



“GATI Limited Earnings Conference Call”

May 10, 2013



MANAGEMENT: **MR. SANJEEV JAIN – DIRECTOR, FINANCE, GATI LIMITED**
MR. PETER JAYAKUMAR – SENIOR VICE PRESIDENT, FINANCE, GATI



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MR. VSN. RAJU – COMPANY SECRETARY, GATI LIMITED



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Moderator

Ladies and gentleman, good day and welcome to the Q3 FY13 Earning Conference Call of GATI Limited. We have with us today from the management Mr. Sanjeev Jain – Director, Finance, GATI Limited, Mr. VSN Raju – Company Secretary, Mr. Peter Jayakumar – Senior VP, Finance. As a reminder for the duration of the conference, all participant lines are in the listen only mode and therefore there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing * and then 0 on your touch tone phone. Please note that this conference is being recorded. I would now like to hand over the conference over to Mr. Sanjeev Jain. Thank you.

Sanjeev Jain

Good morning. I am Sanjeev Jain from GATI. I welcome all of you in this con call and I will brief you about the developments for this quarter.

This quarter ending March 13 has been full of action and important developments in the company. We would take you through the numbers of this quarter first and then discuss with you various developments of strategic nature in the organization. Our first discussion would be around the GATI consolidated numbers for this quarter. In this quarter, GATI closed at consolidated revenue of Rs.317 crore with an EBITDA of Rs.20.5 crore. The company revenue on a consolidated basis has increased by 23% year-on-year. However, there has been modest de-growth in this quarter on a quarter-on-quarter basis. This de-growth is linked with the slow economic growth in the country. The EBITDA has also come down from 9% in quarter 2 to 6.5% in quarter 3. The decline in EBITDA is primarily attributed to high costs in this quarter. Some of the exceptional costs have hit the EBITDA due to branding and certain other developments in the



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quarter. The PBT at the consolidated level decreased from 11.7 crore in the quarter 2 to 5.6 crore in the quarter 3. However, PAT has increased from a loss of Rs. 35 million in quarter 3 FY12 to a profit of Rs. 75 million in quarter 3 FY13. The PAT increased because of tax expense reversal in quarter 3 to the extent of Rs. 50 million. These are the consolidated financial numbers of GATI. Now, I will take you through the major companies of the Group. The flagship of the GATI group is GATI Kintetsu express Private Limited. This is a joint venture between GATI and KWE Japan where GATI holds 70% stake and KWE holds 30% stake. The revenue on a year-on-year basis for the same business segment has grown by 12% this quarter as compared to previous year same quarter. However, there is a modest de-growth on a quarter-on-quarter basis. The de-growth is to an extent of 2% as compared to Q2FY13. The operating cost of GKEPL has increased slightly resulting in to lower EBITDA. The whole company has gone through rebranding exercise in terms of repainting the fleet, changing complete signages in the organization. This cost of approximately Rs.50 million has hit the cost side thereby reducing the EBITDA of the Company.

The JV Company in terms of debt position continues to reduce its debt. When we formed the JV Company in the month of April 2012, the company inherited a debt of Rs.330 crore which now has come down to Rs.189 crore. At the end of quarter 2, the debt was to the extent of Rs.194 crore which has further come down to Rs.189 crore this quarter. The decline in debt has made a positive impact on the interest burden and has increased cash inflows in the company. Now, I will explain to you the financial highlights of GATI as a standalone entity. The company has made revenue of Rs.25 crore with the EBITDA margin of 12%. The EBITDA margins have de-grown by 8%. The



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operating revenue had de-grown by 8% compared to the previous quarter. GATI has now 2 businesses, ecommerce and the international freight forwarding business. In our e-commerce business, we have developed the capability to deliver 8,000 shipments every day and we wish to extend this capacity to 20,000 shipments by this calendar year end. In e-commerce, our revenue stand at Rs.6.8 crore compared to Rs.6.9 crore in the previous quarter. The quarter I number was Rs.4.1 crore. In fact, the e commerce business is the high growth potential business for company and has been growing consistently. We have signed some large accounts since last quarter and I believe this business will continue to grow significantly.

