"Gati Limited Q3 FY21Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good day and welcome to Gati Limited Q3 FY21 Earnings 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. I now hand the conference over to Mr. Ravi Jakhar – Chief Strategy Officer, Allcargo Logistics Limited. Thank you and over to you, Mr. Jakhar.

Ravi Jakhar: Thank you and good morning everyone and thank you for joining us on Gati Quarter 3 FY21 Earnings Conference Call. I am Ravi Jakhar – Chief Strategy Officer for Allcargo Logistics and I have with me my colleague Mr. Bala Aghoramurthy – Deputy Managing Director, Gati-KWE and Mr. Rohan Mittal – CFO for the company. I hope all of you are doing well and keeping safe along with your dear ones and colleagues. I also hope that you have had a chance to look at our results and the results presentation which has been uploaded on the stock exchanges at the company website. Over the last quarter we have seen good indication from the microeconomic side, we all have heard about increasing GST collections, automobiles sales have been good, across more sectors that we operate in there has been an optimism and environment of increasing confidence.

Now with the vaccination drive having also initiated we believe that this will only leads to increased confidence which will reflect in consumer spending and hopefully the economic revival which everybody is expecting should continue to be on track. So amidst this environment we on the business side have continued to do our best and to take you further through the numbers I will invite my colleague Rohan and then we can get back to questions and with Bala, Rohan and myself we will be more than happy to answer all the questions and provide information that we can. So over to you Rohan to take us all through the third quarter performance in the financial terms and explain the key outlier. Thank you.

Rohan Mittal: Thanks Ravi and good morning to everybody who has joined. Let me just start with the few updates on the transformation program and then we will touch upon the headline numbers. As we had mentioned during the previous call the transformation program has predominantly revolving around 6 pillars that is sales acceleration, cost control, building the right lean & agile team and digital revamp of a tech architecture, asset monetization to repay debt, tight control on working capital, CAPEX and ensure that we remain free cash flow positive and the ROCE achieves the right target numbers so those are the 6 broad pillars that are working on.

Under the transformation program I am happy to report that we have made progress against all 6 points, console sales is up on a quarter-on-quarter basis, our B2B sales is up on a YoY basis as well pre COVID to COVID level, on a YTD basis our fixed are down by almost 14%, 15%, we continue to make significant upgrades to our tech architecture. For example recently we have just signed up for a new CRM which is amongst the best in the world, we continue to make serious efforts on cost rationalization for example payroll is down on a year-on-year basis, we have moved almost Rs.67 crore worth of assets into asset held for sale these are already getting monetized, the proceeds are expected to come in Q4 or probably some spillover in Q1 and entire proceed will be used for debt repayment term loan, working capital put together, our return on capital has started increasing now in our flagship subsidiary we are already touching 20% ROCE excluding goodwill.

As far as headlines numbers are concerned our total revenue for Q3 FY21 was about Rs.401 crores this was a quarter-on-quarter growth of almost 16.2%, if you deep dive into the results, our flagship B2B express business registered a YoY growth as well of almost 6%. We have maintained our gross margins in Q3 FY21 at about 24.8%. Our EBITDA for the quarter stood at about Rs.25 crores which is slightly higher than the previous quarter, our PBT before exceptional items was about Rs.4.9 crores compared to Rs.1.9 crores in the previous quarter. We booked exceptional book losses of about Rs.20 crores in this quarter which is basically on the asset monetization program that is happening, after exceptional item our PBT is negative.

To reiterate these are one time book losses on the assets which have been moved to asset held per sale. Gross debt at the end of December 2020 stood at about Rs.330 crores out of this gross debt of Rs.330 crores about Rs.25 crores is a short-term liquidity that we have taken for Allcargo the balance is external debt. If we were to exclude the Allcargo short term liquidity infusion than our gross debt is down by 25% on a YoY basis. With this I will hand it back over to Ravi and see if there are any questions around this.

Ravi Jakhar: Thanks Rohan so we already had a long description of our business and now we have had the possibility to connect in three months' time. So these are the updates that we had to share on the quarter performance I think we can get into a more interactive discussion from here on and I am happy to answer the question with our friends may have.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ujwal from Quest Investment. Please go ahead.

Ujwal: So sir if you can throw some light on the core express business if you see the peers like TCI the growth rates are stunning even in terms of margins they are seeing a lot of expansion, so if you can throw some light in terms of growth numbers how we are seeing that panning out over this coming quarters or year, what are we doing to expedite that growth rate and even in terms of margins, if you can talk how our margins have moved because I think QoQ the margins has been more or less flattish kind, so where do we see the core express business margins going from here on?

