



“GATI Limited Q3 FY2018
Conference Call”

February 07, 2018



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Moderator: Ladies and gentlemen, good day and welcome to the Gati Limited Q3 FY2018 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 the 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. Sandeep Mathew from SBICAP Securities. Thank you and over to you Sir!

Sandeep Mathew: Good evening everyone. We are very happy to have with us today the management of Gati represented Mr. Bala Aghoramurthy, Deputy Managing Director, Gati Kintetsu Express Limited, Mr. Manoj Gupta, CFO of Gati Limited and Mr. Amit Pathak, Group Company Secretary and Chief Investor Relation Officer. I now hand over the call to Mr. Bala for opening remarks. Over to you Sir!

B Aghoramurthy: Good evening friends. This is Bala here. I welcome you all to Gati’s third quarter FY2018 results discussion. Let me start with an apology for the delayed start. There was a technical glitch in the telecom line and we were kind of trying to figure out. We are actually doing the call on a cellphone now. I hope you are able to hear us clearly. We will take you through the quarterly performance of the company and of course as always we can take any questions that you may have thereafter. So let me start with some opening remarks on the macroeconomic and relevant other developments related to our fiscal. India’s GDP growth projection is 7% for 2018, clearly the GST transition impact in the first half is now behind us and there is new optimism in the business environment. Cumulative IIT growth for the period April to November 2017 over the corresponding period of the previous year stands at 3.2%. As you all know the logistics sector has been granted infrastructure status, which will enable companies to avail infrastructure lending at easier terms with enhanced limit. In the union budget, these investments are close to Rs.6 million has been announced for creating and upgrading infrastructure. This is a welcome move and bodes well for facilitation of this movement in the long-term. The e-way bill regulation was formally activated on February 1, 2018, but was subsequently deferred by the government owing to some technical glitches. There is still work happening from the government side on that and once it is back in line we will be using that system completely. Gati is fully prepared for the e-way bill rollout, even as the trial phase of the e-way bill continues at this point. In Gati we have already made e-way bill part of our business as usual even though it is not mandatory as of today.

Major developments in the group. The core express distribution and supply chain solution subsidiary, Gati Kintetsu Express Private Limited recorded revenue of Rs.304.5 Crores in



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Q3, this is 10.2% Y on Y growth and 12% quarter-on-quarter growth. This is the first time the GKE subsidiary has crossed the Rs.300 Crore mark. Core B2B surface express has stabilized on a growth trajectory with volume up by 29% YOY. The benefits of GST in terms of business opportunity is clearly beginning to show itself in the economic activity seen in Q3 and we are hoping that similar momentum will continue going forward. The challenges in the e-com business continue with captive e-tailer supply chain, absorbing over half the market volume thereby reducing the cost of PPL service provider. Also e-commerce logistics continue to see significant competitive pressure in terms of pricing and also volume fragmentation within local geographies, so clearly e-com is continuing to be in a state of evolution there as an industry and as a business. Overall we anticipate the current momentum in the business environment to sustain and to build hereon both in Q4 and thereafter into the next financial year. I now hand over to Mr. Manoj Gupta who shall take you through the specific number.

Manoj Gupta:

Welcome all to the Gati's call. Good afternoon. Thanks Bala. I will just very, very briefly and very broadly I will just talk about consolidated Gati number for the quarter. So revenue, we see 10% more and EBITDA we see 24% increase from 194 million to 241 million. PBT has been increased from 7 million to 16 million, so registering a significant jump. In addition to that, if we add all other income and FCCB gains, etc., since this quarter there are no changes on FCCB and conversion and all that, because all that was completely taken care by Q2, so the numbers increased from 7 million to 17 million. So this is what will be brief highlight for the quarter and then for nine months we see the topline is flat. EBITDA has been slightly down by 30% mainly on account of drop on international business and e-comm business, which plays a significant role and therefore PBT has been impacted. However, the other income because of the FCCB we are much better off for registering almost 178% increase. So with this we will invite you for question answers, so over to you.

Moderator:

Thank you. Ladies and gentlemen we will now begin the question and answer session. Ladies and gentlemen we will wait for a momentum while the question queue assembles. We will take the first question from the line of Dimple Kotak from SKS Capital & Research. Please go ahead.

