"Gati Limited
Q1 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Q1 FY2022 Earnings Conference Call of Gati Limited hosted by Equirus 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. Depesh Kashyap from Equirus Securities. Thank you and over to you Mr. Jain!

Depesh Kashyap: Thank you Stephen. Good afternoon everyone. On behalf of Equirus Securities, I welcome you all to Q1 FY2022 Earnings Conference Call of Gati Limited. From the management, we have with us Mr. Pirojshaw Sarkari, CEO Gati Limited and Mr. Ravi Jakhar, Chief Strategy Officer Allcargo Logistics. We will begin the call with opening remarks from the management and then we can open the lines for Q&A. I now hand over the call to Mr. Ravi for your openings remarks. Over to you Sir!

Ravi Jakhar: Thank you. Good afternoon everyone and thank you for joining us on Gati Limited Q1 FY2022 Earnings Conference Call. I am Ravi Jakhar, Chief Strategy Officer for Allcargo Logistics and I have with me my colleague, Mr. Pirojshaw Sarkari, who is the CEO for Gati.

I trust all of you and dear ones and colleagues are well and everyone is keeping safe. I also hope you had a chance to look at the results which have been uploaded and the earnings presentation which has been also uploaded on the exchanges as well as on the company website. I would like to start with providing business update, key highlight on the transformation program and some key operational and financial performance highlights for the quarter gone by the first quarter of FY2022.

We have all seen that the second wave of COVID pandemic has been more fatal and has caused disruptions. However, this time we are more prepared and therefore we have been able to manage some of the trade activities better and therefore it did not come to an absolute standstill like it happened in the last year; however, having said that it has indeed been impact of the lockdowns across the country and the logistics and supply chain sector has indeed been in some stress particularly in the months of April and May.

Well, the second wave was at its peak and during the month of June we had seen the improvement and it is continuing to sustain and we see a near normal of situation at this point in time in terms of the cargo movement and against the backdrop despite disruptions and challenging market conditions, I would say we at Gati have managed to mitigate disruptions faced by the entire economy and delivered resilient performance.

Gati KWE volumes were at 178,000 metric tons which was lower by 15% compared to the normalized average quarterly run rate of 210,000 metric tons so the 15% decline is largely on account of lockdowns and therefore reduced movements. So that being the situation and I said this is primarily being limited to the first quarter and situation seems to be much improved now. With regards to the fund infusion on cargo as on June 30, 2021 has invested 27.5 Crores in Gati through preferential allotment which has led its ownership increase to 47.3%.

Allcargo would invest further amount by way of against warrants which have also been issued. The synergies with Allcargo continues to strengthen through the cross-sell program, Sangam, which has been growing well now and both Allcargo and Gati businesses are benefiting by collaborating with each other and there has been a steady start and we believe it can gain significance in the times to come.

Moving to our discussion on how we have been progressing on the transformation program and we have captured this in some of our last quarterly calls as well and I am to provide the update around four key pillars that we monitor. Balance sheet restructuring, focus on debt reduction, profitability, and deprivation. On the balance sheet restructuring we have done various activities and taken initiatives and we are now focused on quality of cash flows and the devotion of our attention to core business which is express, supply chain at E-commerce logistics has allowed to gain strength. As has been intimated we have registered the cold chain business and the other noncore operations also are at an absolute minimum level at this point in time.

On the debt reduction side we have further reduced the debut by another 11 Crores during the quarter. This is in addition to the impact of more than 100 Crores which has come in by way of exit from the cold chain business and this has allowed us to bring down the overall debt, as well as the interest cost as well.

In terms of cost of borrowing also continues to improve and now the average cost of borrowing has come down to 7.6% at Gati KWE and 9.2% at Gati. We remain under constant dialogues with bankers and the endeavor remains to continue bring it down further in the coming quarters.

On the profitability side we aim stringent cost control measures coupled with expansion in margins which has led to improvement in profitability. While there is certain element of operating deleverage in the existing quarter, the margins also remain impacted by transformation one-time expenses. We continue to generate similar turnaround at significant lesser number of head count. There remains a constant endeavor to build in certain consistency in margins which we believe would be achieved from the second quarter assuming there are no further COVID disruptions which cannot be anticipated at this point in time.

As we have stated two to three quarters of normal operations should allow us to grow and expand business to bring margins to double-digit numbers as we have spoken. We remain on path to achieving that except for disruption of this one quarter largely caused by the second wave of the COVID pandemic.

