

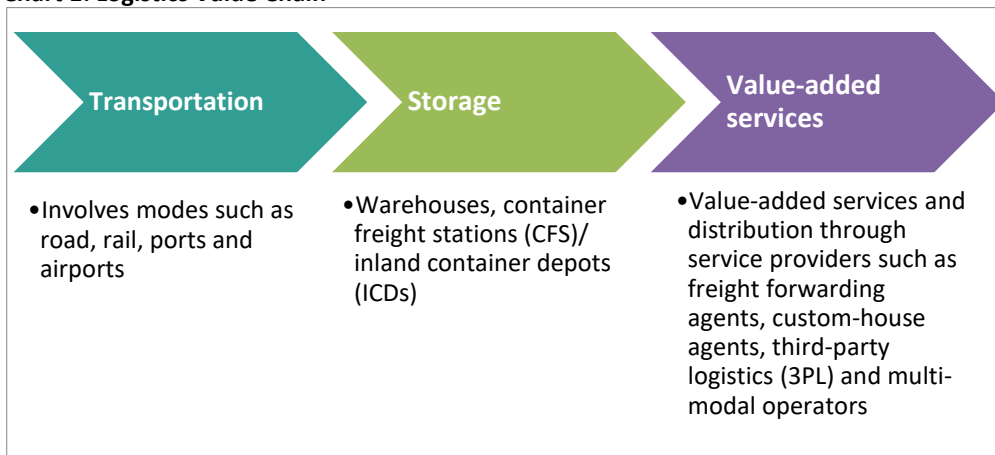
## Warehousing Industry April 2021 update

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### 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 to the point of 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

### Warehousing Industry Overview

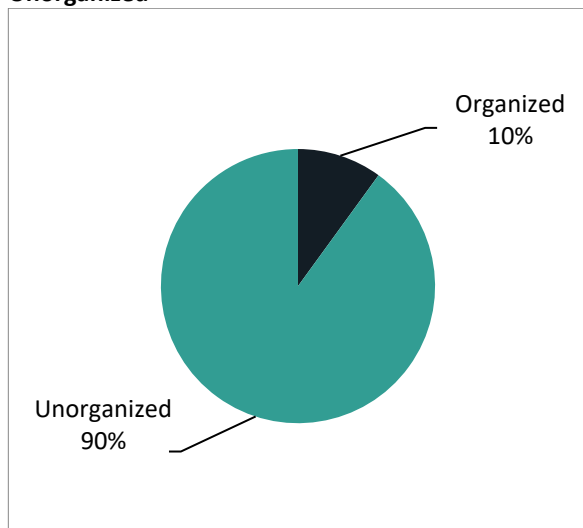
Warehousing primarily refers to the storage of goods, which is to be transported, whether inbound or outbound and is one of the major segments of the rapidly growing logistics industry. Currently, the segment has evolved from providing not only custody for goods but also offering value-added services 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.

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.

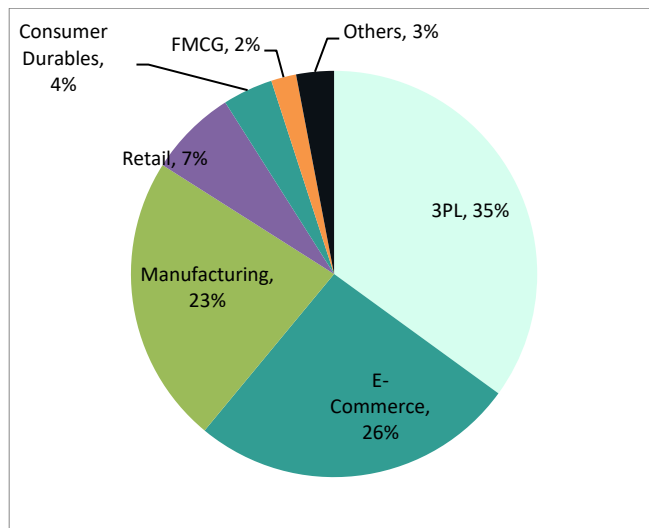
### Domestic Scenario

The domestic warehousing market is highly fragmented with most of the warehouses having an area 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. But lately the sector has been attracting investments from international players which is propelling the formalisation of the sector. With respect to the regulatory ecosystem, many state governments are announcing dedicated logistics sector policies.

**Chart 2: Warehousing Industry: Organized v/s Unorganized**



**Chart 3: Sector –wise share of transactions**



Source: Industry, CARE Ratings

Warehouses have become one of the major segments of the rapidly growing Indian logistics industry. With evolution of the organized retail sector, modern warehouses for the storage of perishable goods have become essential and has become the backbone of the manufacturing and e-commerce industry. The sector is evolving fast, with both the nature of the business and technology driving it, and undergoing dynamic changes.

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.

The e-commerce sector has been a big boon to the logistics industry. Last year with the onset of the COVID-19 pandemic in the Indian economy and with the consequent nationwide lockdown which started at the end of March 2020, there was a slowdown in overall consumption however, there has been a sharp rise in enquiries from the e-commerce segment.

