“GATI Limited Q1 FY 2016 Results Conference Call”

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ANALYST:	**MR. ANKIT M. GOR -MIDCAPS - INSTITUTIONAL EQUITY RESEARCH – SYSTEMATIX SHARES & STOCKS**
MANAGEMENT:	**MR. SANJEEV JAIN - DIRECTOR FINANCE - GATI LIMITED**
	MR. BALA AGHORAMURTHY - PRESIDENT AND WHOLE TIME DIRECTOR - GATI-KWE
	MR. DHRUV AGARWAL - EXECUTIVE VICE PRESIDENT - GATI-KWE
	MR. VSN RAJU - COMPANY SECRETARY AND CHIEF INVESTOR

RELATION & COMPLIANCE OFFICER - GATI LIMITED

MR. PETER JAYAKUMAR - DEPUTY CFO - GATI-KWE.

Moderator: Ladies and gentlemen, good day, and welcome to the Gati Limited, Q1 FY 2016 Results Conference Call, hosted by Systematix Shares and Stocks 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Gor from Systematix Shares and Stocks. Thank you and over to you Sir!

Ankit Gor: Thank you. Good morning all. On behalf of Systematix Shares, I welcome all the participants for Gati's Q1 FY2016 Results Conference Call. I thank Gati's Management for giving us an opportunity to host this conference call. From GATI Limited, we have Mr. Sanjeev Jain, Director Finance, Mr. Bala, President and Whole Time Director of GATI KWE, Mr. Dhruv Agarwal, Executive Vice President Gati KWE, Mr. VSN Raju, Company Secretary and Chief Investor Relation & Compliance Officer, Mr. Peter Jayakumar, Deputy CFO, GATI KWE. Now, I request the management to give details of Q1 FY2016 results which will be followed by the Q&A session. Thank you and over to you Sir.

Sanjeev Jain: Thank you very much Ankit. Dear friends, very good morning and I welcome you to the Gati's quarter one of financial year 2016 results discussion. I thank for your participation. We will take you through the major developments of financial performance of the company and it's various verticals and after that we will take your questions. Before we discuss our business performance for the current quarter, I must suggest that it must be seen broadly in conjunction with the prevailing economic environment. Last quarter, our economy had sluggish growth which is evident that IIP growth was halved to 2.7% during May 2015 compared to 5.6% in the year ago period. Manufacturing sector which constitutes majority of IIP grew only at 2.2% during May 2015 compared to 5.9% in the year ago period. But the e-commerce industry is amongst India's fastest growing and exciting markets. There are various estimates about its growth and it is poised to be $36 billion industry by 2020 from US$8 billion in 2016 growing at a CAGR of 46%. In the first quarter of 2015-2016, our consolidated revenue is Rs.420 Crores which is 5% growth on year-on-years and a flat growth on quarter-on-quarter basis. This growth is of course below our expectations however, our optimism in long-term growth prospect of company remains intact. In our B2C commerce business, we have clocked yet another quarter of greater than 100% year-on-year growth and we expect that this momentum to further build up in the upcoming festival season. There are few important developments for the group which I will take you through. At the outset, a very important development for our company. We had a major dispute with Air India where we got favorable tribunal award around three years back and this award has been upheld by Honorable Delhi High Court. Under this award Gati is entitled to receive sum of Rs. 26 Crores along with interest @ 18% if the award is not paid immediately. So this is very important news for our organization. Our emerging business of e-fulfillment center had seen a growth of 20% and now it is poised for further growth. Our e-commerce business, as we have consistently stated that we will continue to see 100% growth year-on-year, in this quarter also we had seen 100% growth in our e-commerce business. We have opened 13 consolidation centers for first mile pickup in our e-commerce vertical and our e-commerce vertical network now comprises 1500 bikers, drivers and e-com agents, it is large network now. Gati has also recently launched Gati App which will allow customers host of features on their hand phones. We have recently added one more of our warehouse facilitiy under the TAPA certification and this is our second TAPA certified warehouse. In the country, there are only 10 sites which are TAPA certified; TAPA certification is ultimate certification for logistic facilities. Rating of our joint venture company, Gati Kintetsu is one notch up and now it is A+. Owing to this improved rating, the company could launch Commercial Paper and out of total working capital, Commercial Paper comprises 70% which is financed at 9% p.a. Our debt levels are maintained at less than Rs.500 Crores. The various developments on our business front, my colleague Bala will take you through each vertical. Over to you Bala.

