

Indian Warehousing Industry: An Update

Contact:
Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
+91-22-6837 4433

Urvisha H. Jagasheth
Research Analyst
urvisha.jagasheth@careratings.com
+91-22-6837 4410

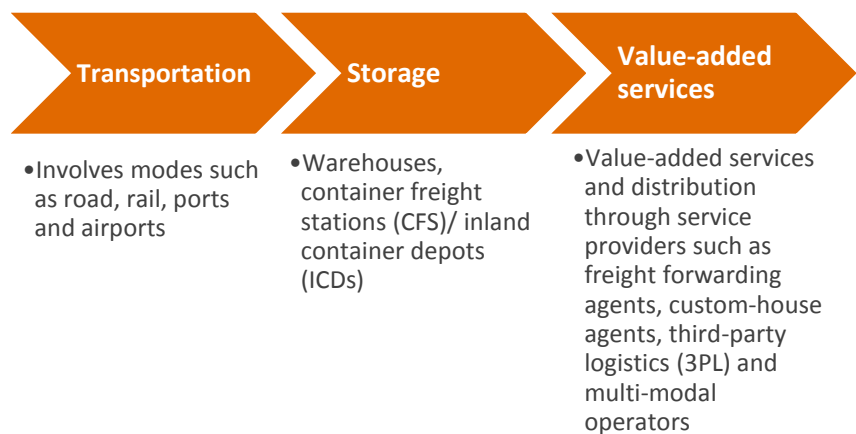
Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6837 4424

Puja Jalan (Guided by/Inputs)
Senior Manager
puja.jalan@careratings.com

Logistics Industry Overview

Logistics (which includes transportation, inventory management, warehousing, materials handling & packaging) is related to the management of flow of goods between the point of origin and consumption. With growth in the Indian economy and changing business perspectives, the scope of the logistics industry has broadened from rudimentary transportation of goods to include end-to-end supply chain solutions including warehousing & express delivery. The logistics value chain therefore comprises the following segments:

Chart 1: Logistics Value Chain



Source: CARE Ratings

The logistics sector is fundamental to the development of a country. Logistics is a sector where the trend is determined by the country's overall economic performance. As per the 2017-18 Economic Survey, with the implementation of GST, the Indian logistics market is expected to reach about USD 215 billion in 2020.

Chart 2: Growth in Indian Logistics Industry (E) (USD billion)

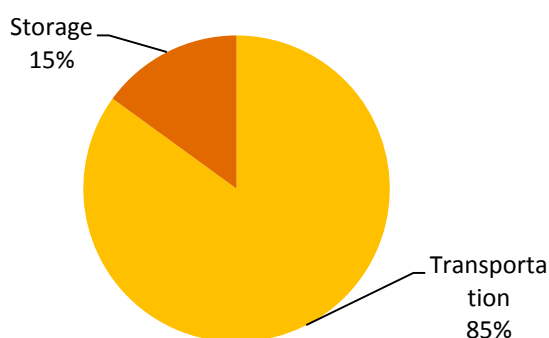


Source: Economic Survey 2017-18

Disclaimer: This report is prepared by CARE Ratings Ltd. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report

Indian logistics market is expected to be driven by the growth in the manufacturing, retail, FMCG and e-commerce sectors. It is expected to grow by a CAGR of approximately 10% in the medium term. The key segments include road, rail, coastal transportation, warehousing, cold chain and container freight stations and inland container depots (CFS/ICD). Development of logistics-related infrastructure such as dedicated freight corridors, logistics parks, free trade warehousing zones, and container freight stations are expected to improve efficiency. The industry is dominated by transportation, which accounts for over 85% of the total value, and its share is expected to remain high over the next few years. The sector provides employment to more than 22 million people. Improving logistics sector has significant bearing on exports, and media sources estimate that a 10% decrease in indirect logistics cost could potentially increase 5%-8% of the exports.

Chart 3: Logistics Industry: Transportation vs. Storage



Source: Industry

Of the various modes of transportation, roads and railways are the most preferred mode accounting for approximately 60% and 30% of the total cargo volumes handled, respectively. The share of other modes like inland shipping, pipelines and airways remains minimal accounting for the balance 10%.

Table 1: India: trend in cargo traffic

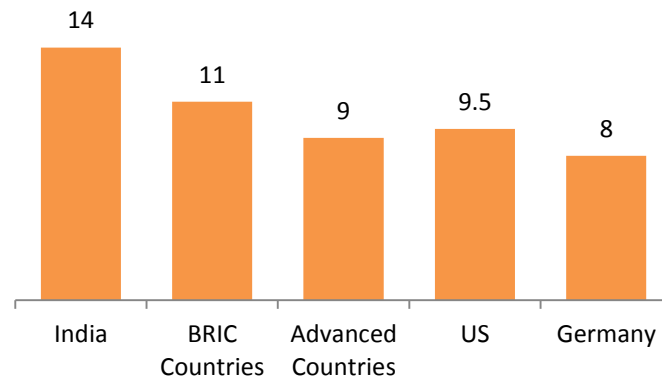
Modes of Transport	Details	Unit	FY15	FY16	FY17	FY18	FY19
Railways	Total freight traffic	mn tonnes	1,101	1,104	1,107	1,160	1,221
Ports	Traffic at major ports	mn tonnes	581	606	648	679	699
Airways	Cargo traffic at all airports	'000 tonnes	2,528	2,705	2978	3,357	3,560

