



INDUSTRIAL GROWTH
Logistics

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GATI LTD. —GTIC IN
EXPRESSING ITSELF

Overweight

BSE: Rs109.65 as of 9/3/07

Initiation Report

Key Data		FY	2007	2008	2009
52-Week Range (INR):	80-120	EPS (INR)			
Market Cap. (INR mn):	7,914	1Q	0.59A	0.78E	NE
Shares Outstanding (mn):	72.2	2Q	0.45A	0.83E	NE
Average Daily Volume:	74,871	3Q	0.72A	0.90E	NE
Free Float (mn)	36.2	4Q	0.90A	0.88E	NE
Short Int. (% Free Float)	NM	Year	2.66A	3.40E	4.55E
Fiscal Year End:	6/30	P/E	41.22x	32.30x	24.08x
		Revenue (INR mn)			
Total Debt/Equity	78%	1Q	1331.60A	1214.00E	NE
TEV/TTM Sales:	1.2x	2Q	1389.60A	1293.24E	NE
Net Cash/Share:	INR 23.20	3Q	1383.40A	1422.69E	NE
Book Value/Share:	INR 28.65	4Q	1220.00A	1550.50E	NE
Price/Book Value:	3.8x	Year	5324.60A	5480.44E	7926.53E
Price Target	INR 129	TEV/Sales	1.2x	1.1x	0.8x

Note: Price is as of the close on the date indicated. Any price target displayed in the data box above represents either a specific price target or the midpoint of a range.

Source: Company reports, Thomson Financial and Thomas Weisel International estimates

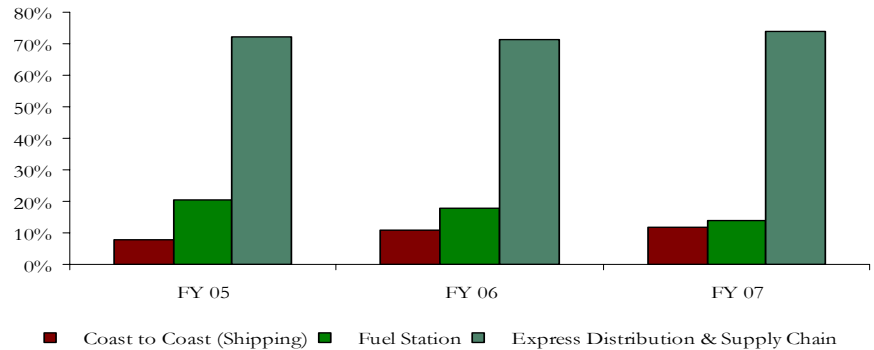
- **We are initiating research coverage of Gati Ltd. (GTIC IN) with an Overweight rating.** Gati is a leading provider of express distribution and supply chain services in India.
- **Indian logistics industry to grow at 13%-plus CAGR until FY12:** We expect the express logistics and supply chain markets to deliver higher growth (25-30%) driven by increasing demand from high-growth end-markets such as auto, retail, telecom and electronics products.
- **Gati focuses on the premium segment of the Indian logistics industry.** Its pan-India network for express shipment gives Gati India-centric distribution domain expertise. Expansion of warehousing in a hub and spoke model will ramp up volume and margins going forward, in our view.
- **Expansion of air cargo business completes the express distribution chain:** The planned leasing of five Boeing 737 freighters should increase air freight revenue 4x from current levels.
- **High-end retail and cold chain services are growth opportunities:** The recent acquisition of a cold chain services company marks Gati's intentions to expand in these segments, in our opinion.
- **We project adjusted revenue to grow at 28.3% CAGR until FY10:** The growth is driven by 44% CAGR in express distribution and supply chain revenue. We expect EPS to increase at a 27.6% CAGR over the next three years.
- **Valuation:** GTIC IN trades at 32.30x our FY08 EPS estimate of INR3.40, ahead of the peer group at 18.70x. Our 12-month price target of INR129 is based on 1.0x PEG or 28x FY09 EPS. There always are risks that the price target for any security will not be realized. In addition to general market and macroeconomic risks, for Gati, these risks include delays in warehouse expansion plans, unfavorable government regulation and an inability to pass fuel price hikes to customers.

Please see analyst certification and other important disclosures starting on page 17 and continuing through page 18.

COMPANY OVERVIEW

Gati started operations in 1989 as Gati Cargo Management Services, operating primarily as a cargo management company. Gati has since developed into a leader in the express cargo distribution business and as a supply chain management solutions provider. It currently manages a fleet of more than 2,000 vehicles on the road. Its network reaches out to 594 of 602 districts in India. The company's business can be classified into three divisions—express distribution and supply chain (ED&SC), coast-to-coast shipping and fuel stations.

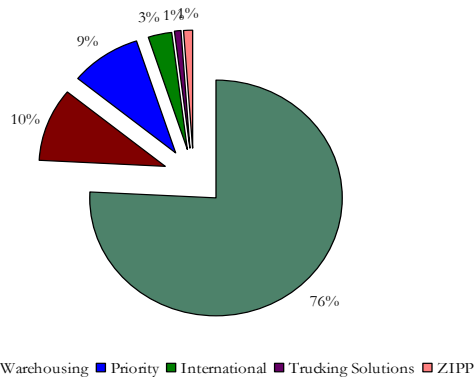
Revenue by Business Division



Source: Company reports

ED&SC comprises the express, priority (air) and international—courier & cargo, warehousing, trucking solutions and domestic courier services (branded as ZIPP) sub-segments. The express sub-segment contributes nearly 76% of the ED&SC division's revenue. The company focuses on fast-growing and high-value sectors such as pharmaceuticals, electronic goods and automotive parts. Gati has also entered into a strategic alliance with Indian Airlines for the movement of its priority cargo. Key customers include Hitachi, Honda, Nokia, Sony, Cipla, Cadilla, Honda, Ford and Novartis.

