

# Techno-Economic Viability Study of North Eastern Regional Agricultural Marketing Corporation Limited (NERAMAC)

Part-II



**NORTH EASTERN DEVELOPMENT FINANCE CORPORATION LIMITED**

## **TITLE OF THE STUDY**

### **TECHNO-ECONOMIC VIABILITY STUDY OF**

### **NORTH EASTERN REGIONAL AGRICULTURAL MARKETING CORPORATION LIMITED (NERAMAC) PART-II**

## **EXECUTIVE SUMMARY**

The eight states of the North Eastern Region of India with 3.77% of country's total population and 8% of land area, contributes a little over 2.5% of the GDP of the country. Economy of the region is largely agrarian in nature and more than 70% of the population are engaged in agriculture for livelihood. The soil and climatic condition of the region are favourable for cultivation of variety of field crops and horticultural crops. Rich natural resources including the medicinal and aromatic plants, spices, numerous seasonal vegetables, tropical and sub-tropical fruits and flowers are available in abundance in the region. But, due to inherent bottlenecks, the agricultural commodities of the region are still not able to get access to the large domestic market.

It is expected that, the recent focus of the Government to make the North Eastern Region an organic hub will boost the agricultural economy of the region. There are various high value horticultural/spice products in the region which have high domestic as well as international demand. The eight states of the region are taking their own initiative to promote the agri- horticultural sector in isolation. Hence, there is a need for a central agency which can take an integrated approach to address all the issues related to development of the sector including aggregation and marketing for all the eight states.

North Eastern Regional Agri-Marketing Corporation Limited (NERAMAC) was established by the North Eastern Council (NEC) in the year 1982. The Corporation had undertaken activities on food processing and marketing of agri-horticultural produce. It was referred to Board of Industrial and Financial Reconstruction (BIFR) in the year 1996 and a revival package was prepared in the year 1999. The Corporation however fell sick again after few years.

NEDFi was entrusted with the work of preparing a Techno-Economic Viability Report of NERAMAC by Ministry of DoNER in July, 2015 and a status report on its viability was submitted to the Ministry in November, 2015 which formed the part I of the report.

During the visit of Secretary, Ministry of DoNER to Guwahati on December 14, 2015, a meeting was held with the officials of NERAMAC and NEDFi. A detailed discussion was held on the findings of the report. The Secretary, M-DoNER desired that the study needs to come out with a specific revival plan for NERAMAC after examination of all aspects including the mandate given to NERAMAC, governance structure, management issues, operational strategy and resource requirement. He further observed that since North Eastern Region Community Resource Management Project (NERCORMP) and North East Rural Livelihood Project (NERLP) are two livelihood projects being executed under the Ministry of DoNER, the role of NERAMAC to market the products of the beneficiaries of the livelihood projects will facilitate convergence.

The revival plan was submitted to Ministry of DoNER and based upon this a meeting was held at the office of Ministry of DoNER on 16<sup>th</sup> March, 2016 which was chaired by Secretary, MoDoNER and attended by senior officials of Ministry of DoNER, Ministry of Food Processing, officials of NERAMAC, domain experts and study team of NEDFi. Suggestions have been made in terms of mandate and the governance structure, revenue model, man power restructuring and resource requirement.

Based on the suggestion made during the meeting and further research by NEDFi study team, the revival plan is now prepared as follows-

#### **MANDATE AND GOVERNANCE STRUCTURE**

1. Authorized share capital is to be raised from ` 10 Crore to ` 100 Crore.
2. The Board of Directors of the Corporation may be reconstituted with a minimum of 5 and a maximum of 11 members. It is proposed that the composition of the Board may be reconstituted with the induction of 3 (three) professionals from the field of agri- marketing/agri-processing/FMCG, finance and food processing technology. The other members of the proposed Board will include two members from Ministry of DoNER, one from Ministry of Food Processing, one from Ministry of Agriculture and Farmer Welfare and one representative from NEC. The government nominee directors preferably be in the rank of Secretary/ Additional Secretary to the Government of India and in no case it should be lower than the rank of Joint Secretary to Government of India. A professional

with adequate experience in the field of agri-marketing/agri-processing/FMCG may be appointed as Managing Director. Implementation of revival package will require effective governance, convergence with schemes of M-DoNER/other ministries, proper guidance and direction. Therefore, the study recommends Secretary, M-DoNER to chair the Board for successful implementation of the proposed revival plan.

3. To enable the Corporation to widen the scope of its activities, the phrase “Horticultural Products” in the main objects of the Memorandum of Association of the Corporation, may be substituted with “Agricultural Produce, Horticultural Produce, Plantation Crops, Spices, Minor Forest Produce, Floriculture and Medicinal and Aromatic Plant”.
4. Main objects in Memorandum of Association of the Corporation may be amended to enable the organization for equity participation in emerging food processing units of North Eastern Region and offer advisory & consultancy services in the area of organic adoption and certification.
5. The Article of Association may incorporate a clause regarding induction and rotation of independent directors on the Board of Directors as per the provision of Companies Act, 2013.
6. It is proposed that the name of the Corporation may be suitably modified considering the eroded reputation of the Corporation which was gathered during the discussions with various stakeholders. A concerted effort may also be made to build a vibrant and strong brand to meet the expectation of the stakeholders.

