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## 21<sup>st</sup> Annual General Meet, 4<sup>th</sup> August, 2016

### Speech by The Chairman

#### Dear Shareholders,

Ladies and Gentlemen, Good Morning,

On behalf of the Board of Directors of your Company, Gati Limited, it is my privilege to welcome you all to the 21st Annual General Meeting. The year gone by has been a watershed year in many ways. It was a year in which the overall business environment was substantially muted. Global markets, as well as domestic markets, both faced the twin challenges of stunted growth and squeezed margins. Your Company navigated such business challenges through the course of the year, while simultaneously preparing for a new future.

#### Global Outlook

The world, at large, is still to recover from the 2015 lows. Macroeconomic uncertainty and volatility remain persistent. Aggregate demand continues to be weak. Investments are stagnant across world geographies. Global trade flows in recent months, including imports and exports, have slowed down to the lowest rate since the 2008 meltdown. Vulnerability of emerging economies has only further increased. Financial markets are turbulent the world over. Exchange rate fluctuations have spiked in the recent months. And most recently, the Brexit vote has further added to the umpteen economic uncertainties. The only silver lining seems to be that the Commodity prices have stabilized, having tested the bottom in 2015; and consequently, inflation is benign. In the midst of such unpredictable complexity, the early in-year projection of 2.9 per cent global growth seems like an exaggerated hope within just a few months into the year.

#### Indian Economy

By all accounts, India stands alone as an island of hope in an otherwise volatile, and uncertain, global economy. With a projected growth rate of 7.0 – 7.75 per cent, India is arguably the fastest growing major economy in the world. Also, continued macro-economic stability over the last couple of years has helped India sustain itself as an attractive destination for foreign capital, albeit more in the form of FII

with disproportionately lesser FDI. Having acknowledged these positives, it is important to calibrate expectations, since India economy has become ever so intertwined with the world economy over the last decade. Indian exports has registered eighteen consecutive months of contraction, and the first tentative signs of a trend reversal are emerging only now in the second quarter. Inconsistency in month-on-month Index of Industrial Production (IIP) figures only reiterates the challenge in revival of manufacturing and industry. The 'Twin Balance Sheets problem' articulated in the Economic Survey 2016 have only further restricted debt liquidity that is much needed for corporate investments to drive the growth engine. In such context, it is important to maintain balance in growth expectation, while remaining hopeful about 2016-17.

#### Indian Logistics Industry

Growth prospects for the Indian logistics sector looks promising for 2016 and beyond, with Government's avowed focus on logistics infrastructure development, numerous policy initiatives in the areas of trade and industry promotion, as well as the much anticipated GST tax reform.

The infrastructure sector has garnered a record budgetary allocation of Rs 2.21 lakh crore, of which Rs 97,000 crore is earmarked for 10,000 kilometres of new road projects alone, with additional funds being allocated for upgrading 50,000 kilometres of existing state highways. Activation of smaller airports in Tier I and Tier II cities and the relaxation of approval norms in the new Aviation policy are expected to provide fresh impetus for growth in aviation sector. Progress on Dedicated Freight Corridor has been stepped up. Also, a new Parcel Train Policy published by the Railways recently has many favourable elements, such as an extended contract period of six years as against three years earlier, significantly higher security deposit for tender participation, etc., that are aimed at singularly encouraging only serious, long-term players to participate in future tenders. Finally, a plan for modernising existing ports and building new ports along India's long coastline has also been unveiled. Thus, there is a comprehensive focus on improved infrastructure through building a network

of roads, rail, ports and airports; this augurs very well for growth of the Indian logistics industry.

In parallel, there have been targeted initiatives to promote trade and industry. The growth objectives of the government are amply clear from the sustained efforts to propagate the Make-in-India initiative, the improvements made in ease of doing business, and also the recent DIPP amendment clarifying new Guidelines for FDI in e-Commerce. Logistics industry will be a direct beneficiary of these developments.

