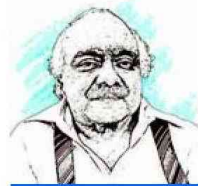


# GST, a big boost for the logistics industry

The abolition of central sales tax and other levies can transform a fragmented sector into one driven by scale efficiencies



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## THE WIDER ANGLE

For most people, warehouses and transportation represent the boring end of the business spectrum. Countless cartons of everything from tomato ketchup to auto parts aren't calculated to grab interest. But it's time to listen up. While the sector's already been on a growth spree, driven by a burgeoning consumer market, GST's advent is about to kick the business onto a new growth trajectory with the abolition of inter-State checkpoints and the creation of regional logistics hubs and economies-of-scale.

Anshuman Singh is one logistics player eyeing what he sees as rich prospects from India's big tax revamp. Singh was the CEO who built up Future Supply Chain Solutions, the logistics arm of retail giant Future Group (he also had a stake in the company). Singh figured he wanted to run his own show and launched Stellar Value Chain Solutions 11 months ago. By September, he'll have 2 million sq ft of warehousing space and he aims to double that by next March to four million. That's for starters. Singh intends to have 40 million sq ft of warehouses in the next 4-5 years, spread across 28 logistics parks in 21 cities. In addition, he has 400 trucks on the road and aims to make that 40,000. Private-equity investor Warburg Pincus has backed Stellar to the tune of \$125 million.

"Everything related to consumers – lifestyle, durables, food, beverages, pharmacy and FMCG

(fast-moving consumer goods) – that's where we intend to bring change," Singh says, noting India hasn't too many good warehouses. "Ten years ago, we had only godowns. I want to build the supply chain in this country," he says.

### A game-changer

Ironically, when Singh helped launch Future Logistics a decade ago, he did so believing GST was just around the corner. Now it's finally arrived, it's undoubtedly a game-changer for the logistics sector which kicks in 13 per cent to GDP despite being underdeveloped and highly fragmented. (Bear in mind China, during its rapid growth phase, saw its logistics sector account for 18-20 per cent of GDP). Pre-GST, "companies were used to locating and operating warehouses keeping in view the Central Sales Tax structure, irrespective of their end-customer base. Now emphasis will be on operational efficiencies", says Shyam Arumugam, who's office services associate director at commercial real-estate company Colliers International India.

It's been the e-commerce industry which has been the fuel for the sector's rocket-propelled growth as it replaced shoppers tramping around stores with doorstep parcel service. Take a squint at Ecom Express, started in 2012 by four employees of courier company DHL. During the last financial year, Ecom Express delivered 50 million parcels, up from 19 million two years earlier. Ecom Express's proud boast is it can reach every pincode in 12 states and its next goal is to do the same in another 12 states. It reckons 25 per cent of the logistics industry comes from e-commerce. "We're practically like the post office," says K Satyanarayana, a company co-founder. "We deliver to furthest rural areas and create lots of rural employment," he adds. Ecom Express has 16,000 people on



**Total makeover** That's what the players are hopeful of seeing REUTERS

its rolls. The company has also taken a sideways step and opened five warehouses near major metros.

Another early-mover company was TVS Logistics Services, founded in 2004 and now a billion-dollar company. It played the game slightly differently, looking first globally and then locally at India. Today, it has around 300 warehouses and about 10 million sq ft all over India, making it one of the country's most powerful operators. But that's only 30 per cent of its total business. "In terms of spread and space, we're one of the biggest," says R Shankar who's TVS Logistics' India CEO. The company also has major backers like the Caisse de Depot et Placement de Quebec, Canada's second-largest pension fund, and the Tata Opportunities Fund.

### Bright picture

The logistics firms were already in the fast lane but the big time looms with GST, the biggest upheaval, which consultancy KPMG says will provide a chance to "rationalise and re-engineer transportation and logistics networks". Logistics firms

will be able to follow hub-and-spoke models for freight movement as they set up large warehouses. "We expect 80 warehouses to become 20 much bigger ones," says one executive. Stellar's Singh says his warehouses will be sited near 17 big metros and four production centres like Ludhiana.

Certainly, the new warehouses will be state-of-the-art and many will be super-sized and specialised. Stellar aims to have four warehouse types, including some handling only cold-chain items and others e-commerce products. He expects his warehouses to match highly automated ones abroad. TVS Logistics' Shankar has a slightly different take on automation given India's inexpensive, plentiful labour: "We'll have fit-for-market automation, keeping in mind manpower availability we have here."

Entering the logistics business at a different level are firms like IndoSpace and Bangalore-based real-estate giant the Embassy Group. They're building logistics parks with warehouses that will be rented by firms like Stellar Value. In-

doSpace hit headlines recently when it won \$1.2-billion backing from the Canadian Pension Plan Investment Board. IndoSpace is part of Everstone Group, founded by two Goldman Sachs bankers. It already has 28 logistics parks with 30 million sq ft of space. Everstone Real Estate's managing partner Rajesh Jaggi says the company "plans to expand the portfolio to around 50 million sq ft in the next five-to-seven years".

Similarly, Embassy Industrial Parks has sprawling logistics parks in Sriperumbudur, Chakan near Pune and also Gurgaon. Anshul Singhal, CEO, Embassy Industrial Parks, says the company already has 4 million sq ft of space and plans to hike that to around 20-25 million sq ft in the next five years. The Embassy Group is also getting funding from Warburg. Incidentally, Warburg's logistic investments include Embassy, Stellar, Ecom Express and Rivigo, a trucking firm. Warburg has invested \$75 million in Rivigo.

As efficiencies take effect, logistics costs will fall, as is the case with the US where logistics now represents just 8.5 per cent of GDP. When that happens, it will be a clear sign India's logistics industry has come of age.

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