

# Gati Ltd

Turning over a new leaf



# Long Term Recommendation

## Gati

### Turning over a new leaf

Incorporated in 1989, Gati (GTIC) has emerged as one of India's leading multi-modal express logistics players. It operates in two segments — express logistics and fuel stations, which contribute 85% and 15% to total revenue, respectively. We initiate coverage with a 'BUY' rating and a DCF-based fair value of INR234, implying an upside of 58% from its CMP (EV/EBITDA of 20.2x/14.7x on FY25E/FY26E earnings), backed by:

- A volume CAGR of 13.5% in the surface express logistics over FY23–26E, led by a greater focus on the core business, improvement in service levels, and addition of load handling capacity.
- A 449bp expansion in EBITDA margin over FY23–26E to 8.6% on operating leverage benefits, improving efficiency and cost optimisation.
- A 195.1% CAGR in free cash flow over FY23–26E to INR134cr on improving profitability, stable working capital, and asset light expansion.
- Multi-fold jump in RoCE/RoE to 23.4%/11.9% on profitability and efficient capital management.
- Greater preference for national players and a faster-than-industry growth expected for express players.

#### Transformation to Gati 2.0, an overhaul of operations and management

Declining service quality, scattered business operations, and heightened competition, led to performance declining over FY16–20, with EBITDA margin contracting to 2.1% from 7.8%. Allcargo Logistics (AGLL) acquired a majority stake in FY21 and: i) revamped GTIC's management bringing in experienced professionals; ii) divested stake in non-core operations (international cargo, logistics parks, and cold chain) and identified non-core assets to sell (fuel station, non-core land and buildings), thus freeing up capital; iii) switched to an asset-light model, iv) utilised the freed up capital to pare off debt; and v) cleaned its Balance Sheet (rectified legacy contracts and cleared contingencies). Owing to these efforts, volumes saw a sharp uptick after the lifting of COVID-related restrictions, registering a 20.4% CAGR over FY21–23. While costs surged on higher provisions (bad debts and contractual deductions) and turn around-related expenses (consultancy charges and employee cost), margin recovered to 4.1% in FY23 from 2.1% in FY20 on higher volume and efficiency. Asset turnover improved to 3.9x in FY23 from 2.2x in FY20.

#### Efficiency, service, and capacity enhancement to drive 13.6%/13.8% volume/revenue CAGR over FY23–26E

We expect revenue CAGR of 13.8% over FY23–26E to INR2,542cr, with a growth of 15.6%/20.6%/20.2% in surface express/air express/supply chain management and a 0.9% annual fall in the fuel station segment. The shift in focus to the core express business has led to improved service quality, improved load handling capacity, and lower turnaround time at its hubs. The full impact of these measures, expected to be visible from FY25E, will drive customer additions and enhance wallet share from existing customers. Over FY23–26E, we expect surface/air express volumes to grow at 13.5%/18.2% CAGR to 1.64mt/0.02mt. We expect a muted realisation on strong competition.

#### Expect 449bp expansion in EBITDA margin over FY23–26E, PAT to turn positive

We expect EBITDA to grow to INR218cr in FY26E from INR70cr in FY23 (45.9% CAGR), led by: i) operational efficiency (the newly commissioned hubs are fully automated with cross bays and higher capacity, improving turnaround and efficiency); ii) volume growth (more than 80% of indirect operating costs is fixed in nature, which will see improved absorption on higher volume); and iii) cost optimisation (we expect non-core one-off expenses such as consultancy charges and bad debts to decline with a cleanup of the Balance Sheet). We expect EBITDA margin to expand 449bp over FY23–26E to 8.6% and EBITDA/kg to clock 28.5% CAGR to INR1.3. With an asset light capacity expansion, we expect depreciation to stay rangebound. We expect lower interest cost as GTIC continues to deleverage. We expect PAT of INR98cr in FY26E as against of INR13cr in FY23.

#### Asset light growth and profitability to drive 195.1% CAGR in FCF over FY23-26E, GTIC to turn net cash positive

Working capital stands ~37 days. Its receivables average ~55 days and pertains to corporate accounts. MSME and retail clients operate on a cash and carry basis. We expect the working capital cycle to settle ~29 days in FY26E on a higher share of non-corporate revenue. With better working capital and EBITDA growth, we expect 24.2% CAGR in OCF to INR146cr in FY26E. We estimate a cumulative OCF of INR285cr over FY23–26E, of which ~80% will trickle down to FCF due to an asset-light capacity expansion. We expect FCF to grow to INR134cr in FY26E from INR5cr in FY23. As FCF will aid further deleveraging, we expect GTIC to turn net cash positive at INR316cr, with a net D/E ratio of -0.39x as of March 2026. With deleveraging, improving asset turnover, and higher profitability, we expect RoCE/RoE to expand to 23.4%/11.9% in FY26E from 2%/-2% in FY23.

#### Initiate coverage with a 'BUY' rating and potential upside of 58%

We are optimistic on GTIC's long-term growth story due to capacity expansion, improving efficiency and service levels, strong growth in profitability, a strengthening Balance Sheet, and favourable industry dynamics. We expect valuations to catch up with peers as its margin and market share improves. Muted realisation on higher competition and slower-than-expected volume growth due to a weak macro environment are the key risks to our assumptions. We have not included any synergy benefits between GTIC and AGLL's contract logistics business in our estimates. We arrive at a DCF-based fair value of INR234, implying an EV/EBITDA and P/E multiple of 14.7x and 31.1x on FY26E earnings, respectively. Recommend 'BUY'.

#### Key financials

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenue (INR cr)	1,490	1,723	1,926	2,212	2,542
Revenue growth (%)	13	16	12	15	15
EBITDA (INR cr)	34	70	116	160	218
Net profit (INR cr)	9	-13	42	65	98
P/E ratio (x)	-455.1	-104.3	45.8	29.6	19.7
EV/EBITDA ratio (x)	62.5	19.1	16.3	11.2	7.4
RoACE (%)	-0.1	2.0	14.1	18.9	24.9
RoAE (%)	1.6	-2.1	6.6	9.5	12.7

**CMP: INR149**

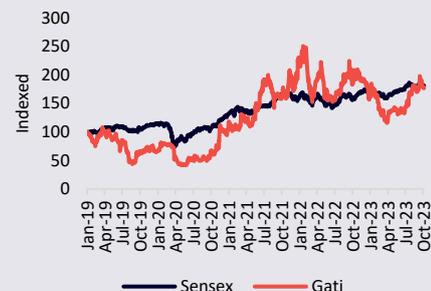
**Rating: BUY**

**Target price: INR234**

**Upside: 58%**

**Date: October 13, 2023**

Bloomberg:	GTIC:IN
52-week range (INR):	97/187
Share in issue (cr):	13.01
M-cap (INR cr):	1,933
Promoter holding (%)	53



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## Business structure

Incorporated in 1989, GTIC has emerged as one of India's leading multi-modal express logistics players. It operates in two segments — express logistics and fuel stations, which contribute 85% and 15% to total revenue, respectively. With a network of 22 transshipment hubs, nearly 700 branches, and more than 5,000 vehicles, its surface express business covers 99% of serviceable pin codes in India. Its air express business uses the belly cargo of passenger planes. With connectivity across 34 airports, it ensures delivery within 48 hours. It also operates three e-fulfilment centres, catering to e-commerce, healthcare, and the electronics industry. In the fuel station segment, it owns and operates three pumps in Bengaluru, Belgaum, and Indore in partnership with HPCL and IOCL.

**We expect 13.8% sales CAGR over FY23–26E led by:**

- A 13.5% CAGR in surface express volumes** on increasing wallet share from existing customers and higher client additions, driven by: i) addition, consolidation, and automation of transshipment hubs, which will drive increased load handling capacity and improve the turnaround time; and ii) improving service quality and customer centricity.
- A 1.8% CAGR in surface express realisation** on a better customer mix but restricted by competitive intensity.
- A 20.2% CAGR in the supply chain management** business due to growth in end-user industries and synergies with surface express.
- Flat growth in the fuel station segment.**

We expect 45.9% EBITDA CAGR over FY23–26E with the kicking in of operating leverage benefits, led by healthy volume growth and steady growth in realisation and operational efficiency. EBITDA margin is set to expand to 8.6% in FY26E from 4.1% in FY23 on improved fixed cost absorption and rationalisation of indirect operating costs. We expect PAT to grow to INR98cr in FY26E from a loss of INR13cr in FY23 aided by lower interest costs.

With a significant improvement in EBITDA and steady working capital, we expect a 24.2% CAGR in operating cash flows over FY23–26E. Given its asset light expansion plan, we expect capex to be restricted to ~21% of operating cash flows. With no long-term debt, the excess cash will be deployed to manage working capital debt and aid future expansions. We estimate an expansion in RoE/RoCE/RoIC to 11.9%/23.4%/46.9% in FY26E from (2%)/2%/2.4% in FY23 on higher asset turns, strong earnings growth, and robust cash generation.

Owing to the expansion in load handling capacity and improving service quality, we expect GTIC's market share to increase, which will drive volume, resulting in a sharp increase in profitability, strengthen the Balance Sheet, and improve cash flows. We expect surface logistics to be the fastest growing segment in the logistics industry, given the increasing time sensitivity of deliveries, improving road connectivity, and a low base. We are optimistic about GTIC's long-term growth prospects. At the CMP of INR149, the stock trades at 19.7x FY26E EPS and 7.4x FY26E EV/EBITDA.

We initiate coverage with a 'BUY' rating and a TP of INR234 per share (31.1x FY26E EPS), valuing the stock using discounted cash flows (WACC: 10.8%, terminal growth: 5%).

*Owing to an expected rise increase in wallet share from existing customers and a higher pace of client acquisitions on capacity expansion and improving service quality, we expect a surface express volume CAGR of 13.5% over FY23–26E, driving revenue growth and operating leverage*

*Expect growth in EBITDA and steady working capital to drive 24.2% CAGR in operating cash flows. Given its asset-light expansion, we expect ~80% of OCF to flow to FCF, which will be used to meet its working capital needs and aid expansion going forward*

*With no long-term debt, we expect the net D/E ratio to improve to -0.39x in FY26 from 0.05x in FY23 on healthy FCF, led by strong EBITDA growth and minimal capex needs. We expect RoACE/RoAE to expand to 24.9%/12.7% from 2%/-2.1% over FY23–26E*

INR cr	FY23	FY24E	FY25E	FY26E
Revenue	1,723	1,926	2,212	2,542
EBITDA	70	116	160	218
EBITDA margin (%)	4	6	7	9
PAT	-13	42	65	98

INR cr	FY23	FY24E	FY25E	FY26E
RoACE (%)	2.0	14.1	18.9	24.9
OCF	76	115	124	146
Net D/E ratio (x)	0.0	-0.1	-0.2	-0.4

	FY26E	Target
EV/EBITDA ratio (x)	14.7x	234
P/E ratio (x)	31.1x	234

Revenue/EBITDA CAGR of 13.8%/45.9%

+

FY26E RoACE/RoAE of 24.9%/12.7%

+

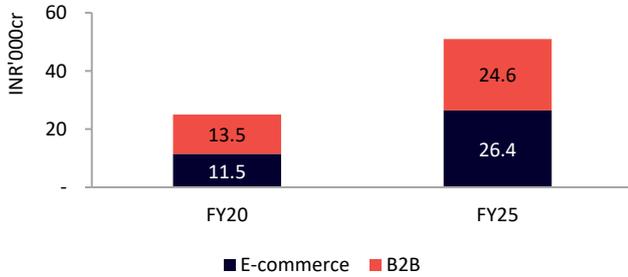
DCF-based TP of INR234 (WACC: 10.8%, terminal growth: 5%)

**Upside: 58%**

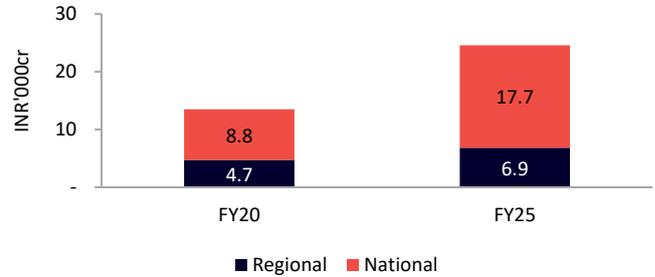
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## Focus charts

**Exhibit 1: B2B express logistics players set to clock 12.7% CAGR over FY20–25E**

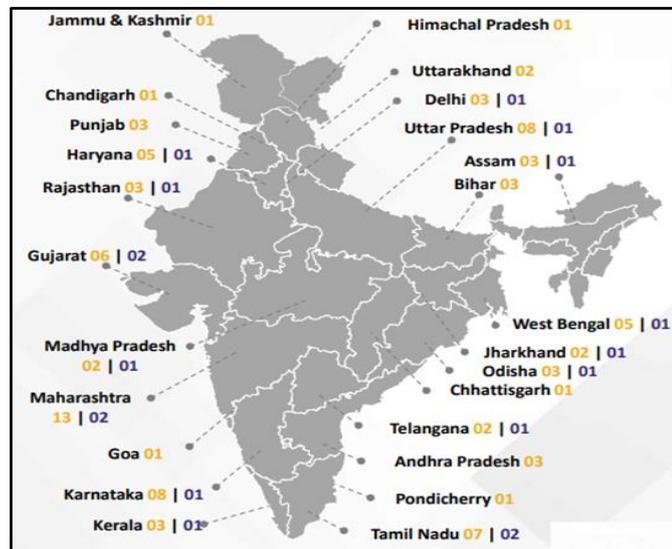


**Exhibit 2: Around 80% of growth to be contributed by pan India players**

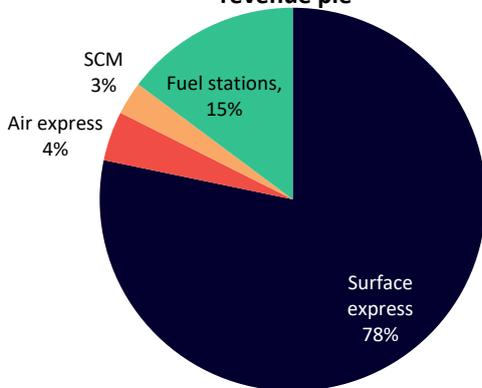


**Exhibit 3: Pan India network with a well-established infrastructure base**

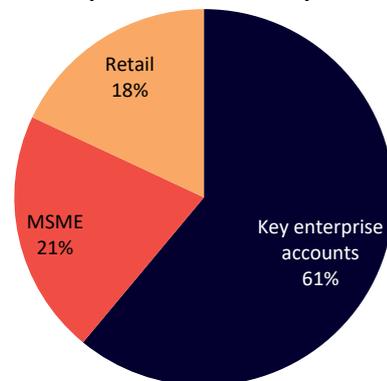
Fleet Size	Branches	Distribution centres
Over 5,000	Over 700	18
Distribution warehouses	Surface hubs	Air transit hubs
90	22	9
Air touchpoints	Delivery associates	District reach
34	Over 1,500	735 (99%)



**Exhibit 4: Express logistics dominates GTIC's revenue pie**



**Exhibit 5: Express business is a 60:40 mix between corporate and non-corporate clients**



Source: Company, Nuvama Wealth Research

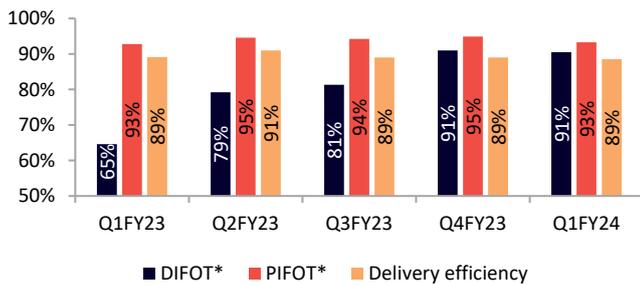
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**Exhibit 6: Enhancing physical capacity to increase load handling capacity**

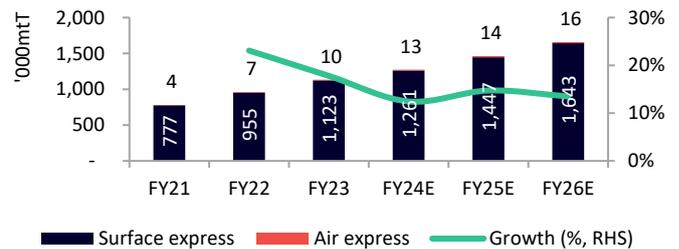
Operational				Planned		
Location	Commissioned	Area (increase)	Bays	TAT (earlier)	Location	Timeline
Farukh Nagar (NCR)	Q3FY22	1,13,000 (35%)	89	Less than three hours (over four hours)	Bengaluru	Q2FY24
Bhiwandi (MMR)	Q3FY23	1,15,000 (4%)	61	Less than three hours (over four hours)	Indore	Q3FY24
Nagpur	Q2FY23	28,800 (new)	16	n/a	Hyderabad	Q1FY25
Guwahati	Q3FY23	30,000 (new)	7	n/a	Cochin	Q2FY25

Source: Company, Nuvama Wealth Research

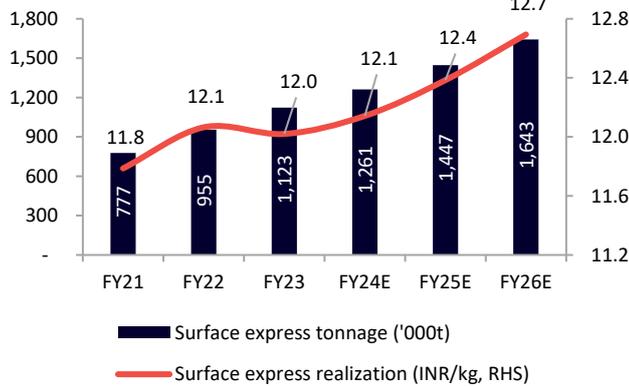
**Exhibit 7: The focus is on improving service levels to attract customers**



