"GATI LTD Q3 FY 2015 Results Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Gati Limited Q3 FY 2015 Results Conference Call, hosted by Ambit Capital. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal to operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Bhasin from Ambit Capital. Thank you and over to you Mr. Nitin Bhasin.

Nitin Bhasin: Thanks. Already we are about 7-8 minutes delayed in terms of logging for the call. I know everybody wants to hear from the management of Gati about the results. So over to Mr. Sanjeev Jain. Sir, over to you and your team from here, and Sir, your comments on the results.

Sanjeev Jain: Thank you Nitin. I am Sanjeev Jain – Director Finance and with me, my colleagues, Mr. Bala, Mr. Dhruv, Mr. Peter and Mr. VSN Raju. Thank you everybody, Good morning and a very warm welcome to the discussion of results of Q3 of FY 2014-2015. We are glad to connect with the investors and analyst community at the Silver Jubilee year of Gati's journey. Thank you for the continued interest in our company.

Our discussion today might include certain forward-looking statements and this must be viewed in conjunction with the risk that our business faces. Before we come to the development in Gati, it is important to see the economic environment in which we operate. The GDP growth in the country is still subdued but expected to pickup. The GDP growth is at 5.3% for December 2014; however, there is a strong positive sentiment for the revival of the economy. As per the recent estimate of the IMF, the GDP is expected to grow at 6.3% in the financial year 2015-2016.

Few positive signals clearly indicate optimism in the revival of the economy. We have already seen a surprise rate cut by the RBI a few days back and with crude prices expected to remain at lower levels through 2015, we believe this will be the first of many interest rate cuts proposed by the RBI.

The important aspect is the bill on GST, which has already been placed in the Lok Sabha, and it is widely expected that GST would be implemented from the beginning of the financial year 2016. Implementation of GST will ensure faster movement of goods and services, uniform tax regime, which will make transaction costs more competitive and this would make the logistic value chain more efficient, thereby benefitting organized express players like Gati in a significant manner.

On the e-commerce front, retail e-commerce sales in India are expected to grow by 45% to US$7.69 billion this calendar year. The Indian internet users expected to cross 350 million by June 2015. India will be second to China in terms of internet penetration and this will lead to more people shopping on e-commerce platforms. This growth momentum will continue to proliferate as seen globally, providing us enormous business opportunity. The e-tailing industry is valued at US$ 17 billion and growing at a CAGR of 35%. Major players saw investment commitment over US$3.5 billion during the year. Industry also saw the beginning of consolidation. While there is an increase in the number of individuals reaching e-Commerce platform for shopping, e-commerce spending by individuals also to go up to Rs. 10,000 annually in 2015 from Rs. 6,000 currently.

On the other side, dollar price has fallen to Rs. 63.3. It had some adverse impact on our results. The diesel price has been slashed four times since October, reducing the price by more than Rs.8 in the quarter. The weighted average impact of price reduction is 7% over the diesel price at the end of last quarter.

Gati is celebrating 25 years of its completion and at its 25th year has visioned to deliver one million packages everyday by 2020. We currently deliver 2.5 lakhs packages per day. Therefore the company is in expansion mode creating network, capabilities, acquiring talent and embracing new technologies in view of the growth opportunity available. We realize the need to keep up the pace of expansion to capture the growing market and to remain as a formidable leader.

Some of the highlights of this quarter are **:** Focus of the Company and Management is on expansion of network and fulfillment centers and strengthening the network, creating capabilities, talent acquisition for future growth. The group also witnessed aggressive growth in the e-commerce logistics volume and most important is disposal of last ship and closure of coastal shipping operations. Gati has completely come out of the shipping operation. On the 25th year of celebrations, our board declared a special dividend. We also succeeded in floating commercial paper by our joint venture company 'Gati Kintetsu' and Gati Kausar expansion plan after private equity infusion is on track.

Coming to the elements of expansion, on e-commerce offices, we are in the process of creating/identifying e-commerce offices through our own network and franchisees. In this process, we have identified over 400 offices and we plan to expand it further aggressively.

