

Margins surprise positively

FY19 was a year of revival for Gati in terms of revenue and EBITDA growth. Consolidated revenues for FY19 increased by 7% YoY to ₹ 1863 crore, while EBITDA grew by 22% YoY to ₹ 94 crore. However on the quarterly performance front, Gati's Q4FY19 revenues remained flat YoY, mainly as 4% de-growth in express distribution and supply chain segment (~80% of the revenues) was negated by 10% and 58% growth in the fuel (16%) and other segment (14%), respectively. After eight quarters, margins clocked 5.7% (previous high at 6% in Q3FY17) signalling improved asset utilisation, cost control measures employed by the management. Subsequently, EBITDA improved 69% and PAT came in at ₹ 8.3 crore vs. loss of ₹ 5 crore. For year FY19, the statutory auditor has qualified matters pertaining to a) overdue advances of ₹ 18 crore given by Gati in the form of advances to two companies (the management is hopeful on recovering the amount) b) Gati has received income tax demand of ₹ 21 crore relating to 2012-13 due to disallowance of capital loss for MAT computation.

Steady growth in consolidated revenues to continue

For FY19, Gati standalone (includes e-commerce business and others) grew 16% to 516 crore, mainly led by resurgence in the e-commerce vertical. Gati KWE grew 5% to ₹ 1229 crore. The management expects the Gati KWE business to grow ~10% in FY20. In volume terms, the company delivers over 6 million packages a month. We believe that given Gati's pan-India reach (5402 direct pin codes and 14587 remote pin codes) and last mile delivery (5000+ vehicles), it would continue to remain the logistics partner across e-tailing players, which would further provide growth impetus to the business. We expect consolidated revenues to grow at a CAGR of 12% over FY19-FY21E.

Regulations in logistics space to help pan India players

The implementation of GST and E-Way bill was intended to create level playing field for the organised and unorganised logistics players. Unorganised players are expected to become less competitive owing to increased cost of compliance enabling larger organised players to capture higher market share on a sustained basis.

Valuation and Outlook

The management has been on the lookout for a strategic/financial partner since Q4FY18. As per media sources, it is in advanced talks with a domestic player. A strategic buyer could supplement the company with newer growth opportunities whereas a financial buyer would aid in improving the company's balance sheet. Given the uncertainty surrounding the strategic decisions we have a **HOLD** recommendation on the stock with a target price of ₹ 95.

Key Financial Summary

(Year-end March)	FY17	FY18	FY19E	FY20E	FY21E	CAGR
Revenues (₹ crore)	1,691.0	1,736.5	1,863.2	2,083.9	2,327.2	8.3
EBITDA (₹ crore)	95.8	77.1	94.3	108.4	139.6	9.9
Adjusted Net Profit (₹ crore)	10.7	34.2	18.4	29.4	45.8	44.0
EPS (₹)	1.2	3.2	1.7	2.7	4.2	36.6
P/E (x)	69.4	26.5	49.7	31.0	19.9	
Price / Book (x)	1.2	1.2	1.3	1.2	1.2	
EV/EBITDA (x)	10.4	15.4	12.2	10.5	8.0	
RoCE (%)	7.6	6.0	7.2	8.3	10.5	
RoNW (%)	1.6	5.0	2.5	4.0	6.0	



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	910.1
Total Debt (FY19P) (₹ Crore)	282.4
Cash (FY19P) (₹ Crore)	47.7
EV (₹ Crore)	1,144.9
52 week H/L	137/64
Equity Capital (₹ Crore)*	21.7
Face Value (₹)	2.0

Key Highlights

- The management expects margins to stay above 5% levels going ahead and expects ~10% growth in Gati KWE business
- We expect revenue, EBITDA, PAT CAGR of 12%, 22%, 58%, respectively, in FY19-21E
- Maintain Hold

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Exhibit 1: Variance Analysis

