

Shaping the future

Speech by The Chairman, Shri K.L.Chugh

At the 16th Annual General Meeting on November 16, 2011



Ladies and Gentlemen,

I have great pleasure in welcoming you today to the 16th Annual General Meeting of your company. The year 2010-11, ending June 11, has seen a transformation at Gati to turn around and start creating long-term value for its shareholders.

While we continue to cope with the rising inflation costs, your company has moved up the value chain and is well poised to deliver end to end logistic and supply chain solutions to clients across domains.

Your continued trust, support and the efforts put in by your company employees have helped us retain our market position as India's leading Express Distribution and Supply Chain Solutions provider.

The Global Economy-Slowing Growth Rising Risks

Global economic crisis continues. Just as the world economy was recovering from the financial crisis of 2008, it was hit by the great European Tsunami – unfolding the sovereign debt crisis. The world economy, once again is passing through a difficult phase. The crisis is likely to cause severe constraint on the liquidity from the financial markets causing reduced economic activity and investments in developing economies. Consequently, the Austerity packages introduced in the Euro zone coupled with depreciation in the Euro value is likely to impact exports of the developing nations leading to fewer remittances for developing economies like India. Two of the forces now shaping the global economy are high and rising commodity prices and the need for many economies to address large budgetary deficits.

The overall Global Growth Index has weakened over the course of this year. Global inflation has picked up from 3.5% in the last quarter of 2010 to 4% in the first quarter of 2011 (source:World Economic Outlook). Debt crisis, financial volatility, weak employment growth and policy dithering in the major advanced economies have exacerbated global economic uncertainty. However, the emerging markets continue to

perform well but remain under pressure, with concerns about persistently high inflation and in some cases, frothy asset markets.

Indian Economy

Ladies & Gentlemen, back home, the Indian economy has also been facing a number of challenges, notably the slowing of the growth in industrial output and high inflation. The weak recovery in the United States and Euro zone debt worries has affected the Indian economy. Due to the global financial crisis our growth rate in 2008-09 had slowed down to 6.8% . However, India was among the earliest nations to recover from the crisis with growth rate rising to 8.0% in 2009-10 and to 8.5% in 2010-11. Unfortunately, dark clouds have gathered in the global skies once again, casting a shadow on us. The Indian economy grew by 7.7% during April-June 2011 (Finance Minister-Pranab Mukherjee address at the Economic Editors Conference)

The rising inflation rate has become a grave concern for the policy makers in India. The Reserve Bank of India in its efforts to rein inflation raised the benchmark interest rates by 25 basis points for the 13th time since March 2010. Despite consistent rise in the interest rates the RBI has not been able to curb inflation. Headline Wholesale Price Index (WPI) inflation remained close to the double-digit mark of 9.72% in September. This has adversely impacted the investment climate in the country. The fall in new capital investment since the second-half of 2010-11 has been significant and can impact the pipeline investment in coming years.

Further, the Policy Paralysis has gripped India. The Indian economy is showing a slow down with rising interest rates making credit too expensive for consumers and firms. Not stopping there, another major concern for the Indian economy is the recent down grading of the entire Indian banking system's rating outlook from "stable" to "negative," by International credit ratings agency Moody's Investors Service, which would render overseas borrowing costlier for the Indian banks.

However, despite the gloomy scenario internationally, India's exports and imports maintained their growth momentum consistently. The sectors that exhibited major growth include engineering, petroleum and gems and jewelry. In a world gripped by severe financial crisis, negligible growth, severe unemployment, India's growth rate, even at 7% remains amongst the best in the world.

Moving India from Logistics to Supply Chain Management

Last year we launched the RedSun division to position Gati as a leading provider of Integrated Supply Chain Solutions and Cold Chain services in India. The business has invested in the development of people and core assets and from a low base, has grown in line with budgeted expectations.

Your company has successfully established its credibility in the Indian Supply Chain arena and is providing integrated services to leaders in our targeted industry sectors and working collaboratively to deliver industry leading service levels. RedSun is working with companies in India to implement supply chain transformational opportunities that reduce overall logistics costs, improve inventory flows, release working capital and create value for stakeholders. For example, in the cold chain space we have recently launched a new product called "PitStop", a service designed to support the temperature controlled movement of vaccines and other pharma and bio industry products through our surface network, at significantly lower costs than current air modes. Or, in line with developing consumerism in India and the growth of online shopping, your company is providing a range of E-Commerce specific services to some of the biggest names in this sector. We will continue to expand our portfolio of services in order to further grow the business and support the developing needs of our customers.