Our international business is freight forwarding business where we manage import and export in India and outside India. This business has shown significant growth of 30% on a year-on-year basis. Our next important subsidiary is GATI Kausar which is doing well. Our group is focused on developing GATI Kausar to make it an integrated cold chain service provider in the country. GATI Kausar, currently stands as the second largest refreezerated truck network in the country. The company's turnover for this quarter is Rs.11.64 crore. It has an EBITDA margin of 6% which has come down significantly in this quarter primarily because we added around 50 trucks in the last quarter. So, increase in interest as well as depreciation has impacted the overall profitability of the company. However, the year-on-year growth of GATI Kausar has been 11% and the company is doing consistently good performance on all fronts . Our next subsidiary is GATI Ship Private Limited which has now become GATI Ship Limited. The company has a turnover of Rs.73 million in this quarter as compared to Rs. 74 million. You are aware that we have scaled down our operations in GATI Ship. We had 4 ships out of which 2 ships we have sold in the



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last 2 quarters and we are now operating only 2 ships GATI Majestic and GATI Pride. There have been significant developments in GATI Ship which I will discuss a little bit later. Another important subsidiary for us are fuel stations. We have 4 fuel stations. These are parked into 4 of 100% subsidiaries and these businesses have grown by 8% compared to the previous quarter. Our next important subsidiary is GATI Import and Export limited. This company has also increased its revenue by around 1.5 times as compared to the previous quarter. It has been doing well consistently. GATI import and export has signed significant contracts with large chain of hotels and we believe once these contracts are operational, we will see a significant improvement in our financial performance. This was a brief summary of the financial performance of GATI as a consolidated entity and its various subsidiaries. Apart from the financial numbers, I will speak about various developments in the company in the last one quarter. We have done many important actions in this quarter. I will summarize these action points which happened in GATI and its various subsidiaries. Our most important development is that GATI board in its last board meeting approved Scheme of Merger of its five 100% subsidiaries. GATI and its subsidiaries applied to the AP High Court which has approved scheme of merger under section 391 and 394. Thus, 5 of GATI's subsidiaries which are 4 fuel station subsidiaries and one company Gati Express Distribution Ltd which holds the investment of GKE has been allowed to be merged with GATI. This merger is very significant. The merger has given us many strategic advantages in terms of streamlining our administrative costs and also allows us to reflect our investments in terms of true and fair value. GATI as a standalone company will become a stronger entity with a higher turnover. This will add almost Rs.175 crore/annual to GATI's existing turnover of around Rs.100 crore. It will also reduce our administrative costs and this will



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reflect the true value of our investments. Historically when we carved out the JV Company in the month of March 2012, the investment value of GKE was reflected in GATI books at Rs.35 lakh. When we benchmark this investment with the investment which KWE did in GKE, the valuation was much higher. This merger allowed by the honorable Andhra Pradesh High court has permitted us to value the investment in line with Purchase Method under accounting estimate 14 and the valuation based on the fair valuation done by very large reputed valuer , valuation comes to the extent of Rs.551 crore. This Rs.551 crore in GATI's standalone entity will enhance the value of investment and will also reflect in the reserve and surplus of the company. That's why GATI's stand alone balance sheet will be stronger to the extent of Rs.500 crore . Our next important development which is critical for the group is divestment of minority stake of 40% in GATI Ship in favor of HNI group who have got 40% stake of GATI Ship Limited from GATI at a total valuation of Rs. 20 crore. The consideration of 40% stake comes to Rs.8 crore. This group is important for us, Since they are committed to grow this business with us and add value to our business. This divestment is historical in nature. And this divestment will leverage our investment entering into new relationships to grow business to profitable levels. Next development in GATI Ship is operating partnership with ISL which is a Dubai based company. ISL is a subsidiary of Tata Steel.. Under this arrangement, ISL and GATI Ships have joined hands to ply our largest ship GATI Majestic on the west coast of India. Under this arrangement, GATI brings in the assets and the management capabilities while ISL brings the cargo and sales to these operations. Under this arrangement, while we get paid for our assets value, we also share the profits equally. Thus, whatever profit is generated out of this sector , 50% will be shared between GATI Ship and ISL. This is also an historic development for GATI Ship limited with the divestment and ISL



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operations which is going to commence by May end. We believe that GATI Ship is headed in the right direction and will be a profitable organization going forward .

