WAREHOUSING

The truck stops here

How do you organise a largely unorganised industry? India's storage industry has lagged behind the transportation industry that it so heavily depends on. With cold chains now being an industry and FDI in retail entailing huge investments in storage, can we expect some movement? **Garima P** explores.

Photo courtesy: DTDC

Warehousing segment's growth is driven by government support.

It is easier to transport goods internationally than between Indian states. Observers of the Indian logistics sector say that although the country has the second largest network of roads (4.24 million km after the US's 6.43 million km), the second largest rail network (63,000 km), 128 airports, 13 major ports and 187 non-major ports, this infrastructure has not been good enough to deliver the desired quality of service. And, with limited private investments being pumped into the sector following privatisation, the Indian logistics industry accounts for a mere 2 per cent ($100 billion) of the $5,000 billion global logistics industry.

Fifty-seven per cent of India's freight is transported by road, 36 per cent by rail, six per cent by water and less than one per cent by air. The Indian logistics industry is expected to grow at 15-20 per cent per annum, reaching revenues of $385 billion by 2015, according to Cushman & Wakefield, a segment that recorded a growth (CAGR) of around 16.6 per cent until last year. Owing to the high cost of freight movement, the logistics cost in the country, which includes inventory control, transportation, warehousing, packaging, losses and related administration costs, is estimated at roughly 13 per cent of GDP. According to a working group report of the Planning Commission on logistics, this figure is higher than the corresponding figures for other major economies. For the US, it is 9.9 per cent, for Europe 10 per cent and for Japan 13.4 per cent. India's emergence as a manufactured products outsourcing hub is also threatened by costly logistics.

Despite holding promise, with 92 per cent of India's warehousing industry in the unorganised sector, the fragmented nature of the sector is one of the biggest headaches for the logistics industry. The logistics sector is also mired in several complexities, slowing down its growth: inefficiencies in transportation, poor condition of storage infrastructure, complex tax structure, low rate of technology adoption and poor skills of the logistics professionals.

According to Frost & Sullivan, the overall performance of Indian logistics industry in 2013 was not attractive, primarily since the country's overall industrial output, trade and consumption growth were all sluggish during the year. However warehousing segment had a slightly better scenario due to a few supporting measures from the government side. The logistics value chain consists of three main segments, namely, transportation, warehousing and value addition services including packaging, labelling and assembling, express services, tracking and tracing and cold chain.

Sensing the need and the potential the segment holds, corrective measures are being undertaken and as the Indian logistics sector is maturing so is the shift from traditional godowns to warehouses and logistics sector gradually happening. From being just a stocking point, warehouses have significantly increased their service range and have become consolidation centres for multiple locations, cross docking centres for retail distribution, sorting centres for door deliveries and an assembly facility for final fabrication, kitting and bundling. The trend is slowly moving towards more technologically advanced, larger, lesser turnaround times, multi-product handling capabilities and more strategically located warehouses.

"Real estate players are eyeing the warehousing segment after a slack market and increasing land prices."

– **Vineet Agarwal,** ***JMD, TCI***

"The organised retail sector is expected to grow at 25-30 per cent per annum, while the warehousing industry as a whole is estimated to grow at 9-10 per cent between 2010 and 2015. Slackening of the traditional real estate market and increase in the land prices have made the segment a suitable investment option for real estate developers who are now using their land banks (that cannot be utilised for residential and commercial development) to develop warehouses," says **Vineet Agarwal, Joint Managing Director, Transport Corporation of India (TCI)**, an integrated supply chain and logistics solutions provider. Indian warehousing industry is largely dependent on the model of per unit space cost plus variable pay per use services. Due to the low level of technology usage (especially warehousing specific information systems) and lack of visibility across logistics value chain, warehousing receipts have not yet been fully helpful for the industry. Various estimates put warehousing costs to be between 20-25 per cent of the total logistics cost.

"The primary driver of warehousing segment's growth has been the supporting measures the government has announced during the last two years' budgets. Initiatives such as allocating Rs 5,000 crore for creating warehousing facilities under Rural Infrastructure Development Fund (RIDF) have helped the industry. Additionally, the tax exemptions related to imports of cold storage infrastructure and equipment have encouraged several logistics companies to venture into developing such warehousing facilities," says **Srinath Manda, Frost & Sullivan's Programme Manager–Transportation & Logistics, Middle East, North Africa and South Asia.**

The development of some infrastructure for the Dedicated Freight Corridors (DFCs), the Golden Quadrilateral (of National Highways) and the East-West (highway) Corridor, along with the new ports and terminals on both the east and west coasts of the country, has resulted in increased but selective growth in the warehouse sector along these corridors. Apart from the rising number of warehouses along these corridors, the developing infrastructure has also created the emergence of multi-modal logistics parks.

