

Performance Synopsis:

Gati Ltd in its Q4FY16 results shows that its Revenues grew by 3% YoY & 3% QoQ to INR 428 crore. Revenue from KWE grew mere 1% YoY to INR 287 crore. However, standalone revenues grew 11% YoY to INR 127 crore, because of growing E-Commerce business. For FY16, consolidated revenues grew by 1% YoY to INR 1667 crore.

EBITDA of the company for the quarter grew by 11% YoY & 12% QoQ to INR 37.8 crore. As the result of which EBITDA margins expanded by 64 bps YoY & 74 bps QoQ to 8.8%. For FY16, EBITDA grew negatively by 6% YoY to INR 131 crore with a margin of 7.8%.

Increased other income and lower interest expense accelerate PAT to grow to the highest of the Quarter levels in FY16. PAT after minority interest sequentially doubled by 37% YoY to INR 15.5 crore. Lower operating performance along with higher depreciation cost led to a negative growth in PAT which stood at 11% YoY at INR 36.8 Crore.

KWE – Impacted negatively; standalone performing well:

There remained an adverse effect on consolidated revenues during the year for Gati Ltd which is on account of underperformance of KWE division. KWE, contributing approximately 70% to consolidated revenues was impacted by absence of rail service revenues. The approximate annual loss of rail revenues stood at INR 35 crores. The company resumed and upgraded its Mumbai-Kolkata-Guwahati rail service & has added a more round-trip that will generate further revenue which will lead to recovery of revenues in FY17. Standalone revenues continued their upward standings, with e-commerce revenues contributing 12% of consolidated revenues as against 8% in the earlier year. The current quarterly performance of e-commerce has increased to INR 63 crore as against INR 53 crore in the previous quarter. The company is consolidating its fleet size and pin codes served to achieve better efficiencies. Also, the company is intentionally focusing on the strategy to work on parcels weighing less than 2 kg, as compared to earlier focusing on carrying bulkier parcels. With these efforts, we are expecting margins to improve to 8.5% in the upcoming future.

Pan-India network, multimodal capability - answer to start ups:

The company's presence in wide range of services i.e. from freight forwarding to warehousing to packaging to last mile delivery, to reverse logistics caters to a 360° presence in supply chain for customer requirements. Unlike Gati, the recent start-ups which are fuelled up by higher funding that specializes in specific product or region would be unable to provide the reach and cost efficiencies. Gati with a fleet size of 4,500, which are owned as well as contracted, 200 reefer trucks and 76 warehouses, including two e-fulfillment centre, is at a vantage point. With its "multi-modal" and "multi-service" expertise Gati positions itself as the most favored player for contract logistics.

24/05/2016

Sector: Couriers

Stock Summary:

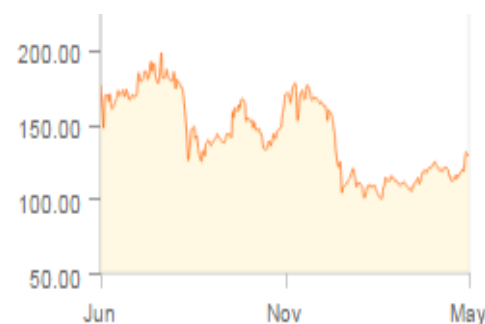
Particular

CMP	123.50
Target Price	150
Potential Upside	21.45%
O/S no of Shares (cr.)	8.73
Market Cap. (cr.)	1149.28
Equity Cap. (cr.)	17.50
52 Week High (INR)	209.70
52 Week Low (INR)	94.50
Face Value (INR)	2
NSE Code	GATI
BSE Code	532345

Share Holding Pattern:

Particular	March-16
Promoters	41.04%
FII's	8.25%
General Public & Others	45.41%
DII's	5.31%
TOTAL	100%

Stock Price Movement:



Unorganized players, ploughing the sector:

67% of vehicle owners in Indian market are having a fleet of less than five vehicles which is highly fragmenting the logistic industry. Of the total, express market is estimated at INR 17500 crore of which approximately 50% is share by unorganized players. Having direct correlation between GDP and trade growth, an expected improvement in the same would provide revenue growth for logistic players. A delay in Goods & Service Tax (GST) has sentimentally impacted the stock performance. However, hopes are high on attaining the consensus. Gati being one of the largest organized surface logistics players will be benefited from these changes. In our two phase DCF model we expect revenue to grow at a CAGR of 18% in 2015-20E and 12% CAGR in 2020-25.

