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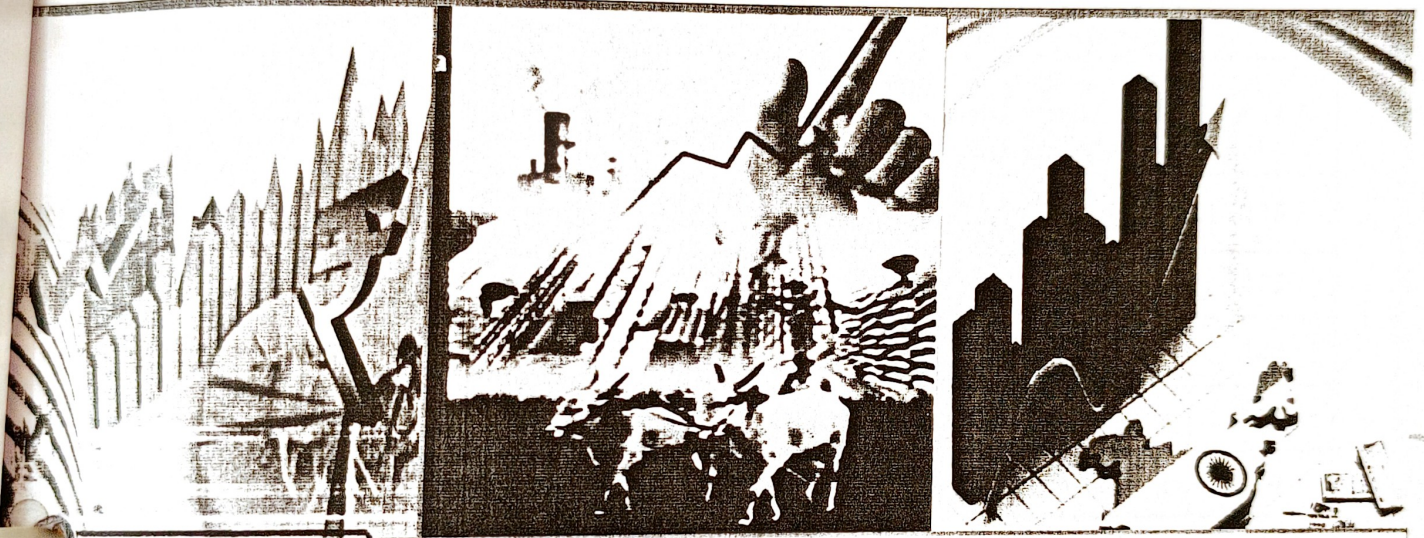
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Financial Impact Of Government Godown System

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Abstract:-

As 21st century is classified as the era of Technology and Mass Storage Management System using various advanced tools and techniques. Warehouses have existed always as the mid-point storage stop for commodities in their journey from the consumer durable giants to your shopping bag. However, the game of warehousing in India has evolved to include huge technological advancements and equally mammoth proportions of investments. Talking about the future of the godowns in India, With e-commerce players expanding operations across the country, there has been a corresponding rise in demand for space from these storage areas (Godowns) in both tier I and II markets and this is expected to add to robust growth in Delhi NCR, Mumbai, Pune, Bengaluru and Chennai markets. This thesis directs the reader to the way they see the financial impact of Government Godown System and what actually the different parameters the financial impact of Government Godown System is composed of. It is also going to show you the massive growth of these storage space in the different states of the India and its impact on it by overall revenue.

Keywords-Godown, Financial Impact, Government, Revenue.

Objective:-

The main purposes of this study is to bring a general picture of Financial impact of Government Godown System with the perspective of giving overview of their causes, pros and cons, revenue, etc., and what are the parameters on which Government Godown System works and its impact on traditional method of business.

1. Introduction

1.1 Definition

Godowns is the act of storing goods that will be sold or distributed later. While a small, home-based business might be warehousing products in a spare room, basement, or garage, larger businesses typically own or rent space in a building that is specifically designed for storage. Godowns and all that goes along with it is part of a sophisticated industry known as logistics management. Logistics includes procurement, inventory management, and distribution. It falls under the supply chain umbrella, which also includes product development, marketing, sales, and other product-related disciplines.

Generally speaking about what actually the Financial Impact refers to, A Financial Impact is an expense that has an effect on a financial position that cannot be controlled. The types of events that create this type of impact are disasters, unexpected changes in market conditions, catastrophic product failures and anything else that interrupts business and over which business management has no control. Technically, the term is generic. It is often used to analyze any situation that changes any financial position.

