"Gati Limited Q1 FY2017 Earnings Conference Call"

August 05, 2016

MANAGEMENT: **MR. BALA AGHORAMURTHY - PRESIDENT & WHOLE-TIME DIRECTOR, GATI-KWE**
MR. DHRUV AGARWAL - CHIEF STRATEGY OFFICER, GATI GROUP
MR. PETER JAYAKUMAR - DEPUTY CFO, GATI-KWE
MR. AMIT PATHAK - COMPANY SECRETARY AND CHIEF INVESTOR RELATIONS AND COMPLIANCE OFFICER, GATI-KWE

MODERATOR: **MR. HARSHVARDHAN DOLE - ANALYST, IIFL CAPITAL LTD.**

Moderator: Ladies and gentlemen good day and welcome to Gati Limited Q1 FY2017 Earnings Conference Call hosted by IIFL Capital Limited. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note, that this conference is being recorded. I now hand the conference over to Mr. Harshvardhan Dole from IIFL Capital Limited. Thank you and over to you sir.

Harshvardhan Dole: Thank you. Hello to everyone and thank you very much for joining in for the Q1 FY2017 conference call of Gati. Today the management will be represented by Mr. Bala Aghoramurthy – President & Whole Time Director at Gati-KWE, Mr. Dhruv Agarwal who is the Chief Strategy Officer at Gati Group, Mr. Peter Jayakumar – Deputy CFO at Gati-KWE and Mr. Amit Pathak who is the Company Secretary and also the Chief Investor Relations and Compliance Officer.

I would request the management to first brief us how the quarter is gone by and essentially share some outlook for the forthcoming quarters. Thereafter we shall handover the lines for the Q&A session. I hand over the call to Mr. Bala, over to you sir.

Bala Aghoramurthy: Good morning friends, this is Bala here and the outset I would like to mention because many of you are used to listening to Sanjeev Jain, he is out of commission today because of ill health but the rest of us will take you through the performance in the quarter. So welcome once again to Gati's 1st quarter FY2016-2017 results discussion. I thank you all for your participation. We will take you through the financial performance of the company, a few highlights in the main vertical and there after we shall take your questions.

First, let me give you an over view of major sectoral development. All of you aware online retail market stagnated between May 2015 and 2016 in terms of the value of goods sold while in May last year the ecommerce clocked a gross merchandise value or GMV rate of $9 billion. This number has only inched marginally upwards to about $10 billion at the end of this year May, translating into our very modest 11% annual growth in the period that I just referred. In December last year the total GMV run rate if you recall had reached $10.5 billion on the back of a festive season and thereafter it has tempered to the leveled I mentioned at $10 billion in May this year. The e-tailers not been allowed to influence the prices of the product. There has been a reduction in the discount deals across ecommerce website, this has resulted in a slower growth rate in e-com shipment compared to previous period. Also with a cap of 25 % on single seller selling on any market place, this has resulted in a shifting of sales from inventory base seller to other retailer on the market place. We are very excited about the passage of the GST bill this week, it will be a significant trigger for the Indian industry to migrate from legacy supply chain model which were originally designed to optimize the existing tax consideration to newer and more efficient supply chain model. For Gati, this is a tremendous opportunity to provide integrated supply chain solutions to address the end-to-end logistics needs of our vast customer base. It is a very good development within this week.

A bit of commentary on major development within the group through this quarter gone by. Modest economic growth has presented challenges which are reflected in our Q1 FY2017 performance although the ecom industry growth was affected by slowdown in e-tailer's volume. We are happy to state our package volume grew by 49 % year-on-year. In terms of revenue the ecom vertical grew by 28 % year-on-year from Rs. 45 crore to Rs. 58 crore. Quarter-on-quarter ecom revenue de-grew by 9%. Gati has embraced modern technology and completed the automation of it PAN Indian distribution operations. This is the major investment that we have done within this quarter. There is now 100 % visibility at an individual package level across our network for the benefit of the people on those calls, such expensive technology automation is unprecedented in the express distribution industry in India, especially in the context of Gati scale network reach. Post launch stabilization of new technology put longer than planned within this quarter and the same was managed in active collaboration with our many customers. A new parcel train policy has been announced by the railways with the single minded purpose of encouraging only serious long term companies versus unorganized players**.** We await reissuance of rail tenders under this new favorable policy. Gati Kausar have commissioned its first cold store war house near Delhi. The existing credit rating has been reaffirmed for Gati and for GPI**.** I now handover to Mr. Peter to take you through the financials of this quarter.

