



ON THE FAST TRACK



With business booming in India, logistics firms are investing large sums in building new infrastructure to expand their presence in the rapidly growing market, says **Rajiv Pai**.

NDIA is being widely viewed as an emerging logistics hub in the region as the industry finds itself at the beginning of a strong growth curve. Mounting domestic consumption will be the key driver of this industry, especially with organised retailing and food processing poised to grow at a compound annual growth rate (CAGR) of 10 per cent over the next few years.

International logistics players are stepping up their investments in the

sector and expanding their presence, even as international private equity and venture capital firms are enhancing their exposure to the sector. Many domestic majors are also unveiling ambitious expansion plans, even as some of them enter into strategic alliances with global majors.

Capitalising on the unfolding opportunities are logistics majors such as Gurgaon-based Transport Corporation of India Ltd (TCI). The US\$ 300 million company is investing nearly US\$ 45



million for purchasing ships and trucks and constructing warehouses, besides opening offices in various countries.

"We are targeting year-on-year growth of 20 to 25 per cent," says D P Agarwal, vice-chairman and managing director, TCI. The company's hub-and-spoke distribution model constitutes 37 trans-shipmentment hubs, 1,200 owned branches and 800 franchisees.

Shashi Kiran Shetty, chairman and managing director, Allcargo Global Logistics Ltd, Mumbai, points out that the scale of operations in manufacturing is changing and so are their markets and sourcing geographies. This will increase the movement of goods and services across the country, energising the logistics sector. Assembly plants at the various manufacturing locations across the country are being fed with raw materials and intermediate products from all over the country and abroad, he adds.

"Such tremendous growth in the retail and manufacturing sectors will drive the next generation growth in India's logistics industry," observes Shetty. "The outlook for Allcargo's businesses, both global and India-centric, is extremely positive and

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the company will continue on the path of growth it has charted for itself over the past few years."

A recent CRISIL Research study anticipates that the introduction of General Sales Tax (GST) and the development of logistics parks, coupled with strong economic growth, will restruc-

ture India's logistics industry, bringing in greater efficiency and driving growth. It notes that logistics should be viewed as a strategic tool which can lead to efficient business operations resulting in higher revenues and better profitability.

"A well-developed and networked logistics industry is imperative for the success and overall growth of the economy," remarks Manoj Mohta, head, CRISIL Research. "Strong growth in economic fundamentals, favourable regulatory environment and greater thrust on logistics infrastructure development would be the key factors driving logistics growth."

Logistics companies also aim to offer innovative solutions to customers, helping them cut costs. "There are many challenges associated with logistics in India," points out Ajay Mittal, chairman and managing director of Arshiya International Ltd. "We intend to offer innovative solution development and service offerings to suit Indian requirements." This it seeks to achieve by being an end-to-end logistics player that is able to provide the full gamut of services in the supply-chain space, including freight-

BOOST FOR INFRASTRUCTURE

MINDFUL of the impact of logistics on the economy, the Indian government is accorded a vital fillip to the industry through infrastructure development initiatives. Gross capital formation in infrastructure as a percentage of gross domestic product (GDP) is expected to increase from the current 5 per cent to 8 per cent over the next few years.

An investment of more than US\$ 300 billion has been envisaged during the current 11th Five Year Plan (2007-12) in the



infrastructure space, of which US\$ 80 billion will be invested in roads, rail, aviation and ports. These span the Golden Quadrilateral project, the east-west and north-south highway corridors connecting the four major metros, rail freight corridors, Free Trade and Warehousing Zones (FTWZs) with 100 per cent foreign direct investment (FDI), and public-private partnerships (PPPs) in developing ports and roads.

The government has also provided investment-linked tax incentives for setting up cold storages and agriculture warehousing facilities.



forwarding, document management, customs clearance, project logistics and total outsourcing solutions.

