

GATI Limited -- Q1 FY24 Earnings Conference Call

August 7, 2023

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- **Moderator:**
- Ladies and gentlemen, good day and welcome to the Q1 FY24 Earnings Conference Call of Gati Limited hosted by Prabhudas Lilladher. This Conference Call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectation of the company as on the date of this call. These statements do not guarantee the future performance of the company and it may involve risks and uncertainties that are difficult to predict. 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 would now like to hand the conference over to Mr. Praveen Sahay from Prabhudas Lilladher. Thank you and over to you, Sir.
- **Mr. Praveen Sahay -- Prabhudas Lilladher Private Ltd.:**
- Thank you, Carol. Good afternoon everyone. On behalf of Prabhudas Lilladher, I welcome you all to Gati Limited Q1 FY24 Earning Conference Call. Today, we have with us senior management team of Gati represented by Mr. Pirojshaw Sarkari, Managing Director & CEO Gati Express & Supply Chain Pvt Ltd (GES CPL); and Mr. Anish Mathew, Chief Financial Officer. I'll hand over the floor to the management for their opening remark, post which we open the floor for Q&A. Thank you and over to you, Sir.
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GES CPL.:**
- Thank you, Praveen. Good afternoon and a very warm welcome to everyone on our quarter one FY24 Earnings Conference Call. We have uploaded our results and earnings presentation on the stock exchanges and company's website and I hope everyone had an opportunity to go through the same. As mentioned along with me, I have Mr. Anish Matthew, the Chief Financial Officer of Gati and our investor relations team. I will now share an overview of the economy, industry, and business, after which will hand over the call to Anish to discuss the financial performance of the company for the quarter ended June 2023.
- The global economy, world economy is in a state of stagnation as per the International Monetary Fund, global economic growth is projected to decline from 3.5% in 2022 to 3% in 2023-24. This projected growth is below the average growth

registered during the past two decades before the pandemic. The sluggish growth in global economy is projected on account of multiple factors like high inflation, Russia-Ukraine conflict, and sluggish demand recovery post-COVID-19. Policy makers around the globe are facing a tough task of fighting inflation, maintaining financial stability, and supporting economic growth.

- On the positive front, inflationary pressures are expected to ease out in the second half of 2023 and the global economy is expected to gain some momentum in 2024. The growth momentum is expected to come on the back of robust household spending in the United States and European Union and along with the recovery in China following reopening of its market.
- The Indian economy and logistics sector, amidst an uncertain global economic outlook, Asia Pacific is poised to show some green shoots amongst the major regions. The growth in this region is expected to be driven by India and China. The IMF has projected Indian economy to grow at 6.1% in 2023. The growth outlook for India is based on decline in inflation and thrust in investments by the government, which will lead to job creation, income, and increased demand. The E-Way bill volumes for June 2023 stood at 8.61 crore as compared to 7.45 crore in June 2022 showcasing a growth of 15.6%. This signifies resilient domestic trade and transportation activity. Additionally, GST collection in June 2023 stood at ₹1.6 lakh crore up 11.7% year-on-year. Increased GST collection is indicative of momentum in the underlying economy. As India aspires to be amongst the top three global economies, the Indian logistics sector is poised to gain from it. With right government policies, thrust on manufacturing, and infrastructure Capex, the logistics sector is bound to grow.
- A point worth noting is that India's road network has expanded to above 6 million kilometers. The growth of small and medium enterprises and the increasing need for timely delivery of goods augurs well for the express delivery business in the country. Key trends that will shape up the logistics industry going forward will be digitalization, data-driven decision-making, rise of cross-border ecommerce, growth of direct to customers especially in Tier 2, Tier 3, and Tier 4 cities, and the corresponding need for warehousing.
- On the company front, I would like to start by sharing few key updates on the company. Post Allcargo acquisition of the KWE stake, the subsidiary holding express business is now renamed as Gati Express and Supply Chain Private Limited from earlier Gati KWE. We have appointed Mr. Rajesh Gowrinath as Vice President Sales to accelerate profitable growth. Rajesh comes with 20 plus years of experience in logistics companies such as DHL and Blue Dart. We have also signed an LOI with one of the largest domestic IT companies to build the best-in-class Gati Enterprise Management System renaming it to GEMS 2.0. This will be built on a microservices platform.
- Our express business continues to deliver a resilient performance driven by positive momentum in volume. Quarter one FY24 volumes were up 5% year-on-year despite a strong base quarter. The base quarter, quarter one FY23 benefited from exceptional volumes driven by industry consolidation that favored a few players. We