FY07 Revenue by Sub-Segment for ED&SC



Source: Thomas Weisel International estimates

Gati's ED&SC business model is not asset-based: Gati manages a fleet of more than 2,000 trucks, but it owns only about 200 of them. The remaining trucks are sourced from vendors with which Gati has formed contractual relationships wherein Gati ensures a minimum level of business to vendors at pre-negotiated rates that are typically at a discount to market rates. Gati's own vehicles are typically large, multi-axle vehicles and customized vehicles required for specific cargo. This model not only is efficient but also allows the company to respond to client demand more quickly by expanding its fleet on short notice. In warehousing, the company plans to maintain a balance between own and leased warehouses so as to reduce its capex and focus on offering services than managing assets.

The coast-to-coast shipping division primarily operates three container vessels on the Chennai-Port Blair-Yangoon sector. The total capacity of the three vessels totals about 17,674DWT (dead weight tons). Gati has also signed an agreement to purchase another new vessel for \$13.40mn and will add 7,000 DWT to its existing capacity. The new vessel is expected to be delivered by March 2008.

The fuel station division operates four fuel stations, which are spread over three states. The company is currently in the process of divesting from this business segment.

INVESTMENT THESIS

Double-digit growth ahead for Indian logistics industry: We project that the Indian logistics industry, comprising road freight, rail freight, air freight, port related logistics, and supply chain management services, will grow at a 13.3% CAGR over the next five years. The growth in logistics is driven by growing foreign trade, positive government initiatives including FDI in infrastructure and rationalization of tax regime for interstate cargo movement, increasing investments in infrastructure development and growing manufacturing and retail activity. Based on the capex plans announced by leading logistics companies, projected investment in container rails and proposed port projects, we expect investments of \$20bn until FY12.

Indian Logistics Industry: Projected Growth Until FY12

Logistic Industry Segments	Industry size, \$mn		
	Current	FY12	CAGR
Road Freight	9,560	15,396	10.0%
Rail Freight	10,575	15,370	7.8%
Air Freight	1,508	4,601	25.0%
Port-related Logistics	3,661	5,911	10.1%
Express	1,000	3,052	25.0%
SCM Ex. Transportation	2,600	9,654	30.0%
Total	28,904	53,984	13.3%

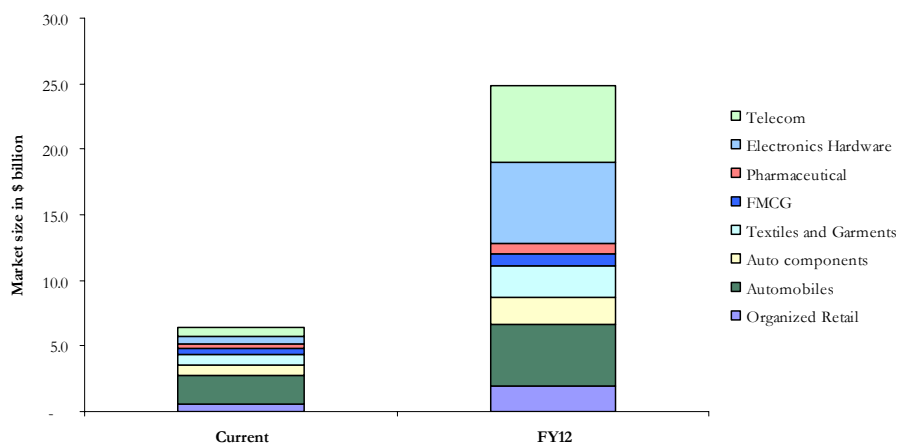
Source: Thomas Weisel International estimates

India-centric distribution domain expertise differentiates Gati: Gati is one of the largest companies in the highly fragmented logistics industry in India. Its niche is logistics solutions for high value goods. In our opinion, Gati's unique selling proposition is its established, pan-India network for the express shipment of cargo, which affords it an India-centric distribution domain expertise. Gati is one of the few players and the only

public company that operates nationwide and focuses on the express segment with time-bound deliveries. Road is the dominant mode of transportation in India, carrying 65% of the total freight. The trucking industry in India is highly fragmented with more than 16,000 players, however. Small operators that own less than five trucks account for about 70% of the fleet, and the operators owning more than 20 trucks are less than 10% of the fleet. Therefore, there are only a handful of players (less than 20) that operate nationwide, and most of them focus on the bulk segment. Gati, on the other hand, provides containerized movement of goods to 594 of the 602 districts in India with door-to-door service, shipment tracking and an assured date of delivery for all its shipments. The company follows hub-and-spoke distribution, a model it adopted in the early 2000s, to expand its reach and also to reduce its operational and administrative costs.

Gati offers exposure to the fast-growing market for supply chain management (SCM) in India: The company derived 86.3% of its FY07 (June) revenue from ED&SC services. ED&SC includes express services (surface transportation), warehousing and air cargo services. We estimate the SCM market for non-bulk sectors in India at \$6.5bn, and we project it to grow at a CAGR of 30% to reach \$24.3bn by 2012. We estimate the market share of the company at about 5% in the fast-growing SCM logistics market for non-bulk goods.