Peter Jayakumar: Thank you Bala for giving for your remarks on the macroeconomic front and also for sharing the developments in the group. Let me begin what the Gati consol numbers. Q1 the total income has been at 428 crores compared to 420 crores on a YoY basis that is an increase of 2%. Q4 the similar figure was 433 crores. Coming to the EBITDA the current quarter we have clocked37crores against 34 crores of Q1 in the corresponding quarter of the last year. However this figure has been 43 crores in the previous quarter. The PBT for the current quarter is at 15.7 crores when compared to Q1 of last year at 13.7 and the previous quarter at 24.3. Coming to the PAT figure, the figures for the current quarter is at 11.8 crores against 9.9 on a YoY that is the healthy growth rate of 20 % and when it comes to Q4 together it is 20 crores. The good news on the ecom mix continues and the share is now at about 15 % in Q1 FY2017 when compared to 10 % in Q1 FY2016. Now moving on to the standalone piece that is Gati Limited the total income for the quarter is at 131 crores compared to 120 crores in Q1 FY2016. The figure in the previous quarter was 131 crores which mean a growth of about 9 % on a YoY and almost in flat on a Q-o-Q. But the good news continues on the EBITDA front and on also on the PBT front when you look at it on YoY basis where the EBITDA for the current quarter stands at 13.4 crores compared to 12 crores in the corresponding quarter of the last year, that is a handsome increase of 28 %. From the previous quarter the figure was 15.2 which show the modest increase at the EBITDA level. On the PBT's front the growth story continues on YoY basis where the figure is now on the current quarter is 61 corresponded to the previous quarter the figure 43 and this is a million 6.1 to be precise in crores. The PAT in the current quarter is

4.9 crores and the corresponding quarter figure last year is 3.3, that is an increase of 47% the previous quarter the figure was 6 crores and the e-com vertical continues to grow and the growth rate is 28 % YoY and with a sequential quarter degrowth of about 9 %.

Coming to a flagship company Gati Kintetsu, the quarter figure is 282 crores and the corresponding figure last year was 285 crores, the previous quarter figure was 287 crores which means this is almost flat. On the EBITDA front on a year-on-year there is a growth from 20 crores to 21.1 crores. The previous quarter the EBITDA figure was 27.5 crores. On the PBT front we have done extremely well on YoY basis where the current quarter figure is 11.9 crores and the corresponding last year figure was 10.02 crores that means an increase of about 17%; the previous quarter figures is close to 18 crores and coming to PAT that the previous year figure was 7.4, the current year quarter is 9.3 again indicating a handsome increase of about 25 %.and the EBITDA margin improved 30 basis point on a YoY. That from the Gati-Kintetsu please.

Gati-Kausar, Bala is already shared some information on the cold chain **warehouse**. The current quarter number is 11.8 crores from the top-line which is almost lag when compared to the previous quarter and last year the figure was 13.7 crores and the EBITDA in the current quarter is 3 million, previous year quarter is at 1.9 crores and now coming to the others which means the GIETL piece, Zen, **APAC** the total income for the quarter is 29.9 crores, the corresponding figures in the previous quarter is 16.8 that is on a YoY, previous quarter it was 28.2.

Now we will move on to the debt position which has been of a significant interest to a lot of investors and in the current quarter as you have always mentioned we are glad to inform you that we are maintained the debt level below the 500 mark. This is at 486 now, previous quarter it was 501, it has just crossed 500 and the current quarter it was 486. The broad break up in Gati standalone it is a 279 crores, GKPL it is 139 crores, Kausar is 66 cores with the infusion of the NCD money and in GITL it is about 2 crores, that position and with this the floor is open for us to take the Q&A.

