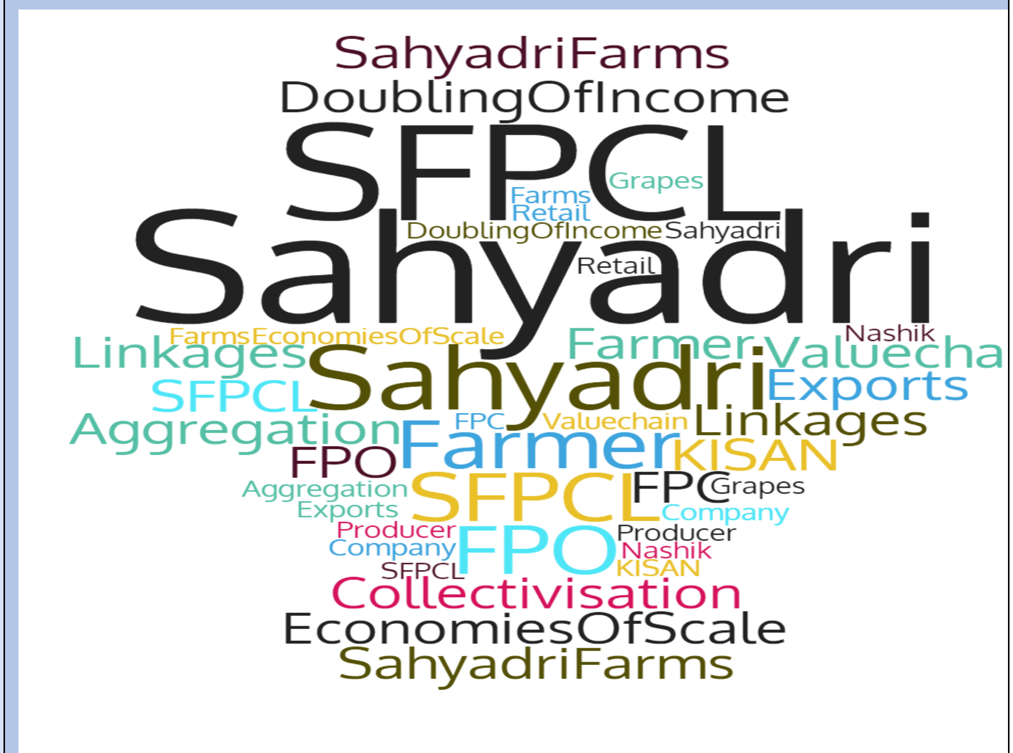
COLLEGE
OF
AGRICULTURAL BANKING

SAHYADRI FARMERS PRODUCER COMPANY LIMITED:

A SUCCESS STORY



RESERVE BANK OF INDIA
PUNE

PANKAJ SETIYA
GM and MoF
RBI, CAB, Pune

Acknowledgements

The author is thankful to the College Advisory Committee for providing the opportunity to take up this documentation of the success story of Sahyadri Farmers Producer Company Limited (SFPCL)

I wish to sincerely acknowledge the encouragement and feedback provided by Smt. Madhumita Sarkar Deb, Principal and Dr S. Subbaiah, Academic Coordinator of the College, which has added value to this report.

I would like to express my gratitude to the Chairman SFPCL, Shri Vilas Shinde for his support, allowing unrestricted access to the company premises and personally sharing the Sahyadri story with us.

The author would like to record his appreciation for the entire team of SFPCL, which includes Shri Sachin Walunj, Shri Tushar Jagtap, Shri Santosh Watpade, Shri Tushar Bhalerao, Shri Rahul Chandratre, Shri Pankaj Nathe, Shri Dhanajay Gawale and others for providing us deep insights into the working of the company, and Shri Pritish Kare and Shri Suresh for coordinating our visits and meetings.

Last but not the least, I thank all the farmers, office bearers of SFPCL and other respondents for participating in the interviews and discussions and furnishing valuable information for successful documentation of this success story.

Contents

S. No.	Particulars	Page
	Acknowledgements	3
	Contents	4
Section I	Background, Objectives and Methodology	6
Section II	The Concept of Farmers Producer Organisation	9
Section III	Sahyadri Farmers Producer Company Ltd. (SFPCL): Journey So Far	12
Section IV	Sahyadri Farmers Producer Company Ltd. (SFPCL): Key ingredients for success	20
4.1	Mission, Vision, Motivation and Leadership	20
4.2	The Value Chain approach	21
4.2.1	Backward Linkages	21
4.2.2	Forward Linkages	27
4.3	Social Orientation / Driver of rural development	32
4.4	Bank Finance and SFPCL	34
4.5	Social Capital: an organisation of the farmers, by the farmers and for the farmers	34
Section V	The future growth plans of SFPCL	35
Section VI	Conclusions	37
	References	42
Annexure I	Questionnaire for SFPCL	43
Annexure II	SFPCL Products: Fresh fruits and vegetables	46
Annexure III	SFPCL Products: IQF range of fruits and vegetables	47
Annexure IV	Sahyadri Retail Stores	48
Annexure V	SFPCL Infrastructure	49
Annexure VI	Features of a Producer Organisation	50
Annexure VII	Grape as a global crop	54

“Everything else can wait, but not agriculture.”

Jawahar Lal Nehru

At no point must the hardworking farmer think that he is alone. We are all together in creating a better tomorrow for the farmers of India”.

Narendra Modi

“The farmer is the only man in our economy who buys everything at retail, sells everything at wholesale, and pays the freight both ways.”

John F. Kennedy

"If agriculture goes wrong, nothing else will have a chance to go right in the country."

M. S. Swaminathan

“India's place in the sun would come from the partnership between wisdom of its rural people and skill of its professionals'

Dr Verghese Kurien

Section I

Background, Objectives and Methodology

1.1 Background

India has over 14.6 crore farm holdings and of this, the small and marginal farm holdings (SMF) together account for 12.6 crore or a massive 86.2 percent of the total farm holdings, as per the 10th Agriculture Census 2015-16 released in October 2018. For all the Indian farmers put together, the size of average land holding has declined to 1.08 hectares in 2015-16 from 1.15 hectares 2010-11.The 12.6 crore SMF together own about 74.4 million hectares of land implying an average SMF holding of just 0.6 hectares each. This clearly is not enough to produce enough surpluses to financially sustain their families, explaining in part the rising distress in farm sector.

The growing number of small farms and declining average size of operational holdings leads to challenges in access to critical production resources. At the heart of most of the problems faced by small and marginal farmers lies their limited bargaining power and inability to benefit from the economies of scale as compared to large farmers. Of the several approaches tried across the world for smallholders, *group approach* has proved to be more effective in boosting their bargaining power and scaling up the production process when compared to any individual approach.

Collectivizing farmers into **Producer Organizations (POs)** is considered as one of the better ways to overcome these challenges faced by the small and marginal farmers. The approach is considered to be helpful in integrating the farmers directly into market, through their institutions **(producer companies/ cooperatives)** for both inputs and output and collective processing and marketing, whereas production is largely left to the individual small farmers. But integrating small farmer producers is often challenging due to several factors like (i) small farmers are not a homogenous group and majority of them lack entrepreneurial faculty (ii) dispersed locations posing problems in logistics like packaging, storing and aggregation and also in organizing them into collectives, (iii) production in small quantity and absence of primary processing and value addition leading to poor bargaining power.

Farmers’ cooperatives in India have been in existence for quite some time but the model of cooperatives, for some reasons, has worked well only in the case of milk and sugarcane. During the last few years, several initiatives have been taken by various entrepreneurs, government and other stakeholders to harness the power of ‘collectives’ in a manner different from the typical cooperatives.

A growing policy interest has been witnessed in promoting, nurturing and creating an enabling environment for the small and marginal farmers collectivising them into different forms of Farmers Producer Organisations (FPOs) like Farmers Producer companies (FPCs), Farmers Producer Cooperatives and Farmers Producer Societies, etc. As a result, around 6000 FPOs (including FPCs) have been currently established in different parts of the country, under various initiatives of Small Farmers' Agribusiness Consortium (SFAC), NABARD, State Governments, and other organizations, trusts and corporate foundations etc. Of these, around 4200 FPOs are registered as Producer Companies and the remaining as Cooperatives and Societies. (Source: NABARD Paper on FPOs; Status and Issues)

Majority of these FPCs are in the nascent stage of their operations with shareholder membership ranging between 100 and 1000 farmers. They require not only technical handholding support for sustainable business but also adequate capital and infrastructure facilities including market linkages. A large number of these FPCs are concentrated in a few states such as Madhya Pradesh, Rajasthan, Maharashtra and Bihar and are engaged in sale of agricultural inputs such as seeds and pesticides to their members while a few are involved in commercial seed production and even fewer in marketing or processing of output. Out of these, only a handful of FPCs have been able to become financially viable.

To put things in perspective, of the 1,696 registered FPCs in Maharashtra, 1,048 have either reported no business or were found to be non-functional[1] in a survey released by the Department of Agriculture, Government of Maharashtra during April 2019. Of the remaining FPCs, 135 had reported turnover between ₹ 7 lakhs and ₹ 10 lakhs, while 204 had reported turnover between ₹ 10 lakhs and ₹ 50 lakhs per year. Only 104 FPCs have reported a turnover above ₹ 50 lakhs. FPCs face a number of problems such as the lengthy process of registering a company, non-availability of collateral-free credit at economical rate of interest and also lack of leadership and business acumen.

In this context, it is, therefore, significant to note the accomplishments of an FPC called Sahyadri Farmers Producer Company Ltd (SFPCL) at Mohadi village, Dindori Taluka, Nashik district in Maharashtra which has reported an annual sales of ₹ 300 crores and a net profit of ₹10 crores as at March 31, 2018. The success story of Sahyadri Farmers Producer Company Ltd. is presented in this document.

[1] An article published in Indian Express newspaper, Pune edition and available online at https://indianexpress.com/article/cities/pune/over-1000-fpcs-in-maharashtra-non-functional-or-report-zero-business-5753624/

1.2 Objectives

- To study the factors leading to the success of SFPCL as an FPC
- To study the role of bank finance in the success of the model
- To use this documented success story to create awareness among the bankers about the concept of Farmers Producer Companies, and to sensitise them about opportunities and challenges in financing FPCs

1.3 Methodology

The documentation process was initiated with daily visits to the Sahyadri FPC's office and plants at Mohadi village, Dindori Taluka, Nashik, Maharashtra during May 13-17, 2019. Discussions were held with the officials of SFPCL and primary data was collected from SFPCL by way of questionnaires and its Annual reports.

The author met the farmer members of the FPC from the villages of Nilwandi, Mohadi, Sinnar and Niphad and collected information through a pre designed questionnaires. The questionnaires attempted to collect information on changes post joining the FPC in terms of assets, land use pattern, yield, access to finance, marketing, financial position and lifestyle. Copy of Questionnaires are given in Annexures 1 and 2.

1.4 Limitations

While success stories often serve as inspiration for replication, they can also have certain limitations. As we shall see in the following pages, SFPCL is a highly successful example of an FPC, but one which is largely individual driven, and one where promoters' have invested their own seed capital. The replicability of SFPCL model will also depend upon the pervasiveness of community culture in that district or State, as it is essential for collectives or group approaches to succeed.

Section II

The Concept of Farmers Producer Organisation

2.1 What is a PO?

A Producer Organisation (PO) is a legal entity formed by primary producers, such as farmers, milk producers, fishermen, weavers, rural artisans, craftsmen etc. A PO can be a producer company, a cooperative society or any other legal form which provides for sharing of profits / benefits among the members. In some forms of PO like producer companies, one producer company can also become member of another producer company. A “Farmers Producer Organisation” (FPO) is a type of PO where the members are farmers.

Promoting institutions

Any individual or institution including an NGO can promote a PO. Individual persons or institutions may promote PO using their own resources out of goodwill or with the noble objective of socioeconomic development of producers. NABARD, Small Farmers’ Agribusiness Consortium (SFAC), Government Departments, Corporates and domestic & international aid agencies also provide financial and/or technical support for promotion and hand-holding of POs. Such promoting Institutions are called POPIs (Producer Organisation Promoting institutions).