On the digitalization our WhatsApp Chatbot Genie has received tremendous response from customers. The ease that it offers for activity such as track and trade, pickup registration, complaints etc., has truly delighted customers. The response to implementation of digital payment system remains very robust and we are now seeing nearly 30% of the cash collections coming in through digital platforms. There has again been a good strong progress across this.

Coming to the financial performance for the quarter ended June 30, 2021; consolidated revenue for the quarter is 291 Crores, year on year growth of 78.7%. The month of May was more significantly impacted as almost most of the states were in lockdown and last year it was an even more severe impact and therefore when you compare it to the previous year there is naturally very high 78.7% growth on that.

Revenue from express and supply chain management divisions contributed to 82% and fuel stations contributed to 18% revenue for the quarter. Our gross margins stood at 23.6% for the quarter as compared to 25.4% for the preceding quarter. The margins were again significantly impacted particularly in the month of May with exceptional movements in the cost structures given lockdown and challenging situations, otherwise we are nearing 28% to 30% kind of gross margin level in the near normal times if we look at the most recent level.

EBITDA for the quarter stood at Rs.1 Crores as compared to negative 22 Crores in Q1 FY2021. Pre-exceptional PBT loss at minus 11 Crores as compared to loss of minus 40 Crores in Q1 FY2021 while reported loss stood at 21 Crores, adjusting for the Kausar loss narrowed down to 8 Crores and this is being highlighted because the Gati Kausar is no longer part of the company and is already being divested and therefore would not have an impact in the coming quarters.

Some key highlights about our core asset business which is housed under GKEPL. The expense revenues for the Q1 FY2022, is 237 Crores a growth of 139% year on year; however, comparing it with the last year dimension is not appropriate and if you look at the FY2020 average number it is a degrowth of about 4%, so considering there was a significant impact of lockdown managing 96% of the average 0.5% has been a strong resilient performance against challenging background.

The positive momentum that we were seeing in the Q4 FY2021 had continued in the month of April, but toward the end of April and particularly in month of May which was the weakest link in the quarter we found challenges. We continued to improve through exit and in the current quarter we have seen that improvement sustain on a month-on-month basis. Surface continues to remain the biggest contributor with revenues of 218 Crores which is almost 92% of express business and supply chain management contributed 3%, and 5% respectively. Debt in GKEPL was further reduced by 10 Crores; an average interest cost was brought down from 8.2% to 7.6%. In the dimensions business we continue to look for further improvement from this.

As we have been highlighting over the past few quarters that we seek to strengthen the leadership team of Gati. We have inducted several key leaders in the company and now we welcome Mr. Pirojshaw Sarkari, Phil who is veteran in logistics industry. Phil as everybody knows him on the street is a chartered accountant by profession and chef by profession. In his illustrious career trajectory Phil had setup the DHL business and organization in India and served as its MD and country head till 2010. He then joined Mahindra Logistics as its CEO and at Mahindra Logistics he built and fostered great organizational culture. That call end to my financial highlights and I would now request Phil to comment on his journey and his views as CEO for Gati. Phil over to you!

Pirojshaw Sarkari: Thank you Ravi. That was very generous description of my career. Thank you for that. Good afternoon everyone. It really feels good to be back with you all. I am sure I have interacted with many of you on the call in my earlier avatar. With India and the world setting sight on a better brighter future ahead of these unprecedented challenging times, the current role has provided me an opportunity to participate in an exciting transformation story. The Indian logistics industry is set to grow at 10% CAGR over the next 3 to 5 years and niche segments like express is expected to outpace this growth. The increasing need for on time deliveries, faster transit time, just in time inventory and pan India reach are long tailwinds for this sector. At the same time what customer derives is the lower inventory cost which in turn enables them to remain cost competitive in the market.

While GATI is an iconic brand and is well known for its industry leading network infrastructure and pioneers in India's express industry, I believe it has now entered in a new intense face of transformation and accelerated its journey towards operational excellence and unmatched customer service, to establish a possession of market leadership. Together Gati and Allcargo are in a formidable position to create synergies and offer all their customers' access to an extensive Indian and international network with end-to-end logistics services that only few others will be able to match. With their respective legacy and experience across diverse logistics vertical Allcargo and Gati can offer the key customers customized solutions combining both their areas of expertise. Immense synergies could be built from the combination of its global and local leadership and I look forward to all these opportunities being crystallized by us at Gati. Before, I open the floor for question and answers just to remind you guys that I have joined on the 9th of this month so be kind to me. I would like to open up the floor now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Chetan Shah from Jeet Capital. Please go ahead.

