

Warehousing in India: Gaining Momentum

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Growth in retail, manufacturing and ecommerce activities in India and rising containerized traffic is providing a huge impetus to the growth in warehousing market. While the Indian warehousing segment is still dominated by traditional godowns that lack space, facilities and technology, the growing interest in free-trade warehousing zones (FTWZs) and planned logistics parks show promise.

According to a Frost & Sullivan report, the Indian logistics sector is around USD 125 billion and is likely to cross the 200 figure by year 2020. Warehousing accounts for 20% of the total domestic logistics industry. The demand for warehousing services in India was estimated at approximately INR 245270 billion in 2011-12. According to a KPMG report, the Indian warehousing market is estimated to grow from around INR 210

billion in year 2010-11 to INR 460-490 in 2015 at a CAGR of 16-18%.

State of the Indian Warehousing Market Sectoral Demand

The warehousing market consists of industrial and agricultural warehousing, the latter largely being dominated by government entities. Agri-warehousing is emerging as a big business for private players, as industry players esti-

mate that the supply gap for storage of all agri-commodities (including all major crops and chemical fertilisers) could increase from 111.2 million tonnes in 2010-11 to 123 million tonnes in 2014-15. This shortage is expected to widen to 123 mt by 2014-15.

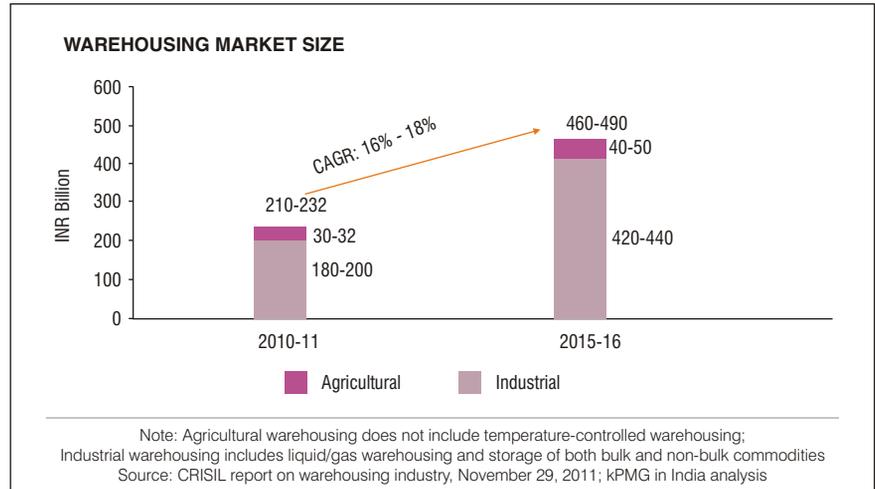
The demand for industrial warehousing space is estimated to have grown from around 391 million sq. ft. in 2010 to 476 million sq. ft. in 2013, at a CAGR of 6.8 percent. A large part of demand in industrial warehousing come from sectors like automobile, electronics & electrical industry, pharmaceuticals, textiles, food & beverage industry and machine & engineering. The growth of organized retail in India and the introduction of FDI is also driving demand for quality modern warehouse space. Pharmaceutical require highly reliable and safe storage spaces as they are temperature-sensitive, thus giving a fillip to demand for cold storage and temperature controlled logistics facilities.

Market Structure

Warehousing industry in India is largely controlled by the unorganized sector. Majority of these are traditional warehouses with an approximate size of less than 10,000 square feet, equipped with poor infrastructure and lacking in standards & specifications leading to high pilferage and losses. There are only about 7-8% of modern warehouses with an approximate size of less than 50,000 sqft, equipped with racking systems, palletization and standardization. And there are about 3-4% of Logistics Hubs, Logistics parks and Multi modal Logistics parks in India. Of the total warehousing space, almost 82% is not mechanized. However, those that are mechanized have just forklifts or hydraulic hand pallet trucks.

