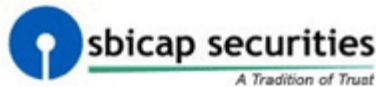




“GATI Limited Q4 FY 2017
Post Results Conference Call”

May 08, 2017



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

MANAGEMENT: **MR. BALA AGHORAMURTHY – DEPUTY MANAGING DIRECTOR - GATI KWE**
MR. DHRUV AGARWAL – CHIEF STRATEGY OFFICER - GATI LIMITED
MR. PETER JAYAKUMAR - DEPUTY CHIEF FINANCIAL OFFICER -GATI KWE
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MR. MANOJ GUPTA – CHIEF FINANCIAL OFFICER – GATI LIMITED



GATI Limited
May 08, 2017

Moderator: Ladies and gentlemen good day and welcome to Gati Limited Q4 FY2017 post results conference call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Pranjal Sanghvi from SBICAP Securities Limited. Thank you and over to you!

Pranjal Sanghvi: Thank you Karuna. On behalf of SBICAP Securities, we welcome the management of Gati Limited and all the participants with Q4 FY2017 post results conference call. We have with us the senior management of Gati represented by Mr. Bala Aghoramurthy, Deputy Managing Director of Gati KWE, Mr. Manoj Gupta, CFO of Gati, Mr. Dhruv Agarwal, Chief Strategy Officer, Mr. Peter Jayakumar, Deputy CFO of Gati KWE and Mr. Amit Pathak, Company Secretary and Chief IR. I now handover the call to the management for their opening comments. Over to you Sir!

Bala Aghoramurthy: Good morning friends. This is Bala here. I welcome you all to Gati’s fourth quarter FY2016-2017 results discussion. I thank you all for joining the call and participating in the call today. Firstly, let me introduce our new CFO, Mr. Manoj Gupta to you. He joins us from UPL and he brings in more than 30 years of experience in various leadership roles across industry, so welcome Manoj. We shall take you through the financial performance of the Company, its main verticals and also then take any questions that you may have.

So let me start with some reflection on the macroeconomic situation and also some major sectoral development. IMF has projected India GDP growth India at 6.6% for the fiscal year 2016-2017 and 7.2% for the year 2017-2018. Online sale after more than doubling and trebling in 2014 and 2015 has shown times of stagnation for the first time in 2016.

Projections for growth have also been revised down almost by a third as per industry analysts. However, with the recent M&A and funding activity happening amongst major retailer. We expect to see 2017 return to volume growth in the ecom industry. At the same time, there are unmistakable funds of pricing pressure in ecom logistics sector as etailers are beginning a sharper focus on their P&L.

GST rollout is expected to become a reality from July 2017. This opens up tremendous opportunities for organized pan India logistics service provider both in warehousing as well as in distribution.



GATI Limited
May 08, 2017

I shall now move to cover developments within Gati. Gati crossed Rs.1700 Crores mark in revenue for the first time in FY2017. Q4 however was the quarter of modest performance for Gati both in B2C as well as in B2B segment. The performance was steeply effected by e-commerce growth stagnation and also the lingering after effects of demonetisations which took more time to taper of in select industry verticals such as consumer durables, textiles and apparel.

We have commenced our new offering of Gati fulfillment services aimed at vendors in the online market places. We expect to see revenue clocking in from this new offering from Q1 itself. After commencement of the first cold chain warehouse, Gati Kausar is progressing towards openings further new cold stores in this coming quarter.

GITL subsidiary has grown at 66.5% signalling significant customer interest in our unique end-to-end supply chain solution. After a temporary decline post demonetisation, our e-commerce COD volumes have now stabilized at 50% level. With GST now a certainty, we have intensified our customer engagement effort to provide customized integrated logistics solutions to our customers. We expect a substantial momentum to build up in FY2017-2018 in the GST context further aided by our recent portfolio enhancement including Gati fulfillment services and also end-to-end supply chain solution.

I now hand over to Mr. Peter, who shall take you through the financial number of the full year and quarter. Peter!

