



## KEY HIGHLIGHTS

### 1. RESULTS OVERVIEW:

- Gati Ltd Q1 FY23 consolidated revenues came in at ₹431 Cr, up by 44% YoY and 14% QoQ.
- Op Profit for Q1FY23 stood at ₹18.98 Cr, up by 450% QoQ.
- Op margins for Q1FY23 came at 4.40%, +568bps YoY and +348bps QoQ.
- PAT for Q1FY23 stood at ₹6.59 Cr.

### 2. MANAGEMENT COMMENTARY:

- Management has given a Margin guidance of 9% for FY23.
- Company will be starting their Mumbai operations in current quarter.
- They are planning to launch other similar hubs by the first half of FY24. This will improve their turnaround times and service levels.
- Gem 2.0 which is a technological up gradation programme will be completed in next 12-18 months.

### 3. SEGMENTAL ANALYSIS:

- Q1FY23 Revenue Breakup: Surface Express contributed 92% to the overall revenue. Whereas, Air and SCM contributed 5% and 3% respectively.

### 4. CONCALL SUMMARY

- Company will be looking to get into contract logistics in future after consolidating its position in Express logistics.
- They have price escalation clause with their customers i.e. when diesel prices go up they pass on the prices to their customers and vice versa.
- Gati is planning to revamp its franchise model and is looking to add 100 more franchises in next 12 months.
- They want to hit 10 crore revenue benchmark every month for Air express from current levels of 6 crores every month.

### 5. OTHER DEVELOPMENTS:

- Company is running pilot run for pickup and last mile delivery using electric vehicle.
- In air express 100% customers are linked to fuel price escalation clauses unlike surface express clients.

### 6. VALUATION AND OUTLOOK:

We believe company will continue to post good results in the coming few quarters on the back of seasonal demand. Company is expected to become profitable in the current fiscal.

National Logistics policy will play a key role as it focuses on reduced turnaround times and technology up gradation. The policy will help organized players like Gati to attract market share and grow at a pace i.e. faster than the industry.

We give a “BUY” rating on the stock and value the stock at 30x of FY23E earnings to arrive at a target price of Rs.230.

## RECOMMENDATION - BUY

**CMP – 180**
**TARGET – 230**
**(Upside 28%)**

Industry	Logistics
NSE CODE	GATI
BSE CODE	532345
Market Cap (₹ Cr)	1985.95
Shares Outstanding (in Cr)	12.30
52 wk High/Low (₹)	221.9 / 126
P/E	57.78
P/BV	3.62
Face Value (₹)	2.00
Book Value (₹)	44.60
EPS (FY22) (₹)	0.72
Dividend Yield (%)	0.00
Debt / Equity	0.28
Interest Coverage	0.98

## SHAREHOLDING PATTERN

	June 22	Mar 21	Dec 21
Promoters	51.53	51.66	51.83
MF/ DII	1.27	1.23	1.22
FII/FPI	2.16	3.30	4.28
Retail & Others	45.04	43.81	42.67
Promoter Pledging	3.80	4.13	4.27

## FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2022A	2023E	2024E
<b>Crore</b>			
Sales	1489.94	1775	2114
Sales Gr. (%)	13.37	19.12	19.12
EBITDA	33.84	160	169
EBITDA %	3.34	9	8
PAT	8.87	94.5	103.5
EPS (₹)	0.72	7.68	8.41
EPS Gr. (%)	103.86	966	9.5
BV/Sh. (₹)	44.07	51.8	58.61
<b>Ratios</b>			
RoE (%)	-0.83	14	14.35
RoCE (%)	3.55	23.31	22
<b>Valuation</b>			
P/E (x)	227.13	23.43	21
P/BV (x)	3.72	3.47	3.07
EV/EBITDA	43.18	13.76	13.02

