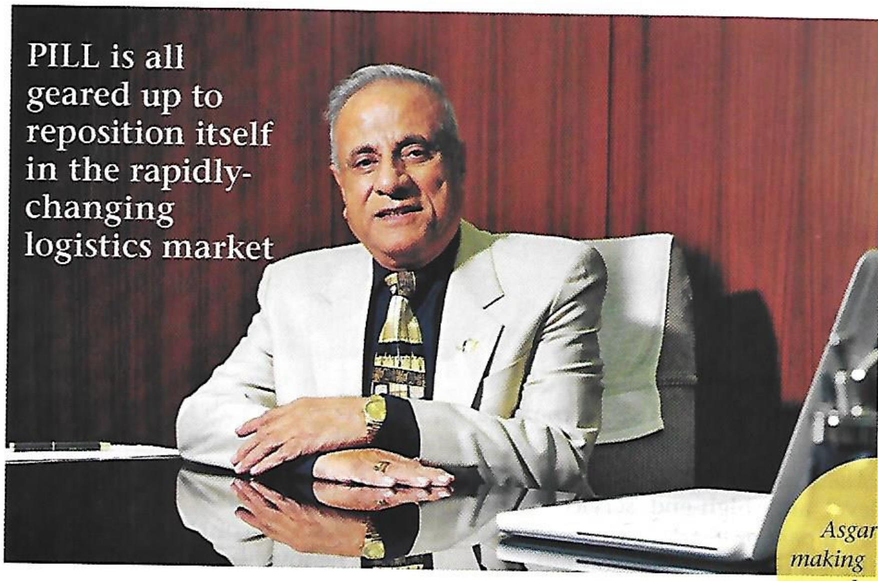
Looking for growth drivers

PILL is all geared up to reposition itself in the rapidly-changing logistics market



PHOTOS: SANJAY BORADE

Asgar Patel: making necessary changes

The Mumbai-based Patel Integrated Logistics Ltd (PILL) is on the path to regain its momentum, which slipped a bit during the last decade or so in the fast-changing marketplace. It was formerly known as Patel Roadways Ltd and commanded pole position in the transportation space for several decades since 1959, when it was founded.

PILL is now making a conscious attempt to reposition itself in the logistics market. Once known for its brand recall and synonymous with the trucking business in the country, with its famous kangaroo logo, the company has chalked out an ambitious plan to enter the booming e-commerce industry, where it will provide last-mile delivery services to e-commerce players. PILL is in an advanced stage discussion with a Middle East-based company, which will not only bring in the much-required know-how and technology, but also infuse capital in this new venture, catering to the logistics requirements (B2C) of the e-commerce players.

The joint-venture (51:49), named DelivrEx is all set to be launched shortly with an initial investment of around ₹50 crore. The new initiative (a subsidiary of PILL) is expected to generate revenue of about ₹250 crore in the next three-four years, as PILL is planning to double its turnover as part of its Vision statement 2020. The move has come at a time after the company had witnessed slowdown in growth. Even as its bottom line has seen some sort of upsurge last year, after being under pressure for a while.

The company clocked a revenue of ₹590 crore in 2014-15, as against ₹544 crore in 2013-14 and ₹580 crore in 2012-13, while net profit grew to ₹5.99 crore last year from ₹2.35 crore in the previous year. For the nine month period ended December 2015, PILL had clocked a PAT of ₹6.11 crore on revenue of about ₹390 crore. On BSE, PILL's stock was priced at ₹84 as on 2 March 2016, with a market capitalisation of about ₹134 crore (52 wk L/H: ₹65/143).

Exploring opportunities

"Certainly, e-commerce has emerged as the fastest growing segment for logistics players," says Sandeep Upadhyay, managing director & CEO, Centrum Infrastructure Advisory. "Apart from movement of goods, traditional companies are also trying to create last-mile delivery capabilities to explore the emerging opportunities. However, it will call for building up a particular kind of skill set and expertise keeping in mind the complexities involved on the delivery front".

