

## Chairman's statement



The Chairman, Mr. K.L. Chugh's statement at the 10th Annual General Meeting held on 22nd September, 2005 at Hotel Taj Residency, Hyderabad.

Ladies & Gentlemen,

It gives me immense pleasure to welcome you to the 10th Annual General Meeting of your Company.

### **Growth in 2004-05**

India's macroeconomic performance in 2004-05 was heartening in spite of the continued threats to growth due to unsatisfactory monsoons, restrained activity in infrastructure and the rise in the international crude prices during the year.

The economy grew by 6.9% in 2004-05 mainly due to the distinct dynamism exhibited by the manufacturing sector, which grew by 8.9% against 6.9% in 2003-04. Consequently, the Industrial sector accelerated by 7.8%. The service sector grew by 8.9%, a marginal decline from 9.1% in the previous year. The agriculture sector grew by a mere 1.1% in '04-05 against a robust 9.6% in the previous fiscal. The government succeeded in controlling the inflation rate, which rose to 8.7% during August, 2004, the headline inflation rate was contained at 5.1% for 2004-05.

Despite the uncertainties and risks, the Indian economy posted a healthy picture. India's BOP position also remained comfortable with foreign exchange reserves at US \$ 141 billion, increasing by US \$ 28.6 billion during the year.

### **Company Performance 2004-05**

In the background of a robust national economic growth, Your Company witnessed a highly satisfying performance in its operations during the year 2004-05. Your Company posted its highest net profit of Rs. 10.37 crore, recording a growth of 87% from the previous year profit of Rs. 5.55 crore. The income for the year at Rs. 361 crore was up 17% from the previous year's income of Rs. 309 crore. The market capitalization of Your Company has grown to Rs. 263 crore, post rights issue, compared to Rs. 65 crore last year.

### **Economic Outlook 2005-06**

Rising economic growth, increasing foreign exchange reserves, falling inflation rates, global recognition, robust export growth, strengthening manufacturing activity, higher corporate earnings in the current fiscal, all signify bright prospects of the Indian economy for this year.

There is a wide consensus for the Indian Economy to reach a level of 7.2 - 7.5% with good monsoon likely to give a pick up to the agriculture sector. The industrial production, particularly the manufacturing sector will continue to be in the expansionary mode. The indicators of the service sector such as growth in tourist arrivals, cell phone connections, railways freight traffic connections, civil aviation and trends in bank deposits/credit indicate that the service sector will maintain the growth momentum. The unprecedented rise in oil prices remains a threat to the

economy and are likely to trim few percentage points from its growth rate.  
India - Ten years hence...2015

Today India is amongst the top ten wealthiest nations with a GDP of US \$ 691 billion (according to World Bank's GDP figures for 2004) with a potential to reach the top five in the next 10 years. The World Bank estimates that India will become the fourth largest economy in the world by year 2020.

The South Asian economies, particularly the India and China will be the main drivers of growth in the world economy. The robust demand from both these countries is driving international commodity prices at new heights. One can clearly see the increasing importance of India and other developing economies in the world.

The advantage of demographic profile and the best of English speaking young people have made India an outsourcing hub. There is nothing that cannot be outsourced and apart from offering outsourcing services in the generic BPO verticals, India needs to build competencies in various other emerging industries like retail, transportation and healthcare. The emerging global scenario will open up greater opportunities for our country with a surplus of well-educated and highly skilled labour.

The vision for 2015 is focus on the seven sectors, the SAAT SUTRAS, as our respected Prime Minister Dr. Manmohan Singh titles it. The seven sectors are agriculture, irrigation, education, health, employment, urban renewal and infrastructure. The most crucial infrastructure sector will get a big boost with the ambitious Bharat Nirman project launched by the government, which entails investment of over Rs 1,74,000 crore within four years.

The Bharat Nirman project would give a boost to the rural economic development with provisions like well developed connectivity to roads, telephone connections, electricity, access to safe drinking water, social and economic well being.

