

Gati Limited (Revised)

August 20, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	173.02	CARE BBB; Negative (Triple B; Outlook: Negative)	Revised from CARE BBB; Stable (Triple B; Outlook-Stable)
Short term Bank Facilities	5.00	CARE A3 (A Three)	Revised from CARE A3+; (A Three Plus)
Total Facilities	178.02 (Rs. One hundred seventy eight crore and two lakh only)		
Medium Term Fixed Deposits	50.00 (Rs. Fifty crore only)	CARE BBB; Negative (Triple B; Outlook: Negative)	Revised from CARE BBB; Stable (Triple B; Outlook-Stable)

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 marginal decline in revenue from operations along with deterioration in profitability margin, resultant reduction in gross cash accruals during Q1FY20 (Q1FY refers to the period April 1 to June 30) and significant dilution in promoter's shareholding. The ratings, however, derive strength from its experienced management, extensive support from its subsidiary companies for augmenting e-commerce division and favorable industry prospects. The ratings continues to remain tempered by customer concentration risk in e-commerce segment 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.

Outlook: Negative: The negative outlook reflects declining trend in income and profitability over the past quarters which if continues may adversely impact the overall financial risk profile in the near term. The outlook may be revised to "Stable", if the company is able to demonstrate improvement in its key financial indicators.

Detailed description of the key rating drivers**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.

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.

Key Rating Weaknesses**Marginal decline in revenue from operations and deterioration in profitability margins**

The revenue from operations of the company has witnessed marginal Y-o-Y growth of 3.38% to Rs.534.29 crore during FY19 (as against Rs.516.79 crore during FY18). Further, the revenue from operations of the company has witnessed Q-o-Q decline

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

by 7% to Rs.121.32 crore during Q1FY20 (as against Rs.130.08 crore adjusted for non-cash income booked during Q4FY19) due to drop in business by a single B2B customer.

PBILDT margins registered a decline of 27% to Rs 6.73 crore in Q1FY20 (as against Rs 9.16 crore, adjusted for non-operating income during Q1FY19), after adjusting for non-cash expense due to IND AS and one-time expenses incurred during Q1FY20 towards augmenting manpower and increase coverage locations to cater demand during upcoming festive season. Further, there is a marginal increase in PBILDT margin of 5.16% in Q1FY20 against the Q4FY19 of Rs 6.40 crore (i.e adjusted for non-cash income & expense items).

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 and stood at 14.38% during Q1FY20 (as against 20.87% (Q4FY19) and 24.15% Q3FY19), which also include pledged shares at their personal level to the extent of 62.99% of their shareholding outstanding as on June 30, 2019.

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. 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.

Adequate Liquidity

Though the cash generation of the company was marked by weak cash accruals of Rs 0.74 crore during Q1FY20, the company was able to repay its long term debt obligation of Rs 7.42 crore during Q1FY20 using free cash and bank balances including fixed deposits. Further, the company has free cash and bank balances of Rs 26.12 crore as on August 2019, which is sufficient to cover the long term repayment obligation of Rs 18.82 crore due in next 9 months of FY20. In addition, the average working capital utilization stood below 50% 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 Chattrra (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

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; Negative
Fund-based - LT-Cash Credit	-	-	-	45.00	CARE BBB; Negative
Non-fund-based - ST-Bank Guarantees	-	-	-	5.00	CARE A3
Fixed Deposit	-	-	-	50.00	CARE BBB; Negative

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	128.02	CARE BBB; Negative	-	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 BBB; Negative	-	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 A3	-	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 BBB; Negative	-	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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