



Warehousing Industry

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Agenda

- ❖ Warehousing – Outlook
- ❖ Requirements
- ❖ Government Initiatives
- ❖ Challenges
- ❖ Investment Opportunities



Outlook

Warehousing

A warehouse is a commercial place for storage of goods. Warehousing is an integral part of supply chain, often used as a stock piling location to manage demand-supply gaps.

- Multi-locational reach
- Crucial link in logistics - Outsourced
- Value-addition in the form of:
 - Integrated logistics
 - JIT delivery
 - e-commerce fulfilment, etc.
- Protection against contingencies
- Economics – cost saver for operations/ logistics
- EXIM/ Raw material/ FG

Pharmaceutical / Infra/ Telecom/ Manufacturing/ Retail/ Agri /
Automotive

Major Players in the industry

- Container Corporation of India (CONCOR)
- Central Warehousing Corporation (CWC)
- State Warehousing Corporation
- Food Corporation of India
- Transport Corporation of India
- National Bulk Handling Corporation
- Gati
- Indo Arya Logistics
- AllCargo Global Logistics Ltd
- Sical Logistics
- Gazeley
- Reliance Logistics
- Future Group

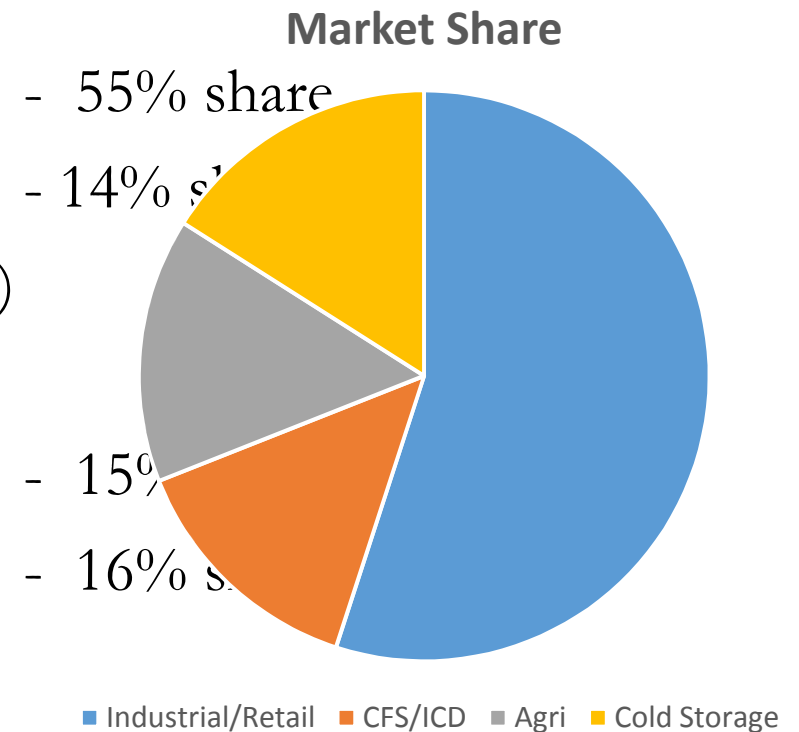
Present Scenario – A Bright Future

- Growth during the first half of 2013 despite a weak economic scenario
- The unorganised sector accounts for a majority (**92%**) of this business
- Organised market is controlled by PSUs. Organised sector handles 106.95 million MT - private sector handles only 18 million MT
- Growth in logistics segment is being projected at over 15-20%. Warehousing is expected to grow **35-40%** annually
- Logistics costs in India constitute -**13-14%** as against **7-8%** in developed countries. Industry is yet to mature in India
- Expected improvement in infrastructure- Union Budget 2012-13 proposed an increase of allocation by 14% to Rs. 25360 cr.

