

Press Release

Food Corporation of India

February 04, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 75,000.00 Cr.
Short Term Rating	ACUITE A1+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the short-term rating of '**ACUITE A1+**' (read as **ACUITE one plus**) on the Rs. 75,000.00 Cr short-term bank facilities of Food Corporation of India.

Rationale for Assigned Rating

The rating assigned considers the 100 percent ownership of Government of India (GoI) in Food Corporation of India (FCI), its strategically important role in domestic food security through a well-established chain of operations from procurement, storage, transport to distribution of food grains and other food items across the country. Further, the rating also takes into cognizance of FCI's liquidity position that is strong and well supported by its access to funds at competitive rates, like short-term loans, food credits, CC limits and loans from national savings schemes. However, the rising food subsidy arrears from GoI has been a challenge for FCI leading to an increased debt burden.

About the Corporation

The Food Corporation of India (FCI) is an organization created and run by the Government of India. It is a statutory body under the Ministry of Consumer Affairs, Food and Public Distribution of Government of India which was set up under the Food Corporation's Act 1964 in order to fulfill following objectives of the food policy:

- Effective price support operations for safeguarding the interests of the farmers
- Distribution of food grains throughout the country for public distribution system
- Maintaining satisfactory level of operational and buffer stocks of food grains to ensure national food security
- Regulate market price to provide food grains to consumers at a reliable price

The Food Corporation of India (FCI) was established in 1964 for the purpose of procurement, storage and distribution of food grains. It has been playing a major role in the food security of India.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of FCI for arriving at the rating while also taking account of the inherent backing of Government of India given its 100 percent ownership in the former and strategic importance of the corporation for the country.

Key Rating Drivers

Strengths

- **Critical importance of the Corporation for food security and complete GoI ownership**

Food Corporation of India is a 100 percent GoI owned undertaking that has been operational more than five decades now. It was established in 1964 for the purpose of procurement, storage and distribution of food grains. It has been playing a major role in the food security of India. FCI was incorporated with the intent to safeguard the interest of the farmers, distribution of food grains throughout the country by way of public distribution system and maintaining satisfactory levels of buffer stock to ensure national food security.

FCI's credit profile is strengthened by a strong expectation of support from the Government of India whereby GoI has provided an undertaking to reimburse the losses arising out of the MSP operations in the form of food subsidy. Additionally, GoI has also issued a guarantee in favour of FCI's lenders towards specific borrowings (both long term and short term), which shows Government's commitment to support the operations of FCI. The strong parentage in the form of the sovereign ownership and the

pronouncements in the form of Letter of Comfort as well as the loss reimbursement undertaking has enabled FCI to raise funds at competitive pricing from the financial institutions.

Acuite believes that FCI will continue to play a pivotal role in government's support to the farmers and will benefit from the ownership of Government of India.

- **Extensive infrastructure for storage and distribution**

FCI is the nodal agency for procurement, storage and distribution of essential food items in our country. FCI along with other State Agencies undertakes procurement of wheat and paddy under price support scheme. Coarse grains are procured by State Government Agencies for Central Pool as per the direction issued by Government of India on time to time. The procurement under Price Support is taken up mainly to ensure remunerative prices to the farmers for their produce which works as an incentive for achieving better production. As a nodal agency of procurement, FCI is also required to store the huge inventory of food grains over a significant period of time to ensure national food security. Besides having own storage capacity, FCI has hired storage capacities from Central Warehousing Corporation, State Warehousing Corporations, State Agencies and Private Parties for short term as well as for guaranteed period under Private Entrepreneurs Guarantee Scheme.

These stocks are transported throughout India and issued to the State Government nominees at the rates declared by the Govt of India for further distribution under the Public Distribution System (PDS) for the consumption of the ration card holders. FCI by itself is not a decision-making authority, it does not decide anything about the MSP, imports or exports. It just implements the decisions made by the Government of India.

FCI being the nodal central agency of Govt, plays a significant role in maintaining India's surplus food security system by acting as a facilitator for food security by providing price & market assurance to the farmers, ensuring steady food grain supplies for Public Distribution System (PDS), Targeted PDS (TPDS) National Food Security Act, 2013 (NFSA) and other welfare schemes undertaken by Govt.

