

CREDABLE®



# Working Capital **Playbook** LOGISTICS

A complete guide to supply chain financing  
in the Logistics Industry

# Index

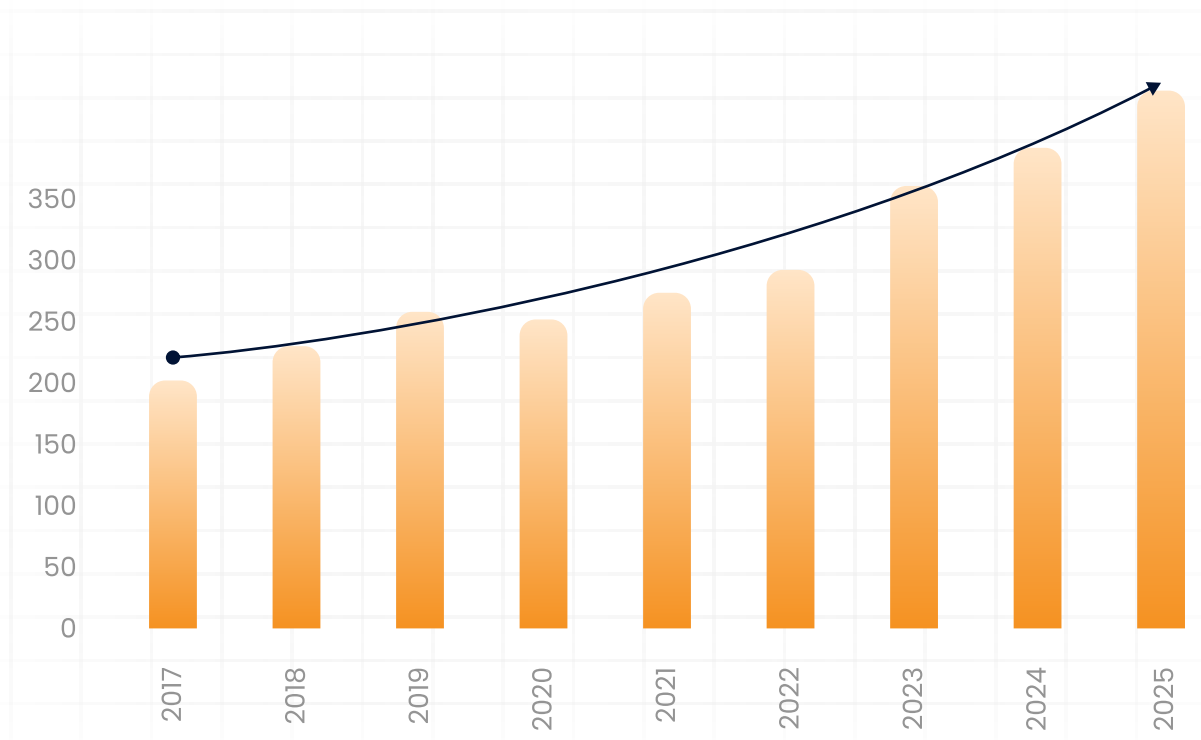
<u>Overview</u>	03
<u>Working Capital In The Logistics Industry</u>	05
<u>Statistical Overview</u>	
<u>Working Capital Sinkholes</u>	
<u>Working Capital Problems</u>	
<u>Leveraging Supply Chain Finance for growth in the Logistics Industry</u>	08
<u>Why CredAble's Supply Chain Financing is the Answer</u>	
<u>CredAble's Logistics Specific Solutions</u>	
<u>Case Study</u>	14
<u>Works Cited</u>	16

## An Overview

This study provides insights on the Indian logistics sector, shedding light on the prevailing working capital conditions and the challenges faced by industry players. Discover how CredAble's suite of supply chain financing products offers strategic solutions to address these working capital hurdles, revolutionizing the way logistics firms manage their cash flow and optimize their operations.



