Gati Limited
Results Conference Call
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Moderator: Ladies and gentlemen, good afternoon and welcome to the Results conference. Call of Gati limited organized by Batlivala & Karani Securities India Private limited. At this moment, all participants are in listen, only mode later. We will conduct a question-and-answer session at that time. If you have a question, please press '*' and '1'. Please note that this conference is recorded. I would now like to turn the conference over to Mr. Shailesh Raja Thank you and over to you sir

Shailesh Raja: Good evening to all. On behalf of B&K Securities we'd like to welcome you to the Gati Limited 2Q FY 22 Earnings Call. From the management side we'll be hearing from Mr. Phil – CEO of Gati and Mr. Ravi – Chief Strategy Officer from Allcargo Logistics. So, without taking much time I hand over the calls to Mr. Ravi for the initial remarks and post which we will open up the floor for Q&A. Over to you sir.

Ravi Jakhar: Hi, good afternoon everyone. And thank you for joining us on a Gati LIMITED Q2FY22 Earnings Conference Call. I am Ravi Jakhar – Chief Strategy Officer for Allcargo Logistics. And I have with me, my colleague, Mr. Pirojshaw 'Phil' Sarkari – our CEO for the Gati Limited. I trust all of you, your dear ones and colleagues are well and keeping safe as the pandemic situation around us also continues to improve. I also hope you have had a chance to look at our results and the presentation, which had been uploaded on the stock exchanges and the company website. So, speaking about the Macro economic environment, I think the most important thing is how the management of the pandemic situation in the country has been going on with the vaccination mark crossing a billion dosages. That's something which is very heartening because it speaks volumes about the ability of the country to manage the crisis and also gives us greater optimism around continued unlocking and improve trade flows, which should happen in the coming times. As we hope that the COVID pandemic continues to decline in the times.

As Gati covering 99% of the pin codes in the country with a robust network, which has operated extremely well. Despite all the pandemic challenges we remain confident of benefiting from the continued progressive unlocking and increased trade flows across the country. Over the last quarter ending September 2021, Gati has managed to stay strong, focus on core operations and deliver a resilient performance.

As most of you might be aware Gati Limited has a subsidiary Gati KWE, GKEPL which is the main operating entity where in this surface express, air express and the supply chain management business division sit, so speaking about the GKEPL, which is the core express division.

Our volumes stood at the highest level of 260,000 metric tons, which is an increase of 30% as compared to last year and an increase of 46% as compared to the preceding quarter, in terms of the revenues, the business division delivers highest ever quarterly revenue of Rs. 334 crores. And this has been led by significant contributions from the key enterprise account, which stood at nearly 56% during the quarter.

And as we see opening up of the country and the progressive reforms being undertaken by the government, we believe that the role of MSMEs would continue to expand. And we at Gati we are committed and preparing ourselves to service the needs of SMEs, MSMEs, and on the retail front, which is where we sharpen our focus.

I would request Phil to now talk a bit more about the industry and about the business. Thank you.

Pirojshaw 'Phil' Sarkari: Thank you. Good afternoon, everyone. It is good to speak with all of you once again. Having settled into the organization over the previous quarter, a much better sense of the situation at hand and a grip on the operation. It gives me a great deal of confidence looking at the progress of the transformation efforts so far and initiative put in place that we are all well on our way to achieving our vision. Having said that I would like to give you an update on the quarter gone by. On the regulatory front at a national level, the recently announced Rs 100 lakh crore Gati Shakti master plan has come as a welcome posh for infrastructure in the country and targets cutting logistics costs from 14% of GDP to 8%. This will be done by bringing together 16 crucial ministries under a unified platform. Thus, minimizing delays while maximizing coordination. In addition to the objective of reduction in logistics costs, the Gati Shakti plan also includes the establishment of logistics infrastructure, which will go a long way towards enhancing service level, the reach and scale for express logistics for service providers like us. Our express logistics solutions are used extensively across industries, as diverse as automotive, pharmaceuticals, e-commerce and retail with a network that already spans 99% of pin codes and the ability to deliver virtually anything anywhere in India.