1.2 Overview

Warehousing in India has travelled far, from being glorified godowns to the modern, technically fitted floors with computerized specifications. The formerly concrete or low-grade steel



godowns are now increasingly being replaced by pre-engineered, factory produced steel structures which are often assembled at a location. These modern warehouses are insulated, ventilated and climate-proof with round the clock surveillance and standard quality and safety procedures. In short, warehousing in India has evolved into a complete logistics friendly infrastructure system and the industry size is chalked at Rs. 560 billion, as per a report by Ernst & Young and the CII Institute of Logistics.

The burgeoning e-commerce industry has made way for dynamic changes in the warehousing sector developing them into sophisticated stockrooms with advanced, real-time tracking mechanisms and other state-of-the-art facilities without which e-tail would still have been a dream. As reported by Ernst & Young and CII Institute of Logistics, the warehousing sector is growing at a rate of 10% per annum and within this, the warehouses catering to industrial and retail clients claim the maximum share of 55%.

The warehousing industry in India is still at the beginning stages and has huge tracks to cover in terms of equalling the global standard. In the scenario of halting technology penetration and advancements, the country has an access to huge manpower and abundant labour but efficient training mechanisms and skill development are not at par with the rate of industry evolution needs. The state of the industry at present is fragmented with absent standardization and dismal investment in IT infrastructure. The government of India has established a Free Trade Warehousing Zone (FTWZ) to develop the warehousing infrastructure, facilitate the import and export of services with free currency trade transactions. The government aims to increase organized warehousing activity and an economic boost through FTWZ. The Warehousing (Development and Regulation) Act, 2007 introduced The Warehouse Development Authority (WDRA) to make provisions for the development and regulation of warehouses in the country. And in particular, the WDRA is set to develop and protect the agriculture produce sector through adequate warehousing benefits which have little appreciation in the current growth of the warehousing sector in India. As witnessed so far in the evolution graph of warehousing in India, the sector has huge potential, demand, and future. The investment opportunities in this sector are huge and essential to achieve a world-class infrastructure platform.

2. Factors affecting Growth

In keeping with the demand, warehousing related sectors such as real estate and construction costs also have seen an upward trend, hence warehouses are now looking at optimum utilization of space per square feet along with options of more economical yet sturdier structures. Here comes the evolution of warehouses into cargo hubs. Cargo hubs are multi-client storage units where logistics operators shift from single company warehouses to multi-client and multi-product models.

This is also advantageous in the GST scenario. The highly-defragmented warehousing industry in India stands to benefit further from the GST by levelling the playing field for both organized and unorganized players. Besides, GST will reduce and consolidate warehousing into strategic locations and thereby aid in logistical cost efficiency; it would also lead to better inventory control and help in forecasting demands accurately; it would lead to large-scale technology implementation which is not feasible in smaller, scattered warehouses; thus leading to sophisticated, organized and efficient warehousing industry.

The cost of logistics in India stands at 14% of GDP, which is much higher than the logistics cost in most developed nations. This impacts India's trade competitiveness in the domestic and global market. To address this challenge, the government is planning to take steps that will reduce logistics cost to less than 10% of GDP by 2022. The reduced percentage will benefit the manufacturers and augment the trade sector, which is increasingly turning towards third-party logistics providers for support, thanks to the rising demands and technological advancements in the manufacturing industry. The warehousing industry is being served by a huge untapped potential in this way. The potential for warehousing in India is immense, according to market experts, who estimate investments to the tune



of Rs. 45,000 crore per annum if it is to meet the industry requirements across all manufacturing verticals. This step calls for huge technological as well as manpower initiatives.

3. Types of Godowns

3.1 Public Godowns

Public warehouses are owned by governmental bodies and made available to private sector companies. Public warehouses can be lent for both business and personal use. If you're an SMB owner and want to store your goods for a short period of time, a public warehouse can be a great option. Although typically not that advanced technologically, they're generally the most affordable and accessible option and thus a solid choice for eCommerce startups and SMBs.

3.2 Private Godowns

A private warehouse is a warehouse which is privately owned by wholesalers, distributors or manufacturers. Large retail and online marketplaces also have their own privately-owned warehouses. Although generally more expensive than public warehouses, private warehouses can still be a great option for eCommerce SMBs if they need a major, long-term strategic presence in an important region.

3.3 Bonded Godowns

A bonded warehouse is a type of warehouse that can store imported goods before customs duties are required to be paid on them. Authorities give companies using them bonds when they rent space with them to ensure they don't face monetary loss at the time their products are released. Plus, companies storing goods in them don't have to pay any duties until their items are released. You can also store restricted items in them until their proper paperwork is complete. A bonded warehouse also offers facilities to store items for extended periods of time. Such warehouses are perfect for importers as they can keep their items duty-free until they find buyers. They also have reputations as secure and safe storage spaces for goods, making them ideal for eCommerce businesses that specialize in cross-border trading.