Dimple Kotak:

Thanks for the opportunity. I have a couple of questions. One is that the consolidated quarterly margins have gone down by 200 basis points, so why is that so and going ahead what is your outlook?

Manoj Gupta:

So quarterly 2% margin has gone down and I hope you have appreciated me saying that the business on international and e-comm has gone down a little whereas the petrol pump business has increased, so petrol pump business is with 2% to 3% margin whereas the



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business that has gone down is almost 30% margin, because of the change in the sales mix the margins are looking 2% down.

Dimple Kotak: What is the scenario ahead, what is the environment ahead?

B Aghoramurthy: The question was specific to standalone or you are talking consolidated?

Dimple Kotak: On a consolidated basis where do we think we can do in the next couple of quarters ahead?

B Aghoramurthy: Let me put it this way. The GKE business profitability we should expect a good upswing going forward. The e-commerce business profitability is continuing to be under stress simply because you have intense competition there is a lot of pressure on pricing, there is fragmentation of volume and much of the volume has also been pulled in-house by the e-tailer. So from that perspective at a total Gati level we should expect an improvement with much of the improvement coming from the core B2B Gati Kintetsu business. Of course we do expect the e-comm business also to improve, but it will be sometime before we are able to restore very healthy margins on the e-comm business.

Dimple Kotak: I missed on two parts, one is the FCCB comments at the end and what is the performance of your subsidiaries?

Manoj Gupta: Sorry Madam, can you repeat your question.

Dimple Kotak: I missed on two updates one was on the FCCB and second is on the updates on your subsidiaries?

Manoj Gupta: FCCB you all noted that this has been behind us. Conversion of repayment has taken place in Q1 and Q2, so as an issue it is a closed issue. Now to the extent of the result I said that on the quarter we registered a good EBITDA numbers versus the last quarter and registered very good PBT performance including FCCB gain. On subsidiary performance we have already explained GKE has done better and GKE we increased the business by 12%, 13%, the EBITDA increased by 10% and PBT increased by 17%. PBT increased by 15% as a whole, so we see a good performance there. On the kausar front, we are in building a stage. You know that we have only constructed the warehouse last year, a lot of capital cost and depreciation cost, which is coming in our P&L and we are in the building up stage, so warehousing business from cold storage is setting in, and going to take space, so by the Q4 I think we will do much better on the EBITDA and then we are also working on trying to see how do we tie up the high interest cost.



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- Dimple Kotak:** What kind of growth do we see, what would be the run rate for the depreciation and the capex, which would be going through the P&L in the coming quarters?
- Manoj Gupta:** So from – meaning in a year you can take about Rs.25 Crores to Rs.35 Crores as a capex all inclusive, all on the consolidated basis and what we have also done we have shifted to the leasing model rather than having the assets on our book, so which is what is going on as per the trend in the market. So we do not expect many vehicles and other things to come on to the book, but we will lease it, but other things like we plan to invest a lot money on automation, lot of money on IT, we are trying to go to the next level of automation and IT, which will be top in the industry. So because that is the backbone of our business, so we are upgrading that, I think we are already excellent and fantastic on those two fronts and we are further upgrading.
- Dimple Kotak:** Sir I just wanted to understand what would be the incremental depreciation, which we would be seeing in our books?
- Manoj Gupta:** Madam that calculation we do not have at the moment and we will just tell you possibly offline.
- Dimple Kotak:** What had been the total capex incurred for this warehousing?
- Manoj Gupta:** Total capex is about Rs.35 Crores.
- Dimple Kotak:** We have further capex of Rs.25 to Rs.30 Crores going ahead for IT and automation?
- Manoj Gupta:** Yes IT, automation, our own vehicles and so on and so forth.
- Dimple Kotak:** Got it Sir. Finally what is the outlook for the quarter, almost we are ending this financial year and above the next year ahead on your consolidated?
- B Aghoramurthy:** In general I do not want us to be giving any estimates from you know playing with a little bit of generality, we should expect double digit in our main joint venture Gati Kintetsu. We do hope to have a double-digit growth in our standalone as well quarter-on-quarter. Quarter-on-quarter we expect to see a double digit growth on standalone, in Gati Kintetsu we will actually see a healthy double digit growth.
- Dimple Kotak:** Sorry Sir what was the last comment?
- B Aghoramurthy:** A healthy double digit growth Y-on-Y.