Bala Aghoramurthy: Firstly, the core B2B business that we have in our GKE subsidiary. Let us look at it in three parts. One is the surface express, then there is an air express and then there is warehousing, the SCM business. The way I want to explain it to you our surface express has taken off, the air express is on the runway awaiting to take off, the SCM business is slightly on the sluggish side. So that is the way we have seen it. When I say surface, express has taken off in the three months of the quarter, we actually had very happy double-digit growth in both October and December. November was a single digit growth. If you look at the composite versus competition and I am not going to comment on any single name, I am saying competition in general. Our top line, our revenue line has actually competitively grown better than the industry itself. So that is from the top line, on the gross margin the way I want to put it, express business is always a balance between customer service and cost and you have to be taking one step in customer service and one step in cost, it has to keep alternating for us to build the healthy business. You are right in calling out that the gross margin has been flattish, but that is because we have strategically chosen the steps to be taken right now what the customers would accept and the cost element is not lost on us, we are very clear about what needs to be done and the next step is going to be in that as well. With this alternate between customer service and cost we are very confident that we will see tremendous improvement going forward as well.

Ujwal: Sir can you give us a rough breakup in terms of surface express, air express and warehousing in terms of what percentage of revenue that would be?

Bala Aghoramurthy: No, we have never done that breakup and you will excuse us from providing that level of breakup. Having said that surface express that is of course the big portion and the vast majority of GKE business.

Ujwal: In terms of warehousing, you did mention it is a bit sluggish so why is that so what is driving it and how do we remediate that?

Bala Aghoramurthy: On the warehousing business we have two kinds of customers one is the large customer who probably has a dedicated warehouse space in a dedicated facility and there are other customers who take distributed warehouse based across the network that we have. So, we did see a little bit of sluggishness on the SME side it is not so much to do with the large KEA (Key Enterprise Account). It is more to see on the SME side, but the confidence that I would like to give you now with Allcargo as a parent company we actually have access to a much larger capability pool on warehousing and SCM. The Allcargo SCM business is five times that of Gati's SCM business. So with such access to capability, we are working to rebuild the Gati warehousing business in a strong manner going forward. When I say sluggishness, I am referring specifically to a little bit of the SME sluggishness that is known to everyone across the board. It is only going to recover over a period of time.

Ujwal: Sir, also can you throw some light on Gati Kausar. Does it need more investments into the business, are we planning to move out of that business because already the balance sheet does not seem to be supportive of the business from here on, so any plans of capital infusion over there or how do we see we taking this business forward?

Rohan Mittal: So you are absolutely right, there are some plans that we are trying to put into action. There are no plans to infuse further capital in the business, we are looking at restructuring the entire balance sheet to take care of the shareholders loan because that is the majority and what is causing stress in the balance sheet today. So we are in active discussions with the shareholders to try and restructure a balance sheet. Due to the stage at which we are not able to share more insights on this right now, but we are confident that some headway should come through in the next few months or so.

Ujwal: But we do continue to look forward for this business so we are positive on the business and we will look to restructure the business and move ahead with this?

Rohan Mittal: So, the business is EBITDA positive and it has been turned around in FY19, FY20 it continues to remain EBITDA positive. In terms of further plans I think the more important thing is to first restructure the balance sheet before we talk about anything else. So, allow us to come out with an official response on that as soon as the discussions are over and then we can talk about the business probably subsequently.

Ujwal: And lastly before I jump back into the queue can you talk about the ecommerce business and how are we positioning over there as against competitors and how do you see per se this business profitable growth over next two, three years can you throw some light please?

Bala Aghoramurthy: So, the ecommerce business offers tremendous potential without any doubt that is the way we see it. Even in our last call we actually said we have reviewed our strategy on ecommerce. We had specifically said we will focus on the larger weight segment the white boards the greater than let us say 7 to 10 kg weight range and that is what we have done. If you see our Q2 to Q3 ecommerce performance, we did 4x between Q2 to Q3 and that was played exactly to a strategy that we called out between ourselves in Q1. We are going to further invest in the direction of large weight segment for sure and we are hoping to gain over a period of next two, three, four quarters in this segment. On the smaller weight segment, we are continuing to engage on what need to be a disruptive play, it will take some time to crystallize and materialize for that to kind of show through in the market but suffice to say for the time being we are very well concentrated on the higher weight segment. The return to profitability is because of our change of strategy to remain focused for a short period of time until full clarity on the rest of the portfolio to remain focus for this short period on the white board and the larger weight segment.

Ujwal: Sir just if you can throw some light in terms of profitability, if smaller weight segment is x profitable so how big or how large is the large weighted segment?

