

Financing Agri Value Chains - Dairy

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Approaches to Agri-Credit

135 mm farmers
Data 2014

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***

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

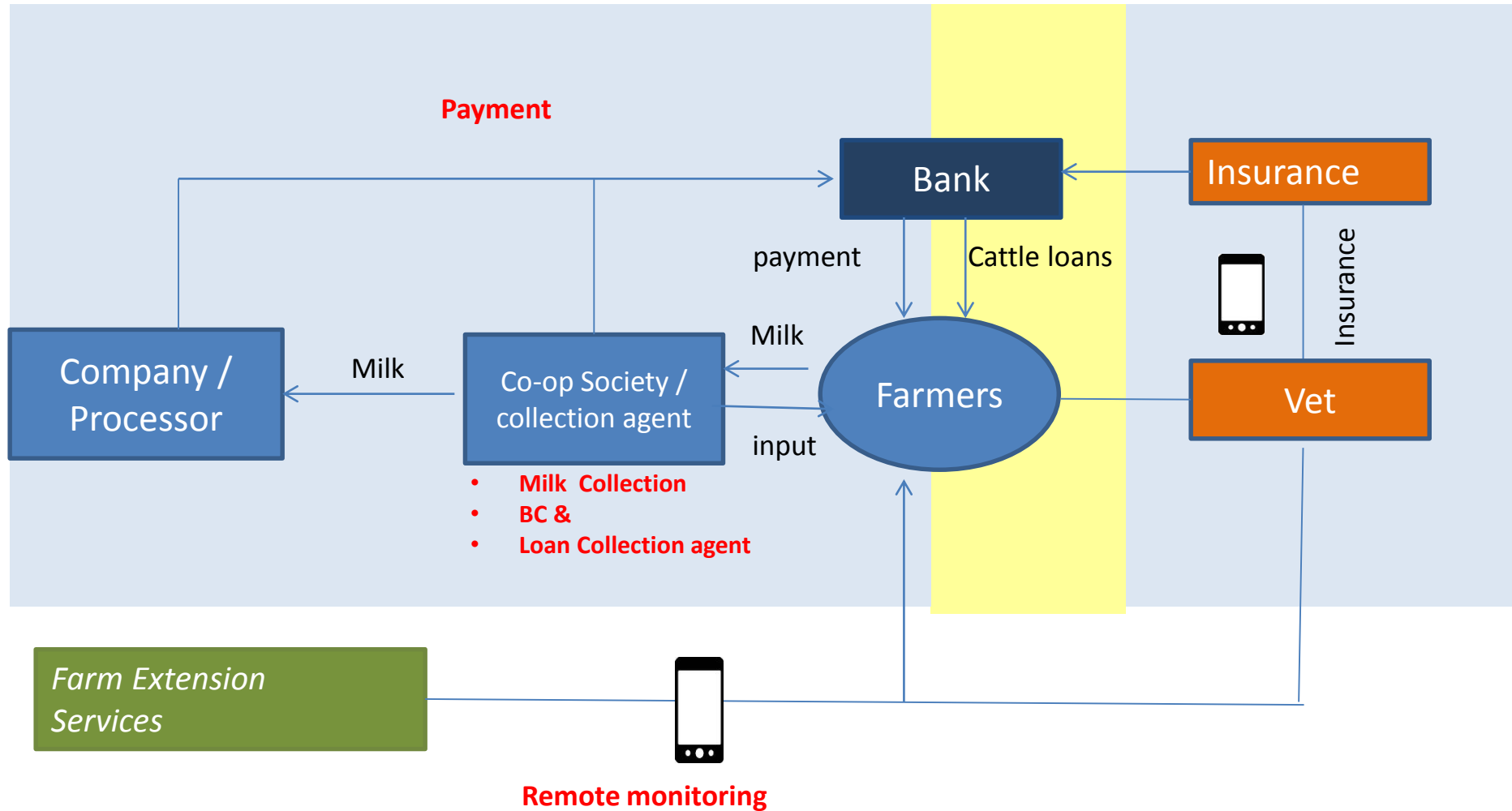
Data & Analytics

- Farm extension service
- Doubles up as a loan monitoring mechanism.
- Regular farm data collected thru smart phones analyzed for risks at the back end