Moderator: Thank you. We will now begin with the question and answer session. We take the first question from the line of Harsh Shah from Dimensional Securities. Please go ahead.

Harsh Shah: I would like to ask that in the beginning commentary you have mentioned that ecommerce market was stagnating like the growth was around 10%-11 % because of lower discounting and the cap that the government had imposed to 25 %, so now these policies will continue to stay for at least for foreseeable future. So can we expect similar kind of growth going on ahead of results?

Dhruv Agarwal: Two things. On a YOY basis we dropped about a 30 % growth but on Q-on-Q basis it is about been **(**-9 %). With this new regulation what is happened is the e-tailers, they have to do a little shift in strategy in the way that they were operating. So lot of them operating with 1 or 2 large sellers now they have had to bring onboard a lot of new sellers which they have done aggressively in the last quarter or may be last 4 or 5 months, so as more and more sellers get on boarded the e-tailers would have changed the strategy on how they have been selling so far and how they have to do it under the new law**.** In this last quarter definitely there was almost no sales and hardly though there was some advertisement etc. the sales were not so aggressive, so order volume has definitely come down a bit. However, moving forward as you understand you must have already seen that in August we are going to see the sale period for the Independence Day and of course then we are going to have the October Diwali peak which is our e-com industries biggest sale period of the year. So moving up forward especially August-September-October we should see good volumes coming in from e-com

Harsh Shah: Sir, do we still stick to the guidance of 60%-70 % kind of growth for the year, entire year?

Dhruv Agarwal: We are quite confident of about 50 % YOY this year.

Harsh Shah: Another is I would like to have get them some clarification on this FCCB issue. Now to my understanding the conversion is due in November. So first question is why are we not honoring the conversions. so why have been approach RBI to purchase these FCCBs and second question is in case if the conversion goes through what will be the dilution that will be happening to our equity?

Peter Jayakumar: As far as the FCCB matter is concerned, there is a detail disclosure which we are been giving in the annual report and we have also given it in the clause 41, what we have published yesterday including the up-to-date development on the litigation part and that’s where it stands, it is sub-judice at the movement.

Harsh Shah: Yeah, if the FCCB conversion goes through, entire conversion what will be the amount of dilution happening in our equity?

Peter Jayakumar: We will have to wait for the outcome of the court.

Moderator: Thank you. We take the next question from the line of Rajendra Singh from Vaibhav Securities. Please go ahead. Please go ahead.

Rajendra Singh: Thank you sir, for giving me this opportunity. Just wanted to know what exactly in terms of revenue and profit growth, can you guide for FY2017 because 21% CAGR has happened in profit over the last 5 year, also the sales has grown in the last 5 years but with no economic prospects increasing, what kind of revenue growth can one expect.

Bala Aghoramurthy: I do not want to hazard a guidance at this moment. But just to give you a sense like Dhruv mentioned before we are confident of 50% growth in our ecommerce vertical, we are placed very well in our B2B business with this new automation that we have introduced, it is a lot of positive response. Having said that I do not want to hazard a guess on the guidance of revenue and the profit you are asking.

Rajendra Singh: Right, another concern is the increased promoters' pledge, what exactly is the reason for that and can we expect that to come down?

Peter Jayakumar: See, this we can look at it on quarter-on-quarter which used to be much higher and has come down and the promoter has taking all reasonable steps to reduce its number.

Rajendra Singh: How much can we see it reduced by the end of this?

Dhruv Agarwal: This is difficult to comment as of now. But the efforts are in the right direction.

Rajendra Singh: Could you commit that it will not increase from the current level?

Dhruv Agarwal: In fact we should remain about the same. Promoter group is working towards changing the scenario but of course these things take a little time. So we would not expect the big change in one quarter or so but definitely over a period of 3 or 4 quarters you will find that it has come back to a reasonable level.

Rajendra Singh: Was there any particular reason why the stake pledge increased so much?

