

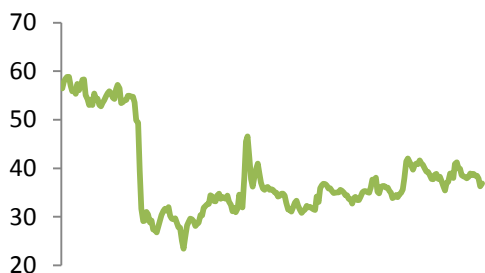
## Gati Ltd

Recommendation	BUY
CMP	Rs. 36.7
Target Price	Rs. 45
Sector	Logistics

## Stock Details

BSE Code	532345
NSE Code	GATI
Bloomberg Code	GTIC IN
Market Cap (Rs cr)	318
Free Float (%)	55.63
52- wk HI/Lo (Rs)	63/23.3
Avg. volume BSE (Quarterly)	1,52,294
Face Value (Rs)	2.0
Dividend (FY 11)	25 %
Shares o/s (Cr)	8.6

Relative Performance	1Mth	3Mth	1Yr
Gati	-1.8%	-4.1%	-36.0%
Sensex	1.1%	9.2%	3.6%

Shareholding Pattern 30<sup>th</sup> Jun 12

Promoters Holding	44.37%
Institutional (Incl. FII)	2.69%
Corporate Bodies	15.52%
Public & others	37.42%

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We attended the Analyst Meet of Gati Ltd held on 29<sup>th</sup> August 2012 in Mumbai.

## Valuation &amp; Recommendation

We had initiated coverage on the company on 29<sup>th</sup> May 2012 with a price target of Rs.46 after which the stock touched a high of Rs.45. Post discussion with the management; we have altered interest rate projections in our model for FY13E. Interest burden for FY13E now comes to ~ Rs.44 crore (earlier Rs.25 crore). The company is partly paying the debt and utilizing the rest for working capital needs and up gradation of infrastructure in the express division.

We believe worst is over for the company and we can expect revival in its core business of express distribution. In addition, its loss making shipping business is also expected to get into profits in FY13E. Stock remains subdued due to concerns in the overall economy and Gati's shipping business which made heavy losses in FY12. We believe any signs of improvement in these two factors should see momentum in the stock price. At CMP, the stock is trading at 10.6x its FY13E and we remain positive about the prospects of the company.

## Company Overview

Gati Ltd is India's largest express distribution and supply chain (EDSC) company operating through a fleet of more than 4000 vehicles and 64 Distribution Warehouses. Apart from the surface express, the company also operates in the supply chain management, freighter and coast to coast shipping businesses. Recently, Company has formed a Joint venture with a Japanese Company KWE and has transferred its EDSC business and a debt of Rs 330 crs to the JV Company Gati Kinetsu Express Private Limited wherein Gati Ltd. would hold 70% of the holding. KWE would be investing Rs 267 crore in this joint venture.

Gati Ltd enjoys early entrant benefits and is the leader in the express distribution segment which includes movement of goods in the commercial segment catering to the Auto, Consumer Durables, Telecom and Technology sector. Within the EDSC segment, Road transport consists of almost 80% means of business, the rest being equal between Rail and Air. In the rail segment, Gati runs 7 dedicated parcel trains on long term lease from railways.

**EDSC** is the core business of the company and historically has grown at a CAGR of 20-25% yearly. However, with the slowing economy the growth of this segment was lower at ~ 9% in FY12. However, with synergies with KWE JV unfolding and addition of focus on the SME sector as well, the company expects this division to grow over a CAGR of 15% during FY12-FY15 period. Moreover, the company expects implementation of GST and Postal Bill to boost the logistics industry.

**Kausar India** (cold chain division which was acquired in 2007) grew by 33% in FY12 to Rs.40 crore. Company has plans to expand the fleet size from the current 162 to 350 by 2015. Cold Chain industry is estimated to be growing at a CAGR of 20-25% and is receiving sector friendly policies from the government.

Consolidated	Sales-Rs cr	Growth (%)	EBITDA - Rs cr	Margin (%)	PAT (Rs cr)	Margin (%)	EPS (Rs)	PE (x)	EV/EBITDA
FY11A	1203.0	29.9%	92.5	7.7%	14.1	1.2%	1.6	22.4	8.2
FY12A	1180.2	-1.9%	71.3	6.0%	41.5	3.5%	4.8	7.7	10.6
FY13E	1414.4	19.8%	133.4	9.4%	29.9	2.1%	3.5	10.6	5.7

