

BUILDING BLOCKS OF PROGRESS: UNVEILING THE ROLE OF NLP, GATI SHAKTI, ULIP AND MORE IN SUPPLY CHAIN TRANSFORMATION

1. INTRODUCTION

For those of you who have already become a part of our journey in discovering India's push towards shifting supply chains to India and claiming its spot as one of the manufacturing hubs of the world, this one will come as a dive into the corollary measure that the Government is undertaking to bolster its endeavours in this direction. For our previous pieces in this series, please refer to our article '*Relocating Supply Chains to India: Navigating the Indian Landscape*' (accessible [here](#)), and our Infoalert '*Budget 2024: Key Highlights for Relocating Supply Chains to India*' (accessible [here](#)).

The logistics sector is like the heartbeat of nations, keeping goods moving smoothly through various transportation modes like rail, road, sea, and air. With technology and globalization pushing it forward, this sector has become a massive global market, valued at around USD 7.98 (United States Dollar Seven Point Nine Eight) trillion in 2022. India relies heavily on logistics, often contributing over 10% (Ten Percent) to its GDP. From ancient trade routes to today's digital highways, transportation and logistics have always been key players in shaping economies, fostering both economic growth and cultural exchange worldwide. Within this sector, supply chains and warehousing play critical roles in ensuring goods move and are stored efficiently, boosting global commerce's effectiveness and resilience.

A variety of players ensure goods move smoothly, from large private corporations and transportation giants to e-commerce behemoths running their own logistics arms, the segment sees a wide variety of interest. Governments too are essential in shaping the regulatory environment, infrastructure development, and trade policies, to support these sectors. India boasts of the world's second-largest road network, the fourth-largest rail network, the seventh in container port traffic and the sixth in inland waterways. Despite these impressive statistics and the presence of major players in the market, India's logistics sector remains largely disorganized, and fragmented, with low penetration of technology in the sector.

In 2018, NITI Aayog in its report 'Goods on the Move', while laying down the need for robust logistics infrastructure and efficient supply chains in India also emphasised that the success of India's 'Make in India' initiative hinges on an efficient logistics system.¹ In a subsequent 2021 report 'Fast Tracking Freight in India', NITI Aayog analysed the cost (INR/tonne-km) for freight transport by mode: INR 18 (Indian Rupees Eighteen) by air, INR 3.6 (Indian Rupees Three Point Six) by road, INR 2 (Indian Rupees Two) by water and pipeline, and INR 1.6 (Indian Rupees One Point Six) by rail, making rail the cheapest mode of transport. Despite this, around 71% (Seventy-One Percent) of goods are transported by road and only 18% (Eighteen Percent) are transported by rail.² One challenge with using railways for transportation is the frequent delays caused by prioritizing passenger trains over goods trains, as they share the same tracks.³ Additionally, India's fleet of goods trains requires significant expansion, especially considering that the speed of goods transportation is slower compared to countries like

¹ Please refer to https://www.niti.gov.in/sites/default/files/2023-02/Freight_report.pdf

² Please refer to <https://www.niti.gov.in/sites/default/files/2021-06/FreightReportNationalLevel.pdf>

³ Please refer to <https://www.thehindubusinessline.com/opinion/longer-freight-trains-may-be-the-answer/article25061020.ece>

China.⁴ Inland waterways emerge as the second most cost-efficient mode of transport after rail. However, they face hurdles such as bureaucratic approvals and outdated government departments, which lack the connectivity and digitization needed to handle large volumes of goods efficiently. Moreover, challenges like navigation infrastructure, connectivity issues, and inadequate water depth further hinder safe transport by this mode. Consequently, road transport becomes the primary mode of goods transportation in India to circumvent these challenges. However, truck productivity remains a concern, with trucks travelling only about 300 (Three Hundred) kilometres per day, significantly lower than the global average of 500 (Five Hundred) to 800 (Eight Hundred) kilometres per day, and with an empty running rate as high as 40% (Forty Percent).⁵