₹ Crore	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	459.4	482.9	455.3	0.9	480.6	-4.4	Flat YoY as 4% de-growth in the Express segment is negated by 10% and 58% growth in the fuel sales and others segment respectively
Cost of Sales	98.7	101.0	81.7	20.9	100.1	-1.4	
Operating Expenses	250.4	270.0	264.9	-5.5	269.3	-7.0	
Employee Benefit Expenses	44.4	48.0	48.8	-9.0	47.8	-7.2	
Other Expenditure	39.8	40.0	44.5	-10.7	39.4	1.0	
Total Expense	433.2	459.0	439.8	-1.5	456.7	-5.1	
EBITDA	26.2	23.9	15.5	69.2	23.9	9.5	
EBITDA Margin (%)	5.7	4.9	3.4	230 bps	5.0	72 bps	Margins higher YoY and above estimates estimates mainly due to lower operating cost to sales ratio (down 367 bps YoY)
Depreciation	7.3	7.5	7.4	-1.4	7.4	-1.1	
Interest	11.4	12.0	12.4	-8.3	11.7	-2.3	
Other Income	7.5	2.5	21.1	-64.6	2.5	200.0	
PBT	15.0	6.9	16.7	NA	7.4	103.1	
Total Tax	4.3	2.4	-2.1	-307.7	3.2	37.8	
Extra-ordinary gain/(loss)	0.0	0.0	-23.6	NA	0.0	NA	
Adj PAT (excl. Minority Int)	8.3	4.5	-5.9	-240.3	3.7	124.4	In-sync with EBITDA

Source: ICICI Direct Research

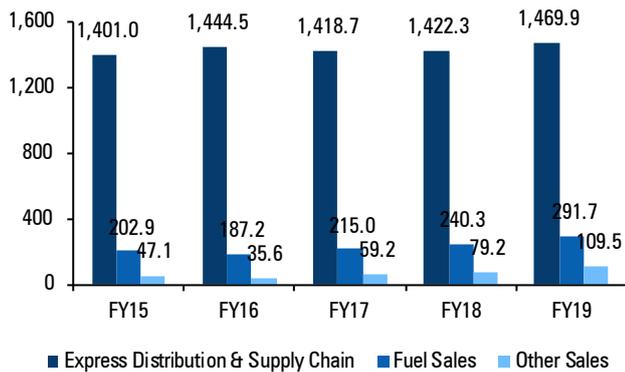
Exhibit 2: Change In estimates

(₹ Crore)	FY20E				FY21E		
	FY17	FY18	FY19	Old	New	% Change	Introduced
Revenue	1,691.0	1,736.5	1,863.2	2,156.5	2,083.9	-3.4	2,327.2
EBITDA	95.8	77.1	94.3	135.9	108.4	-20.3	139.6
EBITDA Margin (%)	5.7	4.4	5.1	6.3	5.2	-110 bps	6.0
PAT	10.7	34.2	18.4	27.9	29.4	5.3	45.8
EPS (₹)	1.2	3.2	1.7	2.6	2.7	4.1	4.2

Source: Company, ICICI Direct Research

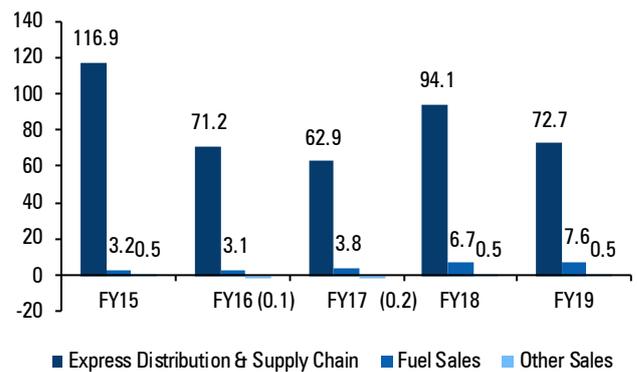
Key Metrics

Exhibit 3: Segmental revenues (₹ crore)



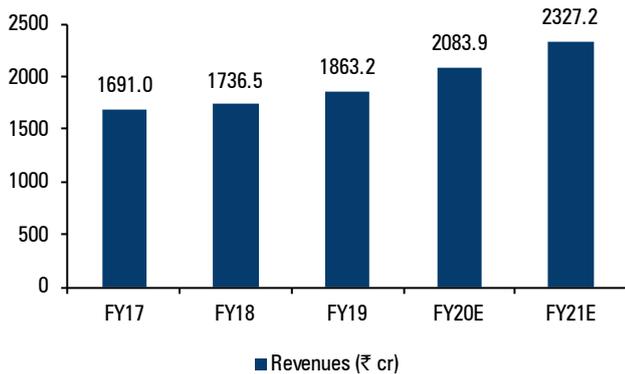
Source: ICICI Direct Research, Company

Exhibit 4: Segmental EBIT (includes other income) (₹ crore)



