February 15, 2023

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Scrip Code: 532345 **ISIN No.:** INE152B01027 **Re.:** Gati Limited	**Symbol :** GATI **ISIN No.:** INE152B01027 **Re.:** Gati Limited

Dear Sir/Ma'am,

Sub: Transcript of Q3 Earnings Conference Call – FY 2022-23.

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosures Requirements) Regulations, 2015 (the "Listing Regulations"), please find enclosed herewith the transcript of earnings conference call for the quarter ended December 31, 2022 held on Thursday, February 09, 2023.

The aforesaid Transcript will also be uploaded on the website of the Company i.e. www.gati.com.

Kindly take the above on your record.

Thanking you,

Yours faithfully,
For **Gati Limited**

SHANTHAVADHAN MAHARANI THIRUVELLUR
Digitally signed by SHANTHAVADHAN MAHARANI THIRUVELLUR
Date: 2023.02.15 18:03:57 +05'30'

T.S. Maharani
Company Secretary & Compliance Officer
M. No.: F8069

Encl.: as above

"Gati Limited
Q3 FY '23 Earnings Conference Call"
February 09, 2023

MANAGEMENT: **MR. PIROJSHAW SARKARI – CHIEF EXECUTIVE OFFICER – GATI LIMITED**
MR. ANISH MATHEW – CHIEF FINANCIAL OFFICER – GATI LIMITED

MODERATOR: **MR. AMIT DIXIT – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY '23 Earnings Conference Call of Gati Limited, hosted by ICICI Securities Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements do not guarantee the future performance of the company and it may involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Dixit from ICICI Securities. Thank you, and over to you, sir.

Amit Dixit: Yes. Thank you, Seema. Good afternoon, everyone. On behalf of ICICI Securities, I welcome you all to Q3 FY '23 Earnings Conference Call of Gati Limited. We are pleased to have with us management team represented by Mr. Pirojshaw Sarkari, CEO; and Mr. Anish Mathew, CFO for Gati Limited. Without much ado, I will pass on the call to Mr. Sarkari. We will have brief opening remarks from the management followed by a Q&A session. Thank you, and over to you, sir.

Pirojshaw Sarkari: Thank you, Amit. Good afternoon, and a very warm welcome to everyone on our quarter 3 FY '23 earnings conference call. We have uploaded our results and earnings presentation on the stock exchanges and company's websiteand I hope everyone had an opportunity to go through the same. As mentioned, along with me, I have Mr. Anish Mathew, the Chief Financial Officer of Gati Limited and our Investor Relations team. I will start with industry and business overview and then will hand over the call to Anish to discuss the financial performance of the company for the quarter ended December 2022.

Before I start with the business overview, I would like to share two organizational updates. We have appointed Mr. Shrikant Nikam as the Vice President Operations. Shrikant comes with a rich and diversified experience of over 25 years across supply chain and logistics, information technology and industrial engineering domain. In past, he headed diversified businesses in Mahindra Logistics, UPS and Gati. Mr. Charles D'Costa is now heading the Transformation Office as the Chief Transformation Officer to bring in focus on transformation initiatives throughout the organization.

Starting with business performance. Gati has recorded its highest ever quarterly operating revenue of INR 441 crores. The company has achieved this feat by bringing in operational efficiency and enhancing customer delight by improving service levels. The team at Gati is committed to improving customer experience, which leads to more wallet share, along with increasing the market share, thus translating into better performance.

The logistics industry is poised for exciting times ahead due to its pivotal role in the Indian economy. The demand for logistics services is expected to grow as it will be instrumental in accelerating and sustaining the GDP growth. The government recognizes the importance of logistics as a sector. The initiative announced in the recent union budget for FY '24 will enhance the logistics competitiveness.

Growth in capital expenditure on infrastructure development such as rail, energy, roads are likely to aid in cost-cutting, supporting the national logistics policy. A push to the multimodule connectivity and supply chain development with increased focus on technology and digital enhancement will have multifaceted impact on the industry. The Urban Investment Development Fund will enhance connectivity and provide faster transportation in Tier 2 and Tier 3 cities.