Business models

Multiple business models exist within the warehousing industry. The key segments can be represented as:

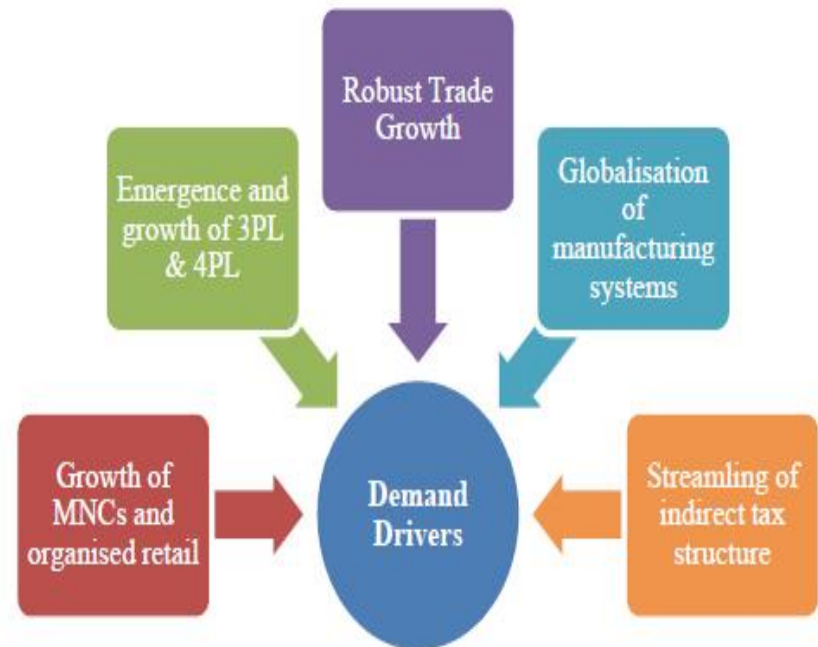
- Industrial/Retail warehousing
- Container Freight Station/
Inland Container Depot (CFS/ICD)
[custom bonded warehouse]
- Agri-warehousing
- Cold stores



Drivers of demand

- Rising domestic consumption and emergence of organized retail industry
- Increased presence of MNCs vis-a-vis and retail industry
- Growing manufacturing activities – Pharma/ automotive
- Modernisation of Agro warehouses
- Increasing international trade.
- Awareness on logistics and efficiency in operating costs

1PL \Rightarrow 2PL \Rightarrow 3 PL \Rightarrow 4PL/
5PL





Requirements

Requirements

- Infrastructure:
 - Availability of land - Suitable location
 - Appropriate structure - choosing the structure depending upon the products
 - Lifting and handling equipment
- Financing
 - Right mix of Capital Investment
- Planned services – 1 PL/ 2PL/ 3PL

Requirements

- Human Resources
 - Skilled resources/ training – at various levels – value adds
 - Making an employee attractive segment
 - Adequate infra facilities
 - Standard operating procedures
- Keeping pace with technology (Booster to logistic industry) – 3/ 5 PL
 - Reduction in labor costs
 - Better utilization of space including safety measures. Easy to track and timely order fulfilment
 - Flexibility to store alike items at one location owned by multiple customers
 - Integration with client ERPs
 - Improve in efficiency leading to higher customer satisfaction with competitive pricing.
 - Warehouse Management System. Transportation Management



Government Initiatives

Support from the Government

The Government plays a significant role in promotion of the industry

- 100% FDI in some of the sectors
- Free Trade Warehousing Zone (FTWZ) – SEZs
- Logistics Parks – Improved Infra facility
- Warehousing (Development and Regulation) Act 2007 – Supports Agriculture
- Various schemes introduced to support warehousing

Distribution of SEZs

States	(# of SEZs)	Max Warehouse Area(mn sq ft)	\$ million
Andhra Pradesh	15	44.19	994.31
Gujarat	11	53.02	1192.87
Maharashtra	10	17.27	388.48
Karnataka	5	5.43	122.36
Tamilnadu	5	4.74	106.78
Kerala	4	3.18	71.69
Goa	2	1.07	24.22
Haryana	2	1.65	37.11
Chandigarh	1	0.23	5.31
Jharkhand	1	0.27	6.14
Punjab	1	0.24	5.46
UP	1	0.09	2.01
Total		131.4	2956.73

Government Initiatives

NABARD WARE HOUSING SCHEME

- Implementing Authority - NABARD
- Utilisation on agricultural and allied commodities
- Preference - Eastern & North Eastern and food grain deficit states
- Benefit – **Funding of 75%** (Building and renovation costs) at subsidized rate of interest

PRIVATE ENTREPRENEURS GUARANTEE (PEG) SCHEME

- Implementing Authority – Food Corporation of India
- Benefit – **Guarantee of assured hiring for 10 years**
- The ceiling rate would be fixed based on demand of the supply of PDS.

