"GATI Ltd Q2 FY15 Results Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Gati Limited's Q2 FY15 Results Conference Call, hosted by Systematix Shares and Stocks Ltd. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask question after the presentation concludes. Should you need any assistance during the conference call, please signal to operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jigar Kamdar from Systematix Shares & Stocks. Thank you and over to you Mr. Kamdar.

Jigar Kamdar: Thank you. Good morning ladies and gentlemen and warm welcome to the conference call of Gati Limited to discuss the financial performance of the second quarter FY15. On behalf of the Systematix Shares & Stocks Ltd we would like to thank the Gati Management for taking the time off their busy schedule. Gati management will be represented by Mr. Sanjeev Kumar Jain, Director Finance, Gati Limited, Mr Bala Aghoramurthy, President and Whole Time Director, Gati Kintetsu Express Private Limited, Mr. Dhruv Agarwal, Executive Vice President of Gati Kintetsu Express Private Limited, Mr. Peter Jayakumar, Deputy CFO, Gati Kintetsu Express Private Limited and Mr. VSN Raju, Company Secretary Gati Limited. I would now request Mr. Sanjeev Jain to brief about the financial performance for the second quarter of FY15 then we will start the Q&A session. I will hand over the call to Mr. Sanjeev Jain.

Sanjeev Jain: Thanks Jigar. Good morning friends and very warm welcome to the discussion on results for second quarter FY 2014-15. We thank you all for joining us and it is pleasure to connect with all of you. Our discussion today may include certain forward looking statements and this must be viewed in conjunction with the risk that our company faces. I will take this presentation forward in the following sequence. First ,we will discuss key business highlights and then financial performance of Gati Group for this quarter. We will then take up the performance and the guidance we had given to the market. Post that ,we will open the floor for Q & A.

At the Outset, S&P outlook for India has changed from negative to positive and GDP growth for the Ist quarter was 5.7%. It is expected to be 5.6% for the financial year 2014-15.

There were key announcements from the new government and one of them is very important for us i.e Make in India campaign which got announced on September 25, 2014. It targets to make India a global manufacturing powerhouse, which will increase the manufacturing share in the GDP from 16% to 25%. The 25 key sectors identified by the said campaign includes automobiles, pharmaceuticals and clothing and textile .These sectors have significant contribution in Gati's revenue.

The next important indicator is that e-**retail** market size is increasing consistently, currently it is expected to be at $2.3 billion . The e-Retail market is expected to grow at a CAGR of over 55% in next couple of years.

Coming to development of Gati, as Indian economy gradually moves forward in the next growth cycle we at Gati are preparing ourselves for this growth phase, we are upgrading our network, our team, our head counts and warehousing capacity.

This quarter has been important since some of the important initiatives got closed in this quarter. To refer some of them is the closure of Gati Kausar transaction. Since last two quarters we were actively speaking, that we were in dialogue with private equity investment for growth capital infusion in the Gati Kausar to venture in cold chain warehouses. The transaction got closed on October 6, 2014 when we got the required infusion, I will discuss the details later on. Our trading arm Gati Import and Export won Supply chain innovation of the year award in 8th Express Logistics Supply Chain. This is a prestigious award for any supply chain company.

Our head count increased by 8% in this quarter to cater to our future growth plans. The rating of our joint venture company GKEPL was upgraded from A- to A by Care . This is second upgrade after ICRA did the rating upgrade last quarter. In terms of meeting the growing requirements of volumes, Gati is now focusing on shop floor automation, which is end-to-end scanning of all parcels that will require large amount of capex in automation /technology .

Coming to the first development, the Gati Kausar transaction, got closed as on October 6, 2014 through a private equity fund infusion. The name of the investor is Mandala Capital and Mandala Agribusiness Investment Limited. The deal size is of Rs.150 Crores which is a structured deal comprising equity and compulsory convertible preferential shares (CCPS) and listed non-convertible debentures (NCD) . Rs.30 Crores is the equity amount which got infused on October 6, 2014 and NCD of Rs.120 Crores which we can draw in the next two and a half years. The first tranche of NCD has been drawn. Total amount infused as on October 6, 2014 is Rs.36 Crores. This growth capital will be used to roll out 10 cold chain warehouses by financial year 2017. Gati Kausar also plans to increase the fleet size to 375 from the current fleet size of 200. We are also looking at development of vendor fleet. The revenue size of Gati Kausar will be in the range of above 220 Crores by 2017.

Currently the Reefer transportation business of Gati Kausar generates EBITDA of around 10%, and we expect the combined EBITDA will be about 20% by FY 2017 . Gati Kausar will have debt equity ratio of 1:2.5 which will reduce by 2020 to 1:1, and these warehouses will have a discounted payback period of around six years.

There is further development on rolling out e-fulfillment center. I would request my colleague Dhruv to update on e-fulfillment.

Dhruv Agarwal: Hi everybody Dhruv here. Just to backtrack in our previous call, we had discussed that we would be rolling out fulfillment centers in the major metros by end of December quarter. We have brought that forward and have gone live in three locations i.e. Delhi, Hyderabad and Mumbai approximately 1.5 lakhs square feet. The fulfillment centers currently are not at 100% capacity but the ramp up will take place and all three should be at 100% capacity by the end of March quarter and we delivered a successful Diwali season recently .

Moving forward we are opening up more fulfillment centers in the coming quarters in other metros and tier 1 and tier 2 cities I would be happy to take more questions on this later. Back to you Sanjeev.

Sanjeev Jain: Thanks Dhruv. On e-commerce logistics business there is update that our business is growing impressively. Last year, in the 12 months period , we earned revenue of Rs.62 Crores while in this quarter , e-commerce revenue is Rs.23.5 Crores and the half early revenue is Rs.45 Crores. We expect this business to cross a 100 Crore marks in this financial year. In terms of network size, we have reached network size of 30000 packages per day while we deliver 25000 packages every day and this capacity will continue to increase. The number of bikers which is our last mile network is 600 currently and we have set up 10 e-pack centers till now. We are creating dedicated Sorting Centers for e-commerce logistics.