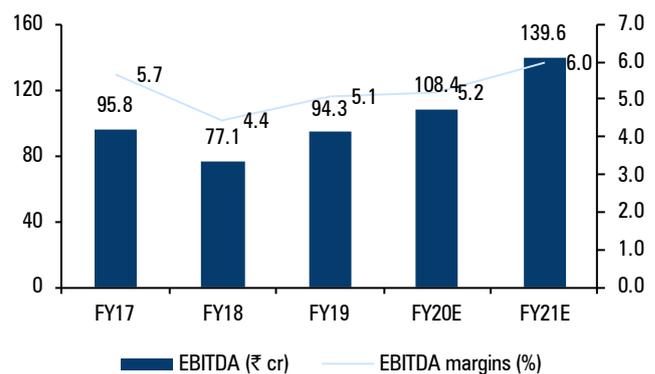
Source: ICICI Direct Research, Company

Exhibit 5: Revenue likely to grow at 12% (FY19-21) CAGR



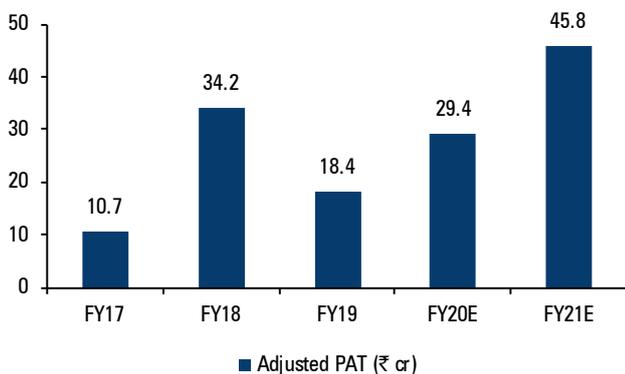
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA expected to grow at 22% (FY19-21) CAGR



