"GATI Limited Q3 FY 2017 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to Gati Limited Q3 FY2017 post results conference call, hosted by SBI Cap Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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 SBI Cap Securities. Thank you and over to you!

Pranjal Sanghvi: Thank you, Zaid. A very good morning to all. Thank you for joining the Gati Limited conference call. We have with us the senior management represented by Mr. Bala Aghoramurthy, President and Whole Time Director, Mr. Dhruv Agarwal, Chief Strategy Officer, Mr. Peter Jayakumar, Deputy Chief Financial Officer and Mr. Manish Agarwal, Executive Director of Gati Kausar. I will now handover the call to the management for their opening comments. Over to you Sir!

Bala Aghoramurthy: Good morning friends. This is Bala from Gati. I welcome you all to Gati's Third quarter results discussion for the financial year 2016-2017. I thank you for your participation this morning in this call. We shall first take you through the financial performance of the company. We shall discuss about our main verticals and how each of these have performed and thereafter at the end we shall take your questions that you may have.

Let me first start with a few remarks on the macroeconomic and some major pictorial development. Cumulative IIP growth for the period April to November 2016 over corresponding period last year stands at 0.4%. IMS has revised India's GDP growth rate to 6.6% for those financial year against an earlier estimate of 7.6%. The revision reflects the anticipated short-term adverse effect of demonetization.

The effect of demonetization was seen both in B2B business as well as in B2C business. Specifically the consumer facing segment such as white good, electronics and textiles showed moderate decline due to postponement of purchase decisions. Also COD related e-commerce volumes showed a significant fall immediately in the days after the announcement and there was a marginal recovery few days later.

In the recent budget announcement Rs.2.4 Lakh Crores has been allocated for the transportation sector including rails, road and shipping this includes 64000 Crores budgeted for highways expansion and another 1.3 Lakh Crore earmarked for railways infrastructure improvement. The commitment on Multimodal Logistics Park opened for new business avenues for integrated service provider like us. You are all well aware BSE now stands confirmed for a rollout in the next few months.

Moving over to major development in the group, I would like to start with saying October B2B and B2C business showed healthy buoyancy. Our shop floor automation project, which we had introduced as a pan India technology initiative helped improve operational capability and ensured service reliability in the peak season of October. You will this was both in the peak seasonal from e-com perspective because of multiple festivals falling in that period and also the B2B business as well.

E-com packages grew 25% year-on-year in Q3 FY2017 the corresponding revenue growth stood at 11%. COD business contribution in e-commerce has shown a downward bias following demonetization in a swift response Gati has introduced multiple digital payment options including digital wallet, MPOS card machine for card swipe etc., Gati's surface network continued uninterrupted services all through November and December. This was possible owing to swift and proactive support extended by the company towards vendor's located pan India.

We are pleased to announce that the Millennium rail tender has been awarded back to Gati after a gap of over two years. We had this tender for an extended period of time, two years back we had lost this tender and this tender in its original form has been awarded back to Gati.

Gati Kausar of cold chain warehouse commenced operations with customers being on boarded. There has been a very enthusiastic positive response. Construction of two more cold warehouses has commenced in line with our network strategy for cold chain.

Gati fulfillment service is ready for rollout. We spoke about this in the last quarter. Pilot operations are already underway. With GST now a certainty we have intensified our customer engagement efforts to provide customized integrated logistics solutions. We see this as a significant opportunity in the coming period.

Friends, I will now handover to Peter to take you through the financial numbers in great detail.

Peter Jayakumar: Thank you very much Bala. I would like to start with the consolidated figures. For Q3 FY2017, the total income stands at 428 Crores. This was 420 Crores in the corresponding quarter last year indicating a 2% increase. This figure was 428 Crores in the previous quarter.

Moving on to EBTIDA, the current quarter it is at 32.6 Crores, the previous quarter it was 30.8 Crore indicating a growth of 6%. This was 36.5 Crores last year.

Coming to PAT in the current quarter the figure is at 6.5 Crores, the previous quarter is 8.4 Crores; corresponding quarter last year stands at 11.1 Crores.

Now let us look at the nine months figure for the financial year 2017 comparing this with the previous nine month of last year. The total income stands at Rs. 1285 Crores against Rs. 1248 Crores, which means an increase of 3%.

Coming to EBITDA level for nine month it is Rs. 100 Crores against Rs. 102 Crores of the nine months last year. At PAT level we are at Rs. 26.7 Crores for nine months against Rs. 29.2 Crores in the corresponding period of nine months last year.

