BUILDING A NEW AGRICULTURE TRADE, FINANCE & RISK MANAGEMENT SYSTEM

A JOINT PRESENTATION BY:
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Problem....

Indian agriculture (19th Century)

Indian agriculture (21st Century)
Agriculture in India...
Saga of diminishing returns.

- 3rd largest agricultural producer, 210 MT, still importing some essential food grains.
- Sustains 2/3rd of population but GDP contribution 19 % Down from 61%+
- Economy shining at 9% + growth rate, agri stagnating at 2 %+
- Years of directed lending –only 22% rural households covered, lending growth rate far below other sectors.
- Surplus from distress sale ! Small-Marginal Farmers getting a meagre 35 % share in consumer rupee vis-à-vis 65-70 % in developed countries .
- Global agri-trade US $ 640 bn by 2012 (adv estimate) currently India has only 1.5 % share
- Value addition to food production only 7% & processing limited to 2 % of produce
- 7,566 regulated & 21,780 rural primary/periodic agricultural produce markets, out of which (primary/periodic ) only 15 per cent functioned under the ambit of regulation.
What ails Indian Agriculture...

- Agriculture being a state subject, multiplicity of laws, regulation & taxes
- Grossly inadequate backward & forward linkages - price distortion due to long supply chain
- Agriculture not being market driven,
- Financial & economic isolation
- Poor state of markets & the way they transact - market economy deficit
- Minimal investment in technology, research & development
- Poor grading, standardisation & warehousing infrastructure
- Public investment & Credit deficit resulting in large infrastructure deficit
• The decline in the share of agriculture sector’s gross capital formation in GDP from 2.2 percent in 2001-02 to 1.7 percent in 2004-05.
• Till now appx 90 % of public investment targeted only irrigation infrastructure
• Stagnating capital investment in agriculture. At constant prices 1999-2000 investment was Rs 43,473 crore and down at appx Rs 43,123 crore in 2004-05.
• Estimated cost of developing critical infrastructure lacking in regulated markets is-Rs.12,230 Crs
New Agri-trade, finance and risk management ecosystem

National Markets → Demand and Supply factors → Global Markets

MCX
Trade with Trust
India’s No.1 Commodity Exchange

Price Risk Hedging

Price Discovery

Existing market structure and participants

Govt Agencies
Co-operatives
Farmers
Traders
Processors

Finance & Trading Facilitation

Service Support

Decision Support

Trading Platform

MCX

Banks
Warehouses
Logistics
Others

NBHC
Our ecosystem

Through MCX, NSEL and NBHC, we are involved in agricultural trade, finance, risk management and quality control.

We provide a “one-stop” shop for bringing farmers into a “formal” framework.
MCX
Trade with Trust
India’s No.1 Commodity Exchange
Introduction to MCX

- Live Trading Since November 10, 2003
- Average Daily Turnover - Rs. 9000 Crores
- Highest Daily Turnover - Rs. 17955 Crores
- Operations from 600+ centers with over 1500+ members & 10000+ Trading Terminals (TWS)
- Connectivity through VSAT, Internet, leased line, CTCL etc.
- Real-time price & information dissemination through website and info vendors.
- World’s third largest bullion exchange
- World’s fourth largest crude oil exchange
MCX Commodities

**Bullion**
Gold, Gold HNI, Gold M, Silver, Silver HNI, Silver M

**Energy**
Crude Oil, Brent Crude Oil, Furnace Oil, Middle East Sour Crude Oil, Natural Gas

**Foodgrains**
Wheat, Rice, Maize, Basmati Rice, Sarbatli Rice

**Pulses**
Chana, Tur, Urad, Yellow Peas, Masur

**Metals**
Ferrous: Steel Long (Bhavnagar), Steel Long (Govindgarh), Steel Flat, Sponge Iron
Non Ferrous: Copper, Nickel, Tin, Aluminum, Zinc, Lead

**Oil & Oil Seeds**
Mustard Seed/Rape Seed, Mustard Oil/Flaxseed Oil Expeller, Castor Seed, Castor Seed: Disa, Castor Oil, Crude Palm Oil, Groundnut Oil Expeller, RBD Palmolein, Soy Seed, Refined Soy Oil, Kapasia Khalli, Sesame Seed, Cotton Seed, Refined Sunflower Oil, Coconut Oil, Coconut Oil Cake, Rice Bran Refined Oil