3.4 Smart Godowns

A smart warehouse is a type of warehouse where the storage, fulfilment process and management is automated with AI. Automation typically includes everything from software for management to robots and drones performing tasks like packing, weighing, transporting and storing goods. Corporations like Amazon and Alibaba use huge smart warehouses that make the order fulfilment quick and less prone to human error.

3.5 Consolidated Godowns

A consolidated warehouse is another type of warehouse that takes small shipments from different suppliers and groups them together into larger shipments before distributing them to buyers. The catch is that all the shipments are intended for the same geographical location. Overall, though, consolidated warehouses are a very economical way of order fulfilment, especially for small businesses and new startups. The capital investment and volume of inventory required to use consolidated warehouses are fairly small too, making them a great option for eCommerce SMBs just getting off the ground.

3.6 Cooperative Godowns

A cooperative warehouse is a warehouse which is owned and run by cooperative organizations like a farmer or winery co-op. Both co-op members and those outside the co-op can store goods at these facilities, though co-op members benefit from reduced rates.

3.7 Government Godowns

These warehouses are directly owned and controlled by the government, such as seaport storage facilities. Typically, government warehouses charge fairly affordable rates. However, if a business is



unable to pay their rent within the due time, the government has the authority to recover their rent by disposing of their goods.

3.8 Distribution Centers

A distribution center is a storage space which is usually built with specific requirements in mind. The storage is used for temporary needs and items are shifted quickly within the supply chain. A large inventory is received and distributed to resellers and retailers within a short period of time. In the case of some food and perishable items, distribution centers items are often distributed within a day. Generally, distribution centers are affordable to rent in and can vary greatly depending on what types of products are being stored in them.

4. Technology Impact on Godowns

In terms of technological advancements, warehousing in India currently witnesses automatic identification and data capture or AIDC technology that helps in consignment tracking and seamless cargo distribution. While old methods like barcode readers are still at play, new processes like Quick Response or QR Code are also readily being used to encode data into digital data and thereby accelerate the shipment flow among the beneficiaries. Other IT solutions include Real Time Location Systems and Radio Frequency Identification or RFID for automated data collection and stock identification that warehouse operators use for ease in operations. These Warehouse Management Systems or WMS and such other IT driven solutions go a long way in upgrading the warehousing industry. Today, WMS includes integration with automatic material handling equipment, cross-docking, yard management, labour management, billing and invoicing, etc.

Automation is the next step the evolution of warehousing in India. For example, Amazon uses automation to improve customer experience by measuring operational efficiency. In New Delhi where one of the Amazon fulfilment centres is located, the company-warehousing infrastructure operates a 1.2 km long conveyor belt that is equipped with colour-based automatic sorting. These kinds of automation and other robotic enhancements are the future of warehousing in the country and the key toward standardization.

Efficiency is the buzzword in the warehousing sector, however, it is also noteworthy that efficiency and employment are not always the best of friends. The impact of technology in the logistics sector is profound and it has the ability to make certain skills redundant, force the aggregation of certain skills while eliminating certain low-end jobs.

5. Financial Impact of Government Godowns System

India is set to witness investments close to Rs 50,000 crore for in creation of warehousing facilities across the country between 2018 and 2020. Different categories of warehousing are expected to create around 20,000 jobs to during these three years at different levels of specification and specialization, showed a JLL India report. This investment comes on the back of the fact that nearly Rs 10,000 crore was invested in 2017.

Two prominent changes that have created a significant growth prospects in warehousing are the implementation of GST in India and creating a unified taxation, and the rapid growth of e-commerce necessitating building of large scale warehousing across various locations. Of all the categories, warehousing will be witnessing the highest investment of over Rs 35,000 crore in the next 3 years, mostly in creating storage facilities for retail and consumer goods, while cold storage and agricultural warehousing will see about Rs 7,500 crore investments. Container storage would be attracting around Rs 500 crore during the same period. The overall growth in e-commerce and a shortening turnaround time for delivery has necessitated a sharp growth in warehousing in the country. Apart from E-Commerce, the next big sector of spaces will be the electronic and white goods that command significant warehousing spaces in urban and semi – urban locations.

These are also sectors that, despite their incremental requirements in warehousing, are averse to owning the requisite place, therefore mostly reliant on third party warehousing facilities. It is

estimated that grade A and B warehousing stock will grow at a CAGR of 21% year-on-year taking the total tally of warehouse space in India to 247 million sqft by the end of 2020 almost doubling the current warehousing stock of 139.8 million sqft in 2017.