Now we will move to the Gati standalone figures. For Q3 FY2017 the figure is Rs. 134.6 Crores, previous quarter this figure was Rs. 134.7 Crores, which also included a dividend of Rs. 13.8 Crores from a subsidiary company. This figure was Rs. 122 Crores corresponding quarter last year. On a Y-o-Y the growth is 10%.

At the EBITDA level corresponding quarter last year the figure was Rs. 9.9 Crores, which has moved to Rs. 14.4 Crores in the current quarter indicating a growth of 45%. This figure in the last quarter was Rs. 22.5 Crores. At PAT level, we are at Rs. 2.8 Crores in the current quarter against Rs. 14.4 Crores in the previous quarter.

Moving on to the Gati's standalone numbers for nine months the figure is Rs. 400 Crores against Rs. 366 Crores of nine months in the corresponding nine month of last year which shows a growth of 9%. At EBITDA level the figure is Rs. 52 Crores against Rs. 40 Crores which means an increase of 28%. At PAT level it is at Rs. 22.1 Crores against Rs. 13.8 Crores.

Coming to Gati Kintetsu Express Private Limited for the current Q3 FY2017 the figure is Rs. 276 Crores against Rs. 286 Crores of the previous quarter and the corresponding quarter of last year this figure was Rs. 287 Crores.

The EBITDA for current quarter is at Rs. 18.5 Crores the previous quarter it was Rs. 22 Crores and corresponding quarter last year it was Rs. 26.3 Crores. Coming to PAT the current quarter figure is Rs. 7.1 Crores the previous quarter was Rs. 9.9 Crores corresponding quarter of last year was Rs. 12.4 Crores.

Let us look at the figures for nine month of Gati Kintetsu. The total income stands at Rs. 845 Crores against Rs. 854 Crores of nine months last year. At EBITDA level we are at Rs. 61.6 Crores against Rs. 67.8 Crores. At PAT we are at Rs. 26.2 Crores against Rs. 29.5 Crores.

Moving on to Gati Kausar for Q3 FY2017 the total income stands at Rs. 10.7 Crores against Rs. 11.1 Crores in the previous quarter and Rs. 11.2 Crores of the corresponding quarter of last year. EBITDA is negative marginally and moving on to PAT we are at minus Rs. 3.1 Crores corresponding quarter it was minus Rs. 2Crores and the previous quarter it is minus Rs. 1.6 Crores and that is it on the overview of the financials. The floor is now opened for Q&A.

Moderator: Thank you Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from Abhishek Jain from SKS Capital.

Abhishek Jain: Sorry I joined in late. I have two questions. First is basically you are talking about one order one contract which you have received again after the span of two years, can you brief on the same thing? Second question is Sir, we were told that we have converted lot of players from COD to digital wallet so what is the cost we have taken it for this transformation?

Bala Aghoramurthy: Abhishek let me take the two questions. We got back Millennium Rail after two years. GATI used to run a train from Mumbai to Kolkata to Guwahati and we were doing this for many years, almost six to seven years in the past. Two years back, we had lost this train tender to our competitor and we were operating on Indent trains for last many months. Very recently we have regained this tender and the train will be operational soon once again as a Gati train in a reliable manner. So that is what I was talking about. This is a good news for our GTS business, which is Gati Transportation Solutions.

The second question was about the cashless conversion so let me just explain that, post demonetization we did see a sharp decline in the COD portion of the e-commerce business also we were apprehensive that the retail business in our GKE, which is about 24%-25% of our surface business, we were apprehensive that may also need a cashless option otherwise we will have to face consequences hence we moved very, very swiftly and introduced multiple options for cashless payment, just to give you some example the swipe machines have been introduced pan India. We have introduced 750 machines across the country. The digital wallet has been included codified into our tablets that last mile people carry and this is across the country so we have offered both to our retail customers and the e-commerce customers the option of paying through these digital means.

Abhishek Jain: So what is the cost you have taken? Is there any one time cost there and second thing Sir, the Millennium train which you talked about Sir what will be the impact on earnings going forward?

Bala Aghoramurthy: So the cost on these digital payments is a variable thing. It of course works on a commission basis and you have witnessed to the changes that the RBI has been announcing on this front so it is on a variable basis in that sense. In terms of the Millennium Express, it now gives a reliable train operation so we can be guaranteed from the railways that you will actually get the train on demand so that it gives us a speaking point to customers because then we do not have competition in an organized manner in this lane so it is a significant plus on the GTS business.

Abhishek Jain: So any impact on the numbers Sir, anything which you talk about numbers on this the impact is?

Bala Aghoramurthy: On numbers just to give you an example, so let us say we were operating on an average about 9 to 10 trains a month on an indent basis, we can now confidently take that number up over a period of time as it cannot happen immediately, over a period of time to 14 to 16 trains in that lane like what we used to do in our distant past,. Two years back we used to operate almost 14-16 trains a month currently the train numbers is about 10 trains a month.