- **FCI's role during the pandemic**

During the months of April to Dec 2020 the wastage of grains in FCI go-downs have been negligible. FCI moved more than double of its average food grains across the country during the lockdown. In the initial period of lockdown, FCI moved a mammoth 494.93 lakh metric tonnes of grain from April to December, 2020 against 283.11 lakh metric tonnes in the same period last year. The government's initial announcement of Rs 1.74 lakh Cr in funds and measures to provide extra rations through its targeted public distribution system (TPDS) and various other schemes for the first three months, doubling the quantity and free distribution of 5 kg of rice or wheat and 1 kg of pulses and additional provisions of cash, have been very helpful to poor and vulnerable families. FCI has opened up the go-downs to release food stocks and sent over enough stocks to states throughout the country to ensure food security.

Weaknesses

- **Increasing food subsidy arrears leading to higher debt burden**

FCI undertakes procurement at Minimum Support Price (MSP) and issues the same for PDS scheme at a subsidized rate and that expenses are supported by government regulated food subsidies. Currently, FCI has an outstanding subsidy receivable of Rs 2,43,779 Cr as on March 31, 2020. Rise in food subsidy bills has happened since NFSA 2013 was implemented where the beneficiaries kept increasing while the sale price was constant for wheat and rice. At the same time procurement prices have been on the rise with higher minimum support price and rising procurement by FCI. However, against these arrears of subsidy the government has made provisions of raising loans from various sources such as the National Small Savings Fund (NSSF), Short Term Loans, Bonds and Cash Credit Limits (CCL) sanctioned by the banks for FCI to meet actual food subsidy expenses.

In FY2020, the food subsidy allocation of Rs 1.84 lakh Cr was reduced by Rs 75,000 Cr (for FCI), according to the revised estimate through provisioning of additional Rs 1.1 lakh Cr loans under NSSF. It was earlier Rs 1.51 lakh Cr for FCI and Rs 33,000 Cr for the states following decentralized procurement system. Out of these NSSF loans that FCI had been availing since 2016-17, Rs 46,400 Cr went towards repayment of earlier loans availed from NSSF. This results in the continuous drawing of loans from the NSSF to bridge the gap in budgetary allocation towards food subsidy.

Rating Sensitivities

- Changes in ownership of FCI or diversion of support from Govt

Liquidity: Superior

FCI's has large availability of funds in the form of short-term loans, food credits, CC limits and NSSF loans to support the operations. Further, its large working capital limits are owing to the heavy procurement and storage of food grains for over a period of 6 months as a matter of national food security. The working capital borrowings stood at Rs. 44,265.28 Cr. as on 31 March 2020 (Prov) on account of increase in the inventory levels. Further, to cover the liquidity gaps caused due to increasing food subsidy arrears FCI is raising additional short-term loans not exceeding more than Rs 75,000 Cr, repayable in 180 days. However, notably, the ownership and the company's strategic importance to the government strongly supports its ability to raise additional debt at a competitive rate from its lenders, thereby mitigating any liquidity risks.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Provisional)
Operating Income	Rs. Cr.	1,57,351.69	1,53,961.22
PAT	Rs. Cr.	(0.00)	0.00
PAT Margin	(%)	(0.00)	0.00
Total Debt/Tangible Net Worth	Times	31.77	31.65
PBDIT/Interest	Times	1.00	1.01

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Any Material Covenants

Not Any

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Short Term Loan	Not Applicable	Not Applicable	Not Applicable	12,000	ACUITE A1+ (Assigned)
Short Term Loan	Not Applicable	Not Applicable	Not Applicable	12,000	ACUITE A1+ (Assigned)
Short Term Loan	Not Applicable	Not Applicable	Not Applicable	14,000	ACUITE A1+ (Assigned)
Short Term Loan	Not Applicable	Not Applicable	Not Applicable	2,500	ACUITE A1+ (Assigned)
Short Term Loan	Not Applicable	Not Applicable	Not Applicable	11,350	ACUITE A1+ (Assigned)
Short Term Loan	Not Applicable	Not Applicable	Not Applicable	7,500	ACUITE A1+ (Assigned)
Short Term Loan	Not Applicable	Not Applicable	Not Applicable	1,000	ACUITE A1+ (Assigned)
Short Term Loan	Not Applicable	Not Applicable	Not Applicable	14,650	ACUITE A1+ (Assigned)

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About Acuité Ratings & Research:

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