

Facilitating Farmer Producer Company for establishing e- auction trading platform

Bhopal
19th June,2015



Strong Institutional Pedigree

The only commodity exchange in the country promoted by distinguished national-level institutions, public sector banks and global entities. Demutualized - the Exchange is professionally managed and neither Directors nor management have any vested interest in trading on the Exchange.

More than 54% stake is of institutions of national level institutions



NeML BusinessLine

- NeML – NCDEX e- Market Ltd is 100% subsidiary of NCDEX.
- NeML recorded annual turn over of 20,000 crs in 2014-15.
- Commodity Turnover of 70 lakhs MT in 2014-15.
- NeML is working with more than 10000 farmers.
- NeML business Models namely- e-Auction, WHR Pledge Finance, Online trading platform and e- Mandi.
- Participation of State government on NeML e- auction platform are- AP, Karnataka, Kerala, Maharashtra, Gujarat, Chattisgarh and Haryana. Central Govt bodies – Nafed, SFAC and FCI.
- WHR Pledge finance in MP is more than 300 crs

Capacity Statement – State Government Institutions

KFCSC- Commodities

Mid day Meal Scheme

1. Tur dal : 25,000 mt/annually
2. RBD palm oil : 1.20 cr litres/annually
3. Double Fortified Salt : 50,000 mt/annually
4. Maize : 7 lac mt/ annually

Public Distribution Scheme

1. Common Rice : 18,00,000 mt /annually
2. Sugar : 72,000 Mt/annually
3. Jowar : 3.6 lac Mt/annually
4. Ragi : 2.4 lac Mt /annually

Karnataka Milk Federation (KMF)

1. Maize - 2.4 lac mt /annually

Markfed :

1. Paddy – 1.8 lac mt/annually

Capacity Statement – State Government Institutions...Contd

Karnataka Tur board

1. Whole tur – 25,000 mt /annually

GSCSC- Commodities

Mid day Meal and ICDS Scheme

1. Processed Pulses (Tur/Chana/Moong) : 23,000 mt
2. Refined cottonseed oil : 2 cr litres
3. Salt : 40,000 mt/annually
4. Whole chana : 1550 mt
5. Sugar : 82,000 mt

Maharashtra – Commodities

1. PDS sugar – 2.1 lac mt/annually
2. Maize – 1 lac mt/annually

Chattisgarh

1. Rice – 9 lac mt/annually
2. Wheat- 2.5 lac mt

Capacity Statement – State Government Institutions...Contd

Haryana CONFED – Commodities

Dal and Roti Scheme

1. Chana dal : 20,000 mt/annually
2. Urad Sabut : 9000 mt/annually
3. Masoor sabut : 9000 mt/annually
4. Dollar chana : 9000 mt/annually
5. Sugar : 50,000 mt/annually

Andhra Pradesh

1. Processed Pulses – 35000 mt /annually
2. Sugar – 84,000 mt /annually
3. Jaggery – 6500 mt/annually
4. RBD palm oil – 6500 mt/annually

Capacity Statement – Central Government and Co-operative Institutions

- NAFED- Pulses and Oilseeds
- FCI- Wheat, Rice
- Karnataka Tur board- Whole and Processed pulses
- SFAC – Whole pulses and oilseeds
- Co-operatives –Cane sugar and Refined sugar
- NCDF- Ghee, Butter, Milk Power etc
For – KMF, GMF, Saras (Raj), Sudha Dairy (Bihar),
Mother Dairy etc

Transparent e auction mechanism for Liquidation or Procurement of commodities

NeML e- procurement Transparent Model

- Quantity and Quality specified by Procurement Agency.
- Department will specify exact specifications of Commodity.
- Provision of e- auction for Flexible lot size.
- Trading timing for an hour (*can be customized*).
- EMD of 3 % to be ensured by the sellers and buyer.
- Lowest bidder (L1) entitled as winner for that qty and price.
- Buyer need to deposit entire purchased amount to exchange after confirmation of bid.
- Additional security deposit of (2 %) to be ensured by sellers.
- Price inclusive taxes /excise and delivery at FOR basis.
- Quality check will be carried by neutral assayer.
- Delivery and payment is staggered.
- Funds Clearing and settlement carried out by Exchange
- Transaction cost will be charged from Procurement Agency.