2.2 What is a Producer Company?

A Producer Company (PC) is a specific type of a PO and is a hybrid between a Private Limited Company and a Cooperative Society, thus enjoying the benefits of professional management of a Private Ltd. Company as well as mutual benefits derived from a Cooperative Society. The minimum paid-up Capital for a PC is Rs. 1 lakh and minimum authorized capital is Rs. 5 lakhs, which being relatively small sums are easier to mobilise. Ten or more primary producers can incorporate a PC under Section 581(C) of Indian Companies Act 1956 as amended in 2013 and there is no restriction on the maximum number of membership, which can be increased as per need and feasibility. Studies have shown that a PC generally requires about 700 to 1000 active producers as members for sustainable operations to achieve breakeven level.[2]

2.3 Essential features of a PO

a. It is formed by a group of producers for either farm or non-farm activities.

---

[2] NABARD FPO FAQs, 2015

b. It is a registered body and a legal entity.
c. Producers are shareholders in the organization.
d. It deals with business activities related to the primary produce/product.
e. It works for the benefit of the member producers.
f. A part of the profit is shared amongst the producers.
g. Rest of the surplus is added to its owned funds for business expansion.

2.4 Need for PO

The main aim of a PO is to ensure better income for the producers through an organization of their own. Small producers do not have the volume individually (both inputs and produce) to get the benefit of economies of scale. Besides, in agricultural marketing, there is a long chain of intermediaries who very often work in a non-transparent manner leading to a situation where the producer receives only a small part of the value that the ultimate consumer pays. Through aggregation, the primary producers can profit from the benefit of economies of scale and better collective bargaining power while buying inputs and selling produce.

2.5 Ownership and Management of the PO

The ownership of the PO is with its members. It is an organization of the producers, by the producers and for the producers. One or more institutions and/or individuals may promote the PO by way of assisting in mobilization, registration, business planning and operations. However, the ownership control is always with members and management is done through the representatives of the members. Each PO will have an elected Board of Management / Board of Directors as per the bye-laws. The Board can engage professionals to manage its affairs and pay them market based remuneration out of the income of the PO.

2.6 Membership procedure

All primary producers residing in the relevant geography (nearby villages), and producing the same or similar produce, for which the PO has been formed, can become member of the PO. Membership is voluntary and the procedure for obtaining PO membership depends on the bye-laws of the PO. The founder-members are those who were there at the time of formation of the PO. Other members join the PO later. However, all members enjoy equal rights. A primary producer can become member of a PO by submitting an application and a nominal membership fee. Some POs also charge annual membership renewal fee.

2.7 Activities of a PO

It is observed that the primary producers often have the skill and expertise in producing. However, they generally lack in marketing of their produce and need support for it. The

PO attempts to bridge this gap by taking over the responsibility of any one or more activities in the value chain of the produce right from procurement of raw material to delivery of the final product at the ultimate consumers' doorstep. A PO can undertake some or all of the following activities:

a) Procurement of inputs
b) Dissemination of market information
c) Dissemination of technology and facilitating innovations
d) Facilitating finance for inputs
e) Aggregation and storage of produce
f) Primary processing like drying, cleaning and grading
g) Brand building, Packaging, Labeling and Standardization
h) Quality control
i) Marketing to institutional buyers
j) Participation in commodity exchanges
k) Exports

2.8 Critical Ecosystem for FPOs

A congenial ecosystem is a must for development of producer organizations because they have to deal with the most vulnerable part of agri-value chain, which starts from the farm and goes on till processing and the far-away markets.

A graphical presentation of the ecosystem requirements is given in Figure 1:

Figure 1: Ecosystem for sustainable FPOs

Source: (i) NABARD Paper on FPOs; Status and Issues
(ii) NABARD FPOs- FAQs

Section III

Sahyadri Farmers Producer Company Ltd. (SFPCL): The Journey So Far

3.1 The Beginnings: Making of the FPC

Sahyadri Farmers Producer Company Ltd. or Sahyadri FPC (SFPCL) was registered on December 27, 2010, and commenced operations in 2011 under the chairmanship of Shri Vilas Vishnu Shinde, a qualified Agri Engineer. However, the actual journey had begun much earlier.

Mr. Shinde who graduated from Mahatma Phule Krishi Vidyapeeth (MPKV), Rahuri, the premier Agricultural University of Maharashtra, in 1998, tried his hand at several businesses over the next 5 years. Some of such ventures included setting up a water conservation NGO; working with 'Shetkari Sangthan'; undertaking cultivation of mushroom, strawberry & capsicum; coffee plantation; dairy farming, and vermicomposting. These varied but rather unsuccessful endeavours made him experience and realise the challenges of being an individual small farmer in India. The small farmers faced challenges such as lack of basic infrastructure, quality agri inputs and right advisory; a fragmented supply chain; poor cold storage facilities; high post-harvest losses; and exploitation by multiple intermediaries on the way to market.

To overcome the aforesaid challenges, 10 such grape farmers got together in 2003 with 9 acres of land and as a group, they aimed to improve the situation by connecting directly with markets. They set up the necessary infrastructure over the next one year which included a privately held company M/s. Vilas Vishnu Shinde Exporters at Adgaon, Nashik with APEDA approved infrastructure and F&V handling capacity of 60 Mt/Day, for exporting their produce of grapes. In 2004, the firm shipped 4 containers of fresh grapes to the European markets, and by 2010 the number of farmers increased to 140 and as many as 150 containers of grapes were shipped to leading global super-markets. In 2010-2011 the company incorporated as Sahyadri Farmers Producer Co. Ltd (SFPCL) thereby graduating from **'farmer-entrepreneurs' to a full-fledged 'farmer company'.**

3.2 Evolution of Sahyadri FPC

3.2.1 Diversification

SFPCL was formed to overcome challenges faced while working as an agro entrepreneur and turn farming into a profitable venture by sustainable development of agriculture and the rural community around it. By 2014, the number of member farmers increased to 1007 and that year SFPCL exported 625 containers carrying 9000 MT of fresh grapes valued at US$ 17 million.

By this time, Sahyadri Farms had got a grip over most of its concerns, but it still grappled with two issues: (i) 'Market Access' for its fresh produce which could not be exported due to shorter shelf life, and (ii) lack of 'Value Addition' in terms of having a way to process its farm produce of tomatoes, mangoes and bananas. This led to SFPCL setting up the following three new divisions in 2015:

- ***Retail Division*** - For reaching its domestic consumers directly with food safe and 100% traceable farm fresh fruits and vegetables.

- ***Processed Foods Division*** - For value addition and processing its farm produce into pulps, purees, jams, juices & ketchups.

- ***Agri Inputs Division -*** To ensure sustainable high quality of its farm produce and to increase members' profitability, it started its Agri Inputs Division under "Farmer Direct" to source agri inputs like seeds, fertilizers, pesticides, machinery and even poly houses and drip irrigation systems directly from quality manufacturers in India and abroad, for supply to member farmers at reasonable rates.

3.2.2 India's leading grape exporter and FPC

Grape is one of the world's most commonly produced fruit crop, with approximately 75 million tonnes produced each year. While almost fifty percent of grapes are used to make wine, one third is consumed as fresh fruit and the rest is dried, consumed as grape juice or stored in the form of grape musts.[3]

Ninety percent of the grapes produced in India are grown in Nashik and a major portion of that consists of table grapes. India has a unique advantage of being able to globally supply table grapes in the months of January to April and that too at a competitive price owing to relatively higher yields and lower production costs than the international average.[4]

Today SFPCL has grown to become one of the largest FPCs in the country, with a membership of more than 8,000 farmers growing various crops including 1200 grape growers, and a turnover of more than Rs 350 crores, as on March 31, 2019. It has overtaken Mahindra Agri Solutions Limited (MASL) to become India's largest grape

[3] Source: FAO-OIV FOCUS 2016
[4] http://www.fao.org/3/x6897E/x6897e06.htm, and http://agriexchange.apeda.gov.in/prodgallery/prdprofile_moa.aspx?hscode=08061000

exporting company, contributing 17% of country's grape exports and supplying to a large number of retailers in EU.[5] The state of the art Post Harvest Facility of SFPCL at Mohadi, is one of the largest fresh fruit packing facility in India, having capacity to pack 225 Mt of fruits per day with well-equipped precooling & cold storage units.

Along with marketing and input supplies SFPCL also provides financial support and technical advisory to the farmers to enhance efficiency & profitability at backend. It employs nearly 3000 part time workers from tribal belts of Nashik in the various post-harvest activities from harvesting to packing. With around 1200 grape farmers & 5000 acres area under various grape varieties, SFPCL has succeeded in developing a profitable and sustainable value chain benefitting all the stake holders including farmers and consumers.

3.2.3 Expansion

While grape exports remains its core activity, SFPCL is simultaneously working on plans to develop such value chains for all the major fruits & vegetable crops being grown in Maharashtra. Related infrastructure has been set up at Mohadi over 65 acres of area which includes Ripening Chambers, Fruits & Vegetables Packing Facility, Frozen Section, Aseptic Packaging Section & FMCG Section with aggregate handling capacity of around 850 MT. The focus of FPC is on generating best possible price realisation for the member farmers by marketing their farm produce in either fresh or processed form in Export or Domestic markets.

Besides aggregating farmers, SFPCL is simultaneously organising the consumers in domestic market by setting up organising retail outlets for selling fresh Fruits & Vegetables along with its processed food product range. Currently it has set up 7 outlets in Mumbai and Nashik under the Sahyadri Retail Division.

3.3 Organisation Structure

SFPCL has designed a federated structure, wherein there are 623 individual shareholder members, besides member representation from other crop wise FPCs. While SFPCL dealt only with Grapes till 2014, thereafter it began to diversify into other crops with an intention to replicate the success of grapes in crops such as banana, mango, pomegranate, guava, onion, tomato, vegetables, rice, and formed FPCs for each of these products along with FPCs for fruits, floriculture and agro tourism as shown in figure 2. It

[5] https://economictimes.indiatimes.com/news/economy/agriculture/sahyadri-farms-emerges-as-indias-largest-grape-exporter-of-2018-19/articleshow/70058281.cms?from=mdr

has set up ripening chambers for mango, banana; aseptic plant, IQF plant etc among other infrastructure.

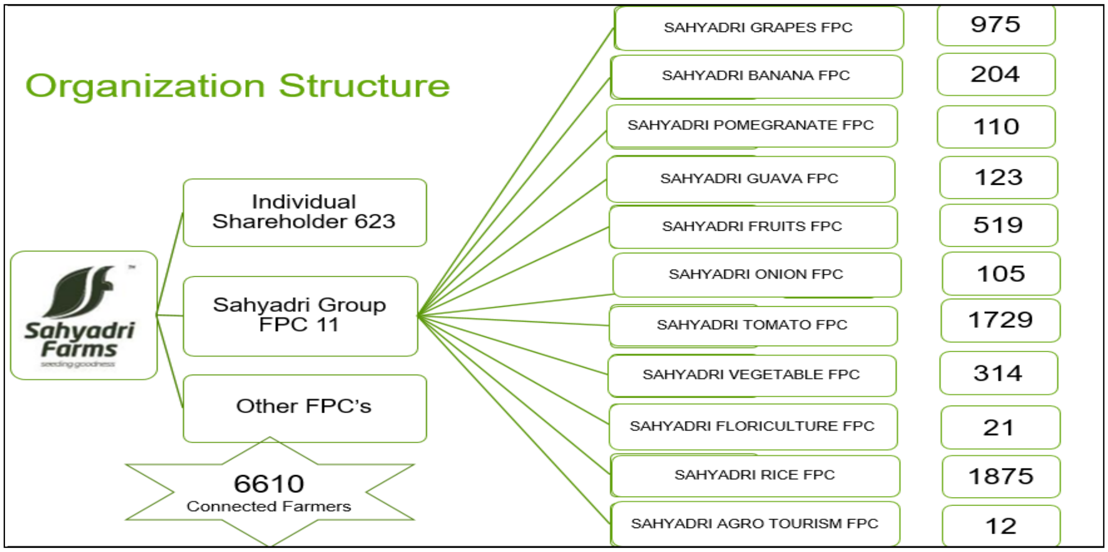


Figure2: Organisation structure of SFPCL (Source- SFPCL)

As each crop poses a different set of challenges, Sahyadri constituted a separate FPC for each crop to ensure focussed management. Following the Amul's federated model, wherein societies rather than individuals are part of the parent, FPCs of other crops have been made members of SFPCL, with each FPC having only one voting right in the parent FPC, i.e SFPCL.

