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MARC Insights Indian Shipping and Logistics Industry

2023

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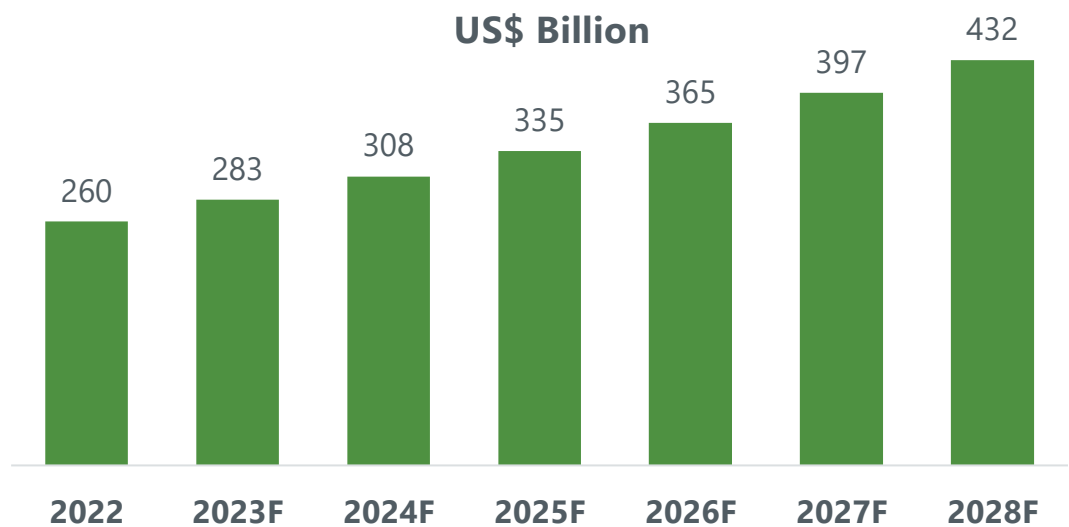
P&L Snapshot, Company Analysis Competitor Analysis, KPIs Comparison

Shipping and Logistics Industry of India

The shipping and logistics industry in India is one of the largest and fastest-growing sectors in the country. It plays a vital role by facilitating the movement of goods and services across the country and around the world.

Market Size

The Indian Logistics and Shipping Market reached US\$ 260 Bn in 2022 and it is projected to grow at a CAGR of 8.8% to reach US\$ 432 Bn by 2028.



Source – IMARC Group

Growth Drivers

- Economic Growth**
The increasing consumption & expanding business landscape are anticipated to be key catalysts for the growth of India's shipping & logistics industry.
- E-commerce Boom**
India's e-commerce surge boosts logistics, spurring demand for efficient delivery, warehousing and last-mile services, leading to industry growth.
- Robust Logistics Infrastructure**
India's logistics infrastructure, including networks, ports, and tech integration, fuels efficient cargo movement and trade growth in the sector.

Impact on the Economy

Employment

The Logistics industry employs over 22 million people in the country, making it one of the largest employers in India.



Contribution to GDP

As of 2023, the logistics industry accounted for 13% of the country's GDP. The industry's contribution to the economy is mainly due to the efficient movement of goods, which helps reduce costs and increase productivity.



Evolving Maritime Clusters

Maritime clusters encourage innovation, open employment opportunities, draw in foreign capital and even inspire fresh concepts. The Indian government has selected two significant maritime clusters in Gujarat and Tamil Nadu.



Foreign Trade

The industry plays a crucial role in India's foreign trade, facilitating the movement of goods across borders. As per NITI Ayog, Indian logistic sector handles 4.6 billion tons of goods each year, amounting to a total annual cost of INR 9.5 lakh crore.



Foreign Investment

The Indian logistics industry's robust growth has attracted foreign investment, with the industrial and logistics sector securing INR 8,257 crore in investments since the start of FY 2022, according to Economic Times.



Industry Trends



Last-Mile Delivery Innovations

Businesses are investing in inventive models such as crowd shipping, drone deliveries, and autonomous vehicles.