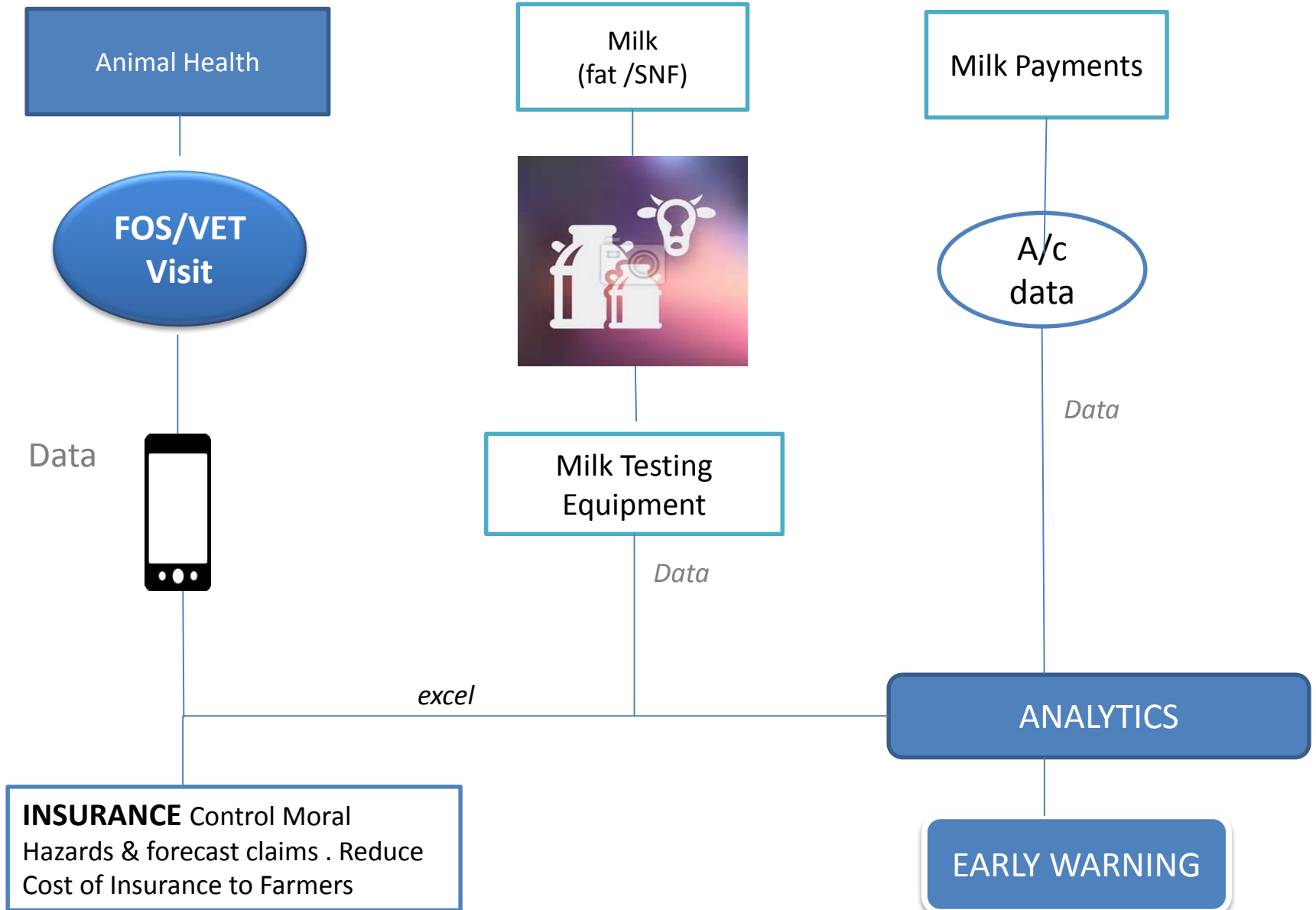
Dairy Industry in India

- India is the largest producer of milk in the world with a 16% share 135MMt
- 300 million heads of milk cattle managed by rural house holds 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 forma
- 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



REMOTE MONITORING SYSTEM



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

- 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

