



“GATI Limited Q4 FY2021 Earnings Conference Call”

May 27, 2021

Disclaimer:

This document is subject to errors and may or may not contain words which have been included / omitted due to human error while transcribing the conference call. Any and all information should be verified with the company by the reader.



ANALYST: MR. ABHIJIT MITRA –ICICI SECURITIES

**MANAGEMENT: MR. BALA AGHORAMURTHY – DEPUTY MANAGING
DIRECTOR – GATI KWE
MR. RAVI JAKHAR – CHIEF STRATEGY OFFICER
MR. ROHAN MITTAL – CFO & CTO – GATI LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY2021 earnings Conference Call of GATI Limited hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijit Mitra. Thank you and over to you Sir!

Abhijit Mitra: Thanks, operator and welcome to all the participants. We have GATI management with us to discuss Q4 FY2021 results. Representing the management, we have Mr. Bala Aghoramurthy - Deputy Managing Director for GATI-KWE, Mr. Ravi Jakhar - Chief Strategy Officer, and Mr. Rohan Mittal – CFO and CTO of GATI Limited. So, without further ado, I hand it over to Mr. Ravi for his opening remarks. Over to you Mr. Ravi!

Ravi Jakhar: Thank you Abhijit. Good afternoon everyone and thank you for joining us on GATI Limited Q4 and FY2021 Earnings Conference Call. I am Ravi Jakhar and I have with me my colleagues, Bala and Rohan as Abhijit mentioned and along with our Investor Relation Advisors team from SGA. I trust all of you and your dear ones and colleagues are well and keeping safe in these challenging times. I also hope you 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 with, I would request my colleague Bala to brief everyone about the business. Over to you Bala!

Bala Aghoramurthy: Thank you Ravi and good evening to all the participants on the call. This is Bala Aghoramurthy here. I will spend a few minutes explaining the Q4 performance etc., without getting into the last bit of detail on numbers, this time we would prefer to actually give more time for questions and answers, so I will spend few minutes, nonetheless.

Firstly, I realize that Q4 in some ways was the best quarter for all of us. We have been making many promises, we have been making many confident statements about the transformation journey that we have been undertaking in the last 6 months to 8 months. Q4 in that sense was the best quarter and I am happy to say, we are quite happy about the end results that we delivered in Q4. Just to give a glance, the GKE business which is about 99% of GATI’s business and operations, the GKE business actually clocked about 27% growth in Q4FY21 over Q4FY20. I know it is easy to refer to the base effect in this, even the base effect removed this 27% will be a very healthy 16%-17% growth. With the base effect

advantage, we did 27% and also even this growth was actually after shedding part of the portfolio, we had a product called M-VAT which was the Value-Added Transportation product and we had discontinued that about two quarters back, so the last year Q4 actually contained this product of about Rs. 25 crores in our base even with all this included, we still grew by 27% growth in the new Q4, so on the revenue front, we have done very well. We are quite happy about it. I am sure this is kind direction that was expected of us as well. We also improved our gross profit in Q4FY21 over Q4FY20, we improved by near 160 basis points to have gross profit of 30% odd. There has been a tremendous amount of control in our fixed cost. It is important for all the investors to kind of delayer, the many layers of data which are hiding the fixed cost performance. There are many one-time provisions, or one-time expenses which have been booked into this quarter for good and right reasons. If you actually normalize all of that and took that out, the fixed cost have shown a tremendous improvement quarter-on-quarter in the last three quarters to four quarters, good way to see it is just to average out the annual one and equally divided between four quarters to get the real impact of what we have done. Even this would be a conservative estimate, so the gross profit, the fixed cost all of this has moved in the right direction and while the reported EBITDA is what it is because of the one-time cost etc., that we have booked. The real underlying EBITDA, I am happy to say we have now seen in the 8.5%, if you would recall two years back, it used to be always average around 6%, so there has been a significant positive trajectory on the EBITDA front, the all-round across the business, across the operations I think there has been a significant improvement and as seen in the Q4 numbers. The Q4 in that sense is good. Just also to point out Q4FY21 as a market was a near normal business environment market. I know that the COVID second wave had started showing its head in parts of geography like Maharashtra, Delhi and Uttarakhand etc., in March itself, but the impact on the business environment, I would call it out as a sub 5% may be 1%-2% and that always happens in any quarter something or the other it is always happening, thus Q4 we see that business environment which was at near normal as it would have been and in such a situation, we have done really well, of course the COVID took a very, very dramatic turn thereafter in April and we will speak about that in the next call may be but in Q4 we have done really well in that sense.

The rest of the business, we only have a small business beyond the GKE business which is e-commerce. It continues at the thin level model that we were working on. We are looking to invest more time and energy in clarifying and re-participating in e-commerce in the right manner as time passes by, as it stands the e-commerce between Q3FY21 and Q4FY21 is actually very similar in nature given that Q3FY21 was actually the festival quarter for e-commerce and Q4FY21 is a normal quarter, so that is broad business summary.

