

# CHALLENGING TIMES,

# DISRUPTIVE OPPORTUNITIES



*The Indian logistics industry is rife with fragmentation, inefficiencies and – hence, the opportunities for disruption. Inferior management practices, a high level of waste, losses due to transit damages and limited adoption of technology pose significant challenges.*

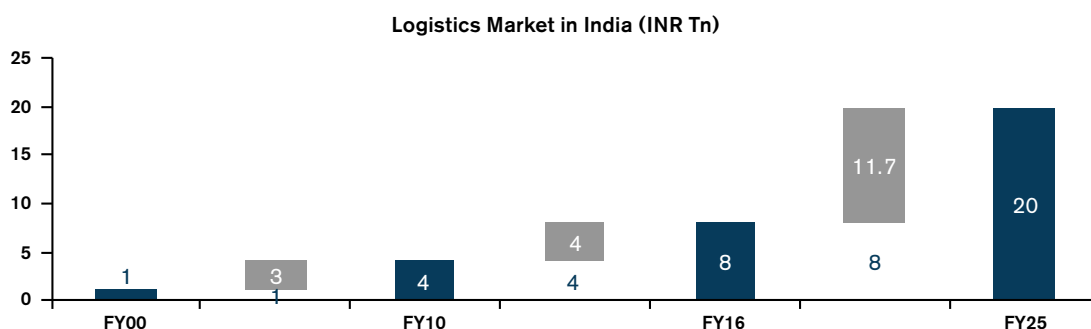
*At the same time, change and disruption across the logistics landscape are generating attractive investment prospects. As the Indian logistics industry shifts from unorganized to organized, the need for supply chain performance improvement and logistics companies that serve as supply chain partners will help advance investment opportunities. By 2025 organized logistics could be a USD 50 BN opportunity in India.*

A&M has invested in capabilities and teams to assist investors and logistics companies to participate in this opportunity. We have capabilities to assist our clients with the following:

- **Investment opportunities** – identification and evaluation
- **Revenue enhancement** – service offerings, value based selling, customer acquisition
- **Supply chain optimization** – logistics cost rationalization, vendor development
- **Digitization** – cost control and enhanced customer experience

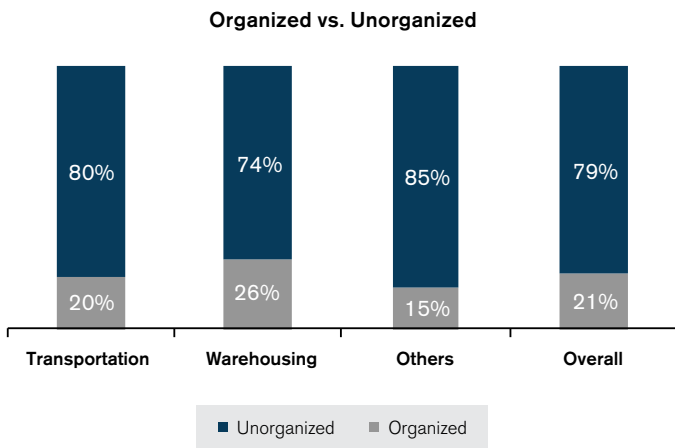
## INDIAN LOGISTICS INDUSTRY LANDSCAPE OVERVIEW

The Indian logistics market was estimated at ~INR 8.1Tn in FY16. It is expected to grow at a CAGR of 10.5 percent to ~INR 20 Tn in FY20.





Unorganized companies still dominate the industry, accounting for ~80 percent of the total logistics market in India. The key reason for lower penetration of organized companies is a commodity mindset which has led to a lack of differentiation and is driving fragmentation.



However, the growing need for organized logistics companies in India is propelling opportunities for investors, corporates, private equity sponsors and other strategic buyers.

## SIX KEY AREAS OF INVESTMENT INTEREST

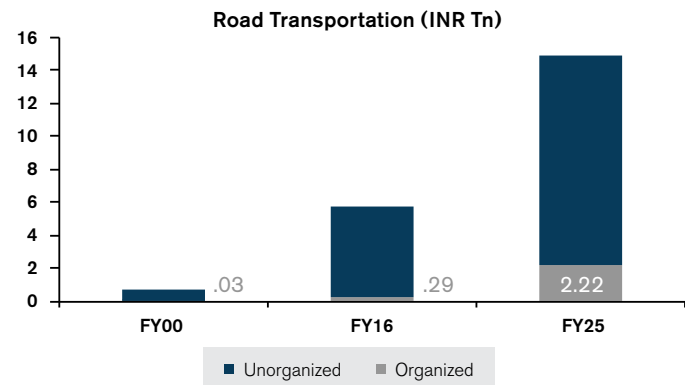
Advantages stemming from India's maturing logistics market, coupled with growth in consumer industries and increasing dispersal in demand, will positively impact six key investment areas:

1. Transformation of road transportation
2. Private investment in railways – terminals and rolling stock
3. Emergence of multi modal logistics parks
4. Emergence of B2C omni-channel ecosystem
5. Penetration of cold chain
6. Evolution of organized industry participants in response to emerging regulations

These six areas could result in organized logistics market size of around USD 50 BN by 2025.