Peter Jayakumar:

Thank you very much Bala. I will start with the Gati consolidated financials. We will start with the QOQ and YOY. For the current quarter, the total income was Rs.418 Crores against Rs.428 Crores in the previous quarter. This figure and corresponding quarter of last year was at Rs.433 Crores.

Moving to EBITDA, the current quarter, figure is at Rs.24.8 Crores against Rs.32.6 Crores in the previous quarter, this figure was Rs.43.1 Crores last year.

Moving to the PAT level, Q4, the figure is Rs.10.6 Crores against Rs.6.5 Crores in the previous quarter that is an increase of about 64%, this figure last year quarter was Rs.20 Crores.

Moving on to the financials for the total year, as Bala did mention, we are glad to inform you that we have crossed 1700 mark, so the consolidated total income for the full financial year stands at Rs.1704 Crores against Rs.1681 Crores though there is a modest growth of



GATI Limited
May 08, 2017

about 1%. At EBITDA level it is at Rs.125 Crores against Rs.145 Crores in the last year. At PAT level, the figure is Rs.37.3 Crores against Rs.49.2 Crores.

Moving to the Gati standalone piece, the total income for the quarter is at Rs.126 Crores against Rs.134.6 Crores of previous quarter and this figure was Rs.131.4 Crores last year. At EBITDA level, the figure in the current quarter is Rs.7.3 Crores against Rs.14.4 Crores in the previous quarter and this figure last year was Rs.15.2 Crores.

Coming to the PAT level, it is up at Rs.7.7 Crores against Rs.2.8 Crores of last quarter. Last year in the corresponding quarter, this figure was Rs.6 Crores.

Now let us look at the financial of the Gati standalone for the full year. The total income again for the first time has crossed 500 mark, it is at Rs.526 Crores and this figure last year was Rs.498 Crores.

Moving to EBITDA, there is a slight improvement at Rs.59.7 Crores versus Rs.56 Crores. At the PAT level, there is a handsome improvement moving to Rs.29.8 Crores from Rs.19.8 Crores.

Now let us move on to the Gati Kintetsu piece. Current quarter, the topline is at Rs.265 Crores, previous quarter was about Rs.276 Crores and the corresponding quarter last year was Rs.287 Crores.

At the EBITDA level, we have been able to maintain the figure of last quarter that is current quarter is Rs.18.1 Crores, last quarter it was Rs.18.5 Crores, last year this was Rs.27.5 Crores. At the PAT level, current quarter it is Rs.6.6 Crores, previous quarter was Rs.7.1 Crores, last year it was Rs.14.5 Crores.

Let us look at the figures for the full year 2016-2017. The total income is at Rs.1111 Crores against Rs.1141 Crores last year. EBITDA is at Rs.79.7 Crores against Rs.95.3 Crores. Moving to PAT, it is at Rs.53 Crores against Rs.44 Crores of last year.

Now let us look at Kausar for the full year, the total income is at Rs.44 Crores against Rs.49 Crores and PAT is at a loss of Rs.10 Crores against Rs.4 Crores of last year.

Let us look at GIPL, Bala did mention about it. This year we glad to inform you we have closed at Rs.59.3 Crores against Rs.35.6 Crores last year that is the growth of 67%. At the EBITDA level, we have turned positive at Rs.10 lakhs against minus Rs.10 lakhs of last year. So these are the financials of the main company.



GATI Limited
May 08, 2017

With this, we are open to take questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Sanji Aswani from JM Financial. Please go ahead.

Sanji Aswani: I have one question. I would like to know what is the latest update on the FCCB issue? Has it been resolved?

Amit Pathak: The matter is status quo under the subjudice the same as last quarter. There is no progress.

Sanji Aswani: Thank you.

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

Ankit Panchmatia: Good morning. Thanks for taking my question. Sir I missed on Kausar revenues. What were the Kausar revenues?

Peter Jayakumar: It is Rs.44 Crores against Rs.49.4 Crores last year.

Ankit Panchmatia: Even after starting the service of one cold storage facility, we are not able to scale up the revenues, so any update on this why so?