expect the positive sales momentum to continue in the coming months and to augment our infrastructure build up effort, Gati will now be launching the Bangalore hub in the week of 15th of August. For the first quarter of financial year 2024, the Express business has recorded a revenue of ₹367 crores, the gross margins stood at 27% and EBITDA margin stood at 5%. In our presentation this time, we have shared the service parameters. I will take few minutes to walk you through these. We have shared three service parameters. The first one being DIFOT, which stands for Delivery in Full and On Time.

- This parameter is an indicator of the successful point-to-point delivery right from pickup to line hall to end delivery to the customer. 2 – PIFOT, which is Pickup In Full and On Time. This parameter measures the efficiency with which parcels are picked up for further transportation. Finally, the delivery efficiency which is DE. Delivery efficiency measures last mile delivery service. One point to note in delivery efficiency is that in some cases it has customer dependency, which means that the delivery to a particular customer happens as per availability and the choice of the customer. So, these are the three new parameters that we have introduced.
- I would now like to share updates on initiatives undertaken under each of our pillars of growth. Sales acceleration being the first one. Our sales acceleration initiatives are showing positive results, which is evident from the increase in our volumes. At Gati, our primary focus remains on customer centricity and delivering top quality service. This approach has resulted in an increase in the wallet share from our existing customers and has also helped us find new clients. We also see promising growth prospects by capitalizing on the synergy between the contract logistics arm of Allcargo and cross selling across our ECU customer base. This strategic approach is expected to unlock new avenues for business expansion.
- Infrastructure development. At Gati building the right infrastructure is of utmost importance. As mentioned earlier, we will be inaugurating our Bangalore Super Hub in the week of the 15th of August. This is another important milestone after the launch of Bhiwandi and Farukh Nagar hubs. These well-established hubs are equipped with cross docking facilities and advanced material handling equipment ensuring smooth and seamless operation. These initiatives have resulted in efficient loading and unloading, a reduction in turnaround time of the trucks, and created capacity to handle increased volumes. On the operations front, we have been making continuous efforts to enhance our operations. The focus is on increasing visibility for customers and optimizing productivity. As part of this endeavor, we have mandated GPS tracking in all our line hall and feeder vehicles enabling us to monitor their movement in real time. Additionally, to ensure cost optimization and faster turnaround, we have embarked on route optimization exercise. Today, we can proudly say that all our service parameters are amongst the best in the industry. I would also like to highlight that we have started a nationwide training program for our Gati Associates to create their image as brand ambassadors of the company. Gati Associates help us in our first mile pickups and last mile delivery.
- On the technology front, after successful and smooth deployment of E-Docket in the retail business, we initiated the pilot for MSME vertical. E-Dockets enable enhanced visibility, transparency, and improved compliance.

