Financing Agri Value Chains - Dairy

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Approaches to Agri-Credit

- 17% Farmers > 1 ha land
  - SME approach to credit,
  - under the Kisan credit card scheme,
  - Emphasis on collateral – land mortgage / jeweler,
  - Cash collection at every harvest to keep accounts regular

- 83% Small & marginal Farmers with < 1 ha land
  - SME approach to credit not effective,
  - High operating cost,
  - High Farmer vulnerability,
  - Value Chain approach a solution to consider

135 mm farmers
Data 2014
Why Value Chains?

Limitations of existing models

Farmer expected to manage his biz – similar to SME customer,
- Challenge of Information Asymmetry
- High operating cost - Cash management cost
- Branch led model distribution restricted by branch network
- 80% of farms are small & marginal – excluded

Changing Market

Farmers unable to tap new opportunities /distance from consumer
- Food security - Demand supply gap increasing, population pressure
- Food Safety, residues, quality, freshness, shelf life
- Changing lifestyles and food habits

Disruption – Climate change

Increasing frequency of weather disruption to be managed
- Adaptation to minimize impact
- Preventive (predicting to prevent, minimize loss e.g. pest attacks etc)

Disruption - Technology

Making it easier to roll out new models in Agriculture too
- Digital Banking – Fintech
- Advances in Agricultural technologies – NDVI / farm sensors
- Enhancing Insurance products using accurate farm data
How Value Chain finance works?

**Payments**
- Farmer enrolment / payments into the bank account
- Business Correspondents with Micro ATM for Cash in / cash out points along with cash delivery during peak season.
- Cash flow based assessment of loans after a few payment cycles

**Off taker**
- Buyers willing to make payment into farmer accounts
- Buyers with a base of 70-80% regular suppliers
- Buyers with credibility and market standing (directly or thru end user e.g Food company)

**Aggregation**
- Nerve Center of the supply Chain
  - Aggregators (Generally lead farmers) dedicated to 1 or 2 buyers
  - Aggregation process / infrastructure and Data capture
  - De-comoditised Produce
  - Financial aggregator / Guarantor / collection services

**Data & Analytics**
- Farm extension service
- Doubles up as a loan monitoring mechanism.
- Regular farm data collected thru smart phones analyzed for risks at the back end
Dairy Industry in India

- India is the largest producer of milk in the world with a 16% share 135MMt.

- 300 million heads of milk cattle managed by rural households are mainly the subsistensive type producing a surplus of 3 lts a day.

- 15% of milk is in the organized sector of which 44% is private and 55% is co-operative with the private sector growing at 25%.

- The private sector uses a mop up model through milk collection agents. While co-operatives collect from their members.

- India is also the largest consumer of milk with consumption growth of 5% and production growth of 3%.

- The untapped potential is huge, market access and focus on nutrition can increase milk production 3 fold.

- Milk procurement is moving towards mid sized cattle farms 10-100 heads.

- Finance from the organised sector is very limited, mainly due to the high risk for frauds/moral hazards associated with the industry in its current form.

- India has been recording a GDP growth of 5-6% where Agriculture contributes 15%. There is widening gap between income earned by agricultural households and other households.
VALUE CHAIN: DAIRY MODEL

- **Company / Processor**
  - Milk

- **Co-op Society / collection agent**
  - Milk Collection
  - BC &
  - Loan Collection agent

- **Farmers**
  - Milk
  - input
  - payment
  - Cattle loans

- **Bank**
  - Payment

- **Insurance**
  - Insurance

- **Vet**
  - Insurance

- **Farm Extension Services**
  - Farm Extension Services

- **Remote monitoring**
REMOTE MONITORING SYSTEM

Animal Health

FOS/VET Visit

Data

Milk (fat /SNF)

Milk Testing Equipment

Milk Payments

A/c data

Data

ANALYTICS

INSURANCE Control Moral Hazards & forecast claims. Reduce Cost of Insurance to Farmers

cost excel

EARLY WARNING
HDFC Bank’s progress of the Dairy Biz

- Over a 100,000 farmers receiving payments for milk supplied

- 40,000 farmers pre-approved for cattle finance based on payment data / More than 9,800 have availed collateral free cattle finance

