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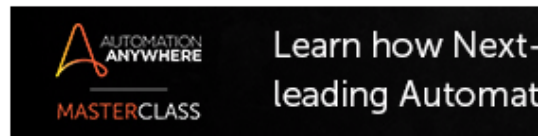
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1	19-Jan-2020	Economic Times (BFSI)	Online	To tackle risks in Agriculture, an impetus to Agri Fintech is crucial

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To tackle risks in Agriculture, an impetus to Agri Fintech is crucial

Agri Fintech is an attractive approach to agriculture as it enables better targeting of credit and allows the diversification of the risks. By allowing financial deepening Agri Fintech services can play a crucial role in tackling risks in agriculture.

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Just like [Warehousing](#), [Agri](#) financing is another integral part of the Agri value chain but despite the significant growth in farm credits and enhancement of agricultural credit target in the subsequent union budgets, accessing funds for working capital requirements in the [agriculture](#) and allied sectors is still a major challenge in our country. This is primarily due to the gap between institutionalized banks, farmers, and people engaged in associated activities especially in the rural areas.



There are enormous opportunities in the agricultural sector and the Agri finance sector, in particular, has the potential to transform the agricultural sector in a big way. Information and communication technology is

changing the agriculture sector drastically and the Agri Financing domain is no different. The recent technological advances have the potential to make Agri financing more inclusive by targeting the excluded segments of the [Farming](#) community.

[Agri Fintech](#) is an attractive approach to agriculture as it enables better targeting of credit and allows the diversification of the risks. By allowing financial deepening [Agri Fintech](#) services can play a crucial role in tackling risks in agriculture. The widespread access to mobile phones has already led to a paradigmatic shift in the way the farmer access price information, buyers, markets, etc., and the important Fintech facilitators like mobile money, blockchain, and financial literacy are equally relevant in the context of Agri financing as well. They could prove to be a game-changer if implemented on large scale.

A lot of professional tech-enabled Agri services companies have diversified into NBFC and are extending credit facilities using the crop as collateral and against storage receipts of agriculture commodities. Their tech-focussed approach towards Value chain financing gives them an edge over traditional banks. These tech-enabled Agri finance companies through the use of the latest technology, strong internal processes, and risk management mechanism keep their operating expenses low and pass on the benefits arising out of tech innovations to their customers in the form of low-interest rates on loans. Not only that, the use of the latest technology allows these Agri Fintech companies to sanction and disburse the loans quickly and efficiently.

But despite the availability of market and appetite these NBFC's could not enhance their business due to low RoE (Return on Equity) which is not commensurate with the expectations of the shareholders. The reason for their low RoE is mainly due to their inability to avail themselves the leverage available at a lower cost, unlike banks that have CASA which gives them access to cheaper credit. These NBFC's are dependent on banks to provide them credit, which leads to a higher cost of capital acting as a deterrent to further lending. So if cheaper credit is made available to such NBFC's just like credit is made available to NABARD, it will go a long way in increasing the viability of Agri Fintech companies which will ultimately augment the entire Agri sector.

The best-case scenario here would be the formation of an Agri Bank which lends to such firms with all due checks and balances, and encouragement and promotion of Agri Fintech companies. These two steps will go a long way in aiding the growth of the Agri financing NBFC's and will help in the promotion and widespread adoption of technology in the Agri financing space.

The blog has been authored by Sandeep Sabharwal, CEO, SLCM Group

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