"Gati Ltd Quarter I Financial Year 2014-15 Earnings Conference Call"

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Moderator: Ladies and gentlemen welcome to the Q1 FY'2014-15 Results Conference Call of Gati Limited, hosted by Emkay Global Financial Services. We have with us Mr. Sanjeev Kumar Jain, Director Finance, Mr Bala Aghormurthy, President Gati-KWE, Mr. Peter Jayakumar, Deputy CFO, Mr. VSN Raju, Company Secretary and Mr. Dhruv Agarwal, Vice President of Gati Limited. All participants in line will be on the listen only mode and there will be an opportunity for you to ask question after the presentation concludes. If you need any assistance during the conference call, please signal the operator by pressing "*" then "0" on your phone. Please note that this conference is being recorded. I now hand over the call to Mr. Tejas Sheth, Research Analyst of Emkay Global. Thank you and over to you Sir!

Tejas Sheth: Good morning everyone. Thank you for joining us today. We would like to welcome the management of Gati Limited and thank them for giving us the opportunity to host this call. Now I would like to hand over the call to Mr.Sanjeev Jain. Over to you Sir!

Sanjeev Jain: Thank you very much. Friends, very good morning and a warm welcome to our Quarter-I earnings call for the financial year 2014-15. We thank you all for joining us today. It is always pleasure to connect with all of you.

The discussion today might include certain forward-looking statements and these should be viewed in conjunction with the risks that our company faces. I will take this call in the following sequence. I will first discuss the Gati Group performance for the first quarter of FY 2014-15. Then our 12 Months performance vis-à-vis our guidance. Apart from that I will also share major the business updates for this quarter. As a matter of clarification, that, we have changed our financial year closure from July - June to April - March. So wherever I am referring to as 12 months period, it is the period beginning from July 2013 to June 2014.

Coming to our consolidated quarterly performance, I am happy to share that our performance has further improved in this quarter. We have crossed total income mark of Rs.400 Crores in Quarter1. It has grown by 4% on quarter-on-quarter basis and 22% on year-to-year basis. This growth reflects a continuous momentum in our business.

The revenue growth had a significant impact on the profits of the company. On quarter-on-quarter basis, our EBITDA and profit before tax have increased by 26% and 55%. The growth in EBITDA is primarily led by healthy performance by our joint venture company which has translated to improved profit before tax. The PBT has also improved, since we could manage our interest burden better.

When you see this performance on a year-on-year basis our EBITDA and profit before tax have increased by 68% and 230%. The said growth is on account of improvement in margins of our joint venture company (GKEPL) by 170 basis points and a decent growth in E-commerce business.

Our shipping losses have been contained as compared to previous year. I will give you separate update on the further divestment of shipping.

Our total income for the quarter ending June 2014 is Rs.400 Crores as compared to 386 Crores in March 2014 vis-à-vis Rs.329 Crores in June 2013. It has grown by 4% on quarter-on-quarter basis and 22% on year-on-year basis.

Our operating income is Rs.398 Crores for the Q1 of this financial year corresponding to previous quarter of Rs.383 Crores and Rs.322 Crores of same quarter in previous year. It has grown by 4% on a quarter-on-quarter basis and 24% on a year-on-year basis. There is significant improvement in EBITDA, which stands at Rs.40 Crores in Q1 of this financial year vis-à-vis Rs.32 Crores in the previous quarter of FY 2014-15 and Rs.24 Crores in the corresponding quarter of the previous year. This reflects a growth of 26% quarter-on-quarter and 68% on annualized basis.

PBT has also shown a significant improvement which stands at Rs.23 Crores for this quarter vis-à-vis Rs.14 Crores in the previous quarter and Rs.7 Crores in the corresponding quarter of the previous year. In terms of percentage, it reflects 55% growth on quarter-on-quarter and 230% growth on annualized basis.

Overall Debt level has reduced significantly in Gati Ltd. We discussed in our previous calls that Gati Group is committed to maintain debt level at less than Rs.500 Crores. The debt level at the end of the quarter in this financial year 2014-15 is Rs.423 Crores vis-à-vis Rs.480 Crores of previous quarter and Rs.477 Crores in the corresponding quarter of previous year.

Overall performance on annualized basis for the period from July 2013 to June 2014 has improved significantly. If I take up the annualized performance, the group has grown by 19% for 12 months period that reflects growth in our different verticals. Our express distribution business of the joint venture company has grown by 19% on 12 months basis. Our E-commerce business what we call E-connect has grown by 143% in the last 12 months. Gati Kausar has also shown some traction and it has grown by 5% in last 12 months. Though the growth is not as expected, due to cyclical fluctuations, Gati Kausar could grow marginally.

Other verticals, which are Gati Import Export and Trading Ltd. and fuel stations, have also shown decent growth in last 12 months. Profit improved mainly due to improvement in EBITDA margins in the Express distribution business. It has improved from 9.8% to 10.9% for the 12 months period. Revenue contribution of e-Commerce vertical in Gati group has improved. Though currently it is low, it is improving in the overall revenue mix of the group. For 12 months period the numbers are as follows: As a group we have crossed the threshold of Rs.1500 Crores of income. Our total income in the last 12 months is Rs.1527 Crores as compared to Rs.1289 Crores of previous year, which reflects 18% growth since last year .