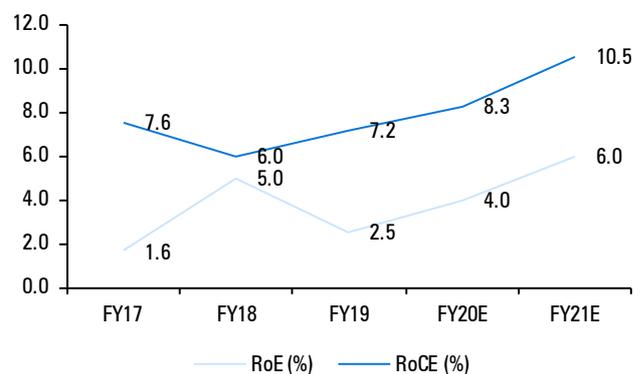
Source: ICICI Direct Research, Company

Exhibit 7: PAT expected to grow at 58% (FY19-21) CAGR



Source: Company, ICICI Direct Research

Exhibit 8: Return ratios



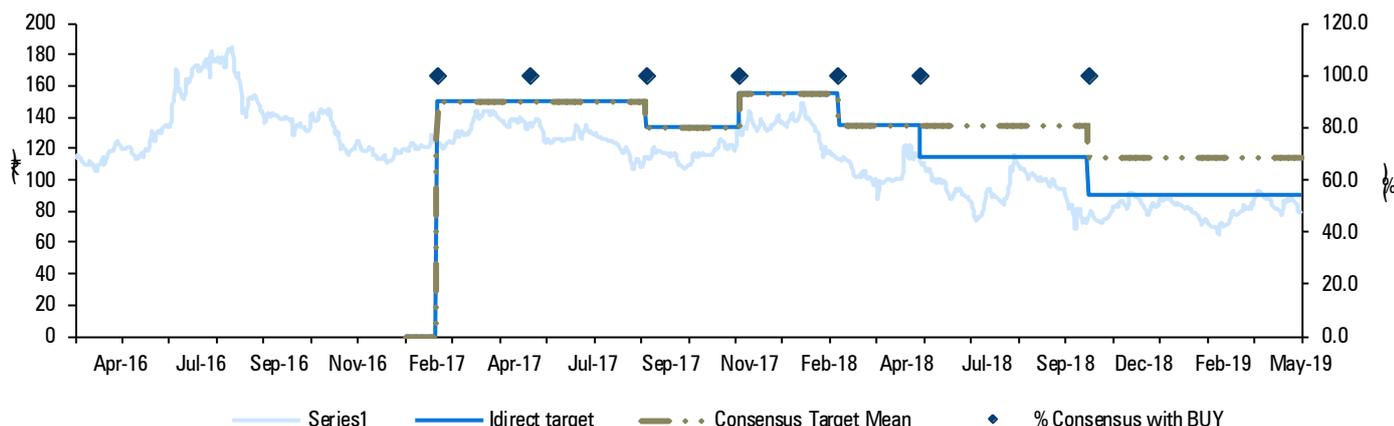
Source: Company, ICICI Direct Research

Exhibit 9: Valuation ratios

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	1691.0	1.0	1.2	-71.2	69.4	10.4	1.6	7.6
FY18	1736.5	2.7	3.2	160.6	26.5	15.4	5.0	6.0
FY19P	1863.2	7.3	1.7	-46.4	49.7	12.2	2.5	7.2
FY20E	2083.9	11.8	2.7	60.0	31.0	10.5	4.0	8.3
FY21E	2327.2	11.7	4.2	56.0	19.9	8.0	6.0	10.5

Source: Company, ICICI Direct Research

Exhibit 10: Recommendation history vs. Consensus



Source: ICICI Direct Research, Reuters

Exhibit 11: Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Bay Capital Partners, Ltd.	31-Mar-19	0.07	7.8	0.0
2	Goldman Sachs Asset Management	31-Dec-18	0.07	7.5	0.0
3	Neera & Childrens Trust	31-Mar-19	0.05	5.6	0.0
4	New Horizon Managers Limited	31-Mar-19	0.05	5.0	0.0
5	Kintetsu World Express Inc	31-Mar-19	0.04	4.3	0.0
6	Agarwal (Manish)	27-Sep-17	0.04	4.0	4.0
7	Agarwal (Mahendra Kumar) HUF	31-Mar-19	0.03	3.7	-0.1
8	Thiagarajar Mills, Ltd.	31-Mar-19	0.03	3.3	3.3
9	Agarwal (Mahendra Kumar)	31-Mar-19	0.03	3.2	0.0
10	Mahendra Investment Advisors Pvt.	31-Mar-19	0.03	3.1	0.0

Source: ICICI Direct Research, Reuters, Company

Exhibit 12: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	24.4	24.5	24.2	20.9
Public	75.6	75.5	75.9	79.1

Source: ICICI Direct Research, Reuters, Company

Exhibit 13: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Thiagarajar Mills, Ltd.	4.2	3.3	Tci Finance Ltd	-4.4	-3.5
			Columbia Threadneedle Investments (US)	-0.1	-0.1
			Agarwal (Mahendra Kumar) HUF	-0.1	-0.1
			Van Eck Associates Corporation	0.0	0.0
			Alagh (Sunil Kumar)	0.0	0.0

Source: ICICI Direct Research, Reuters

Exhibit 14: Profit & Loss Statement ₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	1,736.5	1,863.2	2,083.9	2,327.2
Growth (%)	2.7	7.3	11.8	11.7
Cost of Sales	304.9	381.4	412.6	453.8
Employee Costs	191.2	186.4	198.0	209.4
Operating Expenses	1,007.2	1,044.8	1,187.8	1,326.5
Op. Expenditure	156.0	156.4	177.1	197.8
EBITDA	77.1	94.3	108.4	139.6
Growth (%)	(19.5)	22.3	14.9	28.9
Depreciation	30.0	29.5	33.8	35.1
EBIT	47.1	64.8	74.5	104.5
Interest	47.0	45.3	31.5	29.1
Other Income	77.9	16.0	17.2	18.6
PBT	78.0	35.5	60.3	94.0
Growth (%)	195.1	(54.5)	69.9	56.0
Tax	15.3	12.4	21.1	32.9
Reported PAT	62.7	23.0	39.2	61.1
Exceptional Items	(23.6)	-	-	-
Minority Interest	(4.9)	(4.7)	(9.8)	(15.3)
Adjusted PAT	34.2	18.4	29.4	45.8
Growth (%)	220.8	(46.4)	60.0	56.0
EPS	3.2	1.7	2.7	4.2