Coming to the financial number for this quarter and the half year, this quarter the consolidated revenue for the group is Rs.415 Crores compared to Rs.400 Crores of last quarter and Rs.367 Crores corresponding quarter of previous year, which gives revenue growth of 13% on YoY basis and 4% on QoQ basis. While the year-on-year growth in revenue on consolidated basis is 13%, but the core business comprising GKPEL business, our express distribution business and e-commerce business grew by 17%. EBITDA for the quarter is 38.5 Crores compared to 40.4 Crores of last quarter and Rs.28.7 Crores of corresponding quarter in the previous year, which indicates a YoY growth of 34% and a negative growth of 5% on QoQ basis. The negative growth is due to investment made in upgrading our capacity and head counts.

The PBT for the quarter is Rs.21 Crores compared to Rs.23 Crores of the previous quarter and Rs.10 Crores of the corresponding quarter in the previous year which indicates a YoY growth of 109% and negative growth of 20% compared to previous quarter.

The PAT for this quarter is Rs.12.5 Crores compared to Rs.15.1 Crores of previous quarter and Rs.5.7 Crores of the corresponding quarter in the previous year, which is 117% increase on YoY basis and 10% negative growth compared to the previous quarter.

In this quarter ,we absorbed an exceptional cost item of Rs.3 Crores of Compounding Fees paid to RBI , regulator. The debt levels are at Rs.430 Crores and as we said in our previous calls that Gati will maintain debt levels at less than Rs.500 Crores. There is a marginal increase of Rs.7 Crores as compared to previous quarter which is primarily contributed by increase in FCCB liability on account of exchange fluctuation.

Our half yearly revenue number for September ending is Rs.815 Crores compared to Rs.693 Crores in the previous year for the same half year, indicating a YoY growth of 18%. The EBITDA is Rs.79 Crores compared to Rs.55 Crores in the previous half indicating an YoY growth of 46%, PBT of Rs.27.5 Crores compared to Rs.12.9 Crores of previous year H1 indicating an YoY growth of 112%.

The total debt in the group including all its subsidiary is Rs.430 Crores compared to Rs.423 Crores of previous quarter. There is 7 Crores increase in the debt, primarily due to increase in the FCCB liability because of exchange rate fluctuations and some amount of increase in the working capital limits. However overall debt levels are maintained to our commitment of less than Rs.500 Crores.

In terms of entity wise performance in the group, our flagship company Gati-Kintetsu Express Private Limited, the revenue for the quarter is Rs.291 Crores compared to Rs.280 Crores of the previous quarter indicating an YoY growth of 17% and quarterly growth of 4%. On half yearly basis the revenue Rs.572 Crores compared to Rs.490 Crores of the previous half year indicating a growth of 17%.

In terms of EBITDA which improved compared to previous quarter. EBITDA for the quarter is Rs.33.6 Crores compared to 32.4 Crores of previous quarter and 23.4 Crores of corresponding quarter in the previous years, that indicates a YoY growth of 43% and quarterly growth of 4%.

PBT is at Rs.23.7 Crores while in the previous quarter the PBT was 22.7 Crores and the corresponding quarter in the previous year, it was Rs.14.4 Crores, which gives a yearly growth of 65% and quarterly growth of 5%.

Gati as a standalone entity, has three businesses comprising primarily the e-commerce logistics business, fuel stations and freight forwarding business, the combined revenue of all of the businesses put together is Rs.105 Crores for the quarter with the EBITDA of Rs.12.8 Crores and PBT of 6.9 Crores.

The revenue growth on YoY basis is 34% while on QoQ basis is 10%. EBITDA has increased by 150% on annualized basis and on quarterly basis this is increased by 68%. At PBT level there is significant increase of 297% on annualized basis and 89% on the business QoQ.

Gati Kausar has a dip in the revenue. The revenue for the current quarter is 9.3 Crores which has come down compared to Rs.12.3 Crores of previous quarter. The degrowth is because, some of the sectors especially the meat and ice cream did not grow the way it was expected. We believe that the degrowth will be recovered in this quarter and with the growth capital infusion in Gati Kausar, Gati Kausar profitability will be on track.

The EBITDA for Gati Kausar for this quarter is minus 0.5 Crores as compared to Rs.1.4 Crores in the last quarter. PBT is minus Rs.2 Crores compared to Rs.0.2 Crores of previous quarter. With Gati Kausar investment plan . we believe that Gati Kausar in this financial year will be on track.

Coming to the guidance for the year, business has slight cyclical impact in the first half. Performance in the second half will be slightly better than the first half. For comparison, we have prorated the number for the first half accordingly. Our guidance for the full year is Rs.1757 Crores of revenue and for the half year it is Rs.843 Crores, against which the actual revenue is Rs.815 Crores which takes us to 97% of the achievement of guidance. At EBTIDA level we had set a target of Rs.168 Crores and for the six monthly target it is Rs.81 Crores while the actual EBITDA is Rs.79 Crores it is around 90% of the guidance target.

PBT we had set a target of Rs.100 Crores and six monthly target is Rs.48 Crores while the actual achievement is 44 Crores which is 92% of the guidance number. The guidance numbers are in the range of 95% and we believe that we will be able to meet the guidance numbers in this financial year.

Friends, this is overall update about financial performance of the group. Our EBITDA compared to the previous year in the group improved from 8.5% to 9.7%. So there is continuous improvement in the EBTIDA and similar impact is in other profitability ratios. I hope this to continue to improve, because Gati ship's losses have now become non-existent in the group and I believe that overall FY 2014-15 will be better as compared to FY 2013-14.