Our operating income is Rs.1514 Crores vis-à-vis Rs.1273 Crores, which reflects19% growth from last year. Our EBITDA has crossed Rs.130 Crores. It stands at Rs.135 Crores as compared to Rs.98 Crores in previous year. Our PBT stands at Rs.63 Crores, which has almost doubled from Rs.30 Crores in the previous year. PAT has also shown significant improvement and has increased to Rs.43 Crores vis-à-vis Rs.17 Crores in previous year.

Our debt level has reduced significantly from Rs.477 Crores at the end of last year to Rs.423 Crores as on June 30, 2014. If I recollect, we have given a two year's guidance to the market and I am very happy to share that we have met all the estimates of our guidance. In fact on all the key parameters, the company has exceeded the guidance numbers. Our guidance for the income was Rs.1500 Crores for 12 months period whereas actual income is Rs.1527 Crores, which reflects an over, achievement of 102%. At EBITDA our guidance was for Rs.130 Crores, while the actual EBITDA is Rs.135 Crores, which is 103% of the guidance number. The PBT was indicated to be Rs.55 Crores rupees while the actual PBT of the group in the last 12 months is Rs.63 Crores, which reflects 115% of the guidance number. In terms of actual position vis-à-vis guidance for different companies, while most of the businesses are in line with the guidance number, some of the businesses are slightly better than the guidance numbers and some of the businesses are slightly worse than the guidance numbers.

(*All the below mentioned figures are after eliminating inter-company transactions*)

Gati as a standalone entity has achieved actual revenue of Rs.350 Crores while the guidance was for Rs.313 Crores. Our flagship company, Gati Kintetsu Express Private Limited achieved a actual income of Rs.1046 Crores vis-à-vis guidance of Rs.1037 Crores. Gati Kausar had actual revenue of Rs.48 Crores via-a-vis guidance of Rs 51 Crores.

For Gati Ship, the actual performance is Rs.22 Crores vis-à-vis guidance of Rs.29 Crores. This number is slightly lower since the company got de-subsidarized due to further stake sale in Gati Ship Limited. It includes revenue only for 45 days of the last quarter. The actual income of Gati Ship stands at 86% of the guidance.

The debt movement has shown positive development on quarter-on-quarter basis. I always said that we are committed to maintain debt levels less than 500 Crores. I am happy to share that our debt has reduced to Rs.423 Crores as compared to Rs.480 Crores of previous quarter. This Rs.423 is a drastic reduction in the debt, which is primarily led by de-subsidarization of the Gati Ship Limited. Debts of Gati Ship Limited are not included in the Gati Ltd because of further divestment in the Gati Ship Limited. But if we add the debts of Gati Ship Limited also for comparison, overall debt have been maintained at same level.

I will give you some of the important updates on Gati Ship's de-subsidarization. We have been advising for last 1 year that we are constantly trying to resolve the issue of losses in Gati Ship. I am very happy to share that we have taken two actions in this quarter. We have sold our loss making ship Gati Pride in the month of May and we have further divested stake in Gati Ship to the extent of 12%. Now Gati Ltd holds only 48% in the Gati Ship Limited.

This development has significant impact at the group level. The Gati Ship Limited is no more a subsidiary of Gati Ltd and henceforth the profit and loss and balance sheet of Gati Ship Ltd will not be required to be consolidated with Gati Group accounts. So when you see the numbers of Gati for the quarter, it includes only 45 days P&L of Gati Ship Limited. Now Gati ship is left only with one ship which is being run in partnership with the Tata Group Company ISL and that business is now making marginal profit.

Also day before yesterday we had AGM of Gati shareholders and shareholders have approved a dividend of 35% for the period of nine months. This translates into 47% on an annualized basis, which is the highest dividend the company has paid in the recent years.

Because of this improved financial performance on quarter-on-quarter basis, the credit rating of our joint venture company Gati-Kintetsu Private Limited has improved from A minus to A. This rating has been done by ICRA. Further we believe that this improved rating will help us to optimize the interest payments going forward. We have always shared the number of the synergy benefits with our joint venture company KWE India. The synergy benefits have started accruing though they are modest. So in this quarter we added revenue of Rs.7.5 Crores through the synergy. Kausar divestment is in progress. We are at advanced stage of signing definitive agreement. I believe that in the next call with the investors we will share information of closing the divestment process of Kausar.

I wanted to highlight that shareholding pattern of Gati Ltd has changed. Value investors have started buying Gati stocks and some of the major shareholding went to Macquarie Bank. They acquired 5.1% stake in Gati Ltd. This happened in the last quarter. So the institutional and body corporate holding in the Gati Group has significantly improved since last one year, which reflects the confidence of the investor community in the Gati's performance.

Now, I will give important update on de-subsidarization of Gati Ship Limited. We have sold 12% stake in Gati Ship to an independent company known as Harvy Comm trade Ltd. As you are aware that we had 60% stake in Gati Ship which, now stands at 48%. Now Gati Ship is no more a subsidiary of Gati Ltd. And has become an associate company.

Gati Ship has added significant losses in the Gati Group in last few years. Last year we had a loss of 31.39 Crores, which has come down to Rs.17 Crores. This Rs.17 Crores Loss is for the period of last 3 quarters plus 45 days in the last quarter. The second news is that we have sold one more ship, Gati Pride, which was contributing major losses in the Gati Ship. Now Gati ship is left with one ship Gati Majestic, which is operating in partnership with international shipping logistics.