Warehouse Automation

Companies are increasingly adopting various warehouse automation techniques that increase the efficiency of complex warehousing functions.



Sustainability and Green Initiatives

Companies are adopting environmentally conscious practices including adopting alternative fuels and eco-friendly packaging to diminish carbon emissions, etc.



Data-Driven Decision Making

Logistics firms started employing data-driven strategies for superior operations, utilizing insights to enhance routes, minimize costs, and optimize service.



Internet of Things (IoT)

IoT provides location and route management solutions that enables companies to monitor drivers' activities and ensure timely delivery of shipments.



Rise of Third-Party Logistics Players

Third Party Logistics players' growing prominence is a key logistics trend, bringing expertise and flexibility, optimizing supply chains, and reducing costs.

Challenges

Fragmented Industry

Dominance of unorganized players (90%) and industry fragmentation result in many intermediaries, multiple cargo exchanges, increased costs and operational inefficiencies.

Lack of Transparency

Insufficient transparency hampers operational efficiency, leading to inefficiencies, delays and increased costs for businesses and customers.

Complex Regulations and Paper Works

Inter-state goods transportation faces extended delays because of complex regulations, slow clearances and significant paperwork demands.



Higher Costs

In 2023, India's logistics cost constitutes 13% of the GDP, in contrast to the global average of eight percent, posing a challenge for Indian exports to compete on a global scale. This hinders profitability, competitiveness, and supply chain efficiency of market players.

Inefficient Fleet Usage

It results in underutilized assets, increased expenses and environmental impact, presenting a substantial challenge within logistics.

High Order Intensity Ratio

It signifies more small orders, straining logistics with complexity, inefficiency and increased operational costs.

Major Government Initiatives

Introduced in 2017, it aims to enhance road traffic efficiency and address infrastructure gaps by developing 34,800 km of roads in phases.

Bharatmala Pariyojana

1

PM GatiShakti

A digital platform aimed at integrated planning and coordinated implementation of infrastructure connectivity projects

2

Indian Railways has developed two Dedicated Freight Corridors (DFCs) for efficient high-speed, high-capacity freight transportation.

Dedicated Freight Corridor

3

4

Sagarmala Project

The government's port-led development initiative includes 1,537 projects with a \$81 billion investment.

National Highways Logistics Management Ltd. (NHLM) is leading Multi-Modal Logistics Parks (MMLP) to strengthen India's freight logistics with a hub-and-spoke model.

Multi Modal Logistics Parks (MMLP)

5

What sub-sectors does the Industry comprise



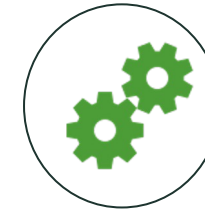
Warehousing

The Warehousing industry was valued at US\$ 17 Bn in 2022 and comprises of storage, inventory management, etc.



Transportation

The Transportation industry was valued at US\$ 121 Bn in 2022 and comprises of rail, road, water and air transportation



Value Added Services

Value Added Services (VAS) in logistics are additional services beyond transportation and storage, aimed at enhancing the supply chain and meeting customer-specific requirements.