Abhishek Jain: So any impact on the cost, will it lead to a cost saving or what exactly is there or a topline increase?

Bala Aghoramurthy: Of course the tender trains come at the railway prices. In general between Indent and leased trains that is a price differential because you are guaranteed reliable services. There will be a marginal increase in cost but that increase in cost will be passed on to customers because customers speak that reliability.

Abhishek Jain: Thank you Sir. That is it from my side, if I have anything else I will let you know.

Bala Aghoramurthy: Sure Abhishek, thank you.

Moderator: Thank you. Next question is from Mathew Marshal from KNG Securities. Please go ahead.

Mathew Marshal: Good morning. I notice that the December 2016 FCCB has matured quite significantly in the money. Should we expect any significant issue of shares following that maturity?

Peter Jayakumar: We have given a note in the stock exchange notification and the matter is still pending adjudication so it is subjudice as of now.

Mathew Marshal: Yes, I did read that. I just wanted a flavor of anything that we should expect in terms of dilution into the stock or if not some redemption?

Bala Aghoramurthy: Let me explain Mathew. There has been no change at all on that front in terms of the judicial process that is underway so the same update that we had three months back the same has been maintained even now. There has been no change in that position at all so you do not need to expect anything in the manner that you are suggesting.

Mathew Marshal: I see, okay. Any sense of when we might be able to have a resolution on that?

Peter Jayakumar: Yes, Mathew since it is subjudice we cannot really comment more than this about the issue.

Mathew Marshal: Thank you.

Moderator: Thank you. Next question is from Ankit Panchamatia from ICICI Securities.

Ankit Panchamatia: Good morning and thanks for taking my question. Sorry to harp you on this Millennium Rail contract, which we got so earlier we were already running this service so just to get a flavor that what kind of numbers or what kind of volumes it was carrying and how we should see it adding the FY2018 revenues?

Bala Aghoramurthy: Let me explain Ankit. In the last two years we have been operating with indents train. The train that we have been operating is from Mumbai to Kolkata, this was about ten trains a month and we were operating about two or three trains from Kolkata to Guwahati so this is the current structure of our business. Now with this Millennium Train tender coming back to us we will be able to run the entire Mumbai, Kolkata, Guwahati at about 14 trains we can ramp up. We have that flexibility to ramp up. The way the railway contracts work if the tender owner asks for more trains you can always get as many as you want. There is no limit. When you are operating on Indent you cannot be guaranteed of the train hence we are quite restricted. Just to give you a sense over a period of time not in a hurry because it takes time to build these businesses to bring those customers back etc., over a period of time you can expect our GTS business to grow by approximately 20% to 25% over a period of let us say one year.

Ankit Panchamatia: So by H2 we can expect that it would be running at a capacity of or it would be ramping up H2 FY2018.

Bala Aghoramurthy: It will be in the process of ramp up let say March to March we can expect it will be in that 20% plus range.

Ankit Panchamatia: I am extremely sorry if I have missed e-commerce revenues for the quarter?

Dhruv Agarwal: Q3 we did revenue of about 69.5 Crores, which was about an 11% year-on-year growth and about 27% quarter-on-quarter growth on the e-commerce revenue piece.

Ankit Panchamatia: In carrying capacities on the utilization rate?

Dhruv Agarwal: Yes, capacity for the peak of course we increased it significantly but in the month of November we quickly dropped it down, right now we have a capacity of about 65000 a day.

Ankit Panchamatia: Okay and utilization would be similar to that level?

Dhruv Agarwal: Similar about we are doing close to 57000 deliveries a day on average.

Ankit Panchamatia: Okay and in the commentary we had taken a cost reduction on IT initiative. So how do we see that adding up to our margins because the margins are quite subdued since a long time so, what are or what are the efforts to improve the same?

Bala Aghoramurthy: It is a very good question Ankit. You are referring to the shop floor automation project that we are talking about so just to give you a sense of what it has meant on the ground for us. We were taking something like four hours to unload a large truck today, we are already down to about two and half hours to unload the same size truck, so it can actually lead to significant people saving in that side also it adds a lot to reliability of the information which is there, so our shortages, misrouting etc., can come down substantially and it will also improve customer service giving us even more leverage with the customer base that we have. So there are multiple aspects of it on cost as well as on service so it is very critical for us. Just to give you one other data point in the month of October we actually had a significant peak because both the surface express as well as the e-com packages had a very significant growth in that one single month. We were almost the only operator in the country who did not have a choke in our network, we were fluently flowing in the peak month of October simply because of this automation and the visibility and the reliability that it has brought for us.