GATI Limited
May 27, 2021

I am going to hand it over back to Ravi and once you hear all the numbers and more commentary, happy to take any questions and give answer that will satisfy you to the maximum extent possible. Thank you. Over to you Ravi.

Ravi Jakhar:

Thanks, Bala. It has been almost a year since Allcargo took the promoters management role in GATI Limited. It has been four quarters of transformation & growth and I would say that as shareholders and management everybody feel satisfied with the growth that has been achieved and there is an ambition to continue this growth path and continue on this transformation journey .The promoters have also continued to express their commitments to stand behind GATI and facilitate the growth, In this regard there was an update recently issued by the company regarding issuance of preference equity as well as in terms of equity shares as well as equity warrants aggregating to a total amount of approximately Rs. 10 Crores in equity shares and approximately Rs. 70 Crores in equity warrants. So, these are the proceeds, which will be used to fund the continued growth journey in GATI. Apart from this, one of the key things that we will be focusing on is to ensure that the company's growth is also built on strong foundations and there has been a huge focus on driving risk governance, tax governance, bringing focus on systems & processes .The entire governance initiative have been spearheaded by the Board of Directors at both GATI and the subsidiary GATI KWE wherein we have had many experts joining the board, who can continue to provide their guidance to the company management in improving the governance and the business performance. The company has also taken significant initiatives towards digital transformation, there has been efforts to digitize call center, improve the customer portal which has been revamped along with WhatsApp bot services, we have also partnered with payment gateways to facilitate digital payment solutions and there has been a huge focus on leveraging data analytics, AI tools to enhance customer experience, reduced turnaround time and bring about cost efficiency in different areas of business. So, GATI is transforming with a significant focus on digital journey as well. We have been speaking about the cross sell opportunity as an integrated logistics between Allcargo and GATI and we have seen over the last quarter or so, that baby steps have been taken in this direction, they have been leads which have been generated from in various combinations of businesses .I would say may be at least 100 odd leads have been generated and this is only the beginning, we expect there is more potential in offering integrated services as well as for cross selling opportunities to benefit both the companies. However, what has truly been stand out to driver of growth has been the whole transformation initiatives which have been taken up and there has been a significant amount of initiative as well as impact which is visible through these transformation initiatives. I would hand over to my colleague Rohan to talk more about the transformation initiatives and the impact. Over to you Rohan!

Rohan Mittal:

Thanks Ravi. Good afternoon, good evening to everybody who has joined. We spoke about this in the previous calls as well and I am trying to continue the thread from the previous the call. The focus always has been that express and e-commerce logistics is what we really want to focus on, that is the core business of GATI, whether it is done in GATI standalone or subsidiary that is separate point but that is the core business really for GATI. Keeping that in mind, we have been trying to trim the number of subsidiaries or businesses that the company really operates in and two days ago we have announced the intend to sell what is in Kausar. We hold about 70% state in the GATI Kausar which is our Cold Chain subsidiary. The balance 30% is held by one of the leading private equities, Mandala Capital, Mandala has agreed to buy the 70% in GATI Kausar and we will try and close this transaction in the next 20 days to 25 days. The numbers change because of this transaction is not reflected in the FY2021 numbers that have been released and this will be visible in Q1-Q2 numbers, but with this almost Rs. 100 Crores of debt will go away from the consolidated balance sheet of GATI, also it will allow us to focus on the core business of e-commerce while GATI Kausar can be taken to true potential with Mandala. Beyond this what we are also doing is amongst the balance subsidiaries we had sold one of the subsidiary in Q2. Out of the balance subsidiaries one company had operations which was running till about August last year, since then we have been winding down the contracts, this is GATI import-export. We are happy to report that all the four balance subsidiaries GATI Import-Export, GATI logistics park, GATI Project and Zen Cargo, we are trying to figure out the right means to digest out of these companies or bring them directly into the GATI umbrella instead of having a subsidiary structure.

On the balance asset side, fuel station is one of the business which remains non-core to us. It is a profitable business, but it is a non-core business. Happy to report that we have got some Term Sheets, there is strong interest from the market to acquire this business as going concern and we are confident will be able to conclude this transaction well in this financial year. Further, the focus has been on debt reduction, I think we have been talking about this for quite some time. Again, I am happy to report that as of FY2021, we had reduced the debt from about Rs. 411 Crores previous years to almost Rs. 189 Crores excluding the Kausar debt which was getting consolidated. With Kausar debt, it was Rs. 280 Crores, these are as of March 31, 2021 numbers. With the Kausar sale, our actual gross debt has come down to almost Rs. 180 Crores as of yesterday which is more than a 55% reduction over the last 12 months. Not only will this help us realize more shareholders or stakeholder value but also our finance cost has come down significantly because of all these initiatives. Part of the reason why we have been able to accomplish this sharp reduction in debt is beyond the Kausar sale is also because we have been successful in selling few properties which are non-core assets housed under GATI standalone, we have realized almost Rs. 60 Crores cash

