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The Indian Logistics Industry

An Overview



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The Logistics Industry

- **Globally, the logistics industry is valued at US\$ 3.5 trillion.**
- The U.S., which contributes to over 25% of the global industry value, spends close to 9% of its GDP on logistic services.
- **The Indian Logistics Industry is presently estimated at US\$ 90 billion. (CII)**
- The industry has generated **employment for 45 million people** in the country in comparison with the IT and ITeS sector which employs approximately 4.3 million people.
- It is **forecast to grow at a Compound Annual Growth Rate (CAGR) of approximately 8%** over the next three to five years. (CII)
- **Third Party Logistics (3PL) Solutions, is slated to grow at a compound annual growth rate (CAGR) of over 16% from 2007-10.** Consequently, 3PL service providers are expected to corner an increased share of the Indian Logistics pie, from 6% in FY06 to 13% in FY11, at a CAGR of 25% (CII).
- The **primary growth drivers** of this industry are as under:
 - *Investments in the infrastructure sector amounting to US\$ 350 billion:*

Increased **efficiency and productivity of the transport system** would result in lower transit times.
 - *Streamlining of the indirect tax structure:*

The introduction of **Value Added Tax (VAT)** and the proposed introduction of a singular **Goods and Services Tax (GST)** are expected to significantly reduce the number of warehouses manufacturers are required to maintain in different states, thereby resulting in a substantial increase in demand for integrated logistics solutions.



- *Robust trade growth*

Strong economic growth and liberalization have led to considerable increase in domestic and international trade volumes over the past five years. Consequently, the requirement for transportation, handling and warehousing is growing at a robust pace and is driving the demand for integrated logistics solutions.

- *Globalization of manufacturing systems*

Globalization of manufacturing systems coupled with **advancements in technology** are increasingly compelling companies across verticals to concentrate on their core competencies and avail the cost saving potential of outsourcing. This is expected to contribute to an increase in the need for integrated logistic solutions, which is the niche of every Third Party Logistics Service (“3PL Services”) provider.

- The industry has been valued at **US\$ 125 billion in 2010.** (CII)
- A snapshot of the **FDI regulations** governing the industry is as under:
 - i. **100% FDI under the automatic route** is permitted for all logistic services except services mentioned in points ii and iii below.
 - ii. **FDI up to 100% subject to FIPB approval** is permitted for courier services.
 - iii. **FDI up to 49% under the automatic route** is permitted for air transport services, including air cargo services. *It is pertinent to mention in this context, that Press Note 1 (2007) that is expected to be imminently notified by the DIPP proposes to increase the limit of FDI on air cargo services in 74%.*
- The industry has been at the receiving end of increasing interest from the private equity sector. The year 2007 witnessed just under **US\$ 1 billion in private equity investments** in this industry, representing approximately 7% of total private equity investments during the year, against 3% in the previous year.



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