

Envisioning the Future of Indian Logistics

Prof. Vishwanath Kumbar¹, Dr. Shashank M Hiremath²

¹PGCSCM (IIM T), MBA, MCOM, PGDRM, MPHIL, NET (UGC), (PhD).

Assistant Professor, Sindhi Institute of Management, Bangalore-560024, Karnataka, India.

²MBA, MCOM, NET (UGC), PhD.

Associate Professor, Sindhi Institute of Management Bangalore-560024, Karnataka, India.

INTRODUCTION:

logistics is of critical importance for both businesses and the economy. A robust and efficient logistics sector of a country indicates an efficient forward and reverse of goods and services, which ultimately translates to a fast-paced growth in economy. According to a recent EY report, “India@100: realizing the potential of a US\$ 26t economy”, India is projected to grow to US\$26t by FY48. India’s transportation and logistics sector can act as the backbone to support this fast-paced growth, which the country is poised to achieve in the next 25 years. India’s freight movement is heavily skewed toward road transportation, which moves 66% of cargo (in ton-km). This is followed by rail (31%), shipping (3%) and air (1%). The sector continues to witness unevenness in freight transportation by mode and is working toward solving this impediment.

The ports, shipping and logistics industry in India is shifting to align with the evolving business landscape. Improved infrastructure, increased emphasis on digitalization, and a heightened focus on sustainable logistics are driving this shift as the country sets its eyes on unleashing the potential of becoming a US\$26 trillion economy by FY48 (with US\$6 trillion by FY30).

EY projects that India will continue its strong economic performance and become a US\$26t economy by FY48. This will create a significant opportunity for India’s transportation and logistics sector, which is poised to grow at ~4.5% CAGR (from 2022 to 2050) to 15.6 trillion-ton km by 2050. To realize the full potential that exists in the sector, it is imperative for stakeholders including, service providers, customers and GOI (government of India) to collaborate and complement each other. Although GOI has launched several initiatives, such as GatiShakti and National Logistics Policy, there are numerous challenges related to implementation, infrastructure development, digital readiness and supply chain transparency, which need to be addressed.

KEY CHALLENGES IN INDIA’S LOGISTICS SECTOR AND RECOMMEND STRATEGIES TO ADDRESS THEM.

First is the adoption of advanced technologies and new business models. Although new digital platforms, such as ICEGATE (e-Sanchit), E-Logs, are playing a pivotal role in streamlining processes and rooting out inefficiencies, a considerable effort is required to ensure end-to-end monitoring and supply chain visibility in the logistics sector.

Second is fast tracking infrastructure development, which is being addressed by initiatives such as Bharatmala, Dedicated freight corridor (DFC) and Sagarmala, among others. However, numerous policy

measures need to be adopted to alleviate delays in land acquisition and clearances and stimulate infrastructure development ecosystem further.

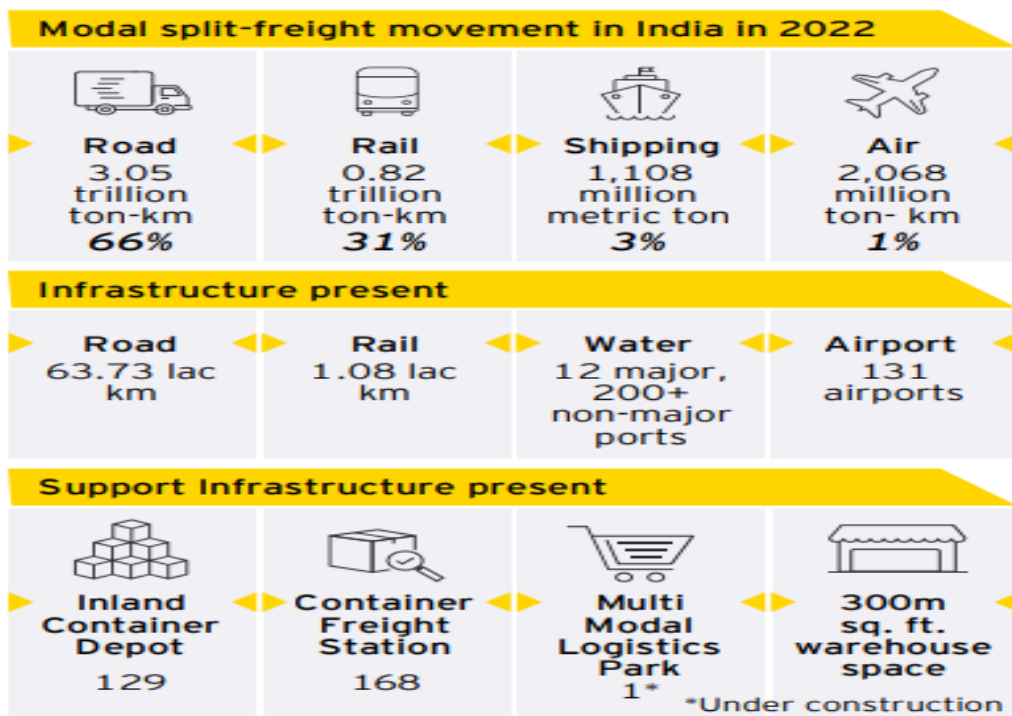
Third, infrastructure financing is complex and therefore stakeholders should develop and build on their infrastructure asset strategy and adopt a collaborative approach to design a risk sharing protocol. The GOI should formulate a uniform and simplified tax and regulatory landscape and adopt policies to facilitate greater participation of the private sector.