Another significant development which the market has always been looking forward to is the commencement of power project. GATI Infra is a promoter driven company and GATI had a small investment in this company. This is a significant development that this power project has been commissioned. The plant has started generating power and it has been synchronized with the national grid. In the next couple of days a formal COD will be declared and then this power project will start getting commercial rate for the power generated by it. Thus, it is a very significant step in the history of the GATI Group. This will remove many fears we had about this power project and this is the first power project in the private sector in the state of Sikkim. This development is extremely happy news for the whole group. There are couple of other important developments in the group. GATI and its subsidiary have signed a strategic consulting assignment with IBM. IBM is the world's leading consulting organization. IBM and our JV Company GKE have signed a strategic consulting assignment on a long term basis which is outcome based. In this assignment, IBM/GKE have taken initiative to transform the operations of the JV Company. The fee is based on the outcome of the project. This is a 3 year long term relationship and if the outcome is positive , this could be a longer tenure contact. They are looking at improving the internal efficiency to significantly streamline our operations and the base EBITDA must improve by 2 – 3% on which IBM will be paid its fees. Thus, the IBM development is a unique consulting assignment in the country.



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A couple of other important initiatives on the quality side are being driven by our JV partner KWE. KWE has been helping us in the JV Company in terms of processes, in terms of quality initiative and they have brought a trainer to train our people across our entire network. Thus, GKE has taken up many significant steps in terms of improving the quality of operations. GKE has become member of TAPA certification. TAPA is Transportation Asset Protection Association. It is the best in terms of transportation quality certification. GKE has taken membership of TAPA. Two of our senior people have been trained in Singapore and now they are driving the TAPA certification in the entire company. We expect to see important locations to be TAPA certified in the next 3 – 4 weeks. TAPA certification helps us in terms of getting big clientele. So any multinational company who chooses its logistic partner, they look for whether the company is TAPA certified or not. Thus, the TAPA certification is going to help us a lot. For the supply chain division which is a part of GKE, the important news is that they have signed couple of big contracts. They have signed a large contract with a leading hotel chain in India. During the last quarter, it was at the MOU stage and now the contract has been signed and we will start servicing that hotel chain in the country shortly. This contract has a potential to become a Rs.100 crore per annum contract in the next 15 months. GKE also signed large contracts with Sharp and Ashok Leyland. We have leased around 2.5 lakh square feet in Chennai and these 2 customers are served out of Chennai. Thus we've had great developments that have been summarized along with the financial numbers and significant strategic initiatives in the company. Now I open the floor for any of your questions. Thank you very much.



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Moderator Participants, we will now begin with the question and answer session. We now take our first question from the line of Kavitha Vempalli from Nirmal Bang Securities.

Kavitha Vempalli On the express distribution business front, could you give us some more update about the current status of overall industry and why EBIT margins were lower in this particular quarter?

Sanjeev Jain Express distribution margins have grown less than what we anticipated. In fact it has de grown compared to quarter 2 while the industry has not de grown. The GDP growth is 5% and we believe that the industry is growing between 10 – 15% year-on-year. The year-on-year growth is good for the JV Company. However, the quarterly performance has not been optimal. There have been some down trading by some of our important customers and in terms of the profitability as I discussed that there is one time cost in terms of re-branding the whole company. The entire fleet of 3000 trucks has been re painted. The entire signage's all our 600 offices have been changed. This has hit us by 4 – 5 crore in this quarter. This cost has affected the profitability of the company.