I open the floor for your questions. Thank you very much.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: Sir how much of funds over a period of two years can be raised or drawn down in Gati Kausar, we have done 36 Crores as of now?

Sanjeev Jain: The total deal size is of Rs150 Crores out of which Rs.30 Crores is towards equity, and we have received amount towards entire equity on October 6, 2014. Out of debt of Rs.120 Crores, we have drawn 6 Crores that, means the remaining Rs.114 Crores we can draw in the next two years.

Mayur Gathani: That will be debt right.

Sanjeev Jain: This is NCD, non-convertible listed bond.

Mayur Gathani: So in that case can we stick to our plans for having 10 cold chain warehouses over a period of next two years?

Sanjeev Jain: Yes.

Mayur Gathani: And we do not intend to invest. i.e Gati itself is not investing anymore in Gati Kausar?

Sanjeev Jain: Ten cold chain warehouses will have a capital outlay of around Rs.170 Crores. Apart from recent capital infusion , Gati Kausar will also have internal accruals. So overall capital investment Program (CIP) plan is over Rs.200 Crores in the next two-and-a-half years. Apart from the PE growth fund infusion, the internal accruals of Gati Kausar will also get reinvested.

Mayur Gathani: Do you intend to put more money in the subsidiary? We were under the impression that Gati will not be investing, whatever will come, it will be through internal accruals or from outside debt or equity.

Sanjeev Jain: That assumption is correct.

Mayur Gathani: Coming to e-fulfillment centers what is the capex we are looking at, you spoke about some kind of automation, is that related to e-fulfillment or I missed the opening remarks on capex and automation?

Sanjeev Jain: The thrust on Automation is at group level but focused on e-commerce. eFC will have its own Capex. My colleague Dhruv will answer the question.

Dhruv Agarwal: Hi Mayur, we have a capex plan for the next 12 months, majority of this capex will go into setting up these fulfillment centers, and we are aiming to have close to around 3 lakhs square feet by the end of this financial year.

Mayur Gathani: What is the capex that you are looking at in this e-fulfillment?

Dhruv Agarwal: We are looking at a capex of approximately around 10 to 12 Crores this year.

Mayur Gathani: So that will take care, we already have 1.5 and overall will be 10 to 12 Crores for 3 lakhs.

Dhruv Agarwal: Our customers' requirements mostly are being pulled forward, we are aiming to open another 3 to 4 fulfillment centers in this financial year but it is quite possible that we will be opening more than that.

Mayur Gathani: Okay fine, specifically for Gati as a company capex and automation is something you spoke about, what will be the capex in the automation side or generally give me an overall capex number for the company.

Sanjeev Jain: Normal capex for the group is around Rs.25 to Rs.30 Crores. This is in addition to the eFC capex. Major capex is in the joint venture company, which goes for the replacement of old fleet. We change around 100 trucks every year that are over seven years of age and also invest in automation which is basically in the Material Handling Equipments and in Information technology. Overall capex in the group comprising GKEPL and Gati is around 35 Crores.

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

Chaitanya A: I have three questions, first is in the standalone other income increased by around 81% so can you throw some light from 1.6 it is now at 2.9 Crores and second is in the segmental results express distribution PBIT if you see it on a QoQ basis it is down approximately 10% so any thoughts on that and the third would be if you can throw some light on the compounding fees of this 3 Crores which you have accounted for in the exceptional items.

Sanjeev Jain: Chaitanya the other income in standalone comprises primarily dividend received by Gati from the joint venture company and also sale of old trucks. So that defines the other income in the standalone company. What is your second question Chaitanya?

Chaitanya A: The express distribution in segmental results.

Sanjeev Jain: That includes all our businesses other than the fuel stations. The results of this quarter is down because of the investment made in the capacity expansion and the addition in the head counts. We have reported around 8% head count increase in this quarter to cater our future r growth of the company, which has gone into the cost. And Gati Kausar incurred a loss of Rs.2 Crores in this quarter. So the profitability of the Express segment is lower compared to last quarter**.** Coming to the compounding fees, the company has paid Rs.2.96 Crores as compounding fees to RBI. It is a compounding fee issue going on in the AP high court against the RBI order on the bond. The fees has been paid as on October 1, 2014 and company has accounted for this in September 30, 2014 in the Q2 as an exceptional item in the P&L.

Moderator: Thank you. We have next question from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.

Dhiresh Pathak: These ten cold chain warehouses how much pallet capacity would it correspond to?

Sanjeev Jain: Each warehouse will have 2500 pallets for the smaller one and 5000 pallets for bigger one the combined pallets of all these ten warehouses will be around 43000 pallets.

Dhiresh Pathak: What is your current pallet capacity?

Sanjeev Jain: Currently Gati Kausar is only in reefer transportation, it has a fleet size of over 200 reefer transportation trucks, it is not into warehousing. The growth capital infusion has been done to roll out the cold chain warehouses, which we will shortly start constructing .

Dhiresh Pathak: And this would be on leased land but own buildings right .

Sanjeev Jain: Most of them will be on the leased land, some of the Gati land parcel may also be utilized to create these cold chain warehouses.

Moderator: Thank you. We have next question from the line of Debrat Mohta from Fidelity. Please go ahead.

Debrat Mohta: Sir I had two questions. The first one is can you explain a little clearly about exactly what you all are doing with the e-fulfillment centers, how many are there currently, what is the plan in terms of how many are you trying to add and are they owned or are they leased, can you just take us through the broad economics of the e-fulfillment centers?