There is a lot to share on E-commerce business. The E-commerce business is showing lot of traction. The business has doubled since last year. In the last three years it has seen over 100% growth. In 2011-2012 we had a small revenue of Rs.12 Crores in Gati E-commerce business, which grew to Rs.25 Crores in 2012-2013. In 2013-2014 on annualized basis, I am very happy to share that we closed the E-commerce business at Rs.62 Crores, which was close to our estimated target of Rs.60 to Rs.65 Crores.

We believe that the e-Commerce business will continue to drive growth for us due to development in the eTailing business. We believe that the internet users will move from 24 Crores to 55 Crores users by 2020. This will benefit our business. The next wave of growth will come from Tier II and Tier III cities, which is strength of our group and this will add further growth in our business. So our E-commerce business is growing and this financial year we estimate revenue over 100 Crores.

Our current run rate is around 8 Crores so we believe that we will double this business again this year. Our delivery capabilities, which is backbone of our business was 16,500 packages per day. Today it has moved to 23,000 packages per day and we have opened e-Pack Centers in metro cities especially in Delhi, Mumbai, Chennai, Calcutta, Bangalore and Hyderabad and we have opened a e-Pick Centers at Chennai and as indicated in our previous calls that we are foraying into E-fulfillment centers.

We have already opened two E-fulfillment centers, one in Delhi, which is currently shipping 2000 shipments per day, which will gradually grow to 20000 shipments per day and we have another E-fulfillment Center in Hyderabad, which has a capacity of processing 500 shipments per day which will move to 3000 shipments per day. My colleague Dhruv will speak on E-commerce.

In E-commerce, the maximum revenue in the vertical is contributed by goods weighting more than 5 Kgs, especially white goods, which is Gati's key competence. Our 80% revenue comes from the Last Mile Delivery. As informed earlier that our delivery capacity is increasing, currently it stands at 23000 and we are rapidly increasing this capacity. We have big plans for the expansion of E-commerce business.

In the last quarter, we added teleshopping gaint in our customer portfolio, because of confidentiality reasons I am unable to disclose their name. Our customer lists of E-commerce includes all major retailers in the country. We intend to increase our delivery capacity to 30000 per day by December. The Number of bikers are most vital link in our network, which we will continue to add. So from current number of bikers of 525, will increase to 1000 in the next three quarters. So, overall, the E-commerce business on growth track and we as organization are more focused on this business.

Now, a quick update on our other companies. In our major company, Gati-Kintetsu Express Private Limited, we opened 10 more Air Operating Units and this has expanded our footprint in Tier 1 and Tier 2 cities especially in Goa, Varanasi and Bhubaneswar. Total air operating units have increased from 21 to 31. The air network expansion will further ramp-up our revenues and margins.

And our other business update is on Gati Import and Export Ltd. It is the integrated supply chain model which we have been offering for a major hospitality client has been well received in the industry. The same model has been offered to a leading E Retail player of India. This project is a combination of brand promotion and inventory management project for the client.

The said model has strong pipeline of clients from entertainment and hospitality industry.

The financial performance of Gati Kintetsu, which is our major contributor for the improved performance, are as follows: In this Quarter, the company has total income of Rs.280 Crores vis-à-vis previous quarter of Rs.272 Crores and the corresponding quarter of previous year Rs.240 Crores.

In terms of percentage, quarter-on-quarter basis, the growth is 3% and on annualized basis it is 16% which is decent growth. On an annualized basis the company has crossed revenue mark of Rs.1000 Crores. The actual turnover for last 12 months is Rs.1061 Crores, vis-à-vis Rs.894 Crores in the previous quarter, which reflects a revenue growth of 19%.

The EBITDA of Q1 for the financial year is Rs.32 Crores which is marginally higher as compared to EBITDA of previous quarter of Rs.31 Crores and Rs.23 Crores in the corresponding quarter in the previous year, which is a reflection of quarter-on-quarter improvement of 3% and on annualized basis, the improvement is significant at 37%.

On annualized basis, the EBITDA of Joint Venture Company is Rs.116 Crores vis-à-vis Rs.87 Crores in the previous year, which reflects a growth of 32%. The PBT for the quarter is Rs.22 Crores, which is slightly higher than previous quarter and significantly higher in the corresponding quarter of the previous year.

On annualized basis, the PBT is Rs.79 Crores vis-à-vis Rs.49 Crores of the previous year which reflects the growth of 60%. So Express segment has grown 3% in quarter-on-quarter basis and there is significant improvement in the profit of the company, because of various initiatives the company has taken. The debt of the joint venture company has been gradually coming down and it has come down to as low as Rs.161 Crores at the end of this quarter.

Gati as a standalone is into three businesses, which is freight forwarding business, our four large fuel stations and emerging business E-Commerce, so the total income of Gati has standalone entity is Rs.95 Crores as compared to Rs.93 Crores of previous quarter and Rs.74 Crores of the corresponding quarter in the previous year. This reflects a quarter-on-quarter growth of 2.3% and year-on-year growth of 28%.

On annualized basis, Gati's standalone, revenue is of Rs.350 Crores vis-à-vis Rs.161 Crores of the previous year. For Gati as a standalone entity, the revenue will improve as the E-commerce business grows. So the overall P&L and balance sheet size of Gati standalone entity will improve significantly.