Ankit Panchamatia: So again trying to quantify it basically so by what time do we expect, is this completed that the whole exercise or it is a work in progress?

Bala Aghoramurthy: It is completed. The whole exercise is now completed. The last quarter when we spoke we had actually given a visibility, to saying actually this is the elaborate process involving multiple steps. We had completed about 75%-80% of it in the last quarter when we spoke, today the remaining 25% has also been completed so it is now 100% complete in every element of the detail across the network.

Dhruv Agarwal: Difficult to quantify a number Ankit. Prior to that it is a good point but it is now difficult to give a number.

Ankit Panchamatia: Sir, our investment in BrownTape we have invested approximately 5.5 Crores till date so is this money which is been accrued from Air India it has been routed through that portion or how are you going to fund the additional amount additional investments to be BrownTape?

Peter Jayakumar: This is primarily from the internal accruals. And also we have got a refund for a**Tax**

Ankit Panchamatia: So have you already got the refund from Air India of 22 Crores?

Peter Jayakumar: We have got the money.

Ankit Panchamatia: How are we planning to utilize that?

Peter Jayakumar: If you look at it our debt has also come down in Gati Limited to that extent. That is if you look at the overall debt side we have been able to contain it and this clearly translates into a lower interest, which is evident in our performance.

Ankit Panchamatia: Sir sorry, what would be the gross debt as on December?

Peter Jayakumar: It is still under 500 Crores.

Ankit Panchamatia: I will get back in queue for further questions. Thank you.

Moderator: Thank you. Next question is from Binoy Jariwala from Sunidhi Securities. Please proceed.

Binoy Jariwala: Thank you for the opportunity. You shared the last mile delivery revenue which is about 59.5 Crores can I have the number for the E-Fulfillment revenue for this quarter?

Dhruv Agarwal: In the last quarter, Binoy we did not have much FC revenues. We had mentioned last time the couple of the major e-tailers actually decided to take their pan India fulfillment centers back into their home grown logistics companies but in this quarter we will see a fulfillment center revenues coming out of the Gati fulfillment services, which is why we invested into BrownTape. So last quarter not largely.

Binoy Jariwala: So what was the revenue for last mile delivery as well as E- Fulfillment in the last quarter was there any E- Fulfillment revenue on last quarter?

Dhruv Agarwal: There was hardly. There was about may be around 30 to 35 Lakhs of fulfillment center revenue because we are running couple of small FCs only at the moment. In this quarter we are rolling out of our first full-fledged fulfillment center of one lakh square feet in Hyderabad in this month so at the end of this quarter we will see the fulfillment center revenues again picking up.

Bala Aghoramurthy: Just to explain that a little bit last quarter call we discussed saying, till now we have been operating fulfillment centers on behalf of large e-tailers. The Gati fulfillment service is a new service where we are going direct to vendor so that we offer opportunity to the vendors to use our service and use the same inventory across market places so it is a different model that we are migrating to. This was the purpose of our investment into BrownTape because then we can actually provide vendors with end-to-end solution, a one stop solution combination of Gati and what BrownTape brings to Gati.

Binoy Jariwala: Sure, so basically this means what you are trying to say that these fulfillment centers will not only be for e-com players but for the other clients as well?

Bala Aghoramurthy: Yes.

Binoy Jariwala: Okay and what does the last mile delivery revenue in Q2, on a sequential basis how have we done?

Dhruv Agarwal: What was the last mile delivery in Q2 and in Q3 is it?

Binoy Jariwala: Yes.

Dhruv Agarwal: Q2 the topline was 47 Crores and Q3 the topline was 59.5 Crores so Q-o-Q it was about 27% jump.

Binoy Jairwala: What is our capacity Sir? You shared the number but I could not get that numbers.

Dhruv Agarwal: No problem, right now we are in the end of Q3 we were at about 65000 deliveries a day capacity.

Binoy Jariwala: Within the e-com space are we looking in share of outsourced logistics declining? Is there pressure on that front?

Dhruv Agarwal: We discussed last time I mean this comes up in every call it is not declining, Binoy because they are looking at outsourcing the newer pincodes, the additional volumes that are coming in so there has not been any significant jump in the outsourcing piece there has been no decline it has been at a steady state kind of. So it has not been decreasing.

Binoy Jariwala: Okay and what is our reach in e-com?

Dhruv Agarwal: At the end of Q3 we were covering at about 20000 pincodes.

Binoy Jariwala: Okay and how was it grown sequentially?

