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● WAREHOUSE MANAGEMENT

GST will streamline agri-warehousing

**SANDEEP
SABHARWAL**

CEO, SLCM Group

It will also lead to an overall input cost reduction and improved margins in the sector

INDIA IS STILL predominantly an agrarian society, with over 50% of the country's workforce engaged in agriculture and allied activities. However, the sector contributes a meagre 18% to the GDP, despite being the largest producer of fruits and vegetables, and the second-largest producer of foodgrains in the world. Outdated storage facilities and inadequate management leads to a loss of about 10% of the produce, including foodgrains, fruits, vegetables and spices.

Warehousing in the country is dominated by the unorganised sector, due to the complexities of taxation and lack of incentives. Today, the distribution and spread of warehouses is largely influenced by the tax structure, hence it doesn't come as a surprise that tax-friendly states attract more investments in this crucial backbone of the agriculture sector. As a result, this skews the distribution of warehouses and restricts effective utilisation of available resources across the country.

The implementation of GST from July 1, 2017, promises to change the prevailing scenario and create a level-playing field across the country. Given its simplified and uniform structure that will subsume indirect taxes, the mega tax reform will have a positive impact on the agriculture-warehousing business as these storage centres will be driven by consumption patterns and customers rather than tax-friendly locations.

The sector may even witness relocation of existing facilities closer to customers and logistical hubs, leading to optimal distribution of warehousing facilities across states and usher in a greater degree of balance between demand and supply.

The levy of GST is also expected to result in the consolidation of warehousing facilities, which will effectively reduce the number of warehouses but lead to bigger, more efficient and better managed storage spaces for agricultural and allied products. This consolidation will ensure implementation of more sophisticated processes and the latest technology, which is not always possible in small and scattered warehouses.

GST could reduce the number of warehouses and lead to bigger, more efficient and better managed storage spaces for agricultural and allied products

For the agri-warehousing sector, this means better cold-storage facilities and improved scientific handling of perishable goods. A Ficci study has noted

that foodgrain wastage in storage can be reduced to a mere 0.5% from the current 10%, translating into savings of about ₹90,000 crore to ₹1 lakh crore, if technology-driven systems are put in place for warehouse management.

While demonetisation was the trigger, the implementation of GST means the process of formalisation of economy will get accelerated. GST will create a unified national market and cut down the current bottlenecks that lead to higher transaction costs and hurt efficiency. The roll-out of this tax reform is expected to improve the flow of goods on account of reduction in turnaround time as VAT-related check-posts will be removed. This will make the entire logistics sector, including transportation and storage of produce, far more structured and organised.

The agri-warehousing sector is saddled with a huge gap between demand and supply in logistics services due to the largely unorganised nature of the market. With the GST-led consolidation and reorganisation of the market, investments are expected to flow that will refurbish the whole supply chain and effectively help narrow the existing demand-supply gap in agri-warehousing. This transformation will have a cascading effect on logistic services, as it will necessitate the use of larger and more efficient transport vehicles due to larger supplies. In fact, one could see the emergence of a hub-and-spoke model in the country, in which fewer but bigger trucks will transport goods between bigger and technologically-robust warehouses.

GST will also lead to an overall input cost reduction and improved margins in the agri-warehousing sector. The new tax system effectively removes the burden of multiple and often obscure incidence of different taxes for goods and services. Combined with improved operational efficiency and minimised storage loss, the industry can look forward to multiple benefits in the coming years. It appears *achhe din* are indeed round the corner for agri-warehouses.

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By Sandeep Sabharwal

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