"Gati Ltd. Q3 FY16 Results Conference Call"

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MODERATOR: **MR. DEVESH AGARWAL – IIFL CAPITAL LIMITED**

Moderator Ladies and Gentlemen, Good morning and Welcome to Gati Q3 FY16 Results Conference Call hosted by IIFL. As a remainder, all participant lines are in 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 telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Devesh Agarwal. Thank you and over to you, sir.

Devesh Agarwal: Thank you. Good morning, everyone. On behalf of IIFL I welcome you all to the 3Q FY16 earnings call of Gati Limited. Today from the management we have with us Mr. Sanjeev Kumar Jain – Director Finance, Gati; Mr. Bala Aghoramurthy – President & Whole Time Director, Gati-Kintetsu Express; Mr. Dhruv Agarwal – Executive Vice President, Gati-Kintetsu Express; Mr. Peter Jayakumar – Deputy CFO, Gati-Kintetsu Express and Mr. VSN Raju – Chief Compliance Officer and Company Secretary, Gati Limited.

Now without any further delay I hand over the call to Mr. Jain for his initial remarks which would be followed by a Q&A session. Thank you and over to you, sir.

Sanjeev Kumar Jain: Thank you Devesh. Good morning friends and welcome to the Gati's third quarter 2015 and 2016 results discussion. I thank you for your presence. As usual, we will take you through the financial performance with the company and then take your questions.

Before we start our discussion on financial performance, let us have a look on the macroeconomics currently prevailing in the economy. The latest data on IIP dipped for the first time in the last 13 months in November 2015 and is lower by 3.2% year-on-year basis. We expect the overall economic growth to continue at a modest speed in the next one or two quarters and then get momentum in the coming quarters. In the ecommerce industry also the era of deep discounting appears to be tapering down as is evident in fewer sales events and compressed sale periods.

Some of the other sectors that impacted our business in this quarter are as follows. There was All India Motor Transport Congress strike for two days that affected our delivery in some of the geographies. The Tamil Nadu and Chennai floods also impacted our deliveries in certain zones for two days. The international business impacted by slump in ocean freight rates and volumes and Nepal border curbs. But I am happy to say that despite above factors our consolidated revenue grew by 3% compared to previous quarter and we are now well positioned to expand our business further in the coming quarters.

Before we discuss our financial numbers for the quarter for each entity, I think it is important to brief you some of the key developments in the last quarter about our group. Our ecommerce logistic revenue crossed 50 crores mark for the first time in this quarter registering a growth of

28% year-on-year. The peak festival period witnessed a 60% spike in volumes which was managed seamlessly through excellent joint operation planning with our ecommerce customers. Our new vertical eFC also registered a very healthy growth of 150% on year-on-year basis in this quarter. In fact, our core business registered a healthy volume growth of 9%.

Our EBITDA margin improved by 80 basis points on a quarter-on-quarter basis and PBT increased by 42% quarter-on-quarter basis. Overall debt payable in the company remains the same; in fact they declined marginally in the quarter. The first cold-chain warehouse of Gati Kausar has progressed well and now will go live in quarter four. The work on other sites is also progressing well.

And one important update on Air India arbitration, we have crossed one more milestone where Air India has deposited Rs.22 crores in the court which is in-line with the court judgment and the company is in the process to withdraw this amount for its use.

So, these are some of the important developments in the last quarter about the group. I will take you now through the financial performance of the group and its main verticals. After modest performance in the last three - four quarters, we have seen a clear revival in this quarter about our growth. At consolidated level the revenue has grown quarter-on-quarter by 3% while on year-on-year basis it still shows marginal de-growth. The core business has shown growth on sequential quarter. Our EBITDA and PBT have grown by 14% and 42% respectively on quarter-on-quarter basis, but still a marginal de-growth on year-on-year basis. The increase in profitability in this quarter is also attributed to the cost saving initiative we discussed in the last quarter and we are accelerating the pace of some of the initiatives to further improve in the next quarter.

On absolute number the total revenue of the group in the last quarter is Rs.420 crores with an EBITDA of Rs.36.5 crores, PBT of Rs.15.8 crores and debt level at Rs.469 crores. Compared to quarter two there is a sequential growth in revenue by 3%, the EBITDA has increased by 14% and PBT has increased by 42%, debt level are same as in quarter two. But if we further dissect our business our core business in fact has also grown by 5% on year-on-year basis. If we remove the negative impact of Parcel Train business and other small businesses, we are close to now 9% to 10% growth on year-on-year basis in our core freight business.

Coming to entity wise performance:

Gati as a standalone entity had a top-line of Rs.122.7 crores with an EBITDA of 99 million which accounts at 8% of EBITDA and PBT of 10 million which is 1%. Gati's business of Rs.122 crores includes revenue of ecommerce business of Rs.53 crores. The EBITDA this time does not include dividend as compared to the previous quarter.

Coming to GKEPL, our main subsidiary and the main business, the top-line is Rs.287.4 crores with a healthy EBITDA of Rs.26.3 crores which has improved as compared to the previous quarter and stands at 9%. The PBT is at Rs.17 crores which is 6%.

Gati-Kausar which is now focused on expansion of warehouse has a top-line of Rs.11.2 crores with an EBITDA of 9 million which is 8%. The EBITDA of Gati-Kausar has improved as compared to previous quarter.

