

India - April 2020

Q
SPOTLIGHT
Savills Research

COVID-19: India Front & Center – Production & Supply Chain

(Volume 4)



THE PREMISE

Our fourth research nugget in the COVID-19 Impact Series opens the discussion by contrasting **long-term strengths** of domestic Indian ecosystem for Industrial and Warehousing with **near-term risk-factors**, which could reverse the strengths (this paper refers to these factors as circuit breakers).

THE INSIGHTS

This issue illustrates pre- & post-pandemic scenarios (possibilities), for the following:

1. Likely shifts in composition of demand
2. Probable recovery speeds for various constituents
3. Possible resets in Real Estate, locations & automations

Finally it shows:

A kaleidoscopic view of near and distant future



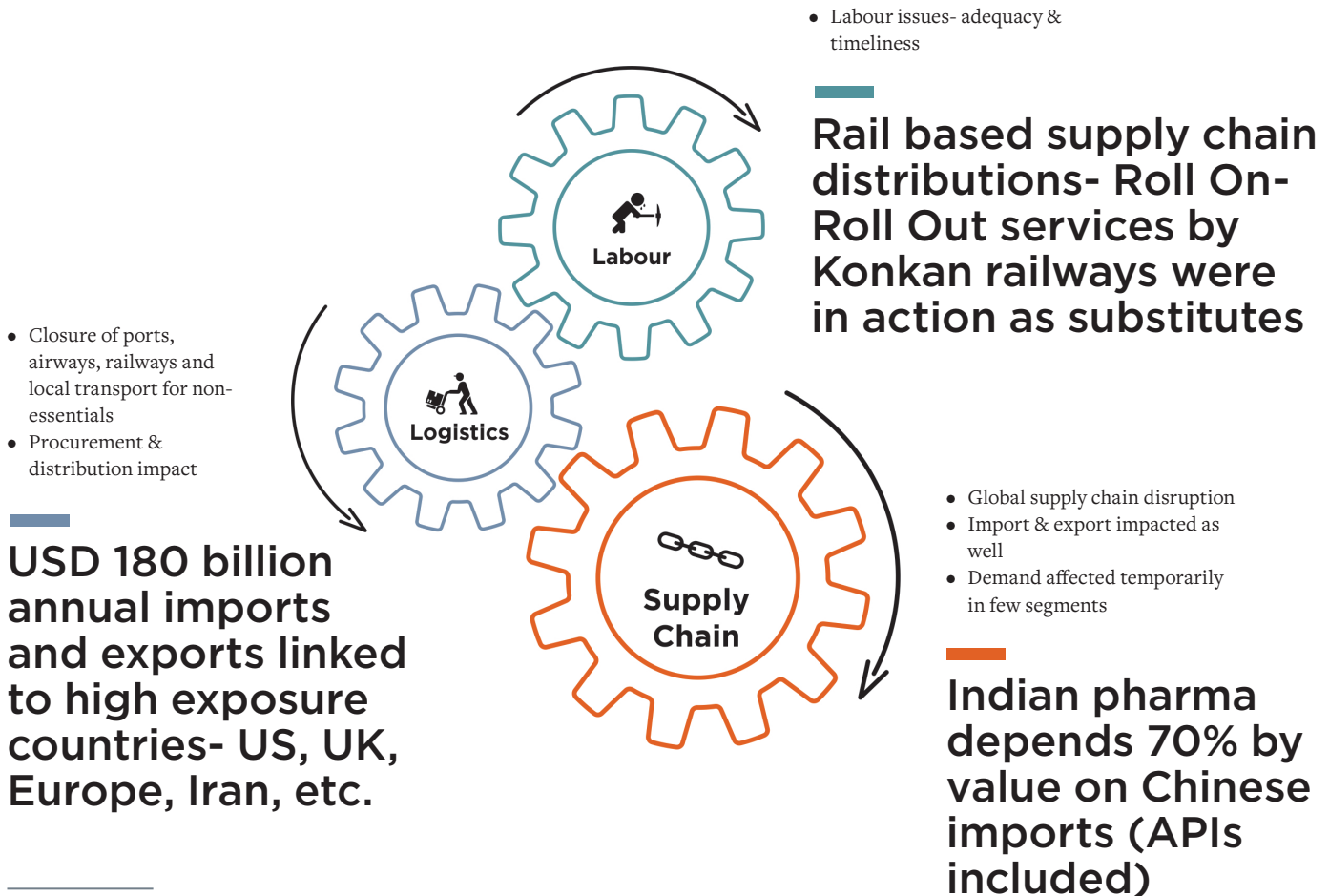
The Premise

Industrial & Warehousing Ecosystem **Power-Charged** But Circuit Breakers **Heating Up**