Dhruv Agarwal: We can take this offline Rajendra.

Moderator: Thank you. We take the next question from the line of Ankit Goyal an Individual Investor. Please go ahead.

Ankit Goyal: Sir my question is around that in Gati-KWA the flagship company, in the last concall you had given a guidance of 15% revenue growth for FY2017 and 10% EBITDA margin whereas as this quarter it has come at 7.5%. So is there any change in the guidance number one, and number two is I just wanted to understand that what percent of revenues of KWE's ground express and rail service and if you could throw some light on the EBITDA margin for these two segments?

Bala Aghoramurthy: Okay, let me explains like I said in the previous question as well, we are confident of double digit growth within this year. This particular quarter we had gone through a massive automation profits across our network. You are familiar with our vast network we have around 650 offices around in the country. So we went through a complete automation on each and every package we wanted to have this visibility through automation and technology. So we went to that process. The post launch stabilization of this process needed us to engage extensively with our customers within the quarters so that we get into stabilized through the quarter. Going forward we are very confident, we are going to get the benefit from the effort we have put in this automation in Q1, in terms of guidance both on EBITDA and the top-line I would leave it as saying you can expect it to be a double digit number only. Can you repeat the second part please?

Ankit Goyal: Yes. The second question is that the rail service revenues which were absent in the better part of last year I presume that they have now come back in Gati KWE**,** so what percent of Q1 have reduced would be from ground express and what will be from day revenue, day service and what will be the EBITDA margin specifically in these two segments?

Bala Aghoramurthy: So on the rail service if you recall in the last quarter we had actually showed a lot of confidence on the rail service just to share numbers between Q4 and Q1, the rail revenue for us has gone up by near about 1% in line with the expectation that we have set for ourselves in the last quarter, the rail has been a very good positive progress in our business.

Ankit Goyal: Okay and what will be the EBITDA margin split between ground and rail per se, so what difference would there be?

Bala Aghoramurthy: So Ankit we can discuss this more offline. Typically we do not get into product wise profitability costing and things like that. If you want to understand we can do it offline.

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

Ankit Panchmatia: A question on the Kauser front, so we have expanded our capacity for warehousing in Delhi but yet the revenues are not being showing off because if I see YoY the growth is flattish. So has there been any structural change into the business, so what has actually happened?

Bala Aghoramurthy: So let me explain, so this cause of this new cold store that we commissioned this happened in the end of June, so it was around June 29-June, so this could not reflect in the Q1 results at all. This is our first play in the cold store warehouse space. Our Q1 results are primarily based on our refrigerated transportation business. So that has been there in the past, the warehouse is an additional new line of business that we are opening up in Kausar, the number on the transportation business, in the past we were dependent over overwhelmingly on two businesses, one was the meat business and the second was the ice cream business. This was resulting in a very high volatility in our business through the growth in the year deliberately over the last one year we have worked increased our industrial customer base. So we are now present across range of vertical including confectionary, including dairy, including other product, the services and so on, so we reduced this volatility. As part of this corrective exercise we have also given up some ageing old fleet which was not adding in a profitable manner to the business, so that has been given up, that is the reflection in the Kausar financials that you are seeing.

Ankit Panchmatia: So for the new capacity which has been coming, do we have certain committed volumes from our clients or how are we going to fill this capacities?

Bala Aghoramurthy: So this is one cold store with 5000 pallet near Delhi. It is a very optimally located cold store. We are in talk with almost about 20 different very big players of substantial volumes in the cold store talks in the advanced stage and we expect to start clocking revenues Q2 significantly.

Ankit Panchmatia: So we have started this facility right, so the next quarter numbers will show the revenues on the same?

Bala Aghoramurthy: That is right. We have started the facility.

Ankit Panchmatia: Okay and as per your early year comment, the rail revenues have increased by 1% between Q4 to Q1 but the KWE revenues are not reflecting the same, so has there been a higher decline in the road freight revenues?