Bala Aghoramurthy: Good morning everybody. Let me speak through the various business verticals that we operate in. I am going to start with our e-fulfillment center. As you all know we forayed into the e-fulfillment center business last year sometime in July-September quarter. The vertical has grown 20% quarter-on-quarter and we believe this trend will further accelerate during the year. In the last one year, the eFC business has crossed revenue of Rs.10 Crores with a positive operating margin. In Q1, we operated a space of 1.5 lakh square feet with a handling capacity of 20,000 orders per day. In the July quarter, we are adding an additional 1.5 lakh square feet of eFC space. This business will complete our service offering to the e-tailers and is expected to firm up the leadership position that we already hold. Talking about the e-com distribution business, like my colleague Sanjeev explained the growth momentum in e-commerce has continued. The first quarter, we have again done 100% growth YoY. We have touched revenue of Rs. 45 Crores in this quarter. We continue to expand our delivery network to meet the growth that we anticipate in future, especially if you are all aware, in the upcoming festival season we expect a significant spike. As of 30th June, we have network mix of 1500 bikers, drivers, and e-com agents. In this quarter, we have opened 13 consolidation centers, this is a new service offering that we have done to select customers where we pick up their shipments from multiple vendors and bring it to one place before it is sent for redistribution. So we have opened 13 consolidation centers for first mile pickup and this has helped us to strengthen our network and stickiness with the customers. Our core competence of handling large parcels remains unchallenged and with the recent focus of e-tailors on white goods which will help us to further consolidate our position in this segment.

Moving on to the express business, our express business has grown by 2% YoY, primarily led by volume growth. On QoQ, our growth is flat. We have not seen the desired growth in our express business primarily due to stagnation in sectors like consumer durables and general manufacturing where we have significant customer base. In the last one year, we have continued and progressed the conversion of our fleet to large sized vehicles in the long-haul network. We had spoken earlier about an initiative called the National Grid Initiative where we have been moving many of our vehicles from 9-tonne vehicle to 14-tonne vehicles; this has resulted in a 35% increase in our fixed installed capacity for long-hauls. At the same time, this initiative has helped us in reducing the spot market hiring by 15%, market vehicles typically cost higher and by investing in this captive capacity we have reduced our market vehicle hiring. The net increase of 20% capacity in the network was done to optimize our cost going forward. We have also built up our warehouse capacity; we have invested in manpower, material handling equipment & in other associated area. While these initiatives have been done with a long term benefit in view, the short-term business has not picked up as strongly in terms of volume, however, in coming quarters with increased volume expectation, we believe this additional capacity will help us lower the cost of our operation. Additionally, our modest growth is also due to our performance in the rail vertical where we faced a setback in the west-east corridor tender. We are in the process of refreshing our rail strategy to diversify rail as a model with Pan-India network rather than being dependent on a single corridor like the west-east. We are hoping to emerge stronger with the new strategy getting shape.

In view of the projected growth plans in e-commerce logistic as well as in e-fulfillment center, the company has made significant investments in people, network, technology and also infrastructure resulting in higher cost. So the results that you see, have to be seen in this context.

Moving onto Kausar, we have further added to our existing fleet which now stands at 210 reefer vehicles, also to share with you the construction work on two Greenfield projects has already commenced and we expect them to be operational quite soon. I am handing over back to Sanjeev to take you through the numbers of the quarter.

Sanjeev Jain: Thank you Bala. Friends, coming to the initial numbers for this quarter at consolidated level our revenue has grown 5% on year-on-year basis and the revenues are flat on sequential quarter basis. The growth is primarily led by our e-commerce business, which almost constitutes 11% of our total revenue. Our EBITDA and PBT have degrown by 16% and

41% on year-on-year basis. The decline in the profitability is primarily due to our modest growth which Bala explained that one of the verticals, Rail did not do well and increase in our personnel and administration cost for building future capabilities to prepare the organization for the future growth. In terms of absolute number, the total income for the Q1 is Rs.420 Crores as compared to Rs.420 Crores in the previous quarter of March 2015 and Rs.399.5 Crores in the same quarter previous year. The EBITDA for this quarter is Rs.34 Crores compared to Rs.38.5 Crores rupees in the previous quarter and Rs.40.4 Crores in Q1 of previous year. The PBT for this quarter is Rs.13.7 Crores as compared to Rs.18.2 Crores in the previous quarter and Rs.23.1 Crores in the same quarter previous year. The PAT is Rs. 9.9 Crores compared to Rs.15 Crores in the previous quarter and Rs.15.1 Crores in the same quarter previous year. Our debt level has slightly come down compared to Rs.472.7 Crores in the last quarter against Rs.470.3 Crores in the current quarter. Debt movement in the company for each entity is as follows. Gati standalone is Rs.275 Crores of debt which comprises an FCCB element of around Rs.140 Crores, Gati-KWE is Rs.156.8 Crores, Gati Kausar which recently has finished investment by Mandala Capital has total debt of Rs.36.7 Crores. The overall debt is Rs.470.3 Crores as compared to Rs.472.7 Crores in the previous quarter. In terms of our performance for each entity for this quarter, the number stands as follows. Gati standalone, the topline is Rs. 1200 Mn, EBITDA at Rs. 120 Mn which stands at 10%. Gati's topline constitutes e-commerce business which has revenue of Rs. 45 Crores. The PBT for this quarter for Gati standalone is Rs. 43 Mn which constitute 4% and PAT of Rs. 33 Mn which constitutes 3%. Our joint venture company Gati Kintetsu Express Private Limited, the revenue number is Rs.285.8 Crores with EBITDA of Rs.20 Crores which constitutes 7%. PBT of 10.2 Crores which is at 4% and PAT of Rs. 7.4 Crores which constitute 3%. Kausar performance for this quarter has improved compared to previous quarter. It's revenue is Rs. 137 Mn and EBITDA is Rs. 19 Mn which is 14%. PBT is Rs. -9 Mn because of depreciation, interest, more capex and similarly the PAT is Rs. -9 Mn which is -7%. GIETL, which is our integrated logistic solution providing company, the total top line is Rs. 73 Mn with a marginal negative EBITDA of Rs. 1.4 Mn and negative PBT of Rs. 2 Mn. At consolidated level, we discussed that our revenue is Rs.420 Crores with EBITDA of Rs.34 Crores and at EBITDA level it has come down from 9% in the previous quarter to 8% in this quarter. So friends this is the financial number at consolidated level. We are now open to your questions, so please feel free to ask your questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question - answer session. The first question is from the line of Mitul Mehta from Lucky Investment Managers. Please go ahead.

