

Sandeep Sabharwal, Group CEO, Sohan Lal Commodity Management

Anil Mascarenhas, IIFL | Mumbai | September 03, 2016 12:32 IST

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Sohan Lal Commodity Management Pvt Ltd (SLCM) is a leading Agri-Logistics player specializing in post-harvest services and equipped with best-of-breed technology for commodity storage and protection. It covers about 446 agriculture commodities across India including Rice, Wheat, Maize, Mustard, Pulses, Cotton, Barley, Bajra, Castor seeds and Spices. As of today, SLCM manages a technology enabled network of more than 1300 warehouses and 20 cold storages pan India with a total capacity of over 3.51 Million MT spread over 19.0 Mn sqft areas generating a throughput of more than 406 Million MT. The Group has also applied for patenting this scientific technology of storage under the brand name of "AGRI REACH".

The Group also has a wholly owned NBFC christened as "Kissandhan" which has changed the paradigm of collateral financing by financing across diversified agri products. Though agnostic to the borrower's balance sheet, it fully complies with the RBI prudential norms. In only a year's time, Kissandhan has financed more than Rs 671 crores across 58 locations and multiple commodities in India impacting 1,48,734 farmers till date.

Sandeep Sabharwal, Group CEO, SLCM, is an MBA from FMS, Delhi is a veteran with rich experience of more than three decades in the areas like commodity storage, procurement, commodities market, trading, processing, warehousing & financial services in the agriculture sector. A well known thought leader, he was conferred with the Most Innovative CEO award by Inc India in recognition of his pioneering industry innovation. He has also been conferred with Certification on US Warehouse Receipt System from The Norman Borlaug Institute for International Agriculture and Texas A & M University. He is a member of Executive Committee of Warehouse Development and Regulatory Act (WDRA). He is also a member of FICCI Committee which was appointed by the Government of India to study the warehousing model of United States of America. Excerpts of his interaction with **Anil Mascarenhas**...

What are the key trends in the Agri-Logistics business?

India's agriculture sector has made rapid strides in the last few decades. Modern farming methods and technologies have enabled farmers and allied stakeholders to increase per hectare yield. The industry outlook is positive as the government is now serious about the need for scientific warehousing. One of the biggest trend shifts is the amalgamation of the service offerings under one window in the form of a complete supply chain model.

Till recently, we had different providers for different services like Procurement, Freight Management, Financing, Labour Provision, Warehousing, Quality Assaying and Quality Management. Now a single service provider manages the entire spectrum from a single window. Like in our case, we offer end-to-end logistics solution and are the pioneers in providing financial support for the managed crops as well. Our NBFC vertical has bridged the missing link of financial inclusion and empowerment to the supply chain.

How many commodities do you handle and what is the current capacity?

SLCM has been handling more than 446 agri commodities including Cotton, Barley, Bajra, Castor Seeds, Wheat, Pulses, Maize, Spices, Aloe Vera, etc. across India. We manage a technology enabled network of more than 1317 warehouses and 19 cold storages pan India with a total capacity of over 3.51 Million MT spread over 19.7 Million sq ft. and throughput of more than 408 Million MT.

What does the MoU with Global Treasure Bank bring to the table?

With the view to offer scientific support to agricultural economies of developing nations, the Group forayed into Myanmar market in April 2014. In a short span, the wholly owned subsidiary (WOS) in Myanmar proved the scalability of its proven warehousing model and expanded its footprints to 29 Industrial Zones spanning an area of 7.78 Sq ft, handling 134 commodities with a throughput of 1.63 Million MT. The WOS changed the paradigm of collateral financing by including agriculture & non-agriculture commodities in its fold, in a country where hitherto only fixed assets were considered as collaterals for financing. The WOS has tied-up with five leading banks for collateral management including Yoma Bank, CB Bank, United Amara Bank, Myanmar Apex Bank & Global Treasure Bank. The subsidiary has facilitated loans worth USD 25 Mn on different commodities through these tie-ups.

