

OUTLOOK Business

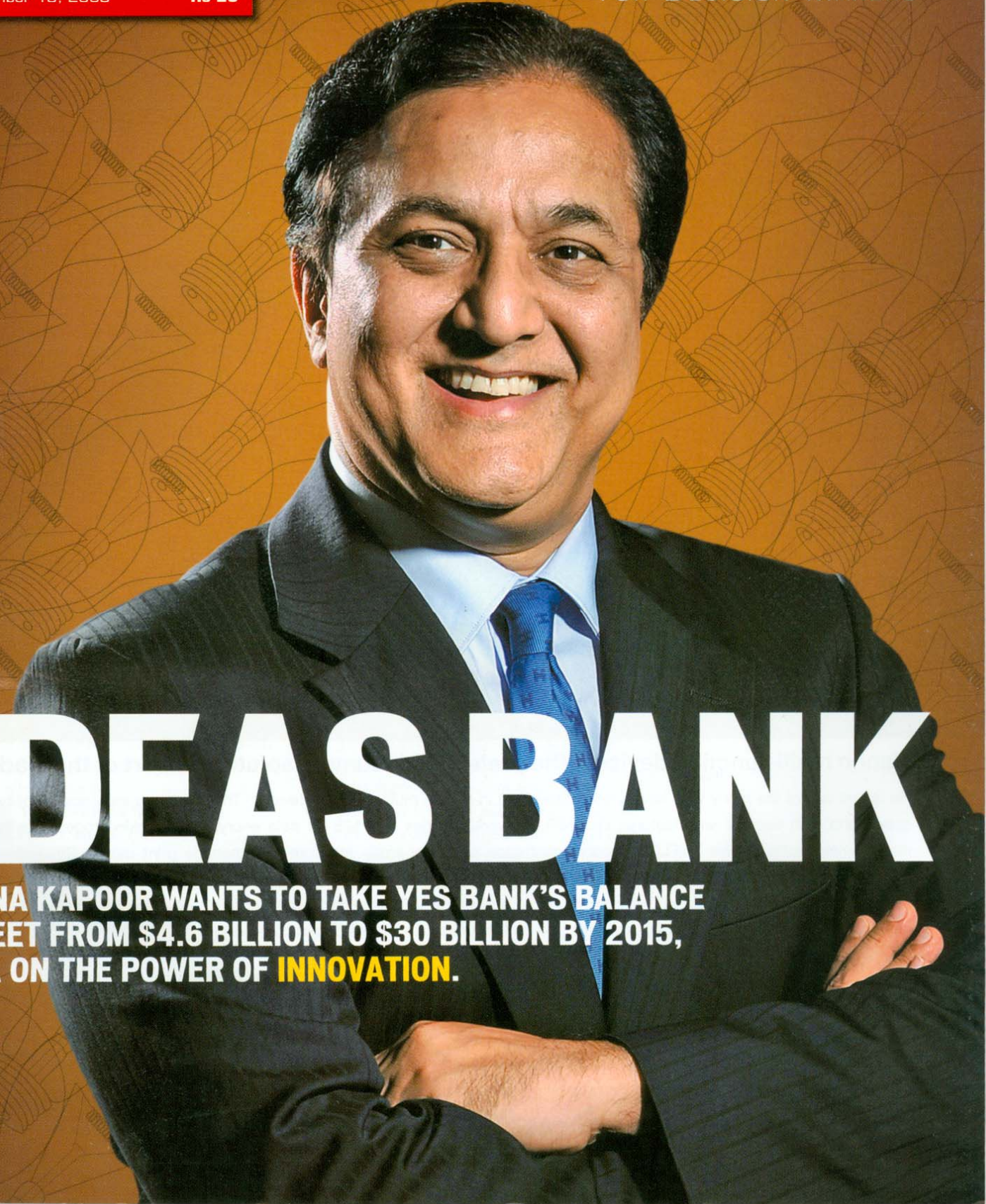
HOT SEAT
SIGVE BREKKE



September 19, 2009

Rs 25

FOR DECISION MAKERS



IDEAS BANK

RANA KAPOOR WANTS TO TAKE YES BANK'S BALANCE SHEET FROM \$4.6 BILLION TO \$30 BILLION BY 2015, ALL ON THE POWER OF **INNOVATION**.

John Samuel Raja D

EVEN AS THE country reels under a severe drought, in a dry corner of Tamil Nadu, a collective of 166 farmers is counting returns that will make

local moneylenders turn green with envy. These 166 farmers of Dharmapuri district are reaping it rich for two reasons. One, they embraced advanced farming practices. Two, in a move whose impact is still playing out, they came together to form a company. So, they embraced business structures and business practices typical of a registered company—equity capital, shareholders, management, board of directors, financial reporting and audit of accounts, among other things.