Mitul Mehta: Good morning sir. My question is on Gati-KWE basically. What we are observing is that from last two quarters we seem to be investing in that business, so our cost is actually ahead of the sales. Directionally over the next two, three years and also in this particular quarter if you can help us, how much of cost you would have expensed on account of this investment that we are making in personnel cost and several others?

Sanjeev Jain: GKEPL being the main network company which supports the entire operations both of Gati as well as our express business, it is very important to prepare the network of this company for future growth of e-commerce and our express vertical growth. You are correct, in the last quarter, the G&A cost and people cost has been increasing. The total impact in this particular quarter for G&A and the people cost is in the range of around Rs.5 Crores. This Rs.5 Crores impact is only for the Q1 and this has been there in the last two quarters, We believe it is important to invest in the people to cater to the future requirement of the growth.

Mitul Mehta: So, when is this investment likely to taper off, I mean is this going to continue for another one or two quarters. What is the direction on this?

Sanjeev Jain: Direction is very clear that our investment has actually peaked in the people and our network. In fact, we are preparing our network for the purpose of peak season of festivals which is Q3, so you can expect a virtual freeze on this cost in the next quarter. The investment in this cost has peaked. We are not likely to see any further increment in this cost from the next quarter onwards.

Mitul Mehta: Therefore in terms of EBITDA margins, can you guide us to get some understanding because we have seen recent results of Blue Dart where they seem to have delivered on the margin but we are yet 10%, so can you help us to guide through the margin?

Sanjeev Jain: It is very difficult to predict the precise number for Q2 but what I can say is Q2 will be better than Q1 and we see significant improvement in our EBITDA from Q3 onwards.

Mitul Mehta: For the e-com business, this quarter we did about Rs. 46 Crores. What was the EBITDA margin on this number?

Sanjeev Jain: EBITDA margin in our e-commerce business has been in the range of around 16% to 17% in this quarter.

Mitul Mehta: In terms of the total investment plan for Gati at the company level for FY2016 and FY2017, can you give us the number?

Sanjeev Jain: You are talking of Capex plan?

Mitul Mehta: Yes, if you could break this Capex into various divisions.

Sanjeev Jain: Our Capex plan for next year is in the range of around Rs.50 to Rs. 60 Crores which is equally divided around Rs.30 to Rs.40 Crores in the Gati for e-commerce expansion and around Rs.20 Crores in our express business. This Capex plan does not include our Capex plan for Gati Kausar which had a significant Capex plan for the next two years in terms of cold chain warehouses.

Mitul Mehta: How do you plan to fund this Gati Kausar Capex?

Sanjeev Jain: Gati Kausar as I discussed in the last concall, we have already made the financial closure through a private equity investment, Mandala Capital, they have made investment of Rs.150 Crores in a combination of equity and NCD, so equity money and some part of NCD has already been drawn and as we start setting up the warehouses, we keep on withdrawing that NCD part further and for your information the company has already started working in terms of construction work at two Greenfield projects in the North.

Mitul Mehta: Sir is it fair to assume or is it fair to budget 100-basis point margin expansion YOY?

Sanjeev Jain: In 2015-2016?

Mitul Mehta: Yes, 2015-2016 from 2014-2015 at the company level.

Sanjeev Jain: Compared to 2014-2015, we had EBITDA margin at consolidated around 9%. We are likely to remain in that range actually.

Mitul Mehta: Okay, so this year is going to be a flat year for the margins?

Sanjeev Jain: That is true because of our investment in the network and people.

Mitul Mehta: And thereafter in 2017, can we hope to take this margin higher?

