CARE Ratings
Professional Risk Opinion

Gati Limited

November 21, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	138.43 (reduced from 173.02)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BBB; Negative (Triple B; Outlook: Negative)
Short term Bank Facilities	5.00	CARE A4+ (A Four Plus)	Revised from CARE A3 (A Three)
Total Facilities	143.43 (Rs. One hundred forty three crore and forty three lakh only)		
Medium Term Fixed Deposits	50.00 (Rs. Fifty crore only)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BBB; Negative (Triple B; Outlook: Negative)

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Gati Limited (Gati) takes into account significant decline in revenue from operations along with deterioration in profitability margin, resultant reduction in gross cash accruals during H1FY20 (H1FY refers to the period April 1 to September 30) and stretched liquidity position. The ratings continues to remain tempered by customer concentration risk in e-commerce segment, dilution in promoter's shareholding and presence of stiff competition from many unorganized players in the industry. The ratings, however, continue to derive strength from its experienced management, extensive support from its subsidiary companies for augmenting e-commerce division and favorable industry prospects.

Positive Sensitivity Factor

- Ability of the company to arrest the declining trend in revenue and improve the revenue from operations and PBILDT margins to the level of at least 10%.
- Ability of the company to service the debt from operating revenues as against dipping into reserves and deferring creditor payments.

Negative Sensitivity Factor

- Any further deterioration in financial risk profile of the company.

Detailed description of the key rating drivers

Key Rating Weaknesses

Significant decline in revenue from operations and deterioration in profitability margins in H1FY20

The declining trend in revenue from operations is witnessed from Rs 134.28 crore during Q2FY19 followed by Rs 121.32 core in Q1FY20 and Rs 114.04 crore during Q2FY20. The Y-o-Y (quarterly results) of Q2FY19 vis-à-vis Q2FY20 registered a decline of 15.07% due to drop in business line by a single B2B customer along with decline in revenue segment from TV commerce during H1FY20.

PBILDT margin has also witnessed a decline during the first two quarters of FY20 and stood at 1.42% at Rs.1.62 crore during Q2FY20 as against 5.55% at Rs.6.73 crore in Q1FY20 primarily on account of increased operating expenses for deployment of additional manpower and capacity enhancement to cater demand during festive season. Further, the company reported cash loss of Rs 1.35 crore in Q2FY20 as against positive cash accrual of Rs 73 lac despite receiving dividend of Rs 7.56 crore from its subsidiary during Q2FY20, thereby the cash accrual for H1FY20 stood at negative Rs 62 lac, which is significantly lower than Rs 24.97 crore of positive cash accrual generated for FY19.

Significant reduction in promoter's stake in the company

During FY18, redemption of outstanding FCCB's by way of issuance of equity shares to the extent of 19.8 million led to dilution in the promoter shareholding. Further, the promoter's and promoter group shareholding has witnessed significant decline over the past few quarters and stood at 17.78% during Q2FY20 (as against 14.38% (Q1FY20), 20.87% (Q4FY19), 24.15% (Q3FY19) and 24.50% (Q2FY19), which also include pledged shares at their personal level to the extent of 70.16% of their shareholding outstanding as on September 30, 2019.

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

Customer Concentration Risk
The top four customer in e-commerce segment contributes around 60%-65% of the revenue generated by e-commerce segment, which contributes 34% of the total revenue of the company for FY19. Further, the freight forwarding segment contributes around 10% of the total revenue of the company. With the drop in business by a single B2B customer, who had been a major contributor, the company is exposed to customer concentration risk.

Key Rating Strengths
Experienced promoters supported by efficient management team
The company is promoted by Mr. Mahendra Agarwal, Founder and CEO, is also part of the board of directors and oversees the implementation of strategic initiatives taken by the leadership team which comprises of professionals with the requisite expertise from various verticals at Head office, the Zones and the Express distribution centers. Mr K L Chugh is the Independent director of the company and has more than three decades of experience functioning as director with various reputed organizations. The other directors on board have broad experience of more than two decades operating in various industries.

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 (GKEPL), which is one of the leading service provider of express distribution and supply chain solutions in India. Apart from above, Gati has been receiving dividend from GKEPL every year. Amount of dividend received by Gati Ltd during FY19 was Rs. 8.67 crore as against Rs. 10.36 crore received in FY18. Further during H1FY20, the company has received dividend of Rs.7.56 crore.

Favorable industry prospects
Logistics sector in India is set to grow rapidly led by 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.

Stretched Liquidity
The liquidity position of the company is stretched marked by declining trend in revenue with erosion of margins on account of higher operating expense which has led to cash loss being reported for Q2FY20. The DSCR for H1FY20 is below unity. The company was able to repay its long term debt obligations of Rs.13.25 crore during H1FY20 using free cash and bank balance and operational cash flow generated by deferring payments to creditors to meet the debt servicing obligation for H1FY20. However, as on September 30, 2019, the company has free cash and bank balance of Rs.7.67 crore (Rs.13.22 crore as on March 31, 2019) and deposits with maturity less than 1 year of Rs.21.74 crore to meet any cash flow mismatch to service H2FY20 debt obligations (principal) of Rs 15 crore. In addition, the average of maximum working capital utilization stood at 70% for the trailing twelve months ended July 2019.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning ‘outlook’ and ‘credit watch’
CARE’s Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Service Sector Companies
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 Chattra (Karnataka).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	516.79	534.29
PBILDT	18.70	44.65
PAT	34.48	24.25
Overall gearing (times)	0.19	0.15
Interest coverage (times)	0.88	2.95

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

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		-	-	March 2021	93.43	CARE BB+; Stable
Fund-based - LT-Cash Credit		-	-	-	45.00	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantees		-	-	-	5.00	CARE A4+
Fixed Deposit		-	-	-	50.00	CARE BB+; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	93.43	CARE BB+; Stable	1)CARE BBB; Negative (20-Aug-19)	1)CARE BBB; Stable (05-Oct-18)	1)CARE A-; Stable (04-Oct-17)	1)CARE A- (08-Jul-16)
2.	Fund-based - LT-Cash Credit	LT	45.00	CARE BB+; Stable	1)CARE BBB; Negative (20-Aug-19)	1)CARE BBB; Stable (05-Oct-18)	1)CARE A-; Stable (04-Oct-17)	1)CARE A- (08-Jul-16)
3.	Non-fund-based - ST-Bank Guarantees	ST	5.00	CARE A4+	1)CARE A3 (20-Aug-19)	1)CARE A3+ (05-Oct-18)	1)CARE A2+ (04-Oct-17)	1)CARE A2+ (08-Jul-16)
4.	Fixed Deposit	LT	50.00	CARE BB+; Stable	1)CARE BBB; Negative (20-Aug-19)	1)CARE BBB; Stable (05-Oct-18)	1)CARE A- (FD); Stable (04-Oct-17)	1)CARE A- (FD) (08-Jul-16)

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

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:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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