**Plastic**
Polypropylene, High Density Polyethylene, PVC

**Jaggery**
Gur, Sugar Medium Grain, Sugar Small Grain

**Fibers**
Kapas, Cotton Long Staple, Cotton Medium Staple, Cotton Short Staple, Cotton Yarn

**Plantations**
Rubber, Arecanut

**Spices**
Black Pepper, Red Chilli, Turmeric, Jeera, Cardamom

**Others**
Mentha Oil, Cashew Kernel, Guar Seed, Guar Gum, Potato
Benefits of Trading in Futures

• **Future Prices:** Important clue for choosing the next season crop
• **Risk Management:** Farmers can short hedge on upcoming produce and protect against fall in prices during harvest
• **Collateral Financing:** through group company, NBHC
• **Price Dissemination:** Empowering farmers for better negotiation with traders - Success of Pala Marketing Coop. Society in Rubber
• **Warehouse Linked Risk Management** - Produce procured from farmers can be kept in warehouses and sold in futures market at a suitable lock-in price. The Warehouse Receipt can be used as a collateral by farmer to obtain loans from banks.
• Helping to create commodity markets which enhance competition, market information and international trade.
Present Status of Markets in Agriculture Produce

- APMC laws created to ensure good prices for the farmers through open auction system.
- But created monopolistic scenario:
  - Private Mandis Not allowed.
  - Only APMC license-holders can participate
- APMCs are designed to be localized and fragmented - against the basics of a structured market place
- In absence of structured spot market, it is difficult to sustain growth in agri futures contracts
- Urgent need to create a national level electronic transparent spot market for marketing of agri produce.
Problems Faced by the Farmers

- Exploitation - As farmers cannot sell to end users, consumers or non-APMC licensees directly,

- Farmer - A price taker; cannot quote his price.

- Does not get a fair price - due to collusion among the buyers.

- No fair price discovery.
- No Storage facilities at Mandi - leading to helplessness in sell at lower prices.

- No alternative platform leading to erosion of bargaining power.

- Non availability of finance - not able to take advantage of off season price.
Problems Faced by the Farmers

- Informal Loan Arrangements with Local Arrhat - leading to debt trap.

- No price dissemination leading to price distortions.

- Traders always get unduly advantage due to seasonality of crops.

- Traders get benefited of higher prices in case of a price rise and not farmers.

- Indian farmers get just -30% of the price paid by the end user in a number of products as against 60-65% in developed countries.

- Multiple market intermediaries inflating the final price to the consumer.
National Spot Exchange Limited (NSEL)

- Poised to set up a national level electronic transparent institutionalized spot market.
- Platform where -
  - farmers can sell at the best possible rate;
  - end users can buy at the most competitive rate
- Provides counter party guarantee.
- Quality certification, storage of goods and other customized value added services.
- Complement the future market by creating a delivery platform.
- Canvass of commodity trading would be complete - with both spot and future market available on electronic platform with national reach.
Online Trading

- Fully automated screen-based trading
- National reach
- Supports an order driven trading system
- Transparent, Objective and Fair system for automatic order matching
- Identity of the trader undisclosed
- Flexibility for placing orders
- Complete market information - online
NSEL ECOSYSTEM
Solutions offered by NSEL

- Farmer - no more a price taker. Can quote his price.
- Increase in Holding Power through Storage Mechanism
- Increase in bargaining capacity.
- Farmer - Able to derive off season premium
- Freedom from debt trap.
- Gets a platform where he can sell his produce to any buyer across the country.
- Reduction in intermediation cost leads to higher price realization.
National Bulk Handling Corporation Ltd.
Adding Value to Commodities
NBHC - Adding Value To Commodities
- Company Profile

- An end-to-end solution provider in the entire gamut of Commodity Management
- First and the only Commodity Management & Warehousing Company to be ISO 22000:2005 Certified - Highest & latest certification for Food Safety Management System
- ISO 9001:2000 certification across all services
- First Commodity Management & Warehousing Company to get Category-General membership of GAFTA - to access world standards of commodity management
- Cater to the needs of the Farmers, Corporates, Traders, and Members of MCX and NSEL, storing goods at and effecting delivery through Exchange designated warehouses
- Provides standardized and qualitatively upgraded warehousing for physical agro-commodity trade along with value added services.
- Storage capacity of 6,00,000 MT + with 150 storage facilities in 15 states
More than 5,00,000 MT commodity stock under management (Collateral Management & Service provider agreement with Banks)

NBHC Cecure- Funded Stock worth Rs. 450 cr + and Rs. 300 cr + in pipeline under collateral management

NBHC ProComm- 6 Quality Testing Laboratories, 20+ commodities testing experience, 40-50 labs in due course

NBHC CommGuard- 2 State licence for Commodity protection services + 8 other states are in pipeline (25-30 centers)

