



“GATI Limited Q1 FY18 Earnings Conference Call”

August 23, 2017



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MODERATOR: **MS. PRANJAL SANGHVI – SBICAP SECURITIES LIMITED**



*GATI Limited
August 23, 2017*

Moderator: Ladies and gentlemen, good day and welcome to the Gati Limited Q1 FY18 earnings conference call hosted by SBICAP Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Pranjal Sanghvi from SBICAP Securities. Thank you and over to you, ma'am.

Pranjal Sanghvi: Thank you, Raymond. On behalf of SBICAP Securities, we welcome the management of Gati Limited and all the participants to the 1Q FY18 post results conference call. We have with us the senior management of Gati represented by Mr. Bala Aghoramurthy, Deputy Managing Director; Mr. Manoj Gupta, CFO, Gati Limited; Mr. Manish Agarwal, Executive Director of Gati Kausar and Mr. Dhruv Agarwal, Chief Strategy Officer. I now hand over the call to the management for their opening comments. Over to you sir.

Bala Aghoramurthy: Good afternoon, friends. This is Bala here. On behalf of Gati, let me welcome all of you to our first quarter FY17-18 results discussion. I thank you for your participation today. We shall first take you through the quarterly performance of the company and then face any questions that you may have.

So let me start with the few observations on the broad macroeconomics and some relevant factorial developments. Cumulative growth in the IIP index for the period April to June 2017 and 30% over the corresponding period last year. The GST law came into effect on July 1st 2017. Customers across industry sectors including large corporates and also the small and medium enterprises are still adapting to the change. We expect business to stabilize within the course of this quarter for the whole industry. Gati is proud of having made a zero downtime transition to GST across all our operation subsidiaries. Customers while transition to the GST era, are exploring various ways to optimize their supply chains and we at Gati are geared up well to help address these moves in the short to medium term. Also, the E-Way bill rules are anticipated shortly. This bill requires significant technology intervention in the everyday goods transportation and we expect that this will trigger further movement away from unorganized players to organized players like us.

Moving on to our major business developments in the quarter. Our consolidated revenue for Q1 FY18 stands at INR 4,267 million or 426.7 crores. Consolidated net profit rose by 258% to 18.3 Cr for Q1 FY18 from 5.1 Cr for Q1 FY17. Core express business volumes grew by 5.6% year-on-year and reverse historical seasonality with 4.6% quarter-on-quarter growth and this despite industry wise slowdown in the manufacturing and movement of goods in the context of GST transition. The company is buoyant about its business prospects as GST kicks in. Gati announces the launch of a new product for value-added transportation to complement its existing portfolio of express distribution and warehousing. This helps the company provide an integrated end-to-end supply chain condition which is most relevant in the new GST era. The



*GATI Limited
August 23, 2017*

company is engaged with several marquee customers across industry sectors to bring efficiencies to their supply chain.

I now hand over to Mr. Manoj Gupta, who is our CFO for more detailed financials to be shared.

Manoj Gupta:

Hi, everyone. Good afternoon and welcome to our Q1 investors call and you must have seen our numbers on the papers and all the sites. So we have some good news to share here. First I will read out the numbers, so on the income side as Bala said that we have clocked 4,267 million as numbers, which is a slight growth over the last quarter, which we ended at 4,149 versus last year it is flat.

On the EBITA side, we are flat versus the last quarter and we are having a bit of a dip which is mainly because of two reasons. If you see, our e-comm business has been a bit slow relatively and our cold chain business which is in the building up stage where we are building up fleet in their house has given us a bit of an EBITDA drag. So as a result we have EBITDA drag versus the last year same quarter; however, versus last quarter we are flat. When we come to PBT, we will see that we have grown versus last year 324% and versus last quarter 116% which is a welcome thing because as you are aware we have been talking about FCCB and we have been reinstating our losses and booking interest and stuff like that. Now all of that have got crystallized and we have reversed all the liabilities which are no longer needed. As a result, all the earlier provisions have been reversed. As a result if you see PBT and PAT has gone up significantly. So this is what we have, taking further this helps the company that all our foreign currency debts have been reduced. So we have no longer uncertainties to reinstate our foreign currency loans, so that uncertainty goes away. We welcome the new investors and the shareholders who can add value in our company.

