



Presents

# CEO Roundtable on Manufacturing Opportunities in 'New' India

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**Logistics**

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## ROLE OF LOGISTICS IN “MAKE IN INDIA”

Make In India - A major new national program designed to transform **India** into a global manufacturing hub

- ❖ Current supply chain cost estimated at 13% as against 7% - 8% in the developed markets
- ❖ The effective distribution of raw material and finished goods is critical for this program
- ❖ Make in India requires creation of Global Value Chain
- ❖ **Logistics critical for success:** ‘Make in India’ would necessitate more than mere connectivity to international trade logistics network, rather complete integration with it so that exporters can move, store and deliver goods faster and cheaper, the only way to retain their competitive advantage. Otherwise, they will cease to be a part of the global value chain.
- ❖ Implementation of GST will help in removing the complexities & management of goods across the supply chain, thereby reducing the supply chain cost

# OVERVIEW OF INDIAN LOGISTICS - 1

|                         |                      |
|-------------------------|----------------------|
| ❖ India GDP (Dec/2014)  | - USD 2 Tn           |
| ❖ India GDP growth      | - 7.5%               |
| ❖ Annual Per capita GDP | - USD 1260           |
| ❖ GDP composition       |                      |
| ➤ Agriculture           | - 17%                |
| ➤ Industry              | - 30%                |
| ➤ Services              | - 53%                |
| ❖ Global Trade Share    | - 2.4% (USD 1065 Bn) |
| ➤ Exports as % of GDP   | - 31%                |
| ➤ Imports as % of GDP   | - 24%                |

|                          |              |
|--------------------------|--------------|
| ❖ Logistics Spend        | - 13% of GDP |
| ❖ Current Spend          | - USD 270 Bn |
| ❖ 3PL Share of Logistics | - 16% - 18%  |

Indian logistics costs are “high” as a % of GDP (~13%) when compared to other developed economies with superior logistics performance (USA ~8.5%)

## OVERVIEW OF INDIAN LOGISTICS - 2

|                                       |  |
|---------------------------------------|--|
| ❖ Transportation cost as a % of GDP   | - 8.2% (59% of total logistics spend)                            |
| ❖ Warehousing cost as a % of GDP      | - 3.8% (27% of total logistics spend)                            |
| ❖ Other logistics costs as a % of GDP | - 1%   |
| ❖ Major Industries driving Logistics  | - Auto & Auto-Components<br>Textile<br>Pharmaceuticals<br>Cement |
| ❖ Total Containers handled            | - 9.9 Mn TEU   |
| ❖ Road Network                        | - 4.86 Mn KMS (~92,850 KMS in Highways)                          |
| ❖ Sea Ports                           | - 13 major / 200 minor   |
| ❖ Airports                            | - ~350   |
| ❖ Rail Network                        | - 64,000 KMS   |

Though road & rail networks are comparable with many developed countries, port capacities are to be developed to handle proposed Manufacturing growth spurt

# OVERVIEW OF INDIAN LOGISTICS - 3

- ❖ Vast country with highly complex network / tax structures / state borders
- ❖ Varying sizes with too many fragmented players
- ❖ Percentage of outsourcing & value-addition low compared to global standards
- ❖ Elements of the supply chain treated as commodity and bought separately
- ❖ Quality of service providers vary vastly across segments of the supply chain

| Size of the Industry                   | In-house  | Outsourced                      |
|--|---|---------------------------------|
| Large Industries (\$ 100 Mn and above) | All Value Added Activities                        | Transportation, Warehousing     |
| Medium Industries (\$ 50 – 100 Mn)     | Warehousing Manpower & All Value Added Activities | Transportation, Land & Building |
| Small Industries (Up to \$50 Mn)       | Maximum activities being done in-house            |                                 |

