

SPEECH BY THE CHAIRMAN

22nd Annual General Meeting



K L Chugh

Dear Shareholders:

On behalf of the Board of Directors of your company and all the Gati`ites, it is my great pleasure to welcome you to the 22nd Annual General Meeting of your company. We are meeting at a time of extraordinary significance for the nation at large. India has just completed a month of the path breaking GST reform. Just a few months earlier, sceptics were actively debating whether the rollout will happen to the stated timeline, or will it see more delay. Here we are, in a post GST India, proving the many sceptics wrong. May I, on behalf of all of us, convey our regards and compliments to our visionary Prime Minister, Shri Narendra Modi, and to our dynamic Finance Minister, Shri Arun Jaitley, and his team, who with the determination of steel assured the nation about the implementation of 'One Nation, One Tax, One Market' reform on schedule. I shall reflect more about the impact GST on your company's business in the latter part of my speech.

Global Macroeconomics

Clearly, global business optimism is back in full force, and this augurs well for the next two to three years. The upturn in global merchandise trade volumes has sustained through the second half of FY 2017, and is evident in the rising cross-border air freight and ocean container throughputs.

World Bank's global outlook predicts that despite substantial policy uncertainty, global growth is projected at a respectable 2.7 per cent in 2017 before strengthening further to 2.9 per cent in 2018-19. Brexit and US government's recent position against outsourcing of jobs has fuelled much debate about the medium-term future of free trade. Although protectionist sentiments and associated trade restrictions could pose a risk to this fragile revival, there is mounting evidence of greater business activity in many Emerging Market Economies, and easing of recessionary trends in most Advanced Economies.

India Growth Story

India's economic growth slowed to 6.1% in the fourth quarter ending March 2017, compared with 7.1% in the previous quarter; with the

full year average forecast at 7.2 per cent. Demonetization caused a temporary setback as evidenced by the drop in growth numbers during the second half; however, an equally important observation is the resilience that the economy has shown ever since.

Recent surveys covering India's Industrial Outlook and Consumer Confidence suggest a much improved 'general economic situation' with an expansion in domestic economic activity over the next one year. The Gross Value Addition (GVA) growth forecast for 2017-18 is pegged at a healthy 7.3%, riding on a rise in private consumption. There are a few lingering concerns including poor credit growth, low private investment, poor capital formation and increase in Non-Performing Assets (NPAs) in the banking sector. However, government spending remains healthy, and is expected to mitigate the effect of inactivity in other growth components. The monsoon forecast has also created optimism for the second consecutive year in terms of agricultural production and rural economy.

GST

The start of the GST era is already upon us with the law coming into effect from Jul 1st. This consumption based indirect tax reform is sure to catalyse compliance in every business chain, and to expand the tax base in a transparent and efficient manner, while reducing the overall tax burden. There are likely to be initial hiccups for a few months as large corporates and SMEs across industry sectors adapt to this change. However, these pain points will be short lived as the companies are settling in very rapidly into the new GST era.

The GST is already proving to be a significant trigger for the Indian industry to migrate from legacy supply chain models, designed earlier for optimizing tax considerations, to more efficient supply chain models now that shall optimize operational considerations such as supply chain costs and lead time to market. Interstate movement of goods has become easier with reduced procedures and restrictions at state borders. Dismantling of check posts at state borders is seen to be reducing transit times by 25% in many lanes. Average truck speeds have increased. This is transforming the Indian logistics landscape into one monolith of an expansive geography. Customer warehouses are beginning to consolidate into larger operations to reap benefits of scale efficiency; factories are expected to follow the same trajectory over the next two to three years. Thus, GST offers a unique opportunity to eliminate the inherent inefficiencies in the location, movement and inventory holding of goods. In such context, tremendous business opportunity arises for established end-to-end logistics players, such as your Company.

From your company's perspective, centralization of inventory into larger regional warehouses will mean that organizations will essentially move to a Hub-and-Spoke network. Gati has already been operating a pan-India network on a Hub-and-Spoke structure and is distinctively positioned to support and benefit from this transition.