In terms of profitability, the EBITDA of Gati as a standalone entity is Rs.7.9 Crores vis-à-vis Rs.11.2 Crores of previous quarter and Rs.8.8 Crores of the corresponding quarter in the previous year. PBT is Rs.3.9 Crores for this quarter vis-à-vis Rs.9.1 Crores of previous quarter and Rs.6.1 crores of the corresponding quarter in previous year. The decline from the previous quarter is because, there is a dividend Income to the extent of Rs.7 Crores in the previous quarter. So when we compare the revenue, EBITDA & PBT figures the said dividend of Rs 7 Crores should be excluded.

Overall, Gati as a standalone entity is now looking exciting due to E-Commerce vertical and as the e-Commerce business's revenue contribution increases in the total revenue of Gati the overall profitability of Gati will also improve.

Gati Kausar is another important entity about which I wanted to share the numbers . In the last quarter Gati Kausar had revenue of Rs.12 Crores, which was Rs.10 Crores in the previous quarter and same was Rs.12 Crores in the corresponding quarter of previous year. It reflects 12% growth on quarter-on-quarter basis. Gati Kausar had a revenue size of Rs.47 Crores for the 12 Month period and the revenue in the previous year was Rs.44 Crores which reflects a growth of 7%. Gati Kausar is still in a development stage, so it is incurring losses at PAT level. While at EBITDA level, the company is profitable, the EBITDA of this quarter is Rs.1.4 Crores vis-à-vis 0.7 Crores of the previous quarter.

Overall Gati Kausar is growing, but the growth was bit modest because of the divestment process which is now in the progress. I believe that in the next one quarter, the divestment process will be over and the Gati Kausar will be in the process of setting up the cold chain warehouses and it will be one of the leading cold chain solution provider company in the country.

So friends, these are major updates from our side. I leave the floor open for your questions and I believe that we have shared good amount of information. Thank you all and you can ask your questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Nalin Shah from NVS Brokerage. Please go ahead.

Nalin Shah: Good morning Mr. Jain. At this outset, I congratulate you on improved performance of the company. I had couple of questions which I would like to take, one is that in case of FCCBs, there is a note, which says that the holders have already exercised the right of conversion. Can you please tell us that who are the holders of this bonds and what is the number of shares at what price the conversion is likely to take place, once, you know, the RBI gets the case disposed off. So what is the impact on the share capital of the company? That is first. Second, my question is that it appears to me that your E-commerce business is picking up very fast. So in terms of EBITDA in profitability, can you just throw some light only on the E-commerce business side of the company?

Sanjeev Jain: Thank you very much. On FCCB, we have been updating in our clause 41 accounts being published every quarter and the current position is that bondholder has requested company to convert bonds into shares and the company has responded to those conversion notices that company is not in a position to convert the bonds into share, due to multiple reasons. First, the regulator has taken certain view on the raising of the bonds and those views have been challenged in the AP high court. So in AP High Court, the case is pending for adjucation and in the meantime, we have also sought clarifications from the regulator. Pending the disposal of the matter in the AP High Court and receipt of clarifications from the regulator, the position is that these bonds have not been converted into equity shares. The matter is subjudice In terms of conversion price, the conversion price on the face of the bond is Rs.38.51. But there are views around the conversion price and we have sought clarification from the regulator. As on date the issue is subjudiced and pending clarification from the regulator and we have been consistently updating to all concerned.

Coming to E-commerce business, the business is growing over 100% year-on-year for the last three years. We are bullish and focused, as an organization. We believe that we have all the ingredients to become number one in the e-Commerce logistic space.

In term of EBITDA, it is certainly better than our Express business because E-commerce Logistics not only includes distribution, it includes various value added services such as Cash on Delivery, e-Packaging, e-Pick , e-Fulfillment centers, returns to the origin (RTO). So there are various component of services, which is our value proposition to the e-Commerce customers. Due to the value added services, the yield and margins are significantly higher than the Express business. The EBITDA is over 14%, and we believe this EBITDA margin is maintainable in the future also.

Nalin Shah: Thank you very much Mr. Jain.

Moderator: Thank you. We have next question from the line of Rajendra Prasad from Karvy Stock Broking. Please go ahead.

Rajendra Prasad: Good morning Sir. Thank you for taking my question. Actually I missed that one you said that e-commerce parcels are moving up from 23,000 per day to 30,000, I missed that number?

Dhruv Agarwal: Basically at the end of the last quarter in March, we were at a delivery capacity of 16,500 deliveries per day and in the quarter ending June and currently we have expanded our capacity to 23000 deliveries per day and moving forward we plan to expand it to 30000 deliveries, a day by end of Dec 14 .

Rajendra Prasad: What is the portion of COD parcels within this one?

Dhruv Agarwal: The breakup in revenue will be little tough to share but you can say that across the value chain that we provide consolidation, packaging, fulfilment, Cash on Delivery, Return to Origin and of course the Last Mile. The Last Mile Delivery portion contributes the most significant amount, currently around 75% to 80% of our revenue from e-Commerce.

Rajendra Prasad: Second question is if you see in last few days we are seeing announcement from Flipkart and Amazon and everybody is expecting sudden surge in e-commerce business? So how are we positioning ourselves in that scenario?

