



25 YEARS OF DELIVERING EXCELLENCE



C H A I R M A N ' S S P E E C H

20th Annual General Meet, July 30 2015

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 20th Annual General Meeting of your Company. I am happy to state that in many ways 2014 was a landmark year for your company. This year, your company celebrated its Silver Jubilee, having completed 25 years. This was a momentous occasion for your company as it looked back with pride at the long journey that started with a then niche idea in 1989, promoted by a young entrepreneur, now your Managing Director, and evolved into a successful business over the years. Through sustained hard work and customer centric values, your company is today a leader, and a dominant national player in the express distribution and supply chain management industry in India.

The Silver Jubilee year brought a silver lining for all the shareholders of your company. The share price of the company touched new peaks, and the number of shareholders has grown from 41,000 to 70,000 in the last one year. In celebration of the Silver Jubilee year, your Board had declared an interim dividend of 30% in Dec 2014. Furthermore, I share with great joy that your Board has recommended a final dividend of 40%, thus making the total dividend for the year add up to a happy 70%.

I am very pleased to inform you that your Company has succeeded before the Delhi High Court against Air India and the Hon'ble Delhi High Court has confirmed the Arbitral Tribunal Award in favor of your Company, except the claim for damages. Your Company now is entitled to receive ₹ 25.65 Cr from Air India along with future interest @ 18% per annum. Necessary steps are being taken for execution of the Award and also to explore the possibilities of challenging the claim for damages on legal advice.

As committed by your Board, during the period under review, Gati Ship Ltd. (GSL) ceased to be a subsidiary with effect from May 16, 2014 thereby permanently insulating your company from any future loss. GSL has discontinued its operations and has settled all its major liabilities, and exited from all major commercial contracts successfully.

During the year 2014-15 your Company recorded a top-line growth of 14% and at the consolidated level, had an income of ₹ 1663 Cr, and an EBITDA of ₹ 154 Cr and registered a PBT and PAT of ₹ 79 Cr and ₹ 57 Cr respectively. Such financial

performance has helped improve the credit rating of GATI-KWE from “A minus” to “A plus”, which I believe, will help improve profitability going forward.

New Initiatives

There is a palpable vibrancy in the air with the government taking significant steps to improve the politico-economic scenario, and put the country on a higher growth trajectory in the coming years. The newly formed NITI Ayog is engaged in creating a parity-platform for Centre and States from a national policy perspective and for the purpose of resource allocation. There is hope in this new collaborative approach for India to be a \$8-trillion economy within 15 years, next only to USA and China. These initiatives have the potential to directly, and positively, impact the logistics industry, and also your company. Allow me to illustrate how.

Manufacturing sector reforms have been announced to boost manufacturing growth. The flagship initiative, “Make in India”, has been launched with the aim of creating 100 million jobs over the next decade and taking manufacturing share from its current 15% level up to 25% of Indian GDP.

We will soon be witness to the biggest push for infrastructure development by the government launching its plans to award ₹ 3 lakh crore worth of road projects. Further, the GOI has committed ₹ 50,000 crore towards the recently announced “Bharat Mala” project that envisages construction of 5,000 km of road network all along the borders and coastal areas. This massive investment in road infrastructure will directly and indirectly benefit the logistics industry, and your company, by improving connectivity, reducing lead times, reducing operational cost, easing access to remote markets and giving a further impetus to the economy as a whole.

The ambitious ₹ 2 lac crore Diamond Quadrilateral project will complement these efforts, with the introduction of the high-speed trains, by drastically reducing the transit time between the metros. The emphasis on the completion of the four dedicated freight corridors will promote efficient haulage of containerised cargo by rail; and will enable end-to-end logistics solutions through public-private partnerships.

The proposed implementation of the GST Bill in April 2016 will open up significant business opportunities for Logistics



companies in India, particularly for players in multimodal transport and end-to-end supply chain solutions, like your Company. Inter-state transactions will become tax-neutral, and the country will emerge as a single market without state borders. This will encourage customers to re-design their current supply and distribution networks, moving from tax optimization to real supply chain efficiency. Third party logistics outsourcing will grow, and national players with pan-India presence, like your company, will stand to gain significantly.

Indian Economy & Logistics Industry

While global growth outlook remains within a modest 3-3.5% range, the Indian economy is seen to be bouncing back from the lows seen over the earlier two years, to clock a GDP growth of 7.4% in 2014-15. Overall there is a real, all-pervading sense that the new set of reforms, and the enthusiasm in the markets, can lead India towards another prosperous era of high growth in the near future

Empirical evidence suggests that the Indian logistics industry grows at 1.5-2 times the GDP growth. The government is optimistic that an 8-10% GDP growth is not out of sight with the ongoing reform processes, and thus a growth of 16-18% for the logistics industry is a real prospect.

The e-Commerce has unambiguously emerged as India's new sun-rise industry, buoyed by rapid changes in the user demographics, further fuelled by government initiatives such as "Digital India" and "Skill India". The industry is set to be a USD 36 billion industry by the end of 2020, up from USD 3 billion in 2014, growing at a CAGR of 52%. The last year has seen a further acceleration of this sector with some established players committing investments to the tune of USD 5 billion. Many new players that have recently emerged using an alternate technology route of m-Commerce, are also showing the potential to hit the big league.

The disruptive nature of the e-Commerce sector is even more evident through the growing aspiration of even local mom & pop stores to create presence online. A breed of new entrants, popularly termed as "Hyperlocal", are mushrooming across the Indian metros to lap up the opportunities of local deliveries.