Our other businesses include our Gati import-export business which has a top-line of Rs.9.2 crores and almost marginal EBITDA in this business.

Our total revenue for all companies put together is Rs.420 crores as compared to Rs.407 crores in the previous quarter, showing a growth of 3% in the overall console business with 14% improvement in the EBITDA and 42% improvement in PBT.

Comparing each entity on quarter-on-quarter basis, Gati business had a top-line of Rs.122 crores as compared to Rs.123 crores. The marginal negative impact is because of the de-growth in the fuel stations while e-commerce business has increased by 28% in this quarter.

The GKEPL business has grown by 2% in the quarter from Rs.280 crores in the last quarter to Rs.287 crores in the quarter three and the EBITDA improved from Rs.21.5 crores to Rs.26.3 crores with the healthy growth of 22%. The PBT growth is 40% in the same quarter.

Gati-Kausar business has slight revenue decline in the quarter but at EBITDA level and PBT level has shown improvement. And as I suggested that Gati-Kausar now will inaugurate its first cold chain warehouse in the quarter four.

On annualized basis the comparison of each entity vis-à-vis the same quarter in the previous year, Gati business has come down from Rs.131 crores in the previous year quarter to Rs.122 crores in quarter three of this year, thus registering a de-growth of 6% primarily because of international business and fuel stations. The EBITDA has declined in Gati only because Gati did not receive the dividend from GKEPL in this quarter.

On the main business GKEPL – the quarter three numbers of previous year are Rs.284 crores which has improved to Rs.287 crores, registering a growth of 1% but I said that our core business has grown by 5%. EBITDA has improved from Rs.23 crores to Rs.26 crores registering a 13% growth. Gati-Kausar also on annualized basis with a marginal decline in the business but improvement in the profitability and same is with GIETL which has seen a decline in overall top-line. Overall on an annualized basis our business for the quarter stands at Rs.420 crores as compared to Rs.428 crores in the previous year same quarter primarily because some of the non-core businesses have seen marginal de-growth.

An important financial performance of a company is debt indicator – as has been suggested in quarter-on-quarter, our debt management has improved further, our debt has marginally declined compared to the quarter two, quarter two we had a debt of Rs.472 crores which has come to Rs.469 crores despite an increase in our FCCB liability because of rupee depreciation. So debt management has been improving and that is also improving our overall interest impact on the organization.

So friends, these are some of the financial highlights, I open the floor for questions. Thank you very much.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Mahesh Bendre from Way 2 Wealth Securities. Please go ahead.

Mahesh Bendre: Last few quarters we have been reporting a flat growth, so are we disappointed with the growth numbers and what is the outlook for FY17?

Sanjeev Kumar Jain: In fact the growth in quarter three has a very clear indication of revival, on console level our revenue has grown by 3% but if we dissect our business into core business, some of the businesses which are not core to our strategy our growth on annualization is 5%. And if we factor the impact of de-growth in Parcel Train business and international business our growth in core business is close to 9%. We are confident that in quarter four we will work on this momentum and we will end quarter four with the growth revival of almost closer to 9% to 10%.

Mahesh Bendre: And sir what is the outlook for FY17?

Sanjeev Kumar Jain: FY full year 2017, we will certainly grow, we will make up the quarter four further, last year we had a top-line of Rs.1662 crores, we believe that we should end up somewhere Rs.1680 crores in this financial year. So these are conservative numbers, we believe we shall cross our estimates for quarter four.

Mahesh Bendre: And sir our interest cost has been higher than the profit, I mean majority of the cash flows are going into servicing to take on the balance sheet, so what are the steps we are planning to take so as to bring down this cost going forward?

Sanjeev Kumar Jain: As I said that our debts on quarter-on-quarter are flat, in fact in this quarter the debt has come down marginally. So debt at a level of Rs.470 crores on a top-line of Rs.1680 crores is not a significant debt. The interest burden has increased because Gati-Kausar is now in expansion mode and has drawn NCD as per the financial arrangement with the private equity firm. In Gati's total Rs.470 crores of debts, is an FCCB bond of around Rs.150 crores, so the debt of Rs.320 crores on the size of our company is quite a modest debt.

Moderator: Thank you. Our next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala: In your opening remarks actually I could not catch the ecommerce, how has the ecommerce business done? And likewise, the standalone numbers for this quarter and the previous quarter I mean?

Dhruv Agarwal: Ecommerce in Q3 did extremely well, we registered a 19% quarter-on-quarter growth and about 28% year-on-year growth and this came off the back of a pretty successful and well executed festival season in the months of October and November. Currently during those two months we saw a significant spike in volume as well and moving forward we hope to continue that momentum in quarter four.

Binoy Jariwala: So can you help me with the number of quarter three, quarter two?

Sanjeev Kumar Jain: You asked the standalone number. In standalone number, Gati's overall revenue for quarter three is Rs.122.7 crores which includes ecommerce revenue of Rs.53 crores, compared to quarter two; we had a revenue of Rs.123.9 crores which included ecommerce revenue of Rs.45 crores. So ecommerce revenue in our standalone is gaining in terms of proportion of total revenue and now it stands more than almost 40% of the Gati's standalone revenue. The EBITDA for this quarter is down primarily because it does not include the dividend revenue. So last quarter included a dividend income of Rs.8.4 crores which is not in this quarter.

