



# MEET INDIA'S LARGEST WAREHOUSING LANDLORD

A huge land bank and an ability to raise capital has helped IndoSpace stay ahead of the pack



(Left) IndoSpace's grade-A warehouse at Oragadam in Chennai. (Right) The company's warehousing facility at Chakan, Pune.

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NEW DELHI

Just outside Delhi, in Pataudi tehsil, lies Luhari. Pataudi was an erstwhile princely state ruled by the nawabs and among the scions of the ruling family was cricketer Mansoor Ali Khan. Now, his actor son Saif Ali Khan is the nawab. Nonetheless, there is little nawabi elegance in the dust bowl that is Luhari. On a sunny afternoon, it is teaming with trucks and hordes of local men hurrying towards large buildings, which are home to some of India's largest warehouses.

The Adani Logistics Park (which has a dedicated railway line for sending automobiles straight to the Mundra Port), Safe-Express, DB Schenker, TVS Supply Chain Logistics, and Chetak Logistics have their warehouses in the region. So does IndoSpace, currently India's largest warehousing developer—its grade 'A' facility here is spread across 38 acres and is leased to logistics company Delhivery, Mi Phones, and Adidas.

Indian warehouses, even a few years back, were mostly godowns—small, cemented buildings with poor lighting or ventilation. With the introduction of the goods and services tax (GST) in 2017, the sector changed dramatically. From small, regional warehouses, set up for tax efficiency, developers started building larger warehouses in hubs that mattered. For instance, Luhari has easy access to the big consumption markets of Delhi and Gurugram. Its proximity to NH-48, or the Delhi-Mumbai highway, gives it additional connectivity to the western part of the country.

Grade 'A' are the most advanced—they are bigger and taller; have superior construction quality; efficient material handling space; safety and security systems.

IndoSpace, a joint venture between private equity firm Everstone Group, Singapore-based logistics and real estate investment firm GLP, and industrial real estate company Realterm, has 50 such grade 'A' parks in India. They are spread across 57 million sq ft in 10 cities.

While the GST put the warehousing sector on steroids, IndoSpace has been at it for over 15 years now. When the company entered the market in 2007, it was one of the first organized warehousing developers. Over the next decade, it played a pivotal role in shaping the sector. India's warehousing stock of grade A and B facilities has grown to 330 million sq ft today, from 140 million sq ft in 2017, according to estimates by JLL, a property advisory.

"Warehousing development was much tougher when IndoSpace had started.

There was hardly any precedent in India," said Chandranath Dey, India head of operations, business development, industrial consulting and integrated logistics at JLL. "The first-mover advantage apart, what differentiated them was that they never compromised on quality even when the market wanted to be at a lesser rental. They picked the right locations and created demand centres," he added.

"Turns out, there were a few other things that the company got right as it progressed towards building India's largest footprint of warehouses.

"We got the partnership right. There was a lot of exchange on how to build grade A warehouses, the way it was done in the US, for instance. That made the learning curve faster. We tapped the right capital. We also had a clear focus from the start. We wanted a pan-India strategy and a multi-city footprint," said Rajesh Jaggi, vice chairman (real estate) at Everstone Group.

The US added 333.8 million sq ft of new warehousing space in 2022 alone—that's higher than India's overall warehousing stock as of now.

## LAND IS EVERYTHING

Everything in real estate starts with land. Getting the approvals and acquiring land are the biggest challenges for developers. And many warehousing developers, today, don't have large land banks.

As competition in the warehousing space heats up—IndoSpace faces stiff rivalry from the likes of ESR India, the Blackstone Group (which has launched a \$900 million warehousing platform Horizon Industrial Parks), and mid-sized players like Welspun One—its expertise around land acquisition is seen as a key differentiator.

When IndoSpace built its first warehousing facility, of about 1.7 million sq ft, in Chakan near Pune, it took its time. The company onboarded a local partner to do the ground work and research before it finalized the land.

