



“GATI Limited  
Q2 FY2021 Earnings Conference Call”

November 10, 2020



**MANAGEMENT: MR. RAVI JAKHAR – CHIEF STRATEGIC OFFICER - ALLCARGO LOGISTICS LIMITED**  
**MR. BALA AGHORAMURTHY - DEPUTY MANAGING DIRECTOR - GATI-KWE**  
**MR. ROHAN MITTAL - CHIEF FINANCIAL OFFICER & CHIEF TRANSFORMATION OFFICER – GATI LIMITED**



*GATI Limited*  
*November 10, 2020*

**Moderator:** Ladies and gentlemen, good day and welcome to GATI Limited Q2 FY2021 earnings conference call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ravi Jakhar, Chief Strategy Officer of Allcargo Logistics Limited. Thank you and over to you Sir!

**Ravi Jakhar:** Thank you. Hi good evening everyone and thank you for joining us on GATI Limited Q2 FY2021 Earnings Conference Call. I am Mr. Ravi Jakhar, Chief Strategy Officer for Allcargo and along with me I have my colleague, Mr. Bala Aghoramurthy, Deputy Managing Director for GATI-KWE and Mr. Rohan Mittal, Chief Financial Officer and Chief Transformation Officer for GATI and SGA our Investor Relation Advisors on the call today. I trust you and your dear ones are doing good and keeping safe. I hope you have had a chance to look at our results and the results presentation, which has been uploaded on the stock exchanges and company website to begin I would request by colleague Bala to give details about the business. Over to you Bala!

**Bala Aghoramurthy:** Thank you Ravi. Good evening all. We are having with call after a gap of more than a year, I can remember the last time it was Q2 of last financial year that has been more than a year. It is very much important that we spend time on this call today to help you to understand what we have been up to, as a company, over the last many, many months.

The way we shall do this, I shall give you an overview of the broad direction & thinking and then our CFO, Mr. Rohan Mittal will take you through the numbers. You can of course clarify your understanding post we complete our commentary.

Let me start with the highlight's commentary. First and foremost, the investor transition is now complete. GATI is now proud and happy family member of the Allcargo group with Allcargo group having acquired near 47% stake in the mother GATI company. The merger or acquisition so to speak now complete we have a totally new board with many accomplished men and a lady as our new directors from the board led by Mr. Shetty as the chairman of the board.

It is indeed noteworthy that our joint venture partner Kintetsu World Express has been in full support through this entire transition. KWE continues to hold 30% shareholding in the GKEPL subsidiaries, which was the same in the past also. GATI has become melting pot of logistics excellence led by Allcargo at the parent company level and closely supported by KWE at the subsidiary level. In this context, I am wanting to say that the GATI now stands before the corporate landscape with this newfound confidence backed by twin logistics giants, Allcargo and KWE, continuing to support the subsidiary. So that was at the shareholding level and board level.



*GATI Limited*  
*November 10, 2020*

At the Management Level: The most important point to note is that this transition has happened without any attrition cost. The top management team is intact of the top 100 managers in GATI. We have retained near 95, with hardly five people either moving on or being let go, the management talent foundation remains intact. Not only that the management foundation remain intact, this is now further augmented with the best talent from Allcargo moving in and working closely on GATI, with GATI. In this context I would also like to mention the onboarding of our new Chairman and Managing Director in the retained subsidiary Mr. Adarsh Hegde, whom also of course all of you would know he is also the Joint Managing Director of Allcargo.

Also, I would like to mention our new CFO, Rohan Mittal who is on this call. Both Mr. Hegde and Mr. Mittal have joined the management team of GATI. This is very big infusion into GATI at senior management level in addition many, many other cross functional leaders from Allcargo are very, very closely engaged through the newly formed Centre of Excellence that we have created between the companies that will help roll out the best practices into GATI in every function whether it is Audit, Legal, Procurements, IT etc.

To sum up the transition at Shareholding level, Board level, Management level has been handled extremely well and the company is now settled down into a very different future and that is what we are selectively working towards. To share a little bit of what activities the company has been up to the last few months let me start with first saying the character of management team of the company is on full display at a simultaneously managed two significant once-in-a-lifetime event. One of course is once in a lifetime shareholder transition and this coinciding with once-in-a-lifetime pandemic situation so these are two were very, very big once-in-a-lifetime event happening simultaneously and the team would work really well to make and execute many big decisions from a long-term perspective even as we kind of went through these mega changes in the company.

The company is now sharply focused on the core express distribution business and we have unhesitatingly have let go of many non-core business verticals. Example, I would like to share is we have walked out of freight forwarding in entirety. We have let go of the China subsidiary. You would remember that we had a presence in China in the past, we have let go off the subsidiary. We are in the process of exiting from the inventory trading business within another subsidiary that we used to call GIETL. So, there are very big changes that we have actually decided at a business portfolio level i.e. letting go off the China subsidiary, GIETL subsidiary, walking out of freight forwarding and so on. We have also sharply moved out of non-profitable contract be it in e-commerce or even in handful of B2B clients. So we have been sharply focusing on which contract gives required profitability to these businesses i.e. very, very sharply focus on growing profitable core.

In addition to these business portfolio changes that I just outlined; we have also done many other changes within the organization as well. We have let go, believe it or not, of near 1000-plus headcounts from our roles within 2020. This has impacted our reported financial wherein the employee costs have dropped dramatically, very big move on that front. Similarly, we have also



*GATI Limited*  
*November 10, 2020*

moved to control our fixed overhead so that we do not get mortally hurt because of the pandemic blow on the economy at large and of course to our own business.

