

**MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

*(Pursuant to Regulation 34 read with the Schedule V of Securities and Exchange Board of India  
(Listing Obligations and Disclosure Requirements) Regulations, 2015)*



The Management of the Company is pleased to present its report on Industry Scenario including Company performance during the financial year 2018-19.

**BUSINESS ENVIRONMENT****➤ Global Business Overview**

The global economic growth is moderating and is projected to be 3.1% in 2018, as the recovery in trade and manufacturing activities slows down. The global economy in 2018 had started with strong and synchronized growth. The global economy continues to expand but the expansion has weakened significantly, especially in the second half of 2018, owing to the escalation of US–China trade tensions, disruptions in the auto sector in Germany, tighter credit policies in China, weakening financial market sentiment and trade policy uncertainty alongside the normalization of monetary policy in the larger advanced economies. The global growth is expected to further slowdown to 2.9% in 2019 and 2.8% in 2020-21. The downward growth is due to softer dynamics among developed economies, which are approaching the tail-end of their current economic cycles.

The World Bank has also downgraded its outlook for the global economy this year, citing rising trade tension, weakening manufacturing activity and growing financial stress in emerging-market countries. It expects the world economy to grow 2.9% in 2019, the second straight year of slowing growth, from 3% in 2018 and 3.1% in 2017.

**➤ Indian Business Environment**

India continues its growth momentum and is estimated to reach GDP rate of around 7.0% in FY19 slowing down from 7.2% in FY 2018. Indian economy is presently 6th largest in the world, up from 11th position five years ago. In terms of purchasing power parity, India ranks 3rd largest in the world after China and USA. India is also the 3rd largest start-up base in the world with over 4,750 technology start-ups. India's labour force is expected to touch 160-170 million by 2020, based on rate of population growth, increased labour force participation and higher education enrolment, among other factors. Further, India moved up by 23 places in the World Bank's Ease of Doing Business Index 2018 and stood 77th surpassing many major economies.

The IMF, World Bank and RBI have reposed confidence in India's growth prospects and predicted a higher growth trajectory in the years ahead. For the financial year 2019-20, IMF has predicted India's growth forecast at 7.3%, World Bank has estimated a growth rate of 7.5% and RBI has forecasted a growth rate of 7.0%. Further, Bloomberg has predicted a 7.6% expansion in the country's GDP in fiscal 2020, up from a projected 7.2% in fiscal 2019 and 6.7% in fiscal 2018 and has estimated a growth potential of 8% - 8.5%.

**➤ Global Logistics Industry Overview**

The global logistic industry is estimated to grow at a CAGR of 7.4% during the 2018 to 2026 and reach a value of US\$ 16445.1. The valuation of global logistics and supply industry has increased with the expansion in e-commerce sector, fuelled by increased penetration of high-speed internet, advancements in technology and a rise in popularity towards online shopping. This will act as a steady driving force for the logistics industry over the next few years.

The Asia-Pacific (APAC) region currently accounts for the largest share in the logistics market. Primary growth factors for the logistics market in APAC include a growing middle-class population, rising disposable income, and increasing adoption of Internet and mobile services, all of which contribute to a significant growth of the region's e-commerce sales. Depending on these factors, the logistics market in APAC is expected to grow at a CAGR of over 13% during the forecast period.

**➤ Indian Logistics Industry Overview**

Indian logistics sector employs around 22 million people across the nation. The logistic sector, especially the road logistics, plays a vital role in facilitating economic activity and trade movement in the country. Post implementation of GST, the sector has witnessed series of developments, which have led to increased efficiency in the entire logistics ecosystem.

The growth was also backed by an increase in scope for warehousing, transportation, shipping services, express cargo delivery, container services and other similar services. E-commerce logistics has also arisen as a key focus area. Given the

integral part that logistics plays in the E-commerce value chain, many established players and specialized start-ups have entered this space.

The Indian logistic industry is poised to grow remarkably, due to support of Government initiatives like the E-way bill, GST, the National Logistic Policy amongst many other. This should also lead to improvement in the global metric, Logistic Policy Index (LPI) where India is currently ranked at number 44 and add to the GDP of the country.