Dhruv Agarwal: Hi Debrat, Dhruv here. Fulfillment centers are essentially warehouses where product is stored and then based on the orders received by the various market places or websites we process those orders and get them ready for shipment. Currently Gati has gone live at three locations Mumbai, Hyderabad and Delhi with three separate fulfillment centers and the total space is about 1.5 lakhs square feet. Just to give you an idea currently they are doing approximately 4000 orders per day and these are not at full capacity as yet, because we are still on boarding products and vendors and in the Diwali season, these eFC were doing approximately 8000 orders a day. Over a period of time once they reach 100% capacity these three sites together should have the potential to cater to approximately 25000 orders a day. Moving forward we plan to open fulfillment centers in couple of other metros namely Chennai and Kolkata in the near future. Initially we had a plan of opening about 15 to 19 e-fulfillment centers which also included tier 1, tier 2 cities, but these plans keep changing based on our customers' requirements and where they want to focus. As of now we have three fulfillment centers and all the warehouses are leased. Moving forward again either we would be going down the leased model or if we have the opportunity to use some of Gati's existing land parcels we might even build our own fulfillment centers. The kind of products that go through these fulfillment centers are quite varied; at any given point of time there could be upwards of 20 different product categories that sit in a fulfillment center, so just to give you an example within the same fulfillment center we would be processing everything from books, apparel, fashion accessories, white goods, electronic items, cookware, so on and so forth. This should be a brief idea of what we are doing with these fulfillment centers. Any further questions on this?

Debrat Mohta: Do you a apart from just storing it do any other value addition?

Dhruv Agarwal: This is all an activity based fulfillment center so we would provide entire inbound services i.e we would also do a piece-by-piece quality check when orders are received. I am sure you must have ordered things online, when you order either a single line item or you might order three or four different things within the same order we pick those items, we pack them make them ready for transit and get them ready for shipment, beside storage we also do the order processing and the packing.

Debrat Mohta: And all of this gets combined under your e-commerce so when you talk about the e-commerce division all these come under the e-commerce division?

Dhruv Agarwal: So far whatever we have been talking it has only been the logistics portion which includes the pickup and the delivery and white goods packaging the number of this quarter also includes some revenue from the fulfillment centers.

Debrat Mohta: Just to get a sense how big can this just part of the business become in three years from now?

Dhruv Agarwal: See the projected growth for fulfillment centers. Just to give you an broad idea, logistics cost is 10% of revenue of e-tailers and may be another 3% of that is the cost for fulfillment. The growth in the fulfillment centers could be as much as we are seeing in our e-com delivery space and it could grow easily 100% YoY. But again it all depends on demand and this also requires a lot of capital investment. The potential is massive.

Debrat Mohta: The other question actually was pertaining to shipping I just wanted to understand that it has been completely divested and also out of your total debt how much debt corresponds to the shipping business. Because your quarterly numbers did not seem to have any contribution from the shipping business. So will debt go down because of the shipping business going out or how should we think about that?

Sanjeev Jain: The shipping business got de-subsidarized as of May 14 in quarter Q1 of this year and the company has become an associate company. Gati has divested the majority part to other stake holders and the business is left with only one ship Gati Majestic which is also in the final stage of disposal. You are correct that some amount of debt has gone with Gati Ship Limited but those debts are not very significant, we believe that the sale of Gati Majestic and two properties in the Gati Ship will take care of the loan obligation of the Gati Ship. So Gati Ship in this quarter has no impact on the Gati's financial either in the balance sheet or in the P&L.

Debrat Mohta: So there is no debt pertaining to Gati Shipping?

Sanjeev Jain: There are no debts on Gati Ship in Gati books.

Debrat Mohta: And whatever debt obligations are there for Gati Ship will get taken care of by Gati Ship itself.

Sanjeev Jain: With the disposal of this last ship Gati Majestic and two properties are sufficient to take care of the loan obligation of Gati Ship.

Moderator: Thank you. We have next question from the line of Sadanand Shetty from Taurus Asset Management. Please go ahead.

Sadanand Shetty: I want to know the basic data, right now you said you ship roughly about 35000 parcels or 25000 parcels?

Sanjeev Jain: Are you talking of the e-commerce?

Dhruv Agarwal: Our current delivery capacity is about 30,000 shipments a day, at the end of last quarter we were doing about 23,000 shipments a day delivery capacity though in this Diwali season again due to the excessive order volumes in the month of October on an average we were actually doing close to 35000 shipments a day.

Sadanand Shetty: What is your target for fiscal year end, not only on the shipment, also on your biker and the people capacity?

Dhruv Agarwal: Sure, on the shipment portion of it we are aiming to hit about 40,000 shipments a day in the December quarter. However in the last quarter and in this quarter also we are focusing a lot more on automating some of our processes so, that we can provide better service and better visibility to our customers.

Sadanand Shetty: Can you tell on that part automation?

Dhruv Agarwal: Automating in the sense, we have already rolled out delivery updation using tablets across one out of four zones. We will be targeting to roll these out in the rest of the zones. The other thing is to rollout scanning at every point in the process which is again rolled out in one of the zones as pilot which went successfully, now we will be looking at rolling it out across the country by the end of December quarter maybe it will spill over in to January or so. In terms of our fleet currently we have about approximately 500 two wheelers and about 320 four wheelers and moving forward till December plan is to add another 300 two wheelers and about 200 odd four wheelers right now. You can say we have about dedicated 800 vehicles for our deliveries and we will be adding another 400 to 500 between two wheelers and four wheelers.

Sadanand Shetty: Since you are seeing sustained growth what kind of rate of growth if this infrastructure you think would happen in next two, three years?

Dhruv Agarwal: No we see that our target is to grow at least by 100% YoY over the next couple of years but the way the volumes are surging it will be tough to say beyond one year what it will look like but definitely it will be 100% plus growth. It is for us to see if we can exceed that 100% YoY in the next couple of years.

Sadanand Shetty: I was referring to the operational part of it, fleet, bike, peoples and document what kind of rate of growth you would expect to see.