During the financial year under review, GATI-KWE, the flagship subsidiary of your Company, contributed 69% to the business of the Company and saw an annualised growth of 12% during the year 2014-15. GATI-KWE recorded a revenue of ₹ 1142 Cr, EBITDA of ₹ 116 Cr and PAT of ₹ 57 Cr against an annualised revenue of ₹ 1023 Cr, EBITDA of ₹ 107 Cr and PAT of ₹ 47 Cr in the previous year. This performance, viewed in the context of a muted IIP of 2.8%, strengthens the belief that your company is further fortifying its leadership in the Express Distribution business. GATI-KWE is also the

first 3PL Company to introduce e-Fulfilment services for the e-Commerce industry, and is successfully running FIVE e-Fulfilment centres as on date.

In order to stay "ahead in reach", your company is committed to the path of continuous improvement in Service, Quality and Cost. Your Company has taken major steps to improve quality through automation of processes, installation of CCTVs in our operating centres, installation of vehicle tracking system in our vehicular fleet, and introduction of Tablets and Scanners to improve information management. GATI-KWE has successfully run a pilot project of bar-coding of all packages, for automated tracking and identification from booking to delivery. Once this is rolled out across the network, GATI-KWE will be the first Express Cargo Company to introduce 100% barcode scanning of cargo.

Gati e-Connect

During the year under review, your company's e-Commerce division grew at 163% and recorded a revenue of ₹ 127 Cr as against a revenue of ₹ 48 Cr in the previous year. The e-Commerce business is growing at a CAGR of 125% over the last four years, and it is expected that a similar growth momentum will continue for the rest of the decade.

During the year, your company has widened its customer base by adding new e-Commerce and m-Commerce customers. Further, new geographies have been opened up with well serviced last mile delivery capability. Also, the share of different weight segments within the portfolio has been worked upon to ensure competitive presence across the weight segments. Many of the transshipment hubs have now been equipped with dedicated e-Commerce sorting centres, and also new e-Commerce distribution nodes have been established in multiple cities closer to high density population clusters. Your company has further expanded its service offering to the customers by way of introducing new consolidation services for vendor pickups, and has further emphasised on the growing reverse logistics business opportunity. Overall, your company has significantly increased its footprint, and made deeper penetration into the end-to-end logistics ecosystem of the e-Commerce industry.

Gati Kausar

During the period under review, Gati Kausar recorded a revenue of ₹ 46 Cr, EBITDA of ₹ 2.5 Cr and PBT loss of ₹ 4.8 Cr against a revenue of ₹ 49 Cr, EBITDA of ₹ 3.8 Cr and loss of ₹ 4.2 Cr in the previous year.

Gati Kausar is moving from a temperature-controlled trucking business towards an integrated refrigerated supply chain model, leveraging Gati's capabilities and expertise in express



distribution and supply chain. In order to accelerate this change Gati Kausar has raised ₹ 150 crore from Mandala Capital AG Ltd. and Mandala Agribusiness Investments II Ltd. Out of the 150 crore, ₹ 30 crore is in the form of Equity shares and Compulsory Convertible Preferential shares (CCPS) and the remaining ₹ 120 crore is in the form of Non-Convertible Debentures cum Bonds (Bonds).

The funds raised will be utilized primarily for building a network of cold warehouses across the country over the next three years, thus enabling the Company to offer integrated cold chain logistics and supply chain management, as well as value added services.

Awards & Recognition

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 “Best Business Partner”, “Best CSR Project for Sustainable Development”, “Top Assessee of Service Tax” as well as the “Dataquest Business Technology Awards for Mobility”. The fact that the awards are from across the spectrum of corporate performance, is an indication of your company’s emphasis on overall holistic growth, rather than being limited to any singular dimension.

Corporate Sustainability

Your Company commits to operating in an economically, socially and environmentally responsible manner whilst balancing the interests of diverse stakeholders. The flagship initiative of your company, “Gati Muskaan”, continues to contribute towards the field of education, livelihood, community development, rural development as well as environment and disaster management during natural calamities.

Looking ahead

While the start to the new financial year (2015-16) has been rather modest, there is undeniable confidence in a rapid acceleration of the business during the course of the year. The macro outlook of the logistics industry in the year ahead is one of positive optimism. The Industry holds tremendous business opportunity and potential, aided by many a favourable factors that I have already detailed out earlier.

Gati, including its subsidiaries of GATI-KWE, Gati Kausar and its e-Connect vertical, will remain focussed on riding this growth momentum, on outpacing its competition in various segments, and of course, on expanding its customer franchise.

Your company will continue to invest in building new capabilities, both in technology as well as in physical operations, and shall invest in further expansion of its long haul fleet and last mile ground capacity for pick-up and delivery. Your Company is making structural design changes for network expansion and route optimisation to be able to efficiently serve the hybrid requirements of B2B business in GATI-KWE and B2C business of e-Commerce.

Gati Kausar will strive to become an end-to-end cold-chain solution provider, with temperature-controlled capabilities, both in distribution as well as in warehousing, and thus position itself ever so strongly in the rapidly growing Cold Chain business.

Consistent with the above, your company will invest to renew its people talent, to renew its systems & processes and shall also accelerate financial investments to achieve its business goals.

In the year ahead, your company looks forward to setting new benchmarks in the logistics industry, and shall endeavour to exceed expectations of all its stakeholders.

Acknowledgements

To conclude, I wish to convey my thanks to all of you, for your continued support. I specifically wish to complement the employees of your Company for their commitment, hard work and excellent performance. I thank our customers, business partners, regulatory agencies and bankers and look forward to their continued support as we embark on another rewarding year.

My best wishes to all of you.

Thank you,
K.L. Chugh
Chairman, Gati Ltd.



Registered Office and Corporate Office

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