Valuation:

The logistics industry in India is growing at a CAGR of around 17% over the past years, and the further growth is pegged at 1.2x of the growth in GDP. The standalone revenues of Gati Ltd had grown at a 6% CAGR over the period of 10 quarters, of which primarily due to increase in E-commerce revenues which have moved from 8 crores to 63 crores. Gati, with its leading market share of approximately 26%, covers a widespread reach across the geographies of India. Gati a one-stop logistics service provider, with parent i.e. KWE support, is expected to further expand its market share from the high unorganized market in the industry. The implementation of e-tailing, cold chain and of GST would accrue in a phased manner and could result in a multiplier effect on the sector's fundamentals, thereby providing multiple re-rating. As the advantages will be in a phased manner, we have worked out the two phase free cash flow to the firm (FCFF) model over FY16-25E for our discounted cash flow methodology. In the first phase i.e. over FY16-20E, the revenue growth will stand at higher side with a CAGR of 16%, which is because of higher volumes from e-tailing segment, additional revenue generated from fulfillment services and cold chain warehousing and improvement in realization on back of value added services. Higher utilization levels and better infrastructure management will bring in improvement in return ratios, which will in turn improve the cashflow generation. In the next phase which is stable growth phase i.e. FY20E-25E we believe that the company will achieve a normalized growth rate of around 12% CAGR. Thereafter the company will grow at a terminal growth rate of approximately 4%. Finally, with a risk free rate of 7.5% and beta of 0.95 along with a market risk premium of 7.5% we arrive at a cost of equity of 13.2%. For FCFF valuation, we have assumed a post tax WACC of 13%. With the back of the envelope calculation, we arrive at a target price of INR 150 and recommend BUY on the stock.

DCF Valuation:

Particular	In Cr.
PV of High Growth Period	711
PV of Stable Growth Period	344.79
PV of Terminal Value	615.10
Less: Debt	(489.09)
Add: Cash & Investment	124.62
Targeted Market Cap.	1306.37
No. of Shares	8.73
Target Price	150

Sensitivity to DCF Valuation:

		WACC			
		11%	12%	13%	14%
Terminal Growth Rate	2%	142	138	134	131
	3%	149	145	141	138
	4%	157	153	150	146
	5%	167	164	160	157
	6%	181	177	174	170

Key Financials & Valuation Summary:

Particular	FY15	FY16P	FY17E	FY18E
Net Sales	1,648	1,667	1,903	2,181
EBITDA	139	131	157	186
Net Profit	41.4	36.8	45.6	55.7
EPS (₹)	4.7	4.2	5.2	6.3
Target P/E (x)	31.5	35.6	28.8	23.6
EV/EBITDA (x)	10.5	11.4	9.2	7.5
P / BV (x)	1.9	1.9	1.8	1.6
RONW (%)	6.3	6.6	7.8	9.0
ROCE (%)	11.2	11.6	13.4	15.2

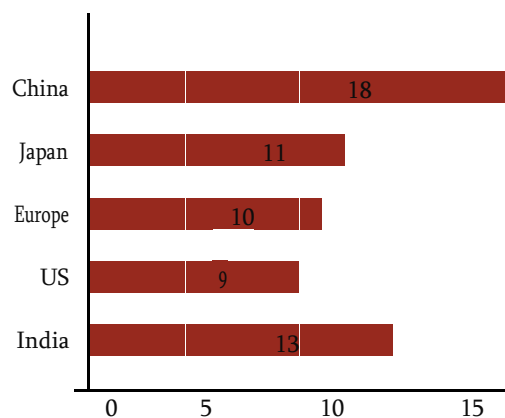
“Growth Street of Logistics” - Pegged at 1.5x of GDP growth:

The logistics industry in India has shown a growth at a CAGR of approx 16% over the last five years. The industry is largely segregated into various modes like road, rail, air and water. Looking to the number of players and advantages of last mile delivery, roads contribute approx 60% of industry volumes. Further, express logistics alone is estimated to have a market share of INR 17400 crore. The industry is highly fragmented, with approx 53% unorganized small and mid-sized players spread around multiple geographies offering various form of services. This fragmentation brings in opportunities for organized players like Gati that has the reach and ability to provide an array of services across sectors.

