



Development of logistics infrastructure

K SWAMINATHAN

Director Services

Balmer Lawrie & Co. Ltd

Importance of Logistics

- ▶ Efficient Logistics drives growth
- ▶ Logistics industry is the backbone of development and a strong and growing logistic sector indicates the “trend” of growing economy
- ▶ Generates employment (approx. 2.5 cr people employed in Logistics)
- ▶ India ranked 44th among 160 countries in the World Bank’s Logistics Performance Index in 2018 which has gone up from 54th ranking in 2014.
- ▶ Logistics Infra is a key requirement for development as it connects “buyer and seller” wherever they are
- ▶ Indian Economy growing at the rate of 5 to 6% with a high of 8.2% in 2016 in the last 5 years. Size being \$ 2.7 Trillion & 7th largest in the world aspiring to be within the top 5
- ▶ Merchandise exports and imports (in US\$ terms) declined by 1.5 per cent and 5.7 per cent respectively during the period April-August 2019

Infrastructure – India at a Glance

- Infrastructure sector is a key driver for the Indian economy.
- Infrastructure sector includes power, bridges, dams, roads and urban infrastructure development.
- In the last 10 years the length of National highways doubled, Indian Railways carried 40% more cargo, Ports registered a 45% growth in cargo handling.

- **Investments**

India has a requirement to invest Rs 50 trillion (US\$ 777.73 billion) in infrastructure by 2022 to have sustainable development in the country.

India is witnessing significant interest from international investors in the infrastructure space. Some key investments in the sector are listed below.

*In 2018, infrastructure sector in India witnessed private equity and venture capital investments worth US\$ 1.97 billion.

*In June 2018, the Asian Infrastructure Investment Bank (AIIB) has announced US\$ 200 million investment into the National Investment & Infrastructure Fund (NIIF).

*Indian infrastructure sector witnessed 91 M&A deals worth US\$ 5.4 billion in 2017



Role of Container Freight Station

- ▶ Work as an extension of Port and as a customs notified area
- ▶ Facilitates cargo congestions in Port
- ▶ Works as an intermediate storage location
- ▶ customs checking/clearance/collection of taxes/revenue in a better environment
- ▶ Better transport links to Gateway Ports and Airports /cheaper transport to Gateway Ports and Airports
- ▶ Container storage and handling charges lower than Port
- ▶ Refrigeration available in most locations
- ▶ 10% of Exim cargo handled by CFS/ICD – which is 86 Billion dollars

HISTORY OF CONTAINER FREIGHT STATION IN INDIA (CFS)

5

- ▶ CFSs were conceptualized and set up in late 80's primarily at Jawaharlal Nehru Port Trust Nehru (JNPT) as extensions of Ports so that the Ports can evacuate the containers within 2 to 3 days thereby increasing its capacity utilisation
- ▶ With the sole objective of promoting the establishment of CFS's, the Central Government had then offered several incentives including tax concessions.
- ▶ Both Government undertakings and Private companies made significant investment in setting up CFSs across major Ports in India.
- ▶ The total no of CFSs operating out of JNPT, Chennai, Mundra & other locations across India is produced hereunder :-

Total Private investment in CFSs

Approx: 14,000 crs

Total CFSs

190

Employment generated by CFSs

~100,000 people

TEU's handled/ year

~ 5 million

CFS in India

2010

- 171 CFSs – 137 functional
- 63 ICDs – 47 functional

2019

- 224 CFSs – 190 functional
- 103 ICDs – 98 functional

Revenue in 2018-19

CFSs - INR 4150 Cr

ICDs – INR 2100 Cr

To Grow at 5-3-4% in the next 5 years

www.commerce.gov.in

The CFSs in Chennai, Kolkata & Mumbai put together account for around 55-60% of the total CFS turnover.

The growth in Imports – exports in 90s and the first decade of this millennium lead to higher handling of cargo and containers in Ports with a concomitant increase in volumes handled by CFSs.

The growth in non major parts was much more significant than Major ports.

The non major ports handles around 48% of the cargo (in 2018-19)

Tamil Nadu, Maharashtra and Gurjat have together 56% of the total CFS in the country

CFSs in India

- ▶ As of January 2018, 327 CFS/ICDS have been approved by IMC, Of these 288 ICDs/CFSs are functional.
- ▶ The west coast handles more than 70% of the container traffic.
- ▶ The CFS/ICD are owned by Public/Private sector
- ▶ Government owned CONCOR is the biggest player in CFS/ICD business with 72 CFS/ICDs.
- ▶ 21% of CFS /ICDs are located in land locked states.

