EMERGING BUSINESS In a sector riddled with middlemen and wastage, post-harvest management is becoming a reality FEATURE With corporates warming up to social media, a whole host of start-ups are playing the role of strategists →

| JUST STARTED |

SOUMIK KAR

Stoned and loving it

In his previous avatar as an analyst, Manit Varaiya sniffed out sound investment opportunities for a living. In doing so he realised that there was a scalable business opportunity staring him in the face — an affordable daily-wear jewellery brand that offered women a variety of cheap and trendy pieces. "Gold and diamond sets are costly and can't be updated often. So, I decided to sell handcrafted earrings (₹500-₹2,500), rings (₹800-₹1,500), bracelets and pendants (₹1,000-₹2,500) and neckpieces (₹3,000 and above) made from semi-precious natural stones and a mix of silver and copper," he says. He launched Silvette — the name inspired by a Picasso painting — in August 2014 with an initial investment of ₹5-6 lakh.

Silvette works with manufacturers in Kolkata and Jaipur and balances its inventory mix based on order trends. It sells nearly 25% of its inventory at the exhibitions it takes to tier 2 cities every weekend. "The audience in metros has easy access to such pieces. In tier 2 cities, variety, delivery and availability are some of the challenges we resolve," Varaiya adds. This insight has helped him rake in ₹5 lakh to date, with gross profits ranging from 60-100%. With just four people running the show, Varaiya is working on making his enterprise sparkle and shine.

— MAHITHI PILLAY

Silvette

Started
August 2014

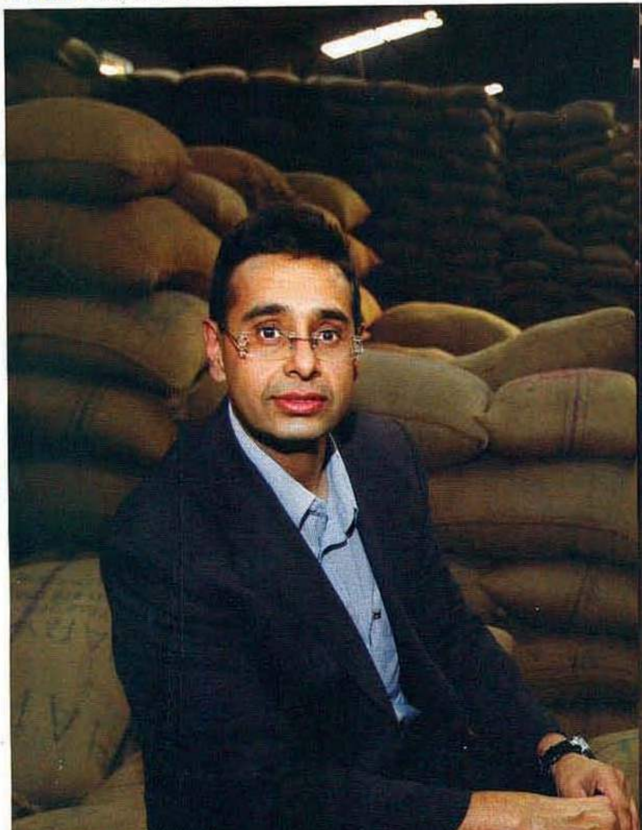
Initial investment
₹5-6 lakh

Average selling price
₹1,100-1,200

Price range
₹500 - 3,000

Revenue*
₹5 lakh

*As on October 18, 2014



“Using bar codes, customers can track purchases right from the time they enter the warehouse till they leave in trucks

—SANDEEP SABHARWAL
CEO, Sohanlal Commodity Management

A storehouse of growth

How a bunch of private players are looking to plug a serious gap and create value in India's agri supply chain

Kripa Mahalingam

When school friends Mayank Dhanuka and Sunoor Kaul — also classmates at IIT Delhi — left high-flying investment banking careers in the US and returned to India in 2009, they looked at various businesses that they could venture into. What finally caught their attention — post-harvest management, a grassroots problem that haunts the Indian agricultural sector — was a far cry from what they were doing in the US. They decided to solve the huge gap in post-harvest management services by removing inefficiencies across the agri chain. This included addressing issues with a host of operations such as warehousing, logistics, procurement, collateral management and quality testing that would not only make the process more productive but also ensure better prices for farmers.

In 2010, the duo decided to start Origo Commodities India to do just that. "It was clear that the sector was ripe for some disruption since most of it was unorganised. By straddling these services together, we can help build a more efficient supply chain," says Mayank Dhanuka, founder, Origo Commodities.

