



18th Annual General Meeting 6th November 2013

Speech by The Chairman - Sri K.L. Chugh

Ladies and Gentlemen, Good Morning

It gives me great pleasure to welcome you to the 18th Annual General Meeting of your company. I am happy to state that the year 2012-13 has been a gratifying year for your company despite major economies across the globe, including our own, continuing to be volatile.

To begin with, Ladies and Gentlemen, may I share with you the good news that your company, after 4 long years, has won the long pending Arbitration against Air India, on 17th September, 2013. The Arbitral Tribunal has passed its award, directing Air India to pay your Company a net sum of Rs. 26.82 Crores towards claims, damages, interest and costs. In the event of Air India failing to comply with the Award within 30 days, Air India shall be liable to pay interest @ 18% p.a.

Looking at the business performance of the year, you will notice that the financial year 2012-13 has been a year of restructuring, continuing from the previous year. This has strengthened the balance sheet through a special reserve, enabling further restructuring to strengthen your Company. In addition, during the year your company has taken steps to improve operational efficiency, strengthen controls and reduce costs, thereby continuing to build a more agile, efficient, technology driven and growth oriented organization.

Global Economic Outlook

Ladies and Gentlemen, you are all aware that there is barely good news from the global economy. Global economy has slowed down to an average of only 2.5 percent during the first half of 2013, which is about the same as in the second half of 2012.

As a result, emerging market economies are facing the dual challenges of slowing growth and tighter global financial conditions. Looking ahead, global economy is expected to strengthen moderately but the risk to the forecast remains on the downside.

Indian Economy

Back home, India's growth projection for the current year 2013-14 has been lowered to 5 percent from the modest 6.4 percent projected earlier. The pace of economic growth in the first quarter has been weak at 4.4 percent but is expected to bounce back on account of the good monsoon, impacting the agricultural sector favorably, and the impact of reform measures, instituted in the past 6 months, particularly the emphasis on getting infrastructure projects moving.

The Indian Logistics Industry

Notwithstanding the country's economic slowdown, the Logistics and Warehousing business witnessed growth, although at a slower rate, during the first half of 2013 (CBRE Report). According to the CBRE latest report the 'India Logistics Market', for the first six months of the year, continued to see automobile players, FMCG companies and retail majors as the prime occupiers of warehousing space. Growth came mainly from the growth in retail, e-Commerce and manufacturing sectors.

The easing up of Foreign Direct Investment (FDI) in single brand and multi-brand retail, fast changing lifestyles and demographic shift will create a large demand

for end to end logistics and warehousing services. Your Company, like the rest of the industry, continues to wait for GST to be implemented that would enable our customers in transforming their supply chain, lower logistics costs and driving benefits down through to the Indian consumer.

The e-Commerce industry, on the other hand, is booming and is estimated to grow from current USD 0.6 billion to USD 56 billion by 2023. With incremental merchandise coming into the urban, semi urban centres and emerging, towns there is a huge demand for logistics players, with capability to collect Cash on Delivery services especially from the Tier 2 and 3 cities along with reverse logistics. This will open up a new massive opportunity for the industry and companies like yours.

Business Overview

During the year under review at consolidated level, your company achieved an income of Rs. 1,290 Crores and a profit after tax of Rs. 17.00 Crores, against income of Rs. 1,200 Crore (excluding 89 Crore being Profit on Sale of Investments in GKEPL) and a loss of Rs. 28.00 Crore (excluding 69 Crore being Profit on Sale of Investments in GKEPL net of tax) in the previous year.

At standalone level, your company recorded an income of Rs. 170 Cr and Profit After tax of Rs. 25 Cr. The previous year figures are not comparable due to the implementation of the Scheme of Amalgamation approved by the Hon'ble High Court of AP.

In a major restructuring move this year, the Hon'ble AP High Court, approved the scheme of amalgamation of 5 wholly owned subsidiaries of the Company (4 Fuels Stations and Gati Express Distribution Limited) with the Company, effective 31st March, 2013. In terms of the said scheme, all the assets and liabilities comprised in the respective undertakings stood transferred to the Company at their respective fair values, which led to creation of special reserve of Rs. 555 Crores, thus reflecting the true value of the business. This has strengthened the Balance Sheet of your company apart from bringing operational and cost efficiency through better synergy in the businesses.