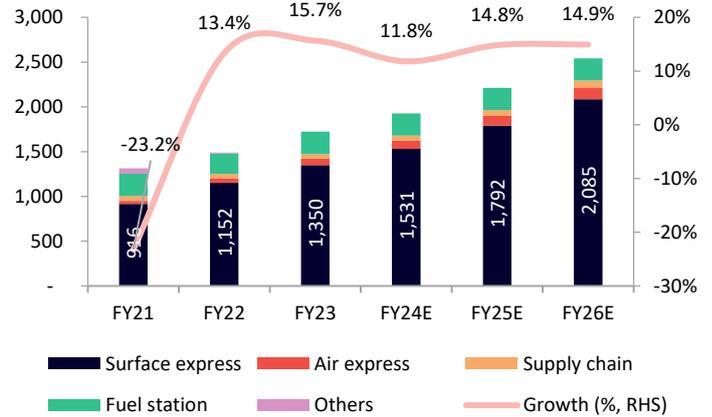
**Exhibit 8: Expect 13.5% volume CAGR over FY23–26E on higher wallet share and client acquisitions**



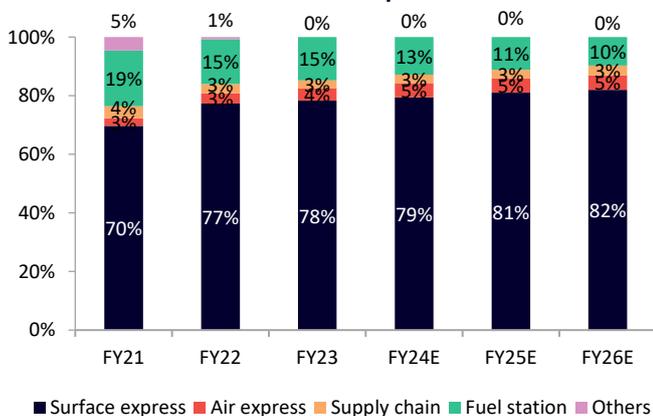
**Exhibit 9: Expect surface express volume CAGR of 13.5% to be the key revenue driver for GTIC**



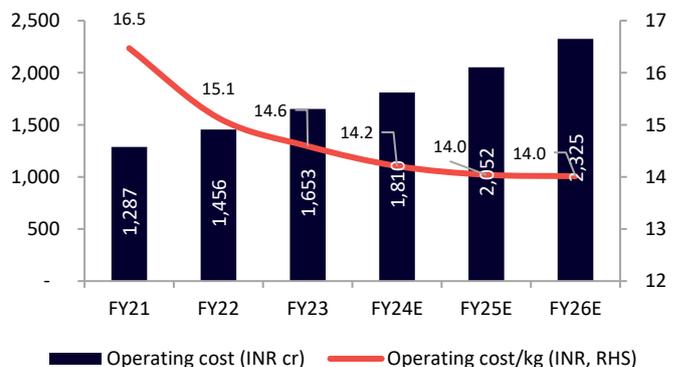
**Exhibit 10: Expect 13.8% CAGR in blended revenue (INR cr)**



**Exhibit 11: Expect the share of core express business to improve**



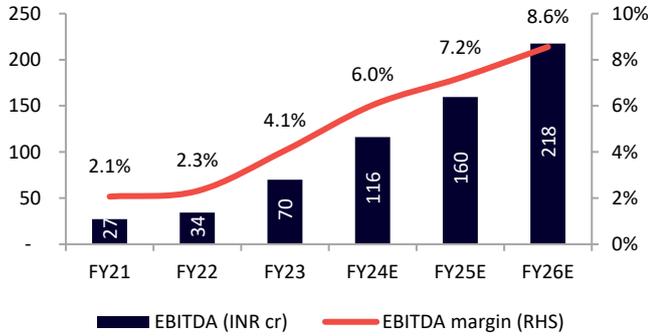
**Exhibit 12: Expect operating cost/kg to decline on improving volume, mix, efficiency, and cost optimisation**



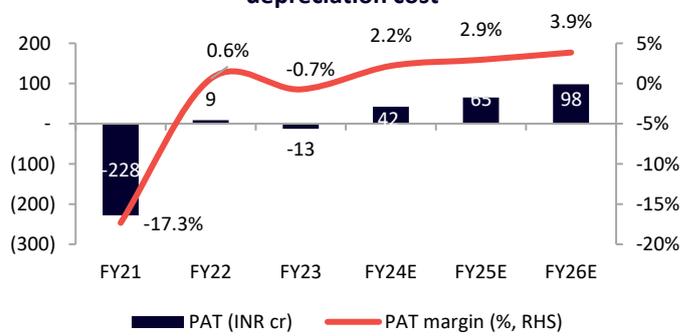
\* DIFOT – Delivery in full and on time, PIFOT – Pickup in full and on time; Source: Company, Nuvama Wealth Research

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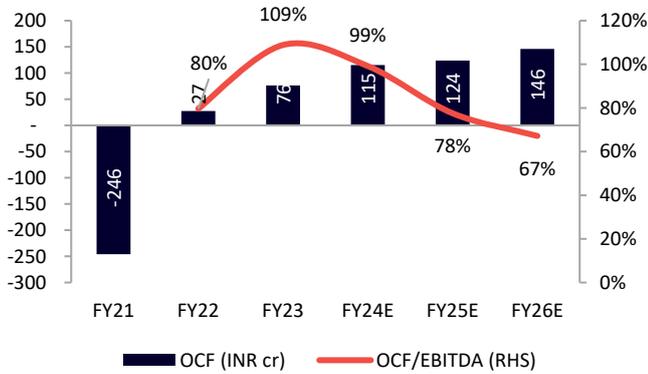
**Exhibit 13: Expect 45.9% EBITDA CAGR over FY23–26E**



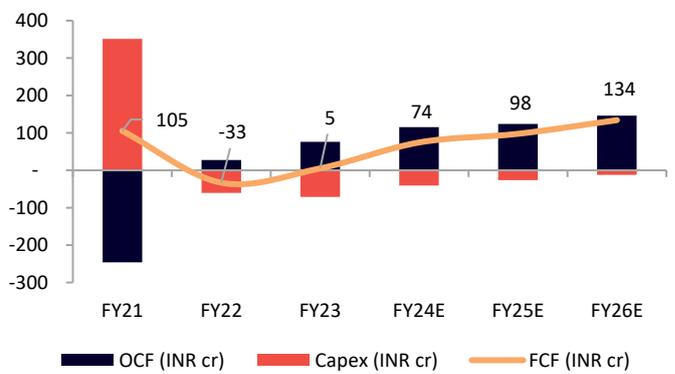
**Exhibit 14: Expect a multi-fold jump in PAT on growth in EBITDA and declining interest and depreciation cost**



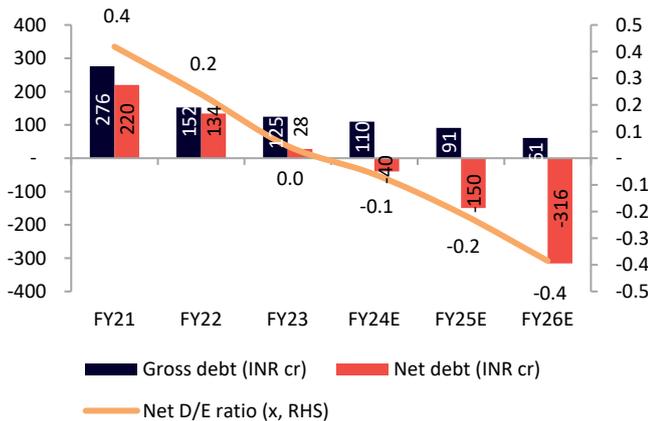
**Exhibit 15: Strong EBITDA and working capital management to drive OCF**



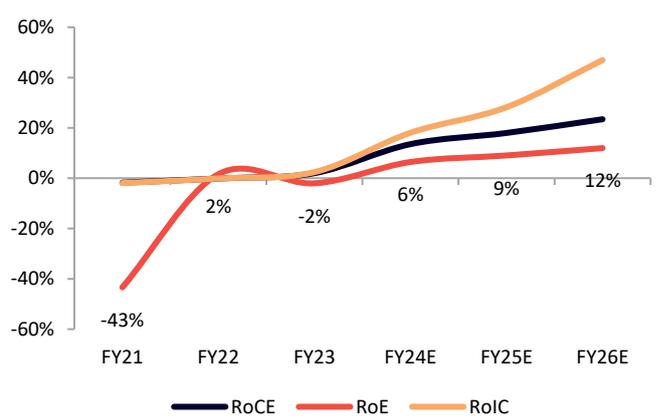
**Exhibit 16: Strong OCF and asset light expansion to drive FCF**



**Exhibit 17: Excess cash to be utilised for further deleveraging**



**Exhibit 18: Expect a multi-fold jump in return ratios on improving profit and FCF**



\*FY21 net debt/EBITDA is NM as there was an operating loss  
Source: Company, Nuvama Wealth Research

## Turning over a new leaf

### Valuation

We initiate coverage on GTIC with a 'BUY' rating and a DCF-based fair value of INR234, implying an EV/EBITDA and P/E multiple of 14.7x and 31.1x, respectively, on FY26E consolidated earnings. We expect a non-linear improvement in GTIC's free cash flow driven by: i) a 13.6% CAGR in express volumes over FY23–26E, backed by improving quality standards and continuous increase in hub capacity to handle additional loads; ii) expansion in EBITDA margin to 8.6% in FY26E from 4.1% in FY23 on operating leverage benefits, cost optimisation, and operational efficiency; iii) stable working capital on a healthy client mix and fixed payment terms; and iv) minimal capex requirement on an asset-light expansion strategy.

We have built in a terminal growth of 5% as we expect a steady rise in GTIC's market share in the long term, given the shift in preference towards organised and pan India players post-implementation of GST and the quicker growth in express logistics vis-à-vis the overall surface logistics industry. Express logistics is growing at 1.5x the broader logistics segment (which grows in line with GDP). We expect this to continue given the smaller base, rising share of e-commerce, and just-in-time inventory management.

#### Exhibit 19: DCF-based fair value of INR234/share

DCF valuation	
<u>Key assumptions</u>	
WACC	10.8%
- Cost of equity	11.2%
- Cost of debt (post-tax)	7.5%
Terminal growth rate	5.0%
<u>Implied fair value</u>	
PV of FCFE (INR cr)	914
PV of terminal value (INR cr)	2,227
Less: Minority interest (INR cr)	92
<b>Implied m-cap (INR cr) (A)</b>	<b>3,049</b>
Number of shares (cr) (B)	13
<b>Implied fair value (INR) (A/B)</b>	<b>234</b>
Current share price (INR)	149
<b>Upside</b>	<b>58%</b>

#### Implied valuation multiple at TP

Particulars (x)	FY24E	FY25E	FY26E
P/E ratio	72.2	46.8	31.1
EV/EBITDA ratio	28.0	20.2	14.7

Source: Company, Nuvama Wealth Research



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### Exhibit 20: DCF-based valuation

Particulars (INR cr)	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
Profit after tax	9	-13	42	65	98	114	134	156	185	218	255
[+] Depreciation	35	59	36	41	41	43	44	45	46	47	48
[-] Changes in capex	1	60	41	26	12	13	13	14	15	16	16
[-] Changes in working capital	16	-23	-37	-23	-18	-18	-10	-9	-8	-7	-7
[+/-] Changes in borrowings	-124	-28	-15	-19	-30	27	11	13	13	14	16
<b>FCFE</b>	<b>-97</b>	<b>-18</b>	<b>60</b>	<b>84</b>	<b>115</b>	<b>189</b>	<b>185</b>	<b>208</b>	<b>237</b>	<b>271</b>	<b>310</b>
<b>Terminal value (g = 5%)</b>											<b>5,610</b>
Discount rate (WACC = 10.8%)	-	-	0.90	0.81	0.73	0.66	0.60	0.54	0.49	0.44	0.40
PV of FCFE (A)	-	-	54	69	84	125	111	113	115	119	123
PV of terminal value (B)											<b>2,227</b>
Discounted cash flow (A+B)											<b>3,141</b>
[-] Minority interest											92
<b>Adjusted DCF (C)</b>											<b>3,049</b>
Number of shares (D)											13
<b>DCF/share (C/D)</b>											<b>234</b>

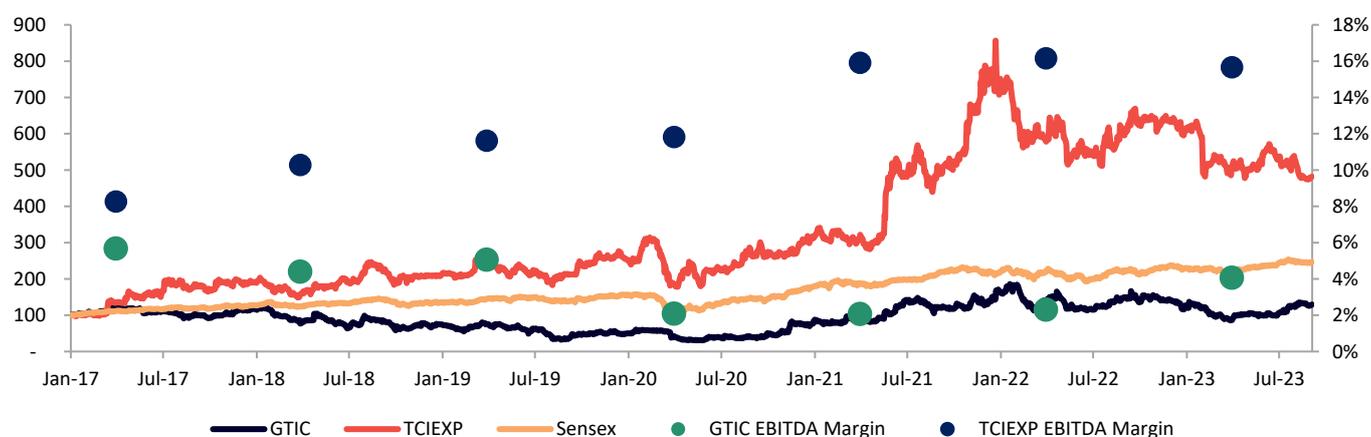
Source: Company, Nuvama Wealth Research

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## GTIC's valuation vis-à-vis peers

The performance of stocks of express logistics players is highly sensitive to EBITDA margin as is evident from the gap in the historical stock performance between GTIC and TCIEXP. With a similar range of annual volume as well as average realisation, TCI Express (TCIEXP) generates a margin of 16% as against 4% for GTIC owing to operating efficiency and an asset-light model. Over FY17–22, TCIEXP saw a significant uptrend in margin to 16% from 8% on increasing volume and improving cost rationalisation, whereas GTIC saw a decline to 2% from 6%. As a result, TCIEXP outperformed GTIC by 314%. In FY23, TCIEXP saw margin stagnate owing to higher operating costs (driven by rising fuel prices), whereas GTIC saw a significant improvement led by a greater focus on its core business, higher volumes, operational efficiency, and optimisation of indirect operating costs. TCIEXP's margin remained at 16% in FY23 while GTIC's margin improved by 176bp to 4%. GTIC has outperformed TCIEXP by 8% since the start of FY23.

Exhibit 21: Performance of stocks vis-a-vis EBITDA margin



Source: Company, BSE, Nuvama Wealth Research

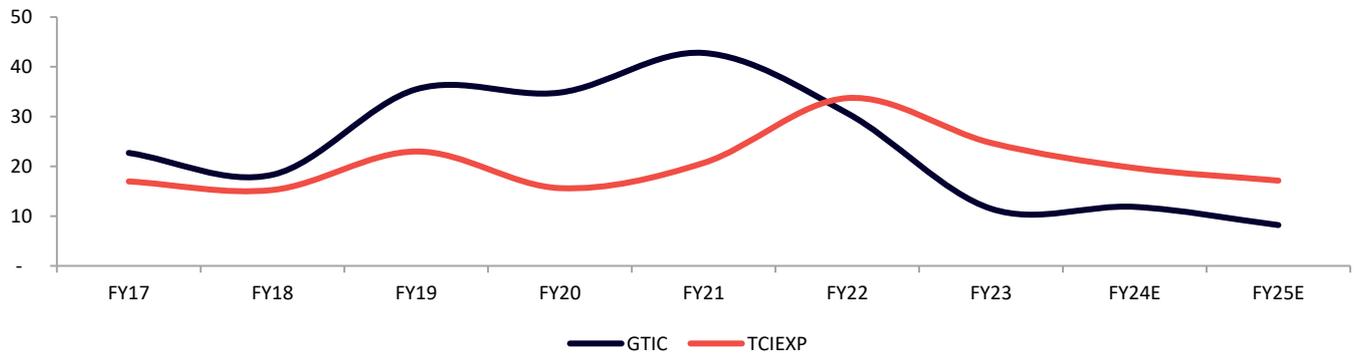
Owing to GTIC's efforts to turn around, which includes a focus on the core express business, divestment of non-core assets, improvement in service quality, enhancement of hub capacities, and consolidation of hubs in key locations, we expect greater operational efficiencies, which will drive margin going forward. In FY25E, we expect margin to touch 7.2%, a sharp improvement of 315bp over FY23. We expect TCIEXP's margin to stay relatively muted and settle at 17% (Bloomberg consensus estimate) in FY25E. Applying the historical analogy, we expect GTIC to continue outperforming TCIEXP over FY23–25E.