Logistics costs account for approximately 12% (Twelve Percent) of India's GDP, which hampers its competitiveness, particularly in the manufacturing sector, compared with competing countries.⁶ However, about one-third of these costs are due to inefficiencies in infrastructure.⁷ Thus, optimizing logistics is crucial for India to lower commodity prices, boost global competitiveness, and benefit both consumers and manufacturers. Thus, the Government, now more than ever, is laser-focused on implementing policies, building infrastructure, and offering incentives to accelerate the growth of India's logistics sector.

2. GOVERNMENT INITIATIVES TO STRENGTHEN THE LOGISTICS MARKET

In 2017, the Government recognised the logistics sector as 'Infrastructure' and expanded the Harmonized Master List of Infrastructure (HMLI) to include sub-sectors such as industrial parks, cold storage, warehouses, and multimodal logistics parks. This move eased access to infrastructure lending, offering favourable terms, enhanced limits, and increased access to External Commercial Borrowings (ECB) and longer tenor funds from insurance companies and pension funds, along with the option to borrow from India Infrastructure Financing Company Limited (IIFCL).⁸

In the recent interim budget for fiscal year 2024-25, Union Minister for Finance and Corporate Affairs, Smt. Nirmala Sitharaman, announced an 11.1% (Eleven Point One Percent) increase in the outlay for infrastructural development, totalling INR 11,11,111 Cr. (Indian Rupees Eleven Lakh Eleven Thousand One Hundred Eleven Crores). Additionally, she unveiled plans for three major economic railway corridor programs aimed at enhancing multi-modal connectivity, improving logistics efficiency, and reducing costs under the PM Gati Shakti program.⁹

In recent years, India has rolled out a series of initiatives aimed at turbocharging the logistics sector. Here are some standout initiatives:

⁴ Please refer to <https://www.logisticsinsider.in/china-builds-bullet-freight-train-with-a-speed-over-350-kmph/>

⁵ Ernst and Young and Retailers Association of India, 2013, "Movement of Goods in India," Retailers Association of India, https://rai.net.in/Movement_of_Goods.pdf

⁶ Please refer to https://economictimes.indiatimes.com/small-biz/sme-sector/interim-budget-2024-logistics-sector-gets-a-rs-11-lakh-cr-boost-but-industry-players-await-clarify/articleshow/107324540.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

⁷ Sahu, P.K., Pani, A. & Santos, G. Freight Traffic Impacts and Logistics Inefficiencies in India: Policy Interventions and Solution Concepts for Sustainable City Logistics. *Transp. in Dev. Econ.* 8, 31 (2022). <https://doi.org/10.1007/s40890-022-00161-8>

⁸ Please refer to <https://pib.gov.in/newsite/PrintRelease.aspx?relid=173674>

⁹ For a summary of the key highlights of the interim Union Budget for the fiscal year 2024-25 pertaining to infrastructural development and India's supply chains, please refer to our Infoalert accessible [here](#).

2.1. PM Gati Shakti National Master Plan (“NMP”):

The NMP, launched on October 21, 2021, is a crucial step towards bolstering India's logistics with robust infrastructure and systems. It integrates existing and planned initiatives across various ministries to enhance multimodal connectivity to economic zones. This initiative aims to create 'Next Generation Infrastructure', bridging gaps for seamless movement of people, goods, and services. By minimizing disruptions, expediting project completion, and ensuring cost efficiency, the NMP seeks to enhance ease of living and ease of doing business. At its launch, the NMP brought together 21 (Twenty-One) ministries, including NITI Aayog, the Ministry of Road Transport and Highways, the Ministry of Railways, the Ministry of Petroleum and Natural Gas, and the Ministry of Ports, Shipping, and Waterways with the aim to centralize data and integrate ministries under one roof for streamlined planning and execution.