Furthermore, there is a pregnant expectancy in the industry with regards to the much awaited GST reform becoming a reality through course of this fiscal year. The GST is a consumption based indirect tax that will catalyse compliance in every business chain and expand the tax base in a transparent and efficient manner, while reducing the overall tax burden. The benefits to the businesses are umpteen including removal of cascading effect of tax, reduction in total tax rate from the current 25-30% to the projected Revenue Neutral Rate of 18%, fungibility of input tax credits, lower costs of process compliance, etc. Also, the GST will be a significant trigger for the Indian industry to migrate from legacy supply chain models designed to optimize current tax considerations, to more efficient supply chain models that optimize operational considerations. Factories & Warehouses will consolidate into larger operations to benefit from scale efficiency. Interstate movement of goods will become easier with reduced procedures and restrictions at state borders. Load patterns and travel distances will change, and consequently Distribution networks will need to be redesigned. All this will mean tremendous business opportunity for established end-to-end logistics players, such as your Company.

In light of all of these developments, and commitments, the year ahead is expected to be the start of an extended period of sustainable double-digit growth in the Indian Logistics industry.

### Gati Limited Performance

During the year under review, at consolidated level, your Company registered a revenue of INR 16,818 million, EBITDA of INR 1,456 million, PBT of INR 648 million and PAT of INR 492 million as against a revenue of INR 16,627 million, EBITDA of INR 1,538 million, PBT of INR 758 million and PAT of INR 566 million respectively in the previous year.

At a standalone level, your Company recorded a revenue of INR 4,980 million, EBITDA of INR 560 million, PBT of INR 223 million and PAT of INR 198 million as against a revenue of INR 4,546 million, EBITDA of INR 526 million, PBT of INR 257 million and PAT of INR 239 million in the previous year.

Your Directors have recommended a dividend of 50% (Re. 1 per share) for the financial year ended March 31, 2016 subject to approval of Shareholders. In the previous year, dividend payout was at 70%, including special interim dividend of 30% in celebration of your Company's 25th Anniversary.

### Gati-Kintetsu Express Pvt Ltd. (GKEPL) Performance

In Financial Year 2015-16, the flagship subsidiary of your company, GKEPL contributed 68% to the consolidated business of your Company. During the year under review, GKEPL recorded a revenue of INR 11,416 million, EBITDA of INR 953 million and PAT of INR 440 million against a revenue of INR 11,424 million, EBITDA of INR 1,160 million and PAT of INR 575 million in the previous year.

The Transport Solutions business performance in FY1516 was severely impacted on account of the loss of the parcel train tender in the west-east corridor. The recently announced Parcel Train policy by the Railways places your Company in a significant position of strength vis-à-vis unorganized retail competition while bidding for new tenders, and also in building a sustainable business thereafter. Your Company is thus confident of re-establishing dominance in rail parcel business in the near future.

Your company intensified its focus on the Warehousing business by creating a strong pipeline of customers needing 3PL and Fulfilment services. These efforts have yielded positive results with the SCM division registering a more than 50% year-on-year growth in FY1516.

### Gati Standalone e-Commerce Performance

In line with expectations, the e-Commerce industry has been abuzz with activity through the course of last year. The established e-Commerce companies have made accelerated progress in terms of customer base expansion, product portfolio enhancement and new vendor acquisition. However, the pace of growth of established e-tailers has tempered significantly in the second half of last year compared with early part of the year.

A trend has emerged wherein many new e-Commerce SMEs are mushrooming across large towns and cities in the country. As per recent reports, Tier II and Tier III cities have seen a 30% to 50% rise in e-Commerce transactions.

In such industry context, your company has further evolved its growth strategy by tapping into the emerging e-Commerce SME segment, while also increasing its presence in the lower weight segment of established e-tailers. During the year under review, the e-Commerce

division of your company has recorded a revenue of INR 2,078 million as against INR 1,274 million in the previous period. The number of packages handled has grown in excess of 70%, as compared with previous year.

### Gati Kausar Performance

India's cold chain sector forms the backbone of the food processing and food service industry, providing cold storage and refrigerated transportation for a range of businesses including Packaged Foods, Quick Service Restaurants, Pharmaceuticals, Animal Protein, Fresh Fruit and Vegetables. Increasing consumer demand for quality processed food, stringent regulations for food safety, and focus on Good Distribution Practices (GDP) in pharmaceuticals, have all helped generate greater need for high-quality cold supply chain solutions. Gati Kausar already has a visible presence in refrigerated transportation and serves many a number of popular brands.

Going forward, Gati Kausar aims to provide end-to-end cold chain solutions by offering high quality cold storage capability, in addition to refrigerated trucking. A significant first step in this regard is the scheduled commissioning of its first Refrigerated Express Distribution Centers (REDC) in early financial year 16-17. Gati Kausar plans to build a network of REDCs over time to enable itself to compete more effectively in the cold chain business.

