

AgriFin Webinar | Scaling Up Supply Chain Finance in India

Webinar held on **November 1, 2012**
10:30 AM Eastern Standard Time (US & Canada)

**Agri Supply Chain to Reach Small Farms effectively
Through a Business Correspondent Model**

Presented by :

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India Advantage

- Among the largest producers of Agricultural Produce in the world
- Largest percentage of population engaged in agriculture
- Largest % of agricultural land to total land
- **Directed bank finance by the regulator (Priority Sector for Banks)**
- Private ownership of land

Challenge

- Small holder farms
- Low productivity , low yields, Quality constraints
- High level of intermediation
- High Cash Transactions
- Farm subsidy , price control, import export policy
- Low on capital for upgrade and modernisation
- Bank credit skewed in favor of working capital

Bank Finance : Challenges

Banks are mandated to lend 18% of their Assets to Agriculture, of this 13.5% has to be done directly to farmers and 4.5% indirect.

As a majority of the segment is covered by small holder farms , banks here face similar problems as in other developing country's

- Lack of credit history and documents
- Cost of collection from deep geographies.
- Risk of Fraud.
- Low Viability, due to low ticket size coupled with low interest rates.

As a result

- Higher competition between banks for Large farmers / land owners
- End use of funds not easily monitored
- Bank finance skewed towards working capital which is easy to service
- Small farmers face Financial exclusion .

All this results increase in bank finance to agriculture is not having the commensurate impact on development of the segment .

HDFC Banks – Agriculture

Agricultural Business initiated in 2007. The Three Pillars

- Retail Agri – (farmer Services)
 - 60,000 farmer relations
 - Book of \$600MM growing at 60% year on year
 - 450 Relationship managers , do asset , liability, cross sell and collections.
- Commodity Finance & Warehouse Receipt (Post Harvest Services)
 - 3000 customers, primarily agro/food processors
 - Business is retail in nature average ticket is USD 0.20MM
 - 200 Relationship Managers (& Warehouse Inspectors)
- Rural Initiative Group – (Supply chain Group)
 - 60,000 farmers linked to Corporates /Aggregators / Input dealers
 - Serviced through 350 BC's
 - Average float equivalent to \$7MM (Rs 35 Cr)
 - Loans worth \$2MM (Rs 10 Cr) disbursed each month

HDFC Agriculture – Business Approach

- Offer full-package of services.
 - Cash-management
 - Personal Savings Bank – includes ATM / Mobile / Net banking / Bill-payment
 - Consumer loans
 - Business loans - working capital, warehouse-receipt, investment loans
 - Insurance services - cross-sell HDFC insurance subsidiary products
- Multiple delivery channels/Client Management
 - Direct through relationship managers (Retail Agri, Commodity Finance)
 - Indirect through Business Correspondents
 - Branch & ATM Expansion

Financial exclusion of small & medium Farmers

For development Farmers need access to Inputs, Advice, Credit and Markets

Standalone bank finance

Big Farmers

- Have Access
- Enjoy market clout,
- many are highly progressive
- produce at global stds

Medium size farmers

Have limited access,
Form a large part of the base

SMF are generally attached
to Co-op Societies, and JLG's

Large
(7 Acre +)

Medium
(3 – 7 Acres)

(estimated at 100 mn)

Small & Marginal Farmers

| | Average Ticket | Income over 5 years |
|------------------|----------------|---------------------|
| Large | \$ 10,000 | \$ 1,200 |
| Medium | \$ 5,000 | \$ (38) |
| Small & Marginal | \$ 2,000 | \$ (1,060) |

