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Is Indian logistics industry on the rise with government-led reforms and initiatives?

The optimism around the logistics industry primarily stems from government-led reforms and initiatives that are aimed at improving infrastructure, reducing bottlenecks, and streamlining logistical operations

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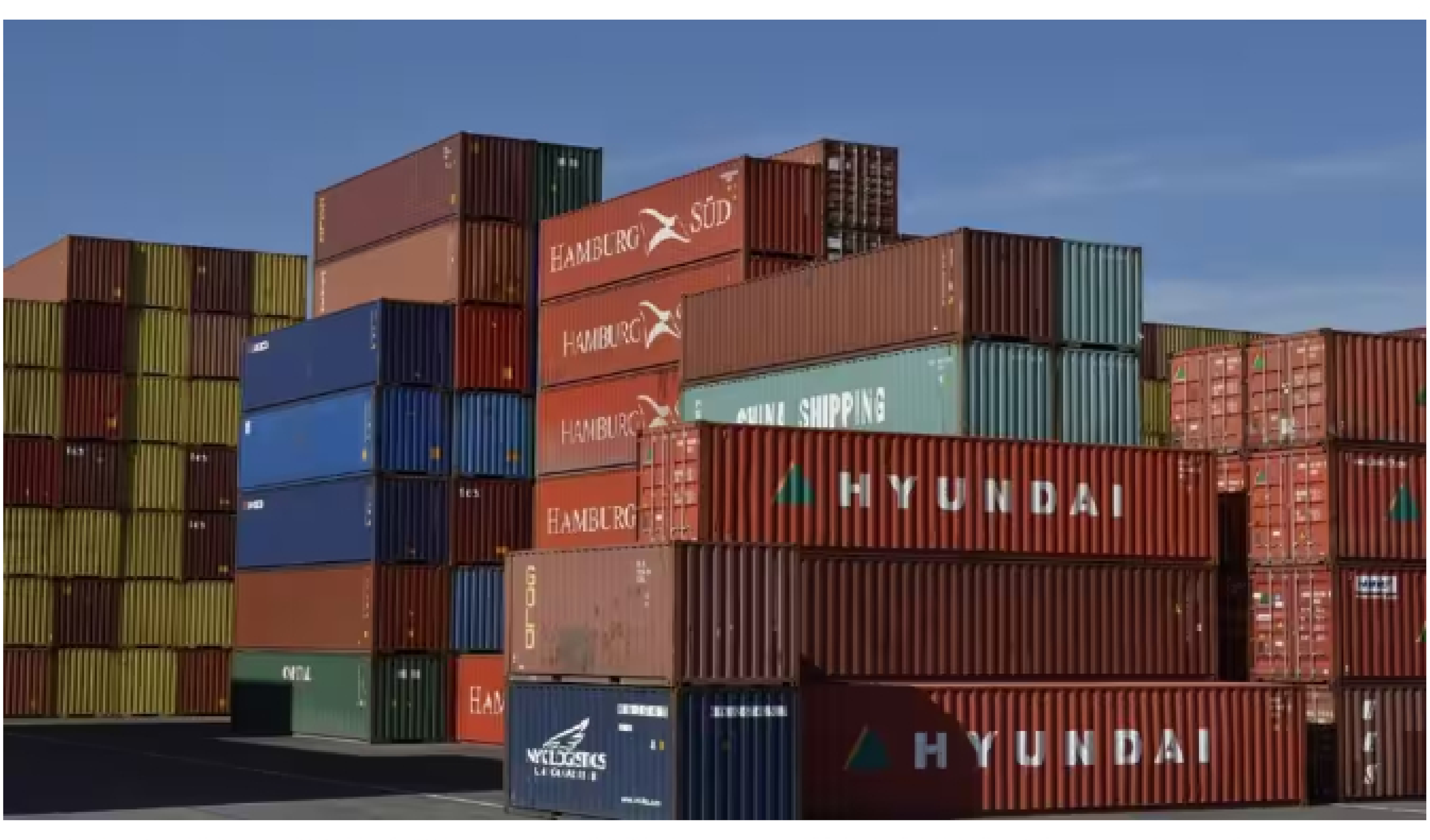

The Indian logistics market in 2022 was estimated to be around USD $274 billion. (Image : Pixbay)

– By Karan Dhillon

Since 2016, the Indian logistics industry has had to deal with a tsunami of regulatory changes – most of which have made life easier for logistics companies and some that have caused panic amongst small transporters and drivers.

The Indian logistics market in 2022 was estimated to be around USD $274 billion. The optimism around the industry primarily stems from government-led reforms and initiatives that are aimed at improving infrastructure, reducing bottlenecks, and streamlining logistical operations. The Indian logistic industry is expected to grow steadily at a rate of 10-12% CAGR, led by a global manufacturing shift due to government initiatives like "Make in India", increased e-commerce penetration, GST/E-way bill implementation, National Integrated Logistic Policy and New Emission norms to name a few. Below we have highlighted a few of these reforms and tried to analyse their impact on the logistics industry.