Origo is one of the latest entrants in this space. A bunch of organised players such as StarAgri, Sohanlal Commodity Management (SLCM), National Collateral Management (NCML) and Shubham Logistics are already a couple of years into the game, offering these services while leveraging the existing ware-

The push factor

A multitude of factors are driving the need for warehousing in the country

housing infrastructure to offer better storage facilities to farmers. These companies have been working on cutting through the various levels of middlemen by procuring agricultural products directly from farmers on behalf of processors, traders and government bodies, thereby ensuring better prices for farmers. They provide an entire spectrum of warehouse-management, transportation and port-handling services and help farmers transport goods from *mandis* and warehouses to their processing centres. By delivering a host of services on a single platform, these companies make it easier for corporate clients to source from them, instead of dealing with multiple entities for each service. As for the farmer, he does not have to worry about lugging his produce to various locations.

GROUND REALITY

In a country where millions go hungry every day, 10% of produce goes waste due to inefficient or insufficient storage. India is one of the largest producers of agri commodities, producing 250 million metric tonne of cereals and pulses and fruits and vegetables each year. In fact, the agricultural sector makes up around 20% of India's GDP. Apart from millions going hungry, the monetary loss due to this wastage amounts to a staggering ₹60,000 crore every year.

Much of this loss can be attributed to the unorganised structure of the agri industry. For several decades now, the industry has been governed by the agricultural produce marketing committee act (APMC). There are more than 7,500 APMC *mandis* or yards across India, each with its own set of rules and regulations and covering an average area of 450 sq km. However, due to insufficient coverage and inefficient price discovery, six states have done away with APMC *mandis*. These *mandis* not only control the entire trade of agricultural goods but also have a significant bearing on the final price of the produce. In fact, the government has now allowed the creation of private *mandis*.

Farmers come to these *mandis* to find buyers for their produce through an auction and the price is usually determined by visual inspection. Agents and other middlemen then grade the goods; most often, this ends up fetching the farmers a lower price than what they would get if they were to sell the produce directly to the final buyers. Since the business is mostly unorganised, intermediaries that have sprung up make the price discovery inefficient.

The middlemen at the *mandis* charge a commission from both the seller (farmer) and the buyer (trader/processor). Apart from the commission, there is also a market fee and taxes that need to be paid by the buyer. Thanks to the various levels of intermediaries, the difference between the wholesale price — which is not paid to the farmer but what goes to the middleman — and retail prices is almost more than double for most commodities.

Although commission agents charge a fee, they have no facilities to grade or sort the grain and their archaic storage facilities often lead to huge post-harvest losses. Also, due to the supply glut in the market just after the harvest season, the drastic fall in prices results in farmers being unable to even cover the transport costs. Almost 6% of the food grains are stored at farmer's households and sold at sub-optimal prices.

However, there is significant scope to improve efficiency levels and reduce wastage in this sector through better warehousing. The public sector accounts for around

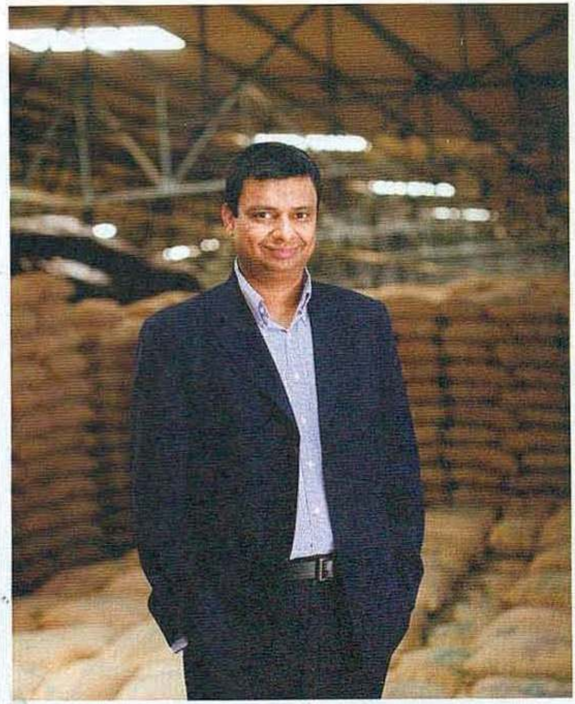
> ***The monetary loss to the nation due to insufficient storage of produce amounts to ₹60,000 crore every year***

