



“Gati Limited Q4 FY13 Earnings Conference Call”

August 1, 2013





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MODERATORS: MR. SANJEEV JAIN – DIRECTOR FINANCE, GATI LIMITED
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MR. VSN RAJU – COMPANY SECRETARY, GATI LIMITED
MR. ANANTHA – GATI LIMITED.



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Moderator Ladies and gentlemen, good day and welcome to Gati Limited Q4 FY13 Earnings Conference Call. We have with us today on the call, Mr. Sanjeev Jain – Director, Finance, Mr. Peter Jayakumar – Deputy CFO and Mr. VSN Raju – Company Secretary. As a reminder for the duration of this conference, all participants’ lines will be in the listen only mode and 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjeev Jain. Thank you.

Sanjeev Jain Good morning. Thank you very much for attending this call. It is a pleasure to connect with you again on the occasion of our Annual and 4th Quarter financials . We are happy to inform that we have ended our financial year 2013 on a happy note despite a turbulent economy. Many of the business objectives that we had set in the beginning of the financial year, we have been able to achieve them successfully. Yesterday, we had the Board meeting of Gati Ltd. The Board has approved the financial



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statements for the quarter and year ended June 30, 2013. The financial statements in the prescribed format are available on our web site and we have already intimated the same to the stock exchanges. Before I take the financial performance at consolidated entity level and each of the entity, I wish to share some of the highlights of quarter. Starting from our flagship company, Gati-Kintetsu Express Private Limited, I wish to state that we have successfully completed the first anniversary of our partnership with KWE, Japan. Our relationship is stable and getting cemented day by day. KWE is contributing in many ways apart from capital infusion. They are driving quality and process improvement initiatives in the company. The JV Company has performed very well. It has declared its maiden dividend amounting to Rs 120 million in the first year of its operations and the synergy benefits have started flowing to the company. In quarter 4 alone, it added Rs 30 million in the revenue. We have signed couple of large Japanese customers recently due to the synergy benefit. We signed Sharp, Idemitsu, Sony, Emerson, NTN, Pioneer. They all are large Japanese companies who are doing business with KWE India. Because of our association with KWE, we could also sign



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these customers for our JV company. The synergy pipeline is thick and we expect that the synergy benefits will flow in a more visible manner from quarter 2 onwards of this financial year. As we discussed in our last call, the JV company has signed up with IBM for taking up business transformation exercise what we internally call “Project Udaan”. The “Project Udaan” had kicked off in the month of May. Significant cost saving opportunity has been identified and pilots are being run. We expect that a minimum saving of Rs 200 million should flow to the JV company from quarter 2 onwards, given the numbers are for the full financial year. Coming to Gati Limited, Gati has maintained its consistent dividend track record. Yesterday Board recommended a dividend of 30% which is in line with our history. Last year, we had given 55% total dividend which had a special dividend on the successful closure of our joint venture. Hence, this year we maintained 30% dividend. Merger of our 5 subsidiaries was successfully completed through a court approved scheme. With regard to Gati Kausar, the divestment process is on. Currently we are in discussion with few global companies and we have set a target that divestment in Gati Kausar should be completed in this



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financial year. Gati Ship Limited has started its operating partnership with ISL which is a subsidiary of Tata Steel. Four voyages have been completed on Kandla – Cochin sectors and the last 2 voyages are with full capacity. We believe that our partnership with ISL will be more stable and we can look for similar opportunities on the East coast of India. Further Good news is that first power project initiated by the promoters in the state of Sikkim has successfully been commissioned and COD was announced. It is generating power at full capacity and GE has infused equity at SPV level. The process of de-pledging of shares of promoters has started and We believe that the process of de-pledging should have significant progress in this calendar year. Now I will give you highlights of the financials of each of the companies, starting from Gati Consolidated. Gati Consolidated has a turnover of Rs 1289crore, close to Rs 1300 crore with an EBITDA of Rs 100 crore. This is a significant improvement in growth compared to last year. Compared to quarter 3, in quarter 4, we have grown 1.78%. As compared to quarter 4 of last year, our revenue has increased by 11% and when we compare the full year results, the revenue growth is 7%. To summarize the numbers again at group