## OPPORTUNITIES IN INDIA – SECTOR LED LOGISTICS

| Industry                     | Characteristics   | Domestic Logistics cost as % of revenue | Global Logistics cost as % of revenue |
|------------------------------|---|---|---------------------------------------|
| Automotive & Auto Components | <ul style="list-style-type: none"> <li>Logistics sensitive</li> <li>Timely supply</li> <li>High inventory carrying costs</li> <li>High dependence on skilled labor</li> </ul>                   | 8% - 9%                                 | 12% - 15%                             |
| E-Commerce                   | <ul style="list-style-type: none"> <li>Last mile connectivity</li> <li>Large transportation network</li> <li>Time sensitive deliveries</li> <li>Documentation &amp; Tracking Systems</li> </ul> | 8% - 10%                                | Not Available                         |
| FMCG                         | <ul style="list-style-type: none"> <li>High inventory holding</li> <li>Last mile connectivity</li> <li>Importance of product packaging</li> </ul>   | 6% - 8%                                 | Not Available                         |

Logistics costs in India are still 30% higher compared to developed countries, with potential for huge savings & efficiency in cost

# POTENTIALS IN AUTOMOTIVE SECTOR

## SIZE

- 7th largest producer (Avg annual production 17.5 Mn)
- 4th largest market by volume (2015)
- Estimated to become 3<sup>rd</sup> largest in the world by 2016
- 6 Million-plus vehicles to be sold annually, by 2020

## MARKET

- Domestic Market Share 2013-14:
  - Passenger Vehicles 13.59%
  - Commercial Vehicles 3.44%
  - Three-wheelers 2.60%
  - Two-wheelers 80.37%

Accounts for 7% of GDP

Turnover in 2010-11 was USD 58.5 Bn

Turnover by 2016 to be USD 145 Bn

## DRIVERS

- Growing working population & expanding middle class
- Increasing disposable income for rural agri-sector
- Large pool of skilled / semi-skilled workers
- Strong education system

## INFRASTRUCTURE

- 4 large auto manufacturing hubs
- Account for more than 5% of global vehicle sales
- R&D Hub
- Dedicated Freight Corridor
- Growing regional transport links in Asia



# POTENTIALS IN E-COMMERCE SECTOR

## SIZE

- Around 90 Mn shipments per year
- 50% of shipments handled by e-tailers themselves
- Revenue opportunity for 3PLs in e-Com close to USD 60 – 76 Mn

## MARKET

- Consumer Electronics – 34%
- Apparels & Accessories – 30%
- Books – 15%
- Personal Care – 10%
- Home & Furnishing – 6%
- Other – 5%

Online retail is ~7% of total organized retail business

E-tailing market size of USD 2.35 Bn in 2013-14

Projected USD 45 Bn by 2020 (by Google India)

## DRIVERS

- Internet / Mobile reach & adoption
- Ability for 3PLs to setup delivery network across the country (high investment)
- Technology innovations
- Ability of India Post to tap into e-Com growth
- Efficiency of cash on delivery (CoD) program

## INFRASTRUCTURE

- ~21,000 pin codes across the country
- 4.86 Mn KMS of Roads & Highways
- 4-lane roadways of ~8000 KMS
- Truck distance covered per day ~250-300 KMS
- Total consumption warehousing space available estimated at 75 Mn Sq. Ft

# POTENTIALS IN FMCG SECTOR

## SIZE

- One of biggest producer of FMCG products
- Size has tripled in last 10 years
- CAGR of 14.7% to reach USD 110.4 Bn in 2012-20
- Rural FMCG @CAGR of 17.7% to reach USD 100 Bn in 2012-25

## MARKET

- Food Products – 43%
- Personal Care – 22%
- Fabric Care – 12%
- Others – 23%

One of largest sectors of Indian economy  
Projected to reach USD 110 Bn by 2020

## DRIVERS

- Availability - Product Driven large target market
- Emotional buying decision based on Status / Desire / Price
- Branding is very important - Awareness
- Fiscal incentives
- Increase in buying power (rural & urban)

## INFRASTRUCTURE

- 8.4 Million outlets across India
- 1.9% of total FDI inflow
- USD 1.8 Bn in cumulative FDI inflow between 2000-12
- Untapped potential of rural India – 700 Mn consumers

# GROWTH & DRIVERS OF INDIAN LOGISTICS - 1

- ❖ GDP Annual Growth Rate : ~7.0%
- ❖ India Logistics : Poised to grow @ 1.5 - 2x GDP (10.5% - 14%)
- ❖ Estimated Potential by 2020 : USD 370 Bn
- ❖ India 3PL : Expected to grow @CAGR 21% to USD 7.5 billion by 2019