Bala Aghoramurthy: So, you are talking about industry profitability I assume because we are not doing smaller weight segment now. In general, the profitability of the larger weight segment is kind of much better than smaller one unless you are clear on whether it is a play on scale or whether there is any structural disruption you are going to bring on cost terms. So the smaller weight segment definitely offers much lower profitability than the larger one. We are not into the smaller one as we speak today so I am just making a general comment not with reference to that.

Moderator: Thank you. The next question is from the line of Amit Shah from ACE Securities. Please go ahead.

Amit Shah: Sir I have few questions so first would be what is the competition dynamics in the express, ecommerce and warehousing side? Are we gaining market share in these segments?

Bala Aghoramurthy: The market share data, while there are no independent industry market share reports that are done basis our performance and the look at what few people have reported. We do believe we are gaining and have gained market share in Q3 that is our belief, just by looking at numbers of competition and ourselves in express and I am talking about specifically on surface express. Air express of course there is at least two big air freight companies, the Big Daddy in air express. I am talking about surface express I do believe we have gained market share versus competition.

Amit Shah: And on ecommerce as ecommerce, we talked for the year since pandemic hit this country ecommerce is witnessing robust growth even on the logistic space, so sir our growth in line with the market?

Bala Aghoramurthy: Ecommerce again, we have to separate out the large weight segment from the smaller ones. Gati is currently playing only in the larger weight segment we are not playing in the smaller ones. The post COVID growth a lot of it was actually in the smaller weight segment so I think it is unfair to make comparison in area where we do not play. On the larger weight segment in the festival period our customer clientele remained the same as what it was last year. In terms of share actually we are happy about what we have done simply because we have been able to report a more profitable performance as you can see in our Q3 results on ecommerce as well. So our focus has been to not get into a price war with people and do incur losses that has been the way we have played it. In terms of market share large weight segment I am saying the numbers will be comparable as what it was last year.

Amit Shah: Going forward how are you looking at this segment?

Bala Aghoramurthy: So, going forward our intent is to continue to invest and gain in this larger weight segment for sure. The segment itself is very seasonal, there is a higher degree of seasonality in the white goods usually the Q3 quarter is a higher quarter versus the remaining quarter simply because of the sales activation that the lead player makes. Hence subject to the seasonality, but in a competitive manner we do hope to gain as we go forward.

Amit Shah: Sir and my last question as I am aware that we into B2B segment in supply chain business, are we seeing any plans to foray into B2C side?

Bala Aghoramurthy: In supply chain business meaning you mean warehousing and stuff?

Amit Shah: Yes.

Bala Aghoramurthy: So actually, our supply chain business already includes sort center in the SCM business of GKE even though it caters to the ecommerce market because it is a B2B business it already includes thus we are already in the play. We do not do fulfillment center, so we do not do ecommerce warehousing, we do not do ecommerce fulfillment center, but we are very much into ecommerce sort center as Gati.

Moderator: Thank you. The next question is from the line of Dipesh from Equirus. Please go ahead.

Dipesh: Sir firstly just wanted to clarify the segmental breakup that you have on exchange filings so the express business in your standalone business basically means that ecommerce logistics at console level you basically add the Gati KWE and Gati Kauser numbers, is that understanding, correct?

Bala Aghoramurthy: Absolutely right.

Dipesh: So just a follow up on that sir why is your ecommerce numbers such a sharp decline YoY I think you are talking about those small and the larger packages that you were talking about in the last question, but 5% drop YoY and secondly the margins in the ecommerce logistics has sharply improved to like 12% versus a negative number last year versus when I see B2B express business the margins are lower at 4% so like I understand that the B2B business have higher margins, but it is looking the reverse so can you please help me understand that?

Bala Aghoramurthy: Firstly, versus last year our ecommerce portfolio this year is very different. Last year we were playing both in the smaller segment and in the larger segment and we did take a hit while we did not have these investors call last year. I am saying the numbers that we reported you would have seen a loss being reported in some of those quarters on the Gati standalone side. So this year we have deliberately pulled out of the smaller weight segment which were kind of not margin accretive for us. Hence there is a sharp drop in the ecommerce top line business that you see. Having said that the profitability in general I am saying ecommerce going forward what you should expect within Gati we will not do loss making ecommerce business, we will only do what delivers incremental profit for us. On B2B our profit margin in general I did not understand the 4% reference that you have made if you can clarify that I can help a little better. The B2B margins have been flattish like we discussed a little earlier when I say flattish, I am talking about the 7% range and we are working to get that to improve in the quarter that hit.

Dipesh: But your standalone EBIT margins are at 12% which is like mainly the B2C ecommerce logistics and your B2B you are talking about liquidation margins?