Logistics Sector

Over the last several years, many key trends have been reshaping the domestic logistics sector and have influenced your company's product portfolio and competitive position. By far, introduction of GST tax reforms will have the most far-reaching ramification in terms of growth of organized logistics in India. Case in point, the top-three players in the Domestic express market of the United States of America command over 90% market share, and the top-five Third-Party Logistics (3PL) players in USA command over 25% of the overall Contract Logistics market in USA. By contrast, Indian Logistics market is much too fragmented. With the introduction of GST reform in India, such growth and consolidation is a real possibility in the Indian logistics sector. India is likely to witness increased Foreign Direct Investment (FDI) and Initial Public Offering (IPO) in the logistics sector within the short to medium term. Thus, the competitive intensity is set to increase amongst organized logistics service providers, and your company is uniquely positioned and well prepared to compete and grow in such a context.

The logistics industry in India is expected to grow at CAGR of 16% in the coming years as per industry reports. Further, various initiatives by the government for logistics infrastructure development, such as new highway projects, policy announcement for setting up mega logistics parks, FDI schemes in transportation, etc. will further accelerate growth in the logistics sector. With GST driving greater demand for organized Third-Party logistics services, there are enormous opportunities for your company.

E-Commerce Industry

FY 16/17 for the e-Commerce industry proved to be quite the opposite of every long term forecast that had been projected just a year earlier. The industry experienced a sharp drop in incoming fund flows that was seen as the norm over the previous few years. Consequently, the pace of growth of established e-tailers tempered significantly, and the industry was abuzz with talk of industry consolidation. De-monetization further added to the reversal since cash-on-delivery constitutes a significant share of the total online business.

More recent growth forecasts for the domestic e-Commerce market point to a CAGR of around 30% over the next five years. The moderated growth forecast indicates signs of maturity in the industry, moving from a period of frenzied valuation towards a more sustainable business eco-system that is focussed on cost optimization and profitable growth. The e-Commerce industry, nevertheless, continues to be the most exciting and fastest growing sectors, domestically.

Cold Chain

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. Cold storage market in India is expected to grow at a CAGR of 16% between now and 2020. Industry profitability is critical to drive investments in cold chain, which will ultimately help farmers realize better value through agriculture, and thereby alleviate farm distress. The Government has been mindful of nurturing the cold chain industry and has introduced several

incentives over the years. However, the results on the ground have been less than satisfactory on account of the stringent constraints set under the incentive schemes. Gati Kausar, as a private participant, urges the government to re-examine the current framework and make necessary changes so as to create the right atmosphere for investment and growth of Cold chain.

Gati's Cold Chain subsidiary, Gati Kausar, endeavours to disrupt the Cold Chain market with differentiated services and pioneering quality practices. The growth strategy for cold chain operations is to complement the existing delivery capabilities with a GST relevant network of cold warehouses. With the launch of Refrigerated Express Distribution Centres at strategic locations, Gati Kausar now provides end-to-end Cold Chain services including refrigerated transportation, and also cold storage.

Gati Limited Performance

During the year under review, at consolidated level, your Company registered total income of Rs. 1,704 crore, up 1% over the previous year. The consolidated net profit after minority interest dropped by 20% to Rs. 30 crore in FY 16/17 from previous year.

The total income for Gati-Kintetsu Express Private Ltd (GKEPL), the Express Distribution and Supply Chain Solutions joint venture is Rs. 1,112 crore, a decline of 3% to from Rs. 1,142 crore in FY 15/16. EBITDA in GKEPL stands at Rs 80 crore in FY 16/17, a decline by 16% from Rs. 95 crore in FY 15/16.

In FY 16/17, the total income for Gati Standalone, increased by 6% to Rs. 526 crore, from Rs. 498 crore in FY 15/16. EBITDA in Standalone improved 7% to Rs. 60 crore in FY 16/17, from Rs 56 crore in FY 15/16. Gati e-Connect division delivered a package volume growth of 14% between FY 15/16 and FY 16/17, with substantial share of growth coming in the lower-weight segment.