Peter Jayakumar: Ankit, let me explain that. So there are two parts of Kausar. One is the full truck load whole distribution business, second is the warehousing business. If you aware warehousing has been started recently. For example, in the last quarter, we operated with the capacity utilization of close to about 25%, 30%, so that was the scale up in the warehousing operations. On the FTL side, we did deplete a little bit of our fleet. In the recent past, we have operated with the fleet size which is closer to about 165, 170 trucks, we are in the process of augmenting this fleet with the additional new trucks, so that will be the impact that you see it is more to do with the fleet depletion in the last few months.

Ankit Panchmatia: To get it correct, Q4 FY2017, the fleet size was 165 to 170 trucks right?

Peter Jayakumar: That is right.

Ankit Panchmatia: Versus what?

Peter Jayakumar: In the past we used to operate with near about 200 plus.



GATI Limited
May 08, 2017

- Ankit Panchmatia:** This year we are again planning to increase in the next year?
- Peter Jayakumar:** That is right. We have already initiated a lot of that work. In fact the first batch has already been put on the road very recently. We are in the process of getting substantial more numbers coming through. We are committed to getting about 40 to 50 trucks through the course of next few months.
- Ankit Panchmatia:** Of this Rs.44 Crores, can I get a breakup that what would be warehousing revenue and what would be trucking revenue?
- Peter Jayakumar:** This is actually a little early in the day for this kind of a breakup. As you are aware we have only started with warehousing business in the last three to four months, so I think we should allow at that time before the breakup is given.
- Ankit Panchmatia:** How many pallets warehousing?
- Peter Jayakumar:** The pallets that we have, so this is the Dharuhera warehouse which is about 5000 plus pallets.
- Ankit Panchmatia:** Okay and what is the e-commerce revenues for the current quarter?
- Bala Aghoramurthy:** Q4 we did a revenue of Rs.50 Crores.
- Ankit Panchmatia:** Okay and regarding a new commencement of e-fulfilments center which is expedite to contribute in Q1 FY2018, what is the service and what sort of revenues we have build in for the sale?
- Bala Aghoramurthy:** Now we have integrated our system with browntape.com, the Company that we have invested in Q3 and the service is being piloted right now. It is in Hyderabad. The fulfilment centre is live. The first two vendors are on board. We are just working out the little issues that have come up as we have gone live and this quarter we will be going whole hog to bring vendors on board, so the service is basically, we will be enabling vendors to sell on multiple marketplaces with the same pool of inventory and also give them on the technology side, lot of data as it takes marketing capability etc., through Browntape. Physical fulfilment of the orders that they receive through the Gati Logistics Network.
- Ankit Panchmatia:** Just to get a view because as in the opening comment, we made a statement we expected to contribute from Q1 FY2018, so just to get a rough cut number, how are we integrating it



GATI Limited
May 08, 2017

with our e-commerce services and what sort of incremental realization, we can ask from the customers. How is it going to demonstrate going it? I just want to understand brief on it?

Bala Aghoramurthy: We will be using our existing e-commerce network to do the fulfillment of these orders in the last mile delivery to help us utilize our existing infrastructure better. We are setting up fulfillment centers, so we can do the physical fulfillment of these orders, the storage, the pick-pack etc., the first one has gone live at Hyderabad. In terms of a view on the numbers, I would not like to give a projection at this point in time, so we can take it offline if you like Ankit can I get into a lot more details on how we are doing it, what we are doing.

Ankit Panchmatia: Sure, I will do that Sir and Sir regarding our parcels size, what would be our share in higher than 5 kg or less than any bifurcation would be helpful?

Bala Aghoramurthy: So less than 3 kg is about 70% greater than 3 kg is about 30%. That has not changed much from last quarter to this quarter. I do not think that will change much moving forward also because the regular volume is the smaller package.

Ankit Panchmatia: We started a rail service in Q4, which was earlier lost impacting the KWE revenues, but I think the current quarter also there was no uptick in the KWE revenue, so by what time can we expect those rail volumes or rail revenues to be kick in indicatively?