Kavitha Vempalli So is this just a onetime cost and probably in the next quarter our margins must go up again?

Sanjeev Jain Yes. It is a onetime cost. We have taken full provision of this one time branding cost in this quarter and this cost is unlikely to recur in the next quarter and thus improved probability to that extent.

Kavitha Vempalli Sir, could you give us more details about this HNI group that has invested in your shipping business?

Sanjeev Jain This HNI group is based in Hyderabad. The company is Riba construction . They have joined hands with us. We have divested



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minority stake of 40% and they valued our company at 20 crore. Our entire investment as per the buyer's estimate got valued at Rs.20 crore and they bought 40% stake for Rs.8 crore. Through this partnership, there are certain rights to the partners, they will have one board members and will help us to drive this business to profitability.

Kavitha Vempally With this and the ISL deals which you have struck, in FY14 do you think you will be able to make the shipping business profitable?

Sanjeev Jain There are 2 aspects to this. We have got 2 vessels. Majestic is our largest vessel. Majestic will be now in the safe hands of ISL and GATI Ship team. Our vessel will ply on the Kandla –Cochin- Kandla route where there is significant availability of cargo. ISL has a lot of captive cargo. They use captive cargo for this operation. In this partnership, GATI brings its assets and management skills. ISL brings cargo. Apart from getting paid for the assets of our business, we also share the profits in these voyages. Thus, ISL is certainly a very significant step for us and this partnership of divesting 40% should certainly help the organization. As per our promise, we will decisively deal with the shipping losses by June 2013. We are moving in the right direction.

Kavitha Vempally Was the tax reversal of Rs. 5 crore pertaining to the cold chain business?

Sanjeev Jain Kavitha, what happened in the last year when we had KWE transaction You will recollect that the KWE transaction gave us a capital gain of around Rs.89 crore. We made an appropriate provision of taxation to take care of the tax payment. when we did this transaction of 40% divestment, this has capital losses. This capital loss has helped us to offset the capital gain and we have part of the provision that we have reversed, Other than this Rs. 5 crore reversal, our tax provisions in the



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books are more than adequate. But we believe that Rs.5 crore is a very safe provision to be reversed in this quarter and hence we have reversed Rs.5 crore because of this divestment transaction.

Moderator We can take the next question from Rohan Gala from Shubhkam Ventures.

Rohan Gala Sir can you explain about the developments in the merger of 5 subsidiaries and the impact it will have on the balance sheet on standalone basis?

Sanjeev Jain This is an important milestone. Our board in the last meeting had approved the merger of five 100% subsidiaries of GATI into GATI Limited. Four of the 100% subsidiaries carries one fuel station and one subsidiary GATI Express Distribution Ltd carried the investment of GKEPL. We applied to the court under section 391 and 394 to allow us to merge all the 5 subsidiaries back into GATI. When we made this application, we also applied to the court to allow us to use the purchase method to value these assets in the books of GATI. When you merge these subsidiaries back into GATI, the GKE investment which was at a cost price of Rs.35 lakh got a fair market value of Rs.551 crore representing 70% of GATI. Thus, when the Rs.551 crore came to GATI balance sheet it had impacted our investment on the assets side and it has also improved our reserves & surplus to the same extent. Thus, the GATI balance sheet is richer by around Rs.500 crore.

Rohan Gala GKE right?

Sanjeev Jain This is the JV Company we are referring to. Its full name is GATI Kintetsu Express.



