

# Opening Up Access to Finance through Warehouse Receipt Systems

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## HDFC Bank , India

- HDFC Bank was incorporated in August 1994
- Promoted by the Housing Development Finance Corporation
- Balance sheet size of US\$55 billion (Rs 2,773 billion) and Net Profit of US\$0.785 billion (Rs 39 billion) for the 9 months ended Dec 31,2011
- Distribution of 2201 branches, 7110 ATM's across 1174 locations
- Key strengths include Cash Management, Trade Finance and Consumer Banking
- **A pioneer and a dominant player in the Warehouse Receipt Market in India**

## **Pillars of HDFC Bank's Agricultural Business**

- Retail Agri (farmer Services)
- Commodity Finance (post harvest services)
- Rural Initiative Group (supply chain)
- Co-operatives

## **Commodity Finance**

- Agri Business Credit & Cash management
- Warehouse Receipt Loans

## **Structure**

- Relationship Managers
- Product Control Group (surveillance team )
- Central Product Team

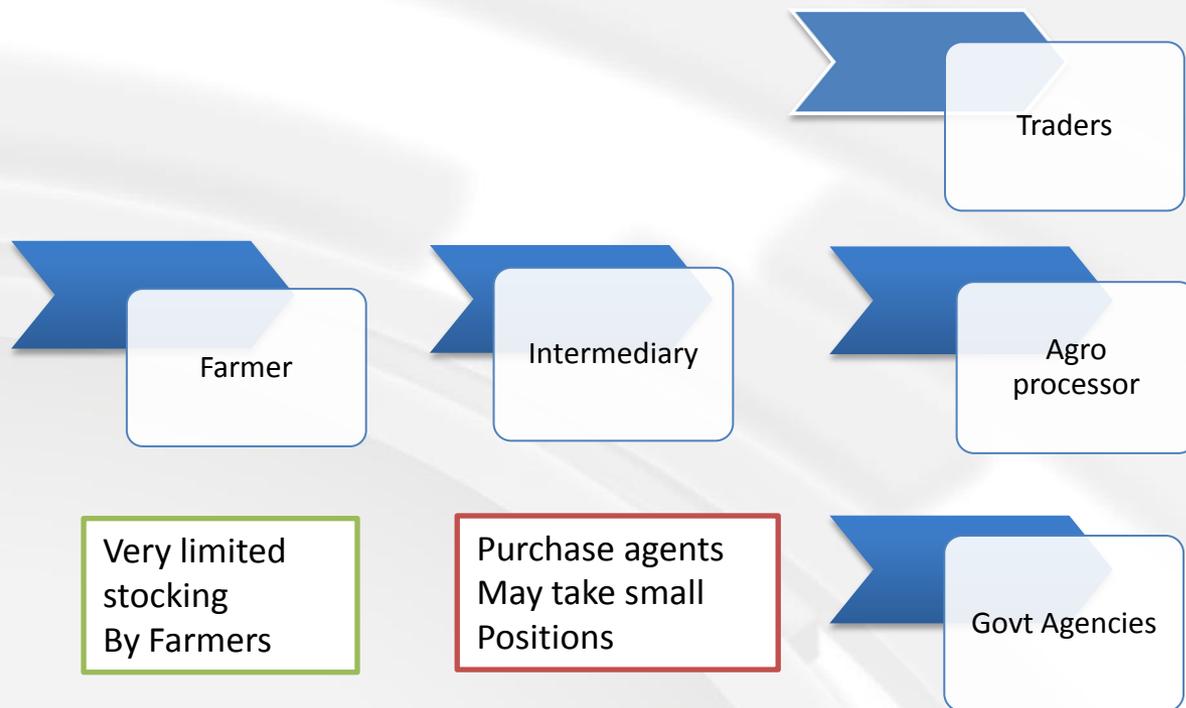
## **Partners**

- Collateral Managers
- Service Providers
- Buy back agency's

# Characteristics of Warehouse Receipts in India

- The Formal Warehouse Receipt Market in India evolved only 5-6 years ago
- The market is hovering at US\$2BN (Rs 100 billion)
- This is a fraction of the US\$6.6BN (Rs 3,300 billion) lent to agriculture
- The market has remained limited in size and scale due to:
  - Lack of quality warehouses
  - Govt. intervention in order to control inflation
  - Collateral management losses to banks
  - Wholesale in nature
- The Warehouse Development & Regulation a/c 2006 addresses all these issues once implemented