Bala Aghoramurthy: Ankit, you are right. In the last call, I did mention that Gati has been reawarded a train centre that we used to operate for many years before. We are still awaiting a final letter for startup operations from the railways. Usually it does not take this long. This is for sign for some reason, which we are unable to understand and we are little concerned about it. It has taken this kind of time, we are still awaiting the letter, in fact we are following up with the railways quite a bit on that front. Having said that in the meantime we continue to run the train services using indent train. The tender of course allows you uninterrupted availability of train, the indent train we have been running, we continue to do that.

Ankit Panchmatia: Okay, I will get back in the queue for further questions.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment. Please go ahead.

Aman Vij: Good morning. My first question is regarding the total e-commerce sales for the full year as well as last loss incurred in that division?



GATI Limited
May 08, 2017

Dhruv Agarwal: Dhruv here. For the full year 2016-2017, we did a topline of Rs.214 Crores versus Rs.207 Crores in the last financial year. In terms of profitability, e-commerce logistics have always been very profitable for us and for the entire year our margins are in the double digits.

Aman Vij: Second question is regarding the express division that is GKEPL. So what led to the fall in margins this year and I have been seeing a decline in margins over the last few years may be there is something, could you throw some light on that?

Bala Aghoramurthy: You are right. There has been decline in margins in the last few quarters. Firstly, I want to point out between Q3 and Q4 the EBITDA number has been maintained even with the Rs.10 Crores lower revenue numbers, so EBITDA that we did in Q3 was Rs.18.5 Crores. The EBITDA we did in Q4 is Rs.18.1 Crores. In these two quarters, the revenue dropped from Rs.276 Crores to Rs.265 Crores almost Rs.11 Crores drop in revenue without drop in EBITDA. We are in the process of giving some of the customer contracts real hard look. I did mention in the previous call that in the concept of demonetisation we were looking at collections and contracts quite closely. We did look at many legacy contracts where we had to kind of look at revising some of them, so in the process the revenue has been hit, the EBITDA has been maintained. Having said that I do continue to believe that our business can do another 150-basis point improvement in EBITDA in the near future.

Aman Vij: Okay Sir. Generally for my understanding, if I see 2014 numbers, so margin in this division used to be very high, so what was the reason for gradual slowdown in the margins?

Bala Aghoramurthy: Two are the things. One is of course the air business have not done as well. You have heard me speak about this. This is a third call which I am saying the same thing. The air business has been hit in the last three quarters, because we have some new entrants. For example, I am going to take a name because it is in the public domain. SpiceJet who used to be our vendor, they have actually put their stake in the air express business, so there is new competition, there is a substantial loss of business for Gati in the air business that is point number one. We also did pass due about the depletion in general on the STM business. We used to be running fulfilment centers in the past, so that has actually moved out as some of these etailers they decide pull the fulfilment centre back into their inhouse fold. So there has been many changes happening, but like I said I appreciate that there has been drop in the profitability, but we have every confidence that in the near future which is Q2, Q3, quarter kind of timeframe we should be able to see a 100, 150-basis point improvement in the GKE profitability.

Aman Vij: Okay and last question before I come back in the queue. On the cold chain division busienss, just wanted an understanding on the same, because if I see India as well as



GATI Limited
May 08, 2017

globally this business is not a good margin business and a very few people have been able to scale this up with decent margins, so what is our reasoning for being a little aggressive on this division and what is your thoughts process behind that?

Bala Aghoramurthy: Let me explain. The Gati cold chain offering is different from what you normally see in India. I am not yet going to the global context that you are asking. I am talking with reference to India. In India previously, the warehousing was a standalone business. There were individual landowners who would put up cold stores on their piece of land etc. The refrigerated distribution was a separate business. Gati Kausar has gone to market saying we will provide end-to-end solution, both primary transportation, warehousing as well as secondary transportation to our model is an integrated cold chain solution rather than any fragmented model. The second part, we are also doing in a very different manner allowing many of the smaller people usually the refrigerated truck cost is very heavy for the small players, so one of our stated strategic intent is to allow the smaller player to also be able to do the cold chain business, many food startup etc. So our offering while seen in isolation it seems comparable, but if you see the totality it is meant to be very different. We have a lot of confidence that there is a role for express in fact we are calling it express redistribution cold store, this is very, very different from the cold truck and the normal warehousing that you have seen in the cold chain.

