

Gati Limited

October 05, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	173.02 (reduced from 209.12)	CARE BBB; Stable (Triple B; Outlook - Stable)	Downgraded from CARE A-; Stable (Single A Minus; Outlook - stable)
Short-term Bank Facilities	5.00	CARE A3+ (A Three Plus)	Downgraded from CARE A2+ (A Two Plus)
Total Facilities	178.02 (Rupees One Hundred Seventy Eight crore and Two lakh only)		
Medium Term Fixed Deposits	50	CARE BBB; Stable (Triple B; Outlook - Stable)	Downgraded from CARE A-; Stable (Single A Minus; Outlook - stable)

Details of instruments/facilities in Annexure-1

Detailed description of the key rating drivers

The revision in the ratings assigned to the bank facilities of Gati Limited (Gati) takes into account decline in revenue from operations along with significant deterioration in PBILDT level (adjusted to non-cash income) and reduction in gross cash accruals during FY18 (FY refers to the period April 1 to March 31). Further the company has raised additional debt during FY18 for the purpose of redemption of part of its Foreign Currency Convertible Bonds (FCCB) leading to higher debt repayment obligations during FY19 while the cash accruals are expected to remain relatively stressed. The ratings also factors in the risk associated with the support extended by Gati to a hydro power company - Gati Infrastructure Private Limited which is under liquidity stress and significant reduction in promoters control on account of dilution of shares on FCCB conversion and invocation of pledge of shares. The ratings, however, derive strength from its experienced management, extensive support from its subsidiary companies for augmenting E-Commerce division and favourable industry prospects. The ratings continues to remain tempered by working capital intensive nature of operations and presence of stiff competition from many unorganized players in the industry.

The ability of the company to improve its operational efficiency thereby garnering better profitability margins and increase the scale of operations are the key rating sensitivities.

Detailed description of the key rating drivers

Key rating weakness

Decline in revenue from operations along with significant deterioration in the PBILDT level

Revenue from operations of the company has declined by 10% during FY18 from Rs. 494.41 crore in FY17 to Rs. 442.73 crore in FY18 mainly on account of weakening of E-commerce business. The PBILDT level (adjusted to non-cash income) of the company during FY18 has significantly deteriorated from Rs. 47.41 crore in FY17 to Rs.18.70 crore in FY18, primarily on account of adjustment of the non - cash income amounting to Rs. 51.61 crore from FCCB conversion. Apart from the aforementioned reason, the PBILDT level has also declined on account of increase in the operational costs of the company during FY18.

Raising of additional debt during FY18 and higher debt repayment obligations during FY19

During May 2017, Gati reached to a settlement with its Foreign Currency Convertible Bonds (FCCB) holder which resulted in improvement in overall gearing from 0.52x as on March 31, 2017 to 0.19x as on March 31, 2018 but at the expense of raising additional debt during FY18 resulting in higher debt repayment obligations during FY19. Further, the company has extended support to its hydro power company - Gati Infrastructure Private Limited (GIPL) which is under liquidity stress. Considering the repayment obligations for FY19 and risk associated with the support extended by Gati to GIPL, the cash accruals are expected to remain relatively strained.

Reduction in promoter's control on account of dilution of shares

Redemption of FCCB's outstanding by way of issuance of equity shares to the extent of 19.8 million led to reduction in the promoter shareholding during FY18. Further, the promoters of the company at their personal level have pledged about

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

80% of their shares which were invoked at various occasions due to continuous decline in stock price of the company leading to furthermore dilution of their shareholding from 29.82% as on September 30, 2017 to 24.39% as on June 30, 2018.

Key Rating Strengths

Experienced promoters supported by efficient management team

The company is promoted by Mr. Mahendra Agarwal, Founder and CEO, who takes care of the day to day operations of the company. Mr Agarwal is assisted by a team of professionals who are responsible for handling key functional areas.

Extensive support from subsidiary companies for augmenting E-Commerce division

Gati, in order to execute its orders pertaining to E-commerce line of business, enjoys the benefit by taking support of its subsidiary Gati Kintetsu Express Pvt Ltd. which is a leading service provider of express distribution and supply chain solutions in India.

Favorable industry prospects

Logistics sector in India is set to grow rapidly led by revival in GDP, e-commerce penetration, ramp up in transport infrastructure, digitalization and adoption of future technologies to increase operational efficiencies and reduce costs in the Indian logistics sector.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Established in 1989, Gati Limited (Gati) at group level is promoted by Mr Mahendra Agrawal and it is India's largest road transport company. Gati has established connectivity across air, road, ocean and rail providing various logistics services to the customers in the industry. Gati, operates a fleet of 5,000 vehicles on road and has more than 7,000 business partners across India.

Gati at standalone handles e-commerce division along with freight forwarding and fuel stations segment. 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 five fuel stations at Bangalore, Belgaum, Indore, Hyderabad and Chattrra (Karnataka).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	517.06	516.79
Adj. PBILDT	47.41	18.70
PAT	17.56	34.48
Overall gearing (times)	0.52	0.19
Interest coverage (times)	2.00	0.88

*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

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

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About CARE Ratings:

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Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	March 2021	128.02	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	45.00	CARE BBB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	5.00	CARE A3+
Fixed Deposit	-	-	-	50.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	128.02	CARE BBB; Stable	-	1)CARE A-; Stable (04-Oct-17)	1)CARE A- (08-Jul-16)	1)CARE A- (06-Aug-15)
2.	Fund-based - LT-Cash Credit	LT	45.00	CARE BBB; Stable	-	1)CARE A-; Stable (04-Oct-17)	1)CARE A- (08-Jul-16)	1)CARE A- (06-Aug-15)
3.	Non-fund-based - ST-Bank Guarantees	ST	5.00	CARE A3+	-	1)CARE A2+ (04-Oct-17)	1)CARE A2+ (08-Jul-16)	1)CARE A2+ (06-Aug-15)
4.	Fund-based - ST-Standby Line of Credit	ST	-	-	-	-	-	1)Withdrawn (06-Aug-15)
5.	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	-	1)Withdrawn (06-Aug-15)
6.	Fixed Deposit	LT	50.00	CARE BBB; Stable	-	1)CARE A-(FD); Stable (04-Oct-17)	1)CARE A-(FD) (08-Jul-16)	1)CARE A-(FD) (06-Aug-15)

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