With all these changes we now are present in the market with the renewed confidence and the new sense of purpose. Within Q2 our monthly B2B business crossed 100% mark over last year and the truck utilizations have improved quite significantly from our historical past. The fixed overhead have been ruthlessly cut like what I explained whether it is people or admin overhead etc., i.e. the overall business profitability stands improved for all times to come in future.

Finally, would also like to mention that with all the work happening, we have also embarked on an accelerated business transformations journey which was announced when we were getting into it with the help from Alvarez and Marshall, about which Rohan will speak a lot more in detail.

To sum up, you have all known GATI for many years but I want to reiterate that GATI is now here in the new avatar in the logistic market. We were of course pioneer in our pursuing, we went through some different issues and those issues are summarily behind us and we are here back in full form for the second innings in a new avatar. We are confident and hopeful of building from to strength to strength. From here on you will see that in the numbers, commentary and you will see that in the way we come across to investors, customers and every other stakeholder in the market. So, with that thank you and I hand it over back to Ravi.

**Ravi Jakhar:**

Thank you Bala and I would like to add to that from Allcargo's perspective, GATI is a proud member of Avvashya Family. We believe there will be strong synergies and we have already started experiencing like Bala touched upon some of these areas wherein our teams have already started collaborating. Allcargo has been a market leader in the global LCL consolidation with our own offices across the world and now with GATI added to the portfolio we effectively have a capability to cover the entire world on the EXIM logistics side and almost every pin code in the country. This provides us with an unmatched competence of delivering door to door shipments, add to that the synergies across other businesses like CFS, contract logistics, we believe that addition of GATI to Allcargo group of companies would benefit both GATI and Allcargo.

It has been an absolute pleasant surprise of how we have been able to navigate the COVID challenges. Thanks to an absolutely able management team led by Bala which has allowed not only business to prosper but like you mentioned were very, very important transition to take place in an absolutely effective manner over the last six months. So, things have been extremely good so far and we believe that as we move forward with this new found partnership, we should be able to see good times ahead for GATI.

In this context we have taken up this transformation project, which Bala spoke about as well. I would now request my colleague Rohan to talk a bit more on the transformation project and also to take us through the numbers. Over to you Rohan.



*GATI Limited*  
*November 10, 2020*

**Rohan Mittal:**

Thanks Ravi and Bala. Good evening to everybody who has joined on this call, I hope I am audible. So basically Bala has already touched upon what exactly were trying to do in the transformation program.

Let me explain further, so what we are trying to do in this transformation program is unleash the true potential of GATI and its subsidiary by reinvigorating the team, reinvigorating our digital capabilities and infrastructure. There are multiple initiatives almost 200 plus initiatives that have been identified. The program duration is about 15 months. We are about in the first month of this program and the outcome is already visible to all of us in the form of Q2 results..

Some of the things that we are working on for example, we are going in for a complete digital overhaul of the way we do business. I will give a very simple example something that has just gone live on our network is a WhatsApp based chat bot program that is called "Genie" and this program is supposed to provide real-time details about customer queries to the customer. This is something which is almost first of its kind in the sector that we are operating in today. This is just an example of some of the digital overhaul that we are doing as we speak.

We are trying to bring in a new CRM, we are trying to launch a new finance CRP, so a complete digital overhaul is happening. Simultaneously what we are also doing is we are relooking at our network and infrastructure capabilities because of the volumes that have already started to handle. So what we are trying to do is we have identified some of our key hub locations and we are now looking for bigger and better facilities to replace those locations.

This will not only help us make the entire network more efficient, but we may also be able to increase the supply from our side in terms of the handling capacity, in terms of the transshipment or throughput capacity. Amongst other things on the finance side, for example what we have undertaken a mandates to reduce significantly reduced debt and again, the outcome of that is visible.

In Q2 we have reduced debt by almost Rs.70 Crores at a gross level. Some of other initiatives that we have also picked up is monetizing non-core assets. Preacquisition when we were discussing with the management of GATI we had identified certain assets which the management felt are non-core to the business, so it was very important to sell these assets and use the proceeds to again retire debt or liabilities are there. In addition to that we have taken advantage of the tax amnesty scheme which was launched by the Government of India and through that about Rs.135 Crores of contingent liabilities, which were mostly tax-related, would be down to almost Rs.27 Crores, by taking advantage of that tax amnesty scheme alone. So, these are some of the initiatives that we have already picked up or rolled out. The program as I said has another 14 months to go, the broad outcome of this program will be that we would have regained some of the loss profitability, we would be firmly back in the driver's seat as far as market leadership is concerned, share of wallet is concerned as well as the foundation for the digital GATI would have been firmly laid in place. So, these are some of the outcomes that we expect.



*GATI Limited*  
*November 10, 2020*

I will now take you through the brief overview of the consolidated results for the quarter and a half year ended September 30, 2020.

Revenues for the second quarter of FY2021 was about Rs.345.3 Crores as compared to Rs.441 Crores for the same period last year, down by about 20%. Some part of this reduction from last year is also because of the conscious calls that we have taken of exiting certain businesses that Bala mentioned earlier. On a quarter-on-quarter basis, revenues were up by about 104%.

If you look at the split of this business 81% of the business came from our core express supply chain business. Gross margins stood at about 24.8% for the second quarter FY2021 as compared to 22.2% in the same period FY2020. This is an increase of about 260 basis points. Again, one of the most important reasons for this would be better utilization that Bala spoke about a little earlier.

Our EBITDA for the quarter stood at about Rs.23 Crores compared to Rs.19 Crores in Q2 FY2020. This is a jump of almost 21% on a Y-o-Y basis. Before exceptional items, we have registered profit before tax of about Rs.1.9 Crores as compared to a loss of about Rs.8.6 Crores in the same period last year.