Dhruv Agarwal: In line with the volume expansion and in conjunction with our customer's forecast, is how we are expanding our network. We have moved from 16,000 to 23,000 and the plan is to do 30,000 by end of December but the way things are moving probably we would have crossed 30,000 before that.

Rajendra Prasad: Actually if you see that now the entire focus is shifting towards same day delivery, so how are we going to address that one?

Dhruv Agarwal: Technically if you see same day delivery is possible in the metros. Gati is already providing this service to our customers, of same day delivery. In terms of delivery, we provide different service levels as per the customer's requirement. We have same day pickups and same day delivery. We do have 12-hour delivery. We do 24-hour delivery. We do 48-hour delivery. It is all dependent on the requirement of the customer, but just for the knowledge of everybody the same day delivery today is possible only in the metros. Because it is metros where we are able to pickup and deliver from the vendor to the end customer.

Rajendra Prasad: Like you said you are going to expand in cold chain, the Gati Kausar, so any concrete plans on setting up facilities like warehouses?

Sanjeev Jain: We have concrete plans on Gati Kausar and as I said that we are in the midst of infusing growth capital in Gati Kausar through a private equity investment. The transaction is at advanced stage and I hope in the next one quarter, we will complete the transaction. Gati Kausar is a planning to setup 10 large cold chain warehouses across the country and because of warehouses the whole revenue mix and the profitability of Gati Kausar will change in the next two years.

Rajendra Prasad: Thank you very much Sir.

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

Mayur Gathani: Thanks for the opportunity. Sir can you throw some light on e-fulfilment center, what is the purpose of that and how does it benefit?

Dhruv Agarwal: E-fulfilment centers are basically warehouses where vendors store their inventory and this primarily allows the vendor to outsource the warehousing function. So today they can store their inventory with a service provider like Gati. Flipkart and Amazon have their own fulfilment centers. Fulfilment center is beneficial to the websites because the customer experience can be controlled completely by them. In terms of Gati's plans moving forward, we have very ambitious plans of opening close to 12 to 15 fulfilment centers in this year. We have started two already, one is in Delhi and another one is in Hyderabad. The Delhi one is now processing about 2000 orders a day and gradually that will move up and start doing about 20,000 orders a day and Hyderabad, we are currently processing about 500 orders a day that will move up to 3000 orders a day and depending on our customer's needs and requirements, we will open other fulfilment centers in other locations, again it depends on customer's requirements.

Mayur Gathani: One more clarification, you will shift from 2000 to 20,000 order? you will be managing that?

Dhruv Agarwal: Last mile delivery is separate. The fulfilment center the way we work now, is, from our fulfillment centers, other service providers also come and pick up their loads. Currently we are doing 2000 orders a day and slowly that will move up to 20,000 orders a day at the Delhi fulfilment center.

Mayur Gathani: To understand this more clearly, you could be storing stuff on behalf of the Flipkart's of the world, not Flipkart and Amazon but for others and some other courier guy could also come and pick it up from your center?

Dhruv Agarwal: Just to give you an idea what will happen is, for example, a vendor selling say cellphones has stored his inventory with us and if an order generates out of website A to that seller, it will come to us. we will pick that product, we will pack it, we will invoice it and we will keep it ready for shipment. Now depending on which pincode, what is the agreement with the website, etc., either Gati will deliver it or one of the other service providers will come to our fulfilment center, pick it up and go and do the last mile delivery. So the fulfilment center will only do the processing of the products that is stored with us.

Mayur Gathani: How big are these fulfilment centers?

Dhruv Agarwal: Mayur, we can discuss that offline.

Mayur Gathani: What is your plan for shipping 48% that is still hold?

Dhruv Agarwal: The board has mandated us to exit from the shipping business. We are doing that in multiple way. First we have sold further stake of 12% in the Gati Ship. Second, We sold one of the ship 'Gati Pride' during the quarter. We have one ship left, which is on the west coast of India. This is running jointly with the International Shipping and Logistics. It is a Tata group company. Currently that ship is actually giving us marginal profit.

Mayur Gathani: Can we look at selling that 48% by this year end?

Dhruv Agarwal: I think that is what we are aiming to do.

Mayur Gathani: What is the capex plans on E-commerce and the JV business, can you throw some light separately?

Sanjeev Jain: Most of the businesses are asset-light businesses other than the Gati Ship. We have separate capex plan for Gati Kausar, which I have updated. Gati Ship has now moved from our consolidation due to further divestment of 12% stake. No more Gati Ship will get consolidated in Gati group accounts. We have intent to further look into divestment and completely come out of this business. In terms of the general capex in other businesses, we have around Rs.20 Crores to Rs.25 Crores in our joint venture company which typically is for replacing some of the old truck fleet. We also invest into Techonology and automation and in the last one year, we have provided Tablets to all our Gati Associates in our system apart from material handling equipments (MHEs). So we invest around Rs.20 to Rs.25 in the company annually. The Gati Kausar plans are slightly different since these plans are capex driven. We intent to invest around Rs.120 Crores in the next year for setting up 10 cold chain warehouses across the country and rest of the businesses do not require much capex. E-commerce business is asset-light business. What we need is small operating units across country for network expansion. So we will spend around Rs.10 Crores in Gati in this financial year for facilitating further expansion in E-commerce. So overall in the group, we would have around Rs.35 Crores to Rs.40 Crores of capex barring Gati Kausar which has a different capex plan.