Chetan Shah: Congratulations Sir for your new assignment and wish you all the best. Sir just one question from my side, as your role in this organization and the kind of restructuring in terms getting noncore business by Allcargo, could you just give us your big picture, two, three-year vision how do you think the company in a short time horizon. What are your priorities to look at the business end? Where do you see five years down the line?

Pirojshaw Sarkari: When I was discussing this opportunity with the new owners, Allcargo Logistics, I found two, three very interesting aspects, one is that they were very clear that they want to run asset light business and as you all know that is something that I preferred in logistics. Number two there was large investments that are being made in the digital aspect of the business and that is very, very essential for any logistics company to be able to grow and expand and transform itself digitally and number three and most important is the synergy that this group can derive between Allcargo and Gati and therefore these were kind of three interesting points that got me to take on this role. I think as we move into the future of India and the world, I have said this before that the E-commerce industry has poised the customer. Even the B2B customers are looking at time definite deliveries and faster delivery and historically in India the businessmen have been keeping a lot more inventory than what is required because they did not get time definite deliveries with visibility of when the goods will arrive. I think this is now an opportunity of reducing their cost by them keeping minimum inventory and getting service which is time definite with certainty and of course visibility and that is what will reduce the end-to-end cost also for the customer. Express has been morphed into a service that at one point of time was very niche towards service that is now demanded by each and every customer and I think customers are not just demanding faster deliveries but are also demanding that there is absolute visibility in the entire supply chain. What is also important and what has come out from COVID definitely is the fact that supply chain visibility is gaining more and more importance and dependability on a single supply cluster is going to reduce and therefore more and more supply clusters will get developed and therefore more diversified transportation. If you put all this together there is tremendous opportunity for a company like Gati to reinvent itself. I have always right from when I started my logistics career, have looked up to Gati to be the frontrunner whether it was technology or it was in infrastructure at that point of time and now it is the time to kind of transform itself, I would say Gati 2.0 as they would call it and grow it to the next level.

Chetan Shah: Sir If I am allowed to ask one follow up question, a very short one. Sir you mentioned about one of three things you will be looking at, one of that is integration and synergy with parent Allcargo, so if you can help us understand what is the two or three numerical parameters which you will have in your mind, you coming from a logistics background which you want to see getting corrected or improved in Gati from a short term two, three-year time horizon and eventually target it for next four, five years time horizon? Just to get a sense that what is your important data point which you would want to see periodically and keep enhancing improving to improve your gross margin and eventually profitability and return ration on an overall basis?

Ravi Jakhar: Let me take that up. Like we mentioned that Phil have just joined on 9th today we are on 12th so before any compressive plans that can be laid out from this perspective, I think it would be fair that we wait for some time but let me say as far as the company is concerned; we have continued to share this over the last few quarters as well that synergies that we are speaking about are around benefiting on the both backend that is on the customer relationship. There have been initiatives such as Gati Kiosk being set up at AllCargo CFSs. There have been back-end synergies in terms of various functions which can have a sheer group price centre excellence which brings down cost and also improves the delivery and impact and the other aspect is that if you look at the potential for growth and the way growth has been driven, we have stated our objective of expanding within a rapidly growing market and gaining market share. All of that requires great amount of confidence and support from the customers and that support and confidence also stems for the fact that the customers are able to get a variety of services from one single partner and that is where through integrated service offering various customers experience what is truly an end to end partner which could take care of requirements for international supply chain as well as for the domestic supply chain requirements and therefore all of this things are helping us at Gati to optimize our cost through backend synergies, channelize our resources better through cross sell program and also improve market share on account of stronger customer confidence on our capabilities and our ability to expand much more robust basket of service offering.

Chetan Shah: Got it Sir. Thank you. Wish you all the best and thanks for answering my question.

Moderator: Thank you. The next question is from the line of Avadhoot Joshi from Newberry Capitals. Please go ahead.

Avadhoot Joshi: Good afternoon. Thanks for the opportunity. Two questions from my side. If you look at the employee cost or the number of employees from Q1 FY2021 to Q1 FY2022 we have various 400 numbers of employees; however, if you look at the employee expenses y-o-y, employee expenses gone up 2 Crores I would like to know what could be the reason for that. That is the first question.