72% of agri warehousing capacity and there is a gap of 35 million tonne of warehousing capacity that needs to be filled. Despite the demand-supply gap, the investment into building warehousing capacity is not flying thick and fast due to the long payback period involved. For instance, a 20,000 sq ft warehouse costs anywhere between ₹5 crore and ₹7 crore and it takes 8-10 years to break even on the investment with a 12-14% return, which is not very lucrative. Offering only storage facilities becomes a commoditised business since there is not much differentiation except in pricing. A majority of the service providers follow an asset-light strategy by leasing out existing warehouses. That way, companies can follow the crop pattern without making heavy investments and go through the cumbersome process of procuring land and availing clearances for construction.

So, why aren't larger business houses getting into the post-harvest management business if the opportunities are so lucrative? "This is one of the most operationally tough businesses to be in," says Origo's Dhanuka. "It involves dealing with a lot of middlemen and manpower, besides building a network both on the buyers' and the suppliers' side. And with a lot of services being interlinked, timely execution is very critical. The existing players are unable to leverage technology and not all of them have the bandwidth to provide the entire spectrum of services. So we want to use the existing infrastructure and offer the entire spectrum of the business with the help of technology," he adds.

SOWING THE SEEDS

Currently, Origo has 500 warehouses and more than 1,000 employees, with a revenue of around ₹150 crore. The number is expected to double in the next financial year. The company is looking to create around 20 integrated service centres, which will cost about ₹5 crore-15 crore depending on the location and size. While around ₹50 crore-75 crore will come from internal accruals, the company is looking to raise money from private equity funds as well.



❝ We want to use the existing infrastructure and offer the entire spectrum of the business with the help of technology

—MAYANK DHANUKA
Director, Origo Commodities

When players such as StarAgri and SLCM started their operations six to seven years ago, the companies had to win over the trust of farmers to use their services. In the larger *mandis*, post-harvest companies have employed registered representatives who directly source from the farmers. StarAgri identified a few farmers in Rajasthan and worked with the company closely to sell the idea of working with the company for a commission. Their strategy of breaking into the rural community has paid off, with the company now having a direct relationship with 300,000 farmers across the country.

These companies also work closely with banks to disburse loans and help with documentation, earning a fee on both the loan origination and collateral management. Farmers can also opt to hold the goods for three to four months and sell it at better prices if they choose to. They can also receive credit against the warehousing receipts from banks and financial institutions. Access to warehousing helps farmers avoid distress sales of their produce during the harvest season. "For banks, too, it is the ideal way to meet their priority sector lending requirements," says Girish Nadkarni, partner at IDFC Alternatives, who pegs the opportunity at ₹100,000 crore and believes that "there is potential for exponential growth in the business since the annual agri production is over ₹8 lakh crore."

IDFC Alternatives first ventured into agri services when it invested ₹150 crore in StarAgri in February 2012. Headquartered in Jaipur, StarAgri was founded in 2006 by Suresh Goyal, Amit Khandelwal, Amit Mundawala and Amith Agarwal, who were then associates at ICICI Bank, helping farmers get financing. Between them, they have years of experience in financing, procurement, warehousing and being commission agents. When the idea occurred to them, they had just the perfect match of skills required to start a post-harvest management company. They even spent time with each other's families for a week to see if they could work as a team. The foursome found that their value systems were similar and decided to start StarAgri. The company has come a long way since then: it operates 1,200 warehouses across 300 locations with a total warehousing capacity of 1.7 million tonne. Its collateral management portfolio has grown from ₹500 crore in 2012 to ₹9,000 crore currently and it has tied up with 35 banks to provide collateral financing to farmers. It also raised ₹250 crore earlier this year from Singapore-based company Temasek to expand its agri warehouse network and develop private *mandis*.

StarAgri operates 1,200 warehouses across 300 locations, with a total capacity of 1.7 million tonne

StarAgri is looking to create five private *mandis* in Rajasthan and Madhya Pradesh where warehousing, procurement, testing and grading facilities will be provided under the same roof, making things easier for the farmer. Earlier, they had to first go to the *mandi* and then shift the goods to warehouses. The current process allows for better price discovery since the NCDEX terminal will live stream the prices of commodities. With one *mandi* already operational, four others will be functional by mid-December. Once the initial *mandis* gain some traction, the company's intention is to create 50 private *mandis* in a couple of years. It will invest in building silo-based storages, used for bulk storage based on international standards, and mechanised sorting and technology to ensure real-time inventory and risk management. The company clocked revenue of ₹110 crore in FY14 and is expected to almost double it to ₹200 crore in FY15, driven by its expanding agri logistics network. Almost two-thirds of its revenue comes from warehousing and the rest from procurement, testing and logistics.

