

RETAIL, FOOD AND SUPPLY CHAIN LOGISTICS

INTRODUCTION

In the previous report, we positioned the food processing sector as the catalyst that will transform India's entire food supply chain, right from its under-performing agricultural sector, through its patchy food logistics industry, to the unorganised front end retail market.

In this report we will delve deeper into the food supply chain and logistics industry to better understand the myriad and significant challenges, and identify which of these challenges offer new opportunities for UK businesses to invest and partner in India.

It is well-documented that about 30% of farm produce is wasted due to logistical operational deficiencies resulting in highly inflated prices and nervousness about long term food security as India's population continues to grow.

Other factors also impact on the need to reform the supply chain, such

as changing consumer habits and increased front end competition.

The Indian government is now taking steps to tackle this major challenge, such as by granting infrastructure status to cold chains, thus providing tax benefits to encourage construction of new facilities, and by making more loans available to farmers. Importantly, also, expectations are being raised that FDI in multi brand retail will soon be permitted, which, of course, will bring important investment into the agri business supply chain and logistics space.

"The Indian supply chain industry has become an important element for the growth of the Indian economy and is worth almost 62 billion GBP"¹. And, by 2030 the Indian food retail market will be worth \$4 trillion (Standard Chartered India in the super cycle report). The opportunities for UK businesses are, therefore, considerable.

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¹ UKTI Report (2010) – "Supply Chain Management Landscape in India"

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MARKET UPDATE

According to a recent report by CRISIL, a leading Indian research and advisory company, the growth forecast for the Indian logistics industry looks very promising. The industry is expected to escalate at a CAGR of 11% to reach annual revenue of £74 billion by 2013 -14. More specifically, India's cold chain industry is expanding at almost 25% per year, compared with 2-3% market growth in the rest of the world.

The major stimulating factors include a favourable regulatory environment, the establishment of logistics parks, and a fundamentally strong economy. This industry is also fuelled by growing supermarket retail, the food processing sector and the proposed implementation of the new Goods and Services Tax (GST).

Although the future looks bright for the logistics industry in India, there are challenges² to overcome:

i) A long, fragmented and complex supply chain

A typical supply chain includes a large number of intermediaries who add margins at each level but not contribute any added value. Trading methods in India require many parties to investigate the product at every step which reduces profits and increases costs for both consumers and manufacturers, and results in mishandling and theft. In addition, packaging can

only be introduced later in the chain and does not always offer adequate protection of the product. By the time the goods ultimately reach the end consumer, their selling price becomes approximately 3.5 times the original farm gate price.

Supply chain for Fruits and Vegetables in India



Source: UKTI Report (2010) – "Supply Chain Management Landscape in India"

About 80% of the transport in the country is carried out on national and state highways, which constitute only 2% of the total road length of over 2 million miles.

ii) Poor infrastructure and an inadequate transportation system especially in the rural areas.

About 80% of the transport in the country is carried out on national and state highways, which constitute only 2% of the total road length of over 2 million miles. The rest are badly maintained lanes and byways which forces logistics firms to use smaller trucks with less capacity and lower speeds. Indian sea ports face a similar problem as their handling capacity is much lower than those in Western countries and the tariffs and import-export restrictions imposed by the Indian government lead to major delays in the movement of goods. Transporting retail products by rail is not a preferred option because of higher haulage charges.

Whilst some good road and rail links are being developed on major routes, there is a real need for further development in most of the rural areas. In addition, the existing cold chain infrastructure is used mainly for the dairy industry, but very rarely for fresh food.

