

# SPEECH BY THE CHAIRMAN

23<sup>rd</sup> Annual General Meeting



--- K L Chugh, Chairman

## Dear Shareholders:

On behalf of the Board of Directors of your company and all the Gati`ites, it is my pleasure to welcome you to the 23<sup>rd</sup> Annual General Meeting of your company. As the nation completes its first year since the rollout of Goods and Service Tax (GST), it is an opportune time to reflect on the many transformations in the global and domestic business landscape, and how such significant changes are defining the future course of your company's growth trajectory.

## Global Macroeconomics

Economic activity in 2017 ended on a high note as global GDP growth in the second half of the year accelerated beyond 4 per cent, the best in nearly a decade. Multiple indicators such as export orders, air freight, container shipping, etc. suggest that the recovery of 2017 is continuing into 2018. Although, there are occasional signs of escalating trade tensions that may affect business confidence and investment decisions, global growth for 2018-19 is projected at 3.9 per cent, riding high on a broad-based economic momentum and the increasing importance of emerging economies like China and India in the new global economic order.

## India Growth Story

India is today the sixth largest world economy with a GDP of 2.6 trillion in 2017. The 2017-18 GDP growth at 6.6 per cent was much lower than the 7.1 per cent growth in the previous year. The deceleration was broad-based as GST implementation affected normal business activity over an extended period of adoption and stabilization. A bounce back of growth to 7.4% is forecasted for 2018-19 with further acceleration thereafter; thus helping the country regain its position as the world's fastest growing major emerging economy.

## Logistics Sector

Over the last several years, many key trends have been reshaping the domestic logistics sector and have influenced your company's product portfolio and competitive position. Although, in its first year, the anticipated gains from GST tax reforms for the logistics sector is yet to materialize fully, the GST tax reform holds the maximum promise in terms of long-term growth prospects of organized logistics players such as your company. The promise of GST includes a reduction in overall logistics costs and

also a fall in effective tax rates through tax compliance in the end-to-end supply chain of goods and services. These aspects are expected to show through as benefits for the logistics sector over a period of time.

The Government of India remains committed towards further policy reform and supporting programmes for improving the Logistics sector. In the last budget, government had planned an investment of Rupees Six Lakh Crores towards creation and upgradation of logistics infrastructure including roads, railways, airports, and ports. Logistics has been aptly identified by the Government as a key facilitator in lifting the economy through enhanced connectivity between villages, towns and cities. Innovative ideas such as granting additional 25% payload increase in trucking, are indeed welcome steps to help improve Logistics efficiency. Also, now that the Government has officially granted the Industry status to Logistics sector, it will enable the sector to gain easier access to capital required for funding future growth and consolidation. And the most recent policy statements about incentivising Electric Vehicles can potentially redefine the future of transport in India when the same is rolled out.

## Gati Limited Performance

During the year under review, at consolidated level, your Company achieved a 2017-18 revenue of Rs. 1,813 Crores (as against Rs. 1,701 Crores previous year), an EBITDA of Rs. 155 Crores (as against Rs. 106 crores last year), and PAT of Rs. 39 Crores (as against Rs. 17 Crores last year).

Your directors have recommended a dividend of 45% (INR 0.90 per share) for the financial year ended March 31, 2018 subject to approval of shareholders.

At Standalone level, your Company achieved a 2017-18 revenue of Rs. 525 Crores (as against Rs. 524 Crores previous year), an EBITDA of Rs. 89 Crores (as against Rs. 47 crores last year), and PAT of Rs. 34 Crores (as against Rs. 18 Crores last year). The e-commerce business of your company was significantly stressed in 2017-18 with a weight drop of near 10% on account of various industry dynamics including pricing pressures and excess capacity in the industry with significant investment by e-tailers in their own captive logistics arms. This scenario is expected to be normalized in 2018-19, thus generating hope of better performance in the near future.

Gati's Express Distribution joint venture, GKEPL recorded a 2017-18 revenue of Rs. 1,170 Crores (as against Rs. 1,113 Crores previous year), an EBITDA of Rs. 74 Crores (as against Rs. 76 crores last year), and PAT of Rs. 31 Crores (as against Rs. 32 Crores last year). While the overall topline grew by 5% YOY, 2017-18 witnessed significant sluggishness within the general business environment in the context of the roll out and stabilization of the GST tax reform. Post the GST stabilization, the core Surface Express business experienced a strong resurgence, delivering double digit growth in the second half of the year.

## Going Forward

The post GST business environment, along with the Government's relentless focus on

facilitating improvement in the country's logistics ecosystem, together support the logistics industry's optimism regarding the growth momentum forecasted for the medium term.

Over the last few months and quarters, Gati has undertaken many steps to augment capacity, create differentiated capability, institute cost controls and pursue quality excellence, thus strengthening Customer confidence in the Gati Brand, which is today stronger than ever before.

