

# Changing the paradigm

SLCM buys an NBFC to foray into agri-financing and provide credit under the 'Kissan Dhan' scheme



Sabharwal: path-breaking initiatives

In the new financial year beginning April 2014, Sohan Lal Commodity Management (SLCM), a Delhi-based agri-logistics and warehousing management company, is all set to roll out agricultural financing products. Last month, SLCM acquired a Chennai-based non-banking finance company (NBFC), BP Jain Finance & Investments. "Through this vehicle, we will enter into agricultural financing. This is in line with our strategy to offer end-to-

end solutions across the entire agri value chain to customers engaged in farming and allied activities. We will now start providing loans against their agriculture output stored at the company's warehouses through the credit facility under 'Kissan Dhan'. The loans against warehouse receipts will carry a competitive interest rate. This will be complementary to what we already do and will be against the crops that come to our warehouse and not on the basis

of the balance sheet of the farmer, who does not have one," explains Sandeep Sabharwal, CEO, SLCM, who sees this as yet another path-breaking initiative. He plans to infuse an initial amount of ₹50 crore in the NBFC to augment its capital base and is targeting a book of ₹400 crore during FY15.

"With the launch of Kissan Dhan, we will become the first company in this sector to provide finance against farm products after arriving at valuation of the goods stored, using 'collateral at risk' model. We will extend our time-tested technologically sound processes to Kissan Dhan for quick disbursement of loans to farmers and agri traders within 24 hours of the goods reaching the warehouse," promises Sabharwal, who is the third generation of the Sohan Lal family in the agri-processing business.

During pre-Independence days, Sabharwal's grandfather ran a few agri-processing (dal and other pulses) mills in Pakistan. After partition, he came to India, moved to Delhi and set up the same business. However, Sabharwal's father, Satish, a gold medalist in mechanical engineering joined the DCM group. Two decades ago, when the time came for the grandfather to retire, Sabharwal, equipped with an MBA, joined the family business, as managing partner. In 1993, he took over the management of the agri-processing plant in Delhi and quickly scaled the business by 15 times in a span of eight years to 400 tonnes per day capacity. He found that the business was easy to replicate, but realised that the market potential for branded agri products in India was not as promising as he thought and also the uphill task which lies ahead was to carry on replicating the processing plant model and creating a scalable business.

Nonetheless Sabharwal, being in the family processing and warehousing business, visualised that storage and warehousing was a huge underserved market. "With no scientific process and procedures, and predominantly looked upon as an industry

oriented business, there was a big gap between what the market wanted and what was being served." Being a processor, he saw this huge gap and felt he had the capability to fill this need. He understood the aspirations of the processing plant as well as that of the warehousing company. So, he decided to shut down the agri-processing business, even though it was generating cash and ventured into warehousing.

In 2009, to shut down a running business, was an emotional and depressing move for the family, but a bold one for Sabharwal. SLCM started off as a four member team – Sabharwal, along with two warehouse managers, and an office boy, with a single location warehouse and seed capital of ₹17 lakh. Today, it has over 100 warehouses at 70 locations across 20 states and is constantly growing with an asset light model (leased rather than owned warehouses). It handles over ₹500 crore worth of 50 agri products (including cotton, pulses, maize, spices, and mentha oil) per day. Its warehousing capacity exceeds 1,50,000 tonnes with a warehousing space of over 1 million sq ft. The warehouses have comprehensive crop testing and maintenance equipment. As an integrated (procurement, storage, assaying, preservation, collateral management and funding) post harvest service provider, SLCM works with some of the leading companies in the agri-commodity space such as Cargill, AWB, Adani, Jindal, Ruchi Soya, Louis Dreyfus, Glencore, to name a few.

"Our main aim was to de-link infrastructure dependency between processing and agri-warehousing. We realised the importance of technology, processes and procedures and how critical they will be in building a scalable business and hence we have invested more in systems, technology and process rather than on brick and mortar assets. We have built-in a lot of processes, check-points and corporate governance into our work and systems," says Namrata Suri, CFO, SLCM. Suri, a qualified chartered accountant has worked with Global Agrisystem and Kohinoor Foods before joining SLCM. "Given the diversity of the Indian agri landscape, it's very difficult to take a leaf out of the books on the processes

and procedures which have worked in the West. We have about 750 million farmers and the average farm holding in India is in acres as compared to hectares in western countries. And each farmer comes out with a different kind of products."

"We do not have standard grading practices and procedures to rank and price the goods based on quality and standards. So, over the years what we have built at SLCM is a well-documented and proven storage and warehousing model which can be applied in any climate, for any crop across India. This can be replicated overseas as well. No matter if it's a small shed, a tent house or a big warehouse – we have the technology and capability to operate it. We operate in the wettest part of the country to the most dry lands, we



operate in different states and most of them have their own rules and regulations, standards and procedures. We have created proprietary solutions to help clients reduce wastage and lower logistics costs," explains Ankur Jaipuria, chief risk officer, SLCM. Prior to joining the company, Jaipuria worked at HSBC, ICICI Bank and ITC in various aspects of commodity management.

Incidentally, SLCM is the only company in India to have patented a commodity management process called Agri Reach which ensures almost negligible storage losses. "It is one of the first private sector companies in India to gain accreditation from the Government of India's Warehousing Development and Regulatory Authorities (WDRA) for issuing negotiable warehousing receipts. Storage techniques followed at SLCM have shown results. Typical storage losses in India amount to approximately 10 per cent of the

stored goods, a huge loss for the entire economy. SLCM has been able to effectively reduce these losses to 0.5 per cent of the stored value of goods, as it conducts 28 different audits processes every month to maintain high standards of storage," states a FICCI report on the innovation in storage of agriculture citing SLCM as an example where it has impacted business. "The reduction in storage losses can have a huge impact of approximately \$13 billion per annum in India alone, if replicated across the system."