# An Industrial Overview



Value of the Indian Logistics Industry in Billion USD

*\*Collated with information from Aviral and KPMG*

Globally, the Logistics Industry has a market size of over **USD 5 trillion**, as per a report from the IMARC group. Of which the Indian Logistics Market is expected to have a value of approximately **USD 210 Billion**. In 2022, the logistics industry accounted for about **14% of the National GDP** (ICC, 2022) and facilitated business worth **USD 1.5 Trillion** (about 50% of the country's economy). The Indian Logistics Market is expected to maintain a CAGR of around **8 – 12%** in the coming few years. (KPMG, 2022). The industry faces a number of financing problems,

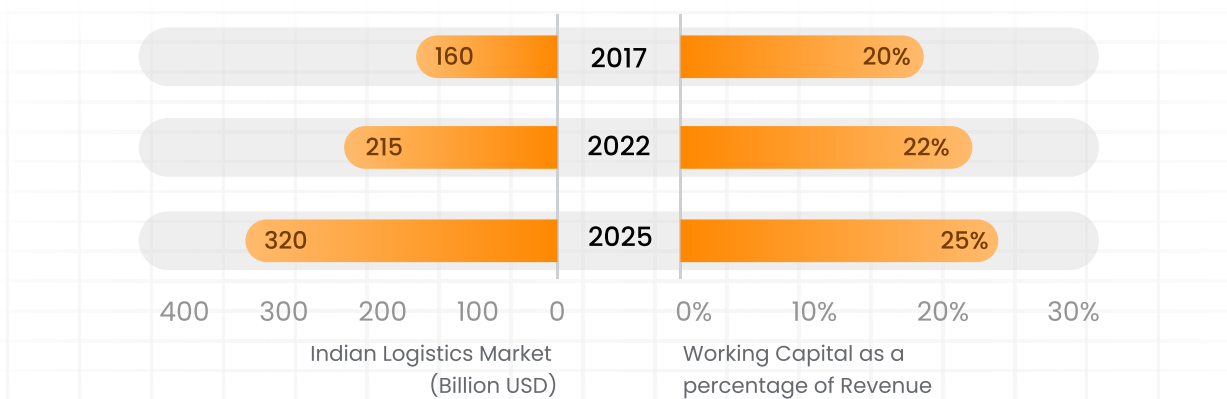
including lack of access to finance, high interest rates, short-term loans, and inflexible loan terms. These problems make it difficult for logistics companies to invest in new equipment, expand their operations, or hire new employees. As a result, the logistics industry is unable to reach full potential. The government of India has taken some steps to address these financing problems, but more needs to be done. A revolution in terms of both infrastructure as well as technology is vital.



Working Capital in the

# LOGISTICS INDUSTRY

# A Statistical Overview

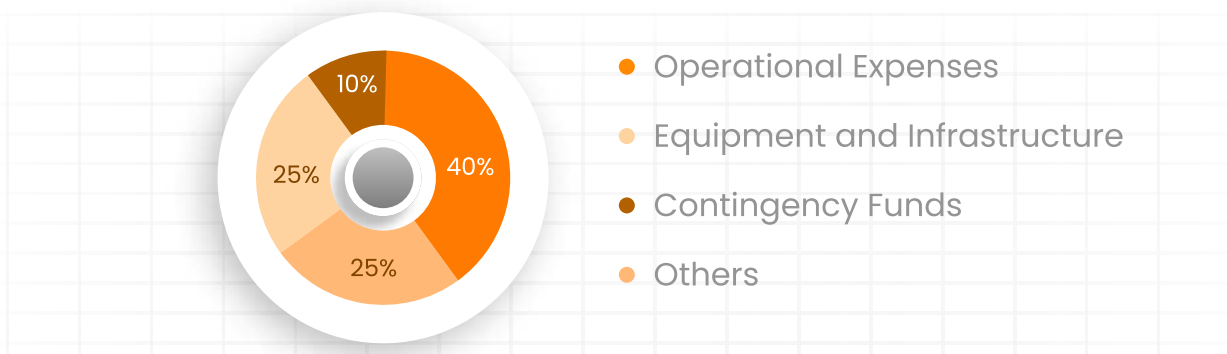


*\*Collated and Forecasted with information from (Aviral, 2022)*

Given logistics costs in India are one of the highest around the world at 14% of GDP, working capital requirements of firms engaged in the industry are expected to grow at a similar pace (NITI, 2021). Given the growing geopolitical tensions around

fuel supply to the country and reducing warehousing vacancy, average working capital requirements are expected to grow from 20% of revenue in 2017 to 25% of revenue by 2025. (Aviral, 2022)

## Working Capital Sinkholes In The Logistics Business



*Collated with information from (Armstrong & Associates, 2022) (AberdeenGroup, 2022) (ASCM, 2022) and (CSCMP, 2023)*

### Capital Investments

Logistics operations require significant investments in equipment and infrastructure, impacting financial health. (Armstrong & Associates, 2022)

### Operational Costs

Effective management of expenses, such as payroll, utilities, and insurance, ensures financial stability. (AberdeenGroup, 2022)

### Contingency Funds

Vital for navigating unforeseen challenges in the dynamic logistics industry. (ASCM, 2022) (CSCMP, 2023)

# Working Capital Problems In The Logistics Industry

1

## Payment Cycles

The logistics industry is burdened with extended payment cycles, varying across different segments. Warehousing typically runs on a 30-day payment cycle, while freight forwarding experiences significantly longer cycles exceeding **90 days**.