27% of the logistics cost is incurred toward warehousing. However, only 30% of the industry outsources warehousing function in India, as against 76% globally. Most cater to their warehousing requirements through their own assets and investments.

This segment has traditionally been



extremely fragmented, small scale and scattered geographically. Until 2006, manufacturers maintained their own warehouses for stock transfers to avoid taxation on inter-state sales under CST. The introduction of GST is expected to do away with the practice of maintaining small warehouses across different states and give birth to large, centralized set-ups.

Challenges

Availability of Land

Rising cost of land in urban, semi urban and rural areas and cumbersome procedures for conversion of agriculture land for industrial or com-

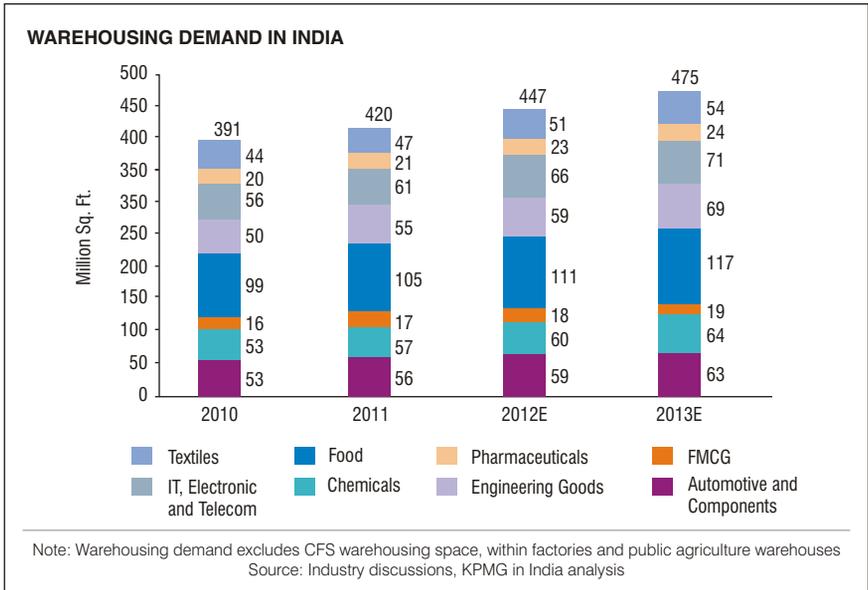
mercial are key challenges for establishing a new warehouse. Different states have different rules regarding agricultural land acquisition thus delaying approvals. Also, the lack of existing clear land classifications in Indian cities and the reclassification of land are major concerns as far as the development of warehouse zones are concerned.

Lack of Finance

According to a report by PwC, the capital cost of a typical warehousing player, with a pan-India presence can be anywhere between INR 700-750 million. Warehousing is a capital intensive sector and the breakeven period can



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be long. Banks and other financial institutions perceive high risks due to the unorganized nature of this sector and hence, the high transaction costs for loan appraisal. Also, the sector is largely dominated by small or medium entrepreneurs who are refused credit due to their inability to provide collateral against the loans. Hence, accessibility to adequate and timely credit at a reasonable cost is a big concern.

Lag in Technology & Skilled Manpower

About 80% handling and warehousing facilities are not mechanized

and traditional manual methods for loading, unloading and handling of foodgrains and other commodities are used. The warehouses which are mechanized have just forklifts or hydraulic hand pallet trucks. Due to the fragmented nature of the sector, smaller sizes limit the ability of warehouse owners to invest in high quality construction, technology, and modern material handling equipment.

Also, traditional warehouse managers were typically administrators in charge of small scale godowns but with the entrance of logistics parks, the



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sector will require managers with training and experience in warehousing specific operations, modern equipments (reach stackers, pallet trucks etc.), IT systems (WMS, handhelds, RFID), industry specific stocking and handling practices (FMCG, perishables, textiles etc), practices around safety and security of stock etc.