On a sequential basis over the last three quarters, we have seen our performance improved substantially. As far as the gross debt is concerned, we are today at about Rs.330 Crores of gross debt, which is down by Rs.70 Crores. The debt has been repaid from the proceeds of the preferential issue that was done as part of the Allcargo acquisition. So we have utilized the money to reduce debt from the books of GATI and we will continue as I mentioned earlier, to monetize assets and keep reducing debt.

On the cash flow front, our cash flow from operating activities have improved significantly compared to last year. For the half year ended September 30, 2020, our net cash flow from operations was about Rs.40 Crores compared to Rs.20 Crores for the same period last year.

With this I would like to hand over back to Ravi for any further comments. Ravi over to you.

**Ravi Jakhar:** Thank Rohan for taking through the financials. With this we conclude our presentation now the floor is open for questions and answers. Thank you.

**Moderator:** Thank you very much. The first question is from the line of Ashwini Agarwal from Ashmore Investments. Please go ahead.

**Ashwini Agarwal:** Could you just help me understand how should we look at the Q2 or first half revenue across major business areas which was Express, SCM and then you have of course the cold chain and some of the small businesses, could you give us division wise split please?

**Bala Aghoramurthy:** Within Q2, of course life moved month-on-month quite dramatically so Q1 was a lot of lockdown and stuff. Q2 July started with the lockdown being nationally lifted and thereafter there



*GATI Limited*  
*November 10, 2020*

was slew of local lockdown imposed by the state governments, so that was July month thereafter came August and September, so month on month dramatic changes happened. I must say in July, August, we were not at a 100% of the previous year at a totality level. We were let us say between 85% and 90%. In September we crossed the 100% mark, which is what I was referring to say in Q2 we crossed our last year number so July, August, approximately take it 85%-90%, in that range, business by business and then September we crossed a 100% mark.

In all this, the express business is what ramped up quite sharply, the warehousing business was approximately the same 100% all through the three months the reason being warehousing does not change. The ramp up happened on express, warehouse was kind of similar all three months. The cold chain business actually had a degrowth and the reason for that is because the ice cream business what completely shut in this period. And a lot of the cold store both, capacity in the store and of course the primary reefer transportation and secondary reefer transportation, there was surplus capacity because of significant demand drop from ice cream and so on. So Kausar alone what was a shade lower, express ramped up through the quarter and warehousing maintain a steady state of 100% right through.

**Ashwini Agarwal:**

Okay, and the other question is that you mentioned that some of the businesses you already closed down you mention 2 of them but somewhat I recollect the cold chain is also one business that you are looking to significantly restructure or reposition or exit as the case may be. So what else is remaining to be shuttered, sold or restructured. So what I understand the core business of express and supply chain management, and then of course the warehousing business will continue but cold chain will go away, is there anything else that you expect that needs to be closed?

**Ravi Jakhar:**

I would like to come in here, as we mentioned on some of the earlier calls, on Allcargo earnings as well we are evaluating some of these businesses. There is no firm decision or direction on the cold chain business, as yet, we continue to evaluate all the businesses. Express is certainly the heart of GATI and some of the noncore businesses which we would certainly look at like fuel stations, which are there. I would request my colleague Bala to add further to that.

**Bala Aghoramurthy:**

Actually, in some ways it has been covered in Ravi's response. We are of course looking at our businesses. What was obvious thing to do we have done, the other parts of the business as they remain, they remain. We always look for value and so on. Something I would put it this way, right now our focus is on the road business. The road business for us is surface express business and there is a TPL business linked to that and the higher weight segment e-commerce also travels on road, so these along with the two other business which is your warehousing and air, these are core businesses of GATI. Cold chain continues to remain in our portfolio. It is not like we have taken any calls on cold chain. I do not know where you got that impression, cold chain continues to remain in our portfolio.

**Ashwini Agarwal:**

Thank you Sir. I will come back for more questions.



*GATI Limited*  
*November 10, 2020*

- Moderator:** Thank you very much. The next question is from the line of Depesh Kashyap from Equirus Securities. Please go ahead.
- Depesh Kashyap:** Thanks for detailed presentation and keeping this call very helpful. Sir my question is if you can give a more color about the supply chain business, what kind of industry wise split you have in this business and also, I understand that in Avvashya CCI business that is mostly focused on the chemical warehousing and so do you plan to merge these two businesses to gain any synergies out of that?
- Bala Aghoramurthy:** On the warehousing business within GATI, our big clientele base is of two different industry segments one is auto and the second is electronics. So these are the two things where we are present in GATI. The reference to ACCI, of course ACCI has much a bigger business than what is there in GATI Kintetsu Express warehousing, It is quite focused on chemicals and fulfillment center from e-commerce so those businesses continue to remain in the individual verticals as they exists today there is no immediate comments to give on any merger etc.
- Depesh Kashyap:** Sir supply chain business includes only warehousing activities or you also include transportation within this category?
- Bala Aghoramurthy:** Actually, by supply chain, we mean only pure warehousing, we have a lot of distribution linked to the supply chain to these warehouses that gets accounted within our express business itself because the shipment gets handed over to the hub and spoke network thereof. So when we say supply chain, we mean only warehousing, other associated parts are accounted in our express business.
- Depesh Kashyap:** Sir you also have two different segments, express and e-commerce logistics in your presentation so just wanted to understand, this e-commerce logistics is also part of the GATI KWE subsidiary?
- Bala Aghoramurthy:** Let me clarify this, GATI KWE subsidiary is B2B vertical so all express whether surface express, air express or even warehousing these three are part of the GATI KWE subsidiary. The e-commerce business is actually in our mother company i.e., GATI Limited, that is where the e-commerce distribution lies although there is line haul service which the GKE B2B business provides to GATI but the business itself resides in the parent company, e-commerce business is part of GATI Limited and not part of the subsidiary.
- Depesh Kashyap:** Lastly Sir like will you give the last five-year CAGR numbers obviously your numbers are pretty flattish when you compare to the listed and unlisted players who have scaled up significantly over the last five years and one of the things that will change you talked about is the hub and spoke model optimization. So just wanted to understand are you in talks with the client that you might have lost in the past five years? Will they be okay to come back now or you are targeting new clientele to the gain market share?





