Gati Express and Supply Chain Private Limited

October 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	230.00	CARE A+; Stable	Reaffirmed
Commercial paper (Carved out)*	30.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.
*Carved out of the sanctioned working capital limits of the company (proposed)

Rationale and key rating drivers

The ratings assigned to the bank facilities and instruments of Gati Express and Supply Chain Private Limited (GESCPL) continue to derive strength from the operational and financial synergy derived from Allcargo Logistics Limited (ALL; rated 'CARE AA; Stable/CARE A1+'). The ratings also factor in purchase of 30% stake in GESCPL by ALL from Kintetsu World Express (KWE), established position of the company in the express cargo industry with PAN-India presence, enabling it to cater to a diversified customer base from various industries. CARE Ratings Limited (CARE Ratings) also notes that the company under the management of ALL has adopted an asset light strategy and is in the process of divesting all its non-core business assets owned by the company and have used the proceeds from such sale to pare the debt due to which there are no outstanding term debts as on August 31, 2023. The ratings are, however, constrained by low PBILDT margins and net loss reported in FY23 (refers to the period April 01 to March 31) and weakening of the capital structure. Furthermore, the ratings continue to remain constrained by concentrated revenue profile deriving large share of revenues from Less than Truck Load (LTL) segment, dependence on external working capital limits with high utilisation, stiff competition from unorganised players, and new start-ups backed by deep-pocketed international PE investors.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in the scale of operation with total operating income (TOI) increasing to ₹1,600 crore and above while maintaining a PBILDT margin of minimum 8% on a sustained basis.
- Improvement in total debt (TD) to gross cash accruals (GCA) to less than 3x.

Negative factors

- Continuation of losses at net level.
- Decrease in PBILDT margin below 5% in future years.

Analytical approach: Standalone; CARE Ratings has also factored the demonstrated track record of support provided by the promoter group. GESCPL has been receiving strong support from ALL both in terms of management expertise and operational support.

Outlook: Stable

CARE Ratings believes GESCPL will continue to benefit from operational and financial synergy derived from ALL, established position of the company in the express cargo industry with a diversified customer base.

Detailed description of the key rating drivers:

Key strengths

Operational and financial synergy derived from ALL

Gati Limited (Gati) was established in 1989 and was initially promoted by Mahendra Agarwal. However, ALL (rated 'CARE AA; Stable/ CARE A1+') acquired 46.86% stake in Gati (holding company of GESCPL) during April 2020, and the same has subsequently increased to 50.20% as on June 30, 2023. As the entire management control is with ALL, it has become the promoter of Gati and its group/subsidiary companies. During FY24, ALL has purchased 30% stake in GESCPL from KWE. Currently, Gati holds 70% stake in GESCPL, while ALL holds 30%. ALL directly and indirectly holds 65.14% stake in GESCPL as on June 30, 2023. In May 2023, Pirojshaw Aspi Sarkari has been appointed as a Managing Director and CEO of GESCPL. He is a chartered accountant and has got more than three decades of experience. He is also serving as a director in Gati and Allcargo Supply Chain Pvt Ltd.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Shashi Kiran Shetty, who is the founder and executive chairman of ALL, has also been appointed as a director in GESCPL. CARE Ratings expects that the operational and financial synergistic benefits from ALL will accrue to GESCPL by virtue of being its subsidiary.

Established position in express cargo industry with PAN-India presence
GESCPL operates through 19 express distribution hubs located at Ambala, Delhi, Jaipur, Lucknow, Noida, Delhi NCR, Ahmedabad, Bombay (Inside), Bombay (Outside), Indore, Pune, Bangalore, Hyderabad, Coimbatore, Chennai, Bhubaneswar, Kolkata, Guwahati and Ranchi covering the corners of the country. Furthermore, the company has a network of 90 goods delivery warehouses having more than 1 Mn Sft, more than 530 own and franchise customer convenience centres reaching around 19,000 pin codes across the country covering 650+ districts. Recently, as part of the management initiative, the company has adopted asset light strategy and sold all its commercial vehicles and other non-core assets. Currently, the company operates 5,000 plus vehicles on lease and an assured space across all major airline sectors which help delivery of goods to every corner of the country.

Diversified segments with reputed customer base
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, Honda Motor India, Page Industries Ltd, Schaeffer India Ltd, etc. The company has a diversified customer base of more than 650 clientele with top 10 customers contributing 15.29% during FY23 (as against 13.45% during FY22).

Large share of revenues from express distribution (LTL segment)
GESCPL has an integrated hub-and-spoke operating model that entails consolidation of goods from multiple locations through feeder vehicles to transhipment hubs and then further transported to respective destinations. Full truck load generates lesser net revenue than express division (LTL mode) due to transportation of goods from a single customer to single destination for certain customers. However, in express distribution, consolidation of goods from multiple customers are done through transhipment centres and further it is dispatched to multiple location resulting in better margins due to optimisation of capacities.

Key weaknesses

Weak capital structure
The capital structure of the company marked by overall gearing deteriorated to 2.94x as on March 31, 2023 as against 2.53x on March 31, 2022. The deterioration of overall gearing is on account of increase in the lease liability which resulted in increased debt coupled with losses booked by the company in FY22 and FY23. The company has prepaid its entire term debt in FY23. As on August 31, 2023, there are no term loans outstanding.

