Sowing the seeds of future

As India's population sees no abatement and the pressure to improve food productivity rises, more entrepreneurs and investors are slowly but surely eyeing the latent potential the agriculture segment promises, as it needs corporate governance and domain expertise

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This October, the world celebrated the arrival of the symbolic seven billionth baby. October 31st was declared as the 'Day of seven billion' by United Nations, in an effort to draw notice to the world's rapidly growing population and the challenges it presents. With more mouths to feed, the pressure on global food production is that much higher. India is expected to surpass China's population by the year 2030 and as the area of irrigable land remains the same, we need to start focussing on improving productivity and reducing wastage.

Agriculture and its allied sectors now account close to 17 per cent of the country's gross domestic product (GDP). Though it remains a largely unorganised sector, the very inefficiency leaves room for strategic businesses that can bring in corporate governance and proficiency to a badly lacking segment.

This is where the scope for entrepreneurs lies in the agriculture space as more investors are increasingly eyeing its untapped potential. "Investors need to be pro-active and bring in sector knowledge to help companies run more professionally," says Rajesh Srivastava, chairman and managing director, Rabo Equity Advisors India (Rabo), an agriculture and food sector-focussed private equity fund.

According to Chennai-based Venture Intelligence, a research and analysis firm with focus on private equity (P.E), venture capital (V.C) and mergers and acquisitions in India, the number of P.E/V.C investments in the agri-industry from April '10 to March '11 was to the tune of US $ 153 million up from US $ 132 million the year before, though the number of investments have remained the same. *(See box)* Both investors and entrepreneurs believe this trajectory will continue in the years to come.

Untapped potential

"About 50 per cent of our population depends on agriculture in some form. If the economy has to achieve around eight per cent annual growth rate, agriculture needs to grow between four and five per cent which is not always the case. Hence, there is a lot of potential to create large companies," says Jinesh Shah, partner at Omnivore Capital (Omnivore), an early-stage venture fund that invests in agricultural technology. With Godrej Agrovet Ltd. being its anchor investor, Omnivore is planning to raise Rs. 250

crore to invest in 10 – 12 companies in this space in the next two to three years.

Currently, Omnivore has invested in a private weather forecasting company, Skymet in August this year for a significant minority stake. Noida-based Skymet has partnered with companies to help farmers be more informed about weather conditions. "We reach out to 20 million farmers through our partners, with Nokia holding the biggest share," says Jatin Singh, its founder. In 2008, Skymet tied up with Nokia to supply farmers with information regarding the weather through its 'life tools' application, which also provides education and entertainment. "With very few regulations in place, private players can bring about a change if the government works in tandem," he adds. Singh believes the segment is easy to break into but takes patience to sustain and there is good scope to scale. Skymet has been recording up to 30 per cent growth year-on-year.

Rabo tracks 38 sub-sectors within the agriculture and its related infrastructure space such as agri inputs, food processing, retailing etc. According to Srivastava, all these sub-sectors are growing at a healthy double-digit rate. "In the last few years, there have been more entrepreneurial forays in these segments and they are better connected to the market, plus there are improved information systems in place," says Srivastava. He believes though there are right incentives in place, the challenge lies in establishing proper linkages between each process. Rabo, through its India Agri Business Fund of Rabo Bank, had invested about US $ 9 million in 2009 in SriBiotech Laboratories India Ltd., an agri-biotech company based in Hyderabad, with a minority stake between 15 – 35 per cent. Srivastava considers Rabo among the early investors in this space and has invested about US $ 63 million so far and is looking to invest further US $ 90 million in the next three months, before raising a bigger fund.

PE/VC investments in agri-industry

Period	No. Of Investments	Amount ($M)
Apr'2010 – Mar'2011	13	153
Apr'2009 – Mar'2010	13	132

Top PE/VC investments in agri-industry for Apr'2010 – Mar'2011

Company	Investors	Amount ($M)	Date
Krishidhan Seeds	Summit Partners	29	Apr – 10
Innovative Foods	India Equity Partners	17	Feb – 11
Sula Vineyards	Verlinvest	15	Nov – 10

Source: Venture Intelligence

Right talent

Sandeep Sabharwal comes from generations of family business concentrated on agriculture. Around eight years ago, when he saw a demand for better warehousing and logistics, he decided to quit food processing. From one warehouse, New Delhi-based Sohan Lal Commodity Management Pvt. Ltd. (SLCM) now has 90 warehouses spread over 16 states on a leased model and daily handles Rs. 500 crore throughputs of goods. It sees 100 per cent top line and bottom line growth every year. "The biggest challenge is getting the right talent – the sector needs more people with domain expertise. And that has to start with education," says Sabharwal, founder and CEO, SLCM.

It's a viewpoint that he shares with Amit Mundawala, executive director – administration and operations of Jaipur-based Staragri Warehousing & Collateral Management Ltd. (Staragri) that is also into post harvest management services. Mundawala feels the industry needs more professional manpower. "It is hard to find people with core experience and that often leads to inefficiencies," he says. But he is positive about the interest the segment has received from investors. Started in 2007, the company's turnover last fiscal was over Rs. 30 crore, which is expected to double this year. Though Staragri has not received outside investment till now as he did not want to dilute valuation of the company at an early stage, Mundawala now hopes Staragri would tie-up with a strategic investor. "I notice a lot more interest from investors now than five years ago. And they're looking to invest in various segments like pre and post-harvest management, seed manufacturing and technology. They might not grow at a pace of an IT company but agriculture investments are very safe, and will surely reap after 3 – 5 years," he adds.

SLCM had received funding worth Rs. 35.5 crore from Mayfield India and Nexus Venture Partners (Nexus) this year. It had earlier raised Rs. 10 crore from Nexus. "Unless there is capital chasing a sector, it would hardly seem lucrative to entrepreneurs. That would also help bring a professional structure to the firm," says Sabharwal. Nevertheless, he feels investors need to be more patient while investing in this segment considering that it has more vagaries. "It is not very easy to raise funds due to the slow turnaround plus there is no concrete statistics about the industry made available by the government. The only way to bring about a change is to make it more process-oriented and bring in talent."

Srivastava understands that investors expect high growth but he does not feel the industry lags behind others. "There is no sluggish growth and most investors would expect the same turnaround as any other industry, but this shouldn't be only top line growth but growth at the earnings level as well," he says. Shah hopes that Omnivore's overall fund would deliver a significant return on investment, about 25 – 30 per cent IRR (internal rate of return) over the the fund's life. But as both investors and entrepreneurs agree that the industry is seeing more significant and professional players across various segments, that is reason enough to cheer.