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NCDEX- Creating Value For Cotton Ecosystem

Shri. Samir Shah is an MBA in Finance, a Mechanical Engineer and has completed an Advanced Management Program from Wharton. He began his career as an investment banker in Mumbai helping companies unlock value through public offerings and buy-out deals. He joined NCDEX initially as the Dy. CEO in March 2013 and within a few months, in August 2013, he was appointed as the Managing Director & CEO.

Shri. Shah was the Chief Business Officer of the Dubai Gold and Commodities Exchange (DGCX), where he led the growth of the exchange to make it the one of fastest growing exchange in the world, winning several awards, amongst them were Contract of the Year and the Best Commodity Exchange in 2012.

In his previous roles, he has led the Treasury and Fixed Income Business for Reuters Asia, and partnered with large global market makers to launch RTFX and RTFI , the dealer-customer FX and Fixed Income Trading Systems in Asia. He was also the CEO of Mumbai-based Universal Commodities Exchange (UCX).

GUEST COLUMN

Shri. Samir Shah
Managing Director and CEO, NCDEX

Agriculture is exposed to a number of unpredictable risk and uncertainties. The most recent example of the same is the withdrawal of high denomination currency notes from circulation. This has disrupted agricultural operations during the busy arrival season and created difficulties for farmers and value chain participants. Cotton is no exception and mandi arrivals were reduced significantly exposing the entire value chain to price risk. India, being the largest producer and second largest exporter of cotton in the world, plays a key role in determining the global demand and supply equilibrium. However, price volatility and quality of cotton bales are two major areas of concern for its value chain participants.

Over the years, NCDEX has demonstrated its ability to meet the risk management needs of a wide spectrum of stakeholders in the cotton ecosystem. More so, in the present scenario with the cotton price volatility at elevated levels, adopting risk management techniques is vital for all its stakeholders.

Quality of cotton fibres affects spinning efficiency and fabric quality and hence it's of prime importance to the industry. Moreover, quality management of cotton bales has been one of the highest priority of NCDEX and the Exchange has put in a lot of efforts towards the same. Standardised nature of futures contracts and the NCDEX thrust on quality has helped alleviate the quality of agricultural produce arriving in the markets. NCDEX quality has become a well-accepted benchmark for various commodities including cotton bales. Increased quality awareness among farmers/value chain participants has resulted in them taking efforts to align their produce to NCDEX specification, thereby getting access to fair prices.

Improving Transparency and Quality Standards

The cotton industry has been frequently plagued with challenges pertaining to differential quality between bales and this has also been a matter of concern at the Exchange. In order to address this issue, the Exchange has put in place a stringent system for deposits. For the first time, cotton bales have to be made by empaneled ginners under the strict supervision of exchange approved Warehouse Service Providers (WSPs). Under this unique system, ginners will have to get empaneled with the warehouse service provider before participating on the Exchange platform and the list of empaneled ginners will be published on the NCDEX website. Every warehouse service provider will empanel minimum 8-10 ginners at each location. These empaneled ginners have to follow a set of processes including ensuring the availability of a supervisor on his ginning unit for supervision purpose. The entire process of scheduling will be done by the ginner through Comtrack and the system will take intimation of warehouse space reservation.

Once a request has been received, WSP will coordinate with the ginner to facilitate the whole process of supervision and preparation of lots as per process. Five percent samples will be collected on random basis for further laboratory tests. Moisture testing will be done for about 20 percent of bales and the entire lot will be rejected if moisture is not found within range. As soon as a bale is pressed, the supervisor will put a tamper proof and unique sticker on each bale containing

information like PRN, date of pressing and details of ginner. Warehouse service provider will seal the stack with proper record of seal number. The whole lot of 100 bales will be allowed to be moved to NCDEX approved warehouse only after the lab's result of 5 samples is found within the Exchange prescribed quality parameters. Failure of even a single bale to conform to the standards, will result in rejection of the entire lot. For colour, grade and micronaire, the worst of five will be considered as final value for the whole lot and for strength and SFI, minimum and maximum out of five will be considered, respectively.

