

Ambition on a grand scale

Anshuman Singh, chairman and managing director of Stellar Value Chain Solutions, in an interview given to Vikas Dawra, Joint MD & CEO, YES SECURITIES, talks about the growth of the logistics sector in India. He shares his views on M&A and investment opportunities in the sector.



Anshuman Singh, chairman and managing director of Stellar Value Chain Solutions

Can you provide an overview of the logistics sector in India? What in your opinion are the key emerging trends in this sector? How have recent regulatory and taxation changes impacted the logistics sector?

Firstly, most of the consumer companies in our unorganized logistics sector use carrying and forwarding (C&F) agents to manage their logistics. C&F, in my opinion, will be history in five years' time. The few C&Fs that have the ability to scale up to serve modern supply systems and practices would convert to third-party logistics (3PL) companies, and the rest will turn obsolete. Secondly, a lot of companies used to manage their own logistics in the past. Since that space will be taken up by modern 3PL companies in India, a lot of companies that used to carry out their logistics and supply chain management in-house will start outsourcing more, and this new outsourcing will propel the sector.

Thirdly, the entire sector has also been unorganized on the transportation side, and it will witness the presence of organized logistics players in the future. Globally, all organized 3PL players are either in transportation or in warehousing, and 95% of logistics are organized in the developed countries. In India, 90% of logistics are in the unorganized sector. So, that's the runway available for the organized logistics space in India, and you needed a trigger like goods and services tax (GST) to actually propel it — and that's exactly what is happening. So

what will happen now is that you'll need a lot of good-quality infrastructure to support this change, which the introduction of GST is helping to bring about. GST is the single biggest trigger for the largest impetus to the logistics sector. And why is that? Because the need for organized logistics is largely driven by the consumer sector. Commodities are still in the low-cost, efficient logistics system that has been developed over the last few decades, and they continue that way. However, the consumer sector is the one that really needs an organized supply chain. The creation of GST has driven supply chain modeling by companies to move from the tax-based supply chain of the past to the present and the future of inventory and speed-based supply chains. Now, that's a big change for the country. In fact, the GST is the biggest game changer for the supply chain sector and for the consumer sector. Earlier, based on tax-based planning, each manufacturer, brand or company had to set up storage points in all 32 states of the country. That led to a fragmentation of inventory, inefficiencies in the inventory, a lot of markdowns and obsolescence, and disorder in logistics management. But, it was very tax-efficient. With GST we have one nation, one tax. So the need for 32 stock points for higher inventories for savings on tax no longer exists. Today's GST sector allows you to service the entire country from one location, and the tax impact will be the same. So depending on the product category, the manufacturer size and the penetration of the consumer market, now companies can decide to have only one stock point in the country, or four stock points, or nine stock points or more as per necessity. No one needs 32 stock points any more to service the country based on tax needs. And this has been the single biggest game changer.

What are the investment opportunities you see in organized logistics space over the next few years? In your opinion how much capital is required over the next few year in this sector?

On the infrastructure side, good-quality warehouses will be the need of the hour. If you look at the multinational companies in the 3PL space, or even the Indian companies, the largest spaces around are seven or eight million square feet each. So the total organized sector would be less than 50 million square feet, while there are 900 million square feet of warehousing space in the country. So that's the gap between organized and unorganized. In the next five years, at least 150 to 200 million

square feet of organized logistics space will be required. Now, 150 to 200 million square feet of organized logistics space requires a lot of money. If you do some simple math, the land plus building costs will range anywhere between 1,500 to 2,000 rupees (US\$21 to US\$28) per square foot. So a million square feet would require 2,000 million rupees (US\$28 million).

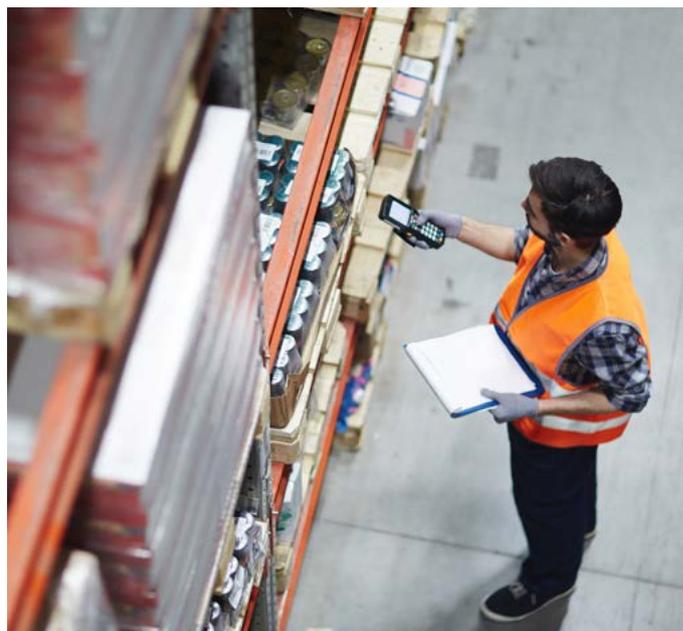
If you look at Stellar, we ourselves are planning to build 35 logistics parks on 50 million square feet in 21 cities. So in Stellar, I am planning to get 100 billion rupees (US\$1.4 billion) of investment for just the warehousing infrastructure. If I connect these 21 logistic parks with each other across the country to serve the consumer market, Stellar will require around 50,000 trucks, which is an investment of another 100 billion rupees (US\$ 1.4 billion). In addition to that, we will need to put infrastructure such as shelving, racking, material handling equipment, conveyers and sorters inside the warehouses, which will require another investment of 50 billion rupees (US\$0.7 billion). These are not all going to be on my books, except the capex inside the warehouses. I am going to get partners to invest in build-to-suit buildings, and transporters to come in as partners with me on a lease basis. I am going to have 10,000 trucks and 50 million square feet of warehousing infrastructure built for Stellar, which will require 250 billion rupees (US\$3.5 billion). If a US\$4 billion investment is required in only one company, you can say that a US\$40 billion to US\$50 billion investment will be required in the country in the next three to four years to build the infrastructure just for the consumer sector. Investments over the last few years have been in the range of US\$2 billion to US\$4 billion in total. The country will require more than 10 times that in the next four years, and that's why most investors recognize this is an extremely interesting sector to invest their money in.

The challenge is that not many companies in the country are in this space. So this will lead to some foreign companies coming to India, which will lead to the emergence of new entrepreneurs and people like me setting up big companies. The investments that have come into the country so far have been in companies like mine and also companies in the e-commerce space. In fact, e-commerce has been the sector that has driven the most investments, because two of the largest e-commerce players in the world originated in this country. Those investments are also a necessary part of setting up this new business model, because it has not yet reached a profitable scale and is still going through the growth and stabilization phases. It's a model that will need to be perfected over a period of time. The classic bricks-and-mortar supply chain model used in the consumer space, however, is well established in the country.

The fact remains that there are no companies of scale, so people, entrepreneurs or companies that can think at scale — Stellar being one of them — can actually attract a lot of investments in infrastructure, transportation, technology, automation and talent, which will yield very handsome returns over the next few years. This sector has lagged behind in the

economic growth of India but it is now catching up, and catching up big time. It will see phenomenal growth over the next decade and super phenomenal growth over the next five years.

Companies that make the right investment in the right people, the right talent and the right companies over the next five years are going to reap generous returns.



*Conversion rate of 1 USD = 71 INR has been used