- Finally, on the ESG front, we also remain committed to our ESG journey and aim to convert our entire delivery fleet to alternate fuel vehicles by 2025. With this, I would like to hand over the call to Mr. Anish Matthew, our CFO for financial highlights for quarter ending June 2023. Over to you Anish.
- **Mr. Anish Matthew – Chief Financial Officer, Gati Ltd.:**
- Thank you, Phil. Good afternoon, everyone and a very warm welcome to our Q1 FY 2024 Earnings Call. I'll take you through the highlights of financial results for the quarter. I would like to start with the highlights of our express business. Based on your request and in line with the best practices, we have started disclosing our monthly volumes and the service parameters. Volume performance during the quarter was encouraging and expected to build momentum. The company saw pick-up in orders from large customers as preparations for the upcoming festive season gathered pace. Total tonnage handled for Q1 FY24 stood at 2,92,390 metric tons as compared to 2,78,748 metric tons for Q1 FY23 reporting year-on-year growth of 5%. Revenue from express business stood at ₹367 crores in Q1 FY24 as compared to ₹365 crores in Q1 FY23. Corresponding gross margin for Q1 FY24 stood at 27.3% as compared to 27.9% for Q1 FY23. Express business EBITDA for the quarter stood at ₹18 crores as compared to ₹19 crores during Q1 FY23.
- I would like to highlight here that depreciation on ROU assets for Q1 FY24 was ₹12 crores and interest expense on lease obligation was 4.4 crores. Our client mix for the quarter for KEA, SME, and retail stood at 63%, 19%, and 18% respectively. On a consolidated basis, Gati reported revenue of ₹426 crores in Q1 FY24 as against ₹431 crores in Q1 FY23. Reported EBITDA excluding other income stood at ₹17 crores for the quarter ended June 23 as against to ₹19 crores for the same quarter previous year. We remain confident on the growth prospects of Gati and are dedicated to improving efficiency across the value chain. As mentioned earlier, we have been consistently providing other key comparative financial performance indicators in our investor presentation. One can refer to that for more details. With this, I would like to open the floor for questions and answers.
- **Moderator:**
- Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask a question may press “*” then “1” on your touchtone telephone. If you wish to remove yourself from the question queue, you may press “*” and “2”. Participants are requested to use handsets while asking your question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Amit Dixit from ICICI Securities. Please go ahead.
- **Mr. Amit Dixit -- ICICI Securities:**
- Yeah. Hi, good afternoon everyone and thanks for the opportunity. I have a couple of questions. The first one is on your net realization in this quarter. If I look at the net realization it is slightly down QoQ. I mean we were of the impression that the letters for price have all gone to the customer. So, just wanted to understand the

acceptance of this price hike and if there is a one off in the net realization that we are missing out?

– **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL.:**

- So, the letters for rate hike had gone out in the last quarter of last year itself. Like I had said in my last call also while on the retail business, we have seen increase, but on the key accounts generally they would only negotiate a rate hike when the contract comes up for renewal. Having said that, the net realization also is a combination of various other factors, #1 being the lane mix. So, it also depends on if your lane mix shifts, which means if you're doing larger or longer lanes, your net realization is higher than if you're doing shorter lanes. It also depends similarly on the product mix, so in Gati we also have products which are national product, zonal product, and local product. So, it is a combination of all these that kind of brings our net realization. Having said that, we found that if we have to grow the larger customers; yes, we have seen a net realization fall in this quarter. We are cognizant of that, but a combination of these lane realizations would also get our gross margin equally supported because our cost would also reduce if the lanes that are given to us are shorter.

– **Mr. Amit Dixit -- ICICI Securities:**

- Okay. The second question is essentially on the EBITDA margin front. So, I mean in Q3 FY23 you guided that by the end of Q2 FY24, we should be reaching 9% EBITDA margin, considering the performance in Q1 FY24, it looks unlikely at least to me that we would get to a number even closer to that by end of Q2 FY24 and since your most of the Super Hubs are now operational, Bangalore Super Hub will get operational in August 15, so what kind of flavors we have to ensure that EBITDA margin grows from here and what would be the trajectory that we can look at?

– **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL.:**

- So, we still maintain that. In three years, we will be a 3,000-crore organization with an EBITDA margin anywhere between 10% to 12%, we don't move away from that. We will be showing improvement quarter-over-quarter to reach that figure. Every new hub that we bring in of course, brings in a lot more efficiency into our operations and therefore optimization of cost benefits do come in. So, we will see as we move forward, our cost optimization kick in, but to get to the margin figure, the one big factor for our margin would be the leveraging of our fixed costs by volume growth and as we grow the volume, we will be able to leverage that and come to the figure of 10% to 12%, which we have maintained by three years when we get 3,000 crores.