Source: IBEF, CMIE, Airports Authority of India

Indian logistics industry is associated with relatively high cost of transportation and storage. As per the Ministry of Road Transport and Highways, India’s logistics cost as a % of GDP stood at 13%-14% as compared to 10%-11% for Brazil, Russia, India and China (BRIC) countries and 8%-9% for developed countries. The US and Germany spend 9.5% and 8% of their GDP respectively on logistics costs. A significant proportion of the higher cost can be attributed to the absence of an efficient intermodal and multimodal transport systems, poor road infrastructure leading to lowering of the maximum distance that can be covered by any commercial vehicle, old vehicles fleet and higher cess and toll on the highways. Further, higher warehousing costs are driven by shortage of warehousing capacity in India, non-standardization of warehouses in terms of IT application, etc.

Going forward, the Government of India has set the target to bring down the current 14% logistics cost of India’s GDP to 9% by 2022 and has requested the Ministries of Railways, Transport, Shipping and Aviation to work in tandem in order to reach the aforementioned goal.

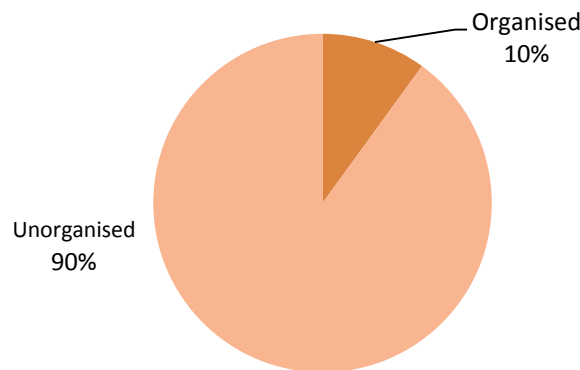
Chart 4: Logistics cost as a % of GDP



Source: Ministry of Road Transport and Highways

Currently, the Indian logistics industry is highly fragmented and unorganized. Owing to the presence of numerous unorganized players in the industry, it remains fragmented with the organized players accounting for approximately 10% of the total market share.

Chart 5: Logistics Industry: Organized v/s Unorganized (%)



Source: Industry

The sector is marred by various challenges which have contributed to the increased cost and lower operating efficiency. Some of the key challenges include under-developed material handling infrastructure, fragmented warehousing, multiple regulatory/ policy-making bodies, lack of seamless movement of goods across modes, minimal integrated IT infrastructure, etc. While the government has been taking corrective steps to improve the efficiency of the sector, the implementation of Good and Service Tax (GST) has been a major step forward in the direction. Other aspects that need to be focussed upon include integration of operations with advanced technological platform, improved investment scenario, skill development, improved intermodal transportation, automation, single window clearances, and simplification of the process.

Warehousing Industry Overview

Global Scenario

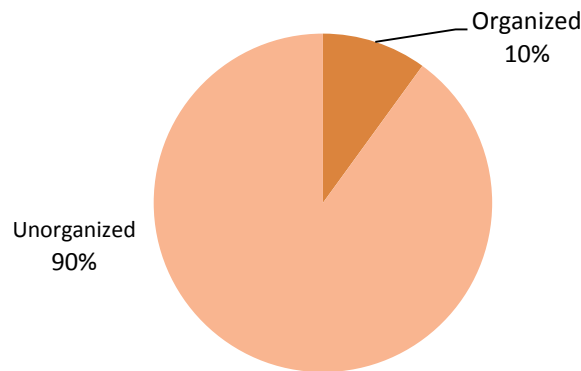
Warehousing primarily refers to the storage of goods to be transported, whether inbound or outbound. The Warehousing and Storage industry includes establishments operating warehousing and storage facilities for general merchandize, refrigerated goods and other warehouse products. **Warehouses are one of the major segments of the rapidly growing logistics industry.** Currently, the segment has evolved from providing not only custody for goods but also offering value-added services such as sorting, packing, blending and processing. With evolution of an organized retail sector, modern warehouses for the storage of perishable goods have become indispensable. North America is the largest geographic region accounting for nearly 28% of the global market.

Globally, warehousing has moved ahead from single storey to multi-story warehouses in densely populated cities and expensive land spaces. A multi-storey warehouse comprises multiple floor space and is designed to increase the available floor space. It results in better land utilization rate and enhances operational efficiency. Multi-storey warehouses have been successful in densely populated cities, especially in Asian countries such as China, Japan, Hong Kong and Singapore, due to high land and construction costs, small site areas and limited industrial land availability.