Risk and Security Moderation - Measures

■ *EMD /SD Deposit*

1. To ensure genuine participants
2. To take care of volatility of prices
3. To counter defaults

■ *Compliance*

1. No manual intervention- system generated reports
2. Real time margin check- User ids configured to respective supplier bank ids

Gamut of Salient Services by NEML

- Unique customized web based trading system
English Reverse/forward E auction
- Continual Market Development
- Updated Price information of Physical market-Relevant commodities
- Funds clearing and settlement
- Risk Mitigation

Value Propositions

- ✓ **Transparent price discovery**
 - ✓ Online bidding and best bids will be visible

- ✓ **Equal opportunity for all sellers**
 - ✓ Wider Reach , easy participation
 - ✓ Avoids Cartelization

- ✓ **Lower procurements cost**
 - ✓ Competitive bidding, Anonymous identity maintained

- ✓ **Efficient and quick Settlement with flexibility**
 - ✓ Auditable and Verifiable : complete audit trail

- ✓ **Financial and Administration ease**
 - ✓ Data online- No reconciliation required

Value Propositions ... contd

- ✓ Shortening of entire Process
 - ✓ No manual Intervention or biasness.
 - ✓ Counter party risk mitigation

- ✓ Saving of time (Negotiations online)

- ✓ Supply of required quantity is assured well in time with good participation.

- ✓ Suppliers can modify their sell quotes

- ✓ Delivery hassles nullified for Procurement agency- as **FOR** delivery

Membership and Transaction Costs

- Membership fees – 7.5 Lacs Refundable security deposit
 - Admission fees – 20,000 Rs
 - Annual Subscription charges – 10,000 Rs
 - * exclusive service tax of 14%
- Transactions cost – 0.5 to 1 % of the purchased value exclusive of all taxes

Suppliers

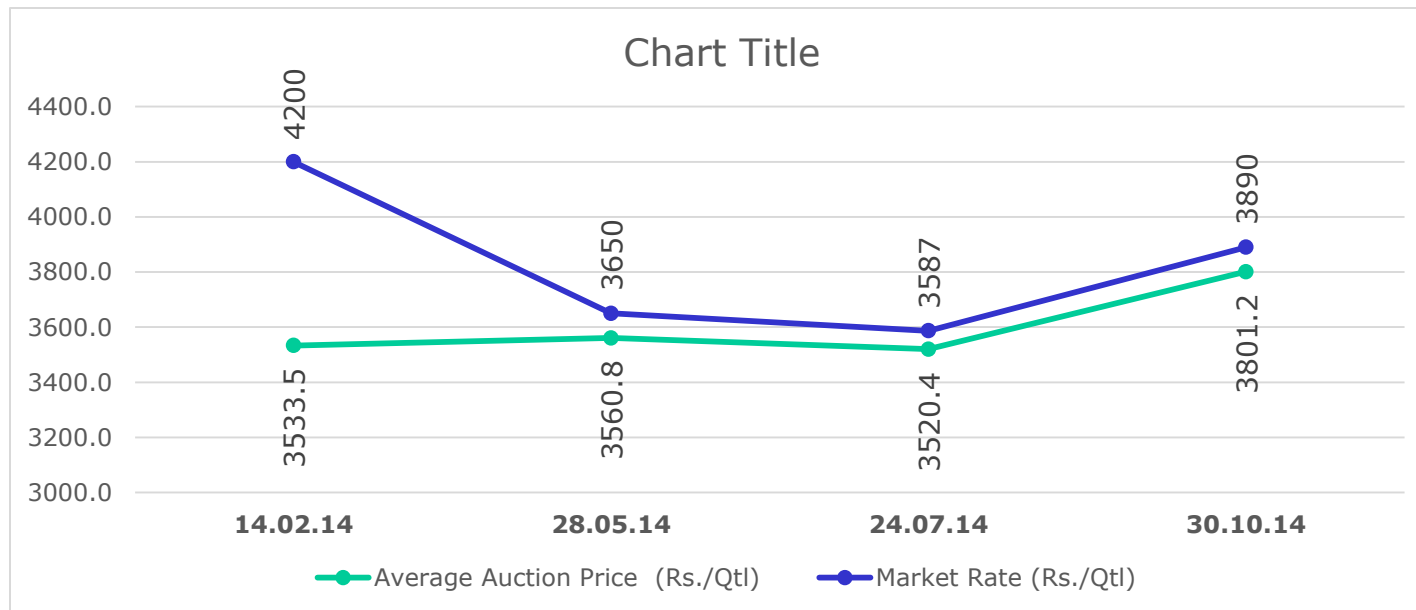
- Membership fees – 5000 Rs exclusive service tax
- Transaction cost - Nil

