



Growing together
to scale new heights.

Speech By The Chairman, Shri K. L. Chugh
At the 17th Annual General Meeting on October 19th, 2012



Ladies and Gentlemen,

Good Morning.

I have great pleasure in welcoming you to the 17th Annual General Meeting of your company. The year 2011-12 has been an eventful year for your company that witnessed a significant business development - **Your company entered into a Joint Venture for its Express Distribution and Supply Chain business with Kintetsu World Express of Japan to form GATI-KWE.**

Kintetsu World Express is a global provider of comprehensive one-stop services and solutions that incorporate airfreight forwarding, ocean freight forwarding and a full-range of logistics services. Established in the year 1970, KWE today has over 300 offices in 203 cities and 31 countries. The consolidated revenue for the last financial year stood at USD 3505.6 Mn, consolidated net income at USD 103.20 Mn and asset base at USD 1575.17 Mn.

The Joint Venture with Japanese global logistics service provider - KWE is a major strategic step towards further strengthening the Express Distribution and Supply Chain business and reducing the debt burden to create a healthy bottom line and re-invest in the future growth areas. This aligns with Gati's vision to be a globally preferred provider of India-centric logistic and supply chain solutions.

The alliance with KWE would allow Gati to enhance its international presence and gain access to a large base of potential KWE customers. India is a key destination for Japanese investment in the next few decades not only in infrastructure where they are very active, but also in consumer goods, food and pharmaceuticals. KWE expects to see a lot more manufacturing and trading between the two economies, getting a significant share of new customers.

To mark the consummation of the partnership, your company also announced a special dividend of 30 per cent for the financial year ended 30th June, 2012. This relationship with KWE has immense potential for growth and improved profitability of the Express Distribution and Supply Chain business. KWE has valued Gati's shares at ₹ 83/- per share (face value of ₹ 2/- each). The transaction brings in cash of ₹ 268 crore for a stake of 30 per cent in the JV Company including ₹ 89 crore into Gati Ltd.

The Global Economic Outlook

Ladies and gentlemen, the last financial year has been a tough year for businesses around the world and we continue to live in an uncertain economic

environment where global recovery, which was not strong to start with, has shown signs of further weakness. Growth in the global economy has decelerated as the European Union (EU) continues to grapple with sovereign debt crisis and United States of America facing a persistent high unemployment, shaken consumer and business confidence and financial sector fragility.

Indian Economy - A Disrupted Recovery

Back home, the year 2011-12 was a year of recovery which was disrupted by the sovereign debt crisis in the Euro zone that intensified, political turmoil in the Middle East, rising crude oil prices and an earthquake that struck Japan. The global economy uncertainty has raised concerns and poses a major risk to the country's growth and inflation. Inflation continues to remain high during the current fiscal year and saw a rise to 7.8 per cent due to the steep rise in fuel inflation to 11.9 per cent.

After having grown at the rate of 8.4 per cent in each of the two preceding years, India's economic growth fell to 6.5 per cent in 2011-12. However, in the first quarter of the current fiscal year, the GDP has grown at 5.5 per cent, a bit higher than in the previous quarter. The government expects the GDP expansion in the remaining part of the year to be better.

The Indian Logistics Industry - Building Momentum

The Indian Logistics Industry is all set to benefit from FDI in multi brand and GST implementation which are conducive for the growth of organized players in the market. It is expected to grow over 10 per cent annually over the next decade. Domestic logistics will continue to grow despite the economic slowdown as the adoption of more efficient practices continues to demonstrate a strong ability to reduce operating costs. Express Distribution industry in which your company is a leader, has been one of the fastest growing segments and is expected to grow at 17 per cent per annum to ₹ 17,450 crore in the next three years.

The Indian Government's impetus on infrastructural development, providing several tax benefits for logistics companies, the implementation of schemes such as SEZ and FTWZ, 100% FDI in the logistic sector and its plan to introduce GST to simplify the existing structure of state level taxes are all clear indicators of growth in the logistics sector.

Business Overview

During the year under review at consolidated level, your company achieved a turnover of ₹ 12,890 Mn

as against ₹ 12,113 Mn in the previous year showing a growth of 6.41 per cent and an EBIDTA of ₹ 1,802 Mn as against ₹ 1,007 Mn in the previous year, on consolidated basis. Your company has recorded a Profit Before Tax of ₹ 668 Mn and Profit After Tax of ₹ 415 Mn as against ₹ 237 Mn and ₹ 141 Mn respectively in the previous year.

At standalone level, your company recorded a turnover of ₹ 8,013 Mn as against ₹ 9,081 Mn in the previous year. Further, Profit Before Tax was ₹ 958 Mn and Profit After Tax was ₹ 720 Mn as against ₹ 229 Mn and ₹ 143 Mn respectively in the previous year.

Last year your directors had declared a dividend of 25 per cent in addition to the special interim dividend of 30 per cent taking the total dividend to 55 per cent for the financial year 2011-12.

Express Distribution and Supply Chain

Your company has continuously evaluated its costs through optimization tools and drove its collection aggressively to improve its cash flow.

The company has a planned strategy to further grow the express business to gain maximum advantage resulting from the JV with KWE.

GATI-KWE will focus on the combined expertise of Gati and KWE to further strengthen its service offerings, develop high-end 3PL facilities and warehousing services, including temperature controlled warehouses. It will partner with KWE to support the business expansion of global KWE clients into the Indian market. It will continue to build up world class capabilities to support organized retail and build on the years of experience that we already have servicing this sector.

