

New owner puts Gati on a fast track on D-Street



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Synopsis

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ET Intelligence Group: The stock price of **Gati** has gone up by about 75% over the past month after staying range bound since the open offer in March by the new owner Allcargo Logistics. Initiatives by the new management to infuse capital and streamline the business have renewed investor interest in the surface logistics company. The momentum is likely to remain intact given the recent pace of recovery in the country's economic activities.

At over Rs 25,000 crore, the logistics sector in India has been growing at 15-20% annually. However, Gati's progress remained muted under the previous management. Now, the new management aspires to outpace the sector.

"Gati will be on track in a period of next one and half to two years," said Shashikiran Shetty, chairman, Allcargo Logistics. He added that issues including contingent liabilities of around Rs 200 crore, Rs 70-100 crore cold chain liabilities with the shareholders, and other management issues are now being taken care of.

In January, Allcargo infused Rs 100 crore in Gati through preferential allotment. It now plans to monetise various non-core assets including seven petrol pumps and several real estate properties thereby raising Rs 100-Rs 150 crore. It also streamlined Gati's staff size including the reduction in the number of board members to seven from 12. This has reduced the quarterly employee expense by around 20% from over Rs 45 crore earlier.

Shetty plans to increase process efficiency at Gati by improving automation and other infrastructure. "We will be introducing four distribution centres in Mumbai, Delhi, Bangalore and Indore," he said. Gati has 19 express distribution centres and 84 distribution warehouses and more than 5,000 vehicles across the country.

Assuming 15% revenue growth for the next two years at 10% operating margin before depreciation (EBITDA margin), the company is expected to report an EBIDTA of Rs 160 crore in FY22. In addition, plans to monetise non-core assets and internal accruals would help in reducing the current net debt of Rs 280 crore.

On the valuation front, the enterprise value (EV) of its listed peer TCI is 27 times the EBITDA. Considering the EBITDA assumption and a conservative EV/ EBITDA multiple of 20, Gati's express logistics business can be valued at Rs 3,200 crore. Gati owns 70% of the logistics business while the remaining is owned by a Japanese logistics firm, Kintetsu World Express. It means the value of Gati's stake will be around Rs 2,240 crore, which leaves ample room for a stock rerating when compared with its current market capitalisation of Rs 1,111 crore.