Bala Aghoramurthy So let me explain that the standalone includes fuel business which is significant portion of the revenue stream there and also it includes ecommerce so that is what you asked.

Dipesh: No sir I am talking about the segmental ecommerce the EBIT number that you have given Rs.13.8 million on a revenue of Rs.113.8 so that comes around 12% EBIT margin which is very high as compared to your B2B numbers which is you are talking about around 7%, so how come the ecommerce is doing such a high EBIT margin is my question to you?

Bala Aghoramurthy In ecommerce we have carefully picked and chosen what portfolio we want to play in, both in terms of weight segment and also in terms of geographies of play. Last year for example we would have been playing across the country this year we specifically picked location where we think it is both from a service perspective, where customer will be happy and from a cost and profitability perspective, we will be happy. So we carefully picked location by location to see how to play that game and because it was a festival period it goes a lot of advance planning into it. So what you are seeing is a reflection of that advance planning resulting in the P&L and I am happy that you picked that pays up in the manner that you get. On the B2B business it is of course a combination of everything that we are speaking it is surface express, air express, SCM, it is a combination of all of that. We have not called surface by itself separately.

Dipesh: Sir last question basically that our listed peer in the B2B express business has stellar increasing the gross margins now a part of the reason that they highlight is the increase in the tonnage per truck as the venders have increased the size of the containers, so just wanted to understand your thoughts in the same and are you discussing with your venders to increase the container size so that you can also get these margin benefits?

Bala Aghoramurthy: I do want to dissect a competitor performance. Yes, we respect competition we take inspiration from it and we will actually work towards the same. I mentioned before that in Q3 we choose to take the steps on customer service. We said we will hold cost and profitability in that space. Hence, we took the step on customer service if you compare our performance on revenue versus the competition you will see we are definitely a step ahead and that is the reason why I say confidently that we have gained in market share. Now we are equally very carefully and clearly working on the cost side. So they are multiple actions, CFO already mentioned to you about our transformation project. There are multiple actions on that front I do not want to call out one single action where the action that you refer to is part of it or there are literally a 15, 20, 30 different thing that we are working on and we hope to have that reflected in the P&L in the coming quarters.

Moderator: Thank you. The next question is from the line of Chintan Desai from Param Capital. Please go ahead.

Chintan Desai: Sir I have couple of questions one is on the employee expenditure where our employee expenses have increased probably due to the new hires which we planned, so on this just wanted to understand what would be the run rate going ahead and coupled with this can you give us some flavor on the new customer acquisitions and how has been our increased share of wallet among existing customers?

Bala Aghoramurthy: On the employee expenditure I think 9 months into the year we are approximately 15% to 20% lower than our last year. Despite the new hire we will continue to see the 15% to 20% lower than our last year so that is the way you must understand the employees base. At the end of the year, you will see the same 15% to 20% reduction on a year-on-year basis. In terms of customer acquisition and market share a lot of our effort in Q2 was to comeback from the COVID, in Q3 was to expand the business. So we have signed up quite a few new contracts including in the large enterprise accounts and also in the SME accounts. So sizable three-digit number of contracts have been signed up to in the last quarter that is the reason why we are very confident about the revenue buoyancy that we are showing. It is definitely a market share gain even in Q3 and I am confident we will continue to see that pattern play out over the next many quarters.

Chintan Desai: Just last question on other expenditure any onetime cost it is there, or this would be the run rate we would see going ahead?

Rohan Mittal: Are you referring to the exceptional items or are you referring to any other item when you are talking about?

Chintan Desai: Any other items in the other expenditure any onetime cost that you have taken.

Rohan Mittal: Nothing major there were some outstanding legal cases where were completely closed in Q3 so that was also closed. So there is you can assume the run rate that you are now seeing in Q3 as the standard run rate that we will be maintaining. Having said that we continue to work on further cost rationalization in other expenses so it should only stay where it is right now or marginally come down further.

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

Ankit Panchmatia: The question basically pertains to our transformation steps. Could you please throw some light accordingly how or where are we because I believe it was a 15-to-18-month sort of exercise and how are we placed in each of these 6 pillars which we alluded to, it would be much helpful on that?