2

## Cash Crunch

The disparity between cost accrual and payment settlement strains the financial stability of logistics firms. **71%** of logistics professionals cite cash crunches as an obstacle to expansion, impeding optimization of operations. (Deloitte).

3

## Nature of Expenses

With narrow profit margins, logistics firms prioritize operational efficiency to minimize wastage. As a result, operational leasing has emerged as the preferred method to conduct business.



*Over **32%** of Logistics Professionals recognize a lack of working capital facilities as a core issue (Deloitte, 2022)*

## Access to Collateral

Traditional lenders typically require physical assets as collateral for working capital loans. However, logistics firms primarily rely on **leased assets** and possess intangible assets such as **bills and contracts**, making it challenging to avail themselves of such financing facilities.

## Cost Volatility

Operational expenses account for up to **80%** of a logistics firm's costs, exposing them to significant financial challenges during periods of price volatility. (AlixPartners, 2022) estimates that operational costs for logistics firms can surge by **15% - 30%** during peak seasons. Conventional banking products lack the necessary provisions to address such challenges effectively.



Leveraging Supply Chain  
Finance for Growth in the

# LOGISTICS INDUSTRY



# Why CredAble's Supply Chain Financing is the Answer

37.37

Average days accelerated (cash conversion cycle) through CredAble's Early Payment Program

## Improved Cash Flow

Supply chain financing can help improve cash flow by accelerating the payment of accounts receivable (DSO) or stalling payment of accounts payable (DPO). This helps create a sense of long-term stability and periodicity in cashflows as against a one-time influx through a traditional loan.

At 75% Vendor Participation

↑ 14%

Expected savings through discount for a treasury funded early payment program facilitated by CredAble

## Interest Costs

A traditional debt solution would mean a progressive rise in the interest burden on the firm, as against a supply chain financing structure that might even create arbitrage gains for the firm.

5%

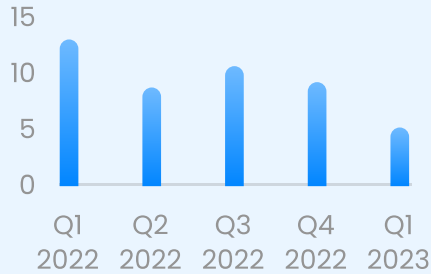
Savings on Expenditure through Credit Underwriting

Effects Measured in the AFP Payments Guide 2023

## Risk Mitigation

Through CredAble's supply chain financing solutions, firms can avail themselves of a thorough credit underwriting on their vendors and in turn make better financing decisions.

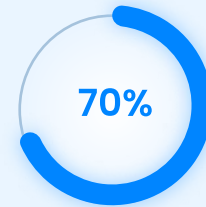
# Why CredAble's Supply Chain Financing is the Answer



Liquidity Influx in the Logistics Sector in APAC Markets (Billion USD) as per Savills

## Reduced Dependence on Equity

Raising equity involves diluting ownership and potentially giving up control of the company. Moreover, the APAC region has seen a 17% quarter on quarter reduction capital inflows (equity), indicating that an investment in a robust supply chain financing system might pay dividends.



Percentage of Companies that adopt Supply Chain Financing that are in a position to expand within 1 year

## Scalability

A supply chain is as strong as its weakest link. Uneven growth can put undue pressure on the smaller players in a supply chain, causing it to collapse upon itself. CredAble's supply chain financing provides financing solutions to the part of the supply chain that needs it most, promoting balanced growth and easing expansion.

 USD 10,400

 520 Hrs

Annual Loss Per Employee due to poor invoicing practices – Aberdeen Group

## Operational Efficiency

Streamlining the payment process and reducing administrative roadblocks allows for simpler cash management and easier accounting. The loss in operational efficiency in terms of accounting can be attributed to 3 main reasons: Incomplete Data, Manual Processes and Lack of integration, all of which can be solved through Digital Invoicing.

# CredAble's Logistics Specific Solutions

## The Early Payment Program for Suppliers

The Early Payment Program is a digitally enabled, corporate-led invoice discounting solution, aimed at optimizing corporates' days payable while fostering strong Vendor relationships. The platform seamlessly integrates with the firm's existing ERP system, facilitating efficient fund-flow management between corporates and vendors.

