

Time Tested

Delhi-based Sohan Lal Commodity Management Pvt Ltd (SLCM) is an ISO certified agri-logistic and warehousing management company that provides services from agri-commodity warehouse management to procurement and financing solutions to farmers, processors, traders, and agri-exchanges. Sandeep Sabharwal, CEO, discusses the company's strong technology driven agri-logistic processes to monitor storage and stem wastage of harvested grains, with Seema Gupta



Sandeep Sabharwal,
CEO

What kind of audits are carried out by SLCM to safeguard stored goods?

India annually produces more than 250 million MT of dry agri produce (excluding fruits and vegetables). What is of real importance is that India loses 10% of grain being produced (in dry goods alone) due to poor and inefficient storage, which in value terms, amounts to ~Rs 60,000 crore. By successfully using the proprietary SOP that we have developed (and applied for patent under the aegis of AGRIREACH), we have demonstrated that through regular monitoring of operations, storage losses reduced significantly from 10 percent to a mere 0.5 percent. The important point to note is that this SOP is agnostic to infrastructure,

geographic location, crop and weather pattern. We have a unique audit system comprising of 33 operational audits covering the Quality and Quantity of our carry every month.

Crops are grown according to the season, but consumption remains stable across all the seasons. This is where the storage in the warehouse comes into the picture. We ensure that the quality and the quantity of the commodity remains the same during the storage tenure, and according to the client's requirement. We have developed proprietary systems based on the best scientific knowledge mapped to the Indian climate and crop requirements that help us detect any problems in the health of the crops, based on which, remedial measures are deployed to ensure that the goods stored are protected for a longer shelf life. So, we are performing both preventive as well as curative activities.

What warehouse infrastructure and managing strategy is required?

India continues to heavily lose its perishable commodities, especially fruits and vegetables, due to lack of storage and warehousing facilities. We need to put the problem in the right perspective. The losses in commodities, whether perishable or otherwise, is attributable to both lack of knowledge of handling and lack of scientific processes. We continuously blame lack of infrastructure and make this an infrastructure related issue, but infrastructure is just one part of the problem.

Warehouse Management in agri products is a scientific process. The commodity exchanges have to understand that there needs to be certain criterias that need to be taken into account before accrediting godowns, and the criterias have to look at the Value At Risk. We have shown that warehousing is a process management dependent activity rather than based on the age old adage that warehousing of agri products is lacking due to inadequate infrastructure on ground. Our warehousing largely depends on the technological processes, which are upgraded continuously

through years of research, rather than the infrastructure. SLCM has a robust procurement, warehousing and agri financing under a single window, across India.

What is the source of your funding?

Investments from Mayfield, ICICI Bank EIF Fund, Nexus Venture Partners and Everstone Capital Venture are infused into SLCM so as to enable us to expand our network across India and subsequently across ASEAN and Africa. The aim is also to increase our product and service offerings, and enable us to put our plan of warehouse receipt financing into commercial action. All these marquee investors acknowledged that Sohan Lal was addressing a burning need of the agri sector, rather than trying to mitigate or create demand. We were, and are ahead of the curve by constantly innovating and introducing the right inputs into a domain which is considered archaic and is marred by ignorance and inefficient practices.

understand the inherent issues. The issues are that the revenue is not mapped to Value at Risk perspective. To illustrate this, one bag of wheat priced at Rs 1,500 and one bag of moong priced at Rs 5,000 require the same storage space, yet their value at risk are diversely different. Hence, should their charges of storage also not be different just like insurance where your premium is based on the value of risk covered? So the sector has to evolve and start mapping revenues on the services offered. Once the industry graduates to this, we will automatically see capital chasing such projects.

What are your future plans for growth? Is an IPO a possibility in view of the large extent of PE investments?