Long-term demand drivers INTACT

| The Long-term demand drivers | | |
|--|--|--|
| GST streamlining | Corporate Tax reduction | Infra classification & push |
| Make in India | Ease of doing business | Growth of e-commerce |
| Draft National Logistics Policy | 40% sector- organised & growing | India becoming global supply chain hub |
| REIT & FDI | Electronics Manufacturing Clusters -Incentive policy | Favourable demography |
| Improved connectivity & linkages- inland waterways, ports, national road network | | |

The Circuit Breakers AT RISK



GST - Goods & Services Tax
 REIT - Real Estate Investment Trust
 FDI - Foreign Direct Investment
 API - Active Pharmaceutical Ingredients

Warehousing Demand Shaken, But Recoveries Could be Quick

- E-commerce was poised to capitalise on closure of brick & mortar stores but the full potential could not be realised in the initial days of the lockdown mainly owing to (a) shortages & safety issues of delivery personnel (b) logistical and/or procedural issues like exemption.
- However, several issues were addressed swiftly and with effectiveness.
- Warehousing space requirement for players, especially dealing with essential items have witnessed increased demand - in terms of enquiries and expression of interest.

Sectoral Absorption Share

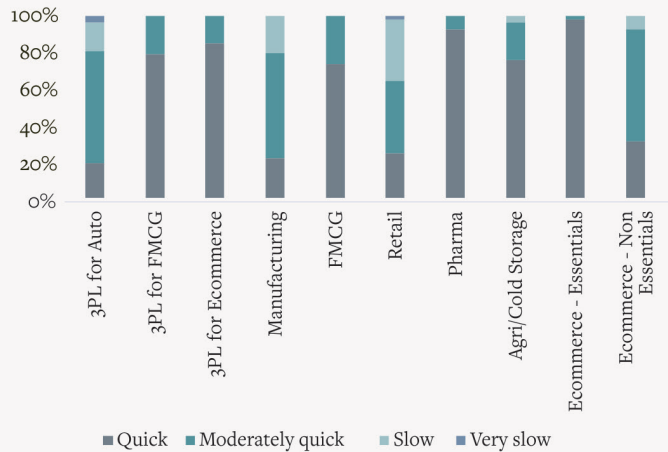
| Sectors | Pre Corona sectoral absorption share as of 2019 | Impact during pandemic | Sectors | Pre Corona sectoral absorption share as of 2019 | Impact during pandemic |
|------------------------|---|------------------------|----------------------------------|---|------------------------|
| Retail | 07% | ↓ | 3PL - Auto | 12% | ↓ |
| FMCG | 08% | ↑ | 3PL - FMCG | 12% | ↔ |
| Manufacturing | 20% | ↓ | 3PL - E-commerce | 12% | ↑ |
| Ecomm - Essentials | 06% | ↑ | 3PL - Others* | 04% | ↓ |
| Ecomm - Non Essentials | 14% | ↓ | Pharma/Agri/Cold/Storage/Others* | 05% | ↑ |

Increase ↑
Decrease ↓
Stable ↔

*Textiles, Chemicals, Electrical & Electronics, Furniture, Construction Materials

Post Pandemic: Probable Recovery Speeds#

- 3PL, e-commerce & FMCG for essential goods / services & Pharma likely to recover the quickest.
- Auto, high value consumer goods, non-essentials, Oil & Gas sectors – space requirement to grow in medium term.
- Overall growth prospects and strategy of most sub-sectors remain intact in the long term.