*GATI Limited*  
*November 10, 2020*

**Bala Aghoramurthy:** So first let me first share that the customer confidence in GATI has always been high. It continues to be very high as part of the transformation journey that both Rohan spoke about, I mentioned and Ravi mentioned. We have actively focused on expanding our presence in the market, which is both about market share with existing customers and it is also about onboarding new customers, regaining lost customers so the entire portfolio of it just actually part of this scope. And we are very confident because the GATI brand name remains solid in the minds of customers across the landscape.

**Depesh Kashyap:** Great Sir. Thank you for answering my questions. All the best.

**Moderator:** Thank you. The next question is from the line of Anuj Jain from Globe Capital Market Ltd. Please go ahead.

**Anuj Jain:** Sir there are two questions which I wanted to understand. First of all, what are the sustainable margins on which we would like to work in the future, EBITDA margins and then profit margins?

**Bala Aghoramurthy:** Okay. There is definite potential at an EBITDA level for the margin, gold standard margins to be around 12% as you are aware in the past as GATI GKE, we have been reporting EBITDA margins in the range of 6% to 7% over the last two to three years. We were way below the market and the competition. Without going into reasons about the past, suffice to say we have every intention and we are working on it as part of the transformation to kind of move quickly into double digits and target the gold standard. I won't put a timeframe to it but without any doubt, these are established benchmark and that is our aspiration, that is our effort.

**Anuj Jain:** And we are into this cold storage and supply chain business and now everyone talking about the COVID vaccine and cold storage business, so are we thinking to participate in that business opportunity whenever it comes?

**Bala Aghoramurthy:** You are absolutely right. There is a lot of talk in the industry about that vaccine logistics. We have reached out to the relevant stakeholder whether it is from the government, whether it is in the vaccine manufacturer, we have reached out and we are working actively. Everything depends on finally if the vaccine is a cold stored vaccine or an ambient travel vaccine. There are different possibilities. I think definitive statements on this can be made only as time progresses but suffice to say we are actively engaged in exploring the opportunity.

**Anuj Jain:** Because I was just listening to Snowman company interview today only and they are saying that for this vaccine we need -70-degree temperatures kind of facilities and in India no one has the kind of facilities, so can you please throw some light?

**Ravi Jakhar:** If I may add on to this, there are multiple vaccines which are under trial across the world. There are some of them including one if I recall correctly from Moderna in US which requires an extreme low temperature but most of the vaccines under development are well within the range



*GATI Limited*  
*November 10, 2020*

of -20 degrees or higher temperature. As we all know, there are not any firm outcome as to which vaccine would eventually be successful and require transportation. As Bala said it is difficult, but most vaccines in terms of number of vaccines out of total trials being conducted are in -20 degrees or higher. Some of them are indeed -60 or lower as well and if those vaccines were to be transported there would be significant challenges as the Indian cold supply chain is not truly capable to handle those kind of temperatures there could be serious challenges, but we would like to believe that this allows greater chance of vaccine logistics requiring -20 degrees or higher temperature.

**Bala Aghoramurthy:** If it is -20-degree range GATI Kausar, our cold chain is what will be suitably placed if it is even warmer than that there are other ways to do it which I am saying even the ambient temperature, GATI Kintetsu can look at. So depending on the vaccine we have covered most of the space except maybe the one vaccine which requires extreme cold temperature.

**Anuj Jain:** One last question, whenever we look like the results so there are lot of many footnotes like some money received from the existing erstwhile promoter Mr. Agarwal and so many things. It looks as if so many litigations or receivables are there and which you have not taken to the P&L. So when can we see that clean up kind of results or clean up balance sheet, where we know that there is nothing in terms of receivables or any litigations. Are we working on that line also?

**Rohan Mittal:** Basically, these were elements that have been known and have been discussed during diligence phase. We are actively working with the erstwhile promoters to mitigate some of these issues. Some of them have also happened so I will give you an example over here, there was an excess remuneration that was to be recovered from the earlier Managing Director and for FY2017-2018 that entire amount has been deposited by the earlier Managing Director with GKE so all those efforts were happening but COVID has been terrible for everybody. There is nobody really immune to that so there are some temporary relaxations that may have happened. But rest be assured that the entire management and the board, I would specifically like to call out the board over here, is firmly behind closing this cleanup as you labeled it. We expect that in the next few quarters we should be able to bring this to a closure. I hope I have answered your question.

**Anuj Jain:** Absolutely Sir and thank you.

**Moderator:** Thank you very much. The next question is from the line of Ankit Panchmatia from B&K Securities. Please go ahead.

**Ankit Panchmatia:** Good evening, feels good after long time listening to Bala Sir. Some questions from my end. Sir, I am eagerly looking out for FY2020 annual report, I think it is not yet filed. So I am just looking out for that some of the key data points, which I need from your end. What is the current warehousing space under management for us?