Domestic Scenario

Warehousing constitutes only 15%-35% of the total logistics costs but its importance is significant with respect to the role it plays in the smooth functioning of supply chain networks. The domestic warehousing market is highly fragmented with most of the warehouses having an area of less than 10,000 sq.ft. Approximately 90% of the warehousing space in the country is controlled by unorganized players which manage small-sized warehouses with limited mechanization. Fragmented warehousing footprint results in higher average inventory holding, in addition to resulting in higher storage and handling losses, driven by lower level of mechanization.

Chart 6: Warehousing Industry: Organized v/s Unorganized (%)



Source: Industry

Warehouses have become one of the major segments of the rapidly growing Indian logistics industry. At present, they not only provide custody for goods but also offer value-added services such as sorting, packing, blending and processing. With evolution of an organized retail sector, modern warehouses for the storage of perishable goods have become essential. The government’s initiatives to promote the growth of warehouses in the country, through measures such as enactment of the Warehousing Act, 2007, establishment of logistic parks and Free trade warehouse zones (FTWZs) together with the introduction of Goods & Service Tax (GST) regime augurs well for the industry’s growth.

Sensing the tremendous growth potential of the warehouse sector, the private players (including both domestic & international) have ventured in the space with a view to bridge the gap between cost and efficiency of operations.

Nearly 60% of the modern warehousing capacity in India is concentrated in the top six cities, namely, Ahmedabad, Bangalore, Chennai, Mumbai, NCR and Pune, with Hyderabad and Kolkata being the other major markets. This is driven by concentration of industrial activity and presence of sizeable urban population around these clusters. Going forward, due to factors such as quality of infrastructure and availability of labour, these advantages are likely to remain with these cities. In all the segments of warehousing industry barring the agricultural segment, the majority of the capacity is controlled by the private sector. In the agricultural segment, approximately 3/4th is controlled by different Government entities.

Types of Warehouses:

Traditionally, warehouses were broadly classified into public-private, bonded, government and co-operative warehouses. Lately, cold chains, container freight stations (CFS) and inland container depots (ICD) are also gaining importance.

- **Private Warehouses:** These warehouses are owned by private entities or individuals and are used exclusively for the goods owned, imported by or on behalf of the licensee. The warehouses are usually constructed at strategic locations to cater to various manufacturing, business and service units. They are flexible enough to be customized in terms of storage and placement, according to the nature of the products.
- **Public Warehouses:** These warehouses are licensed by the government to private entities, individual or cooperative societies to store goods of the general public. They are rented out against a fee and usually set up at transportation points of railways, highways and waterways, providing the facilities of receipt, dispatch, loading and unloading of goods. The government also regulates the functions and operations of these warehouses used mostly by manufacturers, wholesalers, exporters, importers, government agencies, etc.
- **Bonded Warehouses:** These warehouses are licenced by the Government to accept imported goods for storage until the payment of customs duty. They are located near the ports. They are either operated by the Government or work under the control of customs authorities. The warehouse is required to give an undertaking or 'Bond' that it will not allow the goods to be removed without the consent of the custom authorities. The goods are held in bond and cannot be withdrawn without paying the customs duty. Such warehouses are very helpful to importers and exporters. If an importer is unable to pay customs duty immediately after the arrival of goods, he can store the goods in a bonded warehouse and withdraw the goods in instalments by paying the customs duty proportionately. Goods lying in a bonded warehouse can be packaged, graded and branded for the purpose of sale.
- **Container freight stations (CFS)/inland container depots (ICDs):** CFSs/ICDs are custom-bonded facilities with a public authority status for the handling and storage for containers. These depots are equipped with ample warehousing space, adequate handling equipment and advanced IT infrastructure.
- **Cold Storage:** A cold storage is a temperature-controlled storage space catering mainly to agriculture and food industries. Cold storages are used for the storage and distribution of perishable goods such as fruits and vegetables, dairy products; frozen foods such as meat and ice cream, and temperature-sensitive pharmaceutical products. Given that India is primarily an agrarian economy, cold storage has huge potential in India.

Government Storage

The primary objectives of any government storage are (1) to ensure food security and (2) enable trade movement, both within and out of the country.

The Central Warehousing Corporation (CWC) operates 422 warehouses (storage capacity of 99.8 lakh MT) including 40 custom-bonded warehouses, 24 CFSs/ICDs, 3 Air Cargo Complexes (ACCs)/Air Freight Station (AFS)/Unaccompanied Baggage Warehouse (UBW), 3 Temperature/Humidity-controlled units and 3 integrated check posts (IPC). During FY19 (refers to the period April 1 to March 31), 33.5 Thousand Metric Tonnes (TMT) additional storage capacities have been constructed.

Further, during FY19, there were 19 State Warehousing Corporations (SWC) consisting of 2,145 centers; with an operating network capacity of 34,083 TMT as on March 31, 2019.

The Food Corporation of India (FCI) works for holding agricultural produce to meet the requirements of various government schemes. FCI has its own storage capacity but also hires capacities from CWC, SWCs and the private sector. The total storage capacity available with FCI, CWC and the State Agencies (both owned and hired capacity), stands at 862.45 LMT as on May 31, 2019, comprising 739.76 LMT in covered godowns and 122.69 LMT in Cover and Plinth (CAP) storage. The available storage capacity with FCI is optimally utilized for storage of wheat, rice and pulses.