Lack of Infrastructure

Investments in cold storages require uninterrupted power supply as electricity constitutes 60 % of the cost of operating a cold storage facility. Lack of assurance on this is a major hindrance for corporate investments in cold chains. Also, since warehousing has not been accorded the status of full-fledged infrastructure, all financial and other benefits available to infrastructure sector are not available for warehousing sector.

Progress & Initiatives

Realizing the significance of this sector, the government has already introduced a few measures for the development of the warehousing market. The implementation of GST is expected to eliminate the inefficiencies arising out of incumbent complex tax structure as well as interstate taxes. Apart from standardizing the rates across the nation, it will also allow many corporations to discontinue the practice of having their own warehouses in different states, and employ logistics companies to manage distribution and supply chains.

The introduction of Warehousing Regulation & Development Act (WRDA) of 2007, policies promoting Free Trade Warehousing Zones (FTWZs) under the Special Economic Zone (SEZ) Act of 2005, private investment in logistics parks and other infrastructure developments such as the Dedicated Freight Corridor are expected to improve the prospects of professional warehousing service providers in the country.

The CII Institute of Logistics has been created to address the need for educating India's warehousing and logistics professionals about best prac-



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tices in logistics, warehouse and supply chain management. The body provides short and medium term courses, training at different levels and advisory services related to the field. The institute has also launched two certification processes - Warehouse WAREX Certification for Excellence and Performance that will help rank and rate warehouses across the country to drive efficiencies in warehouse management and the SCM Pro Supply Chain Management Professional Certificate started with the objective of recognizing and endorsing the competencies of supply chain professionals based on their body of knowledge.

Warehousing Hubs

According to a recent report by CBRE, regions such as Gurgaon, Chennai, Hyderabad, Pune and Kolkata are witnessing launch of large scale supply in the warehousing and logistics space, which is expected to provide numerous expansion options to occupiers in the

coming two to three years.

In Chennai, large warehouse developments planned by private players such as Agility, NDR Warehousing, etc. in North Chennai is likely to be completed by Q2 2013 and will add around 0.5 million sqft to the warehouse stock. Also, Realterm Indospace has launched a new warehousing project in Oragadam, spread over 0.6 million sqft, likely to be completed by the end of 2013.

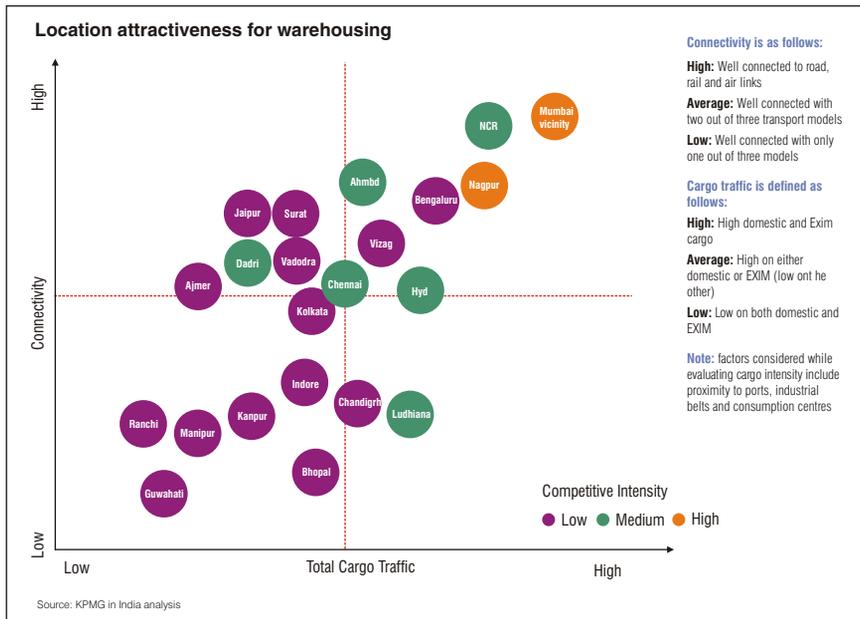
Several new projects have been planned in the city of Bengaluru and are under various stages of construction in the Eastern Corridor with project sizes ranging from 45,000 sf to 250,000 sf. These are expected to be ready by the second half of 2013. Built-to-suit (BTS) will continue to remain the preferred mode of development by both the landowners and 3PL players.

