

Agri supply chain fragmented, need well-thought-out market interventions, SLCM Group's Sabharwal says

India's farm sector faces multiple challenges: knee-jerk interventions, disorganised supply chains and a lack of profitability, says the CEO of one of the country's largest private warehousing firms

MRIGANK DHANIWALA | SEPTEMBER 23, 2022 / 12:50 PM IST

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Sandeep Sabharwal, CEO of Sohan Lal Commodity Management Pvt. Ltd. (SLCM) Group

India's agricultural supply chain is fragmented, hurting businesses and consumers, and making a case for policy interventions that are well thought through, said Sandeep Sabharwal, CEO of Sohan Lal Commodity Management Pvt Ltd (SLCM) Group.

SLCM is one of India's largest private warehouse companies and offers storage for over 1,000 agricultural commodities, as well as fumigation, testing and certification services. A group company also provides financing against storage receipts.

"Market linkages only happen when the markets are allowed to discover themselves. Beyond a particular point, market interventions become detrimental to the growth of the markets," Sabharwal told *Moneycontrol* in an interview. "We need government restrictions but not to the extent that they disrupt the equilibrium of supply chains on a long-term basis."

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Agriculture, which employs more than half of the workforce in the world's second-most populous country, makes up about 15 percent of India's economic output. The farm sector supported the economy after the pandemic hit in early 2020, forcing some of the strictest lockdowns.

Millions in India rely on farming and allied activities. However, small landholdings, lack of developed supply chains and a raft of regulations make farming unprofitable for a large chunk despite the government assuring minimum purchase prices (MSP) for several commodities, as well as providing subsidies and direct income support to farmers.

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On the other hand, state interventions aimed at curbing prices and ensuring supplies make life difficult for the farm trade sector. India has, in the last few months, curbed exports of wheat and rice. The government also imposes stock limits from time to time to curb hoarding and tweaks duties to limit shipments.

The country needs to **liberalise the farm sector by easing onerous regulations**, farm leader Guntant Patil Hangargekar, who is a member of an expert panel on MSP constituted by the government, had

told Moneycontrol in August.

SLCM Group CEO Sabharwal agrees.

“Somewhere, we have lost the plot in the agriculture industry. The biggest issue is that this industry is heavily monitored and, hence, the forces of a free market economic system are subdued in the sector,” Sabharwal said.

“You should have market intervention. I am not saying you should let runaway inflation happen. But that market intervention should be a thought-out process and not a knee-jerk reaction.”

Sabharwal, who has grown the company from one warehouse 13 years ago to a network of more than 9,500 warehouses, questions the popular narrative of what plagues the agricultural sector.

“The prognosis, which used to be that our storage facilities are poor or inadequate, has been proven to be off the mark. Now we are speaking about lack of market linkages,” he said.

The sector has no “theme” except for that coming from the state, which bears the responsibility of ensuring food security and, therefore, relies on bodies like the Central Warehousing Corporation and Food Corporation of India.

Sabharwal wondered whether it is fair to tag the so-called middlemen, or traders, as the ‘bad guys’ in the sector. They are part of the system that functions under government regulations and ensures food supplies across large swathes of the country, he said.

Ease interventions

He believes that the government’s interventions in the farm sector, aimed at protecting consumers, run the risk of hurting the sector in the long run.

“You are enforcing MSP at the time of crop arrival. And then you are selling the same at discounted rates during the off season. How will private trade survive?” the SLCM Group CEO asked, referring to the recent sale of chana or chickpeas at prices below MSP.

“What will happen is, over a period of time, all these traders, millers, smaller guys will vanish. And that is what is happening in the sector.”

Agriculture cannot attract more investments unless it is allowed to be profitable, he said.

“Ultimately, the consumer is going to suffer because when the supply chain is disrupted, it will lead to hyperinflation from time to time.”

Sabharwal acknowledges that agriculture is a tough nut to crack both for policymakers and the industry but thinks that loosening the grip on the market should help. “Let the market dynamics play out, the farmer will follow. We need patience. Quick fixes are not the answer.”



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Agritech euphoria

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In addition to its sophisticated systems to monitor the warehouses, the company also relies on a rugged and innovative webcam monitoring system that works even in situations of severe power outages or poor connectivity.

This is an apt example of the complexities of doing business in India.

As such, Sabharwal is sceptical about the slew of new enterprises in the farm sector that have been hitting the private markets for funds.

“Nudging agri trade to go online does not mean that the market has evolved. Several so-called new-age agri companies are looking to create euphoria to attract hot money. I would suspect that some companies are selling commodities at discounts to show elevated gross merchandise value,” he said.

Farmers won't use agritech products unless they are offered free of charge. Moreover, new offerings face hurdles due to the lack of infrastructure, and willingness on the ground.

Such services need to address a gap and look at the market from a commodity point of view and not from a “flavour of the month” perspective, Sabharwal said.

“Somewhere people are not realising that this has already been tried. The ground reality is very different. The farmer is facing other issues.”



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