Examples of Adopted States - (Graphical)

Chana dal procurement through e- auction – Confed (Haryana)

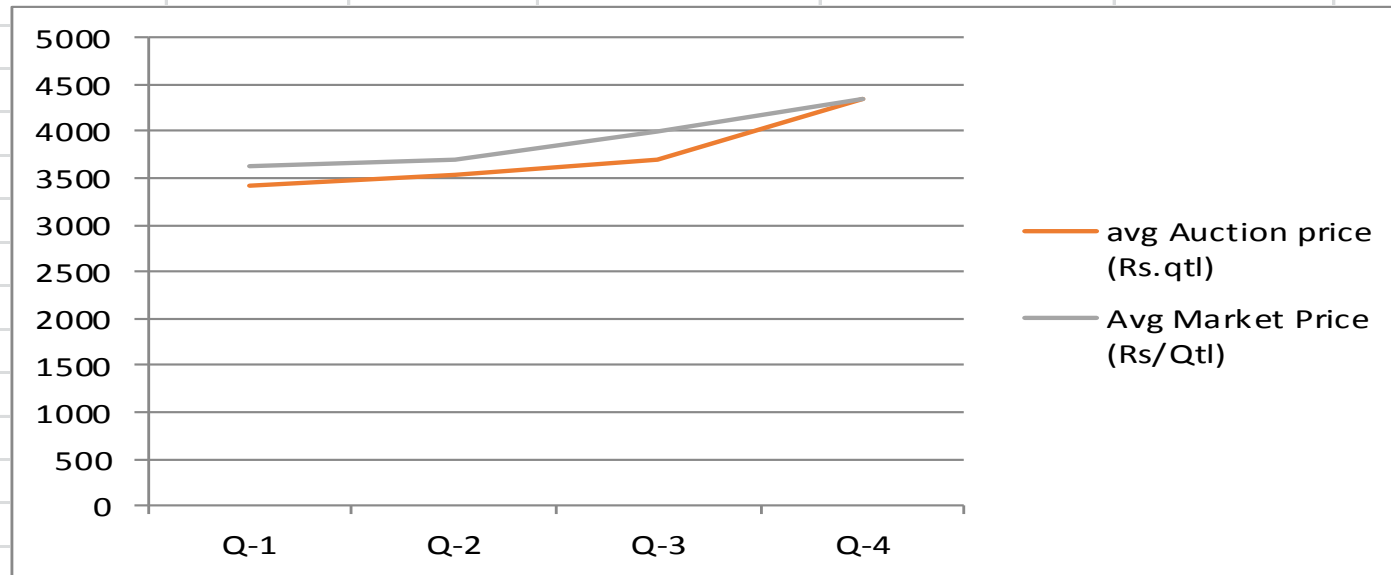
Date of Auction	Commodity	Quantity Sold (MT)	Average Auction Price (Rs./Qtl)	Market Rate (Rs./Qtl)	Difference b/w market price and e-auction Price (Rs./Qtl)	Savings (%)
14.02.14	Dal Chana	4976	3533.5	4200	666.49	15.9
28.05.14	Dal Chana	4982	3560.8	3650	89.245	4.4
24.07.14	Dal Chana	5654	3520.4	3587	66.64	1.9
30.10.14	Dal Chana	5643	3801.2	3890	88.76	2.3

Here market rate indicates the tender price obtained by CONFED on the same date.