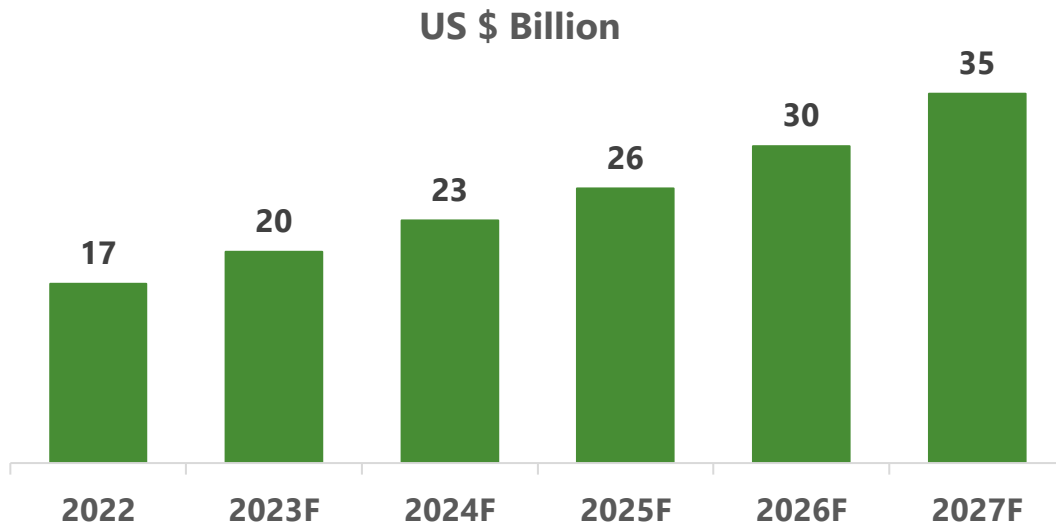
Source – Indian Express Logistics

Warehousing

Warehousing is pivotal in India's logistics industry, enabling storage, inventory control, and efficient supply chain management, enhancing overall industry effectiveness.

Market Size

The Indian warehousing market is valued at US\$ 17 Bn and is forecasted to reach a valuation of US\$ 35 Bn by 2027, experiencing a notable CAGR of 15.6% from 2022 to 2027.



Source: [IBEF](#), May 2023

Market Drivers



Government Initiatives and infrastructure development



Shift in global manufacturing



Cold chain industry growth



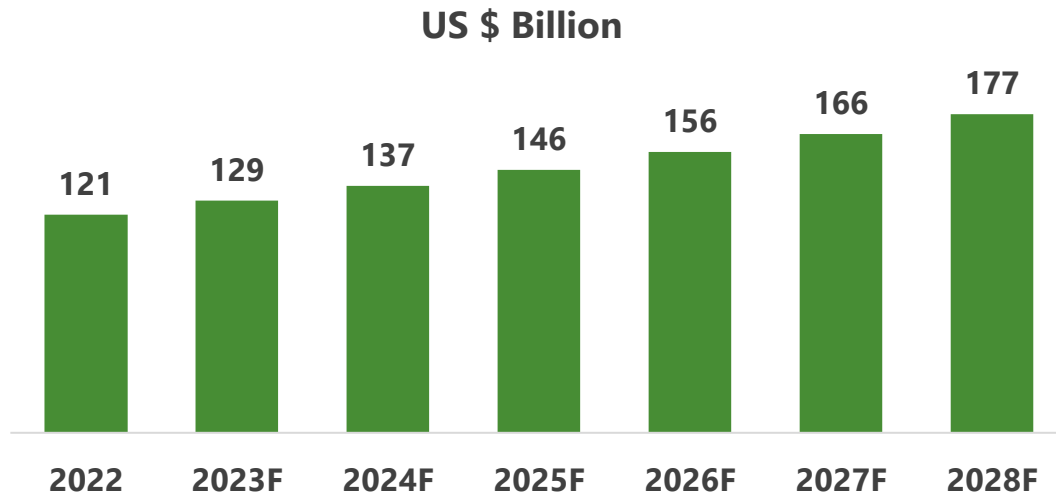
Containerization and growth in International Trade

Transportation

India's transportation sector plays a critical role in the country's logistics and supply chain ecosystem, serving as the backbone for the movement of goods and people across the vast and diverse landscape.

Market Size

The Indian Road Freight Transport Market reached US\$ 121 Bn in 2022 and it is projected to grow at a CAGR of 6.53% to reach US\$ 177 Bn by 2028.