### Types of Warehouses:

Warehouses lay the basic foundation of supply chain for any company that relies on the distribution of its products from factories to shops and to end users. For this, companies might choose to lease or own spaces, depending on the total costs involved.

‘Grade A’ warehouses are usually labelled based on their superior construction quality, location, space, amenities, and clients, among others. Warehouses can be categorised as per Type (General, Specialty, Refrigerated), by Ownership (Public, Private, Bonded), by Sector (Industrial v/s Agricultural), by Usage Pattern (Single v/s Co-warehousing), by Infrastructure (Single Storey v/s Multi-Storey) or by End User Industry (Automotive, Food & Beverage, Chemical, Consumer Goods & Retail, Textile, Pharmaceutical, Others).

Warehouses were broadly classified into public-private, bonded, government and co-operative warehouses.

- **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 can be government-owned or privately owned by large enterprises. But what makes it different from a regular warehouse is that bonded goods are retained here until the customs duty is paid. These bonded goods are only kept for a defined period of time, during which the duties and taxes should be paid in full. Otherwise, the shipment is confiscated and dealt with according to the laws of that country. Most of the time however, they dispose of these shipments.

- **Container freight stations (CFS)/inland container depots (ICDs):** A container freight station (CFS) is a facility where ocean or air freight can be transferred directly from the destination port or airport. 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.

As per the latest data available, the Central Warehousing Corporation (CWC) current capacity is 130 LMT. Warehousing activities of CWC includes food grain warehouses, industrial warehousing, custom bonded warehouses, container freight stations, inland clearance depots and air cargo complexes. CWC has been asked to work with DoCA (Department of Consumer Affairs) on creating storage capacities for 22 essential commodities, spread across the country.

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 available storage capacity with FCI is optimally utilized for storage of wheat, rice and pulses.

**Table 1: 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))**

As on	Capacity with FCI	Storage Capacity Other Agencies	Total
01-04-2016	358	457	815
01-04-2017	353	420	773
01-04-2018	363	481	843
01-04-2019	389	467	856
01-04-2020	412	344	756

Source: FCI,

As on 31.12.2020, the total storage capacity available with Food Corporation of India (FCI) and the State Agencies (both owned and hired capacity), is 819.19 LMT.

### 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 Maharashtra, Uttar Pradesh, Gujarat, Punjab and West Bengal. Cold storage capacity is used for potatoes, pharma products, processed foods, other horticultural crops; for marine and meat products.

As the Indian government is undergoing for a mega COVID-19 vaccination drive in the coming months, the safe delivery of vaccines for mass immunisation will be a challenge and India will need to significantly ramp up its cold chain facilities. The urgency triggered by COVID-19 vaccine is a great opportunity for the country to build all the cold storage it has needed for a long time. The expansion of cold storage is not only essential for the distribution of the COVID-19 vaccine, but also presents opportunities for a number of other sectors post the pandemic. The Centre has also reportedly directed states to make a robust plan for vaccine storage and distribution.

As per available information via the Ministry of Agriculture and Farmers Welfare, there are 8,186 number of cold storages with capacity of 374.25 Lakh MT is available in the country for storing perishable horticulture produce like fruits and vegetables. Government is implementing following schemes under which financial assistance is provided for setting up of cold storages throughout the country to bridge the gap between availability and required cold storage capacity:

**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.

Under the scheme, Ministry provides financial assistance in the form of grant-in-aid at the rate of 35% for general areas and 50% for North East States, Himalayan States, ITDP areas and Islands for storage and transport infrastructure. The rate of 50% and 75% respectively is also provided for value addition and processing infrastructure subject to a maximum grant-in-aid of Rs. 10 crore per project for setting up integrated cold chain projects including irradiation facility without any break from the farm gate to the consumer.

**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.

**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.

#### **Budgetary Support**

During the FY21 budget, the government had announced geo-tagging of warehouses and creating warehousing, in line with Warehouse Development and Regulatory Authority (WDRA) norms. Warehousing building incentive to farmers through village storage scheme for which Viability Gap Funding (VGF) would also be provided for setting up advanced warehouses and extension of mudra loans to Self Help Groups to enable storage at farmer level and reduce loss.

#### **Atmanirbhar package**

As part of the stimulus package aimed in improving the economy, the Government of India had introduced the Atmanirbhar Bharat Abhiyan package, which included measures towards improving the state of the warehouses in the agri-space. Soon after the government launched a Rs. 1trillion agriculture infrastructure fund to aid in post-harvest management and marketing of agricultural produce, in turn helping improve farm-gate prices. The scheme is to provide better warehousing and cold storage facilities for farmers.

#### **Demand drivers for the Warehousing Industry**

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) along with the 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.