inflow during FY2021 by way of property sale and we have used that also to trim debt further. Overall, we have realized net cash flow from operations of about Rs. 49 Crores as of March 31, 2021 which was a sharp jump from the previous year's same period. We close the year with cash in cash equivalent of about Rs. 42 Crores. We have also taken advantage of the Tax Amnesty Scheme and happy to report that our contingent liability has been sharply reduced by almost Rs. 122 Crores. The total payout that we have planned is about Rs. 35 Crores out of it Rs. 13 has already been done, the balance Rs. 22 will be done in FY2022, it has been taken into account in FY2021. GKEPL performance remains extremely, extremely crucial for us because that is where our entire export business resides. As Bala has already explained Q4FY21 was remarkable milestone for the organization as a whole. We have grown market share, we have delivered a very high sales growth, we have trimmed cost at all levels. We believe that this is a sustainable momentum which as a transformation program continues should be able to sustain over the next few quarters as well and take us to the market leadership position that we are really aspiring for. Overall, our intend is very simple that we want to gain market share over the next few quarters, we want to reduce debt outside GKE to zero, within GKE also we want to only restrict our sales to working capital because that was required for the business that also to the extent of asset sale can be reduced, we will reduce within the next few quarters. That is the broad intend really for us over here. I am going to take a pause here. Ravi, over to you.

Ravi Jakhar: Thanks Rohan for all the updates as Bala said maybe we can have more time for the Q&A, so I will open the floor for the questions and answers.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Sriram Rajaram from Ratna Traya Capital. Please go ahead.

Shriram: Referring to slide #19 there is surface express distribution and so this is the revenue for the KWE entity?

Rohan Mittal: This is not the entire revenue of GKE. This is only the surface express. There are three broad business lines in GKE, surface express, air express and contract logistics or supply chain, all in all put together will qualify as total GKE revenue. The 300 Crores number that you are seeing on slide #19 is only the revenue from surface express, it does not include air and supply chain.

Shriram: Okay, can you give the revenue and EBITDA for the full year and quarter for KWE?

- Rohan Mittal:** The Q4FY21 revenue for GKE is Rs. 323 Crores. Against that the reported EBITDA is about Rs. 13 Crores.
- Shriram:** That excludes the other income, right?
- Rohan Mittal:** No, that is after other income, however, in that other income one-time expense is provisions etc., if you were to remove that then the Q4FY21 EBITDA will be around Rs. 27 Crores which is about 8.4% EBITDA percentage.
- Shriram:** For full year?
- Rohan Mittal:** For full year, the total revenue is about Rs. 1,016 Crores for the full year without normalizing for the COVID impact in Q1, these are the actual numbers against Rs. 1,016 Crores, the reported EBITDA is close to about Rs. 42 Crores approximately and again if you were to add back the one-time provision then the number would look very different. Normalized numbers which is H2FY21 numbers for GKEPL, H2FY21 numbers were GKEPL into two, we are looking at significantly higher numbers because H1FY21 performance obviously the industry as a whole was also down and the transformation program, all the efforts of the team came together in terms of tangible results really in H2FY21.
- Shriram:** Okay, just one last question, the Rs. 160 Crores assets sale in the books, what was the nature of the asset?
- Rohan Mittal:** This is almost entirely land and buildings..
- Shriram:** And we are expecting that to conclude by this year?
- Rohan Mittal:** No, COVID has had an impact on the number of transactions that are happening in land and building, last year we have sold property worth about Rs. 60 Crores and rounding up numbers for sake. This year our intent is that all in all put together another Rs. 50 Crores worth of asset sales should materialize, approximately.
- Shriram:** Thanks, that is helpful. I will join back in the queue.
- Moderator:** Thank you very much. We have the next question from the line of Sarthak Goel from Care Ratings. Please go ahead.

Sarthak Goel: Sir, regarding the diminution of asset value, the nature of the transaction, is it non-cash only?

Rohan Mittal: Yes, the entire diminution is non-cash and non-recurring, I would like to clarify both the points.

Sarthak Goel: Okay, so our cash accruals are including the total profit, that is the loss plus this non-cash, we can tell?

Rohan Mittal: Yes, so cash accrual will be actually cash profit plus the sale proceeds that have realized because we have sold assets worth almost Rs. 56 Crores as I said, so that also we might want to include in the gross cash accruals.

Sarthak Goel: Okay Sir, thank you.

Moderator: Thank you very much. We have a next question from the line of Rahul Soni from SMIFS Limited. Please go ahead.

Rahul Soni: Thanks for the opportunity, I would like to know what is the current market size on the express logistics and surface logistics and what is your current market share and what is your target in the next two years?