DRIVERS OF GROWTH

While movement of goods through roads, railways, ports and air has been integral to the growth of the logistics sector in the country, roads have been the biggest gainer. While the roadways offer door-to-door service, railway movement sees the additional cost of door-bridging as well as additional handling involved at either end. Though the massive expansion of the national highways have given the roads sector a push on the growth path, allowing trucks to reach to unchartered territories, the highly fragmented sector with low-entry barriers faces a lot of challenges. Despite that, roads continue to constitute the most significant component of India's logistics industry, accounting for almost 60 percent of total freight movement in the country, having steadily nibbled into rail logistics territory.

That development reflects poorly on the massive but largely inefficient rail network in the country. The Indian Railways operates 19,000 trains daily, transporting 2.65 MMT of freight and 23 million passengers across the country. However, according to the KPMG report "Logistics game Changers", India's rail

Currently, the organised warehousing industry in India has a capacity of approximately 80 million metric tonne and is growing at 35-40 per cent per annum. Private equity players have lately shown keen interest in cold chains, clearly enthused by the newly accorded infrastructure label for the segment.

infrastructure suffers from chronic under-investment, due to which its potential for freight movement remains largely untapped. With an average speed of 23.3 km per hour and uncertainty of schedule, India's share of cargo supplied by rail has declined steadily, when it once stood at above 85 per cent in the 1950s to only about 30 per cent, owing to its last mile connectivity issues—and hence the growth of warehousing is unsurprising.

The non-bulk segment gradually started going away from Indian Railways and containers could not bring in that much traffic. Absence of a good consolidator in the business and the horizontal and vertical growth in the roads sector were the reasons for the traffic to go away from the Indian Railways," says **HD Gujarati, Director, Operations and Business Development, Dedicated Freight Corridor Corporation of India Ltd.**

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– HD Gujarati, *Director, Operations and Business Development, DFCCI*

Rail freight has grown at around 7 percent over the past five years. It is expected to touch the 1 billion tonne mark in 2013, with a 31 percent share of total freight movement across all modes of transport. The setting up of the Dedicated Freight Corridors (DFCs) is expected to play a major role in changing the face of the logistics and warehousing in the country, especially since it entails storage and warehousing facilities along their 3,300 km routes. The Eastern and Western Corridors have raised the need for establishment and improvement of connectivity with ports and road networks of Indian railways to form an inclusive intermodal strategy for first- and last-mile connectivity is also imperative.

"By developing SEZs and large warehousing units along DFCs, we're capitalising on port traffic."

– Vinod Asthana, *MD, CRWC*

Central Railside Warehousing Company (CRWC) seems to have woken up to that demand. The PSU that provides logistical support plans to expand beyond rail into Free Trade Zones and SEZs, and is setting up warehouses and developing SEZs. "Dahej (an upcoming port in Gujarat) is the first, where we have acquired land and the licence. Kochi, Visakhapatnam and Chennai are next in line. We are trying to capitalise on port traffic," says **Vinod Asthana, MD, CRWC**. The organisation has also acquired requisite land from the Railways for Dankuni (near Kolkata) and Ghaziabad (UP), where it is setting up the cold chain warehouses in multi-chamber temperature controlled warehouses, a segment seeing growing demand.

The argument on which of the two – rail or road – is better for the logistics and warehousing sector gets a mixed response. According to Frost & Sullivan, that road infrastructure has relatively minimal impact on the warehousing industry, because this industry segment relies on localised demand fulfilment for each geographic region/zone.

Despite the significant requirement of cold storages from the retail sector, pharmaceutical and chemical sector and the farm sector, where it is estimated that up to 40 per cent of the fruits and vegetables grown in India gets wasted, the sector needs to grow much faster to meet the needs. A number of private players do sense the hidden opportunity in the cold chain segment and have been trying to tap the potential. Estimates put the number of cold storages in India at around 5,400 with a capacity of 24 million tonne. However, nearly 60 per cent of these facilities are meant for storage of potato crop.

WHITHER FTZS?

It is a growing concern that the warehousing market has not matured enough in India and there lies a lot of untapped potential. While the interest and traction in the potential advantages that free-trade warehousing zones (FTWZs) offer has increased, not much could be achieved due to unclear policies. Industry experts believe that with excellent infrastructure, mechanisation and regulatory incentives, the FTWZ model offers significant potential to save costs in the overall supply chain.

"While large amounts of investments have been made, FTWZs are yet to take off owing to the constant change in policies that is causing the huge amounts of investments to get stuck," says **Jaijit Bhattacharya, Partner, Infrastructure and Government Services, KPMG in India**. According to Frost & Sullivan's Manda, India has been unable to achieve expected benefits out of FTWZ primarily due to its inability to enhance export competitiveness for warehousing intensive industries such as foods, consumer goods and electronics, when compared with countries like China, Malaysia and Taiwan.

The onset of Goods and Services Tax (GST), with its potential to revamp the national warehousing network, could be considered as the single largest industry-wide opportunity for smart warehousing as a cost-saving opportunity across the supply chain instead of a standalone necessary evil due to its capital-intensive nature.