The another highlight which we want to bring it to your attention is that due to this FCCB getting completely converted or repaid, our overall debt position has come down versus last year in March we were at 493 crores and in June we have finished at 4,271 million. And if we give you more updated status, we ended up in August as on date is 3,900 million which is reducing mainly and mainly on FCCB.

So as I said, just to recap, foreign currency loans are completely out. So no more uncertainties and the debt position of the company has really improved and we have the new set of the shareholders who will work with us and we hope to have a much better year ahead. So, thanks. This is what the update we have and now we welcome all of you for your questions.

Moderator:

Sure. Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Achal Lohade from JM Financial. Please go ahead.



*GATI Limited
August 23, 2017*

Achal Lohade: If you could talk a bit about the express cargo business, what has been the volume growth, what is the outlook, how do you see the GST changing the landscape? Have we already seen any shift from unorganized to organized? Any color on that?

Manish Agarwal: This is Manish here. So as Bala mentioned in the summary, our express business volumes have grown by 5.6% year-on-year and 4.6% quarter-on-quarter despite historically the business actually having a seasonal dip in this quarter. So definitely we have been focusing on expanding our business and leveraging our brand and network to grow our business. There has been an increased need for organized players like Gati with pan India network of warehousing and transportation and that is one of the reasons why we are seeing a growth. Going forward, we expect this to increase further as there are many more opportunities that are open for us in light of GST.

Achal Lohade: Understood. Sir if you could elaborate a bit about the FCCB, what was the outstanding, how much is converted, how much is repaid and how it was financed, if you could elaborate a bit on that?

Bala Aghoramurthy: So very broadly, we had about \$22 million that was outstanding and one-third of that have been repaid and two-third have been converted into equity.

Achal Lohade: And what price has it...?

Bala Aghoramurthy: This was all as per the agreement and so we have just followed as per the agreement and nothing more or less as per the agreement and this was at Rs. 38.51.

Achal Lohade: Okay. Got it. And broad guidance in terms of the revenue growth margins or earnings you could give for FY18?

Bala Aghoramurthy: Let me take that. The core business is now in a very positive direction like we described there is visible buoyancy in that business. Secondly, we have also introduced a new product called value added transportation. We have done this in the context of GST, starting the month of July. In general in the past, Gati has been well named for express distribution and also warehousing. Transportation is something that we have stayed away from, but we have carved out a very niche portion and looked at value added transportation at an additional opportunity. This is a new addition to the portfolio and hence we expect to build this portion of the business as well in future. So the business including the 3 verticals of transportation, warehousing and distribution we see a lot of buoyancy. It will show through in the coming months and quarters for sure. On B2C as well, the peak season is upcoming. In general, the peak has been in October-November which is when the festival season starts. So we expect the significant buoyancy from that vertical as well going forward from Q3 onwards.

Achal Lohade: Any number you would be able to put for FY18, kind of revenue growth and the margin performance?