Supply Chain Market for Selected Non-Bulk End Markets

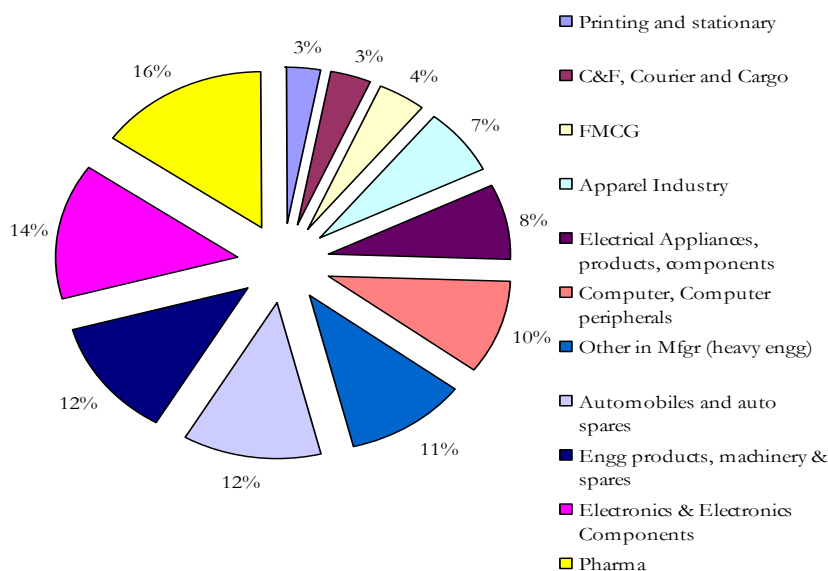


Source: Thomas Weisel International estimates

Gati's client base in high-growth end markets should drive growth: The breakout of Gati's ED&SC revenue for FY 06 shows a concentration of revenue in high-growth industries including pharmaceutical, electronics, computers and peripherals, auto and auto ancillaries, engineering goods and apparels. In our view, the manufacturing and retail sectors are important growth drivers for the supply chain logistics market and have grown impressively in recent years. The important manufacturing sectors such as auto and auto components and textiles have grown 15-25% annually in the past five years, thus giving a boost to logistics spending. According to the Investment Commission of India these sectors are expected to register a CAGR of 15-20% by 2012, while other

sectors such as electronic hardware and telecom are expected to grow faster at a CAGR of 35-40% over the next 5 years. Pharmaceuticals grew at 9.5% in the past few years and is expected to grow at a CAGR of 15% until 2012, according to the Investment Commission of India. Based on the expected growth of Gati's end markets, we project that Gati will grow its express services at a CAGR of 24% over the next three years.

FY06 Business Analysis of the ED&SC Segments



Source: Company reports

Retail sector, especially high-end garments and cold chain, a huge growth opportunity for Gati: The growth in organized retail, especially food segment, will affect SCM market greatly over the next five years. Currently, the overall retail sector is estimated to be at \$300bn by the Investment Commission of India; however, only 3% of this industry is organized. We expect the organized retail portion to grow at a CAGR of 29%, while the overall retail market is expected to grow only at a CAGR of 9-10%. Because Gati is focused on the high-value segment, we do not anticipate that it to become a major player in the retail food segment. Instead, we think that Gati can expand into high-end garments and perishables that require cold chain operations. Considering that retail accounts for a very small share of Gati's revenue, we think there is a lot of opportunity for Gati to grow in this segment.

Gati recently announced the acquisition of a majority stake in Kausar, a leading player in the cold chain operations. Kausar is based in Delhi in the northern part of the country. It has pan-India operations and owns about 20 reefer trucks. We have not included the acquisition of Kausar in our projections as we await more information on the transaction.

We project that the company will grow its ED&SC revenue at CAGR of 44% over the next three years: Gati is leveraging its express business to build an integrated supply chain management solution complete with value-added warehousing and inventory management solutions. Gati is upgrading its distribution network by adding high-end warehouses in a hub-and-spoke architecture to cover the entire country. In our opinion,

the combination of nationwide express distribution and warehousing will allow the company to generate long-term contracts for managing the supply chain. Our projection for a CAGR of 44% in ED&SC revenue is derived from a CAGR of 24% in express services (an estimated 75% of ED&SC revenue in FY07) based on high growth in Gati's end-markets, a CAGR of 29% in warehousing services (an estimated 10% of ED&SC revenue in FY07) driven by ongoing capacity expansion and a CAGR of 77% in air services (an estimated 10% of ED&SC revenue in FY07) driven by leasing of five freighters.

Rationalization of tax regime to increase interstate commerce and outsourcing of SCM: In our opinion, distribution in India will be redefined with the implementation of a value-added tax (VAT) and the phasing out of the central sales tax (CST). Tax rationalization will increase interstate commerce in India, which will promote logistic hubs and distribution centers. Logistic providers such as Gati should therefore benefit from the hub-and-spoke distribution model.

The abolition of the CST will allow companies to focus on the customer, reach and distribution costs rather than on maintaining state-based networks. Currently, a 3% CST is levied for interstate movement of cargo. As a result, companies are forced to maintain warehouses in every state for local sourcing and distribution. The phasing out of the CST by 2009 will give impetus to widespread business and sourcing across the country. Interstate sourcing should increase, as it will be exempted from the VAT.

Consolidation in warehousing will benefit Gati: We expect consolidation in warehouses, as pan-India distribution will be possible from six to eight warehouses after the CST phase-out compared to about 30 currently. We expect the outsourcing of SCM to increase, as setting up hubs and distribution centers will be highly capital intensive, forcing companies to look at the shared facilities of services providers. We therefore believe that the outsourcing of SCM is likely to grow at a higher rate than the 30% CAGR that we project for the SCM market for non-bulk goods. In addition, we believe that large, organized service providers will be the preferred outsourcing partners and, therefore, we expect organized logistics players to take market share from unorganized, mainly regional, players.

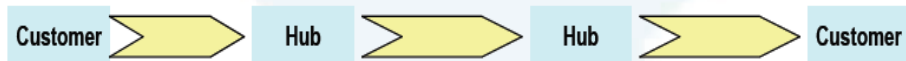
We think the entire network will take nearly five years to come online: Gati currently owns and manages about 1mn square feet of mechanized warehouses, and it plans to add another 1mn square feet over the next two years. The plan is to have one central distribution center in Nagpur, central India, as a hub to enable national distribution and 19 express distribution centers (EDCs) spread across the country for zonal distribution. In addition, there will be 52 Gati delivery warehouses around EDCs for regional and local distribution. The re-engineered network will streamline the distribution process, resulting in a quick turnaround time for customers and better profit margin for Gati.