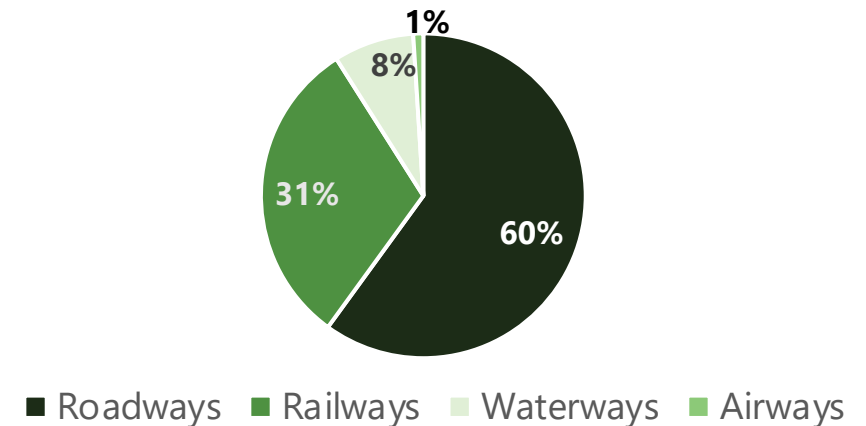


Source: Logistics Report by Indian Chamber of Commerce, 2022

Market Drivers

- Global Trade
- Surging Inter State movement of goods
- Boom of e-commerce
- Govt. Initiatives like Bharatmala and Sagarmala

Modes of Distribution Channels



Value Added Services

Value added services encompass a wide array of activities like customs clearance, freight forwarding, logistics packaging, provision of material handling equipment, etc.

Involves documentation and coordination. Technology and automation are simplifying this complex procedure, thereby enhancing efficiency and global commerce.

Freight Forwarding

Serves as a crucial prerequisite for companies prior to delivering goods to their customers.

Custom Clearing

Involves orchestrating shipments for individuals and corporations, facilitating the transportation of goods from manufacturers to overseas customers.

Logistics Packaging

Popular Business Models in the Logistics Industry

Digital Freight Forwarders



- Uses digital technology to facilitate communication and provide rapid shipment status updates.
- Digital freight forwarders implement a transparent system that enable customers to compare different carriers.

Workforce Model



- Provides a platform connecting logistics providers with an available workforce, such as truck drivers.
- Aids in optimizing personnel resources and addressing the fluctuating demands of the workforce.

On-demand warehousing



- Offers logistics providers the opportunity to utilize shared warehouse and logistics services based on a pay-per-use model.
- The industries that derive benefits span from hospitality to FMCG and industrial manufacturing.

Hub and Spoke Model



- Centralizes distribution around a hub, improving efficiency and reducing costs by connecting to various spokes.
- Streamlines transportation, minimizes costs & enhances inventory control.