Room for Growth

Nearly 200 mn sq ft of logistics and warehousing space is expected to be added in 4-5 years

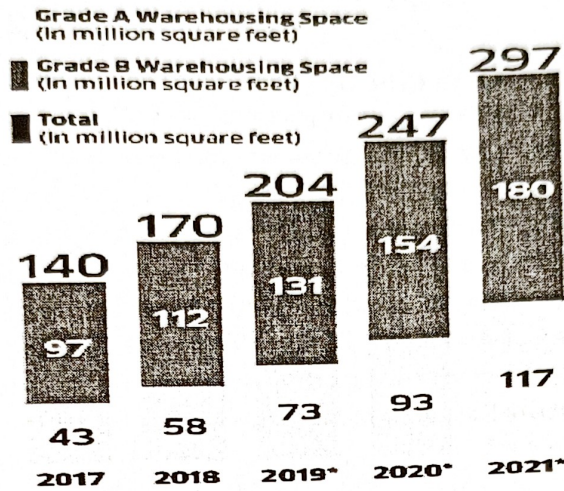


Figure 1. Spacing graph of different godowns

India's Logistics is Highly Inefficient

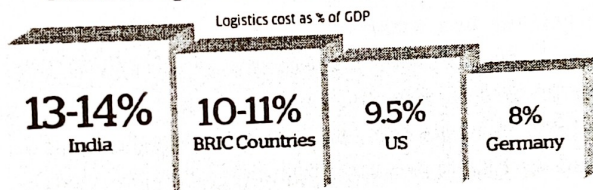


Figure 2. Godown Cost as % of GDP

The Indian logistics sector is on a big growth tide. According to the domestic rating agency ICRA, Indian logistics sector is expected to grow at a rate 8-10 per cent over the medium term. This is an improvement over the compound annual growth rate (CAGR) of 7.8 per cent at which the industry grew during the last five years. The logistics industry of India is currently estimated to be around US\$ 160 billion. With implementation of GST the sector is expected to benefit and touch US\$ 215 billion over the next two years, as per the Economic Survey 2017-18.

The last couple of years have seen significant development for this industry which is reflected in the global rankings. According to the Global Ranking of the World Bank's 2016 Logistics Performance Index, India jumped to 35th rank in 2016 from 54th rank in 2014 in terms of overall logistics performance. The report also showed that India's logistics sector has improved its performance on all the six parameters used in the ranking. This is a huge jump of 20 ranks and clearly indicates the growth of the sector.

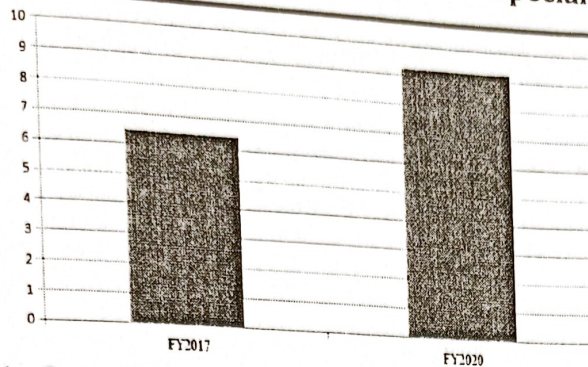


Figure 3. Indian Logistics Sector (in Rs Trillion)

The government of India is also taking significant steps to support the sector and boost its growth in the times to come. The commerce and industry ministry has decided to give a one-time funding of Rs 8 million to the sector for building up initial infrastructure and a phase-wise support of Rs 33.9 million for four years.

The government's focus going forward is to bring down the cost of logistics which is at 14.4 per cent of India's GDP at present. The aim is to bring it down to 10 per cent level in the next four years. This is a very significant move and will boost the competitiveness of the sector and will be significant for its further growth. Going forward, strategic investment and government initiatives to support the sector are going to be crucial for the logistics industry in India. If the cards are played right, the sector has the potential to create huge number of jobs for the countrymen and play a key role in driving the economy on a high wave.

Conclusion:-

As more and more land are going under farming, Industries, etc., which is going to increase the outcomes of the manufacturing products. These products such as pulses, vegetables, fruits, steel, coal, etc., needs to be stored and managed for more than months or sometimes many years needs to be count. With a view to increase the participation of private sector and development & regulation of warehousing industry, Government of India introduced 'The Warehousing (Development and Regulation) Act' in September 2007. The main focus of this Act is to establish a regulated environment for issuance of **Negotiable Warehouse Receipt (NWR)** under Warehousing Development and Regulatory Authority (WDRA) which was constituted in October 2010 under the said Act. The functions of WDRA include registration and accreditation of warehouses intending to issue NWR. WDRA, since inception had granted accreditation to 51 applications out of 300 applications submitted as on March 31, 2011. These all steps are taken by the government to improve the investment policies and management techniques for the products in the Godowns. This article defines the way that the government looks towards the future of the godowns in India and how will they handle this investment efficiently.

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