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Their View

'E-slips boost warehouse receipt financing'

It helps farmers sell stocks at a price they feel right; banks save on time, manpower cost

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Warehouse receipt financing in India has not taken off well for many reasons, including lack of trust and increasing number of frauds. But that is set to change now, with electronic warehouse receipts (eNWRs) making an entry, replacing the physical receipts. The Warehouse Development and Regulation Authority (WDRA) had rolled out the guidelines for registration of repositories and creation of eNWRs in October 2016.

National E-repository Ltd (NERL, established by NCDEX) and

CCRL (CDSL Commodity Repository Ltd) are the two commodity repositories that create, store and keep track of eNWRs. Issuance of eNWRs and lending against eNWRs have now started on a small scale. In an interview with *BusinessLine*, P Srinivas, Member, WDRA, talks about the advantages of this instrument for farmers and lending institutions.

Why do you think Electronic Negotiable Warehouse Receipts (eNWRs) will change the scenario for farmers?

The basic advantage to a farmer is that he can dispose of his stock at the time and price he thinks right, instead of rushing to sell at the price available in the market. Further, as eNWR is issued by a WDRA-accredited warehouse, where there will be mandatory assaying of quality of stocks, the farmer gets the power to negotiate a better price for stock if it is of good quality.

Also, he is not forced to sell all the stock at one go to one buyer. He can dispose it of partially

and put the balance stock in the warehouse and wait for a good price, or he can pledge his eNWR with any commercial bank or a co-operative bank, borrow against it and wait for some more days to dispose of the stock at a better rate.

When you compare an eNWR with a physical warehouse receipt, what are the benefits a farmer can derive and what are the benefits banks get?

If you take a physical receipt, there are chances of it getting damaged. It may even get torn into pieces on use. Also, one cannot split and sell the stock on which a physical receipt has been issued. Whereas, in an eNWR, the receipt is in electronic format; there is no possibility of it getting torn or lost, and it is also possible to sell the stock in part. It is also easy to pledge and borrow against the eNWR.

Earlier, banks worried over quality of stocks a farmer or trader pledged. Under eNWRs, since the receipt is issued by an WDRA-accredited warehouse, the quality parameters of the stock are clearly mentioned. So, banks can finance according to

the quality. Also, there is no apprehension of the borrower tampering with the warehouse receipt. Earlier, since it was written using a pen, there have been instances of the borrower manipulating it.

Now, there is no need for the banker to visit the godown and physically examine the stock. He can save time and cost of manpower needed for stock verification as all the work is done by the warehouse and the repository and WDRA oversees it.

How does your grievance redress system work?

It is very simple. The depositor, be it a farmer or a trader, if he has a problem with the warehouse man or the repository, he can come to our online portal, register the complaint and we will address it immediately.

If it is the issue of quality/quantity of the stock, we conduct an investigation and if we find it is genuine, we say who should compensate whom and how much.

Has there been any instance wherein a depositor kept some stock with you and later pledged the eNWR but failed to repay, and the bank could not sell the stock because of quality issue?

Till date, we haven't faced any such issue. See, for bankers, most of the times, the problem is due to market price fluctuation. WDRA takes care of quality and quantity risk only; market price

risks have to be borne by the financier. However, we help out the bank or the other financial entities which have lent against eNWR, in a scenario wherein market prices have fallen, by assisting them to sell and exit the stock as quickly as possible with minimum loss. WDRA provides all its repositories with an auction platform.

So, when a banker sees the market rate of his stock coming down and the borrower is not responding, he can advise the repository to move the pledged stock to the auction platform and get him the best rate.

How do you handle grievances about the quality of stock? How do you compensate the party who has suffered losses?

If a drop in quality of a particular commodity in stock is beyond the tolerance limit (the maximum allowed variance in quality), then we conduct an inspection by sending an inspector to the particular warehouse. We also enquire about it with the warehouse man. If the quality issue is proved, we advise the warehouse man to compensate.

If he doesn't compensate, we compensate from the security deposit collected from the warehouse man. WDRA collects security deposit from the warehouse man in pro-rata to the value of eNWR. Given that it may always only be a portion of the stock where there is a quality issue, it is possible to compensate the loss from the security deposit.

Profile

P Srinivas joined WDRA as a member in 2017. Prior to that, he was MD and CEO of United Bank of India. He has also served as Executive Director, Bank of Baroda, and was on the Board of National Payments Corporation of India



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P SRINIVAS
Member, Warehouse Development and Regulation Authority