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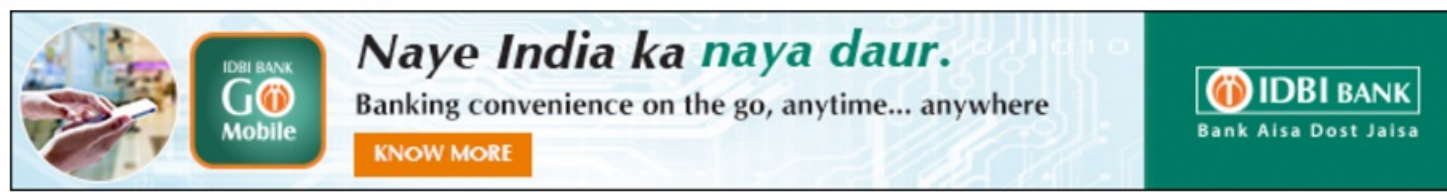
Collateral managers start lending to intermediate agricultural players

DILIP KUMAR JHA
Mumbai, 28 February

Faced with falling volumes, especially in agricultural commodities, collateral managers empanelled with comexes have now moved beyond farmers and started financing intermediaries in the agri value chain through their NBFCs (non-banking financial companies). Banks have not tapped these areas of new businesses due to a lack of adequate collateral assets with the intermediaries.

Almost all collateral managers, including National Collateral Management Services Ltd (NCML), Sohan Lal Commodity Management (SCML) and Star Agri have floated NBFCs for financing to agri intermediaries with an estimated lending potential of around ₹90,000 crore. These intermediaries include small traders, farmers' organisations (FPOs), agri processing units, and small and medium enterprises (SMEs).

Sandeep Sabharwal, group chief executive officer, SCML, which finances the entire agri value chain, said, "Kissandhan Agri Financial Services (Kissandhan), a wholly-owned subsidiary of the SCML Group, has been offering agri financing solutions to farmers, joint liability groups, individuals, proprietary firms, partnership firms, SMEs, processors, millers, traders and all other agri intermediaries.



Collateral management cos expand into new horizons

These areas remained untapped so far due to lack of adequate collateral assets

Dilip Kumar Jha | Mumbai
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Due to falling volumes, especially in agri commodities on commodity exchanges, collateral managers empanelled with **comexes** have expanded their horizons into financing intermediaries of the agri value chain, an area unexplored so far by banks and financial institutions. They have begun extending such assistance through their own **NBFC** (non-banking finance company) arms.

Almost all collateral managers, including National Collateral Management Services Ltd (NCML), Sohan Lal Commodity Management (SCML), and Star Agri have floated their own NBFCs for financing agri intermediaries in a business taht has an estimated potential of about Rs 90,000 crore. The intermediaries they assist include small traders, farmers produce organisations (FPOs), agri-processing units, and small and medium enterprises (SMEs).

Interestingly, this new area of business remained untapped so far due to the lack of adequate collateral available with the intermediaries.

Sandeep Sabharwal, group chief executive officer, **SCML** which finances the entire agri value chain, said, "Kissandhan Agri Financial services Pvt. Ltd, a wholly-owned subsidiary of SLCM Group, has been offering agri financing solutions to farmers, joint liability groups, individuals, proprietary firms, partnership firms, SMEs, processors, millers, traders and all other agri intermediaries."

"Kissandhan has changed the paradigm of collateral financing by providing **loans** purely based on agri collateral without any security and irrespective to the net worth of the borrower. SLCM has turned the tables by offering finance against agri-commodities as collateral without the need for any additional security. This was possible through our unmatched capabilities of managing commodities & controlling losses during the storage period to a minimal of 0.5 per cent," he added.

Some of these sectors remained untapped because of the lack of understanding and perception of the agri collateral and the residual value attached to the collateral.

However, banks and financial institutions finance passenger vehicles without stressing on additional guarantee by the borrower but the same aggressive stand in agri collateral financing is missing.

Market surveys were conducted which found out that banks give agriculture **loans** on collaterals and insist upon securities like land, house, vehicle. The turnaround time (TAT) for disbursement of **loans** is between 7 to 30 days and the financial statement of the borrowers is considered to evaluate their credit worthiness.

"These collateral managers, however, finance these unexplored business possibilities through managing entire value chains from sowing to harvesting and processing to marketing. This means, collateral managers finance oilseed crushing units, for example, on the condition that procurement of oilseeds of specified quality and quantity will be done by the concerned collateral manager. The procured goods should be stored in the collateral managers' warehouses and also managed by them. So, collateral managers get business across the entire value chain," said Sabharwal.

For borrowers, availing finance without much delay assumes significance, which banks and financial institutions do not do normally without proper and stringent due diligence.

Collateral managers charge 2-3 per cent more for this smooth financing, and the effective interest rate works out to 12-15 per cent, which is still 6-12 per cent cheaper than what large traders charge especially to small farmers. Banks and financial institutions, however, do not finance small traders at all.

Sanjay Kaul, managing director and chief executive officer, NCML, said, "NCML provides procurement services and complete supply chain solutions (including finance) to bulk consumers, large end users, exporters, processors and farmers. This end to end supply chain solutions include testing and grading, procurement, storage and finance. Some of these customers were earlier relying on local commission agents for procurement and using non-institutional lenders. Banks are nor able to reach such customers on account of their low net worth and poor financials whereas NCML relies on the stock value and not the balance sheet of the entity."

Interestingly, the total volume agri commodities managed by all collateral managers (warehouse service providers) equivalent to volume on **comexes** is estimated to have stagnated at around three million tonnes for several years.

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Faced with falling volumes, especially in agricultural commodities, collateral managers empanelled with comexes have now moved beyond farmers and started financing intermediaries in the agri value chain through their NBFCs (non-banking financial companies). Banks have not tapped these areas of new businesses due to a lack of adequate collateral assets with the intermediaries.

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Kissandhan has changed the paradigm of collateral financing by providing loans purely based on agri collateral without any security and irrespective of the net worth of the borrower. SCML has turned the tables on others by offering finance against agri commodities as collateral without the need for any additional security."

Market surveys found banks giving agricultural loans on collateral and insisting on securities such as land, houses and vehicles. The turnaround time for issuing loans is 7-30 days and the financial statement of borrowers is considered to evaluate their credit worthiness.

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