Table 2: Trend in total storage capacity available with Food Corporation of India (FCI) and the State Agencies (both owned and hired capacity) for storage of Central Pool Stock of foodgrains (Lakh Metric Tonnes (LMT))

Period	Total
As on 31.3.11	607
As on 31.3.12	677
As on 31.3.13	732
As on 31.3.14	748
As on 31.3.15	709
As on 31.3.16	815
As on 31.3.17	773
As on 31.3.18	843
As on 31.5.19	862

Source: FCI, PIB

As on May 31, 2019, Punjab has 27% of the country's government storage, whereas Madhya Pradesh and Haryana have 18% and 13% of the total storage capacity, respectively.

Cold Storage

The cold storage space in India is highly unorganized with a significant portion of the facilities being privately owned (95% of the cold storage are owned and operated by private sector, 3% cooperative and remaining 2% are under PSUs).

The distribution of cold storages is highly uneven, with majority of the cold storages located in Uttar Pradesh, Gujarat, Punjab, Maharashtra and West Bengal. Further, 75%-80% of the cold storage capacity is used for potatoes; 7% for pharma products; 5% for processed foods; 5% for other horticultural crops; and 3% of the available capacity is used for marine and meat products.

As per the Ministry of Food Processing Industries the requirement of cold storage in the country is of 61 million tonnes. The present capacity of cold storage was estimated at around 32 million tonnes which is creating a gap of around 29 million tonnes.

Government support/schemes towards development of Cold Storage development

Pradhan Mantri Kisan Sampada Yojana (PMKSY): PMKSY aims to create modern infrastructure with efficient supply chain management from farm gate to retail outlet. The purpose of PMKSY is not only to provide big boost to the growth of food processing sector in the country but also to help in providing better returns to the farmers.

Objectives of Pradhan Mantri Kisan Sampada Yojana;

- Creation of modern infrastructure for food processing in mega food parks/ clusters and individual units
- To create effective backward and forward linkages - linking farmers, processors and markets
- To create robust supply chain infrastructure for perishables.

Ministry of Food Processing Industries is implementing the **Scheme for Integrated Cold Chain and Value Addition Infrastructure as one of the components of Pradhan Mantri Kisan Sampada Yojana** with the objective of arresting post-harvest losses of horticultural & non-horticultural produce and providing remunerative price to farmers for their produce.

In the last 3 years (2016-17 to 2018-19), 166 cold storages have been sanctioned with a combined capacity of 387 TMT under the Scheme for Integrated Cold Chain & Value Addition Infrastructure.

Department of Agriculture, Cooperation & Farmers Welfare is implementing Mission for Integrated Development of Horticulture (MIDH) for development of Horticulture in the country under which financial assistance is available, inter-alia, for setting up of Post-Harvest management (PHM) infrastructure including cold storages.

In the last 3 years (2016-17 to 2018-19), 461 cold storages have been sanctioned with a combined capacity of 1,948 TMT under the Scheme for Integrated Cold Chain & Value Addition Infrastructure.

National Horticulture Board (NHB) under the Department of Agriculture, Cooperation & Farmers Welfare is providing credit linked back-ended subsidy @ 35% of the capital cost of the project in general areas and 50% in case of North East, Hilly States & Scheduled areas for cold storage capacity above 5 TMT and up to 10 TMT for construction/ expansion/ modernization of cold storage and Controlled Atmosphere (CA) store, under the Scheme for Capital Investment Subsidy for Construction/ Expansion / Modernization of Cold Storages and Storages for Horticulture Products.

In case of North East Region, the capacity above 1 TMT is also eligible for subsidy. The projects which are set up in conformity with technical standards for energy efficiency and environmental safety energy and multi chambers only are considered under the Scheme.

The government has been trying to augment the cold storage space in the country through the aforementioned schemes.

As of October 31, 2019 313 cold chain projects have been approved (under the Ministry of Food Processing Industries) of which 180 projects have been completed and 133 projects are ongoing. These projects entail a cost of Rs 8,662 crore. The government has approved Rs 2,410 crore as grant-in-aid and sanctioned Rs 1,413 crore. Maharashtra has the most (21%) number of these cold chain projects.

Regulations

Warehousing Development and Regulatory Authority (WDRA) Rules: Warehouses (especially agricultural) in India are regulated and governed under The Warehousing (Regulatory and Development) Act, 2007. The mission of Warehousing Development and Regulatory Authority (WDRA) is to regulate and ensure implementation of the provisions of the

Warehousing (Development and Regulation) Act, 2007 for the development and regulation of warehouses, Regulations of Negotiability of Warehouse Receipts and promote orderly growth of the warehousing business.

There are 1,902 warehouses with capacity of 105.5 lakh MT which have been registered with WDRA since its inception in 2007. The capacity translates into approximately 12% of the storage handled by FCI, CWC and SWC as on May 31, 2019.

