

Gaining Ground

With its network spreading over 20,000 locations, Gati is well positioned to benefit from a rise in logistics demand

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SECUNDERABAD-BASED Gati is a leading player in express distribution and supply-chain services. It has benefited over the past few quarters from a robust pick up in domestic demand conditions. In addition, a revival in the country's external trade has also enabled the company to offer an array of logistics solutions. Gati has opened offices in several cities in East Asia to take advantage of growing trade between India and neighbouring countries. Also, for the trailing four quarters ended September 2010, Gati has grown its net sales and profit faster than its peers.

LOGISTICS

INFRASTRUCTURE: The company's logistics network included 432 depots across 20,000 locations in the country at the end of its financial year ended June 2010. In addition, it also had 193 company-owned vehicles and 1,072 vehicles from vendors across its logistics chain. Gati handled 43 million packages in FY10, a rise of 30.3% over the previous year.

Gati's nearest rival, Blue Dart Express, controlled by DHL Express Singapore, has a distribution network covering over 21,000 locations across the country at the end of 2009.

As part of its supply-chain solutions to user industries, Gati has recently launched a division named RedSun that will offer cold-chain solutions, SME logistics services and allied services. This division would focus on an asset light model.

The company also has coast-to-coast division, which focuses on cargo delivery via ships in neighbouring regions. However, it has grappled with a rather difficult operating environment over the past 12-15 months like other players in the shipping sector. The segment's profit had declined 89.6% year-on-year to ₹2.1 crore for year ended June 2010. As a result, Gati's board in July 2010 had given approval to separate the division into a wholly-owned subsidiary.

FINANCIALS: Though the company

benefitted from strong demand conditions for its array of logistics solutions, higher costs raised some concern. As a result, its operating profit margin declined 300 basis points y-o-y to 9.8% in the September 2010 quarter, despite 32% increase in the revenue, which stood at ₹226.5 crore.

During the trailing four quarters, Gati's net sales grew by 25.3% to ₹806.3 crore compared to a year earlier, while adjusted net profit grew by more than 380% during this period, helped by a low base effect. This was faster than the growth reported by its peer Blue Dart Express during this period. However, an expansion in Gati's network at a time when it has sluggish operational cash

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Financials of Gati

	Sept '10 qtr	Yr ended Sept '10	Y-o-Y Chg (%)
Net Sales	226.5	806.3	25.3
Other Income	0.1	0.2	-23.1
Employee Cost	26.1	94.4	14.2
Selling & Admin Costs	19.9	79.7	21.4
Other Expenditure	158.2	545.8	24.6
Operating Profit	22.3	86.4	51.8
Depreciation	5.4	22.6	-11.8
Adjusted Net Profit	3.8	16.9	382.9

Source: Capitaline

(₹ crore)

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flows has pushed up the proportion of debt in its capital structure. Gati had invested ₹409.8 crore during June 2007 and June 2010 period,

while its operational cash flow was just ₹23.5 crore during this period. As a result, its leverage ratio was 1.6 at the end of June 2010, considerably higher than three years earlier.

VALUATIONS: At ₹60.1, Gati's stock trades at a P/E of 30.9 times on a trailing four-quarter basis. The other player in a similar product segment, Blue Dart Express, trades at a P/E of 27.2 times on a trailing basis. The large domestic logistics player Container Corporation of India trades at 20.4 times.

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