Hyderabad is expected to witness addition of 0.2 million sf of fresh warehouse space (independent buildings) in the next six months.

Due to its strategic location and effi-

cient infrastructure, the micro markets of Chakanand and Talegaon (on NH-4) in Pune will continue to remain the preferred destinations for manufacturing companies keen on expanding their footprint in India. Mercedes Benz is planning to construct around 0.15 million sf of warehouse space while Realterm Group is constructing Indospace Logistics Park in Chakan by early 2014. In addition, construction work has commenced on a 50-acre industrial park at Ranjangaon, being jointly developed by the Panchshil Group and the Kohinoor Group.

Kolkata, along with surrounding regions is witnessing a gradual increase in demand for warehousing space from manufacturing companies, trading companies and third party logistics service providers. Realty players such as Unitech, Manas Flour Mills, Maa Ambe and Jalan Group are anticipating growth in demand and planning to add capacity in and around the city over the next two years.



376 acres of Integrated Warehousing and Industrial Complex in Bhiwandi, Thane district. The warehousing complex will be in 120 acres and will totally have a storage capacity of 3 lac million metric tonnes.

Arshiya International Ltd launched its 135 acre FTWZ in Khurja, UP. The FTWZ, part of the Arshiya's 315 acre mega logistics hub which also includes a 50 acre rail siding and 130 acre Domestic Distripark (DDP), will enable efficient warehousing, value optimizing and distribution of EXIM and domestic cargo. Arshiya's 165-acre FTWZ at Panvel near Mumbai, was launched in 2010.

Agri-logistics player Shree Shubham Logistics recently signed an agreement with Tano India Pvt Equity Fund to raise ₹ 80 crore to fund its warehousing capacity expansion plans. The company, a subsidiary of Kalpataru Power Transmission Ltd, currently operates about 90 agri-warehouses across India with a total capacity of about 11 lakh tonnes (lt). The logistics firm, which provides the entire range of warehousing services, including transportation, grading, sorting, testing, storage and fincing of agri commodities, is executing a ₹ 270-crore capacity expansion programme. The company plans to add a new warehousing capacity of about 2.4 lakh tonnes by October 2013 in Maharashtra, Rajasthan and Madhya Pradesh. After this phase, the company has plans to take up another ₹ 200 crore expansion to add a capacity of about four lt in the next two years.

National Collateral Management Services (NCMSL) plans to set up 45 warehouses across 12 States with an investment of ₹ 300 crore. NCMSL intends to increase the average warehouse size to 10,000 tonnes from 2,000 tonnes, it operates currently. It has ₹ 6,000-crore asset under management at its warehouses in 952 locations. The company also plans to set up cold storages one each at Guntur and Nizamabad in Andhra Pradesh and Sangli in Maharashtra.

Several business houses including Reliance Industries Ltd (RIL), Tata group,

Market Players

The warehousing sector in India is largely dominated by nonregistered business entities, which only offer some space for storage of goods, run by small entrepreneurs as a storage facility for a single or multiple companies in India. However, the sector is now witnessing increased private participation and investments. By 2016, around 128 logistics parks, spread over approximately 4,100 acres, are expected to

come up across India at an estimated cost of US\$ 1.2 billion.

\$240 million fund was raised by PE firms Realterm Global and Everstone Capital in mid-2010 to start IndoSpace Logistics Parks Ltd, which will invest in logistics parks in India. Three logistics parks in 6 million sq. ft are being built in Pune, Chennai and Delhi and 2.0-2.4 million square feet of industrial warehouse space is being planned in Bengaluru and Mumbai.