We at Gati are extremely excited about being an integral part of the future of logistics in our country. While a significant part of our recent volume growth has come from large and key accounts across with diverse industry verticals. We have also now begun aggressively pursuing an expansion of market share in the MSME sector. The sector continues to be unorganized and fragmented with only 3 million out of 63 million MSMEs registered in the country. With our extensive network service offering and ability to integrate what we can do for them is unmatched. We are able to give MSMEs the ability to reach and serve in a timely manner, previously inaccessible markets and customers

We have always been very passionate about Make in India and it is our privilege to enable moving in India, no matter how distant, difficult or small the market is, express logistics has and always will be a key growth enabler. We have seen time and again, a 2x of GDP propensity for volume growth across developing economies. However, it is my belief that India will beat the trend and this segment will most likely continue to expand at supernormal rates for the foreseeable future. In this respect, we are working towards becoming future ready. With a business model that focuses on integration and is technology enabled while being able to serve both demand flex as well as semi urban and rural needs.

I will have more details for you over the next few quarters on our MSMEs strategy. Our business model, as Gati has been undergoing a major shift as we develop and keep pace with enhanced offering, market and technology trends. We have been pursuing an asset light model, and as you can see from our financial performance, we have been able to effectively pivot and ready the organization for the next phase of growth while simultaneously improving our ratios.

Another important development I wanted to share with you was an upgradation of our infrastructure. We have decided to build 5 mega hubs across the country over the next few quarters. The first such express distribution mega hub will be inaugurated next month in Faruk Nagar, Haryana and will serve the whole of north India with unmatched connectivity. Best in automation, technology, and safety, we will be able to simultaneously handle over a hundred vehicles at any point in time and have deployed world-class material handling and automation infrastructure, as well as safety and technology process and system. Continuing a long tradition of employee welfare and benefits at Gati. We have also set up Gati Nivas, residential quarters, and kitchen facilities for all our employees and drivers at the new hub,

ensuring 24x7 availability of sleeping quarters, sanitation facilities, and hot meals for them. The next two hubs with similar facilities and scale will be operational in Mumbai and Bangalore in quarter 1 of FY23, followed by Nagpur and Indore. These mega hubs will allow us to enhance our volume throughput, innovate new service offerings and improve service levels while simultaneously ensuring the safety and satisfaction of our employees.

Another focus area for me has been the digitalization of our processes and the impact it has on customer satisfaction and loyalty. While many programs are in the process of being implemented. And we are constantly looking at enhancing our technology as well as digital capabilities. One milestone we have already achieved this quarter is the deployment of the gold standard customer relationship CRM system from salesforce.com. This extremely evolved and well-established CRM will allow us to better manage our key customer relationships and enhance our ability to offer an increasingly wide range of services and solutions to both large, as well as MSME customers. I will keep you abreast of further digitization and technology milestones, over several quarters to come.

Moving into the highlights, the transformation project, and this quarter and half year's financial highlights, the balance sheet restructuring. Having completed 80% of this activity, we now remain focused on our core verticals, which is express business. We have already exited our cold chain business and have shut down or in process of shutting down other non-core subsidiaries, the fuel pump divestment and sale of other non-core assets remains on track. The consolidated debt has reduced from Rs. 324 crores in March 2020 to Rs. 187.4 crores as on September 2021. This is primarily on account of sale of Gati Kausar. We have further reduced debt by another Rs. 7.5 crores. The balance debt of around Rs. 160 crores is only short-term for meeting our working capital requirement. Stringent cost control over fixed cost has led to improved profitability. Initiatives like headcount rationalization have made the organization lean and efficient.

Now let me share the financial performance. First. I will cover the financials for quarter two and then for H1. Quarter 2 consolidated revenue increased from Rs 337 crores to Rs 401 crores an increase of 19.1% year on year and a quarter-on-quarter increase over previous quarter of 37.8% from Rs. 291 crores. GKEPL, registered revenue increase from Rs. 262 crores to Rs. 334 crores an increase of 27.5% year on year, quarter on quarter over previous quarter by 40.93%. Revenue from the surface express of GKEPL contributes to 94% of the GKEPL revenue. The remaining 6% being air and SCM revenue. For GKEPL, the EBITDA for the Q2FY22 Rs. 17.2 crores versus Rs. 21 crores of FY21, the EBITDA slightly less on account of onetime expenses that were booked in the current quarter. Compared to quarter 1, FY 22 EBITDA has improved from a negative Rs. 0.7 crores to a positive Rs. 17.2 crores. The PBT before exceptional items for the period was 6 crores. Compared to, a negative 12 crores in previous quarter.