Rohan Mittal: So as of December, we were almost 40% into the transformation program I think significant progress has been made against the targets that we had internally set for ourselves. This was a cross functional transformation program covering sales, operations, HR, technology, IT, finance, accounts, operation overhead, admin expenses so it covers all aspects of Gati. Some of the important things that we have realized one we have done a sales acceleration focusing on a few segments of clients that were contributing revenue. As I mentioned earlier our B2B surface expressed division has actually recorded a YoY growth Q3 versus Q3 in sales. So that itself is a testimony to the success of the transformation program. Beyond that I think we have been able to maintain a strict cost control on the fixed expenses because that was the starting focus so we have looked at our rental contracts, all our vendor contracts etc., I am talking about indirect expenses over here and we have rationalized cost wherever possible those cost that we have rationalized are now somewhat sustainable so that was the second part. The third part was obviously looking at the productivity at an employee level and therefore there were certain calls that were taken. Also, as we were exciting certain non-profitable businesses like forwarding, etc., we were able to bring down the headcount by virtue of closing these businesses which were not profitable for us. So all that has helped us in rationalizing the payroll as well at the same time we have been able to beef up the senior management team with strong industry hires we have been talking about this in the public media now. Beyond that what we have also done is we have looked at our whole tech architecture and we have identified immediate must wins, one of them was a CRM that we felt is an important requirement for the organization and we have signed up the sales force to go and execute a sales force-based CRM so that is something which is under the works right now. We are also looking at the rest of the elements of our tech architecture because digital transformation is one of the core pillars of this whole program. Beyond that we have also looked at how we were consuming working capital, where all reductions could happen, what kind of assets need to be monetized as I mentioned earlier, we have moved almost Rs.66 crore, Rs.67 crore worth of assets to monetization and we have firm offers against these assets. So all this has actually helped us in bringing a debt down, freeing up free cash flows as well and the return on capital as I said by virtue of all these pillars coming together has improved significantly in our flagship subsidiary. If you have any follow up questions on the points that I have mentioned I am happy to take them up.

Ankit Panchmatia: I believe there need some clarification on the standalone express which we report, so what would that include versus consolidated express division which we report if that clarification would be provided, I think it would have been great?

Rohan Mittal: So our standalone express is our B2C express, our consolidated express I am talking about the segmental results includes B2C and B2B. So if you subtract console from standalone you will be left with a B2B business basically.

Ankit Panchmatia: This includes warehousing as well SCM or pure express?

Rohan Mittal: No, the B2B business is pure express, the B2B business which is console minus standalone includes SCM, the warehousing business.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: I mean on this transformation journey, taking our EBITDA and gaining market share, so when do we really expect that kind of EBITDA that we earlier were doing at entity level we expect to do it?

Rohan Mittal: See the transformation program is only a 15-month journey it will come to an end by October 2021 assuming we do not choose to extend that further. Gati has seen EBITDA of almost 10.5%, 11% in the past. We believe those numbers are achievable and they formed a basis of the investment hypothesis for the whole acquisition from Allcargo. It will take a few quarters to start hitting those numbers you are not able to comment on exact timelines at this point of time.

Bharat Sheth: And sir I mean just gaining market share what we spoke about so where we have already lost some of the market share during the bad period we had, so earlier what was our market share and where we are and how do we really? Second thing for that which are the tools we are using I mean for gaining a market share whether pricing or time services in this case of services vis-a-vis our competitor, so if you can give some color on that?

Bala Aghoramurthy: On market share if you look at the market almost 50% will be unorganized 50% will be organized with five, six large players in express. There is a clear number one which is of course not a listed company in express. Gati is a definite clear number two amongst the organized players. The rest of the players will actually come after us in market share terms. We would, I am actually make a guesstimate and it has no value beyond what I am saying because there is no independent report around this. I do expect Gati to be having a 11%-12% kind of a market share and we will over a period of time aspire to increase its ways further up ahead.

Bharat Sheth: So in that scenario whole B2C with several people adopting supply chain management, transforming the whole thing and some of the new exiting organized player taking a very aggressive stand, gaining market share this is purely by way of service from the unorganized or organized player also is making a very aggressive stand, and second question in terms of technology where are we because I believe that our organized players are much more superior on the technology side?

Bala Aghoramurthy: Of course, the organized players as a group will gain from the unorganized players as a vast majority so organized players will gain. Within the organized player the key competitive differentiator is going to be only two things. One is tech, the second is operation network excellence. There are only these two things very clearly Rohan explained in our transformation project we are in a focused manner with absolute clarity on the last level of projects and activity. We are working to strengthen both of these fronts. We are confident over a period of time I do not want to call out one quarter, two quarter etc, but definitely in the near future you will see a significant improvement in market share of Gati vis-à-vis the organized players, that is confident statement that I would like to give.

Bharat Sheth: So is it again what is the differentiator apart from the network that we are talking and second thing technologically also where they are superior and we are still on investment phase?

