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 turnover 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/annualy

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

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

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

Chart Title:
- **Average Auction Price (Rs./Qtl)**
- **Market Rate (Rs./Qtl)**

**Date of Auction:**
- 14.02.14
- 28.05.14
- 24.07.14
- 30.10.14

**Commodity:** Dal Chana

**Market Rate (Rs./Qtl):**
- 3533.5
- 3560.8
- 3520.4
- 3801.2

**Average Auction Price (Rs./Qtl):**
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- 4.4
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- 2.3

**Difference b/w market price and e-auction Price (Rs./Qtl):**
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- 3520.4
- 3801.2
## GSCSC procurement of Chana Dal through e-Auction

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

### Graph

- **Orange Line**: avg Auction price (Rs.qtl)
- **Gray Line**: Avg Market Price (Rs/Qtl)

### Chart

- **X-Axis**: Quarter (Q-1, Q-2, Q-3, Q-4)
- **Y-Axis**: Price Range (0 to 5000)
Karnataka Example: Physical market Prices Vs E auction Prices

Comparison of Tur Daal (Sawa Number) Prices Rs/Quintal

- Bellary
- Chickballapur
- Karwar
- Chitradurga
- Mysore
- Haveri
- Gadag
- Raichur
- Shimoga
- Koppal
- Manglore
- Udipi
- Chickmaglur
- Gulbarga
- Bagalkot
- Bangalore South
- Bidar
- Kolar
- Bijapur
- Chamrajnagar
- Davangere
- Ramnagar
- Yadgir

Blue line: NSPOT E-Auction Price
Red line: Physical Market Price
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)
<table>
<thead>
<tr>
<th>Purchase Date</th>
<th>Quantity (MT)</th>
<th>Purchased Price (per MT)</th>
<th>Market spot price (per MT)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun-14</td>
<td>17500</td>
<td>3671</td>
<td>4350</td>
<td>679</td>
</tr>
<tr>
<td>Oct-14</td>
<td>15000</td>
<td>3998</td>
<td>4225</td>
<td>227</td>
</tr>
<tr>
<td>Jan-15</td>
<td>40000</td>
<td>3268</td>
<td>3675</td>
<td>407</td>
</tr>
</tbody>
</table>

![Graph showing auction price and market spot price]

- **Red** line: Auction price
- **Green** line: Market spot price
Maize sold through e-auction platform - MARFED, Karnataka

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

![Graph showing e-auction sold price and spot price over time]

- Red line: e-auction sold price
- Green line: spot price
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.