The Act gives directions on the following:

- Registration
- Warehouseman - duties and liabilities
- Issuing warehouse receipts
- Powers and Authority
- Offences under the act
- Penalties

Registration: The Act makes it compulsory for a person to obtain a registration certificate from the WDRA. No person shall commence or carry on the business of warehousing for issuing negotiable warehouse receipts unless he has obtained a registration certificate from the WDRA after fulfilling the prescribed norms in respect of the concerned warehouse or warehouses.

Warehousing Receipt: The warehouse will only issue receipts after ascertaining quantity, quality/grade and other particulars mentioned in the receipt. In a recent Circular dated March 12, 2019 (issued by the WDRA), the Authority has advised warehousemen of registered warehouses to do away with issuing Negotiable Warehousing Receipts (NWRs) in the physical form, and only issue electronic Negotiable Warehouse Receipts (e-NWRs) effective from June 1, 2019. Warehouseman are needed to get on-board with one or more repositories registered with the Authority and issue Negotiable Warehouse Receipt in the electronic format only.

Note: Negotiable Warehouse Receipts (NWR) are issued by registered warehouses which enable farmers to seek loans from banks against NWRs and enables them to extend the sales period of modestly perishable products beyond the harvesting season. Consequently, NWRs can avoid distress sale of agricultural produce by the farmers during the peak marketing season.

Authority and Powers under the Act: Some of the authorities and powers conferred under the Act are granting registration and cancellation/renewal of registration, specifying qualification of warehouseman, and regulating rates, advantages, terms and conditions that may be offered by warehouseman in respect of warehousing business.

Offences under the Act: Failing to ascertain quality and quantity, failing to surrender negotiable receipt by depositor or endorsee and payment of all his lawful charges and cancelation of encumbrances endorsed on the receipt to deliver the goods represented by the receipt are some of the offences under the act.

Penalties: The offences committed under this Act shall be punishable with imprisonment of a term of up to three years or with fine of Rs.100,000 or both.

The industry also remains governed by various acts such as: Multimodal Transportation of Goods Act, 1993, Foreign Trade (Development and Regulation) Act, 1992, Customs Act, 1962, Carriage of goods law, etc. regulating the movement of goods and allied services. Various policy changes have impacted the warehousing sector in India. These include the introduction of the Goods and Service Tax (GST), National Policy on Handling, Storage and Transportation, and increasing Public-Private Partnerships (PPP). Following are a few such policy measures:

- **Goods and Services Tax (GST):** GST has consolidated the tax regime across states, which is expected to result in cost and time efficiencies across the supply chain. GST implementation is also expected to hasten the consolidation of warehouses, thus accentuating the formalization of the largely unorganized warehousing sector. For most logistics services like e-commerce logistics, warehousing and air freight (export), the tax rate is 18%, which is an increase from the earlier rate of 15% which includes service tax and cess. Services like ocean freight and road transportation are in the 5% slab.
- **National Logistic Policy:** The Government of India is in the process of formulating National Logistic Policy, a draft of which is available, as per media reports. The policy aims at the integrated development of the logistic sector and covers broad areas of development along with steps to be undertaken to achieve the same. Launch of multi-modal logistic parks is a part of the proposed policy and such logistic parks are proposed to bridge the gap prevailing in the sector in terms of freight transfer, storage and handling. The other policy measures focused upon include optimization of modal mix, standardization of warehouses, promoting logistics e-market place, single window clearance, etc. The grant of 'industry' status to the logistics sector would enable better access to finance.
- **Domestic manufacturing emphasis:** The focus on "Make in India" is expected to increase domestic manufacturing and increase the requirement for associated activities such as warehousing.
- Agri-warehousing activity covered under Priority Sector Lending by RBI.
- Subsidy schemes such as (1) Grameen Bhandaran Yojana - a capital investment subsidy scheme offered by the NABARD, which ranges from 15% to 33% of the project cost, depending on the location and operator, (2) National Agricultural Renewal Fund. Govt. of India - to encourage private investment in the creation of agriculture infrastructure.
- Tax incentives such as (1) Tax relief under 80(I)(B): tax holiday on warehousing income, (2) Investment-linked deduction under Section 35AD: 100% upfront depreciation for tax purposes.

The government permits 100% FDI under the automatic route for all logistics services except courier and air transportation services. In case of courier services, 100% FDI is permitted subject to the approval of the Foreign Investment Promotion Board (FIPB), while FDI up to 74% is permitted under the automatic route for air transport services including air cargo services.