- **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 few 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 including retail, automobile, telecom, pharmaceutical, heavy industries, etc, the logistics and warehousing industry has been increasingly attracting investments in the last decade.
- **Modernization of Warehouses:** Information Technology (IT) is playing a key role in supporting transportation and logistics industry. Today, technology is present in all the areas for a logistics service provider. Technological advancements such as advent of AI, IoT, 3D Printing, among others, in the warehousing industry is further expected to create lucrative opportunities over the next few years. Adoption of Warehouse Management System (WMS) and other IT-driven solutions are becoming effective in increasing the competitiveness of the warehousing industry. WMS helps warehouse operators to track inventory, orders and provides data about the products stored and can also be transmitted back to the manufacturers.
- **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 Chains. Going forward, with the prevailing uncertainty in the economy and to avoid any supply shock especially w.r.t. perishables, the development of cold storages has become imperative for the government, considering how it aims to inoculate the entire population so storage for the same is also important.
- **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. With the pandemic also on the loose there have been restrictions as well when it comes to visiting of brick and mortar shops which also leading to greater reliance of the ecommerce sector.
- **Less Bureaucracy:** The Warehousing industry has been given an infrastructure status and not a real estate status which gives the sector better lending rates and better lending terms with higher limits." In addition, the warehousing sector allows 100% FDI. In some states, developers can build warehousing parks with fewer approvals compared to other segments of real estate.
- **Emergence of 3PL players:** Before the implementation of GST, in-house logistics were the mainstay of for supply chain operations. However now specialised storage and distribution offered by 3PL players has been gaining prominence so much so that 3PL player are taking up the largest share in warehouse demand in the last few years. Going forward with manufacturers trying to expand their operations further, dependence on 3PL player is to increase even more. This augurs well for the warehousing industry as well.

### Challenges

- 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 is resulting in multiple hurdles and increasing the inefficiencies in the logistics industry.
- India's logistics industry has been adversely affected by the lower standardization of cargo and containerization of logistics traffic, which has been affecting the overall speed and thus increasing cost of storage and movement.
- Indian Warehouses are experiencing horizontal development and not a vertical one unlike other commercial spaces. This is problematic because of high land prices, which is amounting to approximately 30% of the project cost. Need for large capital and issues related to land acquisition have too tempered the growth of the sector. However, with expected increase in investment by international players, the gap in funding requirements are expected to be addressed in the near future.
- While e-commerce companies have pushed the boundaries, thus far, most of India's logistics remain unorganized and inefficient. The Indian warehousing industry is still at a nascent stage compared to that of United States and European countries. While India's warehousing industry has access to abundant labour it is not properly trained or skilled, and the mechanism to train the staff is not efficient. Further, the capacity is low with modern facilities and is extremely fragmented as well (large share with unorganised players).

### Concluding remarks and Outlook FY22

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

Currently the warehousing market is driven by the country's manufacturing, retail, FMCG and logistics sectors coupled with supportive government policies such as establishment of logistic parks and free trade warehouse zones. As India evolves to become a self-reliant economy, sophisticated warehousing systems would be a key trigger for the manufacturing sector and the entire gamut of trade.

Furthermore, the outbreak and spread of COVID-19 will not have a lasting term impact on warehousing demand due to lockdown and reduced manufacturing activities but it will rather strengthening the warehousing industry in India on

account of the shifting consumer preference from offline mode of shopping to online in order to adhere to the social distancing norms.

CARE Ratings estimates that the growth in the warehousing industry will be augmented by the requirements in the FMCG, 3PL, pharmaceuticals and e-commerce segments.

E-Commerce players are to further expand its position as key occupier group. The segment has been the driving force behind commercial warehousing demand and going forward many warehouse complexes are expected to come up across India and considering consumers have diverted the procurement of daily essentials towards online transactions.

- Urban logistics or in-city warehousing will also gain traction due to higher penetration of online groceries retailing.
- Restricted movement on social gathering is to act as a tailwind for e-commerce players.

In the industrial space, warehousing is to grow due to various factors such as the government's thrust on India being self-reliant/ "atmanirbhar".

- Industrial Warehousing is to boom post COVID-19 over the next couple of years as manufacturing shifts out of China.
- India is expected to present as a formidable option for businesses worldwide as they gear up for the 'next normal' post-COVID-19 on Business Continuity.
- Moreover, the emergence of third part logistics will further fuel the market growth in the coming few months which will aid India in becoming a global manufacturing hub.

In the agricultural warehousing space, measures taken up by the government in order to curb post-harvest loss would initiate the demand for modern agri-warehouses and cold storages in the country.

- Significant demand for cold storage formation and leasing from the pharmaceutical industry is also expected in order to store the COVID-19 vaccine.

The warehousing market is to expand to Tier-2, Tier 3 and Tier 4 cities as well. Work from home (WFH) may result in a resource shift to smaller towns. With employees based out of Tier-2,3 or 4 cities it will lead increase in local consumption of daily requirements.

- Warehousing and supply chain companies will therefore look at smaller cities more favourably
- Logistics companies will have to create more fulfilment centres in strategic locations.

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