Dhruv Agarwal: In terms of top line, there will be 100% YoY growth. In terms of infrastructure and bikers etc, just for an example, when within one operating unit where we see sizable volumes, we are also switching the mode of transport from two wheelers into three wheelers or into four wheelers so that probably the addition of people and infrastructure in terms of vehicle might not be directly proportional. That might vary depending on the kind of packages and other factors. There are many variables to that and it will be tough to say over the next two to three years, how that will progress.

Sadanand Shetty: Any new client wins on the e-commerce side that you have seen in last one quarter?

Dhruv Agarwal: E-com we are working with all the major websites and the major market places. So there has been no real change in that. But yes we are doing some additional lines of business with a couple of the major e-retailers, one of them is biggest market players in India. Through our subsidiary GIETL, We procure all the branded packing material on their behalf and sell it to their vendors in their website . So there are new business models and new lines of business that are coming from our existing customers. Some of the websites have gone away, some new websites have come but their contribution is very miniscule.

Sadanand Shetty: What kind of operating margin benefit you get out of your e-fulfillment center incrementally?

Dhruv Agarwal: We would not like to discuss the yield and figures etc but you can say that fulfillment centers are a tad more profitable than a regular normal third party logistics contract would be.

Sadanand Shetty: Do you price them separately or is it a part of your deal with the e-commerce company?

Dhruv Agarwal: Yes, revenue model and operations are separate and different from our pickup and deliveries, because activity, infrastructure and everything we do is very different from forward delivery .

Sadanand Shetty: You said currently you have roughly 4000 orders you do for the e-fulfillment center if I can understand this 4000 out of 30000 that you do is that correct?

Dhruv Agarwal: No that is not right, 30,000 is our delivery capacity which is completely separate from the fulfillment center capacity. The fulfillment center actually have a design capacity of 20000 to 25000 orders per day, currently we are at 4000 because we are just set up and still on-boarding the products and vendors etc. So you will have to see it as 30000 shipments plus fulfillment capacity.

Sadanand Shetty: So 4000 shipped exclusively by you only right?

Dhruv Agarwal: It is not exclusively by us, we just do the fulfillment and then the various service providers take a portion of that. So Gati would also take their own portion and the other service providers also take their portion of deliveries from that.

Sadanand Shetty: It is an independent business for you.

Dhruv Agarwal: It is independent yes.

Sadanand Shetty: You said 12 Crores capex roughly and you said it is also on a leased based, where is this capex is deployed?

Dhruv Agarwal: Every capex investment goes into the infrastructure that is required within the warehouse the racking, the barcode scanners, the IT systems, conveyor belts, packaging material etc

Moderator: Thank you. We have next question from the line of Supratim Banerjee from India Equity Partners. Please go ahead.

Supratim Banerjee: I had a question around the overall due of the express distribution business as well Gati Kausar and the context of diesel deregulation how do you see that impacting your margins?

Dhruv Agarwal: Can you repeat your question please?

Supratim Banerjee: I said that in the context of diesel deregulation how do you see the impact on operating an EBITDA margin on the express distribution business as well as the Gati Kausar the fleet part of the Gati Kausar business.

Bala Aghoramurthy: Let me take that up. This obviously has been announced in the last two weeks only. We do expect at an overall level a positive impact on our bottom line, of course the impact for us comes both at the revenue line and in our cost line as well but the overall impact on the bottom line we believe it is going to be positive. we are obviously conscious that our customers will look to have a part of this drop in diesel price towards them and similarly we will have to speak with our vendors as well who provide us the vehicle so we are in the process of working out the financials but overall it should be positive in the bottom line.

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

Madan Gopal: Sir what is the sort of revenue you did in e-fulfillment center in this quarter?

Sanjeev Jain: The e-fulfillment center started just in this quarter, so this activity is new, the overall revenue impact of e-fulfillment center this quarter is less than a Crore.

Madan Gopal: And this is with the average of around 4000 orders per day.

Sanjeev Jain: So this 4000 is the latest number we started this thing in the last three months.

Dhruv Agarwal: When we initially started we had started with only may be couple of 100 orders a day across the locations and over the last two months it has now slowly ramped up to this figure and moving forward you can say week-on-week the number of orders processed will keep increasing because there is an ongoing process of on boarding the vendors.

Moderator: Thank you. We have next question from the line of Rahul Bhangadia from Lucky Investment Managers. Please go ahead.

Rahul Bhangadia: Just two small questions on the balance sheet side one is that does the company have any plan in the near future to kind of raise the money to pay off the debt or that is not on the cards?

Sanjeev Jain: Currently there is no formal discussion at board level but certainly we will internally mull over this issue, that can we raise primary money and de-leverage the balance sheet further. When this plan materializes, we will inform .

Rahul Bhangadia: And the second question was sir just in case the litigation which is going on around the FCCB thing, just in case, that ends up going on the side of conversion of FCCB into equity what would be the indicative price of that conversion?

Sanjeev Jain: See the initial conversion price is Rs.39. But it has complex structure of reset clause. The entire issue of conversion reset clause and couple of other regulatory matters have been referred to RBI for clarification. Once RBI clarifies this matter, only then we can take a final view

Rahul Bhangadia: If I get it right you are suggesting that even if the litigation goes in that direction the conversion price is unlikely to be 39 much higher or that also we cannot conclude?

Sanjeev Jain: It is difficult to conclude the conversion price. There is a structured reset clause in the conversion. The reset clause has been referred to RBI for clarification and unless we get regulatory clarity, It is difficult to make any conclusion around the bond.

Rahul Bhangadia: Is there anything that you can share on the status of the litigation FCCB litigation beyond what you have already said?

Sanjeev Jain: I think I have already shared. if you see our Clause 41, which we have published yesterday, it contains categorical paragraph on the FCCB . **Rahul Bhangadia**: Yes that is there I just wanted to know if there was any other update that you can give us.

Dhruv Agarwal: This is the latest update.