Dhruv Agarwal: We were doing about 19000 pincodes at the end of Q2, at the end of Q3 we were at about 20000 pincodes but if you look at it we keep it typically stay somewhere in the 17500 to 18000 range which is kind of the base. The remaining pincodes we add as per customer's requirements so like for the peak etc., there were more pincodes opened up post demonetization some of those pincodes were closed down.

Binoy Jariwala: Do you seen adding more pincodes going forward to garner more volumes?

Dhruv Agarwal: Yes, the way we look at it, Binoy is that we are continuously looking at opening up more and more pincodes but we do this with an eye on the volumes coming into those pincodes. We do not just open up a pincodes and create a capacity. We do it in conjunction with the customers and in conjunction with their strategy. So that is what I said typically 17500 to 18000 is the base pincodes the balance we discussed along with them and let us say please open up these regions we are getting enquiry so we open them up if the volumes sustain we keep them those pincodes open and if the volume do not really sustain then in conjunction with customers we close those pincodes down. So it is a continuous exercise that goes on we are looking at expanding the pincodes always.

Binoy Jariwala: Okay, but would we like to pin down a number that you would like to expand your reach by let us say 10% or 20% annually for the next three four years, anything that you would like to share on those terms?

Dhruv Agarwal: I think in terms of reach we are pretty much the leader right now in the country by a pretty big margin and our focus is primarily how to increase our package volumes, so there we would not like to make any statement on the extending the reach by XYZ number at the moment.

Binoy Jariwala: Thank you so much I will get back in the queue.

Moderator: Thank you. Next question is from Amarnath R from Gomukhi Capital.

Amarnath R: Good morning Sir. My question relates to the cold storage business through the joint venture. I would like to understand the investment made in the first warehouse so far and the related economics of when we expect a breakeven what kind of optimal revenue to be expect? And second is regarding the growth strategy you mentioned about a couple of more warehouses where construction work is commenced? Third relates to how all this is going to be funded? Thank you.

Manish Agarwal: So as you said we have got an investment already of 150 Crores, which happened two years ago into this business. We have been working on developing a network and our capability and this warehouse that has just become operational is only one component of the network that we are trying to build. Over the course of this year we are going to build a few more warehouses, in this quarter, two more warehouses have already started construction we expecting that over the next couple of years we should be able to start seeing the benefits of our integrated network and the new capability that we have created.

Amarnath R: Okay, what kind of investments are we talking about for the first one and then for the next two in the current year?

Manish Agarwal: I am not sure that I can give a very specific numbers on that but the money that we have raised is 150 Crores and most of it was basically to create this new capability.

Amarnath R: Okay 150 Crores should suffice for about three warehouses, which we are planning, so we do not need any fund further raising as of now?

Manish Agarwal: Yes, we are not looking at any further fund raising as of now.

Amarnath R: I also understand that in cold storages there is a subsidy, which comes from the central government?

Manish Agarwal: Yes, you are right.

Amarnath R: So the figure of 150 includes that or excludes that?

Manish Agarwal: It excludes that.

Amarnath R: Any kind of indication on what revenue one could expect from the first warehouse at optimal level?

Manish Agarwal: I cannot give you a very specific numbers but as I said this warehouse is only one component of the overall network and we should start seeing the revenue from the overall network coming in over the next couple of years as we continue to build it.

Amarnath R: Thank you.

Moderator: Thank you. Next question is from Prathik Kumar from Antique Stock Broking. Please go ahead.

Prathik Kumar: Good morning Sir. Sir first question is regarding this e-com logistics how do you see it shaping after the initial jerk reaction in November, how has it moved in December and now in January-February in terms of GMV for e-com business as such and for logistic segment as well?

Dhruv Agarwal: Yes, of course November we saw a pretty large dip in the volumes, actually the volumes did not dip, they did dip to a large extent but the real metric was that the returns which is typically 10%-11% shot up to almost 20% during the month of November primarily because packages were already ordered, reached the last mile but people did not have cash to pay and hence those packages were returned. In December we was a slight uptick in the volumes. January is much better. The volumes are coming back up and I think moving forward as the e-commerce company also continue to expand their product portfolio and also more data networks reaching more and more locations in India, I think we should continue to see growth in e-com but probably not at the 60%-70% kind of rates that we have been seeing over the last three four years.

Prathik Kumar: Sir basically we should be able to grow at 63 Crores of e-com revenue in Q4 post this demonetization impact also?

Dhruv Agarwal: Prathik, let me explain this. For example, this quarter we explained we have a 25% Y-o-Y growth in terms of packages so while November dipped, December did not see a significant bounce back in that sense. We do not want to give a next quarter guidance in the manner that you are speaking but we absolutely rest assured we are seeing bounce back in growth in e-commerce, it is just at the earlier levels of 60%-70% of growth cannot be expected but you can be sure it is going to be a very healthy e-commerce business both for e-commerce players and for logistic players like us.

