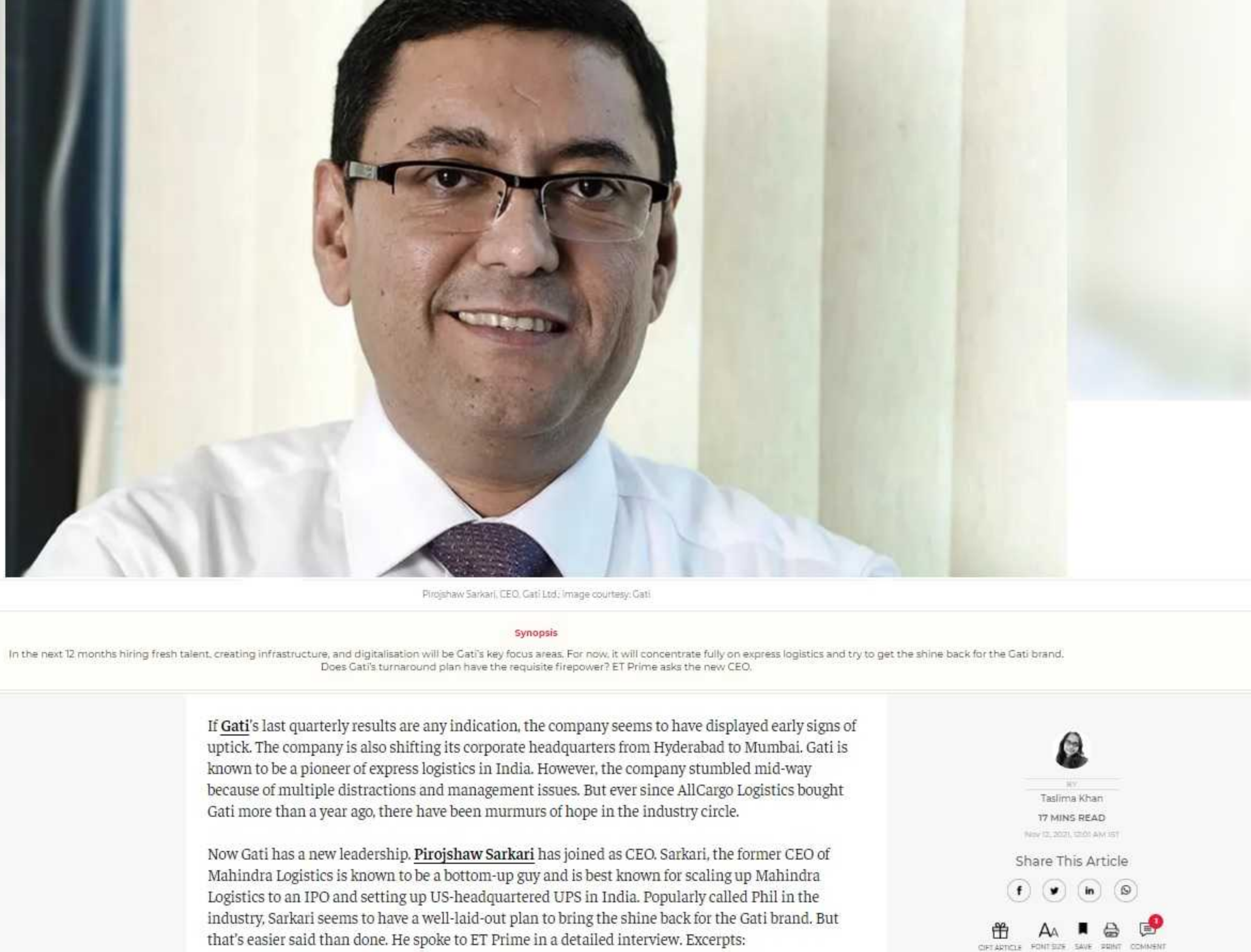


# There is a base, Gati hasn't destroyed itself. But there is a lot of work to be done: CEO



Pirojshaw Sarkari, CEO, Gati Ltd. Image courtesy: Gati

## Synopsis

In the next 12 months hiring fresh talent, creating infrastructure, and digitalisation will be Gati's key focus areas. For now, it will concentrate fully on express logistics and try to get the shine back for the Gati brand. Does Gati's turnaround plan have the requisite firepower? ET Prime asks the new CEO.

If **Gati's** last quarterly results are any indication, the company seems to have displayed early signs of uptick. The company is also shifting its corporate headquarters from Hyderabad to Mumbai. Gati is known to be a pioneer of express logistics in India. However, the company stumbled mid-way because of multiple distractions and management issues. But ever since AllCargo Logistics bought Gati more than a year ago, there have been murmurs of hope in the industry circle.

