Gati Limited

December 23, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	10.00	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Assigned**
Long Term Bank Facilities	26.18 (Reduced from 138.43)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Reaffirmed and removed from Credit watch with Developing Implications; Stable outlook assigned**
Short Term Bank Facilities	5.00	**CARE A4+ (A Four Plus)**	**Reaffirmed and removed from Credit watch with Developing Implications**
Total Bank Facilities	**41.18 (Rs. Forty-One Crore and Eighteen Lakhs Only)**		
Fixed Deposit	12.84 (Reduced from 50.00)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Reaffirmed and removed from Credit watch with Developing Implications; Stable outlook assigned**
Total Medium Term Instruments	**12.84 (Rs. Twelve Crore and Eighty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities and instruments of Gati Limited and removal of credit watch is primarily on account of change in promoters having better risk profile. However, the ratings are constrained by significant decline in revenue from operations coupled with deterioration in profitability margins for FY20 and H1FY21, impairment of investments in several subsidiaries, recoverability of operational advances & loans extended to subsidiaries, customer concentration risk and economic slowdown due to COVID-19. The ratings however, derive strength from operational and financial support from the promoters, comfortable capital structure marked by significant reduction in debt and initiatives taken by the management to revive the company.

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:

- Any further deterioration in financial profile of the company.

Detailed description of the key rating drivers

Significant decline in revenue from operations coupled with deterioration in profitability margins for FY20 and H1FY21.

During FY20, the company has witnessed significant decline in revenue from Rs 516.18 crore in FY19 to Rs 425.14 crore in FY20, which is primarily due to decrease in express distribution business led by steep decline in business from cross border e-commerce and TV commerce business. Moreover, operating margin has also witnessed significant decline from 6.94% in FY19 to 0.25% in FY20 due to pricing pressure on account of intense competition and key ecommerce players increasing investments in in-house logistics capacity. However, the fuel business is generating steady PBT of Rs.6.55 crore in FY20 (as against Rs.7.58 crore in FY19).

In line with declining revenue and operating margin, a one-time tax expense related to earlier years amounting to Rs.36.30 crore, impairment of investment in Gati Asia Pacific Pte Ltd of Rs.7.60 crore and indirect tax settlement of Rs.3.80 crore of ongoing tax litigation with various appellate authority, has resulted in net loss of Rs.57.81 crore during FY20 as against PAT of Rs.24.25 crore for FY19.

Further due to the lock down imposed by the Government of India to contain the spread of COVID pandemic. Both revenue from the express distribution and fuel stations have witnessed significant dip. During H1FY21, the company has registered a significant decline in revenue from Rs.235.36 crore in H1FY20 to Rs.122.3 crore in H1FY21 primarily on account of decrease in revenue from express distribution from Rs.80.37 crore in H1FY20 to Rs.11.08 crore in H1FY20. However, fuel business almost

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

reached pre-covid level, whereas contribution from express distribution continues to remain on the lower side. Due to significant reduction in fixed expenses, the company has reported PBILDT of Rs.3.07 crore during Q2FY21 (as against loss of Rs.1.97 crore in Q1FY21). However operating profit (PBILDT) of Rs.1.10 crore for H1FY21.

Impairment of investments in subsidiaries
The company has made investments in several subsidiaries both in related and unrelated business such as power generation, real estate etc. Apart from the investment in Gati Kintetsu Express Private Limited, Gati Import Export Trading Limited, Gati Logistics Parks Private Limited and Gati Projects Private Limited, the company has already provided impairment allowance/ written off the value of Investments in the remaining subsidiaries.

Recoverability of operational advances & loans extended to subsidiaries
Over the course of time, the company has extended operational advances of Rs 18.49 Crore to the entities in which significant influence exist, which is long overdue, the same has been flagged by the auditor previously and also in FY20 auditor reports. In this regard, the company has sent legal notices to the parties for recovering the same. Moreover, the company has entered MOU along with repayment schedule recently with parties. The company is in the process of recovering the loan of Rs 20.01 crore extended to Gati Logistics Parks Private Limited (wholly owned subsidiary) by monetizing its assets.

Customer Concentration Risk
Since the company is into e-commerce logistics, majority of the revenue generated is from a couple of major e-commerce players. During FY20 Amazon alone has contributed around 32.50% as against 29.05% in FY19. Top 8 players contribute around 73% of the total revenue from express distribution.

Economic slowdown due to COVID 19
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. Overall demand for exports increased by single digit during FY20 vis-à-vis a double-digit growth during FY19 on back of slowdown in the global economies as well as the outbreak of the Covid-19. Looking at the overall macroeconomic situation and the emerging stress on various sectors, the logistics industry might see a slowdown in the next few quarters.

Key Rating Strengths
Change in promoters having better risk profile
The company was initially promoted by Mr. Mahendra Agarwal. However, AllCargo Logistics Limited (ALL) has completed acquisition of stake in Gati Limited, thereby shareholding increased to 46.86%, hence ALL becomes the promoter of the Company. Post the completion of acquisition, Mr. Shashi Kiran Shetty has been appointed as Chairman and Managing Director of Gati Limited. ALL was founded by Mr. Shashi Kiran Shetty in 1993. He has an experience of almost three decades in the logistics sector. Mr. Shashi Kiran Shetty has been conferred Belgium's highest civilian honour the 'Distinction of Commander of the Order of Leopold II' to being declared as the Global Logistics Personality of the Year. ALL has already inducted its directors in Gati Board.

Profile of ALL
Allcargo Logistics Limited incorporated in 1993, as a freight-forwarding agent, ALL became a multimodal transport operator in 1998 by offering logistics services, such as consolidation of Less-than-Container Load (LCL) and full-container load cargo for exporters and importers. 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. The international operation of ALL mainly includes global MTO (LCL consolidation) business. 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.