Prathik Kumar: Sir in the past you have highlighted that like our company and industry as a whole is also moving towards the smaller weight lower weight category and Gati as a company has been able to capitalize on that because of presence in road express and the business moving out of air express so has been the trend being similar or how do you see it now?

Bala Aghoramurthy: Some of the movement from air to surface was driven by cost optimization drives within the customer company and I also explained the last quarter in the call there was an airline announcement that they are getting into express distribution themselves so Air Express in fact I think I did not want to take the name but I am sure that you know. Last quarter in airline said they are starting door-to-door delivery and I was giving you an example last time that this is not the first time an airline has attempted it, this is been attempted at least ten years back and may be even before that a couple of times, we believe that it is not easy for airlines to pull off such an initiative although we wish them well. Having said that I want to give you another news from our side, we have actually now partnered yet another national carrier, which has an even larger reach across the country to drive our air business so we are quite focused on growing air notwithstanding the set back that we had in the last two quarters when we spoke last quarter. The situation to surface has benefited us. The migration to surface has benefited up because it is our own network and we are of course the big daddy in surface express.

Prathik Kumar: Sir, migration to surface is still on I mean incrementally in that sense?

Bala Aghoramurthy: I think it was limited to a handful of customer. It was not a widespread phenomenon. It was limited to a handful of customers and because there were only two large air operators in the company for door-to-door, we being one of them. We did see that pinch ourselves but it is not a large-scale phenomenon it is restricted to a few customers.

Prathik Kumar: Okay and Sir in terms of your weight profile how would it be now below 3 kg above 3 kg?

Peter Jayakumar: We have been working in a focused manner on bringing on small packages and the trend has continued. Packages are below 3 kg is about 70% of what we carry and we are continuing to focus on that package segment because that is where the growth is going to come from because those are the kind of things that people ordered on a daily basis.

Prathik Kumar: Sir regarding your ticket size and percentage of COD deliveries I mean you said that COD dipped drastically in November?

Peter Jayakumar: Just to give a flavour of what happened approximately 55% to 60% on average 60% is COD. In the month of November those COD orders kind of dipped down to around 45% and in the month of December also maintained at a similar 45%-46% COD kind of levels January it has gone up slightly above 50%.

Prathik Kumar: Sir last thing on your ticket size as it also been coming down because the lower packages and everything or is it stable at Rs.2000 per package?

Peter Jayakumar: We never mentioned the ticket size as such but yes November-December the ticket size of e-commerce orders definitely took a dip down like almost November and December you can say almost 70%to 75% of the packages were value below Rs.5000.

Prathik Kumar: Sir in Gati Kausar segment you have mentioned about two new warehouses, have you talked about your I mean where are these warehouses or would you like to talk about it?

Manish Agarwal: Yes, we will let you know once that operational about the locations but they have started construction already.

Bala Aghoramurthy: Prathik this is obviously a little sensitive, I am saying we need to wait on that piece.

Prathik Kumar: That is it from my side. I will get back to the queue. Thank you.

Moderator: Thank you. Next question is from Rakesh Vyas from HDFC Mutual Fund.

Rakesh Vyas: Good morning everyone. A few questions from my side; first one just a clarification this below 3 kg you said 70% of volume or of the total weight that carry?

Dhruv Agarwal: No of the total volume that we are carrying for e-commerce.

Rakesh Vyas: Or number of packages basically.

Dhruv Agarwal: Yes, number of packages.

Rakesh Vyas: Yes that clarifies. Second Sir in the KWE business we have seen a sharp reduction in margin this quarter and this is despite the fact that the toll etc. in NH were exempted for few days so I am just trying to understand what is leading to this compression in the margins? How do we see recovery over there?

Bala Aghoramurthy: So let me take that. Firstly we made a decision to continue to operate our network despite the very many constraints that existed for about a month post announcement so we were almost the only people were there was no stoppage of any lane at all we continue to run our lanes. We also extended a lot of support to our vendor because it was not just about the toll, there is a lot of other en-route expenses etc., that happen so we had to extend that kind of support to our vendor for us to keep our network running. We in our best judgement thought it necessary to run the network and keep the customer service level at the level that we are satisfied with the not let that dip on account of this. So we did take a little bit of extra thought to keep this network going at this period of time. Having said that like I mentioned earlier the shop floor automation kind of initiative do give us a lot of confidence that we are going to see an uptick in productivity, drop in the quality metric that we have which is pilferages, shortages or damages etc., a drop in that, drop in misrouting, all these will actually bear fruit in terms of cost efficiency and will show through in the P&L. So we did take a little bit of extra cost in the quarter to keep the network going.