Fourth, adoption of sustainable practices is critical, to keep up with stringent domestic and international regulatory customers and investors requirements. However, EY’s supply chain sustainability survey 2022 indicates that 33% companies lack a strong business case for sustainable supply chain. Thus, stakeholders need to identify and prioritize focus areas for decarbonization, including climate financing for emerging markets. Moreover, they should consider additional drivers, such as higher revenues, market share, as a result of their focus on sustainability.

INDIA’S LOGISTICS INDUSTRY INSIGHTS:

India’s projected GDP growth to US\$26t by FY48 (US\$6t by FY2030) and the impetus to accelerate merchandise exports to US\$1t by 2030 are key drivers which will increase demand for India’s logistics sector. As of FY22, India’s exports grew by 44.6% to US\$422b and imports grew by 55.4% to US\$613b. This growth has propelled the Indian transportation and logistics sector, which has grown between ~US\$160 and US\$200b (INR13- 16 Lakh cr.) in 2022.

India’s transportation and logistics landscape:



Source- PBI, Ministry of shipping, Ministry of civil aviation, Niti Aayog

This uneven distribution of modes of transportation has led to low operational efficiency; prompting the

GOI to undertake multiple logistics specific initiatives, such as GatiShakti, National Logistics Policy and others. These programs aim to streamline India's logistics sector by making it more green, agile, transparent and integrated.

India's Transportation and Logistics sector acts as the backbone to support the fast-paced growth which it is poised to achieve in the next 25 years. India's freight movement is heavily skewed toward road transportation, which moves 66% of cargo (in ton-km). This is followed by rail (31%), shipping (3%) and air (1%). To aid this cargo movement, India has an extensive network of support infrastructure comprising 129+ In-land container depots, 168+ container freight station, and ~300 m sq. ft. of warehousing space.

The transportation and logistics sector, and in particular the ports and shipping sector is grappling with several structural challenges:

- ▶ The inter-state movement of goods takes a long time due to complex regulations, delayed clearances and involves a significant amount of paperwork.
- ▶ As the industry is fragmented, there are several intermediaries in the ecosystem leading to multiple cargo exchanges, thereby increasing costs and operational inefficiencies.
- ▶ Lack of end-to-end supply chain visibility and ability to track and trace the cargo remains a challenge for the service providers and customers.

To address some of these challenges, there has been a recent spurt in development of associated infrastructure, which is in line with the changing business environment.

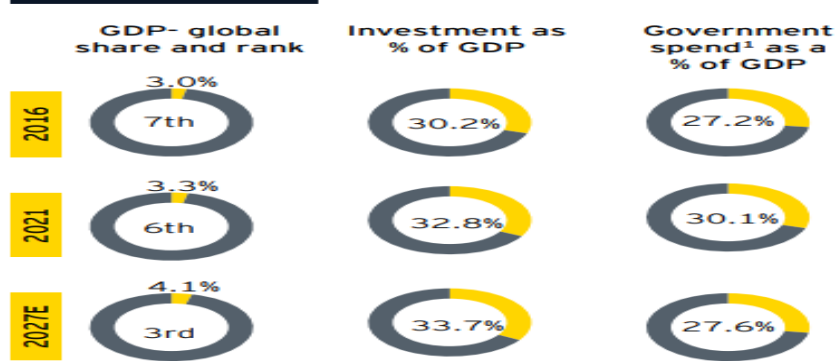
- The sector is witnessing a rapid development of infrastructure, greater thrust in digitalization, and enhanced focus on sustainable logistics. Launch of multiple start-ups and GOI's digital initiatives such as "Make in India", Unified Logistics Platform (ULIP) etc. are helping to bring greater transparency in the logistics sector.
- Digitization of work processes to facilitate paperless processing of documents and clearances and enhanced tracking of shipment helps to increase the speed of movement of goods and reduce logistics cost.
- There has been an enhanced focus on infrastructure development, which is playing a significant role in increasing the pace of movement of goods. India's road network has grown from 62.15 lakh km in FY21 to 63.73 lakh km until Jan 2023. As part of Dedicated Freight Corridor (DFC) India has pledged ~US\$38b (INR 3 lakh cr.) to develop exclusive rail tracks and associated infrastructure for movement of goods train.
- MIV targets to reduce the average vessel turnaround time (for containers) from ~22 hours in 2021 to < 20 hours by 2030.
- The proposed growth in the logistics sector requires major private and foreign investment to alleviate the load on GOI's finances. Initiatives such as National Infrastructure Pipeline, is one such lever which is expected to raise ~US\$650b (INR 50 lakh cr.) worth of investment. Additionally, GOI has rolled out multiple policies to facilitate PPP in ports, rail and road sector.
- To fulfill India's commitment to the Net Zero emissions by 2070, the logistics sector's contribution to decarbonization is essential. Several initiatives, such as adoption of alternate fuel vehicles, increasing share of renewable energy in ports, providing shore power to dock ships and others, are being incorporated. Maritime India Vision indicates specific targets for Indian ports to promote sustainability in the maritime sector.