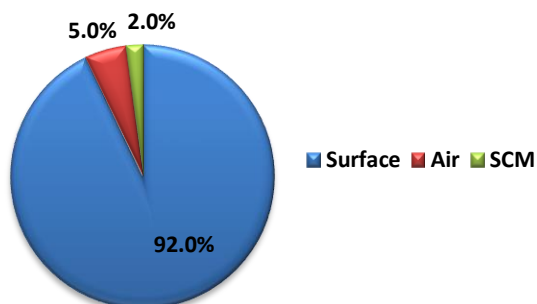
## Historical & Industrial Val Ratios

Historical P/E	57.78
Industry P/E	25.19
Historical P/B	3.62
Industry P/B	3.80

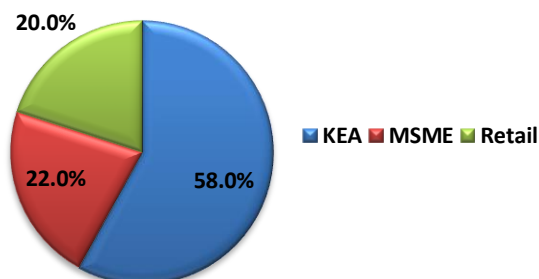


## REVENUE SPLIT AND CLIENT MIX (Q1 FY23)

Revenue split Q1FY23



Client Mix Q1FY23



## QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY21		FY22				FY23		FY22	FY23E*
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2E*		
Net sales	393.09	406.64	290.24	399.38	413.76	376.73	431	445	1490	1775
YoY change (%)	-11.43%	9.88%	83.75%	19.42%	5.26%	-7.36%	48.50%	11.52%	13.37%	19.12%
Total Expenditures	373.42	398.44	293.95	384.20	399.67	373.28	412.02	418	1452	1615
EBITDA	19.67	8.20	-3.71	15.18	14.09	3.45	18.98	27	38	160
Margins (%)	5.00%	2.02%	-1.28%	3.80%	3.41%	0.92%	4.40%	6%	3%	9%
Depreciation	8.07	10.38	6.78	7.10	7.03	12.37	12.69	12	35	32
Interest	7.16	10.70	5.25	5.31	5.78	7.24	7.39	7.5	27	24
Other income	-20.23	-170.90	-11.93	49.34	2.25	-12.31	9.90	10	24	22
PBT	-15.79	-183.78	-27.67	52.11	3.53	-28.47	8.80	17.5	0	126
Rate (%)	-68%	5.65%	8.85%	12.70%	-42%	-4.39%	25.11%	25%	-786%	25%
Adjusted PAT	-26.48	-173.40	-25.22	45.49	5.02	-29.72	6.59	13.12	-4	94.5
EPS in Rs	-2.09	-13.48	-1.73	3.95	0.32	-1.82	0.34	1.06	-0.36	7.68

### Key Performance Indicators

RM cost (% of revenue)	17.2%	16.93%	17.1%	15.4%	13.9%	14.3%	14.92%	15%	15%	14%
Employee cost (% of revenue)	10.9%	12.11%	12.2%	10.2%	9.43%	11.1%	10.65%	11%	11%	12%
EBITDA Margins%	5.00%	2.02%	-1.28%	3.80%	3.41%	0.92%	4.40%	6%	3%	9%
PAT Margins %	-6.73%	--42%	-8.60%	11.37%	1.21%	-7.90%	1.52%	2.94%	-0.26%	5.32%

Source: Company, Hem Securities Research.

### \*Insights into the assumptions:

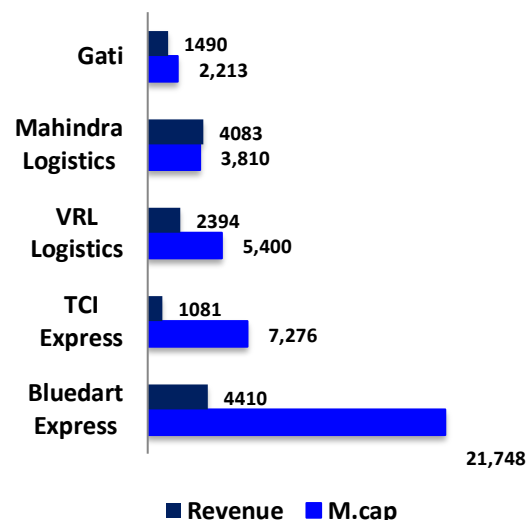
- We expect revenues to remain in line or improve slightly on QoQ basis
- We also believe operating margins to improve due to management's strong future guidelines.