Bala Aghoramurthy: On the tech front amongst the organized player Gati will be at the forefront in B2B express, I am specifically calling out B2B express distribution within that on the tech front we will be on the forefront, but we are further taking inspiration from the B2C technology there are many further improvements in B2C space which we are actually adopting into our B2B tech front. So tech as B2B we are ahead and we are hoping to further increase a gap vis-a-vis B2B competition by adopting more of B2C technology in our design. On the operations front it is a combination of capacity, capability and of course excellence culture, it is a combination of these three things. On capacities we are investing, on capability we are kind of strengthening it both by inhouse talent and external talent and the excellence is there for us to see. If the operations excellence were not there, there is no way we could have made the statement of having gained share, these are the competition in Q3 itself and we are hoping to do more of that going ahead.

Bharat Sheth: Sir because you wanted to leverage at these our parent companies' businesses with ourselves and providing less than container cargo business providing end-to-end connectivity from Indian port so where we are in that journey and how much additional changes do we expect out of that?

Bala Aghoramurthy: There is work of synergy business between the parent company and Gati of course the LCL customers that the parent company has as part of the customer franchise, we have already reached out to quite a few of them and the same approach is being followed in any manner even with Japanese customer. So now you can imagine Gati in some ways a melting pot of logistics portfolio you have on one side a parent company Allcargo customer franchise who can be reached in a more impactful manner that is door-to-door space and similarly you actually have the skill set through customer franchise who are setting shop in India and meet the door-to-door. So with that kind of thinking the synergy business is a very core concept in our transformation project itself.

Bharat Sheth: And how do we really see the contribution or size of business that one can look in three years from the synergy, any ballpark or aspirational number?

Bala Aghoramurthy: I am saying year-on-year growth that we are aspiring to is a market beating double digit growth. In that you can assume that about 20% of that incremental growth etc. will continue to come from these synergies.

Bharat Sheth: Which are in B2B business which are the currently which is driving our growth and how many other industries that we look with this hub-and-spoke mode we will be able to add?

Bala Aghoramurthy: In the B2B the various industry segment which is our strength is auto, electronics, apparel, healthcare or pharma, engineering goods, FMCG etc. these are the sectors that we are at present .Even within this sector there is tremendous potential like I mentioned to you our market share is in the early double digit and we are hoping to accelerate that plus we are also looking at newer segment where we have traditionally not been as strong I am talking about areas like medical devices, for example. It is not like Gati has a significant franchise or play in that and similarly many other industries where we do not play as strongly, we do intend to reach out.

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

Abhijit Mitra: Question is first on B2B express so if you can start sharing the volume growth that you see and the price increases or decline that you would have taken in the quarter from here on and secondly also on a broad tonnage basis the kind of growth that you would expect to see from this business over the next two to three years and keeping in mind that there will be a broad notional growth plus you would be aspiring some amount of market share growth as well so some color on these numbers and thought process would be very helpful?

Bala Aghoramurthy: So in our growth around 80% of the delta is coming from volume growth, 20% or thereabout is coming from the price. It is not like the price there is tremendous opportunity to increase that is not the way the market is setup right now although there is an escalation in diesel prices and so on. There is significant competition that exist. So we have been in line with the market on the pricing growth and we have focus on the volume growth to deliver the totality between price and volumes.

Abhijit Mitra: This quarter there has been a volume growth or volume decline?

Bala Aghoramurthy: We have had a very healthy volume growth.

Abhijit Mitra: On the B2B express?

Bala Aghoramurthy: Absolutely, we have had a very healthy volume growth.

Abhijit Mitra: Some sort of thought process over the next couple of years what kind of numbers you are targeting?

Bala Aghoramurthy: I do not want to give any guidance on the next couple of years in the manner that you are asking Abhijit, but I must say the industry is having a 15%-17% growth projection. We are wanting to gain market share; we are looking to actually beat the industry growth with our own growth so that our objective of market share is built into our performance.

Abhijit Mitra: On the B2C express the 12% margins which you mentioned at the beginning so essentially has there been any change in industry characteristics which is allowing you to enjoy this 12% margin or in other words say over you said certain changes you have made in term of your segment that you sort of choose to serve our customers which you choose specifically, was that choice not available before was the competitive intensity much higher in those segments which has sort has changed in the current year, what has led to this 12% if you can explain a bit more?

Bala Aghoramurthy: Let me put it this way the ecommerce industry changes year-on-year in the last five year no year has been the same as the previous year and that is true about this year as well. This year also it is actually different from what it was last year. Now this 12% also must be understood in the context of our very restricted play, had we chosen to play in the full industry segment this is not the way the industry is structured today. It is impossible to get this if you played the full industry unless some dramatic new innovation has brought in. I would leave it there unless there is any follow up question it is only a case of us seeking and choosing so that we do not pick-up loss-making businesses beyond that not any disruptive change.