Mayur Gathani: Currently what revenues we get from Gati Kausar, so how many cold chains are operational?

Sanjeev Jain: Gati Kausar has a reefer trucks fleet of over 200, it does not have any warehouse today and the growth capital infusion is primarily to setup the cold chain warehouses.

Jigar: Good morning to the entire team and congratulations for fantastic results. Sir just a followup we would be adding any reefer trucks? Would it be a part of the Rs.25 Crores or regular capex that we do? or capex on cold chain will be only related to the warehouse?

Sanjeev Jain: Capex in the cold chain is primarily for the setting up 10 cold chain warehouses which will happen in the next three years period. In terms of adding reefer trucks we would certainly have more reefer trucks but the model in Gati Kausar is changing from the owned trucks to leased trucks. We are replicating our experience in the main company to the Gati Kausar as well. So for Gati Kausar, its own fleet will remain modest and more trucks will be on long term leased basis. While the cold chain warehouse capex are separate and they are large investments of Rs.120 Crores in the next three years.

Jigar: From 200 trucks with the leased trucks over the next three years, what is the target, how much would like to have?

Sanjeev Jain: **Around** 500 trucks.

Jigar: Sir my next question pertains to this 14.5% OCDs that we have issued against the loans, if you can help in terms of the conversion price or what is the loan amount, which is getting adjusted?

Sanjeev Jain: The board had approved certain financial assistance to second infra project known as Gati Sada Mangder. We had given a loan of Rs.8 Crores and Board decided to convert this loan into OCD at 14.5%. The reason that the loan has moved to the holding company Amrit Jal, which owns three power projects and at some point of time in future there will be liquidity event in Amrit Jal in term of the IPO or the divestment and that will help Gati to monetize the OCD.

Jigar: So the amount, which is adjusted is 8 Crores plus 14.5% interest may be for a year or two, which is the amount which will get adjusted?

Sanjeev Jain: May be further.

Jigar: Yes, I mean this will be the cumulated till the time of conversion.

Sanjeev Jain: Exactly yes.

Jigar: Sir one question which is related to now Flipkart raising a billion dollar or Amazon allocating a couple of now. It is like the big boys becoming bigger and they have their own fleet management to some extent and managing their own logistics. How do you see, does it really affect us and some of our competitors?

Dhruv Agarwal: Growth in the e-commerce story…

Jigar: It is certainly growing phenomenally, how does it affects certain players. Does it affect any set of players negatively with big becoming bigger or it is all a game of funding?

Dhruv Agarwal: With now between Flipkart and Amazon committing $3 billion to India, I think we have to remember that Flipkart and Amazon are at the end of the day, E-commerce website and their core competency lies in selling of the products and they will rely on domestic service providers like Gati to help them move these volumes across the country to help them fulfill their orders and manage the cash on the COD transactions. So more investments in e-commerce means more growth in e-commerce and that is only big positive impact for Gati Ltd and for other logistics service providers, It is just meant that everyone has more business to do.

Jigar: We shortly at the moment also catering to both these companies may be in the form of logistics?

Dhruv Agarwal: We cannot take specific names, but broadly we cater to almost all the E-commerce companies.

Jigar: Just a follow up question, E-fulfilment center will be specific to each client and will that be a part of our existing warehouse or it will be on new location or something?

Dhruv Agarwal: In areas where we can locate we will try to collocate where we cannot, it will be dedicated centers.

Jigar: It will be the client specific and is there a long-term commitment from the client when they ask you to setup a E-fulfillment center?

Dhruv Agarwal: Yes some will be client specific and some will not be client specific. This will be more geared towards the vendors.

Jigar: Thank you so much. Thanks.

Moderator: Thank you. We have next question from the line of Jehangir Master from Siddhesh Capital. Please go ahead.

Chaitanya: Good morning Sir. Sir just want to know that for the Kausar expansions have you identified any location for the warehouses?

Sanjeev Jain: Thank you Chaitanya. We have a detailed plan for setting up these 10 cold chain warehouses. The locations have been identified and the first warehouse will come in Delhi.

Chaitanya: What would be the timeframe, as in, for next two years? within the next two years would you be setting up all 10 warehouses or it would take a little bit more time?

Sanjeev Jain: The discussions with the proposed investors that there is a capital investment plan which envisages a period of two and a half years to 3 years to complete the complete setting up of the ten cold chain warehouses.

Chaitanya: Sir I just I think I missed out what is amount you are looking to raise for GATI Kausar?

Sanjeev Jain: Gati Kausar is a structured transaction. We are looking combination of equity and debt, the total amount we are looking is around 150 Crores.

Chaitanya: Just one last question with regards to E-commerce what would be your current touch points and your guidance going forward? With there is huge expansion investment being brought in by Amazon and Flipkart, how do you see your touch points increasing from the current levels?

Dhruv Agarwal: As of now, our growth projections are concerned, we have closed it at about 62 Crores for the 12 months period ending June and now at the moment, our projection is that we will be growing that by another 100% by the end of this financial year and in line with the volume increasing, we are also expanding our networks. We will be opening up approximately 90 more operating units to strengthen our Last Mile Delivery network. We will be expanding our capacity, which currently is about 23000 deliveries per day to about 30000 deliveries per day by the end of December quarter. We had projected that we would be having 20000 deliveries per day by June quarter. But in line with requirements we went up to 23000 deliveries per day. So I think that little bit plus and minus will happen. But in line with growth and volume of our customers, we are also expanding our network.