Sanjeev Jain: Of course, as our e-commerce proportion increases in our revenue. Today in the e-commerce in the Q1 what we are speaking is almost 11% of total business and this business has 15% to 16% EBITDA margin. As the e-commerce business grows in proportion of total revenue, our margin will certainly improve.

Mitul Mehta: For the full year, can we believe that we can do about Rs.200 Crores of e-commerce business?

Sanjeev Jain: We are quite confident that we must achieve this number and our current run rate of Rs.45 Crores in Q1 which is without the festival season demonstrates that we will certainly cross Rs.200 Crores mark in this financial year.

Mitul Mehta: Sir, when we look at your balance sheet and when we decide to make certain investments in particular vertical, do we have certain internal rate of returns or certain ROI benchmarks?

Sanjeev Jain: Certainly, any Capex proposal goes through ROI discussion and examination. Gati's balance sheet if you compare at 2013-2014, 2014-2015, there is not any significant change in terms of capital employed, except desubsidization and closure of shipping business that has moved out of Gati. The capital employed is far healthier and returns are better. So we see that return on capital employed has moved to 18% now and as the e-commerce business revenue increases in the overall revenue, the profit will increase. In the next year 2016-17, our return on capital employed will further move. I believe so have seen the worst of return on capital till 2014-2015, now onwards because of lower capital employed the return will certainly improve further superior.

Moderator: Thank you. The next question is from the line of Bharat Chhoda from ICICI Direct. Please go ahead.

Ankit: Hello Sir I am Ankit here. First of all, I need to understand basically, we said that due to some rail issues there was loss of revenue, so can I get a broad bifurcation, what is the bifurcation between road and rail at this point of time in consolidated?

Bala Aghoramurthy: The rail business is approximately 11% to 12% of GKEPL numbers we have, so that probably gives you a sense of what the size of the rail is. As I mentioned, we have had a setback in the west-east corridor where we used to be a dominant player, there is a tender that we did not win. Having said that, it has impacted our Q1 results without any doubt but we had applied our mind from how do we want to take this vertical forward, there is a lot of fresh thinking, I think we are very confident that as we execute what we have thought about which is already ongoing and this will come back in shape.

Ankit: Can you help me applying absolute number to it what kind of revenue loss would be due to this?

Bala Aghoramurthy: It is a fair question. The revenue loss is approximately about Rs. 9 Crores, just a shade short of 10; that is the kind of impact that we have taken on account of this rail business.

Ankit: That was very helpful. Regarding manpower investment I want to understand a bit on the e-com side, so are we taking the bike drivers on our payroll, how are we planning these investments?

Bala Aghoramurthy: We follow a hybrid model. Of course we have two wheelers, four-wheelers etc, we have two or three different models that we have been experimenting with and as a result there is a share for each model, we are not deliberately stuck to one. There are bikers on our rolls, significant numbers of them. There are GAs or the associates who are not on our rolls who are on a contractual business, so we have been deliberately following a hybrid model. It allows us to work with the seasonality which is a hallmark of this e-com industry.

Ankit: Can you help me put a number on it, how much drivers you have on payroll, how the things work out?

Bala Aghoramurthy: Ankit I am going to request that we stay away from the specific numbers.

Ankit: How are we planning to utilize this if we get these Rs.26 Crores from Air India, how are we planning to utilize that amount?

Sanjeev Jain: This is an additional cash flow into the company whenever the case becomes finalized, because Air India still has right to go for further appeal but we believe that having two favorable orders, one at tribunal level and one at high court level, the chances of Air India succeeding are very bleak. This amount is lying as advance in our books of account and as soon as we get the money the advance will be squared off. Earlier there was one concern that this advance would become P&L item that has been ruled out.

Ankit: Gati Kausar, we have started building the Greenfield project right? So by what time that will go live, because I assume we already have customers asking for that is why I want to understand a bit on that?

Sanjeev Jain: You are absolutely correct. I think customer will be looking for integrated solutions and those customers already doing reefer transportation with us. The Greenfield project in the north has already started. We believe that in the next six to nine months, our first two warehouses should be up and running but apart from Greenfield projects company is also looking for couple of lease facility, or buying out the readymade assets, so probably the warehousing operation could start even earlier than six to nine months timeframe.

Ankit: What is the amount of pallets we are looking out at?

Sanjeev Jain: Our total planned pallet capacity is 45000 pallets in the next two-and-a-half years. These two warehouses we have started the work is in the range of 5000 pallet each.

Ankit: Just a macroeconomic view, Flipkart has also started self pickup centers and all that kind of business model, so how are we looking out at that kind of things?

Dhruv Agarwal: As we have been talking, I always keep mentioning that e-tailers are also looking at hybrid models, so you have Flipkart who was previously doing almost 80% of their deliveries through their own delivery arm eKart, now they are actually looking to outsource more and more of it, on the other hand, you also have Snapdeal which did not have its own capability but now they have invested in Go Javas, so actually the etailers are all moving to a hybrid model where they will have some capacity of their own and they will outsource some of it and we are working with all of them.

