"Gati Limited
Q3 FY2022 Earnings Conference Call"

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Moderator: Good morning, ladies and gentlemen and welcome to the Gati Limited Q3 FY2022 Earnings Conference Call hosted by Elara Securities Private Limited. 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 Ms. Ankita Shah from Elara Securities Private Limited. Thank you and over to you mam.

Ankita Shah: Thank you Lizann. Good morning, everyone. On behalf of Elara Securities, I welcome you all to this earnings conference call of 3Q FY2022 for Gati Limited. We are pleased to us with us management team represented by Mr. Pirojshaw Sarkari, CEO Gati Limited, and Mr. Ravi Jakhar, Chief Strategy Officer Allcargo Logistics. We will have opening remarks from the management followed by a question-and-answer session. Thank you and over to you Ravi.

Ravi Jakhar: Yes thanks. Good afternoon, everyone and thank you for joining us on Gati Limited quarter three FY2022 earnings conference call. This is Ravi Jakhar here. I trust all of you and your dear ones and colleagues are well and keeping safe. As the COVID wave is hopefully getting down we hope for the safety and well-being of all your colleagues and family members. I also hope that you had a chance to look at our results and the earnings presentation which has been uploaded on the stock exchanges and available on the company website. We have recently had our union budget presented by the finance minister, which lays a strong emphasis on logistics and logistics infrastructure to power the growth of the country. As we prepare for the next decade of growth on the back of manufacturing-led growth, we believe that we have a great opportunity to play a role in facilitating that growth and at Gati Limited we are happy to be part of the consumption-led economic growth on the back of significant development in logistics infrastructure. It is heartening to note the focus from the government be it about expanding the national highways or setting up the multi-modal logistics parks and we from our end would continue to contribute with various logistics infrastructure to be set up to facilitate time-bound transport of cargo which can help further accelerate country's economic growth. I would now call upon my colleague Mr. Pirojshaw Sarkari (Phil), to share his perspective on the industry and how at Gati we are getting ourselves to start the next phase of our growth journey. Over to you Phil.