Government incentives along with improved sentiments will lead the nation on the path of sustainable growth. Our foundation to growth is dependent on infrastructure amplification, digitization, sales acceleration and consistent efforts to improve our operations. Our twofold focus on customer centricity and cost rationalization has helped us improve our performance.

I would now highlight the initiatives during the quarter under each of our pillars. Sales acceleration, during the quarter, the company has elevated 30-plus strategic accounts to key enterprise accounts due to increased wallet share from them. The company has also identified alliance partners for strengthening our pickup and delivery operations. We have started digitized network planning through use of data science and will continue to focus on this.

The company has also initiated a nationwide RFQ for price discovery and negotiations with both old and new network partners. . I would now highlight the initiatives during the quarter under each of our pillars. Infrastructure, I am pleased to announce the launch of our much-awaited Super Hub at Mumbai. This hub is a consolidation of 3 hubs in one location, which will bring in a lot of operational efficiency. The Mumbai Super Hub is spread over an area of more than 100,000 square feet equipped with 62 bays for effective loading and unloading, which can handle 130 vehicles and an average weight per day of more than 1,000 tons.

With this, 4 of our hubs are now operational at Farukh Nagar in north, Guwahati in north, Nagpur in central and Mumbai. These hubs are well-equipped for effective cross-stocking facility and mechanization for loading, unloading, leading to improved turnaround time.

Technology -- so on the technology front, we have completed 100% deployment of digital dockets with retail customers, which brings about better visibility, transparency, compliances of processes. I would also like to highlight that during the quarter, Gati started electric vehicles for first mile and last mile delivery at Delhi, Noida, Kolkata, Bangalore and Hyderabad. This has been done with a focus on ESG and also to supplement the cost reduction program.

The industry is witnessing a shift from unorganized to organized sector and we at Gati Limited are constantly working towards increasing our market share. We are devoted to seize the opportunity paved by improved demand, incentive policy and government push to the MSME and retail sector. These factors will lead us to achieve the right target customer mix.

Lastly, we remain aligned with our vision to maximize value creation for every stratum of society. With this, I would like to hand over the call to Mr. Anish Mathew, our CFO, for financial highlights for quarter 3 FY '23. Over to you, Anish.

Anish Mathew: Thank you, Phil. Good afternoon, everyone, and a very warm welcome to our Q3 FY '23 earnings call. I'll take you through the highlights of financial results for the third quarter of FY '23. I will take you through the highlights of our Express business first. For Q3 FY '23, total tonnage handled stood at 287,000 metric tons as against 269,000 metric tons in Q3 FY '22 Revenue from operations for the same period stood at INR 379 crores, depicting a growth of 8 percentage as compared to the same period last year.

Gross profit for the same period stood at INR 105 crores as against INR 90 crores for Q3 FY '22, registering a year-on-year growth of 18 percentage. EBITDA for Q3 FY '23 stood at INR 21 crores as compared to INR 16 crores for Q3 FY '22, depicting a growth of 30%. For 9 months ending December 22, GKEPL has recorded a revenue of INR 1,113 crores, up 21% year-on-year. Gross profit and EBITDA for the same period stood at INR 315 crores and INR 60 crores respectively, as against INR 247 crores and INR 32 crores. GKEPL has reported a pre-exceptional PBT of INR 12 crores for 9 months FY '23 as against a loss during 9 months FY '22.

We have witnessed improvement in EBITDA margin on a YTD basis. EBITDA margin for 9 months FY '23 stood at 5.4% as against 3.4% for the last year. The margin improvement is on account of our sustained sales acceleration and cost control efforts. For Q3 FY '23, tonnage handled by the surface Express business stood at 284,228 metric tons, thus reporting a growth of 8 percentage over Q3 FY '22.

Tonnage handled by Air Express business too reported a growth of 6% during the same period and stood at 2,443 metric tons for Q3 FY '23. On a consol basis, Gati reported 9 months FY '23 revenue of INR 1,308 crores as against INR 1,100 crores for 9 months FY '22. Reported EBITDA stood at INR 59 crores as against INR 30 crores for the previous year. Pre-exceptional PBT stood at INR 11 crores for 9 months ending December 22 as against the loss for the 9 months ended December '21.