Trends

- **Warehouse consolidation due to GST:** With the advent of GST and the consequent redrawing of supply chains, there will be significant consolidation of warehouses by companies in the consumption space. A bigger warehouse in an appropriate location would be able to better serve a larger area. This will lead to development of large modern technology-based warehousing operations and rapid modernization of unorganized godowns. Smaller local developers and property owners are expected to exit the space by selling out to the large institutional developers in existing clusters.
- **Reduction in inventory holding costs:** Further, combining the smaller warehouses into a single larger one is also expected to reduce the inventory level requirements which are expected to positively impact the companies as inventory carrying cost is a significant share of costs.
- **Technology usage on the rise (IT, automation, and robotics) (Smart warehouses):** With an increase in the warehousing and storage market, there has been a concurrent increase in technology usage especially in the grade

A/B warehouses. These warehouses use internet of things (IOT) to track a product in the warehouse and also helps in increasing efficiency and speed across supply chains. Variety of devices such as wearables, sensors and radio frequency identification tags are used to locate the products in the warehouse. This reduces the time to deliver the product to the customer and increases accuracy.

- **Rise of Direct Port Delivery (DPD):** DPD involves the delivery of a shipment directly from a port to the consignee instead of initially holding it at a CFS (Container Freight Station). The DPD initiative under 'Ease of Doing Business' has witnessed steady growth in terms of proportion of total containers handled. At Jawaharlal Nehru Port (JNPT), the share of Direct Port Delivery (DPD) has increased from 5.4% in April 2016 to 39.2% in March 2018. However, shortage of space at warehouses poses a challenge to service DPD clients efficiently and to that extent the impact on business of CFS has been unhindered.
- **High tonnage truck sales are expected to rise:** Supply chain realignment and check post discontinuation has led to a reduction in the travel time as well as fuel costs. This has led to a demand for larger more efficient trucks as warehouses are consolidating and larger loads are required at lower number of locations. Despite the higher upfront costs, such trucks are expected to reduce overall shipment costs by carrying a larger load per trip. Government of India has also increased the axle load limit by approximately 20%-25% which has boosted the capacity of existing fleets enabling them to carry higher volume resulting in cost saving.
- **India as an investment destination:** India is evolving to be an emerging market in the warehousing sector and has attracted significant investments in the past 2 years from global funds and private equity players who are partnering with local developers and logistic players. With the consumer base of the sector encompassing a wide range of industries logistics industry has been increasingly attracting investments in the last decade.

Table 3: Platform deals

Investor	Investee	Amount*	Year	Objective
LOGOS	Assetz	400	2017	To build and manage specialized logistics and industrial parks in India
Ascendas-Sinbridge	Firstspace Realty	600	2017	To acquire interest in 15 mn. sqft. of greenfield/ brownfield warehousing project in India
Canada Pension Plan Investment Board (CPPIB)	IndoSpace	500	2017	To acquire majority stake in joint venture entity i.e. IndoSpace Core
International Finance Corporation (IFC)	Mahindra Life Space	92	2017	To fund Mahindra Lifespace 3 nos. industrial cluster projects in Rajasthan, Gujarat and Maharashtra
Macquarie + Ivanhoe	LOGOS + Assetz	431	2017	To create fund focusing investment in logistics and warehousing projects
Everstone	GLP	500	2018	Joint Venture Fund to invest in warehouse technology, express logistics and last mile delivery
Allianz	e-Shang Redwood (ESR)	1,000	2018	To develop warehousing space in 8 major cities in India
National Investment Infrastructure Fund (NIIF)	DP World (DPW)	3,000	2018	To acquire/ fund port and logistic-related infrastructure project in India
IndoSpace	GLP	700	2018	To raise capital to build 120 million sq.ft of logistics parks