Rakesh Vyas: What kind of normalized margins that you expect in this business after automation initiatives etc.?

Bala Aghoramurthy: We do believe that the business allows margin to go up by another about one and half to two percentage points from where we are. It is a question of when do we reach there. So historically we have actually been around 9% to 10%. There is a scope for going beyond that as well. I think in the coming one or two quarters we must see half percentage point improvement one percentage point improvement you would see that in the coming one or two quarters.

Rakesh Vyas: Great Sir, fair enough. Secondly just on the financial side, I am confused, so the depreciation reported for consolidated is 13 Crores and you are saying that in this quarter there is a impact of close to 5.5 Crores because of FX loss so does that mean that the average depreciation rates is significantly lower than what it was last year?

Peter Jayakumar: This basically is amortization, not depreciation the account head is called depreciation and amortization and accounting standards there is something called FCMITDA account. Now since the tenure has come down. It ends now in December this is the charged to the P&L. It is a notional charge and that is precisely what we have said this additional charge is due to the shorter duration otherwise it would have continued over the tenure of the bond that is it.

Rakesh Vyas: Okay so just to get my numbers right, nine month depreciation is closed to 34 Crores and you have highlighted that the nine month is 11 Crores?

Peter Jayakumar: This is a proper disclosure so that the reader has a better understanding to understand the question on efficiencies, so it is only a disclosure.

Rakesh Vyas: Yes, what I am coming to is that if I adjust this then the nine month depreciation comes out to be excluding this amortization is 22 Crores, which is significantly lower than 28-29 Crores in similar period last year despite we adding newer networks so I am just trying to understand has the depreciation policy changed or what is the normal depreciation rate?

Peter Jayakumar: No I do not think there is a change, there is also been some retirements.

Peter Jayakumar: Around 8 Crores we amortized last year compared to that the current year amortization for cumulative nine months is 11.8 Crores so the difference is 3 Crores, which is the difference.

Rakesh Vyas: My third question is Sir that given that COD component has been coming down now what is the kind of impact on margins do we see because of that and what additional cost etc., lower revenue so if you can just highlight how the economic works now?

Dhruv Agarwal: Yes, with the COD component coming down definitely there was a slight decrease in the margins because that is something that we charge the customers to collect; however, in the coming month as we see India moving to more digital payments where Bala had mentioned earlier that we have already on-boarded couple of large mobile wallets and are also ready to accept payments through card swipe probably we will just see a shift from COD to swiping or mobile wallets where also we will earned a margin so I expect that what we have lost in the couple of months should come back in the next couple or over the next quarter or so. In terms of economics moving to smaller packages etc., internally in Gati I do not know about a year back our ratio was kind of the other way around greater than 3 kg was 70% and we had a lot of four wheelers doing our deliveries right, and now since we are focused on the smaller packages we have actually increased the number of two-wheelers and decreased the number of four wheelers, post peak we anyway had a plan to shed capacity and as soon as demonetization hit, we kind of aggressively over a period of three to four days, we shed all the extra capacity almost eight to nine hundred biker drivers etc., and we are focusing a lot more on productivity now of our fleet to help us maintain our margins moving forward.

Rakesh Vyas: Okay. Sir in this period we have not seen any significant change in margins on e-commerce business?

Bala Aghoramurthy: Significantly we can say by couple of percentage points.

Rakesh Vyas: Okay so there were couple point decline in margins.

Bala Aghoramurthy: Yes.

Rakesh Vyas: Just the clarification Sir, you said the digital payment will you bring commission to us I thought we might have to actually shell out incremental cost because of that so if you can just clarify?

Bala Aghoramurthy: Essentially for the mobile wallets there is no cost to on board, for the card swipe machines it is on a lease model and it is a pretty economical and when we charge when we actually take payment on a card or a mobile wallet we also we will earn some commission on that.

Rakesh Vyas: Which will be paid by customer or by the e-commerce player?

Bala Aghoramurthy: Yes, it will be paid by the e-tailers by the market players to us.

Rakesh Vyas: Okay so this is in view of the COD that you already used to have. This will just substitute the COD compounds right?

Bala Aghoramurthy: Broadly. Yes.

Rakesh Vyas: Thank you so much. Best of luck.

Moderator: Thank you. The next question is a follow up from the line of Abhishek Jain from SKS Capital. Please proceed.

Abhishek Jain: Just a question on this after the demonetization what kind of impact you are seeing? What kind of negotiation you are seeing from e-tailers in terms of cost of delivery and are they negotiating in terms of price per packages? Second thing what kind of risk you are seeing from home grounds delivery systems for a company like us?