*GATI Limited
August 23, 2017*

- Bala Aghoramurthy:** In general, we would stay away from quoting numbers. We are happy to explain the strategic direction of the business rather than quoting numbers.
- Achal Lohade:** Got it. And just one data question, I see the other income in consolidated is at a significant level. Any one-off out there?
- Manoj Gupta:** So gentlemen, Manoj here. As I explained in my earlier brief that we have been making provisions thinking whether it will come up for repayment or for conversion. So lot of that has impacted our earlier year numbers and we have all provided for as a provision. Now depending on the actual conversion or repayment, no longer required provisions or premium has been reversed. So it is not one-off but it is all related to FCCB which has been going on for last few years. And going forward just to respond this is not the income or a loss which will come, it is all closed.
- Achal Lohade:** So this is not a recurring one. This is a non-recurring one which the provisions have got reversed which are part of other income?
- Manoj Gupta:** Exactly.
- Moderator:** Thank you. The next question is from the line of Ankit Panchmatia from ICICI Securities. Please go ahead.
- Ankit Panchmatia:** Couple of data points. Can we get the bifurcation of the revenues for KWE Kausar and e-commerce revenues?
- Bala Aghoramurthy:** So the retail business did grow 279 crores in Q1 FY18 against 265 crores in Q4 FY17, the corresponding number in Q1 FY17 was 282 that was KWE business. The Kausar business has been 11.1 crores in Q1 FY18 versus 10.3 crores 16.18 in Q4 FY17 and 11.8 in Q1 FY17. And on standalone...
- Ankit Panchmatia:** Sir e-commerce. So standalone I have I am looking out for e-commerce in this.
- Bala Aghoramurthy:** E-commerce, we said 42.4 crores in Q1 versus 49.9 crores in Q4 versus 58 crores last year's Q1.
- Ankit Panchmatia:** So sir if I understand the volume growth, have we been seeing this realization pressure because as per your earlier comment is volume growth was around 5.6%. But yet that has not been converted into the topline. So just wanted to understand are we kind of losing market share, are we seeing pressure on realizations. How there has been disconnect between this growth in volume and not turning into revenue growth?
- Manoj Gupta:** So Ankit let me explain that. So the volume growth 5.6% is in our core express distribution business. I am sure we have been following that very closely. The express distribution contributes to about 70%-75% of our total business. The e-commerce business which I read



*GATI Limited
August 23, 2017*

out the numbers just now, there we have not seen volume growth, typically Q1 has a seasonality in the e-com industry given typically the lowest quarter of the four quarters. In addition, there is unmistakable pricing pressures also in the e-commerce industry and as we said that I also want to point out that there is a change that we are experiencing in e-commerce which looks like there is going to be a revival in the interest for large appliance sales through e-commerce. Through the last 3-4 quarters, a lot of the e-commerce industry had moved towards the smaller weight segments. The way we are hearing the change, larger players are now showing more aggression, more interest in the larger appliances and that is Gati's strength. So Q1 is a low quarter for Gati in the e-commerce. We do expect to see change from Q3 onwards when the season hits.

Ankit Panchmatia: This is a second consecutive quarter we had degrowth in e-commerce is actually, so that is what, the broad understanding of the numbers are that there may be a volume pressure or when are we going to see this uptake or where would be the inflection point going ahead for this segment as such?

Bala Aghoramurthy: You are right, Ankit. In the entire last year, fourth quarter each of the calls we have been discussing that, the last year was a very different year for the e-commerce industry. In the year before, we have seen 70%-100% growth year-on-year. But in the last year the industry growth fell precipitously low and this is through across all retailers, this is through across all logistics companies in e-commerce space as well. But starting sometime about 3 to 4 months back, there is a new trend in the industry which is not to be missed at all. Even in the last call, we discussed saying that we expect the FY17-18 e-commerce business to be around 30%-35% growth and we still believe the same thing. We will see these getting reflected as the peak season hit that is when the big changes happen in the e-commerce industry, the peak season is about a month-month and a half away.

Ankit Panchmatia: And sir regarding our broad bifurcation of the revenues, just want to understand what do we put in in these others? There are 3 broad bifurcations we have given. So the revenues for others category have increased from 11 crores to 20 crores. So what is there which has been growing quite well or how are we as a business doing?

Bala Aghoramurthy: So this is our GIETL business. We spoke about it in the last call as well. The GIETL is a trading solutions arm or subsidiary of Gati. We do offer end-to-end supply chain solution to our customers through this subsidiary. During last time, we pointed out that we have grown 60 odd percent, I am talking about the previous quarter that has continued. So we will focus, I mean in the GST context it is looking increasingly relevant. In my opening comment I did talk about transportation warehousing and distribution. So these are the 3 supply chain verticals. Sometimes the customers in addition to these three ask for the inventory to come on to our book and be taken away from our books. So this is the trading subsidiary that is used for that and this we provide consolidation services. We talked about a couple of leading hospitality companies who have taken the service from us where we consolidate all their sourcing from literally 100s of vendors across the country. We consolidate all of that inventory in a



*GATI Limited
August 23, 2017*

warehouse and then we distributed to all their site locations which could be in tens or sometimes even touching the hundred mark. So this is the consolidation service that we provided through the GIETL subsidiary.