# Warehouse Receipt – Dominated by Large Players



- Most of the stocking happens at the wholesale end of the supply chain
- Stocks under hypothecation form the bulk of bank finance
- Govt. Agencies take up a significant portion of warehouses capacity

To open access we have to take the product downstream.

# Warehouse Receipt – Current Product Features

- The current product features are designed for Wholesale customers.
- It's a Short Term loan given as an add on to normal working capital.
- Due to inefficiencies in the Warehousing system it is not a pure commodity risk but also based on individual borrower assessment.
- Key features:
  - Tenor – One crop season ( 11 mths)
  - Applied Prices and Margins set based on volatility on a monthly basis
  - Mark to market done on a weekly basis
  - Delinquency > 30 days are auctioned in the market.
  - Stock insurance
  - Pre-disbursement – warehouse approval
  - Quality & quantity certified by the collateral manager pre-disbursement

# Key Statistics

- Warehouse Receipt book has been in the range of Rs 15 billion.
- Covering 2,300 customers.
- 3,300 warehouses across the country ranging from 1,000 MT to 10,000MT.
- Cost to income ratio of 65-75%.
- Collateral management fee is around 0.65% of a loan.
- Distribution:
  - 50% is Wholesale
  - 40% is Small & Medium Enterprises (Agro processors)
  - 10% Large Farmers

# Challenges In opening up the markets

## Challenges

- Farmers require much shorter tenors
- The loan sizes are smaller in comparison
- Given the high Collateral management cost this becomes unviable

## Enablers

- Establishment of grading standards for commodities
- Shift from identity preserved stocking to co-mingled stocks
- Warehousing regulation
- Negotiable warehouse receipt that can be dematerialized
- Simplification and uniformity of state taxes