The six laning of the Golden quadrilateral project will add to the increasing volumes of road traffic. In the next ten years, the volume of road traffic will multiply by about five fold, carried on a 70,000 km network of national highways.

The largest contributor to Indian GDP, the service sector is slated for a robust growth in the fields of real estate, advertising, retail, insurance, banking, health, travel, sports, transportation and telecommunications.

The sector would employ over 100 million people by next ten years.

Today there are no external hurdles to the economic growth. We just need to overcome the challenges and hurdles that are internal to the economy.

### **BRIC'S Economy Study**

According to the BRIC's Economy study, over the next two decades. India's GDP could touch US \$ 1411 Billion. India would then be spending 15% or US \$ 21 Billion on logistics and related services.

My speech today, “Logistics : The wealth creator” is about how logistics is the fastest growing business opportunity , and how your company- Gati is undertaking various initiatives to best position itself to benefit from this phenomenon that is sweeping across the world.

### **Logistics**

Logistics is the process of planning, implementing and controlling the efficient, cost-effective forward and reverse flow and warehousing of raw materials, in-process inventory, finished goods and related information from point of origin to point of consumption for the purpose of conforming to customer requirements. It is an important worldwide business activity of the order of US\$ 2 trillion. The success of today’s market leaders such as Wal- Mart, Dell, Cisco, Ikea, Toyota etc is primarily based on their superior operational and logistics capabilities. A country like India needs to attract investments to create a value chain of excellence. Your company aims to become an integrated logistics support provider to these giants when they increase their sourcing from India to 30% from their current 5%.

With a GDP of around \$691 billion. The Indian industry today spends 13% of its GDP on logistics. The Indian logistics environment comprises road transport companies, railways, airfreight companies, inter-modal transport providers, ports and shipping companies, as well as 3PL companies.

Outsourcing has been the buzzword of the decade, from Business Process Outsourcing, to Knowledge Process Outsourcing & the industry has come a long way in realizing that concentrating on core competencies is the way to move up the value chain. Outsourcing is the delegation of tasks from internal production to an external entity. It is done to improve service quality and to save money, or free company resources for core activities. Outsourcing of the logistics function is a business dynamic of growing importance across the globe. A growing awareness , that competitive advantage comes from the delivery process as much as from the product , has been instrumental in upgrading logistics from its traditional backroom function to a strategic boardroom function. The 3PL logistics activities and solutions cover order compilation and despatch planning, physical transportation, in-transit monitoring, confirmation of deliveries , payment to transporters and providing MIS to the client. They also help clients achieve efficient inventory turnover and working capital management.

Manufacturing companies are increasingly outsourcing their logistics requirements from 3PL service providers. International freight traffic is increasing rapidly, as MNCs set up new manufacturing operations.

The industry presently is in the midst of a logistics revolution and increasingly the logistics service providers are becoming an extension of the companies and Asia Pacific is emerging as the hottest logistics market with the expenditure on outsourcing growing by 20.6% over the previous year. With a GDP of \$12 trillion USA’s expenditure on Logistics has grown by 11.5% to 8.7% of their GDP (Approx \$1 trillion). This is the shape of things to come.

Ideas that created Wow

Leaders and visionaries are not people and organizations that divine the future, they are those who look around them, identify opportunities hidden and turn something routine into a profitable and competitive business proposition. To give you an idea of the potential of business, let's look at

UPS: Founded in 1907 as a messenger company in the United States, UPS has grown into a \$36 billion corporation by clearly focusing on becoming a leading global provider of specialized transportation and logistics services. Every day, they manage the flow of goods, funds, and information in more than 200 countries and territories worldwide, employing over 363,000 people.

DHL: Founded in 1969, by three friends who began to personally ship papers by airplane from San Francisco to Honolulu, beginning advance customs clearance of the ship's cargo. With this concept, a new industry was born: international air express, the rapid delivery of documents and shipments by airplane. The DHL Network continued to grow at an incredible pace. At the beginning of 2002, Deutsche Post World Net became the major shareholder in DHL. By the end of 2002, DHL was 100% owned by Deutsche Post World Net. Today its Revenue is: US \$ 30 billion with over 170,000 employees servicing over 220 countries and territories and 4.2 million customers.