## Drivers

- ❖ Major Industry Drivers : Manufacturing, Retail, FMCG, e-Commerce
- ❖ Regulatory Change Drivers : Goods & Service Tax (GST), Fiscal Incentives
- ❖ Infrastructure Drivers : Port Developments, Enhanced Regional Transport links in South Asia
- ❖ Technology Drivers : Internet penetration, Social Media, Mobile Penetration, Big Data & Analytics

India's Logistics sector is poised for accelerated growth, led by GDP revival, infrastructure ramp-up (railways/roads/ports), e-commerce penetration, impending GST implementation, and other initiatives like "Make in India"

## GROWTH & DRIVERS OF INDIAN LOGISTICS - 2

- ❖ Roads & Highways
  - ❖ To grow from ~92000 KMS in 2013-14 to 100,000 KMS in 2017
  - ❖ USD 3.8 Bn outlay planned for highways
  - ❖ USD 19 Bn infra development planned between 2012-17
- ❖ Ports & Shipping
  - ❖ 87 New projects approved (combination of big & small)
  - ❖ USD 7.2 Bn invested between 2010-14
  - ❖ Container demand to increase to 21 Mn TEU in 2017
- ❖ Exports & Imports
  - ❖ Global Trade Share to grow to 6% (USD 5.5 Tn) by 2025
  - ❖ Imports reaching 41% of GDP
  - ❖ Exports reaching 40% of GDP

# CHALLENGES IN THE INDIAN LOGISTICS MARKET

## ECOSYSTEM

- ❖ Concentrated more on the lower end of value chain
- ❖ More than 1.7 Mn players in transportation who are highly fragmented
- ❖ Comfort of next Door Tier I / Tier II
- ❖ Lack of experience in Vendor Managed Inventory
- ❖ No overall concept of supply chain – gap between customer and service providing organisation

## INFRASTRUCTURE

- ❖ Lack of world class infrastructure – Ports & Airports (commenced upgradation / development)
- ❖ Quality Issues due to inadequate infrastructure (Timely deliveries, Transit Damage Losses)
- ❖ Warehouse space increasing cumulatively @CAGR 9% whereas requirement is growing @16.5%

## MANPOWER

- ❖ Skill gaps in warehousing sector due to non-availability of adequate training facilities
- ❖ Gaps in customer perception and service provider quality

## POLICIES

- ❖ Governmental Rules & Policies (VAT, Excise Duty, Import Duty)

Entry barriers in India are predominantly due to the highly fragmented system which is not navigable for new players

## TWO GAME CHANGERS TO OVERCOME THE CHALLENGES

### FTWZ Free Trade Warehousing Zone

- ❖ To create trade related infrastructure to facilitate import & export of goods
- ❖ Fiscal & Regulatory benefits (Taxes, Excise Duty, Duty Deferment)
- ❖ Infrastructure benefits (Shared warehousing & equipment)
- ❖ Administrative benefits (Delivery time for import goods, effective mgmt.)
- ❖ Other (FDI inflow, Competitiveness)
- ❖ Can be substantial savings in cost
- ❖ Availability of Just in Time (JIT)

### GST Goods and Service Tax

Natural progression from existing complex tax structure to a unified value-added system of taxation

#### What it does?






- ❖ **Eliminates** state boundaries and creates a common marketplace across India
- ❖ **Eliminates** double taxation
- ❖ **Enables** supply chain strategies for warehousing based on location efficiency rather than tax efficiency
- ❖ **Enables** more strategic & efficient supply chain structure to prevail in the ecosystem

Implementation of GST would enable the larger logistics player to play a significant role in improving the supply chain & provide integrated solutions