iii) Poor warehousing and storage infrastructure / Lack of storage space

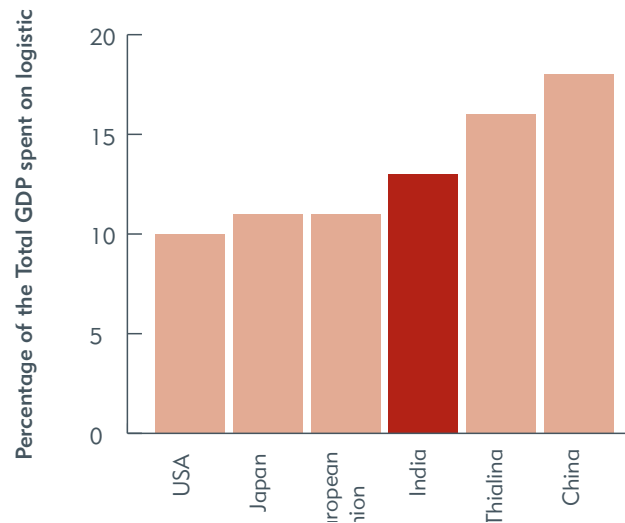
Large Indian companies establish several small warehouses and scatter them across major states to avoid paying the CST (the local sales tax). This, however, results in excess inventory, increased material handling, and additional transportation costs. In addition, the small size of the warehouse restricts the use of big equipment such as conveyors and forklifts. Use of technology is also very limited and tasks are done by generally poorly trained labourers rather than through specialised machines. Thus Indian warehouses are inefficient.

Other challenges that hold back the sector are: the lack of established third party logistics (TPL) to provide entire supply chain services under one roof at competitive prices; a complex tax structure, with taxes being levied by both central and state governments; and Corruption, and excessive red tape

Thus logistics is still a major bottleneck in the creation of a seamless supply chain. Due to these inefficiencies, India ends up spending 13% of its GDP on logistics development, higher than the developed nations of the EU, Japan and the US.

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COST OF LOGISTIC AS A PERCENTAGE OF GDP



The Indian cold chain market is expected to grow at 22% per year and reach 5 billion GBP in 2015 propelled significantly by the development of the food processing sector and government initiatives.

However change is on the horizon, which present significant opportunities for investment such as:

- 1) Greater focus on core operations by Indian manufacturers, leading to a greater inclination to outsource supply chain management to third parties.
- 2) Indian cold chain market is expected to grow at 22% per year and reach 5 billion GBP in 2015 propelled significantly by the development of the food processing sector and government initiatives.
- 3) A higher influx of global logistics service companies entering the Indian market to cater to the growing demand of an improved supply chain system. For example, the United States is actively focusing on building cold storage facilities across India to strengthen food security³. The UK should act now or be left behind. After its first Delhi cash and carry store was launched in 2010, French retailer Carrefour is now planning to set up its second store in Jaipur with a view to establishing a strong base in North India. According to industry sources, other major players in the business such as Walmart and Metro also expanding their India presence.

- 4) The business of warehousing is expected to grow with the implementation of the General Services Tax (GST) as companies will be more inclined to outsource their warehousing operations to focus on their core activities. This will accelerate the demand for hi-tech and ultra-modern warehouses in the near future.

At the moment, manufacturers have to pay local sales taxes for transportation of goods from one state to another but can avoid these taxes by setting up their own warehouses. This has led to a proliferation of small warehouses owned by the manufacturing companies resulting in excess inventory, and increased transportation cost. It is hoped that implementation of a uniform tax structure such as the GST would eliminate this inefficient system and encourage manufacturers to outsource their operations to specialist third party logistics companies.

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INVESTMENT UPDATE

Regulatory Environment and Government Initiatives

With a view to enhancing the existing supply chain and logistics infrastructure, the Indian Government is taking active steps to encourage and attract public private partnerships and foreign investment in this sector.

The Indian regulatory environment welcomes FDI in almost all logistic activities including sea, air and surface transportation and warehousing. 100% FDI is allowed in logistics services under an automatic route, except in the case of courier services and air cargo transportation.

Government initiatives to improve logistics infrastructure and reduce inefficiencies along the perishables supply chain include:

- Upgraded transport system (for example the national highways development project, and dedicated freight corridors (DFCs) on the Eastern and Western routes).

The Western DFC (1,534 kms.) will be from Jawaharlal Nehru Port (JNPT) in Mumbai to Tughlakabad and Dadri near Delhi and would cater largely to the container transport requirements between the existing and emerging ports in Maharashtra, Gujarat and the northern hinterland. The Eastern DFC will be from Ludhiana in Punjab to Dankuni (1,839 kms.) near Kolkata which will in the future

be extended to serve the new deep sea port proposed in Kolkata area and will largely cater to coal and steel traffic.