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level, our turnover is Rs 1289 crore and our EBITDA is over Rs 100 crore in this financial year. In terms of percentage of growth, the revenue growth is 7% on a Y-o-Y basis. Compared to the previous year, EBITDA increased by 10% which moved from Rs 911 million to Rs 1001 million. In the current financial year, PAT has increased significantly by over 200%. In terms of FY13, PAT has improved from a loss of Rs 132MN to profit of Rs 172 million. The improvement of over Rs 30 crore is primarily contributed by significant reduction in the interest cost and depreciation due to sale of 2 ships in Gati Ship. The interest cost got reduced since we had significant amount of repayment of loans and 2 vessels we disposed in Gati Ship, leading to reduction in depreciation. As you are aware that Gati has merged all its fuel stations in the last quarter, thus Gati's stand alone performance of quarter 4 is Rs 762 million of revenue with an EBITDA of Rs 88 million which works out to 12% in quarter 4. Hence the full year revenue of Gati stand alone is Rs 169 crore with a EBITDA of Rs 242 million. In Gati stand alone, we have removed the impact of the fuel stations because fuel stations revenue came only in quarter 4. So, Gati's stand alone, from business point of view which is primarily the



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E-commerce and the International business, in quarter 4, we had a revenue of Rs 299 million and EBITDA of Rs 81 million. The revenue of E-commerce and International business grew by 49% from quarter 4 of last year to quarter 4 of current financial year. It has a marginal growth of 1% over quarter 3. The marginal growth is because the international business had some decline in the revenue while E-commerce business registered 88% growth. The change of mix in Gati's stand alone between International business and E-commerce business is changing positively. So far it was 70% international business and 30% E-commerce business which is now changing to 63% International and 37% E-commerce business. This shows that our E-commerce business is growing by leaps and bounds. Our fuel stations have been independent subsidiaries so far. There were 4 independent subsidiaries which have been merged into Gati Limited with effect from 1st April 2013. Taking fuel stations as a separate division for the full financial year, we had a turnover of Rs 167 crore with a EBITDA of Rs 22 million. It has a growth of 32% year-on-year compared to the quarter 4 of last year and the revenue on year-on-year is 14%. Moving on to our flagship company Gati-Kintetsu



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Express Private Limited, the performance of quarter 4 vis-à-vis quarter 3 and the performance of the full year. The quarter 4 revenue of Gati-Kintetsu is Rs 239 crore with an EBITDA margin of Rs 237 million. The growth is 9% compared to quarter 3. Year-on-year revenue growth is 21% and EBITDA margin increased by 2%. The significant highlights of the performance of our JV company is that its finance costs got reduced by 48%. It came down from Rs 112 million in Q4 FY12 to Rs 58 million in Q4 FY13 which is a significant reduction due to debt reduction from Rs 3300 million when we formed the JV company which currently stands at Rs 1890 million. The performance of GKPL in the current context of economy is decent. Considering the fact that this was the first full year of GKPL operations and where it incurred one-time cost of around Rs 50 million which comprises of the re-branding exercise including re-painting of vehicles, uniforms, signage's and the complete transition in terms of bringing the business to the GKPL, it has been a good year. Our next entity is Gati Kausar. Gati Kausar is in cold chain operation. It is the second largest refrigerated trucking network in the country and is growing well. We have set high growth plan for our cold chain business in