We are enhancing the last mile delivery capabilities, which is the backbone of our e-commerce expansion. Currently we have a mix of over 1,200 numbers of two wheelers, three wheelers and four wheelers. We are planning to increase it further to strengthen our delivery capabilities. We are also increasing the strength of our business partners in the express distribution business. These business partners are directly responsible for the growth of the business.

We are also focused on the franchisee network expansion and we have grown significantly. A couple of initiatives have been kicked off to improve the efficiency of the Line haul, including introduction of multi-axle fleet on high-density routes. This is expected to bring down the spot hiring and result into reduction of operating cost, going forward.

On e-fulfillment centre, Gati and IBM have joined to implement the eFC application. This is the first time in India and this application has positioned Gati as a first mover in this regard. Operations in three e-fulfillment centres at Delhi, Mumbai and Hyderabad have stabilized and now volumes are picking up and owing to the success, we are planning another three large e-fulfillment centres at Delhi, Ahmedabad and Jaipur. In the last one quarter, we have significantly invested in the extending the network. We have made heavy investment into the mechanization of our operation, in terms of making investment in material handling equipment in the distribution hubs. We have structured ten e-commerce sorting centres to improve the delivery efficiencies and equipped entire e-commerce warehouse network with Bar code scanner to improve inventory control. This is a significant step in e-commerce expansion. All our e-commerce locations are equipped with CCTV camera to strengthen our security and e-commerce bikers and drivers have been provided with tablets to enable the real-time tracking.

We have a call. We have made a dedicated customer support team for e-commerce operations at our call centre at Nagpur and we have tied up with multiple banks for Cash Management Services for the safety and security of our COD collections. Technology in general, we have launched 'Gati App' for better connectivity with our customers for tracking and have launched Green Invoicing.

Continuing with the capabilities on e-commerce we have expanded our e-commerce capabilities to 34,000 e-commerce packages everyday against our target of 30,000 packages. We discussed in the last quarter and we are continuously expanding our capacity month on month. We expect to take it to 40,000 packages everyday at the end of March quarter.

In E-commerce business, we are covering 5,300 pin codes directly and 10,000 pin codes at a premium and serving COD at 13,000 pin codes. Every quarter, we are adding more and more pin codes to enlarge the coverage of our e-commerce delivery. On e-fulfillment center, we are currently handling 2 lakh orders per month against 50,000 orders in the last quarter which means in the e-fulfillment centre, the volumes have increased significantly. As I said that our focus in the quarter has been on network expansion and capability building. We have added significant amount of talent in our team and the talent headcounts have increased by 9% in the last quarter and overall increased by 28% in the last nine months. This is a significant growth to cater to the future business requirement.

News that has been long expected is on the shipping side. We sold our last ship on 8th December 2015. we have sold all our shipping assets, including ships, containers and Gati has completely come out of the shipping operations.

On the 25th year of celebration, our Board has declared Special interim dividend of 30%. The overall dividend quantum will be significantly higher as compared to the previous years and with the rating improvement of our joint venture company by ICRA and Care from A- to A, GKEPL was successful in raising commercial paper of around Rs. 30 Crores from HDFC at a significantly lower rate. This opens the doors to refinance the borrowings at lower rate in the future and thereby reducing the interest burden in the P&L.

The Kausar expansion plan is on track. We have identified two locations. One is Ghaziabad and the other is Gurgaon and the construction of warehouses is expected to commence in this quarter. We have further strengthened our fleet in Gati Kausar by 20 numbers and we have added number of new customers. We are also planning to expand Gati Kausar business through inorganic growth for which the discussions are on. So these are the some of the business highlights of the last quarter.

Coming to our financial performance, I am happy to state that at Gati consolidated level our revenue grew by 15% on Y-o-Y basis and 3% on Q-o-Q basis. The growth was primarily contributed by the growth of e-commerce business. The EBITDA and PBT have grown by 7% and 8% year-on-year basis. The margins in this quarter were affected due to continued expansion of capabilities primarily lead by opex and people cost. So margins in Joint Venture Company in this quarter have been modest because we made large expansion in the last quarter.