Ravi Jakhar: On the headcount side as you would have noticed from the last quarters as well as this quarter, there has been a continuous improvement in terms of making the whole system more efficient, reducing the head count and therefore this would lead to an improved salary cost as well. However, what you see and the trend is because of some anomaly and let me highlight that. In the Q1 last year we had cost reduction which was on account of given the extreme impact, you may recall in the last year in the month of April the business was down almost 90%, the company was dealing in a crisis mode. There were salaries which were held back and they were provided for in the subsequent quarters and they were subsequently restored in the fourth quarter as we came out of the whole challenging times, so therefore the Q1 numbers were lower than what they would have been and the Q4 numbers were slightly higher than what they should have been so therefore this is an impact of onetime adjustment of salary reduction and restoration happening in two different quarters otherwise from here on the salary cost that you see on the headcount these are more normal. There are no exceptional additions or subtraction to this quarter and these salary cost levels are likely to sustain from here.

Avadhoot Joshi: Thank you. I think in Gati standalone itself we have E-commerce business.

Ravi Jakhar: Let me explain to you. We have two businesses in Gati standalone Fuel Station and E-commerce Logistics. Fuel Station is the one which is in the process of being digested and E-commerce Logistics is the continuing business and in GKEPL we have the surface express, air express and the supply chain management business.

Avadhoot Joshi: My question is about E-commerce. I think you would have read about the article in today's ET Prime. So what portion of cash on delivery will be there in that E-commerce business? All E-commerce business will be having cash on delivery is that understanding correct?

Ravi Jakhar: Basically as we have spoken about the same in the last quarter as well, E-commerce currently is a very small part of our business because when we started the transformation journey at Gati the first objective was to divest all the noncore businesses and build a robust B2B business which is a main core of the company and that is what has been the focus and in this stage over the last couple of months in particular we have been evaluating our E-commerce, go to market strategy in defining our playbook, how we will be operating in the market, what segment we would be focusing on. So at this point of time the business is very insignificant in terms of the overall scale and contribution and therefore it would be unfair to draw significant trends from there. In the coming quarters, we expect that as we put our plans together and find the right strategy for growth, we would see expansion in this business but at this point in time and the quarter gone by the numbers are fairly insignificant on the E-commerce business.

Avadhoot Joshi: Understood. Thanks a lot.

Moderator: The next question is from the line of Kashyap Javeri from Emkay Investment Managers, please go ahead.

Kashyap Javeri: Thank you so much Sir for this opportunity. One question in your opening remarks you mentioned that gross margins would stabilize at about 30% or has stabilized about that number and which is also visible for at least three years now. You also mentioned about double-digit

EBITDA margins. If I understand at least from your surface which is your largest product in terms of revenue our pricing is more or less similar to what probably the competitors' are offering so where does this EBITDA margin expansion come from because the next largest expense head is one employee where you clearly highlighted there has been reduction, but if you could help us understand what more can be done there and then the other largest cost is rentals and some of the fixed cost, so how do we achieve that number?

Ravi Jakhar: As you rightly pointed out there are three elements which are important here, the gross margin, the EBITDA margin, and the cost in between. Now gross margin like I mentioned would continue to be sustainable at 28% to 30% level which we are seeing right now. There is an exceptional decline due to lockdown, so the gross margin level should remain healthy. The EBITDA margin expansion would primarily come on account of marginal reduction or containing the costs which sits between gross margin and the EBITDA while the revenue base will expand. So with the same costs we will be doing more business by way of growing, outpacing the market growth and that is what would be the primary driver going forward because the transformation led impact has largely been achieved there would still be some more incremental gains in the gross margin and further improvement on the cost price but a significant impact will come straightaway on account of expanded revenue on the same cost base therefore the EBITDA margin improve naturally.

Kashyap Javeri: FY2021 revenues have been assured with 400 odd lower employees through the year. With the same employee count can we go back to FY2018 and 2019 revenues is that what is you are suggesting?

Ravi Jakhar: There has absolutely been very minimal cost increase if any you would be in a position to significantly grow the revenue and that exactly is our plan. We do not envisage significant proportionate increase in the staffing cost while we aspire for a significant growth and that is what would lead over the next three quarters or so to reach double digit EBITDA margins that is what has been our plans. We have been speaking about it and it looks achievable.

