THE ECONOMIC TIMES | Rise
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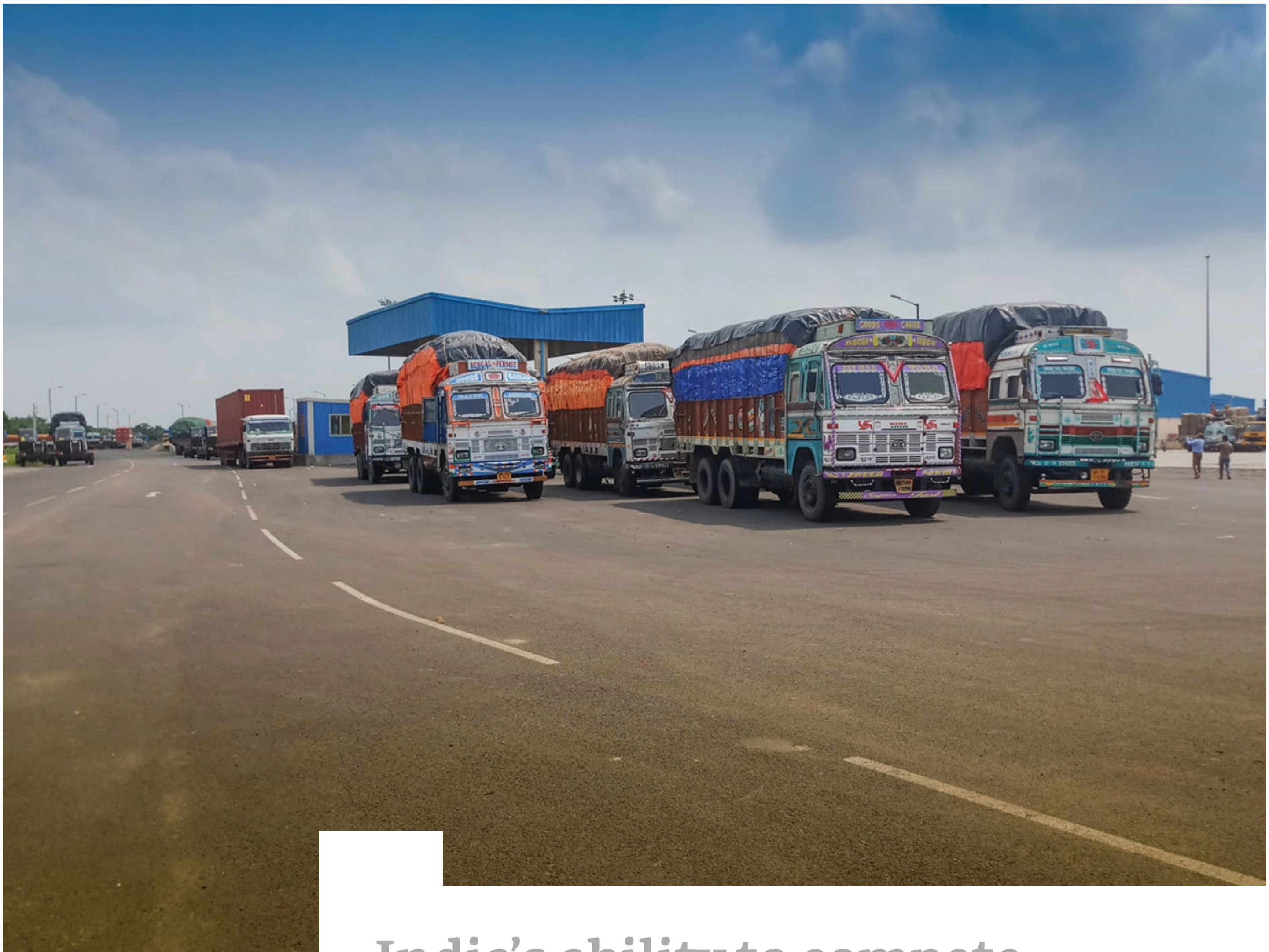
English Edition | 08 April, 2021, 10:53 AM IST | E-Paper



India’s ability to compete globally has a $180 billion hole

Synopsis

The wheels are moving slowly and inefficiently for a country that aspires to have a strong industrial base.

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ET Online
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A robust **logistics** network remains at the heart of any economy, and India’s growing **economy** is no exception.

For a country as big as India, the utility of having an efficient logistics system cannot be stressed enough. Being home to over 1.3 people spread across its vast turf

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means it needs an efficient supply chain for ensuring goods are transported efficiently from manufacturing units to consumers. This also holds true for exports.

While it’s impossible to achieve robust economic growth without a vibrant and competitive **logistics sector**, India is consistently losing ground. The nation’s ‘lifeline’ sector worth $215 billion has lately been growing at a **CAGR** of 10.5%. But, is this growth meaningful?