I am pleased to state that net debt on a consolidated basis has reduced. It has come down from INR 152 crores as of March '22 to INR 73 crores as of December 2022. We remain confident on our ability to staff the growing demand with Gati's wide network and digital advancements. We have been consistently providing other key comparative financial performance indicators in our investor presentation. One can refer that for more details.

With this, I would like to open the floor for question and answers.

Moderator: We take our first question from the line of Alok Deora from Motilal Oswal.

Alok Deora: So just had a couple of questions. So first is on the demand trends, if you can indicate, although this quarter, we have done pretty good volume. How is the demand trend been especially in December and January because we are getting some mixed signals about some pockets witnessing some sort of a soft demand and others are doing pretty okay. Just some colour on that.

Pirojshaw Sarkari: So January, as you know, for the Express business has generally been a soft month. I would say the softest month in the year. Basically, a lot of the large organizations kind of those which close their books in December, restarting January, festive season getting over, et cetera. So January has been a very slow month, but February for the first few days has come back to the pre-December days or so. So we are seeing a very good first week of February and hopefully, that should continue.

Certain sectors, of course, are looking very positive, like the automotive sector, for example, looks positive. Whereas there is a little sluggishness in the FMCG and consumables segment. But having said that, about Gati in particular, we are still a small market share player. And therefore, we should be able to capture the share in this last quarter.

Alok Deora: Sure. And also, so we are done with 3 quarters out of this year and you're targeting to clock around 9% to 10% sort of EBITDA margin by end of this year. So right now if you just take the Express business, we are at nearly 5.4% for the third quarter and 9 months. So any view on the outlook? Or we still maintain the 9% number?

Pirojshaw Sarkari: So basically, the way we are looking at 9% number was more to do with normal operations. As you know, Gati has a lot of historic baggage that we are unearthing as we kind of continue our journey, my journey has been now 16, 17 months and that clean-up is simultaneously required. On a normal basis, our gross margins in the business had gone up. They are now hovering around 28%, 29%. So we will end March with what we have said, which is 30%, but there is a clean-up also simultaneously to be done.

Alok Deora: Yes. I mean, so that's -- my question was that only that -- so adjusted for the clean-up which is required, so 9% could be kind of more possible by the mid FY '24 or something? Because I think in last quarter we were pretty aligned to the 9% sort of a margin by end of this year?

Pirojshaw Sarkari: Yes. I would tend to say more in the second quarter of next year.

Alok Deora: Just last question. Sir, any price hikes you have taken during -- because last time you mentioned you would be considering some price hikes. Anything we have taken because we have seen players like Blue Dart and all taking annual price increases. Anything we have done on that side?

Pirojshaw Sarkari: Yes. So we have put out a price increase of 8%. The letters have been sent out to the customers and our sales force is out there. We tend to kind of initiate the new pricing from 1st of April.

Moderator: We take the next question from the line of Viraj Mehta from Equirus PMS.

Viraj Mehta: Sir, as you discussed in the last call itself, we were looking for a margin closer to 9% by Q4. But now there is new evidence that you are seeing in terms of clean-up. Our worry as an investor is that if in the fifth or sixth quarter of your assignment, you're still dealing with clean-up, how long can this clean-up last?

Pirojshaw Sarkari: So the point is that when I say clean-up, we are dealing with some very large customers where there is some baggage that has been carried forward and it takes time for us as new management to be able to agree with that baggage that the customer has carried forward with Gati. We are dealing with it and that is why the movement of the 9% from March of this year to say second quarter of next year. But there's a lot that has already been achieved. So I wouldn't say that this should take more than, say, we are shifting it by 1 quarter.

Viraj Mehta: Okay. Sir, my second question is regarding the sales target that you had given in terms of when you joined and even probably still 3 or 6 months back in terms of the INR 3,000 crores target. But the volume growth and the value growth that we are seeing seem significantly lower than the growth targets that we have put for ourselves. Would you like to comment on that, please?

Pirojshaw Sarkari: No, I would disagree on that. I think our growth targets are well in place. I will still continue to say that we will do INR 3,000 crores by FY '26, which is the target I had set for myself, that is infrastructure that is coming up and that will accelerate our growth.

Viraj Mehta: Sure. And sir, as far as expenses of the new 2 hubs that we have put in, in terms of both cash and noncash regarding depreciation and new employees that you would have hired, all of that has come in with P&L. Is that a fair assessment to have?