Some of the major divisions in the company are R&D, Farm Operations, Quality Control, Accounts and Finance, Human Resources, Technology, Domestic marketing and International Marketing. It employs a permanent staff of around 350 on rolls, in addition to part time and seasonal contractual labour.

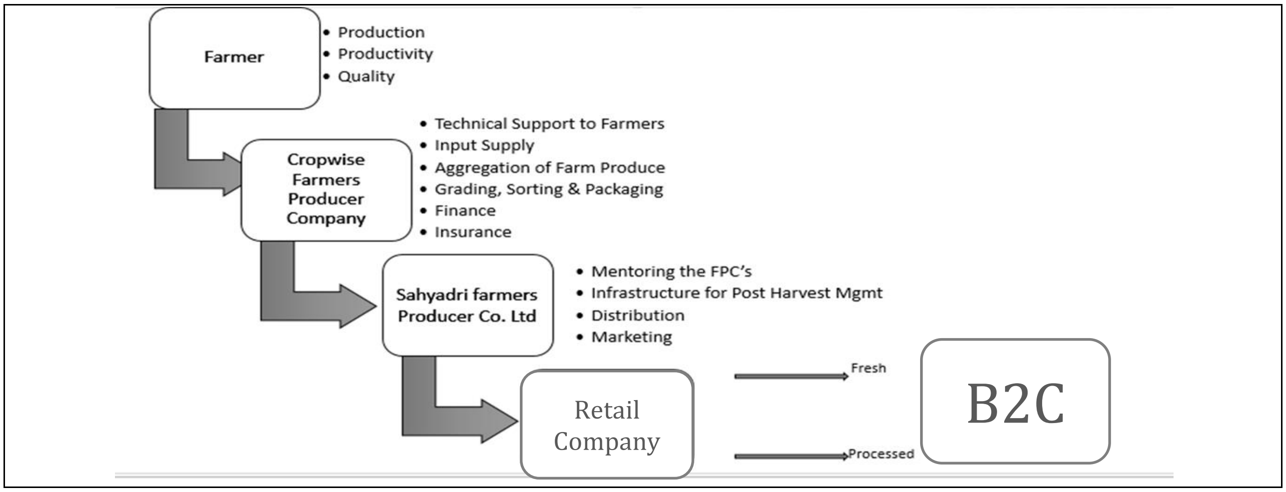


Figure 3: The Sahyadri Universe (Source- SFPCL)

3.4 <u>**Share Capital and Reserves**</u>

SFPCL's share capital has increased from Rs.4.86 crores in 2012-13 to Rs.55.49 crores in 2018-19, and the reserves and surplus have increased from Rs.18 lakhs to Rs.53.88 crores during the same period. With the face value of each share at Rs.5000, the authorised share capital is Rs. 70 Crores and paid up capital as at March 31, 2018 is Rs.55.49 crores. Till 2018, SFPCL has not paid the shareholder farmers, any dividend on their shares or any patronage bonus and instead ploughed back the surplus into expanding the FPC's business.

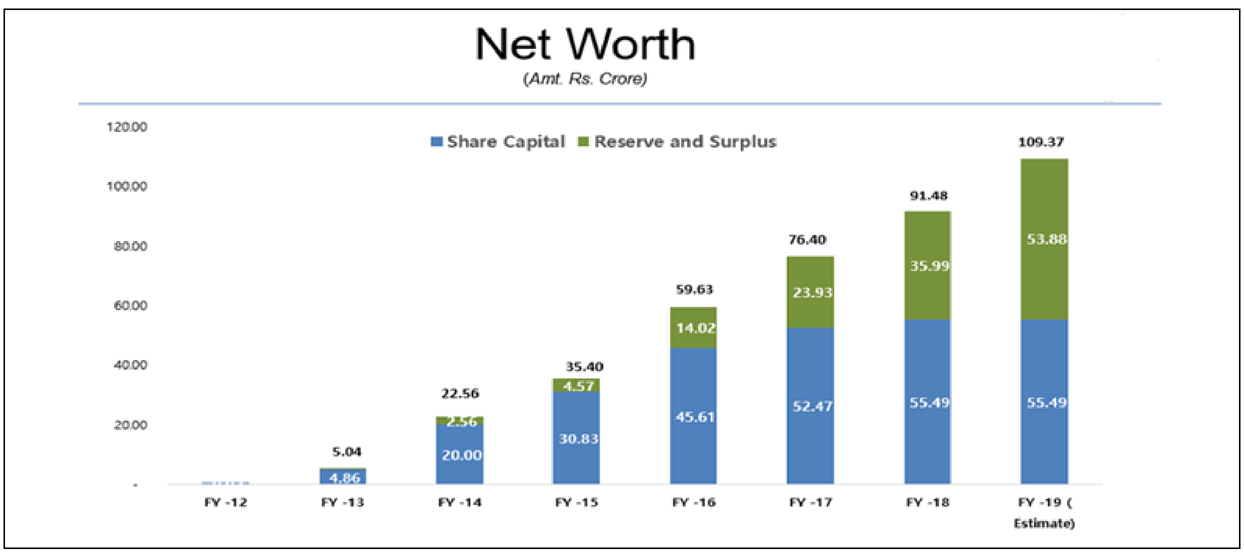


Figure 4: Share Capital and Reserves (Source- SFPCL)

("Patronage Bonus" means payments made by a Producer Company out of its surplus income to the members in proportion to their respective patronage or their sales contribution in PC's business, either in cash or by issue of equity shares or both, as may be decided by the general meeting.)

The shareholding of 10 promoter members in the FPC is 49.44% at the end of March 31, 2018, and the shareholding of other 635 shareholders inclusive of 623 individual farmers and 12 other crop FPC members is 50.95 % at the end of March 31, 2018.

3.5 <u>Exports and revenue performance</u>

SFPCL has become the leading Grape Exporter from India, and in 2018 it exported 1162 containers or 16268 metric tonnes of Grapes, primarily to European markets, and the estimated figures for 2019 are 1475 containers or 21387 metric tonnes. (Figure 5)

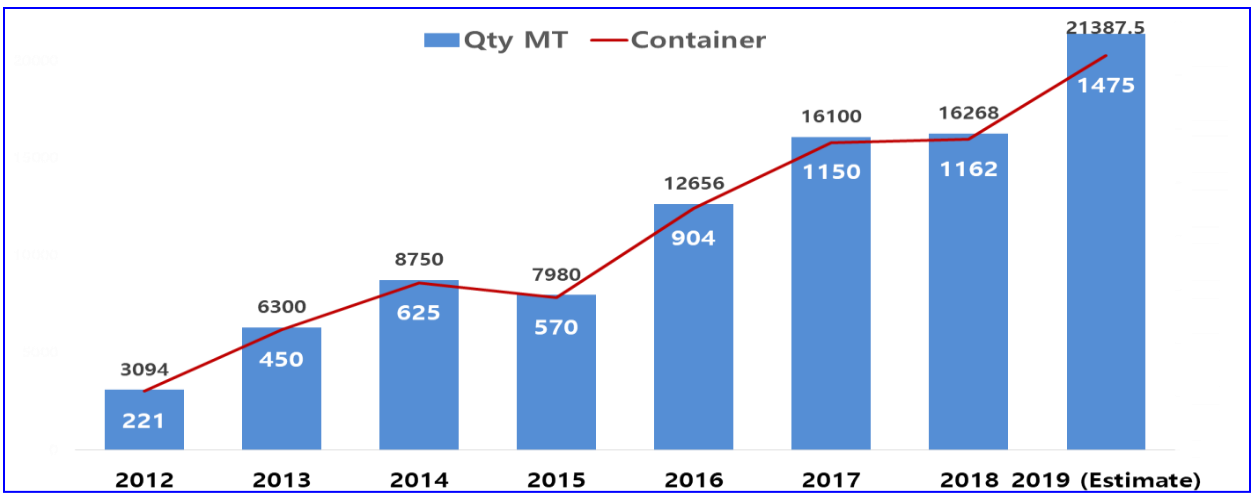


Figure 5: Year wise export of Grapes (Source- SFPCL)

The YoY sales have grown from almost Rs.100 crores in 2014, to Rs. 314 crores in 2018 and are estimated to increase to Rs. 360 crores in FY 2019. During the same period, the net profit has grown from Rs. 2.38 crores to 11 crores and is estimated to increase to Rs. 18 crores in FY 2019 (Figure 6)

Out of a total sales of Rs. 314 crores in 2018, Rs. 238 crores (76%) came from sale of fresh fruits and vegetables including Rs.227 crores from export of grapes (72%), and the rest came from the sale of processed products and FMCG lines.

Amt. in Rs. Crores

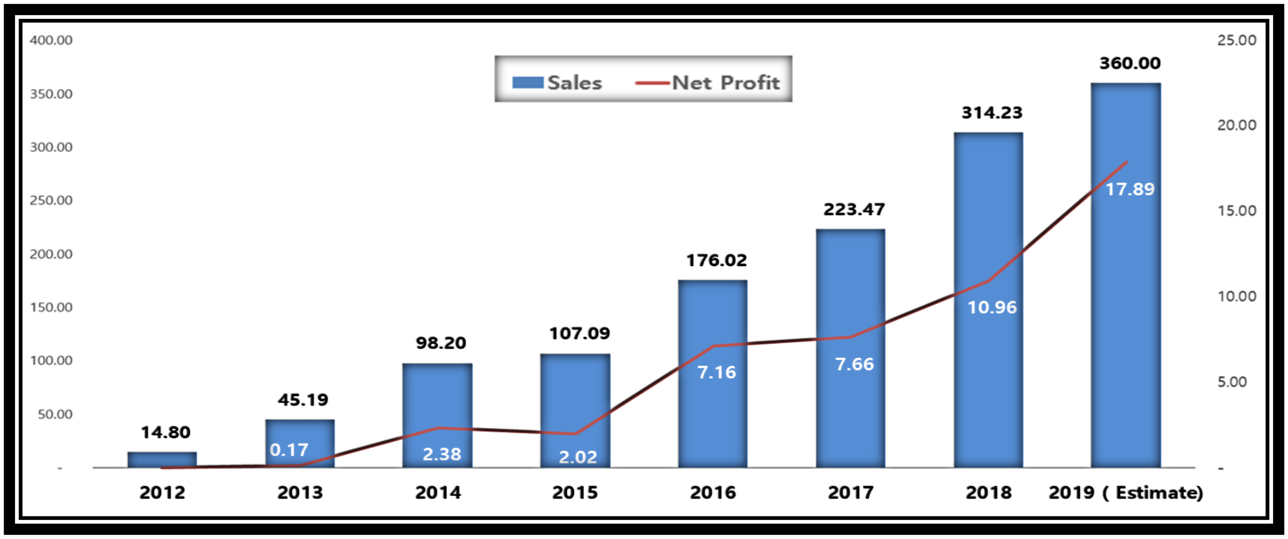


Figure 6: YoY sales and Net Profit (Source- SFPCL)

3.6 Bank finance and Long term assets

The discussions with the promoter revealed that, in the initial years from 2011- 2014 the FPC found it difficult to get access to bank finance, although it approached several major banks, both in private and public sector. Even the existing bankers to Mr. Vilas Shinde's export house were hesitant to extend credit when the export company converted to an FPC. Some of the reasons for banks' unwillingness to finance the FPC, were a general lack of understanding about the concept of FPC, as also the lack of collateral. Even though as a proprietor, Mr. Shinde enjoyed credit limits of around Rs. 5 crores and had a good repayment track record, the fund raising became difficult once the legal form of borrower changed to FPC.

Also, the bankers could not especially appreciate the absence of management control of Mr. Shinde in the company in the FPC format, due to "one member one vote" principle, inspite of him being the major promoter and shareholder. He felt that the community model of an FPC where in the promoter, inspite of being the main stakeholder has only limited voting rights, along with ambitious projections made the banks sceptical.