Bala Aghoramurthy: So that is correct. Our rail revenue has shown buoyancy. Like I have explained, when we went to this automation process you can imagine we are changing a really large network from a manual process into a technology process. We have been increasing this technology. We had to have some stabilization period and learning curve, in that period we had to be engaging with customers to help us stabilize the technology so we did, take a marginal decline in our express distribution business, for the marginal decline and as the process stabilized the customers have come back in full force to fully acknowledged the kind of benefits they are seeing with these new technologies because our service levels have now improved. The quality of performance has improved. The customers have acknowledged and we are seeing a buoyancy there now.

Ankit Panchmatia: So sir this IT automation would have cost how much to the company?

Bala Aghoramurthy: So this was massive investment in scanners and tablets and those kind of things. The total automation impact of this in hardware is about 2 crores.

Ankit Panchmatia: And would this enable EBITDA margin expansion into the KWE, how this will help us into margin expansion?

Bala Aghoramurthy: So let me explain this automation and how it will impact our business. It will first of all increase productivity and efficiency. Of course all that will show through over a period of time. We expect that to be in let us say 3-6 months it will improve productivity and efficiency in our business. More importantly it will improve service levels because now every package can be traced in our network in the past if there was a docket with about 20 packages we would have visibility actually at a docket level, not at each of the individual 20 package level, but now we have visibility at each package levels, hence our delivery, service level and if any misrouting and shortages those kind of issues will definitely see a decline. So efficiency will improve, productivity will improve of course over a period of 3-6 months as the company comes to terms with the technology.

Dhruv Agarwal: And Ankit, I want to point out also for rest of the people on this call that this barcoding and scanning of each package has never been done in the express industry before. So this is the first time somebody has done it and luckily we have been able to successfully execute it and since the advantages will flow through in the coming quarters, once we are able to control package levels movement and have package level data, there is a lot of things that we can do with that. So this is just a beginning of that journey.

Ankit Panchmatia: With this FCCBs I assume we would not be able to raise for fresh funds and with the CAPEX guidance how we will kind of complete those CAPEX I just wanted to know that?

Peter Jayakumar: See, one is as far as the FCCB is concerned I just mentioned that the complete details have been mentioned and it is on appeal and as of now the matter is sub-judiced but this will not come in the way of making CAPEX investment. These are all minor one.

Ankit Panchmatia: So CAPEX guidance for FY17 would be?

Peter Jayakumar: See what we have given is the three details which we have shared to stock exchange, it only talks about insurance and fresh equity, etc. Nothing to come in the way of the operations of the company. The operations of the company will go on.

Moderator: Thank you. We take the next question from the line of Harshvardhan Dole. Please go ahead.

Harshvardhan Dole: I had actually couple of questions, first was if you can share what is happening in the industry level and I am actually referring to the ecommerce logistics industry, how are basically the niche logistics players scaling up and do you see sustainability in the revenue model which is basically you know offering services at cost which are actually below the cost to serve and how long do you see this sustaining, that is part number one and part number two is basically do you see the shipments getting more shipped by the captive arms of large retailers and how this percentage has move over say last couple of years and how this will actually pan out over the next couple of years and the 3rd rather sort of a long term question is with the passage of GST rather implementation of GST becoming more of certainty now, how do you see the express distribution segment benefiting in general and what are your plans to ensure that if at all there are benefits we get most of it thank you.

Dhruv Agarwal: So I cannot comment on some of the competition, but of course there is a big cost focus that has come in now, I think across board because funding has generally dried up. I understand same from whatever we have read and seen in the papers and media, as far as your second question goes, all the e-tailers all of them have a different strategy, so we have e-tailers that have said okay whatever volume growth we have now we are going to outsource. We do not want to continue to grow our captive fleet, there are others that are saying look I want my captive fleet to be primarily taking care of volumes in the metros, everything else we would like to outsource and you have a 3rd category which is saying look I want to continue to build my own captive fleet across the country. So we have all 3 strategies that are being executed.