Kashyap Javeri: So let us say we had about 450 Crores of additional revenue over here to reach back to FY2019 number at about 30% gross margin that would imply about 150 Crores additional EBITDA assuming ceteris paribus everything remains constant. Probably even in that case we probably may not reach a double-digit, actually slightly less than double digit kind of margin. Would those costs still continue to go down also like employee and other cost. Reduce them with even 1800 Crores, 1900 Crores of revenue.

Ravi Jakhar: Given significant variations across quarters during the financial year as you have mentioned, I would recommend that you look at the Q4 performance. We have shared earnings presentation which details excluding exceptional items, the margins were about 8% that we have spoken about. So now we are speaking about an expansion of 8% to 10% assuming the cost base does not grow up as the revenue base increases another 20% or so naturally those numbers will start appearing. So you refer back to the Q4 number and build assumptions around that in terms of containment of cost and expansion would revenue play out, it would naturally taken towards a double digits number.

Kashyap Javeri: Sure and in terms of revenues what would be the contribution of top five and top 10 customs.

Ravi Jakhar: It is fairly diverse. At Gati we work across the country, across all category of customers, whether it is pharma, automobile, textile, retail we work across all category of customers all regions, so it is extremely diversified.

Kashyap Javeri: Both in terms of individual client as well as sector would be pretty much diversified is that right. Would any single customer be in double digit?

Ravi Jakhar: No.

Kashyap Javeri: Thank you so much. That is from my side. Thank you so much.

Moderator: The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: Good afternoon Sir. My first question is just a clarification. You said that our debt reduction is 11 Crores I am implying that Gati Kausar was sold at 100 Crores so why that exception is not 100 Crores?

Ravi Jakhar: I had mentioned very clearly that the debt reduction is 11 Crores over and above the debt reduction that is by way of Gati Kausar so this is incremental on top of that. I had specifically mentioned that we have seen a further impact of about 100 Crores which has come in by the way of balancing our shareholding in Gati Kausar. This 11 Crores is over and above that like I mentioned earlier.

Moderator: Thank you. We move to the next question from the line of Sriram Rajaram from Ratnatraya Capital. Please go ahead.

Ravi Jakhar: Thank you for the opportunity. My question is in slide number seven; we have the surface express revenue in EBITDA. What is the normalized EBITDA for the quarter for the surface business?

Ravi Jakhar: So I would say that for the normalized EBITDA it would be better to look at from a normal position it is better to look at the performance in the quarter gone by because this quarter like I said has a significant impact on the disruption and therefore from a normal business environment that is what you are intending. It would not be the right quarter to look at.

Sriram Rajaram: I am asking you what would be the sustainable number for this quarter. For example for the earlier quarter you had a reported EBITDA of 14 Crores but normalized EBITDA of 27 Crores that was disclosed in the last presentation. So I just want to get some colour?

Ravi Jakhar: There were some exceptional items in the last quarter which we had spoken about, so there are not any exceptional items in here. Current EBITDA does not have any exceptional items, it is largely low because of the revenue base, so there is significantly decline on account of the lockdown has led to an erosion of EBITDA and as the revenue comes back to normal level the EBITDA would also start coming back to normal level. So there is no exceptional items this time and therefore would is reported is what the actual EBITDA also is unlike the last quarter where there was some exceptional items.

Sriram Rajaram: I get that Sir, but then if I look at the tonnage volumes 200 versus 178 for this quarter, so even if I compare Q2 we have made EBITDA of 20 odd Crores similar tonnage was made in this quarter. So I am just curious what happened. Is there any pressure on the cost side or something of that sort? Is there any change in corporate is that why your realizations are low. I mean any color on that?

Ravi Jakhar: There has been no impact on realizations except like I said the gross margins were impacted slightly particularly in the month of May which has pulled down the overall quarter as well but if we look at the exit trends within the quarter, the gross margins have returned back to the normal level and we see the sustenance in the levels across the current month as well.

Sriram Rajaram: Fine Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Neelam Punjabi from Perpetuity Ventures. Please go ahead.

Neelam Punjabi: Thank you for taking my question. Would it be possible for you to break up your revenue for the quarter into April, May, and June? What was the revenue number that you did?

Ravi Jakhar: I can comment on the trend. We do not share the monthly numbers, but like I mentioned May was the most significantly impacted month and April was when the decline had just started and June has been the month of recovery. So April to May was sharp decline and June has seen some recovery particularly towards the last 15 days of June and that has sustained during the month of July. So if we look at what we were doing in the normal times in January, February those numbers have been achieved back let us say in the last few weeks or so. So if you look at daily or weekly EBITDAs we are now almost back to the pre second wave numbers, but May was the worst hit among the three months.