Pirojshaw Sarkari: Good morning, everyone and thank you, Ravi. Before I start speaking, I would like to introduce Mr. Anish Matthew. Anish has joined us as the Chief Financial Officer for Gati. Anish will be on this call, but he will be a spectator for today's call. All the questions may be directed to me, please. With that let me first start by giving \few insights on the overall express industry. As per our internal estimates, express contributes approximately 2.5% to the Indian logistics sector. The logistics sector is poised to grow 10% to 12% CAGR by 2025. Mere 100 basis point market share could double market opportunity for the express industry. The total available market spread across surface, air, e-commerce, and contract logistics amount to Rs. 52,500 Crores approximately. However, we see this as a much conservative estimate as there are multiple studies now available in the market which peg the available market at a much larger number. Thus, Gati finds itself in the most exciting space in the logistics sector and we at Gati are extremely excited about being an integral part of the future of logistics in our country. Since Allcargo acquisition, Gati is no longer the Gati that people have come to know over the past few years, but a revamped and consciously transformed organization following a strategic road map with a streamlined plan for the time to come. In addition to the unparalleled connectivity and reach covering over 99% of the pin codes across the country, we take pride in having a unique integrated network that sets us apart from any other player in the industry. The centralized line hauling with 19 express distribution centers, 23 surface transshipment hubs, and 84 Gati distribution warehouses spread across the widest network in association with a strong web of partners, vendors extending to over 500 plus trucks, a franchise-based approach, and dedicated Gati associates further enhancing capacities enabling the first mile and last mile deliveries and helping the company provide end to end service being the one-stop solution for all levels over the value chain. We are nearing completion of five pillars of transformation which included balance sheet restructuring, debt reduction, profitability, digital, and last but not the least governance. With Gati 2.0 we are laying down the revised five major pillars around which we would position Gati for the next level of sustainable growth. We have revised our focus with a sharper eye on profitability through digitization, sales acceleration, industry-leading infrastructure capabilities, streamlining operations and inducting an experienced talent pool. Diving into each of these major elements one by one digitization is focused on enhancing the customer's experience on the front end and having seamless operations on the backend all of this while providing differentiated value-added services to our customers. The recently implemented leading CRM salesforce, shift towards digital payment and deployment of data science would accelerate automation efforts. The aim remains adopting technology-based decision-making on the back of rich and relevant data. Sales acceleration is built around the realignment of the sales team structure and targeted approach towards key account management, MSME, and retail and thereby increasing market share and ensuring the highest levels of service. The refocused approach on the alignment of the sales team has generated new energy at the organization level, the benefit of which we could experience in the times to come. The focus pyramid is where we believe our priorities are set. We put ourselves high in key enterprise large accounts which contributes 58% of our overall revenues. However, the segment which we believe has enormous potential and would play a pivotal role in India's growth journey to becoming a five trillion economy is the micro small and medium scale enterprises. They are entrepreneurs with a purpose and we would like to partner with them and play a small integral role in their success journey fulfilling their vision. We have designed a special sales task force targeting MSME to position Gati as their preferred supply chain partner. We will help them devise their time to market as well as go to market strategy that will not only help them to expand their reach but also to optimize their inventory level leveraging our unique integrated network and supply chain management expertise. Being future-ready is what Gati has always been known about. Asset-light approach remains the base of decisions we take, however, we would like to now aim at further amplifying our infrastructure capabilities augmenting the role of scale and automation in our operation. We believe that this is required and would yield tremendous benefits given the phase and path of recovery and growth that we are targeting. The first express distribution mega hub was inaugurated in Farrukhnagar, Haryana which will serve the whole of north India with unmatched connectivity. The scale of such facility spread across more than 1 lakh square feet having 89 docks which could simultaneously load 100 trucks and would provide economies of scale and faster turnaround time. Automation, cross-docking, OCR, and other processing technology would be deployed aiming at creating this facility into a world-class material handling and automation infrastructure as well as safety and technology process and systems. Continuing a long tradition of employee welfare and benefits at Gati, we have also set up Gati Niwas residential quarters and kitchen facilities for all our employees as well as drivers at the new hub ensuring 24 x 7 availability of sleeping quarters, sanitation facility, and hot meals for them. With Farrukhnagar we believe that we have set a template of future infrastructure upgradation and have decided to build seven mega hubs across the country over the next two years. The next two hubs with similar facilities and scale will be operational in Mumbai and Bangalore in H1 of FY2023 followed by Nagpur, Indore, Hyderabad in H2 of FY2023, and then Cochin and Pune in H1 of FY2024.

Moving after the fourth pillar that is Operations. It rests on the simple fact that having streamlined operations with a strong balance between superior capabilities and appropriate cost optimization measures is essential to build a market-leading business with good margins simultaneously capturing a greater market share and delivering a strong financial performance. From transshipment centers and hubs to line house centralization and digitization, pickup and delivery capacity expansion to improve quality management system there are several measures being actively worked upon with the asset-light model at its core. All these efforts are constantly targeting one goal which is margin improvement. We continue to affirm our guidance of attaining an EBITDA margin of 12% as explicitly stated in several investor calls earlier.

Lastly the fifth pillar and one that is often the key differentiator between organizations that are successful and those that are not, is the talent pool. Gati has made significant reinforcement in this regard adding high-quality next level to mid-level talent locally and globally to bring their rich experience and expertise and catalyze this journey. As I said recently, Mr. Anish Matthew has joined as Chief Financial Officer. Anish has more than 19 years of experience in leadership and advisory roles across financial and business initiatives, organization transformation, and cost reduction. He was earlier associated with Andhra Paper leading the entire operations and was key to the Chief Executive Officer on various business and financial matters. He has a rich and diversified industry experience in the consumer, pharmaceutical, pulp, and paper, and manufacturing sectors. Having worked with a few listed companies like International Papers, Pepsi, and Usha Martin in his past. Mr. Huafreed Nasarwanji has also joined us as Chief Commercial Officer. He has rich industry experience across integrated express retail, aviation, international forwarding, logistics, and supply chain. In the past has been associated with DHL World Wide Express, UPS Store, Deccan Cargo as well as Mahindra Logistics. Mr. Mehernosh N Mehta has joined as Chief HR Officer. Mehernosh has more than 19 years of experience across the consumer, pharmaceutical, logistics, and engineering sectors and has worked with top brands like Asian Paints, Sanofi, Tata Group, Mahindra Logistics and Welspun.