Bala Aghoramurthy: The total market size in express logistic, it is of course based on industry report. The number will be close to about Rs. 25,000 crores but you must understand this number correctly, this includes surface, it includes air, it includes e-commerce, it includes B2B, it includes domestic, and it equally includes what is moving in from outside. The organized industry will only be around 50% in B2B, the remaining B2B is unorganized. The B2C is almost entirely organized, we do not see as much in B2C as unorganized. What is our market share, our market share we are approximately around 7% to 8%, in fact we have seen a gain of near 100 basis points in the course of Q3FY21 and Q4FY21 and our entire strategy is to actually build back market share very sharply, we do want to get into a double digit number very soon, our plans for next year are build around getting almost 50% growth in market share in the course of next year. I am speaking about market share and not so much about revenue, I am just conscious that the COVID thing is a kind of a little confusing about even it comes to absolute number. So, market share 7% to 8% and we are looking at literally increasing it by 50% in the course of next 12 months to 18 months.

Rahul Soni: Okay. Thank you. That it from my side.

Moderator: Thank you very much. The next question is from the line of Manish, an individual investor. Please go ahead.

Manish: My question was regarding the GATI KWE, earlier we used to operate with the asset heavy model and now we are looking towards probably asset light model, so what are the changes total we are going to do in GATI KWE and how do this see GATI KWE may be next three years to five years down the line? Thank you.

Bala Aghoramurthy: GATI KWE was always an asset light model. 95% of the business was being done through insource business partner fleet. We used to maintain a small fleet of around 400 trucks etc., even that we have given up during the course of this year or at least majority of that has been given up about 270 to 280 has been given up. What we are left with this only 100, it is our intend to give up those 100 odd as well. So, it has always been asset light, what do we expect in GKE in the next five years, we expect GKE to come back to a very dominant market position. At one time we probably were 12%-13% market share. We want to get to that point at the earliest let us say 12 months – 18 months kind of timeframe and we do have every intent to compete very strongly in the market against all the existing players and so on and so it is a lot of aggression that is build in. I am not going to get into numbers on revenue etc., suffice to say we want to be a very dominant player and regain our earlier primary spot that we used to occupy.

Manish: Any idea what will be our strategy if you want to discuss or if you want to probably share?

Bala Aghoramurthy: Sure, I am saying first the strategy is not a one-time event for five years, strategy is an evolving thing. As we have operated in the transformation project, a lot of focus has been passing from the customer side and we have done very, very sharp in calling out different customer segment, the large enterprise account, the small and medium enterprise account and of course the cash and carry market. I must say we have made significant progress in the key enterprise accounts. The cash and carry market have actually been very supportive, this year gone by the SME market was actually affected by the pandemic and I think it will take a little bit of time to recover even because there has been 2nd wave and suspected 3rd wave etc., having said that we will focus across the board. We are also sharpening the way we are looking as industry vertical whether it is auto, whether it is apparel, pharma, etc., we are also sharpening the way that we are operating on the front. We are also looking at tapping into, as Ravi in his earlier remarks referred to significant cross sell potential between our parent company Allcargo customer and our own customer base, so we are going to be doing a lot of these kinds of things to continuously build on the customer franchise that we have, so that is on the customer side. Of course, the whole thing has to be supported with investments there is need for network capacity this actually calls for

investments in hub, we are already in fact even the last call we shared that we are in the midst of significant investment to improve five of our hub, the last hub investment that GATI did was almost three years back, after a gap of three years, we are now once again back into a significant investment in hub capacity, hub automation. The first one that is likely to come off is actually in Delhi in Farooq Nagar which is already significant work in progress, and we will see three-four more during the course of this calendar year itself. So, with this capacity augmentation of the hub of course parallel increase in the vendor base on the vehicle fleet etc., and the sharpness of customer focus industry vertical that is our broad strategy to top into the potential.

Manish: Thank you Sir.

Moderator: Thank you very much. The next question is from the line of Arun Kumar from Catalyst Corporate Service. Please go ahead.

Arun Kumar: Good afternoon, first of all very happy to hear that debt has come down to 50%. So, my question on those lines. When I read the results, the total liability was we are showing it somewhere around Rs. 600 plus Crores, so having understood that the total liability now the debt has come down for around Rs. 160 crores as per you in this call, where is the remaining amount coming from in the liabilities?

Rohan Mittal: Total debt in the consolidated books as on March 31 will reflect at close to about Rs. 285 – 295, let us say close to about 300 Crores, there are some current liabilities to the extent of the Tax Amnesty Scheme payments and few of the payments that we carry in our books, that will be close to another Rs. 50 Crores to 60 Crores, further as per Ind-As, the rent treatment as per Ind-As 115, it is no longer just a P&L item, there is a balance sheet asset and liability also which gets created. Suffice to say that the total borrowings, any and every kind of borrowing that can be added at a consolidated gross level, was capped at about Rs. 285 odd Crores out of the total liability that you are seeing in the books. I am saying current and non-current all borrowings put together, bill discounting etc., everything put together. That is the number really that we are talking about, that we have to meet and there will always be some trade payables etc., which are reflecting in the books

Arun Kumar: Thank you.