Now let me share with you the financial performance for the half year ending September 30th, 2021. For Gati H1 consolidated revenue increase from Rs. 500 crores to Rs. 693 crores. An increase of 38.6%. GKEPL registered revenue increase from Rs. 374 crores to Rs. 571 crores and increase of 53% over last half year. GKEPL EBIDTA for H1 F22 Rs. 16.5. Crores versus Rs. 2.6 crores H1, FY 21 registering a growth of more than 600%. The PBT before exceptional items for the period was negative Rs. 6 crores compared to negative Rs. 26 crores in H1, FY21.

With the above results, one can see we are on the right trajectory and with the continuing momentum we are building. Gati is back on track as a major contributor to Make in India. With this, we can open up the floor for question and answers. Thank you.

Moderator: Ladies and gentlemen, we'll now begin the question-and-answer session. If you have a question, please press * and one on your phone and await your turn to ask the question and guided by

me. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing * and one again.

We have a question from Mr. Shriram R from RTN, please go ahead.

Shriram R: Thanks for the opportunity. My first question is what were the tonnage volumes for the first half of FY20. And my second question is you know we have done 7% on the GKE on a normalized basis. So, you know, if you could throw some more light on the margin improvement going forward.

Management: Let me comment on the second part first, in the express industry, the way that we look at it. We look at a gross margin of excess of 30% in a steady state business and an EBITDA margin of 12% in a steady state business. We are inching towards that and we believe that that should be the state in which we should reach in a few quarters. Have I answered your question?

Shriram R: So, from Q4 of FY22?

Management: From a time period we are looking at a few quarters and I would not like to right now kind of let you know that exact quarter that we would achieve this. Coming to the first question, the first half tonnage was 440,000 ton and the tonnage of quarter two was 260,000 ton.

Shriram R: This is for a H1, for FY20 right

Management: FY21 H1

Shriram R: I was asking, H1FY20 sir. just want to get perspective on pre-Covid volume

Management: If we can move on, we will get back with that answer.

Shriram R: And my last question is on the price hike. How much have you taken this quarter? Is there anything, or this is purely volume lead.

Management: Okay. So, we have got the H1FY21 tonnage was 289,000 tons.

Shriram R: So that is currently at 4,36,000 for H1FY22

Management: 4,40,000 tons, yes.

Shriram R: So, on price hike part

Management: So, as you know, in the express industry, the price is composed of two figures. One is the base price, and one is the fuel surcharge and we dynamically increase or decrease our fuel surcharge with our customers as, and when fuel increases or decreases, which we have done.

Shriram R: Is it possible to quantify that sir

Management: There is a formula with which we do that and it is, it is based on various components, including what kind of business that the customer gives, etcetera. So, there is no one size fits all, but the average of the four Metro cities in the four zones of India is taken as the price increase or decrease.

Shriram R: Okay. And so, the 289000 with the number you gave, I think that his H1 FY21. So, I require H1 FY20 if you can get that maybe during the call, if that'd be helpful

Management. Okay

Moderator. You have a next question from Sayan Das Sharma from Arthya investment. Please go ahead.

Sayan Das Sharma: Thanks for the opportunity, so first of all, on the tonnage growth of the GKEPL business, I think it's a fairly good tonnage growth of 30% odd that we have seen. So it can be helpful if you can share some more or how much of that has come from new client addition and how much of that has come from wallet share gain, if you can sort of quantify that it will be helpful

Management: So, majority of our business today comes from our key accounts., almost 50 plus percent comes from our key accounts and incremental business from key accounts is what has given us the tonnage, growth, although we have a strategy now of going after the MSME customers, which I said in my speech also, and we will be looking at how to enable the MSME customers from a go to market partnership that we want to create with them. Basically, a lot of the MSME in India have very small reach. They are either a city player or a state player. And we want to enable the MSMEs to be able to distribute their products all over the country. So that is going to be a strategy as we unfold it by the next quarter

Sayan Das Sharma: If my understanding is correct they now are from to Q2 The number of clients that we have is broadly the same. You mentioned that the PPT that you have added three new franchises and most of the growth that we are seeing has come from that basically the existing client volume going up. Is that understanding correct?