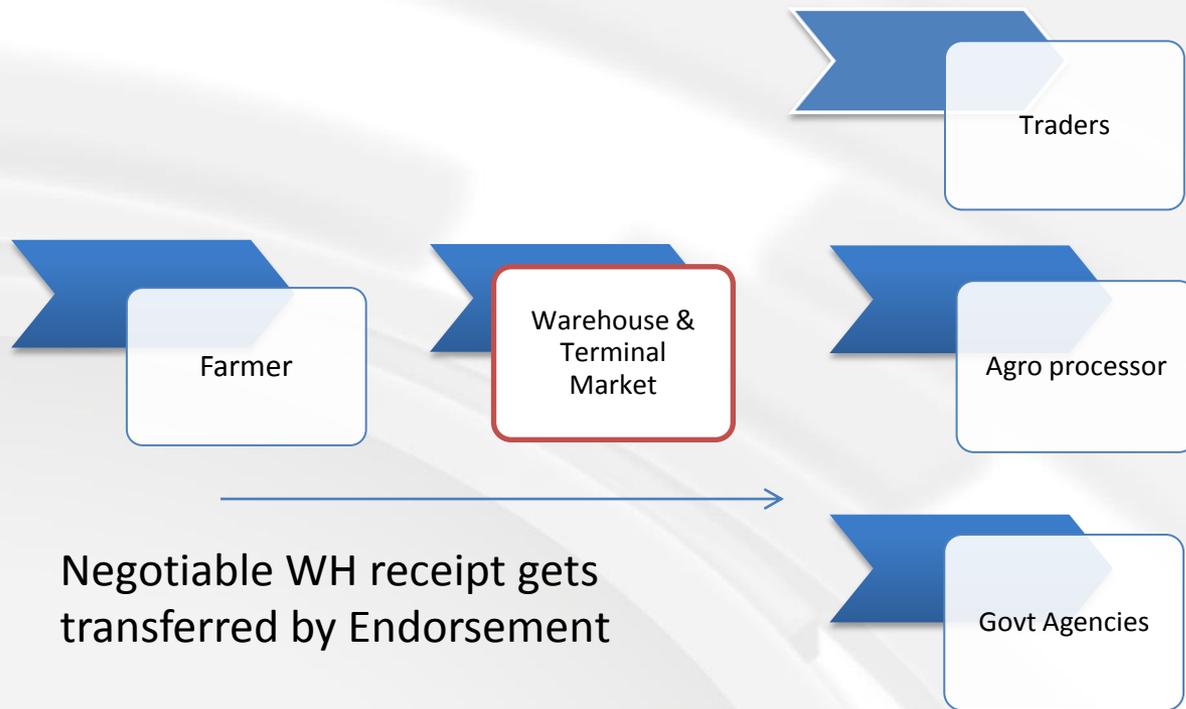
## The Govt. has taken the initiative

- Warehousing Development and Regulation Act 2006
- General Sales Tax is expected to be resolved soon

## Implementation of these initiatives by the Govt. are challenging

- Large number of low capacity warehouses (1,000Mt - 2,500MT)
- Shifting to comingled stocks is a huge challenge

# Warehouse Receipt as Supply Chain Tool



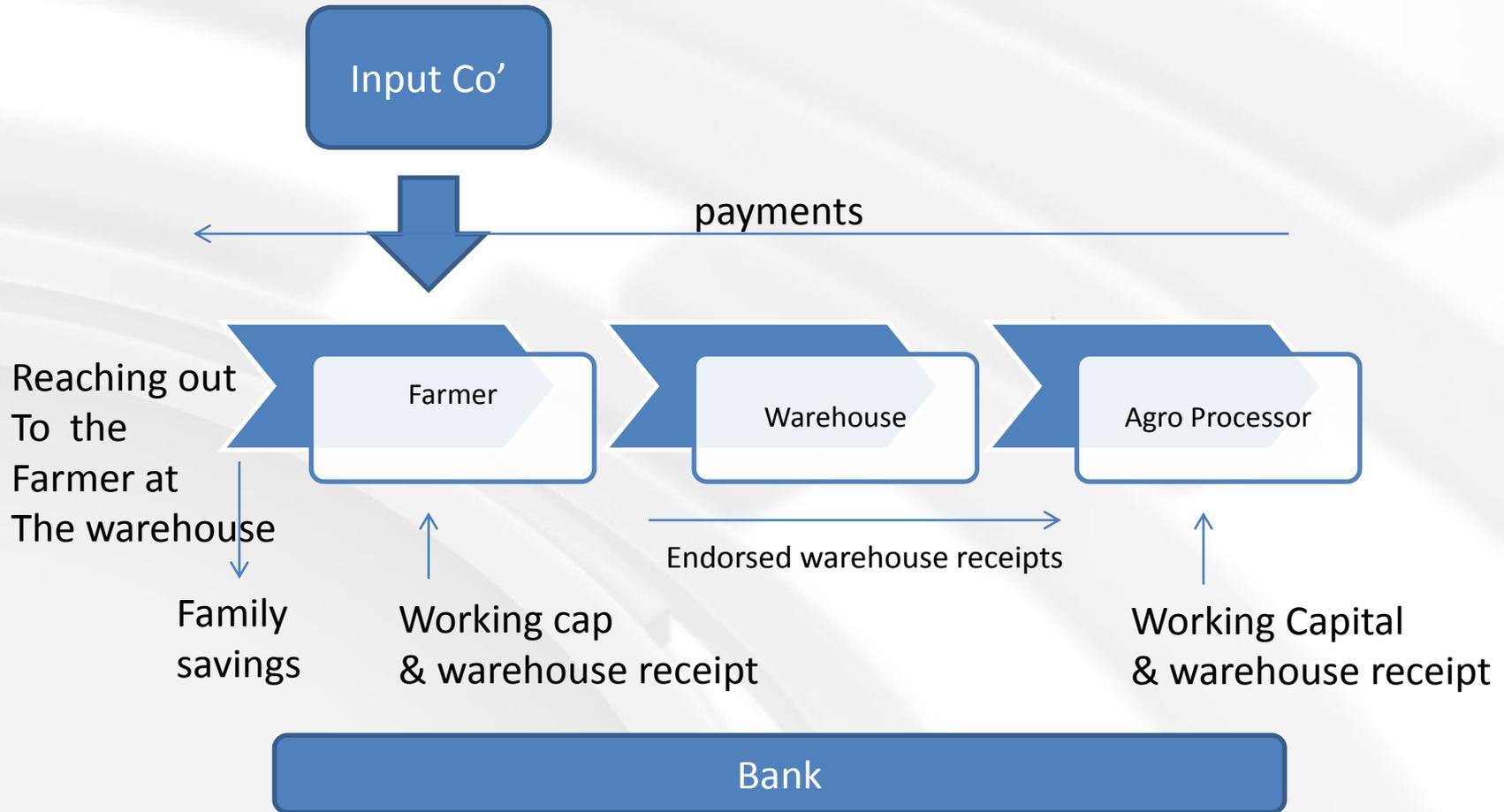
Negotiable WH receipt gets transferred by Endorsement