It was only in 2014 that SFPCL, on the strength of its three years of successful operations, was able to provide three years of financial statements and persuade a private bank, which extended a working capital loan of Rs. 14 crores, which put the company on the fast track growth path, as can be seen from the figure below.

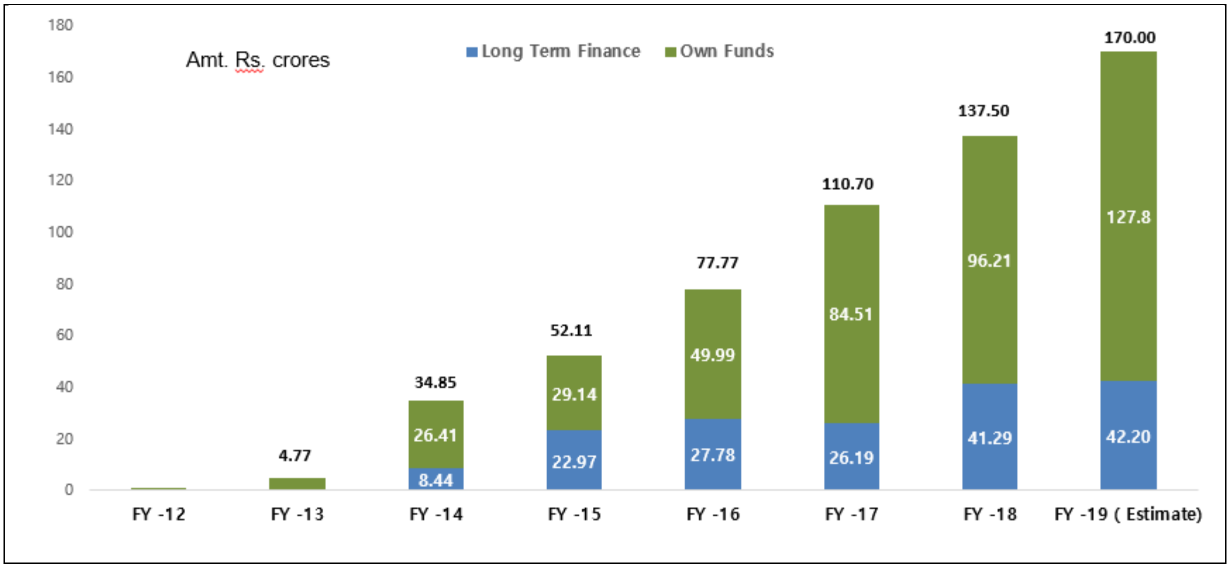


Figure 7: Bank finance (Source- SFPCL)

Today the company has earned the bankers' confidence, and as on March 31, 2018, it enjoys long term borrowings of more than Rs. 40 crores from various private and foreign banks, more than half of which is Foreign Currency Term Loan. Additionally it has also availed short term loans of Rs. 43 crores from some banks. All these borrowings are secured with charge on land and building, current assets, plant and machinery, other movable and immovable fixed assets and personal guarantee of Mr. Vilas Shinde.

Section IV
SFPCL: Key Ingredients for Success

The success of SFPCL is a result of many factors comprising visionary leadership, keeping farmer at the heart of the operations, professional team building, focus on the entire value chain, quality consciousness, extensive use of technology, and not the least being the ability to dream big .

4.1 Governance, Leadership and focus on farmers

Sahyadri has benefited from visionary leadership of Shri Shinde at the top, with the focus on sharing the benefits with the farmers, to make agribusiness profitable and sustainable. As a professional producer company, Sahyadri FPC has drawn and shared its Mission and Vision Statements with all the employees. These statements provide direction for every employee to understand what their role in accomplishing these goals is, and make the mission and vision an integral part of company's culture.

Box Item 1

<u>Mission of SFPCL:</u>

Sahyadri Farms is a trusted, value driven and professionally managed Farmer Producer Company (FPC) of the farmers, by the farmers, for the farmers.

1) *Sahyadri Farms aims to make farming profitable and sustainable by;*
    - *Assuring the best possible realization for all farm produce under all circumstances,*
    - *Optimal utilization of available resources and reducing overall costs at the farm level and also throughout the value chain,*
    - *Effective financial and risk management,*
    - *Mentoring the farmers to increase quality and productivity as per global standards through enhanced technology,*
    - *Effective Post Harvest Management.*
2) *Developing a robust supply chain, which ensures traceable, safe, healthy and affordable*
    - *farm produce as well as value added products, from farm to plate*
3) *Building respectable relationships with the environment, employees and all stakeholders*

<u>Vision of SFPCL</u>:

To be a leading Farmer Producer Company (FPC) with the power to bridge the gap between the rural and urban communities;

- *by making farming a profitable & sustainable business for all our farmers and*
- *by providing safe, healthy , affordable - farm produce and value added products to our consumer,*

Whilst caring for the environment, empowering our stakeholders and strengthening the economy.

Sahyadri FPC staying true to its mission and vision has built up the social capital by designing itself into ***an organisation of the farmers, by the farmers and for the farmers.*** Discussions with the company officials and the farmers revealed a high level of mutual trust among the employees, management and the member farmers. The trust is evident from the growing numbers of farmers willing to join as members of the FPC, as also from the several professional employees who have quit their jobs with more reputed employers in big cities to work for a relatively unknown FPC in a rural area.

The management's vision is shared by all the employees, which in words of Mr. Pritish Kare, SFPCL's Public Relations Officer is *"the potential and the desire to contribute to society and make a difference in the life of farmers, by becoming a leader in agribusiness."* Sahyadri believes in the potential of Indian Agriculture and is guiding and encouraging many stakeholders to transform Indian Agriculture and bridge the gap between rural and urban India.

Incidentally, the belief among the members has its roots in an infamous episode of 2010 in Indian Grape Industry when European Union countries refused to accept the grape consignments from India due to higher levels of chemical residue of chlormequat chloride (CCC). It so happened that the European Union countries had revised their import norms for chemical residue in grapes in December, which somehow were not communicated in time to grape exporters. They came to know about the changed norms only when their containers were stopped at various ports in Europe. This led to huge losses for grape exporters, most of whom passed on the losses to farmers by not making payments to them. A conversation with member farmers revealed that in those tough times, M/s Vilas Vishnu Shinde Exporters, made good the payment to their supplier farmers by bearing the loss themselves and consequently earned a lot of goodwill among the community. This generous gesture towards the farmers, along with the realisation of knowledge gap in farmers and exporters became the driver and also the opportunity to start the Sahyadri FPC.

4.2 The Agriculture Value Chain approach

Sahyadri FPC has focussed on creating a robust value chain with backward linkages with farmers and forward linkages with the markets which ensures traceable, safe, healthy and affordable farm produce as well as value added products, from farm to plate.

4.2.1 Backward linkages

a) ***Farmers:*** There is a graded system of entry into the FPC as a full time member. In order to become a shareholder the SFPCL, a farmer should have been marketing grapes through the FPC for the last 3 years . This is one of the factors for accomplishments of the FPC. There are 3 types of farmers with SFPCL. Shareholder farmers are those who have been supplying grapes to the FPC for more than 3 years and have become shareholders of the FPC. Registered farmers are those who have been supplying for 1-2 years and are yet to become shareholders and the non-registered farmers are the new suppliers to SFPCL. All the three types of farmers get access to subsidised cheaper inputs, better prices for the outputs, best agronomy practices, weather information etc. The shareholder farmers additionally are eligible to get the dividend from the FPC and also get to go on exposure trips abroad at subsidised rates.

b) **Quality Inputs at lower prices:** Sahyadri provides inputs at a much cheaper rate to its member farmers, compared to the market based vendors. The FPC procures the inputs like insecticides, weedicides, fungicides, pesticides, fertilisers and agri equipments collectively in bulk and the member farmers can buy it from the Sahyadri inputs store at a discounted rate below the MRP, benefitting from the economies of scale. As compared to this, the non-member farmers (or member farmers themselves in the pre-Sahyadri days) buy the required inputs like fertilisers and pesticides from the dealers at MRP. Also while the dealers do provide supplier credit, the interest charged goes upto 1.5% to 2% per month (farmers informed that on an average they are required to pay Rs. 20000 extra in a year on Rs. 1 lakh worth of purchase). Purchasing from Sahyadri, besides being inexpensive, provides other advantages like assured quality of inputs (no spurious goods), timely availability, and facility to purchase not only fertilisers and pesticides but other inputs like agricultural machinery as well.
A discussion with the farmers revealed that generally the input cost benefits arising out of SFPCl membership are in the range of 7% to 25% (7-10 % for fungicides and pesticides, and upto 25% for fertilisers).

c) **Savings on Labour costs:** SFPCL also provides the farmers with the services of skilled harvesting teams, in order to ensure that quality grapes without any cracks are harvested. As the harvesting is done by SFPCL, with the cost included in the sale price, the farmers also save on the high labour costs.

d) **Higher selling price:** SFPCL members also earn better prices for their grape produce than other non-member grape farmers, as a result of two major factors.

- First factor is the change in sales composition, i.e proportion of domestic sales to exports. Earlier, in pre SFPCL days, the farmers sold around 80% of their produce in the domestic markets and around 20% was bought by exporters. With SFPCL membership, the situation has almost reversed, as almost 70% of the total production sold to Sahyadri is exported and around 30% which is often a notch below the export quality standards, is sold in the domestic markets. Exports generally fetch a better price than the domestic sales.

- The second contributing factor is that the selling the produce to SFPCL fetches a higher market price for the farmer. On an average a member farmer in 2017/ 2018 was paid Rs. 55-65 per kg for the export quality grapes, and Rs. 30-35 per kg for the grapes meant for domestic sales. These rates are better than the average rates of Rs.45-55 for exports, and Rs. 25-30/- per kg for domestic markets which a non-Sahyadri farmer is paid (or the member farmer used to get in pre SFPCL membership days).

- It may be noted that only the highest quality grapes of specific weight, sweetness and length are preferred in the export market and the rest of the lot has to be sold in the domestic market. Non- FPC farmers find it relatively difficult to maintain export quality of the grapes and hence they often have to depend on sales in the domestic markets and traders from different states and get varying sales prices.

e) **Technical assistance:** Farmers are provided technical assistance in terms of best agronomy practices such as advice on timing of sowing, grafting; type and quantity for usage of pesticides, fertilisers, plant growth regulators etc; maintaining export quality of produce and food safety requirements, among others, mostly on free of cost or nominal charge basis. The technical assistance is provided through the Kisan Hub app, during the farmer's visit to the SFPCL campus and by agronomy field scientist teams (farmers call them 'doctors'). For instance, SFPCL agronomy teams provide scientific information about the pesticide residues, the spraying schedules to ensure that no pesticides are used three weeks before harvest, advice on the maintenance of the size and quality of the grapes, and required number of fruits per bunch which is generally between 100 to125 per bunch; and the harvesting schedules. These extension services not only improve the quality of the crop to match the global standards but also the productivity of the land, both of which help in increasing the farmers' incomes.

f) **Weather assistance and Kisan Hub:** SFPCL endeavours to make farming more profitable and sustainable by optimal utilisation of resources, knowledge sharing, and providing technical support to farmers to reduce post-harvest losses and increase the quality and productivity according to global standards. All the members' farms are geo-tagged by the FPC using the sensors for effective monitoring of the farms and share information with the farmers by the use of ICT. SFPCL also provides updated weather information through the automated weather stations by way of the mobile phone application 'Kisan Hub', as well as through meetings and visits by agro-scientists.