Management: We have also increased our number of customers during this quarter. We have increased our customers by more than 30 plus customers during the quarter

Sayan Das Sharma: My second question is on actually the SME strategy or the market share gain strategy at large. When we go to a new client I mean, what is our value proposition vis-à-vis the other organized logistics players. I understand that. Able to provide an integrated service, the pan India operations, but there are some listed companies similar to your scale and they can also offer the same service. So just trying to understand what is the differentiating element that Gati brings to the table for either SMEs or Key Enterprise accounts and I mean, is it price is something else, if you can help us understand that sir.

Management: There are a couple of things that Gati prides in having as a unique feature number one is we have penetration that is unmatched in this country, specifically, when you go to tier two tier three cities, like we said, we are today covering 99% of the government of India approved pin codes. That is one big advantage that we bring to the table. Number two is that we have a unique model in the sense that for us, the package that we collect from the customer is basically done by GA's who are entrepreneurs and these entrepreneurs basically know the customer on a one-on-one basis, and they facilitate the customer in various ways. One of the things is they entirely understand that business, that the customer is giving and therefore, that the situation of going with the wrong kind of asset to pick up their load does not exist over there. The second thing is, if you are an entrepreneur, you will make sure that that customer gives you more business because you will earn more from the business of that customer.

So, it's a unique model we have in a place, and that is a great understanding of the business between the GA and the customer. On the other side, we strongly believe this is a very important point. We strongly believe that in express logistics, the customer who contracts us is not really the customer, the customer who receives the goods, which is the customer's customer is the true customer, because if he does not receive the goods on time and in proper condition, he is not going to be asking for our

service. In fact, he can become a distractor for Gati or whoever the service provider is. So, we do what we call channel management in Gati, which is that we make sure that once we sign up a customer, we meet with their large receiver on the other side.

And just as for pickup, you have to understand the customer, even for delivery, you have to understand the customer's requirements and that is something that we pride in doing

Sayan Das Sharma: Last question, if I may, I mean, just to dwell a bit more on the previous participants, on overall margin I mean. So, let me focus my question on gross margin itself if I look at your gross margin versus with listed peers who are doing same business. You have both have similar cases. You both have similar realizations per ton, but and I, my assumption is that truck fill factor another lever of gross margin will not be even a different also, even then we see that our gross margin is sizably lower than the peer that I am talking about, basically when you say that your gross margin, will go beyond 30%. What will be the drivers also be the areas of improvement that Gati would put. So, if you can share some thoughts around that.

Management: Definitely, so you have to understand that this is Gati 2.0, let us all understand that on the call. This is not the old Gati, now it is Gati 2.0. In Gati 2.0, there are a lot of things that is required to be done. Number one is there is in infrastructure, which is outdated. And therefore, we as an organization, not investing in new infrastructure, as you know, the components of gross margin in the express business are two-fold.

One is your trucking line haul costs. The second is your pickup and delivery costs. And as you all know, since y'all are all logistics analysts over there, the trucking line haul costs forms a major proportion of the direct operating cost of a logistics company and especially an express logistics company. And if the turnaround time for a truck is high, you start paying more. While, if the turnaround time for a truck is low, you get benefit of that. Therefore, your infrastructure directly or indirectly influences the turnaround time of a truck, which means that if you need infrastructure, which requires 25 trucks to be. loaded and unloaded at the same time, but your infrastructure today only allows you to load or unload 15 trucks. That is where the truck starts standing and therefore your cost goes up. So, for us, Gati 2.0 is a combination of bettering the infrastructure, which existed in Gati. Number two is, at every stage and express logistics as the volume increases, the efficiency tends to increase as well as decrease. And what does that mean? So, capacity utilization of trucks is basically the name of the game as your volumes increases and hit a capacity utilization of about 90%, you have to add more trucks into the network.