Pirojshaw Sarkari: Yes.

Viraj Mehta: So going forward, whatever is the gross margin that we'll see will come down to the PBT level for us, that is fair?

Pirojshaw Sarkari: Yes.

Moderator: The next question is from the line of Mr. Ravi Mehta from Deep Financials.

Ravi Mehta: Just one question on the margins front that when we see sequential growth in volumes and even realizations per ton, was there some one-off expense in this quarter which led to lower sequential margins because even we have done good at the gross margin level you commented?

Pirojshaw Sarkari: So, if it is not ordinary course of business expenditure, we will show it separately, it is more to do with deduction happened because of historic baggage and therefore goes down.

Ravi Mehta: And the customer mix was also same, if I see on a H1 and nine-month basis and still there was higher realization. So is it the yield benefit that you were talking in the last quarter?

Pirojshaw Sarkari: So over the last nine months, our yield has definitely increased, but it has not increased to the extent that we would have liked it to increase. In fact, any new initiative that is taken always initially kind of impacts yield with the customer, of those which we took few months ago was the e-docket. So I think we are the first ones in India to come out with the e-docket for the scale business. And when you do that, you generally tend to see nervousness amongst the customers because it's something new. And therefore, you lose a bit of yield and business. But then once everybody understands that it is for the benefit and brings about a lot of transparency in the business, business starts picking up again.

Moderator: We take the next question from the line of Dhaval Shah from Girik Capital.

Dhaval Shah: Yes. Sir, I would like to understand regarding the demand supply dynamics of fleet in the industry, given all the large logistic companies are adding trucks, at least in digital space, we understand either it's their own asset or outsourced. Plus we see overall volumes of EVs in the country also growing very well. That will also be adding on the unlisted side. So how do you see this entire freight rates and demand supply of trucks versus the corresponding demand which will come over next quarter or 2 or 1 year? How do you see that?

Pirojshaw Sarkari: So one of the major reasons for large logistics companies looking at bringing in newer trucks to the businesses because of the infrastructure getting far better. And when infrastructure gets better, you'd rather have a new, more powerful asset that is put on the road and go with the old 8-year-old or 10-year-old asset. Just one primary reason of that change, not so much because demand is increasing in the market in a big way. I think it is more about getting yourselves ready for the future demand as well as being able to cut cost because of the number of turns that you can give the asset, if it is a newer asset and had better power.

Dhaval Shah: And sir, in terms of your own competitive intensity, how do you see that shaping up currently and your outlook on that?

Pirojshaw Sarkari: So I think as our infrastructure is coming up, clearly see that our service is getting better and that is one thing that brings confidence back to our customers and brings the brand back to where it was. We are still by far second player in the market. And the gap between us and the first player is tremendously high. And therefore, for us, we concentrate on being closer to the customer and giving them better service while the market share, as you know, over the last 9 months itself has increased by about 200 to 250 basis points.

Dhaval Shah: And in the presentation, I've been noticing about where we gave the time line for starting the new hub. There is always a delay of 1 or 2 quarters since last 2, 3 presentations, I'm noticing. So this is happening because of what reasons?

Pirojshaw Sarkari: Ease of doing business in India. No, not. Well, our Bangalore hub has got delayed now because of the monsoons in Bangalore. This year, there was unprecedented rain that came in and therefore, construction work had to be halted. In Bombay, it was more to do with more on the ground local situation that arose because of us moving from 3 very old properties to a brand-new property. So each one has its nuances, but then we also do seize opportunities. So if you see my earlier presentations, for example, Guwahati was never there, but we got opportunity and we took that on. But yes, the ones where we have to build out in a big way and not get a ready-made place, these things do happen in India.

Dhaval Shah: And sir, connected with this now in the second quarter, the Mumbai hub went live in the third quarter and then we had a full quarter of Nagpur and Guwahati hubs operational for the third quarter, right? So with the three capacities, our volume growth quarter-on-quarter, like, is it as per your expectation? Or you think it's not and it could have much more? How do you think?