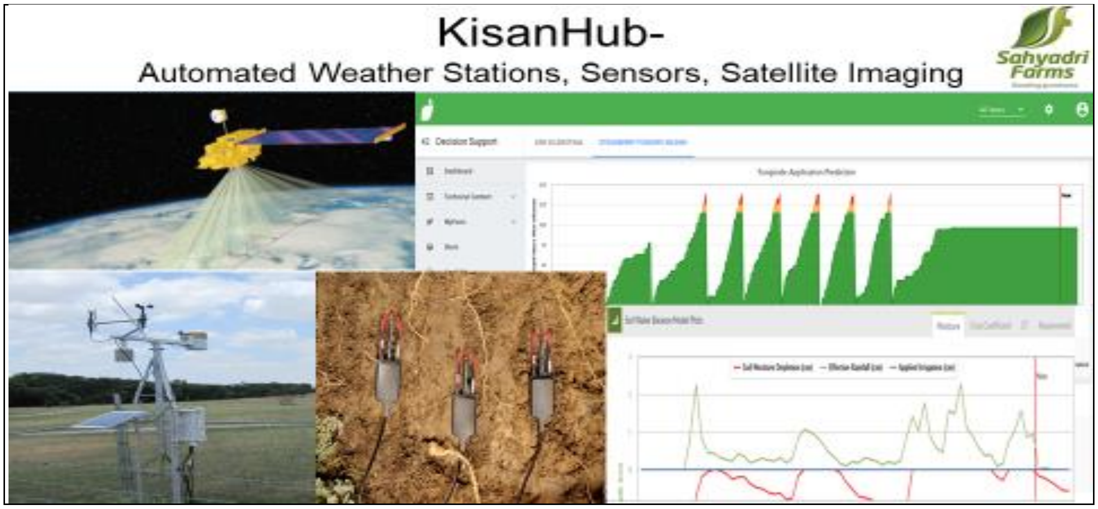


Figure 8; Source: SFPCL

SFPCL has set up 9 weather stations, through which it provides regular weather updates and forecast to the farmers, and plans to increase the number to 100 stations across Nasik. The farmers are also advised about the kind of pests that are expected during different weather conditions and the recommended dose of pesticides to be sprayed to control the pests.

g) **Farmers' meetings and Exposure visits:** SFPCL frequently organises meetings of farmers at its campus, wherein the best international agri practices are shared and problems discussed with reputed international agricultural scientists like Mr. Graeme Sait of Australia, Mr. Oscar Salgado from Chile, and Mr. Rodrigo Olive from South Africa. For the last 5 years, 25 farmers every year are taken on exposure visits abroad at subsidised costs to foreign countries like Spain, Italy, Greece, South Africa, Brazil to expose them to first-hand knowledge and experience of the modern production methods and, processing technologies and marketing techniques.

h) Faster payments: SFPCL makes payment to its farmers for the agri-goods supplied within a maximum of 21 days to 1 month, either through post-dated cheque or NEFT/ RTGS. While 1 month appears to be on higher side, it is the average time required for exporting the grapes; and being assured, it is better than the other alternatives. In pre Sahyadri days, the SFPCL members used to supply grapes to traders who on an average took a minimum of 2 months to make payments and at times, even defaulted on their payments, claiming that the grape prices had crashed in the market or that they had incurred losses during market sales.

i) **Doubling of farmers Income**: SFPCL has succeeded in doubling and in some cases even more than doubling, the income of its member farmers on account of three factors viz.

(i) savings in input costs,

(ii) increase in farm productivity due to sharing of high performance sustainable agricultural practices, and

(iii) payment of higher selling price for the grapes purchased.

Let us see an illustration to better understand the arithmetic of the earnings. The figures used are indicative averages and will vary across the farmers and the seasons.

Illustration

	Before joining Sahyadri FPC	After joining Sahyadri FPC
Area under Grape cultivation in Acres	10.00	10.00
Yield (Tonnes per acre)	9-10	10-11
Midpoint yield	9.50	10.50
Total production in tonnes	95.00	105.00
Total production in kg	95000	105000
Sales Composition	**Domestic- 80% Exports-20%**	**Domestic-30% Exports-70%**
Domestic Price Range Rs.per kg	Rs. 25-30 / kg	Rs. 30-35 / kg
Domestic Price midpoint Rs.per kg	27.50	32.50
Export Price Range Rs.per kg	Rs. 45-55 / kg	Rs. 55-65 / kg
Export Price midpoint Rs.per kg	50.00	60.00
Domestic Earnings Rs.	20,90,000.00	10,23,750.00
Export Earnings Rs.	9,50,000.00	44,10,000.00
Total Earnings Rs.	**30,40,000.00**	**54,33,750.00**
Cost of cultivation per acre*	Rs.1.85 lakhs / acre	Rs. 2.10 lakh / acre
Cost of cultivation* in Rs.	**18,50,000.00**	**21,00,000.00**
Profit in Rs.	**11,90,000.00**	**33,33,750.00**

*The cost of cultivation has increased for farmers after joining SFPCL, even though he gets inputs at a cheaper cost, because of the better quality of inputs and following sophisticated agronomy practices required to meet the export standards. A discussion with SFPCL officials and the farmers suggested that had the same export quality inputs been purchased from outside retail shops, instead of Sahyadri inputs store, the cost of cultivation per acre would come to around Rs. 2.35 lakhs per acre, instead of Rs. 2.1 lakhs per acre

4.2.2 Forward linkages

An important aspect of the Sahyadri farms story is its ability to forge strong market linkages for its produce, both domestically and globally, which is often the bane of Indian producers. This has been made possible by diligently exploring the markets and delivering products demanded by consumers in diversified markets.

a) Export market penetration

Successful export market penetration has resulted from leveraging previous experience and networking as grape exporter and on-boarding experienced marketing professionals some of whom have spent 3 decades in the Indian Grapes export market.In 2018, SFPCL exported 1162 containers or 16268 metric tonnes of Grapes across the globe, primarily to European markets as the leading Grape Exporter from India. Almost all the major European retailers like Edeka, Rewa, Tesco, Coop, Dole are its customers, as can be seen from the Box Item below. Also, last year Sahyadri farms set up an office in Rotterdam, Netherlands to tie up with European retailers directly to save on the agent expenses and ensure better deals while directly marketing its exports.

b) Domestic Marketing:

Besides successfully making forays into the export market for Grapes, SFPCL is simultaneously focussing on domestic markets to ensure remunerative prices for its members. It has entered into MoUs with leading retail chains of India like Future Group for supply of fresh fruit & vegetables such as Grapes, Pomegranate, Banana, Melons etc; and MoU with Hindustan Unilever Limited (HUL) for manufacturing Kissan Jam, Kissan Ketchup and Squashes at its processing facilities.

Figure 9

Box Item 2

Grape Season 2018- Supermarket wise sales

%	Importer	Super Market	Nos
22%	JML (254)	Tesco Market Value	110
		Grape Direct	52
		Tesco Main Line	31
		Freshmart	16
		Alfred Price	16
		OFD	13
		Meads	6
		Keelings	6
		Poundland	3
		Daneks	1
18%	Edeka (208)	Edeka	208
14%	Dole (159)	Real	33
		Consor	34
		Edeka	35
		Netto	23
		Max	20
		Rewe	12
		Hofer	2
2%	San Lucar (134)	San Lucar	134
12%	OGL (122)	CT	102
		UK	20
9%	Coop (103)	Denmark	61
		Norway	28
		Finland	14
7%	Kaufland (77)	Kaufland	77
1%	Spinneys (9)	Spinneys	9
5%	Others(97)	Other	97
TOTAL:			1162 CONTAINERS

Source: SFPCL

c) Food Safety, Certifications and Quality Control:

SFPCL has designed and documented a food safety policy which is implemented rigorously at all levels across the value chain to gain and retain the trust of the customers, suppliers and employees. To meet the Food Safety Standards, the company ensures:

- compliance with statutory, regulatory and mutually agreed requirements of the customer;

- procures good quality raw material and processes & packs it in hygienic conditions with advanced technology;
- controls the food safety hazards at the supplier level by approving the supplier and checking the incoming raw and packaging material before use at factory; and
- regular review and communication of its Quality and Food Safety Policy to all levels of organization.

Figure 10; Source: SFPCL

SFPCL has successfully obtained certifications from various national and international agencies on quality standards which helps it to meet the stringent quality standard requirements of global markets and food chains. Some of the major certifications include Global Gap, FSSAI - Food Safety Standards Authority of India, Agmark, USFDA, British Retail Consortium, APEDA, ISO 22000: 2005 etc.

d) Traceability and Branding

Also known as the ‘one-step-back, one-step-forward’ principle, traceability is the ability to identify the origin of food, particularly useful when products are found to be faulty. A traceability system allows an organization to follow the trail to locate a product at any stage in the value chain through the phases and operations involved in the production, processing and distribution as end products.
SFPCL has been implementing technology at all stages of its operations and its focus on traceability exemplifies the same. Sahyadri Farms believes that in order to know your food, you have to know your farmer. It uses the smart Agri solutions by ‘Cropin Technology Solutions Pvt Ltd’, Bangalore to digitise the farms of its members and provide traceability. The end to end traceability from farm to fork is provided by capturing data, along with visuals,

at all levels from pre-sowing till shipping and creating system generated barcodes for each inventory item produced through the processing line. A consumer who buys grapes sourced from the company anywhere in the world will be able to trace it back to the exact farmer and the land that produced it.

A brand is a promise to the customers which tells them what they can expect from the company’s products and services, and it differentiates one’s offering from the competitors'. Besides other things, traceability also the company in its branding. Establishing SFPCL as a quality, safe food farmer producer brand will give the FPC a major edge in increasingly competitive national and international markets. Consistent, strategic branding will gradually lead to a strong brand equity, which can allow the company to earn higher margins.

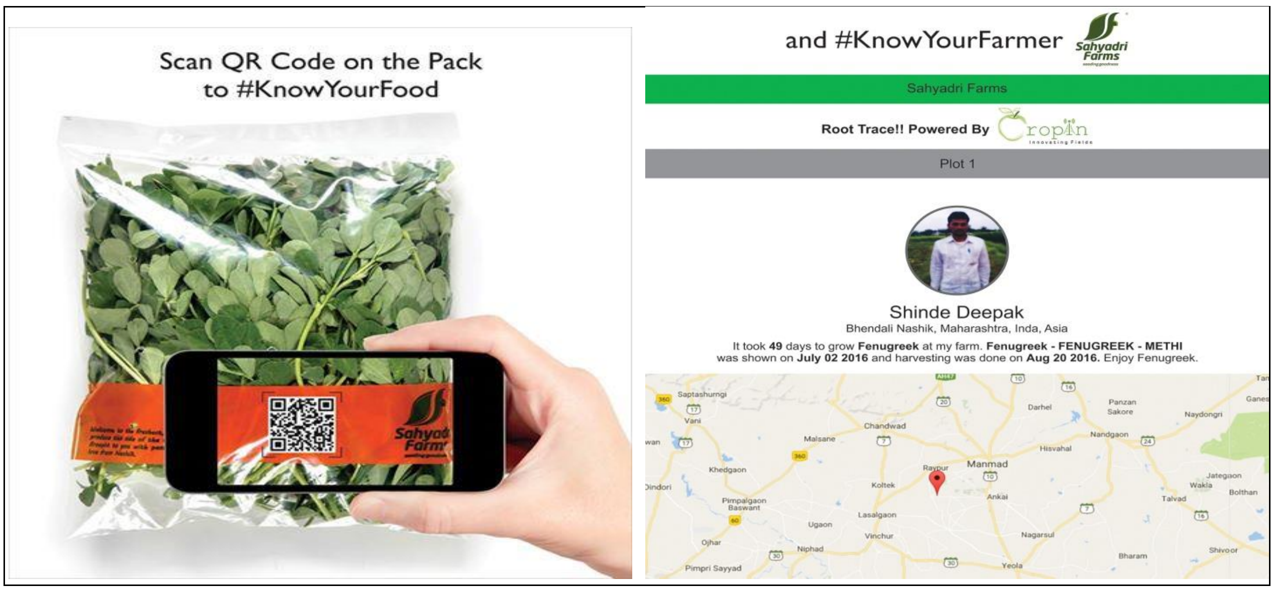


Figure 11; Source: SFPCL

e) **World class Infrastructure:**

Sahyadri Farmers Producer Company has set up world class infrastructure in its campus to meet its quality and growth requirements. The company’s infrastructure spread over 65 Acres premises at village Mohadi, taluka. Dindori, district Nashik, Maharashtra, consists of the following state-of-the-art facilities.

