

POOR ROADS BREAKING THE PACE OF INDIAN LOGISTICS

Roads play a predominant role in the transportation of cargo. Nearly 60.2 per cent of the cargo is moved by roads in India. Still, it is plagued by numerous discrepancies and face several infrastructural challenges. Unavailability of proper road infrastructure puts a direct impact on Indian logistics industry. Severe traffic congestion on National Highways, less than 10 per cent of motorable roads and slow pace of development of expressway network are some of the immediate challenges that need to be addressed. **Gaurav Dubey** talks about the effect on the profitability of poor roads and viability of Indian roads for the transportation of heavy cargo with the help of industry leaders in this short report.

Logistics undoubtedly plays a vital role in driving economy of the country to the next level. It is a backbone of every commercial sector as it provides efficient and cost-effective flow of goods in each and every business. Logistics industry in India is evolving rapidly as LSPs are proactively embracing technologies and improving their infrastructure with a motive to reduce cost and providing effective services to its clients.

The logistics industry is continuously evolving, despite weak economic sentiments, thanks to the growth in retail, E-Commerce and manufacturing sector. The global logistics sector approximately grew at 10-15 per cent in the period 2013-14. Logistics industry is expected to reach over USD 2 billion by 2019. Rise of E-Commerce logistics and increased domestic consumption will drive the industry in the coming years. The growth doesn't end



“The poor state of our road network not only limits the reach of our vehicles, but it reduces the speed of the trucks as they need to navigate slowly through the unpaved concrete. Due to lack of roads and highways the country would soon not be able to accommodate the increasing number of vehicles.”

OLIVER BOHM, CEO, Schenker India

here. The service oriented logistics industry is ready to expand beyond the horizons in the latter half of this decade.

Present scenario

The present government has been spending exorbitant amounts in improving logistics infrastructure of the country. Inadequate logistics infrastructure is creating bottlenecks in the growth of the economy. The logistics management regimen has the capability of overcoming the disadvantages of the infrastructure in the short run while providing cutting edge competitiveness in the long term. Logistics

industry is also facing several challenges in India - Insufficient integration of transport networks, information technology and warehousing and distribution facilities is the foremost challenge. Apart from this, unavailability or insufficient trained manpower is also a challenge in front of third-party logistics sector, lack of IT standards, equipment and poor system integration also a challenge for the industry. However, here we would specifically focus on unavailability of appropriate road infrastructure in the country and will touch the following points -

- Viability of Indian roads for transporta-

tion of cargo

- Effect on profitability of transportation business due to bad roads
- GST's role in facilitation of transportation activity
- Rise in demand of trucks in the post GST period

Transportation – A vital link in logistics

It is virtually inconceivable in today's economy for a business to function without the aid of transportation. Transportation is an essential and a major sub-function of logistics that creates time and place utility

MAJOR CHALLENGES TRANSPORTERS FACE DUE TO BAD ROADS

◆ **Sub-standard quality of Roads and Highways**

Although India is home to several national highways, the sad state of affairs is that most national highways aren't appropriate to carry load of heavy vehicles. The design of the highways is a matter of great importance since only properly designed highways can withstand the pressure exerted by heavy vehicles. Apart from being narrow, they are also highly congested since quite a large part of India's freight is carried on these highways.

◆ **Poor rural roads**

India is home to quite a large rural population. Most of the rural areas in India do not have access to all weather roads and hence have a tough time during the monsoons. This problem is more significant in the northern and northeastern part of the country. However, Government of India has set earmarked 20 per cent of the investment of US\$ 1 trillion reserved for infrastructure during the 12th Five-Year Plan (2012-17) to develop the country's roads.

◆ **Traffic congestion in urban areas**

Traffic is one common problem in most of the metropolitans today. Cities like Mumbai, Delhi, and Kolkata get extremely congested during office hours. This is mainly because of industrialisation and the sudden rise in vehicle ownership over the last few years.

If India wants to be in tandem with the growing traffic, the government will need to construct around 15,000 km expressways in the next ten years. One of the major reasons behind this huge expenditure on maintaining roads is due to the problems of overloading and poor maintenance.