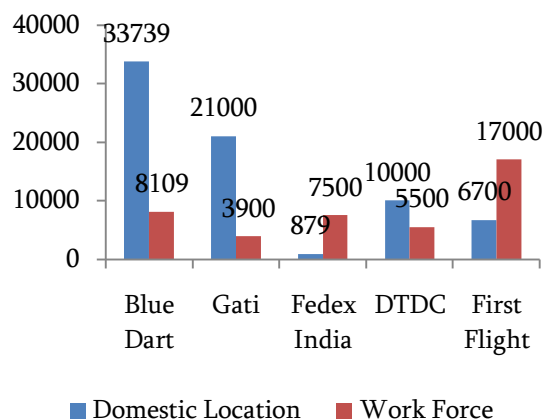
“Express industry” Shifting towards Organized

Currently, the express industry is of INR 17500 crore of which 50% consisting of the unorganized market, which makes it favorable for organized and recognized players like Gati, to increase their penetration in the same. There are approximately 2500 fragmented players of which very few are integrated. In the organized segment, the postal department together with large players constitutes the organized portion of the market, of which the Indian postal department has the mammoth share in the document segment, other organized players distinctively command a significant market share in non-document market. Major domestic players in the organized segments like Gati, Blue Dart, DTDC, First Flight, etc, in collaboration with global majors like KWE, DHL, FedEx, TNT and UPS constitute the organized express industry in India.

Logistic Cost as a % of GDP:



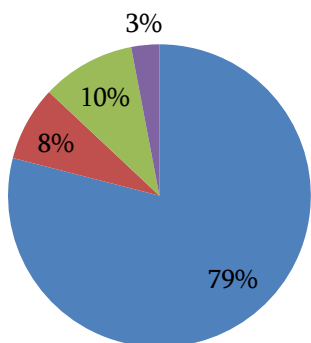
Players & their Capabilities in the market:



Gati: Leader of surface express:

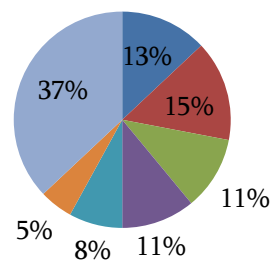
Continuing its leadership in express distribution industry, Gati is leading the non Document market with a share of 19%. The express distribution market is currently valued at INR 1750000 crore. The company has created a surrounding around its business model by providing one stop solution for all logistics requirements i.e. from warehousing, freight forwarding, supply chain solution, temperature controlled solutions, B2C couriers and fulfillment centers. The company covers over 21000 pin codes & 653 districts, also claims a covering of 99.3% of geographies of India. The express distribution derives approx 79% of the revenue from surface movement. The company caters the logistics requirement of top 8 out of the 10 auto companies which includes Ford, Suzuki, Tata etc., top 7 of electronic companies i.e. Samsung, Ricoh, Canon etc., 5 of top 7 pharmaceuticals i.e. Novartis, Torrent etc., 3 of top 5 FMCGs i.e. Dabur, Godrej etc., also the company carries out transportation of temperature controlled products. As the company is catering the diversified industrial network, the growth of company is associated with the growth of the companies it caters, which further is associated with the GDP growth rate. The company derives its 75% business from Institutional clients and remaining 25% from retail segments. The company is having policy of providing a credit period of 60 days to institutional clients. The company under its agreement has a clause of “Diesel price hike index”. As per the clause the billing is adjusted with a variation and the customer will bear the additional cost calculated by the specified “Diesel price hike index”.

Mode of Transport Contribution



■ Surface ■ Rail ■ Air ■ Others

Industry wise Contribution



■ Pharma ■ IT Hardware ■ Auto Ancillary ■ Engineering
 ■ Textile ■ FMCG ■ Other

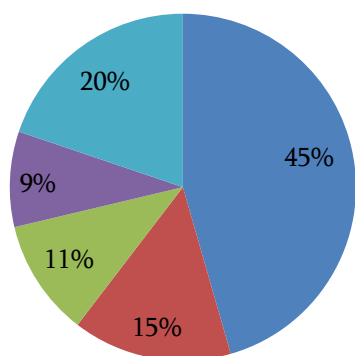
Pan India Coverage, Multimodal Capabilities: A Street to get Gati:

The company with a wide range of services, penetrating the market with a 360° presence in Supply Chain for customer requirement. The services includes freight forwarding, warehousing, packaging, last mile delivery & reverse logistics.

We believe that if these supply chain activities are managed by single player across the supply chain will bring in value proposition, cost effectiveness & superior quality.