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

Rajendra Prasad: I just want to understand that in e-commerce logistics, as you said like in Diwali the packages were around 35000 packets per day and at year end we are seeing 40000 packets per day right.

Rajendra Prasad: December we are expecting that on 40000 packets per day.

Dhruv Agarwal: Currently our capacity is 30,000 per day but to cater to our customers and their increased volumes, we hired some temporary additional vehicles, manpower etc and did 35000 a day. Currently through our own strength we are doing about 30,000 and by end of December quarter it should be at approximately 40,000 a day

Rajendra Prasad: Second thing is like e-fulfillment centers are you planning to increase the space to 3 lakhs square feet right?

Dhruv Agarwal: Yes, we should by end of this year with around 3 lakhs sqft it could be slightly more, but that is what we are looking at.

Rajendra Prasad: And another one I would like to understand in the opening remarks Sanjeev sir mentioned that because of Make in India campaign are we seeing any traction in Gati KWE as well.

Bala : Actually I do not know whether to link it so early to Make in India. If you look at the industry growth, what we witnessed is a higher growth than the corresponding industry growth. But I think it is too early to link it to Make In India, we hope that Make in India only makes it bigger for us.

Rajendra Prasad: Regarding Kausar when are we expecting the start up of cold chain warehouses, when are we planning to start work on that one, is there any tentative timeline?

Sanjeev Jain: See the work has already started. After the capital infusion plan was completed on October 6, 2014, Our plan to roll out cold chain warehouse has been already started. We believe that at least two cold chain warehouses should be up and running in this financial year.

Moderator: Thank you. We have next question from the line of Sadanand Shetty from Taurus Asset Management. Please go ahead.

Sadanand Shetty: I have two questions I want to know your e-fulfillment center who are your customers are they e-commerce companies or merchants?

Dhruv Agarwal: At the moment they are e-commerce companies, not the merchants themselves.

Sadanand Shetty: Recently we read a news report about Amazon India mired into controversy primarily receiving notice from Karnataka Tax Authorities so is that something relevant to us or we should be concerned about it?

Dhruv Agarwal: We are in a slightly different basket than Amazon because Amazon also sells that product. we are primarily a service provider but definitely all of us are working with the government to streamline the tax and regulations for the e-commerce.

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

Mayur Gathani: Sir two things just wanted to check on that RBI payment that we made, this was demand by RBI regarding that FCCB case and have we paid the full amount or there is still some due left?

Sanjeev Jain: We have paid full amount. This is a compounding fees which was levied by RBI and we challenged this order in AP High Court. We paid 75 lakhs initially and now the case got disposed and we have paid the remaining compounding fees which we have charged to the P&L as an exceptional item.

Mayur Gathani: Okay so the case has got disposed now, so it is RBI's call to let us know about what is going to happen in case of FCCB, whether it is going to be a debt or whether it is going to be conversion. So we will wait for RBI's dictate to come by the year end.

Sanjeev Jain: Exactly. See the case got disposed with the direction from the court to RBI to examine our clarification. The whole matter is with the RBI and we have sought clarification on number of the issues pertaining to this bond.

Mayur Gathani: Coming back to the e-fulfillment center, sir, is there a breakeven level that we are looking at let's say you are doing 4000, 8000 packets a day?

Dhruv Agarwal: I think it is too early to share those things but, definitely we have taken some kind of comfort cushion and commitment from our customers. So it is about two things. One is of course we have to help increase our customers revenue while cutting down their cost and giving them good service but at the same time as a service provider we also need to be compensated and taken care for our investment and services. But it is too early to talk along those lines.

Mayur Gathani: Coming back to the JV business sir with the diesel price deregulation I am not sure if we have been able to increase prices the way diesel price were actually increased over a period of time, so will it be so quick for us to reduce prices?

Bala : The way this works, in general, the contracts are actually reviewed quarterly for prices and we have a running contract with customers. When the diesel prices went up, it did increase our realization from the customers and there is a formula built in the contracts linked to the diesel price.

Mayur Gathani: So automatically every quarter there could be a reduction also.

Bala : That is right but the exact extent of it is worked out customer by customer based on a customer specific formula.

Moderator: Thank you. We have next question from the line of Sudarshan Mal from Dalmia Securities. Please go ahead.

Sudarshan Mal: Sir first question is related to the cold chain. Can you share what percentage of stake we have given to private equity.

Sanjeev Jain: The stake dilution could be up to 30%. This is an EBITDA linked stake dilution during the next three years. If you could achieve those targets the dilution could be minimum 22.5% and if you do not meet targets, the dilution could be maximum 30%.

Sudarshan Mal: Okay so the range is 22.5% to 30% depending upon the performance.

Sanjeev Jain: Yes.

Sudarshan Mal: Sir just one more thing regarding the segmental reporting, I wanted some clarity on like we show our segmental express distribution and supply chain and the other one as fuel stations so what exactly comes in the express distribution and what exactly goes to the fuel station?

Sanjeev Jain: Fuel stations are specific to the four large petrol pumps we have, rest all our businesses are part of EDSC business. Earlier, We had three segments , shipping, fuel stations and express distribution supply chain. Currently there are only two segments, everything else other than the fuel station is part of EDSC.

Sudarshan Mal: So this fuel station is only petrol pumps.

Sanjeev Jain: Exactly.

Sudarshan Mal: And sir just one final question if time permits regarding this debt you mentioned that we have a debt of around 430 Crores so can you give a sense of what is the segmental debt?

Sanjeev Jain: The debt at Gati-KWE level is Rs.164 Crores, at Gati level is 245 which has a FCCB bond of around 140 Crores. Kausar is 20 Crores and in rest of the businesses there is no significant debt.

Moderator: We have the next question from the line of Chetan Vora from Value Quest, please go ahead.

Chetan Vora: Sir one clarification, this 30 Crores equity which has been infused in Gati Kausar how much stake will the private equity player own in Gati Kausar now?