It is said that about 70 percent of funds meant to be spent for the maintenance of roads actually goes behind paying laborers. The magnanimity of the expenditure incurred in order to repair roads is alarming and hence the government is stressing on building large scale concrete roads instead of the common bituminous roads. Although building concrete roads is a little expensive but it is beneficial for the country in the long run.



“Under-utilization of assets increase the lead time of transportation. And, the other challenges stem up from poorly kept roads which lead to greater wear and tear of vehicles and higher fuel consumption. Together, these elements escalate the overall cost of movement of goods and thus impact the profitability of transportation industry.”

R SHANKAR, CEO, TVS Logistics Services Ltd India

in goods. In fact, the backbone of the entire supply chain is the transportation management that makes it possible to achieve the well-known 7 ‘R’s’- the Right Product in the Right Quantity and the Right Condition, at the Right Place, at the Right Time, for the Right Customer at the Right Cost. Transportation decisions affect the other sub-functions, and there is a close linkage between them. Hence, transport decisions cannot be made in a vacuum. This part of the role of transportation in logistics may be termed as “Micro Logistics,” where at the firms’ level; the companies optimise this function for competitive cost advantage.

Oliver Bohm, CEO, Schenker India opines that quality of roads in India is still in need of further improvement and road network in rural areas needs to be strengthened to facilitate smooth transportation of goods across the country. Following are his inputs regarding various topics.

“Our road infrastructure supports the transportation of cargo in the best of its capacity. But unfortunately, the quality of the road network infrastructure in India is still in need of further improvement. We particularly need to develop our rural roads which are critical when we deliver goods across the states. This is even more important when businesses and customers continue to expand in areas outside the urban cities – outside the reach of our comparatively more-developed roads.”

“The state of our road network not only limits the reach of our vehicles, but it reduces the speed of the trucks as they need to navigate slowly through the unpaved concrete, in some cases. Also with the lack of roads and highways, the country would soon not be able to accommodate the increasing number of vehicles.”

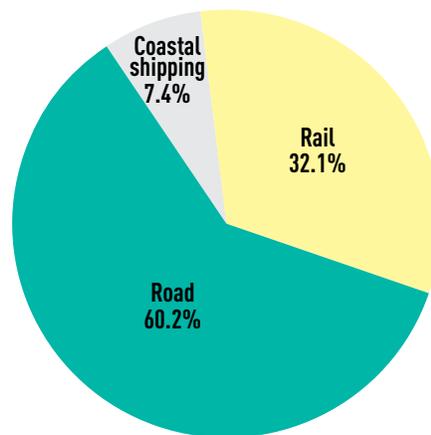
Effect on profitability of transportation business due to bad roads

“India has one of the lowest average speeds for trucks with the average being 32 to 35 kmph, which is very low as compared to the US, Europe and our neighbors in Asia. This means that our trucks spend more time on the road, which then means that a customer has to wait longer to get their goods from the port to their warehouses. This time difference then means lost man hours, lost

bring. We could expect consolidations by some players and even optimizations of hub warehouses. As such, goods would be consolidated and transportation optimised.

As a logistics company, we welcome the efforts by the Ministry of Road Transport and Highways to improve national highways and to connect existing roads to most of ports, airport and freight corridors. But these are changes that we do not see happening before the expected boom in the local transportation industry. Still, with the recent developments by the government to prioritise such projects, we do believe that the road infrastructure would – albeit slowly – be able to cater to this said upcoming demand.”

Total freight transport modal mix



time in production, unsupplied production chains and – ultimately – financial losses. On a country scale, poor road infrastructure costs India at least 2 per cent of its GDP annually.”

Readiness of country’s transportation sector to cater high need of trucks

“Our road infrastructure is neither prepared to take on more trucks on its network nor more routes within or outside the urban areas.

But we have to consider the movement of the logistics players that the GST may

Rise in demand of trucks in the post GST period

“Consolidation has been happening in warehousing in the post GST period. Now, companies are working with a hub-based warehouse system instead of having warehouses in all major consumer states and will minimise the number of warehouses.

This will help them to gain synergy and more savings in terms of logistics cost. Since there are big volumes to handle, demand for large tractor-trailer and high-powered vehicles would increase for sure. However, there will be accuracy in planning as per the demand forecast in the post GST scenario which will further boosts FTL utilisation. Yes, we can say it’s a welcome growth and Schenker will do its best to continue offering optimised solutions.”