Collaborative logistics/ Asset sharing model



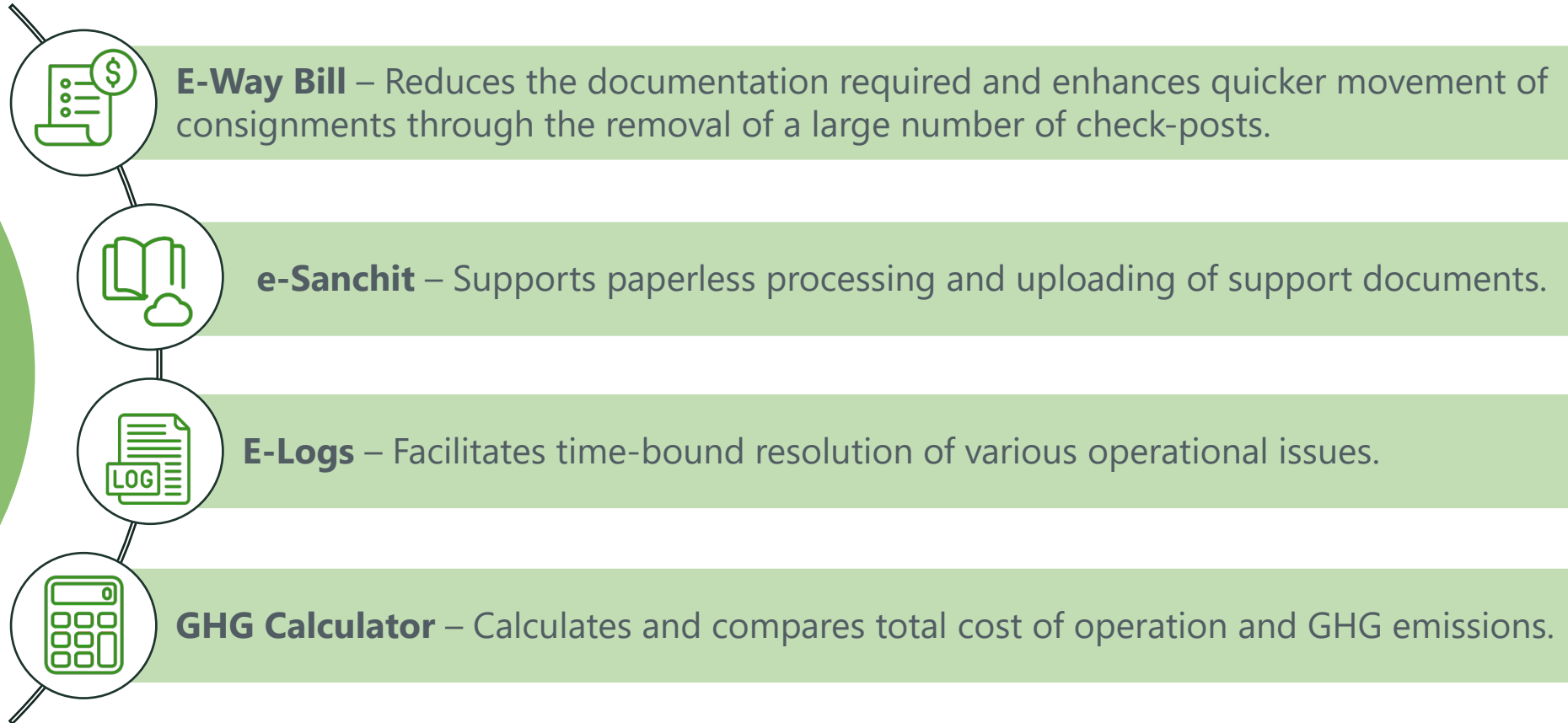
- Companies optimize distribution centers by offering storage and fulfillment services. ULIP, a tech platform in testing phase, collaborates with ministries, trade bodies, and logistics companies for a shared data platform, enhancing logistics efficiency and saving costs.

Circularity Model



- The model prioritizes sustainable supply chains and minimizing waste. It involves a company reusing or repurposing waste and customer returns to convert them into new or refurbished products.




Digital Technology in Logistics Sector



Note:

1. e-Sanchit refers to e-Storage and computerized handling of indirect tax documents
2. E-Logs refers to Ease of Logistics Services
3. GHG refers to Green House Gases

Major Players in the Indian Market

Criteria	 BLUE DART	 TCI EXPRESS <small>— LEADER IN EXPRESS —</small>	 GATI	 mahindra LOGISTICS	 VRL VRL LOGISTICS LTD	 DELHIVERY
Years in business	40	27	34	16	47	12
Services Offered	Air express, Integrated transportation & logistics	Surface, air, rail and cold chain express	Express distribution and End to End logistics	Contract and Cross border logistics and B2B express	Logistics solutions and courier service	Express distribution, Cross border logistics and Warehousing
Workforce	21,000+	3,500+	4,500+	24,000+	20,000+	57,000+
Presence in India	Pan India	Pan India	Pan India	Pan India	25 States 4 Union territories	Pan India
Countries served	220+	208+	1	NA	NA	220+

Source: Company websites and Annual Reports

Mergers & Acquisitions in the Industry

Date	Acquirer	Target	Deal Value (INR Crore)	Deal Details	EV/EBITDA Multiple
August 2023	CEVA Logistics	Value Chain Solutions (Stellar VCS)	Not Available	CEVA Logistics has inked a deal to purchase a majority stake of 96% in Stellar Value Chain Solutions (Stellar VCS), a company based in Mumbai.	23.1x
June 2023	Allcargo Logistics	Gati-Kintetsu Express	407	Allcargo logistics acquired additional 30% stake in Gati-Kintetsu Express buying 1.5 lakh shares. This gives the firm full control over Gati-Kintetsu Express as the firm already holds 70% stake in the company.	34.41x
August 2022	Adani Logistics	ICD Tumb (Vapi)	835	The acquisition aligns with the company's strategy to develop a comprehensive transport utility and nationwide logistics infrastructure, with Tumb joining the existing seven multi-modal logistics parks in the Adani Logistics portfolio.	7.8X
September 2021	Sitics Logistic Solutions Private Limited	Udgam Logistics	Not Available	Sitics Logistic Solutions, a Palakkad tech-driven supply chain firm, acquired Delhi's Udgam Logistics, specializing in cold chain and distribution.	NA