On quarter-on-quarter comparison, the EBITDA and PBT would have been better in this quarter but for the capacity expansion and slow economic growth. On specific numbers, our total income for the quarter was Rs. 428 Crores as compared to Rs. 415 Crores in the last quarter ending September 2014 and Rs. 374 Crores in the third quarter of previous year, thereby indicating a year-on-year growth of 15% and quarter-on-quarter growth of 3%.

Our EBITDA for the quarter was Rs. 36.4 Crores as compared to Rs. 38.6 Crores in the previous quarter and Rs. 33.9 Crores in the corresponding quarter of previous year giving a year-on-year growth of 7% and a negative growth of 6% on quarter-on-quarter basis.

PBT is at Rs.16.5 Crores for the quarter ending December 2014 as compared to Rs.20.9 Crores of September 2014 quarter vis-à-vis Rs. 15.3 Crores in December 2013 quarter, thereby a year-on-year growth of 8% and a negative growth of 21% on quarter-on-quarter basis. PAT is at Rs. 14 Crores in this quarter compared to Rs. 12.5 Crores of September 2014 quarter and Rs. 8.7 Crores in December 2013 quarter, thereby giving a good jump of 60% year-on-year basis and a 12% growth quarter-on-quarter basis.

Our debt levels are still modest and as we committed that debt level will be below Rs. 500 Crores, the debt level at the end of this quarter is Rs. 446 Crores as compared to Rs. 430 Crores in September quarter and Rs. 492 Crores in December 2013 quarter.

Coming for the complete nine months consolidated performance, Gati's overall group revenue grew by 16% on nine-month basis, which was primarily, contributed by the Joint Venture Company GKEPL, e-commerce and GIETL.

Coming on company-wise segment, GKEPL business grew by 14% in the last nine months. Gati business grew by 35% out of which e-commerce had a decent growth of over 150% compared to the corresponding year figure. Our GIETL business grew by 55%. The margin growth was primarily contributed by the improvement in the margins of the Joint Venture Company at 10.4% for last nine months as compared to 10.1% in the corresponding last mine months.

Overall numbers for the nine months, Total income is Rs. 1,243 Crores as compared to Rs. 1,067 Crores in the last nine months ending on December 2013, creating year-on-year growth of 16%. EBITDA was Rs. 115 Crores compared to Rs. 87 Crores in the previous nine months, thereby indicating a growth of 32%. PBT is at Rs. 60.5 Crores compared to Rs. 32.1 Crores, indicating a growth of 89% year-on-year basis and PAT is Rs. 41.5 Crores compared to Rs21.7 Crores with a year-on-year growth of 91%.

We had issued guidance to the market and I am happy that we are within the range of the guidance. Our guidance for the nine months on revenue side was Rs. 1,300 Crores while our actual revenue is Rs. 1,243 Crores; we believe we are at 96% of the revenue guidance. Our EBITDA guidance was Rs. 124 Crores while the actual EBITDA is Rs. 115 Crores which is 93% of the guidance and PBT guidance was Rs. 73 Crores and actual is Rs. 61 Crores which is 84% of the guidance.

Based on expected Q4 numbers we believe that we would be in the range of 95% on revenue, 90% on EBITDA and 80% on PBT. So there is downward trend on profitability, primarily due to continued focus on expansion of network, additional talent acquisition to cater to future growth and high depreciation due to change of Companies Act and exchange fluctuation.

On debt movement, our overall debt is Rs. 446 Crores for December 2014 quarter. The entity-wise breakup is Rs. 260 Crores in Gati standalone, which has an FCCB of around Rs.140 Crores. Gati KWE debt has further come down; It is at Rs. 163 Crores. Kausar has a debs of Rs. 23 Crores. Rest of our entities are practically debt free . So overall debts at group level are Rs. 446 Crores as compared to Rs. 430 Crores in the previous quarter. This increase of 16 Crores is due to drawl of NCD to the extent of Rs.6 Crores for Gati Kausar and exchange variations in FCC Bond to the extent of Rs. 4 Crores.