Chaitanya: Thank you.

Moderator: Thank you. We have next question from the line of Mansi Verma from Karma Capital. Please go ahead.

Mansi Verma: Congratulations on a very good set of number. If you could share some details on what kind of capacity addition like you mentioned you have 10 cold chain warehouses, what kind of capacity with addition, are you looking at if you could share in tonnes or pallets?

Sanjeev Jain: In terms of pallet?

Mansi Verma: Yes.

Sanjeev Jain: In the cold chain?

Mansi Verma: In the cold chain Kausar.

Sanjeev Jain: These warehouses will be of varying capacity. the smaller one will have a pallet capacity of 3500 and the bigger ones 5000 pallets.

Mansi Verma: What kind of margins or ROEs can we expect from the cold chain setup that you will have and you said you will be setting these up over the period of three years. So what kind of capacity utilization are you planning to have in the next three years or you targeting?

Sanjeev Jain: EBITDA margin in reefer transportation is around 12%-13%. But in the cold chain warehouses, the EBITDA margins are significantly higher. We have the benchmark number of competitors, which are as high as 30% EBITDA margins, but we have considered modest margins in our business plan. Hence the EBITDA margins will improve from current 12% to over 20% once the Warehouse are set up .

Mansi Verma: What kind of capacity utilization, are you expecting for these maybe in the Q1, Q2 and Q3?

Sanjeev Jain: Over a period of 24 months after setting up the first cold chain warehouse, we are looking for a capacity utilization in the range of 85%, which is the quite evident with the competitors fill factor in other cold chain warehouses.

Mansi Verma: In terms of the customer mix in terms of the sectors, which are going to be the primary sectors that you are going to service may be is that agri, is it pharma?

Sanjeev Jain: In the cold chain today, major sectors who require the services are dairy product, meat, pharma, fresh fruits. Our customers in these sectors will continue when we set up the cold chain warehouses.

Mansi Verma: Thank you for all that information.

Moderator: Thank you. We have next question from the line of Dinesh Nihalani from Angel Broking. Please go ahead.

Dinesh Nihalani: Thanks for the opportunity. This is with specific reference to Gati-Kintetsu if you can give some color on the client additions, sectors in which you have seen traction and the initiatives you have taken?

Sanjeev Jain: In Gati-Kintetsu, in the sectors we cater to, we serve all the major companies. Almost seven companies out of top 10 customers of a particular sector are part of customer portfolio. It is difficult to name the customers because of the confidentiality reason. But major verticals, we serve, are pharma, apparel, FMCG, auto, where we have the leadership position as service provider .

Dinesh Nihalani: Okay and how do you see business going forward?

Sanjeev Jain: In the last year, the business has grown around 19%. We believe that we must maintain a minimum growth in the range of 15% to 20% and with the economic momentum picking up we believe that our growth will further pickup.

Dinesh Nihalani: Thanks. That is it from my side.

Moderator: Thank you. Next question is from the line of Mr. Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala: Sir if you could highlight something on the Project Udaan these synergies that we have extracted under this association with the IBM and the complete plan I think we have got plan of approximately three years. So what kind of total synergies are we looking at from this project? Second is we shared that on the E-commerce vertical we have got a reach of approximately to 23000, we have got capacity a deliver to 23000 packages a day, what is the current runrate of the delivery that we are looking at? Thank you.

Dhruv Agarwal: On project Udaan, so far we have been focusing on improving efficiency in our services and also in bringing more visibility in terms of optimizing workforce productivity , maximizing our sales etc . It is a little tough to quantify the synergies. But in broad terms, in the last couple of quarters, Udaan has added about 1% in our EBITDA. Moving forward, We have another 24 months of engagement and we have structured and planned rollout of several other initiatives moving forward. We will continue to update in further calls as to how they are progressing.

In terms of E-commerce, our capacity is about 23000 shipments a day and I am not sure what you meant by runrate, if you can clarify that.

Binoy Jariwala: So let us say this particular quarter, we did about 20 to 22 Crores of revenue am I right?

Dhruv Agarwal: Yes about 22 Crores

Binoy Jariwala: In terms packages what would be the number of packages delivered?

Dhruv Agarwal: At the end of March quarter our capacity was 16000 a day and the current runrate is 23000 packages a day.

Binoy Jariwala: So that is the capacity, and is we operating and full capacity?

Dhruv Agarwal: If you see the last quarter, On an average, we have done about 19500 to 20000 orders a day delivery.

Binoy Jariwala: One add point to this we are looking at E-fulfilment centers, let us say if already got two centers operational and let us say we are processing orders for about 2000 and 500 orders so what this also classifies as separate orders?

Dhruv Agarwal: It is a separate service. Our customer might want us to do only the fulfillment and not the Last Mile Delivery or they might want us to do both but not the reverse logistics. We can give them the end-to-end service. So we offer them pick up from the vendor or the reseller on the website. It is called e-Pick where we go and pick up from all the vendors and bring it to our warehouse. We consolidate the orders then different service providers come to our warehouse and take their share and go and do the last mile. We provide them fulfillment also where all the orders from the vendors come and then they get processed, packed, invoiced etc., at our location. Of course our biggest strength is doing the last mile delivery and other add on services like Cash on Delivery where we collect the cash and remit it back to the customers and reverse logistics where we will pick up from customer and take it all the way back to the vendors or seller website. So, we provide a range of services. Some customers take the entire range from us and some people pick and choose.