Bala Aghoramurthy: Negotiation on prices as such after demonetization not really, home grown e-com logistics companies we are complimentary to each other, like I keep saying that there is not a threat from them because as they are expanding their reach or their volumes etc., they are continuing to work with peers like Gati and if you see our package volume has actually grown over the last quarter, year-on-year, quarter-on-quarter both. So we continue to get those packages and the kind of work in tandem with them.

Abhishek Jain: Sir last question, what is the market share of homegrown companies if you have anything on overall basis?

Dhruv Agarwal: Very difficult to answer that.

Abhishek Jain: But approximately if you have any idea Sir?

Dhruv Agarwal: May be 50-50.

Abhishek Jain: Thank you Sir.

Moderator: Thank you. The next question is from Mayur Gathani from OHM Portfolio.

Mayur Gathani: Thanks for the opportunity Sir. Sir you have been talking about some system efficiencies coming in and more or less you said by now it is all-complete so we will see some benefits coming overtime to our margins. Similarly some time back we had also enrolled with IBM for efficiency improvements is it the same thing because that enrolled happened a year or two years ago or these are two perspectives that we are talking about?

Bala Aghoramurthy: Mayur that is very, very different. With the IBM its actually happened more than two years back they were working very closely with us for a period of about two years plus. In the last one year IBM work has not been carried forward. We have stopped that engagement with IBM, although we do continue to engage with IBM on other matters. So the format that you are talking about was a two-year format in the last one year that format was not continued. What you have talking about is the technology automation process that we introduced across our shop floor. This is an initiative which was announced two quarters back saying that we had actually gotten into this in a pan India manner we had explained that to various forums.

Mayur Gathani: Obviously I understand Sir; I was just trying to link up if there was some continuation from the IBM thing to you, nothing of that kind?

Bala Aghoramurthy: There is no link.

Mayur Gathani: Sir we have seen I mean would you refer it only a macros being weak as our margins have continuously dipped in the Kintetsu JV and overall business, apart from IBM coming in this technology thing that is implemented as of now, I mean we will see results going forward so where do we see margin improvement because if they are still, your guidelines also talks about 6%-7% going to one and half or two percent in the max over sometime so we are still back to the same level two years back we were at 8%-9% or so?

Bala Aghoramurthy: That is right, so our immediate term focus is to get back to this one and half two percent that we are talking about we should see that in the course of coming year. There is no doubt about that, about your other question was about the historical thing, like we explained in each of the past quarter call we have also been continuously investing in various parts of our businesses. For example, e-commerce actually was a significant investment in terms of first mile last mile and also in the line hall and GKE actually does the line hall for e-commerce so there is a significant difference in the nature of the shipments that we carry it was necessary to tweak our network to be able to cater to the e-commerce requirement. Also even the technology investments that we talked about in terms of whether it is this automation and some few other ones in the warehouses. For example we talked about sortation technology introduction in the previous quarter these also come with costs but we actually do it with the lot of due diligence saying what is the paybacks that is going to happen in course of time this only our deep conviction that this will get into these investments direction we are absolutely hopeful that within the coming year we should be a bounce back in margins.

Mayur Gathani: So even if macro elements we can still some improvement in the margins you are seeing with these efficiencies in place?

Bala Aghoramurthy: That is right, so the macro is not what we are depending on to bounce back we are of course taking a lot of specific initiatives within the company, we did talk about shedding some expense capacity. We have also been rationalizing the kind of pay structures that we have with our partners, we were also been driving people productivity quite sharply and we have been looking at our network in routing design both from a perspective of service and more importantly from a perspective of cost. We are taking a slew of initiatives internally within the company not waiting for macroeconomics to change to improve the profitability so we are hoping as the macroeconomic change happens that will be a add on to our internal efforts.

Mayur Gathani: Thank you.

Moderator: Thank you. Next question is from Mathew Marshall from KNG Securities. Please proceed.

Mathew Marshall: Thank you for taking another question. I realize the subjudice is the nature of FCCB so I am not be going to be pressing on the progress on that matter but on a technical issue, will it sit in the balance sheet as a current liability or is it just likely to be put into a special section given this subjudice nature.

Peter Jayakumar: It continues to be disclosed, as it was earlier as a long-term liability.

Mathew Marshall: That is it from me.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for any closing comments.

Bala Aghoramurthy: Thank you so much to all of you for joining the call. We will look forward to connecting again next quarter. Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of SBI Cap Securities that concludes today's conference call. Thank you all for joining us. You may disconnect your lines now.