There are a few other initiatives that will supplement and aid the core activities along with building a sustainable business. These include launching an electric vehicle fleet for the first and last-mile delivery, also encouraging the GA to adopt the same and further optimize their operating cost in the long run. We have also embarked upon training GA through etiquette programs and giving them incentive-based rewards leading to higher incentives and better service quality. Our initiative towards better corporate governance is an ongoing one, so with 50% of our board and 70% of the Gati KWE board being independent is just a steppingstone for future initiatives on this front.

With this I would now talk about consolidated financial performance, I will give an update of quarter three and share highlights of operational and financial performance for the nine months period ended FY2022. First I will cover the financial for quarter three and then for nine months. Quarter three consolidated revenue increased from Rs. 394 Crores to Rs. 416 Crores an increase of 6% and 4% increase from Rs. 401 of the current year previous quarter. Gross profit for the quarter was down by 4% from Rs. 98 Crores to Rs. 94 Crores and the reported consolidated EBITDA degrew by 34% from Rs. 25 Crores to Rs. 16 Crores for the quarter. Quarter three PBT before exceptional items was Rs. 4 Crores. I will now talk about consolidated performance on a year-to-date basis. Revenue grew by 24% from Rs. 894 Crores to Rs. 1,109 Crores. Gross profit grew from Rs. 226 Crores to Rs. 258 Crores, an increase of 14%, and similarly, EBITDA grew by 41%, PBT at a loss of negative Rs. 2 Crores compared to a negative of Rs. 25 Crores in the same period last year. GKEPL which is our key subsidiary as reported revenue growth of 21% year on year. The surface segment which remains the largest contributor to our GKEPL performance has posted the highest ever tonnage of 265,000 tons with a growth of 11%. Adjusting for one-time transformation expense the EBITDA stood at Rs. 20 Crores with a margin of 5.7%. Our air express business post rebranding and focused approach has been able to achieve new quarterly milestone in terms of tonnage handled and quarterly revenue. Air now contributes 5% to GKEPL top line which grew by 42% year on year. Supply chain business registered a de-growth of 11%. Despite higher utilization, the revenue has declined as we are coming out of a low margin loss-making contracts in this business. I believe we have provided ample other data points which we share on regular basis in the presentation which could be further referred for performance comparison. With this, we can now open the floor for questions and answers. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Rajath from ithought Financial. Please go ahead.

Rajath: My question pertains to GKEPL what is the gross margin in this quarter and what was it last quarter and what is the achievable gross margin number for us and what are the constraints that we are not able to achieve those gross margins as of now despite achieving a very good scale.

Pirojshaw Sarkari: The gross margin for this quarter was 25.7%, the previous quarter was 27.7%. Basically like I have said in the earlier call also we are in the process of making Gati a customer-centric organization and therefore doing everything to make sure that the service to the customer is our first priority in the bargain yes the gross margin has taken a hit but then once we consolidate our operations you will see from quarter one of next year the gross margin rising. Some of the reasons for this basically as you know we are a network organization. We need to make sure that our trucks leave on time every time and reach on time every time. There is something called cooling that is practiced in some of the industry players whereby trucks do not have that much capacity you hold the truck build up the capacity and then release it, but then your promise to your customer fails, so we are making sure that we are coming back to being absolutely customer-centric and as these processes stabilize the gross margin will come back. I hope I have answered your question.

Rajath: And what is the range of gross margin that you think is achievable over let us say next two years.

Pirojshaw Sarkari: So more than next two years, I would say by next year our gross margin should be in the vicinity of 29 to 30%.

Rajath: And will that be a sustainable level or you think there will be scope to improve from there also.

Pirojshaw Sarkari: Absolute scope to improve even from there.