HIGH ON CONFIDENCE & STRONG INHERENT STRENGTHS:
~ 60% of industry experts opined a quick recovery & 30% predicted a moderately quick recovery for all the sectors

Quick: 0-6 months
Moderately quick: 0-12 months
Slow: 0-18 months
Very slow: 0-24 months

Based on our poll and assumption that the lockdown restrictions are completely lifted by June 30, 2020
3PL - 3rd Party Logistics
FMCG - Fast Moving Consumer Goods



Industrial demand shaken too, but, unlikely to be derailed

Sectoral Absorption Share

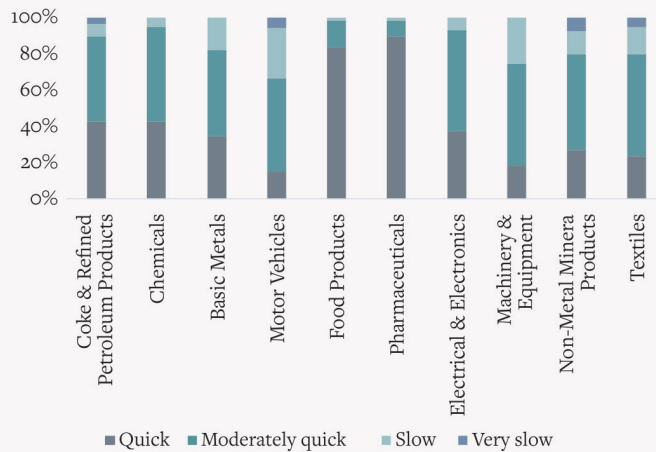
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|---------------------------|---|------------------------|-----------------------------------|---|------------------------|-----------------------|---|------------------------|
| Electricals & Electronics | 06% | ↓ | Textiles | 05% | ↓ | Chemicals | 10% | ↓ |
| Motor Vehicles | 08% | ↓ | Coke & Refined Petroleum Products | 13% | ↓ | Machinery & Equipment | 06% | ↓ |
| Basic Metals | 08% | ↓ | Non-metal mineral Products | 05% | ↓ | Others* | 14% | ↓ |
| Pharmaceuticals | 07% | ↑ | Food Products | 07% | ↑ | | | |

Increase ↑
 Decrease ↓
 Stable ↔

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Post Pandemic: Recovery Speeds#

- India likely to remain resilient on Make in India programme, despite COVID-19. Sectors like Pharmaceuticals, electronics & textiles could mark a stronger presence in the export pie chart compared to the last few years.
- The trend of increase in export growth for certain sectors is expected to continue post the pandemic as well. For instance, pharmaceutical exports from India grew by ~13% YOY in 2019. Mobile handsets export grew 8-fold exceeding imports for first time in 2019.
- Demand for industrial facilities from growing manufacturing sectors are expected to remain unscathed in the long term, despite the ongoing pandemic causing temporary shake-up.



Results reflect a strong confidence on India's manufacturing sector

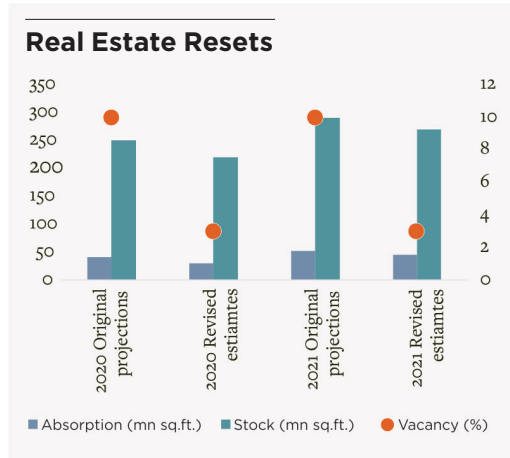
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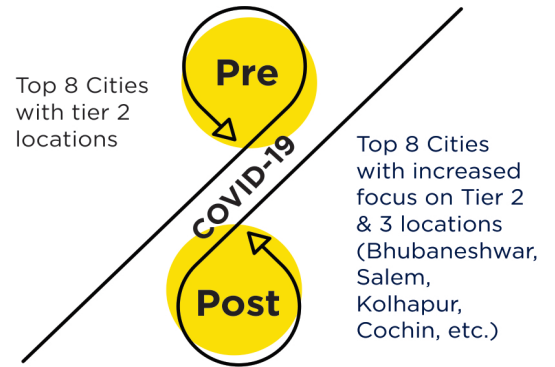