Open Market Sourcing

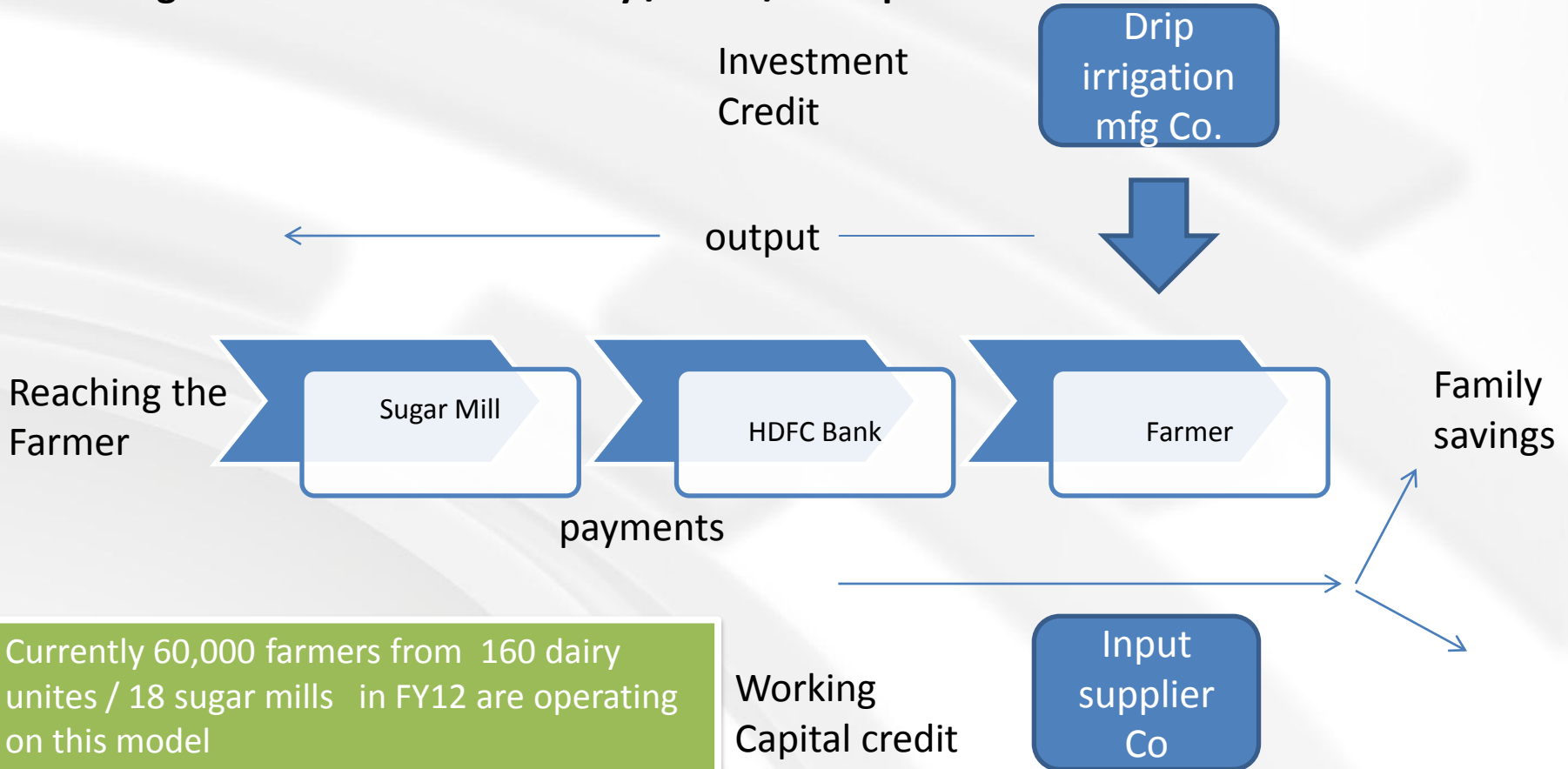
| | |
|---------------------|--------|
| Cost of Acquisition | \$ 500 |
| Cost of collection | \$ 240 |

How does cash get generated & its impact

- It is the traditional way of transacting , farmers prefer cash
- High level of Intermediation and lack of transparency
- Inadequacy of Bank distribution and Services
- Impact of Cash
 - Farmers get 1/3 of what the consumer pays instead of the global average of 2/3 . The Govt. has to prop up farmer earnings through costly subsidy
 - Farmers not incentivized to improve productivity and quality
 - Off balance sheet cash results in escalation of land prices, making it difficult for Govt. to improve infrastructure.
 - Rising land prices & interbank competition could also result in larger farmers getting over leveraged.

Contract farming – Payments System

➤ Farmers produce multiple crops and may be attached to one or more supply chains of the organised sector such as dairy / cane / seed production



- Currently 60,000 farmers from 160 dairy unites / 18 sugar mills in FY12 are operating on this model
- Family savings averaging USD 150/- a/c
- Dairy farmers receive USD 40-100 per mth /Sugarcane USD 5000 per season
- Average Loan size is also USD 6000 for total cropping