Source: JLL *USD Million

Demand drivers for logistics industry

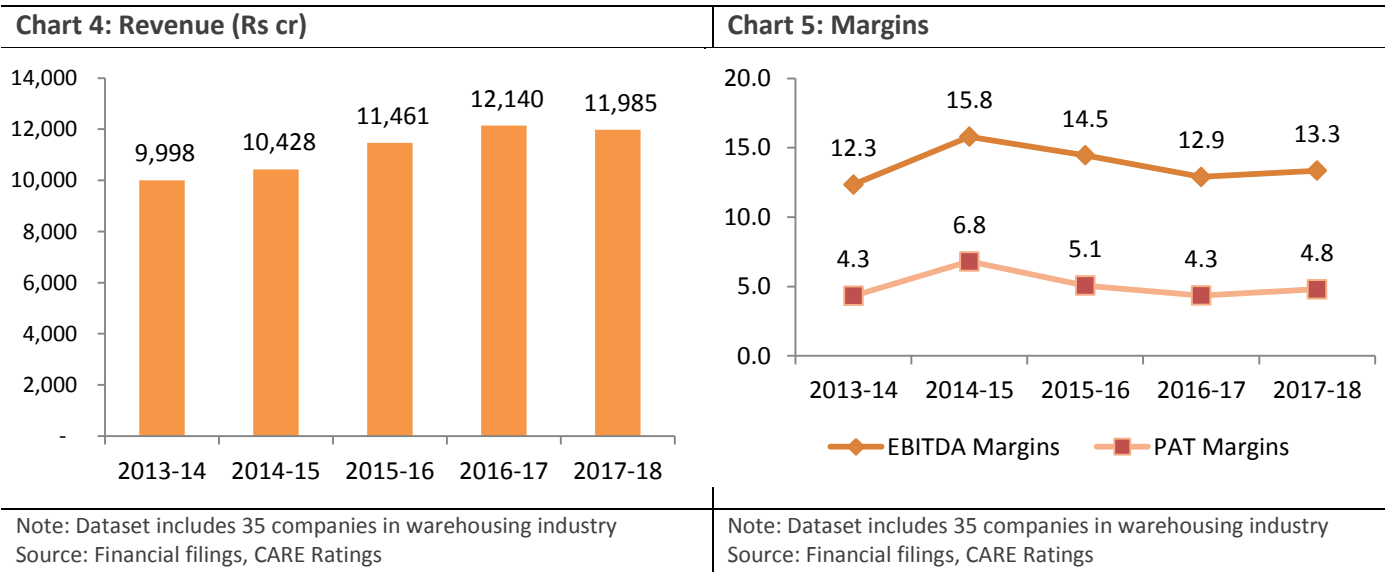
- **Emergence of MNCs:** One of the key demand drivers for the logistics industry has been emergence of MNCs. Most of the global MNCs prefer low cost manufacturing locations connecting the consuming market at the lowest possible cost and through highly efficient supply chain.
- **Emergence of 3PL and 4PL:** Third-party logistics or 3PL is a concept where a single logistics service provider manages the entire logistics function for a company. While the Indian 3PL market is still very much in its infancy compared with other countries, it is experiencing healthy growth and attracting new companies eager to capitalize on the plentiful opportunities it offers. In fourth-party logistics 4PL, logistics is controlled by a service provider that does not own the assets to carry out logistics activities but outsources to subcontractors, the 3PL. 4PLs facilitate single-point reference for all logistics needs, possess knowledge of logistics to obtain most efficient and effective solutions, have manpower resources of higher quality to supervise vendors and ensure continuous process improvements and, above, all an IT base to network customer systems.
- **Globalization of manufacturing systems:** Information Technology (IT) plays a key role in supporting transportation and logistics industry. Today, technology is present in all the areas for a logistics service provider. Technology helps organized logistics companies score over the unorganized ones, and will be key to their operations going ahead given the competition.
- **Increasing investment in logistics parks:** The concept of Logistics Park has gained attention from both public as well as private players. A large number of special economic zones have also necessitated the development of logistics center for the domestic market as well as for trade purposes.
- **Government Support towards development of cold storages:** The Government has identified cold storage as a thrust area for development and has recommended for the creation of cold-chain Infrastructure. Through the Pradhan Mantri Kisan Sampada Yojana (PMKSY), the ministry is also following a transparent selection process and online filing of claims for the infrastructure development projects of Mega Food Parks and Cold Chain.
- **Growth in the Ecommerce retail sector:** E-commerce is probably creating the biggest revolution in the retail industry, and this trend is to continue in the years to come. Online retail business is the next generation format which has high potential for growth in the near future. After conquering physical stores, retailers are now foraying into the domain of e-retailing to leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate (shops) while reaching out to more customers in Tier II and Tier III cities.

Challenges

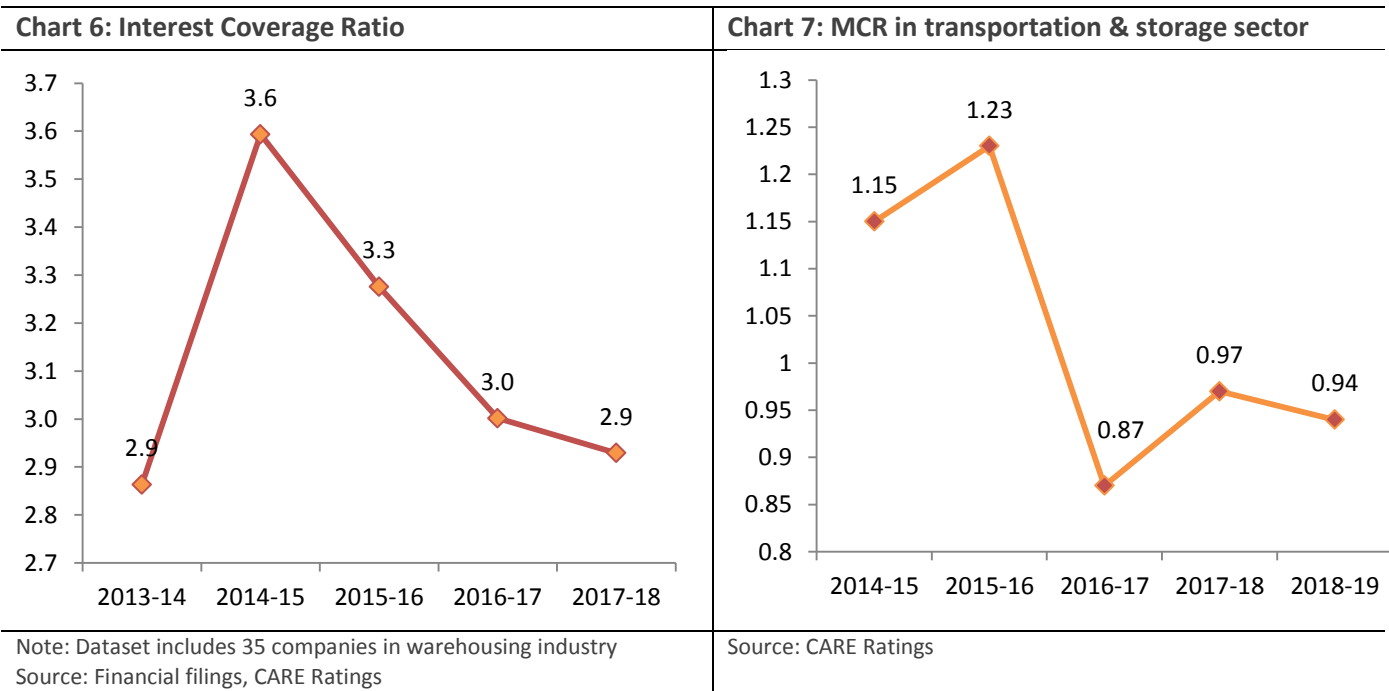
- India's logistics industry has been adversely affected by the lower standardization of cargo and containerization of logistics traffic, hampering overall speed and increasing cost of storage and movement.
- Need for large capital and issues related to land acquisition have also tempered the growth of the sector.
- The Government of India has an ambitious plan to bring down the logistics cost from the present 14% of GDP to less than 10% by 2022. The primary reason for such high costs is the highly unorganized nature of this industry and the highly skewed multi-modal mix. A major part of the freight movement in India happens via road which is significantly higher than most of the developed economies. Usually in the global markets, the share of rail cargo in the multi-modal mix is higher. Further, different parts of the logistics