COVID-19 MAY INDUCE MULTIPLE RESETS: Re-estimates & Re-calibrations

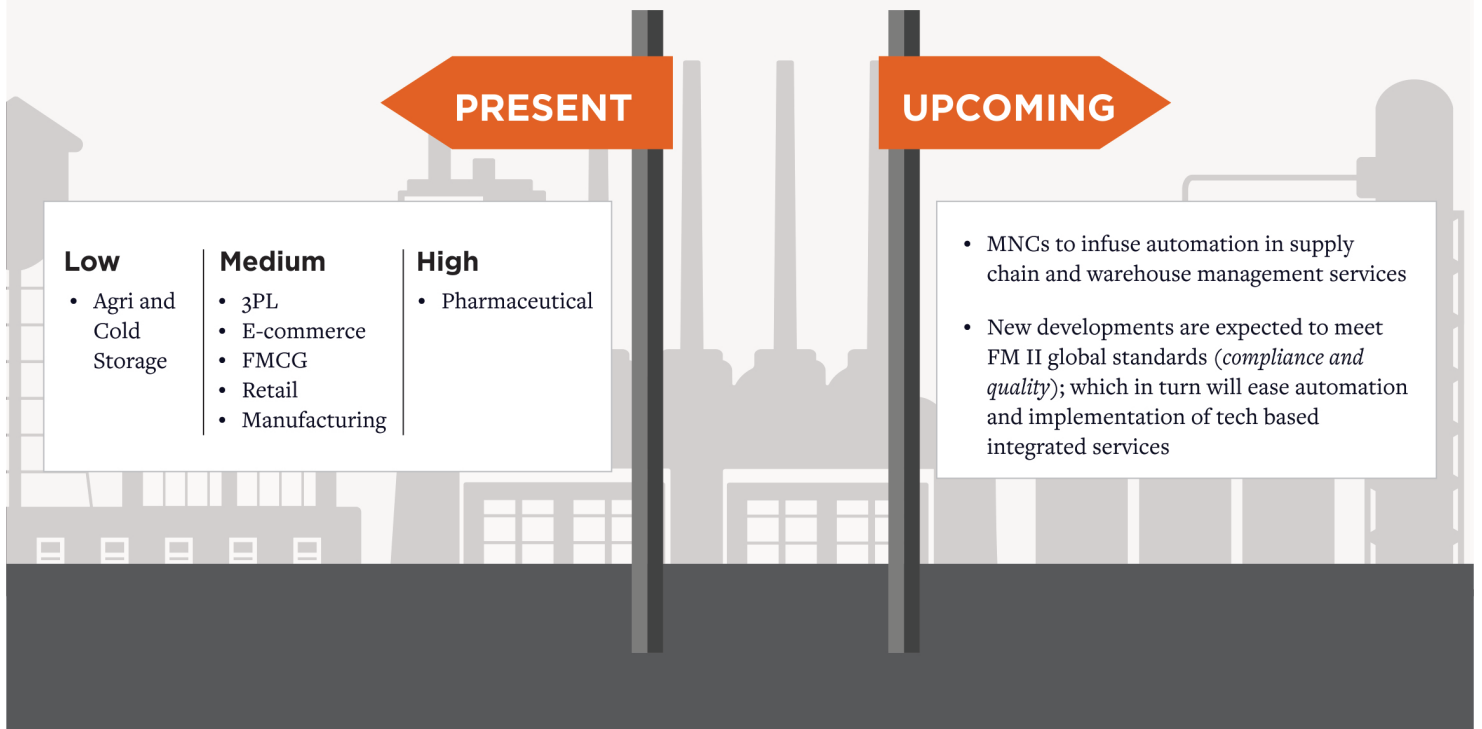
- Industrial & warehousing is the most resilient segment in India, which is likely to emerge quickest and strongest post-COVID-19.
- Although both demand and supply are expected to soften as compared to previous estimates in the near to medium term, higher supply contraction is expected to lead to decrease in vacancies and optimum pricing.
- Selectively and sparingly, vacant retail and commercial spaces could undergo refurbishments as warehousing spaces.



Geographical Resets



Automation and Technology Resets



Fast-tracking a wave of changes

- More than 3 mn sq. ft. of new contracts signed across 6 locations by manufacturing, 3PL and e-commerce clients in last few weeks.
- Land acquisition of 3000+ acres under various stages of due diligence /closing.
- Institutional Investment deals ~ USD 600 Mn are underway.