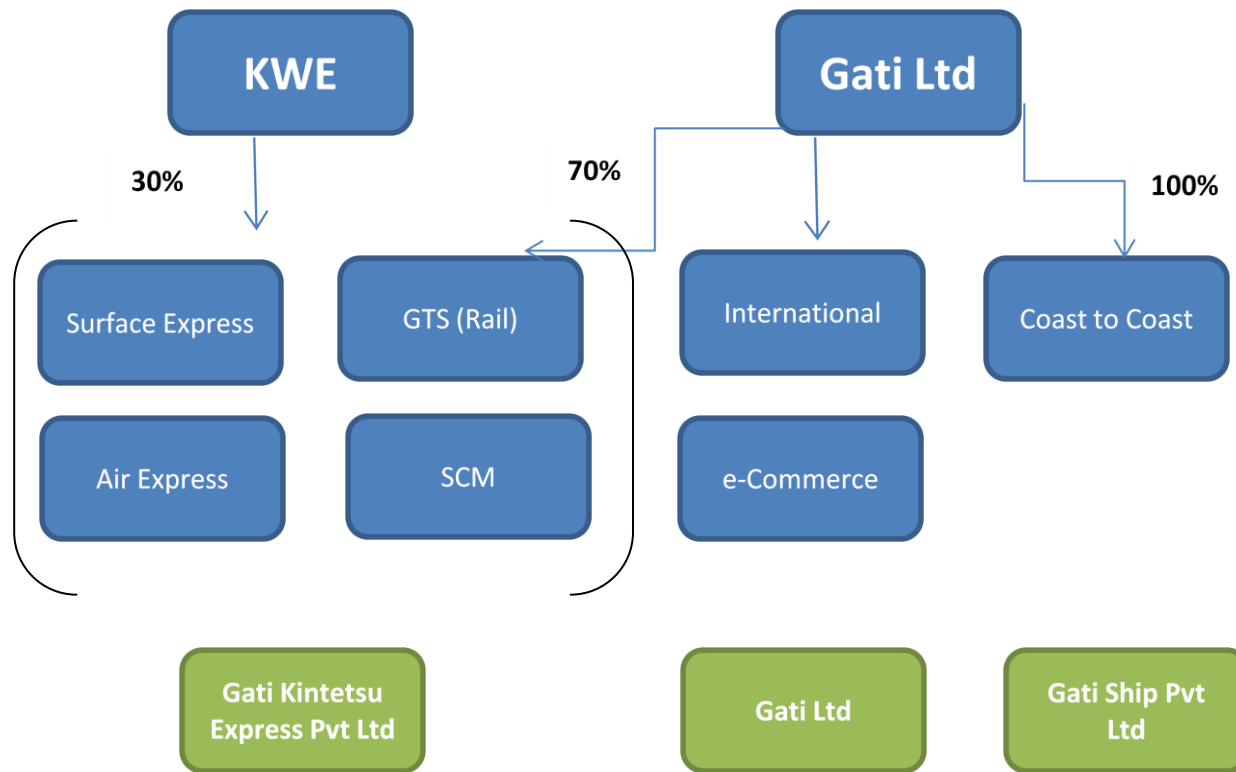


## Gati Ltd

**Gati shipping** business provided end to end logistics solutions with Shipping Cargo Services right from origin to port, port to port and port to destination using multimodal connectivity. FY12 losses from this division due to the vessels sent for dry docking. Company invested ~ Rs.25 crore for the same and currently 2 of the vessels are running on the Chennai – Port Blair – Yangon Route. Company transferred the shipping business into a separate subsidiary Gati Ship Ltd. Current Quarter might see marginal losses in this business, however would become profitable in the subsequent quarters. Company is looking for a strategic investor in the shipping business to take it to the growth trajectory. The net asset value of the whole shipping business including vessels, business contacts, containers, etc would be ~ Rs.200 crore.

Lastly, Gati also operates some other smaller businesses which complement the core business of the company. These are Fuel Stations, Import Export Trading, ecommerce, etc. These businesses contribute ~ 22% of Gati’s consolidated revenues. Company is expecting growth of 10% CAGR over 2012-2015 period.

### New Business Structure





## Gati Ltd

### Other Highlights

**Capex Plans:** Company plans to invest ~ Rs.185 crore of capex in the next three years. It would be spending Rs.50 crore, Rs.60 crore and Rs.75 crore in FY13E, FY14E and FY15E respectively. Out of this Rs.70 crore would be spend for the cold chain business and the rest for IT and other infrastructure. This source of investment would be primarily by the internal accruals and disposing of the parcel land which the company owns whose book value stands at Rs.75 crore and the market value of Rs. 200 crore.