- Adopt advanced technologies and explore new business models Recent supply chain disruptions and amplified focus on sustainability have led to increased adoption of technology- enabled solutions. As a result, block chain, big data, cloud computing, digital twins and others are seeing widespread adoption, globally. Although the level of adoption is relatively low in India, the renewed interest of the GOI has resulted in the launch of several digital solutions, such as ICEGATE and E-Logs. These solutions have helped to reduce inefficiencies, improve transparency and increase the speed of movement of goods.
- Fast-track infrastructure development Recently, the GOI has launched several programs with a focus on building new roads, railways, ports infrastructure, etc. This is complimented with measures to attract private capital and implement administrative reforms to streamline processes for planning and executing infrastructure investments. GatiShakti is a critical component of this strategy, which aims to integrate planning and implementation of infrastructure projects. As a result, programs such as Bharatmala, dedicated freight corridor and Sagarmala were developed. Several Multi Modal Logistics Parks (MMLPs) are being developed to connect multiple modes of transport. MMLPs also help to improve utilization and performance of inland container depots and container freight stations. Development of maritime clusters, container terminals and warehouses are other key initiatives being undertaken.
- Attract investment and investor interest Traditionally, GOI has been the main proponent and financier for the development of infrastructure. However, it is increasingly adopting new policies to attract private and foreign investment as levers to fast-track infrastructure development. This includes 100% Income Tax exemption in any consecutive 10-year period out of 20 years of operations for road construction projects, volume based rebate scheme of up to 100% on rail tariff for movement of empty containers from ports to hinterland for its utilization in exports as offered by CONCOR, among others.
- Focus on sustainable logistics India's shipping and logistics sector is poised to embrace sustainable practices to comply with domestic and global regulatory policies. This includes complying with key regulations and initiatives, such as Energy Efficiency existing ship Index, Carbon intensity rating and Emissions Trading System. To meet emission related regulations, several initiatives are being adopted globally such as issuance of green bonds for raising capital, adoption of low/ zero-emission fuels, improved availability of shore power, development of intermodal transport within port, usage of eco-friendly packaging materials, and others. India's maritime vision aims to inculcate practices to reduce cargo emissions per ton. Moreover, development of institutes such as the National Centre of Excellence for Green Port & Shipping will act as a technological arm and will help develop data driven policies to foster carbon neutrality and circular economy in the shipping sector. The institute will also carry out education, applied research and technology transfer in maritime transportation at the local, regional, national and International levels. It will focus in the area of energy management, emission management and sustainable maritime operations.

From 2023, India is expected to be a part of a select group of three countries whose yearly GDP growth exceeds US\$300b.

In 2022, the US pipped China to register the highest GDP growth in absolute terms. However, China is expected to reclaim this position in 2024. Between 2022- 2027, India's contribution to global GDP growth is projected to average ~6.4% with the highest being 7.6% in 2023.

India's financial performance and global standing



Source- IMF
Government spend¹- General government expenditure

CONCLUSION:

The logistics industry in India is undergoing a transformative phase, with several key trends driving its growth and development. From advancements in technology to shifting consumer behavior to significant improvements in infrastructure, some key trends are set to shape the future of logistics in India for years to come.

The logistics industry has witnessed a rough time in recent years and has become fragmented, volatile, and unpredictable. With the pandemic halting their business operations, the supply of essential goods and services has had a devastating impact on the industry as a whole.

India's logistics industry is expected to grow at a compound annual growth rate (CAGR) of 10.5% between FY18 and FY22, according to various reports. The growing e-commerce sector, along with the government's initiatives such as Make in India and Digital India, are some of the major factors driving the growth of the logistics industry in India.

There is a huge need to automate the logistics policy in India. Truckers can increase their overall efficiency and price competitiveness with the aid of logistics marketplaces, but it is necessary to incorporate similar automation and technology, like RFID, GPS, warehouse management systems, etc. Additionally, there is a critical need to increase workforce skill levels and enable access to cutting-edge technical solutions.

The logistics and warehousing industry in India need to invest in technologies to develop innovative and efficient solutions to reduce the reliability on human assistance. Businesses looking for logistics support should look for providers who offers the best in terms of efficiency and price. It is recommended to collaborate with 2-3 different logistics partners. This will give you the option to have backups and identify partners who offer efficient services.

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