An overwhelming majority of experts believe that there isn’t much solace to be drawn from the aforementioned numbers. The country’s logistics sector is structurally placed on a weak footing, with several issues throttling its growth. Further, there appear to be no short-term fixes available.

The gravity of the issue can be gauged by the fact that the logistics cost in the country hovers around 14-16% of its **GDP** compared to the global average of approximately 8%. As per a report by **Arthur D. Little** and CII, higher logistics cost is the reason for the competitiveness gap of $180 billion for India, and the gap is likely to go up to $500 billion by 2030.

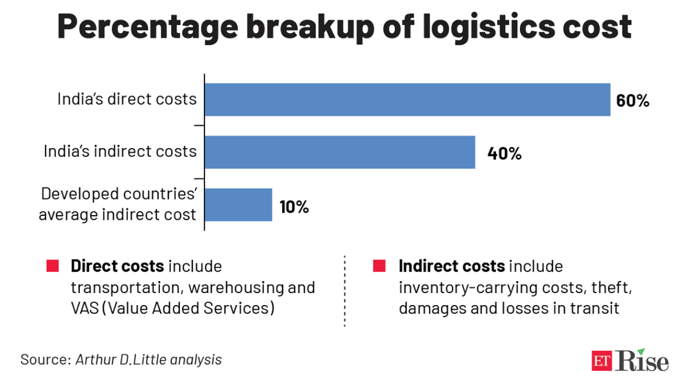
Having a logistics cost that’s 6-7% more than what it should be, alternatively means Indian manufacturers at one level and probably the consumer on the other end, are roughly paying around $180 billion for logistics than they should, say experts.

So, what are those inefficacies that are jacking up India’ logistics cost?

Among the structural issues plaguing the sector, experts flag the unbalanced logistics modal mix as the main pain point costing India dearly.

Barnik Chitran Maitra, Managing Partner of the consultancy firm Arthur D. Little, says India’s transportation cost as a percentage of GDP is around 6-6.5% of GDP whereas for developed economies such as the US it’s close to 4.5-5%. “The primary reason for this is we extensively use roads, which, by far, is the most expensive way to transport goods. In India, if you look at the cost per tonne/km - roads is around Rs 2.6, railways at Rs 1.4 and waterways around Rs 1.1. Also, the anomaly in the country’s modal mix is that 64-65% of our goods are going through roads, 30% through railways and only a meager 6% through waterways,” explains Maitra.

Another issue that Mitra highlights relates to the lead time for the delivery of goods. In India, the lead distance for manufactured goods from the point of manufacturing to the consumers is roughly around 650-700 km, which compared to the US is nearly 1.5 times, says Mitra. The reason this is happening is because India typically has a 5-step supply chain with several intermediate stocking points. As a result, a lot of routing is not optimised. According to Mitra, this issue is most rampant in the warehousing segment. Citing the example of how an item moving from Manesar to Coimbatore typically has to go through 4-5 warehouses before reaching the end customer.



"Goods are certainly travelling more distance than they need to. In India, we spend 4% on warehousing, whereas the US and China spend around 1% on warehousing. Across India, there is far more warehousing capacity than needed if you were to run a lean supply chain, but this complicated multilayered supply chain is resulting in inefficacies across the supply chain," Mitra adds.

Similarly, on the indirect or hidden costs-inventory carrying costs, he says India has too many transits, too many handovers, far more shrinkage and thefts. Further, at every single handover, we have a person doing paperwork, meaning the order processing and the admin tasks which should ideally happen once, is happening 5-6 times, he emphasises.

Beyond structural niggles

At a time, when India talks about becoming a major industrial hotspot of the world, it needs to first curb the misuse of its existing laws and regulations, say industry representatives. For instance, the country's taxation framework is also not being much helpful for the logistics industry. The government came up with **GST** for easing compliances, creating a single, unified market to supposedly ease goods movement across states. But, a majority of logistics players appear to be annoyed over its misuse by law-enforcing personnel/ authorities in different states.

“Today, extortion and harassment on the road in the pretext of checking goods are the single biggest cause of stress for transporters. The GST came with a premise of ensuring seamless movement of goods across states' borders. Ideally, after its implementation, all border check posts should have been done away with, but is it really so?” questions Naveen Kumar Gupta, secretary-general of All India Motor Transport Congress (AIMTC), an umbrella body of transporters in India.

Citing the examples of MP, Rajasthan, Bihar, Chhattisgarh, Gupta mentions transporters are regularly harassed at various border check posts. In states where there are no border check posts, ‘flying squads’ stationed at different places do the same, he reveals.