# INVESTMENTS ON THE GROUND

## Domestic

- Several leading players are being supported by PE investors to achieve their growth targets and expansion plans
- PE investments have been seen across start-up logistics companies like Delhivery as well as seasoned market participants liked Mahindra Logistics, VRL Logistics and Snowman Logistics

| Year | Company   | Investors                         | Deal Value (USD Mn) |
|------|---|-----------------------------------|---------------------|
| 2015 |    | Warburg Pincus                    | 129.3               |
| 2015 |    | Times Internet, Tiger Global, etc | Multiple            |
| 2014 |    | Kedaraa Capital                   | 30.4                |
| 2013 |   | Norwest Venture Partners          | 9.1                 |
| 2012 |  | New Silk Route Ventures           | 31.3                |

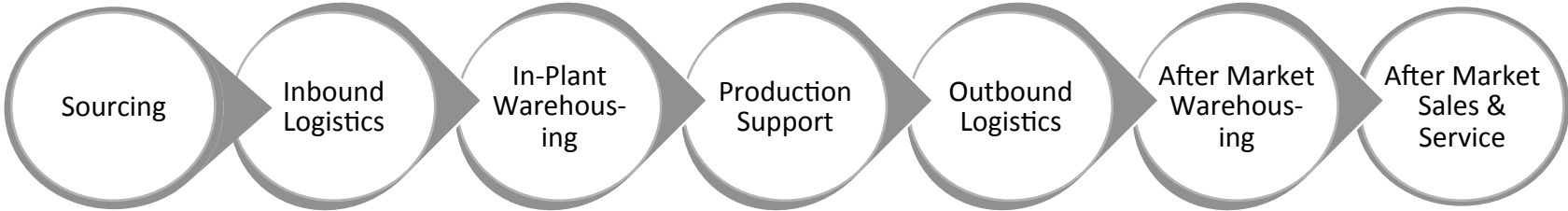
## International

- With the increased attractiveness of Indian logistics market, some leading international players have made Indian acquisitions and also entered into JV agreements with leading domestic players
- In some cases such as Nissin ABC Logistics, they bought out the share of their Indian partners and also supported additional investment through fund infusions

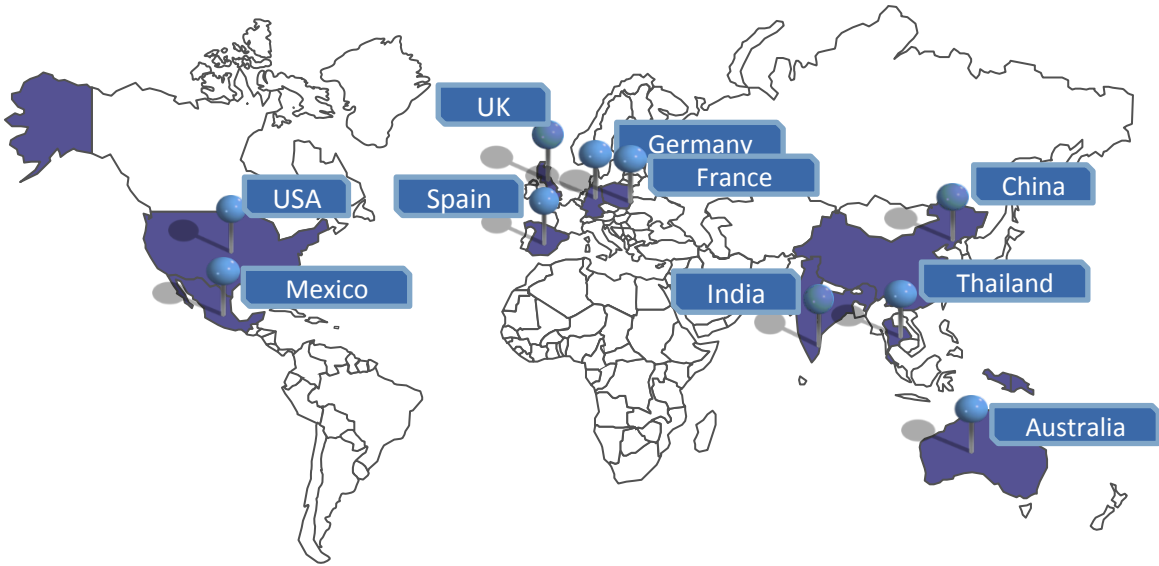
| Year | Target  | Buyer   | Deal Value (USD Mn) |
|------|---|---|---------------------|
| 2015 |    |    | Not Disclosed       |
| 2013 |    |    | 24                  |
| 2012 |    |    | Not Disclosed       |
| 2012 |   |   | Not Disclosed       |
| 2012 |  |  | 40.8                |

