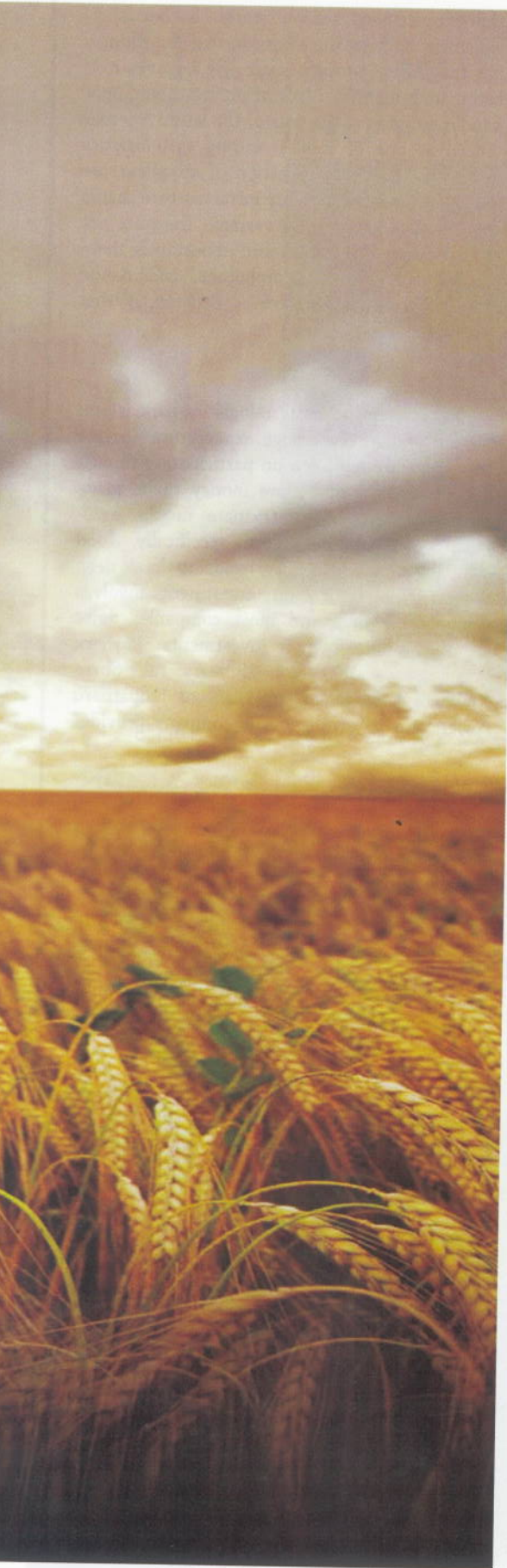


Food grain logistics: Need better incentives and domain expertise



Preeti

Prourement season is on in full swing. A good monsoon and a bumper harvest have seen the country's food grains production surpass estimates. Whether it is wheat, corn, rice or lentils, most crops are expected to beat government estimates. Take wheat for instance, for the year ending June 30 wheat production is likely to touch 86 mln metric tonne from 80.8 mln metric tonnes the year earlier. This is a 6.4% jump. The same situation echoes with maize which is likely to reach 15.9 mln metric tonne in the year-ending June, again a 7% climb. While this is good news for the country, it is a granary of woes for the Food Ministry. Consider this: as on June 1, food grain stock stood at 65.59 mln tonnes against the buffer norm of 31.9 mln tonnes.

"Warehousing is a huge problem though the government is trying to tackle it," says B. Shantilal, Past President, Roller Flour Millers' Federation of India. Poor storage and movement of grains are a matter of worry for government officials and traders. The country has 63.36 mln tonnes of storage space, including hired and cover and plinth storage facilities. Only 57.49 mln tonnes of this is covered storage space.

Dire Straits

The government is aware of this deficiency in warehousing space and much before procurement season started it made an announcement to set up a Special Purpose Vehicle (SPV) to undertake studies of food grain storage, handling and its transport. In February this year, the Indian government said this SPV would also assess cold chain infrastructure requirements and will encourage private sector participation in creation of such facilities. According to Prof. K.V.Thomas, Minister for Consumer Affairs, Food & Public Distribution, a comprehensive study is also being undertaken by the Planning Commission to suggest measures for creation of modern food grain storage infrastructure in the country.