**Bala Aghoramurthy:** Let me give you a sense of the size of the business. Within the overall business that we have warehousing is actually a smaller portion of the business. So, it will be of the size of around



*GATI Limited*  
*November 10, 2020*

Rs.65-75 Crores per annum. I am saying that is the size of the business that is what we report in section wise reporting. It is a modest business. We are looking to invest in it but like I said, the bigger focus right now is actually on express and everything else along with that we are looking at Integrated Solutions as relevant to our customer base. So Integrated Solutions in that space warehousing falls squarely in between very much there it continues to give us significant weight in the market.

**Ankit Panchmatia:** Sir I was looking out for what million square feet we are currently managing if I can get this number?

**Bala Aghoramurthy:** I am not carrying it right now.

**Ankit Panchmatia:** E-commerce, if I recollect right it was one of the fastest growing segments within GATI and we were keenly focused on in our earlier avatar and now in the new avatar how are we approaching this business. Again it has come into flavor, it is again ramping up fast. How are we looking at this business within GATI and what do you feel, what are the prospects for business going ahead?

**Bala Aghoramurthy:** Let me try and address that Ankit. So, in the past we had significant e-commerce business that was across weight segments. If you remember GATI originally started with what I would like to call a category C wise segment which was white goods and so on, thereafter we actually expanded ourselves into the smaller wise segments, the medium weight. And when we expanded in smaller weight we felt the pressure on profit and the pricing pressure in the market was so huge we are not able to push that. If you recall our results last year and I think the Q2 call last year explained the reason for the performance of last year was that we expanded the e-commerce business, especially to the smaller wise segment. Now if you look at what we published in Q2 on a much smaller base of e-commerce we are actually having head above water, so we have controlled ourselves to participate only in the category C. We have kind of withdrawn to some extent from the category A, the really small ones. Having said that I must also tell you we are actively engaged on refreshing our e-commerce strategy. We are thinking through what ways exist for us to participate in a sustainable manner and it cannot be that one year it works and the second year, it does not work. So, we are evaluating as part of the transformation journey how to participate in e-commerce once again in a sustainable manner for all times to come.

**Ankit Panchmatia:** Sir if I remember it right, it used to clock a quarterly run rate of Rs.60-65 Crores. How confident are you to clock those numbers? Or any rough targets from your end one year down the line because we are seeing lots of buzz around this e-commerce. Just a rough internal estimate that you can share regarding this business?

**Bala Aghoramurthy:** Ankit I do not really want to hazard a guess. This is work in progress. We had a certain thinking in the past. We tried year on year many different things, I think that what we are thinking right now is how do you build the foundation, which can grow by itself and not do a yo-yo year after year. You are right, at one time I think about two years back or just before that we had a Rs.200



*GATI Limited*  
*November 10, 2020*

Crores e-commerce business. That business has come down sharply even in the course of last year and now we have made as our choice because we did not want to hurt ourselves as a business. We have made that choice and we are reworking for the future and as we get more clarity happy to share with you. I think it is pause button in that sense except that we are very strongly present in the category C white goods, whatever outsourced volume of category C from the major players we will still be a significant presence there.

**Ankit Panchmatia:** Sir one more point within Express if I can get how much is ground and how much is air?

**Bala Aghoramurthy:** Air is a much smaller one even generally air used to be small so I am saying when Rohan talked about 80% being in the GKE vertical within that 80% less than 5% would actually be air this was small before, but right now because we are now getting back into the air express as you know the airlines are kind of normalizing operations. So do not make assessment based on what it is today, we are very strongly committed to air express as a business vertical because we have a huge clientele of customers who are actually contracted on surface and each of them has a requirement of something needing to be shipped urgently by air. So we are very, very clear that we will piggyback the air business on the surface and as a result we are looking for growth in the air business right now. To answer your question it will be about 5%.

**Ankit Panchmatia:** Last one from my side if I can Sir how do you feel GATI being an express player is able to mine Allcargo clients or which category you believe wherein the team would be able to build synergies with Allcargo, your take on this?

**Bala Aghoramurthy:** There are four to five ways, we have already called out the various synergy segments. One is, there are global multinationals who are actually moving from all over the globe into India, they are big companies, big customers of Allcargo, the thinking around that client base is to be able to offer end-to-end to the door delivery in India. can we give one price and this only Allcargo GATI uniquely can give, no one else can give a door-to-door price from anywhere in the world to India. Only Allcargo GATI can give, so this is one model. The other models we are looking at because Allcargo has many CFS and ICD presence across India, we are actually looking at that portfolio of customers who is either coming into these CFS from outside or are getting consolidated from within India to go outside, we are looking at those streams also as potential business streams for us. There is of course many other ways of collaborating as an example cross border e-commerce is another very, very big interest area, although right now China, India there is I am saying only so much that is happening, but in general we are seeing that cross border e-commerce is now going to expand beyond China to India lane to other countries to India lane so that is something we are beginning to see and even in that it will be a combined Allcargo GATI kind of a single product door-to-door kind of stuff. I think we are uniquely positioned both with global presence as well as domestic reach.

**Ankit Panchmatia:** That is all from my side. Thank you.



*GATI Limited*  
*November 10, 2020*

**Moderator:** Thank you very much. Next question is from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.

**Pratik Kumar:** Good evening everyone and congrats for the great improvement and turnaround. I have few questions. Firstly, can we get data on how much business in terms of revenue we would be forgoing by getting out of businesses which we talked about like China subsidiary, freight forwarding and trading business and were all these businesses in loss making or how much loss could get trimmed at EBITDA level because of all these segments?