Sanjeev Jain: The private equity partner can own up to 30%, this is a performance linked valuation. If the agreed EBITDA number is achieved in 2017 the dilution could be between 22.5 to 30%.

Chetan Vora: On the shipping business what is the loss in the current quarter for Gati Ship?

Sanjeev Jain: As far as these accounts are concerned there is no impact of Gati Ship because Gati Ship is no more a subsidiary of Gati Group, it has become an associate company and the company has completely written off the investment in Gati Ship in Gati balance sheet.

Chetan Vora: But it would come in the bottom line right in the share of the associate?

Sanjeev Jain: No it will not come since the investment has also been written off.

Moderator: We have the next question from Madan Gopal from Sundaram Mutual Fund, please go ahead.

Madan Gopal: Sir, just wanted some clarity on the Kausar side, you said once the 10 warehouses are operational on full utilization, these will deliver what sort of revenues, i.e did you say 200 Crores if I am right?

Sanjeev Jain: The combined revenue of Gati Kausar in 2016-2017 could be in the range of 220 Crores rupees which is both transportation as well as warehouse revenue.

Madan Gopal: So they will have a debt of around 140 Crores if I am right, 120 plus whatever 20 Crores debt is there or it will be more than that?

Sanjeev Jain: The debt component could be in the range of around 140 Crores.

Madan Gopal: This is a nonconvertible bond right? What is the interest rate on that?

Sanjeev Jain: This is a listed NCD.

Moderator: We have next question from the line of Rahul Bhangadia from Lucky Investment Managers, please go ahead.

Rahul : Thank you for taking my question again sir. This is on the e-commerce bit, in the past you had indicated that EBITDA margin in that business is in the range of about 12-13%, given the competitive intensity in the game, if you could just throw some light on how the competitive intensity in that part of business is shaping up, and if you could share some numbers on formal or informal kind of market share numbers if you have them, that would be of great help, thank you.

Dhruv Agarwal: Our EBITDA continues to remain in that range and probably it has gone up just slightly because we are also doing a lot more value-added services for our customers, besides just the pickup and delivery i.e for white goods we also provide secondary packaging for transit. Now in terms of competition of course, couple of new companies started in the e-commerce logistics space, however it is too early to talk about in terms of market share. But like we have been saying, Gati is amongst the top 5 logistics companies catering to e-commerce companies, that scenario has not changed.

Rahul : So in the pecking order you are right now below Blue Dart?

Dhruv Agarwal: Yes Blue Dart would have the largest capacity at the moment.

Rahul: Any sense on what the size of Blue Dart would be, if you could give that?

Dhruv Agarwal: No idea.

Mitul Mehta: Sir in terms of the weight of the parcel if you can give us some sense as to where we are placed there?

Dhruv Agarwal: We are delivering across weight category. We have less than 500gm to 3Kg, 3Kg to 5Kg, 5Kg to 10Kg etc. about 10 kilos. We are playing across all the categories, but I would say maximum chunk of our business comes from the 3-5 Kg segment, because our existing infrastructure and network is more geared for those kind of slightly larger parcels.

Mitul Mehta: Will this be same across competition?

Dhruv Agarwal: I am just going by logic. Blue Dart is primarily a courier company, their infrastructure would be geared a lot better towards the smaller parcel size, less than 500g kind of parcel and Gati which is primarily a package delivery company, our infrastructure is geared towards a slightly larger or heavier parcel size. Definitely within the parcel sizes, I would assume Blue Dart does lot more 500g or 1 kg and Gati is doing a lot more 3 to 5 kilo segment.

Mitul Mehta: Sir the growth potential across parcels if you can give us some sense?

Dhruv Agarwal: Across the weight categories they have all been growing.

Mitul Mehta: Sir in terms of number of people that you have for e-commerce segment where does it stand and how do you plan to scale it up over next two to three years?

Dhruv Agarwal: To give some kind of indication on the manpower growth over next two to three years would be slightly tough. We are having approximately 600 people on the e-commerce space, maybe in the next quarter we might be adding 200-300 people. These are very approximate numbers.

Bala : Let me just add to what Dhruv has said. One of the strengths of Gati is that we have a larger network beyond e-commerce. While we have an e-commerce specific resource pool as well. we actively involve the rest of the network as a result, I think it is not fair to give a number in that sense. Having said that we are looking aggressively invest in e-Commerce Logistic Vertical. We will keep ahead of the demand that we see for ourselves.

Moderator: We have next question from the line of Sadanand Shetty from Taurus Asset Management, please go ahead.

Sadanand Shetty: One of the top e-commerce company has raised huge amount of money and one of the area they talk about spending is logistics, will you be able to give some insight, what kind of spends these guys are doing, their capability, their capacity since you are part of the ecosystem will you be able to share some information on that side?

Dhruv Agarwal: We have to look at some of the newer companies and some of the existing companies slightly differently because the existing company already have an existing network, infrastructure people, IT etc., whereas some of the newer companies need to invest in that big capital upfront to develop that network, IT and things like that. Gati as a company, our entire business, is extremely asset light, we work on a vendor based system. So typically our capex figures are not vast and the things that we do invest on are upgrading our IT system and on our warehouse space.

Sadanand Shetty: Sorry, I am not referring to logistic companies, I am referring to e-commerce companies those who have raised billions of dollars intend to spend part of that in logistics, is that merely a statement or are they really putting money on the ground?

Dhruv Agarwal: No, they are investing on the ground. What we have seen is that out of the entire logistics requirement the companies are doing approximately 30% in house and outsourcing about 70%, that is how it stands today and this is just a ballpark figure.

Sadanand Shetty: What kind of contracts are service level agreements you have with the e-commerce companies these are long multiyear contracts or how is it?