You incepted your Delhi set up with your own money in the space that your father lent you. What were the challenges?

Apart from the criticism from my peer group for treading on an offbeat path, I faced family pressure as well, given that I was closing down our well established family business into food processing and setting up a new business. The scepticism continued for two years even though I had managed to post good revenues, as they were way lower than what we earned in the family business. I won my father's faith only when SLCM received the first funding from Nexus Venture Partner in May 2010. The rest was history.

Explaining the virtues of our model is still a challenge given the complete ignorance on the need for scientific warehousing. My first customer was sourced only through an acquaintance from the previous business. I started with one warehouse with 16 lakhs as seed capital, which came from my savings and some borrowed money, and two employees who are still with us.

Brief us about your business model and how it has evolved over the years.

SLCM Group has redefined the sector by shifting an infrastructure-driven model to an asset-light model irrespective of warehouse condition, and bringing down post-harvest losses to merely 0.5%. The Group has the ability to use vacant infrastructure and even open spaces as warehouses as Agri Reach (Technology) operates agnostic to infrastructure. We have time and again proved that through a distinguished mindset, we can address the concerns of the sector. The group has brought positive and scientific change in the warehousing scenario of India.

SLCM's unmatched capabilities of crop management also include financing facility to farmers with crop as collateral, irrespective of their balance sheet position or net worth, through its NBFC named Kissandhan. Given our expertise in crop management, we are able to provide loans purely on crop as a collateral, and have impacted about 1,48,734 farmers in two years of operations by disbursing Rs 671 crore of loans, thereby ensuring real financial inclusion in the sector. SLCM Group has successfully addressed two major global problems of the sector i.e. Post Harvest Losses & Credit Availability. The Group has proven its scalability and measurable value of our scientific warehousing technology with our foray into Myanmar Market, that addressed the issues of enormous post-harvest losses, which in Myanmar ranged from 15% - 20%

What are your capex plans and how would they be funded?

We work on asset-light model so the capex plans are generally non-existent in our case. But, with four successful rounds of funding; PE investors have instituted their trust year-on-year. SLCM got its first institutional investor - Nexus Venture Partner in May 2010; Mayfield in March 2011; Everstone Capital & Emerging India Fund (a fund under ICICI Bank) in November 2012 & latest being an impact investor, Creation Investments Capital Management in September 2015.

You applied for a patent for AGRI REACH. How will it help in your business?

Technology is a key enabler of growth for this sector. India has just awakened to the tremendous potential of technology-driven innovation. Agriculture forms the backbone of the country and majority of the rural population depends on it for livelihood. The role of technology in agri sector is invaluable. After eight years of rigorous research, the SLCM has ensured that it takes merely 48 hours to step in and commence warehousing operations irrespective of infrastructure, location and commodity. AGRI REACH is an algorithm which combines a series of crucial processes, audits and real-time tracking of facilities to fetch error-free results and minimize risk of crop damage. It uses techniques like geo-fencing to real-time tracking, bar-coded storage receipts to avoid thefts, 70 internal audits along with a "Maker & Checker" policy at each level. In short, it is the culmination of defined processes, deviation-free execution and comprehensive monitoring. We sent it for patenting about 3 years back & today it has reached the stage of "patent pending"

Which are the new verticals you have forayed into? Any diversification plans in the offing?

In 2012, the Group went for forward integration into warehouse receipt financing; studies were initiated on the subject and deliberations amongst KMPs were held. The thought was to establish an NBFC again with a differentiator matching with the SLCM philosophy. Our market surveys concluded that majority of Financial Institutions extend agriculture loans on collaterals and insist upon securities like land, house, vehicle, etc. And the Turn around Time for disbursement of loans is between anywhere 7 to 30 days. The financial statement of the borrower is considered to evaluate the credit worthiness of the borrower.

