Gati Limited

October 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities – Working Capital Term Loan	3.88	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Long Term Bank Facilities- Term Loan	7.38 (Reduced from 16.18)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Long Term Bank Facilities- Fund Based	-	-	Withdrawn
Short Term Bank Facilities- Non Fund Based	-	-	Withdrawn
Total Bank Facilities	**11.26 (Rs. Eleven Crore and Twenty-Six Lakhs Only)**		
Fixed Deposit	6.24 (Reduced from 12.84)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Total Medium-Term Instruments	**6.24 (Rs. Six Crore and Twenty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities and instruments of Gati Limited (Gati) positively factor in the significant deleveraging of its balance sheet by way of sale of the loss making cold solution business – Gati Kausar India Limited(GKIL), discontinuation of other loss making trading/ freight forwarding businesses (housed in other subsidiaries such as Gati Import Export Limited, Zen Cargo, Gati Logistics parks P.L., Gati Projects Private Limited) and disposal of other non core assets including land & buildings, commercial vehicles owned by the company. The ratings continue to derive strength from the operational and financial synergy derived from new management Allcargo Logistics Limited. The ratings also factor in the demonstrated support by new promoter Allcargo Logistics Limited (ALL) by way of fund infusion in the period FY20 – YTD FY22 amounting to Rs. 128 crore. Under ALL's management, Gati has adopted an Asset Light Strategy and plans to divest all its non-core business including land & buildings, fuel station bsuiness owned by the company and use the proceeds from such sale to pare the debt and improve the liquidity profile.

The ratings continue to factor in the established position of the company through its subsidiary Gati Kintetsu ---- in the express cargo industry with pan-India presence, enabling it to cater to a diversified customer base from various industries. The ratings, however, is constrained by the decline in the revenue along with losses reported in FY21 (refers to the period April 01 to March 31) and Q1FY22 (refers to the period April 01 to June 30). The performance of the company during FY21 was subdued due to shutdown of all operating units and distribution centers during Q1FY21, following the nationwide lockdown by Government of India which has resulted in operating losses. The rating constraints are partially offset by quarter-on-quarter improvement in operational performance of the company from Q2FY21 onwards.

CARE Ratings has withdrawn the ratings assigned to the fund based (Rs. 20.00 crore) and non-fund based (Rs. 5.00 crore) bank facilities of Gati Ltd. with immediate effect, as the company has surrendered the bank facilities rated by us and there is no amount outstanding under the facility as on date.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in total operating income and operating margins (PBILDT of 10% and above) on a sustainable level with positive cash accrual.

Negative Factors- Factors that could lead to negative rating action/downgrade:

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

- Any further deterioration in financial profile of the company.

Detailed description of the key rating drivers
Key Rating Strengths
Significant Debt reduction in FY21 and cleanup of balance sheet: The total outstanding debt on consolidated basis reduced to Rs. 348 crore as on March 31, 2021 from Rs. 476 crore as on March 31, 2020. To fund this, the company raised ~ Rs. 53.52 crore by sale of plant and properties and sold current investments of Rs. 77.82 crore in FY21. The company made a net loss after tax of Rs. 245.93 crore primarily on account of a onetime substantial diminution in fair value of assets sold in FY 21 and proposed to be sold. Such exceptional items amounted to Rs. 204.86 crore and are non-cash in nature.
Further in Q1FY22, the company sold its entire 70% stake in GKIL, thus further reducing its debt by ~ Rs. 100 crs. Additionally, the company has also entered into agreements for sale of several of its properties (held under Gati Limited and Gati Kintetsu Express Private Limited) of a total value of ~ Rs. 106 crs and has already received token amounts of~ Rs. 10 crs as of September 29, 2021. The sale proceeds shall be utilized to retire the term loans outstanding in entirety. Moreover, the company is also actively looking to sell its fuel station business by January 2022.
With substantial reduction in debt and accretion of profits, the overall gearing is expected to improve going forward.