As far as Gati goes we have had two big advantage. Number one is our reach, so today we are servicing 17500 pin codes which nobody else can offer 17,500 pin codes, time definite delivery with COD, with reverse pickup, with track and trace capability across the board. So that is a huge advantage which people are seeing and are making use of, number one. Number two, we also have a combined network, our B2B, B2C all runs on a single network. This allows us to address spikes very easily and the beauty of the network is that we can carry packages that are 500 grams or 100 Kg. So we have a network which can cater to spikes across weight categories and we have the reach. So these two things are kind of playing to our advantage and as I see it, as more and more pin codes are expanded and there is a bigger thrust, more sellers coming online, I think the packet volumes are only going to grow. I do not think we will see 2 years back growth of 150%-200% going forward. But it is still going to be 40%-50% growth across board. GST is definitely a huge advantage for us primarily because we run on systems and processes which is as big plus when the new regime comes into play. Second is that in terms of operational efficiency today we struggle a lot at the borders between states where we have stoppages and checks, etc. Once these borders go away which the government is talking about and promising, our network efficiency is going to increase. Our transit times are going to decrease. We are going to be able to cater to much larger hubs which will allow us to automate, so thereby we will see a huge operational efficiency creeping in. The only point on the GST which we are still requesting the government is that we must continue with a single centralized tax registration versus what is proposed in the bill currently which is having a registration in each state.

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

Pratik Kumar: On the ecommerce segment again, so last year you increased your handling capacity in terms of packages during the festive season, so what are we expecting this year to go to and follow up on ecommerce segment is what is the proportion of COD now and the average ticket size in terms of rupees.

Dhruv Agarwal: So in terms of capacity of course peak season planning is just about starting, so last year based on our conversation over our customers' requirement we have gone from about 50,000 packets a day to 90,000 packets a day, last year in October. This year now the planning has started. It is tough to comment on the kind of spike it will be, but definitely it will be around 2x for sure. If it more than that we have to see and COD right now is around 70%. You can see about a year back, year and a half back 90% is to be COD now around 70% is COD. Ticket size will be in terms of weight.

Pratik Kumar: Average rupee ticket size last time you mentioned it is around Rs. 2000 I think in your last con call?

Dhruv Agarwal: It is around the same.

Pratik Kumar: And do you see yourself increasing share in current quarter because the competition reported pretty weak ecommerce segment revenues?

Dhruv Agarwal: I think it has couple of things, one is that I always mentioned that number of packages we carry for Gati you have to look at the weight that we carry because we play in a heavier segment. So what we have done quite successfully over the last couple of quarters is that two things have happened, one due to cost pressure, etc., lot of the air loads, the smaller packages have moved on to surface, 500 g, 1 kg, 2 kg which always moved by sir typically. They have all moved on to surface and we have been quite successful at servicing those orders. So our rate profile has changed and now it is almost 70% 3-kilo and below and only 30% above 3-kilo. So as we moved forward and as more and more people are moving more packages on the surface segment. We certainly see us benefiting from this change in transportation mode.

Pratik Kumar: Okay and sir in your Gati KWE segment as we discussed we have seen some drop in margins sequentially, so is it the seasonal thing or is it like I mean because last year you have expanded obviously year-on-year by 50 basis point, but since you are down from last 2 quarters were like 9.2 and 9.6% margins?

Bala Aghoramurthy: So Pratik the GATI KWE does not this time is affected because of the transformation process that we have seen. As a result there was a pressure on the top-line while you continue to incur the fixed cost you incur hence you see impact in the quarter number but things will improve going forward.

Pratik Kumar: And sir you have like long term target of like FY20 goal of carrying 1 million packages a day, so what are we looking for in FY17?

Bala Aghoramurthy: As we speak today we are about 2,80,000 packages a day we of course have a blue print which will ramp this up to the 1 million packages that we are talking in 2020. So we do expect a healthy package growth; we will cross definitely the 3 lakhs mark a day, it is question of do we touch the 3.5, so we are confident of being in the 3 very soon.

Pratik Kumar: Okay and one last question. You missed on giving CAPEX details in one of our previous questions for the year including the Gati Kauser CAPEX?

Peter Jayakumar: Gati Kauser was separate because we are investing in warehouse, but in our case it will be a nominal one of 15-20 crores that is it.