Pirojshaw Sarkari: See, actually, if you look at it, Bombay hasn't even completed a full month. And we actually started operations in the beginning of January, if you look at it that way. And for the other 2, it's been kind of 2 months. Now the point is we have to bring back that customer confidence that because of these new hubs now service has improved tremendously, and customers wait and watch. So it does take at least one full quarter for our customer to get convinced and then give us loads to that area.

Dhaval Shah: And sir, lastly, if you can share your strategy and share of revenue with regards to e-commerce, how it has been for the last 9 months? How do you see going forward? Any tie-ups you are doing because that is that industry is we are currently not going that well, but it's a great tailwind in the future and a big volume contributor to the Express industry. So, if you can share your thoughts on that?

Pirojshaw Sarkari: So, as I've said before also and I reiterate that Gati does not do any B2C business. But e-commerce first mile is B2B and we participate in a big way with all the 3 large players in e-commerce including Reliance. So that's where we play, but we do not play in the B2C segment.

Dhaval Shah: So when you say first mile, what will be the originating and the endpoint of the cargo for you?

Pirojshaw Sarkari: So this is from the supplier/vendors of Amazon, Flipkart and Reliance to their warehouses.

Dhaval Shah: To their warehouses.

Pirojshaw Sarkari: That's a B2B business.

Dhaval Shah: Okay. Okay. Okay. So for example -- okay, the sorting centre orwarehouse for Amazon?

Pirojshaw Sarkari: Yes. Correct.

Dhaval Shah: Okay. And in terms of profitability, how is that compared to a regular B2B business like regular Express business, what you do?

Pirojshaw Sarkari: So again, it again depends on the size of the vendor/manufacturer that we pick up from. If he is a SME customer, the profitability is better. If it's a large customer, the yield will be lower, but our cost can reduce. So that's how it works in our industry.

Dhaval Shah: And sir, at the INR 3,000 crores top line, what sort of ROCE would you be targeting?

Pirojshaw Sarkari: I will let Anish answer that question.

Anish Mathew: ROCE would be in the range of around 20%, 25%.

Dhaval Shah: 20% to 25%. Okay. And how about the debt on the books and all would look as of currently and going forward, how is that going to be?

Anish Mathew: So the net debt as of December is INR 72 crores.

Dhaval Shah: Net debt?

Anish Mathew: Net debt. So this is basically offsetting the Gati's cash and cash equivalent which was INR 154 crores as of 31st of March 2022.

Moderator: We take the next question from the line of Ash Shah from Elara Capital.

Ash Shah: So one question was that in your results in the segment assets and liabilities, there has been a drastic increase in the unallocable assets and unallocable liabilities. So could you provide the reason for the same? I mean it was not there in the previous quarter, but it just appeared in this one.

Pirojshaw Sarkari: Anish, would you like to take that?

Anish Mathew: Can I get back to you maybe after this call. I'll get back to you on this one, yes.

Ash Shah: So the second question is, can you provide any update on the fuel business? Is there any materials in that that is worthwhile sharing or something?

Anish Mathew: Fuel business, there is no action as of now. It's continuing as it is. We're just kind of awaiting the approval from the ministry. We are yet to kind of get the approval from the ministry.

Ash Shah: Okay. And is the KWE transaction over completely? Or there's any -- or when will it get over?

Pirojshaw Sarkari: Yes, please, carry on.

Anish Mathew: Yes, the KWE transaction is not yet over, but the Allcargo the shareholders kind of decided to kind of buy out KWE. The transaction will materialize in the coming quarters.

Pirojshaw Sarkari: Add to that, the agreement of price is done. It's only the paperwork which is now pending, and we believe that in the next quarter or so we should be able to consummate the deal.

Moderator: The next question is from the line of Saloni Hemnani from Molecule Ventures.

Saloni Hemnani: Just a couple of questions. First one, starting with Farukh Nagar hub. It's been a year since Farukh Nagar hub been basically launched. But the growth in terms of volume and margins and volumes has stayed flat. So the volume growth year on year has remained same and margins have stayed 5.6, 5.5. So how much impact is really coming from the new hub?

Pirojshaw Sarkari: So if you divide our business into 4 zones, that is north, south, east and west, our fastest-growing zone in the last 9 months has been Farukh Nagar, which is north zone. We have seen a little slower growth in south and west because of the infrastructure. Now with Mumbai coming in west will also grow at a faster pace. So what you see as the growth number is the total growth of Gati. But zone-wise, north has grown much higher than the rest.