Neelam Punjabi: Just one more question, if I look at your books in the balance sheet we have goodwill of 426 Crores can you just tell me what that is pertaining to?

Ravi Jakhar: At the consolidated level if you look at the goodwill is 425 Crores this is something which has been sitting in from earlier times when Allcargo acquired Gati it came along with important time and out of this 125 Crores at GKEPL level which is the main operating subsidiary so the console level, this is basically goodwill coming in from prior action which is continued in the books. At the GKEPL operating level it is 125 Crores and we can share further break up of this in the subsequent communication for further clarity.

Neelam Punjabi: Got it. Thank you. That is it from my end.

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

Prateek Kumar: Apologies, sorry if you have answered this question. I was asking about debt level. You said 100 Crores has already been received that over and above 11 Crores is reduction is the overall debt side.

Ravi Jakhar: Yes Prateek, so the reduction in debt is 11 Crores. Over and above the reduction caused by the Gati Kausar asset, so this is on top of that 100 Crores plus income coming from Gati Kausar.

Prateek Kumar: So FY2021 net debt of 290 Crores comes down to 170 Crores?

Pirojshaw Sarkari: Yes so there has been total intake of about 110. The 290 has now come 176 to be precise.

Prateek Kumar: When we say that about debt, again, you had indicated earlier now related to working capital or there is term loan remaining there?

Ravi Jakhar: There are some term loans, but largely if you would compare 176 Crores as a consolidated debt for a company doing 100 Crores plus kind of turnover in a monthly basis it is not far from working capital. Out of the 176, 138 is approximately working capital and only about 38 Crores is other debt.

Prateek Kumar: Any timeline or any number further on divesting the business including Q3 how much more incremental money we are looking at for current year?

Ravi Jakhar: As we shared the guidance earlier, it remains unchanged and given the whole pandemic scenario it would take up to four to six quarters to fully realize the sale of various small land parcels or that we have so this is work in progress. There is no change in what we have stated earlier on that.

Prateek Kumar: One question on you margin, so when we say double digit margin is it 10% we are indicating or is it like something somewhere between number for some of the peers have started to doing those kind of margins?

Ravi Jakhar: We had been talking about 10% margin in the near term which is three quarters ballpark here or there and then our aspiration is to take 12% or so. We believe 12% to 13% is the gold standard in our business the way we operate. Now as you would recognize the EBITDA margin can vary from one operating model to another depending upon whether assets are owned and therefore impact is sitting on depreciation or assets are rented and therefore the cost are sitting above EBITDA, so there could be further final intervention as well as the company would continue to focus on the absolute asset light and with our kind of operations with no intent on ownership we believe that 12% to 13% should be the gold standard EBITDA that is what has been the target and we aspire to achieve that in sequential manner first reaching about 10% and then further expanding that with incremental transformation initiatives and leveraging the same cost base to expand the revenue and that should happen over another subsequent three quarters or so. So that guidance remains stable.

Prateek Kumar: In this particular quarter you said that we have no exceptional and all of it relating to operating deleverage, but we also said that we had transformation related expense during the quarter was that not material?

Ravi Jakhar: That was not material to call it a significant impact. I would not call that out for this quarter. This quarter was largely led by the impact on the revenue which came in account of the lookdowns.

Prateek Kumar: Thanks and all the best. I will get back to the queue.

Moderator: Thank you. The next question is from the line of Nemish Shah from Emkay Investment Managers. Please go ahead.

Nemish Shah: Thanks for this opportunity. I had a few clarifications. The express business revenue this quarter that we talk about 237 Crores will that include surface and air express or there is some other business in that as well?

Ravi Jakhar: If you refer to our next presentation we have spoken about all in details. We have spoken about the surface express which was at about 218 Crores, air express which is about 8 Crores, supply chain management revenue which is about 11 Crores and E-commerce revenue which is about 4 Crores.

Nemish Shah: Then you have also separately mentioned express business so just wanted to understand because of the previous number here was not tallying so if you see Q4 number the revenues were at 300 Crores but I had to add up all the four business the numbers will look higher?