– **Mr. Amit Dixit -- ICICI Securities:**

- Just a follow up on this, actually you know our Super Hub if I look at it only three are remaining Indore, Hyderabad, and Cochin, and rest Farukh Nagar, Nagpur, Mumbai, Guwahati everything is operational now, so I just wanted to understand it next I mean when we are saying that 9% we will reach in Q2 FY24 that working

understanding at least I had, so are we advancing the guidance right or are we postponing guidance slightly, 9% in near term?

- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL.:**
- Last quarter and this quarter, both the quarters I have maintained that we are not changing our 3,000-crore guidance and we are not changing our 10% to 12% EBITDA guidance of reaching 3,000 crores by 2026.
- **Mr. Amit Dixit -- ICICI Securities:**
- Okay. Sure. Got it, Sir. Thank you and all the best.
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL.:**
- Thank you.
- **Moderator:**
- Thank you. The next question is from the line of Rajat Sethia from ithought PMS. Please go ahead.
- **Mr. Rajat Sethia -- ithought PMS:**
- Hi. Thanks for the opportunity. Am I audible?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL.:**
- Yes.
- **Mr. Rajat Sethia -- ithought PMS:**
- Okay. Thank you, Sir. One question about the business mix that we have, so what really is the difference between retail and MSME client and what is the difference in their margin profile?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL.:**
- So, the difference between retail and MSME customers, the main difference is that we do not give credit to the retail customers. The MSME customers get credit from us anywhere between 15 to 30 days. From a shipping profile, the MSME customer may be slightly more regular than the retail customer. From a yield profile, the difference between an MSME customer and a retail customer would be anywhere between 20% to 25%.
- **Mr. Rajat Sethia -- ithought PMS:**
- Okay. And in terms of their, like I mean the kind of business that they give, how are we differentiating I mean between a retail and an MSME, what's the difference in their profile and who are they?

- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**
- So, generally retail customers are ones who come in clusters, so for example you have the cashew nut cluster, the saree cluster, these are small enterprises which work in clusters, and they are identified as the retail customers. The MSME customers are those who are actually manufacturing in a small way to supply to a larger manufacturing unit Their spares or their components. These are more in the industrial parts like the MIDC or GIDC etc. So, that is how the differentiation comes.
- **Mr. Rajat Sethia -- ithought PMS:**
- Okay. Alright, Sir. And what will be our annual maintenance Capex?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**
- Maintenance Capex? What is the meaning of – well Anish you want to answer.
- **Mr. Anish Matthew – Chief Financial Officer, Gati Ltd.:**
- So, can you explain that what you mean by maintenance?
- **Mr. Rajat Sethia -- ithought PMS:**
- I mean any Capex that we need to do to maintain our facilities. So, we see a number in our P&L, which says depreciation of so and so. Now, this depreciation is not really a cash number right, so how much of this depreciation basically we need to replenish back into the business to ensure our smooth operations, whatever assets that we have on lease, how much of that depreciation is going back in terms of maintenance capital expenditure?
- **Mr. Anish Matthew – Chief Financial Officer, Gati Ltd.:**
- So, the normal Capex spend for us you know would be in the range of around you know ₹15 crore, and that would include Rs. 4-5 crores of normal maintenance expenditure for our warehouses and STCs, and the remaining would be for our infrastructure and IT infrastructure. Unless and until we do have major STCs, we don't incur a huge expenditure. And, as we've been kind of explaining in the previous calls, for any new STCs, we don't do the construction. We kind of hand it over to the landlord and then we kind of pay the rental, minimum expenditure which we incur in terms of Capex would be in the range of around Rs. 2.5 to maximum Rs. 4 crores.
- **Mr. Rajat Sethia -- ithought PMS:**
- And, this number that you were saying, 5-6 crores, is it expense through P&L or it sits in the balance sheet?
- **Mr. Anish Matthew – Chief Financial Officer, Gati Ltd.:**
- No, what I'm referring to is Capex spend, which would be pure Capex cash outflow, which will be kind of charged to the P&L by way of depreciation.