i.	**Aggregate handling capacity of 850 MT per Day**
ii.	**5.00 Lakh sq. ft completed construction**
iii.	**6 Precooling Rooms e –ach with 50 MT Capacity**
iv.	**Vacuum Precooling facility for leafy vegetables**
v.	**8 Advanced Ripening Chambers for fresh domestic marketing - 25 MT each capacity**

vi.	**Semi Controlled Ripening Chambers for processing – with 250 MT Capacity**
vii.	**IQF Process Plant (Frozen) –50 MT / Day**
viii.	**Plate Freezing Capacity (Frozen) – 50 MT / Day**
ix.	**Aseptic Process Plant – 150 MT/Day for Mango, Tomato, Banana, Papaya pulp**
x.	**Advanced FMCG Product Lines - Aseptic Juice, Hot fill Juice, Ketchup, Sauces & Jams – 250 MT/Day**
xi.	**2000 Mt zero degree Storages & 2000 MT negative Cold Storages**
xii.	**4000 Mt Dry Warehouses**
xiii.	**9 weather stations**
xiv.	**Agri Input Facility Center – 30000 Sq. Ft**
xv.	**Farmers Consumers Mall**
xvi.	**Import of patented table grape varieties --Iniagrape, Arra 15 & Arra 19, which can be a turning point for Indian Grape Industry**
xvii.	**R & D Setup over 150 Acres for the new grape varieties**
xviii.	**Solar Roof Power Plant of 1 MW**
xix.	**In-house cost effective & efficient Solar Pump systems manufacturing for farmers.**

f) Business Mix:

In an effort to diversify its portfolio and mitigate concentration risk thereby, SFPCL has moved beyond the procurement and export of Grapes, to procurement and distribution of other fresh fruits and vegetables like banana, guava, pomegranate, melon, watermelon, papaya, oranges, onion, gourd, beans, green leafy vegetables, carrot, capsicum, cucumber, radish, beetroot etc. By setting up quality processing plants, it has ventured into three segments of processed foods, viz. (i) Aseptic Pulps/Purees & Concentrate, (ii) Frozen Fruit Pulps/Purees, and (iii) IQF (Fruits & Vegetables) (Box Item 3).

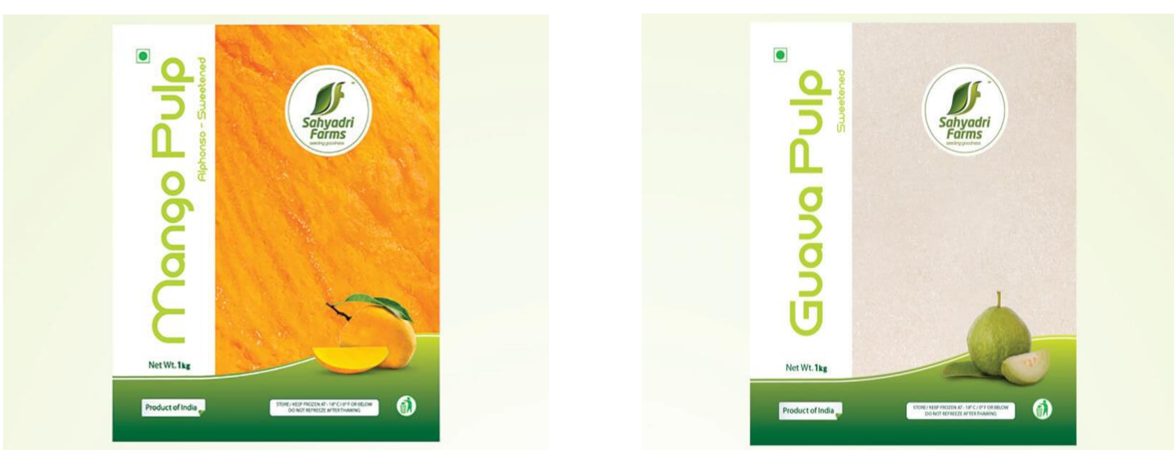


Figure 12; Source: SFPCL

Box Item 3

(i) Aseptic fruit processing is a method by which food product is kept sterile and is packed in sterile drums/containers to maintain the sterility which allows the product to maintain a longer shelf life without any preservatives till the opening of the aseptic bags.

(ii) Frozen method uses plate freezers for freezing pulps/purees of fruits like Mango, Guava, Papaya etc. made with state of art pulp processing line and then packed in unit packs using FFS machines.

(iii) The individual quick frozen (IQF) process is perhaps the only method where by all the natural parameters of the fruits and vegetables can be preserved with a much longer shelf life of say 24 months keeping intact the colour, flavour, and texture of the product.. This process involves ultra-rapid freezing to a very low temperature (-30 degree C to -40 Degree C), designed to arrest the activities of micro-organisms that may cause the decay and deterioration of a product.

g) Capacity Building

With the objective of ensuring availability of skilled human resources across the entire value chain, Sahyadri Farms has entered into a MoU with Tata Strive for setting up a Skill Development Academy on SFPCL premises for agriculturists - farmers, students and agri-entrepreneurs. While the infrastructure will be provided by Sahyadri, manpower & operations aspects will be looked after by Tata Strive. It aims to target rural youths & professionals, and shall offer economically priced courses in the areas of Agronomy, Agri-marketing, Post-Harvest Management, Business Management and Financial management to develop agri professionals who can set up and efficiently manage agribusinesses including Farmer Producers companies.

Tata STRIVE, an initiative of Tata Community Initiatives Trust, as a CSR programme, addresses the pressing need of skilling India's youth, especially from financially challenged backgrounds, for employment, entrepreneurship and community enterprise. Its core philosophy is to create courses that would help in creating and supplying trained manpower across the entire industrial spectrum as well as develop entrepreneurial talent.

4.3 Social orientation /Driver of rural Development

Sahyadri Farms as an entity has a robust social orientation and considers the concept of PURA as a strategy for rural development in India. This philosophy of ***“Providing Urban Amenities to Rural Areas”*** (PURA) was given by former president Dr. A.P.J. Abdul Kalam. PURA proposes that urban infrastructure and services be provided in rural hubs to create economic opportunities outside of cities. The Indian Government has been running pilot

PURA programs in several states since 2004. The Shyama Prasad Mukherjee Rurban Mission (SPMRM) or National Rurban Mission (NRuM) is a successor to this mission. NRuM follows the vision of "development of a cluster of geographically contiguous villages that preserve and nurture the essence of rural community life with focus on equity and inclusiveness without compromising on the facilities perceived to be essentially urban in nature, thus creating a cluster of "Rurban Villages" and stimulating local economic development

Towards this objective, Sahyadri has plans to create a Mohadi cluster/ Sahyadri cluster, involving 14 villages, having 10231 total cultivator farmers out of a total population of 40239. The cluster approach will not only lead to a sustainable agricultural income for the farmers in the cluster by increasing productivity, quality and remunerative prices, but also better implementation of village development programmes like rural housing, street lighting, road connectivity, digitalization sanitation, public health and education among others.

During discussions, farmers of the Nilwandi village informed about the contribution received from SFPCL’s CSR funds towards 505 costs of building of Canal and an internal road in the village last year.

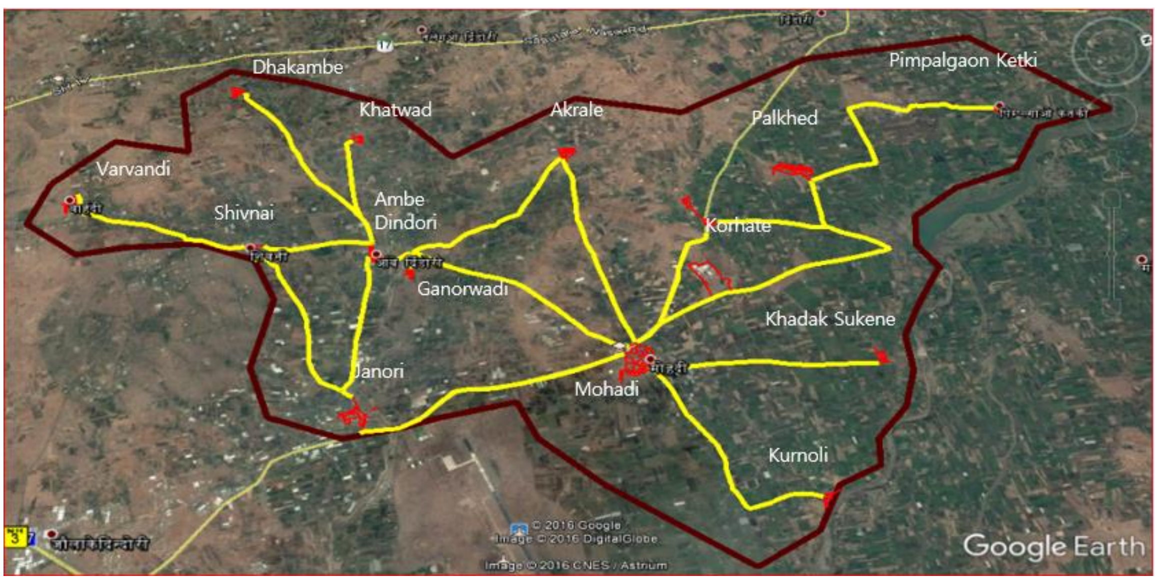


Figure 13: Mohadi Cluster

4.4 Bank Finance and SFPCL

SFPCL believes that its members can ensure quality production only when they have adequate financing to access inputs for production and other lifestyle needs. It has therefore entered into tie ups with various banks to make necessary and cheaper credit available. Farmers of Nilwandi village, Dindori Taluka, whom we talked to, were of the opinion that not only has their access to formal sources of credit (banks) improved after joining the FPC, but also higher loan amounts are available with faster disbursements. The following two types of arrangements were facilitated by the SFPCL for ensuring access to formal finance to its members.

a. Arrangement 1

Discussions with the Finance division of SFPCL and the farmers brought out that SFPCL has entered into tie ups with some banks like ICICI Bank, IDBI Bank and DCB which provides door step, hassle free agricultural and other retail loans like car loans etc. to SFPCL members (atleast 3 year old member) at a cheaper rate. For instance one bank charges an interest rate of 9.75% for term loans to SFPCL members irrespective of the amount, as compared to 11% for non SFPCL members. This is available after the farmers open their savings account with the bank and Sahyadri gives a letter to the effect that all its payments to farmers for sales will be credited to that account. Crop loans upto 3 lakhs are provided at a subsidised rate of 7% using the Interest subvention scheme.

b. Arrangement 2

Additionally, based on the Corporate Guarantee (CG) of SFPCL, some banks provide credit to farmers for purchasing inputs from Sahyadri Farms Inputs store, which is directly credited to Sahyadri account for the amount of purchases and is repaid by the farmers. This CG also helps the farmer access interim working capital over the CC limit.

4.5 Social Capital: an organisation of the farmers, by the farmers & for the farmers

SFPCL is a 100% farmer owned, professionally managed farmer Producer Company which leverages technology to grow and benefit its stakeholders. In the words of some of the shareholder farmers and staff members, Sahyadri FPC is like one big family. Many of the farmers whom we met, thought that SFPCL is an organisation of the farmers, by the farmers and for the farmers. As India's one of the largest FPC and the largest Grape exporter and the largest Global G.A.P Certified Farmers group in India, it presents a model before us which has the potential to be replicated across the country to double the income of Indian farmers and bring in meaningful change in their lives. The farmers are now highly motivated and this life changing relationship has now triggered a lot of support for FPOs in the region not only among the farmers but also at the administration level, as witnessed during our interactions.

Section V

The future growth plans of SFPCL

Sahyadri Farmers Producer Company Limited has ambitious plans for growth in the coming years.

- From its present coverage of around 8000 farmers & 15000 acres in Fruits & Vegetable category. SFPCL targets to reach to 25000 + farmers & 50000 acres area within the next 3 years period that is by 2022, to fully utilise the handling capacity created at Mohadi. A parallel ecosystem is being developed on backend side for all crops to enhance productivity and quality at reduced cost of production, like that for grapes.

- Sahyadri Retail Division is targeting to scale up to 200 Retail Outlets in Mumbai, Pune & Nashik in the coming years from the existing 7 outlets in Mumbai and Nashik for selling fresh Fruits & Vegetables along with its processed food product range.