In order to not let this be a restrictive process for deposits, the exchange also permits deposits without any supervision. However for such deposits 7-10% of the bales are tested as compared to 5% in supervised model.

This unique and stringent method/process of sampling and delivery has not only infused greater transparency and confidence in the system, but has helped raise the bar in sampling and physical deliveries of cotton bales.

An Avenue For Managing Price Risk

Price volatility of cotton is another area of concern for its value chain participants. They are always exposed to the uncertainty of price fluctuations emanating on account of anything from poor production to demand spikes to El Nino and La Nina patterns. Adopting risk management practices is vital for all its stakeholders to maintain their business margins.

Futures platforms of NCDEX give these participants a tool to offset this price risk by hedging their exposure by taking opposite position in futures market and in turn transferring their price risk to other participants who are willing to take it.

Hedging makes the market run more efficiently. Availability of price discovery and hedging platform gives cues to buyers and allows exporters to manage risk. NCDEX agricultural commodity futures are highly correlated to the underlying spot prices and that makes NCDEX futures perfect tools for hedging commodities price risk for market participants.

In its pursuit of strengthening risk management for value chain participants (VCP), the Exchange introduced an innovative idea called 'Hedge Passport' that would cover the level of risk and risk mitigation at client level. Various tools such as Hedge Calculator, Risk Surveys and Scoring models were developed for the same. In order to align the risk management practices with global standards, the Exchange is also benchmarking its spot polling mechanism with IOSCO standards.

Stimulating Rural Credit

Agricultural and rural credit when coupled with modern technology translates into enhanced productivity. Recognising the importance of timely credit to farmers and other value chain participants, the Exchange is promoting financial inclusion by linking them to credit through its indigenous and unique commodity accounting system "Comtrack" which is helping connect the Exchange, warehouses, assayers, members, Comtrack participants, investors and clients together. It has enabled online and real-time tracking commodity deposited in warehouses based on a unique lot number assigned to each lot, that in turn, infuses greater transparency in terms of origin and movement of commodity and charges at various steps.

The Exchange has tied up with seven banks and 13 Non-Banking Financial Companies (NBFCs) to provide pledge finance to farmers and agri-businesses. There has been continuous growth in acceptance and comfort of banks and financial institutions towards Comtrack. The transparent online tracking of commodities in exchange approved warehouses through Comtrack has helped in increasing confidence of the pledgees who have financed over 2.5 lakh MT of commodities for Rs. 829.91 crore in 2015-2016.

Encouraging Scalable Warehousing

NCDEX has served as a trigger in transformation of the country's warehousing sector. The high service standards established by the Exchange are now being adopted as an industry norm. All the approved warehouses of the Exchange have been mapped with GPS coordinates that can uniquely identify each warehouse. To enhance the security of the stock at warehouses, the Exchange has asked WSPs to install CCTV in warehouses that will help monitor deposits and withdrawals along with facilitating audits at warehouses.

The Exchange has also introduced Radio Frequency Identification (RFID) technology in Exchange approved warehouses. NCDEX is the first commodity exchange in the world, to use this technology for the goods stored in its approved warehouses. RFID ensures that the commodities stored in the warehouses are tracked through radio frequency signals. The seamless tracking

through RFID tags, not only makes stocks stored in the Exchange approved warehouses electronically secure, but also brings about greater efficiencies and increased transparency in warehouse operations.

Conclusion

The recent shock of currency demonetisation and resultant disruption in agricultural operations, has reinstated the importance of an efficient and transparent price risk management platform like NCDEX. In India, farmers, despite being directly exposed to commodity price risk, are reluctant to hedge due to lack of awareness and the expertise to use of hedging instruments. Though the scenario is changing with farmers starting to participate in futures market for few commodities through Farmer Producers Organisations (FPOs), there is still a long way to go. Although other value chain participants are already using Exchange platform to hedge their price risk, a deep culture of hedging is yet to be developed. Lenders, on the other hand, are prohibited by law from participating directly in commodity derivative markets that results in most of their commodity price exposure remaining unhedged, raising risk in the system during times of extreme price volatility. Recognising the same, the Reserve Bank of India has initiated a few progressive steps like asking banks to encourage large agricultural borrowers to hedge their risks using domestic commodity derivatives market.