Binoy Jariwala: So what is the EBITDA and PBT numbers for quarter two and quarter three for standalone?

Sanjeev Kumar Jain: EBITDA for quarter three is Rs.9.9 crores, as compared to Rs.18.9 crores in quarter two and Rs.18.9 crores includes a dividend of Rs.8.4 crores. Gati continues to make investments in the expansion of network, so we have more operating units which can cater to the requirement of ecommerce business expansion.

Binoy Jariwala: And what is the PBT sir?

Sanjeev Kumar Jain: PBT of Gati in the quarter three is 10 million as compared to 101 million in the previous quarter which includes a dividend income of Rs.8.4 crores.

Binoy Jariwala: And Dhruv on the ecommerce side, what is the capacity in terms of handling number of packages per day we have in the last mile delivery, what would the run rate currently and in this particular quarter what would be the average number of packages on a daily basis that we would have delivered?

Dhruv Agarwal: Our current capacity is around 72,000 packages per day. We had added on capacity during the sale period. In terms of run rate, in 2015-16 October we did about 20 crores, November we did about 18 crores and then in December there was a dip, it went down to about 14.7 crores. So our capacity is about ability to deliver about 72,000 packages per day and on average we are delivering about 50,000 packages per day, but then on the sale days you have peaks where we also delivered 80,000 to 85,000 packages a day.

Binoy Jariwala: And this 50,000 was the average for quarter three or is the current ongoing average?

Dhruv Agarwal: I am talking quarter three.

Binoy Jariwala: My last question is, what is our reach in terms of pin codes, I believe we had a plan to scale up our reach on the last mile delivery segment for the ecommerce?

Dhruv Agarwal: Yes, so right now we are doing about 17,000 pin codes and previously we were around close to 19,000 pin codes but the pin codes we keep adding and deleting based on the requirement of our customers. So we open up pin codes and then the packages start flowing, but if the volumes are not that great then we shut those pin codes and open up others, so right now we are at 17,000 pin codes.

Binoy Jariwala: Dhruv, when we talk of 53 crores of ecommerce revenue what would be the e-fulfillment revenue in this?

Dhruv Agarwal: The fulfillment is separate; in Q3 we did a fulfillment revenue of about 6 crores, so if you look at ecommerce in total it would be 53 plus 6.

Binoy Jariwala: And how does this stack on a quarter-on-quarter basis, so quarter two would be?

Dhruv Agarwal: Quarter two number for ecommerce is around Rs.45 crores.

Binoy Jariwala: No, I mean for the e-fulfillments?

Dhruv Agarwal: E-fulfillment is around 2 crores.

Binoy Jariwala: Dhruv, your outlook on the ecommerce business, how do you see it growing in the future now in the near term because I think from staggering 60%, 70% growth rates it has actually normalized about 30% odd growth rate, so how…

Dhruv Agarwal: I think that especially after October, November when the big sales were there, December and January there will certainly be a slight dip, though now in January for this Republic Day sale over those three four days we should see some uptick. But moving forward our strategy is, like we have been saying that we have been doing end-to-end solutions on the logistic side and now we are going to market to some of the smaller e-tailers and also providing them fulfillment services which will be a lot more end to end kind of service offering. But I think the growth rates of 70%, 80% plus I think it will be tough to hit that kind of growth going forward, but again it all depends on how our etailing customers do.

Bala Aghoramurthy: So if I may add, without any doubt the ecommerce market is actually now widening in its reach portfolio as well, if you recall our various conversations over last few quarters we were very-very heavy on the large shipments alone but now we have actually expanded into saying that we will do the smaller shipments of 1kg, 2kg and so on. Of course there is a geography reach; in addition another very critical portion of our ecommerce strategy has been that we are now going direct to the original manufacturers who are looking for a national ecommerce partner in addition to going through the various websites. So that is our other source of growth and we are also tapping into many SMEs. So we have a plan which is kind of broad basing the ecommerce services rather than hold on only to two or three top players.

Binoy Jariwala: But in terms of two or three top players also are they actually moving, are they shipping more of their orders thorough their in-house captive logistics units, is there a shift?

Bala Aghoramurthy: No, actually the shift is the other way around. So a couple of the major ecommerce guys are actually outsourcing more and more as much as possible and one of the major players has actually reversed their strategy where they are going more into one of the companies that they have invested in, they are diverting maximum loads to the company that they have invested in while the others are actually outsourcing more and more.

Binoy Jariwala: So despite of the outsourcing portion growing in terms of the total pie of ecommerce logistics our growth rates have still tapered off?

Dhruv Agarwal: So Binoy the way to look at it is that they already have a certain base which their in-house ecommerce vertical is handling and as their volumes are growing or more pin codes are opening up those they are continuing to outsource more. So whatever incremental growth they have they will probably outsource a larger portion of the incremental growth, if that makes sense.

Moderator: Thank you. Our next question is from the line of Prateek Kumar of Antique Stock Broking. Please go ahead.

Prateek Kumar: Sir my first question is on further dwelling on the ecommerce side, so clearly versus our guidance like in Q2 for example we expected around 60 crores we did around 45 crores, in Q3 we expected around 90 crores or so but we did only 50 crores, so the numbers are clearly below our expectations. So is this due to loss of market share to some of the private equity funded start-up companies or the other listed companies in the space or is it due to just tapering off growth in that segment festive we are not being very good. I mean what would you attribute this to?