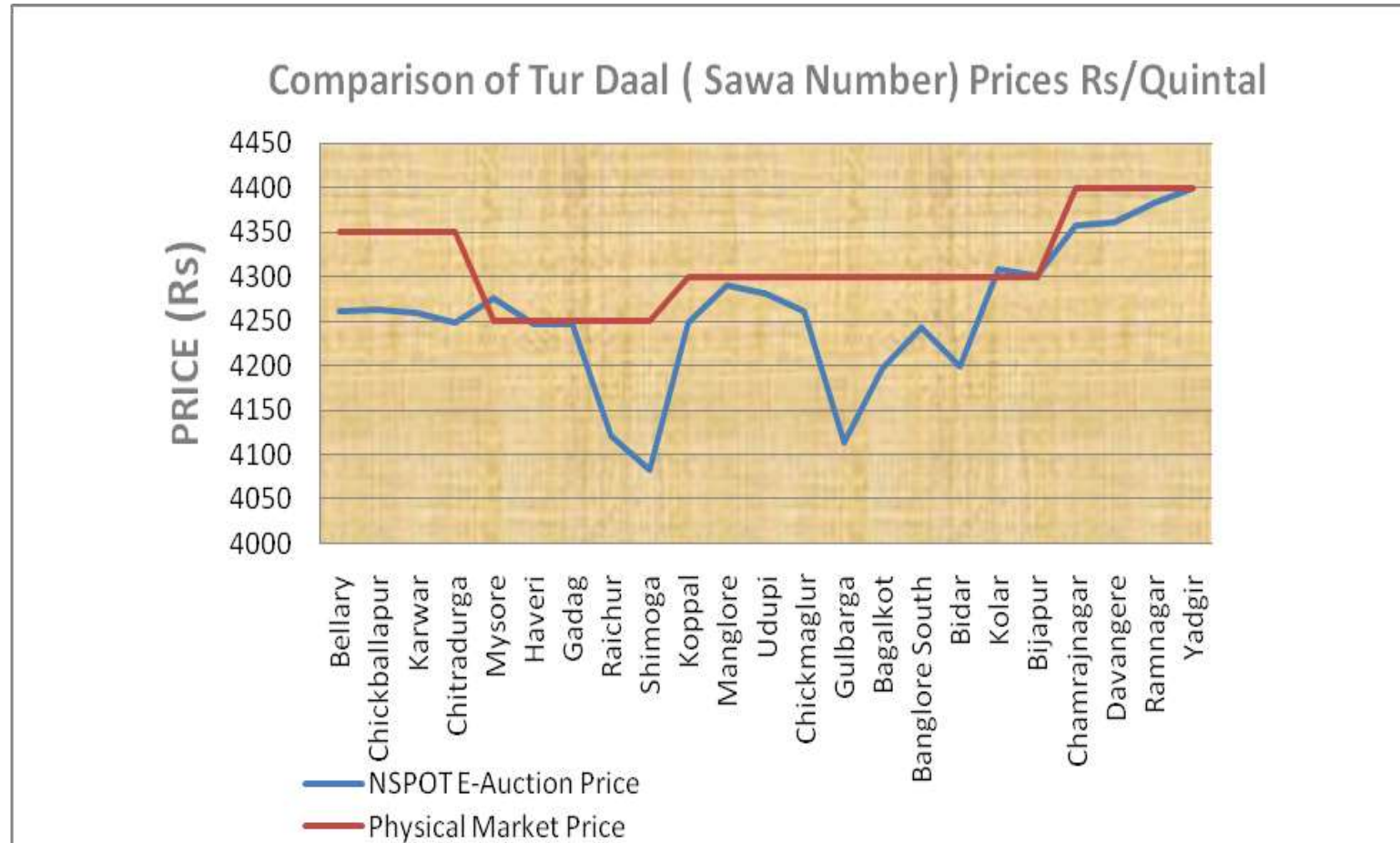


GSCSC procurement of Chana Dal through e-Auction

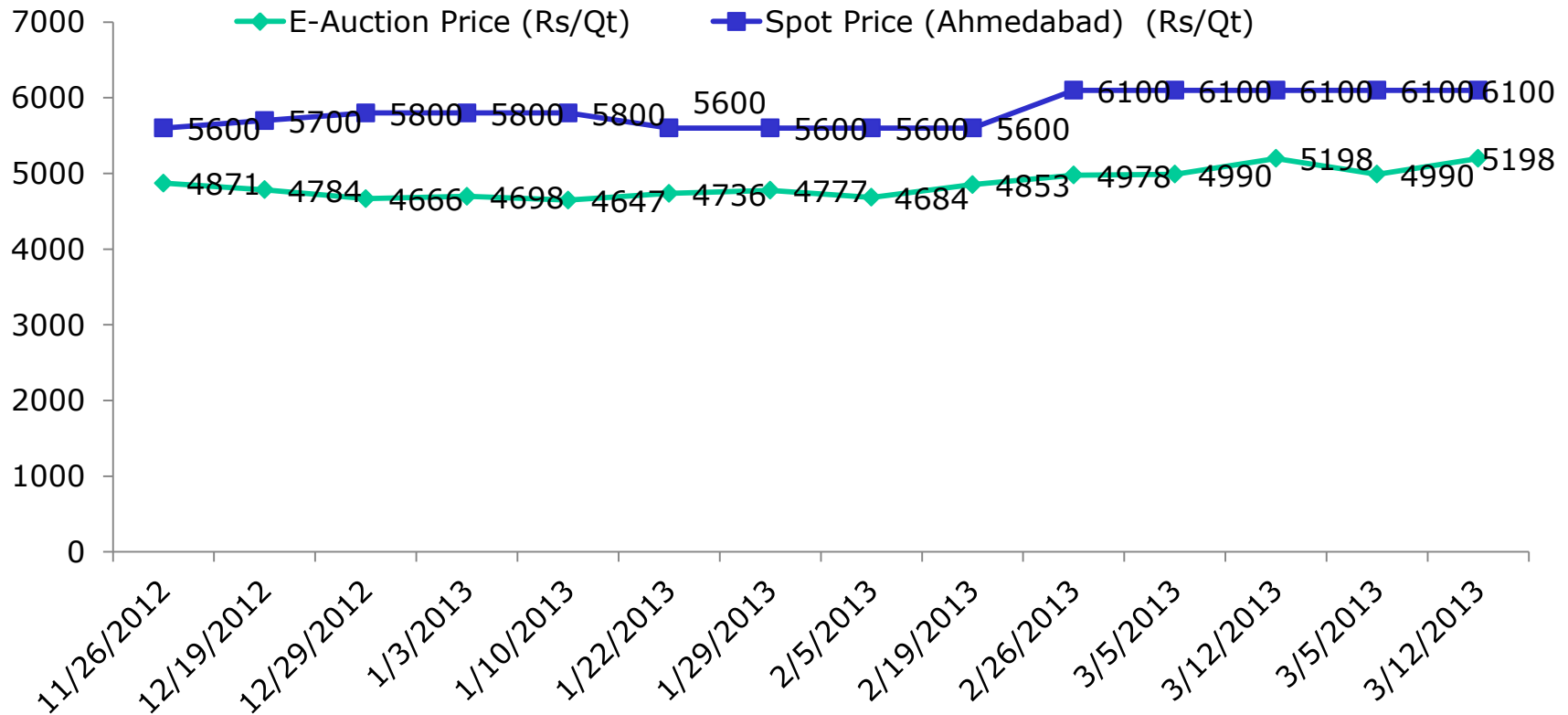
Quarter	Total Quantity (Quintal)	Avg Auction Price(Rs/ Qntl)	Avg Market Price(Rs/Qntl)	Difference
Q-1	29500	3427	3629	202
Q-2	22400	3536	3708	172
Q-3	17500	3698	3991	293
Q-4	12000	4345	4350	5