As you add more trucks into the network, you have to build out that capacity. So, there is always, if you see whether you see my peer or whether you see me, there will always be quarters in which the gross margins fluctuate. Why is that so? That is because if the capacity has increased beyond 90%, the utilization has increased beyond 90%, additional capacity has been put in, which drives the cost up for some time, but then the benefits come in as your volumes increase and therefore Gati at that stage now, where if you've seen our volumes have started increasing. And therefore, that stage comes in where the capacity utilization drops a bit, and then it comes back because you get more and more volume. So, combination of the infrastructure and capacity utilization drives the line haul cost for an express company. What brings efficiencies is digitizing this process. And definitely we are in the process of digitizing our entire line haul. This will benefit cost efficiencies also because if a truck reaches on time, you turn around the truck on time and you can deliver your goods on time. So. a combination of these three. And like I said, Gati 2.0 is on its way to optimize all three of them – infrastructure, like I told you all in my notes, we have identified the choke up points and the five mega hubs being put in place as they come in, we will see that those routes will become easier for us to operate and optimize. As Faruk Nager comes in, it has the capacity of loading and unloading hundred trucks at a single time. Now, look at the current capacity that we have, and that itself will tell you that how the cost optimization

will take place with Mumbai, Bangalore, Indore, this will kind of proliferate into the system. So, that is the difference today, as I see it I don't know exactly. I'm not going to compare myself exactly with the peers, but I know where my deficiencies are, and the most important is you should know where your deficiencies are, so that you can plug them and then get into the next phase

Sayan Das Sharma: Absolutely sir, this is extremely helpful and very assuring.

Moderator: Thank you. We have a next question from Mr. Suraj Navandar from Prithvi Finmart. Please go ahead, sir.

Suraj Navandar: So, my question is sort of a follow-up question to the last participant. So, you said that you need to upgrade the existing infrastructure in order to drive your margin. So, what would be your Capex outlay for this year, next year if you can give some color on it

Management: So, like we have said right from the time that we have acquired Gati though Allcargo, we are going to be an asset light company. So, when I say new hubs are being built out, these are built to suit leased hubs. These are not going to be bought by us. So, we are going to lease these on a long-term basis. The Capex will be more on automation and technology that will be built into the hub and not on the building or the land that we are not going to purchase.

Suraj Navandar: Okay. Sir, also you spoke about reaching more to MSME sector. So do we plan to open new branches across tier-two, tier-three cities to reach out to more MSME drive more volumes from there?

Management: In fact, the network that we have and when I joined Gati too around three months back now. I was pleasantly surprised by the network that Gati has, and that is mainly the reason why in my strategy document, I have now looked at how do we enable MSMEs? Because we already have that reach. We already have that network. How do we enable MSMEs in India to be able to take advantage of the network that Gati has? The strategy is two-fold. It is about creating a go to market for these MSMEs. And it is about also making sure that the customers that the MSMEs sell to, receive, their goods with a lot of transparency and assurance so that they don't have to maintain stock at the other end. So, from a time to market perspective and a go to market perspective, we will be looking at the entire MSME sector. In fact, we are going to unfold some plans on the whole MSMEs strategy that we have, which I have promised you all that I'll talk about in the next quarter call. This is going to be very, very important form Gati strategy point of view.

Suraj Navandar: Okay. So, let’s say one year or one and half years down the line may currently be around 55% of revenue coming in from our key accounts and SME is around 45%. So how will this mix change coming? Like one year, two years down the line if you can.

Management: Business has to grow. Today, the 55%, is 55% of Rs. 120 crores a month. And 45% of Rs. 120 crores a month. We want to see how it looks at Rs. 200 crores a month. So, the 45% of Rs. 200 crores a month will still be a double figure for getting it from the MSME sector, if you're asking me how the mix will change, so I have not told my sales team to stop selling key accounts. Key accounts have to be continued to be sold to, but definitely I don't want to reach a situation where our business becomes 70% key accounts and 30% MSME. The ratio that is there today is a good ratio, but as we start becoming a larger company, larger revenue, I don't want that ratio to be skewed to key accounts and therefore the MSME strategy is being put in place.