Now Gati has a new leadership. **Pirojshaw Sarkari** has joined as CEO. Sarkari, the former CEO of Mahindra Logistics is known to be a bottom-up guy and is best known for scaling up Mahindra Logistics to an IPO and setting up US-headquartered UPS in India. Popularly called Phil in the industry, Sarkari seems to have a well-laid-out plan to bring the shine back for the Gati brand. But that's easier said than done. He spoke to ET Prime in a detailed interview. Excerpts:

**In its best days, Gati set standards for the Indian express-logistics space. What is the new thought process you are bringing to the table?**

You are right. I call it an iconic brand. I have been in the logistics industry in India for the last 30 years. If one looks back, Gati, at one point in the early 90's, was a market leader in express logistics in terms of everything. Whether it is business, infrastructure, or technology. The first major investment in technology made by an Indian logistics company was by Gati. It was a system called **GEMS** (Gati Enterprise Management System). In those times, people were wondering how Gati could have afforded to build such a robust technology system.

But in the last five to 10 years, Gati as a brand got distracted. Instead of concentrating on its main business, which was surface express, Gati started looking at diversifying into different businesses. It had a cold-chain business called Gati-Kausar. Gati also got into a freight forwarding business, an export-import trading house, etc. When the Avvashya Group/AllCargo bought out Gati, they were very clear that they were buying Gati to resurrect the express-logistics business.

When I was having a chat with our chairman **Sashi Kiran Shetty** before joining, I saw that he was very clear about resurrecting the iconic brand and concentrating on the express-logistics business. I fully agree that we should remove all distractions and concentrate on bringing Gati back to where it was. I think very early after the acquisition, this is exactly what AllCargo did. It either sold off or closed all other businesses including Gati-Kausar, which was sold back to Mandala Capital. We decided to concentrate on surface-express logistics and also to develop the air-express logistics business which at one time was pretty big at Gati.

**What does Gati mean to your professional journey?**

For me it is one more story. I started UPS in India and for 10 years ran the organisation as its managing director. Post that I joined Mahindra Logistics, which was at a similar stage. At the time, it was doing logistics only for the Mahindra Group and then we took it IPO and the rest is history. Now it is one of the largest contract logistics companies in India. That is what I believe we can do with Gati. I think it will be a slightly easier job for me because there is a base. It is not like Gati has destroyed itself or anything like that. But there is a lot of work to be done.

**What is your vision for Gati for the next three years?**

For me, I want to make Gati the best express-logistics company in India. I say the best and not the largest because I always believe that if you are the best, you can easily become the largest. I think it is extremely important that the Gati brand gets back its glory. That for me will be testimony when the customers start giving me 50 cents of their business rather than 10% or 20% which is the current state.

So, the three things I'm going to concentrate on in the next 12 months are talent, infrastructure and digitalisation. I have gone back to the board saying we will only do express logistics. No other business, at least not for the next two years, unless we get back the shine for the brand.

**So how do you plan to get there?**

I think one of the most important things in express logistics is that if you have to grow your business, you need to have proper infrastructure. It is all about how quickly you can turn around your trucks. Generally, in express logistics you build infrastructure for the future. If you don't do that, every time you expand, you will face service failures because you will have bottlenecks at the hubs.

The first thing I have identified is those cities where we quickly need to build large hubs. Ambala, Delhi, Bengaluru, Mumbai, Hyderabad, Indore, Nagpur have been identified as the first seven hubs that will be built. As we speak, Ambala is done, we are opening the Delhi (Farukhnagar) hub on November 15. These are all large hubs for the future with automation. One good thing that was institutionalised by Gati, and was followed by others, is every time Gati set up a hub, it would also set up a Gati Niwas for the ground handlers (those who do loading and unloading of the trucks).

There are three things an express-logistics company requires — people, trucks and good hubs. But now because of the new-age companies that have come in, digitalisation becomes extremely important too. I think the B2C companies, like the e-commerce logistics companies, have really spoiled the customer with services like complete traceability and frictionless returns. Therefore, even though we are a B2B company, the receiver of the goods has in some form experienced e-commerce. Therefore, he demands that if they can do it, why can't you do it. Hence, digitalisation becomes extremely important as we move forward.

**There has been top-level attrition at Gati. Is that a challenge and how would you handle that in terms of getting replacements?**

(Recently, top Gati leadership including Mandar Babre, chief business development officer; Bala Aghoramurthy, deputy managing director; Patram Choudhary, chief supply-chain officer quit to start another express company, OxyZEN Express)

I don't know whether it's me that makes this happen. Because when I joined Mahindra Logistics, 122 people left and they formed another logistics company. This has happened again. I look at it as an opportunity to bring in fresh blood into the organisation. People with a similar mindset.