Ankit: Last year, if I assume it right the Q2 of the last year, so I had seen double the revenues, so till basically comparable period if I see 21 Crores was the quarter one figure and then it was 42 Crores and now we have maintained this 42 Crores to 45 Crores in the e-commerce. So now I just wanted to understand with this investment in manpower, what sort of revenues we would it be able to cater in Q2 basically, I understand that it is a festive season and there would be a lot of requirement. So can we see the same kind of jump in Q2 again wherein the 45 kind of run rate will go to Rs.80 Crores or Rs.75 Crores, how can that be modeled?

Dhruv Agarwal: Q2 typically, the festival season will start approximately middle of August with the Independence Day sales etc., but the capacities on the ground that we are building right now really cater for the September, October, November time period which is your Dusshera-Diwali in which, last year we had seen almost a three to four times spike, so starting August, the momentum will build on these volumes and will really peak in October-November. So I do not think we will see 45 to 80 kind of Crores jump in Q2, but typically Q3 we do have exponential jump probably in Q2 we should see a 60 to 65 CR type of number.

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

Shubhankar Dey: Sir, my question is quarter-on-quarter and year-on-year we have seen a decline in the profit after tax, although we are showing good investments from a long-term standpoint and wherever we have invested how confident do we feel to recover the losses and on your part how confident do you feel that you will come and have a strong result and it will show an improvement from a long-term perspective. That is my first question. Second would be from GST standpoint, as and when it gets passed in the Rajya Sabha where is Gati's standpoint, how does it impact with and from a long-term standpoint, also how do you see the share price increasing one that gets passed?

Bala Aghoramurthy: The share price, I am going to leave it to your judgment, but let me answer the first two questions. You are talking about what is to be expected going forward. Without any doubt like we explained we have invested significantly in this quarter in anticipation of the festival season for Q3 onwards just to explain this last year if you remember was the first big e-com boom year and the entire country's airline capacity came to a halt because there was so much traffic on it. So this year we have said we will provide alternate solutions to our e-tailing customers as a result we said let us first invest in the long-haul capacity in the fleet. We are almost on some select lanes creating a parallel network, normally our B2B network works on a hub and spoke model, in anticipation of ecom boom we are in the process of creating a parallel network to handle the spike which I believe will stand us in very good stead when the spike happens. So Q2 will be better than Q1, but I want you to understand the big improvement is going to be in the Q3, although I confirm that Q2 is going to be better than Q1. The second part of your question was about GST. In GST, we of course, as a company have been speaking about it applying our mind, speaking to lots of customers to see what is their thinking, where can we participate etc, so there has been a lot of work happening on this front. We are also engaged with our partner IBM in identifying opportunities in this space. We have lot of clarity on which customer specific names will be interested in rejigging their supply chain and what kind of business potential it offers to us. As you know, we have SCM vertical which is about warehousing in addition to our distribution network that we have a combination of these two, the warehousing and the distribution network will really get us, new opportunities when the GST happens.

Shubhankar Dey: From a long-term standpoint, do you see Gati having tie-up with Amazon or Flipkart on the delivery or distribution network. Do you see anything coming up in the near short-term or long-term pipeline?

Dhruv Agarwal: This is Dhruv here. We are already working with all the major e-tailers, so we are already doing an integrated solution for them where we also do first mile, we do some packaging, we do fulfillment, we do last mile delivery, we do reverse as well. So we are already partners with all the major e-tailers today.

Shubhankar Dey: Any news when the Air India case would finally get resolved and we will get the Rs. 26 Crores money from them?

Sanjeev Jain: As I said that the Delhi High Court has given verdict in our favor but Air India has still right to go for further appeal. We believe that they might choose to appeal against the order, but having endorsement from two courts, it is likely and we are very confident that the case will be finally decided in our favor, maybe a question of few months.

Moderator: Thank you. The next question is from the line of Mayur Gathani from OHM Group. Please go ahead.

Mayur Gathani: Thank you for the opportunity. Sir, looking at the consolidated centers that you have been talking about this quarter, 13 of them what is the extra percentage the revenues that we can garner from them and how many have you looking in the future?

Dhruv Agarwal: Dhruv here, so the consolidation centers, we were doing always for select few kind of customers. Now we are opening them up as and when there is a need in the market and now there is a big need for these consolidation centers where we actually go and pick up various daily loads of various sellers and bring them there, segregate them by carrier and then the various other carriers actually come to our consolidation center take them and go. It will be difficult to put a number saying this is a kind of extra revenue, we are generating out of that, because it is kind of gets added up into per package pricing that we offer to our customers, so this is more of a value-added service that we are providing to them. So it will be tough to answer how much extra will come. In terms of how many more be will open, we are in discussion with our customers, I cannot put a number to it, but probably in this quarter another 5 to 10 range, I am just giving a range.

