



19th Annual General Meeting August 5 2014

Speech By The Chairman – Shri K.L. Chugh

Dear Shareholders,

Ladies and Gentlemen, Good Morning.

It gives me great pleasure to welcome you to the 19th Annual General Meeting of your Company. I am happy to state that despite both macro and micro challenges, your Company has performed well during the year.

To start with, I am happy to inform you, that as committed last year, we have largely mitigated the most serious risk to your business. We have sold one more loss-making ship and further divested your Company's stake in Gati Ship to 48%, thereby insulating Gati Ltd. from the vagaries of the Shipping Business. In the current financial year, we hope to sell the remaining ship, thereby completely eliminating losses from the Shipping Business, which have been affecting Gati Ltd. adversely. This will improve profits of your Company at the consolidated level.

GATI-KWE, our flagship JV company, saw an impressive growth of 20% during the year 2013-14 (within a period of 9 months), despite a modest GDP growth of 4.7% and an IIP restraint of 2.5%. This strengthens our belief that we are further fortifying our leadership position in the Express Distribution Business.

The recent election has ushered in political stability and hopefully an era of rapid economic growth. The Hon. Prime Minister – Shri Narendra Modi's commitment to "Minimum Government Maximum Governance" & "Inclusive Growth" has perked up the nation's spirit and has invigorated all to build a new India.

The maiden budget of the Finance Minister, Shri Arun Jaitley, has taken a panoramic view of the challenges faced by the economy, including infrastructure, which is vital for your Company, and has laid a broad road map for the years ahead.

I believe the policies set in motion by the Hon. Prime Minister & the Finance Minister, will immensely benefit the industry, and the logistics sector in particular.

During the year 2013-14, at the consolidated level, your Company crossed an income of Rs.1500 crores and a PBT of Rs. 64 crores, on an annualised basis. If it wasn't for the shipping losses, the PBT of your Company would have been Rs. 81 crores, at the consolidated level. In the last 9 months (FY 2013-14), your Company recorded an impressive growth of 27% in EBITDA and 181% in PAT. Leading from this excellent financial performance, the credit rating of your JV company (GATI-KWE) improved from an A minus to an A, which I believe will help optimise interest cost going forward.

It gives me immense joy to state that, for the year 2013-14 (a period of 9 months), your Board has recommended a dividend of 35%, on the share capital of Rs. 174 million, against 30% last year – the highest in the recent past.

Your executive team, with renewed vigour and great commitment, instituted measures to deliver high operational efficiency, specialised service offerings, aggressive new business development and time-definite delivery services. Our foray into the e-Commerce segment, by offering value-added services, has paid off rich dividends and opened up unlimited market opportunities that we are harnessing to realise the full potential. You will be proud to know that your Company delivers over 5.5 million commercial packages every month, to every nook and corner of the country. We plan to take this to 30 million packages every month, in the next 5 years, thus making Gati a premium express delivery company in Asia.

Global Economic Outlook

Ladies and Gentlemen, global economic activity has broadly strengthened and is expected to improve further in 2014-15. Looking ahead, global growth is projected to improve from 3% in 2013 to 3.6% in 2014, and 3.9% in 2015. In advanced economies, growth is expected to increase to about 2.25% in 2014-15, an improvement of about 1 percentage point, as compared to 2013*, thereby projecting a positive global outlook. (*Source: World Economic Outlook Report, April 2014, IMF)

The Indian Economy

The Finance Minister has forecasted a 5.4% GDP growth for the Indian economy, this fiscal. The Union Budget presented recently is a practical response to the current needs of the country. The new government at the centre has ushered in a more stable political environment and investments towards revival of industrial growth. An improved external economic situation characterised by a stable current account, a benign outlook on oil prices, improved fiscal health and a revival of the global economy are expected to contribute to the GDP growth in 2014-15.

The Indian Logistics Industry

The outlook for the logistics sector in the next fiscal is optimistic and we are expecting to see a growth in the industry. The Union Budget's promise of Rs. 37,800 crores on roads, an additional Rs. 5,000 crore investment in warehousing and also a clear commitment on implementing GST by the end of this fiscal, will provide the much needed impetus to the logistic industry. The investment in NHAI and state roads and a specific focus on development of select expressways, parallel to the development of industrial corridors, will improve overall infrastructure, connectivity and lend efficiencies to the supply chain.