- The FPC plans to further strengthen and upgrade its infrastructure in the coming years by setting up the following facilities:

    - Soil testing Lab
    - Petiole Testing Lab
    - Bio Pesticide and Bio Fertilizer Lab
    - Residue Testing Lab
    - Nursery Infrastructure
    - Increasing the weather stations to 100

- SFPCL plans to provide block-chain based solutions which will capture entire records of farmers' plantation, sales, KYC, crop stage, crop health through Kisanhub app in an immutable form. The partner banks can then be provided login access to the blockchain to access those transparent records and accordingly take financing/ underwriting decisions. This is expected to improve the lending confidence of banks, and thereby improve access to credit for the members.

- It is also in talks with a few Insurance companies to introduce customised crop insurance products for its farmers based on crop area and geographical area, for a specific period.

- Sustainable farming and a happy community can lead to profitable farming and increased income for farmers. As Government of India plans to double the income of farmers by 2022, SFPCL aims to almost triple the number of member farmers to 25000+, and more than double the acreage under cultivation to around 50000+ acres from the current 21000 acres (Box Item 4).

Box Item 4

Total Association	Linkage @ 100 % Utilisation 31.03.2022		YoY Linkage 31.03.2019	
	Acre Holding/ Farmer	No. of Farmers	Acre Holding/ Farmer	No. of Farmers
Fresh Fruit & Vegetable - Export	12825	4710	7300	2681
Fresh Fruit & Vegetable - Domestic	8628	4968	2025	1046
Processing	30404	16633	11725	5314
Total Association	51857	26311	21050	9041*
Grape	7845	1569	7500	1500
Pomegranate	2070	1035	1100	550
Banana	555	278	300	150
Mango	6260	3130	1800	900
Papaya	1925	963	300	150
Strawberry	471	471	50	50
Guava	3889	1556	625	250
Others Fruits	2988	1494	0	0
Onion	990	990	650	650
Tomato	12491	6245	5550	2775
Okra	1144	763	225	150
Chilly	1144	763	225	150
Potato	630	540	125	107
Corn	1944	972	1150	575
Leafy Vegt	4300	2867	750	500
Other Vegt	3210	2676	700	584
Total Association	51857	26311	21050	9041

Source: SFPCL

Section VI

Conclusions

Farmer Producer Organisations offer a demonstrated route to successfully deal with a range of challenges that confront small and marginal farmers of India today. Overcoming the constraints imposed by the small size of their farms, FPO members are able to leverage collective strength, bargaining power and economies of scale to access financial and non-financial inputs, services and technologies, reduce transaction costs, tap new markets and enter into partnerships with buyers and suppliers on more equitable terms. With fragmentation of land holdings likely to continue in India with each new generation, FPOs offer a valuable form of aggregation regardless of land titles with individual producers and uses the strength of collectives / aggregation for production, procurement and marketing to add value to members' produce.

This documentation of the story of Sahyadri Farms is an attempt to provide detailed mechanics of the successful collective action by farmers and potential of the FPO model which would, hopefully, serve as an inspiration to the farming and banking community, besides the relevant policy makers and other stake holders. To conclude, let me list some of the factors that have contributed to the success of Sahyadri FPC:

6.1 Key factors for Success of SFPCL:

i. **Visionary leadership** at the top with focus on sharing the benefits with the farmers
ii. **Good governance and management** has been a critical success factor in implementing Sahyadri's strategy to achieve goals, to sustain quality and deliver first-rate services.
iii. **Transparency in operations** which has led to building of trust and increasing number of farmers joining the FPC.
iv. **Participatory approach** is the key, as the member farmers are fully involved in all major decision making through AGMs, and other meetings.
v. Sahyadri has been able to **change the mindset** of member farmers, encouraging to think big, beyond subsistence to commercialisation and beyond domestic to exports.
vi. **Integrated model with focus on entire value chain**, including both forward and backward linkages while **keeping the farmer at the centre of all decisions**.
vii. Sahyadri has been able to organise farmers into FPC collective, and also **organised the consumers by organised retailing** through its retail stores, (learning from the European markets) resulting in benefits for all stakeholders**.**
viii. **Focus on capacity building and knowledge dissemination** among farmers has played a vital role. Besides cheaper and quality inputs, and a higher selling price

for the produce, focus on educating farmers, and other value added services like farmers meetings, agronomy support, exposure visits, **leveraging of technology solutions** like Cropin, Kisanhub and innovations, weather information, **facilitating access to finance, brand building, quality consciousness and a compliance culture have created a strong belief and bonding** among the farmers and the company

ix. SFPCL **did not avail / depend upon the government subsidy** for its funding, and instead used promoter funds and equity capital from the members to seed the company and subsequently after 2-3 years of successful operations it got credit from the banks

x. Focus on Quality of production, and **increasing land productivity** using technology and state of the art infrastructure has contributed significantly to meet the international standards.

xi. Sahyadri has built on the **early mover advantage in an unorganised industry** by putting in place proper network and infrastructure across the value chain.

xii. Sahyadri has delivered more than expected. **Income of the farmer members has more than doubled,** which has led to a **change in their overall lifestyle** like better housing and transport, better schools for their children, access to better healthcare and respect in the community.

xiii. SFPCL focussed on **hiring skilled manpower with the right attitude**. The staff works in an informal yet professional office atmosphere, have a sense of ownership, are self-motivated, reasonably well paid, and driven by social thinking. The CEO and other functionaries are able to deliver on their responsibilities with clarity and commitment.

xiv. Strong **focus on Corporate Social Responsibility**, as it aims to provide sustainable solutions to the rural community in the Mohadi cluster in terms of sanitation, cleanliness, street lighting, roads, employment generation etc.

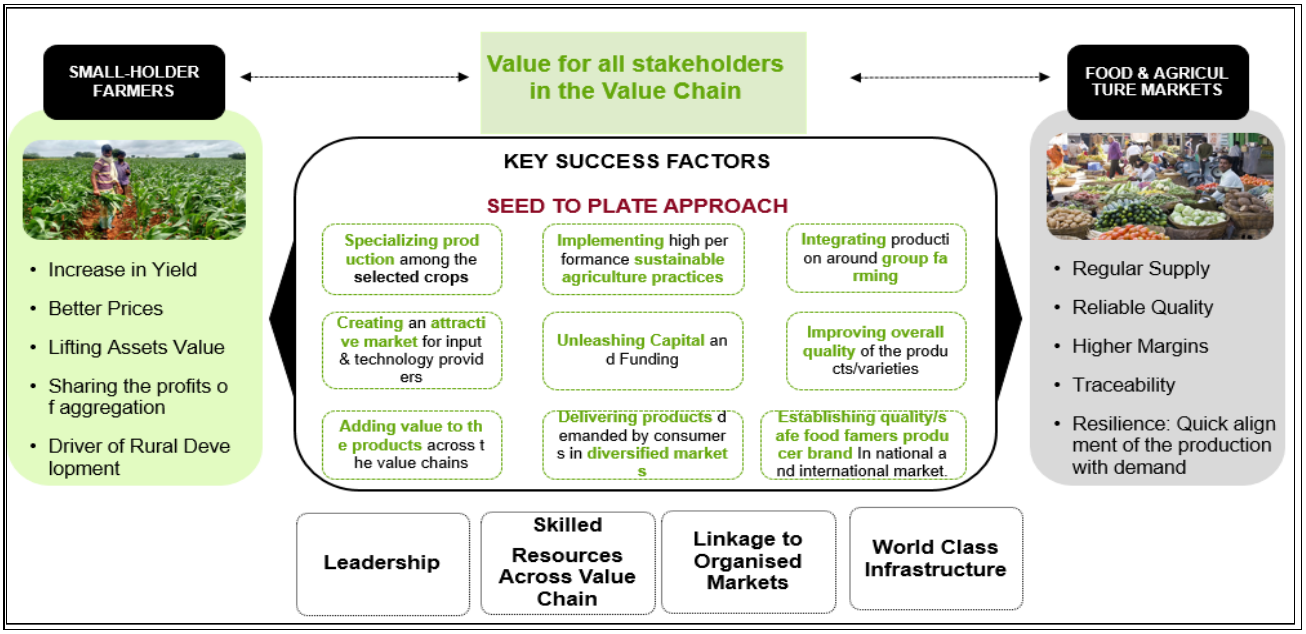


Figure 14; Source: SFPCL

6.2 Challenges faced by SFPCL:

One of the major challenge faced by any FPC is Membership mobilization, creating awareness and building Social Capital by nurturing a sense of ownership among producer shareholders. While Sahyadri does not face this particular challenge, **the key challenges facing Sahyadri FPC (and other FPCs) are lack of adequate capital and suitable talent.**

i. It is difficult to scale up beyond a particular size due to lack of capital for growth. The current legal framework does not allow outside investment or issuing of shares to common public at all which limits funding and hence the growth. SFPCL's share capital has increased from Rs.4.86 crores in 2012-13 to Rs. 55.49 crores in 2018-19. The FPC's growth cannot be sustained because of incremental membership coverage of SMF. Member farmers to whom the shares are issued are often small and marginal with limited surplus to contribute.

ii. Since FDI or even domestic investment other than by members is prohibited for FPCs and banks do not lend for branding/ marketing, it is difficult for FPCs to compete on level terms with other non-FPC companies in food processing and exporting space such as Freshtrop and Jain Irrigation etc. This lack of funds can lead to an organisation either not competing well or spreading itself too thin.

iii. At times, it is challenging to attract and retain skilled and professional manpower.

iv. Lack of awareness about the concept of Farmers Producer Organisation among the bankers and other stakeholders is a major hurdle at times limiting access to finance and markets.

6.3 Scope for replication of the Sahyadri model

The Maharashtra State Agriculture department's FPC survey data poses (as referred to in Page 7 of this report) several questions about the functioning and the condition of FPCs in Maharashtra, and in the country as a whole. Some common reasons affecting the growth of FPCs in India are:

1. **Wrong motivation to form FPCs**—Some FPCs are formed only with the intention to avail subsidy support offered by the Government (equity grant by SFAC) and NABARD. Many FPCs whose creation was driven by the desire to avail government subsidies have either become defunct or work with minimal operations.

2. **Lack of Business Plan**-- Once the hand-holding process ends, FPCs are at a loss about their next step. Lack of management skills and direction has affected their growth as they are often not clear about their business plan.

3. **Access to Finance**- Challenges in accessing Bank finance do affect the growth of FPCs. Lack of awareness about FPC concept among bankers, lack of balance sheet experience, unavailability of collateral, and the lack of a proper business plan for the next 3-5 years with the FPC are some of the reasons withholding the credit flow. Banks can be more considerate once they understand the model and the potential and treat FPC like any other startup, which takes 3-4 years to stabilize, and extend credit while fixing realistic repayment schedules.

4. **Dearth of visionary leadership**- Promoter level mind-set often becomes the main factor between success and failure.

It may be seen from Section IV of this report that all the above limitations have been very well taken care of in Sahyadri FPC.

It is definitely possible to replicate the Sahyadri FPC model across the country, provided adequate awareness is created among the farmers, bankers, agri-entrepreneurs, and government officials about the concept and potential benefits of FPO and concerted efforts at all levels are undertaken. The aforesaid weaknesses can be overcome by a coordinated approach of SFAC, NABARD, RBI, Ministry of Agriculture, Ministry of Food

Processing and Ministry of Finance to provide support in terms of Policy, Infrastructure, Domestic markets and Exports. Some possible steps to promote sustainable FPCs can be made in the following areas.

i. Showcase the success stories like Sahyadri farms and other FPCs across India at various fora involving different stakeholders.

ii. Improving the Credit Guarantee Fund Scheme (CGFS) for Farmer Producer Companies (FPCs) as it has failed to deliver the desired results. A better scheme will help in FPCs accessing bank finance without collateral.

iii. Higher equity grants and funding from the Central and State Governments, besides the SFAC Equity grant, in view of the limited ability of FPOs to raise funds

iv. FPCs can be promoted taluka wise based on the suitability of a particular crop to that taluka in terms of soil, climate, water and market demand.

v. Each major crop can be treated as a separate entity. Government may consider constituting separate administrative structure, ala, NDDB, for all major crops with domestic need/ export potential, to ensure focussed attention, as currently only two departments, department of agriculture, and department of horticulture look after all the crops. The crop wise authority could be staffed with people with expertise in the particular crop.

vi. Realise that the FPC model has incredible potential, and is perhaps the only working model to solve the problems of small and marginal farmers. Efforts to scale up are important to compete at global level through aggregations of small farmers.

vii. Capacity building among FPCs to create management and governance skills, therefore assumes greater significance. Build a large cadre of professional leaders in agri space by identifying and training agriculturists, agri graduates, and other relevant members in mission mode to help create more big and integrated FPCs in India.