Aman Vij: Okay, so long-term wise where do you see the margins on it or return of capital employed in the business?

Bala Aghoramurthy: In this business, this is a difficult business to build that is why we have chosen to go down a nonconventional path, so it is not something that is going to happen in a hurry. I do not want to make any false promises here. This is not something that is going to happen in a hurry, but we are working with strategic clarity on how to build this business, we have now reasonable number of customers on boarded where people have started understanding that this is end to end play. In fact in some ways the new GST context is I think a significant beneficial thing for our strategy especially in cold chains because I think cold chains across the country are changing, cold chains across the country in the past they would actually be positioned differentially, because of GST many customers that we speak to are actually more open to look at an end-to-end partner than they were before.

Aman Vij: Okay. Thank you for that.

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



GATI Limited
May 08, 2017

Prateek Kumar: Good morning Sir. My question is regards to understanding this e-commerce business better with regards to impact of demonetisation. It seems like first time we have seen some decline in revenues on year-on-year basis even quarter-on-quarter, it is somewhat lower, so what is the status as such and when should we see in general industry recovery happening and complete impact of like this, you mentioned about textiles and durables have some impact left so when do you expect them to taper off completely for e-com segment?

Dhruv Agarwal: Prateek, Dhruv here. Actually Q3 typically is the best quarter for e-commerce because that is when the big Diwali sale etc., and as you know right after that in November we had demonetisation, which actually affected our Q3 number could have been much higher than it was. In Q3 actually there was some stagnation in the order volumes that were flowing through from the e-tailers and as you are probably aware that there is some impending consolidation that is going to happen; however, couple of the larger e-tailers that have now raised funding, so we are expecting that starting from this quarter, of this financial year we should see a healthy volume growth in e-commerce coming back, does that answer your question?

Prateek Kumar: So like let us say June, July we should expect the numbers to sort of start recovering. I was not asking with respect to the structural change or the consolidation, which has happened in the e-tailer side, but it was more specific to e-commerce revenue as in because the demand side, not the supplier side as in the demonetisation had impact and I am sure it was wearing off all this while and when do you expect that demands had impact to wear off completely for yourself and industry?

Bala Aghoramurthy: Prateek, Q1 you will see signs of normalization and the reason I say is you have probably caught in the news recently that the big retailers are doing a May sale, if you recall last year there was nothing called a May sale. Why? Because the industry first of all was starved of funds. They were not in a position to do what they are doing this time, but the year before that there was May sale. So I think last year was a significant aberration in the e-commerce story. Seeing what is now developing in the industry with consolidation, etc., that is definite positive. Of course whether it happens in the immediate short-term, whether it takes two, three months we are not in a position to comment, but that is a definite positive. On demonetisation, we were definitely impacted through November, December, we definitely saw the impact in Q4, although by around March we did see a stabilization of our COD volume. The COD volume is now stable at 50% of our portfolio. To us this is a signal that now the demonetisation piece is definitely behind. We do not need to worry about that going forward, it is now about the industry fundamentals and of course our competitiveness in the context to take us forward.



GATI Limited
May 08, 2017

Prateek Kumar: Sure Sir and Sir as I understand you have stopped operating any of the EFCs now, so you are not pretty much operating any EFCs?

Dhruv Agarwal: We were operating fulfilment centres for the e-tailers, so last year they decided to take them back into the inhouse verticals, etc. Now we have opened up our own fulfilment centres Prateek, which we will be going to the sellers and vendors direct versus the e-tailers, so earlier we should do it for the e-tailers. Now we have set it up as a multiuse facility and we will be going to the seller and vendor direct and saying that put their inventory with us we will be able to physically fulfill their orders wherever the order comes from on whichever e-tailer the order is generated from.

Prateek Kumar: How many of them now you operate?

Dhruv Agarwal: Hyderabad fulfilment centre is live right now. We are in the pilot stage where we have onboarded a few vendors and we are just making sure our systems and processes are flowing, everything is working alright and in this quarter we will see revenue is generating out of that segment.

Prateek Kumar: On your rail segment, the recent formation of rail regulator and all the stress and focus by minister on this rail segment, do you see any change on the ground in terms of regulation or pricing or shift from road to rail or multimodal, whatever the themes are being talked about, so do you see anything on the ground?