After onboarding the Corporate, CredAble extends the process to vendors. Invoices are uploaded and early payment requests are initiated. CredAble determines the best discount rate, and upon acceptance, corporates fund early payments through their treasury or CredAble's banking partners, receiving a discount in return (often higher than the interest paid to the banking partner).

### Advantages

#### Corporates

- Better Relations with Suppliers
- Extended Days Payable
- Best Rate Discovery
- Built for Scale

#### Vendors

- Quicker Access to Financing
- Debt Free Growth
- Easy Registration
- World Class Support

## Sales Invoice Discounting

### Advantages

- Swift Access to Working Capital
- Collateral Free
- Digital Process
- Efficient Invoice Verification
- Quick Disbursal of Funds
- Short Cash Cycles
- Optimal Cash Flows

Vendors gain collateral-free working capital by selling unfulfilled sales invoices to our FI partners. This efficient solution addresses limited credit access and high interest rates faced by smaller vendors. Particularly advantageous for firms in the logistics industry, the sales invoice discounting solution replaces the need for physical collateral by utilizing intangible assets.

Once the vendor supplies goods to the onboarded corporate, the sales invoice is uploaded onto CredAble's platform, and an early payment request is initiated. CredAble verifies the invoice with the Corporate and, upon confirmation, collaborates with its financial partner to disburse payment to the Vendor's Escrow. The corporate then replenishes the escrow on the designated due date.

# CredAble's Logistics Specific Solutions

## Purchase Order Discounting

Purchase Order Discounting enables financial institutions to advance funds to vendors, helping meet their working capital needs and fulfill purchase orders. Once the order is completed and funds are released by the client, the remaining amount, after interest provisions, is routed to the vendors. This form of financing is beneficial for supply chains facing delays.

Corporate issues a purchase order, uploaded to CredAble's platform. Vendors request financial assistance through the platform. CredAble collaborates with the appropriate financial institution, allocating cash to the vendor's escrow account. Upon sale completion, the corporate pays the vendor's escrow account, ensuring the initial funding and interest are routed to the financier.

### Advantages

#### Corporates

- Vendor Confidence
- Payments Mapping
- Full Control
- Built for Scale

#### Vendors

- Inclusive Financing
- Complete Transparency
- Easy Registration
- No Collateral

## E – POD

By replacing the conventional invoice financing process with an electronically supported alternative, an end-to-end digital process is established, offering enhanced efficiency.

Utilizing CredAble's dedicated platform, the vendor prepares a proof of delivery and uploads it to the platform. The corporate examines and approves the provided proof of delivery, subsequently triggering the release of financing to the vendor's escrow account. On the designated due date, the corporate replenishes the escrow account, ensuring smooth and timely settlement.

### Advantages

#### Corporates

- Improved Cashflow
- Reduced Admin Cost
- Real Time Visibility
- Full Control

#### Vendors

- Quicker Access to Funds
- Shorter Cash Cycles
- No Business Delays
- Better Financing Options

# CredAble's Logistics Specific Solutions

## Advantages

### Corporates

- Scaled Operations
- Standard Invoicing
- Better Credit Position
- Bolsters the Early Payment Program

### Vendors

- Cash Management
- Accounting Integration
- Trade Intermediation
- Business Intelligence



Upscale looks to solve working capital problems of SMEs in India. SMEs contribute to about 30% of India's GDP, but only 16% of these SMEs have access to formal credit, this creates a gap of about USD 350 Billion. Besides the same, SMEs have a hard time with vendor and client management due to outdated manual payment infrastructure. To bridge this gap, UpScale enlists three key functions:

## Payment Aggregation and Beyond Banking

A powerful collection engine to collect payments & enable pay-outs, digitally. It also includes e- invoice generation, payment reminders, and automated reconciliation. Powerful & intuitive reports are provided to analyse future projections of operations and financial statements.

## Credit

Provides access to a diverse range of lending solutions like unsecured term loans, invoice discounting, P.O. financing, gold loan & more from 10+ banks & NBFCs Collateral-free & paperless financing options. Moreover, it is the only app in India offering supply-chain financing in real-time.

## Trade

UpScale also envisions creating a marketplace of distributors and Vendors that present and prospective clients can explore further. This includes analytics on each distributor, Vendor, their processes, and their achievements. It also helps SMEs gain a better view of the supply chain they're working it and how they can optimize it.