- **Mr. Rajat Sethia -- ithought PMS:**
- Understood, thank you. One more question. What exactly is the... how delivery efficiency is different from DIFOT? What does it capture, I didn't understand that.
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**
- Okay, so DIFOT is basically a parameter to measure end-to-end service. That means, if you are a customer and I tell you that I can move your shipment which I pick up from Mumbai to Delhi, in 3 days, that means, from the time I pick up to the time I deliver, your time in transit would be 3 days. That is what is DIFOT. Delivery efficiency means that, from the time it reaches my last operating unit in Delhi, from there to the customer, that is measured as delivery efficiency.
- **Mr. Rajat Sethia -- ithought PMS:**
- And, it largely captures the time it takes v/s the promised time from that particular point?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL.:**
- So, delivery efficiency is a measure of same-day delivery. Which means, the day it reaches the last OU of delivery, it should get delivered on that same day, as long as it reaches within a certain cut-off that is defined at each of the last OUs. For eg. In a certain operating unit, the cut-off would be, that any shipment which reaches before 12 o'clock in the afternoon it will get delivered the same day. In others it could be 11 o'clock, in some it could be 3o'clock depending on where the last operating unit is. But, this is clearly defined in the system and we measure that. So, when a shipment reaches before that time, it should get delivered on that same day.
- **Mr. Rajat Sethia -- ithought PMS:**
- Okay, alright. And, how do we adjust the customer dependency that we have, that you explained? Like you said, based on the customer's availability? So, how do we adjust that into this?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**
- So, if you look at my target which we have put in the presentation on delivery efficiency, we have mentioned a number of 93% over there. And, that is because, generally delivery efficiency should be 100%. But, because of this way of doing business of appointment delivery, where the customer says, "Hey, don't deliver today, deliver tomorrow or deliver after a couple of days", even the target has been adjusted according to the historic data that we have in our system. So, there are customers in India who would not want delivery on the same day but would want it after a few days. It all depends on, if their inventory is choked in their own offices, so that they don't have space to receive it. But, industry wise, this is approximately 5-7%.
- **Mr. Rajat Sethia -- ithought PMS:**

- Okay, understood. And, the other targets that we have mentioned, like DIFOT is 90%. So, basically, how do you look at the numbers? I mean, is this the first set of targets that we had set for ourselves, and we are obviously hitting it now. Will that target increase in future, or do you think this is the industry parameter where, if you reach, then that's good enough?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**
- No, they will increase. We don't stop at anything. So if we have achieved 90%, our next target will go up. But, we set our targets annually. So, we make sure that, one is to reach the target, but second is to maintain consistency, because consistency is very important in our business.
- **Mr. Rajat Sethia -- ithought PMS:**
- Right. And one last one. In terms of average weight that we carry, what's the maximum weight that we carry in our express logistics operations?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**
- So, on a per shipment basis, there is no maximum weight. You could give me 3 tons, 4 tons, 5 tons. But, on a per piece basis in Gati, we don't carry more than 700 kgs. Did you follow the difference between per shipment and per piece? A shipment could be having more than one piece in it. I'll tell you in normal parlance – box. So, a shipment could be 5 boxes, right? So, your 5 boxes that you give me, can weigh anything. But your per box cannot weigh more than 700 kgs.
- **Mr. Rajat Sethia -- ithought PMS:**
- Okay, sure. And, usually what is the weight range wherein we get most of our products that we need to transfer?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**
- So, we will slowly reveal more and more information to you guys, give us some time.
- **Mr. Rajat Sethia -- ithought PMS:**
- Sure, alright. Thank you so much and really appreciate you disclosing these service parameters. Really appreciate it. Thankyou so much.
- **Moderator:**
- Thank you. Before we take the next question, I'd like to remind participants, if you wish to ask a question, please press * and then 1 on your touchtone telephone. The next question is from the line of Jigar Shah from AK Securities. Please go ahead.
- **Mr. Jigar Shah – AK Securities:**
- Sir, I have a couple of questions. The first one is, I just wanted to understand how do we plan on improving the margins to reach the targeted 10-12%? And, will it be a combination of increased volumes and cost cutting measures?

- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**
- Of course, it will have to be a combination of both. But in our case, I believe, increase in volumes at this stage is more important than cost cutting measures. For us, increased volume also optimises our cost, because our direct cost which is trucking cost, is a metrics called capacity utilisation. And, as your volume goes up, your capacity utilisation of your trucks also increases, and therefore, your cost per kg that you move in a truck, reduces. So, as Gati stands today, for us to reach that 10-12% EBITDA margin, we have to increase our volumes. That is the most important.
- **Mr. Jigar Shah – AK Securities:**
- Got it. Sir my next question is, I just wanted an outlook for the coming quarter. Since it's the festive season, are we seeing a higher demand?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL.:**
- Definitely. As you know in the express industry, the Quarter 2 end and Quarter 3 beginning are the best months. And of course, what happens is, customers start creating inventory for sale. So yes, we already are seeing a higher demand.
- **Mr. Jigar Shah – AK Securities:**
- Thank you sir.
- **Moderator:**
- Thank you. Reminder to the participants, if you wish to ask a question, please press * and then 1 on your touchtone telephone. The next question is from the line of Rishabh from RBSA Investments. Please go ahead.
- **Mr. Rushabh – RBSA Investments:**
- Hi sir, thank you for the opportunity. I just want to understand, in terms of surface express industry per se growth rate, is it growing in line with the expectation, or has it slowed down a bit from 10-12% to higher single-digit? Are we seeing any headwinds in this sector, surface express industry per se?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**
- So, to answer the first part of your question, I don't see a slowdown below 10-12% for sure, the industry growth rate. Are we seeing any headwinds? I think we saw headwinds in the first couple of months of this financial year, but now, we are seeing consumption patterns go up, and therefore, demand increasing.
- **Mr. Rushabh – RBSA Investments:**
- Perfect! The second thing, you mentioned that we are seeing synergies with Allcargo regarding new customers. Can you please elaborate what kind of new customers are we adding? What synergies are we exactly looking for? Can you please elaborate on this.
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**

- As you know, as a group, today Allcargo can offer end-to-end services to any customer in India. Which means, if a customer wants to import its raw materials from anywhere in the world, Allcargo can bring the raw materials, either by ocean freight or air freight. Then we also have container freight stations where we can stage the containers before they get custom cleared, post which we can warehouse their materials for them nearer to the port or inland. This is a company called Allcargo Supply Chain, which is the contract logistics, which is the contract logistics company. And finally, we can distribute through Gati, their last mile deliveries. So, this is what we call, end-to-end integrated service, that we as a group can provide to the customers. Now, if there are customers who are doing import of materials with Allcargo, then we can go to those customers and tell them that, "Hey guys, we can do your warehousing through Allcargo Supply Chain, and we can do your distribution through Gati". And, vice versa, we can also tell our Gati customers, that by the way, if you have any imports or exports, or if you need any warehousing, we can do that for you. And, that is the advantage of the cross-sell that we have now constituted in a group as a process, and it is monitored at the corporate level of the group. The advantage that one sees is that, if there is a warehousing customer with Allcargo Supply Chain, and if Gati is not distributing from that warehouse, then we can go visit the customer together. And, because of the good relationship that is existing with Allcargo Supply Chain, Gati could start doing distribution from that warehouse. So, this is the kind of synergies that we are looking at, for all the services that the group can provide.
- **Mr. Rushabh – RBSA Investments:**
- I just wanted to understand, so how much of the synergies are we actually tapping right now? Have we started recently? On what stage of leveraging those synergies is Gati currently in?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**
- So, it is a continuous process. Every month there are a couple of customers that we get leads, and then we, of course, have our conversion of those leads taking place. This is a very structured program that is run in the organisation. And yes, we are seeing initial wins from this program for Gati and from Gati also.
- **Mr. Rushabh – RBSA Investments:**
- Okay. Just a last question. Recently we hired Mr. Rajesh who had a very good background. So, are we looking to add more people at this level, or are we done with adding more people in the execution team stage?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**
- So, we keep identifying the gaps that are required by Gati, and we fulfil them. We have got Rajesh now. We also very soon will declare a digital marketing gentleman that we have just recruited; it will be out in the press very soon. We believe that a combination of digital marketing and good pedigree sales will really get us our volume also going.
- **Mr. Rushabh – RBSA Investments:**