Future of the Shipping & Logistics Industry

Adoption of Blockchain, Big data & Cloud computing



Leveraging government initiatives like the Electronic Cargo Tracking System, India is fully prepared to embrace blockchain technology within its logistics sector.



In India, the emergence of logistics startups supporting the utilization of big data is slow, but surely reshaping the unorganized transportation sector.



Affordable technology drives logistics adoption; startups offer cost-effective solutions for complex processes.

Autonomous vehicles, Drone technology & Green Logistics



The US, China, and Europe have begun adopting autonomous vehicle technology and India's rapid infrastructure development will likely boost its use in logistics.



Drones will transform Indian logistics, improving last-mile delivery, remote access and security while tackling regulatory and tech hurdles for a transformative future.

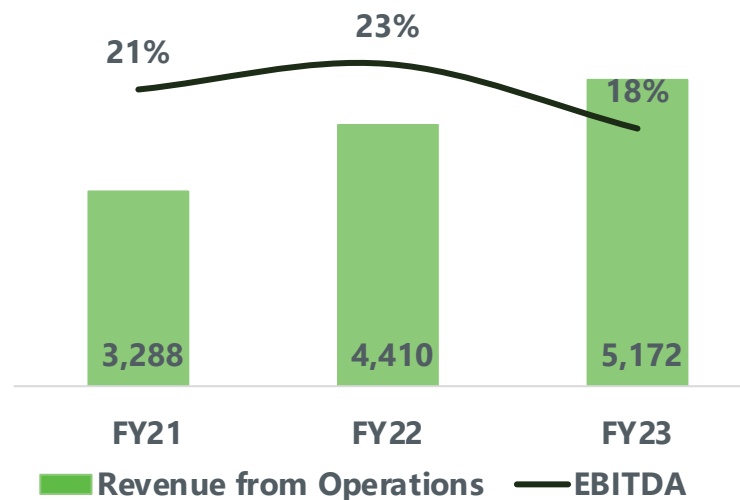


Businesses embrace green logistics, fostering renewable energy opportunities and aiding India's net-zero carbon footprint goal.

Profit & Loss Snapshot

P&L Snapshot (Company ABC)			Actuals			Common Size			Variance	
Particulars (in INR Crores)	FY21	FY22	FY23	FY21	FY22	FY23	FY22	FY23	FY22	FY23
Revenue from Operations	3,288	4,410	5,172	100%	100%	100%	34%	17%		
Expenses										
Freight handling and Services expenses	1,578	2,281	2,988	48%	52%	58%	45%	31%		
Employee Benefit expenses	729	765	838	22%	17%	16%	5%	9%		
Other expenses	295	364	409	9%	8%	8%	23%	12%		
Total Expenses	2,602	3,411	4,235	79%	77%	82%	31%	24%		
EBITDA	686	1,000	937	21%	23%	18%	46%	-6%		
Depreciation and Amortization	430	395	394	13%	9%	8%	-8%	0%		
Finance cost	111	67	87	3%	2%	2%	-40%	30%		
Other income	20	31	32	1%	1%	1%	52%	4%		
EBT	166	569	488	5%	13%	9%	243%	-14%		

