



FEATURE

High Logistics Cost: A Hindrance to India's Growth Story

Extremely high logistics cost, is a unique problem faced by India among the developing economies. India's logistics cost is almost double than that of the developed economies and the highest among other BRICS nations. The current government is pushing for industrial reforms and economic sustainability but can India achieve it with its high logistics cost? Prasun Choudhury tries to fathom out the reason for India's high logistics cost and its solution with the help of experts

FEATURE

A year has passed since the NDA government had sworn in, the industry sentiments are on an all time high and 'Growth' is the word in vogue. The government has made all the right noises and the mood in the industry is upbeat. 'Make in India' initiative to give a booster shot to the manufacturing industry is appearing promising. Amidst all the fanfare one thing every one forgot was the fact that the basic link for every industry in India is one of the costliest in the world. Yes, you guessed it right; the logistics movement in India is one of the costliest as compared to the other BRICS nations and most of the western countries. India's logistic cost as a percentage of the GDP is unusually high/double as compared to that of developed countries and substantially higher than other BRICS nations. India's overdependence on road freight means that logistic cost as a percentage of the GDP is as high as 13 per cent-14 per cent compared to 7 per cent -8 per cent in developed countries and 9 per cent-10 per cent in other BRICS countries, said a report by the Indian Foundation of Transport Research and Training (IFTRT). The unprecedented growth in India's manufacturing, retail and infrastructure sectors over the last few years have brought in big transformation in the functioning of the logistics and supply chain sectors in the country. While the logistics sector has indeed taken the challenges head



on and there has been marked improvement in service delivery in the last few years, one aspect that continued to be a reason for the country to worry is the increasing logistics cost. In spite of all attempts, logistics cost in India is above global average.

Speaking about the factors which attribute to the high logistics cost in India Deepak Baid, Director, Siddhi Vinayak Logistic Limited said, "Over dependence on the roadways is one of the major factors for

higher logistic cost in India as compared to other nations. If you see the current scenario, the railways makes ₹1600 crore through direct bookings and another ₹4000 crore through freight forwarders, the comparable figure in road transport is staggeringly high. Total cargo movement by road amounts of ₹400,000 crore annually of which the parcel transportation alone works out to ₹140,000 crore. Truck freight also dominates high value items like auto components, motor vehicles, pharmaceutical products, hardware, tiles, marbles, sanitary items, furniture, fixtures, steel moulded products, electrical goods, cycle parts, stationary and general merchandise."

Blaming the high fuel cost and poor infrastructure for India's plight, Sunil Kohli, Managing Director, Rahat Cargo Private Limited said, "High fuel cost, poor infrastructure facilities, delay in clearances and high operating costs are the major factors for a higher logistics cost in India. The current overall logistics market is largely affected by rising freight costs due to volatile fuel prices, lack of skilled manpower and infrastructural bottlenecks. However, a surge of government initiatives in the assorted fields are likely to yield the desired productive results."

Ruing the lack of entry barriers and regulation in the industry, Amit Sarin,



CEO, M J Logistics Services Limited opined, "Highly unorganised market, no cartel of 3PL industry, poor infrastructure, individual truck owners, varied taxes and regulations across states, delay in implementation of GST and road projects like KMP etc are few reasons for high logistic cost in India.

Whether it is food we eat in restaurant or in our home or the apparels we wear, logistics has a major role to play. Effective, efficient and predictable movements of goods are important and contribute to the economic growth. Supply chains include all the activities, linkages, information exchanges and relationships formed by all those who choose to work together in these chains; some chains being very complex.

In India, there are diversities in consumption and supply pattern on regional levels, like west and north are consumption centers, north has great purchasing power, southern India is moderate on purchasing power and east is forgotten. This diversity also causes high logistics cost. If there is inclusive growth in India like western countries, even our logistic cost will come down."

Blaming the lack of quality roads Bharat Thakkar, Co-founder and JMD, Zeus Air Services Pvt Ltd said, "As per Asian Development Bank/Manila's report Asian economies lose two to five per cent of GDP because of lost time resulting in higher transport cost and TCI IIM Kolkata study said India loses approx \$ 97 billion due to road congestion, resulting in slow traffic due to congestion and waiting at toll. 60 to 70 per cent of all logistics movement is done by road and this leads to increase in logistics cost."

Lower Logistics Costs to 'Make in India' Fructify

The success of Prime Minister Modi's dream project is also dependent on marginalisation of the logistics cost. 'Make in India' embodies the manufacturing led, trade-export-growth model that has to be understood in the context of global production systems. Today, manufacturing is dispersed throughout the globe with intermediate goods shipped numerous times in and out of multiple countries prior to being assembled together. A container takes nearly four weeks to reach Delhi after



Amit Sarin
CEO, M J Logistics Services Limited

DFC and other industrial corridors and road projects, recognition of 3PL industry, fast tracking GST etc will help in marginalising logistics cost.

being unloaded at Jawaharlal Nehru Port, near Mumbai. There is a huge backlog, the boxes landed are despatched after 25 days. A manufacturer located in the north has to wait for about a month to receive imported inputs or has to manage his inventory accordingly. Naturally, this adds to his cost in addition to the uncertainty



of supplies and attendant risks. The situation at JN Port, the country's largest container port handling more than 55 per cent of the national traffic, only reflects the state of affairs in the port sector. The port management, the rail operator and the warehouse keeper all claim that the delay is 'beyond their control.