- So, is there a significant frontloading in employee cost for us currently?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESPL:**
- Not necessary, because... For eg. Rajesh has replaced our Chief Commercial Officer who would be leaving the organisation soon.
- **Mr. Rushabh – RBSA Investments:**
- Okay. Thank you so much sir.
- **Moderator:**
- Thank you. Before we take the next question, a reminder to the participants, if you wish to ask a question, please press * and then 1 on your touchtone telephone. The next question is from the line of Praveen Sahay from Prabhudas Lilladher. Please go ahead.
- **Mr. Praveen Sahay – Prabhudas Lilladher:**
- My question is related to the surface express business. If I look at the volume in the last 5 quarters, it's in the range of around 280,000 to 282,000, this quarter it's almost 290,000 tons. So, can you give some colour – after creation of these super hubs, how much it can go to? Or, do you have any parameters on the utilisation side of those things to track on the way forward? How will this number move?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, Gati Ltd.:**
- So, this is a way of asking me what is my revenue going to be in the next quarter, right?
- **Mr. Praveen Sahay – Prabhudas Lilladher:**
- Not exactly sir. I'm just trying to understand how these numbers will move with the improvements we have done. If I look at it, it's almost been flat for 5 quarters, with just 1-2% up. So, I'm just trying to understand that.
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESPL**
- Let me tell y'all. So, it's been some time that we now have acquired Gati by Allcargo, right? We have been, for the last 2 years, doing a lot of work in Gati to make Gati great again. Once the confidence comes into the management, the management starts putting numbers out there. So, you must have now noticed that for the last 2 months, we have been putting our volume numbers out, right? You saw that in the month of June, you'll see that in the month of July, you'll see that in the month of August. And, that will give you the answer to your question as to how volumes are moving. Secondly, we've also now put out service parameters. And, the fact that a management puts out volumes and service parameters, should tell you that the management is now confident of what it has done over the past 2 years, and therefore, it is putting its neck out and giving you these parameters out in the open. So, I would just suggest that, follow us every month and you'll get to know the volume increase.

- **Mr. Praveen Sahay – Prabhudas Lilladher:**
- Okay, great! Second is on the client mix. The client mix has been given of 60%, MSME is 20%. So, is there any margin differential in those different kinds of client mix? And, the mix given in the presentation is of revenue, or is it of volume?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**
- Revenue.
- **Mr. Praveen Sahay – Prabhudas Lilladher:**
- So, if you can give the volume as well?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, Gati Ltd.:**
- I have said this before also, that the large customers, whatever we get as a yield from them, the yield for the MSME customers is 40% more than that, and the yield for the retail customers is another 40-50% more than that. So, that is how the business works between the large customers, the MSME and the retail. With regard to the volume customer-wise, give us some time, we will start putting out some more details also to you'll. We want to be as transparent as possible with all of you. Okay?
- **Mr. Praveen Sahay – Prabhudas Lilladher:**
- Sure. Sir, my last question is on the Bangalore hub, which you are starting from this month onwards. So, is it on similar lines of Farukh Nagar or Bhiwandi? Is it as big as that?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**
- Absolutely similar.
- **Mr. Praveen Sahay – Prabhudas Lilladher:**
- And are you also consolidating some hubs there, like you did in Bhiwandi?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL.:**
- Yes. Two hubs in Bangalore which are getting consolidated with a much larger space that we are setting up in Bangalore. Just for all of y'all, Bangalore is one of our largest delivery cities in the country.
- **Mr. Praveen Sahay – Prabhudas Lilladher:**
- Okay, that's it from my side sir. Thank you.
- **Moderator:**
- Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.
- **Mr. Dhwanil Desai - Turtle Capital:**