It is important to develop a vibrant, active and liquid commodity market in the country and collective efforts are required from policy makers and regulators to initiate competitive market-friendly policies that could serve as catalysts towards broader inclusive growth of Indian agriculture.

Courtesy: Cotton India 2016-17

(The views expressed in this column are of the author and not that of Cotton Association of India)

High Level Chinese Delegation Meets CAI President

A high level delegation from China, visited India and met CAI President Mr. Nayan C. Mirani and CAI Vice President Mr. Udayan B.Thakkar at the Willingdon Sports Club, Mumbai on Sunday, April 16, 2017.

According to CAI President Nayan C. Mirani, "It was a fruitful meeting and the discussion focused on several issues of mutual interest. This included the need for closer ties between the China Cotton Association (CCA) and Cotton Association of India (CAI). We are optimistic that a MOU will soon be signed between the CCA and CAI for extending mutual cooperation to serve both the Indian and Chinese cotton economies better."

The Chinese delegation comprised of Mr. Yang Rui, Vice President, All China Federation of Supply and Marketing Cooperatives (ACFSMC); Mr. Zhang Wangshu, Director, International Cooperation Department, ACFSMC; Mr. Wang Zhengwei, Deputy General Manager, China Co-op Group; Mr. Yang Zhaoliang, Deputy Director, Cotton and Jute Products Department; Ms. Fan Huiqun, Division Chief, Farm Inputs Department and Ms. Wang Man, Program Officer, International Cooperation Department, ACFSMC.

Monthly Average Cotlook A Index from 2011-12 onwards

(in US Cents per lb.)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
August	114.10	84.40	92.71	74.00	71.82	80.26
September	116.86	84.15	90.09	73.38	68.74	77.86
October	110.61	82.00	89.35	70.34	69.03	78.52
November	104.68	80.87	84.65	67.53	69.22	78.92
December	95.45	83.37	87.49	68.30	70.39	79.50
January	101.11	85.51	90.96	67.35	68.75	82.33
February	100.75	89.71	94.05	69.84	66.57	85.15
March	99.50	94.45	96.95	69.35	68.73	86.78
April	99.94	92.68	94.20	71.70	69.28	
May	88.53	92.70	92.71	72.89	70.28	
June	82.18	93.08	90.90	72.35	74.10	
July	83.97	92.62	83.84	72.35	81.06	

Source: Cotton Outlook

Glimpses of Ram Navami Celebrations held at the Shree Ram Temple, Cotton Green, on April 4, 2017

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COTTON EXCHANGE MARCHES AHEAD

Madhoo Pavaskar, Rama Pavaskar

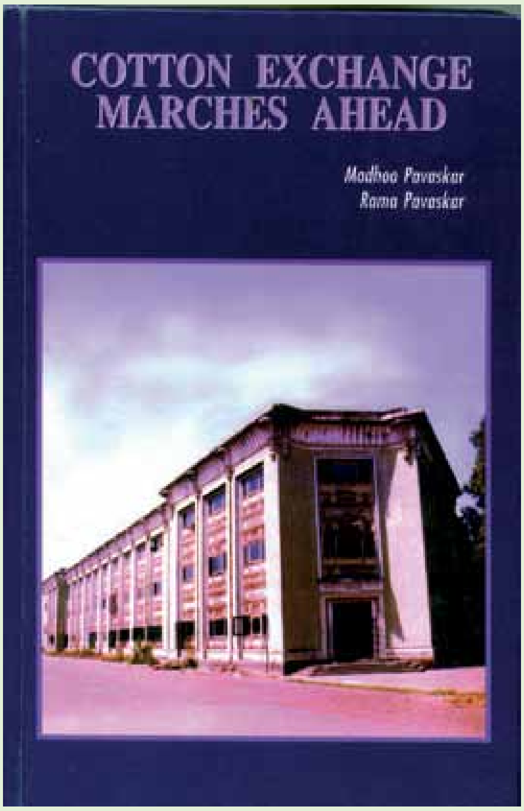
Chapter 5

March To Freedom - I

(Contd. from Issue No.3)