Logistics sector has seen significant PE interest with ~ USD 500 Mn invested, alongside over USD 200 Mn invested by several international players over the past 3 years

# AVAILABILITY OF E-2-E LOGISTICS SERVICE PROVIDERS LIKE TVS LOGISTICS



- *Supplier Management, Product Development, PPAP Quality, Sampling, Negotiations, Buy & Sell*
- *Parts Data Management, Forecasting & Procurement, Business Intelligence & Reporting*
- *Milk-Runs, Consolidation, Storage & Redelivery*
- *PFEP, X-Docking, Returnable Management, Packaging, VTS*
- *E-2-E In-Plant Warehouse Management*
- *WMS, Kitting, Sequencing, Inventory Control, Line feeding, Sub-Assembly, E-PDM*
- *EPC, Order Processing, Spares, Field Resourcing, Same-Day*





# INTRODUCTION TO TVS LOGISTICS

## VISION

To be a leading Indian E2E supply chain solutions/logistics company with significant presence in the ASEAN market and an impactful global footprint

## HISTORY

Part of the prestigious \$8 Bn TVS Group.  
Hived off as a separate company in 2004.

## SERVICE AREAS

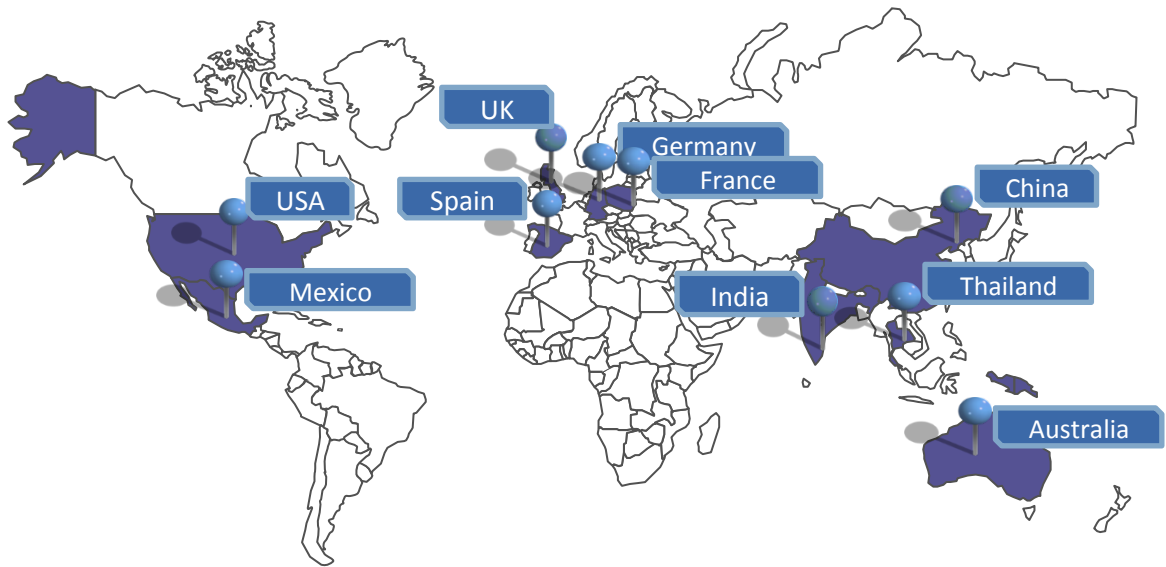
Transportation Management Solutions,  
Warehousing Management Solutions, Materials  
Management Solutions, Asset Based Solutions,  
Freight Management Solutions & Technology  
Logistics Solutions

## REVENUE

Annualized Revenue \$800M (FY15-16)

## LOCATIONS

Provides global logistics services through companies and joint ventures in  
India, USA, Mexico, UK, Spain, Germany, France, Italy, Australia, NZ, Thailand,  
Singapore & China



**THANK YOU!**