Exhibit 22:

Particulars (INR cr)	GTIC (express division)				TCIEXP			
	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
Volume (mt)	9,61,880	11,33,034	12,73,997	14,61,691	8,60,000	9,93,000	n/a	n/a
Revenue	1,251	1,470	1,680	1,965	1,081	1,241	1,416	1,627
Revenue/kg	13.01	12.97	13.18	13.44	12.57	12.50	n/a	n/a
Gross profit	927	1,060	1,225	1,444	348	391	451	523
Gross profit/kg	9.64	9.35	9.62	9.88	4.05	3.94	n/a	n/a
Gross margin	74.1%	72.1%	72.9%	73.5%	32.2%	31.5%	31.8%	32.1%
EBITDA	29	63	109	152	175	194	231	271
EBITDA/kg	0.30	0.56	0.86	1.04	2.03	1.96	n/a	n/a
EBITDA margin	2.3%	4.3%	6.5%	7.7%	16.2%	15.7%	16.3%	16.6%
PAT	9	-13	42	65	129	139	164	195
PAT margin	0.7%	-0.9%	2.5%	3.3%	11.9%	11.2%	11.6%	12.0%
RoE	1.6%	-2.0%	6.4%	9.0%	21.6%	23.3%	25.0%	24.6%
Share price (INR)	164	101	149	149	1,704	1,493	1,403	1,403
Market capitalisation	2,015	1,310	1,933	1,933	6,559	5,721	5,380	5,380
Net debt	134	28	-40	-150	-17	-39	-49	-104
EV	2,149	1,338	1,893	1,783	6,542	5,682	5,330	5,276
EV/EBITDA ratio (x)	74.9	21.1	17.4	11.7	37.4	29.2	23.1	19.5
P/E ratio (x)	227.2	-104.5	45.8	29.6	50.8	41.2	32.8	27.6

Source: Bloomberg, Company, Nuvama Wealth Research

Exhibit 23: One-year forward EV/EBITDA ratio (x)



Source: BSE, Company, Nuvama Wealth Research

- i) FY17–18: GTIC and TCIEXP traded at similar valuations in FY17 and FY18, with GTIC trading marginally higher as TCIEXP was yet to make a mark in the market.
- ii) FY18–21: Post FY18, GTIC saw a sharp rise in its EV/EBITDA multiple as EBITDA declined due to a loss in market share, inefficient management, and promoter stake sale. However, there was no de-rating as consensus was hopeful about a positive turnaround after the takeover by AGLL and a swift recovery after the lifting of COVID-related restrictions, which is now materialising, leading to a fall in its FY23 multiple. TCIEXP saw its multiple decline as it started delivering healthy EBITDA margin owing to its asset-light model and market share gains, leading to a re-rating post FY21.
- iii) FY22–25: Driven by an improved financial performance, TCIEXP saw a re-rating in FY22. However, with margin expected to stagnate, we expect a limited improvement in valuation going forward. At the consensus TP of INR1,745, the stock is expected to trade at 21.4x FY25E one-year forward EV/EBITDA (FY23 one-year forward EV/EBITDA multiple of 24.7x). We expect GTIC to re-rating as the new management proves its mettle, which is expected to translate into volume growth and improved profitability ahead. Our TP values GTIC at a one-year forward FY25E EV/EBITDA multiple of 13.3x (FY23 one-year forward EV/EBITDA multiple of 11.5x).

Do note that we are not comparing the P/E multiples of the two companies due to a significant difference in their historical capital structure.

## Turning over a new leaf

### Sensitivity analysis

Our sensitivity analysis showcases the impact of volatility on volume growth as well as average realisation of the surface express business on the resultant TP. Our base projection considers a volume/realisation CAGR of 13.5%/1.8% over FY23–26E. We are considering a +/- two/one percentage point deviation in volume growth/average realisation. We measured the sensitivity of TP to our discount and terminal growth rate assumptions. We are considering a +/- one percentage point deviation in the discount as well as the terminal growth rate.

		Surface express volume CAGR				
		9.5%	11.5%	13.5%	15.5%	17.5%
Surface express realisation CAGR	2.8%	266	275	285	295	306
	2.3%	243	251	260	268	277
	1.8%	220	227	234	242	250
	1.3%	198	203	209	216	222
	0.8%	176	180	185	189	194

		WACC				
		10.2%	10.7%	10.8%	11.7%	12.2%
Terminal growth	6.0%	353	308	272	243	219
	5.5%	318	281	251	227	206
	5.0%	291	260	234	213	194
	4.5%	269	242	220	201	185
	4.0%	251	228	208	191	176

	Volume CAGR	Realisation CAGR	FY26E EBITDA (INR cr)	FY26E EBITDA margin (%)	FY26E PAT (INR cr)	EPS (INR)	TP (INR)	Upside
Base case	13.5%	1.8%	217.5	8.6%	98.0	7.5	234	57.7%
Best case	17.5%	2.8%	297.1	10.4%	139.3	10.7	306	105.8%
Worst case	9.5%	0.8%	152.6	6.7%	64.3	4.9	176	18.2%

	WACC	Terminal growth	TP (INR)	Upside (%)
Base case	10.8%	4.0%	234	57.5%
Best case	9.8%	6.0%	353	137.4%
Worst case	11.8%	4.0%	176	18.5%

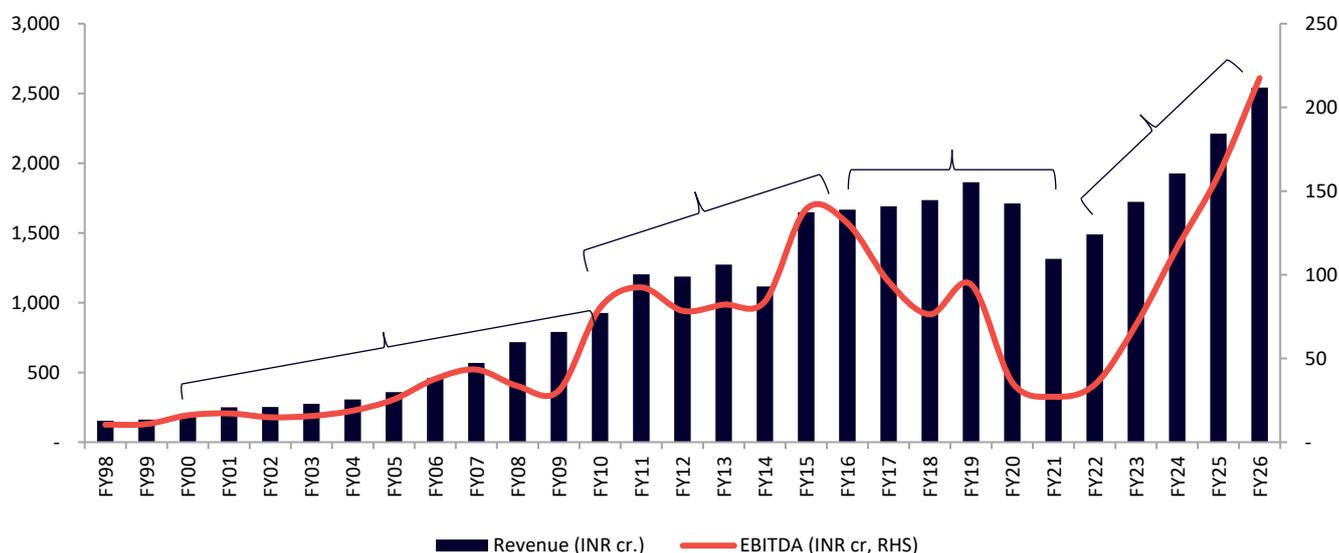
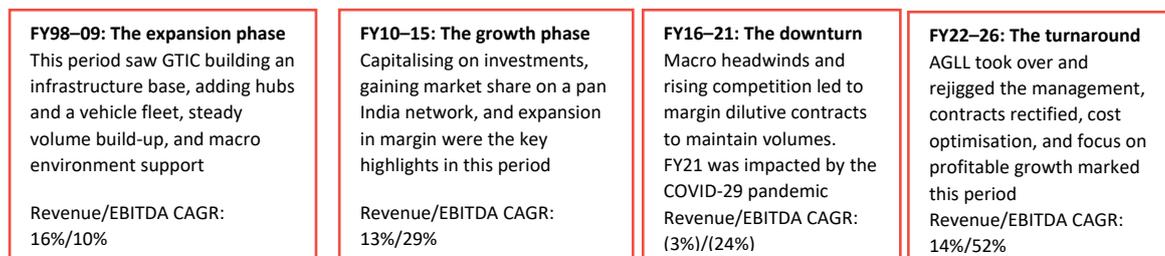
Source: Company, Nuvama Wealth Research

Turning over a new leaf

## Investment rationale

### I. Journey of transformation to Gati 2.0

Exhibit 24: Cycles and phases



Source: Company, Nuvama Wealth Research

**The expansion phase (FY98–09) — revenue/EBITDA CAGR: 16%/10%:** GTIC was incorporated in FY89 with the vision of becoming one of the leaders in the specialised multi-modal logistics industry. In 1997, it introduced the concept of third-party logistics (3PL) where it offered logistics and supply chain management solutions to clients. Over the next few years, it tied up with Indian Railways for high-speed deliveries between Mumbai and Kolkata and established a presence in countries like the US, Hong Kong, and Singapore for cargo and document movement. In FY05, it forayed into express logistics with the opening of six state-of-the-art express distribution centres in Kolkata, Jaipur, Puducherry, Gurugram, Ludhiana, and Indore. It tied up with Air India and Indian Airlines for time-sensitive air deliveries and acquired a stake in Kausar India, which was engaged in cold chain logistics. It expanded its domestic reach by setting up additional express distribution centres. It launched several export-oriented products and set up entities in China, Mauritius, and a few other European nations to enhance its global presence. To streamline and manage this fast-paced expansion, the management invested in an enterprise management system 'gati@web' in FY04 and set up a dedicated data centre in FY07. These initiatives and strategies, coupled with the opening up of India to global trade, provided a significant impetus to GTIC's revenue. From INR154cr in FY98, revenue touched INR790cr in FY09, a CAGR of 16%. EBITDA growth was relatively modest as it spent heavily on expanding and creating its brand presence. EBITDA grew to INR31cr in FY09 from INR10cr in FY98, a CAGR of 10%. Average EBITDA margin was 6.1% over FY98–09.

## Turning over a new leaf

**The growth phase (FY10–15) — revenue/EBITDA CAGR: 13%/29%:** As of March 2010, GTIC had 436 branches and 1,381 vehicles and catered to ~20,000 locations. With capacities and network infrastructure in place and a global economic slowdown in play, the management’s focus shifted to utilisation from expansion. Higher emphasis was placed on churning existing infrastructure and rationalising costs. To strengthen its leadership position in India and expand its global footprint, it signed a strategic joint venture with Japan’s Kintetsu World Express (KWE) in FY13, which had 308 offices in 194 cities in 32 countries. Owing to these efforts, revenue and margin saw a visible improvement. From INR790cr in FY09, revenue grew to INR1,648cr in FY15, a CAGR of 13%. On better cost management and improved fixed cost absorption, average EBITDA margin expanded to 7.2% over FY09–15 from 6.1% during FY98–09. EBITDA grew to INR139cr in FY15 from INR31cr in FY09, a CAGR of 29%.

**The downturn (FY16–21) — revenue/EBITDA CAGR: (3%)/(24%):** Owing to a: i) slowdown in e-commerce, ii) pricing pressures on heightened competition, and iii) lingering effects of demonetisation, GTIC saw a muted performance in FY16 and FY17. Revenue stagnated at INR1,650–1,700cr while margin contracted to 5.7% in FY17 from 8.4% in FY15 on price competition and rising fixed costs. To attract volumes and arrest the loss of market share, it relied heavily on large corporates. While these corporates brought in volume, GTIC lost its pricing power, leading to adverse contractual terms. Though volumes grew, revenue remained rangebound, growing to INR1,712cr in FY20 (the last two weeks of the fiscal were impacted by the COVID-19 pandemic) from INR1,691cr in FY17. EBITDA declined sharply to INR36cr in FY20 from INR96cr in FY17. Margin contracted to 2.1% in FY20. The situation was further aggravated by COVID related headwinds, leading to a 23%/24% YoY drop in revenue/EBITDA in FY21. During this period, the promoters began liquidating their holding, which fell to a mere 9% as of March 2021 from 24% as of March 2017. A part of this stake was acquired by AGLL while the remaining was sold to retail investors.

**The turnaround (FY21–26) — revenue/EBITDA CAGR: 14%/52%:** FY21–23 saw a number of factors come into play: i) acquisition of a majority stake by AGLL, ii) change in management, iii) organisation restructuring, iv) repairing and strengthening of the Balance Sheet, and iv) economic tailwinds from the lifting of COVID-related restrictions, which helped GTIC recover from the slump and bounce back from FY23. The table below clearly articulates the impact of the turnaround on the company’s operational and profitability metrics.

### Exhibit 25: Impact of the turnaround

Strategy/plan	Impacted metrics	FY20	FY21	FY22	FY23
Focus on the core business and on profitable growth and improve management efficiency	EBITDA margin	2%	2%	2%	4%
Divest non-core businesses and assets and shift to an asset-light model	Gross block (INR cr)	786	380	381	441
Shift to an asset-light model and increase utilisation of available infrastructure	Fixed asset turnover (x)	2.2	3.5	3.9	3.9
Use proceeds from the share issue to AGLL and divest and sell non-core assets to deleverage the business	Long term borrowings (INR cr)	97	26	9	0
Use proceeds from the share issue to AGLL and divest and sell non-core assets to deleverage the business	Net D/E ratio (x)	0.5	0.4	0.2	0
Shift to an asset-light model and add vehicles and structures on lease	Lease liability (INR cr)	79	72	172	196

Source: Company, Nuvama Wealth Research

### Events behind the turnaround

#### i) AGLL acquires majority stake

GTIC’s presence in express services and possible synergies and cross-selling opportunities attracted AGLL to invest in the company. The willingness of the erstwhile promoters to sell and clear off their pledged stake gave AGLL an opportunity to enter at a reasonable price. It signed a definitive agreement for takeover in December 2019 and gradually picked up the stake from the open market as well as the promoters over FY20–22. As of June, AGLL held a 50.2% stake in GTIC.

In FY23, AGLL acquired KWE’s entire stake (30%) in its JV with GTIC — Gati-Kintetsu Express Pvt (Gati-KWE), with GTIC holding the rest.

Turning over a new leaf

## The timeline

FY20	FY21	FY22	FY23
<ul style="list-style-type: none"> <li>• <b>Preferential issue (December 2019)</b> No. of shares: 13.3mn Price: INR75/share Issue size: INR100cr Total shareholding: 10.2%</li> <li>• <b>Additional SPA (December 2019)</b> No. of shares: 10.3mn Price: INR75/share Issue size: INR78cr Total shareholding: 18.2%</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Open offer</b> Offer: 31.7mn Price: INR75/share Size: INR238cr Total shareholding: 46.9%</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Preferential issue (June 2021)</b> No. of shares: 1mn Price: INR97.75/share Size: INR10cr Total shareholding: 47.3%</li> <li>• <b>Warrant issue (June 2021)</b> No. of warrants: 7.2mn Exercise price: INR97.75 Size: INR70cr Due: November 2022 Payable: 25% Total shareholding: 47.3%</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Exercise of warrants (November 2022)</b> No. of warrants: 7.2mn Size: INR70cr Total shareholding: 50.2%</li> </ul>

Source: Company, BSE, Nuvama Wealth Research

### ii) Management overhaul

To professionalise operations, AGLL undertook a major rejig of the management post-acquisition of a sizeable stake in GTIC. It appointed its Chairman and MD, Mr Shashi Kiran Shetty, as Chairman and MD of GTIC in July 2020. In H2FY21, it inducted AGLL's joint MD Mr Adarsh Hegde and CIO Mr Jatin Chokshi on the board as independent directors. The board boasts of a diverse mix of individuals with a rich experience in their respective fields.

Board of directors	In office since	Position	Experience
Mr Shashi Kiran Shetty	July 2020	Chairman	The Chairman of ECU Worldwide and AGLL, he spearheaded the acquisition of GTIC in FY21. He has more than 27 years of experience and built one of the largest integrated logistics companies in India
Mr Pirojshaw Sarkari	June 2023	Non-executive non-independent director	A CA with more than 20 years of experience in leadership positions, he helped UPS set up its India business and acted as its MD till 2010, following which he joined Mahindra Logistics as MD & CEO
Mr Dinesh Kumar Lal	July 2020	Non-executive independent director	An industry veteran with over 40 years of experience in handling various executive and leadership positions at shipping and logistics companies such as A.P. Moller-Maersk, Gateway Terminals India, Gujarat Pipavav Port, JNPT, and MPT
Mr Hetal Madhukant Gandhi	June 2023	Non-executive independent director	He is a private equity investor with more than 20 years of experience in investing and corporate advisory (on strategy, organisation building, and scale up)
Mr Kaiwan Kalyaniwala	February 2020	Non-executive non-independent director	For over 34 years, he has been a practising solicitor and advocate at the High Court of Bombay and senior partner at Maneksha & Sethna. He is on the board of several PSUs
Mr Nilesh Vikamsey	February 2021	Non-executive independent director	He is the founder and senior partner at Khimji Kunverji & Co. He is on the board of several large corporates such as 360 One WAM, PNB Housing Finance, Thomas Cook, and Navneet Education
Ms Vinita Dang Mohoni	June 2023	Non-executive independent director	An MBA from IIM, she has 30 years of experience in marketing, advisory, and strategic consulting
Mr Ravi Jakhar	June 2023	Non-executive non-independent director	With an experience of more than 17 years in various leadership/CXO positions, he leads the overall strategy and investor relation function for the Allcargo group. He holds a B.Tech degree from IIT (BHU) Varanasi and has attended a course on entrepreneurship at the Harvard Business School

Source: Company, Nuvama Wealth Research

## Turning over a new leaf

The management team also saw a reshuffle. Mr Pirojshaw Sarkari, who handled leadership positions at UPS and Mahindra Logistics, was appointed as CEO in August 2021. It also hired Mr Anish Matthew, who has more than 19 years of experience, as CFO. Other leadership positions have also been filled by highly accomplished professionals. The management's professional approach has been key to the meticulous transformation under Gati 2.0.