The company will be infusing US\$ 1.2 billion in phases into developing infrastructure and bringing efficiency into supply-chain management across India. After adding 1,200 customers to its supply-chain solutions of end-to-end freight forwarding, supply-chain management and IT services, it has evolved infrastructure solutions that allow 'hubbing,' rail movement and domestic rail-connected warehousing for integrated logistics services.

The company is seeking to increase its global logistics network from the existing 150-plus countries to reach 250-plus over the next three years.

Gagan Seksaria, co-founder of Tuscan Ventures, a Mumbai-based logistics investment and advisory company, says India's logistics industry has had an image makeover and has emerged as a sophisticated and reliable partner to customers as well as investors.

The essence of this service now lies in end-to-end solutions rather than simple physical deliveries. Transcending freighting that can involve road, rail, sea and air connectivity, an integrated logistics business portfolio today has a local, national, regional and global reach through a skilled workforce, an expansive transport fleet, secure, timely and affordable delivery, cargo-tracking facility, supply-chain management and logistics and rail infrastructure development.

THE 3PL VALUE PROPOSITION

GLOBAL third party logistics providers (3PLs) are now growing their networks in India, while leading domestic 3PLs are offering total supply chain solutions. A 3PL offers outsourced or 'third party' logistics services to companies for part or all of their supply-chain management functions.

It typically specialises in integrated operation, warehousing and transportation services that can be scaled and customised to customer's needs based on market conditions and the demands and delivery service requirements for their products and materials. As the industry becomes more organised, the value proposition

of 3PL will increase. According to industry sources, revenues of the 3PL segment are projected to grow at a 27 per cent compound annual growth rate (CAGR) over the next five years.

Retail giants such as Reliance, Bharti (in collaboration with Wal-Mart) and Future Group are expected to bring in new technologies and add additional warehousing capacity; they also require fast and reliable movement of goods across the country. The entry of large 3PLs and the expansion of domestic networks of Indian firms are also transforming the nature of services and the business practices across the sector.

International majors are confident about the growth opportunities in the Indian logistics sector. US-based UPS, one of the largest package delivery companies in the world, identifies India as a priority market and envisions significant growth in the domestic logistics industry.

The company is aiming to become a post-sales leader by providing a comprehensive range of after-market services, including an extensive network of over 300 forward-stocking locations (FSLs). "UPS' goal is to optimise loads, minimise costs and enhance reliability," says Mark Khambatta, country manager, UPS Supply Chain Solutions (SCS) India Pvt. Ltd. "Companies need logistics service providers with an international network, expertise, logistics technologies, excellent management information system (MIS) and regional and global resources to provide a holistic solution."



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UPS entered into a strategic alliance with AFL, a provider of air freight-forwarding, air express and third party logistics (3PL), in 2007. Juzar Mustan, ceo, AFL's logistics division, says the alliance has accorded UPS instant access to over 200 AFL centres, while affording AFL customers access to UPS' global express delivery network.

One multinational that views India as a focus market and would wish to grow

GLOBAL FUNDS EYE LOGISTICS SECTOR

INTERNATIONAL firms are increasing their exposure to the Indian logistics industry, looking at the huge opportunities for growth.

American private equity (PE) and asset management group Blackstone's investment of US\$ 60 million in Allcargo Global Logistics Ltd in 2008 energised India's logistics sector and helped the firm's expansion plans.

Shashi Kiran Shetty, chairman and managing director, Allcargo Global, says the firm was able to introduce a range of services last year and also forayed into the Inland Container Depot (ICD) and warehousing business to complete its presence across the logistics supply chain, following the infusion of funds.

"It not only helps us in serving our customers better, but also extends our reach to inland customers and fulfills their storage needs," he says. Its first ICD was established at Pithampur, near Indore, and the company entered into a strategic joint venture with Samsara Group, the shipping agency and Indian

arm of Dubai's Sharaf Group, for setting up ICDs at multiple locations.

"We plan to extend our presence with our focussed forays into automobile logistics, logistic hubs, contract logistics and even port development," Shetty says. "We have already signed memorandums of understanding (MOUs) with the governments of Madhya Pradesh and Gujarat for developing shipping and port-related infrastructure."