Dhruv Agarwal: I think as far as Gati goes, like Bala mentioned earlier we are actually broad-basing our ecommerce offering and getting into the lower weight segments. Just to give you an idea, Q2 we had about 52%, 53% less than 2kg and remaining in the greater than 2kg segment and in this quarter we are actually at 60% less than 2kg and 40% above 2kg segment. So we are actually broad basing our service offering. In terms of the numbers that we had projected and what we have actually done, the volumes that have moved out versus what was projected has also decreased from our e-tailers, so that is a large portion of where the numbers are missing but we have continued to expand the reach and the number of pin codes we are offering and also the services we are offering to our customers. We have not faced any real; the decline is not due to increased competition so far.

Prateek Kumar: And sir you mentioned about 9% growth in tonnage terms, I could not get the meaning of how do you arrive at this 9% is it QonQ, YonY, what is it?

Bala Aghoramurthy: So this is about our core business of Surface Express which forms 75% of the GKE vertical that we have. This time the volume growth which is the total tonnage that we hauled for our various B2B customers has increased by 9%, it is a very healthy increase. If you have seen the trend over the last couple of quarters it was in the range of about 2%to 3% but this quarter it has jumped up to a healthy 9% in tonnage terms.

Prateek Kumar: So as I understand the previous couple of quarters were also impacted by your loss of volumes in specific rail segment and specific market, so is it due to revival of that particular segment?

Bala Aghoramurthy: Let me break up the GKEPL for you a little bit, so it has got two core segments of surface and air express which constitute about 85% of the GKE business. There is a third vertical which is the rail services that you are referring to and a couple of quarters back we had shared with you that there was a loss of about 10 crores in top-line on that rail vertical. I am happy to share that in this quarter we made up about 20% of that loss in this quarter and we have already tied up to make up an additional about 40%, so two-thirds of that loss will get covered in Q4, we are working to cover the rest of it. So the 9% growth has got nothing to do with this rail services that was only in the core surface express business and not in air.

Prateek Kumar: And sir just one last question, we saw margin improvement clearly QonQ, year-on-year, so what would you attribute this to specifically in respect to segments? I know you gave the detailed information segment wise but what were the specific reasons behind that?

Sanjeev Kumar Jain: So the improvement in quarter three is attributable to multiple factors. The core business as Bala just explained which is our GKEPL business, surface and air; they grew very healthily in terms of the volume which is 9%. We also managed our operating cost and admin cost quite well, in fact we discussed that we have a plan of taking definitive initiative on admin and people cost management. So they have started giving result. We are accelerating the efforts on this cost management further and we see that there is further improvement in quarter four. So quarter three improvement is likewise, some improvement in the revenue and better cost management.

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

Mayur Gathani: Just wanted to check do we expect dividend in quarter four from the JV?

Sanjeev Kumar Jain: So dividend decisions are taken by the board, it is very difficult to discuss the dividend strategy on the investors call. The board will evaluate the dividend issue in the next quarter and we will take an appropriate decision.

Mayur Gathani: What was the dividend in the first half sir form the JV for the standalone entity?

Sanjeev Kumar Jain: JV has not declared any dividend in this financial year so far.

Mayur Gathani: So there is no dividend given?

Sanjeev Kumar Jain: Yes, in this financial year.

Mayur Gathani: And what is the guidance for FY17, FY16 looks more or less flat, so FY17 what is your revenue guidance?

Sanjeev Kumar Jain: FY17 we believe that we will grow close to 10% in our revenue on console basis and our EBITDA will improve at least 1% up as compared to 2015-16.

Mayur Gathani: So 7.5 going to 8.5, is that a fair assumption sir on the EBITDA?

Sanjeev Kumar Jain: I think that is quite conservative and achievable number.

Mayur Gathani: And what I understood from the last conversation was that Kintetsu EBITDA stands at 9.2% today in quarter three which is a significant improvement over the last two quarters, so we can do a little better because the cost efficiencies are still coming in for quarter four and if we get more volumes then we can do better EBITDA and JV as well.

Sanjeev Kumar Jain: We are quite confident that we will take it to in the range of 9.5% to 10%.

Mayur Gathani: And coming back to ecommerce, if I ask you, so is my understanding clear that with expansion that you are doing more on the less than two kgs, this should have actually helped you do better business in ecommerce because you are anyways doing on the higher kgs, now you are also expanding and doing a lower kgs, but the growth rate has tapered down big time. I mean is it because, I know you answered the question previously, but I just wanted to recheck that is the ecommerce industry tapering down or what is the reason?

Bala Aghoramurthy: Firstly, Gati's white goods share which was a big weight segment, greater than 10kg, it has actually absolutely protected, we still have a very dominant share across e-tailers, across customers in the higher weight segment. The expansion into the smaller one was a deliberate strategy on our part because we wanted to continue to increase the volumes. Just to register the number again our volume increase year-on-year in terms of the number of packages is close to 60%, which was a deliberate strategy. As an industry I think it is time to recognize that the same high growth rates of mere triple digit number may not be sustainable in the next year or two years onwards. Having said that, ecommerce will have a very robust growth rate, it will be of course a 50%, 60% kind of range, you cannot expect a 90% and 100% but it is fair to expect something under 50% to 60% range and Gati will continue to play this with even more focus. And like we said we actually must see the Gati's ecommerce play as a totality of EFC and ecommerce distribution, the EFC is actually registered within the GKEPL and so on, we have seen a very healthy growth, this registers that number. On the EFC it is a 150% growth in terms of year-on-year for this quarter. So that is the answer.