Reengineered Distribution Network

Existing Network



Re-engineered Network



Source: Company reports

At present, there are six EDCs that are operational in India. The EDC's are in Jaipur, Ambala and Lucknow in the north, Guwahati in the east, Pune in the west and Bangalore in the south. According to the company, the CDC in Nagpur and seven additional EDCs are scheduled to come online in the next three years. Warehouse construction is capital intensive and each can take anywhere from 6 to 12 months to come online. In addition, we think the company lacks the size to raise the capital required for building the entire network on its own and that it will therefore need to lease some warehouses and hubs.

Based on our discussion with management, Gati plans to build its own warehouses in the four major metros (Delhi, Mumbai, Kolkata, Chennai), and other cities such as Pune, Ahmedabad, Hyderabad and Bangalore where EDCs are already operational. These will be state-of-the-art warehouses with multiple levels, covering at least 200,000 square feet each. We think that the company is likely to lease other warehouses. In all warehouses and hubs, Gati will install its own modular racking systems for storage and handling. The capex plan for warehouses over the next three years is about \$85mn.

Expansion of air cargo business completes the express distribution chain: Gati is foraying in a major way into the air cargo segment by leasing five Boeing 737 freighters from Indian Airlines for a period of five years. We believe the company will provide door-to-door service by combining with its surface transportation capability. It has been leasing cargo space on Indian Airlines aircraft for the past 10 years, and it primarily provides priority services. The current scale of operations is relatively small with revenue of less than INR400mn, or about 8.5% of total ED&SC revenue. We project that, with the leasing of the five freighters, air cargo revenue will grow to about INR2,000mn, or to 20% of ED&SC revenue by FY10.

Air cargo industry in India is small but lucrative: It has grown from 0.8mn tons in FY02 (March) to 1.3mn tons in FY07 at a CAGR of 11.8%. Our channel checks indicate that the domestic market is growing at a faster rate than the export-import air cargo market. In India, air cargo primarily caters to industries, such as pharmaceuticals, couriers, jewelry, perishables, that have time-sensitive needs for movement of cargo. Industry leader Blue Dart, with an estimated 40% share of the domestic market, has an EBIT margin of about 15%, much higher than the 6-10% for cargo shipment by surface transportation and the 3-5% for trucking operations. We estimate Gati's EBITDA margin in the air segment to be about 15%, and we project that the company will maintain that margin over the next three years.

CAGR of 20%-plus projected for India's air cargo services: The Centre for Asia Pacific Aviation has included India in its rankings for the top-30 freighter markets in the world and projects that the air cargo market in India to grow at 20-30% over the next 10 years. Currently, there are four companies operating in the sector with at least another four (including Gati) announcing plans to enter the market before the year ends. Although we believe the industry can grow at a CAGR of 20-30% over the next five years, we expect the growth rate in the next 2-3 years to be 15-20% as industry capacity builds up and cargo-handling infrastructure at major airports improves from ongoing modernization efforts.

Coastal shipping division will benefit from capacity and route additions: Coastal shipping, like air cargo, is a highly lucrative market with increasing demand and high freight rates. Growth is constrained by availability of vessels, however. Gati operates three vessels with a total capacity of 17,476 DWT or 600 TEUs (twenty-foot equivalent containers), which run on the Chennai-Port Blair-Myanmar-Chennai route. It is adding another vessel with a capacity of more than 400 TEUs, expected in March 2008, which the company will run on lucrative international routes such as Thailand and Singapore. We project that revenue from coastal shipping will increase at a CAGR of 25% by FY20 over the next three years to INR1,200mn (12% of total revenue) driven by capacity expansion and better capacity utilization.

COMPETITION

In express services, there are thousands of players active at regional and local level, and about 30 or so national players account for a major chunk of the total market. Leading global logistics companies such as DHL and FedEx are operating in India, but these companies operate aircrafts on international routes while domestic movement is undertaken by local partners.

Major Industry Players

Service Offering	Major Industry Players
Surface transportation (Road/Rail)	Gati, TCIL (XPS), Safexpress, AFL
Air (priority)	Gati, DTDC, Blue Dart, TCIL, AFL
Air Cargo	Gati, Blue Dart (DHL), Prakash Air Freight (FedEx), First Flight, UPS Jetair

Source: Thomas Weisel International

SCM is in a nascent stage in India and there are several players but no industry leader. Some of the prominent companies in SCM logistics are TCIL, Gati, Reliance Logistics, Exel, Om Logistics, DRS Logistics, APL Logistics and Indo Arya Logistics.

Global logistics companies such as Exel and DHL are operating in India, but these companies have not ventured into road freight because of excess capacity in the industry, requirement of local expertise and low ROI typical of the business. Global companies are focusing more on Ocean freight, Air freight and SCM markets and evincing interest in container rail business.

INVESTMENT RISKS

Long gestation for setting up warehouses: The whole process of setting up a warehouse takes nearly two years from acquiring the land to constructing the warehouse to finally making it operational. Any delays in acquiring land or construction will further draw out the gestation period for the warehouse. Because there are synergies between setting up the warehouses and the expansion plans for Gati's express division, any such delays could negatively affect the bottom line.

High cost of land acquisition: Land prices have increased dramatically in the past two years in India. In some locations, land prices have doubled or even trebled. There are problems with acquiring land in certain states and with getting the permissions for converting agricultural land into commercial use. All this could negatively affect the rate of return on the project.

