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Fast forward; GST set to transform face of Indian logistics industry

Promit Mukherjee, Sankalp Phartiyal

5 MIN READ

MUMBAI (Reuters) - India's greatest tax reform - replacing an array of provincial duties with a nationwide goods and services tax - is transforming the logistics industry in a country where moving stuff around is notoriously difficult to do, executives say.

A forklift operator stacks containers at the godown of Agarwal Packers and Movers Ltd. on the outskirts of Mumbai, India June 29, 2017. REUTERS/Shailesh Andrade

The advent of organised retail and e-commerce began modernising warehouses in India a decade ago, but most firms still rely on musty, dilapidated “godowns”, as storehouses are known colloquially.

The unified tax system is expected to bring change on a far grander scale, removing distortions created by differential taxes and duty structures imposed across India’s 29 states and 7 union territories.

“When we moved from one state to the other, it felt like moving from one country to another,” said Ramesh Agarwal, chairman of New Delhi-based Agarwal Packers and Movers.

From July 1, the new Goods and Services Tax, or GST, introduced by Prime Minister Narendra Modi’s government, will change all that, with the biggest tax reform seen since India won independence from British colonial rule 70 years ago.

Companies that have previously based storage models on tax efficiency can move to the much more cost efficient, demand-based hub-and-spoke model used globally.

Anticipating the change, Agarwal’s firm, for example, has carved India into five regions and is setting up one massive warehouse in each.

“There’s no tax arbitrage to be gained. So decisions on manufacturing, warehousing and selling will be purely driven by the real costs of manufacturing and going to market, that is the single biggest advantage of GST,” said R Subramanian, Managing Director at DHL Express in Mumbai.

Subramanian still anticipates bureaucratic headaches, notably from GST’s e-way bill system, requiring vehicle details from pickup to delivery, which he reckons would generate 90 million entries daily for the express delivery sector alone.

But, the reform, along with the gradual shift in India’s service dominated economy toward more manufacturing, has paved the way for ultra-modern storage sites with automated conveyers, RFID-enabled tracking and IT-enabled warehousing management systems.

The potential growth, and investment needed for modernisation has spurred a slew of deals between Indian firms and major global private equity players and pension funds.

Containers are seen stacked at the godown of Agarwal Packers and Movers Ltd. on the outskirts of Mumbai, India June 29, 2017. REUTERS/Shailesh Andrade

In the last two years alone, as Modi made GST a priority, these investors have put $1.5 billion in the warehousing business.

“GST is not only a tax reform, it is also a business reform as a whole, and a lot of businesses are now restructuring their supply chains,” said Rohit Jain, a partner with Economic Laws Practice in Mumbai.

REPLACING ‘GODOWNS’

Canada Pension Plan Investment Board last month committed to spend $500 million in a joint venture with India's IndoSpace. Other foreign firms putting money in the sector include Carlyle Group, Warbug Pincus and Fairfax India Holdings.

JSW Steel, India's biggest domestic steel producer, is also mulling a plan to bring down the number of its 20 plus warehouses across the country to five, and many more companies are following suit, said a company executive.

Reliance Retail, the retail unit of Reliance Industries , which has around 100 distribution centres across the country, also plans to "optimize some," said a company executive.

Mahindra Logistics is exploring an initial public offering, or a sale to a foreign partner, while rival Future Supply Chain Solutions is looking to do likewise, according to media reports.

With 45 percent of India's gross domestic product concentrated around seven major cities, Arif A Siddiqui at Coign Consulting, specialising in supply chain management, expected investment in warehousing to focus on Ahmedabad, Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai, and New Delhi.

Singapore-based urban and real estate developer Ascendas-Singbridge has just signed a $600 million deal with Firstspace Realty, based in the south Indian city of Bengaluru, to create 14 million square feet (1.3 million square meters) of industrial warehousing space across six major Indian cities.

"Manufacturing, modern retail and the pharma sector were already driving change in Indian warehousing. GST has just fast-tracked the growth rate in logistics," said Aloke Bhuniya, Chief Executive of Ascendas-Firstspace.

He reckoned that GST has boosted the industry's annual growth rate from 12-15 percent to 20-22 percent, and saw plenty of room for a lot more modernisation.

Out of the logistics industry's 980 million square feet (91 million square meters) of captive, agri-based and cold storage warehousing, Bhuniya estimated 85 percent were old godowns and traditional structures.

A forklift operator stacks containers at the godown of Agarwal Packers and Movers Ltd. on the outskirts of Mumbai, India June 29, 2017. REUTERS/Shailesh Andrade

“This represents a huge opportunity for modern warehousing to tap into,” he said.

Editing by Simon Cameron-Moore

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MONEY NEWS SEPTEMBER 4, 2018 / 2:04 PM / UPDATED 4 HOURS AGO

Economic affairs secretary: non-resident Indians can buy up to 5 percent in a security

2 MIN READ

NEW DELHI (Reuters) - Overseas investors of Indian origin are allowed to buy up to 5 percent in any security under current regulation, India's economic affairs secretary Subhash Chandra Garg said on Tuesday, in a bid to calm markets after recent regulatory changes.

A U.S. Dollar note is seen in this June 22, 2017 illustration photo. REUTERS/Thomas White/Illustration

Indian markets fell for the second straight day as fresh concerns emerged over a April circular issued by the Securities and Exchange Board of India that said foreign investment rules for companies of Indian origin had been tightened.

The guidelines state that a company majority owned by non-resident Indians (NRIs) or persons of Indian origin (PIOs) will not be allowed to invest as a foreign portfolio investor in the country, and SEBI has directed that such funds should either be closed or the ownership structure changed by the end of December.

Garg reiterated that companies majority-owned by non-residents Indians won't be allowed to invest as well as manage foreign funds, indicating that the policymakers are unlikely to relax the SEBI guidelines.

Reporting by Manoj Kumar; Editing by Simon Cameron-Moore

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