### **OPPORTUNITIES & EMERGING TRENDS**

The logistics industry in India is incredibly critical to its economic growth. The sector is full of potential, but still lacks optimal utilization of resources. A number of start-ups are entering the sector and offering services like never before. With the advancements in technologies few opportunities for the industry have been identified below:

- ❖ **Third Party Logistics (3PL):** India's 3PL market, currently pegged at USD6bn, can potentially reach USD17bn by FY 2025. With the advancement in e-commerce and vendors trying to provide the fastest door to door services, the scope for 3PL has widened. Companies have increasingly started outsourcing their end-to-end logistics requirements to 3PL service providers, who take care of the total supply chain.
- ❖ **Technological Innovation:** A large part of opportunities in logistics will be powered by technology and associated innovation. A regular courier is handled around 20 times during its journey from its origin to the final place. With technological enhancements, this number will go down considerably in the future. Automation, in terms of material handling, information exchange, and telecommunications will play a large role to serve this purpose.
- ❖ **India's consumption growth and rapid urbanization:** The logistics industry in India is incredibly critical to its economic growth. Increased economic activity as well as changing consumer expectations will drive more businesses towards using logistics services. Retailers are now looking out for companies that can provide them with end-to-end logistic solution including warehousing, transportation and value added services enabling them to expand their reach while maintain their efficiency and cost.
- ❖ **Manufacturing initiative:** The Make in India program, launched by the government in September 2014, has made great progress in encouraging foreign companies to invest in India and make it a hub for manufacturing. This has rapidly fuelled the logistics sector as more production units have been initiated.
- ❖ **E-Commerce & Omni Channel in Logistics:**
  - **E-Commerce:** Backed by E-commerce the country's internet economy is likely to double to USD250 billion by 2020 from USD125 billion in 2017. Growing internet penetration with increased use of smart phones is leading to a connected India, which has led to e-businesses to expand to provide a single platform for various services, resulting in the rise of online shoppers.
  - **Omni-Channel:** Omni Channel has emerged as a faster and efficient way of transporting goods to customers. There has been a shift in consumer buying behavior with consumers expecting to find the products they want both in-store and online, to use technology to make purchases with the swipe of a finger and to have their purchase delivered to their doorstep the very next day. As a result, the businesses have to ensure cost-effective and on-time delivery across its supply chain, which is where Omni channel logistics comes into play.

### **CHALLENGES**

The Indian logistics sector faces many challenges like the under-developed material handling infrastructure, fragmented warehousing, multiple regulatory & policy making bodies, lack of seamless movement of goods across modes, minimal integrated IT infrastructure. These points are explained below in detail:

- **Infrastructure:** It is among a major challenge to the Indian logistics industry be it roads, sea ports or railways. Underdeveloped material handling, lack of the desired infrastructure, terminals seeking room for larger vessels and congestion due to less available capacity are few major concerns which needs to be met.
- **Cost Pressures:** The other challenge associated with the sector is the rising expenses. Higher costs in the Indian logistics sector exceed from Russia, Brazil and China. The lack of efficient inter-modal and multi-modal traditional systems are recognized as major reason behind the higher costs in the Indian logistics sector. Other

most important reason contributing to the higher expenses is fuel prices in transportation. Higher fuel prices are likely to increase transportation costs for shippers by pushing up fuel surcharges. Rising diesel fuel prices lead to escalation in surcharges added to freight rates.

- **Security:** This is another major concern in the Indian logistics industry, as goods are passed from one service provider to the other. They are kept in local warehouses and then delivered. Pilferage and theft of goods in transit is always an open risk for the owners or end consumers.
- **Advanced Customer Service options:** Due to improvements in technology and connectivity, consumers have built up an expectation of transparency and seamless communication. Transparency and real time updates about the status of delivery is expected from the service provider. Keeping up the customer expectations in this aspect at times becomes difficult, which may lead to mismatched expectations.
- **Fragmented Ownership:** Road transporters (especially small FTL operators) and general warehouse owners continue to suffer from low pricing power due to fragmented ownership in India
- **Inadequate Insurance Coverage:** Unlike more developed economies, all goods being transported are not insured. In fact, LSPs, warehouse service providers (WSPs) and transporters end up taking insurance on behalf of their customers for 'direct cash debits' for significantly high amounts. This is a huge cost, and the risk impact is not only on large organized players but on small transporters. Logistics service providers (LSPs) also continue to be highly vulnerable due to the often unfair allocation of risk between them and shippers. Shippers are sometimes absolved of liability even where they are at fault, and these costs are borne by the LSPs.
- **Contracts & Liability Issues:** The lack of standard contracts for transport services and integrated logistics services, are among the known weaknesses in the business practices of the sector. There is a need to introduce professional standards, certification, and contracts for logistics service providers. Some of the smaller LSPs, do not pay enough attention to the contract wordings, some are incapable of doing so and some helplessly accept one sided contract wordings. Many a time, Shippers tend to transfer their responsibilities and liabilities to the LSPs. Some corporates find it easy to take care of small claims by making deductions from the freight account payable. When liabilities arise, many of them are not able to defend their cause.
- **Technology & Automation:** The logistics industry in India faces numerous challenges in the application of new technologies which encompass automation, safety and security due to Slow & Poor adoption. Lack of technology systems and insufficient technical knowledge add to the pain. Technological infrastructure has remained inadequate, marked by slow network speeds, subpar performance, and unreliable hardware and software — all leading to high costs and underperformance.