Implementation of the Indian Post Office Amendment Bill, 2007: The air courier business of the TCIL could be negatively affected if the Indian Post Office Amendment Bill, 2007 is passed and implemented. The Bill proposes that the private courier companies wanting to deliver letters weighing below 150 grams must do so at a price that is five times more than the rates charged by Indian Postal Services or 2.5 times the rates charged by the express services division branded as Speed Post. The Bill also lays down that foreign players in the sector should be charged an entry fee of INR1mn and a renewal fee of INR0.5mn per annum.

We do not anticipate pricing pressure in express cargo distribution services: The highly fragmented nature of the trucking industry has made it highly competitive, especially at the local and regional level. We believe that Gati is not likely to come under pricing pressure, however, as it competes on service reliability and customer service. In addition, to compete effectively with local and regional players, Gati follows a pricing matrix with its corporate customers. Gati is price competitive at the national level but not at the local and zonal level, where local and regional players offer better pricing for logistics. To remain competitive, Gati has a pricing matrix for its customers wherein Gati is price competitive with the local and zonal players for city and regional level logistics and at the same time generates national-level business from the same client, thereby maintaining a good overall profit margin. This pricing structure ensures a mix (local, state and national) of business and is revised on a regular basis depending upon business from the client.

INVESTIBILITY—LOW FOREIGN HOLDING PRESENTS AN OPPORTUNITY FOR FOREIGN INVESTORS

The central government of India has allowed 100% investment in the logistics sector in India. This includes foreign direct investments (FDIs) and investment by foreign corporate bodies, foreign institutional investors (FIIs), foreign venture capital investors and foreign individuals, among others. The total foreign holding in the stock is at 16.38% of the total outstanding shares. This presents an opportunity for foreign investors to build up substantial stake in the company.

Foreign Holding Status

Holder Category (as on June 30, 2007)	% stake
Foreign Corporate Bodies	10.85
Foreign Institutional Investors	5.06
Foreign Venture Capital Investors	0
Foreign Individuals (NRIs/Foreign Individuals)	0.47
Total Foreign Holding	16.38
Foreign Direct Investment (FDI) Limit	100
Balance	83.62

Source: National Stock Exchange

Float and liquidity: The free float shareholding for Gati is 49.96% of the total outstanding shares. The promoters hold in excess of 50% of the total outstanding shares, which reflects negatively on the liquidity in the stock. (Note: the Securities Exchange Board of India (SEBI) defines promoters as any person or persons who are directly or indirectly in control of the company or any person or persons named as “promoters” in the offer document or in the shareholding pattern disclosed by the company under the provisions of SEBI’s Listing Agreement.) Gati does not trade in the derivatives segment of the Indian markets.

REGULATORY LANDSCAPE

Central sales tax (CST) regime being phased out, leading to implementation of an integrated value-added tax (VAT): The Indian Parliament has approved a bill to phase out the CST and eventually abolish it by March 31, 2010. The Ministry of Finance, Department of Revenue, issued a notification on March 29, 2007, lowering the CST on interstate sales from 4% to 3%. The CST will go down further from 3% to 2% on April 1, 2008, and from 2% to 1% on April 1, 2009. It will eventually be abolished by March 31, 2010.

We estimate that the rationalization of the tax regime will increase interstate commerce and the outsourcing of SCM activities. Currently, a 3% CST is levied for interstate movement of cargo. As a result, companies are forced to maintain warehouses in every state for local sourcing and distribution. The phasing out of the CST by 2010 will give impetus to widespread business and sourcing across the country. Interstate sourcing should increase, as it will be exempted from VAT. Tax rationalization should increase interstate commerce in India, which will promote logistics hubs and distribution centers. The abolition of the CST will allow companies to focus on customers, reach and distribution costs rather than on maintaining state-based networks.

The Indian Post Office Amendment Bill, 2007—an attempt to protect Indian postal services: The Ministry of Communications is working on introducing the Indian Post Office Amendment Bill, 2007, which seeks to reduce foreign direct investments (FDIs) in the courier sector to 49% from the current limit of 100%. The Bill proposes that the private courier companies wanting to deliver letters weighing below 150 grams must do so at a price, which is five times more than the rates charged by the Indian postal services or two-and-half times the rates charged by the Speed Post. The Bill also lays down that foreign players in the sector should be charged an entry fee of INR1mn and a renewal fee of INR0.5mn per annum.

We believe that the bill is an attempt to provide excessive protectionism for Indian postal services, which would hurt the private players in the industry and create inefficiency in the sector. We believe that any attempts of the Ministry to get the bill passed and subsequently implemented would face stiff resistance from the private players. The provisions of the bill will not only hurt the private players financially but also limit the choice of consumers.

SHAREHOLDING PATTERN

Shareholdings as of June 30, 2007

	No. of Shares	% of Holding
Promoters:		
Mahendra Investment Advisors Private Limited	4,074,760	5.63
Mahendra Kumar Agarwal	1,606,875	2.22
Mahendra Kumar Agarwal (HUF)	3,000,000	4.14
TCI Finance Limited	13,324,350	18.41
Bunny Investments & Finance Private Limited	2,896,650	4
Dhruv Agarwal Benefit Trust	4,500,000	6.22
Manish Agarwal Benefit Trust	4,500,000	6.22
Jubilee Commercial & Trading Private Limited	2,317,320	3.2
	36,219,955	50.04
Non Promoters:		
Bhagyanagar Securities Pvt. Ltd.	1,500,000	2.07
VLS Finance Ltd.	1,510,835	2.09
Mindset Technologies Pvt. Ltd	1,830,560	2.53
Matthews India Fund	3,046,428	4.21
Fidelity Trustee Company Pvt. Ltd. A/C CFIDEL	1,017,000	1.4
R K Bansal	3,000,000	4.14
The Infrastrucutre Fund of India Llc	7,855,935	10.85
Neera and Children Trust	3,870,000	5.35
G Manivannan	849,655	1.17
	24,480,413	33.81

Source: National Stock Exchange

CORPORATE GOVERNANCE—REDUCTION IN INSIDE OWNERSHIP REQUIRED

In this section, we have briefly captured a set of metrics that reflect on the corporate governance profile of Gati. We have adapted our framework to fit with the level of information disclosure in publicly available company documents and regulatory filings. Although we will continue to refine and redefine this framework, we present here a summary comparison of Gati with an internally developed benchmark on this set of corporate governance metrics.