Recently, Aureos India Fund and ePlanet Ventures together invested US\$ 16 million in the logistics and warehouse management services company of Continental Warehousing Corporation (Nhava Seva) Ltd (CWCNSL).

Aureos India, an initiative of Aureos Capital, a PE funder of small to mid-sized businesses in emerging markets, has invested US\$ 10 million, while ePlanet, a leading global venture capital and PE firm based in Silicon Valley, has invested the balance US\$6 million.

CWCNSL, part of the Chennai-based

NDR Group, will use the investment to augment the number of its Container Freight Stations (CFSs) and to extend its warehouse management solutions business to offer 'port-to-store' services, including extensive transportation and cargo services.

"With the active support of global investors, the company expects to scale up rapidly in the coming years," says N. Adikesavalu Reddy, chairman and managing director CWCNSL. The firm manages CFSs at the Jawaharlal Nehru Port, Chennai, Tuticorin and Indore.

It also has an MOU with Krishak Bharati Cooperative Ltd (KRIBHCO), a government-promoted cooperative society for manufacture of fertiliser, to set up Inland Container Depots (ICDs) across India. Besides this, it has a joint venture with KRIBHCO to start coastal shipping. "We are creating a complete logistics chain across rail, road, air and sea, to bring in the desired business," says Capt Hemant Bhartia, senior manager (operations).

faster in the domestic logistics market is Damco, the new combined brand of the Copenhagen-based A P Møller-Maersk Group's logistics activities.

"We look at India as a key market which will drive growth for us globally," points out Lars Sorensen, ceo, Damco (South Asia/India). "India, like other developing markets, has its own challenges in the logistics infrastructure, but these challenges are far exceeded by the opportunities available in the market."

Dutch major TNT N V, one of the world's largest integrated distribution companies, is also bullish about the prospects in India. "Customers today look for business solutions to their problems, and we at TNT are fully geared to providing our customers just that and more," asserts Sanjiv Kathuria, director (sales and marketing), TNT India Pvt Ltd.

TNT India has been growing at over 10 per cent year-on-year and has emerged as one of the country's largest players in the express industry. It has a

The demand for high-tech, ultra-modern warehouses will grow exponentially in the coming years.

Vineet Kanaujia,
general manager (marketing),
Safexpress Pvt Ltd

pick-up and delivery set-up spanning seven major hubs, 174 service centres, 1,530 vehicles and a headcount of 3,500

employees. Incorporated in 1993, it was the first multinational express distribution company to enter the Indian market with a direct subsidiary.

The company is now looking to expanding its existing warehousing capacity and strengthening its presence in tier-II and tier-III cities. TNT has acquired a leading domestic road express company called Speedage that will not only widen its reach in the fast-growing Indian express market, but also position it as a top player in the domestic road express segment.

"Post-acquisition, TNT has emerged as the only express distribution company with an integrated road and air network across India," claims Kathuria. "We do not have any plans of making further acquisitions in the foreseeable future."

TNT lists most major companies in the automotive, industrial, telecom, electronics, computing, health care and lifestyle sectors among its customers.

Chennai-based Redington (India)



Ltd is another player focussing more on tier-II and tier-III cities, where consumption patterns are changing. Kasturi Rangan, president (non-IT business), says the company's strategy is to remain focussed on value businesses and target fast-growing segments like telecom, consumer durables, and security and surveillance.

"We have always grown through 'adjacencies', meaning we are adding new product lines with the same vendor, adding new vendors in the same vertical, adding new verticals in the same geography and adding new geographies," he explains.

Redington has been charting brisk growth of late, increasing its number of branches nationwide from 53 to 57 in the last one year, its warehouses from 57 to 74, and service centres from 183 to 313. Helping it in this endeavour has been the US\$ 98 million equity investment it received recently from Investcorp, an investment house listed in London and Bahrain.