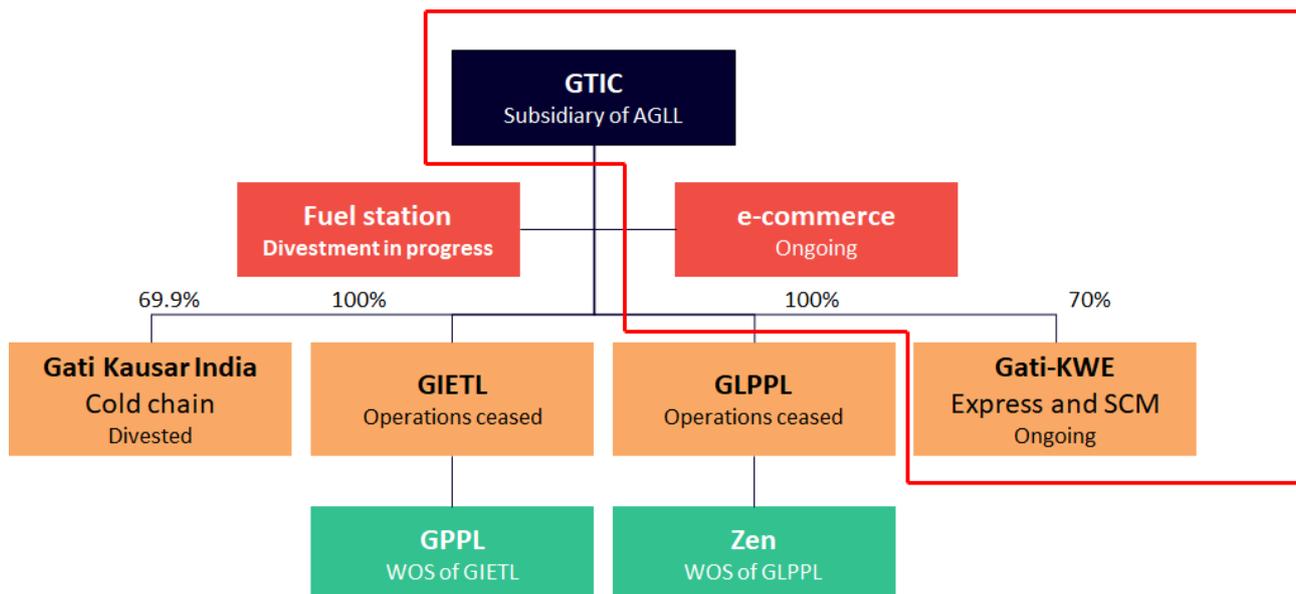
Name	Designation	Appointed since	Experience
Mr Pirojshaw Sarkari	CEO	August 2021	A CA with more than 20 years of experience in leadership positions, he helped UPS set up its India business and acted as its MD till 2010, following which he joined Mahindra Logistics as MD & CEO
Mr Anish Matthew	CFO	February 2022	Mr Matthew is a strategic leader with over 19 years of experience in a leadership and advisory role across financial and business initiatives, organisation transformation, and cost reduction
Mr Mehernosh Mehta	Chief HR Officer	February 2022	Mr Mehta has a diversified experience of more than 19 years across consumer, logistics, pharmaceuticals, and engineering sectors with top brands like Asian Paints, Sanofi India, Tata Group, Mahindra Logistics, and Welspun Corp
Mr G. S. Ravi Kumar	Chief Information Officer	November 2002	An IT expert with over 20 years of experience in building and scaling platforms, he has been credited with developing and implementing a customised ERP solution at GTIC
Mr Shrikant Nikam	VP – Operations	November 2022	Mr Nikam has a rich and diversified experience of more than 25 years in SCM, logistics, IT, and industrial engineering. In the past, he headed diversified business in Mahindra Logistics and UPS Jetair Express Pvt
Mr Rajesh Gowrinath	Senior VP – Sales	August 2023	Mr Gowrinath has over 20 years of experience in sales, turning around businesses, and creating highly productive teams. In the past, he headed the e-commerce division for Blue Dart Express

Source: Company, Nuvama Wealth Research

### iii) Restructuring the organisation

One of the first targets of Gati 2.0 was to refocus on its core business of express logistics and e-commerce and regain lost market share. In line with the same, the management: i) rejigged and streamlined its organisation structure, ii) divested non-core businesses, and iii) repaired and strengthened the Balance Sheet.

### Exhibit 26: Organisation restructuring and divestment of non-core businesses



\*GEITL: Gati Import Export Trading, GLPPL: Gati Logistics Parks Pvt, Zen: Zen Cargo Movers Pvt, GPLL: Gati Projects Pvt, WOS: wholly owned subsidiary  
Source: Company, Nuvama Wealth Research



## Turning over a new leaf

GTIC's stake in Gati Kausar India was taken over by minority shareholder — Mandala Capital — for an undisclosed amount. Other businesses (logistics parks, international trade, and international cargo) were suspended. The board approved the divestment of the fuel station business. However, it is yet to receive requisite approvals from the operators of these stations. Assets pertaining to fuel stations have been recognised as held for sale. B2B express, which includes the surface express, air express, and supply chain management solutions, remains the management's key focus.

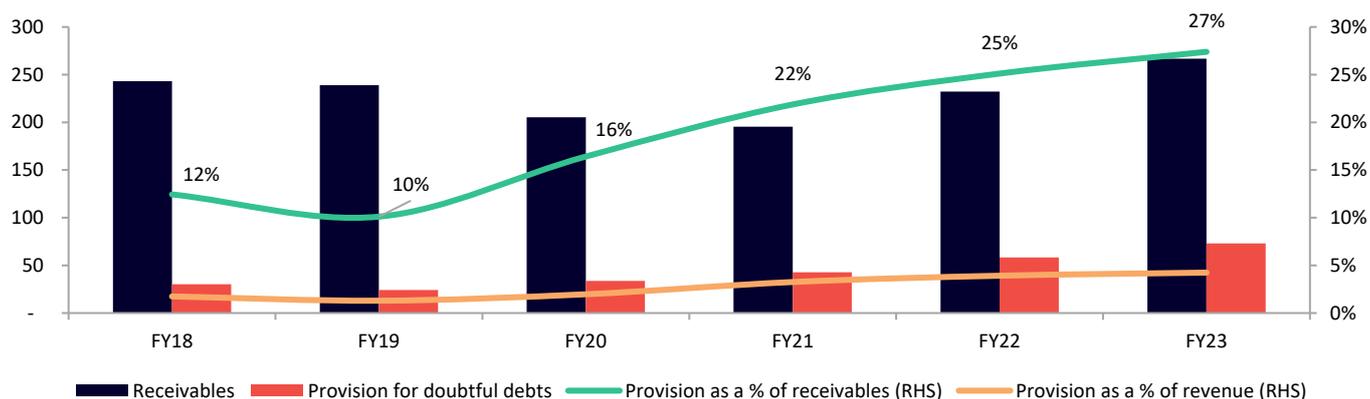
### iv) Repairing the Balance Sheet

The next transformation focussed on repairing and strengthening the Balance Sheet. Under this, the management: a) recognised and provided for non-performing assets, b) turned asset light, and c) deployed funds generated from divestment and asset liquidation towards deleveraging.

#### a) Recognition of non-performing assets

In the downturn, GTIC relied heavily on enterprise accounts to generate volume. However, these were at adverse terms, impacting profitability over the contract term. Post rejig, the management gradually identified such contracts, which constituted ~25% of revenue in FY22. It revised contractual terms and terminated contracts where a revision was not possible. These revisions and terminations impacted receivables, for which GTIC recognised expected credit losses. This resulted in a significant rise in provisions for credit losses. With many contracts rectified, a significant portion of doubtful receivables has been provided for. We expect provisions to decline from FY24E.

Exhibit 27: Provision for doubtful debts (INR cr)



Source: Company, Nuvama Wealth Research

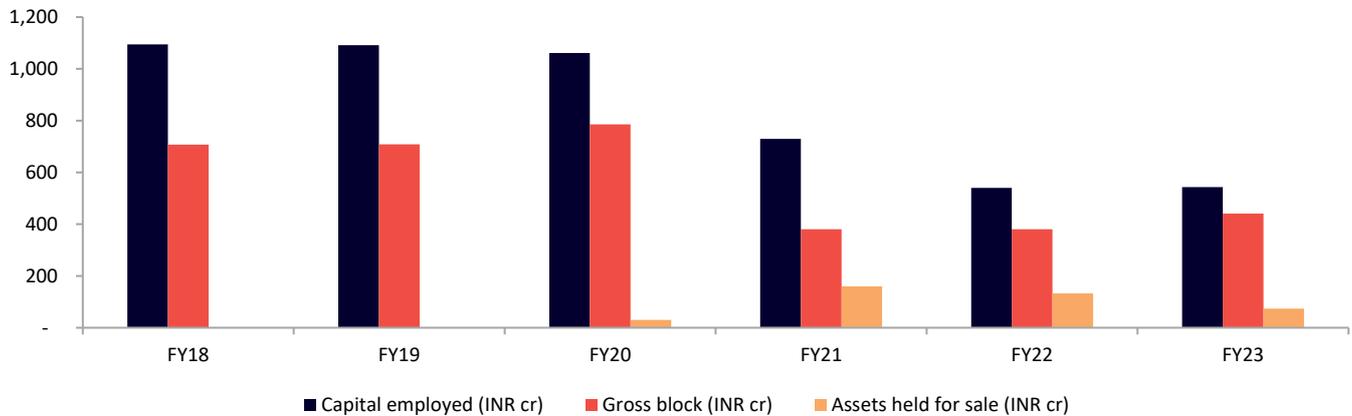
#### b) Liquidation of non-core assets and switching to an asset-light model

To focus on its core business of express logistics and e-commerce, GTIC divested stake in non-core businesses of cold chain and approved the sale of its fuel station business. To strengthen its Balance Sheet, improve operational efficiency, rationalise fixed costs, and free up capital, it disposed its 242 owned vehicles and identified multiple non-core assets for disposal. These non-core assets have been identified as 'assets held for sale' and are being gradually realised since FY21. The impact of these steps is visible in the sharp decline in gross block and capital employed over FY20–23.

Divestment of Gati Kausar India	Sale of vehicles and non-core assets	Divestment of fuel station business and other non-core assets
<ul style="list-style-type: none"> <li>Transaction value undisclosed, estimated value: INR100cr</li> </ul>	<ul style="list-style-type: none"> <li>Sold vehicles and non-core assets worth INR70cr in FY21</li> </ul>	<ul style="list-style-type: none"> <li>Assets worth INR170cr identified for sale in FY21, which included the fuel business</li> <li>Liquidated assets worth ~INR86cr over FY21–23</li> </ul>

Source: Company, Nuvama Wealth Research

**Exhibit 28: Liquidation of non-core assets and switching to an asset-light model frees up capital**

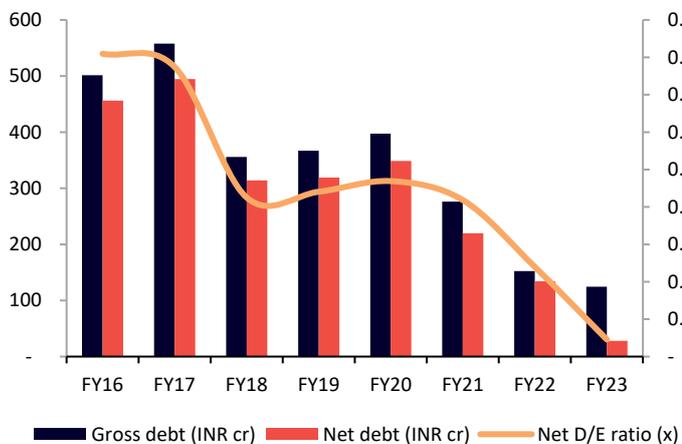


Source: Company, Nuvama Wealth Research

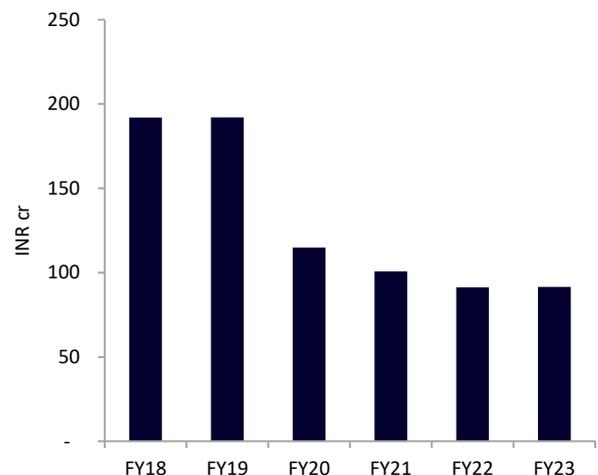
### c) Utilising freed capital to deleverage the Balance Sheet

Proceeds from the equity placement to AGLL, sale of stake in Gati Kausar India, and disposal of fleet and other non-core assets were utilised for paring off debt and clearing contingent liabilities. Over FY19–21, GTIC reduced net debt by nearly INR100cr to INR220cr. It also cleared off contingent liabilities worth INR106cr, largely pertaining to demands from income tax authorities. From INR176cr in FY19, contingent liabilities fell to INR91cr in FY23.

**Exhibit 29: Uses proceeds from freed capital to deleverage the Balance Sheet**



**Exhibit 30: Clears off contingent liabilities**



Source: Company, Nuvama Wealth Research

In a short span of time, the new management, under the guidance of the new promoters, has taken steps to tackle legacy issues, which will be eliminated by FY24-end. It has set a clear vision for GTIC by eliminating all non-core businesses. Going forward, the management will leverage the renewed strength of its Balance Sheet and aim for profitable growth. It has guided at a revenue of INR3,000cr for FY26 (20% CAGR over FY23–26), with an EBITDA margin of 10–12% (5.4% in FY23, including other income).

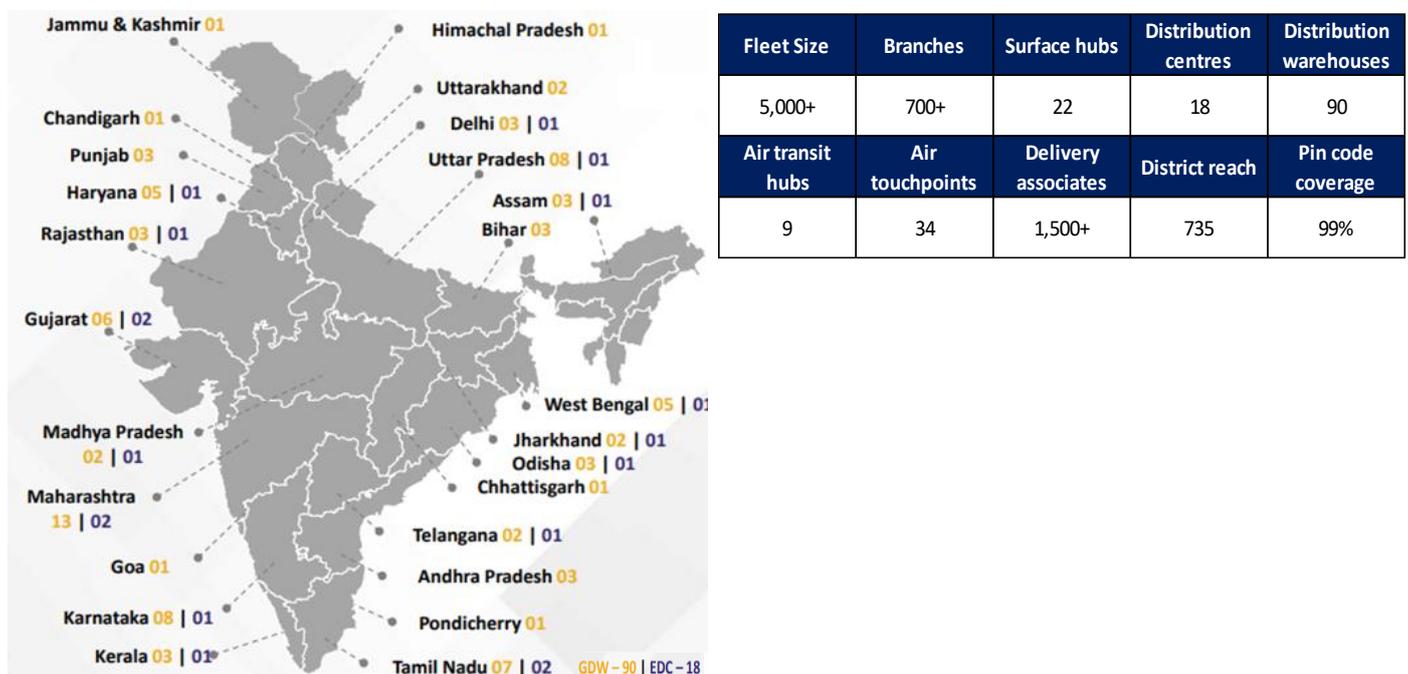
Turning over a new leaf

## II. The focus is on regaining lost market share, capacity addition to aid volume growth

### i) Enhancing physical capacity

GTIC is one of the largest pan-India express logistics players having a presence across 99% of India's serviceable pin codes. In its surface express business, it operates on a hub and spoke model with a network of 22 transshipment hubs, 91 distribution warehouses, ~700 local branches, and a fleet of more than 5,000 trucks. Its total warehouse space across distribution centres and hubs stood ~4mn sq. ft. In its air express division, where it provides customised air freight solutions across Tier I and II cities, it has tied up with commercial airlines for access to their belly cargo. It has a direct connection with 34 commercial airports which ensures deliveries in 24–48 hours.