It is working wonders. They have eliminated middlemen from the input side of the equation and are working on doing the same on the output side. Crop yields have risen 50-200%. Several farmers who were mired in debt have since become debt-free. And for each of the last two years, they have earned a super-normal 40% return on their investment in the company. Dharmapuri is a revelatory tale of why, and how, farmers should band into a company.

Farmer Inc

This move to a corporate structure was born out of an association with the Tamil Nadu Agricultural University (TNAU). Dharmapuri, about 120 km south of Bangalore, is a water-deficient district. It averages an annual rainfall of 90 cm—about 25% below the national average. Hence, farmers here used to sow only one crop a year, often keeping vast tracts of their land barren.

This drew a team of three professors from TNAU, led by Professor E Vadivel, to the district in 2006. They spent two years with the farmers, and introduced them to precision farming—a more healthy and efficient way of cultivation. At the heart of precision farming is drip irrigation where, instead of flooding the field over-ground, a mixture of water and soluble bio-fertilisers is

fed through a network of pipes below the ground. The effect is two-fold: the water contact is directly with the root, the part of a plant that needs it the most, and results in 66% less consumption of water.

TNAU, along with the state government, identified 300 farmers for a pilot project in precision farming, over a period of three

years (100 farmers annually). The state gave them a cash subsidy of 80-100% to buy drip-irrigation kits for one hectare of their land holding. A majority of them saw their yields rise 50-200% in the first year itself. "My yields jumped," says Mahendran, a banana farmer. He made a profit of Rs 3.5 lakh in the first season, and used it to repay debt,



1



2

THE COMPANY OF FARMERS

They are sons of the soil and they engage in individual pursuits. Yet, there is good reason for farmers to band into a company. A district in Tamil Nadu shows how.



3



4

PHOTOGRAPHS BY RA CHANDROO

- 1 C Boopathy, Secretary, at the company outlet where inputs are sold below MRP.
- 2 PM Chinnasamy, President, claims the highest yield in brinjal in India in 2006.
- 3 Mahendran, a banana grower, managed to make a profit of Rs 3.5 lakh.
- 4 By embracing precision farming, 166 farmers in Dharmapuri have profited.

came a shareholder. The company collected Rs 16.6 lakh as equity capital.

From that sum, DPFFAS set up a retail outlet in Dharmapuri. The 400 sq ft outlet procures agricultural goods and inputs—fertilisers, pesticides, seeds, equipment—directly from companies. This ensures quality. "The quality of the fertilisers and pesticides sold by DPFFAS is better than what the dealers sold," says Mahendran.

Farmers also got better prices. Unlike local dealers, who charged maximum retail price (MRP), the retail outlet sold goods at a nominal mark-up to cost price. Farmers buy goods at 3-25% below MRP, improving their margins further. Perhaps, the finest example of the benefits of precision farming and corporatisation in procurement is that of PM Chinnasamy, President of DPFFAS. Chinnasamy claims to have generated the highest yield in brinjal in India in 2006 (172 tonnes in his field of 1.15 acres, against the normal yield of 40 tonnes per acre). "I made a profit of Rs 5 lakh in a season and repaid my entire debt," he says, showing off the one foot long brinjals in his field.

Democracy At Work

What has worked for DPFFAS is its truly democratic structure. Everyone involved in the company's working is either a shareholder-farmer or an employee approved by them. And the company is completely oriented towards the needs of the farmers.

This structuring has helped it stand apart from cooperatives, the traditional farmer collective model. Cooperatives have had successes, notably Amul. However, more often than not, they are plagued by political interference and corruption, at the expense of farmers. It was such overtures that led to farmers in Krishnagiri district, just 40 km from Dharmapuri, getting cold feet on setting up a company along the same lines as DPFFAS (See box: Bad Company).

build a house and even buy shares worth Rs 2 lakh from the stock exchange!

But one thing troubled the farmers. The fertilisers and pesticides they sourced from local dealers were often spurious and inferior. Vadivel and team examined the inputs, and agreed with the reading of the farmers. Their solution: stop buying from them.

Vadivel advised the farmers to come together to float a company that would sell these key inputs. Of the 300 farmers who were part of the pilot project, 166 bought the idea. They formed a public limited company, Dharmapuri Precision Farmers Agro Services (DPFFAS). Each farmer subscribed Rs 10,000 to the company's equity, and be-

FAILURE

Bad Company

When the company model didn't work for farmers.