## INDUSTRY OVERVIEW

- Indian Logistics space will play a key role in the overall development of the Indian economy.
- According to industrial data Indian logistics industry is expected to grow at a CAGR of 10%-12% over the next 5 years.
- Currently the cost of logistics as a percentage of GDP stands at 14-15%. The National Logistics Policy aims to bring down this cost at 8% over the next 5 years.
- Organized players are expected to gain market share from unorganized players and is expected to grow at a CAGR of greater than 25% between FY20-FY26.
- The share of organized players stood at 10% in FY20 and is expected to reach 17% by FY26.
- The growth of e-commerce in tier-2 and tier-3 will play a key role in the growth of logistics industry.
- Change in B2B business model towards direct to retail (D2R) and Direct to Consumer (D2C) are creating demand for more visibility in supply chain management.

## KEY PLAYERS IN FMCG SPACE



## PEER PERFORMANCE

(₹ Cr)

### Particulars

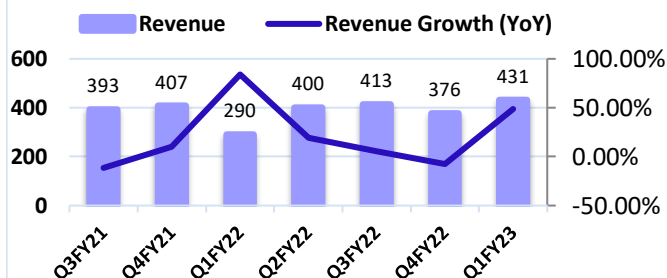
	GATI Ltd.	VRL Logistics Ltd.	Mahindra Logistics Ltd.	Blue Dart Express Ltd.	TCI ExpressLtd.
Market Cap	2,099.7	5,431.8	3,814.0	21,912.0	7,169.3
Net Sales	1,489.9	2,393.7	4,083.0	4,410.5	1,081.5
EBITDA	33.8	405.6	197.7	999.3	174.7
PAT	8.9	160.1	37.1	382.2	128.8
EPS(₹)	0.7	18.1	5.2	161.1	33.5
EBITDA MARGIN %	3.3	17.6	5.1	23.4	16.9
PAT MARGIN %	-0.3	6.7	0.8	8.7	11.9
ROCE %	3.6	33.7	12.3	53.1	35.5
ROE %	-0.8	25.6	6.0	52.2	26.7
P/E TTM	61.1	25.2	92.5	46.6	52.7
P/B TTM	3.8	7.7	6.3	22.1	12.7
Dividend Yield %	-	1.3	0.4	0.6	0.4
MCap/ Sales TTM	1.3	2.0	0.9	4.5	6.2

Source: Company, Hem Securities Research.

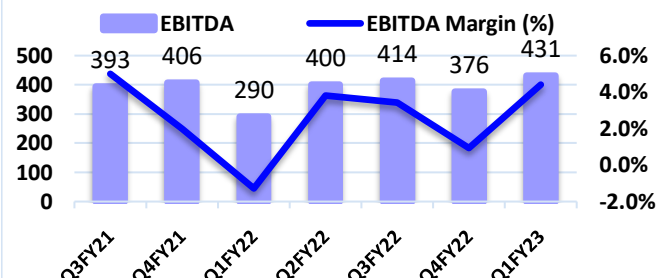


## STORY IN CHARTS

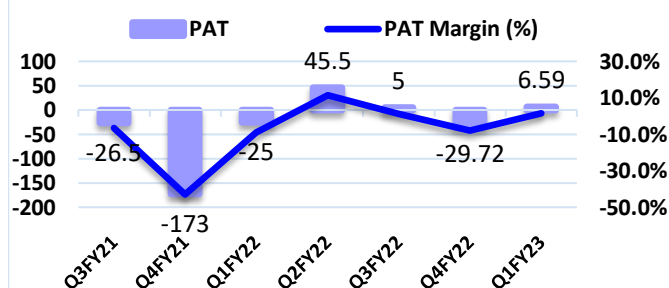
### Revenue (Cr)