**Bala Aghoramurthy:** Let me take that. I called out three businesses. One was GATI China, second was the GIETL subsidiary, third was the freight forwarding. The sum total between these three is somewhere between Rs.200 Crores to Rs.250 Crores. First statement that none of them was profit making, the GATI China was a loss making venture for us, our freight forwarding was just about neutral meaning head above water kind of situation not giving us any joy in the bottom line, similarly the GIPL was accruing topline but nothing in the bottomline. So it is not just about the loss, it is also about wasted management bandwidth and things which are non-core and which do not add value to the investor so that's the nature of these businesses. Topline impact approximate Rs.200 Crores but it is almost factored in. I am saying you have seen that between Q4, Q1, Q2 we have already seen three quarters of this going down, so in some ways it is not new thing that you will see.

**Pratik Kumar:** We used to share some data on segmental information on e-commerce, GATI KWE and freight forwarding anyway we are now out, so can you get that how the total Rs.340 Crores revenue, how much GATI KWE revenue for quarter or first half, whatever is available, and then what is e-commerce revenues and Kausar revenues including conservative numbers?

**Bala Aghoramurthy:** Rohan, you want to take that.

**Rohan Mittal:** Pratik, would you want the quarterly numbers or H1 numbers which one are you looking for?

**Pratik Kumar:** H1 is also okay, the best thing would be both quarters, but H1 is also okay.

**Rohan Mittal:** I can tell you the numbers, GKEPL as far as Q2 is concerned was about Rs.262 Crores, Q1 was about Rs.112 Crores and last year Q2 was about Rs.305 Crores. You want the Kausar number also?

**Pratik Kumar:** Kausar and e-commerce number as well.

**Rohan Mittal:** We are not disclosing e-commerce numbers as a segment result, but I can shed some light on that but before that Kausar was about Rs.8.34 Crores in Q2 FY2021, Rs.6.5 Crores in Q1 FY2021 and Rs.10.5 Crores in Q2 FY2020. As far as e-com business is concerned, as Bala explained, there was a dial down in Q1 and Q2 was also calibrated degrowth because we wanted to be very, very certain that whatever business we are doing has to be value accretive, has to be profitable, because of that Q1 and Q2 put together would be about Rs.10 Crores to Rs.12 Crores in topline, e-commerce specifically.



*GATI Limited*  
*November 10, 2020*

**Pratik Kumar:** We used to do around I think Rs.25 Crores, Rs.30 Crores as quarterly run rate of revenues, so the annual amount came down which we have?

**Rohan Mittal:** Annually we used to do about Rs.120 Crores in e-commerce prior. Obviously, there would be a disproportionate income in the festive seasons, so at an annual level you can then may be compare the numbers.

**Pratik Kumar:** We mentioned that the participating category C movement which is like highest category, which would have I am sure seen very large movement during this festive sale which is like 50% year-on-year, so would we have benefitted out of that October sale?

**Rohan Mittal:** October and November we are seeing good traction in the e-commerce business, it is a multiple of September number, but at this point of time. We are not at liberty to disclose those numbers, because we have not filed the October, November numbers, but suffice to say that it is multiple of our September number actually. We are seeing good traction in the numbers in October and November.

**Pratik Kumar:** One question on fuel stations We are also looking to exit fuel stations, which you also have in standalone business?

**Rohan Mittal:** Fuel stations continued to be profitable, they will generate about Rs.4.5 Crores to Rs.5 Crores in annual EBITDA and they are not consuming any working capital etc., as of now, so they continued to be value accretive; however, it is a non-core asset and therefore if we are able to find a buyer at the right price etc., we will be open to exiting the fuel pump business, it was acquired for a strategic reason way back in 1980s, 1990s, but now the way obviously the fuel policy has moved there is no requirement to own fuel pumps for a logistic company.

**Pratik Kumar:** There are any related party transaction which means Allcargo and GATI or they are going forward in terms of arms' length transactions or these are exclusive businesses may be the sharing clients each other?

**Rohan Mittal:** If at all clients are shared, the invoices will always be separate, we are not envisaging any composite pricing at this point of time, so therefore I do not see any potential RPTs. As of now there are no RPTs on client level basis. However, there will be some RPTs which are all under ordinary course of business like management fee etc., which will be run through a proper process because we have minority shareholders also, so we will be very, very diligent about the corporate governance standards in terms of bringing in RPTs, but at a client level we are not seeing any RPTs, now are in the near future.

**Pratik Kumar:** Thanks, and all the best to the team.

**Moderator:** Thank you very much. Next question is from the line of Ashwini Agarwal from Ashmore Investment. Please go ahead.