Binoy Jariwala: Sir my actual question was let us say if you have to do supply chain management for let us say 2000 orders and in addition to that the customers tells you that you have to do of these all 2000 orders, you also do the Last Mile Delivery, so how do you classify it. 4000 orders or would you still classify it as 2000 orders per day?

Dhruv Agarwal: No, this will show our deliveries as only 2000 orders and it does not matter whether it is coming from Gati fulfillment center or some other fulfillment center. So the 2000 Nos of order processing in the warehouse is limited only to the fulfillment service. Now 2000 Nos of delivery is only counted as 2000 and not counted as 4000 Nos.

Binoy Jariwala: In terms of your reach how many pincodes or touch points would you have currently, for the e-commerce vertical for the COD vertical?

Dhruv Agarwal: Especially for E-commerce, COD etc., we are doing about 16500 pincodes currently.

Binoy Jariwala: All these pincodes you offer COD facilities?

Dhruv Agarwal: Yes.

Binoy Jariwala: Okay and one last question. When you have discussions with your clients let us say Amazon or Flipkart what is their inclination in terms of establishing their own captive network, captive express delivery networks?

Dhruv Agarwal: I will explain it very simply, the websites today they want to control the customer experience. From the time customer orders to the time he actually receives the package, they want to control and also as a matter of branding you will find that in the major metros, the Amazon and Flipkarts prefer to have their own Last Mile Delivery to see Flipkart person delivering something you have ordered Flipkart. Probably in tier II or tier III towns you will not find that the same model running because they have not expanded the reach and network there and they have not shared their plans in this regard with us. However, We cannot take names of customer, but most of the top E-commerce companies in India are our customers. They are only asking us to expand our services more.

Binoy Jariwala: Thanks a lot. That is it from my side. Thank you.

Moderator: Thank you. We have next question from the line of Jehangir Master from Siddhesh Capital. Please go ahead.

Chaitanya: This is a follow up. I just want to know what could be your current return percentage in your E-commerce deliveries.

Sanjeev Jain: Return to origin you mean like things that are returned by the customer. It is about 11%.

Chaitanya: Sorry.

Sanjeev Jain: About 11%.

Chaitanya: What would be it in the previous quarter?

Sanjeev Jain: It has been the same. You can say like, from January to June, it has been about 11%. It has not moved up or down.

Chaitanya: Thanks.

Moderator: Thank you. We have next question from the line of Siddharth Bhattacharya from Suyash Advisors. Please go ahead.

Siddharth: I just wanted to understand the debt breakup in the company as of now? We have 423 Crores of debt as of the quarter end. I just want to understand how much of that is in each entity. You mentioned 161 Crores was in the joint venture. So can you give me breakup of the other entities also?

Sanjeev Jain: Gati as a standalone entity has a debt of around 240 Crores out of which 133 Crores is FCCB , GKEPL has a debt of Rs.161 Crores, Gati Ship as I briefed that it has been de-subsidiarised whose balance sheet is not part of the consolidated accounts and Kausar debts are 21 Crores and rest of the entities have virtually no debt. So total debt is 423 Crores.

Siddharth: In terms of cash that will come to us, once we, sort of divest the shipping business, what is our estimate of that amount?

Sanjeev Jain: Can you please repeat the question?

Siddharth: We are looking to get out of the shipping business totally right. Let us say in a year's time what the amount of cash that will be freed up from that particular divestment?

Sanjeev Jain: As explained that Gati Ship accounts are no more part of Gati consolidation process. So Gati Ship is now an associate company of Gati. We as a shareholder hold 48% and there are other shareholders as well . Today we are left with only one ship, which is doing well on the West Coast of India with ISL and we believe that the company is now in position to meet its own debt obligation vis-à-vis the assets. So the assets will be sufficient to pay of its liability. We do not expect any major inflow or outflow because of Gati Ship whether it is closed or divested.

Siddharth: I just want to understand because we are looking to invest something like 150 to 160 Crores in capex in the next one or one and a half years so I just want to understand where would be the debt part of this particular investment come from?

Sanjeev Jain: Our capex plan in the joint venture company, GKEPL and Gati they are primarily from internal accruals. The large capex are part of cold chain company Gati Kausar, for which the growth capital being infused and that is a structured transaction of debt as well as equity. So rest of the companies will be from internal accruals and for Gati Kausar because the capex plans are high, it is part of the private equity transaction.

Siddharth: Thanks a lot.

Moderator: Thank you. Ladies and gentlemen, there was a last question from the participants. I would now like to hand over the floor back to Mr. Tejas Sheth for his closing remarks from Emkay Global. Over to you Sir!

Tejas Sheth: On behalf of Emkay, I would like to thank you all for joining on the call. Have a great day.

Sanjeev Jain: Thank you everyone. Thank you everyone for your participation. Thanks a lot.

Moderator: Thank you all on behalf of Emkay Global Financial Services that concludes today conference. Thank you for joining us. You may now disconnect your lines.