Pratik Kumar: And sir how much is for Gati Kauser, separate of course.

Management: Okay, so since Gati Kauser is in CAPEX-heavy mode right now, they are in expansion plan, the CAPEX plan will definitely gone a higher side as compared to 15-20 Peter just said. There could be in a range of around 60-70 crores of CAPEX in the next year.

Bala Aghoramurthy: But that is already covered through the investment that we have locked up with Manadala Capital That is separate.

Moderator: Thank you. We take the next question from the line of Ankit Panchmati from ICICI Securities. Please go ahead.

Ankit Panchmatia: Sir just a data point required, what would be the e-fulfillment revenues for the current quarter?

Dhruv Agarwal: EFC revenue was about 5.6 crore, year-on-year it is about 22% gross but over last quarter it is a slight degrowth because of slightly lower volume.

Ankit Panchmatia: Okay and sir regarding this new parcel policy which has been announced, so what are we kind of up to for this?

Bala Aghoramurthy: What was the last part of your question?

Ankit Panchmatia: What are we planning to do with this?

Bala Aghoramurthy: Let me explain, the new parcel train policy in fact many people including ourselves we have been pushing for an improvement in the parcel train policy itself, so let me outline 2 or 3 top features. Previously the policy used to be tender period of only 3 years a lease period of 3 years now it has been increased to 6 years and secondly previously the earnest money used to be a very nominal amount in many cases, 10 lakhs or even below, now it has been raised to 10% of the total annual turnover of the tender itself. Now what these changes mean is that any unorganized retail player who comes in, makes a high pitch and then is not able to sustain, those situations will now fade away. Only serious long term players will actually be able to participate in the tenders. It is a very good development for Gati. We are very happy with the development. We are waiting for the railways to reissue tender with the new policy.

Ankit Panchmatia: And sir current per day capacity for ecommerce division would be?

Management: Currently it is around 60,000 packages a day.

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

Rakesh Vyas: Few questions from my side. First question on the express business, so can you just share as to what has been the volume growth or degrowth in the resource segment and has there been a realization increase? I will ask the second question later.

Bala Aghoramurthy: The express distribution has a marginal degrowth in volume in terms of charge weight. It was about (-2%).

Rakesh Vyas: And was there any realization increase this quarter?

Bala Aghoramurthy: There has been a yield improvement, again a very marginal yield improvement.

Rakesh Vyas: So my second question relates to the ecommerce logistic part. What was the total average package handled this quarter?

Dhruv Agarwal: The quarter wise numbers but we have been doing approximately 45,000 deliveries per day.

Rakesh Vyas: We are seeing that the revenue growth would be higher than the volume growth. So does that mean that there has been a realization improvement year-on-year?

Dhruv Agarwal: We had about 46%-47% growth in package volume and about a 28% growth in the revenue and this is primarily because I just mentioned that we have started carrying a lot of smaller packages.

Rakesh Vyas: Smaller vehicle, okay and does this smaller packages have better margins than the larger ones or is it the other way round actually?

Management: No, margin wise see again it depends where it is going and the distance and what kind of service COD, no-COD, packaging or no-packaging so I cannot comment on that at this point. But broadly they are the same, there is not much difference.

Rakesh Vyas: Okay and sir just on the industry level as you were highlighting, a lot of packages are moving from air to road now. So what would be the proportion mix currently between air and smaller size packages or on an average?

Dhruv Agarwal: Industry wise it will be 30% air and 70% road, maybe more actually. May be 40% air and 60% road but that is changing.

Moderator: Thank you. We will take the next question from the line of Mayur Gathani from OHM Portfolio. Please go ahead.

Mayur Gathani: Sir couple of questions on when do expect the next Cold Chain to come in, next warehouse?

Bala Aghoramurthy: That will be about 6-8 months from now. Actually we have been looking at the network that we have planned out for Gati Cold Chain, we expect the next one in about 8 months from now

Mayur Gathani: And where is it going to come?