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terms of placing it as integrated cold chain solutions provider in the country. We were looking for strategic investment and we are preparing the company for a high growth trajectory. The financial performance for the quarter of Gati Kausar is Rs 130 million revenue with an EBITDA of 10%. For the full year, Gati Kausar has revenue of Rs 459 million with a growth of 14% and EBITDA of Rs 49 million. The EBITDA marginally came down compared to the previous year since we introduced new fleet of 60 trucks which has one time operating costs associated with it and its deployment has happened over a period of time. Now, growth will reflect in the revenue in the quarter 1 and quarter 2 of the current financial year. The current fleet size of Gati Kausar is 213 vehicles. All the vehicles are VTS enabled with real time tracking equipment and are catering to the top notch customers in the country. In Gati Ship Limited, we have been able to significantly reduce its losses. However, the losses are still there. The two developments in Gati Ship are that we divested 40% stake in Gati Ship. Now Gati holds only 60% stake and we have developed operating partnership with ISL which is a subsidiary of Tata Steel. The overall performance of the last 12 months of Gati Ship are as



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follows : The revenue was Rs 254 million with an EBITDA loss of Rs 94 million. It has come down as compared to last year. The comparative figures are not available since this company became a separate entity with effect from 1st April 2012. Before this, it was a division of Gati Limited. Our next important development is about the movement of debt in the company. The debt is coming down . We are gradually reducing the burden of debt, which is reflected in the debt position of the Gati and GKPL, and its also demonstrated in the interest burden reduction over the previous year. The debt in GKPL has come down from Rs 218 crores of last year, that is as on 30th June, 2012 to currently Rs 189 crore. In Gati Limited, the debt stands at Rs 189 crore which has an FCCB component of Rs 132 crore. This means that the FCCB which is due for retirement after 4 years– December 2016 thus effectively the debt of Gati Limited is Rs.57 crore, out of which there is public deposit of Rs 19 crore. So, effectively debt borrowings are to the tune of only Rs 38 crore. Gati Limited's leverage in the balance sheet is now modest. There are certain other developments with regard to the credit rating . Our JV company has been rated in the A category. We have received rating of A minus from 2



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rating agencies. Consequent to the improved ratings of GKPL, some of the bankers have reduced the rate of interest which is reflected in the cost. Our interest burden of GKPL has come down significantly. We are also working in terms of bringing in more efficiency in the working capital management of the company which will further reduce the interest burden in the JV company. So, this was an update on the financial performance of all the group entities at a consolidated level & the debt movement. We now request you to raise your questions if any and we shall answer those questions.

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 Kavita Vempalli from Nirmal Bang Securities.

Kavita Vempalli

Sir, we have got a couple of questions. First of all, if you could give us some update on the overall economy and within that Gati KWE has grown by almost 9% on a Q-o-Q basis. Could you give us more update on what exactly the JV company is doing to grow this aggressively?

Sanjeev Jain

If you see the economic growth last year, it was very turbulent economy. In fact the GDP grew at less than 5%



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and that is why, the JV company grew by 9%. The growth target was higher but growth in GKPL was not optimal. We could have done better. We have taken view on a quarter-on-quarter basis. The last quarter has been much better as compared to quarter 3. In quarter 3, we had actually bottomed out. Our performance in quarter 3 was the most modest in the entire financial year. In quarter 4, we have recovered significantly and we have seen the July numbers, July numbers are on track. We believe that the current financial year will be better and we are targeting growth between 15% – 20% in the current financial year. So, our current financial year should be better both in terms of top line and bottom line. The top line what we are envisaging is that the economy should improve and it should grow by nearly 6%. That should help us. We are putting special focus on new business development (NBD) for which we have taken certain initiatives. Our synergy benefits were modest till quarter 4. In view of the rich pipeline of new customers with KWE, we believe that we will be able to sign those customers and that will reflect in our revenue growth going forward. On EBITDA margins, which were around 10% for the year, we believe that it should improve by at least minimum 2 notch percentages



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in view of higher growth rate and also our transformation exercise which we are doing with IBM under “Project Udaan”. So, the IBM team and our team are working under Transformation Office. They have identified couple of initiatives in terms of bringing down the operating cost and while the internal targets are high, the team has committed that they must reduce at least Rs. 200 Million in operating cost in the current financial year. You will find that the operating cost has come down from quarter 2 onwards of this financial year. Thus our outlook is optimistic in the current financial year and the year ‘12-’13 is behind us.