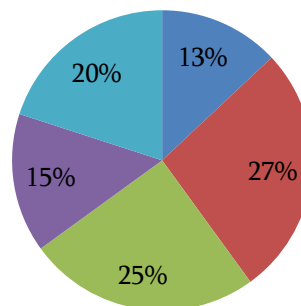
The company is having the capabilities in warehousing, managed transport & value added services all along the supply chain in variety of industries. The company’s “multi-modal” & “multi-service” expertise, allows it to be the most favored player for Contract Logistics. The company currently operates a fleet size of approx 4500, 200 reefer trucks through 76 warehouses. The current asset base is managed by Gati KWE, which commands a market share of 80% and 50% in greater than 10 kg and 5-10 kg weight segment, respectively. It also has approx 15% market share in air logistics, which is managed by an assured space across multiple air carriers. The network of the company is next best after Blue Dart.

Organised Air Express Market Share



■ Blue Dart ■ Competitor 1 ■ Competitor 2
 ■ Competitor 3 ■ Others

Organised Ground Express Market Share



■ Blue Dart ■ Competitor 1 ■ Competitor 2
 ■ Competitor 3 ■ Others

Multi Modal & Multi-Service Offerings of Gati:

Company Name	Transportation				Services		
	Road	Air	Rail	Water	Cold Chain	Express	3PL
Gati Limited	Yes	Yes	Yes	-	Yes	Yes	Yes
Blue Dart	Yes	Yes	-	-	-	Yes	Yes
TCI	Yes	Yes	-	Yes	Yes	Yes	Yes
Snowman	-	-	-	-	Yes	-	-

E-connect: The E-commerce bull:

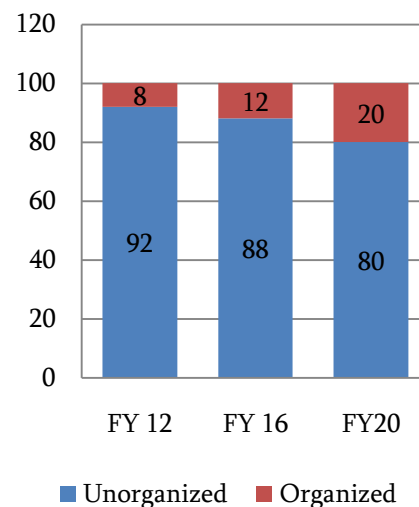
E-connect the e-commerce segment of Gati has grown at a CAGR of 140% over the past 2 years. The revenue from this segment, now contributing approximately 19% to the standalone revenues, as compared to 13% a year ago. With a fleet of 500 two wheelers 320 four wheelers & a reach of 20000 pin codes, the company claims to be one of the top 5 e-commerce logistics service provider in India. The company has scaled up its delivery capacity to 72000 packages per month in Q3FY16 as against 37000 packages in FY15. The company is having warehousing units at Delhi, Hyderabad & Mumbai with a total handling capacity of 25000 packages per day.

The company is going to have 2 additional centers at Chennai & Jaipur with a total of 1.8mn sq ft.

Cold Chain Industry- Area to Grow Big:

The retail industry of India is expected to grow at nearly around with 13% CAGR to INR 864000 crore by 2021, of which 60% is formed by retail industry under “Food & Grocery” segment, and is expected to grow at nearly 14-15%, which will in turn fuel the demand for the cold chain and temperature controlled logistics. As the organized retail industry in India has low penetration of around 8% of the total market, it provides significant scope for the organized players to increase their penetration as well as share in the retail industry. Moreover, the Indian food processing industry with the total size of INR 750000 crore is witnessing healthy growth and is expected to grow at around 17% over the next two to three years due to the change in lifestyle and growing nuclear families. Cold chain industry in India is nearly INR 12000 to 15000 crore and is anticipated to grow at a CAGR of around 15-17% over the next three-five years which is led by growth in the organized retail segment and maturation of Indian food processing industry. With less than 10% of perishable produces utilizing the temperature controlled facility, India falls under the category of low cold chain adaptation countries thereby providing tremendous scope for growth in the segment. The cold chain industry in India is estimated at around 30 million tonnes of warehousing capacity and nearly 7000-8000 reefer vehicles. With a mere 7% of the organized segment in cold chain warehousing and around 15% in temperature controlled transportation, the growth in the segment is well supported by overall market growth of 15% and 20% growth in the temperature controlled services. Gati Kausar is currently into cold storage trucking business through its current fleet size of around 200 refrigerated trucks. It caters to variety of industries across Quick Service Restaurants (QSR’s), Pharmaceuticals, Retail and Agri-food sectors. In Q2FY15, Gati Kausar has raised INR 150 crore from Mandala Capital Ltd. which was structured as INR 30 crore in equity and remaining INR 120 crore in debt leveraging on the demand from the current trucking clientage, Gati Kausar plans to set up 10 cold storage warehouses, comprising a capacity of around 43000 pallets, for which the land parcels and initial outlay is designed. We expect the revenues to start contributing from Q4FY16.