Moderator: Thank you very much. We have a next question from the line of Vikas Kathari from Aviral Consulting. Please go ahead.

GATI Limited
May 27, 2021

Vikas Khatri: Good evening everybody, congratulations to team GATI for good performance. My question is that regarding surface expertise, what is the growth rate of industry vis-à-vis GATI growth rate if I check three years CAGR and today as a differential between number one and number two in surface express is significant, how much years GATI will take to regain its number one position again in the market and other question is related to KWE business is GATI having any plans to enter to the air sector business to take on Blue Dart?

Bala Aghoramurthy: Hi! Good to hear your voice on this call Vikas, hope you are doing fine. So, let me explain firstly of course the number one player in the market is Safe Express, it is almost double the size, maybe I am exaggerating little bit it is maybe 1.8 times, that is the kind of size difference between what we are in GKE what it is in Safe Express, I think very-very good competitor by all accounts. Having said that the way to look at this is not CAGR that is actually the way I would put it is the passive ununique way of looking at it. The nature of our business is that if you get many people right it is possible for a company to add Rs. .300 Crores – Rs. 500 Crores in a year. If you play the game in a normal manner, you possibly will add Rs. 100 Crores in year, so it is not like any other business where things are actually in a linear progression in that sense. So, our ambition, our intent, our work in transformation all of it is aimed at regaining that leadership, I do not want to call out dates as this is not a way, our intent of getting more customer focus, if the customer see us delivering the right value they will come. So, that is the way to understand, this not in an ununique passive linear regression means we are doing our very best, for example I am saying if we have 20 odd hubs in the country, 5 of them we are investing to literally double and have automation come in a significant manner etc., there is a deep thinking and these are going to be coming up in all the metro places, it is Delhi, Bombay, Bangalore and so on. So, that is the way to understand this. The second question that you asked was about air, GATI is of course there in air business and I must call out air business is not doing as great today and not for reasons within GATI, but because the passenger movement in the airlines itself has stopped and hence the fleet that is in operation for passenger airlines is only about 35% - 40% as we see today and it seems to be picking up somewhere in October – November – December and then again I am saying by the time it was March we kind of started seeing a flattening back on that front. So, we are dependent on airlines operations, we are in the game there is no doubt. We will never be able to compete with the player who has invested in fleet of aircraft, we believe in an asset light model, we are never going to invest in aircraft in that manner. Having said that, we think air express as a significant tussle of the surface express and we do intend to maximize the potential in air, we have good ambition on that just like in the state of surface. But this question possibly will get better answered maybe in one quarter or two quarters as the pandemic subsides a little bit and you get see what are we doing in air.

- Vikas Khatri:** Okay.
- Ravi Jakhar:** Bala just to add on that even on the industry as well the pandemic has skewed quite a few numbers and beginning in the context of GATI it is important to recognize that the whole transformation journey with the change in management has only happened about a year ago. There has been remarkable difference which means the growth rates of industry vis-à-vis GATI in the trial period and how it has been shaping up since the transformation. So, to that extent the 3-year number may not also be that relevant. Thank you.
- Bala Aghoramurthy:** The disruptive transformation.
- Ravi Jakhar:** Yes, absolutely.
- Moderator:** Thank you. We have the next question is from the line of Avadhoot Joshi from Newberry Capitals. Please go ahead.
- Avadhoot Joshi:** I have two questions, first I would like to know about how e-commerce is doing because earlier we wanted to enter into white goods because it is a profitable business and we wanted to have a major exposure to white goods movement. I would like to know in Q4 how it has performed and any further initiatives we are going to take into e-commerce business that is one. Second, I would like to have a B2B and B2C split of surface express and when we say about gaining market share where we are looking into B2B I think majorly and whether it will be focused on SME or other businesses like pharma or other verticals? Thank you.
- Bala Aghoramurthy:** Okay, the first question that you asked about e-commerce how did it do in Q4 right?
- Avadhoot Joshi:** Yes
- Bala Aghoramurthy:** Okay, so e-commerce like I said in the opening comment it is not a great story to speak about, whether in Q3 and Q4 the business has been more or less flat for us. We are still in the same mode of being significant player in the white goods category as you are aware with all this that is going on right now the white goods portion itself on e-commerce has actually come down quite a bit, it is not like people are kind of buying their refrigerators and television sets and washing machines by the hovered price now at least not in the last five months to six months when there was peak, when there was a promotion there was an incentive for the consumer demand into peak thereafter it is kind of flattened off. Our strategy right now as the speak continues to be on the higher base segment however, our effort is to increase the customer base that we work with, so we are going to be looking

beyond biggest of course the biggest will always be the big brothers in the industry. Having said that there is a significant market beyond it is also looking for services from companies like us, so that is where we are kind of focusing to expand our customer base and as the market turns and as that leads white goods pick up it will be significant. This is not to suggest that we have given up our interest in further expansion, that calls for a deep thinking and the right solutions being designed before this happens to it, so we do have that in radar, but current place is fixed to the white goods. The second part of the question that you have asked was actually about within surface express, B2B, B2C and so on, let me tell you if you can take it that 99% of our business is B2B it is a small B2B as it stands today, I am just oversimplifying only for easier understanding maybe the 99% is 98% and so on, so that is the way.