- Encouraging PPP in port construction and multi-modal logistics parks (MMLPs) along the DFCs. These MMLPs will cover a total area of 400-500 hectares and be equipped with machines for material handling, sophisticated inventory management systems, container depots, warehouses, office space for staff and raw material processing facilities;
- Encouraging PPP in grain storage infrastructure through schemes such as the 'Private Entrepreneur Godown Scheme' which was launched in 2008 by the Food Corporation of India to provide financial incentives for setting up new and integrated cold chains;
- Food Parks to increase food processing infrastructure. Here the government provides financial assistance on the total cost of the projects established in the recognised food parks. 35 of the 56 approved food parks are now fully operational;

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- Sanctioning the funding for 30 Mega Food Parks. These are essentially agri/horticultural processing zones equipped with modern processing

facilities, the requisite infrastructure and a well established supply chain that will be supported by 50-75% financial grants from the government;

- Scheme to establish or modernise abattoirs;
- Scheme to upgrade technology in the food processing industry;
- Scheme for quality control, food testing and R & D, for which 100% government grants are available;
- Financial assistance for food processing training centres and universities to provide further education in food processing, entrepreneurship etc.

All these government incentives present a tremendous opportunity for UK logistics companies to leverage their technical expertise to address the challenges and gain an early advantage.

The attractiveness of the Indian market is further enhanced by the fact that cost of production in India is 40% lower than many of the locations in Europe and about 10-15% lower to that of the UK. This makes it possible to set up a large low cost production base. In addition, low penetration in the Indian supply chain logistics sector and increasing demands from sophisticated Indian consumers means that the time is ripe for UK logistics companies to tap into the immense potential for new business in the Indian food supply chain.

COMPANY NEWS

LUVATA

Luvata⁴, the international copper product maker headquartered in London, is planning to set up its first large production facility in India to help meet the escalating growth in the food refrigeration market. India's burgeoning population has fuelled domestic demand for the safe and effective storage, preservation and movement of food, milk and medicines across the country. "India's increasing population demands fruits and vegetables all year long," said Luvata's chief executive John Peter Leesi. "This provides a significant market opportunity for Luvata's cold-chain expertise and I would be very happy to see us capture 10% of this market by 2015."

⁴ <http://www.luvata.com/en/>



INDIA COMPANY PROFILE - DEV BHUMI COLD CHAIN PVT LTD.

NAME	Dev Bhumi Cold Chain Pvt Ltd.
MAIN ACTIVITIES	Fruit and Vegetable Preserving and Specialty Food Manufacturing
DESCRIPTION	<p>Dev Bhumi was incorporated in August 2003, but the main Promoter Mr. Sanjay Aggarwal has an experience of more than 30 years in the field.</p> <p>Dev Bhumi ("DB") is an advanced integrated (cold) Supply Chain and provides farm procurement, Controlled Atmosphere Storage, logistics and allied services.</p> <p>Currently, the company has a Strategic Distribution Centre in Himachal Pradesh and a Retail Distribution Centre in Delhi. It plans to open SDCs in Mumbai and Hyderabad in the coming years and RDCs in Mumbai, Hyderabad and Kundli. ⁵</p>
STATE	Azadpur, Delhi
REGISTERED CAPITAL	673,900 GBP (March 31, 2010)
KEY EXECUTIVES	Sanjay Aggarwal, Director
WEBSITE	http://www.devbhumiagri.com/index.htm

Sources: ISI Emerging Markets; Dev Bhumi Cold Chain Pvt Ltd.

⁵ Dev Bhumi Cold Chain Pvt Ltd., http://www.devbhumiagri.com/about_us.htm

CASE STUDY - CLIFTON PACKAGING GROUP LTD

Khalid Sheikh, Chairman,
Clifton Packaging Group Ltd

1. Tell us about your business – its origin, offering and coverage.

Clifton Packaging Group Ltd started in 1981 as wholesalers of carrier bags and paper bags, supplying to retail shops in the London area. The company is a privately owned family business. Over the years we expanded our activities and became involved in manufacturing of printed packaging films and bags, especially for the rapidly growing food industry. Today we supply world-class printed packaging to many blue chip companies all over the UK and abroad, and are proud to be ranked amongst some of the most innovative packaging companies.

2. When and where did you make the first investment in India? In which cities do you currently have business relationships and/or business activity in India?

The ever-increasing costs of production in the UK and increasing competition led us to start a challenging journey to establish strategic long-term partnerships with successful companies

in emerging countries. We started our search in China and India in 2002 and soon realised that India was a better option with huge potential but that it required a lot of groundwork.