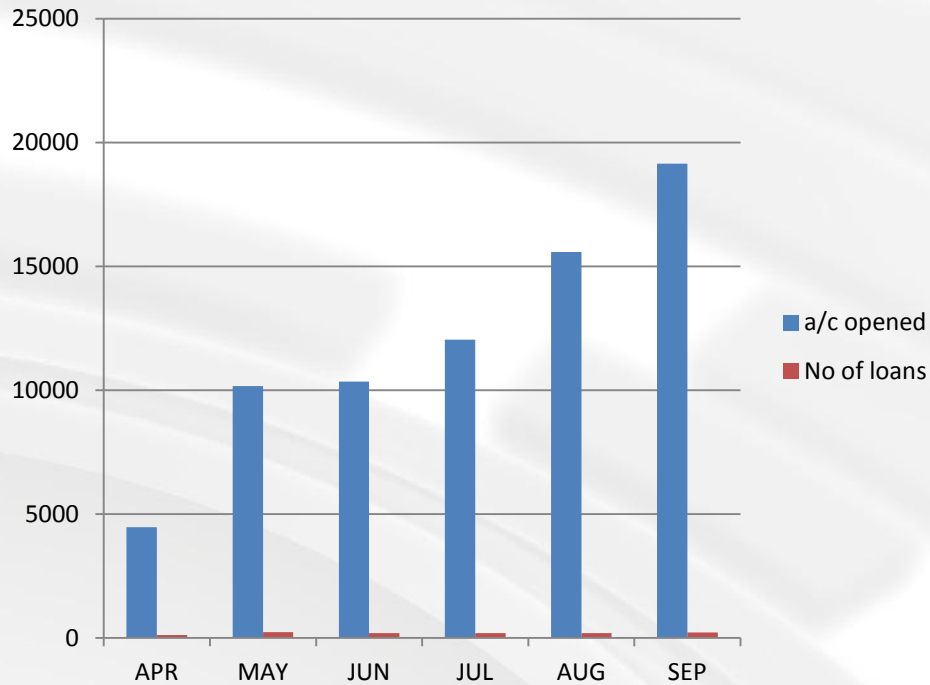
How does the Payments system work

- Identify Company's purchasing from farmers for whom payments is a pain area. (it is important to note that many State Govt.'s incentivizes company's to purchase direct from farmers)
- Set up Payment System for farmers by opening accounts
- Set up Business correspondent to provide farmers easy access to operate the account
- Effect payments on behalf of the Buyer Organization
- Progress to the Standard Bank Agri lending products / Savings & Deposit

Farmers produce multiple crops , Agri lending is done for the total working capital and Investment needs of the Farmer. Plugging into any one crop supply chain supports servicing the total loan.

The pilot for this model was initiated in Feb 11, scale up was initiated in Jun 12

Progress



- Working with 30 company's
- In discussion with 135 others
- Covers a range of F&V and commodities
- Conversion to Lending to be stepped up
- Separate team for Lending due to complexity of mortgages

The Business Correspondent – Key Component in the supply chain

BC's oriented to Agriculture and basic banking (unlike microfinance)

What worked

- Positive Farmer Response
- Company's relieved of the pain of making payments
- High conversion rate on farm lending .
- Improving Response from the Industry to go direct to farmers

Areas of Improvement

- BC training and staff retention
- Improving BC remuneration
- Fine tuning cash logistics
- Monitoring BC's to prevent transaction irregularities.

New Challenges

- Benefits to company are perceived as futuristic in Nature
- Resistance from the various Silo's within the Company
- Internal challenges
- Technology – time to market and cost
- Staffing and training at BC

End to end solutions

The payments system provides a common platform to provide End to end solutions to farmers and company's alike

- Add input suppliers for quality seeds / preferential allotment of fertiliser
- Advisory service
- Company specific financing needs – agronomists
- Traceability – through account numbers and geo-tagging
- Uniform common flow of farmer information
- Running loyalty programs
- Warehousing & terminal markets for other crops.

Thus providing the farmer a complete package of Markets, Inputs, Credit and Advice

Helps the company to increase produce, quality , traceability and data accuracy to compete in domestic and export markets

HDFC Bank, India

- HDFC Bank was incorporated in 1994, in India , when bank license were opened up to the private sector
- Promoted by the Housing Development Finance Corporation,
- Objective : be World Class Indian Bank
- Balance sheet size of USD 64.45 bn and Net Profit of USD 0.98 bn for the year ended March 31,2012
- Distribution of 2620 branches, 10316 ATMs across 1454 locations (limited overseas presence)
- Widest product range in the country covering wholesale banking, Retail Banking and Treasury Services
- Key strengths include Cash Management, Trade Finance and Consumer Banking

For more information about HDFC, please visit:

<http://www.hdfcbank.com/>

Explore AgriFin's website for events and resources related to agriculture finance at:

www.AgriFin.org