Bala Aghoramurthy: We cannot speak about that right now. It needs to wait until it is formally launched.

Mayur Gathani: And sir with this GST coming in, would Gati would be investing more on warehouses?

Bala Aghoramurthy: The GST of course as all of us understand will change the supply chain of any of our customer companies. We are beginning to initiate talks with our customer companies both for warehousing opportunities as well as for increased distribution opportunities, so we will of course look at that opportunity. In addition, we do expect our transshipment tender also to increase in size, some of that is already been happening in the last 6 months in anticipation of this, more of this will happen. So transshipment tenders will increase in size and we will look to do more warehousing with our customers.

Mayur Gathani: So can you give us an idea as to how many transshipment centers are there?

Bala Aghoramurthy: We have 18 transshipment centers as of today which are large hubs located in multiple places, so many of these are likely to grow as well.

Mayur Gathani: And sir interest cost you have some guidance on that, I mean the debt reduced from 501 to 481 of course it is on a quarter-on-quarter basis, but debt remains more or less in this range and the interest rate also is kind of flattish, so any guidance on that. How do we see the interest cost shaping up because it was 9 crores last quarter, it is now (+10) in this quarter?

Peter Jayakumar: It is expected to be flattish.

Mayur Gathani: Okay sir, 10.2 is the decent range you have taken?

Peter Jayakumar: Yes.

Mayur Gathani: Okay, any debt reductions, any debt repayments that you have to do in this year?

Peter Jayakumar: That is an ongoing process and that is preciously what I had mentioned at the beginning. We will try to contain it under 500 crores.

Mayur Gathani: And your share on the ecommerce site for 3 kg and above was your priority some time back and over the last year you have changed to 3 kg and below, right?

Dhruv Agarwal: Yes.

Mayur Gathani: I mean keeping that either you have lost share in the 3 kg and above because you gain share in the 3 kg and below, but how come the top-line has not grown so much?

Dhruv Agarwal: So because it is not we have lost share, see the smaller packages is what get shipped out every day because that is the kind of things people kind of buy on a daily basis. The larger packets the white goods and so on, they happen typically during sales period. For example, last 2 years during IPL there is always a TV sale, during summer there is always a refrigerator and air conditioner sale. This year we did not have those at all. So for these reasons the heavier package segment has not grown as much. We have also shifted in to the smaller weight categories but now in this Independence Day sale and definitely in October we will be carrying a lot more of the heavier packages which are also mentioned in this kind of the beauty of our network that we can carry 500 g or 100 kg does not matter. We can service both as per the requirement.

Mayur Gathani: That is well taken sir but I was just thinking that, so you were saying the 3 kg and above would have degrown for this quarter?

Dhruv Agarwal: Yes.

Mayur Gathani: 13%-14% margins on the ecommerce side is what we continue to do or is there change there?

Dhruv Agarwal: No, we continue on that margin level.

Mayur Gathani: What percentage of your top-line from Gati Kintetsu come from rail business?

Bala Aghoramurthy: Within GKE about 10%.

Moderator: Thank you. Due to time constraint we take the last question from the line of Manisha Porwal from Taurus Mutual Fund. Please go ahead.

Manisha Porwal: Sir I just wanted to understand that when we spoke about the automation being implemented the volume suffered. So just wanted to know in the meantime did we lose any major client because if that has resulted in loss of revenue, has it also resulted in loss of some major client in this period?

Bala Aghoramurthy: Not at all. We handled it with all due sympathy with the, even at the start of this entire piece we have communicated to all our customers, so we are going through this process, this process change and so on, so there as no surprise element for our customers. We have not lost customers, we did dial on the controlled volumes certain geographies to help tied over the piece, but there was no loss of customer in the process. We were in active touch with customers.

Moderator: Thank you. That was the last question. I now hand the conference over to.

Harshvardhan Dole: Firstly, I would like to thank the management for giving us the opportunity to host the call. Sincere thanks sir and also to the participants who have logged on to the call. Thank you very much and you may please disconnect your lines.

Management: Thank you very much.

Moderator: Thank you. On behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.