# CASE STUDY

# Empowering SME Growth

## Company Overview and Problems Faced

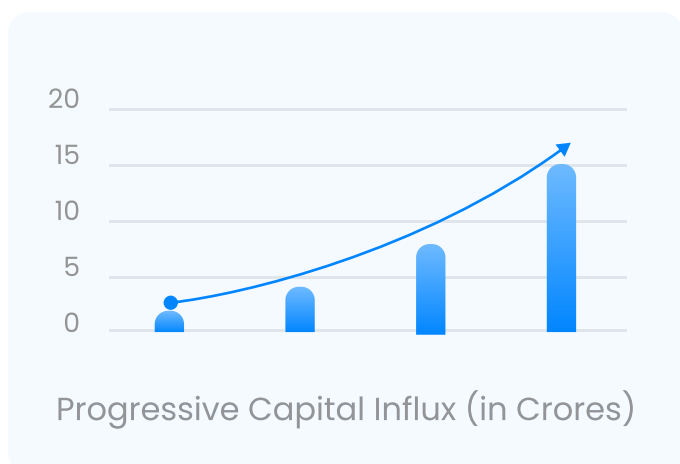
The Logistics Firm was a privately held entity local to the city of Hyderabad. Their business included servicing large, blue – chip corporate on a daily basis.

The company has a pro 90 – day receivable cycle (as compared to a global average of approximately 40 days) with payables due on a weekly business.

As is the industry norm, the company was asset lite – with little to put forth in the form of physical collateral.

On analysis, a working capital gap of over 3 Crores was identified, impacting efficiency and scalability.

## Solutions Enlisted and Impact Created



To solve for these challenges effectively CredAble devised a multi step tailormade solution.

The first was to flood the firm with liquidity to deal with the immediate working capital gap. Subsequently CredAble plugged in a supply chain financing solution that would help outflank ongoing liquidity issues.

The Second was to enable better cashflow management and reducing administrative inefficiencies through Credable's proprietary invoicing solution.

An initial SCF solution of INR 3 Crores was introduced and gradually increased to 15 Crores by the end of the year. CredAble's suite of solutions released locked potential and enabled 100% revenue growth in a mere 4 quarters.





# WORKS CITED



# References

AberdeenGroup. (2022). Aberdeen Strategy and Research. Retrieved from Aberdeen.com: <https://www.aberdeen.com/research/>

AFP. (2023). 2023 AFP Liquidity Survey. Retrieved from AFP/ Surveys and Reports: <https://www.afponline.org/publications-data-tools/reports/survey-research-economic-data>

AFP. (2023). AFP Payments Guide to What's New in Trade Finance. Retrieved from AFP/ Guides: <https://www.afponline.org/publications-data-tools/reports/guides>

AlixPartners. (2022). AlixPartners/Insights. Retrieved from AlixPartners.com: <https://www.alixpartners.com/insights/>

Armstrong, & Associates. (2022). 3PL Guide and Market Research. Retrieved from 3plogistics: <https://www.3plogistics.com/>

ASCM. (2022). ASCM Research. Retrieved from ASCM.org: <https://www.ascm.org/>

Aviral. (2022). Express Logistics Report - India . Mumbai: Aviral.

CSCMP. (2023). Supply Chain Operations Guide. Lombard, Illinois.

Deloitte. (2022). Industries/ Transportation, Hospitality and Services. Retrieved from Deloitte.com: [https://www2.deloitte.com/us/en/pages/consumer-business/topics/transportation-hospitality-and-services-trends.html?icid=top\\_transportation-hospitality-and-services-trends](https://www2.deloitte.com/us/en/pages/consumer-business/topics/transportation-hospitality-and-services-trends.html?icid=top_transportation-hospitality-and-services-trends)

ICC. (2022). blogs. Retrieved from indianchamberofcommerce: <https://blogs.indianchamber.org/>

KPMG. (2022). The Logistics and Warehousing Market in India. Mumbai: KPMG.

NITI. (2021). Fast Tracking Freight in India. New Delhi: Niti.

Savills. (2023). Taking Stock: Capital Markets Quarterly – Q1 2023 . Retrieved from Savills.com: [https://www.savills.com/research\\_articles/255800/347815-0](https://www.savills.com/research_articles/255800/347815-0)

WEF. (2023). weforum/ reports. Retrieved from weforum.org: <https://www.weforum.org/reports>

Think

# Working Capital

Think

CRED  ABLE®



[www.credable.in](http://www.credable.in)

[www.credable.biz](http://www.credable.biz)



[info@credable.in](mailto:info@credable.in)

