furniture items. We handle every type but in our distribution business, we are known for handling large and heavy parcels. We are basically a package delivery company in our main company like you have two major players in US which are FEDEX and UPS. We are esimilar capabilities in India.

Chirag Shah: Can you just give some sense what is the yield in this retail category and long-term contracts?

Sanjeev Jain: I will not give you the business confidential info but I can share u ballpark figure. Our yield in, to be billed customer could be around Rs. 9 to 10 per kg. This is an average yield. In our retail side, yield could be as high as Rs. 18 to 20 /KG .

Chirag Shah: Almost double.

Sanjeev Jain: Almost double and payments are upfront.

Chirag Shah: But we would not get much higher volumes there.

Sanjeev Jain: Retail business requires little different capabilities, presence in the market, larger touch points/ customer interface points and other capabilities of handling customers.

Chirag Shah: And Sir, in this if there is any increase in oil prices how was it passed so is it revised in every parcel you send?

Sanjeev Jain: Yes, so what we call it is Diesel Price Hike -, DPH. So last two years when we knew that diesel price hike has become as part and parcel of the economy and the diesel pricing is virtually decontrolled , we approached every customer under go-to-market strategy GTM strategy, where we convinced customers that the DPH is going to be a norm. So most of the customers have now converted on the DPH clause where if there is a diesel price hike , we are capable of passing on those hikes to the customers but the big customers who are dominant in nature they try to negotiate in terms of both volume of DPH and also the timing of the DPH. But our overall capability to pass on our DPH price hike to 85% of the customers is intact. So we negotiate with the customers and pass on the DPH. But DPH price hike does not happen with every diesel price hike because diesel price hike happen sometime Rs. 0.40 or Rs. 0.50. We go to the customer 2-3 times in a year.

Chirag Shah: Sir, in terms of yields are we higher than the competitors or the pricing is similar to our competitors?

Sanjeev Jain: We are known in the market for premium pricing. We always demand at least Rs. 1 to Rs. 1.50 per kg over our competitors in the market.

Chirag Shah: Okay so because we provide better services we are able to charge or what is the differentiation that we provide?

Sanjeev Jain: Differentiation in term of the reach, the size of the network. The differences in terms of the automation, the track and trace facility which we provide to the customers, the differences in term of a brand, the differentiation that Gati is the pioneer in the express distribution, the differentiation is the governance, the differentiation that it's a listed company, and the differentiation that is the joint venture with MNC. So there are host of services host of things which comes in the mind of the large customers when they outsource their distribution services.

Chirag Shah: And sir, in that E-commerce business has there been a case of mismanagement of funds with any of our employees or delivery boys?

Sanjeev Jain: The risk always is there but fortunately we have not seen the risk and we are taking many process improvement which ensure there is daily reconciliation of cash, it is daily deposited. We started cash management services with couple of bankers in different zones. So we keep regular watch that how much cash has been collected, how much has been deposited and how much has been paid to the customers. This is customer's money so we are maintaining a complete end-to-end visibility how this money is moving on the day-to-day basis.

Chirag Shah: And sir, since our tie-up has almost been now one year, tie-up with KWE, any incremental new businesses that we have got because of KWE or how was the relationship helped in getting?

Sanjeev Jain: Yes, I think this is a relevant question. Our relationship with the joint venture partner is extremely good . I must use the word fantastic. They are good people. They have very active participation on board. They come with lot of suggestions . They have lot of concern about the quality of operation so they drive the operation quality and they have brought a trainer from Japan who is traveling entire network and do the handholding. A lot of initiative in terms of IT intervention, technology intervention to improve the quality operation. So apart from infusing capital KWE has brought lot of other value adds in terms of process sharing and quality improvement. In term of business synergy both the teams signing the Japanese customers or joint customers and bringing revenue, those benefits in the last four quarter have been modest. So we have signed a couple of Japanese customers but we are not seeing those benefits and now the focus is on synergy benefits probably we will see more benefit in quarter four onwards.

Chirag Shah: And sir, one last question. We plan to reduce our debt by selling our lands parcel, right?

Sanjeev Jain: Yes.

Chirag Shah: How much is the total land area in terms of acres?

Sanjeev Jain: We have three, four major land parcel in basically north in near Delhi and two large lands are in Gurgaon near airport and then we have land parcel available in Jaipur, Palwal,n Binola so there are six, seven large lands which are valued around Rs. 120 crores to Rs. 125 crores. This is the market value. In books they are around Rs. 50 crores.

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

Mayur Gathani: First question is as far as our ship business is concerned what is the gross block and the net block for the remaining ship?

Sanjeev Jain: See total capital employed in this business is over Rs. 200 crores. This is the value in the books. This is ascribed to the two ships, containers, four large property which are in the business. There is some of impairment in these assets because we bought these assets and ships when the market price was at the peak. Currently the market price is lower. So this significant amount of difference between the book value and their actual market value.