Bala Aghoramurthy: If I may add Mayur, the consolidation piece that you are talking about is the short-term piece but there is a longer term strategic thought in this process. We explained in the last call that we have invested in software called Sterling Commerce and we intend to get the vendors directly hooked on to us. We have a growing franchise of many smaller vendors who want to go online. This process of engaging directly with the vendor also gives us an insight into how that work, so we are hoping to build on that, so I think there is both a short-term service to the e-tailing customer and the longer term potential in a larger sense.

Mayur Gathani: There could be other logistic companies also, you would come to this consolidated center, then pickup material and deliver or it is only you would pickup and you would only deliver?

Dhruv Agarwal: In the consolidation center, other service providers also come and pickup their respective load.

Mayur Gathani: Where is the differentiation between fulfillment center and consolidation center?

Dhruv Agarwal: Consolidation center, the product everything comes packaged from the seller and in a fulfillment center, we get all the products in bulk and as and when the orders drop on a daily basis we actually pick the product, do the quality check, package it, print the invoice, airway bill etc and get it ready for dispatch.

Mayur Gathani: It is more of our enhanced work in a fulfillment center rather than consolidated center; it is just a storage kind of thing for the time being?

Dhruv Agarwal: Consolidation center, basically you pickup in the morning by afternoon or early evening, it is all out and in a fulfillment center like a warehouse it is kind of stored over there for a long-term , not permanently.

Mayur Gathani: Coming to the e-fulfillment center, what is the number of fulfillment center that is live right now and you did mention it, but I missed it.

Dhruv Agarwal: Currently, we have three fulfillment centers about 1.5 lakh square feet in that just to give you some numbers, just to give you an idea we have been growing this business quarter-on-quarter. We started in Q2 of last year, Q3 last year we did about 1.5 lakh orders a month. In Q4, we bumped it up to 2.5 lakh orders a month average and in this last quarter, we have been doing about 3 lakh orders a month out of these three fulfillment centers, Hyderabad, Delhi and Bombay.

Mayur Gathani: We are looking at another 1.5 lakh coming in this month or this quarter?

Dhruv Agarwal: In this quarter, we are now working on another 1.5 lakh square feet. We are increasing the space in Hyderabad and we are starting a new facility in Bangalore.

Mayur Gathani: We will have four of them in total now by this quarter end.

Dhruv Agarwal: We will have four of them in total, that is right.

Mayur Gathani: Overall what is the growth that you are looking at in this next quarter and the next year? Any guidance that you could provide, margins could be flat in this year, but we could see improvement margins in the coming year. But what is the growth that we see?

Sanjeev Jain: Our e-commerce business will continue to grow at 100% year-on-year. We are confident that this 100% growth momentum will continue for next couple of years. Our eFC business, we have seen significant growth. Overall express business would see a single digit growth this year and will escalate from Q3 onwards. As far as the margin improvement is concerned, we certainly will not cross the last year consolidated margin, but margins will certainly improve from 2016-17.

Mayur Gathani: Nothing from RBI also on that FCCB issue yet?

Sanjeev Jain: FCCB matter is pending adjudication in the lower court, there have been few hearings but the matter has not moved further.

Moderator: Thank you. The next question is from the line of Devrat Matta from Fidelity Investments. Please go ahead.

Devrat Matta: I just wanted to ask couple of questions. First of all if you could just take us exactly what the FCCB issue is and where are we in terms of the legal process. I know it is under subjugation, but just what is happening in terms of what the exact issue was, where are we now.

Sanjeev Jain: FCCB, we have been updating in our quarterly accounts, in clause 41 if you read that there is a detailed clause on the FCCB status. In our annual report also, there is a detailed paragraph on notes to accounts as well as governance report in Annual Report. But again to answer your question, the bond holders have chosen to file a case for specific performance against the company in the lower court of Hyderabad and the case is being contested by the company on various grounds. You are aware that company has sought clarifications from regulator on multiple grounds. Those clarifications are still awaited. So, there are pending clarifications from the regulator and the trustees have gone to the lower court to enforce the specific performance which company has not been able to do because of regulatory reasons.

Devrat Matta: Basically it is a right way to correct me if I am wrong. So basically on one side you have litigation going on with the bond holders, so that has been contested in court by the bond holder and secondly because you are not allowed the FCCB under automatic route, you will have clarifications to be made with the RBI. So how does whole thing get resolved, so basically you all reach a conclusion with the bond holders in court and then you all both go to the RBI, all three of your sit down and then come out with whatever the agreement is finally, is that right.

Sanjeev Jain: Your understanding is correct partially, but just to correct it that company has sought clarification from the regulator on multiple grounds, those clarification are yet to be responded by the regulator and in the meantime the bond holders/trustees have chosen to enforce the right against the company in the lower court of Hyderabad, so the company is contesting on multiple grounds.

Devrat Matta: By any broad time line by which you expect the full matter to get sorted out once and for all?