Avadhoot Joshi: Okay, one other thing if this B2B contracts how have they shaped up inline with the fuel cost I would like to know with the customers?

Bala Aghoramurthy: The fuel costs is actually built into our contract, there is diesel price matrix with kind of both up and down with diesel price, of course in the last 9 months it is only going up and down especially with the beginning of the calendar year. So, our diesel price that is the base freight and of course there is a further fluctuation, variability that as it happens in the diesel price that is getting translated into our pricing as well to customers.

Avadhoot Joshi: Okay, if I get it correctly it is a pass-through mechanism?

Bala Aghoramurthy: It is a pass-through mechanism to customers and equally I am saying there is an impact on the vendor side, even there it will be a pass through.

Avadhoot Joshi: Absolutely. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Balaji from Tiger Capital. Please go ahead.

Balaji: The question that I had, two parts if you could talk a little bit about the outcomes, I believe GATI had actually appointed turnaround expert trainer consulting firm Alvarez & Marshall earlier if you could talk a little bit about the outcomes of that and if you could also talk a little bit about the digitization drive that is actually happening, where we are expecting operational gains, if you could touch upon both those aspects?

Bala Aghoramurthy: The transformation is a 360 degrees transformation, it is focused on the sales pillar, different sharp focus on the operational side, digitalization & IP, there is people piece of work that is happening, finance transformation. So, it is not restricted to one function it is an

organizational transformation sort of to speak. The outcome actually of course we have a list of near about 200 projects across all these pillars. We have made very-very good progress almost would say 60% of the projects have gotten completed from our original definition that we had about ten months back. The remaining 40% of the projects are still in progress, the period of this transformation is until October of this year, it started in July last year. Given that we have actually moved substantially, we are continuing to explore ways of how to take that transformation, this is not a one-time event for us, it was meant to be a launch pad where we are able to do many things simultaneously to make big impact and big process. So, having achieved that purpose across all of these pillars we are also looking at ways of institutionalizing the gains, the learnings, the investments and the SOP's. On the digitalization front, I must say there is a commitment which has already been made, we are investing in sales force CRM it is under implementation. This will significantly change the way GATI actually manages the customer base. We have a vast customer base almost about 3,000 odd credit customers and then we have a large tail of cash and carry customers which is another near 15,000. We do have an existing system, but what sales force CRM offers is real time basis and a single source of route basis and a this is very-very useful in engaging with the customers. So, sales CRM is a very big intervention that is happening, there are other interventions which are also planned for example we have already done a GINEE app, the track and trace app with WhatsApp that was launched about six months back. Sales force CRM, WhatsApp bot and many other projects which are planned I will give you an example, data analysis in general while we are very happy and proud about our ability to read the cost and the prices and what is happening in the market, I think data science brings a very-very different flavour to it. We are committed as part of the transformation project to also invest in this space so that we make our pricing decisions more data driven, we make our other engagements more data driven so that is some process which has just got initiated this was in the remaining 40%, about 60% is kind of already done and completed. What we are currently working on is in this space, we are also looking at other aspects on how to manage stake holders whether it is vendors, whether it is ground operations partner, how do you make the interface between any two stake holders whether it is customer to GATI or a vendor to GATI etc., how do you make these interfaces, so that we actually see ease of business playing at this interface that is the way I would describe the digitalization. Since Rohan is there, Rohan you please add the question is again about the transformation journey and the progress that we have made and what gains has accrued.

Rohan Mittal:

Bala, I think you have really summarized it well, on the digital side I only talk about one more initiative which we picked up, which is the digital payment solutions. There were some cash collections (COD) etc., that used to happen and with the progress that Fintech overall has made across the country, we just wanted to ensure that we are also glued into the

best of the best industry processes. We have just tied up with Paytm to on board digital payment solution, which will improve our collection cycle also with these payments, just one of the other digital initiatives that we are working and obviously there are a host of such initiatives, the 60-40 split is absolutely in act unless the participant has any further questions, I am happy to answer.

Bala Aghoramurthy: Just one more aspect which I would add, there is a significant cost saving that has happened on the fixed cost. All of that was very-very elaborately run through this transformation programme whether it is the people productivity, whether it is the cost efficiency in our overhead and so on. So, all of these whether it is helping many other policies that happened within the company on overheads. So, all these also delivered a significant fixed cost saving if you compared our fixed cost numbers this year versus the previous year you would see a sharp fall if you removed all the one-time expenses that we might have booked so, these are also gains from the transformation project.