Karnataka Example : Physical market Prices Vs E auction Prices



Gujarat state - E Auction Price Vs Physical Market Prices- Tur dal

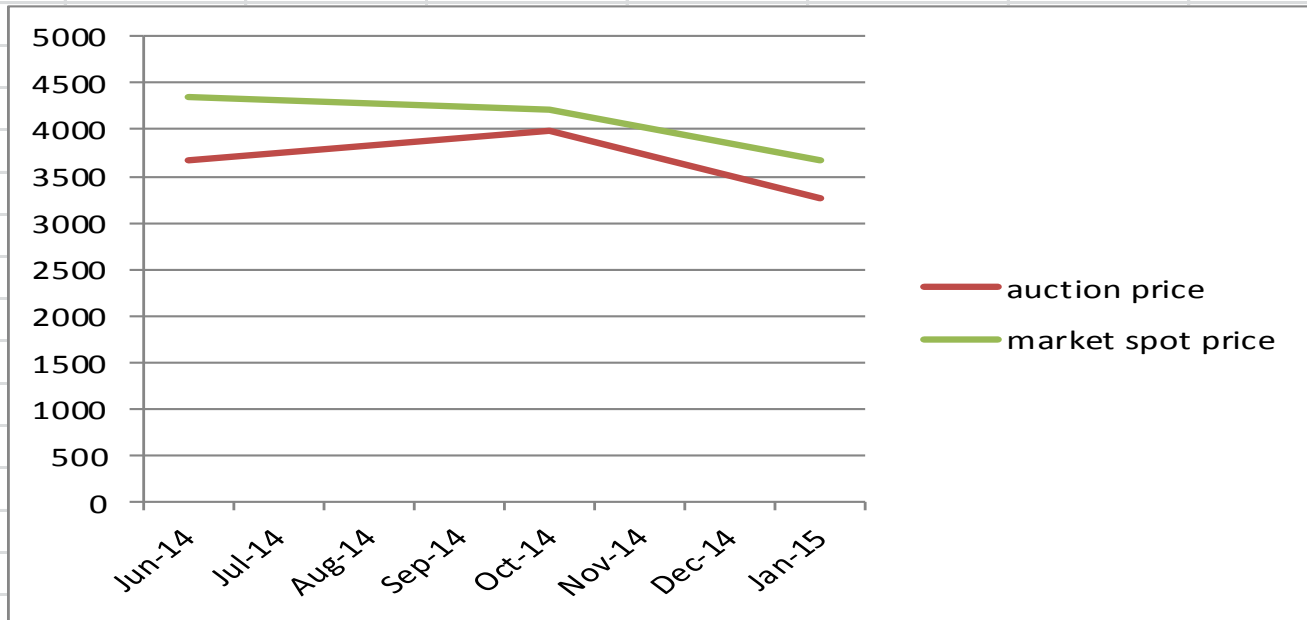


* E-Auction Price is Ex GSCSC Ahmadabad warehouse delivered price

* E-Auction Price Includes: NSPOT Charges (0.5%); Transportation Charges (Rs 50/Qt); Sortex Charges (Rs 160 Qt)

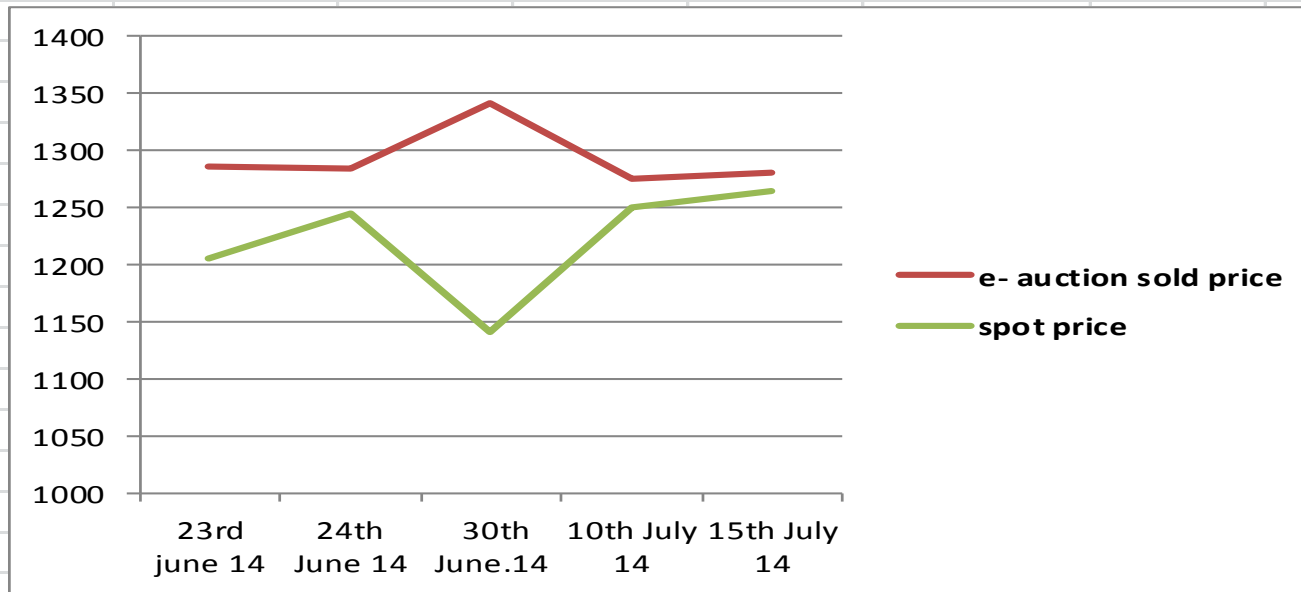
IODISED SALT- GSCSCL

Purchase Date	Quantity (MT)	Purchased Price (per MT)	Market spot price (per MT)	Difference
Jun-14	17500	3671	4350	679
Oct-14	15000	3998	4225	227
Jan-15	40000	3268	3675	407