Sanjeev Jain: It is very difficult to comment on the judiciary process, the matter sub judice and currently it is at the lowest court. So in fact putting a timeframe will be very difficult.

Devrat Matta: So it can get appealed in higher courts and it can go on for a while. The another one, which I wanted to understand, was on your express distribution business sometime back I remember in one of your earlier concall you were mentioning that you all have been working with IBM to carry out some amount of cost reduction. Can you just take us through over the last one and one-and-a-half years, what changes have been implemented because of this whole interaction with IBM and how should we think about margin for the express distribution business going forward?

Bala Aghoramurthy: Let me just give you few highlights on this one. Along with IBM, we have actually looked at our entire network and also the routes that we operate. We used to operate a certain two-layer network before. In this analysis we actually created a third layer which we called as national grid. The national grid was meant to be really long-haul so we actually upgraded our fleet on this national grid from the smaller vehicle to the larger vehicle, so for example from 9 tonner to 14 tonner. Initially, we had actually converted just about 200 vehicles from this grid, but more recently in this quarter, we have said we will actually convert more of the fleets, so the number is nearly doubled, so that is the kind of change that we have done on the network itself. In addition, we have also been looking at the location of the hubs and the sizing of the hubs and the routes that we ply. There are lots of changes, so if you get into the granularities there are lots of changes but suffice it to say obviously the entire exercise is aimed at reducing the total operating expense that we have. In addition, we have also been looking at the productivity of the workforce in the hub centers and so on. There also we have actually had a significant saving that was almost a year back, so that is built into base now, it is about 6% to 7% at that time, that is now built into the base. We are continuing to use the analytic that we did before on a regular basis, because this is obviously a dynamic world plus in the contact of e-com, we are reviewing this once again, because we now need to have the network service both the B2B business and the B2C business, so the new animal is on board and we have to deal with that. So that is the kind of work happening.

Sanjeev Jain: In term of margins, you see our express business historically has been in the range of 10% to 10.5%, this has plunged to almost 7% in this quarter due to significant increase in our people. We believe that Q3 onwards, the margins will improve and by end of the year, margins should again get normalize in the range of 10%.

Devrat Matta: As the economy revives what kind of operating leverage does this have, so can margins go up if assuming next year onwards FY 2017 onwards if volumes start to grow at 12 to 15% is there scope for margins to improve further?

Bala Aghoramurthy: Tremendous scope because remember while we operate vendor based model a lot of it is also fixed cost for us, so as we get more and more volumes to fill up these long-haul vehicles, there will be a significant impact in a positive direction on the margin.

Devrat Matta: One last question if I may, I wanted to just understand you all are mentioning that within e-commerce you will have a large market share within the large packages segment. So can you just take us how big is this large package segment and within that what is the market share?

Dhruv Agarwal: Market share is very tough to tell you but certainly we would be in the top five logistic service providers in the country across the various websites and in terms of the large appliances market share, we would undisputedly be the leader especially for the above 10 kg kind of packages. Because we have the biggest surface network and that is how it travels, however we have been trying to also get a bigger foothold into the smaller packages segment which are also high volumes and between last quarter and this quarter in the less than 1 kg segment, we have improved within our own number of packages that we deliver. We have significantly improved on the smaller packages, so we remain a leader in the larger packages and we have increased our share in the smaller packages.

Devrat Matta: In terms of technology lot of these guys like Go Javas delivery when you meet them, they talk about technologies, what kind of investment and we are making in terms of technology and what are we doing differently versus other new e-commerce start ups which are being driven by more tech entrepreneurs?

Dhruv Agarwal: In terms of technology, Gati has always kind of been at the forefront of bringing in new and innovative technologies. Today also, for example our delivery guys they all make deliveries on tablets and on these tablets we have a lot of functionality that one, we have already developed and two, we are developing. For example via the tablet we can actually help our delivery guys reach a certain address faster or it allows us to track his movement throughout the day and moving forward it will help us to optimize the route he takes etc. Recently, the other big technology that we have brought in Sterling Commerce which is an IBM fulfillment software. It is a Tier 1 software used globally. This software will actually allow us to move into directly dealing with the various sellers and vendors that are out there today right. Today lot of our customers is the big websites and with this software we will actually be able to service the needs of the much smaller seller that have very small volumes. The other thing that we are actually quite excited about is we recently launched a Gati app, which is the Gati application on mobile phones available on android and iOS as well and just to give some figures we launched about couple of weeks back. We have had about 8000 plus downloads and right now we are getting about 1500 queries on it every day regarding tracking of various packages and then we get about on average 600 queries a day on other things like pickup requests, rate enquiries etc. So technology wise we are probably up there with the rest of them and we always have been.

Moderator: Thank you. The next question is from the line of Rohan Koshi from New Horizon. Please go ahead.

Rohan Koshi: Thank you for the opportunity. I just wanted to ask a question on your e-commerce business. What are the packages you are doing currently and where do you see it going by the end of the year sir?