In our opinion, Gati fares relatively well against our benchmark on most of the metrics. Inside ownership and the company's policy of giving loans to its group companies are two metrics on which we believe the company needs to improve in order to improve its corporate governance.

Corporate Governance Report

	GATI	Benchmark
Audit		
% attendance at Audit Committee meetings	100%	100%
Frequency of Audit Committee meetings	6 time annually	4 time annually
Board		
CEO representation on other boards	2	2
Director attendance at board meetings	79%	85%
% of independent directors on the board	75%	55%
CEO / MD & Chairman role separation	Yes	Yes
% of promoter directors on board	13%	35%
Size of the board	8	15
Compensation		
% of independent directors in compensation committee	100%	100%
Availability and % of promoter director compensation through stock options	0%	0%
Availability and % of non-promoter director compensation through stock options	0%	0%
Stock option expensing	Yes	Yes
Insider Ownership		
% ownership of insiders in the total stock outstanding	50.04%	20.00%
Cross holding across group companies	No	No
Other		
Loans to group companies	Yes	No

Notes:

Only non-executive and independent directors considered independent

% attendance calculated on the basis of cumulative meeting opportunities available

Source: All data as per the latest available annual report and company presentation as applicable

ESTIMATES

Our revenue and EPS estimates for FY08 are INR 5,480.44mn and INR 3.40, respectively, up from 2.9% and 27.6% from the year-ago period. The small increase in revenue is from the discontinuation of the fuel station business, which generated INR 750.90mn in FY07. Adjusting FY07 for discontinued operations, we expect revenue to increase 19.8% in FY08. The increase is driven by 57.5% increase in the air freight business and a 23.1% increase in the express services.

For the three-year period FY08-FY10, we are projecting adjusted revenue to grow at a 28.3% CAGR and EPS to grow at a 27.6% CAGR.

Our revenue and EPS estimate for FY09 are INR 7926.53mn and INR 4.55, respectively, up 44.6% and 34.1%, respectively, driven by 30% growth in warehousing revenue and 202% growth in the air freight business.

VALUATION

GTIC IN trades at 32.30x our FY08 EPS estimate of INR 3.40 and 8.79x FY08E EV/EBITDA. In comparison the peer group trades at 18.70x forward EPS and 11.36x forward EBITDA.

We project that EPS will grow at a 28% CAGR over the next three years. Applying a PEG ratio of 1.0x to our FY09 EPS estimate or 10.0x FY09E EV/EBITDA, we derive a 12-month price target of INR129.

Comparable Company Valuations

Company	Ticker	Price (INR) 9/03/2007	Shares Out (mn)	P/E			EV/EBITDA				FY07-CY09E Growth	Market Cap (INR mn)	Avg Daily Vol ('000)
				FY07A	FY08E	FY09E	FY07A	FY08E	FY09E	FY10E			
Gati Limited*	GATI-BY	109.65	72.18	41.22x	32.30x	24.08x	11.84x	8.79x	5.94x	5.04x	30.8%	7,914	75
Sical Logistics Limited*	SICAL-BY	240.95	39.54	19.31x	17.71x	21.10x	18.72x	13.55x	11.26x	8.44x	-4.3%	9,527	25
Transport Corporation Of India Ltd*	TCI-BY	112.15	72.54	24.77x	25.14x	19.67x	12.98x	10.22x	7.32x	5.92x	12.2%	8,136	33
Gateway Distriparks Limited*	GDL-BY	131.95	115.61	19.57x	18.31x	14.02x	12.63x	9.95x	6.32x	5.23x	18.2%	15,255	332
Container Corp. Of India Limited	CONCOR-BY	2,092.35	64.99	19.32x	16.74x	14.47x	12.81x	11.72x	10.25x	9.91x	15.6%	135,985	16
Allcargo Global Logistics Limited	ALLCARGO-BY	872.60	20.26	19.73x	15.61x	14.05x	13.27x	11.36x	10.07x	NA	18.5%	17,675	11
MEDIAN (ex GATI-BY)				19.57x	17.71x	14.47x	12.98x	11.36x	10.07x	7.18x	15.6%		
MEAN (ex GATI-BY)				20.54x	18.70x	16.66x	14.08x	11.36x	9.05x	7.37x	12.0%		

NM=Not meaningful; # represents financial year estimates converted to calendar year
Source: Company reports, Thomson Financial and (*)Thomas Weisel International estimates