References:

1. https://www.nabard.org/demo/auth/writereaddata/File/FARMER%20PRODUCER%20ORGANISATIONS.pdf
2. www.sahyadrifarms.com
3. www.nabard.org
4. http://sfacindia.com/FPOS.aspx
5. http://mofpi.nic.in/sites/default/files/fpo_policy_process_guidelines_1_april_2013.pdf
6. NABARD Paper on FPOs; Status and Issues
7. NABARD FPOs- FAQs

Annexure 1: Questionnaire for SFPCL

Study of Sahyadri Farmers Producers Company (FPC) **Questionnaire**		
1	**General Information**	
	Name of the FPC	
	Genesis	
	Legal status (Regd date)	
	Place	
	Telephone No. with STD Code:	
	Board of Directors	
	No of farmers	
	No. of FPOs under the Federation structure	
	Details of FPOs in federation	
	Name and brief details of facilitator organisation	
	Evolution	
2.	**Land use pattern**	
	Total area cultivated by the FPO members	
	Out of which Own land	
	Out of which Leased land	
	Irrigated land	
	Source of Irrigation	
	Crops grown	
3.	**FPO infrastructure**	
	Details of Assets	
	Value of assets	
	Own building	
	Collection centres	
	Transport	
	Godown	
	Processing plants	
	Tie-ups	
	Divisions	
	Training	

	Human resources	
4	**Services provided by FPO to farmers**	
	Providing inputs	
	Whether price benefits in bulk purchase passed on	
	Providing technology	
	Whether FPO is undertaking collective marketing of produce	
	If so, method of marketing produce by the FPO	
	Modes of transport generally adopted for the market	
	Total Produce marketed (Quintals)	
	Procument cost (Rs. Per Quintal)	
	Marketing Cost	
	Grading , cleaning, bagging	
	Transport	
	Storage	
	commission paid	
	others	
	Total	
	Price realisation	
	Price paid to farmers	
	Margin	
	Other services provided by the FPO (specify)	
5	**Bank Credit**	
	Extent of finance received for the FPO members	
	Challenges in accessing bank finance for FPOs	
	Production credit, if any	
	Investment Credit	
	Challenges and constraints	

6	**Financial Position of FPO**	
	(i) Annual Income	
	(ii) Annual Expenditure	
	(iii) Surplus/Deficit	
	(iv) Total Value of Assets	
	(v) Total value of exports	
	(vi) Markets exported	
	(vii) Retail sales	
7	**Critical factors for Success**	
	Opportunities	
	Challenges	
	Strengths	
	Weaknesses	
	How to replicate across the country	
	What role can bankers play	
	How to make FPOs beneficial for farmers	
	How to make FPOs beneficial—lending opportunity for bankers	

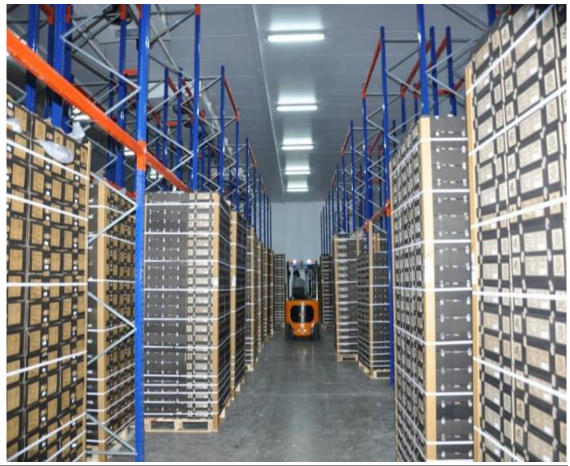
Annexure 2: SFPCL Products: Fresh fruits and vegetables

Annexure 3: SFPCL Products:

Individually quick-frozen (IQF) Range of F&V

Annexure 4: Sahyadri Retail Stores

Annexure 5: SFPCL Infrastructure



Annexure 6: Features of a Producer Organisation

1. The different legal forms of PO

It is preferable for the PO to work as a legal entity, to enable it to enter into legally valid contracts including mobilization of funds from other institutions. PO can be registered under any of the following legal provisions:

a) Cooperative Societies Act/ Autonomous or Mutually Aided Cooperative Societies Act of the respective State
b) Multi-State Cooperative Society Act, 2002
c) Producer Company under Section 581(C) of Indian Companies Act, 1956, as amended in 2013
d) Section 25 Company of Indian Companies Act, 1956, as amended as Section 8 in 2013
e) Societies registered under Society Registration Act, 1860
f) Public Trusts registered under Indian Trusts Act, 1882

Institutions registered as cooperative societies and producer companies have legal provisions for sharing of profit earned by the PO by way of dividend. Other legal forms do not explicitly provide for profit sharing. However, the PO can offer better price for the produce it procures from the members, thus, benefiting the latter. Similarly, it can procure inputs/raw material in bulk and sell to members with low margin. Such activities are permissible for POs under all legal forms. A comparative chart of important features of Cooperative Society and Producer Company is given below:

PARAMETER	COOPERATIVE SOCIETY	PRODUCER COMPANY
Registration	Cooperative Societies Act	Indian Companies Act
Objectives	Single object	Multi-object
Area of Operation	Restricted, discretionary	Entire Union of India

Membership	Individuals and cooperatives	Any individual, group, association, producer of goods or services
Share	Non tradable	Not tradable but transferable; limited to members at par value
Profit sharing	Limited dividends on shares	Commensurate with volume of business
Voting rights	One member, one vote, but Government and Registrar of Cooperatives hold veto power	One member, one vote. Members not having transactions with the company cannot vote
Government control	Highly patronized to the extent of interference	Minimal, limited to statutory requirements
Extent of Autonomy	Limited in "real world scenario"	Fully autonomous, self-ruled within the provisions of Act
Reserves	Created if there are profits	Mandatory to create every year
Borrowing power	Restricted as per bye-law. Any amendment to bye-law needs to be approved by the Registrar and time consuming.	Borrowing limit fixed by Special Resolution in general meeting. Companies have more freedom to raise borrowing power.
Relationship with other corporate / business houses / NGOs	Transaction based	Producers and corporate entity can together float a producer company.

The minimum number of membership depends on the legal form of the PO. For example, 10 or more primary producers can incorporate a Producer Company under Section 581(C) of Indian Companies Act 1956 as amended in 2013. There is no restriction on the maximum number of membership. Studies have shown that a PO will require about 700 to 1000 active producers as members for sustainable operations to achieve breakeven level.

2. Benefits to the members

PO will support the members in getting more income by undertaking any/many/all of the activities listed above. By aggregating the demand for inputs, the PO can buy in bulk, thus procuring at cheaper price compared to individual purchase. Besides, by transporting in bulk, cost of transportation decreases, further reducing the overall cost of production. Similarly, the PO may aggregate the produce of all members and market in bulk, thus, fetching better price per unit of produce. The PO can also provide market information to the producers to enable them hold on to their produce till the market price become favourable. All these interventions will result in more income to the primary producers.

A PO can also work as a platform to facilitate better access to government services, like PDS, MNREGA, Scholarships and Pensions, etc. It can liaison with the Government Departments for convergence of programmes, like drinking water, sanitation, health and hygiene.

3. Features of a Producer Company as a specific type of PO

A Producer Company is effective and comes into existence from the date mentioned in the Certificate of Registration granted by the RoC. The minimum authorized capital of Producer Company is Rs.0.5 million and the minimum paid up capital for Producer Company is Rs. 0.1 million. The authorized share capital should be sufficient for carrying out the objects mentioned in the Memorandum of Association.

A Producer Company can act only through its members. Membership is acquired by purchase of shares in a Producer Company, and only primary producers or producer organisations can become members. Members exert authority on the company through General Meetings.In case of Producer Company comprising only of individual members or combination of individual members and producer institutions, then the voting rights shall be based on one vote per member. In case of Producer Company consisting only of producer institutions, then the voting rights shall be based on the participation in the business of the Producer Company in the previous year. The Producer Company can restrict the voting rights to only its active members provided it is authorized by its Articles of Association.

Board of Directors are elected by the members and act collectively only through meetings. Producer Company has a minimum of 5 Directors and a maximum of 15 Directors. An office bearer is a person who is selected / appointed to look after the day to day affairs of the Producer Company. The office bearers include Chief Executive officer (CEO), Accountant, godown keeper, etc. The company pays salaries to all the office bearers.

4. Advantages of a Producer Company

a) A Producer Company is a hybrid between a Private Limited Company and a Cooperative Society, thus enjoying the benefits of professional management of a Private Limited Company as well as mutual benefits derived from a Cooperative Society.
b) Ownership and membership of a Producer Company is held only by “primary producers” or “Producer Institution/s” and member’s equity cannot be traded. Hence, nobody can take over the company or deprive the primary producers of their organisation.

c) The minimum paid-up Capital being Rs. 0.1 million and minimum authorized capital being Rs. 0.5 million for a PC, it easy to mobilise the small amount.
d) Minimum number of producers required to form a PC is 10 while there is no limit for maximum number of members and the membership can be increased as per feasibility and need.
e) The liability of the members is limited to the unpaid amount of the shares held by them which implies that the personal, individual **assets** of the shareholders are not at risk. from company losses.
f) There cannot be any government or private equity stake in the Producer Companies, which implies that PC cannot become a public or deemed public limited company. Hence, any Government or other corporate threat is non-existent in professional functioning of the company.
g) The area of operation for a PC is the entire country giving flexibility to expand and do business in a free and professional manner.

<u>Annexure 7:</u> **<u>Grape as a global crop</u>**

1. Grapes are one of the world's most commonly produced fruit crops, with approximately 75 million tonnes produced each year. While almost 50% of grapes are used to make wine, one third is consumed as fresh fruit and the rest is dried, consumed as grape juice or stored in the form of grape musts.

2. The cultivation of grapes is spread throughout the world, with an estimated surface area of 7.5 million hectares in 2014, in 100 different countries. Grapes are consumed as both fresh and processed products, such as wine, jam, juice, jelly, grape seed extract, dried grapes, vinegar and grape seed oil.

3. The reason for these varied processed products is due to the extreme perishability of the fruit. Grape is in fact one of the fruits with the highest input of technology (cooling, sulfuration, packing, cold storage) and practices (hand labour). For this reason it is the fruit crop with the highest total value of production in the world.

4. Out of the 75 million tonnes of global grape production in 2014, 41% was produced in Europe, 29% in Asia and 21% in the Americas. Up to 81% (26.8 million tonnes in 2014) of unpressed grapes are consumed as fresh grapes. Given the versatility of grapes and the size of the global grape crop, it is evident that the grape market plays a substantial role in global food consumption.

5. Chile, Italy and the USA are the three largest world exporters of fresh grapes, shipping 732 000, 448 000 and 445 000 tonnes, respectively. Together, these three countries cover 40% of total world exports. USA, Netherlands, Germany, China, Russia and UK are some of the biggest importers of Grape.

6. Three countries produce over 50% of table grapes: China, India and Turkey. Besides accounting for more than 60% of total world production, Asian countries also lead the world in table grape consumption. This is mainly due to the fact that grapes are a fragile and highly perishable product and they are most likely to be consumed close to where they are produced.

7. India's production has more than doubled between 2000 and 2014, rising by 128% and reaching about 2 million tonnes. Approximately 80 percent of the total production, irrespective of the variety, is consumed fresh. India has also the highest productivity in the world, with an average yield of 30 t/ha. India consumed 1.8 million tonnes of table grapes in 2014, accounting for 7% of world consumption. India's top 5 export destinations are Netherlands (34%), Russia, UK, Germany and UAE.
   (Source: FAO-OIV Focus 2016)