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

Prateek Kumar: Good morning, Sir. My first question is on your facilities, the large hubs which you are creating, so Farrukhnagar being first, so what is the kind of CAPEX which we put on such facilities going forward like per facility and I guess it would be assetlight model, so these are like rented facilities or how do they work.

Pirojshaw Sarkari: So you are right Prateek they are leased facilities. We take long leases. These are built to suit facilities which means we work with the investor and landlord together to build out facilities as per our requirement, but it is a lease model. We would take long-term leases anywhere between

6 to 10 years so that the return on investment for investor comes in. So the models for the next seven hubs will also be that of leased facility.

Prateek Kumar: And what will be the annual rental percentage of these facilities that we have and do they storage facilities also for warehousing or these are just transshipment terminals for quick turn around and what is the average size of these terminals?

Pirojshaw Sarkari: So the size of the first three which are Farrukhnagar, Mumbai, and Bangalore all 100,000 plus square feet. Yes, we are building them for the future and therefore maybe for a year or two we may some have excess space in them which we can give out to some of our customers who require storage space but the idea of these facilities are not for warehousing, these are transshipment hub and therefore as you can see even in Farrukhnagar we have 89 docks. Generally in a warehouse, you would not need so many docks right so although they are built to suit transshipment hub, we are building out capacity over the next five years or so, and therefore in the first one or two years, we would have excess space which we can give out to some customer.

Prateek Kumar: Sure thank you, Sir. I will get back to the queue.

Moderator: The next question is from the line of Shivaji Mehta an investor. Please go ahead.

Shivaji Mehta: Thank you for this opportunity. Sir, there was this news article which we had also put on our website which stated that we would aspire to achieve a Rs. 3,000 Crores top line in the next three years time. Firstly, I just want to confirm whether this is the guidance that we stand by and second, I wanted to understand what the start date is, the three years would end by FY2025, or is it by FY2026.

Pirojshaw Sarkari: Yes, this is not our guidance, but this is a statement that we stand by. Basically, starting from financial year FY2023.

Shivaji Mehta: Okay FY2023 to FY2026.

Pirojshaw Sarkari: Yes correct.

Shivaji Mehta: Okay right and Sir just one last question on the EBITDA margin, right now the guidance is about 12% by FY2023 just a slightly more long term say by FY2025, FY2026 given these kind of new mega hubs that we are building and also with their operating leverage, etc, can we go all the way up to 13-14 odd percent?

Pirojshaw Sarkari: Yes of course they can. As we grow our business the fixed cost leverage starts kicking into the organization because in an express logistics business the fixed cost increase as per the revenue growth in a linear way, so definitely they can increase beyond.

Shivaji Mehta: Right Sir just circling back to my question. I was just looking at the numbers so we were at a Rs.1,000 Crores top line from the express business in FY2021 and by FY2026 it is going to be a 3x jump more or less in your top line so if you could just give some colour as you mentioned in your opening remark the industry is going to grow at about 12 odd percent so where is that huge additional growth that we are going to be experiencing, were is that really going to come from?

Pirojshaw Sarkari: So, if we go back into the history of Gati, Gati used to be the market leader in this segment. Then over the past may be 7 to 10 years is when some other players emerged and took away a fair share of Gati's market. We are resurrecting the brand as I have said and there is tremendous opportunity out there. Number one is we must look at this industry size, the top four players who are the organized players in the industry do not even constitute 50% of the size of the express logistics industry so there is huge unorganized market which is there for us to organize and get as our revenue. Secondly, the concentration of MSME customers that is going to be our focal point and third as the Indian economy moves towards the Rs.5 trillion mark and as manufacturing comes into the country in a larger way express logistics will be used both for the raw material to come in for manufacturing and the finished goods for distribution so there is going to be an enhancement of the market also. One is enhancing the organized from the unorganized and the second is the enhancement of the market itself so there is tremendous opportunity for a good player to grow.

Shivaji Mehta: That was very helpful and just one last question if I may. Since you have such vast experience of spanning logistics companies in the past and you have seen so many different facets of the logistic business. Is there any plan going ahead were in you want to kind of diversify away into certain other sort of spaces within the logistic sector itself something like 3PL or some other sort of space that you could be looking at?