Saloni Hemnani: Okay. And sir, one of the competitors recently reduced their sales growth outlook. And so it has been reduced downwards, so what kind of sales growth are we estimating for the next year to get a clarity on that?

Pirojshaw Sarkari: So I would put it this way that we kind of assume that the market will grow at 10% to 11%. And for us at Gati to be able to grab market share, we need to grow at least 1.5 to 2x the market.

Saloni Hemnani: So are we assuming 15% to 20% sales growth?

Pirojshaw Sarkari: Yes.

Saloni Hemnani: Okay. Okay. Sir, last quarter, the assets held for sale was around INR 94 crores. So what is the updated level for that?

Pirojshaw Sarkari: Sorry, I did not get the question. Can you repeat it, please?

Saloni Hemnani: Yes. The asset held for sale last quarter was INR 94 crores on the books. So what is the updated number for this quarter as on date?

Pirojshaw Sarkari: Anish, would you like to answer that, assets held for sale? Anish?

Anish Mathew: Yes, I'm sorry, I was on mute. So we have sold close to INR 29 crores from out of the non-core asset during this third quarter.

Saloni Hemnani: How much, sir?

Anish Mathew: INR 29 crores.

Saloni Hemnani: INR 29 crores. Okay.

Anish Mathew: Yes. We are left with 5 or 7 properties. And out of that one big property is there. We all kind of already identified a buyer for that property.

Moderator: We take the next question from the line of Mr. Aman Vij from Astute Investment Manager.

Aman Vij: My question is on the volume side. So if you look at last 2 quarters, on the Express side, we have grown volumes at around 9%, given a bigger base. For the 9 months, you have grown strong, but I'm talking specifically of last 2 quarters. So going ahead, do you think this is the number we should take as volume growth and plus 5%, 6% price growth, which will lead to 15%, 20% growth? Or do you think volume growth -- what do you think can be the volume growth for, say, next year?

Pirojshaw Sarkari: So this quarter-over-quarter growth is not the correct number to be taken because there was a Diwali quarter, which was the previous quarter, September, we had Diwali this year. And therefore, the growth over the quarter is lesser because that quarter had high growth. The growth has to be much higher. The volume growth has to be much higher than 9% for us to be able to achieve our revenue growth.

Aman Vij: So do you think it will be closer to 12%, 13% or it will be even higher than that 15% plus volume growth over the next 1, 2 years, which we are targeting?

Pirojshaw Sarkari: It should be in the mid-teens.

Aman Vij: Mid-teens. Okay. Sir, my second question is on the Express side, Air Express side. We have seen a lot of competition coming in even some of the customers starting their own air services and wanting to sell their logistics business like they've done globally. So have we started seeing any impact in terms of pricing or volumes? And the second sub question is, do you think this will lead to more competition in road expressway because some of the players who have been dominant in Air Express will face competition in that. And now they won't have any other option but to maybe focus on surface Express. If you can share your thoughts on these 2 things?

Pirojshaw Sarkari: So first of all, for Gati, Air Express is incidental. Our main line of business is surface Express. We like Air Express only because we get 6x yield. But we do not control that product because we don't have any dedicated aircraft running for us. The advantage that we would have is our existing surface customers when they have one-off air business, they don't want to go to another service provider. So if we give them the right service, they will come to us.

Coming back to the second part of the question of some of our competitors having their own airline. I don't know which competitor you're talking about. If you're talking about Amazon, Amazon is not a competitor to Gati in any way. Amazon is a platform. They have done whatever they have done to move their own business over there. Having said that, it in fact, creates opportunity because space gets released from other airlines and therefore, we will get space at a better price than what we used to get because of Amazon's load moving to their own aircraft.

Aman Vij Sir, I was talking about, for example, Blue Dart, who has been focused on air as of now with more competition coming in air. Will they now need to focus on surface more, which will lead to more competition in service, surface express?

Pirojshaw Sarkari: Well, I do not want to really even conjecture on this one. If you've read the newspapers, they are bringing in 2 more aircraft very soon.

Moderator: We take the next question from the line of Abhijit Mitra from Alpha Investment Managers.