Kavita Vempalli Apart from the new Japanese customers which you are adding, are you also seeing any kind of uptick in your market share due to the new partner?

Sanjeev Jain We are the market leaders. We have seen the market analysis. The express distribution market is around Rs 5000 crore. There we are the leading player with 16% market share. Around 40% market is dominated by the unorganized sector. We are targeting on how we can penetrate into the unorganized sector and grow the revenue. I am sure that we will continue to maintain our



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leadership and improve our market share from current 16% to up about 20% by penetrating more into unorganized sectors.

Kavita Vempalli Sir, secondly on the shipping business, in the current quarter our revenue was Rs.4 crore and we have made a loss of Rs.3 crore. When do you think this will become a positive figure?

Sanjeev Jain Yes. This is a valid concern, Kavita. Quarter 4 we had lesser revenue because the vessel Majestic which is owned by Gati Ship Limited is now plying between Kandla and Cochin was out of operation. It was on a dry dock for almost 2 months. So, one vessel in fact had only one voyage in the entire quarter. Now, the ISL operations have started. The same ship has completed 4 voyages, till the month of July and the last 2 voyages were at 100% capacity. We believe that in quarter 1, the losses should reduce significantly and from quarter 2 onwards we should not incur any business losses. In fact, we had board meeting of the Gati ship where the business team made a presentation. They are hopeful that in this financial year, we should not incur business losses. Majestic, the vessel which is on the West coast should



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produce adequate profit in such a way that we should offset the losses of another vessel which is Gati Pride. So, the overall position of Gati Ship Limited should be that we should enter into a profitable revenue. The other development is that we have divested 40% stake and our search for further dilution is still on.

Kavita Vempalli Sir, just a little more clarity. You said there are 2 vessels right now, Majestic and Pride? And as of now, in the current, I mean Q4 quarter, was one vessel on dry dock?

Sanjeev Jain Yes.

Kavita Vempalli So, in the current quarter, you are saying both the vessels are running?

Sanjeev Jain Yes. In the current quarter, both the vessels are running. Majestic running on the West coast in partnership with ISL which is a Tata Steel subsidiary and the Pride is running on the East coast which covers Chennai, Port Blair and Yangon. So, the quarter 1 revenue of this financial year will be better as compared to quarter 4 of last year's.

Moderator Thank you. We have the next question from the line of Vikram Suryavanshi from Antique.



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Vikram Suryavanshi Sir, can you highlight your expansion in capital expenditure this year and is there any change in future expansion plans?

Sanjeev Jain Yes. We have a CAPEX plan of around Rs. 60 – 70 crore in the current financial year. The CAPEX will be spread over couple of our entities. We are constructing our head office in Hyderabad and then there are 3 more new hubs which is an extension of our capacity in different metro cities and Tier-2 cities in the country. Thus significant CAPEX will happen in Gati and GKPL, in terms of expanding our reach and extending our current infrastructure. The second important area of our CAPEX is in Gati Kausar. We will continue to expand our current size of fleet which is 213. It can go up to 250 and then we also want to put up at least 2 cold chain warehouses in Gati Kausar. Our CAPEX plan will be in the range of Rs.60 – 70 crore and this will also include some part of our expenses on automation .

Vikram Suryavanshi So, out of that 60, how much will be in Gati Kausar?

Sanjeev Jain Gati Kausar CAPEX would be in the range of around Rs. 20 – 25 crore.



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Vikram Suryavanshi And how much was done in this year, if you look at the total we spent Rs.80 crore in the company?