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- Dimple Kotak:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.
- Pratik Kumar:** My first question is would you be able to tell the numbers of Gati's standalone revenue figures?
- Manoj Gupta:** Gati's standalone number I hope that you have got it on website of the company and BSE/NSE, so Rs.110 Crores over Rs.105 Crores and EBITDA is 41 million over 15 million registering a 175% settlement and the PBT is -17 million that is -46 last time.
- Pratik Kumar:** What would be the e-commerce revenue for this quarter?
- Manoj Gupta:** E-commerce is about 35%.
- Pratik Kumar:** 35% decline?
- Manoj Gupta:** Overall number.
- Pratik Kumar:** Of the overall consolidated number you mean?
- Manoj Gupta:** No, overall standalone number.
- Pratik Kumar:** You mentioned about this capex of Rs.25 Crores to Rs.35 Crores, this was for Gati Kausar or in general for overall business?
- Manoj Gupta:** Consolidated.
- Pratik Kumar:** And regarding Gati Kausar, I mean, the leasing comment was for the overall business again or for Gati Kausar?
- Manoj Gupta:** This is overall business that is a trend, which we are adopting.
- Pratik Kumar:** In e-commerce business, how is the percentage mix of COD business now and where is it stabilizing?
- B Aghoramurthy:** The COD business is approximately 50%, 55% of our income there on. So it has stabilized there, it is not a cause for worry. It has been there for at least two, three quarters now.



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Pratik Kumar: One question on this e-way bill rollout as you said we are prepared there was a government deferment, so now the trial runs, which are going on few states, so are the trial runs on or in terms of including companies participating in it or the trial runs are also deferred because of that software issue?

B Aghoramurthy: No the trial runs continue, it is just that the system could not handle the load, so the software is ready, but the load could not be handled, hence they have postponed it. Having said that in Gati we are acting as though it is already operational and we continue to use the e-way bill site and we are encouraging customers who already starts doing that, so we are ready from our side completely.

Pratik Kumar: So when is it, from government side when is it expected Sir?

B Aghoramurthy: There is no indication, they only postponed it without giving any future forecast, we are hoping the faster, the better it is for Gati.

Pratik Kumar: But is it expected in line with that intra state movement now because that was expected from June onwards, this was expected from February, so that will now coincide with that?

B Aghoramurthy: The original timeline was April 1, 2018, of course they tried to do it earlier at February 1, 2018, we are hoping that at least the April 1, 2018 timeline will be met, it is good for Gati without any doubt.

Pratik Kumar: For Kausar business, what was the revenue in that subsidiary during the quarter?

B Aghoramurthy: Kausar we did Rs.8 Crores revenue in Q3, it was marginally lower than Q2, which was Rs.8.6 Crores.

Pratik Kumar: There was a comment in opening remarks regarding a 29% volume growth, so which segment was that?

B Aghoramurthy: That was the core B2B surface express business where we had a 29% year-on-year volume growth, the core B2B surface express that is the bulk of Gati's business.

Pratik Kumar: But the revenue growth, I guess either the other segments like air or rail or supply chain would have probably slipped because the total revenue growth is 10%, so is there a pricing difference, which is there?



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B Aghoramurthy: So there are two parts to it, air, the rail business as well as STM has been reasonably stagnant and together they constitute something like 15% to 20% of the GKE business, so that has been broadly flattish that is the reason why you do not see the entire B2B business 29% growth converting into a GKE growth. The second aspect of it the B2C business for which GKE does a line haul service that like we explained, has not done as well, so that is the second aspect, which has led to the 29% not translating into completely in the GKE number. The big point I would like us to register the core business of Gati has been – you guys have always known that all the time the surface express business that has done fabulously well at a 29% year-on-year volume growth.

Pratik Kumar: How was the pricing in terms of year-on-year performance in the core B2B segment, surface segment?

B Aghoramurthy: As you are aware the diesel prices etc., have been going up and down, we have managed it quite well. The yield of the surface express business has increased versus what it was in the previous quarter, increase will be of the order of about 1%, 1.5% increase in yield?

Pratik Kumar: On a Q on Q basis?

B Aghoramurthy: On a Q on Q basis.

Pratik Kumar: Year-on-year number is it available?

B Aghoramurthy: The yield year-on-year I do not have it offline, of course it is available, but I do not have it offline.

