



Speech by The Chairman, Shri K.L. Chugh at the 14th Annual General Meeting on October 21, 2009

Ladies and Gentlemen,

It is my pleasure to welcome you to the 14th Annual General Meeting of your Company. I thank you for your continued trust and support.

The year gone by has been one of the most challenging ones the global economy has ever faced. The financial crisis has been acknowledged as the worst since the Great Depression, and has shaken even the strongest of economies. The International Monetary Fund estimates that the global financial system will suffer losses of around US \$4 trillion, with the OECD countries constituting most of the losses. Millions of people have lost their jobs; thousands of companies have gone bankrupt, resulting in governments around the world pumping in trillions of dollars of liquidity into the financial system. Almost all governments responded with stimulus reforms and packages to resurrect their economies across the world and the recovery has started to show.

Despite the financial meltdown and the pall of gloom, India has withstood the financial crisis fairly well. There are core sectors that were impacted severely, especially the Real Estate, IT, ITES and Retail. In spite of this, India has managed to sustain a relatively high growth rate by exhibiting a remarkable resilience, largely due to its inherently strong fundamentals and large domestic consumption markets. Add to this, the election of a strong and stable government has inspired optimism, and the country has shown signs of a faster recovery.

The Global Financial Meltdown has Sent Out a Wakeup Call to the World

The world leaders came together at the G20 Summit on September 24-25 '09 to understand and address the malfunctioning of the global economic system in the hope of heading off future financial meltdown. They also agreed stimulus programs would continue till recovery is assured. The US dollar's dominance as the world currency was challenged by the developing countries urging for an alternate global currency to the US dollar. The G20 turned into a historic summit, with pledges worth \$5 trillion. The objectives of the summit were – Stability, Growth, Jobs.

Global warming and climate change
Yet another catastrophe in the making is the phenomenon of global warming and climate change. Scientific evidence warns against the acceleration of global warming which will result in heat waves, droughts and floods.

Hopefully solutions will be found in Copenhagen, when 180 delegates from different countries will converge for the 15th Conference of Parties of the United Nations Framework Convention on climate change in November 2009.

Post Copenhagen, new challenges will emerge that will significantly change the logic and the context of competitiveness for businesses. The ability of a business to adapt to low carbon operations as well as sustainable business practices will be one of the key determinants of competitiveness, and not just cost, quality and efficiency. Companies like ours that use substantial quantities of energy will have to respond to these challenges – innovatively.

The Indian Economy and the Growth Scenario

The Indian economy has slowed down from its robust growth momentum exhibited in the last four consecutive years from 9.7% to 6.7% in 2008-09. However, even at a lower rate of growth, India remains the second fastest growing economy after China.

Reflecting robust signs of economic recovery, which has weathered the adverse impact of the global slowdown, industrial production posted an impressive growth rate of 10.4 percent in August this year. This "spectacular" surge in the Index of Industrial Production in August 2009, considered to be the fastest in the last 22 months, was spurred by an impressive double-digit growth in key segments like mining, manufacturing and electricity. An upbeat Planning Commission Deputy Chairman, Montek Singh Ahluwalia, said the recovery signs were a "good Diwali gift". The economy is recovering faster than expected with the government and industry viewing the ongoing improvement in the IIP growth rate as a "sign of recovery in the economy".

The Union Budget is expected to play a major role in driving growth. Investments in housing and infrastructure are showing some positive improvements. The constraints of external flow of funds through ECB, portfolio and direct investments seem to have eased out. The service sector is estimated to show a growth of 8% compared to 9.7% for 2008-09.

Taking into consideration all these aspects, the overall GDP growth in 2009-10 can be conservatively placed at 6.7%. The growth in the Indian economy will have a positive influence on your Company's prospects.

Third Party Logistics to Gain Strength in India

Demand for third party logistics (3PL) services

in India will experience a sharp increase in the next three years, with a growing number of supply chain operations being outsourced to external companies, according to the Associated Chamber of Commerce and Industry (Assocham).

The latest report from the trade association, has valued the Indian logistics industry at US\$105 billion, with nearly 55% of companies hiring the services of warehousing and transportation providers. Despite a continued downturn in the global economy, this figure is expected to reach \$125 billion by 2010, resulting in an increase of approximately 19%.

It is in this industry that shows great business opportunities and exponential growth, your Company is a pioneer and leader in Express Distribution and Supply Chain Solutions.