Exhibit 31: Network infrastructure



Source: Company, Nuvama Wealth Research

To enhance serviceability and efficiency, GTIC is consolidating multiple small warehouses into a single mega warehouse at key locations in MMR, NCR and Bengaluru. This will enhance load handling capacity, automate operations, and improve the turnaround time. At other locations, it is adding warehousing space. All additions are on a long-term lease (around nine years) and will take care of expected growth over the next seven-to-nine years.

Exhibit 32: Warehouses commissioned in FY23

Location	Commissioned	Area (increase)	Bays	TAT (earlier)
Farukh Nagar (NCR)	Q3FY22	1,13,000 (35%)	89	Less than three hours (over four hours)
Bhiwandi (MMR)	Q3FY23	1,15,000 (4%)	61	Less than three hours (over four hours)
Nagpur	Q2FY23	28,800 (new)	16	n/a
Guwahati	Q3FY23	30,000 (new)	7	n/a

Source: Company, Nuvama Wealth Research

## Turning over a new leaf

**Exhibit 33: Impact of consolidation**

Particulars	NCR (Farukhnagar)		MMR (Bhiwandi)	
	Before	After	Before	After
Warehouse space (sq. ft.)	84,000	1,13,000	1,11,000	1,15,000
Loading bays	56	89	27	61
Vehicle loading time	Over four hours	Less than three hours	Over four hours	Less than three hours
Productivity per head	5.7t	Over 8t	5.7t	Over 8t
Indexed productivity factor	1.0	1.6	1.0	1.4

Source: Company, Nuvama Wealth Research

**Exhibit 34: Upcoming warehouses**

Location	Timeline
Bengaluru	Q2FY24
Indore	Q3FY24
Hyderabad	Q1FY25
Cochin	Q2FY25

Source: Company, Nuvama Wealth Research

While the expansion of hub capacity ensures enhanced load handling capacity, it is the last-mile connectivity that will improve load sourcing and volume. To improve last-mile connectivity, GTIC added ~100 franchisees in FY23. It plans to add ~100 in FY24E. It is also adding last-mile pickup and a delivery fleet under lease, largely electric vehicles. A wider branch network will enable it to quickly acquire customers. A greater load handling capacity will help boost wallet share from existing customers.

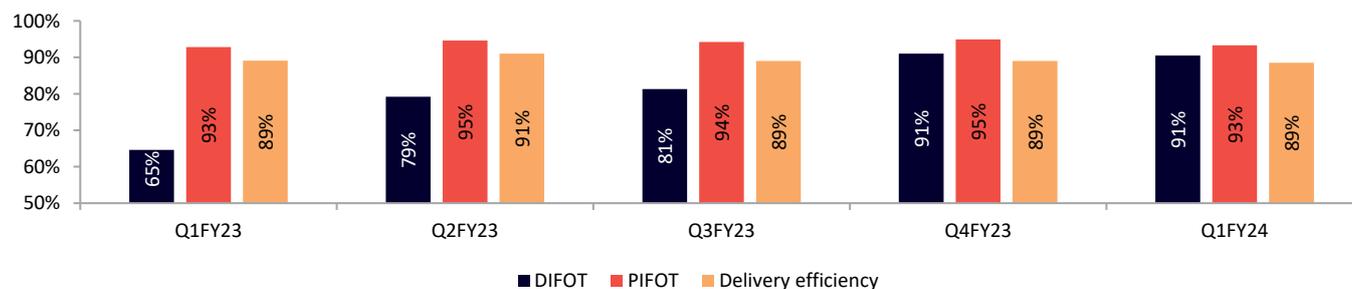
### ii) Enhancing service quality

To enhance the customer experience and rationalise costs, GTIC is investing heavily on digitisation and route optimisation. It hired external consultants in FY21 to strategize routes and ensure: i) optimum utilisation of line haul as well as last-mile fleet capacity, ii) minimum loss-in-transit, and iii) on-time pick-up and delivery. It partnered with Tech Mahindra to revamp its core operating system, Gati Enterprise Management System (GEMS), to facilitate seamless integration across business verticals, provide a user friendly front-end, and enable digital vehicle tracking and e-billing. The system is under development and will be implemented in phases over the next two years.

### iii) The impact

While all the above investments and costs are front loaded, we expect the benefits to accrue over the near-to-medium term in the form of improved turnaround time, quality of service, and load handling capacity; lower variable costs/kg; and optimisation of fixed costs. We saw part of the impact in FY23 in terms of improved surface express volumes (which grew 17.6% YoY), along with greater delivery efficiency (90.5% deliveries occurred in full and on time in Q1FY24, up from 64.6% in Q1FY23).

**Exhibit 35: Service metrics**



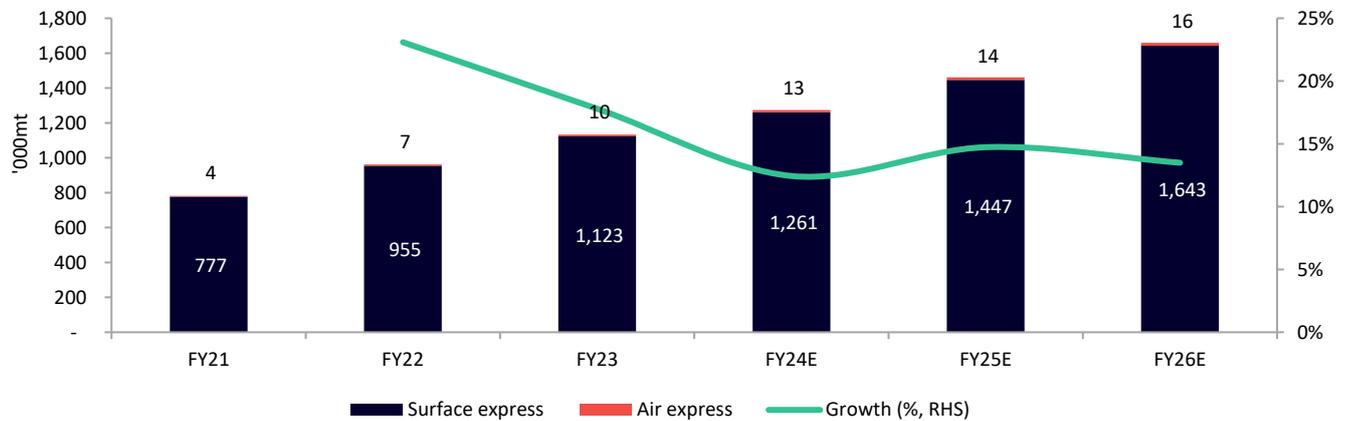
DIFOT – Delivery in full and on time, PIFOT – Pick up in full and on time

Source: Company, Nuvama Wealth Research

## Turning over a new leaf

We expect volumes to grow as GTIC: i) acquires customers (skewed towards SME and retail) given its increased presence, and ii) sources greater volumes from existing customers as it is improving its service quality. Over FY23–26E, we expect 13.5% volume CAGR in the surface express business to 1.6mt.

**Exhibit 36: Volume expected to grow at 13.5% over FY23-26**



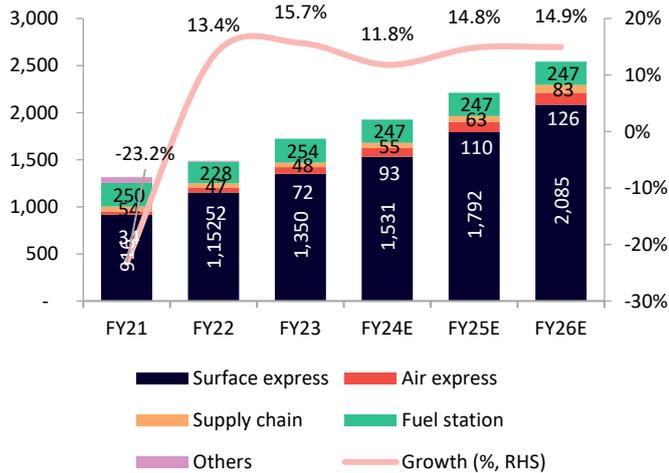
Source: Company, Nuvama Wealth Research

## Turning over a new leaf

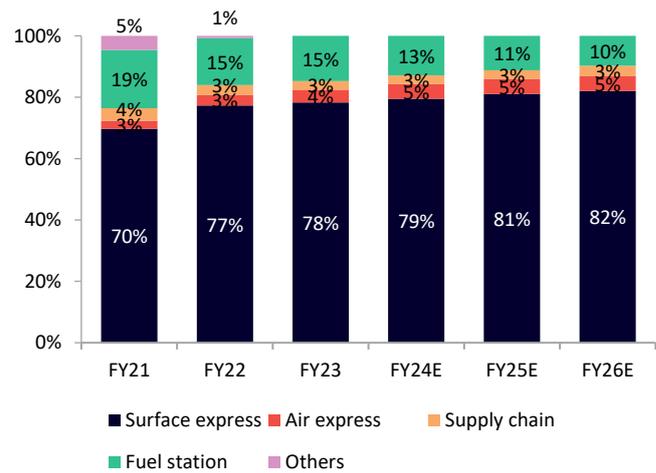
### III. Expect 13.8% revenue CAGR on increasing wallet share, client additions, and a better product mix

We expect 13.8% CAGR in total revenue to INR2,542cr in FY26E from INR1,723cr in FY23, led by: i) increasing wallet share from existing customers, ii) acceleration in client acquisitions, and iii) steady improvement in the product mix. We expect the surface express/air express/supply chain management segment to contribute 90%/7%/4% to total growth. We expect the share of revenue from the high yield express distribution segment to rise to 90.3% (surface express/air express/supply chain management: 82%/5%/3.3%) from 85.3% in FY23 (surface express/air express/supply chain management: 78.3%/4.2%/2.8%).

**Exhibit 37: Revenue build-up (INR cr)**



**Exhibit 38: Share of core business improving in total revenue**

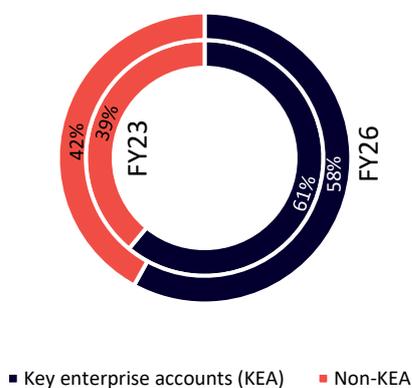


Source: Company, Nuvama Wealth Research

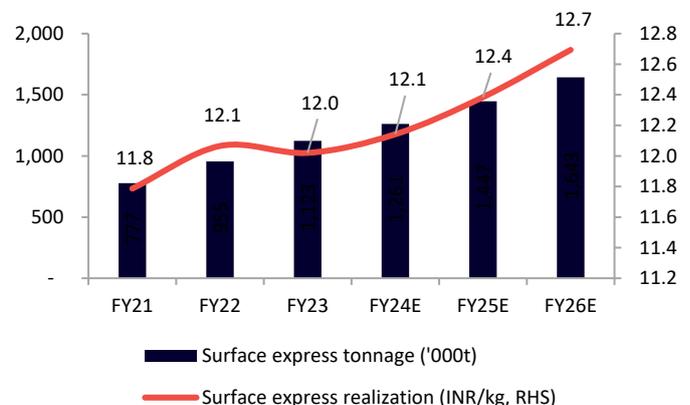
#### Expect 15.6% revenue CAGR in the surface express (78% of FY23 revenue) over FY23–26E on:

- A 13.5% CAGR in tonnage**, owing to an all-round improvement in service metrics, higher hub capacity, and efficiency (refer Exhibit 34).
- A 1.8% CAGR in average realisation** led by an improving client mix. To manage and maintain volumes post-pandemic, GTIC depended heavily on enterprise accounts, which carry a lower revenue per kg vis-à-vis SME and retail customers. Key enterprise accounts (KEA)/MSMEs/retail clients contributed 61%/21%/18% (FY22: 57%/22%/21%) to total express revenue in FY23. We expect the mix to skew towards MSME and retail clients as the management improves its local reach (by increasing franchisees) and service quality. We expect realisation per kg on a like-for-like basis to stay muted given the heightened competition. By FY26-end, we expect contributions from MSME and retail customers to rise to 45%.

**Exhibit 39: The share of non-KEA to improve**



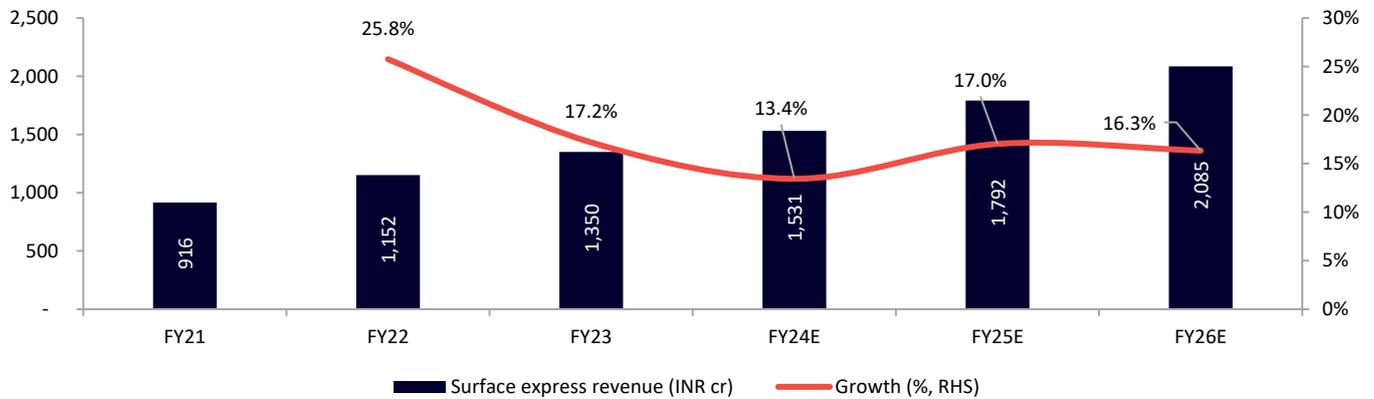
**Exhibit 40: Expect 13.5%/1.8% CAGR in volume/realisation over FY23–26E**



Source: Company, Nuvama Wealth Research

Turning over a new leaf

**Exhibit 41: Surface express revenue to grow at 15.6% CAGR over FY23-26**

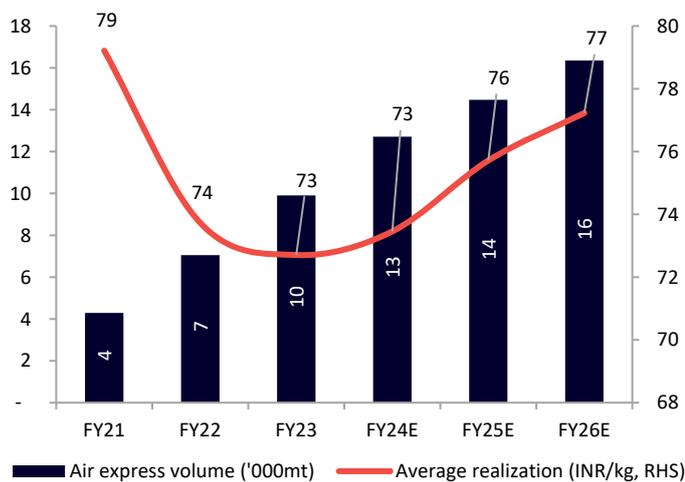


Source: Company, Nuvama Wealth Research

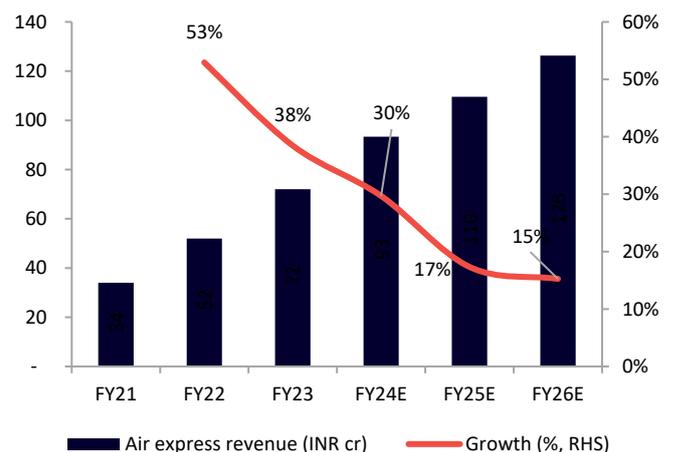
**Expect 20.6% revenue CAGR in the air express business over FY23–26E led by:**

- i) **18.2% volume CAGR** on the back of: i) a lower base, ii) improving connectivity to smaller cities, and iii) an increase in passenger flights. GTIC depends on the belly cargo of passenger flights for its air express offerings and will benefit from an increase in domestic flights. Volume will be aided by higher e-commerce activity. Over FY21–23, GTIC clocked a 51.9% CAGR in air express volumes, part of which was driven by pent up demand after the lifting of COVID-related restrictions as well as spurt in the demand for pharmaceutical products. While we expect volumes to normalise ahead, we expect GTIC to grow faster than Blue Dart Express, given its lower base and smaller shipment size.
- ii) **A 2% annual growth in average realisation** due to: i) an expected improvement in demand, ii) a greater share of MSME and retail customers in the overall mix, and iii) an industry-wide recovery which is overdue. While we see muted growth in FY24E, we expect a bounce back in FY25E, followed by normal growth of ~2% in average realisation from FY26E.