Operational and financial synergy derived from Allcargo Logistics Limited: Gati's acquisition is strategic to ALL and is expected to help ALL in forward integration by providing end to end services to its customers with Gati's extensive geographical reach via air and rail transport, available service support etc. In FY21, Gati contributed 12% of ALL consolidated revenue in FY21.
Gati can in turn leverage Allcargo network to offer its customers the opportunity to explore Allcargo's services including Container Freight Stations and Inland Container Depots, Project Logistics, and Contract Logistics to tap into the strengths of Allcargo's global network that operates through more than 300 offices in over 160 countries.
In FY20, ALL had acquired a stake of ~ 46.82% in Gati and Rs. 100 crore was invested into Gati. Further in May 2021, ALL proposed to infuse an additional Rs. 80 crore by way of equity shares and warrants of which Rs. 27.5 crore has already been infused and the balance is expected to be infused within 18 months. The shareholding of ALL in Gati as of June 30, 2021 has increased to 47.30%. The remaining funds received from ALL will be utilized towards funding the growth of Gati.
The company is rationalizing the cost structure by cutting administration and employee expenses to improve profitability. Employee strength has reduced to 3750 as at end of March 2021 from 4568 as at the end of March 2020
Gati has access to all customers resulting in improvement in operating income. Further, optimization of use of technology and resources including manpower and office locations is expected to improve operating margins going forward. Further, there is an ease in access to capital and the cost of funds has come down on account of better credit profile of the promoter (i.e Allcargo Logistics Ltd).

Hiving off of non-core businesses; focus on express logistics: The company has made investments in several subsidiaries both in related and unrelated business such as power generation etc. The company has been exiting non-core and non-performing businesses. In August 2020, Gati Ltd sold off overseas loss-making entity Gati Asia Pacific Pte Ltd.
In May 2021 the company exited its cold chain solution business – Gati Kausar India Limited. Furthermore, the company is engaged in closing down operations of the Gati Import Export Trading Limited and its fuel station business by December 2021.

Established position in express cargo industry with pan-India presence: The company has made investments in several subsidiaries both in related and unrelated business such as power generation etc. The company has been exiting non-core and non-performing businesses. In August 2020, Gati Ltd sold off overseas loss-making entity Gati Asia Pacific Pte Ltd.
In May 2021 the company exited its cold chain solution business – Gati Kausar India Limited. Furthermore, the company is engaged in closing down operations of the Gati Import Export Trading Limited and its fuel station business by December 2021.

Diversified and reputed clientele: The company caters to a diversified clientele which is spread across varied industrial segments such as general manufacturing products, computer, peripherals & electronic components, auto components, pharmaceuticals, apparel and other. Besides segmental diversification, the company also benefits from client portfolio comprising reputed and major players in every segment. The company has long-term relationship with some of its top clients which include TVS Motor Company Limited, 3M India Limited, Samsung India Electronics Private Limited, Maruti Suzuki India Ltd, etc. Further, under the new management , Gati was able sign up for 3600+ new customers.

Key Rating Weaknesses

Decline in revenue in FY21; however gradual improvement in q-o-q operational performance: The total operating income of the company declined by 23% from Rs. 1722 crore in FY20 to Rs. 1319 crore in FY21 due to fall in business volumes arising out of covid induced lockdowns. Q1FY21 was the most affected due to nationwode lockdowns and restrictions in movement. However on a quarter on quarter basis, tonnage handled has improved with Q4FY21 reaching highest ever tonnage for a quarter at 250,318 MT. Q1FY22 was again impacted by the second wave of COVID 19.The average quarterly tonnage for FY 20 stood at ~ 210,000 MT while that for FY 21 stood at ~ 194,000 MT.

Concentrated Revenue Profile: The revenue profile of the company is broadly divided into four categories i.e. surface express constituting Less than truck load (LTL) and MVATS-Full Truck Load, Air express, E commerce and Supply Chain Management (SCM) with surface logistics contributing to 89% of the total revenue and remaining is contributed by fuel stations.

Industry Risk: The Indian logistics industry is highly fragmented, characterized by the presence of numerous unorganized or regional players, who account for ~90% of it. This industry's size is ~Rs.25,000 cr (as of FY19), which is expected to grow at ~10% CAGR every year until 2025. Surface logistics continues to grow vis-a-vis air logistics due to the difference in the cost of booking shipment through the two. Air logistics is 4-5 times more expensive than surface logistics. Also, major value-added services such as door-to-door delivery of shipments in a time-sensitive manner with real-time shipment tracking facilities fuel the growth of the Indian logistics industry. Logistics operations are dependent on the overall economic condition of the country. Higher economic activity translates into higher freight movement which drives demand for road freight transport industry.
Due to the lock down imposed by the Government of India to contain the spread of COVID pandemic, revenue from both the express distribution and fuel stations have witnessed significant dip. While the fuel business almost reached pre-covid level, contribution from express distribution continues to remain on the lower side.