Utilizing a dynamic Geographic Information System (“GIS”) platform, the NMP acts as a 'Digital Master Planning tool, incorporating data on action plans from all ministries. By coordinating infrastructure projects through geo-mapping tools and data, inefficiencies and delays are minimized. Integration of the existing Government initiatives including Bharatmala (a road and highways development project), Sagarmala (a ports development project), inland waterways, and UDAN (a regional airport development scheme) with the NMP ensures comprehensive planning and real-time data availability for each department. This approach prevents miscommunication, minimizes costs, and maximizes efficiency by synchronizing planning and avoiding overlap among departments.

2.2. National Logistics Policy 2022 (“NLP”):

In line with the NMP, the NLP was enacted on September 28, 2022. The NLP aims to streamline multimodal connectivity to economic zones, enhancing logistics efficiency and reducing costs. It focuses on integrating existing and proposed infrastructure initiatives across agencies. This policy establishes processes, digital systems, and regulatory frameworks to develop a cohesive logistics ecosystem. It seeks to lower logistics costs, boost competitiveness, and improve India's Logistics Performance Index (“LPI”) ranking, with the goal of reaching to be among the top 25 (Twenty-Five) countries by 2030. Furthermore, the NLP harnesses digital technologies to improve tracking, customs processes, and compliance, fostering a data-driven decision-making approach for logistics efficiency.

Implementation of the NLP is facilitated through a Comprehensive Logistics Action Plan (CLAP), covering eight key areas: integrated digital logistics systems, standardization of physical assets, logistics human resources development, state engagement, EXIM logistics, service improvement framework, Sectoral Plan for Efficient Logistics (SPEL), and facilitation of logistics park development.

Some of the key initiatives under the NLP are as follows:

(a) Unified Logistics Interface Program (“ULIP”)

ULIP is a comprehensive logistics software solution that consolidates various logistics functions and data into a single unified system. It serves as a centralized platform for managing transportation, warehouse operations, order processing, and inventory monitoring. ULIP aims to enhance efficiency, leverage technology, and reduce logistics costs in India¹⁰ by streamlining data integration. With approximately 614 (Six Hundred and Fourteen) industry players registered on ULIP, it offers comprehensive visibility across supply chains, facilitating instant tracking of shipments, continuous inventory surveillance, and access to crucial logistics insights. ULIP brings together all stakeholders for

¹⁰ Please refer to https://dpiit.gov.in/sites/default/files/LEADSReports_2022_19April2023.pdf.

booking, tracking, payment, and documentation review, streamlining and harmonizing various documentation required under different legislations.¹¹

(b) Ease of Logistics (“ELOG”)

ELOG is a digital portal developed by the Logistics Division of the Department for Promotion of Industry and Internal Trade (DPIIT). It simplifies the resolution process for logistics-related issues by enabling authorized user associations to register and upload concerns. ELOG serves as a centralized platform for registering, coordinating, and monitoring the timely resolution of logistics-related challenges, contributing to a more efficient and responsive logistics ecosystem. The Service Improvement Group (SIG), comprising of officers from various ministries, oversees the resolution mechanism for unresolved user issues related to services.

(c) Logistics Parks

The NLP proposes setting up logistics parks which will include the MMLPs along with air freight stations, inland container depots, cargo terminals and more. India aims to transition from a point-to-point model to a hub-and-spoke model, where logistics parks will serve as central hubs in major cities. For instance, under this model for road transport, instead of multiple trucks travelling between cities like Mumbai, Delhi, Kolkata, Ahmedabad, and Jaipur, one city, such as Delhi, will act as a hub. Trucks laden with goods from various cities will travel to Delhi, where goods will be sorted and dispatched to their destination cities. This system optimizes return journeys, ensuring trucks are loaded with goods from different cities for their return trip, maximizing capacity utilization and reducing transportation costs per ton per kilometre. By implementing the hub-and-spoke model across various transportation modes, the NLP aims to achieve synergies, enhancing cost-effectiveness and accuracy in multi-modal shipments.