Financial Performance

Despite the very difficult year and the economic environment, your Company has delivered another year of steady performance. During the year 2008-09, your Company achieved a turnover of Rs.630 crore against Rs.575 crore in the previous year, showing a growth of 9.56 percent. However there is a Net Loss after tax of Rs. 15.06 crore as against Net Profit after tax of Rs.23.78 crore in the previous year due to increased cost of operations and higher borrowing costs. Consequently your Directors have not recommended dividend for the year.

Air Freighter

During 2008-09, your Company's performance was largely impacted by the Freighter business. You must be aware that your Company entered into the Air Freighter business in 2006-07 to tap the huge market potential of the high value air cargo business. However the global meltdown impacted this business severely. Both big and small corporate customers went into a cost cutting mode, the volume of air cargo dropped and there was a significant drop in freight rates as well. The yields and margins in this business were adversely affected. Your Company's best efforts with Air India for a viable commercial proposition in tandem with the market conditions did not yield favorable results compelling your Company to discontinue the freighter arrangement.

Since February 2009, your Company has stopped using the NACIL freighters on account of various operational and administrative reasons, which were beyond the control of your Company. The dispute with NACIL is on account of their constant and continuous breaches of the Agreement and NACIL's refusal to solve the issues raised by your Company from time to time. On termination of the Air freighter arrangement, NACIL had also invoked the bank guarantee of Rs.30 crore furnished earlier for the freighter arrangement. The Company has raised an arbitral dispute and filed a claim in the Arbitral Tribunal for claiming the various losses suffered on account of the freighter business.

Derivatives

Your Company had entered into a derivative contract in the previous year to mitigate the foreign currency fluctuation risk. Your Company had also accounted for a market loss of Rs.15 crore in the previous year. The volatility of currency fluctuation continued till the third quarter of the financial year, and managing exchange fluctuation became a major challenge. However in March 2009, your Company finally decided to close the derivative contract, and accounted for a loss of Rs.16.87 crore for the current year.

Interest costs

The borrowing of the Company had gone up substantially during 2008-09, mainly because of the two ships that we acquired. One ship was purchased through bank finance and the other was through a lease

transaction. Apart from these, the Company also invested in the warehousing capacity to exploit the business potential in the supply chain business. The interest costs have gone up by more than Rs.25 crore as compared to the previous year.

Shipping freights

Despite acquiring two new vessels during the year, increasing the carrying capacity by over 65%, the corresponding increase in revenue was only 29% on account of global recession which impacted both the volume and freight rates resulting in higher operations cost and lower margins.

Strategic Moves

- **Renewed Focus on the Core Business – Gati Surface Express:** Your company will exploit its inherent strengths of domain expertise, network capability and reach to widen its customer base to enhance profitability.
 - **Aggressive Focus on SCM Contracts:** Your Company is in a position to provide a host of value-added services. Customers, especially in Telecom, Retail and FMCG, are looking at Collaborative Partnerships with your Company. The service portfolio is being upgraded to make it more competitive, which will enhance the productivity and utility of our mechantronics warehouses across the country.
 - **Focus on Gati Coast to Coast:** With the economy set to bounce back and the return of normalcy in the shipping business your Company will review and reroute the vessels to exploit lucrative and high potential markets.
 - **Exploiting the Cold Chain Business:** With the progressive and supportive policy towards agriculture and food processing industry in the recent Union Budget, your Company foresees rapid growth in this segment and is well positioned to tap the cold chain opportunity.
 - **Focus on Widening Reach:** Your Company is also examining various options for strategic alliances with domestic and international players for widening reach and product portfolio.
 - **Focus on Cash Management and Receivables:** Your Company is also reviewing non-viable assets with the objective to hive off or sell it off. Your Company has reviewed the credit norms to its customers and has introduced measures to exercise strict control on receivables.
 - **Focus on Cost Reduction:** Your Company has reviewed costs across all functions, identified areas and initiated a cost cutting exercise. Against the compensation package, DriveGati - a Corporate Performance Measure, was introduced to enhance productivity of employees. Even the employee numbers were reduced across functions. Also the performance management system was restructured for better evaluation and training imparted to employees to improve their performance levels.
- Your Board believes that the investments made and the business strategies being rolled out will result in your Company becoming more competitive, empowering itself to enhance long-term shareholder value.

Acknowledgment

On behalf of your Board, may I place on record our appreciation of our customers, vendor partners, investors and bankers, for their continued support. Our employees constitute our biggest asset. Their commitment has enabled your Company to overcome several challenges.

Finally, I would like to thank you for the confidence you have reposed in the Company, just as in the past, and look forward to your support in the years to come.