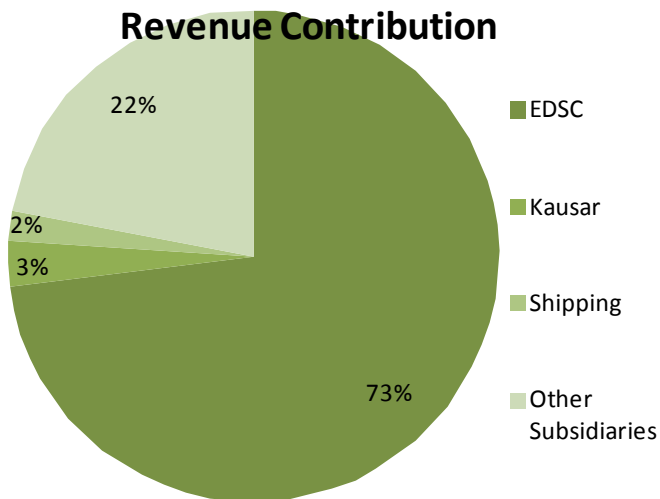
### Debt:

Current Gross Debt stands at ~ Rs.425 crore. The same in March 2012 stood at Rs.534 crore. Post infusion of Rs.267 crore by KWE for 30% stake, Gati has repaid ~ Rs.125 crore of debt. The company plans to repay another Rs.40-50 crore of debt in FY13E and would utilize the rest of the amount for working capital needs.

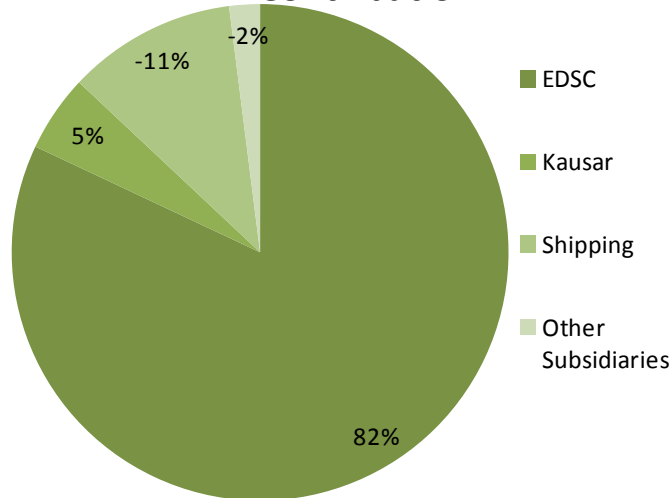
### FCCB:

Gati restructured its FCCB's worth \$ 15mn which were due for redemption on Dec 6th 2011. The new FCCBs were issued for \$22 million at a yield to maturity of 5.76% with a maturity of 5 years. This FCCB remains in the parent company Gati Ltd. The company would enjoy a benefit of 8% discount on repayment of part or full FCCB amount within one year (Dec '12). The management plans to repay \$ 5mn every year.

**Revenue Contribution**



**EBIDTA Contribution**



## Gati Ltd

## Financial Performance

Consolidated (Rs. In Crs)	FY10	FY11	FY12	FY13E	Financial Health (Rs. In Crs)	FY10	FY11	FY12	FY13E
<b>Income from operations</b>	<b>926.1</b>	<b>1203.0</b>	<b>1180.2</b>	<b>1414.4</b>	Share Capital	17.0	17.2	17.3	17.3
% change	17.2%	29.9%	(1.9%)	19.8%	Reserves & Surplus	254.9	262.0	403.8	430.9
<b>EBITDA</b>	<b>80.1</b>	<b>92.5</b>	<b>71.3</b>	<b>133.4</b>	Money against share warrants	17.6	16.4	0.0	0.0
% change in EBITDA	61.3%	15.4%	(22.9%)	87.2%	Minority Interest	0.0	0.0	53.7	66.5
Depreciation	27.18	25.43	36.96	37.00	Long Term borrowings	298.6	274.4	264.1	175.0
Interest	44.3	49.8	61.9	43.7	Other non current Liabilities	9.6	10.4	14.7	15.0
Other Income	7.3	6.5	108.9	13.0	Short Term borrowings	155.5	130.8	137.5	125.0
Exceptional Item	0.0	0.0	(14.5)	0.0	Trade Payables	58.7	71.4	67.0	57.1
<b>PBT</b>	<b>16.0</b>	<b>23.7</b>	<b>66.7</b>	<b>65.7</b>	Other Current Liabilities	35.7	191.0	145.9	142.0
Tax	6.5	9.6	25.2	23.0	<b>Equity &amp; Liabilities</b>	<b>847.7</b>	<b>973.7</b>	<b>1104.0</b>	<b>1028.7</b>
<b>PAT</b>	<b>9.5</b>	<b>14.1</b>	<b>41.5</b>	<b>42.7</b>	<b>Assets</b>				
Minority Interest	0.0	0.0	0.0	12.8	Fixed Assets & Goodwill	439.5	446.5	444.8	469.8
<b>PAT after minority interest</b>	<b>9.5</b>	<b>14.1</b>	<b>41.5</b>	<b>29.9</b>	Non Current Investments	20.2	20.2	20.2	30.0
<b>Adj PAT after minority</b>	<b>9.5</b>	<b>14.1</b>	<b>-33.0</b>	<b>29.9</b>	Long Term Loans & Advances	0.0	87.7	107.4	100.0
<b>EPS (Rs.)</b>	<b>1.1</b>	<b>1.6</b>	<b>4.8</b>	<b>3.5</b>	Other non Current Assets	0.0	0.0	9.5	9.5