Source: ICICI Direct Research

Exhibit 15: Cash flow Statement ₹ crore

(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	39.1	23.0	39.2	61.1
Less: Dividend Paid	10.0	5.8	5.8	5.8
Add: Depreciation	30.0	29.5	33.8	35.1
Add: Others	-	-	-	-
Cash Profit	59.1	46.7	67.2	90.4
Increase/(Decrease) in CL	(92.9)	67.9	9.8	13.2
(Increase)/Decrease in CA	(34.9)	(0.7)	(25.2)	(32.9)
CF from Operating Activities	(63.5)	115.1	47.8	61.2
(Add) / Dec in Fixed Assets	(29.0)	(35.2)	(34.9)	(40.0)
Goodwill	-	-	-	-
(Inc)/Dec in Investments	(0.0)	(1.8)	(1.8)	(1.9)
CF from Investing Activities	(29.0)	(37.0)	(36.7)	(41.9)
Inc/(Dec) in Loan Funds	3.3	(38.7)	(20.0)	(20.0)
Inc/(Dec) in Sh. Cap. & Res	4.0	0.1	-	-
Others	64.0	(33.9)	(3.4)	(3.4)
CF from financing activities	71.3	(72.5)	(23.4)	(23.4)
Change in cash Eq.	(21.3)	5.5	(12.3)	(4.0)
Op. Cash and cash Eq.	63.4	42.2	47.7	35.4
Cl. Cash and cash Eq.	42.2	47.7	35.4	31.4

Source: ICICI Direct Research

Exhibit 16: Balance Sheet ₹ crore

(Year-end March)	FY18	FY19P	FY20E	FY21E
Source of Funds				
Equity Capital	21.6	21.7	21.7	21.7
Reserves & Surplus	706.8	702.7	726.3	766.2
Shareholder's Fund	728.4	724.4	748.0	788.0
Total Loan Funds	321.1	282.4	262.4	242.4
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest	114.0	122.1	124.5	127.0
Source of Funds	1,163.6	1,128.9	1,134.9	1,157.4
Application of Funds				
Gross Block	728.1	760.3	790.3	820.3
Less: Acc. Depreciation	160.4	189.9	223.7	258.8
Net Block	567.8	570.5	566.6	561.5
Capital WIP	2.1	5.1	10.0	20.0
Total Fixed Assets	569.9	575.6	576.6	581.5
Goodwill	425.8	425.8	425.8	425.8
Investments	34.3	36.2	38.0	39.9
Inventories	9.0	12.0	5.7	6.4
Debtors	243.2	238.9	269.6	301.1
Cash	42.2	47.7	35.4	31.4
Loan & Advance, Other	76.5	78.5	79.3	80.0
Total Current assets	370.8	377.1	389.9	418.9
Creditors	124.0	149.1	147.7	149.2
Other Current Liabilities	160.6	201.3	211.4	221.9
Provisions	8.2	10.4	11.4	12.5
Deferred Tax Assets	55.5	75.1	75.1	75.1
Total CL and Provisions	292.8	360.7	370.5	383.7
Net Working Capital	78.0	16.4	19.5	35.2
Miscellaneous expense	-	-	-	-
Application of Funds	1,163.6	1,128.9	1,134.9	1,157.4

Source: ICICI Direct Research

Exhibit 17: Key Ratios

(Year-end March)	FY18	FY19P	FY20E	FY21E
Per share data (₹)				
Book Value	67.3	66.7	68.9	72.6
EPS	3.2	1.7	2.7	4.2
Cash EPS	5.9	4.4	5.8	7.5
DPS	0.7	0.5	0.5	0.5
Profitability & Operating Ratios				
EBITDA Margin (%)	4.4	5.1	5.2	6.0
PAT Margin (%)	2.0	1.0	1.4	2.0
Fixed Asset Turnover (x)	1.5	1.7	1.8	2.0
Inventory Turnover (Days)	1.6	2.1	1.0	1.0
Debtor (Days)	48.1	47.2	47.2	47.2
Current Liabilities (Days)	119.8	130.7	130.7	120.0
Return Ratios (%)				
RoE	5.0	2.5	4.0	6.0
RoCE	6.0	7.2	8.3	10.5
RoIC	10.4	6.8	7.0	8.8
Valuation Ratios (x)				
P/E	26.5	49.7	31.0	19.9
Price to Book Value	1.2	1.3	1.2	1.2
EV/EBITDA	15.4	12.2	10.5	8.0
EV/Sales	0.7	0.6	0.5	0.5
Leverage & Solvency Ratios				
Debt to equity (x)	0.4	0.4	0.4	0.3
Interest Coverage (x)	2.3	2.7	4.5	6.0
Debt to EBITDA (x)	4.2	3.0	2.4	1.7
Current Ratio	1.3	1.0	1.1	1.1
Quick ratio	1.2	1.0	1.0	1.1

Source: ICICI Direct Research

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