- Hi, good afternoon. My first question is, we have been talking about legacy issue, because of that discounting, we had to... So, is it likely to be over in this quarter? And, had it not been the case, what would've been our gross margin this quarter?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**
- Good question. So, I would only put my neck out and say that, a lot of those issues have now finally reduced; I'm not saying they are over. But, they have reduced dramatically. It's only a matter of, I would say, another quarter or so, before I could come back and say now it is BAU. How much impact that has on the margin, is not something that I would like to talk about.
- **Mr. Dhwanil Desai - Turtle Capital:**
- Okay. Sir, I'm perfectly okay if you're not willing to share those details. The question is, because we have operationalised lot of new hubs, and some time has passed, and you mentioned about increased productivity, etc. And, our goal was always 30-31%, even today we did 32% gross margin. So, on that journey, had it not been the case, we are at a comfortable place where you would have thought that we should be, given all the efforts put in?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, Gati Ltd.:**
- In a way, yes.
- **Mr. Dhwanil Desai - Turtle Capital:**
- Or, do you think that there is still some distance to cover?
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, Gati Ltd.:**
- No. So, our operational efficiency continues constantly, but we have reached a very good stage in operations.
- **Mr. Dhwanil Desai - Turtle Capital:**
- Okay. And, my second question is on this contract logistics business. We talked about lot of synergies, and we have done that in the past also. There was also some talk about the restructuring within Allcargo group. So, any sense of whether that business is going to be merged? If so, what is the timeline for taking that decision? What are the parameters? Some light on that.
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL.:**
- No, I thought you analysts were smart people yaar. -Y'all already have been told that I'm the MD of Allcargo Supply Chain, -not the MD of Gati.
- **Mr. Dhwanil Desai - Turtle Capital:**
- That is the genesis from where this question started.
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**

- So, one is done. Now wait for some time. We will let you'll know. There is a restructuring happening, we'll let you'll know.
- **Mr. Dhwanil Desai - Turtle Capital:**
- Okay, got it.
- **Moderator:**
- Thank you.
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**
- I'm sorry, but I have something come up, I have to leave now. I'm very sorry. So I can take a last question maybe, or else Anish can continue.
- **Moderator:**
- Sure sir. We proceed to the next question from the line of...
- **Mr. Pirojshaw Sarkari -- Managing Director & CEO, GESCPL:**
- No, I will logout. Thank you very much everyone. I'm sorry about this. Something urgent has come.
- **Moderator:**
- Thank you sir. We proceed to the next question, from the line of Krupashankar from Avendus Spark. Please go ahead.
- **Mr. Krupashankar - Avendus Spark:**
- Hi, and thank you for the opportunity. One question from my side is on the general pricing environment in the industry. I just wanted to assess, is it holding on or are you seeing more aggressive players coming in? Because, in the recent string of announcements, pricing is looking very dilutive in nature. Just wanted to get some thoughts on that.
- **Mr. Anish Matthew – Chief Financial Officer, Gati Ltd.:**
- Yeah, I would say the environment is now competitive with all the players being very aggressive in the market. So, from that perspective, we also kind of make sure that we don't dilute so much. But, at the same time, we -drive the volume. That's the whole game all about. Our focus is to kind of =get the volume, at the same time, not to dilute too much. But, there is aggressive competition in this industry.
- **Moderator:**
- Mr. Krupashankar, we are unable to hear you well. If you have a question, you may please go ahead. Sir, we just lost the line for the last participant. Well ladies and gentlemen, that was the last question for today. I would now like to hand to conference back to management for their closing remarks. Thank you and over to you sir.

- **Mr. Anish Matthew – Chief Financial Officer, Gati Ltd.:**
- So, thank you everyone for attending this call. If you have any more questions, you can mail our IR team for any kind of response which is required for any queries.
- **Moderator:**
- Thank you very much.
- **Mr. Anish Matthew – Chief Financial Officer, Gati Ltd.:**
- Thank you very much.
- **Moderator:**
- On behalf of Prabhudas Lilladher, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.

- ***END OF TRANSCRIPT***