"We see a huge opportunity in the e-commerce segment which will continue to grow at a rapid pace, going forward," says Areef Patel, 42, executive vice-chairman, PILL. "We are gearing up to ramp up our capability in collaboration with a foreign company, which will bring in the required know-how and technology. Though we have already decided the name of this venture, the formal announcement about our joint venture partner will be made soon". Patel is spearheading the e-commerce initiative as part of the company's conscious move to venture into new generation logistics solutions from offering traditional services.

Son of the founder-chairman Asgar Patel, Areef has been undertaking multiple measures for the last few years to bring vibrancy into the company's business model. Despite the economic slowdown, the company has been able to maintain its revenue lately, even as the focus is now primarily on the high margin businesses.

"Despite external headwinds in recent years, Areef has been steering the business quite well in the last few years," says Asgar Patel, 77, chairman, who has now transferred the reins of the company to his son almost fully. "Things are gradually falling in place for us as we are making the necessary changes in terms of our business model as also organisation. Results are slowly getting reflected and more positives are likely to follow soon. With the e-commerce foray likely to be in place soon as also thrust on other value-added services like express cargo, we are all geared up to move into our next growth phase".

Asgar started the company as a pure transport business with just one truck more than five decades ago. Despite being educated in the UK, he drove the truck with his first consignment of GlaxoSmithKline from Mumbai to Delhi. Over the years, the company grew and transformed into one of the largest players in the logistics space with presence in both surface as well as air cargo. However, amidst growing comptition and the changing dynamics of the market in late 1990s and 2000s, the company started losing its grip, something which it is now again trying to regain.

"We have to be candid enough to admit that we, as a company, have been rather slow in adapting to changing conditions in the market," acknowledges Asgar. "Having realised this, we in the past couple of years have been aggressive enough in undertaking much-needed measures. Areef has shown an exemplary zest towards transforming the company into a more vibrant set-up. The coming years will undoubtedly be a much better period for us". Asgar Patel also has business interests in the fields of financial services, real estate and construction under the banner House of Patels. He was very early in the remittance business from UAE to India under the well known brand Wall Street Finance. It was so successful that Emirates Post bought the company from him. Lately, he has been spending time in Dubai, from where he pursues his other businesses.

While flagship company, PILL, backed by 1,200 employees and 750 offices, is all set to foray into a new segment (e-commerce), there is now more impetus on high-margin businesses leveraging on its existing infrastructure, where it is reaching to more than 12,000 pin codes out of the 21,000 pin codes in the country. In the case of its road transport business, the company is focussing on premium door-to-door express cargo service through its 250 branches serving more than 450 delivery stations. The express cargo business started in 2005 in order to explore the opportunities arising out of expanding modern trade, today accounts for almost 25 per cent of the PILL's road transportation business, and in the next two-three years, the same will increase to 45-50 per cent.

Inherent strength

The differentiating factor between conventional roadways and express cargo can be explained in simple terms, as express cargo offers movement in a defined transit and convenience of door pick-up and door delivery at a single price point. In order to put up an efficient supply chain and reduce costs on warehousing, inventory and manpower, organisations are today willing to pay a premium for assured deliveries in a highly competitive consumer market. The express cargo industry primarily caters to transportation of consumer goods which are high value and compact in nature, and hence calls for specific skill and know-how for handling and transportation.