Coming to entity-wise performance, Gati's total income for the quarter is Rs. 121 Crores. The EBITDA has improved to Rs. 10.9 Crores, 9.1% of Total income. PBT is Rs. 3.4 Crores, which indicates 2.8% of total income and quarter-on-quarter improvement in the revenue is 19% while year-on-year revenue improvement is 40%. Gati as a standalone entity is now positive and improving its financial performance primarily due to improved performance of the e-commerce business.

Coming to the flagship company, Gati Kintetsu Express, the total income is Rs. 284 Crores with the EBITDA of Rs. 23.2 Crores, which works out to 8.2%, EBITDA, which has come down, compared to the previous quarter and a PBT of Rs. 12.3 Crores, which works out to 4.3%. Kausar in this quarter has improved its performance. The revenue has grown to Rs. 12 Crores, which is only transportation revenue. The warehousing revenue is yet to come. The EBITDA is positive at Rs. 0.7 Crores, which turns out to be 6%. So there is improvement in Gati Kausar business and we believe that the Gati Kausar business will continue to improve.

On nine-month basis, the entity-wise performance is as follows. The total income of Gati is Rs. 319 Crores with the standalone EBITDA of Rs. 24.4 Crores, which works out to 7.7%. This indicates that Gati going forward will be more and more profitable due to the continuous improvement in the e-commerce business. The Joint Venture Company, Gati Kintetsu has a total income of Rs. 857 Crores for last nine months with the EBITDA of Rs. 89 Crores which works out to be a 10.4%.

On overall basis, as a group, we have total income of Rs. 1,243 Crores and EBITDA of Rs.115.3 Crores, which works out to 9.3% and PBT of Rs. 60.5.

So these are the major highlights of our overall development in the company along with the financial figures. I would request you to please ask your questions. I and our team at Hyderabad will respond those questions appropriately. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rahul Soni from Baljit Securities. Please go ahead.

Rahul Soni: Thanks for taking my question. Just one question. Why the tax rate is lower in this quarter both on YoY and QoQ basis. We have provided taxes of around 2.5 Crores on the PBT of Rs.16.5 Crores which is lower?

Sanjeev Jain: There are certain items, which are tax depreciable, in the previous years, we could not take advantage of. Based on the opinion from senior tax advisors, these items have been considered as tax deductible and that is the reason that the tax provision in this financial year is lower compared to the previous year.

Rahul Soni: So what would be the overall tax rate in this current financial year?

Sanjeev Jain: The tax rate should come down somewhere less than 25%.

Rahul Soni: So it is sustainable or it is just one-off?

Sanjeev Jain: This is sustainable. It is primarily an important item of tax reduction in the joint venture company, which is based on significant R&D done internally and opinions take from senior tax councils and this is sustainable.

Rahul Soni: Sir any guidance for next two financial year?

Sanjeev Jain: We will come up with guidance. We are working on our annual operating plan. We will issue the guidance in the next few months.

Rahul Soni: Thank you.

Moderator: The next question is from the line of Jigar Walia from OHM Group. Please go ahead.

Jigar Walia: Good morning everyone. Sir just couple of questions, what is the breakup of e-com and e-fulfillment centres if you can give us revenue-wise?

Dhruv Agarwal: Jigar, Dhruv here. E-commerce in the last quarter, we did revenue of Rs, 42 Crores and fulfillment centre revenues are approximately around 2 Crores for the last quarter.

Jigar Walia: So 42 plus 2?

Dhruv Agarwal: That is right.

Jigar Walia: Can you throw some light on the fund-raising Sir that you mentioned on the BSE?

Sanjeev Jain: We are planning for a QIP of not exceeding Rs. 120 Crores. This QIP proceeds will be mainly used for our e-commerce expansion and also depending upon outcome of legal process, we could also prepay some of our debts.

Jigar Walia: You could prepay, so what is the RBI stand? Have you got any response from the RBI?