Ankit Panchmatia: True. And sir, the second layer of the question was, just to reaffirm that, does the inventory holds in our book or it is on the client's book? How is this...?

Dhruv Agarwal: Hi Ankit. Dhruv here. I will just answer that. While the inventory is in our books, we don't take liability for that inventory because for example take a hotel. Typically for a chain of hotels, let us say the hotel has 50 properties, these 50 properties are individually dealing with 60-70 vendors for their supplies, okay? The supplier is also dealing with 50 properties to take the orders and make sure the product reaches them. What we do through this subsidiary is, we buy in a consolidated manner from the vendor, right? So now vendor is only dealing with a single entity which is GIETL. The hotel, instead of ordering from 60 or 70 vendors is also placing orders only on one vendor which is the GIETL, right? So that is the value addition that we bring to the supplier and to the buyer. However, we don't take liability for the inventory. Meaning, if there is an excess inventory then the hospitality chain actually either asks the supplier to take it back or they buy it from us and they liquidate it in whatever form and manner they want. Does that make it a bit clearer?

Ankit Panchmatia: Right. That is what, so in our P&L basically the purchase of stocking trade has increased by an absolute amount of 14 crores. So just wanted to understand that, is it because of this subsidiary or there is something else which has been sitting in this line item?

Bala Aghoramurthy: So Ankit, let me answer. There are two parts to this. One is GIETL, second is the legacy business that we have in terms of fuel stations. We have spoken about it in the past. Gati owns 4 fuel stations and these also contribute to our business in the Gati standalone numbers as well.

Ankit Panchmatia: So both of them have resulted this stock in trade to increase?

Bala Aghoramurthy: Yeah. That is correct.

Ankit Panchmatia: Thank you. And sir our finance cost for Q1 FY17 have been reinstated I think because in the earlier or in Q1 FY17, we had reported an amount of 10.2 crores and in the current quarter it is 18.26 crores. So is there some kind of reinstatement over there?

Dhruv Agarwal: So this has been regrouped. So we have regrouped FCCB reversals and interest related items. So there is a regrouping.

Moderator: Thank you. The next question is from the line of Chakradhar Salla of Kotak Mahindra Bank Limited. Please go ahead.



*GATI Limited
August 23, 2017*

- Chakradhar Salla:** Just I have one question sir. In the standalone financials, the other income is somewhere between 25 odd crores whereas consolidated is 26 odd crores. May I know the difference sir for the accounting terms?
- Manoj Gupta:** So there are some intercompany incomes which will show up in standalone. However, it will be utilized by consolidated.
- Chakradhar Salla:** Last time it was declared that Gati Fulfillment Service, a new business vertical that is a multi-channel order management from Found Tech Technologies 26.46, it has taken up or how it is, I mean has it started?
- Dhruv Agarwal:** So we have said that we would start full-fledged in this first quarter. But however, there are a couple roadblocks based on because of GST. So in the month of June, customers actually stopped moving much of the inventory into a new business model like Gati Fulfillment Service, July of course was also little slow on that front. However, in this quarter is when we will see that starting to pick up. I think we can say that GFS go live in full swing has been delayed by about a quarter and that was primarily due to GST and lot of sellers little hesitant to get into a new model of doing their business.
- Chakradhar Salla:** This business model, how it is aligned with this express distribution business sir?
- Dhruv Agarwal:** Chakradhar sir, I think that is a much longer discussion. May be we can happily do that on a one-on-call any time. In short, it basically complements our e-commerce business and our fulfillment center capability. And here, we will be providing the service through the sellers. So it is a way for us to tap into more business by using our existing infrastructure and capability. That is the bullet point.
- Chakradhar Salla:** Thanks sir. Sir, number wise what would be the contribution from this segment in the topline and bottom-line sir?
- Dhruv Agarwal:** Currently, not much. As I mentioned because due to the GST lot of sellers were very hesitant to move into a new model. So it has got slightly delayed by a quarter or so. So in the last quarter, there was not much contribution from this product.
- Chakradhar Salla:** Any further investments in the group companies' sir, apart from the existing group companies?
- Dhruv Agarwal:** No.
- Chakradhar Salla:** Fine sir. And again Gati Kausar India Limited, what is the purpose of planning for the cold chain solutions because recently you got capital from the Mandala Capital and how many cold chains are going to expand and how it is going to on a group level, at a consolidated level the revenue and the bottom-line it would be by the Gati Kausar India Limited alone?