With this clear picture of the market scenario, SLCM thought of creating the differentiator in three ways. Firstly, the agri loans to be provided without keeping any security, the loans to be purely based on crop as collateral. Secondly, the TAT should not be more than 24 hours as the farmer is in real need of money. Thirdly, focus would be on underlying collateral rather than the financial statement of the borrower while sanctioning the loan.

Kissandhan was commercialized in March 2014. Our team firmly believed that Risk Management is the key to success and this belief enabled the group to report zero NPAs even in the most turbulent times of the industry in the past 9-10 months. The progress was quick but steady proving the model was correct. SLCM also got the leverage of its warehousing division as the custodian of the pledged commodities.

What is the rationale behind acquiring an NBFC?

Agri financing has not yet evolved to reach out to small and marginal farmers. It does not give farmers / Agri intermediaries the benefit of using crop as collateral delinked with their credit worthiness. Today, credit is abundantly available but the terms do not take the agriculture business into consideration. Agri intermediaries do not have a balance sheet but they do have crop. "Kissandhan" is facilitating farmers to get loans against their crop. This not only gives the agri fraternity a supplementary source of income but also provides them with crop storage till they are ready to sell of their produce in the market at a better price.

What are your expansion plans?

As we have mapped all the major geographies of India with our services, SLCM made a conscious decision to expand and replicate the model overseas, in a country that mirrors the DNA of India.. We launched our wholly owned subsidiary in Myanmar in April 2014 to engage into warehousing and other allied services. We aim to take our model to other ASEAN and African countries and are exploring agriculture-centric regions.

What are your views on proposed uniform warehousing norms?

SLCM welcomes the initiative taken by SEBI; the guidelines will enable required corporate governance in the sector & improve warehousing systems at commodity exchanges. There are many points calling for deliberation between SEBI and the stakeholders to improve the mechanism. We hope the norms will regulate the market and prove beneficial for all market participants.

You were in talks with Rabo Equity Advisors, IDFC Private Equity and others to raise some money. You were also reportedly planning an IPO. Could you elaborate on this?

The company evaluates fund raising options from time to time. Fund raising activity is an integral part of our business plan to attain our business goals and to sustain the healthy growth. The Board of Directors will take need-based decisions of fund raising activity including IPO. Investments in any sector are the key stimuli. Agri logistics is no exception. But the financial ecosystem - be it private equity, banks or the capital markets - need to use different parameters for judging the performance of the Agri industry, not the ones used for judging the manufacturing or software sectors. I believe that a sustainable and scalable model built on technology alone has the power to redefine the agri sector.

What are some of the regulatory changes needed to boost the warehousing sector?

A major roadblock in the system is our tendering process which right now favours the lowest bidder. It would be better to change to a performance-based bidding that makes a proper comparison of service level agreements. This is most important for crop protection and measuring the real benefits of post-harvest loss reduction.

What is the total warehousing capacity in India, What's the share of the private sector? What's the progress on the larger cause of waste reduction?

There is indeed a dearth of warehouses in India, especially in the agriculture sector. For a country, primarily an agrarian economy, there is immense potential in the agri-logistics and cold chain industry. According to an Ernst & Young report, agri warehousing accounted for about Rs. 80-85 billion in FY 13 and grew at 12 per cent in previous three years and in terms of warehousing capacity, the industry was pegged at 120 MMT (Million MT) during the period. Since the industry is fragmented, it's not possible to know the exact warehousing capacity held by private players but approximately it is about 20% as 70% - 80% is under the government fold.

Unfortunately, the focus of our peer groups has not been on reducing post-harvest losses or wastage due to non-existence of Real-Time information. We have built & implemented those processes in our system and the results have been proven globally. I am glad that the industry has now woken up to a new sunrise and people are now conscious about the losses. As far as we are concerned, we will continue to tread on the path of innovation in everything we do. What differentiates us from the competition is our proprietary SOP AGRI REACH.

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