Improvement in revenue and margins y-o-y, however net losses continue in FY23
The total operating income (TOI) of the company improved by around 18% to ₹1,469 crore in FY23 vis-à-vis ₹1,243 crore in FY22. The volume handled in surface express had grown by about 17% from 958,711 MT in FY22 to 1,123,131 MT in FY23. The PBILDT margins improved from 3.04% in FY22 to 5.00% in FY23. The company reported net loss in FY23. However, the net loss narrowed down to ₹5.43 crore in FY23 as against the net loss of ₹40.06 crore during FY22. With increase in operations and optimisation in operational costs, CARE Ratings expects the company to turn profitable again from FY24 onwards.

Concentrated revenue profile
The revenue profile of the company is broadly divided into three categories, i.e., surface express constituting LTL and MVATS-full truck load, air express and supply chain management (SCM). The major operational division of the company continues to be surface express division wherein GESCPL derives most of the revenue contributing 92% of the TOI during FY23 (as against 92% during FY22).

Liquidity: Adequate

The liquidity profile of the company is adequate. As on June 30, 2023, the company had cash and liquid investments to the tune of ₹15.21 crore. During FY23, the company has also prepaid its entire term loan. The working capital utilisation for the last 12 months ended July 2023 stood at around 68%. Considering the presence of unutilised credit lines and the company’s approach to become asset light by divestment of its assets and with no term loan outstanding, the company is expected to have adequate liquidity position. Furthermore, GESCPL is a step-down subsidiary of ALL, and the management of both the entities is the same.

Considering the financial strength of ALL along with gradual improvement in the financial performance of GESCPL, CARE Ratings expects the credit risk profile of GESCPL to also remain adequate.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Service Sector Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Services	Road Transport

GESCPL, earlier known as Gati Kintetsu Express Private Limited (GKEPL) was a joint venture (JV) company between Gati, one of India's largest Express Distribution and Supply Chain (EDSC) solution provider and KWE – One of Japan's leading logistics provider having shareholding of 70:30, respectively. Earlier, the EDSC division was operated by Gati which has been transferred to the then GKEPL since March 31, 2012.
Gati was established in 1989 by Mahendra Agrawal and, over the period of time, emerged as 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 650+ districts in India covering around 19,000 pin codes. At group level, Gati offers wide range of services, viz., express distribution, supply chain management solution, e-commerce logistics, managed value-added transportation services (MVATS), freight forwarding and cold chain logistics. Gati, at group level, has a network of over 600 offices, including 19 large hubs, operates a fleet of more than 5,000 vehicles on lease across India.
In 2020, ALL (rated 'CARE AA; Stable; CARE A1+') has acquired stake of 46.86% and became the promoter of the Gati (rated 'CARE BBB; Stable'). ALL incorporated in 1993, as a freight-forwarding agent became a multimodal transport operator in 1998 by offering logistics services. The company operates in multiple business segments - Multimodal Transport Operations (MTO), Container Freight Stations (CFS)/Inland Container Depot (ICD), Project & Engineering solutions, Contract Logistics, and Logistics Parks. ALL is amongst the leading players in the global LCL consolidation market with a strong network across 160 plus countries and 300 plus offices covering over 4,000 port pairs across the world. As on June 30, 2023, ALL holds 50.20% shareholding in Gati Ltd.
During FY24, ALL has purchased 30% stake in GESCPL from Kintetsu World Express KWE. Currently, Gati holds 70% and ALL holds 30% in GESCPL. In July 2023, the name of the company, Gati Kintetsu Express Private Limited, has been changed to Gati Express and Supply Chain Pvt Ltd.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	1,242.50	1,468.87	367.17
PBILDT	37.80	73.50	18.06
PAT	-40.06	-5.43	-3.61
Overall gearing (times)	2.53	2.94	3.27
Interest coverage (times)	1.70	2.45	2.41

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper-Commercial paper (Carved out)	-	NA	NA	7-365 days	30.00	CARE A1+
Fund-based - LT-Cash credit	-	-	-	-	230.00	CARE A+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (06-Oct-22)	1)CARE A+; Stable (07-Oct-21)	1)CARE A+; Negative (07-Jan-21) 2)CARE A+; Negative (29-Jul-20)
2	Commercial paper-Commercial paper (Carved out)	ST	30.00	CARE A1+	-	1)CARE A1+ (06-Oct-22)	1)CARE A1+ (07-Oct-21)	1)CARE A1+ (07-Jan-21) 2)CARE A1+ (29-Jul-20)
3	Fund-based - LT-Cash credit	LT	230.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Oct-22)	1)CARE A+; Stable (07-Oct-21)	1)CARE A+; Negative (07-Jan-21) 2)CARE A+; Negative (29-Jul-20)
4	Non-fund-based - ST-Bank guarantee	ST	-	-	-	-	-	1)Withdrawn (07-Jan-21) 2)CARE A1+

								(29-Jul-20)
5	Fund-based - ST-Term loan	ST	-	-	-	-	-	1)Withdrawn (07-Jan-21) 2)CARE A1+ (29-Jul-20)
6	Fund-based - LT-Bill discounting/ Bills purchasing	LT	-	-	-	1)Withdrawn (06-Oct-22)	1)CARE A+; Stable (07-Oct-21)	1)CARE A+; Negative (07-Jan-21)

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial paper-Commercial paper (Carved out)	Simple
2	Fund-based - LT-Cash credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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