Suraj Navandar: And so, my last question about the margin difference that we get from key accounts MSME and regional where we have much more pricing power. So, if we can. Quantify in numbers, how much is the market differential between key accounts like SME and Retail.

Management: So, the one business that gives you good margin definitely is the retail business, right? But the retail business is a very small business, for us logistics express players. When it comes to MSME versus the key accounts, like I said, margin depend on various factors. It is not just the price. So, a customer who gives me a lesser price, but gives me a large volume, maybe a better margin customer for me than a customer who gives me a larger price, but a smaller volume.

And that is because, my line haul capacity utilization gets covered by the first customer, right? So that balance is very important for us because when we move these shipments from A to B, we don't move single customer shipments we move all the shipments together and therefore the balance of volume versus yield. it's extremely important for us in this business.

Moderator: We have the next question from Neelam Punjabi from Perpetuity. Please go ahead.

Neelam Punjabi: So, when we look at fixed costs during the quarter on a sequential basis, our fixed costs have increased by almost Rs. 10 crores, if we put employee expenses and other expenses together. So, if you can please explain why has this increased happen? Because you know, our, growth in top-line has not translated into operating leverage.

Management: So, if you see the increase is equal in the people costs as well as the other admin expenses, right, so we are, like I said that Gati 2.0, we are taking on good quality professionals into the organization, and that is an initial increase that we will see in our people costs because basically, we need quality people to take this organization to the next level. once we are done with it, which will still happen in the next quarter we will start leveraging our employee costs. On the other admin costs, I will get back to you in a short time.

Neelam Punjabi: Okay. And my second question is, so what could be either a market share in the surface express distribution currently?

Management: Our market share is approximately 17.5% in the surface express currently

Neelam Punjabi: Is that the organized market share?

Management: Yes, that is the organized market share. So, when I say organized market share, I'm taking the entire Express logistics to be around Rs. 10,000 crores.

Moderator: Thank you. We have our next question from Ankita shah from Elara capital. Please go ahead.

Management: Before that can be answered the earlier question on the fixed cost increase. So, as you will notice, there was a fix cost increase of approximately about Rs. 6 crores in the employee expenses and about Rs. 5 crores in other expenses as detailed in the presentation. This also includes about Rs. 5.2. crores off one of expensive these includes higher provision for consultancy charges to various consultants, working with us on transformation programs, which is not a recurring cost and also certain retention bonuses and changes in LTA policy, which also had one time impact. Part of the total increase approximately Rs. 5.5 crores is also coming from these one-off items. In addition to what we'd already explained about the investments and people capital.

Moderator. So, you have a question from Ankita Shah from Elara capital, please go ahead,

Ankita Shah: I wanted to understand within this key enterprise account, which are the key sectors that we cater to?

Management: The sectors, our key sectors are automotive, pharma and retail. I do not state e-commerce because e-commerce plays across these sectors for us. In e-commerce we would be moving retail also, and we would be moving pharma also. So, therefore, automotive, pharma and retail are the three main sectors.

Ankita shah: And are they almost broadly a balanced mix or do we have to skewness towards particular sector?

Management: So again, like I said, the. Express industry requires both dense cargo as well as volumetric cargo. And as you know, automotive gives you that volume metric cargo and pharma gives you that dense cargo, so it's a, it's a good mix to have for us. I do not want to make a comment just now whether all three are equal or not, if that is what you're asking.

Ankita Shah: Sure. I understand you do this because you have exposure to auto, have you faced any issues due to the chip shortages?

Management: On the contrary in the express industry, you're actually moving aftermarket of auto. And aftermarket of auto has really gone up because as you know, the sale of new vehicles because of the chip issue has gone down. So, people who are in line for buying new vehicles are still running their old vehicles. And therefore, we see in fact that the aftermarket business has gone up.

Ankita Shah: Also said what kind of growth, if at all, if you can share, on this kind of a growth in volumes, are we expecting in the near term or, what's your outlook on that?