*GATI Limited
August 23, 2017*

- Manish Agarwal:** So we are in the process of expanding our network. Gati Kausar is still in initial stages. We are trying to prove and develop a network, leveraging on our existing core capabilities in express distribution and supply chain. So we will be expanding our network going forward. I cannot give you exact numbers on forecasted revenue etc.
- Chakradhar Salla:** The commercial operations from the existing cold chain business and whatever you going to expand now?
- Dhruv Agarwal:** So these operations have already been working for last few quarters and it is continuing to operate. However, as the infrastructure keeps on adding, the volumes will go up and revenues will go up. That is why we say that we are in a building up stage and it will take few quarters to completely build up the infrastructure and see the full bloated revenue.
- Moderator:** Thank you. The next question is from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.
- Pratik Kumar:** I have a few questions. Sir, you mentioned segment wise revenues, e-commerce, KWE, but you missed on talking about Gati standalone numbers, revenue numbers for the quarter?
- Manoj Gupta:** Sure. So the Gati standalone revenue number is 119 crores in Q1 FY18 against 122 crores in Q4 FY17 and 127 crores in Q1 FY17.
- Pratik Kumar:** And sir, you also talk about generally EBITDA, profit numbers also in these segments. Would it be possible to share any current for...?
- Manoj Gupta:** So generally all the significant numbers we have spoken about in this call, that we have already shared on the EBITDA numbers earlier during the call.
- Pratik Kumar:** Sir, segment wise EBITDA number for standalone and KWE you generally talk about EBITDA and PAT also. So is it possible to share those numbers?
- Manoj Gupta:** So on standalone we have 27 million this quarter, last quarter was 26 million and YoY it was 108 and we have stated that our e-com business has been slower because of GST and other uncertainties prevalent around. So on KWE, we already spoke 279 crores versus 265 crores versus 282 crores. And on EBITDA, we are more or less flat around 15 crores, okay? Kausar as we said that we are in a building up stage. However, due to prudence, we have started to operate. So it has been about 10-11 crores and delivering a marginal negative EBITDA because it is still building on. And on the conservative basis, we have not done any preoperative and all of that, we are keeping it on a conservative basis and everything we are taking it through the P&L rather than taking through the balance sheet. So GIETL which is our solution on supplies and warehouses and management of supply chains, this business is growing. We have seen versus last year same quarter 82% growth and we are very bullish about this business.



*GATI Limited
August 23, 2017*

Pratik Kumar: Okay. Sir I was very specifically talking about the EBITDA numbers. So as I understood, you mentioned standalone was 15 crores which was flat year-on-year, but previous quarter it was around 7 crores from my previous notes I am referring to.

Manoj Gupta: So there is no change in the margin on standalone versus last quarter. In absolute numbers, it is about 30 million, round about number or margin is about 2.2%. And on KE, our margins are about 5.5% or 6% types which is about 15 crores each this quarter and last quarter and we said already about the Kausar is just a beginning of the business and we are following a conservative methodology of reporting where we have just started to take everything through the P&L and there is a sort of a breakeven on EBITDA level.

Pratik Kumar: Okay sir. That is helpful. Sir so overall margins as you mentioned in your opening remarks have been a drag because of the Gati Kausar specifically and e-commerce segment?

Dhruv Agarwal: You are right.

Pratik Kumar: So, but the other pie, which is the greater pie, which is the express distribution and rail freight and the other segments, so all those segments which come in KWE, those margins are also lower. I mean the standalone margin seems to be like significantly lower, that seem to be telling like overall EBITDA margins to let say 4% during current quarter. So actually should we expect for moving forward in terms of revival in these margins?