Before I move forward, allow me to share with you the latest recognition received by your company for the Express Distribution division that should be a source of pride for all of us. GATI-KWE was conferred the title of "**Best Logistics Provider of the Year-Road**" Award at the 6th Express, Logistics & Supply Chain Awards held at Mumbai on the 27th of September, 2012. Your company has received the honour consecutively for the last two years which is a clear testimony to the superior service that we provide to our customers.

E-Commerce - The Next Wave of Growth

We are now a decade into the 21st century. It is the 'age of knowledge' powered by technology. People are changing as rapidly as technology. Today people are able to work 24/7 from anywhere, at anytime, for anyone. They also have the flexibility to shop

24/7 for anything, anytime and from anywhere. The scarcity of land, density of population and thereby the price of real estate will drive people towards E-commerce.

The great retail story of India has attracted every global player in the world, hence the keen interest in FDI from DC to Tokyo. Politically, it is a much discussed topic on the perils and impact of the entry of the big boys into this industry. We have already seen the revolution of retail through our home brands of Big Bazar-Future, Reliance, Bharti, ITC and Birlas. The new entrants will not be as much a disruptive influence on the buyer behaviour as much as technology and e-shopping.

Proliferation of internet in urban and semi-urban India has brought major changes to the way businesses are being conceptualized and run. The growth of the E-retailing segment within the E-commerce market remains one of the most talked about topic in today's business pages. Consumers are willing to execute transactions online for products ranging from high-end fashion to personal electronics, due to convenience and the range of product offering. The same products are available 20-30 per cent cheaper online without having to commute at your own cost to visit a store - Indian or otherwise. This model is incredibly innovative in terms of procurement, inventory management, vendor base development and collections (Cash-On-Delivery). This is further customised for Indian conditions. This model presents significant cost-savings at each step in the supply chain.

Positive buying experience is a vital step in improving consumer confidence in an online retail environment inducing repeat purchases. However, last mile delivery remains one of the biggest challenges for E-commerce portals to provide this affirmative online shopping experience, especially in tier II and tier III towns/cities. This industry requires a strong fusion of technology, product availability and logistics.

Your company with its unmatched reach, exceptional cash-on-delivery capability and largest distribution network across the country, is very well poised to bridge the service gap in this growing market. Your company is already catering to some of the top notch large online retailers and home shopping channels, and providing franchisee solution to multinational brands. In line with the changing business trends and to cater to this emergent market, your company this year has launched a specialized E-commerce division which operates 7 days a week and attempts after hour

deliveries till 10 pm. The expansion plans for this year is to build capability to deliver 12,000 packages per day generating revenue of ₹ 400 Mn in the year 2012-13.

I can already foresee the future of this business. It has the potential to be twice as large as our current B2B GATI-KWE business in just a few years. This business has the potential to then tie up with a global strategic partner. In five years, your company would have created a large and profitable B2C new business, GATI E-commerce.

Cold Chain Solutions - Focus on Further Strengthening

Cold Chain Industry in India is in an evolution stage and is estimated to be ₹ 125 Bn, growing at 20-25 per cent to touch ₹ 400 Bn by 2015. Government of India is focusing on setting up mega food parks to propel demand for cold storage and transportation. GOI Vision for 2015 is to double processed foods to USD 210 Bn and has also announced subsidy of 40-55 per cent of capital cost of the project for both public and private sectors.

Your company Gati Kausar for the last 3-4 years has been leading the Cold Chain Solutions market and providing customized temperature sensitive services for consumer foods, pharmaceuticals, retail and agri-food sectors. Gati Kausar has grown by 33 per cent this year when compared to the last year. Our distinguished clients include Cadbury's, Amul, Nestle, Dominos Pizza, Intas, Dabur and Mother Dairy among others.

Your company plans to further strengthen its current vehicle capacity from 150 vehicles to a combined fleet of 350+ distribution vehicles and invest in cold storage facilities and temperature controlled LTL delivery capabilities to create a hub and spoke cold chain distribution network.

International Freight Forwarding

Our International freight forwarding business is expected to grow at 40% per cent YoY. During FY12, the company entered into core-carrier partnerships with key airlines for cost efficiencies, built user-specific value added service capabilities and strengthened its worldwide distribution network for wide reach through log net alliance. Going forward, there will be increased focus on trade lanes between China-India, Hong Kong-India, Singapore-India & Germany-India and ocean freight

product development for Africa. The division will also focus on business between India-SAARC region and bonded trucking solutions to connect major ports and airports to the inland locations in India to facilitate export-import business.

Shipping - Coast to Coast Services

The shipping industry as a whole has been plaguing for some time now. The economic turbulence had its biggest impact on the shipping industry in India. Our shipping division continues to face serious challenges on business and operational fronts leading to unsatisfactory performance this year as well. Your company has seized this problem, and as a strategy hived off its shipping business into an independent subsidiary. As a first step the company plans to invite a strategic partner to bring in equity and turnaround.

To summarize, ladies and gentlemen your company will have three formidable similarly sized verticals- E-commerce, Cold Chain and Express Distribution. These will be the major cash cows for the near future where we expect growth to yield much higher returns.

Acknowledgment

As I conclude this address, on behalf of the board, I would like to thank you dear shareholders, our clients, vendor partners, government and bankers for their unwavering confidence and support. I would like to thank our employees for their determination, loyalty and continued effort towards our achievements.

On behalf of the Board of Directors, I thank you once again. I highly appreciate your presence at the AGM and your faith in the company, and look forward to your support in the years to come.

