

WHY INDIA IS BETTING ON BIG STORAGE SHEDS

Warehousing is slated to boom post covid-19 as e-commerce grows and manufacturing shifts out of China



Warehousing, or sheds where goods are stored, have become crucial in the post-covid world. They help businesses meet demand and deliver fast. Most crucially, additional warehouses can allow firms to create a buffer of goods. PRADEEP GAUR/MINT

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In mid-April, Albinder Dhindsa, the co-founder of grocery e-tailer Grofers, found himself in a tricky situation. The company's top team—including the supply chain head—was stuck in a Gurugram township that got earmarked as a containment zone. And demand for grocery was skyrocketing. "Initially, we could let one out of eight customers check out," Dhindsa told *Mint*, adding that "traffic now is 25-30 times of what it was in February."

The Grofers management team worked remotely, scrambling to add both workforce and warehousing capacity over the following weeks. The company ran 26 warehouses before the lockdown. It quickly added three more as demand spiked in April. Another five will open over the next two weeks. "These are smaller facilities. The warehouses were already built, which we are repurposing for our use," Dhindsa said.

Warehousing, or sheds where goods are stored, have become crucial in the post-covid world. Inside, storage racks can go up to five levels. If you can't store enough, you cannot meet the demand and neither can you deliver fast. Most crucially, additional warehouses will now allow firms such as Grofers to create a buffer of goods.

Many warehousing complexes are expected to come up across India, more so in the post-covid world. Many e-commerce categories are expected to boom, as people make a behavioural shift from buying offline to shopping online.

Also, over the next couple of years, industrial warehousing is expected to see a sunrise as (as some expect) manufacturing shifts out of China. India wants to be prepared—developers, particularly. They are building warehouses at a frantic pace, often with private equity (PE) booty.

As things stand, across eight Indian cities—NCR, Mumbai, Bengaluru, Pune, Kolkata, Chennai, Hyderabad and Ahmedabad—quality warehousing stock totalled 211 million sq. ft in 2019. The stock is expected to rise to 253 million sq. ft this year and further to nearly 300 million sq. ft in 2021, JLL, a real estate services firm, projected.

"There is little vacancy. Of the 211 million sq. ft, about 21 million sq. ft is vacant

today," said Chandranath Dey, head of industrial operations, business development and industrial consulting at JLL India. Who stands to gain from this warehousing rush? And how real, and long-lasting are the assumptions behind this investment spree to build large sheds across India?

BULKING UP

Much of the new warehouses going live this year are sophisticated top-quality stuff. Such quality comes at a cost and increasingly, warehousing is becoming a big boy's club. In April 2019, the Hiranandani Group set up a new company, GreenBase, which has entered into a joint venture with PE major Blackstone Group to build logistics and warehousing assets. The company has invested ₹500 crore.

"We have 250 acres in Pune, 115 acres in Oragadam (in Chennai), and 73 acres in Nashik. This is the time to do it (build warehouses)," Niranjan Hiranandani, co-founder and MD of Hiranandani Group, said. "The first 30-acre complex in Oragadam would be ready by the end of the year."

Other developers trying to corner the market have strong PE or institutional backing too. IndoSpace is India's largest developer of industrial and warehousing parks, with 35 parks and 15 million sq. ft ready. In 2020, the firm plans to build an additional 5 million sq. ft. IndoSpace, backed by PE firm Everstone Group, has invested over \$3 billion thus far.

Then there's Bengaluru-based developer Embassy Group, which has invested \$100 million and has committed to another \$250 million. The firm has leased out three million sq. ft and is constructing about seven million more.

About 80% of the demand for warehousing is generated by e-commerce firms, third-party logistics firms who move the goods for many fast-moving consumer goods (FMCG) brands, besides engineering firms. "Covid-19 will strengthen warehousing. People will move away from offline retail modes of shopping to the online modes because of social distancing," said Dey.

BEHAVIOURAL SHIFTS

Nareesh Dangwal's motorcycle has a curfew pass taped on the handlebar. Everyday, he rides from Dwarka in Delhi to Samalka, where he works. He is assist-

MINT SHORT STORY

WHAT

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ant manager of operations in a warehouse maintained by Ecom Express Pvt. Ltd, a third-party logistics company that manages shipments for e-commerce firms. This warehouse is more of a processing centre where bags full of goods are loaded in trucks before being sent to different cities.

In complicated e-commerce supply chains, warehouses are important nodal points. Think of them as the point where batons are exchanged during a relay race.

Between a Xiaomi phone manufactured near Chennai and its delivery to a home in Aizawl in Mizoram by Amazon, there are at least six big and small warehouses. One of Xiaomi's contract manufacturers maintains three warehouses. The assembled phone is shipped by a seller to Amazon's warehouse in Kolkata. It is further connected to a smaller warehouse in Guwahati and finally, to another one in the destination town, Aizawl.

Without an efficient network of warehouses and processing centres, like the one Dangwal works in, deliveries would take way too long than we have come to expect.

The 34-year-old's job is timely connections. In the near past, this centre shipped

17,000 parcels across India every day. The volume has shrunk to a tenth now. "Only essentials—medicines, masks, gloves, and sanitizers—are moving," he said. "Previously, this hub dispatched everything from electronic goods to home appliances." These non-essentials are now stocked up in larger warehouses.