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- Rohan Gala** On the provisions front, there was a tax reversal of Rs.5 crore. How much provision is still left to be provided?
- Sanjeev Jain** We made a provision of Rs.20 crore last financial year to take care of our capital gains. For the provisions we maintained in books of accounts, we made certain tax payments also. But this 40% stake sale in the GATI Ships had a capital loss to the extent Rs.64 crore. That capital loss was offset against the capital gain and to the extent of that we did tax payment and accordingly we reversed the tax provision to the extent of Rs.5 crore. We still maintain around Rs.15 crore in the same taxation provision which is still intact in the books of accounts.
- Rohan Gala** Can we still see some tax reversals from Rs.15 crores to be made going ahead?
- Sanjeev Jain** So in view of prudent accounting we have not reversed full tax provision to take care of any future eventualities but to be on the safer side, a minimum amount of Rs.5 crore has been reversed in this quarter.
- Rohan Gala** The debt has been reduced from 194 to 189. Can you just tell us how much will be our debt at the end of the year?
- Sanjeev Jain** The debt in the JV Company as on March 31st is Rs.189 crore. When we transferred the business to GATI Kintetsu in the month of March 2012, we had transferred loan to the extent of Rs.330 crore. Most of that debt has been repaid and we are now left with only Rs.189 crore in the JV Company and Rs. 181 crore in the parent company. Rs.181crore includes the foreign currency loan (FCCB) to the extent of Rs.124 crore and public deposit of Rs. 18 crore.



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- Rohan Gala** How do you see the Express Distribution segment performance in the coming quarters? Do you foresee the same level of growth or do you see any uptick in the growth and margin side?
- Sanjeev Jain** We believe that our growth has been less than what we had anticipated in this quarter. Our growth must certainly improve significantly in quarter 4. Our growth must be around 10 – 15% in quarter 4 and once we initiate the exercise of IBM, it should give fillip to our profitability. Hence our EBITDA margins and revenue growth should significantly improve in the next quarter.
- Moderator** We are going to take the next question from the line of Apoorva Mehta from KSA Shares and Securities.
- Apoorva Mehta** Can you tell me what amount of percentage do we hold in that hydro power project?
- Sanjeev Jain** In Hydro power, GATI investment is less than 13%.
- Apoorva Mehta** How much would it be in value terms approximately?
- Sanjeev Jain** We have not done the valuation exercise but it should have easily tripled . It would have gone 3x of our investment value minimum.
- Apoorva Mehta** What was our investment value?
- Sanjeev Jain** We invested Rs.18 crore.
- Moderator** We are going to take the next question from Chintan Seth from SKS Capital & Research.
- Chintan Seth** There is a tax reversal of Rs.5 crore that you have done in this quarter pertaining to the sale of stake in shipping business, where you have



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posted losses. Does it include any tax reversal investments in cold storage business because in the budget we had some benefits which can be reversed .i.e.150% of the investment in the capital in cold storage. Has the company done this exercise or not?

Sanjeev Jain

This tax reversal is purely from our earlier divestment transaction in the JV Company. If you recollect, we divested 30% stake in favour of Kintetsu World Express. Out of this 30% divestment, 10% shares were directly sold by GATI and for that 10% , we got consideration of Rs.89 crore directly in GATI. We made a tax provision of Rs.23 crore to take care of the tax liability . In this financial year, we got a capital loss out of sale of 40% for Rs.8 crore. This capital loss has been adjusted against the capital gain of the previous year and accordingly around Rs. 15 crore was found to be excess provision. Out of this Rs.15 crore, we have reversed the tax provision to the extent of Rs.5 crore. This reversal has nothing to do with Kausar as there is no reversal of tax here . This tax reversal provision is primarily because of the JV Company divestment by Gati .

Chintan Seth

So we had a similar kind of business has reversed because of their investments in cold storage business. I just wanted to know what is the implication, the industry is doing the tax reversal on their investment in cold storage and are we going to do the same in the year end period or how much investments have we made? How much investment have we made in cold storage business in current year FY13?

Sanjeev Jain

As far as tax is concerned, Kausar is a separate entity. There is no additional tax advantage available to Kausar other than if it makes capital investment, it will have higher depreciation and to that extent their tax liability will be lower. But that tax concession will not be available to GATI. GATI is a separate entity. Kausar is a 100%



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subsidiary. If there is a higher capital outlay, Kausar will get the tax rate not GATI.

Chintan Seth Another question regarding repayment of FCCB. What is the balance amount we have as of now in FY13 and what will be the end period estimate of the FCCB balance?