Pratik Kumar: Sure Sir. I will get back to the queue and all the best.

Moderator: Thank you. We take the next question from the line of Sahil Jain from Money Curve. Please go ahead.

Sahil Jain: Pardon my ignorance on your number Sir, is that Gati Ships Limited also consolidated in this quarter Sir?

B Aghoramurthy: No Gati Ship is an old history just for now.

Manoj Gupta: Gati Ship we have long ago rationalized.

Sahil Jain: Provided a diminution for value?



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- Manoj Gupta:** It is not a present line of business.
- Sahil Jain:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Dimple Kotak from SKS Capital & Research. Please go ahead.
- Dimple Kotak:** What would be your debt on a consolidated level?
- Manoj Gupta:** Debt has been Rs.325 Crores versus the last time Rs.368 Crores.
- Dimple Kotak:** Do we plan to reduce further, what would be the quantum?
- Manoj Gupta:** Yes that is the intention, that is the plan and that is what you have seen in last few quarters.
- Dimple Kotak:** What is the cash on book, if you can help me with that number?
- Manoj Gupta:** Cash on book is about Rs.42 Crores.
- Dimple Kotak:** Rs.42?
- Manoj Gupta:** Yes.
- Dimple Kotak:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Preet S, an Individual Investor. Please go ahead.
- Preet S:** What is the percentage of revenue that is coming of your surface transport B2B to your overall revenue?
- Manoj Gupta:** In the GKE business the surface revenue will be approximately 80% of thereabout of our GKE business.
- Preet S:** Which would come to in terms of number terms?
- B Aghoramurthy:** We do not give product wise revenue, so we do it only at a GKE level, so you will please excuse us from that one, we can of course have an offline chat, but you can broadly take it as near about 80% of the total GKE business.



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- Preet S:** How much is the GKE business, the topline?
- B Aghoramurthy:** GKE business is Rs.304 Crores for Q3.
- Preet S:** Got it. Thank you.
- Moderator:** Thank you. The next question is from the line of Ankit Panchmatia from ICICI Securities. Please go ahead.
- Ankit Panchmatia:** Thanks for taking my question. This is regarding our e-commerce revenues, this is the second quarter of Rs.37, Rs.38 Crores out of run rate, which we are doing, so is this new run rate, which I should consider going ahead because giving the pricing pressure, given the competition, is this a new run rate and or there is some more downfall, which has been left according to you?
- B Aghoramurthy:** I think the bottom is here, if you recall this year Q3 did not have the festival season built into it, the festival season in this 2017 year was spread between September and October and this Q3 is not directly head to head comparable with last Q3, etc. Having said that we do not expect the business to go down any lower, but I must say our bigger interest is not about the topline on e-commerce, our bigger interest is on the bottomline, so our efforts are more directed towards what mix of the e-commerce business and gave us better bottomline. We are less worried on the topline of e-commerce.
- Ankit Panchmatia:** Pardon my ignorance, but can you share the KWE revenues for the quarter?
- B Aghoramurthy:** This Rs.304.5 Crores, it is not KWE, it is Gati Kintetsu Express.
- Ankit Panchmatia:** Just now we got the debt numbers, so debt has kind of reduced to Rs.325 Crores versus Rs.380 Crores, but Sir the interest expense continues to stay elevated, so I have not able to connect this things?
- Manoj Gupta:** So there has been a slight increase on the debt, which we have taken to repay and there is a change in the – because of the change in the mix this direct connect you have not been able to see.
- Ankit Panchmatia:** Can we expect some sort of moderation in the same because in your earlier opening remarks you said that we are making efforts to reduce this interest cost?
- Manoj Gupta:** Yes, of course, we are working towards it and we should look for betterment, yes.



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Ankit Panchmatia: Bala Sir just wanted your view on as we are already through with two quarters of GST passage and e-way bill obviously got delayed or else it would had given a kicker into our business, just to have your view how this sector is kind of taking shape, post implementation of e-way bill or post implementation of GST, how are the unorganized players now feeling or carrying out their business and is it really very difficult for them to carry out business and that business we can expect come into our kitty how has been the macro picture post these two macro events?