*GATI Limited*  
*November 10, 2020*

- Ashwini Agarwal:** Thanks for the follow up. Previous question related to the revenue numbers of the breakdown of the express distributions, supply chain on the segment basis, so the numbers that you presented in the consolidated especially when you look at the segment results, those would be all before minority interest am I right?
- Rohan Mittal:** That is right.
- Ashwini Agarwal:** How much would be the loss of GATI Kausar in that segment profit and loss that you reported of Rs.12 Crores in PBT express distribution and supply chain?
- Rohan Mittal:** You are referring to the H1 numbers not the Q2 numbers?
- Ashwini Agarwal:** Q2 if I look at segment results profit and loss before tax and interest, the express distribution supply chain is Rs.12.02 Crores?
- Rohan Mittal:** Correct.
- Ashwini Agarwal:** How much is GATI Kausar out of that?
- Rohan Mittal:** I can share the Q2 numbers and Q1 numbers for GATI Kausar again if that helps. As far as profitability is concerned, at a PBT level Kausar remains negative because of the legacy debt that is saddled on the company There is about Rs.90 Crores of debt on GATI Kausar, almost entirely is owed to one of the shareholders which is Mandala Capital, because of that PBT remains negative, EBITDA wise we are breaking even as far as Kausar is concerned, both Q1 and Q2.
- Ashwini Agarwal:** That is very helpful. Another question I had was that on the fuel pump business side this has been complicated because what I have given to understand is that these are contracts effectively with the oil marketing companies and usually, they are not transferable, so is that possible to sell them or you will have to use continue with them because it is not possible to transfer these contracts?
- Rohan Mittal:** It is possible with the permission of the OMCs. It is possible to actually sell these pumps as well.
- Ashwini Agarwal:** And have you approached them and they have agreed to it or something?
- Rohan Mittal:** At this point of time we have not approached them, because there has to be buyer in the market first, there is no point an approaching the OMCs if there is no buyer. Our first intent was to stabilize the businesses wherever required, so keeping that in mind we have not even started looking for a buyer right now, to give you an example, we are changing the ERP that has been used that is used to run the pumps, they were relying on a very archive system so we are stabilizing the business still. As I said it continues to churn profit on a standalone basis, so if there is an attractive offer, we will obviously sell it, because it is a non-core asset, we have not approached the OMCs yet, but the contracts have been studied they clearly stipulate that in case we wish to transfer the contract to another party, we have to take prior permission of OMCs.



*GATI Limited*  
*November 10, 2020*

**Ashwini Agarwal:** Coming back to the core express distribution and supply chain business, could you help us understand what is the client concentration like what are typically debtor days in this business and how much should be the standardized cost of receivables in the sense bad debts incidence etc.

**Rohan Mittal:** Bala, would you like to take the first part?

**Bala Aghoramurthy:** There is actually near zero concentration of business in express distribution. Just to give you a sense of the customer franchise, we have nearly 3000 key enterprise accounts and SME accounts. In addition to this, we also have significant cash and carry business that will have about 15000 people. Meaning there are all the small time traders and various cluster markets etc., so I want to categorically say there is zero concentration of business, it is our endeavor to grow that franchise both the account of the customers who are there in the franchise and the contribution from each member in the franchise, so both efforts are ongoing right now.

**Ashwini Agarwal:** Receivables days and bad debts incidence at all?

**Bala Aghoramurthy:** Let me put it this way, I think we are absolutely under control in the way this was panning out, at an overall receivable level if you compare where we are today versus where we were one year back if anything, we will be a shade lower in terms of overall receivables. In the beginning of Q1 through Q1, we had a lot of worry around that, but we work hard within the course of Q2, I think much of those worries are vaporized. Firstly, the larger customer GATI Enterprise accounts etc., they have actually kind of turned back in a very positive manner, their businesses have come back in reasonable full strength. There is a small segment of SME which is well known across the country, which is kind of holding a little bit of stress, it is not unique to us in any manner. I am talking about the country as a whole there is an SME stress but I want to give a clarity and assurance we are absolutely on top of it, we are in control, both in terms of any risk on that front, we have been proactively working to mitigate that risk. Q1 if you ask me the same question I would have said yes, Q2 I will say we are not out of it completely, but we are super confident that we are in control, that is the way I would summarize.

**Ashwini Agarwal:** Generally speaking, this business generates bad debts or what would that is a normal number or it does not happen?

**Bala Aghoramurthy:** No, we actually are governed by very strict objective policy, when it comes to the bad debt etc., ECLM provision, estimated credit loss mechanism, we are governed by a very strict formula base policy, so what you see reflected in our results is something which has been used over the last three years, nothing has changed in the formulae and so we are absolutely well covered in every which manner. The ECLM being formula driven I am even more confident because we have seen a dramatic improvement between Q1, Q2. I think 85%, 90% of the problem has kind of gone away, the last 10% is something that we are working upon and I am reasonably confident that I think that is also in our control. You will see the impact of that within the coming quarter and the quarter after, because we are seeing a very solid spring back even in SMEs let us say September,





*GATI Limited*  
*November 10, 2020*

October, the SMEs have been swinging back, they were not doing so much, in Q1 they were completely dormant, in Q2 July, August, I am saying half way through but September, October, spring back is obvious and evident, there is no doubt about it.

**Ashwini Agarwal:** Thank you so much for answering my question.

**Moderator:** Thank you very much. Next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

**Abhijit Mitra:** Thanks for taking my question. My questions are mostly on the express logistic business, so do you think that you can share some trends on volumes, prices, that you are seeing in the market? Also, if you can share the number of branches that you have at present and the employees that you employ for the Express Logistic business particularly or is it purely a franchise based model? And a breakup of in terms of sectoral mix as per customer is concerned, these were the questions I had. Thank you.

**Bala Aghoramurthy:** Just to give a sense of the network. We will have operating units in 700 plus locations. This is a combination of small units, medium size unit, mini hub etc., and then the larger hub which are used for transshipment right, so in all about 700 odd operating units on the ground, covering 19500 plus pin codes it is only a rare district here and there, rare district which will be especially in areas like north east or I think in Kashmir kind of place, hardly two, three districts we may not actually be reaching otherwise every district in the country is served by us. We operate through a combination of own and franchise base model, so in our network substantial portion is actually own, there is also significant contribution from franchise, but substantial portion that we own, the business generation is through own effort, the service providing and the reach is also managed through a franchise not so much the business itself that is the way we are organized across the country and did I miss any question the last question that you asked?

**Abhijit Mitra:** Also, which you are owning and operating, what is the kind of employee in allocation?

**Bala Aghoramurthy:** Employee strength, on our roles we have about between 4000 to 4500 employees. Not everyone is an express alone, although substantial portion of express it includes people in the warehouse, it includes people in Kausar etc., so the total strength you can take between 4000 and 4500.