Pirojshaw Sarkari: Absolutely, I never say no to anything. The focus for the next 12 months is to really get Gati a substantial part of the business in express logistics post that we definitely would consider looking at contract logistic because contract logistics does give a lot of business to express logistics as you know. If you are going to be doing warehousing, the distribution from that warehouse becomes express logistics so definitely, we will be looking at that but right now as we sit here for the next 12 months at least, we are going to concentrate on growing our express logistic business.

Shivaji Mehta: Thank you very much Sir and wishing you all the very best.

Moderator: Thank you. The next question is from the line of Rikin Shah from Omkara Capital. Please go ahead.

Rikin Shah: My question has already been answered.

Moderator: Thank you. The next question is from the line of Hemant an investor. Please go ahead.

Hemant: Hello Sir good morning. Sir I would like to know with Gati 2.0 and with the cost of optimization with the change of management and with the reduction of debt and existing of loss-making provision in business so what has led to the decline in profitability and what is the outlook going forward like in the next quarter and may be in FY2023.

Pirojshaw Sarkari: I did respond to the same question. The very first question but I will reply again. Basically, as I have said we are resurrecting Gati, okay and I use this word resurrecting Gati because in the last 5 to 7 years Gati while the brand was very strong had distracted itself into doing other activities beyond express logistics so when Allcargo decided to buy out Gati it was with the sole intent of growing the express logistic business and growing it under an asset-light model right,, the first thing was to make sure that all the other subsidiaries that had been built out were either closed down or sold out depending on the situation of the subsidiaries and also sell of the owned asset so that we can go through an asset-light model which is the right model for any logistics company because it provides flexibility as well as it also allows the company to create models at further requirement of the business. We have been in the last four-five months working on making sure that our operation first comes up to the level that it is required for us to give our commitment to the customer and in that process yes we had to compromise a bit and use the word compromise a bit on the margin because we had to bring that faith back into the customer. Once our operations are in line with the expectation of the customer, customer volumes will start pouring back in and you will automatically see the gross margin grow.

Hemant: So, Sir can we assume that things are going to improve from the next quarter and much more improvement can be seen in the next fiscal year.

Pirojshaw Sarkari: Yes, you definitely will see much more improvement in the next fiscal year.

Hemant: Okay Sir thank you so much.

Moderator: Thank you. We will move on to the next question that is from the line of Radha from B&K Securities. Please go ahead.

Radha: Thank you for the opportunity, Sir. My question was in terms of debt. In the June quarter, I believe that our net debt on Gati's book stood somewhere close to around Rs. 176 Crores and we had mentioned in the presentation that we have identified some similar amount of non-core assets that will be sold and the proceeds will be used to repay the debt, but in this quarter I think that the debt has increased by about Rs. 13 Crores in Gati-KWE so would you say that the timeline for the repayment of debt has been increased by a few quarters and what would be the current net debt on Gati's book?

Pirojshaw Sarkari: If you look at Gati, the parent company, the net debt has actually reduced by Rs. 7 to 8 Crores. We have reduced our term loan for this quarter. In GKE yes, we have increased the working capital by a similar amount because again like I said we want to make sure that the service that we provide to the customers is up to the mark and that required us to make some quicker payments to our service providers, etc. We are in the process of selling our non-core assets as I call them and while the whole organization is behind this, it takes a little time to sell off these assets, but we will show you every quarter sale of assets.

Radha: My next question would be in terms of CAPEX so just extending my question that the previous participant has also asked on CAPEX so just extending that question can you give us maybe a ballpark figure of what would be the CAPEX required for Gati for the next two years?

Pirojshaw Sarkari: Like I said I have embarked upon a total asset-light model. All operating units whether they are hubs, whether they are distribution centers, will all be taken on lease. Our CAPEX if at all will be on replacing material handling equipment as they grow old in the organization so nothing substantial that I can really put down here towards capex for our growth.

Radha: Okay thank you, Sir. Sir just one last question if I may. What would be the current market share for the company in the surface express and air express?