- ▶ Private Freight terminal Scheme introduced in 2015 which aims to stimulate development of PFT for dealing with Railway's cargo traffic
- ▶ 58 PFTs in India as of 2018
- ▶ 100% FDI allowed in this segment

CFS/ICD Drivers

- ▶ **Growth in International Trade/Exim Traffic:** Growth in International Trade, particularly containerized commodities such as textile, automobile, auto components, engineering and capital goods will drive greater demand for CFSs/ICDs.
- ▶ **Growth in Port Traffic: Operationalisation** of new ports and additional capacity augmentation of existing ports will boost growth in CFS.
- ▶ **Launch of sagarmala:** To promote Port led development by exploiting 7500 Kms of coastline piloted by Ministry of Shipping
- ▶ **Bharatmala:** India's largest road project (Rs 5 trillion investment) – phase 1 to be completed by 2022
- ▶ **Rise in Containerized Cargo:** Rise in overall containerized cargo will increase the demand for transit facilities like CFSs/ICDs.
- ▶ **Construction of the DFC:** 5 Freight corridors at a total cost of approx. Rs 1 lakh crore to benefit the logistics movement

CFS/ICD Challenges

- ▶ **Direct Port Delivery:** Direct Port Delivery to cut down the dwell time and transaction cost by moving the containers direct from port to customer's facility instead of routing through CFS. With the implementation of Direct Port Delivery the capacity utilisation of CFS will decrease.
- ▶ **Procedural Delays:** The inter ministerial committee(IMC)consists of representatives of the ministry of shipping, Ministry of Railways, Ministry of finance at times, Ministry of Home affairs. Approval process to be made more simple and objective.
- ▶ **Random Selection of CFS/ICDs:** Due to stiff competition in major ports, CFSs undercut each other and are not able to pass on increase in costs to trade and this affect the earnings per TEU.



DPD initiative – a big setback for CFS??

- ▶ Introduction and increasing the % of Direct Port Deliveries (DPD) is one of the major thrust areas of the Government with a view to reduce “logistics cost”.
- ▶ DPD can render CFS industry extinct.
- ▶ Currently, 50% of the Import volume in JNPT is being cleared through DPD and the Government’s target is to take it to a level of 70%. At Chennai, the DPD is at 36% and at Kolkata the DPD volume is at 42% of the total Imports.
- ▶ It is expected that those who cannot service the customers better may be ejected out of the system due to this environment and the number of CFSs may come down.
- ▶ Newer investments in CFSs may come down as DPD may be pushed across India

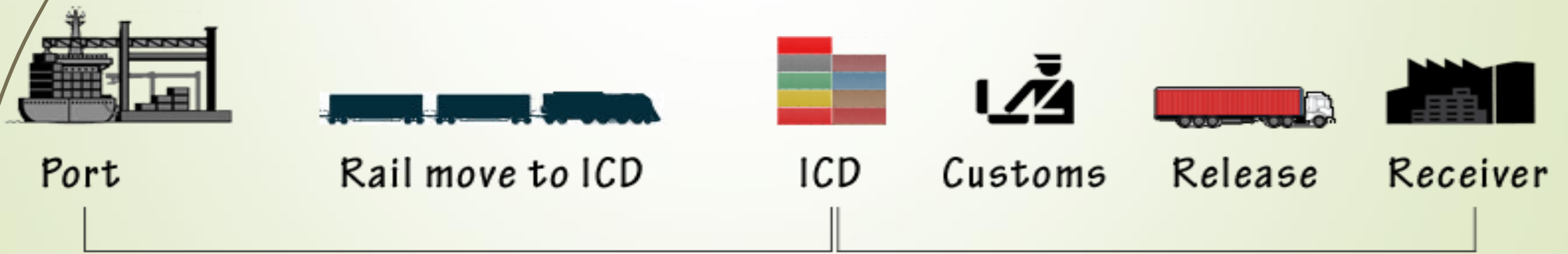


Way forward for CFS industry...