Logistics is hailed as the bell weather of general economic outlook, considering the fact that it works with all sectors, commercial or otherwise. You will be happy to note that the logistics sector, by estimates of various creditable agencies, is set to register a growth of 12-15%, both globally and within India. This growth would be more pronounced in the Retail, e-Commerce, Cold Chain and Manufacturing sectors. It is heartening to note that your Company caters to all these high growth sectors, with the latest addition of the e-Commerce business.

e-Commerce is emerging as a leading factor in the growth of India's logistics industry. The country's e-Commerce market has already shown rapid growth over last few years, backed by a rise in penetration and higher acceptance among Indian consumers. Different e-Commerce logistics models are being developed for different types of products and they vary by market maturity. As these models develop, they will drive a huge change in physical distribution networks. This will give rise to a new class of logistics and distribution properties, including mega e-fulfilment centres, parcel hubs and delivery centres, local urban logistics depot for rapid order fulfilment, and returns processing centres.

A recent study by McKinsey said India was on the brink of an Internet boom and is estimated to have between 330 million and 370 million people going online by 2015.

India's e-Commerce market was worth \$13 billion in 2013, of which online sales of retail goods amounted to \$1.6 billion. According to the research and advisory firm – Forrester, and some industry experts, India's e-Commerce market is set to explode to \$76 billion, by 2021.

All sorts of numbers are being bandied about in this space. Sometime one wonders, if all of this is really true or perhaps just a smoke screen. Judging by the recent flurry of activities, my intuition says otherwise.

Last week, Flipkart – India's leading e-Commerce company, announced an investment of \$1 billion in its e-Commerce business, coming closer to its vision of taking the company to the \$100-billion valuation league, from the current \$7-billion league. In response, within a day, Amazon – the global leader in this space, announced an investment of \$2 billion in its Indian operations. Such announcements are unusual, as they will only increase and trigger explosive growth in this sector. Your Company is investing in becoming a dominant player in this vertical.

The cold chain market of India, between 2014 and 2017, is expected to grow at a CAGR of 28.7%, which will make it a whopping \$11.6-billion market by 2017.

Gati Kintetsu Express Pvt. Ltd. (GATI-KWE) – 2013-14

For Gati Kintetsu Express Pvt. Ltd., your joint venture flagship company, fiscal 2013-14 was the year of reckoning. Despite a decelerated GDP growth of 4.7 % and IIP at a low 2.5%, your Company recorded an impressive growth of 20% in a nine-month period YOY. While the Surface Express segment retained its growth of 22% YOY, and grew on its market leadership position, impressive gains were made in our Air Express and Rail business segment with a YOY growth of 15% and 9%, respectively. This clearly is indicative of your Company's fast realisation of its vision of becoming India Inc.'s one-stop-shop for all logistics requirements. The fact that we are well entrenched in the sectors of Auto & Auto Spares, Electronics & Computer Peripherals, Pharmaceuticals etc., and Sunrise Industries of e-Commerce and Cold Chain, lends veracity to our positioning.

This performance has provided a strong case for ICRA to upgrade your Company's credit rating, for long-term banking facilities, from an A Minus to an A, and short-term facilities from an A2 plus to an A1. Kudos to your operational and finance teams, who worked tirelessly to ensure these results were accomplished.

Gati e-Connect – 2013-14

During the year 2013-14, the e-Commerce logistics business of your Company witnessed a 10% month-on-month growth, totalling up to a CAGR of 130%. In order to further strengthen the offering, your Company has launched services like Gati e-Pack (packing solutions), Gati e-Pick (consolidation solutions) and Gati Reverse Pick-up (managing the returns from customers to the vendors). One of the main focus areas of the business has been also to strengthen its last mile delivery. All these focussed efforts have contributed to the growth of your Company's e-Connect business, and we are set for even more exciting growth in the following years.

Gati Kausar – 2013-14

Gati Kausar, the cold chain subsidiary of your Company, has grown by 17% (annualised) over the previous year and is one of the largest players in the cold chain industry. During the year, Gati Kausar recorded a revenue of Rs. 358 million, against Rs. 329 million in the corresponding period of the previous year, resulting in a negative EBITDA of Rs. 34 million, against a negative EBITDA of Rs. 39 million in the corresponding period of the previous year.

The Company is going to expand its business through cold warehouses and its associated services, thereby strengthening its position and creating an integrated cold chain network for food, pharmaceuticals, and other temperature-sensitive products. Value-added services include primary processing, tracking, express services, inventory management and planning, bulk breaking and order picking.

Gati Kausar, we believe, can provide extraordinary technological support to the farming community, by helping them connect their goods to their consumers, without loss of value, thus improving farm productivity, putting more money in the "pockets of farmers" and helping manage inflation, as envisioned by the Hon'ble Prime Minister, recently.

I would request the government to provide a supportive policy framework in this regard.