Need for Decanalisation

Liberalization of exports implies decanalisation as well. The practice of earmarking export quotas to the CCI and the State federations had failed to reap optimum benefits to the cotton economy and the external sector. Not only had the public sector and State agencies often failed to fulfill their allotted export quotas, but the unit value realisations from their exports had also been less than what should have been. This was not surprising. Most employees of these organizations had hardly any technical expertise in cotton and practically little experience in export marketing. In comparison, whenever the private trade was permitted to export, not only were the quotas allotted to it fulfilled fully, but better prices were invariably realised. In fact, in short and non-staple varieties like Bengal Deshi and Assam Comillas, the exports of which were freely open to all, the private trade grabbed virtually the entire quota, leaving occasionally just a few small crumbs to the public sector agencies.



The reasons for the superior export performance by the private trade are not hard to see. Unlike the employees of the public sector agencies and State marketing federations, cotton merchants have a direct stake in marketing cotton, either domestically or as exports. Hence, they assess carefully the requirements of buyers in terms of both quality and shipment schedules. Foreign mill buyers and their agents need cotton of specific types in terms of staple length, micronaire, fineness, etc., at definite time periods as per their inventory management policies. While the public sector and State agencies call for global tenders for bulk exports of cotton, or even sell for exports on "as is and where is basis", cotton merchants strive to meet the quality requirements of the individual overseas mill buyers and ship cotton according to the stipulated time schedules.

The difference between the operations of the public sector and State agencies on the one hand and the private cotton trade on the other, is that whereas the former export 'in bulk', cotton which has been already procured, the letter proceeds to buy cotton according to the desired specifications on procuring the export orders. That way merchants not only avoid wasteful investment in stocking cotton, but meet the specific requirements of buyers.

Cotton required by these buyers has to be prepared and blended right from the stage of purchase of kapas to its subsequent processing and baling. Here comes into play the requisite experience and expertise of the private traders, which give them a decisive edge over the government agencies and the State federations.

Small wonder, the overseas mill buyers and their agents have developed considerable trust in Indian cotton merchants and prefer to buy specific quality cotton from them in 'retail' at even high prices, whenever they are permitted to export. Specific quality 'retail' sales are necessarily more expensive than 'bulk' sales. While in the case of bulk sales, overseas trading firms importing cotton have to classify it before it is resold to the spinning mills, the shipments against retail sales enter directly the warehouses of spinners, since such cotton is already classified by the merchants.

The faith reposed in the private trade by the foreign buyers was also reflected in their cotton purchases from the CCI and State federations. Instead of buying directly from these agencies, overseas buyers, whether mills or trading firms, often used cotton merchants as their agents for making purchases on their behalf. It is indeed sad that while foreign buyers recognized the experience and expertise of our cotton merchants, the government's export policy all along failed to do so. That was a great national loss. The loss was all the more, for while the export sales of the public sector and State agencies were by and large on f.o.b. basis, cotton merchants exported mostly on c.i.f. or c.&.f. basis, realising thereby higher foreign exchange earnings for the country.

It was for this reason that the Cotton Exchange had always been proud of the achievement of its members wherever they were given an opportunity to participate in the country's cotton exports, even though they were denied their rightful share on the basis of merit and their lion's contribution to the domestic marketing of cotton. Since 1995-96 the government began releasing small export quotas of staple cotton to the private trade. Following bumper cotton production. But again from 1997-98 cotton merchants were left almost high and dry, following the shortfall in supplies in consecutive four years till 2000-2001. Small wonder, cotton exports dropped.

More recently, separate quotas began to be allotted to "ginners" and "most modern ginners", ostensibly to encourage modernization of ginneries and adoption of modern ginning practices. But when cotton merchants were ready and willing to sell cotton on the basis of quality specifications as stipulated by the foreign buyers, it was rather difficult to understand the rationale of creating new classes of exporters even within the private sector. What did the authorities really achieve by adopting such colonial 'divide and rule' policy? It was indeed a pity that even after realising self-sufficiency, King cotton was not free to sail abroad.

