

Chairman's statement



The Chairman, Mr. K.L. Chugh's statement at the 11th Annual General Meeting held on 11th October, 2006 at Novotel & HICC Complex (Near Hitech City), Hyderabad.

Ladies & Gentlemen,
Good Morning It gives me immense pleasure to welcome you to the 11th Annual General Meeting of your Company.

Indian Economy in 2005-06

Maintaining its status as the second fastest growing economy and overcoming the high energy price regime, the Indian economy put out an impressive GDP growth rate of 8.4 per cent in the financial year ended March 2006. This growth came about on top of 7.5 percent in 2004 - 05 and 8.5 per cent in 2003 - 04. Manufacturing sector at 9% and Services sector at 10% stood out as the best performing areas of the economy. However, Agriculture, the lifeline of the 650 million farmers, remained an area of concern with tardy growth of 3.9 per cent. Continuing dependence on the monsoons and slow investment in Agriculture are the reasons for this sloppy performance.

Acute shortage of power remains another area of major concern that could thwart achieving the envisioned 10% growth. Fortunately both these critical areas, in particular, have started receiving attention from the Prime Minister himself.

Company Performance 2005-06

In the background of this robust national economic growth, Your Company witnessed a highly satisfying performance in its operations during the year 2005-06. Your Company posted its highest ever net profit of Rs. 20.07 Crore, recording a growth of 94% from the previous year profit of Rs. 10.37 Crore. The income for the year at Rs. 457 Crore was up 27% from the previous year's income of Rs. 361 Crore. The market capitalization of Your Company has grown to Rs. 650 Crore, post rights issue & private equity placement, compared to Rs. 263 Crore last year.

Your Directors have pleasure in recommending 35% dividend as against 30% for the last year on enhanced equity capital of Rs.1417.41 lakhs. The dividend will absorb a sum of Rs.566 lakhs (Rs.286 lakhs previous year) including tax on dividend of Rs.70 lakhs (Rs.35 lakhs previous year).

I am pleased to also inform you that your company's equity shares have been listed on "National Stock Exchange" from 10th Oct.'2006.

Economic Outlook 2006-2007

Investment led strong growth in Manufacturing and Services sector continues in the financial year 2006 - 07. The first quarter (April - June) results have exceeded the expectations with the GDP growth of 8.9 percent, the highest Q1 growth since 2000 - 01. Various agencies like the Reserve Bank of India, Center for Monitoring Indian Economy (CMIE), ICRA, IMF and ADB have all pointed towards the robust growth prospects of around 8% in the current fiscal . It will

be for the fourth successive year that the Indian economy would be growing by about 7.5% - 8%, overcoming obstacles like lack of infrastructure, high energy prices and interest rates. This economic prospect augers well for your company.

Indian Economy - 5 years hence The fundamentals of the Indian economy have become strong and sustainable. The macro-economic indicators are at present the best in the history of independent India with high growth, comfortable foreign exchange reserves, rapidly increasing foreign investment and robust increase in exports. Today Indian economy has positioned itself amongst the top 2 fastest growing economies in the world.

As per Goldman Sachs Report India's GDP will reach \$ 1 trillion by 2010, \$ 2 trillion by 2020, \$ 3 trillion by 2025, \$ 6 trillion by 2030, \$ 10 trillion by 2040, and \$ 27 trillion by 2050, making it third largest economy after USA and China.

Having grown by 8% for the fourth year in a row, we must now aim for 10 percent GDP growth in the next Five Year Plan beginning 2007. Planning Commission Deputy Chairman Dr. Montek Singh Ahluwalia is confident that the 10 percent target is achievable. The 11th Plan provides an opportunity to restructure policies to achieve a new vision of growth that will be much more broad based and inclusive, bringing about a faster reduction in poverty, helping bridge the divides that are currently the issue , benefiting all parts of the country, and all parts of the society thus providing Indian industry an opportunity for accelerated growth and global positioning .

Global Economy & Impact On India India has been major beneficiary of globalization, with its inherently entrepreneurial and knowledge driven people and has come a long way in last 15 years.

The global expansion remained buoyant in the first half of 2006. Growth was particularly strong in the United States in the first quarter of 2006, although it has slowed marginally thereafter. The expansion gathered momentum in the Euro area, and continued in Japan. Emerging markets have grown rapidly, especially China and India and some low-income countries have also maintained an impressive growth performance, helped by strong commodity prices. The IMF forecast for global growth has been marked up to 5.1 percent in 2006 and 4.9 percent in 2007, both 0.25% higher than in April 2006 World Economic Outlook.

Logistics Story

Global Logistics Story - The size of the Logistics Sector globally is \$2 trillion (Rs. 90,00,000 Crores) making it one of the largest sectors of the economy. Surprisingly not many people ever think of the industry in this dimension.The US' expenditure on logistics currently stands at 8.7% of its GDP of \$ 12 trillion i.e \$1 trillion (Rs. 45,00,000 Crore) almost 50% of the global expenditure. It is to this industry your company belongs.