- ▶ The survival of CFSs depends on the level of infrastructure development being planned at ports. If Ports can handle volumes and have space, CFSs may become redundant
- ▶ CFSs would need to accept the change in business environment and realign their business model so as to mitigate losses.
- ▶ CFSs would need to generate more warehousing space for storage of cleared cargo and look at offering other value added services to remain sustainable.
- ▶ CFSs could act as a aggregation and distribution facility for Importers and offer end-to-end service delivery.
- ▶ CFSs could double up as Storage yard/tank farms.

INLAND CONTAINER DEPOT

- ▶ Inland Container Depots, otherwise known as ICDs, are dry ports set up for handling and temporary storage of containerized cargo as well as empties.
- ▶ This helps hinterland customers to receive port services more conveniently closer to their premises.
- ▶ Their primary purpose is to allow the benefits of containerization to be realized on the inland transport leg of international cargo movements.



ICD

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Major Functions of ICD

- Receipt & dispatch/delivery of cargo
- Stuffing & destuffing of containers
- Transit operations by rail/road to and from serving ports
- Customs Clearance
- Consolidation & deconsolidation of cargo
- Temporary storage of cargo and containers
- Reworking of containers
- Maintenance & repair of container units

Differences b/w ICD & CFS

ICD	CFS
Located in the interiors, away from servicing port	It is an off dock facility located near the servicing port
ICD is a customs station like a port or air cargo unit for the purpose of unloading of imported goods and loading of export goods	CFS is only a customs area located in the jurisdiction of a commissioner of Customs It is an extension of customs station set up with the main objective of decongesting port
ICD can have an independent existence as it is a self contained customs station	CFS by itself cannot have an independent existence, it has to be linked to a customs station with in the jurisdiction of the commissioner of Customs
Customs manifest, bills of entry, shipping bills and other declarations are filled in an ICD. Further, assessment and all the activities related to clearance of goods for home use, warehousing, temporary admission, re-export, temporary storage for onward transit and outright export ,transshipment etc take place in an ICD	In CFS only a apart of the customs process -mainly the examination of goods & Customs duty payment - normally are carried out

Multi Modal Logistics Hub

Multi-Modal Logistics Parks (MMLPs) are a key policy initiative of the GOI to improve the country's logistics sector by lowering overall freight costs, reducing vehicular pollution and congestion, and cutting warehousing costs. The government's Ministry of Road Transport and Highways(MoRTH) is developing multi-modal logistics parks at selected locations in the country under its Logistics Efficiency Enhancement Program (LEEP). India is burdened with high logistics costs, which account for about 13% of the value of goods sold in the economy compared with 8% in other major economies. The average cost to export/import one container in India is about 72% higher than in China.

- ▶ The projected market value of MMLH business is Rs.25000 Cr by 2023 with a growth of 10%
- ▶ As per Indian Infrastructure research as of June 2018, there are 12 Operational MMLPs and 41 Operational LP in the country.
- ▶ These Parks have a combined capacity of 71 million sq ft.
- ▶ These parks are spread across almost all states of country. Maharashtra with 6 LPS and 1 MMLP has the highest number of parks in the country. Punjab is the only state with 2 MMLPs in the country.
- ▶ Majority of MMLPs are being developed by Concor, In a joint partnership with either some private developer or other state government authority, while the large proportion of LPS are operated by Safe Express
- ▶ According to Indian Infrastructure Research, there are 48 Key upcoming MMLPs/LPS in the country. Together these parks will have a capacity of 138 mn sq ft. Majority of parks are still in planning stages.

Demand Drivers/MMLH

- ▶ **Growth of Industrial Corridors:** The development of industrial corridors along the Delhi-Mumbai DFC and North – East DFC will push up the demand not only for warehousing space but also value-added services in and around these areas.
- ▶ **Increased access to Value added services:** MMLPs facilitate various value added services under one roof, which is the biggest attraction or incentive for this sector.
- ▶ **Growth in E commerce Industry:**
- ▶ **Growing Industrial sector and increasing international trade:** The rising industrial production due to government’s “Make in India” initiative and increasing international trade gives a major push to the growth potential of this sector.
- ▶ **GST Roll out:** With the subsuming of all indirect taxes into one, GST has optimized not only the warehousing structure but also the entire logistics chain.
- ▶ Seamless movement of goods across different modes of transport