Renaissance Infra Realty is building



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The country is seeing the emergence of integrated, well equipped and well-connected logistics parks and hubs

Adani Group and K Raheja Corp. are in the process of building logistics parks across the country. Milestone has already invested in NCR & Mumbai and is planning to expand warehouses to eight more cities or logistics hubs like Hyderabad, Bengaluru, Chennai and Kolkata. DHL Global Forwarding that has already established a FTWZ at Sriperumbudur is now planning to extend its footprint to Delhi, Mumbai and Hyderabad.

Integrated property development and asset Management Company Vision India Real Estate is also planning to develop logistics parks in Bangalore and Chennai, with an outlay of \$110 million.

Future Group's real estate arm Future Market Networks has partnered with Infrastructure Leasing & Financial Services (IL&FS) to launch eight infra-logistics parks spread over 50-100 acres in Mumbai, Bangalore, Kolkata, Chennai, Nagpur, Pune and the National Capital Region (NCR).

Greenbay Logistics Park by Realtech is an integrated state-of-the-art logis-

tics and warehousing park spread over 25 acres in Gurgaon. The park has a constructed area of over 1 million Sq Ft (10 Lacs), office space of 50,000 Sq Ft and service area of 10,000 Sq Ft.

ShriKailash Logistics Limited (SKLL) has built its "Logicity" in Oragadam, Chennai. The first phase of the logistics park at Oragadam spans 16 acres land with 3,50,000 Sqft including 25,000 Sqft of commercial office space. The second phase of the park will include 9,00,000 square feet of industrial/warehouse space in 50 acres of land and will be completed in one and half years' time. Totally the park will have around 12 lakhs sqft of Industrial/warehouse space and commercial space, in 51 acres of land. Besides this, the company is also planning similar parks spanning a total of 4 million square feet in all the major hubs of South India like North Chennai, Bangalore, Coimbatore, Cochin, and Pune.

Apeejay Infralogistics's 90 acre logistic park in Haldiaas designed to provide dedicated space for storage for domestic and EXIM cargo, consoli-

dation, deconsolidation, stuffing and destuffing, customs clearance, container repair yard, light processing units, truck terminal, commercial space for retail and business along with key support services for the industrial units in West Bengal, Bihar, Jharkhand, North East and Land locked countries of Bhutan and Nepal. The first phase of the Haldia Park is spread over a working area of 45 acres with 24 acres earmarked for Container Freight station to handle over 4000 containers and includes 60,000 sqft for Exim Bonded warehouse. In addition, the Haldia facility will have 80,000 sqft for domestic warehouse, 240,000 sqft for open storage and project cargo and over 30,000 sqft for other utilities. Apeejay's 30 acre Kalinga-nagar Park will house 120,000 sqft of domestic and contract warehousing and 175,000 sqft of open storage and project cargo. The Kalinganagar complex will have a capacity to handle over 2500 containers for export-import and will have covered warehouse of over 250,000 sqft in addition to hospitality, commercial and retail space.

Container Corporation of India Ltd., a public sector unit under the Ministry of Railways, plans to set up three logistics parks in West Bengal at an estimated investment of ₹ 150 crore. This is part of the company's plan to set up 15 such hubs across the country. One such park will require nearly 100 acres of land. These parks will have facilities like warehouses, container yards and cold chains under one roof. Apart from three parks in West Bengal, Concor has identified three locations in Andhra Pradesh; four in Odisha; one each in Maharashtra, Gujarat and Rajasthan; and two in Uttarakhand, for setting up such facilities.

The Future

Though the Indian warehousing sector is largely fragmented, with the rapid growth of organized retail and manufacturing sectors and huge investments, the country is seeing the emergence of integrated, well equipped and well-connected logistics parks and hubs. □