**Exhibit 42: Air express revenue build-up**



**Exhibit 43: Air express to grow at 20.6% CAGR over FY23-26E**



Source: Company, Nuvama Wealth Research

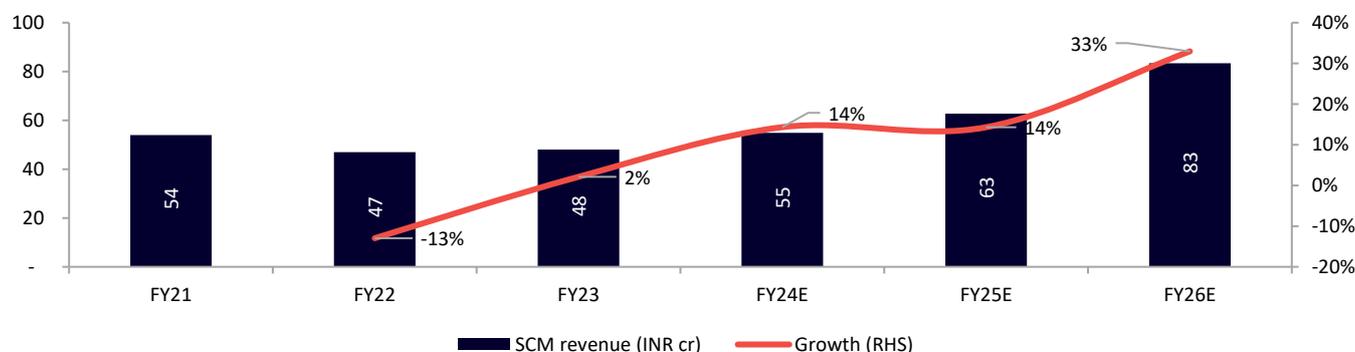
## Turning over a new leaf

### Expect 20.2% revenue CAGR in the supply chain management division over FY23–26E

GTIC's supply chain management (SCM) division, which contributed 2.8% to FY23 revenue, operates three e-fulfilment centres and 65 warehouses across India, catering to sectors such as e-commerce, hospitality, healthcare, and electronics. All its warehouses are designed and built according to global standards, with shop floor automation, advanced material handling, and a tech-enabled back-end. It has integrated the warehouses with its distribution system. It provides additional services such as inventory management, purchase order management, and designing inventory-based models to its customers. As all its warehouses and fulfilment centres are leased, GTIC does not have to incur any capital investment. SCM generates a higher yield than transportation, driven by value-added offerings.

We see synergies between GTIC's SCM business and AGLL's contract logistics business as both segments cater to a similar clientele, offer comparable services, and can leverage each other's network. Both divisions will leverage cross-selling opportunities, which will drive growth in GTIC's SCM division. These benefits are expected over and above the low-to-mid double-digit growth (~11-13%) estimated for the industry. Over FY23–26E, we expect SCM revenue to expand to INR83cr from INR48cr.

**Exhibit 44: Expect 20.2% revenue CAGR in the SCM business over FY23–26E**



Source: Company, Nuvama Wealth Research

### Fuel station business up for sale, diverting focus to the core business

The management has decided to hive off the fuel station business as a part of its restructuring strategy to free up non-core capital, which will be invested to grow its core express business. Its investment in three fuel stations has been recognised under 'assets held for sale' in its financial statements. GTIC has obtained board approval for demerging the fuel station business to a wholly owned subsidiary, Gati Projects Pvt. Ltd. It will be hived off once necessary approvals are obtained from the oil management companies (timeline unclear). We are not considering any growth in revenue and contribution from this business over FY23–26E. Once the approvals are secured, we will discount this business from our estimates. Do note that the fuel station business generates a gross/EBIT margin of 2.6%/1.5% and its divestment will only prove to be margin and EPS accretive. As of March, GTIC deployed a capital of INR11.3cr (net carrying value) in the fuel station business, and the management expects to realise INR15–25cr from the transfer of these assets. The sale of this business will drive margin as well as return ratios. We do not expect any material change in DCF of GTIC post sale of the fuel station business.



## Turning over a new leaf

### Exhibit 45: Impact of the divestment of the fuel station business

Particulars	With fuel stations				Excluding fuel stations			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Revenue	1,723	1,926	2,212	2,542	1,723	1,738	1,965	2,295
EBITDA	70	116	160	218	70	121	165	219
EBITDA margin	4.1%	6.0%	7.2%	8.6%	4.1%	7.0%	8.4%	9.5%
EBITDA/kg (INR)	0.62	0.91	1.09	1.31	0.62	0.95	1.13	1.32
EBIT	11	81	119	176	11	85	124	177
EBIT margin	0.6%	4.2%	5.4%	6.9%	0.6%	4.9%	6.3%	7.7%
PAT	-13	42	65	98	-13	45	68	99
PAT margin	-0.7%	2.2%	2.9%	3.9%	-0.7%	2.6%	3.5%	4.3%
EPS	-0.96	3.24	5.01	7.53	-0.96	3.49	5.25	7.61
Capital employed	543	595	663	751	543	588	659	753
RoCE	2.0%	13.5%	18.0%	23.4%	2.0%	14.5%	18.8%	23.6%
RoE	-2.0%	6.4%	9.0%	11.9%	-2.0%	6.9%	9.4%	12.0%
Discounted FCFE	3,049				3,056			
TP	234				235			

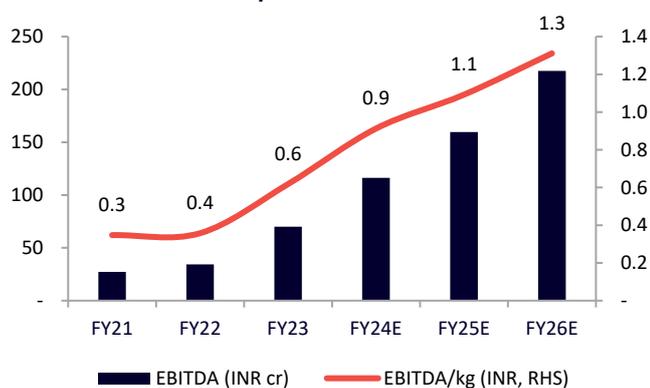
Source: Company, Nuvama Wealth Research

Turning over a new leaf

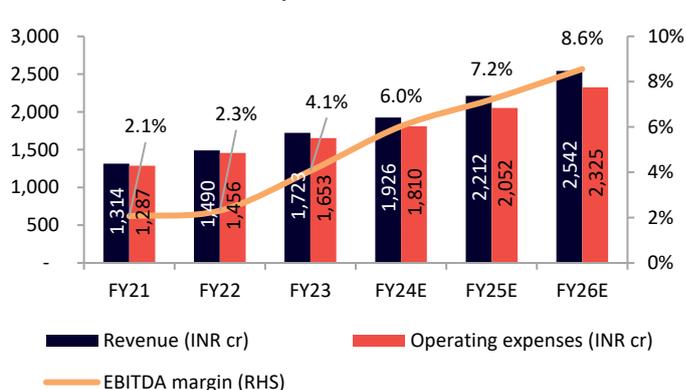
## IV. Operating leverage and cost efficiency to drive 45.9% EBITDA CAGR over FY23–26E

We expect 45.9% EBITDA CAGR over FY23–26E to INR218cr led by: i) improving operational efficiency, ii) rationalisation of indirect operating costs, and iii) improved fixed cost absorption on revenue growth. From 4.1% in FY23, we expect EBITDA margin to improve to 8.6% in FY26E. We expect EBITDA/kg to improve to INR1.3 in FY26E from INR0.6 in FY23.

**Exhibit 46: EBITDA/kg to see a significant improvement YoY**



**Exhibit 47: Expect EBITDA margin to expand by 449bp over FY23–26E**



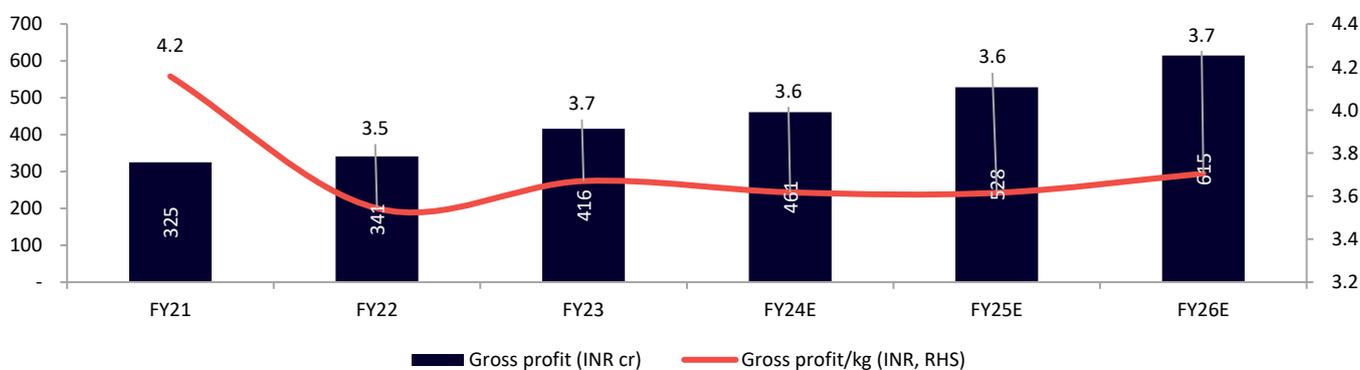
Source: Company, Nuvama Wealth Research

### Improving operational efficiency

As part of the turnaround, GTIC divested its non-core investments (refer Exhibit 26) and sold off its vehicles, switching to an asset light strategy. It identified contracts with adverse terms and is in the process of rectifying the same. It started consolidating transshipment hubs at key locations, automating them, and increasing the net floor space, which helped improve the turnaround time and load handling capacity. It also increased the load handled per employee. Till June, it completed the consolidation of two warehouses (Mumbai and NCR) and is in the process of implementing the same at Bengaluru (refer Exhibits 30 and 31). It is also adding new and improved hubs in three more cities (refer Exhibit 32). It is revamping its GEMS software, which will seamlessly integrate various back-end functions, enable vehicle tracking, optimise routes, and enhance truck utilisation.

Combined, these factors will lead to: i) a better net realisation (lower deductions due to rectification of contractual terms), ii) higher volumes (on the back of an improvement in the turnaround time, route optimisation, and greater load handling capacity), and iii) lower operating costs per kg (on higher utilisation and smooth internal operations). As a result, we expect a 13.9% CAGR in gross profit over FY23–26E to INR615cr.

**Exhibit 48: Expect gross profit CAGR of 13.9% over FY23–26E**



Source: Company, Nuvama Wealth Research

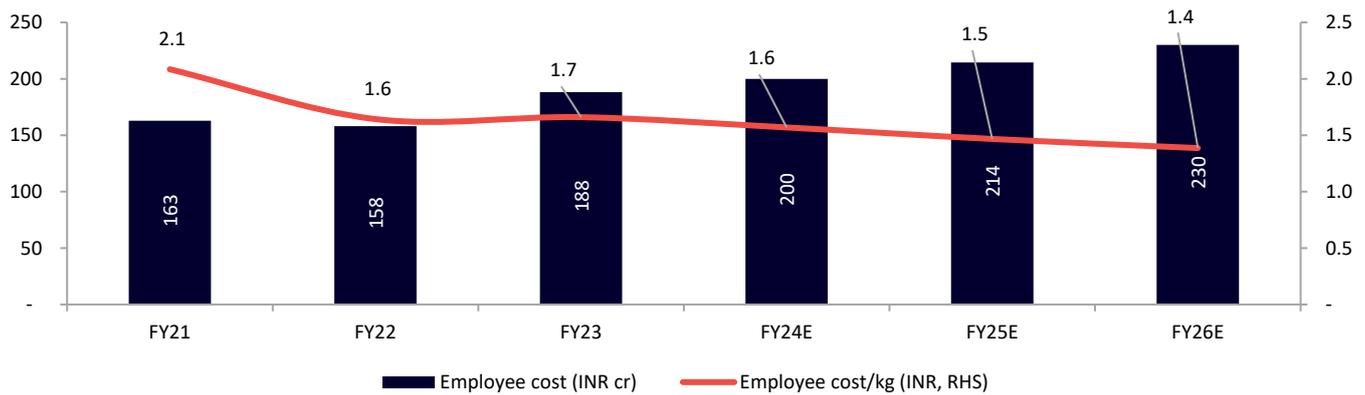
## Turning over a new leaf

### Expect rationalisation of indirect operating costs and an improvement in fixed cost absorption on revenue growth

Employee costs, rent for vehicles (fixed short-term lease), consultancy and management charges, and provision for doubtful debts constitute nearly 78% of GTIC's total indirect operating costs. More than 80% of indirect operating costs are fixed.

Employee costs relate largely to permanent employees and are fixed in nature. Post acquisition, GTIC saw a significant change in management, with many experienced and reputed professionals joining the team. The hunt for talent continues. Though we expect employee costs to rise, new hirings are likely to translate into improved efficiency and higher volumes, resulting in a lower employee cost/kg.

**Exhibit 49: Improving efficiency and increasing volumes to drive down employee cost/kg**

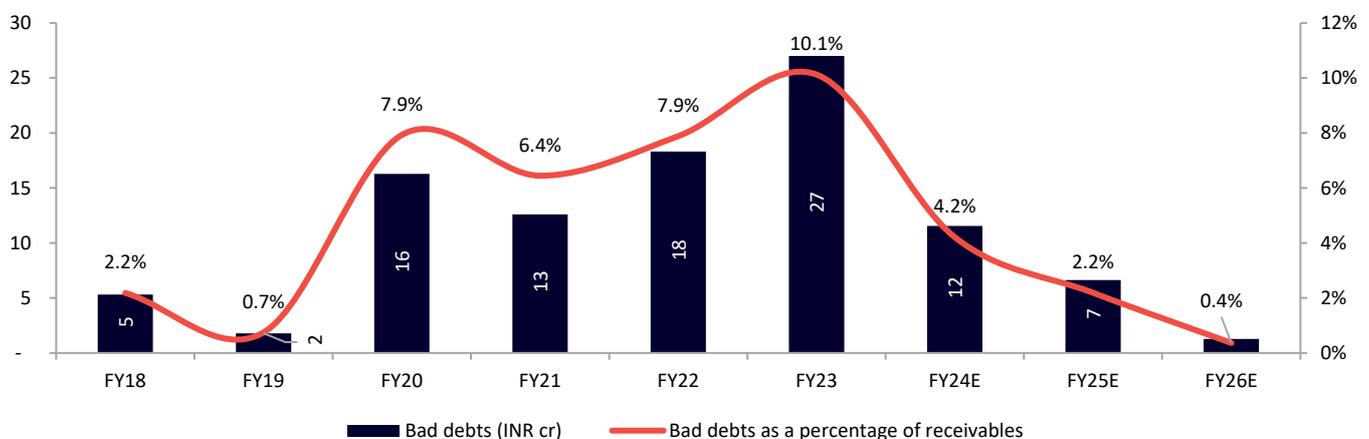


Source: Company, Nuvama Wealth Research

As part of the improvement in operational efficiency, GTIC hired external consultants to help it optimise routes and ensure a lower downtime and a higher utilisation of line haul and last-mile delivery vehicles. From an annual average of INR6–8cr over FY17–20, consultancy and professional charges surged to over INR20cr in FY22 and FY23. The management has guided at a sharp reduction in these charges in FY24E. We expect it to trail down to the historical average of INR6–8cr from FY24E.

While identifying and rectifying unfavourable terms in enterprise contracts, GTIC changed the terms for most customers and terminated contracts wherever it was not possible. It also identified doubtful receivables and provided for the same. Accordingly, bad debts started increasing from FY20. From 1–2% of receivables, bad debts climbed to 8–10% in FY20–23. With most of the expected credit losses now provided for, we expect bad debts to trend sharply lower from FY24E.

**Exhibit 50: Bad debts to normalize going forward**

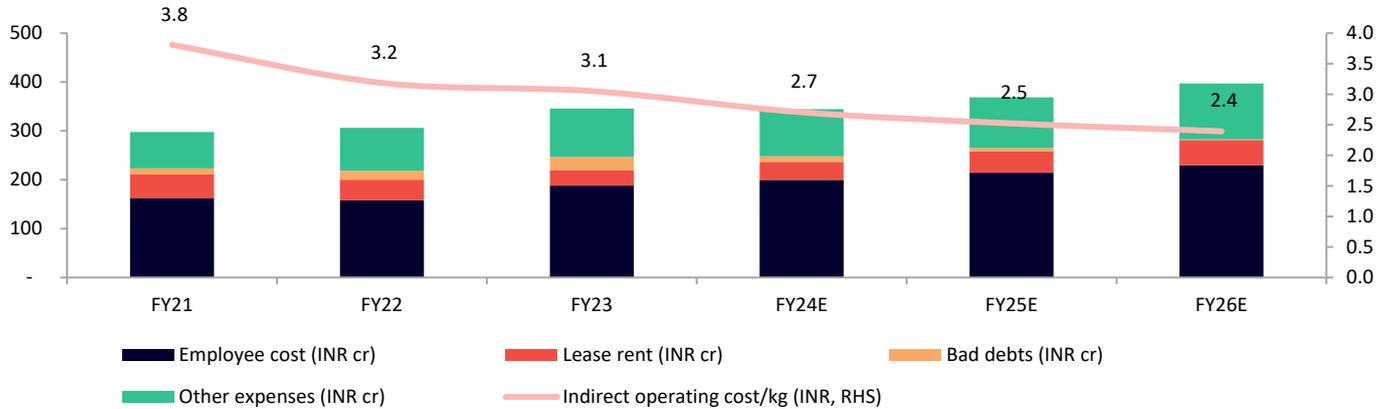


Source: Company, Nuvama Wealth Research

## Turning over a new leaf

With two of the four significant indirect cost components expected to trend down from FY24E, coupled with a growth in volume, we expect indirect operating costs to improve to INR2.4/kg in FY26E from INR3.1/kg in FY23.

**Exhibit 51: Efficiencies and rationalisation to drive down indirect costs/kg**



Source: Company, Nuvama Wealth Research

Against a revenue CAGR of 13.8% over FY23–26E, we expect 12% CAGR in total operating expenses. This gap is attributable to an improvement in the turnaround time and higher fleet utilisation, driving gross profit and operating leverage benefits, which will drive EBITDA. We expect EBITDA margin to expand to 8.6% in FY26E from 4.1% in FY23. EBITDA is set to grow to INR218cr in FY26E from INR70cr in FY23, a CAGR of 45.9%.