Mayur Gathani: And on a quarter-on-quarter basis e-fulfillment grows on 6 crores to 6.7 crores or it was 2 crores to 6 crores? I missed the number sorry.

Dhruv Agarwal: Quarter-on-quarter it is around 6 crores to 6.7 crores, year-on-year it is 2 crores to 6 crores.

Mayur Gathani: So my point here is, e-fulfillment shouldn't have grown a little bit more better, I mean with a kind of growth that you have seen in quarter three with a season time, 6 going to 6.7 and this is a very small business for us, this basically should have grown a little bit faster? I know year-on-year it is growing because year-on-year it is a very small thing.

Dhruv Agarwal: I will explain. So actually in October and November we had a huge growth in the number of packages, so like Q2 we did around 4.2 lakhs packages per month average for fulfillment and October we did about 5.7 lakhs, November we did about 4.3 lakhs and then December saw a decline to about 3.2 lakhs. So a couple of things happened here, one is that in the month of December we shut out two of the smaller fulfillment centers in Bangalore and Mumbai and we have actually increased the capacity in our Hyderabad fulfillment centers and also added a couple of new customers which are kind of going live now which we will see an increase in volumes in this quarter four. And so just to give you another metric to compare, Q2 we did around 4.2 lakhs orders per month average out of 2.2 lakhs square feet and in Q3 we did 4.4 lakhs orders per month out of 1.7 lakhs square feet. So square foot, if you look at orders per square foot kind of metric has actually increased this business, but there was some consolidation that happened, couple of fulfillment centers volumes were not coming so it was mutually decided to close them down, etc.

Mayur Gathani: And any number that you can put since 1.7 can go up to so and so in the next one year's time, are we expanding that?

Dhruv Agarwal: One year's time we would be looking to at least double that, in this quarter we should be adding another 50,000 to 80,000 square foot which is under implementation right now.

Mayur Gathani: And on the cold-chain business what is the capacity that you are starting off with for the first one?

Sanjeev Kumar Jain: So first warehouse is closed to be commissioned in this quarter and will have a pellet of around 5500 pallets.

Mayur Gathani: And is it fair to assume that the ecommerce margins would still be more than double-digits; I mean 12%, 15% or any guidance on that?

Sanjeev Kumar Jain: Ecommerce margins are still in the range of around 13% to 14% at EBITDA level.

Mayur Gathani: And on the 20 crores plus that we are expected to receive from the courts, when can we receive that and what do we intend to do with it?

Sanjeev Kumar Jain: See the money has already been deposited by Air India with the court and Gati is now in the process to bring this money for its use. We hope to complete this process in the next two to three weeks.

Mayur Gathani: And will we be reducing our debt or is it for expansion?

Sanjeev Kumar Jain: So this will help us to leverage our debt and also use this money for our ecommerce expansion.

Moderator: Thank you. Our next question is from the line of Kamini Shah from TA Associates. Please go ahead.

Kamini Shah: Just one lingering question on the ecommerce piece, is there a component of one-time revenue because if the festive season that you have seen in this quarter vis-à-vis the other quarter?

Sanjeev Kumar Jain: Sorry, could you repeat that, was not able to understand.

Kamini Shah: I just wanted to check if there would be some component of one-time revenue that you have seen because of the festive season in October and November this quarter vis-à-vis with the rest of the quarter, you said sales volumes had peaked up to 85,000 packages but averages are much lower than that. I just wanted to get a sense of whether the one-time revenue here that you would not leave going forward?

Bala Aghoramurthy: So the way the ecommerce business has worked for us in the past, the December quarter average continues or incrementally builds, so you can expect it to be sustained. The December performance in ecommerce either incrementally builds or sustains, so it is not a onetime revenue, it is an increase in the base of ecommerce.

Kamini Shah: Next question was just regarding the cold-chain business, the cold-chain transportation business, could you give us some color on that, do you have an update on where that business is going to go?

Sanjeev Kumar Jain: So currently Gati-Kausar is in the reefer transportation, but as I said that it is in the expansion mode and creating a network of cold-chain warehouses across country. It has already closed a financial transaction in 2014 and made a financial closure to fund these cold-chain warehouses. So today the cold-chain warehouses going forward it will be an integrated cold-chain business close to the business which you are seeing in snowman. So Gati-Kausar is in the same footprint and the business of Gati-Kausar will be an integrated cold-chain comprising of reefer transportation and warehousing.

Kamini Shah: And the last one sir, FCCB issue, do we have an update on that?

Sanjeev Kumar Jain: FCCB issue, it is still the status-quo, the matter is sub-judice. The bond matter is in the litigation in the lower court of Hyderabad. There is no change in quarter three with regard to the status of FCCB bond.

Moderator: Thank you. Our next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: First on ecommerce, can you just highlight to us as to what is the percentage of COD deliveries in the overall business, what is the average ticket size there and if you can compare it year-on-year and quarter-on-quarter as well to begin with.