Triumph At Last

Against this backdrop, on May 27, 1999, Mr. Suresh Kotak, the present ebullient and energetic President of the East India Cotton Association, submitted to the Textile Ministry a detailed note on the "need for liberalization" in cotton export policy. The note succinctly argued at length most of the points in support of the export liberalization as outlined in this chapter. The demand from the Cotton Exchange for complete abolition of all the quantitative and quota restrictions on cotton exports gathered momentum since then, as imports began to swell. It was ironical that while professing loyalty to The World Trade Organization (WTO) by placing cotton imports under OGL, restrictions on exports with discriminatory quotas continued.

Finally, wisdom dawned on the authorities as the country entered the New Millennium. At long last, on June 2, 2001, the Union Minister for Textiles, Mr. Kashiram Rana announced at the Texprocil Awards Function in Mumbai that all restrictions on cotton exports were being removed. That was yet another triumph for the Cotton Exchange in its march towards freedom for King Cotton in both the domestic and international markets.

While complimenting the Textile Minister for taking timely decision and a progressive step, Mr. Suresh Kotak, in a press release issued on the same day of the export liberalization announcement, exhorted cotton farmers, processors and traders to gear up their efforts and prove that, given a level playing field, they can perform better. He impressed upon them to pay more urgent attention than ever before to the need for creating a brand equity for Indian cottons in international markets, by focussing efforts on improving our cotton qualities for exports and attending to contamination, adulteration and mixing problems. The realisation of the long cherished dream of total export liberalization by the Cotton Exchange verily marked yet another milestone in its march ahead.

Production Of Man-Made Filament Yarn

(In Mn. kg.)

Month	Viscose Filament yarn	Polyester Filament yarn	Nylon Filament yarn	Poly propylene Filament yarn	Total
2005-06	53.09	1075.82	36.84	13.58	1179.33
2006-07	53.98	1270.83	32.25	13.41	1370.48
2007-08	51.07	1420.14	27.62	10.51	1509.34
2008-09	42.42	1332.09	28.07	15.08	1417.66
2009-10	42.70	1434.88	30.35	14.79	1522.72
2010-11	40.92	1462.28	33.46	13.14	1549.79
2011-12	42.35	1379.52	27.95	13.19	1463.01
2012-13	42.63	1288.15	22.91	17.18	1370.87
2013-14	43.99	1212.43	24.09	12.91	1293.42
2014-15	44.24	1158.20	32.55	12.77	1247.76
2015-16	45.41	1068.80	37.26	12.66	1164.13
2016-17 (P) (Apr-Feb)	42.20	967.34	37.23	10.61	1057.38
2015-16					
April	3.80	95.97	3.22	1.09	104.08
May	3.70	96.03	3.01	0.99	103.73
June	3.69	82.80	2.69	0.95	90.13
July	3.78	82.67	3.11	1.12	90.68
August	3.81	86.94	2.96	1.13	94.84
September	3.82	89.67	2.81	1.00	97.30
October	3.83	89.49	3.17	1.00	97.49
November	3.75	87.58	2.86	1.32	95.51
December	3.82	90.60	3.29	0.91	98.62
January	3.83	93.31	3.36	1.02	101.52
February	3.78	86.91	3.32	1.10	95.11
March	3.80	86.83	3.46	1.03	95.12
2016-17 (P)					
April	3.78	84.08	3.30	0.96	92.12
May	3.88	85.31	3.38	0.96	93.53
June	3.90	84.93	3.27	0.95	93.05
July	3.98	89.83	3.46	0.99	98.26
August	3.97	90.88	3.38	0.97	99.20
September	3.75	89.11	3.67	0.96	97.49
October	3.89	93.00	3.69	1.05	101.63
November	3.78	86.49	3.06	0.77	94.10
December	3.84	84.59	2.76	0.80	91.99
January	3.87	93.21	3.77	1.10	101.95
February	3.56	85.91	3.49	1.10	94.06

P - Provisional

Source : Office of the Textile Commissioner

UPCOUNTRY SPOT RATES

(Rs./Qtl)