Moderator: Thank you very much. The next question is from the line of Ujwal from Quest Investments. Please go ahead.

Ujwal: Sir just wanted to know about the asset held under sales so which other asset are we planning to monetize over next say 12, 15, 18 months what would be the total sum, is it on the land side or may be other assets that you all have identified, so in all what amount are we actually seeing that would be monetized over a period of one to three years going forward?

Rohan Mittal: So basically, it is difficult to give a full estimate of the total assets that are likely to be held for sale I can give a broad guidance it will be somewhere around Rs.150 crores to probably Rs. 200 odd crores. Out of these Rs.67 crores worth of assets are where we have firm offers and therefore, they have been moved to asset held for sale. The balance assets are still being explored whether it is the right move to sell one. Two at what price will it make sense to sell, so those discussions are undergoing.

Ujwal: Also sir in terms of or Gati Kausar business starting to dwell again sir this business overall hardly many people are making profits out of it if we look at the bottom line level, so what is your sense of this business now that you all have been seeing a quite closely for few quarters, do you think this business actually has the potential and we should stick on it or probably it will be wise to move out?

Rohan Mittal: So as far as the industry is concerned the cold chain industry per se has seen it years of stress in the past, but as far as the growth is concerned, I think it is possible to make money in this business we are currently EBITDA positive. However, the biggest concern and I am talking at an industry level and this is not specific to Kausar. The biggest concern has to build a business of scale. Even the largest operator in this business would not be commanding probably even 10% of the market and I think that is something which remains a bit of a concern as to how to consolidate the business because that brings a lot of negotiation power to the table. So I think that is something which the sector has not been able to do for various reasons, but the business does have its own merits and potential. I will request Bala to speak further on this.

Bala Aghoramurthy: So the cold chain business as an industry it holds potential there is no doubt world over the cold chain business makes money. Now the issue that we are faced within the industry has got two aspects to it. One is that capital intensity of it especially when it comes to old warehouses and so on of course even the reefer truck, but I am just calling it capital intensity. The second is the seasonality and the combination of these two, the pricing is I am saying yo-yo affect right through the year. It is in order to beat at Gati Kausar we said we will try to replicate in Gati Kausar, the concept of express distribution in the cold chain and we see that as a way to beat the seasonality and so on because you will then not be dependent on a 1-1 contract about just placing FTL trucks and so on. So the concept of express in cold chain is a very novel concept I do not think anybody has got that right, nobody has got that right whether we just thank to do that I did it a little ahead of time. It did not come out as well that is why after our investment in Dharuhera we actually pulled back and we put a hold on further investment because we saw that the market was not ready for that kind of a concept. Our intent was to create almost a network of 10 cold stores and to replicate the express distribution model which we see as a sustainable group to profit in the industry. What we will do going forward actually that depends. Our current focus is to restructure the capital structure in the company I am saying only as we do that can any future step be taken. As a result, our focus right now is of course to hold the business and retain presence & share in the market that is one aspect of it. In parallel the bigger aspect is to actually do the capital restructuring that the business require. Once we cross this hurdle we would then be able to speak a lot more elaborately it is not like it does not have potential, but we should be careful on capital intensity and seasonality leading to price fluctuations to the year.

Ujwal: Also wanted your views on the margins you just laid out a roadmap as to when we probably will reach the 10%, 12% kind of margin range if you can allude to we already know our past two quarters and you have shared your views so what call will be required to achieve that kind of margins and where are we right now in terms of the steps that the company has taken?

Bala Aghoramurthy: So let me say as followed you should expect Q4 margins to be better than Q3. I am saying that as I am not revealing any secret, I am just saying there is a nature of the market we have seen that over the year. Having said that the structural improvement in the market sustained at double digit level that is going to be a few quarters of work I am saying it is one thing to say or call out a number today and then keep giving reasons around that number. I am happier to do it the way we are doing we do not want to call out a quarter in which we will deliver the double-digit number but suffice to say it should happen in the course of next three, four, five, six, eight quarters, you just take it in we are not talking long term we are talking short term, but you will see an improvement of Q4.

Ujwal: If you can just give a roadmap in terms of the steps what will actually drive this because at one point we would be eying the market share as well and you know the growth and at the same time we are also expecting the margins to move forward, so achieving both simultaneously is going to be a tedious task, so just wanted to understand this margin growth or margin expansion how is the company going to achieve the same may be over next 8 quarters, if you can just play a roadmap to us?

