NCDEX
Pragati ka Solid Exchange
Farmer inclusion in regulated market
There are over 7000 regulated primary markets in India, which are responsible for the marketing of 265 million tonnes of food grains, 33 million tonnes of oilseeds and 220 million tonnes of fruits and vegetables. Besides, the country also has over 22,750 rural primary markets out of which only 20% come under any regulatory framework. The subject of agriculture and agricultural marketing in India is dealt with by both the Central Government and the State Government.

Regulated markets were set up under state APMC Acts with the responsibility of developing various marketing infrastructure for agricultural products. They however have been slow to modernize distribution networks and shorten supply chains.

Moreover, variance in statutory levies and taxes imposed by the different states are a major source of market distortion. Uncertainties caused by information asymmetry, non-transparent price discovery, inadequate infrastructure for storage, sorting, grading or post-harvest management, unnecessary controls and domestic price volatility have prevented farmers from getting fair prices for their produce.

The electronic spot and futures segments available on the trading platform of NCDEX show how institutional structure and regulation framework have reduced operational expenses, strengthened market confidence and accelerated trading efficiency (rather than setting in inefficiencies) whilst enabling market participants protect their enterprise value and competitive advantage in an ever-changing business environment.

The modern clearing & settlement mechanism of the Exchange has ensured time-bound payment to seller and delivery of goods to buyer.

The online monitoring and surveillance mechanism of the Exchange have facilitated orderly functioning of trading operations, while dispute resolution mechanism and settlement guarantee fund presented play an important part in safeguarding one’s interest in the event of counter party disagreements and defaults.
Futures prices aid business strategy

i Futures prices discovered on the online trading platform depict the prevailing supply/demand situation in the underlying commodity.

ii Real time dissemination of these prices provides a readily available, neutral and benchmark price reference to industry participants, thereby reducing information asymmetry and empowering participants to take informed decisions, backed by accurate understanding of market conditions.

iii Price-signals given by long-duration new-season futures contracts help farmers take decisions on cropping pattern and decide their investments in cultivation.

Examples: A study carried out by A.C. Nielson as early as 2007, where a survey of about 2000 farmers was conducted across 6 states, covering important crops like wheat, mustard, urad, chana, soyabean, etc. revealed that farmers accrued several benefits as a result of tracking NCDEX prices.

i They had cross country awareness about the prices of their commodities.

ii They could take decisions on which crop to grow in the next season based on the futures prices of commodities.

iii They could take decisions on the grade of seed to be sown in the next season.

iv They could better negotiate with buyers as well as intermediaries and get better prices.

Another study conducted by Institute of Agri Business Management, Swami Keshwanand Rajasthan Agricultural University, Bikaner which analyzed selling pattern of guarseed by farmers has found that price realized by farmers using auctioning and grading facilities in mandis are higher in Rajasthan.

USAID study in February 2007 of ‘HAFED Experience’ of wheat hedging on NCDEX strongly recommended other state cooperatives involved in agri-produce marketing in India to take advantage of NCDEX contracts

i Price dissemination through 618 ticker boards installed across 9 states under Price Dissemination Project implemented by Forward Markets Commission.

ii These prices reach 26 states through 2160 price ticker boards across the country.

iii Prices are also disseminated through SMS. In January 2014, NCDEX introduced a free SMS-based price dissemination service that does not need a computer or the internet for registration. A farmer can activate the
service through his mobile phone.

iv Prices are also disseminated through various channels like, Kisan Call Centres, price ticker boards kept in mandis, warehouses, rural bank branches, etc. and also through TV, newspapers, journals, especially in vernacular languages. These prices are also disseminated through DD Kisan – the farmer centric channel of Prasar Bharati.
Improved bargaining power and market-based decision making process

1. The farmers today are more aware of the prevailing prices & expected future prices and make a more informed call at the time of sale. No longer do they dispose produce immediately upon harvest.

2. This has given rise to a more or less even arrival pattern throughout the year. Secondly, as farmers are not selling their entire produce at one instance, they are getting better returns than before.

Examples:

<table>
<thead>
<tr>
<th>Crop</th>
<th>% of arrivals into the market</th>
<th>% of arrivals into the market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Castor Seed</td>
<td>63% during April - June 2010 - 11</td>
<td>42% during April - June 2013 - 14</td>
</tr>
<tr>
<td>Soyabean</td>
<td>71% during Oct - Dec 2009 - 10</td>
<td>44% during Oct - Dec 2013 - 14</td>
</tr>
<tr>
<td>Mustard Seed</td>
<td>64% during Apr - Jun 2010 - 11</td>
<td>47% during Apr - Jun 2013 - 14</td>
</tr>
</tbody>
</table>
No more distress sales

1. Using the futures platform, farmers can store their produce in the exchange accredited warehouse and sell subsequently when their produce fetches reasonable returns.

2. NCDEX-accredited warehouses have become the new centres of gravity for physical markets. They are the meeting point for food safety standards, farmer sales, grading and assaying, raw material purchases, bank finance, transportation and logistics.

3. Physical delivery on the exchange supported by over 400 warehouses and nearly 40 delivery centers and 80 additional delivery centers across the country, results in price convergence ensuring our prices remain in line with the spot markets.

4. The thrust on deliveries on our platform has led to a rapid scaling up of warehousing infrastructure in states such as Rajasthan, Madhya Pradesh, Andhra Pradesh and Maharashtra.