While space crunch is an issue, the government has been grappling with for quite a few years now. What is surprising

is the lack of more private participation in the food grains logistics sector. Except for a handful of firms, the sector is largely run by government agencies such as the Food Corporation of India, Central Warehousing Corporation and various state-run warehousing corporations. The Food ministry realizes the immediate urgency in creating more warehousing space and has announced plans to add 15 mln tonnes of storage space under a PPP arrangement, but these facilities are unlikely to be created before the end of 2012.

So what ails India's food grains logistics?

- Poor handling and lack of processes
- Disconnect in domain expertise and ground-level implementation
- Lack of private participation
- Minimal technology deployment

These are just a few of the issues voiced by stakeholders in the food grains sector. National Commodities Derivatives Exchange (NCDEX), the country's foremost exchange for agro-products which handles nearly 85% of agricultural commodities traded in the futures market does not own its warehouses but provides warehousing facilities through its accredited service providers. "On a monthly basis, we handle nearly 50,000-60,000 metric tonnes of grains and spices but only 0.1-2% are affected," remarks Siddarth Surana, VP-Foodgrains, Business Development, NCDEX. This is a view that finds resonance across experts who have monitored food grains sector in India as also logistics providers.

A cross-section this publication spoke with in the industry opined that it is not so much the lack of storage space that is causing woes to stockpiles that the Food Ministry accumulates but lack of basic processes. Poor handling during transportation and storage, lack of technology in foodgrains supply chain management and refrigerated



“There is a lack of domain knowledge in this field. We need credible agri-input sources and the estimates given each year prove this is not in place. There is disconnect in domain knowledge and disconnect in resource (space) allocation. There is storage space available but look at where they are located”

– **Sandeep Sabharwal,**
CEO, SLCM

transportation systems, poor assaying and testing practices are just some of the ills that need to be fixed on an urgent basis.

“There is a lack of domain knowledge in this field. We need credible agri-input sources and the estimates given each year prove this is not in place. There is disconnect in domain knowledge and disconnect in resource (space) allocation. There is storage space available but look at where they are located,” comments Sandeep Sabharwal, CEO, Sohan Lal Commodity Management (SLCM). Agrees Aditya Bafna, Executive Director of Shree Shubham Logistics. “Take Mustard, Guntur Chilli or Jeera especially where 80% of the production is at Rajasthan but the market is Unjha in Gujarat. So whichever commodity you look at the story is the same the trading place is in a different location and the place of production in another. Storage should be located to enhance and enable trading.”

A Comptroller and Auditor General of India (CAG) report states that every year nearly 10% of India’s farm produce is spoilt amounting to a staggering Rs 50,000 crore in losses. Most people will be familiar by now with pictures of overflowing granaries and rotten food stock that dots newspapers every year once

the procurement season starts. Sabharwal is vehemently denying the assertion that the country has insufficient storage space. He believes it is bad management and lack of processes and poor handling that is at the crux of the issue. A senior official at one of India’s leading agro-logistics firms says it is not a question of infrastructure but more the lack of quality infrastructure that is creating such havoc in the system. “There are not enough warehouses and more importantly there is a huge lag in quality warehouses,” adds Ashok Mittal, Managing Director – Broking, Vertex Securities Ltd.

Fixing It

The concept of an agro-logistics park is still nascent and involves huge expenditure. Private companies are not keen on participating though there is enough and more money to be made in agro-logistics. To participate in the agro-logistics sector, and more specifically, food grain logistics a company needs to have deep pockets. The return on investment involves a long cycle time and most companies don’t see the value in such investments. Payback period for a warehouse is 12 years. Take Shree Shubham Logistics, a subsidiary of Kalpatharu Power, and its strategy. The company provides





“Take Mustard, Guntur Chilli or Jeera especially where 80% of the production is at Rajasthan but the market is Unjha in Gujarat. So whichever commodity you look at the story is the same the trading place is in a different location and the place of production in another. Storage should be located to enhance and enable trading”

– **Aditya Bafna,**
Executive Director,
Shree Shubham Logistics

end-to-end logistics solutions to all commodity stakeholders and its services include storage & preservation, commodity funding, collateral management, testing & certification, fumigation & pest management, commodity procurement, trading & exports and branded commodities. In its first phase of creating a logistics footprint, the company invested Rs 130 crore enabling it to manage 2 lakh metric tonnes of food grains while its second phase, which may see investment of about Rs 180 crore, will see the company manage a total of 9 lakh metric tonnes.