Pirojshaw Sarkari: Market share will be calculated in many ways. If you would take just the five top players in the industry which are Safexpress, TCI, Spoton, us, and Blue Dart, which are the B2B players then we would be about 16% to 17%.

Radha: In surface express and what would it be in air express?

Pirojshaw Sarkari: Air express is very difficult to make out because for air express if you consider Blue Dart which carries freighter volume on its aircraft then it is very, very difficult. I can only tell you that air express is 5% of our total revenue in GKEPL.

Radha: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investment Management. Please go ahead.

Ashwini Agarwal: Hi good morning, Phil. Thank you for all the information and the opening remarks. One question when you talk about aspirational 12% EBITDA margin potentially 14% is operating leverage on fixed cost kicks in the lease payments for all these seven hubs that you are creating, are you considering them below the EBITDA line or lease expenses would be part of the operating expenses?

Pirojshaw Sarkari: No so we go by the Ind-AS.

Ashwini Agarwal: In Ind-AS the depreciation and interest would include the lease payments, it will be below the EBITDA line, so in that context what is the CAPEX that we investors are making on each one of these units?

Pirojshaw Sarkari: I told you there is no CAPEX.

Ashwini Agarwal: The landlord is building the facility for your specs.

Pirojshaw Sarkari: Correct, so for us as Gati, it is a pure OPEX model.

Ashwini Agarwal: I get that, but what is the investment that the landlord is making in the facility, what would be the cost of land and building just out of curiosity?

Pirojshaw Sarkari: I really would not be able to say what is the cost of land for sure because land depends on whether this gentleman is owns the land through his ancestry or when did he purchased it, etc., we do not know. Generally, when you look at a hub asset you do not take land into consideration otherwise you will never get a return on investment, so land appreciation is what they look at these landlords, they never look at land to be built into their ROI for the lease rental. You can imagine if in Gurgaon you were to buy land today and then I want to build a warehouse and get a return on investment you will never get it right. The land part is always an appreciation of the land that you have taken into account.

Ashwini Agarwal: In Farrukhnagar what is the lease payment that you are making on a per month basis?

Pirojshaw Sarkari: Individual per month leases we do not put out like that, that is not the level of information that we give out.

Ashwini Agarwal: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Nirav Vasa from Anand Rathi. Please go ahead.

Nirav Vasa: Hello Sir and thank you very much for the opportunity. Sir what I wanted to understand is that as on Q3 FY2022 58% of revenues in the surface express business was coming from key enterprise accounts so wanted to understand as we ramp up our business how do you see the revenue share coming from these three major revenue heads that is your key enterprise accounts, SME, retail and if you can specify a bit on the e-com policy that would be great?

Pirojshaw Sarkari: So, the way I am directing my sales team is that by next year end we should have a 50, 30, 20 which means 50% key accounts, 30% SME, and 20% retail. As far as the e-com policy is concerned at least for the next 12 months we will not be doing any B2C e-com in Gati. I said that last time also, but we will do B2B e-com. When I say B2B e-com involves two kinds of businesses, one is pick up from vendors and deliver to the e-commerce warehouses and the second is pickup from e-commerce warehouses and return is going back to the vendor so that business of e-commerce we will be doing, but we will not be doing the last mile delivery which is B2C.

Nirav Vasa: Right Sir. Got it. At the start of the call, you mentioned that there is going to be an aggressive rollout of our warehouse and transshipment expansion programme so would it be possible for you to share as to what can be the total area under square feet which you intend to envisage or to rollout in the next two to three years once your proposed layout is fully executed?

Pirojshaw Sarkari: Like I said the first three which is Farrukhnagar, Mumbai, and Bengaluru put together itself should be about 350,000 square feet. As we go into the smaller cities the size of the transshipment hub may go down to say about 75,000 to 80,000 square feet. If I were to take an average over the next 7 to 8 hubs, we are talking about at least anywhere about three fourth of a million square feet.

Nirav Vasa: Thank you Sir. My queries have been answered.

Moderator: Thank you. The next question is from the line of Ankita Shah from Elara Securities Private Limited. Please go ahead.