### Awards & Recognition

Ladies and Gentlemen, I am pleased to inform you that your company, during the year received numerous awards and recognition's, which demonstrate that your company's services, expertise and corporate performance are greatly valued. To mention a few, your company was recognized in the technology domain by the prestigious "CIO Power List". The company was awarded the "Supply Chain Packaging Company of the year" at a premier annual industry conclave, endorsing our success in expanding our service portfolio beyond package delivery. Further, your company was awarded the "Indian Power Brand of the Year" confirming the resounding awareness of Brand Gati. Further, it is a matter of pride that Gati-KWE, your company's flagship subsidiary, became the first logistics company to get certified to the latest ISO standard, ISO9001:2015.

### Corporate Sustainability

Your Company believes in being a socially responsible corporate and going beyond business and profit by giving back to the society. Gati Muskaan the flagship initiative of Your Company has in various capacities contributed towards development of community, promoting education,

livelihood, disaster management and protecting the environment thereby contributing to develop a better society.

### Looking Ahead

As I described earlier, 2016 and beyond, bodes well for the Indian Logistics Industry, supported by Governments policy initiatives, tax reforms and focus on infrastructure building. The logistics industry will be a direct beneficiary of the growth momentum triggered by these efforts. Equally, it is important to recognize that the ultimate winner within the logistics industry will be one who is able to outpace competition by delivering on the ever increasing demands of service, quality and cost in both B2B and B2C sectors.

All of us are able to notice and experience the massive transformation that is happening in our today's society. Technology and social media have caused unimaginable change in the behaviour and expectation of customers, employees and other stakeholders. Your company needs to keep pace and march in tune with such changes happening around us. Only then will your company step ahead of competition and maintain its prominent position as an end-to-end logistics service provider. As part of its 'Vision 2020' exercise, your company has embarked on an ambitious mission of ramping up its operations towards delivering "a million packages a day, while ensuring zero delays and zero damages." To this end, the company has identified three key pillars of change namely Technology, People and Customer Satisfaction.

**Technology** – Your Company has always been a pioneer in the logistics industry when it comes to introducing new technology and adopting global best practices. In the last few months, your company has undertaken an ambitious project to automate its all-India network operations using Barcode Scans on each and every package across the country. Such expansive technology automation is unprecedented in the Express Distribution industry in India, especially in the context of Gati's scale and network reach. On completion of this rollout, enroute track-n-trace will improve from today's docket level visibility to hundred per cent visibility at an individual package level, and thereby, operational issues such as shortages, misrouting, damages, etc. will stand significantly reduced. Thus, your company is in the process of adding on a significant new operations capability that will help deliver value to the customers. Furthermore, your company is evaluating new state-of-the-art IT technologies for a de-novo development of an Enterprise Management System, than can handle the varied needs of the B2B and B2C in an integrated manner, and that will help further improve efficiency and productivity in our operations to delight our umpteen customers.

**People** – Significant changes are being effected in your company to address the need for a strong talent base required to deliver on the strategic priorities in the near future. The leadership has been re-organized along inter-dependent functional chains to drive greater functional excellence. Talent mix is being overhauled to infuse further technology capability and build higher-order analytics skills at each operating level. Also, there is immense focus towards building a performance driven culture to attract and retain the best talent in the industry.

**Customer Satisfaction** – In the emerging market context, logistics business is no more restricted to being a provider of distribution or warehouse service, but has expanded in scope to becoming an effective business partner to the customers. Recognizing this change, your company is continuously evolving its approach by placing customer satisfaction at the very centre of the business decision making process. Focus on new product innovations has been ramped up. Integrated solution selling to address end-to-end logistics needs of the customer has been initiated as the new go-to-market approach. This is even more relevant in the context of an imminent GST regulation that will force significant change in the supply chain models adopted by our customers for their own business operations.

Your Directors are very confident that fast paced progress on these three pillars of change will help accelerate your company's growth towards achieving the dream of delivering one million packages a day over the next few years, to our customers' satisfaction, and to our shareholders' delight.

### Acknowledgements

As I conclude, may I, on behalf of the Board and employees of Your Company thank you, our valued shareholders, and also thank our umpteen customers, vendor partners, investors, government and bankers for their continued support and encouragement.

Thank You Ladies and Gentlemen.

Chairman



### Registered Office and Corporate Office

#### Gati Limited

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For more information about our services and offerings,  
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