

Not just capacity threshold criteria, holistic approach needed for regulating agriculture warehouses: Sandeep Sabharwal, CEO, SLCM Group

In an interview to ET Infra, Sandeep Sabharwal, CEO, Sohan Lal Commodity Management Group (SLCM), outlined that WDRA should not just limit itself to looking at infrastructure or capacity threshold for regulating warehouses and that there needs to be a holistic approach which takes into account how a crop is managed within a warehouse and associated quality control.

Dev Kachari • ETInfra • December 20, 2022, 00:38 IST





Sandeep Sabharwal, CEO, SLCM Group

NEW DELHI: Covid pandemic and the Ukraine-Russia conflict have placed the importance of food security and associated supply chain to the forefront. While the Indian agriculture supply chain has been resilient and able to weather the global headwinds, there remains room for regulatory reforms especially

in the agriculture warehousing sector.

In an interview to ET Infra, Sandeep Sabharwal, Chief Executive Officer, Sohan Lal Commodity Management Group (SLCM), outlined that Warehousing Development and Regulatory Authority should not just limit itself to looking at infrastructure or capacity threshold for regulating warehouses and that there needs to be a holistic approach which takes into account how a crop is managed within a warehouse and associated quality control. The group is engaged in services ranging from warehouse management, agriculture financing, collateral management to crop procurement.

Below are edited excerpts:

How would you describe the current agriculture supply chain infrastructure in the country and the role of warehousing in it?

When you say supply chain infrastructure, you are actually addressing four or five issues together. It is about warehousing, logistics, financing, quality analysis, and you are also talking about last mile price discovery and dissemination. All these five put together is what is supply chain infrastructure. Agriculture infrastructure cannot be just limited to godowns or warehousing.

Not a lot of people will have a ROE (Return on Equity) on the warehousing business alone. Agricultural warehousing as such is not a profitable business. Hence warehousing has its own challenges. Because the warehousing business is not very profitable in itself, it has to be layered with all the supply chain infrastructure. Companies like ours are present across the supply, value chain.

As you highlighted that agriculture warehousing is not a profitable business, where does SLCM make margins, profits along the entire supply chain?

We make margins by layering our services. There is not one single service that generates the majority of our revenue. In the entire agricultural supply chain, right from the point we are procuring for somebody, we make a margin there. Then when we are transporting for somebody, we are making a small margin there, I am making a margin in the warehousing and storage business as well as in financing and finally while dispatching the goods, some margins are made. It is an integrated model which is in play.

There are a lot of government initiatives which are aiming at streamlining the supply chain, but it remains highly fragmented, crop quality discovery is archaic. In the agriculture sector, the products that you are dealing with are not centralized, it is deeply fragmented and spread across India. We at SLCM are playing a part in streamlining and integrating the supply chain.

Could you outline the current regulatory framework around agricultural warehousing, associated infrastructure and role of Warehousing Development and Regulatory Authority?

SLCM was one of the first companies to get a license from WDRA (Warehousing Development and Regulatory Authority), when the regulatory body came into being. India required a law around warehousing and there was a need for such an autonomous regulatory body.

But the country has lacked in giving teeth to the regulatory body. Over a period of time, the regulatory body, WDRA, has lost the plot. Somewhere it started echoing the popular sentiment of only regulating those warehouses which had an infrastructure threshold. Your infrastructure or warehouse capacity threshold is not what your system should be, your system should be the crop threshold. You should have the ability to manage a crop.

The threshold should be your SOP (standard operating procedure) on how to manage the crop and not the SOP on how to build a warehouse. Are you saying that the **crops** which are being held in warehouses which are not as per WDRA standards are not good enough?

The threshold should be around the quality management of the crop, what is the insurance scheme behind the crop, how will they elongate the crop life and how it will be treated if it goes bad.

In your opinion, which entity should be entrusted with looking after the SOP for agriculture warehousing?

What is happening is that we are still going by the genre that was plaguing India in 1947. The policies which were adopted in 1947 about crop storage and management cannot work in 2022. It has to be a joint effort wherein WDRA has to take the first step and think out of the box when it comes to such SOP formation. WDRA has to move beyond looking only after the infrastructure associated with warehouses and look into the services which are being offered by warehouses and making those a key criterion.

Within the private sector, are you seeing any sort of consolidation in the agriculture warehousing business?

I think the industry is now ripe for consolidation. Lot of new players have come into the industry; they are trying to solve problems from different angles. However, somebody is looking at input problems, somebody is looking at output problems, but none of them are connecting the dots. People who are realizing this are looking at this industry, from an amalgamation and merger point of view, to come together, combine forces and create a larger enterprise.

It is not a zero-sum game where any one player can walk away with the entire agricultural sector because it has to be a combined effort. Mergers and acquisitions are going to happen. You will see a lot of consolidation happening.

How do you view the entry of players such as DP World, Reliance Industries, Adani Group in the sector?

Players like Adani, Reliance, among others understand the supply chain very well. They are working backwards, they are not working from the ground up, from the perspective of farm level, they are working from a consumer level. They understand the consumer behaviour, they know how to connect with the consumer. Now they are looking at ensuring their supply chain.

Adanis and the large conglomerates understand that there is a need to secure the consumption and they are integrating backwards into the supply chain. It is a bit scary for smaller players like us because they have more power, money, and talent pool but it is a welcome step.

What are the reforms which need to be undertaken to make investment, entry of private equity in agriculture warehousing and supply chain much more feasible?

One of the industry demands is access to capital at a reduced rate of interest. Cheap capital should be made available to private companies which are operating NBFCs (Non-Banking Financial Company) in the agriculture sector.

Second important point is that warehousing needs to be incentivised. While it has been a public policy that agriculture warehousing needs will be mostly addressed by government backed entities such as the Central Warehousing Corporation, NBCC, incentives such as lower income tax outgo for private agriculture warehouse operators could be one of the steps which can be undertaken by the government.

What are SLCM's expansion plans, revenue targets going ahead?

We have quadrupled in the last three years, if we take into account assets under management. Last year, we peaked at about Rs. 11,500 crore AUM, we are now looking at Rs. 12,000 crore of AUM next year. Our top line is about Rs. 3,000 crore and next year we are aiming for more than Rs. 4,000 crore of top line. Warehousing capacity will increase to 11,000 locations by the end of March 2023 and 15,000 by the end of full year 2023. As far as expansion is concerned, we are looking at expanding into Cambodia, Laos, or Vietnam after our presence in [Myanmar](#).

Follow and connect with us on [Twitter](#), [Facebook](#), [Linkedin](#), [Youtube](#)