Industry wise-Cold Storage Industry



Goods & Service Tax: A Synergy for Organized Players:

Indian logistic industry is surrounded by multiple levels of state & central taxes. The products are prone to double taxes as is already paid on inputs & is not adjusted on calculation of taxes on final products. Further the more complications are in form of interstate transactions which are taxed separately, & no tax credit is available for the same. Thus introduction of GST remain a much awaited reform which will simplify these complications & would benefit the consumers, producers, & the Government. More than 140 markets have implemented GST in some or the other form. With numerous benefits at both firm/consumer and economy level GST is expected to add over 1% to the Gross Domestic Product (GDP).

GATI Ltd.

Financial Summary:

Profit & Loss Statement:

				(In cr.)
Particular	FY15	FY16P	FY17E	FY18E
Revenue	1,648.1	1,667.0	1,903.0	2,180.6
Growth (%)	47.6	1.1	14.2	14.6
Cost of Sales	233.6	216.3	270.2	316.2
Employee Costs	156.5	179.7	204.4	229.0
Operating Expenses	979.7	996.0	1,089.4	1,238.6
Op. Expenditure	138.9	144.2	182.2	211.0
EBITDA	139.4	130.8	156.7	185.8
Growth (%)	65.8	(6.2)	19.8	18.5
Depreciation	33.2	38.3	44.3	48.6
EBIT	106.3	92.5	112.5	137.2
Interest	41.9	42.5	48.0	48.7
Other Income	14.6	14.8	16.5	17.6
PBT	78.9	64.8	81.0	106.0
Growth (%)	96.5	(17.9)	25.0	30.8
Tax	19.2	15.6	20.3	31.8
Reported PAT	59.7	49.2	60.8	74.2
Exceptional Items	(3.0)	-	-	-
Minority Interest	(15.3)	(12.4)	(15.2)	(18.6)
Reported PAT (adjusted MI)	41.4	36.8	45.6	55.7
Growth (%)	76.8	(11.1)	23.8	22.1
EPS	4.7	4.2	5.2	6.3

GATI Ltd.

Balance Sheet:

(In cr.)

Particular	FY15	FY16P	FY17E	FY18E
Source of Funds				
Equity Capital	17.5	17.5	17.5	17.5
Reserves & Surplus	531.2	546.0	581.3	626.6
Shareholder's Fund	548.6	563.5	598.8	644.2
Secured Loan	286.3	290.3	275.8	262.0
Unsecured Loan	186.4	198.8	218.7	240.5
Total Loan Funds	472.7	489.1	494.5	502.5
Deferred Tax Liability	7.4	9.7	9.7	9.7
Minority Interest	80.4	88.7	90.5	92.3
Source of Funds	1109.1	1151.0	1193.4	1248.7
Application of Funds				
Gross Block	380.2	437.2	507.2	557.2
Less: Acc. Depreciation	86.5	124.8	169.1	217.7
Net Block	293.7	312.4	338.1	339.5
Capital WIP	2.7	25.0	50.0	50.0
Total Fixed Assets	296.5	337.4	388.1	389.5
Goodwill	446.9	446.9	446.9	446.9
Investments	64.7	64.7	67.9	71.3
Inventories	3.5	5.2	5.2	6.0
Debtors	266.9	291.2	286.7	328.6
Cash	59.9	45.4	105.4	156.7
Loan & Advance, Other CA	203.7	260.0	262.6	265.2
Total Current assets	534.0	601.8	659.9	756.4
Creditors	80.8	85.0	129.6	151.6
Other Current Liabilities	48.1	53.6	61.6	67.8
Provisions	104.1	136.2	178.2	196.1
Total CL and Provisions	232.9	274.8	369.4	415.4
Net Working Capital	301.0	327.0	290.5	341.0
Miscellaneous expense	-	-	-	-
Application of Funds	1109.1	1176.0	1193.4	1248.7

Cashflow Statement:

Particular	(In cr.)			
	FY15	FY16P	FY17E	FY18E
Profit after Tax	56.8	49.2	60.8	74.2
Less: Dividend Paid	10.8	10.3	10.3	10.3
Add: Depreciation	33.2	38.3	44.3	48.6
Add: Others	-	-	-	-
Cash Profit	79.2	77.3	94.7	112.5
Increase/(Decrease) in CL	32.6	41.8	94.7	46.0
(Increase)/Decrease in CA	152.7	(82.3)	1.8	(45.2)
CF from Operating Activities	259.9	34.6	186.3	105.1
(Add) / Dec in Fixed Assets	88.4	(54.2)	(120.0)	(50.0)
Goodwill	0.0	-	-	-
(Inc)/Dec in Investments	(9.9)	-	(3.2)	
CF from Investing Activities	78.5	(54.2)	(123.2)	(53.4)
Inc/(Dec) in Loan Funds	(7.5)	16.4	5.4	
Inc/(Dec) in Sh. Cap. & Res.	-	0.1	-	-
Others	(301.3)	(11.4)	(8.5)	
CF from financing activities	(308.8)	5.1	(3.1)	
Change in cash Eq.	29.7	(14.5)	60.0	51.3
Op. Cash and cash Eq.	30.3	59.9	45.4	105.4
Cl. Cash and cash Eq.	59.9	45.4	105.4	156.7

Key Ratios:

Particular	FY15	FY16P	FY17E	FY18E
Per share data				
Book Value	62.9	64.3	68.3	73.5
EPS	4.7	4.2	5.2	6.3
Cash EPS	8.5	8.6	10.2	11.9
DPS	0.8	1.0	1.0	1.0
Profitability & Operating Ratios				
EBITDA Margin (%)	8.5	7.8	8.2	8.5
PAT Margin (%)	2.5	2.2	2.4	2.6
Fixed Asset Turnover (x)	1.5	1.4	1.6	1.7
Inventory Turnover (Days)	1.7	0.9	1.0	1.0
Debtor (Days)	56.3	61.1	55.0	55.0
Current Liabilities (Days)	120.4	139.9	175.0	175.0
Return Ratios (%)				
RoE	6.3	6.6	7.8	9.0
RoCE	11.2	11.6	13.4	15.2
RoIC	10.0	8.7	9.9	10.7
Valuation Ratios (x)				
PE	25.3	28.6	23.1	18.9
Price to Book Value	1.9	1.9	1.8	1.6
EV/EBITDA	10.5	11.4	9.2	7.5
EV/Sales	0.9	0.9	0.8	0.6
Leverage & Solvency Ratios				
Debt to equity (x)	0.9	0.9	0.8	0.8
Interest Coverage (x)	4.1	4.0	4.2	4.8
Debt to EBITDA (x)	3.4	3.7	3.2	2.7
Current Ratio	2.3	2.2	1.8	1.8
Quick ratio	2.3	2.2	1.8	1.8

DISCLAIMER

Trifid Research respects and values the Right to Privacy of each and every individual. We are esteemed by the relationship and by becoming our clients; you have a promise from our side that we shall remain loyal to all our clients and non-clients whose information resides with us. This Privacy Policy of Trifid Research applies to the current clients as well as former clients. Below are the word by word credentials of our Privacy Policy:

1. Your information, whether public or private, will not be sold, rented, exchanged, transferred or given to any company or individual for any reason without your consent.
2. The only use we will be bringing to your information will be for providing the services to you for which you have subscribed to us.
3. Your information given to us represents your identity with us. If any changes are brought in any of the fields of which you have provided us the information, you shall bring it to our notice by either calling us or dropping a mail to us.
4. In addition to the service provided to you, your information (mobile number, E-mail ID etc.) can be brought in use for sending you newsletters, surveys, contest information, or information about any new services of the company which will be for your benefit and while subscribing for our services, you agree that Trifid Research has the right to do so.
5. By subscribing to our services, you consent to our Privacy Policy and Terms of Use.
6. Trifid research does not guarantee or is responsible in any which way, for the trade execution of our recommendations, this is the sole responsibility of the client.
7. Due to the market's volatile nature, the trader may/ may not get appropriate opportunity to execute the trades at the mentioned prices and Trifid Research hold's no liability for any profit/ loss incurred whatsoever in this case.
8. It is the responsibility of the client to view the report timely from our Premium member section on our website: www.trifidresearch.com and the same will also be mailed to this registered email id.
9. Trifid research does not hold any liability or responsibility of delay in mail delivery of reports, as this depends on our mail service provider's network infrastructure.
10. The clients can call us for any query related to buying/selling the securities, based on our recommendations.