WHILE DHARMAPURI IS A triumphant tale of how farmers should form a company, Krishnagiri, 40 km away, is a cautionary tale of how not to do it. As in Dharmapuri, TNAU agriculturists introduced mango growers in Krishnagiri to precision-farming techniques in 2005. Krishnagiri grows a lot of Thothapuri mangoes, which is used in pulp production. In order to get better prices, at the initiative of the then Krishnagiri district collector, the mango growers decided to brand their mangoes and float a company to sell it.

Everything was in place. Krishmaa Mango Farmers Consortium was to have 3,000 farmers as shareholders, contributing Rs 1,000 each as equity—an equity capital of Rs 30 lakh. The district administration was going to give the company 100 acres of land, either in return for a small equity stake or on a long-term lease.

The capital was to be used for branding (Krishmaa brand), creating common infrastructure, and setting up a model 50-acre mango orchard and a research facility in collaboration with the TNAU.

But two moves of the district administration shook the faith of farmers in the ability of the corporate structure to work for them: bringing in outsiders and making the top job subject to political expediency. The administration wanted to include representatives of the mango pulp industry, despite the obvious conflict of interest between producers and processors: a higher price for producers meant lower profit for pulp processors. "The initiative was lost," says VG Siparasu, a mango farmer who spearheaded the effort. "The idea was to protect farmers from big industry groups. By including the pulp industry in the venture, that purpose was defeated," says another farmer.

The second mistake, say farmers, was the decision to have the district collector head the proposed organisation. In the Indian bureaucracy, collectors came and went. Even at other times, they would be hard-pressed for time. Two elections and the transfer of the collector who proposed the idea ensured the Krishmaa Mango Farmers Consortium never took off.

ested in the company, we have no option but to declare high dividends," says Boopathy, who owns 55 acres. Yet, even after a high payout, DPFAS has cash to spare.

Forward Linkages

It's putting this cash to good use. "We are talking to farmers in at least six districts to invest in similar companies promoted by them," says DPFAS President Chinnasamy. DPFAS wants to buy 20% of the equity of these companies. In Erode, it will invest Rs 1 lakh in a company planned by 40 farmers, with an initial contribution of Rs 10,000 each. Boopathy is also talking to farmers in four other districts: Madurai, Trichy, Salem and Ramanathapuram; he hopes to seal these deals in the next nine months. These six retail outlets will give DPFAS access to most of Tamil Nadu.

These linkages will help it maximise gains for farmers on the other link in the chain where farmers face a squeeze from middlemen: sales. Rather than sell their produce to middlemen, DPFAS wants to set up a retail outlet to sell directly to consumers and companies. It is planning a Rs 4 crore unit in Dharmapuri that will have a sorting-cum-storage facility and a fleet of vehicles to transport products to cities.

The target date is January. "We've asked the government for an interest-free loan. Even if it's not given, we will go ahead," said Chinnasamy. About 1,000 farmers have expressed interest. The linkages with five other collectives will give DPFAS enough econo-

The 166 shareholder-farmers have eliminated middlemen from the input side of the equation and are working on doing the same on the output side.

By comparison, faith in the corporate structure is growing in Dharmapuri. DPFAS has stayed insulated from outside interference or conflicting interests. The retail outlet easily gained acceptance, not just with shareholder-farmers, but also with non-shareholder farmers, who can access the shop on the same terms as shareholders.

The key people manning the company—president, secretary and treasurer—are shareholders. Other employees are hand-picked TNAU graduates. Information and knowledge flow easily among farmers. While we were in Dharmapuri, a farmer came to the DPFAS outlet with an infected root. The employees, with agricultural degrees, promptly identified the infection and

suggested a pesticide, free of charge.

In 2007-08, its first full year, DPFAS recorded sales of Rs 1.5 crore—on capital employed of Rs 16 lakh. "Only the initial investment is tough. Working capital can be managed easily," says C Boopathy, Secretary, DPFAS. Such an operation doesn't need much working capital, as farmers tend to pay in cash, while companies give goods on credit. Turnover of DPFAS rose to Rs 3.5 crore in 2008-09, of which, Rs 1.5 crore came from the sale and installation of drip-irrigation kits (zero in the first year).

In each of those two years, the company declared a dividend of 40%. So, each shareholder got Rs 4,000 each year on an investment of Rs 10,000. "To keep farmers inter-

mies of scale to bargain for better prices. And everything will be accountable.

DPFAS farmers have become brand ambassadors of precision farming and corporate structures in Tamil Nadu. The state government has extended the precision farming project to all districts, with a 50% subsidy on drip-irrigation kits. Interested farmers participate in a two-day training programme conducted by Dharmapuri farmers, most of them DPFAS shareholders. About 12,000 farmers have received training and implemented precision farming techniques so far. While they are there, they are also introduced to the corporate model. It's only a matter of time before the Dharmapuri model is replicated. ■