(d) Multi-Modal Logistics Parks (“MMLPs”)

MMLPs are areas with warehouses and cold storages that act as hubs for the hub and spoke model of logistics in India. The NLP has led to the creation of 35 (Thirty-Five) MMLPs under Public-Private Partnerships, aiming to improve customer support and streamline customs checks. The MMLPs, projected to be constructed in Bengaluru, Nagpur, and Chennai, will serve as centres for freight aggregation, distribution, storage, and warehousing. The Government also plans to develop air freight stations within MMLPs, utilizing unused airstrips for air freight, with a focus on perishable cargo storage and transportation.

2.3. Electronic-Way Bill (“e-Way Bill”)

In April 2018, the Government amended the Central Goods and Services Tax Rules, 2017, introducing e-Way Bill as a part of the goods and services tax framework.¹² Under the given legal framework individuals initiating goods transportation to input necessary details on a digital platform before departure, generating an e-Way Bill on the GST portal. This e-Way Bill comprises details of the goods being transported (along with the corresponding documentation) as well as details like GSTIN of supplier & recipient and place of delivery, all under one portal. This mechanism, therefore, streamlines goods movement, reduces truck turnaround times, and benefits the logistics sector by increasing average distances covered while decreasing travel duration and expenses. Additionally, it eliminates state boundary check-posts and ensures compliance with the Goods and Services Tax Act, 2017, while facilitating tracking of goods in transit.

¹¹ Please refer to <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1864095>.

¹² This was introduced through the Central Goods and Services Tax (Second Amendment) Rules, 2018.

3. LEGAL CONSIDERATIONS

3.1. Foreign Direct Investment

In 2017, the Government of India granted the logistics sector the status of 'Infrastructure' covering logistics, transportation, warehouses and MMLPs. India permits foreign direct investment ("FDI") in certain sub-sectors of the logistics sector under the 100% (One Hundred Percent) automatic route (without prior approval from RBI or the Government), subject to compliance with certain other conditionalities of the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 ("NDI Rules")

Under the NDI Rules, investment in sectors like 'Industrial Parks' and 'Railway Infrastructure' is allowed under the 100% (One Hundred Percent) automatic route. This includes projects such as suburban corridor projects through public-private partnerships, high-speed train projects, dedicated freight lines, rolling stock including train sets, locomotives, and coaches manufacturing and maintenance facilities, freight terminals, infrastructure in industrial parks related to railway lines/sidings, including electrified railway lines and connectivity to the main railway line, and mass rapid transport systems. Similarly, investment in certain sectors of the civil aviation sector, such as airports and related services, is permitted under the 100% (One Hundred Percent) automatic route. This includes activities like ground handling services, maintenance and repair organizations, and flying training institutes. However, investment in certain other sub-sectors, such as air transport services, is bifurcated under the automatic route (up to 49% (Forty-Nine Percent) and the Government route (beyond 49% (Forty-Nine Percent)).

By liberalizing FDI policies over the years, the Government has unlocked opportunities for foreign investors in India's logistics, railway, and airport infrastructure sectors diversifying avenues for logistics companies to secure funding. Not only does this bolster India's logistics network, but it also aligns with the goals of NLP and NMP by attracting foreign investment, fostering innovation, and bringing valuable expertise.

3.2. Impact of ULIP on transport-related legislations in India

The Motor Vehicles Act, Indian Bills of Lading Act, Carriage by Air Act, Railways Act, Indian Carriage of Goods by Sea Act, Merchant Shipping Act, and others regulate transportation in India. Compliance with these laws involves obtaining numerous permits and licenses, creating a complex process, especially for multi-modal transport.