- Currently spread across Rajasthan, Gujarat, Punjab and UP; current expansion includes Maharashtra, Andhra and Bihar

- 750 plus Business Correspondents set up at milk collection points equipped with Micro ATMs and ATMs

- Cross sell of other products – deposits, secured farm credit & vehicle loans etc. done to milk farmers

- Platform used to capture other non dairy customers in the village for other Agricultural & Govt. Payments, and cross sell further increasing the revenues from the village ecosystem, reducing the cost of service, and providing all round better control on delinquencies of all products.

- Dairy delinquencies have performed better than expected.
What has changed?

### Existing Model

- Milk payments received by agent /Co-op paid in cash to Farmers lacked transparency
- Cattle finance done in an aggregated manner to Co-ops by banks /financers who had no visibility of the borrowers or end use resulting in delinquencies. Only larger credit worthy Co-ops had access
- Banks had to physically collect interest & installments every month
- For all other financial products farmers had to go to the nearest bank branch
- (Standalone Unsecured Cattle loans are not viable)

### Value chain Model

- Milk payments made by the bank account of the farmer
- Cattle loans offered on an individual basis available to all members based on cash-flows. Available to farmers of all societies of all sizes
- Installments & interest deducted from Milk proceeds credited to the account
- All financial products and loans provided farmers at the village Biz Correspondent point.
- Better control on the Quality of cattle purchased through loan through upfront health certificates – resulted in better quality asset book
1. Farmers loyalty is high when there is a
   • Stable market through a trusted off-taker
   • Transparency
   • Technical support

2. Versatility of the aggregator
   • Face of the company to farmers, face of the farmer to the company.
   • Assure supplies to the Company by managing a large farmer base
   • Take on the risks associated with the farmers for delivery to the company
   • Take on risk related to farmers from the company (payments)

3. Most food companies do not deal directly with farmers, but require quality and certification for sustainability & traceability and carbon footprint.
## About HDFC Bank

### HDFC Bank: FULL SERVICE RURAL BANK
- 55% of the total network of 4281 branches is Rural & Semi Urban
- All products offered in rural (including Auto, CV, Credit cards, PL) with cutting edge technology
- INR 22,000 Crs (USD 3.5bn) under Farm credit (kissan Credit card)
- INR 9,000 Crs (USD 1.5 bn) of post harvest credit to Processors / Intermediaries / Warehouse s etc..

### HDFC BANK: A RURAL PAYMENTS BANK SINCE 2007 (value chain biz)
- 10 lac Farmers enrolled for receiving payments into their bank accounts serviced at their door step through 2000 BC’s
- Farmers in value chains of Dairy, Seed production, Fruit & Veg, Tea, Poultry and Sugarcane
- Value chain lending put to scale

### Achievements

- **Atal Pension Yojana Phase 1**: Best Performing Bank - Private Sector
- **Atal Pension Yojana Phase 2**: Best Performing Bank - Private Sector
- **Best Performing Bank - Maximum APY Subscribers**
- **Best Performing Bank - APY Carnivals**
- **Barron's List of World's Best CEOs - Mr. Aditya Puri**, HDFC Bank MD, named in list of Top 30 Global CEOs
- **Finance Asia's poll on Asia's best managed companies**
- **Best Managed Company in India**
- **Finance Asia's poll on Asia's best managed companies**
- **Best CEO in India (Mr. Aditya Puri) - Rank 1**
- **Business Today Best Companies to Work for 2015: Winner - BFSI sector**
- **Business Today India's Best CEOs 2015: Mr. Aditya Puri** - Large companies
- **Business Today - KPMG India's Best Banks 2015: Bank of the year**
- **Best Large Bank**
- **Best Digital Banking Initiative**
- **Business World - PwC India's Best Banks 2015: Fastest Growing Large Bank**
- **Best Large Bank**
Thank you