For Sandeep Sabharwal, joining his family's food processing business was a natural choice after finishing his MBA from Delhi University in 1995. A decade into the business, he realised that apart from trading and processing, there was little being done to improve storage efficiency and reduce wastage in the existing warehouse system. So he set up SLCM in 2008 — from a single warehouse location in 2009, the company currently handles nearly 600 warehouses and nine cold storages with 1.55 million tonne of storage capacity across 20 states in the country. "When I started out and mooted the idea of using technology to improve efficiency across warehouses, many existing warehouse owners told me that I had no clue about the business. But with our standard operating procedure, we have been able to prove that we can considerably improve storage efficiency," says Sandeep Sabharwal, CEO, SLCM.

SLCM has invested in technology to set up a centralised man-

“ There is potential for exponential growth in the business since the annual agri production is over ₹8 lakh crore

—GIRISH NADKARNI
Partner, IDFC Alternatives-Private Equity

“ We backed Sabharwal since he focuses on using technology to build softer infrastructure that improves overall efficiency

—SANDEEP SINGHAL
Co-founder, Nexus Venture Partners

STOCK IN TRADE: (L-R) Amit Khandelwal, Amit Mundawala, Suresh Goyal and Amith Agarwal of StarAgri

agement information system that has real-time information on the multi-location holdings of customers. It has also come up with its own SOP called Agrireach — that it is looking to patent — that significantly brings down wastage during storage. One of the major reasons for wastage is theft and the company has come up with a process that not only reduces theft but also checks the quality of the food grains. It has a bar-coded warehouse system wherein customers can track the movement of their products. "Using bar codes, customers can track purchases right from the time they enter the warehouse till they leave in trucks," explains Sabharwal. The process includes quality checks and monitoring moisture levels on a daily or weekly basis. The company is now looking to introduce mobile solutions that provide this information within a few seconds of scanning the barcode at each point — similar to what credit card companies do when you swipe your card.

REAPING BENEFITS

Like StarAgri, SLCM has raised multiple rounds of funding. In May 2010, Nexus Venture Partners made their first investment of ₹10 crore in the company. Thanks to the challenges Suminter Organics — one of its portfolio companies — faced while sourcing, Nexus was aware of the gaps in post-harvest supply chain management. "We were looking for a company that addressed challenges in the farm-to-production logistics space and decided to back Sabharwal because he was focused on using technology to build softer infrastructure that improves the overall efficiency," says Sandeep Singhal, managing partner, Nexus Venture Partners.

With a revenue of ₹1,100 crore in FY15, Sohanlal hopes to clock revenue of ₹1,800 crore in FY16

In the next round of funding in March 2011, Mayfield India and Nexus Venture Partners pumped in another ₹35.5 crore for expansion. The company raised its third round of funding from Everstone Capital and Emerging India Fund (a fund under ICICI Bank), where the funds invested ₹129 crore. At present, investors hold a nearly 74% stake in the company. SLCM is looking to foray into markets similar to India such as Myanmar and Africa, where it can replicate the business model. With revenue of ₹1,100 crore in FY15, the company hopes to clock revenue of ₹1,800 crore in FY16 as it expands its capacity across the country.

The company made its foray into the warehouse receipt financing arena by acquiring Chennai-based NBFC and launching its product KissanDhan in April 2014 and currently has a loan book of ₹50 crore. StarAgri and Origo are also starting their own financing arms to finance farmers in areas where banks and financial institutions don't have operations. "The financing business lends itself to the other services offered. Since we already have a network in place and the collateral is in our warehouses, we are leveraging our existing assets to add an additional revenue stream," says Amith Agarwal, director, StarAgri.

These organised players form less than 5% of the total market, with the government making up for three-fourths of the market. While some of them are creating infrastructure in places where there are good occupancy rates and are setting up smart *mandis*, most of them are leveraging the existing infrastructure to improve the efficiency of warehouses and reducing wastage.

By straddling procurement, testing, logistics and financing, the companies are now generating additional revenue streams to improve their returns in a business that is more or less commoditised. As post-harvest management services move to being more organised, it would only mean more opportunities for these companies, helping them sustain their current growth rates.