Warehouse Industry

- ▶ As per the Economic Survey 2017-2018, the logistics sector is worth \$160 bn.
- ▶ Warehouse accounts for 25% of the logistics sector worth of \$ 40 bn
- ▶ Unorganized sector dominates the warehouse market, with 90% share. The size of Indian unorganized warehousing industry is therefore estimated at \$36 bn
- ▶ Agriculture warehousing involves the storage of agricultural products such as food grains, cereals, oil seeds, sugar, pulses, fruits, vegetables etc.
- ▶ Organized Warehousing is controlled by Public sector companies such as FCI, Central Warehousing Corporation and State warehousing Corporation, controlling 85.95 MnT of warehousing capacity
- ▶ Warehousing space was a mere 104 mn sq ft in 2015 which has risen to 209 in 2019 and expected to touch 350 mn sq ft by 2022.
- ▶ Growth in Grade A warehousing is more than in Grade B warehousing space
- ▶ Occupancy is growing and it is in excess of 90% in 2019 on an average

Growth Drivers/Warehousing Industry

- ▶ **Demand-Side Drivers:** Strong growth in per-capita income has resulted in greater demand for food items, incomes have increased at brisk pace in India and would continue to rise considering the country's economic growth prospects.
- ▶ **Supply side Drivers:** Supply side growth drivers including use of hybrid and genetically modified seeds, favorable climate for agriculture, increased mechanisation, and increased irrigation facilities lead to growth in agricultural output.
- ▶ **Policy Push :** India is emerging as hub of processed food, which is increasing the demand for storage and agricultural produce.
- ▶ **Increasing Private Players:** Fair Price shop are slowly diminishing, paving way for private players to enter this sector.
- ▶ **E commerce and 3 PL players account for 48% of total warehousing requirement in the country**



Issues and Challenges

- ▶ **Information Assymetry:** Insufficient information to users about the availability and location/structure of warehouses and their suitability.
- ▶ **Inadequate nationwide enforcement and regulation:** There is no national standardization for warehouse regulation and enforcement.
- ▶ **Non Uniform distribution of warehousing facilities:** Around 69% of the storage capacity is concentrated in seven major procuring states. Further more, the storage capacity available with state agencies is primarily used for keeping central stock of food grains for buffer stock and public distribution systems.
- ▶ **Lack of Infrastructure:** Lack of infrastructure like power and transportation to carry goods to and from the warehouses lead to increase in operating costs, making it unviable for warehousing company.
- ▶ **Cost Concerns:** Warehouse development is capital-intensive and the breakeven period is long. In addition to that, cost of land acts as major hindrance to the construction of warehouses.

Cold Storages

- ▶ As of December 2017, the number of cold storages in the country stood at 7845 with a cumulative capacity of over 35 million tonnes. Of these, 5367 cold storages are functional.
- ▶ Region wise, the maximum installed capacity exists in north, with Uttarpradesh having the largest capacity in the country
- ▶ This is followed by the Eastern and Western regions having a share of about 23% and 11% in the total installed cold storage capacity
- ▶ The Government provides subsidy/grant for specified projects
- ▶ The cold storage industry in India is highly fragmented comprising of around 3500 companies. The organized players account for a mere 8% -10% of total storage capacity
- ▶ There are only a handful of players offering end-to-end cold chain solutions.
- ▶ One of the reasons for high “logistics cost” is due to high inventory cost/inventory losses of perishable goods in India due to poor storage conditions.
- ▶ Approx. Rs 50000 cr worth fruits and vegetables is wasted in a year.
- ▶ 25% of Vaccines is also wasted before it reaches the destination



Cold Storage/Growth Drivers

- ▶ Fiscal Incentives:
- ▶ Industrial Growth
- ▶ Government schemes
- ▶ Recent growth in trade of Vegetables and Fruits
- ▶ Processed Foods
- ▶ Organized Retail
- ▶ Growth in Quick Service Restaurants
- ▶ Pharmaceuticals

Cold Storages/Challenges

- ▶ **High Operation Costs** : operating cost of cold storage in India is \$60 per cubic metre compared to \$30 per cubic metre in west
- ▶ Acquisition of land for the development of cold storages is a cumbersome task,
- ▶ **Uneven distribution** : Existing cold storage facilities are very unevenly distributed with 52% of facilities located in North india.
- ▶ **Lack of Transportation Infrastructure**: Refrigerated transportation industry is nascent in India. Lack of allied infrastructure for cold storages like reefer transport through rails, roads and airports.
- ▶ **Need for change in tax Regime**: The imposition of additional controlled atmosphere tax on reefer vehicles in certain states leads to additional tax burden on farmers.
- ▶ High payback period and low returns



THANK YOU !

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