### Streamlined systems

Technology plays a crucial role in the day-to-day operations at SLCM. It has invested in technology and focused on having process-oriented systems in place. It has created a virtual e-platform that monitors the grain movement. Right from the warehouse, the company has installed bar-coded systems. So each customer can track his products through the system by just scanning the barcode at his end – right from which warehouse was it stored in to which truck was used for its transportation. It has also implemented a centralised MIS system and introduced SAP. "Recently, SAP also recognised our project as the first of its kind implementation in the world. We have introduced mobility in our company and decreased the delay in information flow from T+1 day to T+ few seconds. Similar to what the credit cards companies do when you use or swipe your card, we have built a system where if a customer's truck enters any of our warehouses in India, the moment it exits the premise the customer gets an SMS saying your truck has been unloaded," explains Vinay Kumar Singh, zonal business manger (north and west), SLCM.

Sabharwal emphasises that he has built a business model on a premise of making investments on systems and technology and not much on infrastructure. He started with his first warehouse on lease and till date has been following that practice. "We consciously did not leverage ourselves with any kind of debt or equity funding in the early stages of the company till we became a sizeable organisation and venture investment capable."



Team SLCM: sizeable organisation and venture capital capable

In 2010 came the first major external funding. Nexus Venture Partners, a private equity (PE) firm focused on investing in innovative early stage companies, invested ₹10 crore in SLCM. "We believed SLCM had a scalable model and therefore invested. The company has created proprietary solutions that help clients reduce wastage and lower logistics costs. With revenues growing year-on-year, it continues to hold great promise," says Sandeep Singhal director, Nexus. "We have since then increased our investment in SLCM." In March 2011, Mayfield India and Nexus Venture Partners invested ₹35.5 crore in the company.

In November 2012, SLCM moved to the next level with the third round of funds coming from Everstone Capital and Emerging India Fund, a fund under ICICI Bank. Together they invested \$23.5 million (₹129.3 crore) for a 25.55 per cent and 6.93 per cent stake, respectively, at an enterprise value of over ₹400 crore.

Currently, the promoters (Sandeep Sabharwal and family) have just 26 per cent while all the four PE funds (each are below 26 per cent), collectively hold the majority of 74 per cent. Through the three rounds of funding, SLCM has raised a total of ₹155 crore. It has an equity base of ₹41.65 crore of funding, a turnover of ₹521.56 crore (March 2013) with a profit after tax (PAT) of ₹5.81 crore. Going by the results for the nine months of the current year ended March 2014, the company will cross ₹900 crore with a PAT of close to ₹15 crore.

### Satisfied investors

"Our investment in SLCM aligns with our strategy to invest in sectors linked to the domestic consumption theme and having the potential to contribute to the larger economy. It also enables Everstone to reinforce its position in the modern logistics space. Everstone currently has a presence in logistics through its association with IndoSpace Parks, which has the largest area under development across India for creating sophisticated logistics spaces," says Dhanpal Jhaveri, partner and CEO at Everstone Capital. Jhaveri believes there is a huge opportunity for an agri-NBFC focused on collateralised financing. "Backed by the right processes and operational inputs, we are convinced SLCM will build a scalable and profitable business, encouraged by the large post-harvest credit opportunity. It will again be the first warehousing company from India to shortly provide the same scientific support to agri economies of new developing nations in ASEAN and African regions."

The warehousing capacity available in India, in public, cooperative and private sectors, is estimated at about 110 million tonnes. As estimated by the Planning Commission working group on agricultural marketing, secondary agriculture and policy required for internal and external trade, additional 35 million tonnes of warehousing capacity is required during the XIIth Five Year Plan period for the storage of all major crops. Also, only a fifth of the current warehouses are located in

major consumption states, creating regional imbalances. This is where Warehouse Management Services (WMS) comes into picture.

"Demand for warehousing space is likely to improve, in the wake of recent policy amendments aimed at encouraging foreign direct investment in retail. Measures taken to improve investment flows into logistics infrastructure will also lead to the development of global standards for warehousing in the country. But in the short-to-medium term, new supply addition is likely to remain constrained," observes Anshuman Magazine, CMD, CBRE South Asia Pvt. Ltd, a real estate management company and broker.

"The expanded warehousing and related supply chain network will help address the significant demand for quality procurement services. There is a substantial gap in the Indian warehousing space, especially for storage of agri-commodities. Osur existing warehousing footprint and supply chain network coupled with our substantial expansion plans, will enable us to address part of this shortage," adds Sabharwal, who runs Sohan Lal, which many people think of as some small company run by some *Lalaji*. But that does not perturb Sabharwal who feels that roots are important and hence would retain the name 'Sohan Lal'. "If world renowned brands like Arthur Lewis, etc, are family-owned names why can't our *desi* brand also be one among them." In the next few months Sabharwal, who has been spending half his time travelling to Africa and Burma, is all set to take the company overseas to Myanmar and Malawi, to start with.

By 2050, the world population will touch 9 billion and availability of quality food will be one of the major concern factors. With the looming food-crisis and steeply increasing inflation, it only aggravates to hear the news that millions of tonnes of food-grain are left to rot because of lack of proper storage processes and procedures. Companies like SLCM are trying to address this issue with the help of science and technology.