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How Sohan Lal is solving the problem of agri-commodity wastage



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By almost eliminating wastage, Sohan Lal Commodity Management has cracked the code of agri-commodity storage. Its model can help India modernise its post-harvest management practices

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Image: Amit verma
Sabharwal says storage facilities and checks have enabled him to reduce grain wastage in the warehouses to 1 percent

The company has, however, required capital to expand rapidly across India. For this, it has conducted seven rounds of financing from various investors and Sabharwal has diluted his stake to 24.95 percent in the process. The rapid dilution, in the last five years, has raised eyebrows in the industry but as Sandeep Singhal, managing director of Nexus Venture Partners, explains, "He [Sabharwal] would rather have a smaller share of a larger pie." Nexus Venture Partners was the first PE company to invest in Sohan Lal when it injected Rs 10 crore for an undisclosed stake in 2010. The funding has helped Sohan Lal to lease 1,061 warehouses and 20 cold storages with a total capacity of over 2.57 million tonnes spread over 14.28 million square feet in 16 states. The firm has also achieved expertise in handling 366 commodities.

As the scope of Sohan Lal's operations grew, Sabharwal was always alert to the possibility of fraud. He knew that if the goods, the receipts for which were issued, were not available at the warehouse, his credibility would be at stake. One mishap would create a serious dent in the confidence of clients.

With this in mind, Sabharwal went about standardising procedures. "Warehouses, depending on the quantity of produce they hold, are audited every 30-60 days," says Karan Sachdeva, head of internal audit at Sohan Lal. He heads a team of a dozen auditors who make surprise visits at warehouses. Through hand-held devices, they take photos, assay the quality of the produce and ensure grains are given enough light, air and fumigation for preservation. Samples are also regularly sent to a laboratory in Delhi for testing.



Random quality checks at warehouses ensure that no moisture seeps into the bags containing grains

It was on account of these stringent quality checks and the consequent low wastage that large banks began to accept Sohan Lal's receipts to sanction loans. They knew their collateral was safe with the company. (Granting loans to farmers also helped banks to meet their lending targets to the priority sector.)

Now that farmers could hold on to their produce in exchange for a small storage fee, as they awaited higher prices, they had to raise money from banks or non-banking financial companies (NBFC) to tide over their short-term spending needs. Quick to spot the opportunity, Sohan Lal acquired the Chennai-based NBFC BP Jain in March 2014 and renamed it Kissandhan. Today, the agri-financing arm of Sohan Lal has an outstanding loan book of Rs 493 crore.

The fortunes of farmers, too, have moved in step with the company's. In the past, farmers would be forced to sell their produce even when prices were low. They would have to accept whatever price they got.

Businesses have also benefitted. Earlier, they couldn't plan their activities as they had to wait till the end of the harvest season to acquire the produce. "It [Sohan Lal's business model] has allowed some companies to run a just-in-time business," says Mayfield's Khattau.

The storage facilities Sohan Lal leases are networked and can be monitored in real time, enabling the company to manage them remotely. This, Sabharwal claims, has enabled him to reduce grain wastage in the warehouses he manages to just 1 percent.

Sabharwal's next big bet is the Myanmar market where the company recently received a licence to store grains. He also plans to provide a link between rice producers there and importers in India. The African market is also under his lens.

In the next decade, Sohan Lal plans to go both wider and deeper into India. He sees this as a Rs 10,000-crore opportunity that is waiting to be tapped. He's also clear that the company will never become a procurer or trader of agri-products. Keeping it asset-light and scaling up rapidly is his mantra.

Back at the Sonepat warehouse, sacks of wheat that arrived over three months ago are still preserved. Farmers are waiting for prices to peak in March. The grains, once sold, will be sent to flour mills within a 15-kilometre radius to be crushed and made into aata (flour).

Agri-companies are happy as they don't have to procure all their produce in January and store it. And farmers get a better price while being assured their grains won't rot. It's a win-win for everyone.

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