Sanjeev Jain Yes. Last time, we spent around Rs.15 crore in Gati Kausar. In fact, we added around 58 new refrigerated trucks in the Gati Kausar field.

Vikram Suryavanshi Okay. And our full plan was around Rs.50 crore last year. Have we completed it yet?

Sanjeev Jain Yes, so last year, we had around Rs.45-50 crore of CAPEX which includes both Gati Kausar's fleet expansion and in GKPL in terms of buying new trucks, around 140 trucks we bought in GKPL. We have spent around Rs.4 -5 crore in automations. Then we continue to spend some money in terms of upgrading our existing facility in term of buying new MHEs.

Vikram Suryavanshi And in terms of growth rate, what kind of growth rate are we expecting in terms of all the different segments or business?

Sanjeev Jain In '13-'14, we are expecting a minimum growth of 15%, internally we are targeting between 15% - 20%. We hope to achieve minimum of 15% growth in the JV company, Gati-Kintetsu Express. We are targeting around 25% growth in



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Gati Kausar. And our overall growth in the whole of Gati Group should be in the range of around 20%.

Moderator Thank you. We have the next question from the line of Mamuni Das from Business Line.

Mamuni Das I just wanted to check with you on your divestment plans in Gati Kausar. Could you please elaborate –you set a deadline of this year and it is for a strategic partner. Could you just say what your intent is in terms of whether you have a) Defined a timeline b) Intent in terms of whether you intend to continue be a majority or a minority partner, like in Gati Ship?

Sanjeev Jain Gati Kausar is our growth area. In the food chain, we are positioned on cold chain and we want to change Gati Kausar from a refrigerated trucking company to an integrated cold chain solutions provider in the country. Today it is the No. 2 company, after the Snowman and we want to make it a pioneer and leading organization in the country. To fulfill this objective, we are looking for a strategic partnership in Gati Kausar, who infuses capital and also infuses the technical expertise in Gati Kausar. As I briefed earlier, we have already given mandate to a reputed investment banker .. As on date, we are in



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discussion with two multinational companies . We believe that proposed infusion should be completed in the next 2 quarters. So, you can expect that by December end, our strategic initiative should be over and based on our current discussions, we are hopeful that these timelines are realistic. To answer the second question, Gati will always remain the majority partner. Gati will drive the business to fuel the growth of Gati Kausar. Anybody who comes in as a strategic partner will certainly be a minority partner.

Mamuni Das

Sir, this strategic partner you are talking about, are these again are they specifically large logistics companies with experience in reefer cold chain business or are they pure reefer companies internationally?

Sanjeev Jain

While we are talking to more than one strategic partner but our preference would be somebody who already has an expertise in the cold chain business. We prefer a partner who apart from infusing capital also helps us in the growth of the business by infusing the global technology and experience.

Mamuni Das

Sir, the second question was about the E-commerce business where you said you were growing by leaps and



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bounds. Can you please explain because from what we gather, the E-commerce business people in the logistics segment of E-commerce business are finding it very difficult to operate given the tough demands of the customers and also the industry is in a state of flux. So, could you please explain if that is a profitable area as of now or how is it that Gati is performing there?

Sanjeev Jain

Sure. So, what you are seeing that it is growing leaps and bounds since our current base is small. Last year in '12-'13, our total revenue size of E-commerce business was around Rs.26 crore and we are targeting revenue of Rs.65 crore in the current financial year. So, there is multiple time growth in this business. As far as the demand of the customers are concerned, I think it is a reasonable concern that the customers are demanding since the E-commerce logistic service providers are supposed to handle their cash on delivery (COD) . Gati has a decade of experience in managing cash on delivery. We have been doing cash on delivery successfully and currently we are serving large retail customers like StarCJ, and we have the relationship with these customers for many years. our plan is that we serve many global retailers. Some of them are in pilot mode currently . We have signed