## **BUSINESS STRATEGY**

The Corporation will start its business operation through 2 (two) verticals viz- Marketing of Perishable Crops and Marketing of Non-Perishable Crops. The Perishable Crops division will mainly deal with fresh fruits, vegetables, floriculture etc. which have shorter shelf-life and Non- Perishable Crops division will deal with spices, minor forest produces, processed food products and other agri-commodities which have longer shelf-life.

After stabilization of the core business of procurement and marketing as stated above, the Corporation will venture into consultancy and advisory services in the area of organic adoption

and certification, which will enable them to contribute in making NER an organic hub as per the policy priority set by the Government of India.

The Non-Perishable Crops division is expected to generate an annual turn-over of ` 22.96 Crore by marketing 2377 MT of produces like ginger, turmeric, bay leaf, large cardamom, dried kingchilli, dried cashew nut and hill grass. The Perishable crop division is expected to generate an annual turn-over of ` 85.00 Lakh by marketing 320 MT of produces like Pineapple, Orange and Kiwi.

To achieve this, the Corporation may also collaborate with organizations like NERLP, NERCORMP, GINFED, Spice Board of India, National Dairy Development Board and North East Mega Food Park etc. to bring necessary convergence and synergy in its operation.

The Consultancy and Advisory division of the Corporation will extend services in the area of organic adoption & certification which is expected to earn a fee of ` 8 Lakh, from the second year onwards, on stabilization of the core activities of procurement and marketing.

NERAMAC has 4 processing plants. The Pineapple juice Concentration Plant at Nalkata, Tripura was not found to be economically viable since its inception. All earlier efforts to revive the unit have failed and it is not in operation since 2012. Similarly, the Cashew Nut Processing Plant at Agartala, Tripura had to be closed down due to objections raised by State Pollution Control Board. The Ginger Processing Plant at Byrnihat, Meghalaya is not in operation since 2012. The location is not suitable for food processing unit as nearby locations have been occupied by heavy industries like steel and cement factories. It is proposed that these three plants may be closed by disposing off its assets as per the standard government norms or handed over to respective state governments. The new Cashew Nut Processing Plant at Mancachar, Assam

which is yet to be commissioned can be made operational with investment of ` 53 Lakh. The Corporation may offer to run the plant on lease rental basis to experienced private parties through a transparent selection process. This is expected to generate revenue of ` 20 Lakh per annum without any additional investment in manpower and working capital. The Corporation may explore possibilities with the selected private party to also offer common service facilities

to the farmers/entrepreneurs and to the Corporation, against payment of processing fees which will be predetermined by the Corporation and will be included in the lease agreement.

The medium and long term business strategy will include e-marketing as well as franchise outlets of fresh as well as processed agri-horticultural products under the brand name of NE- FRESH, capacity building programme for farmers/entrepreneurs, encouraging contract farming, setting up of post harvest management centres and market linkages in collaboration with NERLP, NERCORMP, NDDB, TRIFED and equity participation in food processing units etc.

### **STRATEGIES FOR HUMAN RESOURCE MANAGEMENT**

A lean organization is proposed with professionals and experts having domain knowledge in the areas of agri-marketing, consultancy & advisory services and finance to implement the proposed business strategy. The proposed manpower for the Corporation is 28, out of which 12 will be in the regular cadre and the balance 16 will be outsourced on contract basis. This will facilitate flexibility in hiring manpower as per requirement of business.

In the projected business strategy, very few of the existing regular manpower have the requisite qualification and experience to match the job profiles. It is proposed that, approximately 15% of the existing manpower can be retained under the proposed management structure and rest may be offered voluntary retirement scheme as per extant guidelines of

Government of India. The total requirement of funds towards VRS of regular employees is estimated at ` 5.00 Crore which includes gratuity payables.

Generally casual employees are not eligible for VRS benefit as they are engaged for short term. However, the Corporation may consider offering a special VRS package to the casual employees at 50% of the maximum eligible amount of regular employees. This will require a fund support

of ` 79.08 Lakh including the requirement of ` 31.86 Lakh towards gratuity.

### **RESOURCE REQUIREMENT**

The fund requirement for implementation of the proposed revival package is estimated at around ` 20.86 Crore which is summarized below, details of the estimate is mentioned at Chapter 4-

Sl. No	Particulars	Amount required (in ` Lakh)
1	Funds for VRS of regular Employees	500.42
2	Fund for VRS & Gratuity payment of casual employees	79.08
3	Funds required for Processing Plant Upgradation	53.00
4	Salary & Wages	175.40
5	Administrative Expenses	102.00
6	Working Capital	711.74
7	Business Development Expenses	138.00
8	Office Establishment Expenses	35.00
9	ERP Software Expenses	50.00
10	Funds towards settlement of trade payable	242.00
	Total	2086.64

### **CONTINGENT LIABILITY**

A provision of ` 5 Crore may be made towards arrear salary of 25 casual workers which is based on decision of Labour Court to regularize their service with effect from 23<sup>rd</sup> April, 2004.

However, this is subjected to outcome of appeal made by NERAMAC in Gauhati High Court.