"We are already going ahead with setting up our automated distribution centres (ADCs) in all the four metros by 2011," says Rangan. Sensing the growth of consumption in tier-II cities, the company has identified locations for setting up warehousing facilities to support its captive loads as well as offer services to 3PL clients looking for latest infrastructure and technology to support their complex needs. Rangan sees immense growth in the organised warehousing sector in the coming years.

Redington has started 3PL services for clients such as Cadbury's, Vodafone, Kuehne + Nagel, and Sonicwall out of leased warehouses as a prelude to start 3PL as an important business vertical from its own warehouses. It started remote infrastructure management services last year and launched operations in new markets such as Ghana, Tanzania and Libya.

Logistics majors continue to invest in upgrading technology to keep abreast of the latest market trends. For instance,

Blue Dart Express Ltd, the integrated transportation, distribution and logistics company, has invested about US\$ 10 million in technology in recent years. Eighty per cent of its regular customers use the technology solutions developed by its IT team for tracking shipments over e-mail and on the mobile phone, and downloading delivery documents. The company delivers consignments – from a document to a charter-load - to 21,570 locations in India.

In partnership with its group company DHL, Blue Dart recently launched DHL Road Express to facilitate trade within the South Asia region; the service had earlier been limited to the India-Bangladesh trade lane. Blue Dart also leverages this partnership to offer the entire array of services – express, air and ocean freight, supply-chain solutions, freight-forwarding, customs clearance, project handling and charters.

"Customers today have a powerful business proposition, namely, DHL's global coverage in over 220 countries and



territories, and Blue Dart's unmatched domestic network," notes Ketan Kulkarni, head, marketing, corporate communications and sustainability, Blue Dart Express Ltd.

The company recently inducted a new Boeing 757 freighter, increasing its fleet size to seven aircraft, offering a revenue payload of 300 tonnes per night.

Analysts see the next level of sophistication in the Indian logistics industry coming from consolidation as well as sensible roll-out of assets tailored to the needs of the new customer. While the larger, more established players provide an integrated delivery service, the focus of the minnows is to gain a toehold in this supply-chain. The freight-forwarding segment is also represented by thousands of small customs brokers and clearing and forwarding agents, who cater to local cargo requirements.

Secunderabad-headquartered Gati Ltd is one such company aspiring for a global reach. It is introducing new services, acquiring new businesses and rolling out

a growth plan across the Asia-Pacific region.

Mahendra Agarwal, managing director and ceo, Gati, says the company is expanding its horizons across the Asia-Pacific region, with plans to foray into other markets as well. It made Singapore the headquarters for its Asia-Pacific operations in 2008.

Another mid-sized player is Safexpress Pvt Ltd, which operates more than 3,500 global positioning system (GPS)-equipped, all-weather, containerised vehicles that traverse over 600,000 km every day.

The company is investing US\$ 130 million to develop 32 logistics parks all over India over the next two years. "We have already launched logistics parks in Gurgaon, Nagpur, Ahmedabad, Kolkata and Bilaspur and intend to create five million sq ft of additional warehousing space across the country," says Vineet Kanaujia, general manager (marketing). "The demand for high-tech, ultra-modern warehouses will grow exponentially in

the coming years."

Similarly, the temperature-controlled logistics market is also expected to grow rapidly. Ravi Kannan, ceo, Snowman Frozen Foods Ltd (SFFL), a joint venture between Gateway Distriparks Ltd (GDL), Mitsubishi Logistics Corporation and Nichirei Logistics Group, Inc, estimates the market to grow by 12 per cent annually, touching US\$ 1.6 billion in 2011-12.

SFFL has invested US\$ 12 million in setting up 16 multi-temperature controlled warehouses; it also operates a fleet of 150 temperature-controlled vehicles, servicing quick service restaurants, ready-to-cook food manufacturers, ice-cream producers, seafood exporters and chocolate manufacturers.

The logistics industry in India will continue to expand at a brisk pace, as most of the fast-growing sectors are dependent on its services. These range from automobiles to consumer goods, information technology to telecommunications, and banking and finance to education and health care. 