Gati Ship – 2013-14

During the period under review, GSL recorded a revenue of Rs. 195 million, a negative EBITDA of Rs. 41 million and a Loss of Rs. 154 million, against a Revenue of Rs. 212 million, a negative EBITDA of Rs. 76 million and a Loss of Rs. 252 million, in the corresponding period of the previous year.

As already mentioned, we have largely mitigated the most serious risk to your Business, by having sold one more loss-making ship and further divesting stake in Gati Ship to 48%.

During the current financial year, your Company will take the necessary steps to completely eliminate losses from the shipping business, that have been effecting Gati Ltd. adversely.

Project Udaan

GATI-KWE has embarked on a journey of long-term business transformation, with IBM as Advisor, covering all the processes across business verticals in which we operate. Project Udaan is designed to address both the revenue drivers and the cost levers for improving profitability of the organisation. Based on data-driven insights, the organisation is moving into launching deep structural changes to further strengthen our dominant position in traditional logistics services such as Surface Express, Air Cargo and Rail solutions, and leap-frog into being a significant player in the emerging business of e-Commerce.

Awards & Recognitions

Ladies and Gentlemen, I am pleased to inform you that your Company, during the year, received numerous awards in the areas of service, process improvement etc. To mention a few, your Company was awarded the "Scale Award for Supply Chain & Logistics Excellence", the "Achievement in Continuous Improvement" Award, the "Road Transportation" Award, the "5s Excellence" Award and the "Best Road Service Provider of the Year" Award. The fact that awards have been in various categories, including Quality, it acknowledges our emphasis on overall holistic growth, rather than a parochial sector-driven short-term growth.

Corporate Sustainability

Your Company has always taken its CSR obligations very seriously, and over the years, has initiated several activities in the fields of Education, Community Development and Environmental Protection. During the year, your Company launched 'Gati Muskaan', a one-of-a-kind programme that was launched with the intention of truly spreading 'muskaan', i.e. happiness and touching lives in the true sense.

The activities under 'Gati Muskaan' included support to the people affected by the Uttarakhand calamity. The employees contributed a small amount from their salaries and the Company matched this amount. The entire sum was donated towards the re-building of Uttarakhand. Gati Muskaan also extended support to "Thara" (a shelter for homeless children), signed an MoU with Oxfam, supported the Wealth out of Waste ("WOW") Project and Recycling of e-Waste – an initiative towards Green IT, executed a Tree Plantation Drive, set up computer labs at the Gati Government School, Hyderabad and the Gati Manickam Chettiar Middle School, executed a Blood Donation Drive, a notebook donation drive, and many more initiatives.

Looking Ahead

The outlook of the logistics industry in the years ahead, is indicative of rapid growth, particularly in the areas of your Company's operations, as I stated earlier. Aggressive infrastructure development and the introduction of GST by the end of the year, will further accelerate the growth momentum.

GATI-KWE will take steps to further strengthen its already-dominant position in the Express Distribution space, through solution selling by integrating warehousing and distribution, along with other value-added services.

Your Company will aggressively participate in the humongous e-Commerce business. In the immediate term, your Company will provide services in metros, capitals, and the Tier 2 and 3 cities, which are in immediate need of e-Commerce services, due to a surge in demand from these locations.

Towards this, your Company will strengthen its last mile connectivity and systems.

In the cold chain sector, your Company, through Gati Kausar, will be sure to take the cudgels on the farmers' behalf. We are looking at setting up cold chain warehouses in strategic locations that will help reduce food wastage – one of the burning issues in the country today. This will help increase the farmers' wealth, fight inflation and bring all round prosperity to our country.

In line with the government's policy, Gati Kausar will bridge the gap between farmers and consumers, putting more money in the "pockets of farmers".

Consistent with the above, your Company will invest in people, systems and processes, and financial investments, to help it achieve its goals.

Before I close, on behalf of your Board and on your behalf, I would like to convey our grateful thanks to Dr. Ram S. Tameja, an Independent Director of your Company, who resigned from the Board, effective February 28 2014, due to advancing age. Dr. Ram had been associated with the Company since its inception and was a great source of support. His dedication, commitment and eye-for-solution helped the Company overcome many hurdles. I, on behalf of the Board and your behalf, place on record our deep appreciation for his contributions and guidance during his tenure as a Director.

Acknowledgements

To conclude, I wish to convey my thanks to all of you for your support. I specifically wish to complement the employees of your Company for their extraordinary performance. I thank the clients, vendor partners, government and bankers, and I look forward to their continued support and encouragement, as we embark on another rewarding year.

My best wishes to all of you.

Thank you.

K.L. Chugh – Chairman, Gati Ltd.