At one point of time, Gatilites were sought-after by other logistics companies because Gati was supposed to be the best training ground for logistics professionals. There is a certain way that Gati was doing things in the last eight to 10 years. Now I'm looking at getting younger talent who have a digital mindset. That change has to come about.

**What are the new things you are doing on the technology front?**

About 15 years ago, Gati had developed a technology called GEMS. At one point of time, it was seen to be something much ahead of its time. But does it solve the purpose today? The answer is partly yes, partly no.

Now that digitalisation is at the forefront of every business in the group, I have got a go-ahead for putting in place GEMS 2.0, which will take care of gaps. One of the gaps is proactive notification. Earlier there were no phones, so there was no question of proactive notifications. Today, a proactive notification is not even an advantage. It is just hygiene. So, first we want to fill in these gaps which should not take much time since we have a hundred-plus member IT team. Then we want to put in the extra layer of analytics and machine learning. It is not new since the B2C world already has it. And for the B2B world it is going to become absolutely necessary. So, after infrastructure, GEMS 2.0 becomes a very big investment for us.

**Gati's competitors are no more just the traditional logistics companies such as Safexpress, TCI Express. Now, you also have competition from the likes of Delhivery that are growing at a fast clip and are very high on technology. How will Gati compete with these companies?**

Even today, our largest competitors in the B2B world are companies like Safexpress and TCI Express. Delhivery and Ecom Express are B2C companies and of course with the acquisition of Spoton, Delhivery is becoming a hybrid. So, definitely we have to be conscious that there will be many more companies, B2C companies, wanting to get into B2B because the perception is B2C is not profitable while B2B is. A combination of the two will get profitability for B2C companies because load balancing is very difficult for them. It is still better for B2B companies.

**What sort of a transformation plan have you put in place?**

Even before I came in, AllCargo had put in an 18-month transformation project, bring in a multi-national consulting firm the refers to Alvarez & Marsal for a turnaround project. A couple of important decisions were taken even before I came in. First, to make Gati an asset-light company. All trucks that were owned by Gati were sold off. We use network partners between our hubs. Second, all owned property is being sold out and we are now looking at long-leased property. As we build out these seven new hubs, these are all going to be long-leased properties built-to-suit according to the new requirements of truck turnaround times, automated loading, unloading, etc. So, transformation was already happening. AllCargo has clearly identified both frontline and backend transformation. As a result of the frontline transformation, we brought in one of the gold standards CRM System which has just been implemented. We also brought in digital payments into the organisation which was not there before. When we bill a customer at the end of the month, there is something called COD (cash on delivery) for which we have brought in digital payments.

There was a cultural transformation also required. On the back end, there was this whole operations transformation that has been happening. Simple things about measuring trucks turnaround time, making sure that trucks don't halt beyond a certain time, as they have to go back, and commitment made to the customers on time and transit needs to be met. Because we are an express company that provides time-definite, day-definite deliveries.

**What sort of operational transformation you are going through? Are you tracking metrics like operational efficiency, delivery efficiency, service levels, TAT (turnaround time) level, damages and pilferages?**

To be honest with you, I have gone back to basics in operations. The basics in operations for any express company are two things — your trucks reach on time and second is you load them to at least 85%-90% of their capacity. If you get these two things right, you have crossed the first line of operations. Getting the trucks on time was difficult when I joined because cultural changes had to be made. But I am making sure that these parameters are monitored. The first thing we did is we set up a control tower for our trucks. Every truck has a GPS but the GPS is useless if nobody is monitoring it. So, we set up a control tower in our Hyderabad office where all these trucks are now monitored. This is the basic thing that any new-age transport company would do.

Now it is time to set up our network planning. With a hub-and-spoke model, you have to load and unload packets multiple times and hence you are touching them every time. We need to see what is the minimum load and unload you can do between point A and point B so that the package reaches on time and is not damaged. That requires network planning. Ideally, I would like to send all shipments point to point. But that is not possible because you cannot get full truck load point to point. So, network planning becomes extremely important, and this is what the new-age companies, with all the talent from IITs and IIMs, are able to do digitally. That's why my digital focus for the next one year.

**Gati has been known for its network. But do you think you now need to make changes to compete in tier II markets and beyond? Any changes you plan in the network structure of Gati which is typically a hub-and-spoke model?**

In the last three months, what we have seen is that we still have the best network. From a reach perspective today, the percentage of PIN codes we cover in India, I don't think any national-level company covers. I have said this already that the basics are already there in the company. In fact, the customers who still use Gati, use us for our reach more than anything else. But I want them to use us for our dependency also. That will come once these three things are in place — talent, infrastructure, and digitalisation.