5. Futures contracts are triggering expansion in warehousing capacity. For. eg. launching Gulab Bagh Maize contract has increased demand for maize in the region and triggered expansion of warehousing capacity by 75,000 tonnes. Major warehousing companies like Staragri, NCML, LTC, BGK infrastructure are investing in scientific warehousing infrastructure in Gulab Bagh & adjoining areas with best-of-class silos & dryers.
Quality Upgrade

1. A commodity exchange standardizes the specifications of commodities delivered on the exchange platform to synergize with the requirement of the industry. Thus commodity futures encourage standardization of the quality of produce.

2. Futures markets have brought about quality consciousness in processors and exporters; with a premium being specified for superior quality produce. Since the settlement of the trade is guaranteed by the exchange, the participants have increased confidence to source off the exchange platform.

3. Transparent and well accepted quality norms which are regarded as benchmark quality standards.

4. Increased information and sensitivity towards quality has helped producers strive to get upgraded output and meet the requirements of evolving commodity-supply chains. This not only helps in fetching a premium price but also helps in the quality-sensitive international market.
India’s first exchange-traded forwards in commodities to integrate futures with physical markets.

Agrim Sauda, launched on 25 Sept 2014, is a modernized form of forward contract. NCDEX has improved the instrument to make it more formal, structured, provided it firmer legal sanctity and guarantee, reduced risks and trading costs, and more significantly enabled a participating farmer to seek a counter-party from across the country instead of just the familiar neighbouring areas.

The electronic mode of trading and customised nature of the exchange traded forward contracts helps increase the geographic reach of buyers and sellers and helps reduce operational costs.

Introduced in maize and sugar at the initial stage, the Exchange subsequently extended it to 24 additional commodities, including all 21 commodities that are on the Futures trading platform.

Existing NCDEX members and clients can participate in this new segment with their existing membership/client codes. Alternatively, a special membership category, ‘Commodity Participant Members’, is also available for participating in the Forwards segment.

Farmers, through their farmer producer company, can take a membership for trading in forwards on NCDEX. This membership is heavily discounted and available to government registered FPOs at an annual fee of Rs. 5,000. At the time of planting, farmers will estimate the cost of production. To this cost they will add a profit margin after taking a cue from prevailing forward market prices for the commodity and the likely size of their harvest. The FPO can immediately place an offer to sell the forthcoming harvest for this price on the exchange-traded online forward platform and cover its price risk. Or it can wait till the harvest and then place the offer to take advantage of the prevailing scenario. The timing, quality, quantity and price will be decided by the FPO. Either way, it will be free from the trader cartel.

Farmers with better quality produce will be able to find takers willing to pay a premium through forwards instead of settling for the average quality price at the local mandi.

Developing secondary markets: Well designed interventions
Forging inclusive growth via NeML

E-Mandis:

Screen-based trading system initiated in December 2011 in Gulbarga under Mandi Modernization Program (MMP)

1 This unique online trading platform introduced in partnership with local APMC/ Mandi in Gulbarga brought transparency in trade, enhanced efficiency by removing scope of human error and created a level playing field for all participants in the market, with farmers being the biggest beneficiaries.

2 More than 16 lakh quintals of tur and 2 lakh quintals of chana have been traded through the online trade in Gulbarga since the implementation of the scheme. Scheme has now been completed in over 55 APMCs in Karnataka. The scheme linked 11 major commodities to the National market. NeML has initiated similar integrated APMC modernisation project with Government of Andhra Pradesh and Farmer aggregation project in Erode with Government of Tamil Nadu.

3 This online spot market can be accessed in real time by buyers and sellers from anywhere and offers facilities like scientific assaying, storage and automated pay-in process. It simplifies agri produce marketing in the country benefiting farmers and buyers equally.

E- Tendering and Procurement of essential commodities

1 Governments of Haryana, Gujarat, Karnataka and Maharashtra are using our electronic spot market for procuring grains and pulses under public distribution system (PDS) and other various welfare programmes including mid-day meal scheme.

2 Availability of real time information and simple delivery process ensures that farmers are the direct beneficiaries.

3 Karnataka and Gujarat procure about 25,000 MT and 22,000 MT of pulses respectively every year using the platform whereas Haryana which adopted the platform recently has already procured 50,000 MT of pulses.

4 Karnataka Togari Abhivrudhi Mandali Limited (KTAML/ Tur Board) set up by the Government of Karnataka to ensure remunerative prices to tur growers in the state has procured 2.51 lakh quintals of tur in 2013-14 using NSPOT dynamic electronic trading platform.

E-Auction:

NeML has also associated with FCI, CCI and PEC for facilitating e-Auctions.
NCDEX

1 More than 2500 registered wheat millers conducted e-Auction of 16 lakh MT of wheat for Food Corporation of India (FCI) under the Open Market Sales Scheme (OMSS(D)) between January and March 2014 across 2178 depots amounting to Rs 2565.79 crore

“One state, one market”

1 Government of Karnataka worked with NSPOT to develop Unified Market Platform (UMP) for modernizing state’s more than 300 APMC markets into a single marketplace

2 In Feb 2014, together with NSPOT, the Government of Karnataka established a new entity - Rashtriya E-Market and Services Private Limited (ReMS) to provide online access to all participants in the APMC markets in the state holding the unified market license from the state government

2 Dynamic UMP offers a choice to the farmers to sell his produce in an APMC market or directly to any other buyer or store in a warehouse near him.