Bala Aghoramurthy: Let me clarify that. The Gati Kintetsu business, the GKE business, there the margins are the same as they were in the past. There is no dip. There is a 15 Cr EBITDA which is for this quarter, the same number for the previous quarter and 17 Cr for corresponding quarter one year back. So there is no significant dip on the GKE business. The GKE business is very healthy. There was only a smaller impact through the last few weeks of June as the GST transition takes place. Other than that, business has actually been on the more positive side including the cost, including the revenue. On the Gati standalone business, like we explained we have experienced significant pressure both in terms of volume seasonality as well as pricing pressure. There, we have had a newer 8 crores dip in profit in the EBITDA line. We do expect this to get reversed as we get into the peak season as typically there are same period around Independence Day, thereafter in the festival season. We do expect this e-commerce business in terms of topline and profitability to change track almost immediately going forward.

Pratik Kumar: Okay sir. And sir, with regards to your e-commerce business, so sir what will be the proportion of that COD now for the Company now?

Dhruv Agarwal: Around 60%.

Pratik Kumar: Okay. And sir the parcel mix which we generally talk about in less than 3 kgs.



*GATI Limited
August 23, 2017*

- Dhruv Agarwal:** The big change for us has been that from last quarter to this quarter, the last quarter greater than 5 was about 20% and this quarter greater than 5 increased to about 26%. This is what Bala was mentioning earlier that we are seeing an uptick in the heavier parcel segments where we have also focused because that is our biggest strength and also little more profitable. So our mix, you can see that about small packages to large packages, in the large packages segment about 6% increase. I don't have less than 3, greater than 3 which I appreciate, which we already gave you. Actually I do have it. Previously, it used to be about 70:30, 70% less than 3, 30% greater than 3 and in this quarter, it about 65% less than 3, 35% greater than 3 kg.
- Pratik Kumar:** Okay. And sir in the e-commerce, we have seen like complete recovery from the demonetization period or that demonetization impact is what is still getting reflected in the current numbers?
- Manish Agarwal:** I don't think demonetization effect is still there in the last quarter, but however Q1 is typically little low for e-commerce. Along with that, I think generally the industry there was a little dip in this particular year in the first quarter. Now that I am sure we must have all read that, now that everybody has got some more funding etc. this Q2, Q3 should be much better.
- Bala Aghoramurthy:** If I may add. The COD residual effect of demonetization is the change of COD business that has come down. If you remember previously we used to share with you numbers of 70%-80%. It is now stabilized as the numbers that Dhruv just mentioned of around 60%.
- Pratik Kumar:** Okay sir. And sir with regards, I mean we mentioned about in terms of contraction, previously in your KWE business in terms of topline we mentioned about changing fleets, older fleets we are looking at, replacing older fleets. So are we still under that process of we are like through that replacement?
- Bala Aghoramurthy:** Just to clarify, I think, not sure if I am missing up some other reference, in the GKE business, we do not keep our own fleet. We have business partners who work with us or fleet belongs to them. We take services from them. That is the model. We an asset-light company in the GKE business.
- Pratik Kumar:** Okay. So I think, it was Kausar, where we are replacing fleet last time because we had some dip in Kausar segment also.
- Manoj Gupta:** We keep a good mix of our fleets depending on the scenarios and we keep changing the proportion. So whatever suits at whatever time. And more details if you need to discuss we can discuss offline.
- Pratik Kumar:** Okay. And sir one final question on e-fulfillment centers. So last time you also mentioned that we have stopped running our e-fulfillment centers and only looking at one Hyderabad facility, multiuse facility. So any views on that?