B Aghoramurthy: Just to correct you, e-way bill has not yet happened. So it is fine to introduce it has now been deferred, only GST has happened, which is half the work done, half the work is GST, other half is e-way bill. GST clearly has shown benefits in terms of the business environment, the larger customer organizations are now very clear what kind of logistic partners they bond, we are seeing a surge in our institutional B2B customer business. As a result I am confidently saying GST for the larger B2B business is a great benefit for Gati already. In the retail of the SME business I do see that the industry has not yet completely come to grip with the GST transition. We had built up a good momentum on retail pre-GST, we have seen them the retail business or the SME business as I am following it has not lived up to the same potential that we see in the larger institutional business, so I think there is more headroom to come for the retail SME business from a GST perspective. Now e-way bill is a completely different animal, if GST was difficult, e-way bill is even more complicated a call for real IT and operational capabilities to be able to do the day-to-day business itself. I think that will separate the chart from the cheese without any doubt the smaller unorganized players will be put to a disadvantage when the e-way bill comes, the larger organized national players like Gati will be at an advantage, so that is the e-way bill that is why I am saying we are hoping that the e-way bill gets introduced faster than later. Also there are complaints while unverified and I cannot necessarily comment on it. There are complaints that in the absence of the e-way bill there are what you say not completely transparent invoicing movement of goods. Gati is very clear we are a compliant organization, so we move only invoice compliant goods. The e-way bill will force that the compliance and hence we will further trying to benefit is our belief.

Ankit Panchmatia: Is it right to assume that once e-way bill gets implemented the smaller players would start integrating with us and it would be very easy for us to kind of get into the franchise model of trucking, which we are kind of shifting at this point of time at a very cheaper rate and the whole realizations, which we are currently coating would be in a downward trajectory?

B Aghoramurthy: You are right. Gati already operates with merely 2000, 3000 business partners and vendors, all of them are small individuals who because they have associated in a dedicated manner to Gati they are part of the Gati ecosystem and through them we are offering the larger logistic



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service to our customer. Having said that beyond these people there are lots of other players who try to under such prices in the market especially for local movement or within state or smaller geography movement I think those movements will also now get force to come to organized player and not remain with individuals or small fleet owner, so I think there will be a move, it is not like the move will happen overnight when the e-way bill comes in, I think the move just like GST took two, three months to settle down and for the industry to see the real value, even in the case of e-way bill there will be a settling down period post that you will see Gati and organized players benefiting from it.

Ankit Panchmatia: Just to understand the diesel prices have increased almost more than 10% on a YOY basis, so have we not taken any realization hike because if we have been passed on or we have been able to pass on, the growth rates would had been much more higher, so is it that we are not passing the hikes completely or we are in the process of – in terms of the negotiation with our customers, I am not able to kind of connect it with the diesel price hike because it was a completely pass through as far as my understanding was, so just to understand on that?

B Aghoramurthy: I am just clarifying in express distribution the diesel price is not completely linked to the concept that we are saying. We do have an improvement in our yields, so I clarified earlier that we have approximately 1.5% of thereabout quarter-on-quarter improvement, year-on-year will be better, so we do have an improvement. Having said that there is still hope and it is a question of when contract come for renewal, etc., all that is a continuous process.

Ankit Panchmatia: That was very helpful. I will get back in queue. Thank you very much.

Moderator: Thank you. We take the next question from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.

Pratik Kumar: Can you tell the EBITDA number of Gati Kintetsu number segment during the quarter, which was Rs.18 Crores in Q2?

Manoj Gupta: EBITDA number of KWE is about Rs.20 Crores.

Pratik Kumar: I was just trying to tally the numbers of segment like we have around Rs.110 Crores in standalone business, around Rs.305 Crores in Kintetsu business, around Rs.8 Crores in Kausar that adds up to around Rs.420 Crores versus reported Rs.449 Crores, so what is the gap Sir?



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Manoj Gupta: Let us not do accounting on a business call. There are a lot of complicated processes, which goes through on consolidation, so we will not be able to answer that.

Pratik Kumar: That was the last question. Thank you.

Moderator: Thank you. As there are no further questions I now hand the conference over to Mr. Sandeep Mathew for his closing comments.

Sandeep Mathew: Thank you very much.

Manoj Gupta: Thank you all. I hope to connect with you once again in the next quarter.

Moderator: Thank you. Ladies and gentlemen on behalf of SBICAP Securities that concludes today's conference. Thank you for joining. You may now disconnect your lines.