Mayur Gathani: How much would that be sir approximately?

Sanjeev Jain: The difference could be in the range of Rs. 50 crores to Rs. 60 crores. So we have partially impaired those values in our last balance sheet which is as on June 2013. When we sold off 40% stake, commensurate amount of value impairment we did in the last quarter. We did the impairment at the end of the last quarter. If you recollect that we had gone to AP High Court for the Scheme. Under that scheme, we revalued one of the investments which is GKEPL investment which created a capital reserve of around Rs. 550 crores so that reserve is meant that any impairment in the asset or investment that we will be taken care by this as per Court Scheme .

Mayur Gathani: But incrementally if at all there is any further impairment, will it also be adjusted against that same capital reserve or will it be routed through P&L?

Sanjeev Jain: It will not be routed through P&L.. that special reserve in the court scheme was clearly defined that any impairment in the future investment or in large exceptional item will be taken in to this special reserve.

Mayur Gathani: Our next question on your E-commerce business in the past call you said that upon reaching 20,000 parcels a day you would become of the number three player in E-commerce?

Sanjeev Jain: Yes.

Mayur Gathani: So right now we are still probably number four or what is the ranking and if you can highlight in the E-commerce which is the top competition?

Sanjeev Jain: There are no documented figures available but I believe that from our personal discussions with the various team that Blue Dart is probably the largest. . We may be standing number four in term of our overall delivery capabilities but we have realized the potential of this business so we are now strengthening our network very fast. In the 2020 vision we have decided that we must strengthen our network in the financial year to 30,000 per day. So we are working to take our delivery capabilities from current 15,000 to 30,000 by this year end.

Mayur Gathani: So when you speak of delivery capabilities for E-commerce is it that the number of delivery boys in the bikes is it more dependent on that or will it be more driven by actually closing up more tie-up deals like having more accounts like Snapdeal or Amazon?

Sanjeev Jain: This in fact reflects the overall delivery capabilities of the delivery boys that how many parcels per day we can deliver. 15,000 are basically the total capabilities of all the two-wheeler, four-wheelers and bikers put together.

Mayur Gathani: Finally do we have any perspective in terms of the return on capital for each of the business segments or at least on cold chain?

Sanjeev Jain: Yes, I can say that our return on capital employed in our major business is healthy it is over 20% I am talking based on the number of 2012-13. This is our JV company our major company Gati Kintetsu Private Limited, our return on capital employed is over 20%. Gati as a parent company is around 9%. Cold chain of course because it has a negative PAT so it is not quantified at the moment because of high depreciation and high interest components. Overall at consol level our return on capital is around 8% to 9%. This will improve in this financial year 2013-14 onwards

Mayur Gathani: Any two years target?

Sanjeev Jain: Yes, we are targeting around 10% to 15%.

Mayur Gathani: Our cold storage how much would the return ratio once we have the warehouses in place?

Sanjeev Jain: So we would have 10 warehouses in the next 2.5 years. Our investment plan is to have CAPEX of around Rs. 120 crores each warehouse will require a capital of around Rs. 10 crores to Rs. 12 crores.

Mayur Gathani: And we will be adding trucks also simultaneously?

Sanjeev Jain: Trucks buying will be modest because we have decided to introduce the concept of leased trucks like we have our main business is our fleet come from the leased vehicles rather than our own vehicles. So fleet size will not increase much in the Gati Kausar because we will have more leased ones with us so that we are not required to invest time in the fleet management and we become a truly the supply-chain company.

Mayur Gathani: The warehouse cost will be capitalized and it would be depreciated over longer duration, right sir so there would not be any lease-rentals coming here?

Sanjeev Jain: There is lease-rentals to that extent is there are still some of these warehouses will be on a lease-lend.

Mayur Gathani: So Rs. 10 crores is the CAPEX for warehouse otherwise the base land will be on lease?

Sanjeev Jain: Land will be on lease, yes.

Moderator: Thank you. We have the next follow up question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Just on the debt side you said Rs. 400 crores is the debt as of now at the consol level, right?

Sanjeev Jain: Our debt size overall group is around Rs. 480 crores.

Madan Gopal: At the consol level this is?

Sanjeev Jain: At consol level if I can give you a debt of each company. Gati we have around Rs. 204 crores as of December 2013 which includes FCCB of around Rs. 137 crores. GKEPL Debt is Rs. 185 crores. Gati Ship is Rs. 66 crores which has its finance lease of around Rs. 57 crores.

Madan Gopal: Kausar?

Sanjeev Jain: Kausar is Rs. 25 crores.

Madan Gopal: What is the cash at the consol level?

Sanjeev Jain: Cash at consol level must be around Rs. 35 crores to Rs. 40 crores.