"When we are buying land, we have a robust process of assessing risk. It is not theoretical and we have learnt the hard way, from our mistakes. We can do it because of our early experience. Also, because we execute fast and have delivered so much, customers think of us first; so do landowners when they want to sell," Jaggi said.

"After constructing 5 million sq ft annually in the last two years, this year, we are increasing throughput to 8 million sq ft. We have the land bank to construct 25 million sq ft. No one has that kind of land," Jaggi stressed.

During the covid-19 pandemic, the company bought 300-400 acres and what it leased out was greater than pre-covid times. The company leases out the warehouses

it develops to third-party logistics, e-commerce, auto, engineering, electronics and retail firms. Amazon India and Reliance Retail are two of its biggest clients.

"During and after the covid pandemic, we saw rampant demand in warehousing as well as industrial sectors. Warehousing demand increased because of increased online and e-commerce play. The National Logistics Policy and Gati Shakti initiatives have given a huge boost to the warehousing sector," Jaggi said.

The PM Gati Shakti National Master Plan, launched over a year ago, is frequently touted as India's biggest administrative reform tool. It is like the Google Maps of infrastructure planning and offers a dashboard with a bird's eye view of bridges, roads, tunnels, pipelines, power transmission cables, forests, water bodies, and airports in any region of the country. The planning tool can cut delays in important projects.

## SHOW THE MONEY

Two other factors helped IndoSpace stay ahead of competition, said analysts. First is the company's ability to consistently raise capital to scale up. Second, the ability to expand while meeting its construction and delivery targets every year.

IndoSpace has invested close to \$3 billion, a mix of equity and debt, in assets under management across its investment vehicles.

IndoSpace is also a fund manager; it manages three funds. The first, IndoSpace Logistics Parks I (ILP I), raised \$240 million and was launched in 2007. Subsequently, it raised ILP II (\$340 million) and ILP III (\$580 million). The company is currently raising ILP IV with a target fund size of \$600 million. Canada's biggest pension fund, CPPIB, has invested \$205 million in the new fund this year.

All this capital gives IndoSpace enough firepower to ramp up further.

Nonetheless, IndoSpace is not the only company investing big dollars. India's logistics sector, overall, has seen a sharp increase in private equity investments. In 2022, warehousing investments totalled \$1.9 billion, up from \$1.3 billion in 2021, Knight Frank India, another real estate advisory firm, stated.

## SMALL IS BIG

The large consumption centres form the bulk of India's grade A and B warehousing footprint today. And over half of India's warehousing capacity is concentrated in the top eight cities—Delhi-NCR, Mumbai, Bengaluru, Chennai, Kolkata, Pune, Ahmedabad and Hyderabad.

A new narrative is that of smaller cities. Data from Knight Frank shows that the secondary markets, or those that are outside the main metros, have recorded good volume growth.

Balbir Singh Khalsa, executive director (industrial & logistics) of Knight Frank India stated that while 51.8 million sq ft of warehousing space was leased in 2021-22 in the eight primary markets, through

## mint SHORT STORY

### WHAT

IndoSpace is India's largest warehousing developer. It has 50 grade 'A' parks, spread across 57 million sq. ft. The warehouses are leased to third-party logistics, e-commerce, auto, and other industrial firms.

### HOW

Many developers, today, don't have large land banks. But land is IndoSpace's advantage—it has the land bank to construct an additional 25 million sq ft of warehousing space.