**What's been Gati's TAT performance? How do you think the new infrastructure will impact that?**

Absolutely. And that's where the push for infrastructure comes in. If we don't have the right infrastructure, whatever manpower and digitisation you put in place, you cannot turn around trucks. A typical hub in express business is not like a warehouse. If a warehouse is of 100,000 square feet, generally it has about 10 docks. But an express hub which is of 100,000 square feet, will have 50 loading/unloading docks because our job is not to store goods. Our job is to load, unload and load again. Therefore, docks become extremely important if we have to turn around the truck.

If you want to be a successful express-logistics player, your TAT should be 95% and above. Anything below that means you are not an express player. Gati's TAT right now is hovering around 80% to 85%. Going beyond that becomes extremely difficult if you don't have the right infrastructure. I believe with these seven hubs, we should be able to get Gati to 90% TAT. Then we will look at the next stage of growth to get to 95%. But even a 90% should be a force to reckon with once we get there.

**Gati's top line, because of all challenges, has been hovering around INR1,000 crore in the last few years. Profitability of course has been a challenge. Does the management have visibility in terms of how it plans to grow the top line?**

Absolutely. One good thing about Gati is that the brand recall is still there with every B2B customer we serve. Unlike Mahindra Logistics, which when I started, had no brand recall. People knew Mahindra as a brand, but no one knew Mahindra Logistics. I had to create that. Here at Gati that is one advantage. And even today, whether you look at any of our business verticals, whether it is automotive, pharma, consumer, we have the top brands working with us. The only difference being that they do not give us a large share of their business. So, the one thing we need to show them is that we have resurrected the service levels at Gati. We can now assure you of 90%-95% transit time. And I don't see why we can't double our business.

In the next 18 months, I am looking at Gati to become a INR2,000 crore-plus organisation.

**What have been the major problems on the profitability side in the last three-four years?**

Let me tell you what usually the profitability of an express company should look like. Generally, a domestic express company would look at a gross margin of around 30 to 33 per cent, overheads of 20 to 18 per cent and therefore an EBITDA of 10 to 15 per cent. The problem with Gati was the gross margin because if you are not doing an efficient service, if your capacity utilisation of trucks and turnaround time is not optimum, then your gross margin will fall. Fixed costs cannot be leveraged if your gross margin is low. I think that is where the problem was with Gati's economics. Once you fix the gross margins, your fixed costs remain fixed to a certain extent and then you leverage it. So you can easily get an Ebitda margin of 15%. The three things — talent, infrastructure, and digitalisation will get the gross margins back to the required level. In fact, in the last three months, we have already started inching up.

(Gati's total consolidated income for the quarter ended September 2021 rose to INR401 crore compared with INR337 crore in the corresponding quarter last year. Also, Gati reported a consolidated profit of INR45 crore.)

**On the customer side, Gati has been strong in segments like automobile spare parts. About 26%-30% of its business come from this segment. After the pandemic, do you think there is a change in the customer segmentation? Are there new industries, where Gati wants to have a strong foothold?**

Post Covid-19, the automotive sector has slowed down because of its own set of challenges. I think what Gati was really strong at one point of time was its retail business, having almost 25%-30% of the retail market share. Then of course, other competitors came and took away a large piece of that share. What I am seeing is that the confidence of the retail market is coming back for sure. Number two, the consumer durables market is showing a lot of response. This includes B2B distribution of refrigerators, washing machines, air conditioners, etc., which is itself something that is being consumed more, post Covid, as we have seen in the numbers. I am seeing this business coming to us in a big way. When you are distributing large goods, two- three names come to your mind — Safexpress, TCI Express. In the pharma segment also, I have been able to convert one or two large players. So once automotives bounce back, I am sure we will get our fair share of the business.

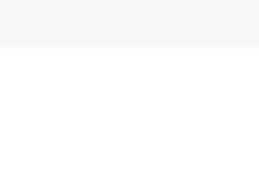
**What else goes into your expansion strategy?**

Our expansion strategy is going to be in the MSME segment. That is where I believe Gati can play a very, very important role. We have set up a strategy on how we are going to really concentrate on the MSME selector. I think we have two very strong go-to market attributes. One is because of our network, we can reach the producers in the MSME sectors in smaller tier II, tier III towns and give them the connect to the rest of India. Say a *papad* maker in Ahmedabad doesn't know how to distribute and doesn't have the knowledge of the consumption markets. Gati can tell him that branded *papad* makers are selling *papads* in these markets and we can be your partner to distribute them. I think this was one area that Gati had not really concentrated on. It is a growing area with almost 6 million MSMEs having registered themselves. I am sure there are another 30 million who are unregistered.

**Gati had a small B2C vertical as well. How is it doing now?**

We are very clear that for the next one or two years, we will concentrate only on B2B. There are certain products in B2C where we will continue. For example, we have a product called back to school where we help students move their stuff from home to campus or campus to home.

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