Dhruv Agarwal: Current delivery capacity that we have is about 45000 packages a month and we have not significantly expanded this capacity over last quarter, but we have improved the efficiencies, so in the last quarter we were delivering about 35,000 to 36,000 on average a day and in this quarter we are doing about 38,000 to 39,000 on average a day. However, moving forward we are looking at expanding this capacity to about 90,000 deliveries a day by Q3 probably by the end of Q3. We have a separate plan where we will be bringing in a temporary capacity for the festival season which we are working out right now. So during that festival season for the three months or so we will add-on significant amount of capacity that will go away in Q4 and then we will move forward with about 90,000 packages a month capacity.

Rohan Koshi: Could you elaborate on that efficiency part that you spoke about and the impact that as on margins?

Dhruv Agarwal: As we build capacity previously on a daily basis, we would do 20,000 to 25,000 deliveries a day right and a lot of the capacity that we had was of course utilized during some sale or the other than goes on. Now consistently we have brought that up and are almost we are using a capacity whatever the MAT is 39,000 out of 45,000. We are using our capacity on a daily basis much better and that has had an impact on our margins, but I do not have the exact figures may be we can discuss this one on one once I have.

Moderator: Thank you. The next question is from the line of Naushad Choudhary from Astute Investment Management. Please go ahead.

Naushad Choudhary: Thank you for the opportunity. My question is on Gati Kausar temperature controlled business. If I heard it correctly you said company started getting 45,000 pallets in the next two-and-a-half year right?

Sanjeev Jain: Yes.

Naushad Choudhary: I just wanted to know how much Capex we are planning for these 45,000 pallets and how would the funding be for these?

Sanjeev Jain: Our capex plan for the next two-and-a-half years for 45,000 pallets will envisage a capital outlay for around Rs.225 Crores. As you aware that we have already done the financial closure through Mandala Capital & Mandala Agribusiness. The private equity investment got closed in October 2014 and out of total Rs.150 Crores deal the equity part has already been drawn and some part of the NCD and it is a listed NCD that has also been drawn. So the money is now being spent for rolling out the cold chain warehouses. So just to summarize your question that the financial closure has happened and the construction work has already started.

Naushad Choudhary: In the two Greenfield warehouses in northern part with a capacity of 5000 each, how much money we have spent, how much we are expected to spend on these two warehouses?

Sanjeev Jain: Each warehouse of 5000 capacity will involve around 15 to 16 Crore rupees, so various purchase orders are being issued, so the entire capex is capital work in progress.

Naushad Choudhary: Internally you would have calculated how is the payback of these investments Sir?

Sanjeev Jain: The payback period of these warehouses depends upon the utilization capacity. Most of the warehouses of our competitors get filled over a period of 12 to 18 months. They reach the capacity utilization of around 90% to 95% and we believe based on this our payback period will be in the range of around 5 to 6 years.

Naushad Choudhary: Any expansion plan on the temperature controlled distribution side Sir?

Sanjeev Jain: We have already added 20 vehicles last year and our current reefer fleet stands at 210 reefer trucks, further expansion is happening through leased vehicles. So we are introducing the concept of leased vehicles in our cold chain company.

Naushad Choudhary: How much margin do we get, what is the margin business between owning the reefer or getting the reefer on lease, what would be the margin difference here?

Sanjeev Jain: Apart from margin difference which is nominal, the efficiency and scalability of leased vehicles is much higher. So owning an asset requires fleet maintenance capabilities which cannot go beyond a certain threshold of number of fleets. So the lease model provides a lot of flexibility and scalability. So they are the main key drivers for the decision.

Moderator: Thank you. The next question is from the line of Pranav Mehta from Value Quest. Please go ahead.

Pranav Mehta: Actually we had plans earlier to raise around Rs.120 Crores through via QIP, so any update on that?

Sanjeev Jain: When we were contemplating QIP, the market crashed and after that there was lot of volatility in the market, we will certainly firm up our plan at the right time. So the plan is still on. We are looking the market to stabilize and accordingly we will commence the process.

Pranav Mehta: But assuming that the QIP does not go through this year then this Rs.40 Crores of e-commerce Capex, are we comfortable funding in through internal accruals?

Sanjeev Jain: They are internal accruals in the listed company because of higher revenue of e-commerce, but of course if required we are confident that QIP will certainly happen. We are also confident if the money is required, we can borrow.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Ankit Gor for closing comments.

Ankit Gor: Thank you everyone for attending this conference call. On behalf of Systematix I thank you everybody and I will hand over line to management if they have any closing comments.

Sanjeev Jain: Thank you very much. Thanks for all participants. We will remain connected and we are very confident of our growth story. Q2 will be better and Q3 onwards we will normalize our profitability. Thank you very much for everybody.

Moderator: Ladies and gentleman, on behalf of Systematix Shares and Stocks that concludes this conference. Thank you for joining us and you may now disconnect your lines.