*GATI Limited
August 23, 2017*

- Manoj Gupta:** Last year we were running about 6 to 7 FCs which then the customers side took them all in-house and then subsequent to that as I mentioned they launched Gati fulfillment services which would be a multiuse facility, anybody can use as much space as they require. So in this last quarter because of the uncertainty around GST the seller base was not very keen to make a change at just before GST, right after GST. So the whole thing has been delayed by about a quarter.
- Moderator:** Thank you. The next question is from the line of Avnil Gupta from Motilal Oswal Securities. Please go ahead.
- Abhishek Ghosh:** This is Abhishek Ghosh here. Sir just wanted to understand what is our CAPEX plan for current year and broad breakup of the same?
- Manoj Gupta:** Roughly in the range of 30 crores to 50 crores including all the businesses, including cold storage and our surface, etc.
- Abhishek Ghosh:** And sir just wanted to understand one thing in terms of, now with the GST implementation the location of the warehouses needs to go under some transition because now you will have more of hub-and-spoke model, so will that entail some mode of higher CAPEX for us or will that, we will still go into that lease model kind of a thing?
- Dhruv Agarwal:** Hi Dhruv here. I will take that. Warehouse location actually for Gati our network does not change much. This warehouse location changes, consolidation is actually going to happen more on the customer side, right? So customer previously is going to set up warehouses in every state, could be little more tax efficient, now longer need that kind of infras and they have an opportunity to consolidate into regional warehouses. That is where that will come. In terms of Gati our locations will not change and in some of the locations we are upgrading our hubs and though the CAPEX towards that may be Manoj you can throw more light on that?
- Manish Agarwal:** Yeah. Manish here. To add to what Dhruv just said, we already operate on a hub-and-spoke network and that is why this GST gives us a lot of opportunity to make a much stronger value proposition for existing customers and we are already engaging lot of our customers in helping optimize their cost and consolidating their inventory....
- Dhruv Agarwal:** What may happen, that lot of customers once they realign their strategy versus GST may come back to companies like us, asking for more warehousing and all that which can help us business grow.
- Abhishek Ghosh:** Sir in continuation with that, so what we understand is third party logistics because of this thing can open up in a very big manner for organized players like us. So how are we approaching that part of the revenue model or the business model? Any light on that?



*GATI Limited
August 23, 2017*

Bala Aghoramurthy: So let me explain this once again. We already have a warehousing FCM business. We do 3PL warehousing for many customers. Some of them really large names. In the context of GST, we have used this basic capability to expand things we will offer end-to-end solution. So we are going to customers, speaking to many of them saying we will be here primary transportation on a specified lane, let us say from a factory to a warehouse. We will run the warehouse for you and we are also happy to use our hub-and-spoke network to distributing these products. So with this, the entire gamut of logistics services is now being offered. We are in active conversation with many customers, some of them already clients on an extended basis.

Abhishek Ghosh: Okay. How are we seeing the competitive scenario in terms of the express business in terms of the pricing and other things?

Bala Aghoramurthy: So express business has no issues on pricing, if anything it is quite buoyant, express distribution. In fact we see this as a competitive advantage. In the past before GST, many of the unorganized players have a little bit of an edge especially in segment of the market for example the smaller SMEs who will prefer to work with unorganized smaller players. We are seeing a distinct move which is why pan India national player like Gati is being preferred. Just to collaborate that with one data point, we have a business vertical of retail which caters to many SMEs, in this quarter that vertical has grown by mere 20%.

Moderator: Thank you. The next question is from the line of Ankit Panchmatia from ICICI Securities. Please go ahead.

Ankit Panchmatia: Sir, just want to understand this FCCB conversion, so total outstanding liability was around 140 crores, right, 143 crores to be precise?

Manoj Gupta: \$22 million, yes.

Ankit Panchmatia: Yes, so our balance sheet suggests 143 crores and out of which actual debt reduction currently is around 103 crores. So we have taken an additional loan of 40 crores to pay cash these FCCBs, so is my understanding right?

Dhruv Agarwal: I wouldn't say that. So this is a composition of working capital term loans, FCCBs and other loans. So yes, we think that the composition has changed. So we can't say entirely that it has undergone a change only because of FCCB or...

Ankit Panchmatia: And the remaining one third conversion is yet pending, right, or they are already through?

Manoj Gupta: No, it is already completed. We had a Board meeting on 8th of August where the Board has decided to convert the bond into equity.

Ankit Panchmatia: True sir, but that his one-third portion, right, or the two-three portion?