Bala Aghoramurthy: There have been quite significant changes. In fact I think two cycles back I did explain the new policy that was published at that time, which said the new tender will be for a period of six years as against three year. This is a very good thing because company like Gati when we are in rail we do invest quite a bit to build a certain lane and get customers onboarded on that lane, etc., if that tender the longer it is the better it is for a company like Gati. The other parts of that change were also about how much money is actually paid as a deposit, in the past it used to be a very, very small amount. You did have unorganized players also participating in tender, but now the fee, the deposit, etc., has been substantially revised upwards, so only a serious player ought to be participating in those tender. So there are good development on the policy front, also in the last week there was a mega conference to bring on multimodal conversations between the government, the policymakers, the industry as well as the consultant. This was a very big event, which happened last week in Delhi, in fact our MD was also there at the event, it was headed by Shri. Nitin Gadkari trying to bring together various modes of transports under one roof. I think the direction is right, so as a result that should be a general benefit from the multimodal although rail by itself it needs a lot more development on the parcel freight side. The cargo is well developed, but the parcel



GATI Limited
May 08, 2017

freight side, which is where Gati operates we are still hoping to push through many improvements on that front.

Prateek Kumar: Thanks for detailed plan, Sir on GST as such do you again see any business changes on your side in terms of your customers asking you now things very differently what the use to ask you last year same time or has the demand side queries have changed for with respect to GST?

Bala Aghoramurthy: That is right. In fact as we get closer and closer now the conversations around compliant, which is what was the focus of many customers until let us say two, three months back, customers would only be speaking about how to become GST compliant with respect to their taxation, payments, etc., etc., but now conversations are beginning to happen on are we having the right supply chain design on the ground, so that conversation we are beginning to see. In fact few of our customers we are in touch with saying how can we provide sensible GST led solutions for changing their supply chain, but like I said in my last call supply chain changes will first happen in the warehousing space meaning for example there are companies which have a warehouse in every state that warehousing consolidation will first happen, there will be a second wave of GST led supply chain changes, which will be in this direction of factories also getting relocated, but that will be a two, three year period, not an immediate period, so we are beginning to see conversations coming from customers led by GST change.

Prateek Kumar: Sir one question on standalone margins, there is some substantial dip in standalone margin I guess 11% quarter-on-quarter to around 6% this quarter in EBITDA margins, so any specific reason for this?

Bala Aghoramurthy: You did hear Dhruv explained saying that we had a very modest e-com business, while the business continues to be profitable because of the dips in volume you see an effect on the margins, it is nothing to be alarmed about in that sense.

Prateek Kumar: On consolidated basis margins have now come down to around 5% what should be built in for like future in terms of consolidated margins – like it has been 100, 200 bps improvement in the past we have talked about?

Bala Aghoramurthy: You of course heard me answer some of the previous queries especially in the context of GKE. We are quite confident that the GKE margins will definitely see 100, 150 BPS improvement through the course of this year. On the standalone margin, we will wait to see the springback in the e-com business, but I am quite confident that is bound to happen at least in Q2, Q1 so on.



GATI Limited
May 08, 2017

- Prateek Kumar:** That is it from side. Thank you.
- Moderator:** Thank you .Next question is from the line of Mayur Gathani from OHM Group. Please go ahead.
- Mayur Gathani:** Thank you for the opportunity. Sir wanted to check you have one cold storage operating right now, when is the second one expected to start?
- Bala Aghoramurthy:** Mayur, we have in the month of April started another smaller one in Hyderabad that was in the month of April is about 1000 pallet space, this is on a rental basis. Now the result of a hybrid thinking that we are doing because we have realized that building a network of cold stores will take whatever month it takes and in the meantime we still have to build up business of cold store, so hyderabad we have started in the month of April, there is another one happening similarly in Mumbai, etc., in parallel we are also proceeding on the building construction of our a cold store in as per a master plan that we called out.
- Mayur Gathani:** Just to reiterate, where is your existing cold storage, the one that is owned by you?
- Bala Aghoramurthy:** That is Dharuhera, in the north.
- Mayur Gathani:** Dharuhera right, so that is 5000 plus 6000 right?
- Bala Aghoramurthy:** That is 5000 plus pallet space, yes.
- Mayur Gathani:** What is your e-fulfilment revenue for this quarter, I mean, very small number, but what it would have been?
- Peter Jayaraj:** No, there is no FC revenue Mayur in this last quarter.
- Mayur Gathani:** There is no FC revenue. Okay, fair. Thank you very much.
- Moderator:** Thank you. Next question is from the line of Sanji Aswani from JM Financial. Please go ahead.
- Sanji Aswani:** I have the same question again. It is regarding the FCCB holders. You said that there was no change in the status, can you please give us an update on what exactly is the status at this moment and how do you think it will result going forward?