We also recognise that strategically, we have to become global. We have improved the linkages between our domestic and international businesses and are managing global supply chain services for companies based here in India and abroad. Your company has developed the core

fundamentals that enable us to offer leading supply chain services and to be a strong competitor to foreign competitors entering the Indian market.

Gati 2010 -11

Ladies & Gentlemen, during the last financial year, while the company grew ahead of industry growth rates, the operational costs also escalated resulting in modest increase in the bottom line. For the current year your company has made a significant shift from last year, wherein we have worked on cost optimisation strategies internally to reduce our operating expenditure and rate revisions to match up the on-going increase in inputs costs.

The recovering economy has resulted in a robust demand for integrated logistics and your company has taken several strategic initiatives to service the growing needs. Your company posted a consolidated total income of ₹ 12094 Million for the financial year 2010-11 as compared to total income of ₹ 9335 Million of the previous year, thereby registering a growth of 30% in revenue. EBITDA grew by 13% at ₹ 989 Million as compared to ₹ 875 Million of the previous year. The Profit After Tax rose by 49% at ₹ 141 Million as compared to ₹ 95 Million of the previous year.

The standalone results showed a total income of ₹ 9057 Million for the financial year 2010-11 as compared to total income of ₹ 7514 Million of the previous year, thereby registering a growth of 20.54% in revenue. EBITDA grew by 8% at ₹ 930 Million as compared to ₹ 861 Million of the previous year.

Your Board has recommended a dividend of 25% as against 20% in the previous year.

The Shipping division however, continued to underperform during FY 2010-11, registering a negative growth of 2% on revenues at ₹ 923 Million as against ₹ 940 Million in the previous year. The division reported losses of ₹ 163 Million for the FY 2010-11. This has adversely impacted the overall profitability of the company. The re-structuring of the Shipping business is underway.

Your company had issued \$ 20 million FCCBs in December 2006 with an objective to expand the operations, purchase ships and for investment in subsidiaries for growth in business. It was expected that your company would be in a position to convert / redeem the FCCBs. Unfortunately the past 5 years have seen global meltdown, followed by EU meltdown and growth contraction resulting from high inflation. Notwithstanding all these factors your company is close to resolving the issue of FCCB liability.

In addition, your management is committed to re-engineering your company by making it efficient and lean, with dedicated concentration on cost management, reduction of debts, focus on cash management, reduction in interest costs to achieve the objective of improved profitability. With the increasing interest rates by the RBI, thirteen times since March 2010, your board will take all the steps to manage cash efficiently.

Way forward

Your company is well positioned to capture the growing logistics market demand. Acquisitions & Partnerships are going to play a key role in the entire strategy. Our plans are to further strengthen our Road Network by way of greater automation and better material handling facilities.

From July 2011 we have made significant inroads by changing our contracts to be hedged for fuel cost increases thereby reducing the risk of reduced margins in the event of increases in fuel price. Old contracts have been renewed at better rates to keep pace with the rising operating costs.

Personnel cost increases has been linked to performance of the company and the individual. Administrative costs are being restructured to hedge against high inflation in the rental and other utility costs.

Your company continues to be innovative and has introduced a number of monitoring and management tools via Dashboards for quick information availability and a 360 degree view of all its customers. A Network Monitoring Centre has been established to monitor the 1000+ vehicles that ply on roads.

Your company was awarded the “Best Logistics Service Provider – Road” - 2011 by the Express Logistics and Supply Chain Council.

This year your company has taken several corporate social initiatives. To name a few, Gati Government School, built by Gati in Hyderabad is equipped with all the necessary facilities required including 27 classrooms, a huge playground, sanitation facilities etc. for 1000 students at the school. In respect of environment, Gati has undertaken plantation and maintenance of the Green Belt under the Metro track in Gurgaon, Delhi to offset carbon emissions.

To ensure safe driving, Gati joined hands with Hyderabad Goods Transport Association, to set up state of the art truck drivers and transport employees training institute. The Transport Training & Development Institute empowers commercial vehicle drivers with all the essential safety practices so that they face the roads with a much greater responsibility.

Acknowledgment

On behalf of your Board, may I place on record appreciation of our clients, vendor partners, investors, government and bankers for their continued support. Our employees constitute our biggest asset and their commitment and dedicated hard work 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.



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