Balaji: Thank you Bala, thank you Rohan, that was quite comprehensive response. Thank you very much.

Moderator: Thank you very much. We have the next question from the line of Dhruv Shah from Ambika FINCAP. Please go ahead.

Dhruv Shah: I have couple of questions, first is are we done with the write offs majorly or are we still left with any write offs?

Rohan Mittal: We are done with the write offs more or less we do not expect any major changes coming in the future.

Dhruv Shah: That is heartening to know, and one question for Bala, you mentioned that we want to increase our market share on 50%, so I just wanted to know that is this market share majorly coming from unorganized sector or are you trying to gain some market share from the organized sector, just a perspective on that?

Bala Aghoramurthy: It is of course the answer is very easy answer, it is a combination of both, we are going to be reaching out to customer who kind of need our services in general the unorganized to organized conversion is a slower process one player takes the lead in past GATI has taken the lead and now we are going to take the lead once again to actually get more and more customers of unorganized service providers to be brought into organized players. So, we will take that lead of course as we do all these and as we place ourselves aggressively in the market there will be market share movement for example, when I said 100 basis point

movement has happened it has of course come at the extent of one of the competitors or more of the competitors a little bit someone are related to show more help, so that is the way it will play out it is the combination of both. We are going to be focused on the customers, the competition is the consequence that is a collateral existence, our focus is going to be on customers and that is the way it is.

Dhruv Shah: Right, and also on the margins, what is the sustainable margins in a business and the listed competitor just delivered a hearty margin of close to around 20%, so we are still at 8% we have a long roadway, but what is your business plans where do we see the margins going to in let's say two year – three year time?

Bala Aghoramurthy: Let me put it this way, we have actually had this question many a times on these investors calls in the past, we do believe 13% - 14% is the gold standard in this industry and it is a sustainable margin in this industry. I understand the question I think it is the best for us to understand a little more of the levers that have played into it. Our current belief is that the gold standard is around 13% - 14%, since we are still significantly away from that light you rightly pointed out our focus is to first improve it by another 4% - 5% - 6% points over the next many quarters that is the way we will keep it.

Moderator: Thank you very much. We have the next question from the line of Deep Master from One-Up Financial. Please go ahead.

Deep Master: Hi! Thanks for the question and congratulations on very quick turnaround. I just wanted to get a sense on the cost that would not be recurring in the coming quarters and you gave us adjusted margins but if you look at the fixed cost in the fourth quarter or in the second half what could be the one-off element be in absolute terms?

Rohan Mittal: In GKE I have given number of close to about Rs. 13 Crores, Rs. 14 Crores approximately which was one-off cost, and it is not expected to be recurring in nature. In the case of GATI standalone that number will be close to about Rs. 4 Crores – Rs. 4.5 Crores.

Deep Master: And this is for the quarter, right?

Rohan Mittal: I am only talking for the quarter.

Deep Master: Okay, alright that's very helpful. Also, there was very good trends on the whole digital journey so sounds very exciting. I had one question on one of the slides in the presentation you showed that normalized ROCE which is now touching 30%. So, what would be the near term sort of normalized ROCE for the business be as it this now a little sustainable

level or is it from one-off element, what would be ROCE kind of settle what you are looking at?

Rohan Mittal:

So, let us break this down, from a capital employed point of view I think we are more or less where we should be, we are not looking at any significant capital investments, we have said that before also. From an EBIT perspective the margin expansion is expected to continue, so we expect some more gains to come through in the next few quarters because of that the 31% normalized ROC should see some improvement in the next few quarters. A competition or industry bench marks have demonstrated 35% - 40% ROCE in the past, these are documented numbers and we would like to be there with the best industry bench marks.

Deep Master:

That's very encouraging and if I could just squeeze one more and could we get some sense on the on-ground impact for different segments due to the second wave and how you expect them to perform in the first half?

Bala Aghoramurthy:

In some ways I did refer to it, I think the worst hit segment is the SME segment, I am talking in the lock down one and the pandemic wave-1, the worst hit segment was SME, the larger corporate accounts we call them as KEA (Key Enterprise Accounts) and the cash and carry market both of them showed tremendous resilience in wave-1 and lock down one, this is actually the experience from the last year. Now, how will it play out this year, I think personally, the way I see it the lock down two and the wave-2 presents very different business and operational challenges versus the lock down 1 and wave-1 a simple explanation for this. Lock down one everything shut down at one time and then different geographies, localities started opening up one by one after a gap of one month. But in lock down two, in the wave-2, the shutdown was also phased out over geographies and time and the re-opening is also phased out over geographies and time it is much uncertain as much volatile ambiguous etc., as it can ever be. How do you see the market in this context, I think the KEA's always find an answer to come back very sharply, the SME's this time because of the extended run I think the SME markets will find innovative, creative ways of coming back, the retail one there is a little bit of worry in some segments for example, apparel and so on plus something the consumer spacing segment, there is a likelihood of a demand drop in the cash carry retail segment that we operate in and that is something that is to be waited and seen. As of today, I am very confident KEA will bounce back in all its glory, the SME this time I think should be better than what it was it was last year. The retail one I will wait to give a call out on that.