Sanjeev Kumar Jain: The COD business as on date is in the range of around 65%, the COD percentage compared to overall delivery has slightly come down. So this business is a predominantly COD driven business. What was the other question?

Rakesh Vyas: What was the average ticket size in COD in general or on an average?

Sanjeev Kumar Jain: I think somewhere Rs.5000 per packet, this is my best estimate, I am not absolutely sure.

Rakesh Vyas: I am just looking for a trend sir, I appreciate. And what would have it been last year on an average?

Sanjeev Kumar Jain: Last year the COD business was close to around 75%.

Rakesh Vyas: And has average ticket size improved since then or it started reducing?

Sanjeev Kumar Jain: I will have to give you this figure separately.

Rakesh Vyas: Sir secondly I am just trying to understand, despite increase in the ecommerce business QoQ, the margin improvement is not looking to come on standalone basis, so is there a margin pressure incrementally on the ecommerce business now because I thought you said the margins are more or less now in the range of 13%, 14% whereas I think the earlier numbers used to be around 16%, 17%. So is this now likely to be stable, sustainable margin trend?

Sanjeev Kumar Jain: As I said that ecommerce margins are always in the range of 13% to 14% and these are sustainable margins because we have an integrated network and this advantage to the ecommerce will always remain with the Gati. So we are not operating two parallel network for business and this advantage is unique to Gati and will always remain to the advantage of the ecommerce business.

Rakesh Vyas: So in general we are not seeing any pressure yet on margins, so all the growth are tapering down, margin pressure is not there, is that a correct understanding?

Sanjeev Kumar Jain: Exactly, yes.

Rakesh Vyas: And sir can you just highlight as to what is the number of bikers now, I thought we added capacity and now we are talking of reducing the numbers as well. So what was it for the third quarter and what is it likely to be let's say fourth quarter or next year?

Dhruv Agarwal: Rakesh we added around 350-odd two wheelers and four wheelers, primarily we added four wheelers, we have added only about 50 to 55 bikers, remaining were four wheelers. And we have already done a little bit of shedding of capacity but the adding of capacity will be in conjunction with pin codes that we open up or volume increases that we have worked out with our customers. So I think for this coming quarter there might be an incremental increase, but as of now I think these numbers will remain the same for this quarter.

Rakesh Vyas: Sir what was the delivery last year or last quarter per day, you said 50000 was in this quarter so what was it second quarter?

Dhruv Agarwal: Yes, last quarter we had a capacity of around 50,000 to 54,000 per day and we were doing I think 40,000 per day is what we were doing on average and now capacity has increased to about 72,000 deliveries per day, we are doing around 50.

Rakesh Vyas: Sir my last question is, what is the Gati-Kausar's EBITDA you had said and what was it last quarter, you said 9 million, right?

Sanjeev Kumar Jain: You are talking about?

Rakesh Vyas: Gati-Kausar EBITDA?

Sanjeev Kumar Jain: Gati-Kausar EBITDA for quarter three is 9 million was 5 million in previous quarter.

Moderator: Thank you. Our next question is from the line of Nehal Jham from Edelweiss. Please go ahead.

Nehal Jham: My question revolves around GKE, you mentioned that you have seen a 9% volume growth year-on-year in this business mainly in air and surface express, so just wanted to understand, if I look at the numbers GKE has grown around 2% to 3% year-on-year so is it that we have seen a 6% to 7% pass on in fuel prices that’s why the revenue growth has only been 2%?

Bala Aghoramurthy: No, you are partially right there. If you recall last time we clarified that the diesel prices last year same time versus this year have been down about 10% to 20% depending on the quarter, so this quarter it is down about 15% versus last year same quarter and in the previous quarter it was down nearly about 20%. There is definitely an impact of the diesel price, of course the nature of business that Gati has done, we try to insulate ourselves to the max extent possible. In general, in transportation you would see around 70%, 80% of the diesel price getting passed on to customers but we have been very-very judicious, we contained it to about 3%, 4% which is the reason why despite our high volume growth we actually see the revenue growth at a shade lesser. Secondly, the GKE number of course is also impacted by the rail services, we have not declared separate numbers etc. for each of the verticals, the GKE business profitability is also impacted significantly by the rail services like explained before. We expect to build back about two-thirds of the loss in the next quarter, hence we are confident, like Mr. Sanjeev said, in the next quarter you will see a further improvement in the profitability to the range of about 9.5% to 10% at an EBITDA level.

Nehal Jham: So I am guessing that this number would be higher than 9% just if you take air and surface, right, and you exclude rail?

Bala Aghoramurthy: You are absolutely right, it will be in the double-digit number.

Nehal Jham: And my other question related to this is, you mentioned that you have seen a big increase in your number of packages and you have gone into smaller SKUs of below 2kgs. Now I understand that the GKE business is the transportation or the surface express is used for ecommerce delivery. So what portion is it possible to understand is related to Gati and the other portion being related to the increment demand that you would have got?

Bala Aghoramurthy: Sorry, I am not very clear about the question, let me say it the way I have understood. You are talking about the ecommerce parcels increase. Just to clarify, the entire ecommerce ground operations last mile delivery is directly into the Gati Standalone, GKE does a line haul for Gati, so that is the way it is structured. In this context if you want to repeat your question?