The Board of Directors of your Company have recommended a dividend of 30 percent on the share capital of Rs. 17.3 crores for the financial year ended 30th June 2013, (previous year 55 per cent including special interim dividend of 30 percent) subject to approval of Shareholders.

The shipping division buffeted by most adverse Global & Domestic economic circumstances made an operating loss of 24 crores. Your Board has decided to restructure the business. To start with, during the Financial year 2011-12, the Shipping Business has been de-merged as a subsidiary, Gati Ship Ltd.

During the year, but for the losses of Gati Ship Ltd., the profit of the Company would have been Rs. 41 crores at consolidated level.

Gati-Kintetsu Express Pvt. Ltd: Express Distribution and Supply Chain Solutions

Gati-Kintetsu Express Pvt. Ltd, the joint venture flagship company, retained its market leadership in the Road Express segment. Despite the economic challenges of rising fuel cost leading to rise in operational costs, declining air

freight business, declining GDP, tighter financial market conditions, the business saw a growth of 11 percent on gross revenue as against industry average growth rate of 9 percent.

The synergy with the JV partner has started making good progress. The company has embarked upon a Quality Improvement program - "The GATI-KWE Way" aimed at minimizing defects through implementations of KAISEN, LEAN and 5S Principles. The rigorous Quality Drive initiative has shown improvements in the service levels, reduction in damages and improvement in on time vehicle arrival.

To strengthen the physical infrastructure, during the year the company GATI-KWE has invested Rs. 17 Crore in 150 additional vehicles to the existing 201 taking the total fleet count to 351, in addition to the 4000 vehicles of its business partners and vendors. The company has also invested in expanding the current facilities at Noida, Lucknow, Chennai for distribution operations, in addition to taking up 2 lakh sq ft space for 3PL operations in Chennai.

To strengthen the intellectual infrastructure, during the year, the company has signed a three year Business Transformation Consulting engagement with IBM, to bring in new processes to scale up the growth, improve productivity thereby reduce operational costs and bring in more accuracy with a long term view of building an agile organization with a robust Sales and Operations strategy.

To develop the commensurate skills of its people, the company has introduced "G-Force" which is a skill building course on LEAN and Efficiency improvement tools for middle management to become a high performing team.

The company achieved an income of Rs. 895 Crores and delivered a 10% EBITDA. I feel confident that this subsidiary, our flagship one, will continue to do well and outperform its current achievements.

Gati e-Commerce: B2C home delivery solutions

The India e-Commerce market is going through a huge surge and will continue to grow at an estimated 30 per cent CAGR vis-à-vis a global growth rate of 8-10 per cent.

During the last year, the e-Commerce Solutions Business of Gati has grown two fold, surpassing the plan. It has established its own delivery network spread across 14000 remote locations that cater to the Tier 2 and 3 cities, Pick and Pack Centers at Delhi, Bangalore, Pune and Mumbai and a dedicated fleet of 200 vehicles and 300 bikes that deliver over 10,000 plus shipments per day. The Pick and Pack centre's are one of its kind last mile delivery units, that manage inventory, packaging and distribution for the customers thereby reducing their time and cost in order processing.

Gati e-Commerce is the first service provider in the country to cater to 6700 direct pin codes, with a payment option of 'Cash On Delivery' and 'Prepaid' basis. In addition, for time-critical shipments a new 'Same Day' delivery service has been introduced for 6 major metros.

Your Board believes that the e-Commerce solutions business is the future for Gati and in the coming years it would emerge as a large and profitable business for Gati.

Gati Kausar

The Cold Chain Industry in India continues to show a steep growth consistent with the growth of economy, rising standards of living and adoption of technologies to save on wastage. Gati Kausar, the cold Chain subsidiary of Gati Limited, is ably placed to cater to this growing market. With expertise that spans over 26 years in the cold chain industry, Gati Kausar is India's leading cold chain transportation provider of choice across user verticals such as healthcare, meat & poultry, bio-pharma, frozen & fresh produce, dairy products, organized retail and quick service restaurants.