Ravi Jakhar: The 300 Crores is the surface express itself in Q4 which has now come down to 218 Crores that is the segmental performance and just to explain to you the structure again, the way the business is structured E-commerce revenues are part of the standalone Gati entity. Under Gati we have the subsidiary Gati-KWE which is GKEPL, surface express, air express, and supply chain management form part of that and surface express air express would contribute towards express of GKEPL and SEL would be of GKEPL. So the E-commerce revenue is under the standalone entity, rest all are in the subsidiary GKEPL.

Nemish Shah: In the surface express what will be our mix there, how much will be corporate and how much will be SMEs for us?

Ravi Jakhar: So if you look at the distribution it is well disturbed across the key enterprise account, the SMEs and retail customers and so we would find that the SMEs would be growing slightly faster in the subsequent quarters to follow. While the KEA currently are the biggest segment almost accounting for nearly half of the total revenues that is likely to remain that way and retail is approximately about 20%. You can also refer to our earnings for retail break up is there.

Nemish Shah: I will do that how many vehicles do we own or is completely outsourced?

Ravi Jakhar: It is completely outsourced and whatever minimal equipments had been lying around those are also in the process of being almost 99% plus have already being sold off, we operate in an asset light model wherein we hire the equipments.

Nemish Shah: Lastly, on the supply chain management business. Can you share some break up between how much is the warehousing and how much is the KPM?

Ravi Jakhar: Sorry I did not understand your question.

Nemish Shah: Are those revenues completely on the warehousing services that we provide?

Ravi Jakhar: Yes. It is completely warehousing services; inventory management is all revenue within the four walls.

Nemish Shah: What kind of margins would we be doing in that business?

Ravi Jakhar: The margin profile is more or less similar across the supply chain in the surface express so it is almost similar 8% kind of number that we witnessed in the last quarter. This quarter again like I said was a bit of exceptional item therefore would not be the right quarter to look at, but there is no significant data between the margin of express and the supply chain management business at this point in time.

Nemish Shah: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Aditya Shah from IIFL. Please go ahead.

Aditya Shah: Thank you for taking my question today. I just had one minor clarification on the other expenses. Were there any cost related to the Gati Kausar transaction or professional fees, stamp duty or anything like that is a part the other cost in a material way?

Ravi Jakhar: No material cost being in there.

Aditya Shah: Thank you. That is all.

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

Abhijeet Mitra: Thanks for taking my question. So my question is on the express business. Can you mention the gross margins for this quarter and for the last quarter in this express business in percentage?

Ravi Jakhar: Like I mentioned earlier the express business largely contributes to the overall business therefore the gross margins are truly reflecting that only if you take out the fuel stations. Approximately 20% to 30% is the normal level but in this particular quarter because of the lockdown impact the margins were subdued. Otherwise, in general 28% to 30% is the number and we are being close to that. 20 in this quarter is also approximate, so we should be doing about 30% which was the number in Q4 and this quarter is about 2% down because of the marginal impact which is about 27.9 in the express.

Abhijeet Mitra: Essentially your gross margin percent has not declined. It is essentially the fixed cost which has taken out the entire EBITDA?

Ravi Jakhar: Largely, the margin has not declined that much but the absolute impact and like I said there is a marginal decline from 30% to 28% and then on top of that let us say 2.3% impact on the revenue in percentage terms but then the absolute terms made an impact as the cost base remained sane with the suffix cost largely that is why the EBITDA has been eroded.

Abhijeet Mitra: Right and also a conceptual question, it is a franchise related business so why should the cost level be higher than say a business which is run through own branches, just to sort of get a hang around it, your rents are also higher?

Ravi Jakhar: So rent are higher is an absolute need to indication that the properties across the country are leased and we do not own any of this branch offices etc., which are part of the network and that is exactly the point that if you have these cost sitting in as rental, they would impact the EBITDA margins as compared to those cost sitting as your own asset and therefore sitting below EBITDA.

Abhijeet Mitra: But the franchise is there that the offices that we are sitting is rental in your book, just to understand?

Ravi Jakhar: It is not an entirely franchisee network obviously franchise offices you would not be sitting in our books, but we have our own offices across the country. If you look at the rental cost that we pay out, the franchise rent is obviously not on us, but the cost that we pay what you see as a rental amount, the rental amount is higher because the properties are not owned and that is the intend as well. Whatever is the true cost of running this network of managing these operations we would continue to focus, so let us say the company owned company operated outlet, there are franchise ones, the franchise ones are obviously not on us but wherever we are managing the operation those cost are on us and in across the industry it is asset light and therefore taking these properties on rent and not owning these properties which is why the renal is high.