Ankita Shah: I wanted your thought on the realization for the nine months you explained improvement in the surface express business but there has been a decline in the air express business so how will you see realizations moving forward and why has there been a decline in the air express although the volume growth is good in both the segments but not in the realization part?

Pirojshaw Sarkari: So, air express is a business that is so small just now so an individual customer can really influence my air express business going up and down. I would not really be bothered about that right now because we are growing the air express business. Our air express business as you can see is at an average of Rs. 5 Crores a month so that is not really to be viewed that way that the realization is down or up. The surface express business our realization has remained constant, it has not really moved in a big way and as we grow our MSME and retail business the realization will only increase.

Ankita Shah: You have mentioned in our last conversation that we take a tariff hike every year in the last quarter so have we taken a hike in the fourth quarter?

Pirojshaw Sarkari: As we sit here in the month of February, we are rolling out a tariff hike.

Ankita Shah: If you can share the quantum?

Pirojshaw Sarkari: It differs from vertical to vertical.

Ankita Shah: Also, any update on divestment of fuel pump.

Pirojshaw Sarkari: We have three fuel pumps, the buyer is ready with us, it is only that this has to be taken up with the public sector organization for permission which is taking a bit longer than what we thought, but we have a buyer who is ready to take them over.

Ankita Shah: So, any timeline by when can we give it?

Pirojshaw Sarkari: You know when you are dealing with the public sector to give you a timeline would be very difficult for me, but we are trying our best to do it as soon as possible.

Ankita Shah: Total investment that you have done in this business segment?

Pirojshaw Sarkari: As you know Allcargo has bought Gati lock, stock and barrel so there is no investment specifically in this business that we have done.

Ankita Shah: Thank you.

Moderator: Thank you. We will move onto the next question that is from the line of Depesh from Equirus. Please go ahead.

Depesh: Hi Sir Thanks for taking my questions. Sir last quarter Mr. Ravi highlighted the one-off to the tune of Rs. 5.2 Crores on the consultancy charge, etc., so just wanted to know what that number is this quarter?

Pirojshaw Sarkari: That is approximately Rs. 3 Crores this quarter and by March that will go away.

Depesh: Okay the consultancy charges will go from March?

Pirojshaw Sarkari: Yes.

Depesh: Lastly on the standalone business that is the B2C business that you have in the standalone part I think you used to share the volumes for the e-commerce logistics as well but that slide is missing so can you help me with volumes in e-commerce, logistics that you did in this quarter and also why the EBITDA level losses have increased while the total scale is reducing in this business?

Pirojshaw Sarkari: Basically, like I said after I came in and evaluated the strength of Gati I have almost now stopped the B2C e-commerce logistics business and therefore you can see the numbers are also kind of going down. The only business left out over there is the B2B business in e-commerce, which we will look at now merging back into our normal surface or air express business because this does not make sense to keep it separate therefore the allocation of cost will stop and there will be a direct expenditure.

Depesh: Okay so you are saying merging this business into the GKEPL right where you have a 70% stake?

Pirojshaw Sarkari: Yes.

Depesh: Okay Sir thank you very much.

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

Neelam Punjabi: Thanks for the opportunity. Sir dwelling further into one of the previous participant's question I just wanted to know what is our current annual lease payment and with our future transshipment hub becoming operational by FY2024 what could be the anticipated annual total lease payment if you just give us a ballpark number?

Pirojshaw Sarkari: Our current annual lease payment would be to the tune of Rs. 60 odd Crores. The ongoing ones with the new hub coming in will be difficult for me to give right now, but as and when we keep on moving from our own to build-to-suit lease we will be putting those out in our quarterly numbers.

Neelam Punjabi: Okay thanks.

Moderator: Thank you. The next question is from the line of Sunil Kothari from Unique PMS. Please go ahead.

Sunil Kothari: Can you Sir repeat this annual lease payment currently that is Rs. 60 Crores you said?

Pirojshaw Sarkari: Annual?

Sunil Kothari: Annual and that is part of other expenses, right?

Pirojshaw Sarkari: That will be in our admin cost.

