

# Fly-by-night warehouse operators to face heat

Sebi's consultative paper proposes tough norms to push such players out of business

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Uniform warehousing norms threaten the existence of at least 10 per cent of India's agri-storage facility owing to higher net worth criterion and other guidelines proposed in the consultative paper by the Securities and Exchange Board of India (Sebi).

The market regulator floated the paper on Thursday seeking public comments on the proposed norms to impose uniform warehousing norms for all warehouses in India. The paper proposes ₹50 crore of net worth for multi-commodities and ₹25 crore for a single commodity for a warehouse service provider (WSP). The paper also proposes norms to ensure good delivery of commodities during settlement of futures contracts with a WSP to be a corporate body with the subscribed share capital of ₹10 crore.

While the WSPs would have

to file their suggestions and recommendations with Sebi, individual WSPs - largely fly-by-night operators or opportunistic business houses - would run out of business from the warehousing space. According to a recent ASSOCHAM study, the private sector contributes 17 per cent of India's 108.75 million tonnes of warehousing space. Opportunistic individual warehouses contribute nearly 10 per cent of India's total warehousing capacity, according to trade sources.

"Professional WSPs are very happy that Sebi plans to improve professionalism in the warehousing space to restrict the entry of fly-by-night operators that normally spoil the credibility of the entire sector. Professional players suffer due to the wrongful act of a handful of players that destroy the credibility of the entire sector. Although we have some reservations on the protocol for which we would be giving our

## STORAGE CAPACITY

Organisation	In million tonnes
Food Corporation	32.05
Central Warehousing	10.07
State Warehousing	21.29
State Civil Supplies	11.3
Cooperative Sector	15.07
Private Sector	18.97
<b>Total</b>	<b>108.75</b>

Source: ASSOCHAM

views, generally, the proposed norms are very good for the WSPs," said Sanjay Kaul, managing director, National Collateral Management Services.

Sebi has proposed improvement in transparency in accreditation of WSPs through open advertisements. National commodity exchanges have already been following stringent selection procedures for the appointment of WSPs.

Sandeep Sabharwal, group CEO of Sohan Lal Commodity Management, said: "We wel-



come the initiative taken by Sebi to take views from stakeholders on the draft about warehousing norms. The guidelines will enable required corporate governance in the sector and improve warehousing systems at commodity exchanges. There are many points on which Sebi and the stakeholders need to discuss to improve the mechanism. We hope it will regulate the market and will be beneficial for the all the market participants."

Sebi has also proposed accreditation of WSP with

more than one exchange. In such case, no exchange shall mandate that its WSP cannot provide services to another exchange. The consultative paper puts the onus on the exchange concerned for professional management and the fit and proper criteria of WSPs for the smooth handling of commodities at all times.

"While competition is good, WSPs' guarantee to the system should have adequate financial backing. Only serious players should be coming in because WSPs are mainly look-

ing at public infrastructure dealing with national level commodity exchanges," said Anil Choudhary, managing director, National Bulk Handling Corporation Ltd.

The ASSOCHAM study says that about 80 per cent of handling and warehousing facilities are not mechanised. However, the warehouses which are mechanised have just forklifts or hydraulic hand pallet trucks. These numbers clearly indicate there is an acute shortage of organised and good quality warehousing and storage infrastructure in the country, for both agricultural and non-agricultural commodities.

"The uniform norms would improve the credibility of exchange-registered warehouses. Warehouses not recognised with any exchange do not have any link with Sebi guidelines," said Amit Agarwal, director, StarAgri Warehousing Collateral Management.