Management: So basically, the way we are looking at growing Gati is growing our market share. Today, if, if you look at it, a market share is around 17%, as I said. Every 1% the growth in the market share on a market that itself is growing at 12 to 15%, should be a large amount that you have to add on. So, for us, we will look at how we want to become the market leaders and today the market leader in this industry has a 30% market share.

Ankita Shah: And lastly, any timeline on the sale of the fuel business?

Management: So, on the fuel business, then it's more of a procedural part which takes longer. But we anticipate that over the next four to five months, we should be in a position to dispose-off the fuel business

Moderator We have a next question from Mr. Pratik Kumar from Antique. Please go ahead.

Pratik Kumar: My first question is on, so when we indicate that 30% plus like the aspirational gross margin where do we stand today in terms of gross margin?

Management: So, today our GKEPL business is at about 28.8% gross margin.

Pratik Kumar: And we say about this Rs. 5.2 Crores of cost, I think we have been incurring in the pass quarter so till when is this the expense expected to last?

Management: So, these exceptional costs like I said, are a one-off and what you are perhaps referring to the constant recurrence of such cost is, because as we have been going through a restructuring and you know, a transformation, naturally there have been several one-off items. The transformation program by itself is nearing conclusion towards the end of this year. And therefore, beyond one quarter, the cost variations should not be significant.

Pratik Kumar: So, you mean one more quarter, we'll have this 5-crore impact?

Management: Not Rs. 5 crores impact, but there could be some impact which could be there but not to this extent, because like I said, this also includes significant amount of one-off employee expenses as well, which will not be recurring. There will be a much more minimal one-off item in the coming quarter and beyond that there shouldn't be any more one-off item.

Pratik Kumar: I mean while we are focusing on asset light properties and leasing assets, but for tech and otherwise, what is the Capex outlook we have for FY22 and FY 23?

Management: If you look at the technology part as well, we are trying to take an approach. When we go with an OPEX model be it. We're using so we're trying to see how we can adopt technology in a more licensed or use kind of a model rather than investing behind. So even when it comes to choice of various systems and tools and technologies, that is the way we adopt, in fact, that's something which runs across philosophy of the organization and right from you. If you would look at owning offices versus lending them out, branches facilities, the same approach extends toward IT as well, and today there are opportunities to use technology as a service rather than having to put significant CAPEX towards the same.

Moderator: Next question Neelam Punjabi from Perpetuity. Please go ahead.

Neelam Punjabi: Thanks for the follow-up. So, we have a currently around Rs. 153 crores for asset held for sale so is this largely the fuel station asset or do we have any other asset as well?

Management: So, the fuel stations will be a small part of that. The fuel stations are not a large business in that sense, these are largely various other real-estate assets held by the company, which include, you know, constructed properties, empty land, real estate and other variety of real estate asset, which are not core to the company's operations and therefore have been marked for sale.

Neelam Punjabi: Okay. So, so what would be the timeline for, selling these assets and divesting them?

Management: We have already mentioned the past that we anticipate concluding the entire divestment through the FY23. And if you continue to go on a steady basis and it has continued to progress in the same direction over the last six months. So, this was the direction we had given about six months ago that. In 18-24 months, divestment would happen and it has been going on track since then.

Moderator: We have a question from Suraj Navandar from Prithvi Finmart. Please go ahead.

Suraj Navandar: Thank you for the follow up once we reach targeted gross margins. What would be our EBITDA margin target then?

Management: So, so like I said, a steady state business should have an EBITDA margin of anywhere between 12 and 15%.

Moderator: Thank you for any further questions, please press star and one. Sir, there are no more questions. Sir, any closing comments?

Management: So, thank you all for joining the call. we hope that they've been able to answer your questions and provide you with important information and updates about the company and our operations, in case you have any further queries, any questions, please feel free to reach out to our investor relations team and also to the SGA team who has been working as our investor relations advisor.

Thank you very much. And I wish all of you and your family members and colleagues, a very happy and healthy festive season ahead. Thank you so much.

Moderator Thank you, ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using iJunxion Conference Service. You may please disconnect your lines now. Thank you and have a great evening.