Sanjeev Jain: Yes, it depends on some of the final conclusions which we have to receive from the RBI. The matter is currently subjudice. But this is a contingency plan that if there is a resolution coming out, the proceed could also be utilized for prepayment of such debts.

Jigar Walia: So the debt could remain more or less the same levels, just if, we are able to raise it and you will end up prepay the FCCB as well?

Sanjeev Jain: No. We are raising equity.

Jigar Walia: Right, I got your point Sir. Sir what is the expansion plan? You mentioned that you want to expand the network, so there are two options you are saying, you can either use the money for expansion or prepay the FCCB. Is that clear for the 120 Crores?

Sanjeev Jain: Yes, this could be mixed use both for the purpose of e-commerce expansion as well as prepayment of debts. But such debt payment depends upon the outcome of the clarification to be received from RBI and outcome of the current litigation for the bond.

Jigar Walia: So have we heard anything from the RBI on this issue?

Sanjeev Jain: Not final word I believe.

Jigar Walia: Thank you very much.

Moderator: Thank you. The next question is from the line of Jai Surya from DCB Bank. Please go ahead.

Jai Surya: Morning Mr. Sanjeev and Dhruv, Peter. I also want to ask the same question about your Rs.120 Crores raising. So you have answered that. Second one is that having exited the Gati ship business what will be the focus of the company now?

Sanjeev Jain: The focus of the company is very clear. We are bullish about our e-commence business. That business is growing more than 100% YoY. So focus is to continue to explore newer opportunities in the e-commerce business to grow that business in a more focused manner and as you have seen in my discussion that we have made significant investment in the e-commerce expansion including our eFCs and of course we have received the money for Kausar expansion, so Kausar expansion is taking place. So the cold chain business and e-commerce will be the prime focus and our Joint Venture Company GKEPL is already in a stable and autopilot mode.

Jai Surya: Thank you.

Moderator: Thank you. The next question is from the line of Chaitanya Adesara from Siddhesh Capital. Please go ahead.

Chaitanya Adesara: Sir first of all, Congratulations for being on track of your guidance. With regards to the Gati Kausar business, I wanted to know that by when do you expect the warehouses in Ghaziabad and the Gurgaon to be up and running and have you tied-up with any clients for the same?

Sanjeev Jain: See for these two warehouses, the lands have been identified and rest of the formalities are over. We believe that our construction work should start somewhere in the month of March. It takes normally 6-9 months to be fully operational as far as Greenfield project is concerned and there are many clients for whom we are meeting the transportation requirement, who have shown interest to avail the warehouse facilities. So the customer base for warehousing is not a big issue .

Chaitanya Adesara: Sir, your current capacity in the e-commence business?

Dhruv Agarwal: Could you repeat the question please?

Chaitanya Adesara: Current capacity in the e-commence business?

Dhruv Agarwal: Currently we have a delivery capacity of about 34,000 deliveries per day and our guidance was that we do about 30,000 per day in the last quarter. We are doing about 34,000 a day and moving forward we are looking at hitting about 40,000 to 45,000 per day by the end of the March quarter.

Chaitanya Adesara: Just one last question for the Express Distribution business, the margins have come down. Is this a exception for the quarter?

Bala Aghoramurthy: This is Bala here. Chaitanya, Hi. The GKEPL numbers, they include the Express Distribution and eFC numbers. As you are aware that, there has been a significant reduction in the diesel prices etc. and these obviously impact both the topline and the bottomline. Just to give you a sense, when the diesel prices quarter-on-quarter has gone down by around 7% and of that approximately 1.8% is passed on to the customers and we have regained about 2.2% from our vendors, so there is an incremental net-to-net improvement on that front and this obviously is a phased improvement through the quarter. March quarter will see some more in the same direction.

In addition we have actually expanded that capacity for the Express Distribution quite a bit. Just to give you some highlights, it is both in terms of the trucks being replaced in the long haul and also in the last mile capacity, we have added nearly about 10% to 12% and we will continue to do that even going forward. Lastly it has been a quarter of investment in the eFC business, which is also part of the GKEPL books. Like we said earlier we are very happy to report a Rs. 2 Crores revenue in eFC business. This business comes with a significant investment. We will be the first movers on this in many ways. So I think we will see quite a bit of jump in the coming quarter.