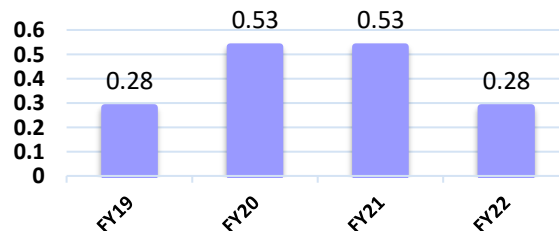
### EBITDA & EBITDA Margin



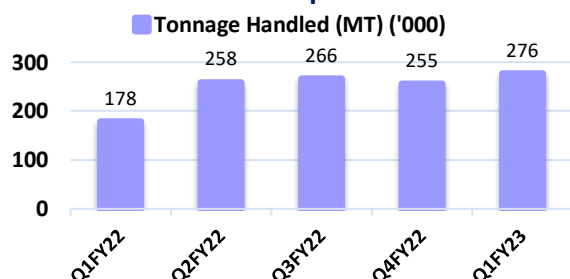
### PAT (Cr) and PAT Margin



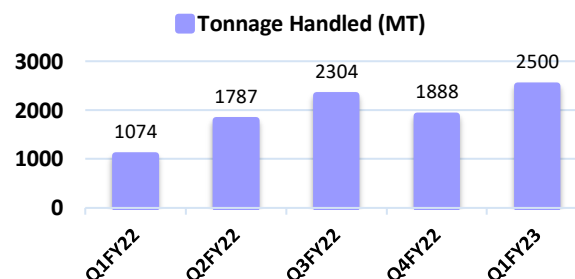
### Debt to Equity



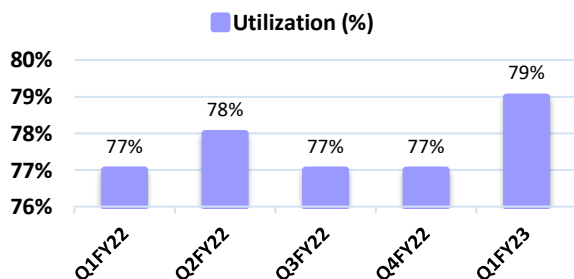
### Surface Express



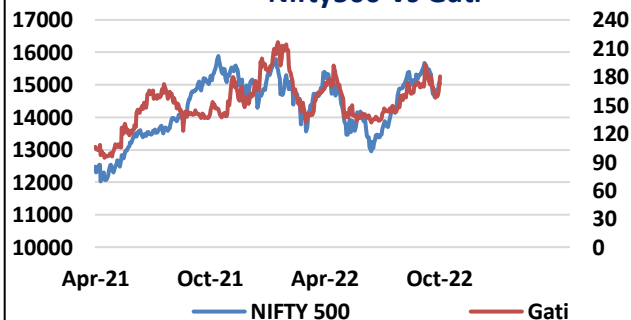
### Air Express



### Supply Chain Management



### Nifty500 Vs Gati





## INVESTMENT RATIONALE:

- The management has a aspirational revenue target of Rs.3000 crore revenue by FY26.
- The management is confident of achieving 9% EBITDA margins in FY23. This will create significant improvement in the bottom line of the company.
- The company is continuously aiming to follow an asset light model and has significantly reduced its debt by selling their fixed assets.
- Recently launched National Logistics policy will create lot of opportunities for the logistics sector in India. The policy aims at reducing the logistics cost as a percentage of GDP from current levels of 14% to 8% over the course of next 3-5 years.
- Gati has a robust network across the country covering 735 out of 739 districts and serving more than 19800 PIN codes.
- Organized players like Gati are expected to gain market share from unorganized players due faster turnaround times and higher efficiencies in the coming years.
- Organized players are expected to grow by more than 25% CAGR between FY20 to FY26 on the back of large-scale investments in technology.
- Company is expected to get synergy benefits after being acquired by Allcargo logistics. The company has global offices in more than 180 countries.