### Government initiatives

The government has summarised its persistent obligation for improving the functionalities of Indian logistics with a key focus on infrastructure development. Aiming to improving supply chain efficiencies and improving connectivity to help logistics players tap the underleveraged markets in the country's surroundings, key Infrastructure development projects by the Government has been rolled out.

- **Investment & Funding:** The commerce and industry ministry has decided to invest in the sector with the purpose of building up initial infrastructure and a phase wise support. The Government has been investing in improving the overall logistic sector through various initiatives such as Sagarmala Project, DFC, UDAN scheme and Bharatmala Pariyojna. These projects are expected to uplift the overall efficiency in the sector as well as create an integrated logistic environment for India.
- **GST:** The regulatory norms like GST has also boosted the core competencies of the Indian logistics industry. It has led to a shift of business from unorganized to an organized sector making the industry more formal. Under the pre-GST system, companies built and managed multiple warehouses in every state of business operation – to avoid cross-border tax. This made supply chains longer, costlier, and highly inefficient, resulting in the formation of a highly scattered and unorganized logistics sector. Post GST introduction, prices reduced as it was no longer different for different states and made tax liabilities uniform across India. Since there is no tax arbitrage to be gained, companies, under the new tax structure, are free to make decisions on supply chain management solely based on operational efficiency. This has also led to an increase in overall efficiency, as the LSPs have been able to consolidate its network, larger warehouses, and larger tonnage trucks.

- **E-way Bill:** Post mandate of E-way bill, w.e.f. 1st April, 2018, the compliance burden has increased significantly for the entire value chain leading to greater compliance and transparency. E-way bill has led to faster movement of goods as it requires only a single document to cross boundaries of other states whereas, previously multiple documents were required. However, LSPs face certain challenges such as lack of sufficient IT infrastructure needed to track consignments and update e-way bill details, practical issues in movement of goods where order is cancelled or rejected while in transit and the burden of additional paper work that's leading to delays in shipments.
- **National Logistics Policy:** The Department of Commerce established a Logistics Division in July 2017 focusing on 'Integrated development of the Logistics sector'. The Logistics Division, Department of Commerce has initiated the draft National Logistics Policy. The key highlights of what the policy aims to provide are:
  - ✓ Impetus to trade
  - ✓ Improve India's rank in ease of doing Business
  - ✓ Enhance export competitiveness.
  - ✓ Improve India's ranking in the Logistics Performance Index from 44th rank to between 25 to 30.
  - ✓ Reduce losses due to agri-wastage to less than 5%
- **Digital Initiatives:** The federal government has also adopted new systems to overcome long-standing logistics challenges.
  - ✓ Geographical Information Systems (GIS) based National Highways Information System to overcome the traffic and transportation problems on road.
  - ✓ Rake Management System (RMS) for handling commercial transactions on Indian railways.
  - ✓ Implementation of Radio Frequency Identification (RFI) for identifying the movement of ships wirelessly using radio waves.

## **RISK MANAGEMENT AND CONCERNS**

### **Internal Control Systems and their adequacy**

The Company has an effective and reliable internal control system commensurate with the size of its operations which are constantly assessed. The efficacy of the internal checks and control systems is validated by internal as well as statutory auditors. The Audit Committee reviews the internal audit plan, adequacy and effectiveness of the internal control system. It also reviews functioning of the Whistle Blower mechanism and monitors the action taken on the cases reported. The Audit Committee of the Board of Directors, Statutory Auditors and the Business Heads are periodically apprised of the internal audit findings and corrective actions taken. To maintain its objectivity and independence, the Internal Audit function reports to the Chairman of the Audit Committee.

The company has in place adequate internal financial controls with reference to financial statements. During the year, such controls were tested and no reportable material weakness in the design or operation was observed. The Audit Committee of Directors periodically reviews the significant findings of audits, as prescribed in the Companies Act, 2013 and in the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015.

### **Risk Management**

Your Company believes that managing risks helps in maximizing returns. The Company's approach to addressing business risks is comprehensive and includes periodic review of such risks and a framework for mitigating controls and reporting mechanism of such risks. The risk management framework is reviewed periodically by the Board and the Audit Committee.