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confidentiality agreements with these retailers . So, we will not be able to share the names but these names are large. If the pilots are successful, then we can have significant growth coming out of 1 or 2 customers itself. In E-commerce we have pan India reach. In fact our network is second largest to India Post. We have experience of handling cash on delivery which is difficult area for other service providers. The third is that many of the retailers have developed their own logistics network which is not a ideal and optimal solution. Most of them may find it difficult to support their own distribution network and in fact some of them are in a discussion with us as to how can they outsource their E-commerce distribution part to us. Gati has COD experience and Gati is expanding its network further. Today we have a delivery capability of 10,000 shipments per day. We want to expand it by December to 20,000. So, once we have this front-end network of bikes and delivery boys, we are sure that whatever target we are keeping will look quite modest.

Mamuni Das

Sir, you mentioned COD, Can you just explain how much of returns do you end up handling when you do E-commerce?



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Sanjeev Jain The industry today is struggling with the returns. The industry benchmark is over 25%. We are seeing that from customers, our returns are less than 10%. But, from few customers, it is more than 10% also. Our current year target will be to bring down the returns to the range of less than 10%. We are hopeful that we would be able to achieve these targets.

Mamuni Das Just an additional question. And when you handle returns for customers, you do bill them double for return charges or is it so that the return charges, you end up taking the hit. Is that how it is?

Sanjeev Jain The returns are equally painful in terms of efforts and they are billed to the customer. Some of these customers dispute that they will not pay the COD charges on returns since COD has not been collected. But there are few customers who are large ones and who have been able to negotiate where we do not charge only COD components on the returns but return charges are certainly billed since it is a cost to us. So, return charges are one of the revenue components of our E-commerce business.

Mamuni Das Sir, the other thing I wanted to check with you was since you have said that you already have such a large network



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and I am presuming that with such high returns, any plans to start locker services? I mean, if there are returns from people who are not available at home because a lot of returns would be of those nature also.

Sanjeev Jain I take your suggestion. In fact we do couple of value-added services in our E-commerce business apart from making delivery and collecting cash. We have started making special packaging for our customers but lockers is something we have not thought of. Currently returns are given back to the customers. But this is a good suggestion and I will provide this suggestion to our business team. Thank you very much for suggesting this.

Moderator Thank you. We have the next follow up question from the line of Kavita Vempalli from Nirmal Bang Securities.

Kavita Vempalli Sir, I missed a few data points. First of all, what is the current fleet size of Kausar?

Sanjeev Jain Our current fleet size is 213 refrigerated truck networks which is basically a truck with the container and AC plant.

Kavita Vempalli Okay and secondly sir, your E-commerce revenue in the current quarter was Rs.8.5 crore?



- Sanjeev Jain** Yes that is for the current quarter.
- Kavita Vempalli** For the current quarter what would be the EBIT margins for the same?
- Sanjeev Jain** For the full year, Rs. 26 crore. In e-commerce, it is a good margin business. In fact our operating cost is less than 55%. The overall EBITDA margin in this business are above 20%.
- Kavita Vempalli** Okay, sir what was the EBIT margin in the current quarter? What is the EBIT in E-commerce in this quarter?
- Sanjeev Jain** 22%.
- Kavita Vempalli** Okay and lastly your other Income of Rs.6.5 crore, what was that sir?
- Sanjeev Jain** I will leave it to my colleague, Anantha, he will explain it to you.
- Anantha** You are talking of the consolidated numbers?
- Kavita Vempalli** Yes, consolidated - Rs.6.5 crore.
- Sanjeev Jain** It contains certain income on our foreign asset for exchange fluctuation gains.



