



Venture Speculation: A way out for the future

Imagine if someday you go to a market and find that there are no vegetables available? The reason: Unavailability of warehouses to store farmers' produce. This scenario could actually be harmful for both customers as well as producers of the goods. So, an effective warehouse is of primeval importance. Warehouses are scarce in India and there is a need for significant investments in this segment. If this situation is not repaired any sooner, the day is not far when every household would be forced to grow its own food.

■ PRATEEK SUR

INVESTMENTS in Indian warehouses have become a priority for any logistics player. Investments are required in the warehousing sector in India to offer organised capital to attain a top-notch infrastructure platform and to prop up superior sophistication in services. Credit Rating Information Services of India Ltd (CRISIL) Research projects investments amounting to \$170–190 billion in warehouses by 2013–14 in India. This amount would be invested not only in the existing warehouses but also in the building of new warehouses. A noteworthy share of investments in warehousing is envisioned in the Free Trade Warehousing Zones (FTWZs) and logistics parks. Emphasis is being laid on building numerous logistics parks spread across the nation. The development will be motivated by organised warehousing, changing tax structure and potential savings in carrying costs.

PERFORMANCE INDICATOR

The warehousing segment's performance meter takes into account its intensification and escalation prospects and returns. This considers the probable investment in warehousing, given the investment strength, development phase and venture cycle. These, if well predicted, will give the exact amount of venture capital that needs to be spent in this sector. The segment has witnessed

a Compound Annual Growth Rate (CAGR) of 10–12% in the past few years. Moving ahead, it is anticipated to post a CAGR of 8–10% in the years to come. Along with this, revenue and net profits of key players are additionally projected to rise over the medium term due to superior intensification in Fast Moving Consumer Goods (FMCG) sectors and projected implementation of the Goods and Services Tax (GST).

The principal cost to build a warehouse unit of 0.15 mn sqft is \$140–150 million (including land cost). The whole cost will, however, differ depending upon accurate location, immediacy to the port/industrial hub, road/rail infrastructure, etc. CRISIL Research estimates the capital cost of a typical warehousing player, with a pan-India presence, to be in the range of \$700–750 million.

FUNDING SOURCE

The last few years have seen substantial increase in investments through the Public Equity (PE) and Mergers & Acquisitions (M&A) deals in logistics, ports, warehouses and Container Freight Stations (CFS) in India. FTWZs, freight stations and cold chains are gradually being seen as striking targets in the present day. Asset-heavy investments in the Indian logistics sector have mostly been pragmatic to be PE investments and asset-light have frequently been tactical M&As.

The warehousing segment's exceedingly patchy nature is said to draw PE funds, which have played an imperative role in industry consolidation by focusing on amassing smaller players and building scale through acquisitions. Discussing the strategies to increase warehouse efficiencies, Atul Agarwal, CEO & Co-Founder, www.teesort.com, says, "Our kind of business does not need distributed offices and hence, we operate out of our single office based out of New Delhi. We will, however, have distributed warehousing to further reduce delivery times." Such distributed offices help logistics players plan their start-to-finish product line in a smoother and more sophisticated way. Such distributed offices require better M&As and PE funding from the investors.

PRESENT SCENARIO

Logistics parks and FTWZs are still in a nascent stage in India. Investors in these sectors will have to bring in the suitable *savoir faire* from more mature markets. Moving ahead, investors in the warehousing segment and cold chains in India will have to aid players in reshuffling operations, building business plans, increasing technical proficiency and obtaining skilled manpower, to become more viable.

International logistics companies have come to the Indian market; most international port operators are operating terminals across the Indian coastline and PE investors have made investments across infrastructure and services categories. The logistics sector, on an expansion drive, suggests strong and free cash flow coupled with low capital expenditure for possible investors. Moving forward in this direction, YES Bank and National Collateral Management Services Ltd (NCMSL) have united to provide security management and warehousing services.

ESCALATING THE MAGNETISM FOR POTENTIAL INVESTORS

Some PE funds are still wary of investing in warehousing because of the small size of companies, which result in lower investment ticket sizes. Concerns linger over the stamina of the economic recovery in many developed markets. The complex ownership organisations of warehousing companies in India and weak commercial governance principles also act as hinderances for latent investors looking for investments in the Indian warehousing sector. Elaborating on the global preparedness of the Indian warehouses for disasters, Asim Behera, GM, Swisslog-India, discusses, "Even globally, warehouses are typically not designed to be disaster proof unless you are storing radioactive materials, or ammunitions. But the warehouse design is very region specific. In Europe, many warehouses are 20+ metre high—a 1,000,000 sqft warehouse is not uncommon in the US; in the last decade, in China, we witnessed significant demands for automated warehouses. When you compare India, we have a long way to go before we truly understand what a warehouse is; we are still in the godown mode."

"Necessity is the mother of invention; soon, sufficient environmental factors such as multi-brand Foreign Direct Investment (FDI) and hopefully, GST

will force us to relook at how we do business today and make planning and foresight a habit rather than an option. I sincerely believe automation in warehousing will leapfrog us to global standards," Behera adds.

PRIME LOOKOUT

The key to more investments in this sector is, thus, to let loose the remarkable scope for development in Indian warehousing. Most of this will be driven by infrastructure upgrades. As investments into India's infrastructure sector gain pace, investors will also look to put more money into warehousing and freight transport.

Investments in agri-warehousing are perilously lacking in India. The knowledge and input from the fund management team will help additional expansion of the investee company's agri-warehousing and collateral management actions. The investment will help intensify the commodities market in India while also facilitating the liquidity of warehouse receipts and spiraling price risk management abilities of diverse stakeholders across the value chain, right from farmers to processors.

Healthier capital markets, which carry on to recuperate from their post-leverage bubble hangover, enhanced credit market conditions and a superior environment for financial investors indicate that many large strategic investors will be in better position to engage in new deals in 2013–14. The focus on liquidity and de-leveraging throughout the recession has resulted in better balance sheets with lessened debt ratios and considerable increases in middling cash positions. Thus, by focusing on these improvement prospects, Indian warehousing players can be better positioned to draw the right investors that can further help them in maximising their competitiveness. ■

What Indian Warehousing Players Need To Concentrate On

- Acquiring clarity on the vision and growth strategy of the acquirer
- Standardising and streamlining processes within the warehouses
- Ensuring appropriate tax planning
- Enhancing the use of appropriate technology
- Entering new and untapped target customer segments
- Building synergistic products and services for integrated solutions across the value chain
- Innovating operating models
- Offering value-added services
- Providing shorter lead times & differentiated services and products

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