Abhijit Mitra: I have three questions actually. Firstly, regarding the topline guidance of INR 3000 crore, have you included the contract logistics business of Allcargo in that now? Secondly, there are four sorting centres which have come up. There are five more sorting centres yet to come up. So if you can tell me the volumes that are being handled in those four sorting centres currently or in this quarter?

And with those five more sorting centres coming up, where will the depreciation and the interest reach finally? I think you gave a number will stay flat, but it looks unlikely given that more sorting centres are coming up. So I think proportionately, at least the depreciation interest also should go up? And lastly, yes, depending on the answer to your first question, I have a follow-up on that.

Pirojshaw Sarkari: So let me correct your understanding, first of all, these are not new centres. We already have centres in all these places. What we are doing is we are consolidating centres or making very good cross-docks, which were not available in Gati. It was more like you had a centre -- sort centres and you ran out of space. So you added one more and then you added one more and therefore, the truck has to dock at 3 different places to unload and then get loaded from 3 different places. So now what we are doing is we are consolidating those and creating a new state-of-the-art cross-dock. So it is not new.

So the loads are already there. They are already being handled at the old cross docks, but they are old. They are not efficient. So what we are doing is we are replacing them with efficient cross-docks. So -- and therefore, there will be, of course, incremental loads that we get because we better the service and therefore, customers will give us more loads for those areas as destinations as well as from those areas as origin. So that is an important point for you to understand.

As far as loads are concerned, the loads at Farukh Nagar have gone up by 25% in 1 year. I do not want to give you the load figure of the other 3 because like I said, we have not even completed 1 quarter with them. So the loads have not really shot up still, but I would expect anything between 20% to 25%, the load going up as we open up and as we mature those up.

Abhijit Mitra: Okay. And just to follow up on that, see, in that case, the depreciation shouldn't have gone up with this 4 sorting centres also coming up, right? But it did go up and it continues to move up. So there has been some incremental capital employed also as one of the previous participants mentioned in other unallocated assets and liabilities, both. You can, of course, verify on that and come back to me later. First question was because of the growth of top line, whether you are including the contract logistics business also in that or you are purely focusing on the ground Express pie?

Pirojshaw Sarkari: So whatever I gave as Gati revenue will be activities that we perform today and tomorrow in Gati.

Abhijit Mitra: Yes, yes. So in that case, the implied volumes, if I include or if I keep the yield constant, is almost 30%. So given that we're growing at 7%, 8%, where first of all, you're getting that confidence of 30% CAGR to grow sort of each quarter on a Y-o-Y basis by 30%. And when do you feel that you can see this kind of inflection because Q4 doesn't seem to be that quarter. So by when do you feel that you can...

Pirojshaw Sarkari: Let me again correct you. 9 months, we have grown by 22%.

Abhijit Mitra: Yes, that's because Q1 was a weak base or had a weak base. But if I exclude Q1...

Pirojshaw Sarkari: That's not how we look at it. We have grown 22%. We are building our infrastructure and we are confident that we will grow.

Moderator: We take the next question from the line of Mr. Bhaskar from Arthya Investments.

Bhaskar: One clarification on the margin front, you mentioned that a lot of work is in progress. And therefore, what you stated to achieve in Q4 is probably shifting it by quarter or 2 quarters. So given that probably if you achieve around 10% margins in Q2 next year, would it be safe to assume that even for the full year, we will largely be able to do 10% because once you hit that, then that run rate sort of continues.

Pirojshaw Sarkari: Yes, absolutely. Once we hit that, that run rate does continue. It only has to get better with the growth in top line.

Bhaskar: Right, right. And so you mentioned about your target of doing INR 3,000 crores by FY '26. Assuming you hit that and I'm sure that you're taking a lot of efforts to do that, what sort of margin do you think that you will be able to achieve at that scale? Because I'm assuming a lot of operating leverage and a lot of other benefits will start flowing in at that sort of a scale. So a 14%, 15% margin be possible at that scale?

Pirojshaw Sarkari: I would look at anything between 12% to 15%.

Bhaskar: 12% to 15%. Okay. Okay. Got it. And just to understand that this margin trajectory moving from 5%, 6% to 10% in the near term, which is by Q2, if you can help understand a bit in terms of what exactly will drive this whole margin up-move?