Madan Gopal: The JV business requires extra service what will be the effective interest cost because last year we have paid almost like Rs. 27 crores interest would it continue this year as well in your opinion?

Sanjeev Jain: See it should come down marginally. This year we should have interest on GKEPL to the extent of around Rs. 25 crores and overall rate of interest is less than Rs. 12.5% .

Madan Gopal: So your interest cost for the year might jump because last year you had Rs. 43 crores that might go to Rs. 60 crores this year?

Sanjeev Jain: No, not at all.

Madan Gopal: Consol interest?

Sanjeev Jain: Our consol interest will be less than Rs. 45 crores, Rs. 44 exactly.

Madan Gopal: Okay for this year?

Sanjeev Jain: In fact little less actually. It should not be more than Rs. 43 crores because of good rating by ICRA and CARE as A-. SBI has made a major reduction actually so rate of interest has come down. We could also refinance some of the loans with the less rate of interest so interest burden should come down compared to last year.

Madan Gopal: Sir, Rs. 43 crores includes how much of shipping in that sir in your assumption?

Sanjeev Jain: Shipping is around Rs. 9 crores. If I can give you the breakup of each entity of Rs. 43 crores of interest Rs. 7 crores will go to Gati then Rs. 24 crores to GKEPL; Kausar is Rs. 4 crores, Gati Ship is Rs. 9 crores. So it becomes Rs. 43 crores.

Madan Gopal: Okay once this some bit of synergy benefits coming and you are expecting a improvement in margin in the JV business?

Sanjeev Jain: JV business margin should improve by minimum 1% to 1.5% owing to the project Udaan which we are doing with IBM in the next two years .

Madan Gopal: But that will take a long time?

Sanjeev Jain: That you will find impact from quarter four onwards. Of course syenergy benefit will be of certainly benefitable. Because the business come from the large corporates which is quite a profitable business but we have not got to see a great volume coming out of that synergy and now we are seeing its pipeline of customer whom we are going to target.

Madan Gopal: Sir, you were talking about the return on capital employed right now at around 8% to 9% you are targeting more than 10% as we move on much of this improvement it looks like has to come in from the standalone business because that is where the return ratios are lower but this specimen in your opinion has already invested the required infrastructure so the incremental growth would come in with lesser CAPEX, am I right with that?

Sanjeev Jain: You are absolutely correct. The E-commerce business is an asset light business it will remain asset light in fact both the businesses. Our JV business also is an asset light business despite having a turnover of around Rs. 1050 crores this year the capital employed is Rs. 260 crores.

Madan Gopal: Sir, on the standalone business you have revenue of Rs. 170 crores last year you had?

Sanjeev Jain: See Gati standalone last year has gone some amount of restructuring because we merged four large fuel stations to Gati. So last year we had a overall turnover of Rs. 261 crores which is going to become Rs. 320 crores this financial year 2013-14.

Madan Gopal: And you are expecting around 12% margin you said on this?

Sanjeev Jain: On Gati?

Madan Gopal: Yes.

Sanjeev Jain: Gati itself runs about three businesses E-commerce which we expect an EBITDA margin of around 17% to 18%; international business which is the EBITDA margin of around 8%, fuel stations which is trading business is a very small amount of EBITDA again which is around 2%.

Madan Gopal: How much of revenue will be there from Rs. 320 crores if you can break this?

Sanjeev Jain: Rs. 65 crores will come from E-commerce Rs. 70 crores will come from international and around Rs. 185 crores to Rs. 190 crores will come from fuel stations. You see the integrated EBITDA margin will be around 6% to 7%.

Moderator: Thank you. We will take the next question from the line of Siddharth Sahu from DWF. Please go ahead.

Siddharth Sahu: Just one question because most of the questions has already been answered. What are the plans of your JV partner to increase stake is there any visibility right now or is that even on the cards in the near future?

Sanjeev Jain: Yes Siddharth, it is a little bit confidential between both the partners but what I can tell you with confidence that Gati will remain the majority partner forever.

Moderator: Thank you. Next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Sir, if I look at your presentation on the website the Slide #51 talks about FY14 revenue of about close to Rs. 1480 crores and with a profit before tax of Rs. 91 crores whereas in the conference call you said right now that you are looking at PBT of about close to Rs. 55 crores in the current year so am I right on this number or is there any?

Sanjeev Jain: While slide number I am not sure, but you are correct I think the presentation which is on the website needs to be revised. In terms of revenue we will be extending our targets, so we will cross Rs. 1500 crores & in terms of PBT it will be around Rs. 55 crores Rs. 60 crores.

Rajesh Kothari: So basically you know earlier because I think this presentation was uploaded about 4 to 5 months back so where is the gap. The EBITDA margin which you were assumed at around 11% in that presentation and for the next year 12% how do you see the next year do you think this major change is because of the delayed signatory benefits or is it something more to that?