Source: Audited Financials and MARC Analysis

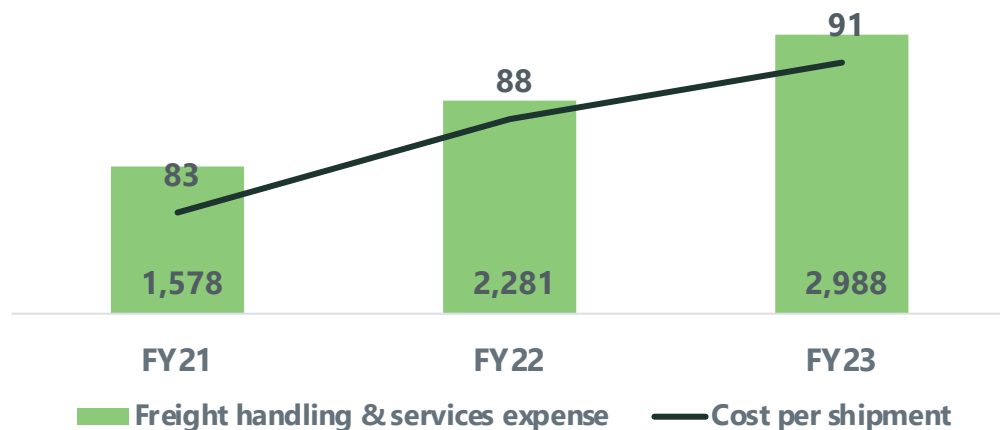


In FY23, while the Revenue from operations increased by **17%**, the EBT margin decreased by **14%** compared to FY22, primarily due to an increase in freight handling and service expenses.

- Freight handling and services cost as a % to revenue increased from 52% during FY22 to 58% in FY23 due to increase in handling, clearing charges and domestic network operating costs.
- Employee benefit expenses increased by 5% and 9% respectively in FY22 and FY23 compared to the previous years. However, as a % to revenue it decreased from 22% in FY21 to 16% in FY23.
- Other expenses increased by 23% from INR 295 Cr in FY21 to INR 364 Cr in FY22 and further by 12% in FY23 to INR 409 Cr. This was mainly due to increase in repairs and maintenance cost, office and rental expenses.

ABC Company Analysis

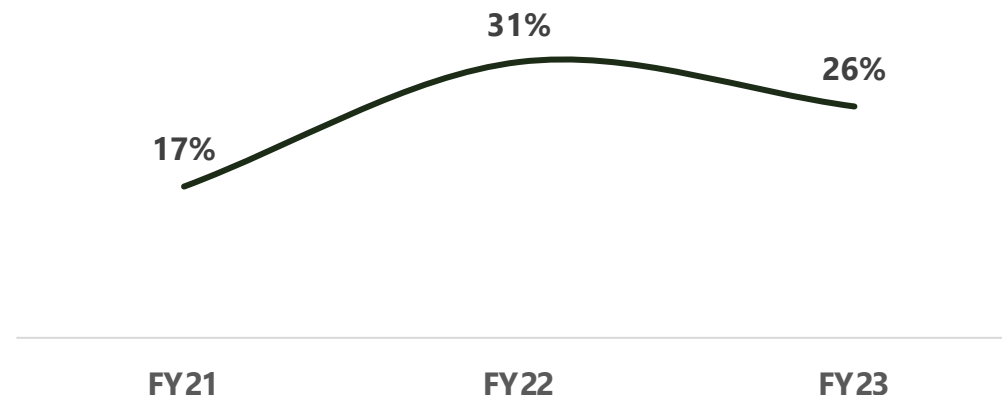
Freight Handling & Per Shipment Cost



Source: Market Research and MARC Analysis

- It can be observed that ABC company witnessed an increase in its per shipment cost over the period FY21 to FY23.
- In FY21, ABC company's freight handling cost amounted to INR 1,578 crores, with 19 crore products being shipped at an approx. per shipment cost of INR 83.
- The average per shipment cost increased by 6% in FY22 to INR 88 for 26 crore shipments and further by 3% to INR 91 for 33 crore shipments.