Abhijeet Mitra: Also to understand the employee cost, why employee costs be higher, is the incentive sitting to the franchise employee cost?

Ravi Jakhar: Employee cost as compared to what?

Abhijeet Mitra: To the other own branches model as a percentage of the outline?

Ravi Jakhar: Employee cost I would say we are looking at our own benchmark. I am not in a position to comment upon what the employee cost for a competitor could be. As far as our own employee cost are concerned, you would have seen that at one point in time Gati had 5000 plus workforce which has been consistently coming down over the last 12 months we brought it down by 800. It has further gone down in the last quarter since Allcargo’s takeover of the management and the company about 15 months ago the focus has been to make it more efficient and lean and which has been reflecting quarter on quarter with significant reduction in headcount and that is the journey we have undertaken. So if you look at from Gati’s own benchmark particularly the last Q4 which was normal you would have seen despite handling higher volume, the highest volume in turnover because the cross effect, the headcount was almost 800 people fewer and then we have been able to achieve reduction on top of that. I think we are only in a position to compare the headcount against the historic levels and there is consistent improvement on top of that.

Abhijeet Mitra: Great. Thanks. That is all from my side.

Moderator: Thank you. The next question is from the line of Prit from Wealth Finvisor. Please go ahead.

Prit: What I wanted to understand, if there is some commentary on the competitive intensity. The context I have is that you have these traditional players like the TCI Express, Safe Express doing well and on the other hand the newer one like Delhivery and other getting into the express side, so how do you feel Gati performing this kind of mix force?

Ravi Jakhar: I think it is like my colleague still was mentioning in his earlier comments these are wonderful times when the customers are more focused on managing efficient, time bound supply chain and there is an expansion on supply bases as well which means that express logistics is only going to become critical, not just in B2C but also in B2B and therefore the industry which is still a small segment in the overall logistics spend in the country should be in a position to witness strong growth, so therefore as more and more professional players have come in, it has only helped expanding the industry, provide service differentiation to customers. As far as the competitive landscape is concerned, ultimately, I would say there is no differentiation between a legacy player or a new player or anything like that. In the customer's mind customer wants supply chain solution services and it does not matter when or what categorization of the company each of the service provider have to ensure that there is digital integration with the customer. There is clear visibility of the cargo. There is clear adherence to the service levels and in doing all of this it is important to maintain cost efficiencies because ultimately logistic cost is an important parameter and which leads to requirement to run an efficient network, fully utilized, well loaded trucks on the road and therefore as far as competitive landscape is concerned I would say that companies which continue to focus on operational excellence, continue to focus on digitalization and making use of technology both for improving operations and engagement with customers as well as for analytics to drive business better. The companies should do well. That is what our attempt and this is why we have focused on the holistic transformation program that we have been undertaking and we are confident that this, positions us very strongly in the competitive landscape that we have, which is why we have aspirations perceived to be, we expect to be a high growth in market we also have aspirations to expand our market share which means that we will have to grow faster than the average market growth rate of the organized players that we compete against.

Prit: Couple of other small questions what is your truck utilization percentage?

Ravi Jakhar: There is a disruption but I think you spoke about the truck utilization those levels have remained in the high 80%.

Prit: Second there has been an increase in fuel prices so how do you handle that with you customers is that a pass through or is that contracted?

Ravi Jakhar: The diesel price hike is largely a pass-through item. It is provided for in various agreements which we sign with the customers and it does not have any significant impact, it gets passed on to the customers.

Prit: And in your express business how much is B2B versus B2C?

Ravi Jakhar: The express business that we speak about in Gati GKEPL is entirely B2B. The only B2C segment is the E-commerce which is under the Gati parent entity.

Prit: Thank you.

Moderator: Ladies and gentlemen due to time constraint that was the last question. I now hand over the conference over to the management for their closing comments.

Ravi Jakhar: Thank you all for joining us and we hope that we all avoid any further COVID wave and all of you and all the family members stay safe and as the environment returns to normalcy, at Gati we continue to work towards our transformational journey of driving growth through business excellence. We will continue to remain focussed on being asset light, digitally enabled and we would continue to work on our aspirations to gain market share and with enhancement in the management bandwidth with Phil coming on board, we are very confident we will continue to demonstrate strong performance. We look forward to being in touch with you and thank you very much for joining on the call today.

Moderator: Thank you. Ladies and gentlemen on behalf of Equirus Securities that concludes this conference. Thank you all for joining us.