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- Kavita Vempalli** The FOREX gain? The whole thing Rs.6.5 crore is FOREX?
- Anantha** Interest received and other dividend income.
- Kavita Vempalli** Can you just quantify each of them, sir?
- Sanjeev Jain** Yes. Kavita he will send you the exact details. But broadly it is the FOREX exchange gain on the foreign asset, then mutual fund, under dividend on mutual fund which for some time we parked our surplus funds in mutual fund so that is an income. And interest received on the loans given to subsidiaries.
- Kavita Vempalli** The business transformation process which you have initiated with IBM, is that process being planned for FY14 as well?
- Sanjeev Jain** Kavita, this project is a long term project. Our partnership with IBM is for 3 years and it can go beyond 3 years as well. After 3 years, we will take stock and further renew if the outcome is as per our expectations and the whole initiative is outcome based. If it can add to our additional EBITDA, then we share the larger portion of the fee in terms of sharing that EBITDA.



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Kavita Vempalli Okay. So, now you have said you have started this from May. So, in these 2 months has some kind of benefit has already come?

Sanjeev Jain Such initiatives takes time in terms of analyzing the data, running a pilot, taking sign off from each of the process owners. the project kicked off on 13th of May, 2013 after that the team has done the analytics. They have gone to the field to take the sign off and then present a complete plan of roll out of the initial initiative and in the next couple of weeks we start roll out. So, you can see some quantum of benefits showing from quarter 2 onwards. But for the full year, the target of reducing the operating costs by Rs.20 crore is a optimal target and we are very confident that we shall be able to achieve that target.

Kavita Vempalli So this Rs.20 crore will not be evenly spread out in the next 3 quarters? So, most of it should be seen starting from...

Sanjeev Jain Quarter 2 onwards.

Kavita Vempalli Okay and what will be the cost for the same?

Sanjeev Jain It is a contract between us and IBM. It is difficult to divulge the commercial details but the larger part of their cost,



the fee is paid only when there is an outcome of the whole exercise. So, this is an outcome based initiative. **Kavita Vempalli** Okay. So, I was just wondering like in the coming quarters if we are getting some benefits, the output of the whole exercise, then we may also see some one-time cost which might affect the margins.

Sanjeev Jain There is no one time cost. Of course, the fee component is fixed and variable. But variable is too large. The entire cost, even the fixed cost will be covered from the additional EBITDA they add during this exercise. So, you will not see any additional burden of fees in the financials.

Moderator Thank you. We have the next follow up question from the line of Mamuni Das from Business Line.

Mamuni Das Sir, I just wanted to check with you on the synergy benefits that you spoke about. Could you just basically explain what are they spread across and how is it that, I mean, just elaborate a bit on the synergy benefits from your JV?

Sanjeev Jain So, the objective of this entire KWE transaction is 3 fold. One is the capital infusion which happened last year The second is sharing the processes of KWE and integration of



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those processes into Gati's operation. That process has also started. In fact, the KWE senior team based out of India is taking significant role in driving the quality initiative in the company. The third is the synergy benefit which is basically targeting each other's customers. So, KWE India has many global players whose freight forwarding business they are catering to. So, they are managing their import and export in and outside India. When these customers come in India, some company has to take care of their domestic logistics requirements in terms of the domestic movement of the goods and warehousing facility of those customers. So, we are expecting that KWE India's customers would be served by our JV company and that has started happening. In fact it took some time but now the process is on. In the last quarter, we signed few large large accounts. To name a few are Sharp, NTN, Emerson, Idemitsu, Encore, and Pioneer, all these customers have been signed. We saw revenue impact of around Rs.30 million in the last quarter. The pipeline is bigger. We feel that synergy benefits will continue to grow bigger and from quarter 2 onwards of this financial year, there will be more tangible synergy benefits which will directly reflect in our top line.



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Mamuni Das Okay. When you define synergy benefits, what you are looking at is, what you are taking into account is the customers that you have been able to sign because of their association with KWE and the revenue from those customers, is that what is taken into synergy benefits?

Sanjeev Jain yes. That is correct.

Mamuni Das Okay, sir, the process sharing and the benefits of that is not counted? Point number 2 bit?