Return on Capital Employed

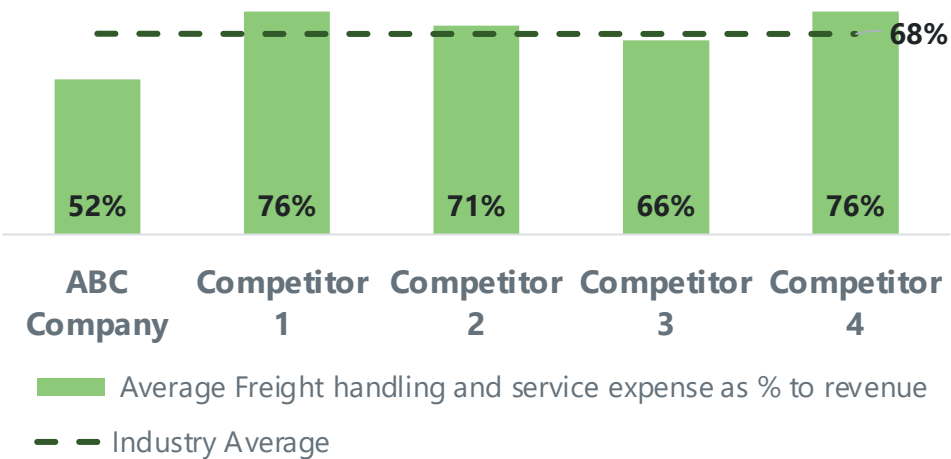


Source: Market Research and MARC Analysis

- It can be observed that the ROCE of ABC Company witnessed an increase from 17% in FY21 to 31% in FY22. This was due to a significant increase in profits and reduction in debt due to repayment of loans worth INR 245 crores.
- However, in FY23 the ROCE decreased to 26% due to decrease in EBT by 14%.

Competitor Analysis

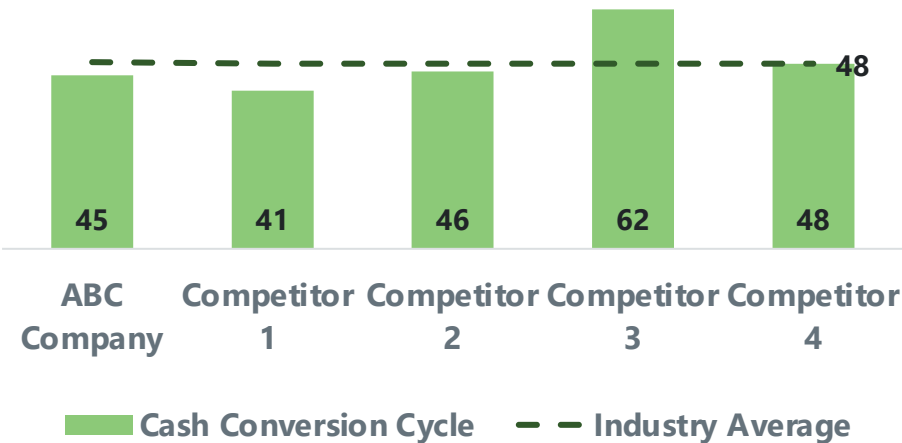
Freight handling and services expense as a % to revenue



Source: Market Research and MARC Analysis

- It is observed that ABC company has the lowest Freight handling & services expense as a % to revenue. This is because the company has taken various initiatives such as process improvement, automation and geared towards improved capacity utilization.
- This helps the company improve its EBITDA margin and gain a significant competitive advantage over its competitors.

Cash Conversion Cycle FY23



Source: Market Research and MARC Analysis

- ABC company's cash conversion cycle is below the industry average of 48 days. This indicates that the company is efficiently managing the short term assets and liabilities.

KPI's in Comparison

Particulars	ABC Company	Competitor 1	Competitor 2	Competitor 3	Competitor 4
Freight handling and services cost to sales	58%	78%	73%	66%	78%
EBITDA Margin	18%	6%	5%	16%	-2%
Return on assets	11%	9%	1%	19%	-9%
Asset Turnover ratio	2	3	2	2	1
Debt to Asset ratio	0.6	0.7	0.8	0.2	0.2
Current Ratio	1.0	1.3	1.0	2.4	5.4
Interest coverage ratio	15	16	5	111	-2
Days Sales of Inventory	26	96	11	NIL	48
Cash conversion cycle	45	41	46	62	48



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