Qtlly Standalone (Rs. In Crs)	Q1FY 12	Q2FY 12	Q3FY12	Q4FY12
<b>Income from operations</b>	<b>236.3</b>	<b>236.1</b>	<b>210.7</b>	<b>15.9</b>
<b>EBITDA</b>	<b>27.5</b>	<b>28.0</b>	<b>15.5</b>	<b>-6.2</b>
EBITDA %	11.6%	11.8%	7.4%	-39.3%
Dep	8.3	6.1	5.6	0.6
<b>Op Income</b>	<b>19.2</b>	<b>21.9</b>	<b>9.9</b>	<b>-6.9</b>
Interest	12.3	13.5	14.0	2.8
Other Inc.	0.06	0.05	0.00	93.16
Exceptional item (Expense)	0.00	-6.63	16.28	0.34
<b>PBT</b>	<b>6.9</b>	<b>1.8</b>	<b>12.2</b>	<b>83.8</b>
Tax	3.1	-3.5	4.1	20.0
<b>PAT</b>	<b>3.8</b>	<b>5.3</b>	<b>8.1</b>	<b>63.8</b>
Adj PAT	3.77	11.86	-8.23	-29.69

Performance Ratios	FY10	FY11	FY12	FY13E
PAT growth (%)	(150.9%)	48.5%	194.4%	(27.9%)
EBITDA margin (%)	8.7%	7.7%	6.0%	9.4%
PAT margin (%)	1.0%	1.2%	3.5%	2.1%
ROCE (%)	20.2%	26.8%	23.5%	24.8%
ROE (%)	3.4%	4.8%	11.6%	6.9%

Valuation Ratios	FY10	FY11	FY12	FY13E
Price Earnings (x)	32.91	22.38	7.66	10.63
Price / Book Value (x)	1.17	1.14	0.75	0.71
EV / Sales	0.81	0.69	0.56	0.47
EV / EBITDA	9.40	8.97	9.34	4.96

Source: Nirmal Bang Research

\*Gati follows June ending FY

Cash Flow (Rs. In Crs)	FY10	FY11	FY12	FY13E
<b>Operating</b>				
OP before WC	80.1	92.5	71.3	133.4
Change in WC	(44.09)	(48.36)	14.82	(21.73)
(-) Tax	(6.53)	(9.63)	(25.24)	(23.01)
<b>CF from Operation</b>	<b>29.50</b>	<b>34.47</b>	<b>60.84</b>	<b>88.70</b>
<b>Investment</b>				
Capex	10.86	(22.34)	(31.91)	(57.82)
Other Investment	0.16	(0.00)	0.00	(9.79)
Other Income	7.34	6.46	108.90	13.00
<b>Total Investment</b>	<b>18.35</b>	<b>(15.89)</b>	<b>76.99</b>	<b>(54.61)</b>
<b>Financing</b>				
Dividend Paid	(3.97)	(5.00)	(14.47)	(12.16)
Change in Borrowings	(22.63)	89.06	(55.11)	(108.13)
Change in Equity Capital	0.06	0.17	0.12	0.00
Interest Paid	(44.25)	(49.76)	(61.92)	(43.70)
Loan & Others	20.78	(40.35)	48.08	12.39
<b>Total Financing</b>	<b>(50.02)</b>	<b>(5.89)</b>	<b>(83.30)</b>	<b>(151.60)</b>
Net Chg. in Cash	(2.17)	12.7	108.2	(104.69)
Cash at beginning	21.3	19.2	31.9	140.1
Cash at end	19.2	31.9	140.1	35.4
<b>Per Share Data</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>
Reported EPS	1.1	1.6	4.8	3.5
BV per share	31.4	32.2	48.6	51.8
Cash per share	4.5	6.0	6.1	6.4
Dividend per share	0.4	0.5	1.4	1.2

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