Chaitanya Adesara: If I may just ask one last thing, Mr. Sanjeev, can you throw some light on the shipping business exit cost which is there in the notes?

Sanjeev: The exit of shipping was a long-time board decision and we were making efforts to come out completely from shipping. The last ship was sold on December 8th along with all the operating assets. So Gati has completely come out and we had to come out from multiple contracts in terms of our long-term lease of ships, the sale of containers, our partnership on the west coast with ISL etc . So we have to fund the closure and the closure cost came to the extent of around Rs. 24 Crores, which has been reflected in the note as published in Clause 41, but with this one-time cost, we have saved company from all future losses and Gati has completely closed this shipping business. So there is no future impact either on the P&L or balance sheet

Chaitanya Adesara: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Pratik Kumar from Religare Capital. Please go ahead.

Pratik Kumar: Sir just following up on the diesel question, the diesel comment like I was just trying to understand the impact of falling diesel prices better so let us say if you are using the third-party fleet for movement of your couriers so, I know there is some moderation in the prices of diesel which is done by fleet operators also but is that flowing into your financials as such?

Bala Aghoramurthy: Let me take this again. So obviously diesel impact will come into the financials. The way to understand this, in this quarter, we have had a major policy change from a controlled price to decontrolled price. It is not a one-off drop in diesel. We will be sensitive to the customer expectations. We will equally be very focused on the impact, it has on our P&L. So we have been very responsible in the way we had passed on a portion of it. Like I explained before, about 1.8% of the 7% drop has been passed on to the customers. We have seen a reduction in our long haul cost to the extent of about 2.2% so there is an incremental delta that we have got. Having said that this is only half the story, the reason being if you reflect on the various diesel price drops in the quarter there were four instances about 14% of the drop happened in the month of October, 20% in November another 40% in December. Of course January has followed through another about 15% also. So the sum total we believe is going to be beneficial for us. We have seen a very marginal impact of this in this quarter, and in the next quarter you would see a fuller complete story on this.

Pratik Kumar: Second question is on your touch points. Obviously you have been growing touch points very aggressively so we want to understand the industry perspective so what would be the like-to-like growth rate of industry if we want to understand that, and if we are growing on market share as such?

Bala Aghoramurthy: So the market share is obviously linked to GKE quite substantially and also e-com. In e-com just to give you a few numbers, in the greater than 10kg weight segment, we will almost be around 75% to 80% of the market.

Pratik Kumar: Sorry I did not get it, greater than what?

Bala Aghoramurthy: It is about 75% to 80% in the greater than 10 kilo weight segment, in the mid range of 5 kilo to 10 kilo, we will be around 50% and in the smaller 1 kilo and less, we will have a very small share. So that is on the e-com side. On the GKE side, Right now it continues to be what it was in the last quarter and before. However, we expect a significant improvement because of some specific product-line changes and conversations with the customers. We believe, in the manner we spoke with customers to this diesel price deregulation, we have moved much better than competition in a responsible manner. So we expect it to only get better from where we are already.

Pratik Kumar: Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Jigar Walia from OHM Group. Please go ahead.

Jigar Walia: Sir I wanted to check, if the FCCB remains as it is, when is it due for repayment?

Sunil Jain: FCCB instrument is due for payment in December 2016.

Jigar Walia: Mr. Jain, Sir just wanted to know do we have an option to prepay or is it actually at the call of the investor right?

Sanjeev Jain: It is a call of the investors.

Jigar Walia: So technically the QIP that we will do will be primarily used for capex right unless and until we have to really agree for a prepayment. The prepayment, why would they agree, given the price and all, unless and until there is a renegotiation in a premium offer?

Sanjeev Jain: You are correct. There has been history of discussion on FCCB and which we have been disclosing in clause 41 quarter-on-quarter. There is a possibility of resolution based on the RBI clarification and I believe that if there could be some solution based on the RBI clarification, this QIP proceed could be used partially apart from our e-commerce expansion.