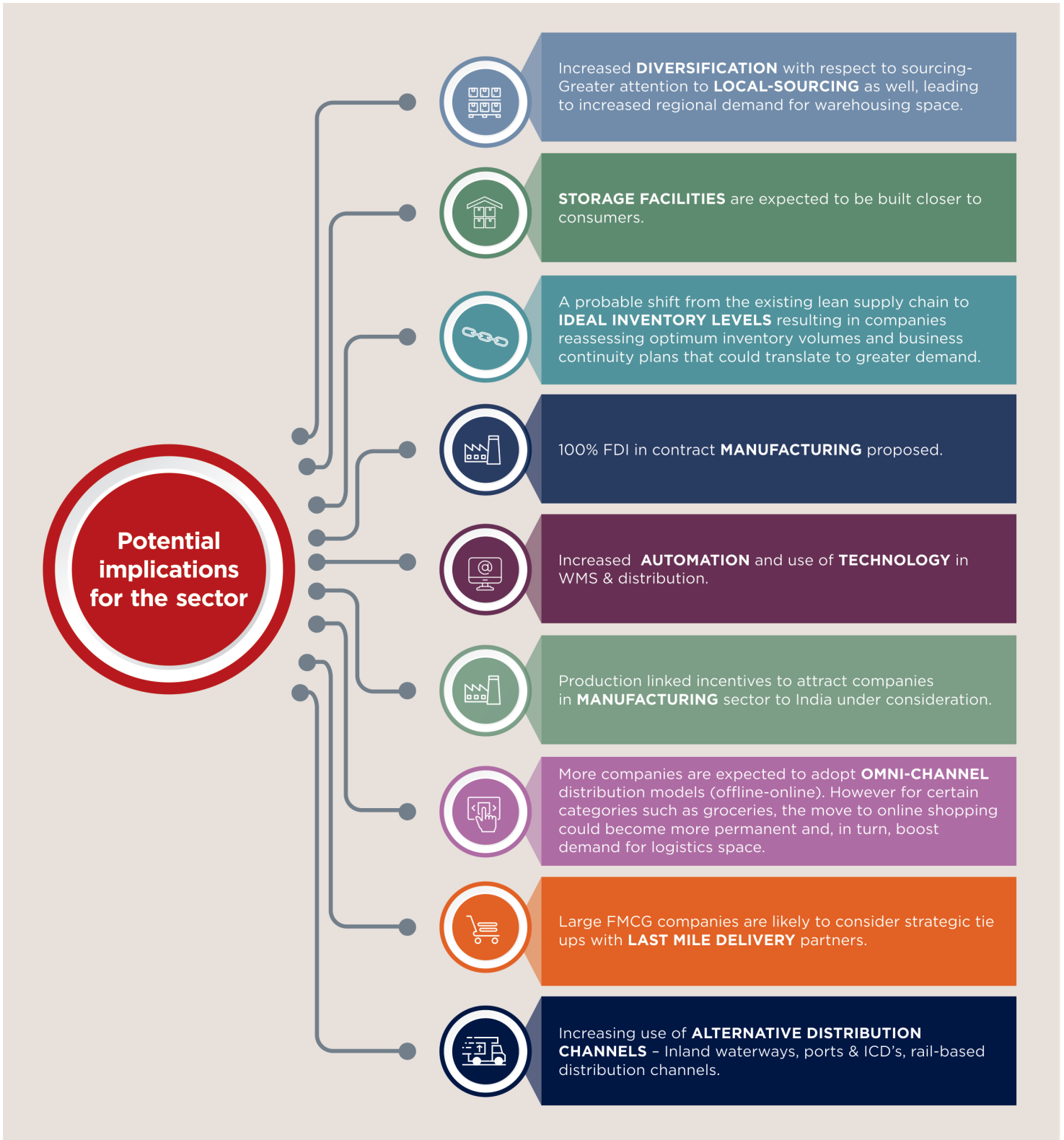
“It’s still essentially the safest commercial property type to invest in”

Blackstone on warehousing

“Speed and scale will decide the winners & losers in crisis, swift decisions over perfect plan by having courage to think differently and taking smart risks will see US and India come out successfully during this COVID crisis”

John Chambers

Chairman Emeritus, Cisco /CEO, JC2 Ventures recently at USIBC strategic partnership



Afterword

“VUCA” (Volatile, Uncertain, Complex and Ambiguous) is upon us. Each passing week adds more smoke to the screen, the latest addition being the fall of the global crude.

Through the VUCA smoke-screen, and despite the build-up of COVID tempest, the one sector in India which promises hope, is Industrial and Warehousing.

Indeed, it appears to be poised to gain more in the aftermath than it loses during the wager. To that end, it will certainly undergo resets and makeovers, but it never had a better opportunity.

We advise to wait and watch without taking final positions yet.

Our analyses and our nuggets are being built systematically and progressively. Download them here...



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