## RISK / NEGATIVE FACTORS:

- Failure in achieving the stated guidelines by management can negatively hamper the growth prospects.
- Stiff competition from large organized players.
- Delay from GOI in successful implementation of the National Logistics Policy.

## COMPANY RECAP

- Gati Ltd is one of the leading premier express distribution and supply chain management companies in India. The company was founded in 1989 with expertise in surface and air express.
- The company mainly works in three segments i.e., Surface express, Air express and supply chain management.
- The company has robust coverage with access to more than 19,800 PIN codes and 735 out of 739 districts.
- The company was strategically acquired by Allcargo Logistics in 2020. Allcargo Logistics is the promoter and the single largest shareholder of Gati with around 47% stake in company.
- Company has 650+ offices across the country. Gati has direct connection to 34 commercial airports across the country ensuring deliveries within 24 to 48 hrs.
- Company is planning to launch new hubs in Mumbai, Nagpur, Pune and Indore in the coming quarters. In order to expand its reach in south zone they will launching hubs in Bangalore, Hyderabad and cochin.
- Key Management personnel – Mr. Shashi Kiran Shetty (Chairman and MD), Mr. Pirojshaw Sarkari (CEO), Mr. Anish Mathew (CFO) and Mr. Charles Devlin D'Costa (Chief Supply Chain Officer).



## ANNUAL PERFORMANCE

### Financials & Valuations

#### Income Statement

Y/E March	2018	2019	2020	2021	2022	2023E	2024E
							(₹ Cr)
<b>Revenue from operations</b>	<b>1,736.47</b>	<b>1,863.19</b>	<b>1,711.67</b>	<b>1,314.24</b>	<b>1,489.94</b>	<b>1775</b>	<b>2114</b>
Growth YoY (%)	2.69	7.30	-8.13	-23.22	13.37	19.12	19.12
<b>Total Expenditure</b>	<b>1,694.20</b>	<b>1,773.63</b>	<b>1,675.52</b>	<b>1,289.75</b>	<b>1,456.10</b>	<b>1615</b>	<b>1945</b>
(%) of sales	97.57	95.19	97.89	98.14	97.73	91	92
<b>EBITDA</b>	<b>42.28</b>	<b>89.56</b>	<b>36.15</b>	<b>24.49</b>	<b>33.84</b>	<b>160</b>	<b>169</b>
EBITDA Growth (%)	45.08	-28.68	-55.01	-24.91	31.61	372	5.62
EBITDA Margin (%)	9.04	6.01	2.94	2.87	3.34	9	8
Depreciation	30.00	29.52	43.70	40.13	34.92	32	30
<b>EBIT</b>	<b>103.34</b>	<b>82.41</b>	<b>6.65</b>	<b>-207.18</b>	<b>26.89</b>	<b>128</b>	<b>139</b>
EBIT Growth (%)	31.85	-20.26	-91.93	-3,215.49	112.98	376	8.6
Net Interest Expenses	48.94	46.95	55.08	45.39	27.39	24	22
Other Income	114.66	22.36	14.20	13.32	15.92	22	21
<b>Earnings before Taxes</b>	<b>54.40</b>	<b>35.46</b>	<b>-48.43</b>	<b>-252.57</b>	<b>-0.50</b>	<b>126</b>	<b>138</b>
EBT Margin (%)	3.13	1.90	-2.83	-19.20	-0.03	7.09	6.52
Tax-Total	15.29	12.43	35.84	-6.64	3.93	31.5	34.5
Rate of tax (%)	28.11	35.05	-74.00	2.63	-786.00	25	25
<b>Net Profit</b>	<b>39.11</b>	<b>23.03</b>	<b>-84.27</b>	<b>-245.93</b>	<b>-4.43</b>	<b>94.5</b>	<b>103.5</b>
PAT Growth (%)	128.02	-41.10	-465.87	-191.84	98.20	-	9.52
PAT Margin (%)	2.25	1.24	-4.92	-18.70	-0.30	5.32	4.90
<b>Adjusted PAT</b>	<b>39.11</b>	<b>23.03</b>	<b>-84.27</b>	<b>-245.93</b>	<b>-4.43</b>	<b>94.5</b>	<b>103.5</b>
<b>EPS</b>	<b>3.16</b>	<b>1.69</b>	<b>-6.42</b>	<b>-18.69</b>	<b>-0.32</b>	<b>7.68</b>	<b>8.41</b>
EPS Growth (%)	159	-46.50	-479.76	-191.07	103.86	-	9.50