Jigar Walia: Sir, while, you say that there could be some resolution, do we need to understand it like there could be entire fresh negotiation of terms or a general settlement type of stuff?

Sanjeev Jain: The entire negotiation depends upon the RBI's clarification and currently there is a litigation going on filled by the trustee. So it is all subject to the conclusion of the litigation and RBI clarification.

Jigar Walia: Any status update on litigation? When are the next hearings due or something this quarter?

Sanjeev Jain: It is currently going on, we keep on getting updates.

Jigar Walia: Sir there were earlier some plans for land monetization, are we doing it, are we partly using it for Kausar?

Sanjeev Jain: Land monetization plans are currently not on. Because earlier we had plan to prepay the FCCB through land disposals but currently lands are precious assets and their prices are appreciating and we have the expansion plan. So we may use some of these lands for Gati Kausar and our main business.

Jigar Walia: Thank you so much.

Moderator: Thank you. The next question is from the line of Nehal Khan from Edelweiss Securities. Please go ahead.

Niraj Mansingka: Sir, this is Niraj Mansingka. I just wanted to know two things. One what is your yearly guidance for the revenues and EBITDA?

Sanjeev Jain: The yearly guidance for revenue was originally Rs. 1,757 Crores and EBITDA was around Rs. 168 Crores.

Niraj Mansingka: So are you revising them upwards or downwards?

Sanjeev Jain: Revenue will be in the range of around 95% and EBITDA also will be in the range of around 90%.

Niraj Mansingka: Other thing is can you give some colour on how the eFCs can scale up and how much capex we have done on them?

Dhruv Agarwal: Niraj this is Dhruv here. Currently we are operating in three sites, Delhi, Hyderabad and Bombay, approximately 1.7 lakhs square feet and like Sanjeev had mentioned earlier, the volumes have significantly grown from Q2 to Q3 and in Q4 we expect that to grow further. In Q3, we get an average of 2 lakh orders per month and in this quarter, we expect that to double going forward and most likely in this quarter we will be opening three more sites in Ahmedabad, Delhi and Jaipur. In terms of capital investment to date, we have invested about Rs. 4 to 5 Crores and for the new sites it depends on our customers' requirements and what kind of infra is required. I hope this answers your question. This is up to the end of March quarter, but moving forward there is a lot of interest from a lot of customers for fulfillment centers but as we move forward, it will get clearer as to how much more we will be able to do.

Niraj Mansingka: Sir assuming whatever is the utilization right now, what would be the full revenues on the current three eFCs in Delhi, Hyderabad and Mumbai, on these 1.7 lakh square feet. In case we have to do full utilization, just trying to see how much the scale-up can happen from these three locations?

Dhruv: We are operating at about 50% utilization right now.

Niraj Mansingka: Sir the last question is on the e-commerce strategy. It seems to be most of the strategy is revolving around about 5kgs where the market shares are higher, any thoughts do you have on expanding it on the lower than 1kg because that is where the entire volume is?

Dhruv: No there are two things, one is we have to go with our strength. Our strength is surface delivery so therefore the higher weight category is what we are good at doing and also that is more profitable for us. Secondly we have not limited ourselves today to any particular weight category. We are working across all weight categories. So at the moment our strategy is that we are working across all weight categories and of course, we focus a little more on the more profitable weight segment which is also our strength because our entire network is geared towards parcel delivery and not the smaller courier type or less than 500gram packages.

Niraj Mansingka: But is there some collaboration that we have been working of where we can increase the share on that 1 kilo segment?

Sanjeev Jain: No we are not working on collaborating with anybody else, besides our customers.

Niraj Mansingka: Thank you very much.

Moderator: Thank you. The next question is from the line of Chiranshu Kumar from Girik Capital. Please go ahead.

Chiranshu Kumar: Good morning Sir. Congrats on a good set of numbers. Sir my question was more on the standalone segment like out of 128 Crores of topline 41 Crores is the e-commerce business?

Sanjeev Jain: Pardon.