**Maize sold through e- auction platform -
MARFED, Karnataka**

Dated	Qty (MT)	E- auction price (Rs/qtl)	Spot Price (Rs/qtl)	Difference
23rd june 14	6859	1286	1206	80
24th June 14	11699	1284	1245	39
30th June.14	4335	1341	1141	200
10th July 14	12692	1275	1250	25
15th July 14	2828	1281	1265	16



Trading Model for Farmer Producer Company

Aggregation Model for FPC's

Role of FPC

- Selection of suitable aggregation centre nearby to villages.
- Ensure sufficient quantity of goods available for sale at pre determined price (based on QC parameter).

Role of NeML

- Bringing buyer at aggregation centre.
- Buying price will be declared one day in advance.
- Buyer with quality personnel will come at aggregation centre.
- NeML will collect advance payment from buyer.
- Based on actual quantity and quality sold, NeML will transferred fund to FPC account.

Warehouse e-auction Model for FPC's

Role of FPC

- Aggregation of farmer stock in Warehouse.
- 30% payment made to Farmer the same day.
- Maintained a stock of 100 to 200 MT in a week time.

Role of NeML

- Arrange for e- auction of good at “ as it where is basis”.
- Take the confirmation of highest bid from the FPC.
- Collect advance fund from approved bidder.
- Deposit fund to FPC account with delivery of goods.

Warehouse WHR funded e-auction model

Role of FPC

- Aggregation of farmer stock in Warehouse.
- Maintained a stock of 150 to 200 MT in a week time.
- 65 to 70 payment to farmers
- Remaining amount will paid to farmer **only** after lifting of sold stock by the buyer.

Role of NeML

- Arrange for e- auction of good at “ as it where is basis”.
- Take the confirmation of highest bid from the FPC.
- Collect advance fund from approved bidder.
- Deposit fund to pledge Banks.
- Pledge bank will deduct principal and interest and rest will be credited to FPC account.

Thank you
for your attention

Futures

- Delivery Incidental
- Replica of futures price at a future date
- Leveraged positions
- Speculators, Jobbers, Hedgers etc
- Functions like a Messenger
- Contract specific grade

Spot

- Delivery based
- Replica of the existing physical market
- Non Leveraged positions
- Only processors/traders/Consumers
- Pulse /Nerve of Physical market
- Contract all types of grades

Advantages of e-auction

- Price transparency: As the entire process of e-auction is online, best bids would be visible during the auction time period.
- Shortening tender cycle: In this system, as no advertisement is required to be issued, no opening of tender, no negotiation is required, entire procurement planning and activity across the state can be completed in a week.
- Chances of lower procurement prices: The process being on-line and e-auction period being limited, more number of bids are made which increases chances of getting better prices.
- Reduction in cost: In e-auction system, schedule of e-auction is given on-line by service provider, as per the requirements. No tender publication required, no negotiation required which reduces ultimate cost of procurement.
- More number of participants: Any registered supplier can participate in e-auction, therefore no geographical boundary. Any eligible from neighbouring state can participate which leads to healthy competition.
- Competitive bidding: As any regd. Suppliers can participate in e-auction, more players participate which leads to better price discovery owing to price transparency.

Contd..

- Anonymity of Participants: Avoids cartelization, the entire process of e- auction is on-line. Participants can only quoted rates and no names of bidder for particular bid, it leads to avoidance of cartel.
- As schedule of e-auction along with terms and conditions are informed by service provider on-line. Supply of required quantity is assured well in time with good competition.
- Better planning: As time required in this system is very short, proper planning for procurement of commodities can be made as per requirement of inventory and commodity cycle.
- No reconciliation required: As entire data online available, no paper work.