Gati has initiated significant network capacity expansion across eight critical logistics nodes, adding up to eight lakh square feet space. This effectively doubles the distribution and warehousing capacities at these vital demand points. Your company has strengthened its air business through smart redesign of its ground feeder network, and thus now offers next day delivery within a 100KM radius around eight metro locations. Extending its leadership as a truly multi-modal player, Gati has been awarded a new round trip train lease tender by the Indian Railways for the Kolkata – Mumbai - Kolkata rail route, and also another lease tender for a parcel van attached to a daily passenger train on the west-east corridor. Further, your Company has enhanced its product portfolio through the launch of a new Value-Added Road Transportation service that neatly complements the existing portfolio of Distribution and Warehousing services. Gati is thus very well-positioned in a competitive context to cater to the evolving needs of its customers across industry verticals.

As global markets are becoming increasingly more connected, online retailers are looking for new ways to capture cross-border e-commerce opportunity. Cross-border e-commerce market is expected to grow from under 15% share of global e-commerce market in 2015 to near 25% share by 2020. India and China markets are the epicentre of this growth with growth rates projected at 2x to 3x above the global average. Gati has identified cross-border e-commerce as a significant future growth vertical, backed

by its presence in both China and India, along with a bouquet of niche capabilities covering Import-Export trade facilitation, international logistics, customs handling, etc.

Gati's traditional express distribution capability which has made it the "King of the Road", now stands vastly augmented with significant portfolio expansion covering warehousing solutions, e-commerce operations, value added transportation, freight forwarding, cold chain solutions and trade inventory management. In years to come, Gati aspires to transform from being a dominant Express Distribution player to becoming an end-to-end logistics powerhouse.

## Gati Ten Years hence...

There are three very significant issues that our country faces today, namely, chronic farm distress, stagnant rural economy and periodic runaway food inflation. If one reflects deeply upon these concerns, it is evident that all three are interconnected at the root. Agriculture is not adequately remunerative to the farmer. Very regularly we witness news reports of farmer suicides and mass protests. Farm prices are their lowest at the farm gate, and inflate many times over before reaching the end consumer. The beneficiary of the price escalation is not the farmer himself, but the chain of intermediaries who connect the farm produce to the end consumer. The Prime Minister has set an ambitious target of doubling Farmer's income by 2022. The localization of Agri markets on account of steep logistics cost, poor handling and storage infrastructure, as well as the regulatory restrictions imposed by the decades old APMC Act are all contributory causes for the poor state of agricultural economy in the country. The solution to all three problems lies in unification of agricultural markets nationally, and in providing farmers direct access to this unified market for better price realization. Information Technology, Logistics Infrastructure and Logistics Efficiency are key pillars of developing such a unified Agri market in the country, and also for facilitating Agri Exports growth. With its pan-India presence, your company, Gati and

its cold chain subsidiary, Gati Kausar, has the capability and the potential to participate and contribute towards shaping the future of such a unified Agri market in the country. Gati feels both inspiration as well as responsibility, towards supporting the Government's initiative of alleviating farmer distress and strengthening the rural economy.

## Awards & Recognition

Ladies and Gentlemen, I am extremely pleased to share with you that your company and Gati's, received numerous awards and recognitions during the year, which demonstrate that your company's services, expertise and corporate performance are greatly valued. To mention a few,

- Institute of Supply Chain Management (ISCM) LSP for Best Automotive Supply Chain 2017
- ISCM Best Express Logistics Service Provider 2017

- CIO of the Year Award 2017 for Category Transport & Logistics
- CIO Powerlist 2017 award for Category Transport & Logistics Icon
- ISCM LSP for Cold Chain Logistics 2017
- Intelligent Enterprise Award 2017 (Category – Enterprise Mobility)

## Corporate Sustainability

As an integral part of society, Gati strives to act as a positive force in local communities. Over the years, your Company has primarily identified five main segments for CSR focus, namely, Education, Community Development, Environment Sustainability, Rural Development Projects & Donations, and has developed its own unique model to make an optimal social impact. This year's highlight was the inauguration of the Gati Driver Training Institute at Swarna Bharat Trust, Hyderabad with a vision to fill the skill

gap of trained drivers by promoting best driving practices, increasing road safety, and reducing accidents. Through its state of the art heavy motor driving simulator and highly trained staff, the institute aims to impart periodic refresher courses to long-haul and in-city drivers.

## Acknowledgements

As I conclude, may I, on behalf of the Board and employees of Your Company thank you, our valued shareholders, and also thank our umpteen customers, vendor partners, investors, government and bankers for their continued support and encouragement.

I thank you all for your attention.

**K L Chugh**  
Chairman



## Registered Office and Corporate Office

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