



▲ Last year DHL announced plans to invest \$10 million in logistics infrastructure in India.

## WAREHOUSING IN INDIA

# Wearing a new look

SANDEEP MENEZES

The private sector is expected to increase its investment in warehousing over the next decade, a trend that has been on the upswing since last year.

India's existing warehousing capacity is estimated at 80 million tonnes with additional requirement of at least 35 million tonnes in the next five to 10 years, experts say. The quality of warehousing also needs to improve vastly.

Interestingly, just 8 per cent of India's current 1,800 million sq. ft of warehousing space is owned and operated by organised players.

Earlier the private sector was wary of entering this capital-intensive business and banks were hesitant to finance warehousing projects. This scenario changed some 10 years ago when the central government began to create a more favourable environment for private investment.

### Current scenario

"The warehousing and cold-chain infrastructure are the two key weak links in the country and require special attention compared to other arms of the logistics industry," Vikas Anand, Director - Operations, DHL Supply Chain (India) Ltd, told Projectmonitor.

Adarsh Hegde, Executive Director, Allcargo Global Logistics Ltd, said, "The current infrastructure is ill-designed and ill-equipped to cater to the requirements in a scenario where growth rates of 7 to 9 per cent are envisaged over the next few years."

"The warehousing infrastructure needs to be spruced up. There is a distinct lack of sustained investment in planned infrastructure like warehouses, transport centres and inland container depots," Rhea A. Vazirani, Head - Corporate Strategy, Robinsons Global Logistics Pvt.

Ltd, noted. "Cold chain infrastructure is very sporadic. The concept of 'Integrated Cold Chain' is non-existent. Major investments in these infrastructures have come from government agencies like CWC, SWC and CONCOR."

### Quality

According to Hegde, the bulk of warehouses is poorly constructed and equipped with equally poor material handling equipment. These are available at very low rates. "While we are seeing a slow shift by the users to better quality warehouses, this may take substantial time, though implementation of the Goods & Service Tax could see the shift speeding up," he said.

Anand said that many of the existing warehouses were outdated and served as mere godowns. About 90 per cent of the warehouses still had asbestos roofing with minimal automated material handling systems.

Explaining the private sector scenario, Vazirani felt that current private sector initiatives were small and sporadic. "Private sector warehousing is of poor quality, small, fragmented, and do not meet infrastructure standards. No quality standards or benchmarks are followed in infrastructure creation," she lamented.

### Capacity and demand

India is estimated to have about 1,800 million sq. ft of warehousing space, with 8 per cent of it being owned and operated by organised players. To complement growth of the logistics sector, India needs at least 25-30 million sq. ft of additional warehousing space annually. Similar shortfalls exist in the cold-chain industry which is estimated at anywhere from ₹8,000 crore to ₹10,000 crore.

If waste and inefficiency are the parameters to go by, it is estimated that about \$45 million more would be spent on the

logistics sector. Current logistics spend is about 12 to 14 per cent of GDP and elimination of inefficiencies can bring about around 4-5 per cent of savings. This scenario will change with consolidation taking place post-GST. Add to this government investment in infrastructure development will see optimisation of efficiency in cost reduction.

In case of air cargo warehousing infrastructure, Rhea A. Vazirani of Robinsons Global Logistics said that there was an urgent need for air cargo processing space in light of cargo capacity enhancement at airports and the arrival of wide-bodied aircraft capable of carrying substantial cargo at economical costs. The current capacity of air cargo warehousing space is just over 30,000 sq. metres and the total processing space requirement exceeds 200,000 sq. metres. There is also an urgent need to create modern agro warehouses.

Retail and agriculture would be the top demand drivers for warehousing infrastructure, Adarsh Hegde of Allcargo Global Logistics said. This would be a direct result of increased manufacturing activity and consumption, he added.

At present, organised retail accounts for 5-8 per cent of the total warehousing space, a share that is estimated to reach 15 per cent in coming years. However, it will require the creation of huge backend infrastructure.

### Private participation

According to Vazirani, the private sector had been disinclined to enter this business through much of the 20th century because of high capital. Returns were long to come and often uncertain. Banks and financial institutions too were wary of funding warehousing businesses, thereby limiting the scale of private participation in this segment. Hence, majority of the warehousing business is managed by the government but future expansion will come

about mainly with private participation.

The warehousing landscape changed at the turn of the century, with the government creating favourable conditions for private investment. Fiscal incentives are likely to be extended to the cold-chain logistics industry in the near term. Investments into warehousing are also coming through the PE route.

If recent reports were anything to go by, Hegde said, the warehousing sector could grow by about 40 per cent year-on-year, to become a \$55 billion industry by 2011. Accurate data is not available to estimate the investment values needed for upgradation. This is due to the huge unorganised play in the sector, he added.

Vikas Anand of DHL Supply Chain (India) Ltd is of the opinion that the overall requirement of large-scale quality warehousing space could be expected to increase dramatically post-GST. There are quite a few players in the private sector in logistics, real estate, and infrastructure development that have either started building these mega hubs or are planning to do so. Quite a few Indian players are doing land banking and acquiring land to build such hubs or logistics parks. Therefore, the excitement to invest in quality warehousing across India is gaining pace.

### Policy initiatives

The much-delayed Warehousing (Development and Regulation) Act, 2007 came into effect from October 25, 2010. As per the act a Warehouse Regulatory and Development Authority (WRDA) will be set up. All the

warehouses in the country will need to register with WRDA. This is expected to bring in better quality warehousing infrastructure. The registration of all warehouses with WRDA will also provide better data of available warehousing capacity in the private sector, thereby ensuring better planning to develop warehousing infrastructure in future.

With the introduction of the Goods and Services Tax in April 2011, the warehousing infrastructure across India, especially at the regional level, is expected to receive a boost. Once GST comes into force, there are strong indicators that manufacturing and production may want to shift to regional warehouses. GST is likely to also boost the overall logistics sector as the new regime will propose a comprehensive indirect tax on manufacture, sale and consumption of goods and services nationally.

### Conclusion

The warehousing infrastructure available across the country, both qualitatively and quantitatively, requires much better investment and planning. Till now, the private sector was disinclined to invest in this critical segment of logistics because of the absence of government incentives, high capital expenditure, uncertain policies, and low and longer duration of returns.

Going forward, the private sector's role in warehousing infrastructure will be significant. Technology integration through warehouse management systems and other IT products will be the determining factors in near future.



▲ Many of the existing warehouses are outdated and serve as mere godowns.

## Warehousing Act will create an organised system

**Adarsh Hegde:** The Warehousing (Development and Regulation) Act will eliminate non-registered and pseudo-warehousing companies. Farmers would use the warehousing receipts as a tool to safe keep the goods. This will enhance the credit availability by the lending institutions. The warehouse receipt under this Act will become a negotiable instrument. The farmers' liquidity will improve and shield them from distress sales. It will bring forth an organised system as opposed to the current scenario.

**VIEWPOINT** **Vikas Anand:** The Warehousing (Development and Regulation) Act will create a system which will mandate the issue of negotiable warehouse receipts. It also prescribes a form and manner of registration of warehouses and the establishment of Warehousing Development and Regulatory Authority. This act will help farmers avail of better credit facilities, avoid distress sales, and safeguard financial institutions by mitigating risks inherent in credit extension to farmers. The pledging/collateralisation of agricultural produce with a legal backing in the form of negotiable warehouse receipts will lead to increase in flow of credit to rural areas, reduce cost of credit, and spur related activities like standardisation grading, packaging and insurance, and in developing a chain of quality warehouses.