Sunil Kothari: Broadly the way you presented and give a very detailed answer to our aspirational margin and our revenue target can you provide me little bit granularity in terms of say next 12 months objective for maybe PBT margin over 3 to 4 years what type of PBT margin is possible in this business because my concern is that for your key accounts you cannot increase the prices easily, and your suppliers, your vendors you have to pass on the cost immediately to them because they are very small transporters and small fleet owners, so combining all this situation I would like to understand what type of PBT margin is possible in this business and to achieve those what are we supposed to do over the next 12 months or 18 months?

Pirojshaw Sarkari: We have already over the past 18 months given you all guidance that we are looking at an EBITDA of 12% right so that is what we are striving towards. The main components of our cost are the operational cost which is our pickup, delivery, and line haul cost and that is where we must work to get efficiencies in all three of them such that we can increase our gross margins of course with the combination on the yields that we get from our customers. To respond to your question about key accounts not being able to increase the yields I do not think that is true. It is about giving them the right service and going back to them and saying hey guys if you want this level of service this is the price that you have to pay for it. A lot of customers would be willing to do that because in surface express it is not just a huge increase that you are talking about with the customer right, your yield is around Rs.13, 14 a kilo then even if you are increasing 10% that is like increasing hardly Rs.1.4 so that change in the mix which I spoke about earlier where we increase our share in our revenue of MSME and retail will make sure that our gross margins go up to the required. Like I said as we grow the business and our gross margins grow up we leverage our fixed cost, which is not going to keep growing according to the increase in revenue and therefore to achieve the 10% to 12% EBTIDA margin should be the first target for us.

Sunil Kothari: That is feasible in the next 12 months Sir?

Pirojshaw Sarkari: We have given you timeframe of 12 to 18 months so we will do that.

Sunil Kothari: Sir one clarification. Somebody replied on one query, a response that the lease rent will be debited after EBTIDA so just again wanted to clarify this will be the part of administrative expense and after EBITDA there will be only interest and depreciation?

Pirojshaw Sarkari: Correct so under Ind-AS you need to calculate the leases over the useful life and capitalize them and then put depreciation below EBITDA.

Moderator: Thank you. The next question is from the line of Rohit from Samatva Investments. Please go ahead.

Rohit: Good afternoon Sir. Thank you for the opportunity. I just had one question on the Allcargo logistics park. Allcargo being a huge 3PL player and there can be a significant express business for us coming from them, has there been any synergies that they have been able to pass on to us and anything in terms of numbers that you could share?

Pirojshaw Sarkari: As we sit here there is a group wide cross-sell and up-sell programme that goes on between the sales teams of Allcargo, EQ, and Gati. It has already started green shoot results for us and we believe that this programme will generate a lot of business for us. As far as numbers are concerned, I cannot share any numbers right now with you, but as this programme proceeds we will look at sharing some pointers.

Rohit: Great Sir. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we will be taking the last question that is from the line of Ankita Shah from Elara Securities Private Limited. Please go ahead.

Ankita Shah: Sir just one clarification if you can share the mix of B2B, B2C in the standalone business?

Pirojshaw Sarkari: Very difficult for me to do that because we do not do B2C business; however, it will be wrong on our part to say B2C is zero because some of the retail business, which we pick up could end up being delivery to an individual so, for example, we have a product called motorcycle movement so that could be a kind of delivery at customer location but very small. I have not even myself calculated how much B2C, you can safely assume that our B2B would be above 95% if not more of our business.

Ankita Shah: Got it.

Moderator: Thank you. Ladies and gentlemen that is the last question. I now hand the conference over to Ms. Ankita Shah for closing comments.

Ankita Shah: Thank you to all participants and management for taking out time and to the management for giving us the opportunity to host this call. Sir do you want to add any closing remarks?

Pirojshaw Sarkari: Nothing but just to say thank you to everyone and I hope we have been able to answer all questions appropriately. Should you need any further clarification or would like to know more about the company please feel to contact either our team or SGA. Thank you once again.

Moderator: Thank you. Ladies and gentlemen on behalf of Elara Securities Private Limited that concludes this conference call. We thank you for joining us and you may now disconnect your lines.