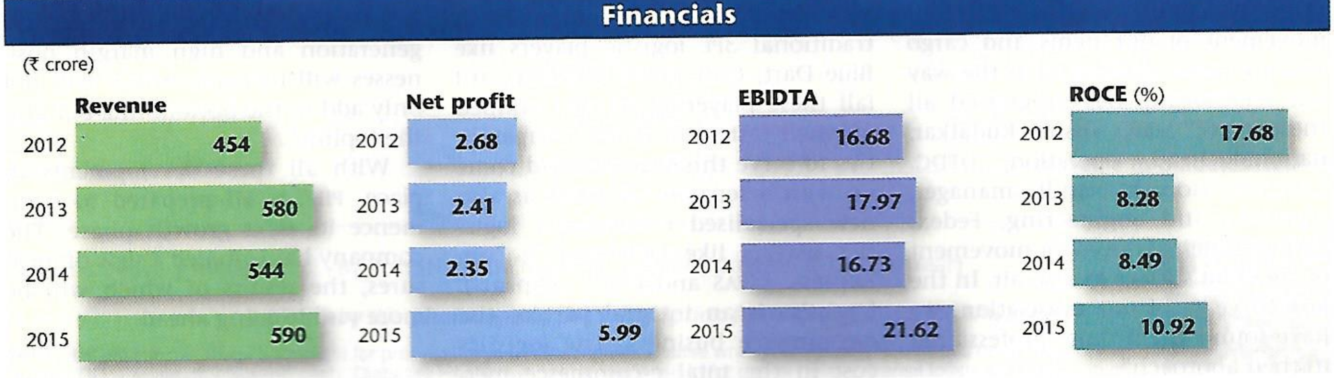
"The market has undergone a major transformation in the last few years with modern trade growing at a brisk pace," says Charanjit Singh, president, commercial, PILL. "Organisations are forced to put up an efficient supply chain and this is where express cargo business, with its inherent strength, is witnessing a good deal of traction. The e-commerce industry has provided further fillip to the entire business".

"The margin in the express cargo business is higher (say, 25 per cent) than the conventional freight transport business (10-12 per cent)," informs Ravi Komti, head, road transport business, PILL. "Here, the consumer is prepared to pay premium for professional handling of cargo and door to door delivery. Impetus on this business is expected to boost our bottom line".

In the conventional road transport business, the company moves industrial raw materials and finished goods. Being one of the oldest and foremost transport providers, this division is catering to a host of large clients in pharmaceuticals, chemicals, white goods, capital goods, auto ancillary and other sectors in the air freight section. The business has two products, of which FTL (full truck loads) cater to end-to-end movement of goods in a single trip, while LTL (less than full truck loads), serve hub-to-end locations. The company boasts a fleet of over 1,200 trucks (100 trucks of its own and the rest on vendor arrangement) in this segment. It handles a load of about 28,000 tonnes per month, plying over 1,000 trucks every day.

Apart from surface transport, the company also has significant presence in the air cargo space where it handles around 6,500 tonnes of load every month. Started more than 25 years ago, the division was started as a separate company called Patel On-board Courier (POBC), a listed entity which was later merged with

Financials



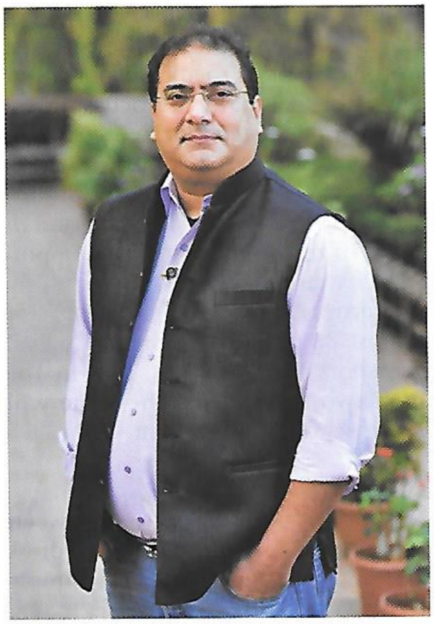
flagship Patel Roadways and subsequently rechristened PILL in 2006. The division acts as a courier for various other courier companies like DHL, TNT, UPS, FedEx, Blue Dart and DTDC, which would earlier have their own on-board couriers during the movement of cargo in airlines. However, with the changing market scenario and need for cost effective movement of air cargo, these courier companies are using the services of a company like PILL.