GATI Ltd. - Income Statement Rs. in millions	Jun-07 FY 2007 E	Sep-07 Q1 08 E	Dec-07 Q2 08 E	Mar-08 Q3 08 E	Jun-08 Q4 08 E	Jun-08 FY 2008 E	Jun-09 FY 2009 E	Jun-10 FY 2010 E
Express Distribution & Supply Chain	3,941.80	1,048.20	1,127.43	1,245.78	1,373.59	4,794.99	6,955.02	8,458.74
Coast to Coast (Shipping)	635.60	166.61	166.61	177.71	177.71	688.64	975.50	1,200.80
Fuel Station	750.90	-	-	-	-	-	-	-
Less: Intersegment revenue	3.70	0.80	0.80	0.80	0.80	3.20	4.00	5.00
Net sales	5,324.60	1,214.00	1,293.24	1,422.69	1,550.50	5,480.44	7,926.53	9,654.55
Other income	38.20	-	-	-	-	-	-	-
Non-recurring income	-	-	-	-	-	-	-	-
Total income	5,362.80	1,214.00	1,293.24	1,422.69	1,550.50	5,480.44	7,926.53	9,654.55
Consumption of raw materials	739.80	-	-	-	-	-	-	-
Change in stock	-	-	-	-	-	-	-	-
Cost of goods sold	739.80	-	-	-	-	-	-	-
Gross profit	4,623.00	1,214.00	1,293.24	1,422.69	1,550.50	5,480.44	7,926.53	9,654.55
Personnel cost	579.30	157.92	168.22	185.05	201.67	712.87	1,030.97	1,255.74
Other expenses	3,516.70	898.61	954.72	1,052.46	1,152.15	4,057.95	5,845.41	7,161.73
Non-recurring expenses	-	-	-	-	-	-	-	-
Total operating expenses	4,096.00	1,056.54	1,122.94	1,237.51	1,353.82	4,770.82	6,876.38	8,417.47
EBITDA	527.00	157.46	170.29	185.18	196.68	709.62	1,050.15	1,237.08
Depreciation	111.00	42.24	48.08	53.72	66.67	210.72	356.80	406.36
EBIT	416.00	115.22	122.21	131.46	130.01	498.90	693.35	830.71
Interest	57.80	17.90	17.90	17.90	17.90	71.60	85.28	85.28
EBT	358.20	97.32	104.31	113.56	112.11	427.30	608.07	745.44
Extraordinary Item								
Tax	88.80	24.33	26.08	28.39	28.03	106.83	170.26	208.72
		25.00%	25.00%	25.00%	25.00%	25.00%	28.00%	28.00%
Profit after tax	269.40	72.99	78.23	85.17	84.08	320.48	437.81	536.72
EPS								
Basic	3.36	0.97	1.04	0.98	0.96	3.94	4.55	5.53
Diluted	2.66	0.78	0.83	0.90	0.88	3.40	4.55	5.53
EPS Excl Extraordinary Items								
Basic	3.78							
Diluted	2.97							
Number of shares								
Basic		75.48	75.48	86.98	87.98	87.98	96.13	97.13
Diluted		94.13	94.13	94.13	95.13	95.13	96.13	97.13

Source: Company reports and Thomas Weisel International estimates

GATI Ltd. - Balance Sheet Rs. in millions	Jun-07 FY 2007 E	Sep-07 Q1 08 E	Dec-07 Q2 08 E	Mar-08 Q3 08 E	Jun-08 Q4 08 E	Jun-08 FY 2008 E	Jun-09 FY 2009 E	Jun-10 FY 2010 E
ASSETS								
Current assets								
Cash and Bank Balances	524.75	474.40	890.91	1,342.18	1,229.69	1,229.69	20.23	284.79
Inventories	12.54	12.94	13.39	14.14	15.22	15.22	22.02	26.82
Sundry debtors	664.53	685.78	709.47	749.37	806.84	806.84	1,166.96	1,421.36
Loans and Advances	333.15	339.97	347.57	360.36	378.80	378.80	494.31	575.91
Total current assets	1,534.98	1,513.08	1,961.33	2,466.05	2,430.55	2,430.55	1,703.51	2,308.88
Gross Block	2,318.42	2,726.44	2,984.47	3,667.50	3,875.53	3,875.53	5,903.26	6,033.48
Depreciation	477.86	520.10	568.19	621.91	688.58	688.58	1,045.38	1,451.74
Net block	1,840.56	2,206.34	2,416.28	3,045.59	3,186.95	3,186.95	4,857.88	4,581.73
Capital WIP	415.90	415.90	415.90	415.90	415.90	415.90	415.90	415.90
Investments	199.16	199.16	199.16	199.16	199.16	199.16	199.16	199.16
Miscellaneous expenditure not written off								
TOTAL ASSETS	3,990.60	4,334.49	4,992.68	6,126.71	6,232.56	6,232.56	7,176.46	7,505.68
LIABILITIES								
Current liabilities								
Liabilities	225.69	232.91	240.95	254.50	274.02	274.02	396.33	482.73
Provisions	30.13	32.40	35.13	35.44	8.08	8.08	98.76	12.57
Total current liabilities	255.82	265.31	276.08	289.94	282.10	282.10	495.09	495.29
Secured Loans	413.62	413.62	413.62	413.62	413.62	413.62	663.62	413.62
Unsecured Loans	302.34	302.34	302.34	302.34	302.34	302.34	302.34	302.34
FCCB	893.00	893.00	893.00	893.00	893.00	893.00	893.00	893.00
Loans Funds	1,608.96	1,608.96	1,608.96	1,608.96	1,608.96	1,608.96	1,858.96	1,608.96
Deferred Tax Liability	58.24	58.24	58.24	58.24	58.24	58.24	58.24	58.24
Total liabilities	1,923.02	1,932.51	1,943.28	1,957.14	1,949.30	1,949.30	2,412.28	2,162.49
Shareholders funds								
Share Capital	144.78	150.96	150.96	173.96	175.96	175.96	192.26	194.26
Reserves & Surplus	1,922.79	2,251.02	2,898.44	3,995.61	4,107.31	4,107.31	4,571.91	5,148.92
Total Shareholders funds	2,067.57	2,401.98	3,049.40	4,169.57	4,283.27	4,283.27	4,764.17	5,343.19
TOTAL LIABILITIES AND SHAREHOLDERS FUNDS	3,990.60	4,334.49	4,992.68	6,126.71	6,232.56	6,232.56	7,176.46	7,505.68