Dhruv Agarwal: I will explain Nehal, that 9% volume growth that we spoke about in Gati-Kintetsu is for our B2B segment, that is our B2B volume growth, B2C actually sits in Gati Limited which is our ecommerce logistic, the volume growth was around 60%. The way we work it is that we use common infrastructure and everything, the line haul which is the hub to hub movement is common goes on the GKE network, just the last mile for B2B and B2C is a different network, in B2C we use like the bikers and the smaller four wheelers and in the B2B segment slightly larger four wheelers do the final mile. I hope that clarifies?

Nehal Jham: Yes.

Sanjeev Kumar Jain: Also to supplement your answer in terms of financial impact, any transaction between Gati and GKEPL it has no impact on the console revenue, these transactions are knocked off.

Nehal Jham: So just my last point, I was trying to understand that is this growth of 9% mainly related to our growth in ecommerce or it's separate growth that we have seen in the industry itself?

Dhruv Agarwal: No, the9% is only B2B surface express growth, it has got nothing to do with ecommerce, ecommerce standalone is near about 60% volume growth, and the 9% is only B2B surface express growth. Nehal, basically we do not double count the volume growth ecommerce and GKE, it is all separate, and we knock that off.

Moderator: Thank you. Our next question is from the line of Bharat Chhoda from ICICI Direct. Please go ahead.

Ankit: Sir, this is Ankit here from ICICI. Sir if previously in FY16 I heard that the revenue we are targeting is around 1680 crores, please correct me if I am wrong, is it right?

Sanjeev Kumar Jain: Yes, right.

Ankit: So if I back calculate it the Q4 revenues would be approximately around 440 crores to 450 crores, it shows a big jump YoY, so sir can you just please explain me what gives us this confidence to kind of coup up the revenues in Q4?

Sanjeev Kumar Jain: I think you must recheck, the Q4 revenues are in the range of around 430 crores. There is no dramatic change in terms of revenue in Q4, our estimate of Rs.1680 crores is on the basis of Rs.430 crores of top-line and consolidated basis in quarter four.

Ankit: And sir I think in Q3 we had started something called as vendor financing, vendor own model, so can you just update me regarding this that what are we doing over there?

Peter Jayakumar: We have about 100 vehicles in place now and the vendors are extremely happy at this model and this augments our capacity and there is a slight reduction in the operations cost which is visible and thus is evident in the results and this gives us an assured enough capability and the capacity.

Sanjeev Kumar Jain: The spirit of this whole arrangement is that Gati negotiates the commercial on its own strength without taking any financial risk. So that negotiated rates go with the financier as well as the manufacturer, benefit is passed on to the business partner without Gati being a guarantee for that arrangement. So this is the uniqueness of this that Gati negotiates on its strength and pass on the benefit to the business partner without assuming any financial risk.

Ankit: So sir any volume numbers from the same at this quarter, if you can share it with us.

Peter Jayakumar: Your question is, what are the impact of this…?

Ankit: What are the volume numbers which are being carried on with the help of this model?

Peter Jayakumar: See most of the vehicles came only in the middle of December, so it would be tough to say that these 100 vehicles how many packages they carry, they were just connected into our network at various places and so it would be tough to give you a number exactly on this but they form a part of our own network.

Bala Aghoramurthy: It is like any other vehicle in our network.

Ankit: And sir can you just update me what kind of revenue loss we would had faced due to that Chennai floods or what kind of financial impact we would see?

Sanjeev Kumar Jain: I gave you three, four onetime event which is the Tamil Nadu floods, the All India transport Congress strike and the closure of Nepal border. So roughly around close to 1% with all these onetime events we would have lost in our top-line.

Ankit: And in Q2 we had total 4 e-fulfillment centers and out of which I heard that two we had already closed and one we have kind of consolidated to a bigger one, so now how much e-fulfillment centers we have?

Dhruv Agarwal: We had four major fulfillment centers and two smaller ones, now we have two larger fulfillment centers and two smaller ones.

Ankit: And the total square feet?

Dhruv Agarwal: 1.7 lakhs right now.

Ankit: So it has been reduced from 2 lakhs in Q2 to 1.7 lakhs in Q3?

Dhruv Agarwal: 2.2 to 1.7, yes.

Moderator: Thank you. Our next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala: Just wanted to get your thoughts on the main business which is KWE, how much of our volumes actually move through air express and how much move through ground?

Bala Aghoramurthy: So incidentally it is not KWE, it is Gati-Kintetsu so it is GKE business. Of the GKE business about 75% is the core surface express, about 11% to 12% is air express and the remaining being made up of both rail as well as the supply chain management or warehousing business. So that is the construct of GKE.

Binoy Jariwala: And how has this mix moved over the past couple of years?

Bala Aghoramurthy: Over the past couple of years in terms of mix the rail business has come down, it used to be 11% to 12% it is now much smaller than that, but of course our endeavor is to build it back while going with rest of the franchise. The SCM business has grown, it used to be a smaller portion let's say about a year back, now it is a sizable portion of GKE now.

Binoy Jariwala: How much is it now?

Bala Aghoramurthy: The SCM business would be around 6% to 7%.

Binoy Jariwala: And any movement in terms of surface and air as a volume on the air side, the mix of volumes on the air side gone down over the past couple of years?

Bala Aghoramurthy: Actually the two are very different segments, of course the driver for our customer to choose surface and a customer to choose air are very-very independent, and as a result there is no inter-play between the two.