Operational and Financial support from the promoters
Pursuant to the share subscription agreement, the company has raised equity funds of Rs. 100 crore through preferential allotment from ALL and has been utilized for the purpose of prepayment of existing term loans and closure of existing credit line from various banks and financial institutions. Thereby deleveraging the capital structure of the company. This apart, ALL has long standing relationship with various customers across the globe and with the acquisition of GATI, ALL would be well placed in the domestic express distribution segment and offer wide range of logistic solutions to its international customer. Thereby operational synergy is expected with ALL.

Initiatives taken by the management to revive the company
The company has already taken various initiative to revive the company. The company is proposing to take advantage of the amnesty scheme for both direct tax and indirect tax litigations, which would reduce the contingent liability to the extent of Rs.100 crore only through a cash outflow of Rs. 39.17 crore. Discontinuation of loss making businesses, disposal of non-core assets, which are classified as asset held for sale, proceeds from the same are expected to utilize for the payment of tax amnesty amount of Rs. 39.17 crore and debt repayment of existing term loans, which ultimately reduces the finance expense. Further the company is rationalizing the cost structure by cutting administration and employee expense to improve the profitability of the company. Alvarez and Marshal is also appointed as consultant to decide the future course of the company.

Comfortable capital structure marked by significant reduction in debt.
The capital structure of the company marked by overall gearing has remained comfortable at 0.13x as on March 31, 2020 (as against 0.15x as on March 31, 2019). During H1FY21, the company has retired majority of the debt from the proceeds of share subscription amount of Rs.100 crore from ALL. As on September 30, 2020, the company has outstanding debt of Rs.28.54 crore, which includes public deposits of Rs.12.17 crore and term loan of Rs.16.37 crore.

Liquidity: Adequate
Adequate liquidity is marked by improvement in operations post lockdown on account of Covid-19 pandemic and presence of cash & cash equivalent at standalone level of Rs. 21.21 crore as on September 30, 2020 against repayment obligation of Rs 9.16 crore for H2FY21. Further, the company has availed moratorium 1 from March 2020 to May 2020 provided by lenders under Covid-19 relief to address the cash flow mismatch, which has been repaid subsequnelty in the month of June 2020. During H1FY21, the company has prepaid the majority of the term loans and closed working capital facilities aggregating to Rs.71 crore from the proceeds of share subcription money from Allcargo Logistics Limited, resulting in improvement in liqudity of the Company.

Analytical approach: Standalone
The rating of Gati Limited is based on standalone financials of the Company. Operational and Financial linkages of the group/subsidiary companies are factored while assessing the rating.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short term Instruments
Rating Methodology – Service Sector Companies
Financial ratios – Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings

About the Company
Gati Limited was established in 1989 by Mr Mahendra Agrawal, it 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 solutions. The Express Distribution and Supply Chain (EDSC) division, which was operated by Gati earlier, has been transferred to Gati Kintetsu Express Private Limited. GKEPL is a joint venture (JV) company between Gati and Kintetsu World Express Inc - Japan's leading logistics provider with an equity contribution in the ratio of 70:30, respectively. Cold chain solutions are offered by its subsidiary Gati Kausar India Limited. Gati now handles the e-commerce division 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, Shadnagar (near Hyderabad) and Chattra (Karnataka). Gati, at group level, has a network of over 600 offices including 18 large hubs, operates a fleet of 5,000 vehicles on road and has more than 7,000 business partners across India.
In 2020, Allcargo Logistics Limited has acquired stake of 46.86% and becomes the promoter of the company. Allcargo Logistics Limited incorporated in 1993, as a freight-forwarding agent, ALL 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.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	537.43	442.71
PBILDT	37.3	1.11
PAT	24.25	-57.81
Overall gearing (times)	0.15	0.13
Interest coverage (times)	2.23	0.08

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	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	16.18	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	5.00	CARE A4+
Fund-based - LT-Bills discounting/ Bills purchasing	-	-	-	10.00	CARE BB+; Stable
Fixed Deposit	-	-	-	12.84	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	16.18	CARE BB+; Stable	-	1)CARE BB+ (Under Credit watch with Developing Implications) (16-Dec-19) 2)CARE BB+; Stable (21-Nov-19) 3)CARE BBB; Negative (20-Aug-19)	1)CARE BBB; Stable (05-Oct-18)	1)CARE A-; Stable (04-Oct-17)
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB+;	-	1)CARE BB+ (Under Credit	1)CARE BBB;	1)CARE A-; Stable

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
				Stable		watch with Developing Implications) (16-Dec-19) 2)CARE BB+; Stable (21-Nov-19) 3)CARE BBB; Negative (20-Aug-19)	Stable (05-Oct-18)	(04-Oct-17)
3.	Non-fund-based - ST-Bank Guarantees	ST	5.00	CARE A4+	-	1)CARE A4+ (Under Credit watch with Developing Implications) (16-Dec-19) 2)CARE A4+ (21-Nov-19) 3)CARE A3 (20-Aug-19)	1)CARE A3+ (05-Oct-18)	1)CARE A2+ (04-Oct-17)
4.	Fixed Deposit	LT	12.84	CARE BB+; Stable	-	1)CARE BB+ (Under Credit watch with Developing Implications) (16-Dec-19) 2)CARE BB+; Stable (21-Nov-19) 3)CARE BBB; Negative (20-Aug-19)	1)CARE BBB; Stable (05-Oct-18)	1)CARE A- (FD); Stable (04-Oct-17)
5.	Fund-based - LT-Bills discounting/ Bills purchasing	LT	10.00	CARE BB+; Stable	-	-	-	-

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 the 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

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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