In comparison, India with a GDP of about \$691 billion spends 13% of its GDP on logistics creating an Industry size of \$90 billion (Rs. 4,00,000 Crores)

According to a Goldman Sach's study, India's GDP could touch \$1 trillion by 2010 and at that time India would be spending approx. 11% of its GDP i.e \$ 110 billion (Rs. 5,00,000 Crore) on Logistics and related services. By year 2020 , the size of the Logistics Industry could be 10% of India's GDP of US\$ 2 trillion i.e US\$ 200 billion (Rs . 10,00,000 Crores) , steadily growing thereafter. It is obvious that logistics will be one of the fastest growing business and logistics companies like your company are well positioned to take advantage

of this boom.

Logistics Industry in India year 2010 - The Indian logistics Industry is therefore poised for a significant leap forward in the coming years particularly in view of the strategy that in the next 10 years . India is expected to become the leading global hub for manufacture of automobiles, auto ancillaries, pharmaceuticals ,high technology electronics, processed foods, textiles etc. as well as the services sector like IT, tourism, health services, finance, education, BPO's etc .

For this to happen the logistics infrastructure should be effectively supported & in my opinion the industry must take lead in presenting a "Well articulated logistics industry strategy" to the Govt. and aggressively seek a supportive policy framework.

Global logistics majors like DHL, TNT , UPS and FedEx have entered the Indian market. Their entry exhibits confidence in the Indian growth story and is a positive sign for a promising future of **Indian Logistics Industry.**

GATI IN 2010

Gati is a leader in the Express Cargo movement space and a pioneer in distribution and supply chain management solutions in India. Today the company's turnover has crossed Rs. 457 Crore attributed in great measure to the efforts of its 6,400 strong team of dedicated professionals and business partners. This work force is supported by an unmatched fleet of over 2,000 vehicles, one million square feet of mechanized warehousing facilities, a well-structured multi-modal service system and a strategic tie-up with Indian Airlines. Your company has an all India footprint & reaches 594 of India's 602 districts.

Your company envisions to become a Rs.1000 Crores Company by 2009. To achieve this ambitious growth your company plans to invest 450 Crores in the next 3 years. Your company has already raised funds to the tune of Rs.90 Crores by way of a Right Issue & Private Equity placement with The Infrastructure Fund of India (TIFOI)

Your company also plans to raise funds worth Rs. 130 Cr. by allotting fresh convertible warrants to promoters and TIFOI and previously placed Convertible Warrants

I welcome our Long Term Investor The Infrastructure Fund of India to your company and thank them for showing the faith and confidence in your company.

Warehousing

High Technology Warehousing provides great strategic competitive advantage and is core to your company's business. **With projected rapid growth of your company and appreciating that warehousing is capital intensive, your company would strategize that its growth plans are in synergy with warehousing space of high quality being available all around the country.**

Your company introduced the first mechanronic warehouse at Panvel, near Mumbai in 2004. Since then the company has extended its warehousing network to cities like Chandigarh, Ludhiana, Gurgaon, Ambala, Jaipur, Kolkatta, Indore, Mumbai, Bangalore ,Coimbatore, and Pondicherry building up 1 million square feet of warehousing space.Your company plans to add another 1 million square feet at strategic locations across India in the next 3 years

Changing customer aspirations - Role of IT

IT provides our customers a competitive edge by ensuring they have complete control over their supply chain. During the year your company has introduced Vehicle Tracking System which will add extraordinary value to our customers. Your company will continue to aggressively invest in IT to maintain its competitive edge.

Challenge of Managing people & retaining them

In view of the rapid growth of the Logistics Industry the real challenge before your company, in the coming years, would be to ensure availability & retention of quality people who are knowledge driven and have entrepreneurial genes. In the past 2 years your company has grown its business from 306 Crs to 457 Crs made possible by its people. As the industry grows it is envisaged that it will be struck by serious shortage of quality people. This will necessitate your company to focus on recruitment of quality people & continuously engage them in self improvement, develop organization structure and company culture that encourages people make long term career with the company innovate & take entrepreneurial approach to position your Company among the leaders in the industry.

Brand Identity

The Emperor is doning new clothes

In our efforts towards gearing up for the future, we are changing internally to be even more consumer focussed than ever before. This needs to be mirrored in our external Brand Image. **From today Your Brand "Gati" has a new identity which is contemporary and dynamic.** It retains our strong values with a youthful look. **Its promise "Stay Ahead In Reach" reflects our commitment of staying ahead in all aspects of Customer Satisfaction.** I have no doubt that this will help in giving your Company a stronger and distinct position in the Market.

Award

It also give me immense pleasure to compliment you on your company being recognized as the only '**Superbrand**' in the logistics category in India.

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 remain #1 Indian Company in the Logistics Industry in India.

To you, our shareholders, may I, on behalf of my colleagues on the board and on my own behalf, thank you for your continued 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 11th Annual General Meeting Dated 11th October, 2006 and they do not purport to be a record of proceeding of the AGM.