Because only essentials are being dispatched, Dangwal can do with fewer people. He has just five people in a shift now, about 10% of the warehouse's pre-covid employment. "It helps us with social distancing as well," he said.

The fact is that even when the lockdown ends, the non-essential market may not be as buoyant. A category shift is likely, hinted Anshul Singhal, managing director of Welspun One Logistics Park. The company is building a 110-acre warehousing park in Bhiwandi near Mumbai, the largest hub of warehousing in India.

"From more expensive items, people would now buy more basics online. The quantum required to service the basic requirements are higher. Eventually, you would need more warehousing space, more delivery workers, more handling workers, more automation. That would drive the demand for warehousing," he said.

Meanwhile, the warehousing market could expand to tier-two cities as well. Work from home (WFH) may result in a resource shift to smaller towns. "People have realized that WFH works. If employees are based out of tier two, it would increase local consumption of daily requirements. Warehousing and supply chain companies will therefore look at smaller cities more favourably," Singhal explained.

GOVERNMENT NUDGES

While e-commerce companies have pushed the boundaries, thus far, most of India's logistics remain unorganized and inefficient. The Indian government appears keen to change this.

A draft National Logistics Policy stated that logistics cost in India is estimated at 13-14% of gross domestic product (GDP), very high compared with more efficient global systems. In the US and Europe, logistics accounted for 9-10% of the GDP and in Japan, about 11%. Modern warehousing will now play an important role as India tries to cut through the inefficiencies.

Indian warehousing, historically, were low-grade concrete godowns that dotted the highways around many transit hubs. GST, which came into force in 2017, was the first big bang moment for the sector.

From a network of smaller warehouses across multiple states, set up to be tax efficient, companies now picked fewer but larger warehouses in more strategic locations since India became a single tax country. The larger warehouses are made of steel, are often pre-fabricated and more automated. Besides robotics, software systems drive the business. Technology giant IBM, which manages the back-end technology for FMCG companies such as Amul, said that Indian warehouses are likely to invest more in technologies that aid business continuity, going ahead. Data recovery services and cyber security solutions are two of them.

"We have had very mature policy level initiatives," said Singhal. "Besides GST, warehousing was given an infrastructure status and not a real estate status—it gives the sector better lending rates and better lending terms with higher limits." In addition, the warehousing sector allows 100% FDI. And in some states, developers can build warehousing parks with fewer approvals compared to other segments of real estate.

THE CHINA IMPERATIVE

Just as the lockdown hit, Aditya Virwani, the chief operating officer of Embassy Group, moved into his father's farm house along with his brother Karan Virwani (the India chief of co-working company WeWork) and his step sister. It's family time. Even so, both the brothers are busy handling rent waiver requests from corporate clients who occupy the developer's sprawling offices.

"In warehousing, it is more about the fastest fish eating the slow fish rather than the big fish eating the small fish," said Aditya Virwani during a Zoom call. "Everyone is racing for scale right now. Because once you have scale, you can control rents," he added.

There is e-commerce, of course. But the rents of the future could come from manufacturing shifting from China. The virus outbreak is forcing companies to re-think their supply chains and India stands a chance to benefit. Global manufacturers would require world-class warehousing to store components and finished products.

"Capitalizing on the China opportunity will be massive," Virwani said. "It is something the government should help with. The investment committees of private equity funds are pushing them to do more

warehousing deals in India because they are foreseeing the same thing," he added.

Indeed, some state governments appear to be at work. The industries and mines department of the government of Gujarat said it is eyeing to increase its FDI from Japan as there is "a perceptible trust deficit between Japan and China post covid-19 outbreak". The Japanese government has announced a \$2.2 billion economic stimulus package to help Japanese manufacturing units move out of China.

"We have already written to political and business authorities of Japan, inviting them to shift their commercial units and operations from China to Gujarat," Manoj Kumar Das, principal secretary of the industries and mines department, noted in a statement.

Manufacturing shifts, nevertheless, take a long time. Right now, industrial warehousing could gain because manufacturers aren't sure on the direction trade policies could take. "Inventory management will become more important now. Manufacturers will increase their inventories because they don't know what's going to happen in trade policy with China, going forward," Rajesh Jaggi, vice-chairman of real estate in Everstone Group, said.

There are negative riders to the industrial warehousing growth story. Many industrialists such as Niranjan Hiranandani warned that India could lose out on the exit-China story if politicians and the bureaucracy botch up. Over the last many years, China's exports in textiles have shrunk, for instance. That business has moved to Bangladesh, Vietnam, Sri Lanka and even Pakistan.

IN CONCLUSION

Besides, the warehousing apple-cart could tumble because of high land prices, about 30% of the project cost. Warehousing is a horizontal development and not a vertical one like other commercial spaces. The right shape of land is important, so is the right zone with access to road and rail networks.

"If you have to buy expensive land, it is a non-starter. Indian Railways has a lot of land, as does the government. For a sustainable logistics supply chain model, the government needs to open up these spaces," said an executive from a ports company who didn't want to be quoted. The government, for instance, can become a shareholder in a project where its equity participation is the land, he felt.

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