R Shankar, CEO, TVS Logistics Services Ltd India says, except certain remote locations all parts of the country including national and state highways and all centres of production, road infrastructure is fairly well developed for transport of heavy



cargo. On other issues like effect on profitability due to bad roads and possibility of rise in demand of large trucks in the post GST period, Shankar had a lot to say, which are discussed under the following heads:

Viability of Indian roads for transportation of heavy cargo

National Highways Authority of India (NHAI) and RBI statistics indicate that India has one of the largest road networks in the world at 47 lakh kms, which cater to the transportation of over 65 per cent of total freight movement in the country. Barring certain remote locations, in most parts of the country, including national and state highways, and all centres of production, road infrastructure is fairly well developed for transport of heavy cargo.

The North-South Corridor, the Golden Triangle, most parts of Western and Southern India and some parts of North and East India also cater well to district headquarters. There is increasing connectivity between main centres of production and distribution.

The Union Budget of Financial Year 2017-2018 increased allocations for NHAI by 24 per cent. So, while infrastructure projects were on the back-burner last couple of years, the government has started to put a lot of thrust into these investments and we can expect the sector to pick up pace.

Effect on profitability of transportation business due to bad roads

As logistics service providers, we face some transportation bottlenecks that emerge from either bad quality of roads or their shoddy maintenance. Key among them is the under-utilization of assets as the lead times are very high. The other two

challenges stemming from poorly kept roads are the greater wear and tear of vehicles and higher fuel consumption - fuel costs are almost 50-55 per cent of the total cost of transportation, vehicle maintenance accounts for another 7-10 per cent. Together, these 3 elements escalate the over-all cost of movement of goods and thus impact profitability of transportation industry. Apart from impacting profitability, bad roads also lead to safety hazards and are a major cause of accidents leading to loss of human life and damage to goods being transported.

Readiness of country's transportation sector to cater high demand of trucks

GST will definitely add buoyancy to the economy because of which business activity will increase, leading to upsurge in demand for transportation. However, logistics cost as a percentage of GDP is already very high at 13 per cent in India compared to developed markets where it approximates 8-10 per cent. Therefore, there is always scope to enhance the efficiency of logistics and make transportation leaner in India. Hence, though the demand will rise due to the overall economic activity, the demand for nature of trucks - rather than their required quantity - may change depending upon the hub and spoke network. This means greater demand for heavier vehicles for longer hauls and small sized vehicles for short hauls; whereas medium duty vehicles may not be that efficient in this scenario.

Last couple of years, as 3PL service providers we have been able to comfortably meet the transportation demands of our customers and provide competitive rates for this service. If at all there was a CAPEX

cycle, it was for enabling replacements and not for acquiring additional fleet. Unless economic activity increases substantially - and this may take many months after GST, Make in India and other reform impetus - I believe the industry will not witness any capacity shortfall anytime soon.

Rise in demand of trucks in the post GST period

Today, most companies have their logistics networks planned based on tax compliances, which we expect, with the onset on GST, to shift in the favor of optimization of warehousing space and network capabilities. There will be strategic relocation of facilities to drive better efficiencies and vehicles are likely to travel larger distances to and from production centres.

In this scenario, the higher the capacity of the vehicles, the lower, per ton kilometer cost - which will be one of the biggest factors contributing to greater demand for larger vehicles. GST is also expected to lower travel time - this is a bottleneck now due to delays at inter and intra-state check posts and other entry points.

With the improvement in infrastructure, the average speed of vehicles will also go up and they will be able to cover greater distances in shorter time. Trucks that cover 350-400 kilometers per day now may be able to run more than double this distance every day and bigger trucks can be utilised better.

Conclusion

Apart from poor road infrastructure, high level of fragmentation of the trucking industry also adds to high road transportation cost. An estimate suggests that nearly 70 per cent of the truck owners in India own between 1-5 trucks. This leads to fierce competition amongst operators leading to truck owners restoring to overloading to recover investments. However, removal of multiple checkpoints in the post GST era has created a positive impact on the trucking industry. But then, we still have a long way to go. There is a lot to be done in the direction of road infrastructure to bring down logistics cost at par with developed countries of the world. 