

Automation aids warehouse growth trajectory

With huge investments coming in from global and domestic institutional investors, the warehousing industry in India has been on a growth trajectory in recent times, which has consolidated much in the post-GST era. This has led to the emergence of warehousing clusters on large land parcels near industrial hubs.

The total warehousing space in India of Grade A and B, which are equipped with technology-backed modern facilities, in eight major cities/clusters is around 273 million sq ft as of the end of 2021, a report by JLL India shows. Having grown at a CAGR of around 23% over the 2015-21 period, the total warehousing space is expected to reach 380 million sq ft by 2024 at a CAGR of around 18%.

The pandemic, too, has given a fillip to modern warehousing with an enhanced focus on technology and automation, leading to a partial shift in

warehousing strategies of companies. The followings trends are emerging.

Multilevel inventory management leading to reorganisation of warehouses

The introduction of GST had earlier changed the warehouse owning strategy. Companies started making storage decisions based on logistical efficiencies rather than tax efficiency. The industry was consolidating. However, the pandemic has partially shaken this strategy of warehouse consolidation. Dependency on one big warehouse has not worked well during the pandemic. Tier-I cities were badly hit by the pandemic and warehouses had to remain shut for long and that in turn also hit the supplies to tier-II and III-cities. Companies have now realised that dependency on a single warehouse can expose their supply chain activity to a higher risk. They are now trying to figure out how to manage the inventory more





efficiently. To avoid supply disruption inventory are being held at multiple levels. The companies now are focussing more on the hub and spoke model whereby the mother warehouse is a large one with several satellite warehouses well distributed.

Increased adoption of technology

India is at a nascent stage as far as technology is concerned in warehousing. However, with increasing investments from global private equity players and an increase in preference towards Grade A and B warehouses the focus on technology is increasing. The big 3PL players are better placed in this regard. Covid also has acted as a catalyst and shown Indian warehousing and logistics the importance of technology.

Several technological advances have been made in recent times to ensure optimum utilization of resources, tracking of consignments and seamless distribution of cargo such as Automatic

Identification and Data Capture (AIDC) Technology, Quick response (QR) code, RFID, etc. The adoption of a Warehouse Management System (WMS) and other IT-driven solutions are gaining importance. More usage of technology is expected to improve the competitiveness of the warehousing industry.

Accelerated demand for cold chain

The cold chain industry was evolving from a nascent stage in India, with increased consumption of processed food and improvement in the Agri-Supply chain. The pandemic has accelerated the demand for cold storage backed by the need to store vaccines and other essential drugs. Further during the pandemic, more and more people turned to online grocery shopping which is expected to continue. The sector is expected to receive significant investments post-Covid and will remain a major thrust area.

E-commerce and 3PL expected to drive the warehousing demand

The pandemic provided a boost to the online market. Since the conventional stores were closed consumers moved online to buy groceries and food. There was more focus on one day or even shorter delivery model. Consequently, E-commerce companies are trying to stock more inventories closer to customers' locations to improve the quality of products and optimise efficiency. This, in turn, has accelerated the demand for warehousing even in Tier II and Tier III cities.

Third Party Logistics

3PL (Third Party Logistics) is another sector that is expected to drive the warehousing demand. During 2020 and 2021 3PL acquired maximum warehousing space, followed by e-commerce. The companies are focussing more

on core business and are preferring to outsource the warehousing operations. This has provided a huge opportunity to 3PL companies that can provide them with complete logistics solutions. The organised 3PL market in India is estimated at 8 billion USD as of the end of FY21. Supply-chain operations are shifting from small unorganised players to large pan-India players, who are integrating with the global supply chains for imports and exports. Post-Covid, the market for 3PL is expected to accelerate and is expected to grow by around 15-20% in the medium term. The uncertainty arising due to the pandemic and companies' strategy to focus more and more on core operations will further push the development of the 3PL segment.

Policy initiatives and reforms aiding the growth

The government is assisting in the growth of the sector. The introduction of GST, 100% FDI allowance has already helped the sector. Many State Governments also offer incentives in the form of subsidies on interest and capital along with a waiver of stamp duty to set up warehousing space in their states. The draft logistics policy has various provisions that are expected to aid in further growth of the sector. To provide a fillip to the agro-warehousing sector the Government plans to create a storage capacity of 10 million MT out of which only 1.25 million MT was constructed till FY19. The Government is also driving the development of Multi-Modal Logistics Parks (MMLP). Land acquisition is one of the major challenges faced by the Private sector in the development of green field warehouses. To mitigate this government agencies can aggregate large land parcels at suitable manufacturing hubs, which are free from encumbrances. This can be made available for the private sector at a fair market value.

Tier-II and-III cities expected to drive growth

The sector, which was mainly concentrated in and around the major cities, had started penetrating tier II and III cities. Rising consumerism and the emergence of e-commerce have created a need for faster deliveries even in tier-II and III-cities. Further restricted movement due to the lockdown in major cities



has resulted in the need for diversifying the location. Cities like Madurai, Hosur, Nellore and Coimbatore in the south, Ludhiana, Lucknow, Jaipur, Indore in the North, and Patna, Siliguri and Guwahati in the East are emerging as preferred destinations.

Demand's up for both large box sizes and dark stores

An increase in online retail and the need to maintain higher inventory levels has led to demand for larger warehouses (typically over 1 lakh square feet) leased by a single lessee (usually an e-commerce retailer or 3PL player). These are on the outskirts of cities and towns given the lower land prices at these locations. Simultaneously the emergence of e-commerce start-ups offering delivery of products such as groceries or medicines within a short time frame, such as 30-45 minutes has led to a strong uptick in demand for compact, intra-city storage facilities that are used to service consumers in the same locality. An online retailer offering time-bound delivery services will have to lease many such 'dark stores' in each city. The terminology implies a space that stocks retail goods but is not open for shopping and is set up exclusively to cater to the online shopping segment.

Attractive sector for PE players despite declining yields

Private equity (PE) funds and pension funds continue to prefer the warehousing sector for investment, despite the return on investment declining to 9%-10% from 10%-12% over the past 12-13 years. Asset valuations continue to be high even though rentals have not kept pace with higher real estate and construction costs in the past two years. The steady returns and low risk in the sector on account of the strong demand for Grade A warehousing space in India seem to be the key attractions for overseas fund houses.

The Road Ahead

The warehousing industry has come out of the coronavirus pandemic stronger than in the pre-Covid times. The growth rate in the medium term is likely to surpass even pre-Covid rates as companies will want to stock up inventory to avoid supply shortages and e-commerce firms will want to cater to de-centralised consumption. The demand for Grade A and B warehousing space is

expected to grow at a CAGR of 10-15% in the medium term. Investment activity which was muted in 2020-21 due to slower decision-making by investors on account of the pandemic is expected to pick up backed by inflow from both foreign and domestic investors.

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**SUDARSHAN
SHREENIVAS**
Director
CareEdge



ARUNAVA PAUL
Associate, Director
CareEdge