- Set up the Terminal Market in warehouses attached to large agro-processors
- Bank manages the warehouse through a Collateral Manager
- Bank provides other banking services at the warehouse through a BC
- Price discovery provided from various sources
- Processor may out-bid the market due to savings on transaction cost & transportation

The Supply Chain Route to Farmer Warehouse Receipt is an intermediate step that can be taken up by the industry which will go a long way in the Govt.'s objective on WHR being achieved

# The Complete Supply chain

In the interim the warehouse receipt will be part of the total supply chain rather than a stand-alone product.



An alternate to Contract Farming  
Warehouse owners / Agro processors are the primary partners

# Key Challenges & Success Criteria

## Challenges:

- Weaning farmers away from existing markets and intermediaries
- Warehouse rental costs (storage in the field is free )
- Farmers are politically sensitive (can create a law & order situation)
- Current Market does not reward quality
- Getting corporates to take the business risk (disturbing part of their existing supply chains)

## Success Criteria:

- Gaining farmer confidence on availability of storage at an affordable price
- Providing buyers at all times
- Providing Settlement services and banking services at the warehouse
- Transparency in price discovery, mark to market and liquidation of stocks in case of defaults
- Access to Futures market at the warehouse

# Benefits of the Supply Chain Model

Trends indicate that stocking by farmers is on the rise this give rise to new challenges:

- Farmers do not have adequate access to organised storage facilities
- Agro processors are unable to plan their production schedules
- Creates volatility in prices

Benefits:

- The immediate benefits are that it addresses the above pain area's
- Quality of produce will improve with scientific storage
- The combined offering of Warehouse Receipt, Terminal Market and Banking correspondent at a warehouse, increases the viability of investment in Warehousing
- Can easily be extended to Govt. procurements, improving efficiency

## In conclusion

- Opening up the warehouse market to farmers downstream is an investment in the future warehousing market in India
- Banks richer by the experience of such pilots will be able to leverage and take part in the implementation of the Warehousing development regulations
- It is not only about providing a warehouse receipt loan to the farmer but providing complete services at the warehouse
- These developments will see a migration from traditional markets to warehouse receipt based Terminal and Futures markets

Thank you!