Standard Descriptions with Basic Grade & Staple in Millimetres based on Upper Half Mean Length [By law 66 (A) (a) (4)]							Spot Rate (Upcountry) 2016-17 Crop APRIL 2017					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	17th	18th	19th	20th	21st	22nd
1	P/H/R	ICS-101	Fine	Below 22mm	5.0-7.0	15	9476 (33700)	9505 (33800)	9505 (33800)	9505 (33800)	9561 (34000)	9561 (34000)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0-7.0	15	9758 (34700)	9786 (34800)	9786 (34800)	9786 (34800)	9842 (35000)	9842 (35000)
3	GUJ	ICS-102	Fine	22mm	4.0-6.0	20	8155 (29000)	8155 (29000)	8155 (29000)	8155 (29000)	8155 (29000)	8155 (29000)
4	KAR	ICS-103	Fine	23mm	4.0-5.5	21	9448 (33600)	9448 (33600)	9448 (33600)	9448 (33600)	9448 (33600)	9448 (33600)
5	M/M	ICS-104	Fine	24mm	4.0-5.0	23	10657 (37900)	10657 (37900)	10657 (37900)	10657 (37900)	10657 (37900)	10657 (37900)
6	P/H/R	ICS-202	Fine	26mm	3.5-4.9	26	12232 (43500)	12288 (43700)	12288 (43700)	12345 (43900)	12485 (44400)	12429 (44200)
7	M/M/A	ICS-105	Fine	26mm	3.0-3.4	25	10236 (36400)	10236 (36400)	9814 (34900)	9814 (34900)	9870 (35100)	9814 (34900)
8	M/M/A	ICS-105	Fine	26mm	3.5-4.9	25	10489 (37300)	10489 (37300)	10095 (35900)	10095 (35900)	10151 (36100)	10095 (35900)
9	P/H/R	ICS-105	Fine	27mm	3.5.4.9	26	12401 (44100)	12457 (44300)	12457 (44300)	12513 (44500)	12654 (45000)	12598 (44800)
10	M/M/A	ICS-105	Fine	27mm	3.0-3.4	26	10461 (37200)	10461 (37200)	10095 (35900)	10095 (35900)	10151 (36100)	10095 (35900)
11	M/M/A	ICS-105	Fine	27mm	3.5-4.9	26	10826 (38500)	10826 (38500)	10376 (36900)	10376 (36900)	10432 (37100)	10376 (36900)
12	P/H/R	ICS-105	Fine	28mm	3.5-4.9	27	12457 (44300)	12513 (44500)	12513 (44500)	12570 (44700)	12738 (45300)	12682 (45100)
13	M/M/A	ICS-105	Fine	28mm	3.5-4.9	27	11557 (41100)	11557 (41100)	11529 (41000)	11529 (41000)	11585 (41200)	11585 (41200)
14	GUJ	ICS-105	Fine	28mm	3.5-4.9	27	11670 (41500)	11670 (41500)	11670 (41500)	11670 (41500)	11670 (41500)	11670 (41500)
15	M/M/A/K	ICS-105	Fine	29mm	3.5-4.9	28	11867 (42200)	11867 (42200)	11810 (42000)	11810 (42000)	11895 (42300)	11867 (42200)
16	GUJ	ICS-105	Fine	29mm	3.5-4.9	28	12007 (42700)	12007 (42700)	12007 (42700)	12007 (42700)	12063 (42900)	12063 (42900)
17	M/M/A/K	ICS-105	Fine	30mm	3.5-4.9	29	12204 (43400)	12204 (43400)	12148 (43200)	12148 (43200)	12204 (43400)	12204 (43400)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5-4.9	30	12513 (44500)	12513 (44500)	12457 (44300)	12457 (44300)	12513 (44500)	12485 (44400)
19	A/K/T/O	ICS-106	Fine	32mm	3.5-4.9	31	12935 (46000)	12935 (46000)	12879 (45800)	12879 (45800)	12879 (45800)	12879 (45800)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0-3.8	33	16310 (58000)	16310 (58000)	16169 (57500)	16169 (57500)	16169 (57500)	16169 (57500)

(Note: Figures in bracket indicate prices in Rs./Candy)