NBHC Mandate - Team with 70+ years of cumulative experience for warehouse accreditation & audit and valuation of commodities
NBHC Edge in Commodities Ecosystem

- Storage & Bulk Handling Services
- Preservations and Protections Services
- Warehouse Receipt Financing
- Collateral Management Services
- Testing and Certification Services
- Risk Mitigation Services

MCX
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National Spot Exchange

NBHC
National Bulk Handling Corporation Ltd.
Adding Value to Commodities

External Support Agencies
NBHC – Benefits to ecosystem participants

- Cost-effective financial and operational efficiencies
- Single-window, hassle-free, customized end-to-end solutions
- Easy and low-cost finance through Bank tie-ups
- Risk and waste reduction of agri-commodities
- Maximize profits & minimize costs
- Secure collateral management
- Access to nationwide network of storage and bulk handling facilities
- Access to and assurance of year-round business from our nationwide network of clients
- Reduces dependency on seasonal price variations
- Save farmers from distress sales during crop harvest season
Required initiatives for success of New Agri-ecosystem

- Investment for agri-value chain development like Cold chain, marketing infrastructure and retailing loan consideration as priority sector lending
- Promote private markets / mandies
- Removal of excessive regulations on private trading
- Allow Commodity Hedging for Banks
- Amendments in various regulations like,
  - Model APMC Act
  - Integrated food laws
  - Amendments of ECA
  - Essential Commodities Act 1955 - Amendments
  - Warehousing Regulations & Development Bill 2005
  - Facilitating Contract farming through model act
Roles of ecosystem participants-
Commodity Exchanges

- Commodity exchanges* providing trading platform and facilitating access to credit for farmers and other ecosystem participants, in direct and indirect way.
- Commodity futures & spot exchanges also provide support to make crop decision, marketing decision and upto certain extent balance the demand and supply.
- Commodity exchanges benefit financial institution in-term of early signals about the commodity movement and help to plan commodity portfolio according to it.
- With Commodity exchanges dissemination of prices, on a daily basis, the market information asymmetry is avoided.
- Commodity exchanges role is very wide in commodity value chain, directly and indirectly create decisive environment for grading, quality certification, storage and logistics, by providing arbitrage opportunity and premium for quality.

* here exchange means both futures (MCX) and spot (NSEL) platforms
Roles of ecosystem participants - Commodity Management Soln provider

- Commodity management company helps to realize the market opportunity by providing all necessary support to storage at reasonable cost & maintaining marketability of produce during storage and handling
- Ensures hassle free and exchange regulation complied execution of complex contract delivery and settlement procedure of exchange
- Facilitate the low cost and readily available finance option by means of warehouse receipt financing
- Provide value added services to ecosystem participant to facilitate the trade, services like - consultancy, procurement & disposal, quality certification, commodity protection & care, etc.
The synergy of exchanges, warehouses and a modern information/communication system will make it possible to cross over into a new era for agriculture.

Our vision

Unresponsive and non-competitive agriculture  

Bridging the efficiency gap  

Flexible and profitable agriculture
Ecosystem possibilities - few applications
Accredited warehouses will provide safe financing opportunities (note: NBHC will a priori be the manager of all warehouses in the ecosystem)

Goods deposited into MCX warehouses for delivery, and for cash-and-carry arbitrage

Many warehouses will be multi-purpose, leading to an effective integration of physical and futures markets.

NSEL warehouses used as procurement tool by corporates and investors

Other NBHC warehouses used as financing tool by farmers, processors and traders

MCX

Trade with Trust
Interfaces with cooperative banking

Farmer

Price information

Hedged clients have lower default risk; and banks can offer commodity price-linked products

MCX/NSEL/NBHC commodity “pipeline”

Wholesaler

Large volumes of money move through the system

On RBI approval, banks can do cash & carry arbitrage

Once goods are graded and in a controlled warehouse, they become perfect collateral

Farmers need to be paid on the same day as delivering their goods into a warehouse: large cash management requirements
Initiatives – MCX, NSEL & NBHC

- MCX - Postal Dept taking Indian farmers to commodity markets
- FTIL & SAFAL - SNX more efficient market for perishables
- Appointment of NBHC as consultant in the matters of Procurement, Hedging and Disposal of agro commodities dealt by FCI
  - Actual procurement of Paddy over MSP in MP
- Efficient usage of storage facilities from CWC, SWC and FCI
Ecosystem services - farmer centric benefits

- Reduce post-harvest losses
- Enhance farmers’ realisation
- Induce demand-driven production
- Enable higher value addition
- Create conducive environment for globally competitive agri-sector

MCX
Trade with Trust
Thank you