GATI Limited
May 08, 2017

- Amit Pathak:** As I did mention the matter is pending adjudication. We will certainly keep the investors inform as and when we get to know something and beyond that I think it will be difficult for us to comment as the matter is subjudice, I am sure you will appreciate that.
- Sanji Aswani:** Do you see it getting sorted in the next quarter?
- Bala Aghoramurthy:** I said it will be difficult to comment and we will certainly come back to you.
- Sanji Aswani:** The second question that I have is in the notes that you have filed, if I go to point number nine, it says that there are certain advances and receivables amounting to Rs.20 Crores, which were unrecoverable and have been adjusted against specific reserves, what was the nature of those advances and what is the court orders that allows you to adjust them against special reserve, please throw light on it?
- Bala Aghoramurthy:** Madam, first and foremost, I will have to take you back to 2012-2013, we can take that offline, but the reason as to why we did this is you need to go through the accounts of last year, the annual reports, you will see a couple of points in the notes on accounts, this decision is with reference to those points coming in the notes on accounts and there was consensus between the management and the board and thus the decision was taken. I can give you enough information offline as to from inception of the court order. I will take this offline with you.
- Sanji Aswani:** Lastly I just wanted to know there is a point where the auditor has been changed that you have appointed a new auditor Mr. Singhi & Company, is it in the normal course or is there any specific reasons for the change in auditor?
- Amit Pathak:** This is in line with the requirement of the Companies Act 2013 and this is the last year in which we have to rotate our auditor as per the compliance of the law.
- Sanji Aswani:** So it is as per Companies Act?
- Amit Pathak:** Yes, it is as per Companies Act.
- Sanji Aswani:** Thank you.
- Moderator:** Thank you. Next question is from the line of Mayur Gathani from OHM Group. Please go ahead.



GATI Limited
May 08, 2017

Mayur Gathani: Just wanted to check Sir, on the cold storage you mentioned that there was a depletion of the fleet, so you bought it down from 200 to 165, 170 and again in the next few months you want to increase it by 40, 45 trucks and since going to 200 plus, so what is the reason for this change?

Bala Aghoramurthy: No. The fleet as they get older they cost us a lot in terms of repair and maintenance, they get off road, the reliability gets affected and so on, so we have a policy saying that we will retire older fleet and usually the older fleet between six to seven years one ought to retire, otherwise the economics of running that fleets do not work at all, hence we did retire in the last year, quite a few of these trucks also coming year we have a very significant plan on adding almost about 40 to 50, but as an annual plan, you will see them rolling in one after another. We were also to some extent put on hold because of this BS-III, BS-IV change, which kind of delayed things by a couple of months, so that is the context in which this was explained.

Mayur Gathani: It is not the business is lower or something of that kind, it is just that the age of the fleet has compelled you to change?

Bala Aghoramurthy: Yes because you retire your trucks, you are not in a position to take more business and if you take more business you would have incurred a loss because of higher repairs, maintenance cost and so on and also the reliability cannot be guaranteed to the customer, remember the promise that we made to the customer has to be kept, so it was in that context that the business also responds to it.

Mayur Gathani: On the outlook front you have given kind of a 150 basis improvement in Kintetsu margins over the next one years time, how do we see topline growth?

Bala Aghoramurthy: Topline growth, we see quite optimism in the month of March, etc., I do expect it to build up, the topline we should actually expect now change of direction, change of trajectory even on the GKE topline.