The introduction of the ULIP under NLP by the Government has thus been a game-changer. It integrates platforms like the port communication system, terminal operating system, inland waterways authority of India, air cargo message exchange system, air cargo communication system, Vahan, Sarathi, FASTag, E-Challan for transport, and freight operations system into one system. This integration streamlines documentation management, providing a comprehensive view of required permits and data, all in one place. Logistics players can automate audits, prevent delays, and ensure compliance with transportation regulations in India.¹³

4. STRIDES AND LESSONS FOR THE ROAD AHEAD

The introduction of NMP and NLP for multimodal connectivity underscores India's commitment to enhancing logistics efficiency and reducing costs, providing a comprehensive strategy for improving connectivity and streamlining operations nationwide. Over the past two years, under NLP, project

¹³ Experience the United Logistics Interface Platform (ULIP) at <https://goulip.in/home>

approval clearance time has been slashed from 200 (Two Hundred) days to less than 40 (Forty) days.¹⁴ Digitization and integration via the GIS Platform have streamlined planning, reducing detailed project report times from 6 (Six) months to just 15 (Fifteen) days. India's LPI ranking has also seen significant progress, rising to the 38th (Thirty-Eighth) rank out of 139 (One Hundred and Thirty-Nine) countries, a marked improvement from previous years.

While these achievements have been remarkable, they have not been without setbacks. Implementations of these endeavours have sometimes met with delays in departmental submissions for project clearances and land allocations and at others been plagued by technological infrastructure limitations in remote areas. Limited digital literacy among stakeholders has also been a challenge. Another hurdle has been the infrastructural gap in warehousing, where 90% (Ninety Percent) is controlled by unorganized players with inefficient small-scale operations.¹⁵

The Government is actively working to address these challenges. In March 2023, a workshop was organized to exchange best practices, with international experts invited. A task force, comprising experts and senior officials from multiple departments, was established, holding meetings and utilizing data to estimate baseline logistics costs and develop survey-based techniques for long-term projections. Despite the data limitations, this survey aims to improve cost estimations and advance logistical methods, charting a path forward for India's logistics sector.

In the journey towards transforming India into a global logistics powerhouse, the role of initiatives like NLP, NMP, ULIP, and more cannot be overstated. These endeavours exemplify India's steadfast commitment to enhancing logistics efficiency, reducing costs, and streamlining operations on a nationwide scale. Over the past two years, we've witnessed remarkable strides; from slashing project approval clearance times to significantly improving India's LPI ranking. However, alongside these achievements, there have been challenges, including delays in departmental submissions, technological infrastructure limitations, and infrastructural gaps in warehousing. Yet, with proactive measures such as workshops, task forces, and data-driven projections, the Government is actively addressing these hurdles. As we chart a path forward, it's evident that India's logistics sector is poised for transformation, unlocking new avenues for growth, innovation, and global competitiveness.

Authors: Akhoury Winnie Shekhar | Srushti Shanbhag | Khushi Bhardwaj

Date: March 10, 2024

Practice Areas: Private Equity, Venture Capital and Fund Investment, Mergers & Acquisitions, Corporate and Commercial, Government and Regulatory

DISCLAIMER

This article is for information purposes only. Nothing contained herein is, purports to be, or is intended as legal advice and you should seek legal advice before you act on any information or view expressed herein.

Although we have endeavoured to accurately reflect the subject matter of this article, we make no representation or warranty, express or implied, in any manner whatsoever in connection with the contents of

¹⁴ Please refer to <https://economictimes.indiatimes.com/news/economy/infrastructure/report-card-on-2nd-anniversary-pm-gati-shakti-gives-gati-to-11-58-lakh-cr-infrastructure-projects/articleshow/104381021.cms?from=mdr>

¹⁵ Please refer to <https://indianexpress.com/article/india/union-budget-2019-nirmala-sitharaman-national-warehousing-grid-maharashtra-model-5808163/>

this article.

No recipient or reader of this article should construe it as an attempt to solicit business in any manner whatsoever.