Baid stressed, "It can succeed only if logistics is put in order. If we want to produce for the market, we need to have a way to distribute it in an affordable manner. To export, there should be adequate capacity and deep draughts at ports to ensure faster turnaround of vessels. The vessel turnaround time at ports should be in line with global practice. It can't be four days, but a day-and-a-half maximum." Complying with Baid, Sarin said, "DFC and other industrial corridors and road projects, recognition of 3PL industry, fast tracking GST etc will help in marginalising logistics cost. GST implementation will help in easing the complexity of goods movement within country. With 'Make in India', initiative expected to propel manufacturing sector in overdrive, economies of scale will definitely help in reducing logistic cost. Without low logistics cost, how can we



compete worldwide? Of course there is a need by regulators to declare logistic industry as recognised and thrust should be given for better infrastructure. India's growth story should not be curtailed because of inadequate infrastructure to support lower logistics cost. There should be relief and exemption for those who build warehouses, own fleets by way of lower taxes and interest rates at least to begin with."

Stressing on the fact that India needs a well-developed and well-maintained infrastructure for the success of the 'Make in India' campaign Kohli said, "To achieve optimal positive results out of the "Make in India" campaign launched by our Prime Minister, it is vital to have a well-developed and well-maintained infrastructure, particularly, roads and highways towards providing an efficient inbound and outbound logistics for a manufacturing firm to ensure efficient movement of raw materials and finished goods across the country, as roads carry 65 per cent of its freight in the country."

GST: The Saviour?

There is a perception that with the passing of the GST bill, logistics cost in India



Deepak Baid.

Director, Siddhi Vinayak Logistic Limited



Over dependence on the roadways is one of the major factors for higher logistic cost in India as compared to other nations.



will be lowered significantly. We cannot for sure state this as a matter of fact but we tried to get the opinion of experts. Speaking on GST, Sarin affirmed that it will definitely lower the logistics cost, and said, "Yes, consolidation of warehouses and uniform tax regime will bring logistic cost down. We are all looking forward for the implementation of GST for the past many years. In India logistics cost is 13-14 per cent of the GDP. Significant part of the logistic cost is because of inventory holding and wastage. With the implementation of GST, we hope that multiple level of taxation procedure will come down and will reduce the cost of inventory by a decent percentage because unlike the present conditions, customers do not have to stock so much of inventory in multiple warehouses across the country, almost in all states. Warehouses will definitely get consolidated into 4-5 to 8-12 against present 30-35 across the country if you take example of any company whose market share is significant. That will definitely bring down logistic cost from 13-14 per cent to the bracket of 8-10-12 per cent of GDP. At present a company needs to pay taxes at multiple points. With advent of

Railways makes ₹1600 crore through direct bookings and another ₹4000 crore through freight forwarders, the comparable figure in road transport is staggeringly high. Total cargo movement by road amounts of ₹400,000 crore annually of which the parcel transportation alone works out to ₹140,000 crore.



FEATURE

GST, a lot of time will be saved on checking at border crossings, the local taxes and checks like octroi, entry tax, various checkpoints other agencies etc. These delay the movement of goods and also add to administrative costs. Therefore, if there is a will, desire and ability to implement GST, even with some initial years of teething issues, in the long run, India can emerge as major economic power to reckon with."

Baid was very positive about the fact that implementation of GST will result in a sharp decline in the logistics cost, he said, "The tax will lead to sharp reduction in the number of corporate warehouses. Logistics costs will shrink to 10 per cent of GDP from 14 per cent at present, because of GST. Half of the logistic cost is because of inventory and wastage. Warehouses will get consolidated into 4-5 against 20-25 across the country. That is going to bring down logistic cost from 14 per cent to 10 per cent of GDP. It will also reduce the time it takes for us to move a parcel from point A to point B because of the multiple check posts on the way and the multiple checking being done because of indirect taxes that each of the states levy on movement and delivery of goods. So, the cost is going to come down, the time will decrease and



Bharat Thakkar

Co-founder and JMD, Zeus Air Services Pvt Ltd

GOI within a time frame cannot make things happen, PPP is the answer, be it highway, rail or development of coastal shipping

inventory cost in the country is also going to come down." Kohli opined, "Introduction of GST will not only create a unified market across the country but would also make the manufacturing competitive cutting high logistics and warehousing costs. GST is also expected to considerably cut the cost of production. It will further result in more efficient cross-state transportation, streamlining paperwork for road transporters and further bringing down the financial outgo against logistics cost."

Look Beyond Road Transportation

Almost 60 to 70 per cent of India's cargo moves via road leading to congestion and increase in transportation time and costs. India should improve the existing infrastructure if it wants to lower its logistics cost. Sharing the same sentiment Baid said, "The only way to change is if government provides encouragement by developing seaways and rail transport. If we consider the figures, still there is 25 per cent hike in rail parcel freight which will net the railways additional revenue of ₹370 crore, it's still miniscule compared to the total freight earnings of road transport."

Stressing on the fact that sustainable modernisation of all means of transportation is the way forward, Sarin said, "When we are looking forward for sustainable economic growth in coming decades, developments in transport sector is crucial. Rail, road, air, pipe lines, waterways are the main modes of transportation of goods. Each has its merit and reasons to use. Yes, in our country, there is a lot of dependence on road transport which needs to be looked into. Modernised railway set up and more use of waterways is essential. All this will come in due course once we start getting visibility of feel good factor. Law of economic says, demands are unlimited but resources are limited. We tend to forget that if there is scarcity of funds, how come modernisation of other modes of transport and strengthening the present set up will happen? Time has come where we need to look beyond today. Funds need to be apportioned to ensure that the share of rail transport and other mode of transport in freight traffic increases." Complying