Mayur Gathani: Thank you very much and all the best.

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

Ankit Panchmatia: Thanks for taking my question again. Sir can I get capex figures for FY2017 and what we are building in for FY2018?



GATI Limited
May 08, 2017

- Bala Aghoramurthy:** Capex excluding cold storage should be in the range of about Rs.25 to Rs.35 Crores.
- Ankit Panchmatia:** Okay and include cold storage?
- Bala Aghoramurthy:** Cold storage it will get evolved as you move on.
- Ankit Panchmatia:** But we would have included something in this year for cold storage, so how much we have done for cold storage?
- Bala Aghoramurthy:** Cold storage let me explain you are aware there is a PE investments in the cold storage, so we are going to only use up that resource and not get into any incremental peak.
- Ankit Panchmatia:** True, but just to get an estimate how much we have utilized and how much we have?
- Bala Aghoramurthy:** About 35.
- Ankit Panchmatia:** About Rs.35 Crores.
- Bala Aghoramurthy:** Yes.
- Ankit Panchmatia:** For FY2018 what we are building in?
- Bala Aghoramurthy:** Rs.50 Crores.
- Ankit Panchmatia:** 30 right on an overall basis?
- Bala Aghoramurthy:** No, we have already done Rs.35 Crores, going forward we planned for another Rs.50 Crores.
- Ankit Panchmatia:** Rs.50 Crores?
- Bala Aghoramurthy:** Yes, as I said it will get evolved as we go forward.
- Ankit Panchmatia:** Absolutely true Sir and debt figures for FY2017 and any plans to reduce the same on FY2018?
- Bala Aghoramurthy:** Debt we are still maintaining at a same level as we commit, it is under Rs.500 Crores.
- Ankit Panchmatia:** Under Rs.500 Crores, this also includes the FCCBs or they are out of the balance sheet?



GATI Limited
May 08, 2017

- Amit Pathak:** Absolutely right.
- Ankit Panchmatia:** Okay and Sir just want to understand is business in GIETL what different we are doing with this getting accepted in the market and quite a good traction in the EBITDA levels for the same as well, how are we taking to scale up this business going ahead?
- Dhruv Agarwal:** In GIETL we actually do end-to-end solutions including procurement, demand forecasting and consolidation of orders for industries, so right now we are specifically doing it for the one large contract for one of India's largest hotel chains and the other one is for.
- Ankit Panchmatia:** Taj right?
- Dhruv Agarwal:** Yes, that is right and the other one is for one of India's largest catering companies. So in this business we consolidate orders from the various hotels or the various kitchens that they run in the case of the catering company, purchase from their certified vendors and supply it to the various locations on a fixed schedule, which actually helps the hotels and the various kitchens reduce their inventory to a great extent, so this is the basic model – so these are couple of larger contracts, which takes slightly longer to bring on board, but being received very well by the industry.
- Ankit Panchmatia:** So how do we charge our customers for these orders, is it on contractual basis or is it on the volume basis, how do we do this or charge this to our customers?
- Dhruv Agarwal:** They have very specific commercials which we cannot get into the details of on this call. The only thing I will mention is that we do not take the risk of nonpurchased inventory, meaning our customer guarantee that whatever it is that we are purchasing will be consumed by them because we are not in the buying and selling business as such, but we come up with this solution to enable supply chain and make it more efficient.
- Ankit Panchmatia:** So this incremental revenue is completely on the back of one client added into it because I think the newer catering customer had added in FY2017 right, it was not that in FY2016?
- Dhruv Agarwal:** Two things, one is that we added one more zone for the Taj Hotels in the last year plus this large catering MNC and there were two or three other smaller customers that got on board this solution.
- Ankit Panchmatia:** Okay. That is all from my side. Thank you.



*GATI Limited
May 08, 2017*

Moderator: Thank you. Ladies and gentlemen this was the last question today. I would now like to hand over the floor to the management for their closing comments. Over to you Sir!

Bala Aghoramurthy: Thank you all for your time with us today. We will of course connect with you a quarter from now. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of SBI Cap Securities Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.