Dhruv Agarwal: There is no exclusive contract for our regular delivery. Ideally these contracts like our other contracts are one year to two year with renewal clause. The service level agreements are again dependent on the kind of services and turnaround time we provide, we work across the whole bunch of service levels. There is something that we do, same day pickup, same-day delivery, there are 12-hour deliveries, 24 hours, 48 hours and things like that.

Moderator: We have the next question from Binoy Zariwala from Sunidhi Securities; please go ahead.

Binoy Zariwala: Sir question on e-commerce side, we have seen volumes multiply in a very short period of time, wanted to understand how do we operate our air network, I understand the largest player in the industry has its own captive aviation unit, how do we operate ours?

Bala : We have partnered with many of the other commercial airline, so we do actually get into contracts on a longer period basis, we contract out fixed amount of space and we do this directly with the airlines typically and we are not constrained in terms of capacity on air.

Binoy Zariwala: In the papers there was news that there is a glut of parcels at the airport and also that the cargo space of the airlines is not being able to completely fulfil all the shipments, so what is the scenario on that front and how is the pricing scenario currently with such pressure on volumes?

Bala : Firstly this is not across all airports, there are some select airports which are congested but we actually manage in a smarter manner. We might actually move stuff on surface to a close by freer airport. In terms of prices we don't get affected because the contracts are not negotiated on a trip basis, they are of period contracts, as a result we don't get affected.

Binoy Zariwala: How long is this period?

Bala : Typically the contracts are yearly rolled over, that is the nature of the contract.

Binoy Zariwala: Do these contracts also contain a fuel adjustment surcharge and any sort of currency adjustment factor?

Bala : That is correct.

Binoy Zariwala: I believe some of your contracts would have come up for renewal in the near term in the past three months or so, how is the price behaving on these contracts then?

Bala : This is an ongoing process. I didn't understand the question, can you repeat it again?

Binoy Zariwala: The contracts which have been renewed in the recent past, how have you seen the pricing move on those contracts?

Bala : There is obviously capacity available. We have lot of airlines and there is talk of more coming in. The market is quite competitive in that sense. Having said that there is obviously the fuel pressure which was there in the past also. Now we see that is also relaxing, so there is no worry on increasing price, if anything, our yields have improved and our costs have been contained.

Binoy Zariwala: How much of your e-commerce movement moves via the air network?

Bala : A good portion of it, it is a combination of surface and air, you could take it 60:40

Ritesh Bhagwati: I just happened to miss out the guidance numbers in the initial remarks would it be possible to give it again in terms of revenues, EBITDA and bottomline for the whole year?

Sanjeev Jain: Our guidance is in the range of 97% on revenue side, 98% on EBITDA side and 92% on PBT side.

Ritesh Bhagwati: This guidance which you had given is like you had given at the start of the year, does it stands the same?

Sanjeev Jain: Yes it stands.

Ritesh Bhagwati: Understanding that there is cyclicity in this sector where second half is much better so aren't you looking at stepping up the guidance or you want to stay with that same guidance?

Sanjeev Jain: The guidance remains the same. There is no great impact. What we typically see that there is 48:52 ratio between first and second half of the year , we have issued the guidance on that basis and we believe that we should be able to come close to the guidance numbers.

Moderator: We have the next question from the line of Sudarshan Mal from Dalmia Securities Pvt. Ltd.

Sudarshan Mal: Thank you for taking my question once again. One question I want to ask particularly to Dhruv Sir this revenue to be generated from e-commerce company what is the basis, is it a derivative of the value of the goods delivered or the weight and what happens if there is return?

Dhruv Agarwal: It has nothing to do with value of the product. We do it more on three broad parameters, one would be the weight of the product, one would be the location where it has to be delivered and then probably the mode of transport whether it is by air or by surface.

Sudarshan Mal: Is there any minimum, I want to get a sense like when we say that we are delivering 30,000 odd parcels a day, what is the minimum that we will make money so that I can get a sense of what revenue will be generated?

Dhruv Agarwal: Per parcel revenue is something that we would not be able to share but I am not sure what your question is. Was it that, per parcel revenue?

Sudarshan Mal: Is there any minimum assurance on number of packages?

Dhruv Agarwal: At the moment for our e-commerce delivery business we are not taking any minimum guarantees. For our fulfilment we are looking at some minimum volumes. Whatever capacity we are adding is based on the customer's requirement and it is getting filled up quite fast.

Sudarshan Mal: Is there any penalty if the goods are reversed like in the COD business?

Dhruv Agarwal: There is no penalty on the service provider. Because if their end customer rejects the package or does not want to accept it then we simply ship it back. There is an additional charge from our side for the reverse logistics portion. Basically it is all activity based, our revenue comes from each activity we do. We do a pickup or a consolidation delivery, reverse, COD, additional packaging, etc

Sudarshan Mal: Sir one clarification is the volume inversely proportional to package, just to understand, like if I deliver 5000 package, just for example, if I get 10 rupees per package, if I deliver 50,000 package I will get Rs. 4 per package, with the increase in volume do we charge a lower amount per package?

Dhruv Agarwal: At the moment we do not have any slabs like that. It is a flat slab per package and per activity charge.

Sudarshan Mal: In that case any increasing volume will directly proportionate provided if he considers same things delivered to same place.

Dhruv Agarwal: Yes, same weight, same place, and same mode proportionately it will increase with volume.

Moderator: That was the last question from the participants. I would now like to hand over the floor back to Mr. Jigar Kamdar for his closing remarks. Over to you Sir.

Jigar Kamdar: Thanks to Mr. Sanjeev Jain and the whole team of Gati. We are extremely thankful for your time and for discussing the facts about your company. Thanks a lot sir and thanks to all the participants.

Sanjeev Jain: Thank you very much Jigar. Thanks everybody.

Moderator: Thank you all. On behalf of Systematix Shares and Stocks that concludes today's conference. Thank you for joining us and you may now disconnect your lines.