#### Balance Sheet

Y/E March	2018	2019	2020	2021	2022
Share Capital	32	22	24	24	25
Reserves	707	703	719	501	518
<b>Net Worth</b>	<b>739</b>	<b>725</b>	<b>743</b>	<b>525</b>	<b>543</b>
Borrowings	356	367	476	348	324
Other Liabilities	372	398	375	364	364
<b>Total Liabilities &amp; Equity</b>	<b>1,456</b>	<b>1,490</b>	<b>1,594</b>	<b>1,237</b>	<b>1,231</b>
Fixed Assets	994	996	1,037	648	673
CWIP	3	5	2	0	1
Investments	169	263	444	579	424
Other Assets	4	2	78	0	10
<b>Total Assets</b>	<b>1,456</b>	<b>1,490</b>	<b>1,594</b>	<b>1,237</b>	<b>1,231</b>

Source: Company, Hem Securities Research.



<b>Ratios</b>					
<b>Y/E March</b> (Basic (INR))	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>Profitability and return ratios</b>					
Net profit margin (%)	2.25	1.24	-4.92	-18.70	-0.30
EBITDA margin (%)	9.04	6.01	2.94	2.87	3.34
EBIT margin (%)	5.95	4.42	0.39	-15.75	1.80
ROE (%)	5.75	3.18	-11.50	-38.80	-0.83
ROCE (%)	9.03	7.54	0.60	-21.34	3.55
<b>Working Capital &amp; liquidity ratios</b>					
Payables (Days)	23.75	117.17	109.28	143.41	155.73
Inventory (Days)	1.64	2.06	2.30	1.87	0.81
Receivables (Days)	48.08	47.22	47.37	55.62	52.35
Current Ratio (x)	0.96	0.82	0.78	0.89	1.04
<b>Valuations Ratios</b>					
EV/sales (x)	0.74	0.68	0.55	1.12	1.44
EV/EBITDA (x)	8.22	11.30	18.78	38.92	43.18
P/E (x)	28.23	51.55	0.00	0.00	227.13
P/BV (x)	1.33	1.31	0.80	2.38	3.72
Dividend Yield (%)	1.01	0.92	0.00	0.00	0.00
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.50	0.51	0.53	0.53	0.28

<b>Cash Flow Statement</b>					
<b>Y/E March</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>CF from Operating activities (A)</b>	125	99	28	49	-7
<b>CF from Investing Activities (B)</b>	-15	-42	-83	135	26.94
<b>CF from Financing Activities (C)</b>	-123	-58	71	-173	-47
Net Cash Flow	-14.015	-1.736	16.29	10.27	-27
Add: Opening Bal.	33	19	17	34	42
<b>Closing Balance</b>	19	17	34	42	16

Source: Company, Hem Securities Research.





## RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

## RECOMMENDATION SUMMARY

DATE	RATING	TARGET
8 <sup>TH</sup> October 2022	Buy	230

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Name of the Research Analyst: MUDIT JAIN

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2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

Since HSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months. Associates of HSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.