TNT: started in 1946 as Thomas Nationwide Transport in Australia, was acquired by, Royal PTT Netherlands NV (KPN), the combined postal/telecommunications company, and today has a revenue of \$ 12.6 billion, with a net income of \$ 667 million, employing over 162,000 people and servicing 200 countries.

FedEx: started in 1913 has a revenue of \$24.7 billion, operating in 215 countries handling 3.1 million packages daily with 240,000 employees

Your Company has been a Leader in Retail Express Cargo business, promising on time, intact delivery, or your money back, at a time when the Indian cargo movement industry was being run at the whims and fancy of the transporter. Your Company continues to be a Pioneer in this industry as it moves from Logistics to Supply Chain Management to Integrated logistics and SCM solutions, with a nation wide network capability of delivering to 580 out of 590 districts in India.

Your company is leveraging its strengths and stepping into the Asia Pacific markets to become the preferred logistics and SCM partner for India Centric Distribution Solution.. It is today to India, what DHL and UPS were to North American 4 decades ago, and with only 3% of the companies in India investing in logistics and SCM, there is a huge opportunity for Gati to fill this gap and emerge as India's top logistics' service provider.

### **Critical Success Factors**

To obtain leadership in the industry, companies will need to focus on four critical success factors that will generate increasing shareholder and customer value:  
train people in the science and art of logistics, to provide

branded customer service  
invest in infrastructure and mechanronic warehouses with sophisticated material handling equipment, racking and security systems.  
Invest in technology to provide real time, on time connectivity by offering intelligent tracking of packages, pallets and vehicles  
Bench marking processes and systems to deliver world class efficiency and productivity

### **Your Company**

Over the last 2-3 years your company has invested heavily in state of the art information technology with the objective of delivering instant information , anytime, anywhere to its customers, internal and external. Your company plans for further investment in intelligent technological infrastructure, making Gati a knowledge company

Your company has focussed on People development , making them customer sensitive and taking care of their intellectual empowerment and emotional bonding with the company

The company currently has over 600,000 sq feet of warehousing space across the country and aims to invest over 50 crores over coming years to build more express distribution centers, centralized distribution centers, Gati distribution warehouses and customer convenience centers. In its quest for internationalization, your company has established presence in Singapore, Hongkong, Shanghai, Beijing, Srilanka and Bhutan.

In the pursuit of becoming a truly global company of Indian origin, our goal is not only to expand our operations in India and the Asia Pacific region but also ensure that we build Gati as a brand that connects to our customers, vendors, associates, shareholders to all within the company instantaneously. We are aiming to position ourselves as a Knowledge Logistics company. We would ensure that we add economic value to the businesses of our customers, vendors, and associates. It is our aim to be an organization that attracts and aspires young talent, and grow Gati into a Rs. 1000 crore profitable company by the year 2010 and a Rs. 2000 crore company by 2015.

It gives me great pleasure to once again compliment you on your company being recognized and honored as the “Best Domestic Logistics company”, by Frost and Sullivan- Voice of the customer award. Because nothing counts more than the voice of the customers. Remain tuned to him and he will give you continuous and profitable growth and a position of prestige in the industry.

May I, on behalf of all of you and the board, compliment team Gati , so ably led by Mahendra Agarwal for the progress made so far and encourage them to be the number 1 logistics company of India by 2015

Before I close, may I say that I believe that Logistics is one of the fastest growing business in the next 20 years. Your company – Gati- is well positioned and has strategies in place to surge ahead and undoubtedly emerge as one of the key players, given the thoughtful determination that is visible in its institutionalisation, by a determined team.

To you, our shareholders, may I, on behalf of all my colleagues on the board and on my own behalf, thank you for your unstinted support to the company. I would also like to thank our valued customers, banks and government authorities for their support and cooperation.

Thank you.

Note: These excerpts are from the Chairman's Statement at 10th Annual General Meeting Dated 22-09-2005 and they do not purport to be a record of proceeding of the AGM.