Bala Aghoramurthy: So the ingredients is what you are asking. Ingredients to let me call out as follows: there is of course a sales acceleration build into it because that will give us the fixed cost leverage that is one part of it linked to that the fixed cost controls that we have already done improve productivity of people and cost efficiency and overheads, etc., so that is a second big ingredients. Third is on the direct cost we have already taken a lot of steps. Our utilization of the truck fleet etc. in general are about 3, 4, 5 points improving almost quarter-on-quarter and we are somewhere in the mid-80s right now I am saying we will look at those kinds of efforts in the direct cost as well to see how to improve the margin I am saying these are the ingredients sales acceleration, fixed cost leverage and direct cost improvement to truck utilization.

Ujwal: Lastly question to Rohan in the notes to accounts we have been mentioning a lot of amount yet to be received be it from that Air India part or other, so where do we stand right now what is the total sum that could possibly come in and any write off that can the company take in Q4 instead are we seeing any of those kinds happening just wanted your view on those receivable and possible write off?

Rohan Mittal: So the only receivable is from certain companies who were vendors to Gati or its subsidiaries and this money was extended as an advance to these companies that is the only receivable due. The total amount is about Rs. 22 crores put together I am rounding up number for sake of ease. We are in discussion with those respective parties who owe Gati back that money, memorandum of understanding has been signed and a repayment plan kicks in from April 2021. As far as the Air India case is concerned the money was already credited to Gati as part of a court procedure, there was a subsequent appeal that has been filed by Air India and that is what is currently under hearing. There is no further money to be received from Air India against that Gati is already had a favorable ruling on that case in the past.

Ujwal: And all the amounts to be received from the erstwhile promoters and all that is now clear off and we do not see any write off coming in Q4 on account of any of the matters pertaining to the erstwhile promoters?

Rohan Mittal: So the Rs.22 crores that I just called out is advance given to the erstwhile promoters related companies this is pre acquisition and that is what we are now chasing to get back. Apart from this there was an excess remuneration that was to be recovered from the erstwhile promoter as per companies act that money has been recovered in entirety. It has not been reported in Q3 because the money has been recovered in the month of January 2021, but that money has been recovered in entirety.

Ujwal: Lastly any thoughts why that one of the remunerations I think around Rs. 4 odd crores was waved off?

Rohan Mittal: This is under the ambit of the shareholders the excess remuneration was actually not from Gati, but from the subsidiary and given the market conditions under which the remuneration was coming out as excessive given the universal market conditions at that time. It was prevailed upon by the board members and the shareholders that this is not something which is attributable directly to the erstwhile promoter in his managing capacity. So that is the shareholder call that has been recorded basically. It was the conditional waiver the condition was that the excess remuneration for the previous year has to be recovered in entirety otherwise the waiver would not have been applicable.

Moderator: Thank you very much. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: I mean to understand in B2B segment auto contributes how much to our top line?

Bala Aghoramurthy: Actually, auto is a big sector for us for sure. In general, I am saying there are five, six, seven sectors each of them will be in the 10% to 15% range. It is not like one single sector is overwhelming in our portfolio that is not the way it is.

Bharat Sheth: I mean are we seeing any because of slowdown auto is seeing us some slowdown not because of demand or something, but as this non availability of semiconductor so whole supply chain is getting little disrupted, so do we expect that can impact us and typically as you rightly said Q4 is highest quarter for everyone and that will lead to an improvement in EBITDA margin, so are we seeing a much that will offset by other large segments?

Bala Aghoramurthy: The semiconductor reference that you make in auto is all relevant for new cars being made. Gati is not in the business of the final car's movement. We are in the business of spares movement so it is not like there is going to be any spill over and in fact if new cars do not get made then the existing cars in the market will need more and more spares so Gati will not be affected by that in any real sense.

Bharat Sheth: You said on earlier participant that in Q4 margin will be much better over Q3 because Q4 is a peak season for every player?

Bala Aghoramurthy: That is correct.

Bharat Sheth: Which are the segments that areexpected to grow much faster from here onwards for our underlying customers?

Bala Aghoramurthy: In Q4 you normally see a secular across the industry kind of a list I am saying there has been the trend over the last almost 5, 10 years it is not like one particular industry grows more than the rest. You see a secular improvement across this.

Moderator: Thank you very much. As there are no further questions, I will now hand the conference over to Mr. Ravi Jakhar for closing comments.

Ravi Jakhar: Thank you very much. We will continue to be in touch with you through our Earnings Call. There is also hope that in the next couple of months we will see vaccination drive moving forward I hope you have more opportunities, and the business has gathered some momentum over the last three, four months and we hope that the same continues and the management team is actually committed towards that. So thank you for your support and participation in today's call. Thank you.

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