Liquidity: Adequate
The liquidity profile of the company is adequate. The company has been generating sufficient cash accruals vis-à-vis repayment obligations. The company has unutilized bank limits around 35%-40% and apart from that it has received additional working capital limit sanction of Rs. 25 crore which enhances its liquidity cushion. The company has generated Rs. 60 crore of gross cash accruals during FY21 and it is expected to remain at similar levels going forward. The company has total term debt obligation of Rs. 6.50 crore during FY22 and the routine capex of about Rs. 10 crore. For the preference shares capital received by the company from Hetero Drugs Ltd, it has paid dividend of Rs. 17 crore during H1FY22 out of the total dividend payable of Rs. 34 crore as on March 31, 2021. Considering the cash accruals generated during the past and the current performance, it is expected that the debt obligations, incremental working capital requirements along with payment of dividends on preference share capital could be met comfortably.

Analytical approach: Changed to Consolidated factoring in linkages with promoter Allcargo Logistics Limited (ALL) along with the management and financial support extended by ALL. The analytical approach also factors in operational linkages with subsidiaries while assessing the rating.

Applicable Criteria
Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Policy on Withdrawal of ratings

About the Company
Gati Limited was established in 1989 by Mr. Mahendra Agrawal and is one of India's largest road transport companies. Gati has established connectivity across air, road, ocean, and rail providing various logistics services to the customers in the industry with presence in 735 districts in India covering 99% Government of India approved pin codes. Gati, at group level, has a network of over 668 offices including 31 large hubs with 4.1 Mn sq ft warehousing space across locations. It operates a fleet of 5,000 trucks on road with a coverage of ~ 19800 pin codes.
Under Gati, surface logistics comprising of surface express, air express, and supply chain management are housed under subsidiary Gati Kintetsu Express Private Limited (GKEPL). Gati's standalone entity handles e-commerce logistics along with freight forwarding and fuel stations. In the fuel stations segment the company deals in petrol and diesel business along with other motor parts and lubricants through its fuel stations. Presently Gati is operating three fuel stations at Bangalore, Belgaum and Indore.

In 2020, Allcargo Logistics Limited(ALL) has acquired majority stake and became the promoter of the company. ALL acquired a stake of 46.86% from the erstwhile promoters, public open offer (in March 2020 @Rs.75 per share), Preferential allotment (@Rs.75) and open market purchases and became a promoter of the company. In June 2021, ALL increased its stake to 47.30%.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)
Total operating income	1722.06	1318.81
PBILDT	46.44	29.34
PAT	-84.27	-245.93
Overall gearing (times)	1.14	1.95
Interest coverage (times)	0.84	0.65

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	-	February 2023	7.38	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	-	-	Withdrawn
Non-fund-based - ST-Bank Guarantees	-	-	-	.-	.-	Withdrawn
Fund-based - LT-Bills discounting/ Bills purchasing	-	-	-	-	-	Withdrawn
Fund-based - LT-Working capital Term Loan	-	-	-	January 2026	3.88	CARE BBB; Stable
Fixed Deposit	-	-	-	-	6.24	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Term Loan-Long Term	LT	7.38	CARE BBB; Stable	-	1)CARE BB+; Stable (23-Dec-20)	**1)CARE BB+ (CWD) (16-Dec-19)2)CARE BB+; Stable (21-Nov-19)3)CARE BBB; Negative (20-Aug-19)**	1)CARE BBB; Stable (05-Oct-18)
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BB+; Stable (23-Dec-20)	1)CARE BB+ (CWD) (16-Dec-19)2)CARE BB+; Stable (21-Nov-19)3)CARE BBB; Negative (20-Aug-19)	1)CARE BBB; Stable (05-Oct-18)
3	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	1)CARE A4+ (23-Dec-20)	1)CARE A4+ (CWD) (16-Dec-19)2)CARE A4+ (21-Nov-19)3)CARE A3 (20-Aug-19)	1)CARE A3+ (05-Oct-18)
4	Fixed Deposit	LT	6.24	CARE BBB; Stable	-	1)CARE BB+; Stable (23-Dec-20)	1)CARE BB+ (CWD) (16-Dec-19)2)CARE BB+; Stable (21-Nov-19)3)CARE BBB; Negative (20-Aug-19)	1)CARE BBB; Stable (05-Oct-18)
5	Fund-based - LT-Bills discounting/ Bills purchasing	LT	-	-	-	1)CARE BB+; Stable (23-Dec-20)	-	-
6	Fund-based - LT-Working capital Term Loan	LT	3.88	CARE BBB; Stable				

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fixed Deposit	Simple
2	Fund-based - LT-Bills discounting/ Bills purchasing	Simple
3	Fund-based - LT-Cash Credit	Simple
4	Non-fund-based - ST-Bank Guarantees	Simple
5	Term Loan-Long Term	Simple
6	Fund-based-- LT-Working capital Term Loan	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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