## INVESTMENT AREA 1: TRANSFORMATION OF ROAD TRANSPORTATION

Evolving customer mindset and availability of technological solutions is driving the road transport market from unorganized to organized.

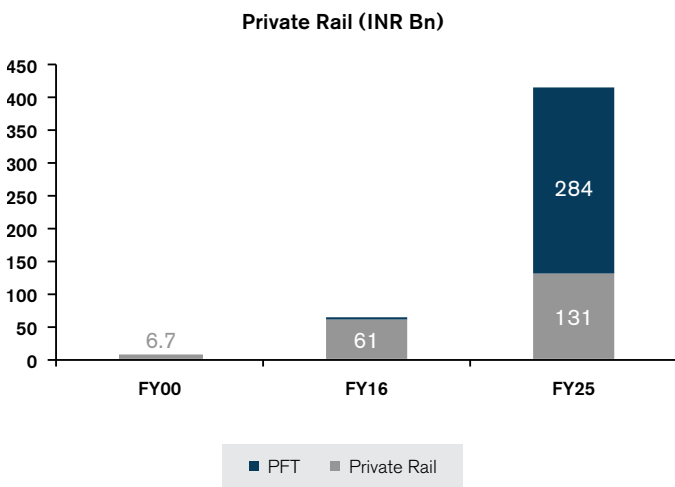


This segment is witnessing significant innovations related to tech-enablement to reduce inefficiencies and improve customer experience. New age companies have emerged and attained market leadership scale and are expected to grow.

As issues, such as driver shortages, high intermediation costs and low truck utilization are addressed, we anticipate that penetration organized road transport will increase to ~20-25 percent by FY25. Companies driven by innovation in technology and indigenous operating models to address inefficiencies are likely to drive this growth.

## INVESTMENT AREA 2: PRIVATE INVESTMENT IN RAILWAYS

Rising domestic freight volumes and a consistent decline in rail freight traffic have resulted in significant inefficiencies. Government initiatives and railway infrastructure improvements will spur private participation in rail freight transport, CAGR of 20-25% in the next 10 years, and will help stimulate investments. Favorable regulations like Private Freight Terminals (PFT) and improvement in infrastructure (eg. Dedicated freight corridors) are expected to drive this growth.

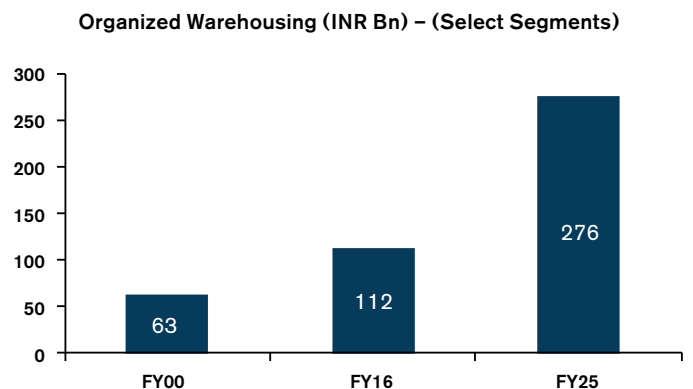
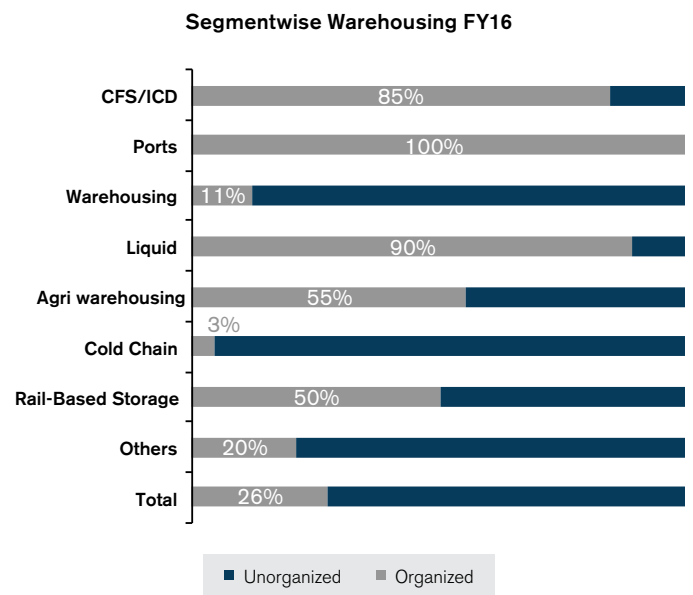


## INVESTMENT AREA 3: EMERGENCE OF MULTI MODAL LOGISTICS PARKS

Warehousing accounts for ~11 percent of the total logistics market in India and faces the challenges of:

- Predominately small-size facilities that function primarily as covered storage
- Lack of automation, inventory management and value-added services
- Lack of skilled operational and managerial manpower