Moderator:

Thank you very much. We have the next question from the line Faisal Hawa from H G Hawa and Company. Please go ahead.

Faisal Hawa: My question is how do you supposed to take on the e-commerce space looking at Delhivery have a well entrance, are we looking at approaching business at an entirely new set of management or some people who can really have a very good technology at work?

Ravi Jakhar: I would like to highlight how we have spoken about in the earlier calls as well the focus of the transformation journey earlier on has been to re-build and transform the B2B business where you feel the results in the transformation and B2C is something which is going to be more strategized and looked upon in the remaining part of the transformation programme. So, at this point in time if you look at as Bala also mentioned sometime back GATI's business is largely B2B while what you are referring to e-commerce B2C is a small part of our business at this point in time.

Moderator: Thank you very much. We have the next question from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

Abhijit Mitra: Thanks for taking my question. Thanks for wonderful presentation, my question is on capex you have mentioned investment in your infrastructure facilities to sort of increase automation and add volumes also going forward. So, what kind of capex plan you have for the next couple of years and what kind of margin benefit you believe you can derive out of those capex plans and also, a question on your surface express since we can see almost 90% of your top line, ex fuel stations which anywhere will be divested, is coming from the surface express. So, everything else remaining equal even the cost improvement measures that are underway, a full sort of play out of those measures would have taken your edge after EBITDA to how much? Your edge after EBITDA have reported to Rs. 27 Crores, what would have been the adjusted EBITDA if you would have realized the entire cost transformation journey that would have been very helpful? Thanks, these are bit of two questions from my side.

Rohan Mittal: On the capex side our intention is to remain extremely frugal to the extent required. The super hubs that Bala has talked about earlier the construction etc., is not being funded to GATI or GKE, we are getting into build to suit super hubs, there will be entire designing every last brick has been designed perhaps the master planning has been done by our team or consultants etc., we will only take the specialities on event there is a marginal capex that one has to incur in terms of interiors, fit outs etc., but that is probably a Crore per facility at max. Overall, our intention is to stick to a single digit approximately Rs. 9 Crores to Rs. 10 Crores of capex in an year as per requirement only, there is no compulsion for us to incur that capex unless there is a strong requirement. Whatever machines are required internally if at all they can be taken on a lease model, rental model, we would always prefer that as long as the costs are comparable at an overall life basis. On the Rs. 27 Crores margin, Bala did

mention that the gold standard is about 12% to 13%. Our intent obviously would also be as close as possible to the gold standard, on a Rs. 323 Crores Q4 topline that number can be really worked out, obviously it will take a few quarters to be close to that number. Does that answer your question?

Abhijit Mitra:

Yes, it does. Thanks.

Moderator:

Thank you very much. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Abhijit Mitra for closing comments.

Abhijit Mitra:

Thanks to the GATI management for allowing us to host the Q4 call, I will hand over to the management for any closing remarks.

Ravi Jakhar:

Yes, thanks Abhijit, I hope we have been able to answer the questions with satisfactory responses. I would also request all the participants to take a look at the detailed presentation which has been uploaded, which captures all the details around the performance and also provides the perspective on the opportunity in terms of the market which many people have asked about. We are in the midst of pandemic which has led to significant lock downs particularly in the month of May but looking at the steady decline in the number of cases being reported daily, it appears that the lock down should start getting relaxed from the coming months and the business should start bouncing back to its normal levels. Overall, as we all know express industry has been a small percentage of the overall logistics business there is huge head room for growth as people move towards more time bound efficient organized logistics. So, therefore we continue to remain bullish on the long-term on the Express industry. GATI has a strong presence in terms of its network and capabilities and through the transformation journey it is only getting stronger. I would also like to highlight that we have strengthened the management team also across levels with many key leaders from the industry joining us and we have also shared the details of the management team in the presentation. All of these initiatives have allowed us to post the highest ever quarterly revenue and the highest ever quarterly volume in the Surface Express business which has been focused upon in the early stages of transformation and as we continue down this transformation journey in the months to follow we believe that we will continue to move forward towards the gold standards which my colleagues referred to and we are all hopeful that we would continue to deliver strong performance on part of GATI as a standalone in the e-commerce business to follow as well as on the consolidated basis that largely the Surface, Air Express and supply chain management businesses under GATI KWE. So, thank you all for joining us on this call. Thank you.



GATI Limited
May 27, 2021

Moderator: Thank you very much, participants. On behalf of ICICI Securities, that concludes this Conference Call. Thank you for joining us and you may now disconnect your lines.