Increased infrastructure spending: Road transportation makes up for 71% share of the Indian logistics industry. And as logistics via road is more expensive than movement by rail, logistics costs in India are considered high when compared to developed nations such as China and the US. Cost of road transport is much higher (Rs 2.5 per tonne/km compared to Rs 1.35 per tonne/km for rail and Rs 1.1 per tonne/km for water), according to a research report published by KPMG in 2022. India has the second largest road network in the world at 58.98 lakh km. Out of the 58.98 lakh km, around 1.14 lakh km are National Highways (NHs). Interestingly, National Highways (NHs) constitute around only 2% of the total road network in the country while carrying about 40% of India's road traffic. To improve and expand the 2nd largest road network in the world, the government is implementing schemes such as the National Highway Development Programme and the Bharatmala Pariyojana, under which an additional 66,000 kilometres of economic corridors, border and coastal roads, and expressways are being constructed. The Indian government has set aside Rs 7.5 lakh crore capex in the FY23 Union Budget for infrastructure development.

Make in India & the global manufacturing shift: Since the COVID-19 pandemic, global companies are shifting their manufacturing focus to India, leading to more demand for warehousing and logistics services. The Central government has been supporting exports and endorsing Production Linked Incentives (PLI) schemes to Indian and foreign companies to set up and expand manufacturing in India. The "Make in India" initiative was launched in 2014, the very first year of PM Modi's government. This initiative was intended to transform India into a global manufacturing hub. After almost a decade, the "Make in India" initiative is finally taking shape in the form of companies like Foxconn, Wistron, Pegatron and Kia Motors (amongst others) setting up manufacturing facilities across India.

Increased e-commerce penetration: The booming e-commerce sector in India has increased the demand for efficient logistics and last-mile delivery services. This has led to increased investments in warehousing and transportation infrastructure by established firms like Safexpress, TCI Express and VRL Logistics. Increased focus on the consumer, the direct-to-consumer (D2C) model, is further driving traditional retailers to focus on their ecommerce business. In order to simplify customs procedures and eliminate bureaucratic obstacles, various digitization related initiatives have been taken in the last few years. Numerous logistics start-ups have also emerged to address specific challenges in the industry, offering innovative solutions and technology-driven services such as Delhivery, Expressbees and Locus to name a few.

Implementation of GST/E-way bills: The implementation of the Goods and Services Tax (GST) in India on July 1, 2017; had a significant impact on the logistics industry. Not only did it simplify taxation but it also helped in faster freight movement by removal of State check posts. Furthermore, with a "One Nation One Tax" policy; companies could rationalize their warehousing by opting for bigger warehouses instead of maintaining smaller warehouses in every state they conducted business. The newly introduced E-Way bill helped in the elimination of state boundary check posts and physical paperwork which facilitates seamless movement of vehicles across states and hence reduces their overall turnaround time.

National Integrated Logistics Policy: The National Logistics Policy seeks to address challenges facing the transport sector and bring down the logistics cost of businesses from 13-14 % to single digits. The government has introduced the Logistics Efficiency Enhancement Program (LEEP) to improve logistics efficiency and build a network of 35 Multimodal Logistics Parks as part of the Bharatmala Pariyojana. Rail's share in freight transportation in India has been declining over the years. In 2021, Rail accounted for approximately 18% share compared to 71% share for roads. While rail could be a cost-effective and efficient option, companies are still not optimizing its use due to red tape and bureaucracy. However, to encourage companies to use the railways to move freight, the government has also been working on dedicated freight corridors, such as the Eastern and Western Dedicated Freight Corridors. By providing dedicated rail lines for freight movement, we can expect better speed and transparency for goods transported by the Indian railways in the near future. The Sagarmala project has been envisioned to connect ports and dedicated freight corridors in order to improve logistics connectivity via the 14,500 km of potentially navigable waterways of India. If these initiatives are implemented as stated, we can expect India's overall spend on logistics to reduce drastically over the next decade.

New Emission Norms: The implementation of new BS6 EMISSION NORMS has necessitated the use of cleaner fuel and advanced technologies in commercial as well as personal vehicles. This has led to a number of logistics companies to look for alternatives to traditional diesel-powered vehicles. Many new age logistics start-ups like Magenta, Fyn, Lets Transport have opted to power their fleet with EVs to improve operational efficiency and to reduce the carbon footprint of their fleet. However, the newer BSVI vehicles are costlier not only due to the fact that it has a more sophisticated mechanism to dispense CO2; but also because they are equipped with multiple sensors and Iot devices. Equipped with microchips, the newer vehicles also had to increase prices as prices of microchips increased due to supply chain issues during COVID 19. The operational costs to run and maintain BSVI vehicles have increased drastically. For instance, Tata Motors charges anywhere from Rs. 1.2-1.5/km in the Annual Maintenance Charges it offers its clients. This number has increased by at least 25% considering the newer features offered in the newer models.

While government policies and initiatives in India have generally been aimed at improving the logistics industry, there have been some negative consequences and challenges associated with these policies. The new GST structure, though simpler than the older VAT structure, sometimes becomes confusing for smaller businesses with multiple slabs and frequent change in regulation increases complexity and compliance challenges. Privatization of Railways and Infrastructure development which are usually done using the TOT (Toll Operate and Transfer) model has led to toll taxes increasing multifold which has adversely affected small fleet owners and their cost structures. The transportation cost still remains a problem because of various factors such as fluctuating fuel prices, increased vehicle prices and high vehicle maintenance cost. Furthermore, despite RTO check points being removed, the mobile teams of RTO and GST department are using their sweeping power to arbitrarily harass drivers for bribes. It's important to note that the Indian government has been actively addressing many of these challenges through ongoing policy reforms and initiatives. Even though these initiatives and reforms were introduced fairly recently, it is a step in the right direction that will help create an efficient, transparent, and cost-effective ecosystem for businesses and consumers for years to come.