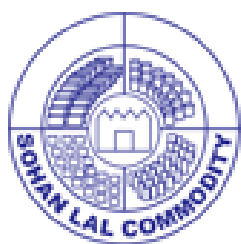


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SOHAN LAL COMMODITY MANAGEMENT PVT. LTD


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Agri Financing: The next era of evolution for agriculture

The existing financial infrastructure in India has not been able to meet the key financial needs that arise along agricultural value chains. Many agri intermediaries as well as farmers are either left un-served or underserved due to the lack of timely access to institutional finance via agri-loans.

August 16, 2019 8:34 IST | India Infoline News Service



Timely and adequate availability of finance is a prerequisite for the growth of any sector and Agriculture is no exception. However, the challenges in accessing finance have hampered the growth of this sector specifically. The existing financial infrastructure in India has not been able to meet the key financial needs that arise along agricultural value chains. Many agri intermediaries as well as farmers are either left un-served or underserved due to the lack of timely access to institutional finance via agri-loans. The market demand for smallholder agriculture finance is huge and is largely unmet. Without access to credit, most smallholders are restricted to farming, trading, processing practices that result in low levels of productivity. Although various financial institutions have come up and have set shops in rural India, the majority of agri stakeholders still have limited or no access to them.

For the inclusive development of agriculture sector, financing is an important element. It can play a critical role in plugging the gaps in agriculture and ancillary sectors by providing end-to-end solutions like credit and service to various participants in the Agri value chain ranging from farmers, aggregators, traders, processors, importers, and exporters. Agri financing has an important role to play in supporting both on and off-farm agricultural activities and businesses including input provision, production, and distribution, wholesale, processing and marketing.

Farm sector is fraught with inherent challenges which make it unattractive for formal financial institutions. Farming is a cyclical business which follows cropping seasons and the farmers are always exposed to the vagaries of the nature such as droughts, floods or diseases which are beyond their control. Though land is the most preferred form of collateral asset but often problems like the title and property rights and smaller loan amount makes the liquidation process of land, an extremely expensive and arduous task. Liquidation of other

movable assets like livestock and equipment is also fraught with risk as usually it is without a proof of ownership and insurance cover.

The smaller ticket size of farm loans makes its servicing an expensive affair for the financial institutions. This is further complicated by the fact that farmers and especially women and young ones do not have formal ownership of their lands and have little to offer in terms of collateral. This makes them vulnerable to money lenders which can be extremely risky for a resource-poor farmer since the loans are charged at very high rates of interest contributing to increasing challenges of indebtedness.

Despite these challenges, Agri services & credit has been steadily emerging as a key component in the agricultural commodity ecosystem. It is playing an important role of an “enabler” and “resource unifier” within the Agri services ecosystem, working towards efficient commercialization of the rural economy. Agri-focused NBFCs (Non-Banking Financial Companies), self-help and savings and loan groups and microfinance institutions have come up in large numbers in the recent years providing much needed institutional finance via agri loans to farm and ancillary sector. Microfinance institutions (MFI's) that develop their products for low-income households and individuals are driving the growth and accessibility of finance especially agricultural financial services in rural India. Their market share, however, is still small since most of them are focusing on urban and semi-urban clients and rural areas with high population densities, leaving many rural areas and farmers still lacking access to credit.

RBI regulated agri-focussed NBFCs are helping agri intermediaries in meeting working capital, other operational hurdles in a big way. These firms come with in-depth knowledge of the agri-commodities business cycle and their collateral flexibility and speedy disbursements enables them to offer competitive value proposition procurement model coupled with funding, to their clients. This not only ensures better price realization to farmers for their produce but also brings greater transparency and efficiency to the process.

Agri-focused NBFCs have added another dimension to the agriculture ecosystem by providing financing solutions against warehouse receipts of agriculture commodities. These firms provide financing of up to 80% amount for the diversified basket of agriculture commodities against warehouse receipts (WR) to farmers, joint liability groups (JLGs), small & medium-sized enterprises (SMEs), commodity traders, processors, exporters, importers & other agri intermediaries across the country. This ensures better price realization for their customers and for their product which was earlier not possible.

Also, the role of agri-focused NBFCs in the transformation of the agriculture sector is not restricted to working capital finance. It extends to providing customized financing by following the business cycle of each commodity, enabling effective processing of the agri-produce. This is besides providing export-import financing to exporters and importers helping in better risk management, improved credit terms, and faster turnover. Such firms enable clients to meet their different needs through finance against collaterals such as real estate, commodities and other financial assets.

The advantage of agri-focused NBFCs lies in their ability to sanction and disburse loans efficiently and quickly. These firms adopt a hassle-free process with minimum paperwork for faster disbursement ensuring customer satisfaction. They take current market rates as the basis for the disbursement and follow robust internal processes, risk management mechanism besides using the latest technology thus reducing their cost of lending and making their loan products more attractive.

Currently India's Agri -financing sector is undergoing a paradigmatic shift with more and more members of agri fraternity using warehousing receipts as a tool to meet their working capital requirements for the next season and consumption needs after the harvest season.

They, instead of selling, deposit their produce in a professionally managed warehousing service provider which issues them a warehouse / storage receipt. Farmers take the receipt, which has all the necessary details like quality and quantity of the product, to the bank or agri-NBFCs that offer a credit facility against that receipt.

This mechanism allows farmers to keep an eye on the price and provides them the option of selling the produce, wholly or partially at a price that he thinks is right, and repay the bank or agri-NBFC. It also helps financial institutions to achieve their priority sector lending targets efficiently.

The scientific storage of Agri-commodities is also getting a big boost with the growing popularity of warehouse/ storage receipts. Increased usage of warehouse receipts has kick-started a virtuous cycle of investments in warehousing infrastructure and scientific storage of farm produce thus fixing the missing link in the supply chain and further complementing access of institutional finance to farmers via Agri- loans. This has helped in addressing the problem of spoilage and wastage of farm produce, arising due to poor storage and frail handling post-harvest, which is as high as 25-30 percent of agricultural products every year.

Faced with multiple challenges, the Indian agriculture today is at a cusp of transformation. There is an urgent need to modernise the post-harvest management of farm produce by inducting new technologies and scientific processes. This will not only cut down the food wastage but will also help in generating employment in allied sectors. Agri-financing through warehouse receipt, self-help and savings and loan groups, and microfinance institutions can provide us a great opportunity to turn this challenge into a great accomplishment. For the overall development of the agricultural ecosystem, there is a need to make the system more efficient by electronically linking financial institutions with the entire agricultural value chain. This would not only help in the reduction of compliance costs for warehouses but will also make the sector far more attractive from the investment point of view.

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