value chain are currently being managed by different departments and ministries. This results in multiple hurdles and increases inefficiencies in the logistics industry.

Financials



The industry revenue has grown at a CAGR of 6.7% during FY14-17. The companies generate the largest share of their revenues from rental i.e. storage charges; other sources of earnings include income from value-added services such as sorting, packing, blending and processing. The revenue and profit margins witnessed continuous increase during FY14-17 with a marginal decline of about 1.3% during FY18 from FY17 which was primarily due to implementation of GST from July 2017 and a time lag in streamlining of operations with the same.



The interest coverage peaked in FY15, post which it has trended marginally downwards in the next three years led by increased capex undertaken by several organized players to set up warehouses as well as higher dependence on existing working capital lines to fund the growing volumes, given slow credit sanctions by the banks/FIs. The decline in credit quality in the transportation and storage sector is on account of delays in debt servicing, liquidity constraints, decline in profitability and deterioration in the capital structure

Outlook for the Warehousing sector

The warehousing and logistics sector has been growing steadily since 2017 when it was granted the infrastructure status by the Government of India. The government has also announced significant policy measures and made budgetary allocations towards the improvement of rail, road and water connectivity which is expected to translate in improving the overall logistics and transportation around the country. This will augment and thereby add to the growth story of the warehousing segment.

CARE Ratings estimates that the warehousing industry will grow at a rate of 13%-15% in the medium term driven by the expansion in the manufacturing, retail, FMCG and e-commerce segments

Regulatory interventions (WRDA Act and GST), private investments and development of logistics-related infrastructure (such as Dedicated Freight Corridor, Logistic Parks) are to also improve the prospects of the warehousing segment. Further the implementation of GST is eliminating inefficiencies arising out of the erstwhile complex tax structure as well as interstate taxes thereby favoring development of warehouse corridors/centralized warehousing space, near the demand centers, as well as consolidation of smaller warehouses. Additionally, the Government's decision to further tweak the FDI in retailing will lay further emphasis on the development of modern warehousing space. Improving technology platform in the warehousing space has also brought about higher operational efficiencies and reduction in cost which also augurs well for the industry's growth prospects.

In the industrial space, warehousing is expected to grow due to various factors such as the Make in India initiative, anticipated increase in global demand, organized retail, manufacturing activities, e-commerce and growth in international trade, whereas in the agricultural warehousing space, measures taken up by the government in order to curb post-harvest loss would initiate the demand for cold storages in the country. Significant demand is also seen coming for the storage from the pharmaceutical industry.

Summing up, the implementation of GST combined with the development of logistics-related infrastructure such as dedicated freight corridors, logistics parks, free trade warehousing zones, and container freight stations are expected to gradually improve the efficiency in the sector and bring down the cost structure, subject to overcoming challenges with respect to financing, land acquisition and receiving approvals in a fast track mode. This apart, the integration of the sector with IT-enabled services would also go a long way in facilitating business prospects and improving operational efficiencies.

CORPORATE OFFICE:

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: care@careratings.com | Website: www.careratings.com

Follow us on  [/company/CARE Ratings](https://www.linkedin.com/company/CARE-Ratings)
 [/company/CARE Ratings](https://www.youtube.com/channel/UC...)