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Solutions for India's Logistics Industry — Mitigating the Cash Management Challenges



By
Chintan Shah
Head of Sales, Cash Management India
Chintan.Shah@db.com

Globalization of India's economy has vastly improved physical connectivity over the large terrain of the country which, coupled with growing telecommunication density and the IT revolution, has contributed to a burgeoning middle class in the country. To sustain the growing demand for products and services, supply side efficiencies have become more critical than ever. This has resulted in recognition of the logistics and supply chain sector as the backbone that will support the Indian growth story in the coming years.

Logistics Industry: Key to India's Economy

The Indian logistics industry is currently valued at US \$125 billion and employs around 45 million people. This number, when compared to the IT and IT-enabled services sector, which employs around 4.3 million people, gives you an idea of the scale of this booming industry and its importance to India's growth.

The logistics industry is estimated to grow at a compound annual growth rate of above 8% over the next 3 to 5 years, with the primary sectors driving its growth being infrastructure, manufacturing, automobiles, retail and information technology.

There has been increased efficiency and productivity in the transportation systems with the government of India's committed investment of USD 350 billion to the infrastructure sector over the period from 2007-2012.

Demand for integrated logistics services within the manufacturing and automobiles sectors has grown with the surge in outsourcing of non-core activities to achieve greater cost savings. Higher trade volumes in the retail sector, driven by higher disposable incomes and post-recession spending, have led to increased demand for logistics services such as warehousing, transportation and handling services.

Meanwhile, advances in information technology and electronic data interchange (EDI) have led to reduced manpower requirements at ports, airline terminals, etc., and the requirement for new solutions.

Complex Interconnections and Corporate Treasury Challenges

The Logistics sector in India has a multitude of players that operate across the industry value chain. Shipping lines and shipping agents provide water transport while port trusts and private terminal operators provide loading, unloading and other facilities.

The public-private partnership model for development and maintenance of port terminals has contributed to growth of private terminal operators as well. In addition to the above categories, freight forwarders organize shipments of goods for companies and also provide carrier services; freight brokers negotiate rates on behalf of customers while third-party logistics providers offer clearing, forwarding, warehousing and other value-added services.

Rail cargo is dominated by the Container Corporation of India (CONCOR) with a few new entrants like APL, and air cargo has numerous airline operators who deal with customers through their agents, and the International Air Transport Association is the regulatory body for the same. The wide gamut of players in India's logistics industry and the scale of operations have led to a significant number of challenges for the corporate treasury.

Collections

On the collections side, clients require support from their cash management providers for collections in the form of demand drafts, cash, cheques and electronic payments at locations spread across India. Data entry support and outsourcing of non-core activities are also requirements that add value to the logistics companies, while payer and invoice level information is needed for reconciliation.

To address the above challenges, Deutsche Bank offers Customized Collections Management Services at client premises across the country. Facilities for data entry and support for routine operational activities at client premises are also provided.

A solution uniquely offered by Deutsche Bank is the virtual account structure implementation with payer identification for seamless reconciliation with invoice level details, bringing a new level of efficiency to clients' corporate treasury processes. Virtual accounts are notional accounts, each with a unique account number, which our clients can assign to their customers that pay electronically. The unique account numbers associated with each virtual account help in the prompt identification of the electronic credits and the auto upload of information into enterprise resource planning (ERP) systems. The credits are passed on to the actual account and payer details are captured based on the virtual account collections.

Atit Mahajan, Financial Controller of CMA CGM, India, says, "Deutsche Bank stands out in their willingness to adapt to our business and provide cash management services which, among other services, help us improve our processes, ultimately leading to higher productivity."

Payments

On the payments side, clients require solutions for urgent payments of taxes, faster turnaround time on disbursements, greater flexibility in authorization of payments as per business requirements, and online booking of foreign exchange transactions for regular remittances.

To help clients overcome these challenges, Deutsche Bank provides pre-printed demand drafts (DDs) in the name of pre-approved beneficiaries to minimize turnaround time, with online payment of taxes and printing of demand drafts at remote customer locations within one hour of authorization for time-critical business requirements. Additional value-added features include mobile authorization of payments to eliminate surcharges due to delay in payments, and online booking of foreign exchange transactions for regular remittances to the overseas parents.

Devang Vaidya, Country Controller of CEVA Logistics, India, sums it up aptly when he says: "In the logistics business, and especially for customs clearance activity, we required DD to avoid demurrage. Deutsche Bank provides a unique feature of pre-signed demand drafts on pre-agreed beneficiaries, which no other bank whom we deal with was providing. This type of facility helps us grow our business. Also unique and useful are the features of FX4Cash, the online FX payment platform, a new feature in the solutions provided by Deutsche Bank. Apart from all this, the Deutsche Bank team is very focused and proactive, and we are very much impressed with their coordination and timely response."

Deutsche Bank has a strong legacy of working on industry-specific solutions that address challenges faced by the players in the industry. A consultative approach with

the industry players is the key enabler to Deutsche Bank's success in providing cash management solutions tailored to the needs of the logistics industry.

Stephen Hogan, Vice President & Director of Regional Treasury Asia Pacific Corporate Finance, Deutsche Post – DHL, had this to say: "Deutsche Bank India has delivered fully on the innovative products and solutions offered to us in their cash management proposal. These solutions included the implementation of virtual account structures for customer collections, which improve AR reconciliation, and two products that meet the often time critical payment cycle involved in the logistics industry, namely remote printing of demand drafts at our locations within one hour of central office authorization, and the supply of pre-signed demand drafts.

"We appreciate their professional approach in dealing with our subsidiaries, and their support in recognizing that implementation timelines and requirements often differ across different subsidiaries and require a customized approach," Hogan says. "We also appreciate their strong communication ability in keeping stakeholders at a global and regional level advised of progress on an India level, by highlighting potential roadblocks as well as successes."

References

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