SLCM started with one location and a revenue of Rs 4 crore in 2009. Now, we are handling 593 warehouses, 9 cold storages with a capacity of more than 13.3 lakh metric tonnes spread across 15 states with an area of more than 77.8 lakh square



The industry has to first educate itself, break out of the age old adage and embrace scientific processes and implement knowledge into its processes, if we need to address this situation. Investment from private sector will follow return, so rather than talking about investment, we as an industry need to talk about what returns we can generate. On the onset, the first and most tangible return that the industry can post (only considering dry grains) is a saving of Rs 60,000 crore annually in terms of stemming the losses that are attributable to archaic and opaque processes.

Despite the India Government allowing 100% FDI in cold storages, not much investment is coming into India. Please comment.

As stated above, investment is a function of returns, the agri sector is looked upon as a low return activity. If we look at projects of Cold Storages and even Dry Storage (warehousing) we see that the capital invested in the best case scenario has a payback period of 12 to 14 years. These numbers have to be dissected further to

feet, and a throughput of 50.0 lakh metric tonnes. We are one of the first companies in India from the private sector to get WDRA accreditation. On an average, we are handling commodities worth Rs 700 crore on a daily basis. Our last year comparable revenue was Rs 1,100 crores. Initially, we started off with the warehouse service provider model, which we have recently augmented by making a forward integration into warehouse receipt financing; this is being done by our recently launched NBFC product called Kissan Dhan.

Countries like Myanmar and Africa are also going through the same challenges in the agri space. As SLCM has already developed processes that are not only time tested but have been scaled to more than 100 locations across India and have been successfully implemented on different climates and zones, the same know-how will be extended to these countries. We will provide agri warehousing, crop assaying, post harvest crop maintenance systems, procurement solutions and finally post harvest finance facilities. Very recently we have commercialized our venture in Myanmar, and going

forward, we are looking at expanding to ASEAN countries and also into Africa. IPO and other similar options are a part of the evolution of our journey.

How can a robust warehousing and logistics infrastructure help keep hoarders and middlemen at bay?

To fully appreciate this issue, I would like to synopsise the India agri markets issues as well as development phases. The Agri Industry post independence at the grass root level was governed by the APMC (Agri Produce Marketing Committee Act). The logic of the same was that agri yards were set up as regulated entities where farmers could bring their produce and sell the same after discovering the right price. This system led to various intermediaries leading to various challenges in the logistics part.

The current statistics demonstrate the humongous task of agri logistics. India is the 2nd largest producer of food in the world producing approximately 255 million MT. There are more than 7,500 APMC yards across India, each having their own set of rules and regulations. The Agriculture sector is the principal source of livelihood for more than 58% of India's population. The Planning Commission maintains a projected demand of 247 MT by 2020 for food grain production.

India has insufficient and inefficient warehousing structure, due to which over Rs 60,000 crores of food is wasted in storage which represent 10% of food grain that is produced annually. Over 6% of food grains is stored at farmer households. This leads to challenges and inefficiencies in the system such as Ownership transfer based on physical movement, quality assessment on local knowledge and not structured grading, storage and preservation is archaic and not based on best scientific knowledge. The emphasis is wrongly placed on creation of infrastructure rather than on best practices of ensuring scientific storage in any available class of infrastructure.

With the technology system that you have developed will it be possible to link warehouses of commodity futures exchanges and electronic spot exchanges for real time tracking of inventory?

In the first year itself we were the only company to bring in Bar Coded storage receipts in practice that eliminated the risk of fraud in terms of fake storage receipts. Similarly, we were again the only company that brought on to the table a centralized MIS that was able to disseminate the multi point / multi location holdings of our clients in one linear secure reporting format.

SLCM has been able to map our operations which are multi location, multi layered to communicate centrally to our central servers over a wireless network without compromising on the integrity of data. The entire system has been mapped to Real Time resource monitoring.

We have invested heavily in technology and are one of the first and only company in India which boasts about real time MIS that is virtually connected across India with a data turnaround time of less than 5 minutes with an alert facility akin to a credit card swipe.

