Guar: Giant success of a tiny bean

Only exchange in the world to offer successful Guar futures

Most liquid contracts

International benchmark prices

Comprehensive benefits for the entire value chain
Guar seed, once known as ‘cow feed’, has emerged as one of the most lucrative crops in the recent past. Gum, extracted from Guar, has become India’s most valued agricultural export commodity. From the obscurity of many decades to its incredible popularity in recent times, the humble Guar crop has come a long way indeed. A crop that was for decades favoured lesser than its better known rivals, like cotton and pulses is now the talk of the town. No doubt then, that a strong export demand for Guar derivatives has propelled this process of transition. Nonetheless, an equally important growth driver has been the increased bargaining capacity of the value chain participants.

A dominant producer of Guar, India accounts for about 80 per cent of the world production. Of the 1.4-1.6 million tonnes that India annually harvests, about 60 per cent comes from Rajasthan.

**Uses Of Guar In Varied Applications:**

Guar Gum, derived from the endosperm of the Guar plant has multiligious uses especially in the food industry where it is used as a thickening and binding agent. The US FDA has approved Guar as a replacement to fats in food. Guar is believed to be a cheaper substitute for Xanthan gum (pure culture ferment) or locust bean gum. Not just food, but pharmaceutical, paper, textile and personal care industries are also increasingly using Guar Gum. These industries are growing across the world.

The biggest driver however has been its use in hydraulic fracturing, more commonly known as ‘fracking’, where it is used as a gelling agent in fracturing fluids in oil wells. Guar Gum’s high molecular weight and chemical stability under high temperature and pressure are unique properties that make it an ingredient of choice. Rising crude prices as well as uncertainties in supplies because of geopolitical instabilities have encouraged massive investment in oil drilling including shale oil and gas exploration.

**NCDEX Platform for Guar Complex**

1. **Farmers**: Futures prices on the exchange platform give farmers an idea of prevailing and expected market prices so as to enable them to time their sales accordingly. Knowing the futures price increases their bargaining power and they can demand a fair price of their produce.

2. **Guar seed crushers/Guar gum manufacturers**: Guar seed crushers face the risk of rising prices of Guar seed and falling prices of their processed product - Guar Gum/Splits. If a Guar seed crusher plans to produce 100 tonnes of Guar gum next week, in his opinion, prices of the Guar Seed may rise or prices of Guar Gum may fall in the coming week, while current prices match his operating margin. He can hence go long (Buy) in the NCDEX Guar Seed contract and short (sell) in the NCDEX Guar Gum contract and hedge his risk.

3. **Guar gum powder manufacturers**: Guar gum powder manufacturers face the risk of rising prices of raw material (Guar Gum). Illustrating the case of a manufacturer, wherein the current prices match his operating margin. However, he feels that the price of Guar gum may increase in the next few weeks. Hence, he should go long (Buy) in the NCDEX Guar Gum contract.

4. **Guar Gum Exporters**: Guar gum exporters face the risk of rising prices of Guar Gum. For example, a Guar gum exporter has an export order to export 1000 tonnes of Guar gum two months hence. The prices of Guar gum may rise in the next two months, while current prices match his operating margin. In order to hedge the risk associated with the price rise, he should go long (Buy) in the NCDEX Guar Gum contract.

5. **Arbitrageurs & Investors**: Over the last few years, Guar seeds along with Guar gum have become a good investment avenue for arbitrageurs & investors. Possessing a greater shelf life, Guar seeds and gum have been the favoured commodities for arbitrageurs and investors.
Increased Bargaining Power & Risk Management:

The increasing bargaining power of the farmers is reflective in the following chart, which depicts that Guar producers brought smaller quantities of Guar seed in the market during the peak arrival season of 2012-13 compared to the corresponding period of the previous season. The pick up in market arrivals during slack period shows that they preferred selling it in a scattered manner.

There are however risks associated with holding on the stocks. The Guar value chain participants are aware of the risk that they would be taking by keeping unsold stocks lying with them because prices could go either way- and if they fall, they might rue over the lost opportunity of having sold it earlier. Their risk taking ability has increased due to the availability of a risk management platform - NCDEX. They can use the NCDEX futures platform to lock in their margins, in order to limit their exposure to price risks. Very high correlation (more than 90%) between futures prices discovered on the NCDEX platform and the spot market prices has given them the perfect hedging tool.
Guar Gum Exports:

During the last two financial years, Guar gum had topped the list of India's top agricultural export commodity, primarily due to the shale gas boom in the US.

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Salient Features of Guar Complex on NCDEX Platform

1. Very high correlation with the physical market
2. Adequate volume and liquidity
3. Ideal Hedging and Risk Management Platform for value chain participants in the Guar industry
4. Widely accepted as the International price benchmark for Guar seed and Guar gum
5. Compulsory delivery contract with a staggered delivery mechanism
6. Justified premium/discount structure for fair pricing across the country
7. Widely accepted quality specifications

It would not be an exaggeration to state that NCDEX is the only trusted Exchange for Guar since the launch of Guar futures in this industry. The entire value chain has accepted the contract as a benchmark as it is well-aligned with the physical market and thus, is capable of reflecting all the dynamics affecting Guar prices.

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