We started off by trying to duplicate our UK manufacturing facility in India, but we soon realised that Indian entrepreneurs were investing and excelling rapidly, both in India and in global markets. We then decided to search for partnerships with Indian companies utilising world-class technologies that were keen to partner with well-established companies from the West.

After many years of trials and errors, we finally entered into joint investment and partnership agreements with selected companies, mainly in Ahmadabad, Mumbai and Delhi. Today we enjoy the very substantial rewards of all the years of hard work in India: our supply lines from India are very stable and secure and they meet the high quality standards required in Western Europe. Investing, expanding and exploring new markets are part of an ongoing process of evolution between Clifton and our Indian partners.

3. What business model did you leverage for market entry into the market? (Local partnerships, outsourcing, direct exports, local manufacturing, etc.)

When we set out plans to take our business to India, we made a short exploratory trip, during which we received a great response from Indian companies keen to work with us. We rushed into a joint venture (JV) agreement with a company that had a similar structure to Clifton in the UK, but the relationship was not suitable for us in the long term, because of differences in our operational and management procedures. We then revisited our strategy and adopted different commercial relationships.

Outsourcing proved to be the best option but in order to be successful it required a lot of financial and human resource input in the start-up stages. Our clients are very demanding in terms of quality and production management standards, so in order to meet these requirements we worked very closely with our Indian partners to implement the necessary systems. This allowed both parties the opportunity to operate and manage our business independently, which proved

to be a very successful formula. Today, I can confidently say that working with our Indian partners is as smooth and efficient as working with local companies.

Establishing local partnerships has been the hallmark of our success in India. India has been instrumental in our UK and global growth. Ever since we started dealing with India, we have enjoyed sustained growth year in, year out. India has given Clifton a formidable edge in the world of packaging and helped us to substantially expand our product portfolio.

It is important to mention that we did not need to downsize our UK manufacturing in order to achieve our objectives in India. Our partnership with India in fact allowed us to further expand our manufacturing base in the UK and make us stronger, rather than having to reduce our workforce.



CASE STUDY - CLIFTON PACKAGING GROUP LTD

4. In your experience, what have been the biggest practical challenges of entering and operating in emerging cities in India? (Infrastructure, identifying suitable partners, hiring suitable staff, etc.)

Establishing our business in India has been one of the most demanding projects undertaken by Clifton. We faced numerous obstacles in India but we were totally convinced that the country was our future security.

One of the most important things needed to succeed in India is the ability to understand the business culture, which is vastly different from what we are used to in the West. Having grown up in a very cosmopolitan environment in East Africa and the ability to speak Indian languages fluently gave us a good understanding of Indian culture, which made things much easier for us.

In the early years our biggest challenge was finding the right partner, and the logistics of moving goods and travelling to different cities proved extremely demanding.

All our Indian partners are very well established and have put highly efficient systems in place. Today, Clifton is

proudly working in India. Establishing mutual trust is the single most important secret of success in India.

5. What key factors would you attribute your success to?

Understanding the local culture is the key to success in these markets; cultures vary tremendously as you travel to different parts of the country. Furthermore, success will only come your way if you firmly believe and are fully committed to making things work in your favour. An ability to approach matters with an enterprising open mind and to think outside the box proved to be most helpful.

Foreign companies working without local partners have to face many daunting challenges. We were very fortunate to locate high-quality skilled people through our partners in India and this was instrumental in accelerating our progress overall, with the result that they are not just ideal but perfect partners now.

Clifton personnel travel to India on a regular basis but our biggest secret of success was to bring over selected personnel from our Indian partners and provide them intensive training on all the quality systems, production

procedures and management structures of our UK manufacturing. Armed with all this disciplined training, they all returned to India and applied their experience. Clifton has regular staff exchange visits with our partners in India to keep fully abreast of procedures and developments at both ends.

6. What is your candid view on future opportunities for your business in other Indian emerging cities?

India plays a very important part in Clifton's future strategy and development plans. The country is growing rapidly and at Clifton we are proud to be part of this change. We are constantly monitoring and adjusting our plans to ensure that we do not overlook any opportunity. Large industrial parks supported by the government are emerging throughout India. We are in regular dialogue with our Indian partners to see how best to further our business.

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UK Trade & Investment can also support your company to succeed in the Indian market. For more information on the retail sector in India, you may contact:

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