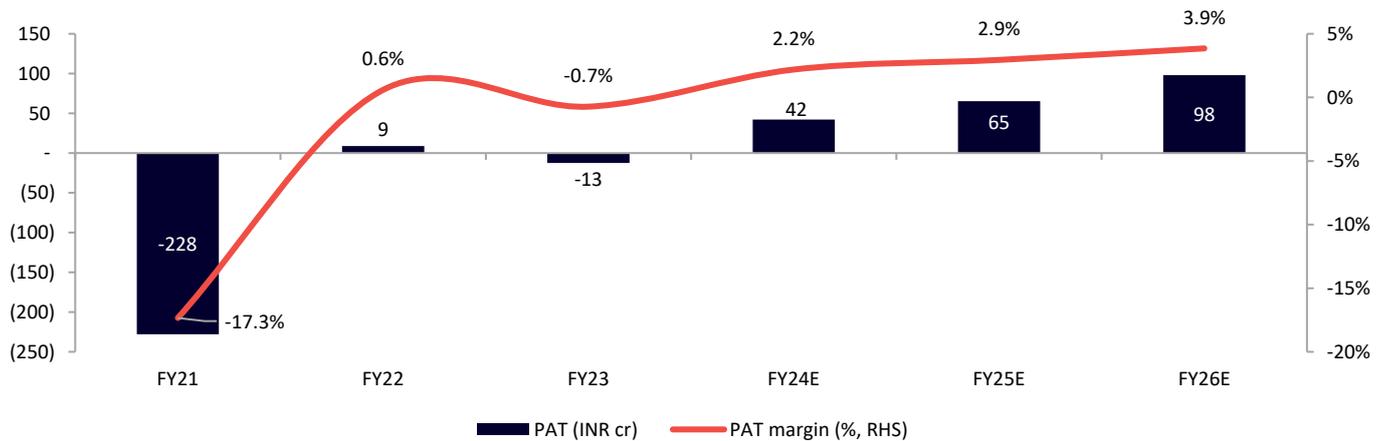
## Turning over a new leaf

### V. APAT set to turn positive from FY24E on lower interest and depreciation

Driven by growth in EBITDA and declining interest cost and depreciation, we expect adjusted PAT to expand to INR98cr in FY26E from a loss after tax of INR13cr in FY23. We expect EPS to grow to INR7.5 in FY26E from a loss per share of INR1 in FY23.

Owing to a decline in net leverage (refer Exhibit 54), we expect a significant fall in net interest cost. We expect depreciation to trend down as GTIC recognises and liquidates non-core, non-operating assets and focusses on an asset-light strategy. However, a part of the reduction in interest and depreciation is expected to be offset by higher recognition of interest and depreciation (Ind AS 116) as it adds transshipment hubs. Overall, we expect interest/depreciation to fall to INR15cr/INR45cr in FY26 from INR29cr/INR59cr in FY23. We expect PAT/kg to rise to INR0.6 in FY26 from a loss/kg of INR0.1 in FY23.

**Exhibit 52: Multi-fold jump in PAT on EBITDA growth and declining interest & depreciation cost**



Source: Company, Nuvama Wealth Research

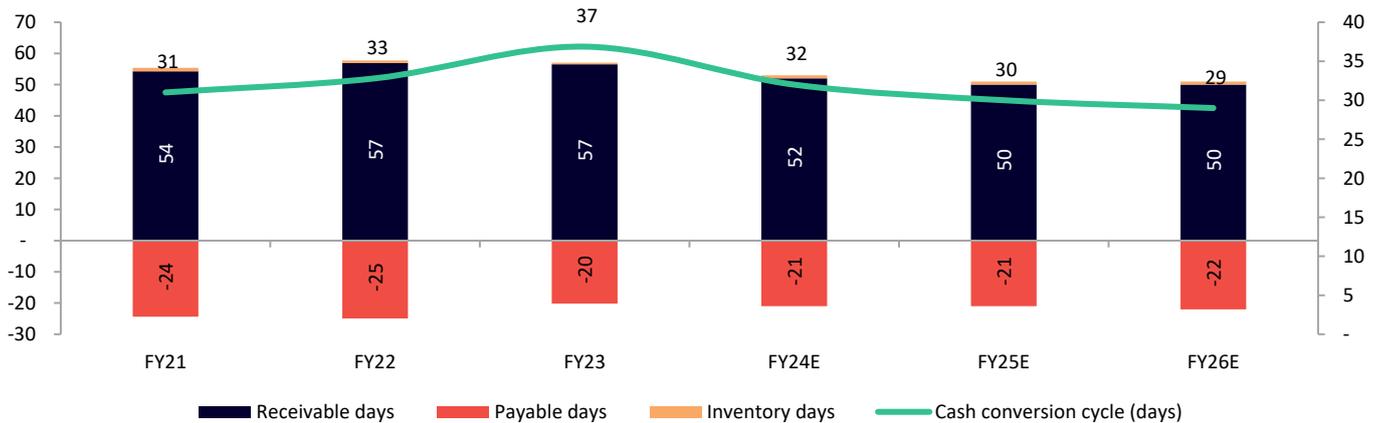
Turning over a new leaf

## VI. Asset light growth, profitability, and stable working capital to drive 24.2%/195.1% CAGR in OCF/FCF

### Efficient working capital management

Working capital stands ~37 days. It does not carry any inventory. Receivables average ~55 days, which pertains to receivables from key enterprise accounts. MSME and retail clients operate largely on a cash and carry basis. Its payables relate largely to hire charges payable to truck vendors. We expect an improvement in the working capital cycle as the share of MSME and retail clients in the overall customer mix improves. We expect the cash conversion cycle to settle ~29 days in FY26E (in line with the average over FY17–21) from ~37 days in FY23.

Exhibit 53: WCC to improve on a favourable client mix

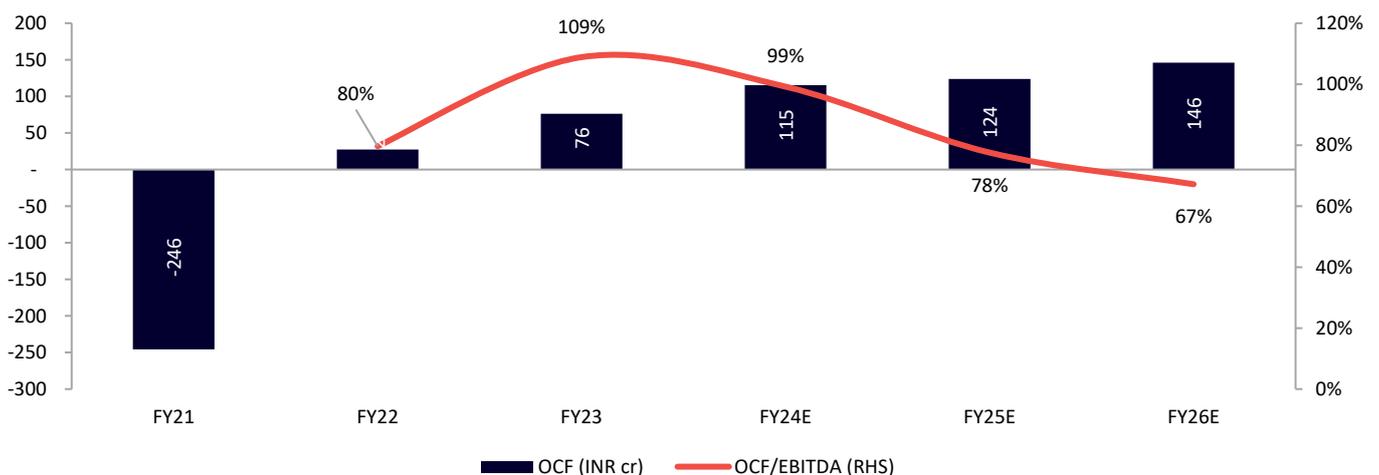


Source: Company, Nuvama Wealth Research

### EBITDA growth to drive operating cash flows

We expect 45.9% EBITDA CAGR over FY23–26E to INR218cr. Owing to efficient cash flow management, we do not expect any additional investment in working capital over FY23–26E. On an average, we expect ~78% of EBITDA to translate to operating cash flow over FY23–26E. From INR76cr in FY23, we expect OCF to touch INR146cr in FY26E, a CAGR of 24.2%.

Exhibit 54: Strong EBITDA and working capital management to drive OCF



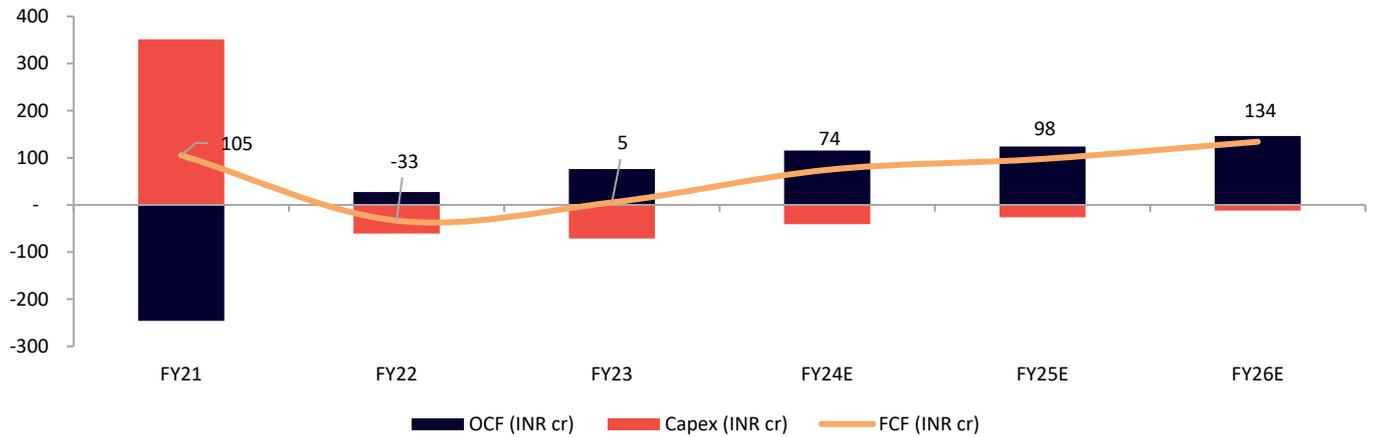
\*OCF/EBITDA not measured for FY21 as this figure is negative  
Source: Company, Nuvama Wealth Research

## Turning over a new leaf

### Asset light expansion to ensure minimal capex, drive FCF

Over FY21–23, GTIC liquidated its entire vehicle fleet and now operates on a hire-as-required basis. Going forward, we do not see it acquiring any vehicles. All additions would be on hire, either on a per trip basis or on a short-term fixed lease. Transshipment hubs too will be added on lease, with no land and building related capex expected to be incurred. In this light, we expect a cumulative capex of INR79cr over FY23–26E as against a cumulative operating cash flow of INR285cr. This will drive FCF in coming years as nearly 80% of OCF is expected to flow to FCF. We expect FCF to grow to INR134cr in FY26E from INR5cr in FY23, a CAGR of 195.1%.

**Exhibit 55: Strong OCF and asset light expansion to drive FCF**



Source: Company, Nuvama Wealth Research

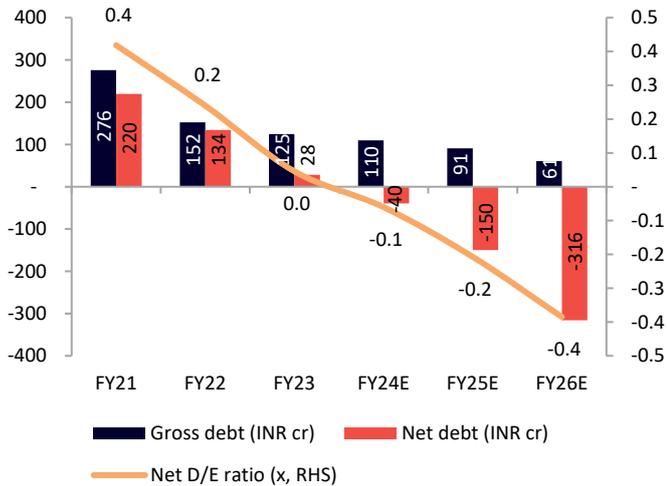
## Turning over a new leaf

### VII. Free cash to aid deleveraging; net D/E ratio to improve to -0.4x from 0.1x over FY23–26E

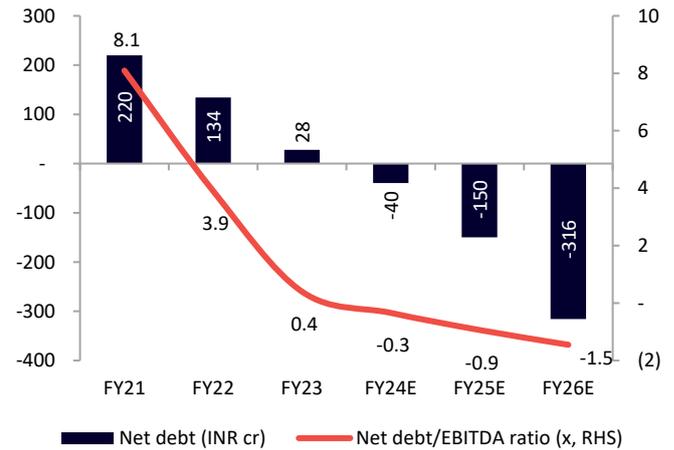
#### Strong FCF, led by minimal capex requirement, to aid deleveraging

We expect a cumulative OCF of INR385cr over FY23–26E, of which nearly INR79cr is likely to be incurred on capex and the rest on reducing leverage. We expect GTIC to turn net cash positive, at INR315cr, in FY26E from a net debt of INR28cr in FY23, which is primarily working capital. We expect the net D/E ratio to improve to -0.39x in FY26E from 0.05x in FY23.

**Exhibit 56: Strong FCF to drive deleveraging**



**Exhibit 57: GTIC heading towards a comfortable liquidity position**



Source: Company, Nuvama Wealth Research

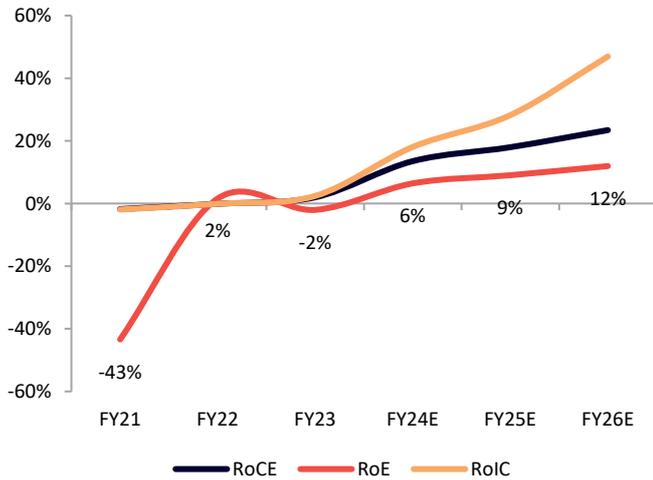


## Turning over a new leaf

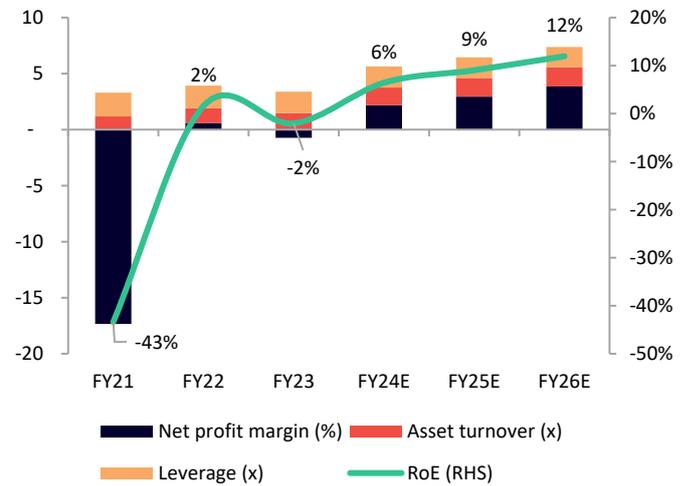
### VIII. RoE to witness a multi-fold jump on PAT growth, deleveraging, and asset light expansion

Backed by healthy growth in PAT and FCF, improving asset turns on asset light expansion, and deleveraging, we expect a meaningful improvement in return ratios ahead. We expect RoCE/RoE to expand to 23.4%/11.9% in FY26E from 2%/-2% in FY22. We expect RoIC to expand to 46.9% in FY26E from 2.4% in FY23 led by healthy cash accumulation.