**Abhijit Mitra:** Revenue allocation is not happening in franchise or you can mention that this percentage of revenues on account of franchise and percentage is an account of own?

**Bala Aghoramurthy:** We have used the franchises more at a reach model for us and of course they do bring in some revenue in the form of cash and carry business, the large portion of the credit business which is contract signed with large customers or SME customers done by our own sales team.

**Abhijit Mitra:** Okay, got it and also some indication on the tonnage movement, realization change that you have seen on a Y-o-Y basis, any sort of indication that you would like to share in this particular sector?



*GATI Limited*  
*November 10, 2020*

**Bala Aghoramurthy:** Without getting into absolute numbers that we just give a sense of it, so between July, August, September, we reached more than 100% on a Y-on-Y basis in terms of tonnage that number has been accelerating going forward, so we see a very, very buoyant economy as of now. In fact, I am saying the way we see the things around if the economy sustains in November, December I think then everything about the pandemic will be behind us and things like that will move on into a very positive trajectory.

**Abhijit Mitra:** Volume decline in the first quarter and the second quarter would it be similar to what we have seen for your peers? Is that the right way of looking at it or how to sort of looking at it?

**Bala Aghoramurthy:** That is the fair way of looking at it. Of course, the industry does not operate with any neutral body publishing numbers, so it is our guess versus somebody else's guess, there is no publisher of accurate information there. I do believe that the spring backs to life within Q2, we would match the best in the industry. In Q2, I believe we have gained share from the player below us., So the industry in some ways I think we have kept pace to some extent trying to get a step ahead and we want to do more of it.

**Abhijit Mitra:** Thank you and last question was any sector wise breakup of your volumes that you maintained or you can share now which sector are contributing to your tonnage, any prime sectors that are already existing or any sectors that you run to target?

**Bala Aghoramurthy:** Without getting into the last bit of granular details the way I want to respond, the industry segmentation which is kind of taxed into by various express distribution players that is very well known, it is published information which industry is auto, apparel, engineering, electronic, pharma, etc., so that is published information, we are also into all of these industries. I am not making a GATI specific comment, I am making industry specific comment, in general apparel took a little longer to come back on stream, the rest of the industry actually were a step ahead especially I am saying the electronics and engineering and both industries were step ahead, it was only closer to the festival season that suddenly the activity in the apparel industry kind of jumped manifold and it looks like it is where to say looks like people are shopping with a vengeance.

**Abhijit Mitra:** That is all from my side. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will take the last question from the line of Aman Vij from Astute Investment. Please go ahead.

**Aman Vij:** Good evening Sir. I have two questions again on the express business only. The first question is could you give a rough breakup for FY2020 and for H1 FY2021 in terms of your three key segments which you just talked about, enterprise business, SME business and your cash and carry business?



*GATI Limited*  
*November 10, 2020*

**Bala Aghoramurthy:** I would stay clear of that if you do not mind because that is very useful information in the market. In general, cash and carry happen to be 20%, but credit today has been 80% this has been a long-term trend for us, I would limit it there.

**Aman Vij:** In terms of traction you talked about SMEs just coming back now, so by end of year do you see it for the overall year coming back to the FY2020 level?

**Bala Aghoramurthy:** I do. I think their activity like I said was slow to start somewhere in August is when we started seeing the first time and I am putting up fast mark percentage of 40% activity, I think they were slower to start, but within September, October it looks like there is a sudden spike. There are many industries where SMEs have kind of come back to their full level, there are other industries where it is taking a little bit of time, for example even the normal, larger customers in apparel took longer. Similarly you can imagine that the SME customers on apparel would take even longer, so there are SME in the industry segment where they are already full throttle there are SME in other segments where they are not in full speed as yet, but given the activity that we are seeing on the ground now I do see all of these people coming back and saying within the course of December, January February, March, I think there should be operating in full. I do not hold the view that many will go under, I think many of them are stressed out there is no doubt, but I think there have shown remarkable resilience to figure out ways of managing their cash flows and the back to business and generate demand, so I do see tremendous in the SME sector as of September, October.

**Aman Vij:** Is there any gross margin difference between these three segments for us?

**Bala Aghoramurthy:** The yields will of course be different; I am not in a position to share specific numbers around that.

**Aman Vij:** May be you can tell which is the highest one, which is the lower, just the order is not the actual number?

**Bala Aghoramurthy:** The retail cash and carry will be the highest simply because they actually will have much lower volumes to offer, the larger customer will be lowest, because they have higher volume to offer, it is just a question of volume game, it is basic economics that lies.

**Aman Vij:** My second question and the final question is regarding the vision which you have talked about in your presentation of growing greater than the industry close about 15% to 20% range, so what kind of volume growth are we envisaging for the next five years?

**Bala Aghoramurthy:** The industry growth between 15%-18% is what is there, we have already called out, we want to be beating the industry. I would leave it there. I do not want to give further guidance and the number around it.

**Aman Bij:** Just small clarification, in FY2021 have we taken any price hike? Is it mostly volume driven or there is some price factor as well in our growth?



*GATI Limited*  
*November 10, 2020*

**Bala Aghoramurthy:** Combination.

**Aman Bij:** Thank you for the clarification.

**Moderator:** Thank you very much. I will now hand the conference over to Mr. Ravi Jakhar for closing remarks.

**Ravi Jakhar:** Thank you all for joining us on the earnings call and we look forward to be in touch with all of you. Thank you for joining us today.

**Bala Aghoramurthy:** Thank you all.

**Moderator:** Thank you very much. On behalf of GATI Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.