*GATI Limited
August 23, 2017*

- Manoj Gupta:** No, one-third portion has been repaid. Another one third position was converted in quarter one and the remaining one-third have been converted in August.
- Ankit Panchmatia:** Okay. And sir just to understand this corporate guarantee which was being invoked by IDFC to the extent of 23.6 crores, can you throw some light on this matter? Have we kind of provided for the same and how we plan to address the same?
- Manoj Gupta:** I think our note is pretty clear and we are emphasizing that primary borrower is taking steps to negotiate it and sell it. We don't see that the liability will come to us. The primary borrower should be able to fix it and the dialogue we had with primary borrower.
- Ankit Panchmatia:** And same is with the case of our investments, loans given to subsidiaries which is again in the form of the loan. So how are we addressing to recover the same or to get this investment liquefied?
- Manoj Gupta:** Can you be specific on your question?
- Ankit Panchmatia:** Sir in our auditors report actually, it has been given that loans given to subsidiary amounting to 19 crores. So that is considered for any possible loses, so may be the subsidiary is in the loses. And another the amount of 39.9 crores, the net worth of that company is being completely eroded. So if I add both this things around 59 crores of investments it need some kind of revision or need some kind of consent to look at. So just want to understand this note, this auditor reports note.
- Dhruv Agarwal:** Yeah. Very good question, must appreciate and so here is the answer. See, 19 crores we have invested through one of the FCCBs into land. The prices at which we have bought these lands are far below and we this project we at a very strategic location and the prices of these lands have gone up. So there is absolutely no value diminution, in fact there is a value appreciation. So that is on 19 crores. So the point number two is on Kausar, so I hope you heard our earlier conversion where we said that the company is building up and once the infrastructure of fleets and the warehouses is at optimum level we will see this turning back. So at the moment we are in a project phase sort of a situation. Hope you turn your thoughts into the positivity.
- Moderator:** Thank you. The next question is from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.
- Pratik Kumar:** Sir just on this FCCB full conversion now, sir what will be their equity shares like after in August?
- Dhruv Agarwal:** So, in August we will have 10.8 crores shares.
- Pratik Kumar:** And sir with regards to one question on express distribution again.
- Dhruv Agarwal:** It was 10.8 million shares. Please double check.



*GATI Limited
August 23, 2017*

- Manoj Gupta:** 10.8 crores, Dhruv?
- Pratik Kumar:** Okay. And sir one question on express distribution again. So mention there is limited pricing pressure as such, maybe in your segment, but is there any, I mean on a segment wise mix there is air and ground express, in air express is there more pressure than ground express or maybe from new player who has entered from like passenger airline segment or in general because the industry is moving to ground express?
- Bala Aghoramurthy:** Let me answer that. Last time we spoke about air and the new airline coming in competition for the segment. I think we spoke about it over the last two quarters or three quarters maybe, okay? This time I am happy to report we have actually grown quarter-on-quarter by mere 7%, quarter-on-quarter. If you recall our last time conversation we said, we have changed our strategy. We are now not restricted to some larger customers. We have broad based our customer base quite a bit through the course of last 3 to 4 months and hence we have grown well in the last quarter and we expect to see such continued growth in our air business. There is no pricing pressure in the air business. The issue was there is no competition who was taking away the share, hence we changed our strategy to saying let us look at a wider customer base and that is what well for us.
- Manish Agarwal:** Secondly just to add to what Bala said, because we have a very wide national presence and probably the widest network in the country, we offer much stronger value proposition and we have existing relationships that are much older and stronger than new players in the market. So we also feel that we have an edge in that respect.
- Pratik Kumar:** And sir broadly for air express and ground express both for B2B or B2C the product, the segment mix would have been stable only versus past or is it direct?
- Bala Aghoramurthy:** That is correct.
- Pratik Kumar:** Okay. And this applies to Gati as well as industry.
- Bala Aghoramurthy:** That is correct. There is no major change that has happened on the ground at all.
- Moderator:** Thank you. Well, as there are no further questions I would like to hand the conference back to the management for any closing comments.
- Bala Aghoramurthy:** So we appreciate all of you joining on the call. Thank you so much and we will keep engage with you. Thank you.
- Moderator:** Thank you very much. On behalf of SBICAP Securities that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.