Sanjeev Jain This is \$22 million FCCB bond. In Indian currency, the value is Rs.120 crore. The bond is payable in December 2016. However, we have a right to prepay the bond in trenches. We have an understanding with the bond holder that if we can pay this bond before the due date, we are entitled for certain discounts. Thus, the bond is in fact due after 4 years but if we want to pay, we can pay it earlier also.

Chintan Seth So what is the current balance of the FCCB? How much is outstanding?

Sanjeev Jain The current balance in Indian currency is Rs.120 crore. This is fluctuating to the extent of FOREX variation.

Chintan Shah What will be the amount at the end of FY13 like in June '13? Are we going to reduce the amount or will it be in the extent of Rs.120 crore only?

Sanjeev Jain We believe that we should be paying around \$4 – 5 million in this quarter but this is subject to the regulatory approval. We have made applications to RBI, so depending upon the RBI nod, normally RBI discourages any prepayment before maturity but if we get RBI approval, we would pay \$4 – 5 million in this financial year.

Chintan Seth If we get the approval how much outgo will be there and what will be the balance?



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- Sanjeev Jain** We intend to pay \$4 – 5 million subject to RBI approval. Therefore, around Rs. 25 – 30 crore can be paid.
- Chintan Seth** So it will come around to Rs.100 crore?
- Sanjeev Jain** it will come to below Rs. 100 crore.
- Moderator** We are going to take our next question from the line of Mamuni Garg from Business line.
- Mamuni Garg** Just 2 – 3 queries. You said you have invested in 50 trucks in Kausar. What is the current fleet that you have and what is the level of investment and what are your expectations. Also, what is your growth expectation from the cold chain business?
- Sanjeev Jain** Our fleet size in Kausar is 205. Currently Kausar has refreezerated fleet of 205 which is up by 50 trucks in the last 3 – 4 months. We have made an investment of Rs.8 – 9 crore in the current year. There is a total outstanding debt of Rs.25 crore.
- Mamuni Garg** What is the percent that you expect the reefer business to grow. Do you expect Kausar to be involved in the hotel chain that you have signed for as a customer?
- Sanjeev Jain** Kausar is our potential business and important business, it is a flagship company of the GATI group and the entire focus is to develop e-commerce and Kausar business in the parent company. Kausar has been growing consistently over the last 4 years by around 30% while the growth in the quarter 3 has not been as expected. But we believe that Kausar should grow in the next quarter by minimum 20 – 25%. Kausar has all the intent to be in the cold storage business. We intend to set up 2 warehouses in this calendar year.



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- Mamuni Garg** And where would they be located?
- Sanjeev Jain** The geographical location will be Delhi and Mumbai. So we have identified 2 locations near Bhiwandi and we have another location near Gurgaon which is at Pataudi Road.
- Mamuni Garg** Could you tell me about how your contracts are getting adjusted as per the recent hike of 50 paisa or below Rs. 1? How is it that impacting your company?
- Sanjeev Jain** This is a part and parcel of our operating cost which we have built in contract of DPH high in every contract which we have signed with the customer. We do not sign any customer these days without the DPH clause. Whenever there is a hike, we pass on this DPH hike to our customer in-line with a defined formula. If there is a diesel price hike then we go to the customer and there is a DPH meter. According to a formula, the DPH hike is passed on to the customer. Most of the customers accept it because they have signed the contract. But there are some big customers who can negotiate. There is always a spirit of give and take and we have to agree mid-way in some cases. Thus the organization is insulated from DPH hike.
- Mamuni Garg** There were reports of the nature that if the hike is below Rs.1 because of the supply in the trucking market, companies are finding it difficult to pass it on. Is that taken care of in your formula that you have with your customers? Is there such a limit that only if there is a hike of beyond this percent would you be passing it on? Is there something like that or is it a clear cut formula that at any time there is a revision, you would?
- Sanjeev Jain** While the formula is that any DPH hike can be passed on but for practical reasons if the hikes are of a small magnitude, it is practically



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difficult to approach customers time and again. Passing on the DPH to the customers every month is not possible. So whenever there is a significant hike, we negotiate with the customer and pass on the entire hike. But it is true that if there is a small hike then we do not approach our customers each time.