Sanjeev Kumar Jain: I am saying that some of the air moves to the surface, is that the question?

Binoy Jariwala: No, what I am trying to understand is that currently about 11%, 12% of the volumes go through air and 75% through surface. Now has this 11% was it a larger number over the past couple of years?

Bala Aghoramurthy: No, it was in the same range, the difference has been more in terms of GKE and SCM, to some extent they did balance out each other a little bit plus there is an incremental increase in the surface in terms of our portfolio mix.

Binoy Jariwala: How fast would surface segment be growing for us, the volumes in the surface?

Bala Aghoramurthy: So we explained that, the volume growth on surface this quarter over last year same quarter is 9%.

Binoy Jariwala: And in terms of market share, what would our market share be in the surface segment?

Bala Aghoramurthy: Market share, we of course are the undisputed number one in surface, we will have a market share anywhere upwards of about 25%, 30% .

Binoy Jariwala: And how has the market share moved over the past two years?

Bala Aghoramurthy: Over the past few years you are talking about?

Binoy Jariwala: Couple of years I mean.

Bala Aghoramurthy: Over the past couple of years we would have added incrementally to the market share let's say about couple of percentage points, there is no easy way to measure this, I must also caution you there is no easy way to measure this, so this is our best estimate knowing the industry, the competition and everybody else.

Binoy Jariwala: And so as per our estimate would this addition of market share by a couple of percentage points be more from, are we taking share from the unorganized segment or unorganized players?

Bala Aghoramurthy: The big players are of course between the organized players, so it is between organized players.

Moderator: Thank you. Our next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: First on the 2020 plan which you envisaged in which you targeted around 45%, 50% of revenue as with the ecommerce segment business, so do you have an update on this 2020 plan which you talk about often?

Bala Aghoramurthy: Yes. So the 2020 plan is absolutely on track, we of course did brief you I think a couple of quarters back saying we expect ecommerce to become 50% in terms of the number of packages. Just to refresh our memory on numbers, we do something like 2.5 lakhs packages on delivery in surface alone plus ecommerce everything together we are about 2.8 lakhs packages a day today. We expect this number to increase to 1 million packages a day by 2020, of which 50% is expected to be ecommerce, 50% is expected to be the rest of express distribution business. So we of course are moving, that is the reason why you hear us say that we are investing, we are opening up new offices for ecommerce especially in cities and so on, we are increasing capacity. So we are on track, of course there is a year-on-year milestone, the five years going forward we do have detailed internal plans.

Prateek Kumar: And in the last you also mentioned about opening up some consolidation centers related to the same and even the last mile picks I believe, so have you been shutting down those as well in line with e-fulfillment or…?

Bala Aghoramurthy: No, so the consolidation and sorting center is primarily for the ecommerce delivery where we pick up from the various etaliers or sellers, bring it all to one location and then sort if by delivery point and send them out. So those continue on, the fulfillment center is in a slightly different space. For example, like from our fulfillment centers once we have processed the orders various service providers would come and pick up their loads from our fulfillment centers, whereas from our sorting centers that is our internal piece where we open up sorting centers for faster segregation and movement and connectivity to our line haul.

Prateek Kumar: So sorting centers are more captive ones and VFCs are for in general for other service providers as well?

Bala Aghoramurthy: Yes, EFCs are for we are providing the fulfillment centers, warehousing service to the etailer and then they segregate the loads to various service providers and the sorting center you are right is more of a captive process to help us decrease time and improve our efficiency.

Prateek Kumar: And sir what would be our CAPEX for the next two years?

Bala Aghoramurthy: In general, we have been clocking around 25 crores per annum, we expect it to be in the same range.

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

Mayur Gathani: Just a hypothetical question sir, with diesel prices falling especially the pass through on the ATF has been way more than on the road segment, so do we see movement from the road to air, is that actually happening due to the prices over there?

Bala Aghoramurthy: No, first of all there are two or three reasons why it cannot happen. We are obviously very competitively priced, we are aware of the various modes etc. Secondly, air capacities are limited, it is not easy to add on to air capacity whereas the road capacity can be increased very easily. Third, the drivers for air, the pricing of air is such that the driver for air are need for urgency and immediacy, as a result there is no interplay between surface and air, there is no interplay.

Moderator: Thank you. We will take the last question from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: Two quick questions, one, can you just give the breakup of the debt of 469 crores across entities?

Peter Jayakumar: Gati standalone is 283 crores which includes the FCCB, and Gati-Kintetsu is about 150 crores is a little to manage it at the same level as the previous quarter and also Kauser is about 35 crores primarily because of the entity coming in and the draw in for the CAPEX.

Rakesh Vyas: And sir secondly can you just highlight what is the revenue from supply chain management you said, SCM business?

Sanjeev Kumar Jain: Supply chain management for this year will end somewhere around 50 crores to 55 crores and this is a business which is growing by almost 50% year-on-year basis.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to Mr. Devesh Agarwal for closing comments.

Devesh Agarwal: Thank you. On behalf of IIFL I thank all the participants for their participation. And also thank Gati management for giving us an opportunity to host this call. Thank you.

Moderator: Ladies and Gentlemen, on behalf of IIFL this concludes this conference. Thank you for joining us and you may now disconnect your lines.