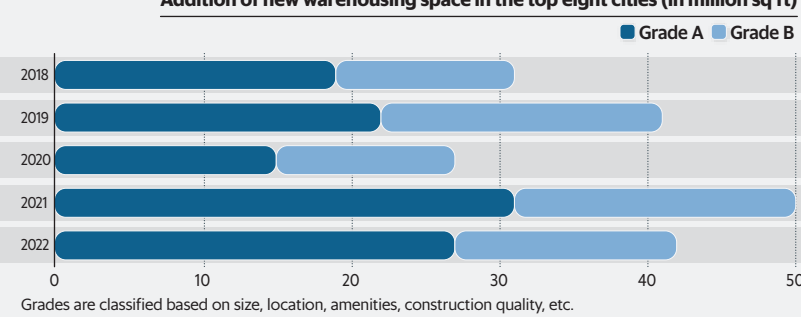
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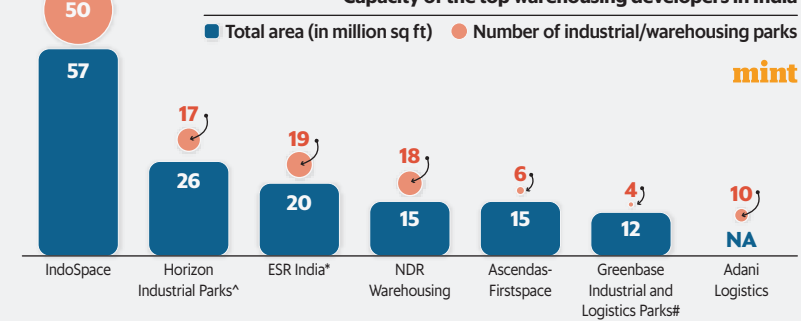
## BOOM TIME

India has more than doubled its stock of grade A and B warehouses in the last five years to 330 million sq ft.

Addition of new warehousing space in the top eight cities (in million sq ft)



Capacity of the top warehousing developers in India



SATISH KUMAR/MINT

grade A and B warehousing, another 15 million sq ft was leased across India's 13-15 secondary markets.

Tier II cities such as Coimbatore, Rajpura, Anantapur, Indore, Kochi, Ludhiana, Nagpur, Siliguri and Vadodara are emerging as the new centres for warehousing demand.

Industry experts point out that IndoSpace has latched onto this trend early. JLL's Dey, for instance, said that the company has the maximum warehousing footprint beyond the metros. "IndoSpace did a lot of innovative thinking to expand to tier II cities. Whether it's Sri City in Andhra Pradesh or Coimbatore, they chose the locations after research and preempted where future demand would come from," Dey said.

IndoSpace zeroed in on Coimbatore, the second largest city in Tamil Nadu, in 2017. Coimbatore had a well-developed road network which provided easy access to large nearby consumption markets of Bengaluru and Chennai as well as access to the Kochi port. The city already had multiple thriving businesses—from heavy pump manufacturing to textiles. It decided on a 24-acre warehouse here.

Over the next few years, IndoSpace expanded to locations in Anantapur (in Andhra Pradesh) and Rajpura (Punjab).

Jaggi said that IndoSpace, and all other large warehouse developers, have historically focused on tier I because they are deeper markets and offer continuous growth. But due to covid-19 and the conse-

quent change in shopping trends, demand is being generated from outside the metros. "We closely follow trends in e-commerce and consumer preferences. Currently, we are studying tier II and tier III demand. In tier III, smaller cities in Uttar Pradesh, Himachal, Jammu & Kashmir are on our radar," he said.

One challenge for warehousing developers is raw material cost. The post-covid inflation in raw material prices has made construction of warehousing facilities costly.

Another challenge for the company is raw material costs. The post-covid increase in raw material costs has made construction of warehousing facilities costly, leading to IndoSpace re-evaluating and re-engineering its buildings.

Third, e-commerce demand appears to be tapering off in the last six to eight months. The demand had peaked during the pandemic and some experts believe this could have led to e-commerce companies over-committing themselves. But developers like IndoSpace are seeing strong demand from third party logistics companies and industrial customers, which may act as an offset.

Finally, as we have indicated above, there is growing competition. Is IndoSpace worried?

"Competition keeps you on your toes. We are happy that there are more grade A developers now. So, there's a level-playing field. But if the market gets crowded, there's always a fallout. There could be consolidation or someone will pack up and leave," Jaggi said.

As in other sectors that require significant capital to stay in the business and flourish, in warehousing, too, the big fish is likely to feast on the small.

(Madhurima Nandy in Bengaluru contributed to this story.)

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