Most trading companies do not want to make this sort of investments in setting up warehouse facilities due to uncertainty in government policies. “There is uncertainty in government policies and we never know when a commodity will be banned from exports. Look at wheat itself, though our production is far above the estimated level, we still cannot export. So why would we want to spend so much money for local markets, which the government takes care of in any case and where there is no price realization with most of the food grains distributed through PDS?” questions a trader with one of India’s leading food grain and logistics company.

Mittal adds that the incentives provided by the government are not lucrative enough to

attract private players in food grains logistics. Recently, news reports mentioned that the Adani Group plans to more than quadruple its grains storage capacity by setting up ultra-modern silo-type facilities that can hold 2 mln tonnes. Speculations are that the company may have to invest Rs 500-600 crore, if not more, to set up this additional capacity. The Adanis set up their 600,000 tonne capacity in early 2000, when they won a FCI-floated open global tender. The Adanis have already invested in creating storage depots along a dedicated railway route connecting the Mundra Port to the northern hinterland.

SLCM has managed to attract foreign investors such as Mayfield India and Nexus Venture Partners, who have invested Rs 35.5 crore in the company. Nexus had earlier invested Rs 10 crore in SCLM. These sort of funds will allow the Delhi-based SLCM to expand its presence. This one-stop comprehensive agri-logistics company has warehousing centres spread across 70 locations and 12 states in India. On a daily basis the company handles agricultural commodities valued at Rs 500 crore and as of now has 135,000 metric tonnes of goods in storage.

Shree Shubham for instance plans to set up 8 centres in Madhya Pradesh, 5 centres





“There are not enough warehouses and more importantly there is a huge lag in quality warehouses”

Ashok Mittal,
Managing Director -
Broking,
Vertex Securities

in Maharashtra and one centre in Rajasthan and its long-term vision is to have 50 centres across the country that would cater to multiple commodities. For more such expansions to occur in the food grains logistics sector the government needs to provide better incentives. “The farmers are educated now thanks to the myriad commodity exchanges and initiatives like the ITC e-choupal. They know which mandi offers them a better price. When such is the case the farmer no longer feels obligated to sell produce at the nearest mandi making it clear that we need to have warehousing facilities aligned with the changing market dynamics,” observes a veteran in the food grains sector.

implemented. All stakeholders from the farmers and upwards must be educated on the right method of handling produce and storage and be equipped with adequate domain knowledge.

There has also been a shift in warehousing structure itself with silo warehousing being touted as a more optimal mechanism to store produce. However, traders and logistics companies beg to differ. According to them, silo warehousing is more suitable for advanced countries such as the US which have large landholdings and use technology intensively in their farming practice. Silo warehousing is good to store a single commodity, but in a



Next Steps

Across the sector, there is a desire to usher and integrate technology into food grains SCM. This will mean that our produce does not have to get spoilt. According to NCDEX’s Surana, moisture plays a big culprit in spoilage. Other causes include poor handling, bad assaying and testing practices and lack of process in the procurement to transportation to storage to consumer chain. Having refrigerated transportation system will tackle one part of the problem.

- Sabharwal advises a simple three step:
- Processes
 - Systems
 - Domain Knowledge

Explaining this further he says that there are people with adequate domain knowledge but who are averse to be a part of the sector as the returns are low unlike say the IT or banking sector. These experts must be made a part of the system from sourcing data on till policy making to ensure that ideas that are mooted can be successfully

country such as India which has multiple food grains it does not make sense to have a silo warehousing structure. The debate comes in the light of recent news when the Food Ministry announced a proposal to create 2 mln tonnes of additional storage through modern silos. In the Indian scenario, having flat warehousing is more beneficial since farmers and traders can store multiple agricultural commodities making it easier as well for testing and assaying since different types of grains will be stored separately.

Lastly, the industry clamors for better incentives that the government can provide by way of a tax break. “We are not asking for a tax holiday like what the government did for the IT sector. Even a 5-7% tax break will help us,” says Sabharwal. Logistics players who are servicing the agricultural market also do not want to get clubbed under the larger category of infrastructure providers such as real estate builders and developers saying this further acts as a deterrent even for fledgling firms looking to participate in the PPP model that agro-logistics requires.