During the year the Company invested over Rs. 15 Crores and added 65 new refrigerated vehicles to the existing fleet of 150, taking the fleet size to 215 vehicles. The fleet size will continue to grow significantly through addition of vendor vehicles. Gati Kausar is also entering the cold storage business and is in the process of setting up chain of cold storage units across major metros.

During the year, Gati Kausar recorded a revenue of Rs. 46 Crores and a loss of Rs. 2.4 Crores as against revenue of Rs. 40 Crores and a loss of Rs. 2.1 Crores in the previous year. Despite investment, Gati Kausar continues to generate cash profits. Measures have been put in place to improve the asset utilization and service pricing and thereby its profitability for the year ahead.

To strengthen and grow the business rapidly, Gati Kausar is looking for a Strategic Partner.

Gati Ship Ltd.

The Shipping subsidiary of Gati Ltd continues to face business challenges due to contracted markets and slow down of the global economy. This has severely impacted freight pricing, vis-a-vis costs which have had a marked increase, during the last year, impacting profitability adversely.

In the last quarter of financial year 2012-13 Gati Ship has launched a joint service on the West Coast of India with International Shipping and Logistics FZE, Dubai (A Tata Steel Subsidiary). This has helped reduce the cash loss, although the problem still remains.

Gati Ship has sold its two loss making vessels in the past year, leading to reduction in the cash outflows from your company. Currently, it operates two ships - Gati Majestic and Gati Pride. During the year, Gati Ship Ltd. recorded a revenue of Rs. 25.4 crores and a net loss from operations of Rs. 24.3 crores as against a revenue of Rs. 22.7 crores and a net loss from operations of Rs. 37.4 crores in the previous year (Business was carried out as a division of Gati Ltd for 9 months and as subsidiary company for 3 months).

Your Board is seized of the problem and is looking into Strategies to find a solution thereof.

Corporate Sustainability

Ladies and Gentlemen, I am pleased to inform you that your company, during the year, received number of awards in the areas of Service, Human Resource, Information Technology, Process improvements and for its Corporate Social Responsibility. To mention a few, we were awarded the 'Best Road Service Provider of the year', 'Best Express Service Award', 'Award for Achievement in Continuous Improvement', 'Compensation Benefits Insurance Program Award', 'Supply Chain People Development Award', 'Most Innovative Recruiting & Staffing Program/Initiative Award', 'Best Corporate Social Responsibility Award', and under the individual category - Ms. Chitra Shinde Director GATI-KWE received the CEO of the year Award and Lady Transport Personality of the Year-2012; Mr. G.S. Ravi Kumar our CIO was bestowed with - "CIO Hall of Fame Award" & "CIO 100 Award and Mr. J. Subramanian was awarded the 30 Best HR Leader Award".

Corporate Social responsibility is an integral part of your company's culture and we are committed to fulfill our responsibilities as a member of society and community. Your company in various capacities has contributed towards the field of education, community and environment. To name a few, Gati Government High School, Literacy drive, Book donation drive, Aid to the flood effected people at Uttarakhand, Clothes donation drive, Medical checkup camps and Green initiatives aimed at reducing ecological waste and preserving the eco harmony. This year we specially raised over Rs. 1.0 Crore for rehabilitation, post Uttarakhand natural calamity. This amount was raised as voluntary contribution by employees and business partners.

Looking ahead

The Company is committed to enhance shareholder value, and in pursuit therefore, will focus on business synergy leveraging KWE relationships, adopting approach of solution selling than product selling and balanced approach to develop new business from SME and large corporate clients to improve margins, expand our capability to cross sell across products and subsidiary businesses thereby adding value to our customers business. Further your company would build upon service expertise and infrastructure to cater to the growing e-Commerce and Cold Chain business apart from providing strategic direction to all its subsidiaries and management of portfolio of investments.

During the financial year 2013-14, the Company expects improvement in profits due to various strategic initiatives.

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, highly appreciate your presence at the AGM and your faith in the company, and look forward to your support in the years to come.

Thanking you,

K.L. Chugh,
Chairman, Gati Limited