“The government says some transporters use the e-way bill twice or thrice, leading to tax evasions. We believe there are ways to tackle tax evasions using technology. E-invoices that are issued against e-way bills can be tracked. FastTag and e-invoices should be linked. If that happens, GST officials won't be required to keep a vigil on the road. Today, despite FastTags, vehicles are stopped,” Gupta says.

He further flags rampant abuse in the manner in which e-challans are being issued. Challans are being issued arbitrarily against stranded, non-operating vehicles. Compounding transporters' woes, most times, each challan is to be contested in a different court in a different state. This is particularly troublesome for Small Fleet Operators (SFOs).

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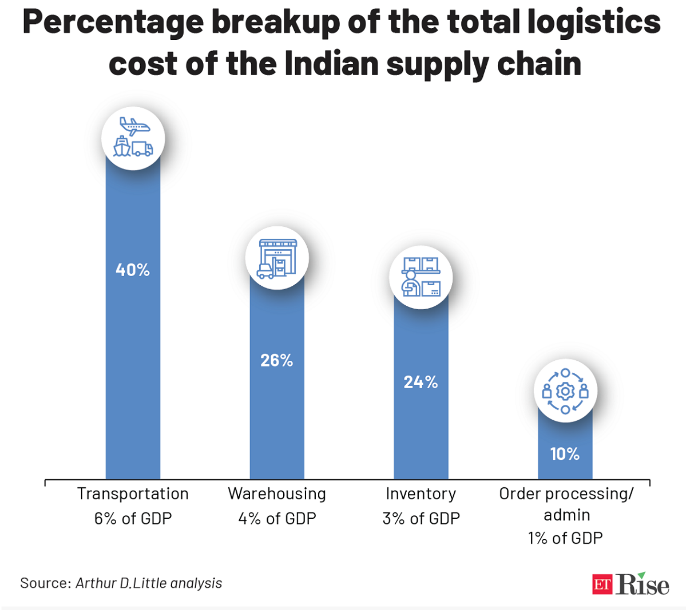

"When the government says it aims to bring down the logistics cost from 14% to 8%, it should first try addressing these literal roadblocks on the roads," remarks AIMTC's official.

The possible solution, Anjani Mandal, CEO of **Fortigo Logistics**, can be to treat electronic invoicing with electronic attachments when digitally signed, equal to physical submissions by law enforcers/auditors.

Mandal also flags that penalties on the transporter for GST are too burdensome. "On average, these penalties translate to 150-250 times the profit earned by undertaking the journey. It means that the transporter is out of business with one wrong e-waybill, which is extremely harsh," says Mandal.

SFOs, the most vulnerable

Industry observers are of the view that the SFOs, those having less than five trucks, remain the most vulnerable to external factors in the entire logistics chain. The rating agency Crisil says SFOs comprise about 67% of the road transport operators in India. However, compared to Large Fleet Operators (LFOs), this chunk has been the weakest link in the ecosystem. It's pertinent to note this segment's pain points only got aggravated with the introduction of GST in the country.

Arun Singh, Global Chief Economist at **Dun and Bradstreet India**, maintains that small logistic players are also finding it difficult to invest in technologies such as cloud computing, automation, and data analytics. Consequently, companies with digital capabilities that allow them to provide cargo traceability will be at an advantage going forward, Singh says.

Need for an overhaul

Beyond transport operators, Anshuman Singh, Chairman and Managing Director, Stellar Value Chain says excellence in the entire logistics sector is still a work-in-progress. Operators are only looking at lowering transaction costs, while missing overall costs of ownership, including inventory carrying costs across the supply chain.

Only 30% of logistics moves through railways in India.

Singh says, for example, dependence on low-grade non-compliant service providers continues in the sector. While this model may keep the warehousing cost low, it has increased the overall supply chain cost. "Non-compliance systems have worked in categories which have a low number of Stock keeping units (SKUs). It fails completely in high throughput, a high number of SKUs requiring complicated supply chain processes, the immediate example being e-commerce," he adds.

According to Deepal Shah, CFO of **Allcargo Logistics Ltd**, the growing competitiveness gap is currently the key issue for the logistics industry. Shah further emphasises the government should fast-track dedicated freight corridors and warehouse-related approval processes as those will be key in streamlining logistics transport.

Globally, fueled by the pandemic, there has lately been a marked increase in the adoption of disruptive technologies to automate processes. Pushkar Singh,

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CEO & Co-founder of LetsTransport opines that formulating a digitalized window of all logistics processes and redressal will be a boon to the multilevel processes involved. Singh also asserts that the much anticipated National Logistics Policy (NLP) should be brought to the focus. The NLP policy has been in the works for quite some time now. Given the rough tides, the sector is sailing against; it surely needs the NLP's helping hand sooner than later.

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