As we have already achieved the last mile connectivity, we are in a position to not only link warehouses of commodity future exchanges and electronic spot exchanges but are in a position to map any warehouse across the world to any exchange with the real time capability, which not only tracks the physical inventory but also the health of that inventory.

Could more investment in food processing also spur development of more warehousing facilities in the country?

I will again reiterate that reduction of wastage is a function of processes and knowledge. Investment is definitely one of the raw materials, but without the right strategic intent and the right focus the same alone will not be able to address the issues that are

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being faced in India in the agri sector.

The industry is marred with ignorance as well as inefficient practices, part of which is due to the fact that the agri industry is looked upon as a non glamorous archaic field dominated by public administration. We saw that the post harvest inefficient logistics and the consequent losses could be addressed by methodical practices that had to be rooted in technology irrespective of infrastructure, crop or geographic location. SLCM can guarantee the same throughput from a infrastructure that may be world class or from a shed that was built perhaps 40 years ago, thus signaling the fact that the agri sector does not have to lack from the fact that the infrastructure is old or non existent.

The agri sector is still lacking due to low education, inefficient and old practices. The farmer has no access to weather forecasting techniques, which is critical for his produce. We are providing real time inventory management techniques which are mapping the product right from the Farm to the fork. According to leading economists, the world will soon be heading towards a food crisis, as the area of land under agricultural use is reducing,



the population is growing, and the yield per hectare is not increasing.

With the new Narendra Modi Government at the Centre, do you expect sweeping reforms in agriculture with respect to logistics, storage and the food processing sector?

We are certainly hopeful and optimistic that the Government would look at empowering the sector by giving the right incentives and sops that are needed to boost the sector. Currently, as per the prevailing tax norms in Direct Tax, the Finance Act provides for investment linked deduction of capital expenditure incurred for warehouses for storage of food grains (Section 35AD deduction in respect of expenditure on specified business). Indirect Tax - warehousing services (such as loading, unloading, packing, storage or warehousing of agricultural produce) are covered under the negative list, hence do not attract Service Tax.

What incentives are required for the growth of agri-logistics industry in a country like ours?

Our recommendations are for Income Tax Exemption on Profits arising out of warehousing services businesses. The definition of Negative List pertaining to Agricultural Warehousing should be expanded to include renting of space by the WSP from the owner of the space, Fumigation and such other allied services. Service Tax incurred on communication, travelling, electricity charges etc, (whilst providing warehousing services on agricultural commodities) should be refunded to the service provider. Collection of VAT/Excise duties on consumables, equipment, etc, used for providing warehousing services on agricultural products should be abolished. Any upgradation of labs (for the purpose of testing quality) or upgradation of equipment/systems (such as implementing SAP/ handheld device for warehousing business) should attract certain grant/subsidy. **PG**

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India's Agri Sector

Agriculture is considered the backbone of the Indian economy as nearly 60% of the country's population is dependent on farming and allied activities. Over the years, crop yield per unit area has grown significantly due to emphasis on agriculture in a number of government run programmes and steady improvement in irrigation, technology and application of modern agricultural practices. Hence, it has become all the necessary to have proper infrastructure (warehouses) in place to store and manage the surplus produce and stem wastage.

The warehousing capacity in India (in public, cooperative and private sector) is about 108.75 MT. As estimated by the Working Group on Agricultural Marketing, Secondary Agriculture and Policy, an additional warehousing capacity of 35 MT is required during the 12th Five Year Plan (2012-2017) period for storage of all major crops. Also, only a fifth of these warehouses are located in major consumption states, creating regional imbalance. Lack of storage capacity and inefficient storage techniques result in a huge 10% of grains being wasted annually. In value terms, this amounts to Rs 600 billin (\$10 bn).

Key players in Warehouse Management Services (WMS) are Sohan Lal Commodity Management Pvt Ltd (SLCM), NCML (National Collateral Management Services Ltd.), Star Agri, NBHC (National Bulk Handling Corporation Ltd.), and Ruchi Infrastructure Ltd.