Pirojshaw Sarkari: So it's a combination of 2 things. One is definitely the gross margin has to grow to 32%, which is where the good players in the market are. And secondly, the top line has to grow to leverage the fixed costs.

Bhaskar: And the gross margin improvement largely comes from product mix in terms of more SME or pricing? What exactly if you can...

Pirojshaw Sarkari: So mainly from operational efficiency and partly from yield. Why I say operational efficiency, like I said in my speech, we have just undertaken a full-fledged RFQ on our network and we already see shoots of good pricing coming in.

Bhaskar: I mean, would your SME mix also go up over a period given that you're focusing a lot on that segment?

Pirojshaw Sarkari: The problem that I see in the last 15 months is every time I grow my SME, my key accounts also grows. And therefore, this mix is becoming a little kind of difficult. But yes, our focus definitely is to grow SME and retail.

Moderator: The next question is from the line of Dhwanil Desai from Turtle Capital Investment Ltd.

Dhwanil Desai: Sir, the first question is on volumes, barring Q1, we are growing at what 7%, 8% kind of a tonnage growth, we are around 270,000 tons to 280,000 tons. Now from here to go to that mid-teens kind of a volume growth, do we need all our hubs operational and since already 4 of them are operational, can this 7%, 8% move to 11%, 12% by the time other hubs become operational?

Pirojshaw Sarkari: Yes, absolutely. So we don't have to get all the hubs operational to grow. We will grow from the 8%, 9% to the 10%, 12%.

Dhwanil Desai: And sir, the second question is on the margin that I think you've discussed a lot on this. The only question that I have is now that this 5.4% to 9% trajectory, will it be step-by-step improvement or we'll continue around this number because of legacy issues? And then in Q2, those things will get resolved and margins will improve?

Pirojshaw Sarkari: No, it will be a step-by-step increment and you will see it.

Dhwanil Desai: Okay. And this legacy issue, can you give slightly more colour? Is it because we have to give more discount to the customer because of the legacy issue and that is what is dampening the margins?

Pirojshaw Sarkari: No. So the problem we face in Gati is that the customer says there were certain commitments given by the past management, which have not been kind of honoured. And there is nothing in the contract. So that's where the problems arise. But at the end of the day, the customer is always right, right? So we need to kind of come to a conclusion so that we can carry on and do more business with the customer.

Dhwanil Desai: Okay. So this thing will last for a couple of quarters with your estimate?

Pirojshaw Sarkari: Yes, I think at least for 1 more quarter.

Moderator: We take the next question from the line of Neelam Punjabi from Perpetuity Ventures LLP.

Neelam Punjabi: Question is on the gross margin. So if I look at the Express business, the gross margin on a sequential basis has declined by about 100 basis points from 28.8% in Q2 FY '23 to 27.8% in this quarter. So could you highlight what is the reason behind this?

Pirojshaw Sarkari: Don't call me a parrot, but you are making me repeat the same thing again and again. I have answered this 3 times now. This is because of certain deductions that we need to give to the customers for past commitments made. It is not the operational gross margin, which has reduced.

Neelam Punjabi: And secondly, could you give a time line for the fuel station divestment?

Pirojshaw Sarkari: If I were to be able to predict the government's approval process, I could have given you the time line, but I'm sorry I cannot give you a time line. We are dealing with the government for permission.

Moderator: The next question is from the line of Surbhi from BWC.

Surbhi: Last question I had was how big is the customer for us where we are facing this issue?

Pirojshaw Sarkari: We mainly face these issues with the large customers only. So it's not one customer. There are a few customers.

Surbhi: So I mean what percentage of our revenue would be coming from them, a broad ballpark number?

Pirojshaw Sarkari: Well, very difficult to answer that, but should be at 20% of our revenue.

Surbhi: And you expect this issue to get resolved by next quarter?

Pirojshaw Sarkari: Yes.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Pirojshaw Sarkari: So thank you, everyone, for attending this call. If you have any more questions, you can either contact Sanjay, who Heads our Investor Relations or our external IR partners, SGA. Thank you very much.

Anish Mathew: Thank you.

Moderator: Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.