Sanjeev Jain: Because this presentation was almost a year back actually couple of things have not gone the way we have thought. Apart from the GDP growth declined as low as 4.8% when we were making this presentation we thought that GDP will be around 6% to 7%. Of course the synergy benefit did not accrue the way we have thought. DPH, diesel price hike, which was, most of it we passed the cost to the vendors, also had more than frequent round of diesel price hike. Then of course the project UDAAN also had one quarter lag in terms of accruing those benefits. So multiple things culminated that overall EBITDA margin we will have to estimate it less what we thought earlier.

Rajesh Kothari: And once this synergy benefits which comes on full stream how do you see next year FY June '15 what kind of EBITDA margins you think or you can attain once you have a full year benefit of synergy?

Sanjeev Jain: I think 2014 and 2015 the JV Company should have the EBITDA margin of around 12%. The overall EBITDA margin which is currently is in the range of around on consol basis around 8% so an improvement of around 10%.

Rajesh Kothari: And if I look at segment wise the shipping which is last year made losses of about close to Rs. 31 crores at PBT level so that loss of Rs. 31 crores till the time you do not able to sell it that will continue in FY14 am I right?

Sanjeev Jain: The loss will reduce to less than half, Yes. It should not be more than Rs. 15 crores this year.

Rajesh Kothari: So in that case then why you are looking at PBT of only Rs. 55 crores because Rs. 15 crores shrink will come from ship business alone so last year PBT say Rs. 32 crores so if I just add Rs. 15 crores on that itself?

Sanjeev Jain: In the shipping revenue will be around Rs. 25 crores with a PAT loss over Rs. 15 crores.

Rajesh Kothari: Correct. Rs. 31 crores was the loss last year, I am looking at PBT number, so last years there was a loss of Rs. 31 crores if that Rs. 31 crores reduces to Rs. 15 crores then there is a Rs. 15 crores swing just because of that so if I am looking at your total PBT of FY13 is about Rs. 32 crores if you just add Rs. 15 crores it is a swing in ship business that itself works out to close to Rs. 47 crores?

Sanjeev Jain: So we had a net profit of last year around Rs. 17 crores at consol level which should come in the range of around Rs. 40 crores.

Management: The shipping loss in the last year is Rs. 24 crores. It is the PAT loss which is at Rs. 31 crores.

Rajesh Kothari: And when you do the quarterly numbers so that includes each and every subsidiary or on the consolidated level whatever we are reporting because when I am looking at the segment wise on the consol number it says express distribution and fuel stations and other sales but I am not able to see the for example shipping is separate but the fourth one Kausar I am not able to relate so where that goes?

Sanjeev Jain: What you said?

Rajesh Kothari: See if I look at your segment wise quarterly whether it represents the complete picture on the consol level?

Management: Yes, it represents the complete picture. What happens is Kausar, freight forwarding, all these are consolidated in to EDSC segments. EDSC segment includes GKEPL revenue, international revenue, freight forwarding revenue and Kausar revenue.

Rajesh Kothari: Oh Kausar rate also included there, okay.

Management: Yes

Rajesh Kothari: So express distribution and supply chain includes Kausar revenue?

Management: And including the E-commerce revenue as well.

Rajesh Kothari: Yes, of course E-commerce and Kausar both, right?

Sanjeev Jain: Yes, exactly.

Rajesh Kothari: And your Kintetsu Express this also getting reflected in the same segment, am I right?

Sanjeev Jain: Yes of course.

Rajesh Kothari: Sir, and your return on capital employee perspective on your total size perspective if I look at next two years say FY15 where do you see your company from revenue perspective and profit perspective?

Sanjeev Jain: This year 2013-14 we should have revenue of around over Rs. 1500 crores and it should grow minimum 20% over that. Our return on capital should move over 10%.

Rajesh Kothari: And if the profit which you are looking at current year about Rs. 40 crores then next year debt should be?

Sanjeev Jain: Yes, the next year profit should be around Rs. 60 crores to Rs. 65 crores.

Rajesh Kothari: And the total CAPEX at the company level over next two years will be how much?

Sanjeev Jain: Our average CAPEX is around Rs. 20 crores per annum barring Kausar which will have a large CAPEX because of the cold chain warehouses so that is around Rs. 120 crores in the next 2.5 years.

Moderator: Thank you. Participants that was your last question I now hand the floor back to Mr. Kenin Jain for closing comments. Thank you and over to you sir.

KeninJain: Yes, Thanks to Mr. Jain and the whole team of Gati we are extremely thankful for your time and for patiently imparting the facts about the company. Thanks a lot sir and thanks to all participants.

Speaker: Thanks Kenin. We are equally thankful to you. Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us you may now disconnect your lines.