**Exhibit 58: Profit and FCF to drive return ratios**



**Exhibit 59: Dissecting RoE**



Source: Company, Nuvama Wealth Research

### Key risks

- Slowdown in domestic end-user consumption
- Higher-than-expected competitive intensity and consequential undercutting
- Global macroeconomic concerns

Turning over a new leaf

## Appendix I: GTIC versus TCIEXP

Exhibit 60: Abridged peer overview (projected)

Particulars (INR cr)	GTIC				TCIEXP			
	FY22	FY23	FY24E	FY25E	FY22	FY23	FY24E	FY25E
Volume (mt)	9,61,880	11,33,034	12,73,997	14,61,691	8,60,000	9,93,000	n/a	n/a
Revenue	1,251	1,470	1,680	1,965	1,081	1,241	1,416	1,627
Revenue/kg	13.01	12.97	13.18	13.44	12.57	12.50	n/a	n/a
Gross profit	927	1,060	1,225	1,444	348	391	451	523
Gross profit/kg	9.64	9.35	9.62	9.88	4.05	3.94	n/a	n/a
Gross margin	74.1%	72.1%	72.9%	73.5%	32.2%	31.5%	31.8%	32.1%
EBITDA	29	63	109	152	175	194	231	271
EBITDA/kg	0.30	0.56	0.86	1.04	2.03	1.96	n/a	n/a
EBITDA margin	2.3%	4.3%	6.5%	7.7%	16.2%	15.7%	16.3%	16.6%
PAT	9	-13	42	65	129	139	164	195
PAT margin	0.7%	-0.9%	2.5%	3.3%	11.9%	11.2%	11.6%	12.0%
RoE	1.6%	-2.0%	6.4%	9.0%	21.6%	23.3%	25.0%	24.6%
<b>Valuation</b>								
Share price (INR)	164	101	149	149	1,704	1,493	1,403	1,403
Market capitalisation	2,015	1,310	1,933	1,933	6,559	5,721	5,380	5,380
Net debt	134	28	-40	-150	-17	-39	-49	-104
EV	2,149	1,338	1,893	1,783	6,542	5,682	5,330	5,276
EV/EBITDA ratio (x)	74.9	21.1	17.4	11.7	37.4	29.2	23.1	19.5
P/E ratio (x)	227.2	-104.5	45.8	29.6	50.8	41.2	32.8	27.6

\*Share price data for TCIEXP is as of October 5, estimates for TCIEXP are consensus estimates

Source: Company, Bloomberg consensus estimates, Nuvama Wealth Research

### Comparison charts — GTIC to see a significant recovery in performance vis-à-vis a steady-state growth in TCIEXP

Exhibit 61: Revenue

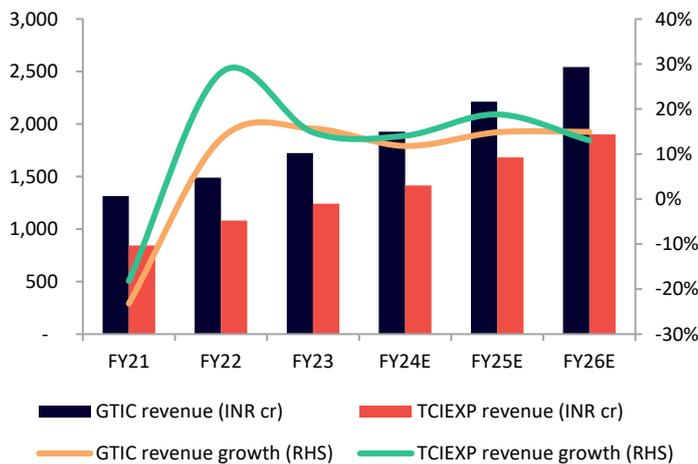
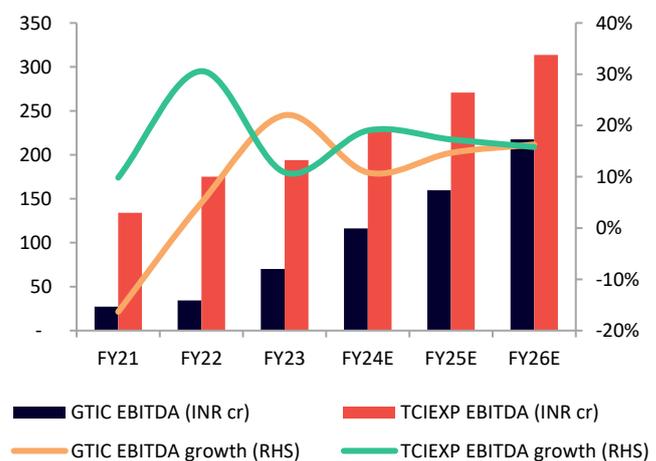


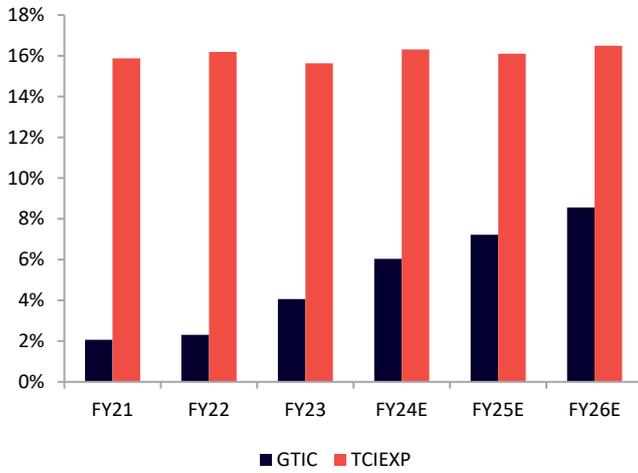
Exhibit 62: EBITDA



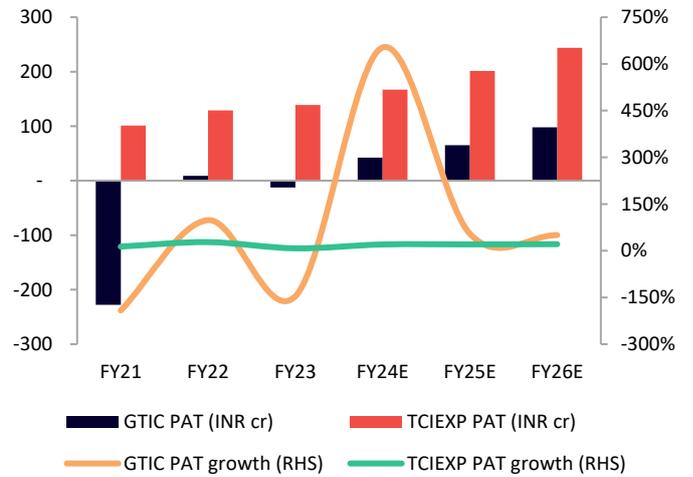
Source: Company, Nuvama Wealth Research

Turning over a new leaf

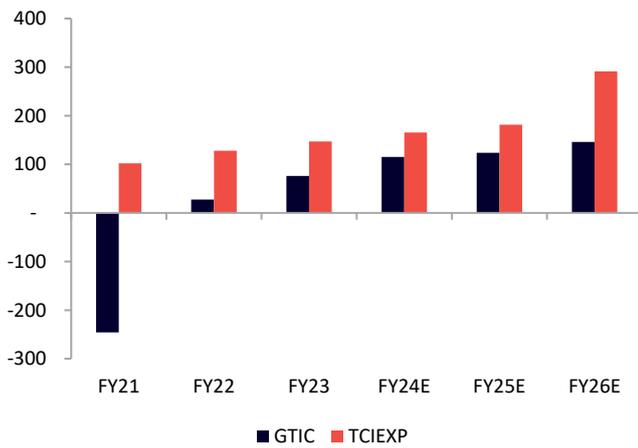
**Exhibit 63: EBITDA margin**



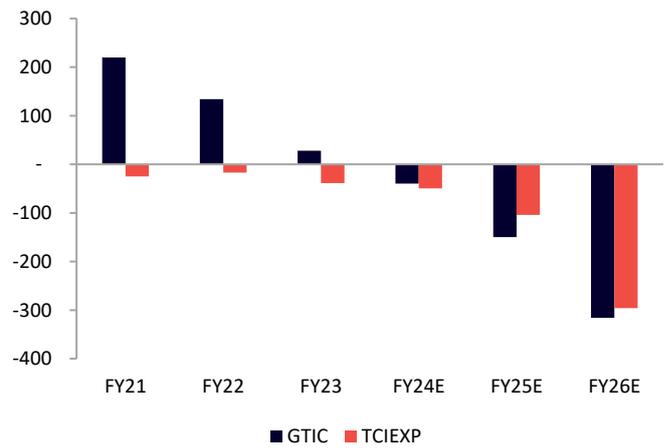
**Exhibit 64: PAT**



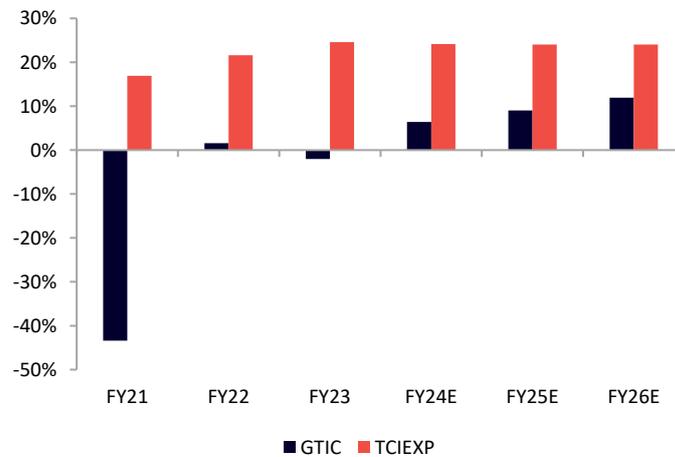
**Exhibit 65: Operating cash flow (INR cr)**



**Exhibit 66: Net debt (INR cr)**



**Exhibit 67: RoE**



Source: Company, Bloomberg consensus estimates, Nuvama Wealth Research

## Appendix II: Possible synergies with AGLL's contract logistics business

In AGLL's FY23 annual report, Mr Shashi Kiran Shetty, the founder and Executive Chairman of AGLL and Chairman of GTIC, commented on the synergies, express logistics, and contract logistics businesses. Here is an extract from the Chairman's message:

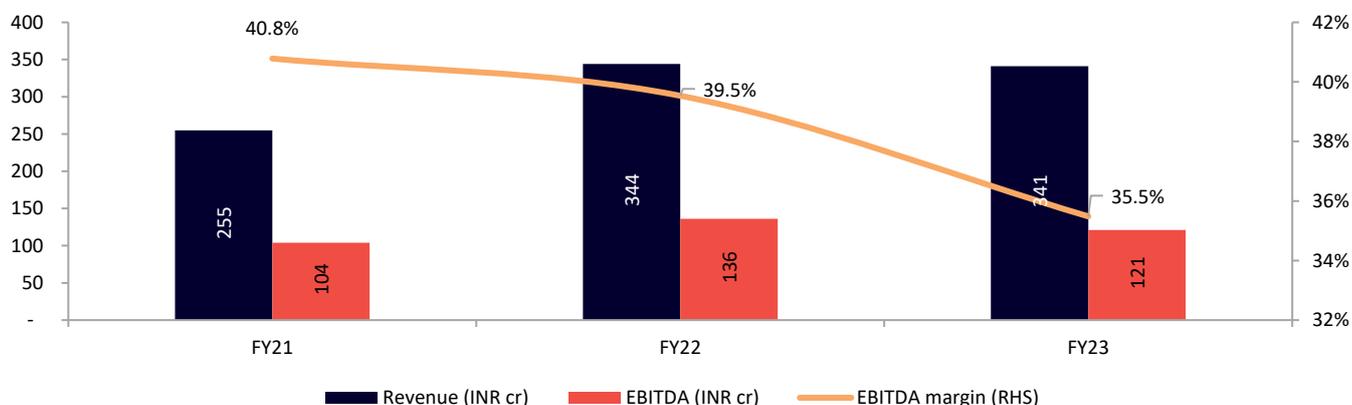
*"Allcargo, along with Gati, holds 100% stake in the operating entity, Gati Express and Supply Chain Private Limited (formerly Gati-KWE). Further, we have also acquired the entire contract logistics business (we already owned 61.13% and have now bought out the remaining 38.87%) of our joint venture partner CCI Logistics. As Allcargo Supply Chain, our contract logistics division has close synergies with Gati, they have been brought under common leadership. With this, we now have more strategic decision-making and offer enhanced services to Indian manufacturers and traders, with better inventory planning, management, and superior delivery capabilities to drive growth. We have diversified into several industry segments and partnered with marquee customers to offer express distribution with better reach and connectivity in more than 19,800 PIN Codes, as well as manage their inventories and provide third party supply chain solutions. Together, with Gati and Allcargo Supply Chain, we offer a unique combination of express and contract logistics, backed by more than 150 warehouse and distribution centres, over 5000 vendor network trucks, and close to 10 million square feet of distribution and warehousing space."*

While GTIC's management has not expressly commented on the same, a merger of the businesses is highly probable given the synergies, cross-selling opportunities, and common leadership.

**Exhibit 68: AGLL's contract logistics business at a glance**

Warehouses	Warehouse area (mn sq. ft.)	Locations	Utilisation	Customers
50	~5	45	95%	More than 100

**Exhibit 69: Financial performance of AGLL's contract logistics business**



Source: AGLL, Nuvama Wealth Research

While the probability of a merger remains unclear, if it were to happen, we expect a share swap agreement between the entities as AGLL is the promoter entity for GTIC. In Q4FY23, AGLL acquired 38.87% stake in its contract logistics business, which was owned by its JV partner, ACCI. The transaction occurred at INR163cr, valuing the contract logistics business at INR419cr (~3.5x FY23 EBITDA). Mahindra Logistics (MAHLOG) is the closest competitor to AGLL's contract logistics business as 94.9% of its total revenue accrues from the supply chain management division, and it trades ~12.1x TTM FY23 EBITDA.

Turning over a new leaf

## Financials

### Income Statement

Year to March (INR cr)	FY22	FY23	FY24E	FY25E	FY26E
Income from operations	1,490	1,723	1,926	2,212	2,542
F&B Consumed	1,149	1,307	1,466	1,684	1,928
Employee costs	158	188	200	214	230
Other expenses	148	158	145	154	167
Total Operating expenses	1,456	1,653	1,810	2,052	2,325
EBITDA	34	70	116	160	218
Depreciation and amortisation	35	59	36	41	41
EBIT	-1	11	81	119	176
Interest expenses	27	29	24	20	15
Other income	15	23	24	25	26
Exceptional item	12	1	-	-	-
Profit before tax	-0	5	81	125	187
Provision for tax	4	16	20	31	47
Profit after tax	-4	-11	60	93	140
Share of minority shareholders in profit	-13	2	18	28	42
Adjusted profit after tax	9	-13	42	65	98
Shares outstanding	12	13	13	13	13
Adjusted EPS	-0	-1	3	5	8

### Common size metrics as a percentage of net revenue

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Operating expenses	98	96	94	93	91
Depreciation	2	3	2	2	2
Interest expenditure	2	2	1	1	1
EBITDA margin	2	4	6	7	9
Net profit margin	1	-1	2	3	4

### Growth metrics (%)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenue	13	16	12	15	15
EBITDA	27	104	66	37	36
PBT	74	135	1,757	54	50
Adjusted net profit	98	-146	653	54	50
Adjusted EPS	98	-146	653	54	50

## Turning over a new leaf

### Balance Sheet

As of March 31	FY22	FY23	FY24E	FY25E	FY26E
Equity share capital	25	26	26	26	26
Reserves and surplus	535	589	631	696	794
Shareholders' funds	560	615	657	722	820
Total debt	152	125	110	91	61
Other long-term liabilities	188	215	190	169	148
Deferred tax liabilities	-28	-26	-26	-26	-26
Minority interest	77	73	92	119	161
<b>Sources of funds</b>	<b>949</b>	<b>1,002</b>	<b>1,022</b>	<b>1,076</b>	<b>1,164</b>
Gross block	381	441	482	508	520
Depreciation	134	182	218	258	300
Net block	247	259	264	250	220
Capital work in progress	1	1	1	1	1
Total fixed assets	248	259	264	250	221
Investments	10	-	-	-	-
Inventories	3	2	5	6	7
Sundry debtors	232	267	274	303	348
Cash and equivalents	18	97	149	241	376
Loans and advances	184	129	115	103	93
Total current assets	448	495	544	652	825
Sundry creditors and others	248	243	277	318	372
Provisions	6	13	13	13	13
Total current liabilities and provisions	254	257	290	331	385
Net current assets	193	238	254	322	440
Other assets	508	504	504	504	504
<b>Uses of funds</b>	<b>949</b>	<b>1,002</b>	<b>1,022</b>	<b>1,076</b>	<b>1,164</b>
Book value per share (INR)	46	47	50	55	63

### Cash Flow Statement

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Operating profit after tax but before working capital changes	44	53	78	100	128
Working capital changes	-16	23	37	23	18
CFO	27	76	115	124	146
CFI	-37	-33	-17	-1	14
CFF	-28	35	-46	-32	-24
Total cash flow	-38	78	53	91	136

## Turning over a new leaf

### Ratios

Year to March	FY22	FY23	FY24E	FY25E	FY26E
RoAE (%)	1.6	-2.1	6.6	9.5	12.7
RoACE (%)	-0.1	2.0	14.1	18.9	24.9
Debtors (days)	57	57	52	50	50
Inventory (days)	1	1	1	1	1
Payable (days)	25	20	21	21	22
Cash conversion cycle (days)	33	37	32	30	29
Current ratio	1.7	1.9	1.9	2.0	2.1
Debt/equity ratio	0.3	0.2	0.2	0.1	0.1
Debt/EBITDA ratio	4.4	1.8	0.9	0.6	0.3
Adjusted debt/equity ratio	0.2	0.0	-0.1	-0.2	-0.4

### Valuation parameters

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Diluted EPS (INR)	-0.4	-1.0	3.2	5.0	7.5
YoY growth (%)	98.1	-167.7	436.7	54.5	50.2
Diluted P/E ratio (x)	-455.1	-104.3	45.8	29.6	19.7
Price/BV ratio (x)	3.6	2.1	2.9	2.7	2.4
EV/sales ratio (x)	1.4	0.8	1.0	0.8	0.6
EV/EBITDA ratio (x)	62.5	19.1	16.3	11.2	7.4
Diluted shares outstanding	12.3	13.0	13.0	13.0	13.0
Basic EPS	-0.4	-1.0	3.2	5.0	7.5
Basic P/E ratio (x)	-455.1	-104.3	45.8	29.6	19.7

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