Chiranshu Kumar: In the standalone segment out of the 128 Crores topline 41 Crores is the e-commerce business and around 50 Crores is the fuel segment business?

Sanjeev Jain: Rest is international freight forwarding business

Chiranshu Kumar: Which is major segment of the entity

Sanjeev Jain: So e-commerce is now becoming a major part.

Chiranshu Kumar: This e-commerce is slowly becoming major part because it is on a very high growth phase.

Sanjeev Jain: Exactly.

Chiranshu Kumar: Sir is there a substantial difference in the margins on this fuel segment and the e-commence business like on EBITDA level?

Sanjeev Jain: They is high difference between the margins of fuel and e-com. Fuels has very low margin at the EBITDA level and e Com has a very high EBITDA margin.

Chiranshu Kumar: Sir when we consolidate all the figures, does any portion of this gets set off. Because like, I understand, out of your e-commerce business, you pay a lot to KWE as your vendor, because you utilize that long haul transportation network of KWE?

Sanjeev Jain: So at consol level, all the intercompany transaction are knocked off . So when Gati makes whatever payment to GKEPL, the same is eliminated from both the companies. Gati removes the cost and GKEPL reduces income.

Chiranshu Kumar: Sir could you just give us standalone figures once again?

Sanjeev Jain: If I have to repeat the standalone numbers excluding the dividend income, which we received from GKPEL, the total income of Gati standalone is 121 Crores and EBITDA is Rs. 10.9 Crores and PBT is Rs. 3.4 Crores for the quarter.

Chiranshu Kumar: Thank you so much.

Moderator: Thank you. The next question is from the line of Ashish Kacholia from Lucky Investment Managers. Please go ahead.

Ashish Kacholia: Good morning to all. I wanted a little bit more colour on why the EBITDA margins and the sales have under-shot your projection and which segment are we seeing underperformance?

Sanjeev Jain: Barring the GKEPL, which has impacted, both revenue as well as EBITDA due to expansion, all our business have grown. GATI has seen significant growth because of high growth of e-commerce business, Kausar has also performed better as compared to the previous quarter.

Ashish Kacholia: which is causing the underperformance versus our expectations?

Sanjeev Jain: This is Gati Kintetsu Express, which has under-performed both in terms of the revenue and the EBITDA number in the quarter.

Ashish Kacholia: Any reason why this is happening? or this is the general slowdown in the economy?

Sanjeev Jain: Bala, just explained, on the EBITDA the pressure has been on account of the expansion which we have done in the last quarter. On revenue there is some impact because of diesel price and of course the economy grew at 5.3%.

Ashish Kacholia: What is the outlook for next year versus our projections. Are we given any set of guidance for next year FY 2016?

Sanjeev Jain: Currently Ashish, our annual operating plan is being worked out. I hope in next two months we should be able to release our guidance for next year.

Ashish Kacholia: Thank you so much and all the very best.

Sanjeev Jain: Thank you. As there are no further questions I would now like to hand the floor over to Mr. Nitin Bhasin for closing comments.

Nitin Bhasin: Thanks a lot to the Gati management team for taking out time to address these questions. Sir, very quickly just wanted one small answer from you what is the employee cost increase this year, this quarter especially from last year, we saw you built on some capabilities. Are you going to witness such sort of a capability addition in employee across verticals? If you could just very quickly give us some specific information on that, We analysts and investors can get a sense of where are you building capabilities and thanks a lot for your time.

Sanjeev Jain: Nitin, if you see our numbers of headcount, it has increased 9% in the last quarter and 28% in the last nine months. These capabilities are being built across our group primarily into the Gati because of e-commerce expansion. So this hike in headcounts is primarily in creating the new organization for the e-commerce in the last mile delivery network and other supervisory staffs and in GKEPL also we have expanded the team because the new businesses are coming up.

Nitin Bhasin: Sir thanks a lot for your time.

Sanjeev Jain: Thank you very much Nitin. Thanks a lot. I really appreciate. Thank you everybody.

Moderator: Thank you, on behalf of Ambit Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.