Sanjeev Jain That we will see more into qualitative improvement in the organization. We are not factoring that implication in the P&L.

Mamuni Das Okay. Sir, the other thing, just wanted an idea on the general slowdown situation. A lot of customers would be wanting or would be driving for basically for lower cost logistics services. What is your feedback on those lines basically and what is it that you are doing because that would in a way ideally it should drive down your margins as well as top line. Do you see such demands in...?

Sanjeev Jain Yes, bona fide question but it has a very definitive answer. Gati provides the distribution services through multi – modal. So, we are clearly the leader in Road. We



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also provide through Air and we are distinctly number 2 in Air. We are number service provider in Parcel Train. In Parcel Train, our revenue is Rs. +100 crore. So, we are distinctly number one in Parcel Train. Then we also have the shipping capabilities. So, you are correct that you have seen in our Air business, some of the customers whom we were catering through Air, they have moved to Road. Some of the customers who have seen Road, they have moved to a lower solution with Gati Rail Solutions. Gati Rail Solutions Services is where we provide the lower cost solutions. So, if any customer who is price sensitive, we can accommodate in our current portfolio of products . Let us also note that there is 40% market in the unorganized sector. Many of those customers are looking for need to come out of the unorganized service providers because they cannot provide automation, track and trace , and high quality and trust which a company like Gati can provide. So, while there is a churn among the customers in a limited manner because of price sensitivities which we accommodate through our multi-model solutions of Rail, Air and Road and including Shipping, we expect more penetration into the unorganized sector So, while this is true for the entire



economy, we are much more flexible and capable to accommodate such churn in the customer base.

Mamuni Das Just to reiterate, what you said, so that I have understood it correctly. The Air business customers, when they seek a price sensitivity issue you move them from Air to Road and when those who are already in your Express Road segment, when they seek for the price sensitivity, you try and shift them to your Rail business, am I correct?

Sanjeev Jain Yes, this is correct. So, our multi-modal solutions give us this flexibility that we do not lose our revenue.

Mamuni Das Idea being that at least the customers are captured within the group.

Sanjeev Jain Exactly yes.

Mamuni Das And you also said on your shipping services that you are looking to start a service on the East side and you said that to continue you would intend to become a minority partner. Now, is there a first right of refusal with ISL on that? I mean is it going to be the same firm or is it going to be another company that comes in?



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Sanjeev Jain Just to clarify this point. We have an operating partnership with ISL, we do not have equity partnership with ISL. Currently Gati Ship and ISL are operating one vessel on the West Coast of India, Kandla to Cochin. We have our one vessel which is already operating on the East coast. We can explore a similar operating partnership with ISL on the East Coast of India. ISL currently do not have an intent to make equity partnership.

Mamuni Das Okay and what kind of cargo moves on the shipping on the coastal ship?

Peter J Kumar From Kandla to Cochin, we have lot of tiles movement . There is a huge tile market. So, all the boxes are largely from tile. Whereas from Chennai, what we move to Port Blair is basically all the provisions, steel, cement because Port Blair is an island and what we bring from Yangon is logs. Earlier it used to be pulses but we now bring logs and when the market opens up, it could also be pulses.

Mamuni Das What do you bring from Yangon? You said it is logs now?

Sanjeev Jain It was for logs, we import logs from Yangon. Earlier we used to bring pulses. Now, the pulses market is not that



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bright. So, we had converted our vessel in terms of bringing the logs into the country.

Peter J Kumar Which means we can carry breakbulk cargo or boxes.

Moderator Thank you. As there are no further questions from the participants, I would now like to hand the floor back to Mr. Sanjeev Jain for closing comments.

Sanjeev Jain Thank you very much for your participation. We will continue to engage with all the analysts and our investor community periodically and we are open to have dialogue on one-to-one basis. Thank you everyone. Thanks for the support.

Moderator Thank you sir. Ladies and gentlemen, on behalf of Gati Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.