Moderator We are going to take the next questions from the line of Srihari Seshadari from Sundaram Mutual Funds.

Srihari Seshadari What will be the stake in different subsidiaries that contribute significantly? I would also like to know how the e-commerce business is placed? What is the contribution of e-commerce business in the current revenue and how do you expect that to grow in a period of time? What would be the margins in that business?

Sanjeev Jain While I have followed the question on e-commerce, can you repeat the first question?

Srihari Seshadari I would like to know what would be the stake in some of the major subsidiaries which contribute to GATI significantly?

Sanjeev Jain I will come to your first question on e-commerce business. E-commerce business is a potential business for us. This potential is in line with what is happening in e-commerce space. Our buying habits are changing, there is lot of buying happening through internet and teleshopping and we are the beneficiaries of the trend because we have the largest network after India Post. We have also developed the unique capability to handle cash on delivery, COD. Cash on delivery has been a problem in the country. GATI has experience of a decade to handle cash on delivery. We are a combination of a delivery network as well as an organization which has successfully handled COD for the



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large retailers. We cater to many big names in the industry like Star CJ, TV18 etc. They are all our customers since many years. E-commerce is a focused area for us. The current base is very small. Our current revenue run rate is Rs.3 crore per month. This financial year '12-13 we would have a revenue of around Rs.25 crore but our budget for the next year is expected to be in the range of Rs.90 – 100 crore because our base is small.

Srihari Seshadari What kind of margins would we be looking at initially?

Sanjeev Jain Margins are much better than in the distribution business. While our distribution business is around 11% EBITDA margin, E Com is above 14 - 15%, since we get additional charge for COD. In COD , there is no additional cost to the company but the additional service charge is available for handling COD.

Srihari Seshadari How is the industry expected to grow? Do you have any survey of the industry size and how do you expect you to grow over next 2 – 3 years in this area?

Sanjeev Jain In the parent company, our focus is on e-commerce business. Industry grows significantly. I don't know whether I have the numbers off hand but for us it is one of the biggest opportunities. E-commerce should continue to multiply, not in terms of double digit, it must double the revenue every year .

Sanjeev Jain What is the structure of the company? How does the revenue, contribution come in from the various subsidiaries?

Sanjeev Jain I will give you the structure of GATI. GATI is the parent company under which there are subsidiaries. The most important and the largest subsidiary is GATI Kintetsu Express Private Limited in which GATI



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holds 70% stake. Our second important subsidiary is GATI Kausar which is a 100% GATI subsidiary. Our next important subsidiary is GATI Ship limited where we now hold 60% stake. Then we have GATI Import & Export Limited where we hold 100% stake. Apart from that, we had 4 fuel stations which are 100% subsidiaries. I just briefed you that all these fuel station subsidiaries have been merged with GATI. So our subsidiarization has been reversed. Then we have a 100% subsidiaries in Asia pacific. In the Asia Pacific, we have 4 companies. They are held through a holding company in Singapore. We have operations in China, Thailand, Honk Kong, and Singapore and all these 4 Asia Pacific subsidies are held through holding companies. This is GATI's current structure. The two businesses, e-commerce business and freight forwarding business are a part of the parent company. These are the business divisions of GATI Limited.

Moderator We are going to take a follow up question from the line of Kavitha Vempalli from Nirmal Bang Securities.

Kavitha Vempalli What is the consolidated debt position and cash position as of 31st March?

Sanjeev Jain Our debt in the JV Company is Rs.189 crore as on March 31st. Our debt in GATI is Rs.184 crore.

Kavitha Vempalli What is the cash position?

Sanjeev Jain In the JV Company we have cash of Rs.25 crore which comprises of deposit of Rs.10.5 crore which is meant for upgrading our facilities. This FD can be operated jointly by both the partners to upgrade any of our warehousing facilities. We have cash of Rs.25 crore in the JV Company and around Rs.10 crore in GATI.



