

# Commodity warehousing firms tap PE funds for expansion

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Companies operating commodity warehouses that are a vital link in the agriculture supply chain are looking to raise private equity (PE) capital as they expand their business and create new growth verticals.

Sohan Lal Commodity Management Pvt. Ltd, Origo Commodities India Pvt. Ltd and National Collateral Management Services Ltd (NCMSL) are looking to raise fresh capital from PE investors, said multiple people involved in these deals. Out of them, Sohan Lal and NCMSL already have PE investments.

"There is a huge shortage of warehousing and this segment is expected to grow significantly. As commodity exchanges become bigger and more futures and options trades are being clocked, there is an increasing need for these firms and allied services," said Rajesh Srivastava, chairman and managing director at Rabo Equity Advisors Pvt. Ltd.

Apart from stocking a range of commodities and issuing receipts against them, modern commodity warehouses provide allied services such as procurement, maintenance, collateral management and financing.

Everstone Capital-backed Sohan Lal, which operates out of 705 locations, is looking to raise as much as ₹100 crore, two people familiar with the development said. One of these people said the deal will be closed within a month and the capital is being raised ahead of a planned initial public offering. In an emailed response, a company spokesperson said it is exploring various fundraising options to meet business needs for future growth, without giving details.

In another instance, NCMSL, backed by Agri Business Fund from Rabo Equity Advisors, International Finance Corp. and Indian Farmers Fertiliser Cooperative, is looking to raise ₹200 crore from PE funds, said two people involved in the process. This would allow the company, which operates out of 50 locations, to launch its non-banking financial services company (NBFC) and venture into areas including weather forecasting. Weather forecasting helps warehouses provide early information to government and insurance companies on crop failure or monsoon patterns.



**Diverse offerings:** Apart from stocking commodities and issuing receipts against them, modern commodity warehouses provide services such as procurement, maintenance, collateral management and financing.

A company spokesperson did not offer any comments for this story.

In its maiden fundraising initiative, Origo Commodities, which has 500 warehouses, is looking to raise \$10 million from PE investors, said two people familiar with the development, including a PE fund manager who has met company representatives.

In an emailed response, a spokesperson for Origo Commodities said it has been using its own funds for operations and expansion and will consider raising funds only when the need arises. According to a filing with the Registrar of Companies (RoC) in January, Origo's board has passed a resolution to raise ₹50 crore through various routes.

According to an 18 February report by a committee on strengthening negotiable warehouse receipts, set up by the Warehousing Development and Regulatory Authority (WDRA), India's total warehousing gap is estimated at 35 million tonnes.

"While warehousing revenue is the major source of revenue, other sources such as collateral management have grown strongly as banks have become more comfortable to lend to commodity traders, processors, etc., due to creation of credible warehousing and maintenance facilities that warehousing companies now offer," said Anil Choudhary, managing director and chief executive at National Bulk Handling Corp Pvt. Ltd (NBHC). In March 2014, NBHC was acquired by PE firm India Value Fund Advisors.

Choudhary added that banks are now comfortable to lend 75-80% of the value of the commodities stored at warehouses. Warehousing firms earn a fee from banks for managing the commodities kept as collateral with the banks.

According to the WDRA report, India has a storage capacity of 117.52 million tonnes for post-harvest commodity warehousing, of which the private sector contributes just 18.97 million tonnes.

Srivastava of Rabo Equity Advisors adds that, globally, commodity warehousing firms offer end-to-end services, but in India, their offerings are fragmented. However, most companies are now keen on having their own NBFCs.

In February 2014, Sohan Lal

**Most commodity warehousing companies are now keen on having their own NBFCs**

Commodity acquired an NBFC to lend to customers who use their warehouses. "We provide finance against a diversified basket of agriculture commodities including wheat,

chana, castor, etc., to the farmers, joint liability groups, individuals, proprietary firms, partnership firms, SMEs (small and medium enterprises) and others," it said in an email.

"Most of the people who stock their goods in these warehouses require funds and these customers would usually take the collateral receipts and go to banks to raise the capital; but now these warehousing firms are launching their NBFCs and lending from their books," said Deepak Ladha, executive director at Ladderup Financial Ltd, a mid-market investment bank.

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