The airfreight division, accounting for about 45 per cent of PILL's turnover, is also in the business of air cargo consolidation for corporates, exporters and agents, and carries out movement of perishable items, agricultural and seafood products as also high-value and time sensitive consumer goods and pharmaceutical products. These movements are undertaken through different airlines to domestic and some of the international locations like London and Dubai from Mumbai and Delhi. The division has a presence in 120 commercial airports in the country and thus commands almost 70 per cent of the domestic market. PILL has a two-year contract with Amazon (port-to-port) as its third party logistic partner (3LP).

Pan India player

According to Hari Nair, chief executive, airfreight (POBC), PILL, "The company boasts of the largest network in the air cargo consolidation business. In fact, we are the only Pan India player and command the number one position in the market. All other players are regional ones and hence we have a distinct edge".

"Since inception in 1990, we are using PILL's air cargo services for movement of our items and cargo and are quite satisfied with the way our relationship has progressed all these years," states Tushar Kudalkar, national head, operation, DTDC. Concurs Monish Nandi, manager, planning and engineering, Fedex: "We use their services for movement of cargo on surface as also air. In the last 10 years of our association, we have found them quite professional in their approach".



Areef: bringing more business

"Though we have been using the services of other players, we have recently added PILL also to our list, for transporting our textile products from our warehouses in Bhiwandi and Gurgaon to different parts of the country. Our experience so far has been good," says Rishi Agarwal, head, supply chain management, Bombay Dyeing.

As far as the e-commerce venture is concerned, PILL plans to focus on smaller cities (Tiers II & III), as growth opportunities are gradually tilting towards these locations. It will open up about 400 branches in the next two-three years and a majority of these branches will be extensions of its existing branches.

The company has already put in place a core management team, which is in the process of finalising the various modalities of this new business, where it will compete with traditional 3PL logistic players like Blue Dart, Gati, DTDC (DotZot), TCI (all these players have also ramped up their last mile delivery capabilities to serve this segment and come up with a separate vertical), as also new specialised e-commerce logistics players like Delhivery, e-Com Express, JaVAS and eKart (Flipkart). Logistics is an integral part of the e-commerce business. The logistics cost in the total e-commerce merchandise value is estimated at around 10 per cent.

"There is no e-tail without delivery," argues Sanjiv Kathuria, director & CEO, DotZot. "Delivery at the doorstep is a prerequisite. The logistics requirement for e-commerce will grow as exponentially as e-commerce. As profitability assumes greater importance, there will be greater propensity to outsource functions like logistics to specialist players". DotZot was launched by DTDC in 2013 to exclusively cater to the specialised logistic needs of the e-commerce market.

"Even as big e-commerce players will continue to have their own logistic platform, as they grow and enter into smaller cities, they will need to outsource a big portion of their business to 3PL and this implies huge opportunities for all the logistics service providers," says Areef. "Being in the business of logistics for several decades with a pan India network, we will have an edge over others. In fact, we are the only player which has a presence in both surface and air cargo". He is planning to add a B2C component in the business, as it launches its e-commerce vertical.

PILL has taken a number of measures in the last few years to focus on profit-centric growth. As part of its Vision 2020 statement, it is putting emphasis on high-margin businesses like express cargo where it is optimising its resources in both surface and air cargo. The company is also planning a rebranding exercise to reposition itself afresh in the market.

"We are in the process of shedding our traditional look," explains Areef. "We want to look young and fit as per the market condition. Going forward, the share of new generation and high margin businesses will increase, which will not only add to the bottom line but also the topline".

With all these developments in place, PILL is all prepared to commence its next growth phase. The company has initiated a slew of measures, the results of which will be more visible going ahead.

◆ ARBIND GUPTA

arbind.gupta@businessindiagroup.com