Source: Company reports and Thomas Weisel International estimates

GATI Ltd. - Cash flow statement Rs. in millions	Jun-07 FY 2007 E	Sep-07 Q1 08 E	Dec-07 Q2 08 E	Mar-08 Q3 08 E	Jun-08 Q4 08 E	Jun-08 FY 2008 E	Jun-09 FY 2009 E	Jun-10 FY 2010 E
Cash flow from operating activities								
Net profit before tax	269.40	97.32	104.31	113.56	112.11	427.30	608.07	745.44
Depreciation	105.63	42.24	48.08	53.72	66.67	210.72	356.80	406.36
Loss on redemption of Investments in Govt. Securities								
Loss on sale of Fixed Assets								
Effect of exchange difference								
Profit on sale of Ship								
Interest payments	72.19	17.90	17.90	17.90	17.90	71.60	85.28	85.28
Interest received	-	-	-	-	-	-	-	-
Operating profit before Working capital changes	447.22	157.46	170.29	185.18	196.68	709.62	1,050.15	1,237.08
Change in working capital	(146.34)	(18.97)	(20.97)	(39.59)	(84.84)	(164.37)	(269.44)	(340.60)
Trade and other receivables								
Inventories								
Loans and advances								
Trade payables and other liabilities								
Interest on borrowings	(72.19)	(17.90)	(17.90)	(17.90)	(17.90)	(71.60)	(85.28)	(85.28)
Miscellaneous expenditure not written off	-	-	-	-	-	-	-	-
Tax paid	-	(24.33)	(26.08)	(28.39)	(28.03)	(106.83)	(170.26)	(208.72)
Net cash from operating activities	228.69	96.26	105.35	99.30	65.92	531.20	525.18	602.48
Cash flow from investing activities								
Purchase of Fixed Assets (Incl. capital advances)	(932.50)	(408.03)	(258.03)	(683.03)	(208.03)	(1,557.11)	(2,027.74)	(130.22)
Sale of Assets	-	-	-	-	-	-	-	-
Increase/decrease in Investments	-	-	-	-	-	-	-	-
Interest received	-	-	-	-	-	-	-	-
Redemption of Investments in Govt. Securities	-	-	-	-	-	-	-	-
Net cash from Investing Activities	(932.50)	(408.03)	(258.03)	(683.03)	(208.03)	(1,557.11)	(2,027.74)	(130.22)
Cash flow from Financing Activities:								
Receipt/Repayment of Secured Loans	-	-	-	-	-	-	250.00	(250.00)
Receipt/Repayment of Short term Unsecured Loans	-	-	-	-	-	-	-	-
Receipt/Repayment of FCCB	893.00	-	-	-	-	-	-	-
Increase in Employee Stock option	-	-	-	-	-	-	-	-
Increase in equity	204.40	261.41	569.19	1,035.00	100.00	-	120.00	120.00
Dividend paid (Inc. Tax)	-	-	-	-	(70.38)	-	(76.90)	(77.70)
Net cash from Financing Activities	1,097.40	261.41	569.19	1,035.00	29.62	-	293.10	(207.70)
Effect of exchange difference	-	-	-	-	-	-	-	-
Net increase in Cash & Cash Equivalent	393.59	(50.35)	416.51	451.28	(112.49)	(1,025.91)	(1,209.46)	264.56
Beginning Cash	131.16	524.75	474.40	890.91	1,342.18	524.75	1,229.69	20.23
Ending Cash	524.75	474.40	890.91	1,342.18	1,229.69	1,229.69	20.23	284.79

Source: Company reports and Thomas Weisel International estimates

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST.

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES: The Research Analyst(s) principally responsible for the analysis of any security or issuer included in this report certifies that the views expressed accurately reflect the personal views of the Research Analyst(s) about the subject securities or issuers and certifies that no part of his or her compensation was or is or will be, directly or indirectly, related to the specific recommendations or views expressed by the Research Analyst(s) in this report.



Notes: Price chart updated as of 9/1/2007. All price targets displayed in the chart above represent either a specific price target or the midpoint of a range.

Source: First Call, FactSet and Thomas Weisel International Private Ltd.

The following grid outlines the Thomas Weisel Partners LLC stock rating system, along with the relevant definitions, effective November 16, 2006.

STOCK RATING	STOCK RATINGS DEFINITIONS	PCT. OF SECURITIES RATED IN EACH CATEGORY	PCT. FOR WHICH IB SERVICES HAVE BEEN PROVIDED
Overweight (O)	When an analyst rates a stock Overweight, he/she is advising our clients to carry a position in the stock that is in excess of its weighting relative to the stocks either in that analyst's coverage or an index identified by the analyst that includes, but is not limited to, stocks covered by that analyst.	47.9%	33.2%
Total Buy		47.9%	33.2%
Market Weight (M)	When an analyst rates a stock Market Weight, he/she is advising our clients to carry a position in the stock that is in line with its weighting relative to the stocks either in that analyst's coverage or an index identified by the analyst that includes, but is not limited to, stocks covered by that analyst.	48.5%	8.0%
Total Hold		48.5%	8.0%
Underweight (U)	When an analyst rates a stock Underweight, he/she is advising our clients to carry a position in the stock that is below its weighting relative to the stocks either in that analyst's coverage or an index identified by the analyst that includes, but is not limited to, stocks covered by that analyst.	3.6%	5.9%
Total Sell		3.6%	5.9%
Suspended Rating (S)	The stock rating has been suspended.		
Not Rated (NR)	The stock is not rated, but it is covered by a Thomas Weisel Partners LLC analyst.		
Not Covered (NC)	The stock is not covered by a Thomas Weisel Partners LLC analyst.		

Notes: The percentage of investment banking services is calculated as of 6/30/2007. The percentage of securities rated in each category is calculated as of 9/4/2007. An analyst's coverage universe is defined as all of the stocks within the analyst's industry that reasonably are part of his/her potential coverage, not necessarily the stocks specifically covered. "Buy", "Hold" and "Sell" are not ratings categories defined by Thomas Weisel International and should not be interpreted as investment opinions. We show these categories for illustrative purposes in accordance with NASD and NYSE regulations. The above table includes Thomas Weisel International stocks.

Source: FactSet and Thomas Weisel Partners LLC

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