Government Initiatives

MADHYA PRADESH WAREHOUSING & LOGISTICS POLICY

Capital Subsidy - 15% subsidy on construction cost will be given on investments more than Rs. 1 crore (Max: Rs. 2.25 crores).

Interest Subsidy - Reimbursement at the rate of 5% per year for 7 years on the loan amount sanctioned for the construction of godowns (max: 1.70 crores).

Land - Certain portion of green field industrial areas are preserved for warehousing. The land shall be available at the same rates as provided to SSI units as per Industrial Policy.

RURAL GODOWN SCHEME (RGS) OR GRAMIN BHANDARAN YOJANA

Objective - Creation of scientific storage capacity with allied facilities in rural areas.

Eligibility - The godown has to be outside the limits of Municipal Corporation area.

Benefit - 15% -33.33% subsidy on capital costs depending upon the location and investor segment

Tax/ Duty Benefits

CUSTOMS

Concessional import duty of 5 per cent for the setting up of **mechanized handling systems** and **pallet racking systems** in 'mandis' or warehouses for food grains and sugar

EXCISE

Central excise exemption to specified equipment used in preservation, storage and processing of agriculture produce.

SERVICE TAX

Cargo handling service (loading, unloading, packing, storage or warehousing) provided in relation to storage of agricultural produce have been exempted from the levy of service tax.

Tax Benefits – Income Tax

Capital Benefits (Section 35 AD) – Warehousing for storage of agricultural produce

- 100% capital expenditure is allowed as a deduction
- Weighted avg. of 150% from AY 2013-14

Revenue Benefits - Under Section 80 IB(11A) of the Income Tax Act, 1961

Eligibility - New units & in the business of **processing, preservations and packaging** of fruits or vegetables, meat or dairy products/ Storage & transportation of food grains

Benefit - 100% tax exemption for the first 5 years' of operation, and after that, at the rate of 25% for next five years [30% in case of a company].



Challenges

Key Challenges

STRATEGIC CHALLENGES

- Infrastructure – Connectivity/ cost
- Land - availability and affordability
- Lack of standardization – quality and flexibility
- Financing costs – unorganized sector
- Unorganised players – effecting volumes
- Power outages – esp cold storages
- Complex tax system

OPERATIONAL CHALLENGES

- Integration with complete supply chain – moving towards 3PL (value addition to customers)
- Man power – less attractiveness/ expertise in supply chain
- IT Technology – Awareness and utilization of technology (International competition)
- Warehousing technologies – storage and documentation, Process inefficiencies leading to damages or storage costs



Investment Opportunities

Estimates

- Building roof: RCC roof/ Asbestos roof/ Tin sheets or zinc aluminium sheets
- Cost of Construction
 - PEB (Pre-Engineered Building)- Rs. 600-800 per sft
 - RCC warehouse- Rs: 1000 per sft
- Average rent for a warehouse in Hyderabad
 - PEB structure- Rs.10-12 per sft
 - RCC structure- Rs. 12-16 per sft

Sources of value creation

- Standardising and streamlining processes within the warehouses and emphasising on value added services
 - labelling, packaging and re-packaging,
 - bar-coding, distribution services,
 - In-sync with customers ERP
 - reverse logistics.
- Entering new and untapped target customer segments
- Innovating operating models
- Providing shorter lead times
- Ensuring appropriate tax planning

The way forward.. Value Creation

- For entry - Partner with logistics companies, warehouse developers, infrastructure companies.
- Tie-up with **manufacturing houses, e-commerce players & retail chains** to develop warehouses for them.
- Value creation is envisaged from use of financial leverage, achieving multiple expansion and operational efficiency.
- Future trends point towards emergence of specialized warehouse operators who can achieve very high level of efficiency in warehouse operations and management and customized facilities.
- Land bank – Having an existing land would facilitate the kick start. Identifying the right location with an appropriate economics plays a critical role.



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