

## PE funding to shipping, logistics drops 63%

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Private equity (PE) investments in the country's shipping and logistics sector has witnessed a 63 per cent decline in 2008-09 compared with the year-ago period as the number of deals more than halved to 12 from 26 during the period.

Investments have declined to \$297 million (around Rs 1,450 crore) in 2008-09 from \$809 million (around Rs 4,000 crore) a year ago — the worst drop the sector has witnessed after it opened up for PE investments since 2004, when only one deal worth \$4.6 million (Rs 22.6 crore) was finalised.

Industry experts were of the view that it was a temporary phenomena and that the industry would bounce back by the end of the current financial year.

Poul V Jensen, managing director, TransCare Logistics India, a leading logistics management consulting firm which also deals with PE and other mergers and acquisition activities said that "this would be a temporary phenomena" and the industry would bounce back in the next two to three years.

He attributed the decline in PE investments to the drop in growth rate and volume in Indian ports, increase in cost of capital, perceived risk by PEs and also increase in the duration of return from investments.

Moreover, PE investors are finding it difficult to get funding, and those financial institutions who are willing to lend are doing so at a higher cost.

About 95 per cent of the country's external trade by volume and 70 per cent by value are through the sea route. Investments in the shipping and logistics industry are a direct play on GDP growth.

India spends more on logistics costs as a percentage of the gross domestic product (GDP) compared with developed nations — around 13 per cent compared to 8.7 per cent in US and 12 per cent in Europe.

Jensen said growth will come first and faster in this part of the globe, especially in India and China. Investments would pick up as the country would have to strengthen its cargo handling facilities to meet rising demand for exports and imports.

With a huge cloud of uncertainty hanging over global trade and a clear slowdown evident in the domestic economy, it is not surprising that PE investments in this industry has come down, said Arun Natarajan, CEO, Venture Intelligence, a Chennai-based research firm which focuses on PE and M&A activities.

Investments in logistics companies will hinge on how rapidly the economy bounces back and its impact on the rollout plans of various consumer industries such as retail, agri-business and manufacturing, Natarajan added.

The government has initiated the National Maritime Development Programme (NMDP) to develop the maritime sector with an investment of Rs 1 lakh crore. Of this, PE investors were expected to contribute about 60 per cent of the sum, said a senior official from a private terminal operator.