The core Express Distribution business had a tough year in FY 16/17 as business volumes were impacted temporarily for a few months in the first half of the year during the rollout and stabilization of the ambitious Shopfloor Automation (SFA) project. The technology has since been fully stabilized, and the package-level-barcoding capability across the pan-India network operations is now a significant competitive advantage for Gati in terms of providing differentiated and enhanced customer experience.

The full year growth was further affected by stagnation in the e-Commerce industry and the lingering effects of demonetization in select industry verticals.

Going Forward

Gati, with its unique portfolio of services, stands tall in a post-GST India, as an integrated, multi-modal logistics player with a comprehensive pan-India network. A focussed effort is currently underway to reach out to customers who are seeking integrated logistics services, and those looking to migrate from unorganized to organized service providers.

Through proactive actions over several months, Gati is fully prepared for the GST era. The company lived up to its customer promise of 'Zero Downtime' switchover on the GST transition date of July 1st.

Warehousing requirements, load patterns and travel distances are all expected to change as customers re-design their supply chain over the next few months. A combination of overall market place opportunity, rigorous business preparedness and a full portfolio of integrated logistics services gives your company the confidence of maximizing the GST potential in the immediate short term. Moreover, Prime Minister, Shri Narendra Modi's twin thrusts of 'Make-in-India' and 'India First' are expected to further accelerate the Indian economy in the coming months, thereby enhancing growth opportunities for the logistics sector including Gati.

Omni-channel retailing is emerging as a niche growth segment with immense business potential. Customers are increasingly looking for customized, integrated supply chain solutions which help them serve varied needs covering offline and online sales, B2B and B2C channels, and individual piece and bulk shipment solutions. Delivering a positive omni-channel experience requires deep Supply Chain expertise to fulfil the customer requirement.

Last fiscal, your company invested in BrownTape, a cloud-based solutions company, aimed at building capacity and capability in the e-Commerce arena. The acquisition forms an important part of your company's future growth strategy. Gati Fulfilment Services (GFS) provides a unique single-window solution to online sellers by integrating BrownTape's order management platform with your company's pan-India logistics network. Your company is happy to report that the integrated platform went live in the last quarter of FY 16/17.

Overall, Gati's capabilities demonstrate years of commitment towards investing in network, technology and people for achieving its vision. The success of Gati's pan-India Shop Floor Automation (SFA), stands testimony to its inbuilt capabilities in effecting such industry-leading technology interventions. Your company will continue to invest in technology that improves network efficiency, delivers value to customers and increases profitability. These initiatives make it simpler for our customers to manage the complexities of their own supply chain, and thereby to derive maximum benefit from a long-term association with Gati.

Awards & Recognition

Ladies and Gentlemen, I am extremely pleased to share with you that your company and Gati'ites, received numerous awards

and recognitions during the year, which demonstrate that your company's services, expertise and corporate performance are greatly appreciated and rewarded. To mention a few,

- "Best Service provider of the year 2016"
- "Best 3PL company of the year 2016"
- "100 Best Companies for Women to Work"
- "Food and Safety award of the year 2016" to Gati Kausar
- "Best Cold Storage Infra" to Gati Kausar
- "India Best CIO's – Top 50 Honouree"
- "CIO of the year 2017 for Category Transport and Logistic"

I am sure there are many more to come.

Corporate Sustainability

Your Company believes in being a socially responsible corporate, and in going beyond business and profit by giving back to the society. Gati Muskaan the flagship initiative of your Company, during the year, inaugurated Gati Muskan Centre at Rudraprayag which is being used for various community activities.

Conclusion

I would like to conclude this address by extending my sincere thanks to all our valued shareholders, our multitude of customers, vendor partners, investors and bankers for their continued support and unwavering confidence in the company.

Thank You Ladies and Gentlemen.

K L Chugh
Chairman