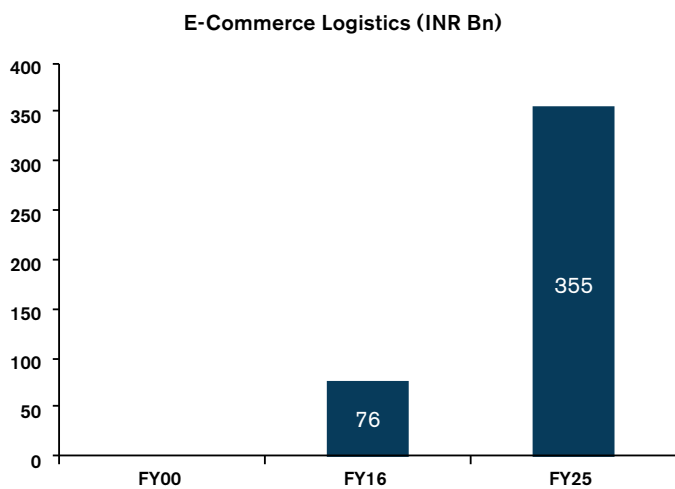
Improving multi-modal connectivity, along with rising domestic consumption and increasing export / import volumes is transforming warehousing from unorganized to organized and is presenting opportunities with the emergence of multi-modal logistics parks.



## INVESTMENT AREA 4: EMERGENCE OF B2C OMNI CHANNEL ECOSYSTEM

Logistics helps drive growth for organized B2B and B2C online retail. Increasingly India's e-commerce logistics model will focus on value added services as expanding technology adoption and customer focused approaches enhance e-commerce logistics growth.

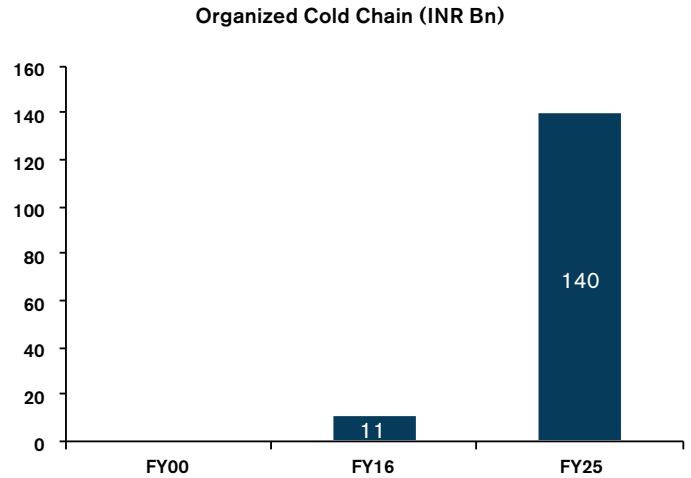
The evolving organized Omni channel B2C logistics combined with e-commerce could create a market opportunity of USD 5 bn by 2025.



## INVESTMENT AREA 5: PENETRATION OF THE COLD CHAIN MARKET

The cold chain market is poised for growth opportunities with key consumer focused industries accounting for ~84 percent of the organized cold chain market. Demand from these segments is expected to grow at CGAR ~35 percent over the next five years.

Organized logistics service providers will find opportunities via increased consumption patterns and end-user penetration along with increasing scale of imports / exports.



## INVESTMENT AREA 6: EVOLUTION OF ORGANIZED PARTICIPANTS DUE TO EMERGING REGULATIONS

The introduction of GST, a value added tax, has helped simplify India's complex tax structure with multi-point taxation and refunds for transactions that occur inside and outside of the state. Implementation of GST could create multiple opportunities for logistics companies on account of supply chain optimization initiatives by companies in key industries. The opportunities can be broadly classified into two categories – physical infrastructure & services and expansion of role of logistics companies in the value chain.



### **Physical infrastructure and services:**

GST will result in creation of hub and spokes for the users. Existing large logistics parks and new parks will evolve as key hubs. The hub location will be determined by logistics cost reasons rather than regulatory reasons. The hubs will need to be designed and located to enable the following:

- Capability to handle multi-industry users including B2C
- Connectivity with alternate modes – rail, road, water
- Automation to enable velocity of cargo movement
- Ability to provide infrastructure to conduct last mile value additions on cargo

### **Expansion of role in the value chain:**

Logistics companies will have to evolve to offer services beyond cargo movement, storage and handling. This will include certain activities like:

- Inventory visibility and analytics
- Channel support for goods including insourcing of C&F capabilities
- Channel management and decision support system for movement of sales
- Light processing and value additions along with documentation support

### **ABOUT ALVAREZ & MARSAL**

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to activate change and achieve results.

Privately-held since 1983, A&M is a leading global professional services firm that delivers performance improvement, turnaround management and business advisory services to organizations seeking to transform operations, catapult growth and accelerate results through decisive action. Our senior professionals are experienced operators, world-class consultants and industry veterans who draw upon the firm's restructuring heritage to help leaders turn change into a strategic business asset, manage risk and unlock value at every stage.

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