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Kavitha Vempalli What are the CAPEX plans for the next year?

Sanjeev Jain In the last 9 months ,we had a CAPEX of around Rs.25 crore primarily in fleet of around 150 trucks , and we have also made significant investment in technology. We are buying Tablets for all our business partners and GATI employees -. There is a large investment going in the technology upgrade and as briefed that we want to invest in the Kausar cold chain business. That investment is around Rs.150 crore in the next 3 years.

Moderator We are going to take the next follow up question from the line of Ms. Garg from Business Line.

Mamuni Garg I would like to be explained about the IBM contract that you have entered into? Could you just elaborate on how exactly it will pan out because what you are talking about is an outcome based and 2 – 3% improvement in EBITDA over 3 years. How does it work?

Sanjeev Jain It is an important contract for us. GATI and IBM were working for the last 6 months to arrive at an outcome based consulting assignment. IBM conducted detailed due diligence before taking on the assignment and on 31st March, 2013 we signed the contract. In this contract, IBM have agreed for an outcome based assignment where 70% of fees will come out of the initiatives which will improve the EBITDA from the base EBIDTA . There is base EBITDA agreed, IBM believes that it can increase it by 3 – 4%, they get 70% of the fees out of the improvement in the EBITDA. 30% of the fees is fixed which will take care of their resource cost . IBM has identified couple of initiatives of efficiency improvement largely in our operations and people productivity. kick of meeting is scheduled on the 13th. IBM has identified 10 consultants and GATI also has equal number of people. Both the teams will work



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together and significant planning is going on after which we start implementing these initiatives. Thus, we hope that in the next 3 years our EBITDA improvement should happen by a minimum 1.5 to 2% which is a realistic assessment while IBM has a better feeling that they can go up to 3%.

Mamuni Garg Do you plan a CAPEX of 150 crores in Kausar over the next 3 years?

Sanjeev Jain Yes.

Mamuni Garg How much capex will be incurred in the next year?

Sanjeev Jain This CAPEX planning will happen through the infusion of growth capital. We are looking for a growth partner in our cold chain business, In this calendar year, we want to set up two warehouses in Delhi and in Mumbai and we want to set up 10 warehouses in the next 3 years.

Mamuni Garg What kind of partners are you looking at? Primarily investors or is it a company which already have such operational warehouses?

Sanjeev Jain We are looking for a partner who is already in the business and who can add value in the business apart from the capital infusion.

Mamuni Garg And by when do you expect this to be finalized?

Sanjeev Jain We have already given the mandate. The search is on. We hope in the next 4 – 6 months, this infusion should be completed.

Mamuni Garg In one of your earlier quarterly calls you had mentioned about increasing your focus on rail based operations. Any update on that front?



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Sanjeev Jain Railway is our major focus area. In fact we are the largest player in the parcel train segment. Our revenue from railways parcel train is over Rs.100 crore in the last year and we want to grow this business by 35% year-on-year. Railway has been focused on diverting the road transportation into rail. This is efficient in many ways apart from fuel efficiency, transit time advantage. Our team is very closely working with the department for innovating new products. We are also planning to have our own parcel train We believe that this segment will provide fillip to our parcel train business and this will become a dominant business within the GATI Kintetsu business.

Moderator As there are no further questions I would now like to hand over the conference to Mr. Sanjeev Jain for closing comments. Thank you.

Sanjeev Jain Thank you very much to all the participants. Thank you for sparing the time for us. As discussed, there have been significant developments in the last quarter. We hope that our growth momentum should increase further in quarter 4. GATI Ship must become profitable and we hope that in '13 - 14 year must yield all the benefits of our initiatives which were taken in the year '12 - 13. Thank you very much and I sincerely commit that we will keep on improving the performance of the organization and keep on giving good news to our analysts. Thank you very much for your cooperation.

Moderator Thank you sir. On behalf of GATI Limited, that concludes this conference call. Thank you for joining us.