The Company however faces the following risks:

- **Competition Risk:** This risk arises from more players wanting a share in the same pie. Like in most other industries, opportunity brings with itself competition. We face different levels of competition in each segment, from domestic as well as multinational players. However, NECC has established strong brand goodwill in the market and a strong foothold in the entire logistics value spectrum.
- **Regulatory Risk:** If we are unable to obtain required approvals and licenses in a timely manner, our business and operations may be adversely affected. However, the Government has come up with a number of initiatives to boost the logistics sector and has planned massive investments in the infrastructure sector. As all industry predictions suggest

that this will be the trend in the future as well and given our own experience in obtaining such permissions, we do not expect this risk to affect us materially in the coming years.

- **Liability Risk:** This risk refers to our liability arising from any damage to cargo, equipment, life and third parties which may adversely affect our business. The Company attempts to mitigate this risk through contractual obligations and insurance policies.

As a diversified enterprise, your Company continues to focus on a system-based approach to business risk management. A strong and independent Internal Audit function at the corporate level carries out risk focused audits across all businesses, enabling identification of areas where risk management processes may need to be strengthened.

### **OPERATION AND FUTURE OUTLOOK (ABOUT NECC)**

North Eastern Carrying Corporation Limited, part of NECC Group, is a leading giant founded in 1984, the Company started the business of core transportation & carriage of goods in FTL and Parchoon segment in 1999-2000. Since then it never looks back and achieved its target turnover for the Financial Year 2018-19.

NECC is an integrated logistics solutions provider with presence pan India, Nepal and with an operational set up in Bhutan and Bangladesh:

- Presence of over 4 decades. Leadership: Second and third generation promoters – Mr. Sunil Jain and Mr. Utkarsh Jain
- Proven capabilities in Part Truck Load (PTL) and rail logistics for all types of materials:
- Owning a fleet of 150 trucks
  - All trucks equipped with GPS tracking
  - Customized vehicles based on customer requirements
- Booking offices across the country and Nepal, servicing multiple routes with warehousing
  - 250 offices across 29 states and 4 countries- India, Nepal, Bhutan and Bangladesh
- Warehousing of 1.5 million sq feet - includes owned and leased under management
- Working with leading companies in the FMCG, Paper, Pharma, Automotive, Textile, Chemicals, Steel and Telecom sector
- Established track record of providing flexible, responsive and timely delivery services to our clients
  - Demonstrated by being chosen by several leading companies to undertake repeat business over several years

### **HUMAN RESOURCE/INDUSTRIAL RELATIONS**

We truly believe that NECC's biggest strength is its people, fondly called as NECC'ites, and is the single most important factor to ensure sustainable business growth and become 'Future Ready'. This is why we have a relentless focus on strengthening our talent management and employee engagement processes. As on March 31, 2019, the Company's total manpower stood at 513 employees which include Executives and Non-Executives.

For effective and meaningful Human Resource management at NECC, we concentrate on all aspects of the employee lifecycle to provide a holistic experience to the NECC'ites. During their tenure with NECC, a NECC'ites is motivated through various skill development interventions, including job rotations, customized training programme and engagement and volunteering programs. We also strived to be more open, transparent and objective in our people processes. We encourage debate and open dialogue on various processes directly impacting NECC'ites which helps us to develop and improvise our people strategy for future.

The Industrial Relations of the Company too, continued to be on a cordial note. There was no loss of man-days on account of industrial unrest. Further, there are regular interactions between the management and the employees, thereby fostering an atmosphere of trust and cooperation.

#### **Internal policies**

The leadership competency framework for the organisation has been fully integrated with various HR processes. A functional competency framework for all the different functions in the Company has been developed; it is now being used to create learning academies and drive excellence in each function. To enable people to take up the higher responsibilities, the transition programmes have been made more relevant and robust. Learning needs have been addressed during FY 2018-19 through new programmes in the areas of strategy, execution and critical thinking.

Our people practices have received recognition at different forums and we are committed to provide professional and enabling working environment at all levels envisaging a boundary less workplace, ensuring free flow of ideas and information through unified organisation structure and defined processes. We are a non-discriminating employer ensuring our HR and CSR initiatives are devoid of any prejudices protected by law. Our affirmative actions include actively hiring women candidates, support hiring of differently abled and other CSR initiatives which touches more than 15000 lives.

**CAUTIONARY STATEMENT**

*Certain statements in “Management Discussion and Analysis” section may be forward looking and are stated as required by applicable laws and regulations. Many factors may affect the actual results, which could be different from what the Management envisages in terms of future performance and outlook.*

On Behalf of the Board of Director of  
**North Eastern Carrying Corporation Limited**

Sd/-

**(Sunil Kumar Jain)**

**Chairman and Managing Director**

DIN: 00010695

**Place:** Delhi

**Date:** 13th August, 2019