

Press Release

Food Corporation of India

January 20, 2022

Rating Reaffirmed



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|------------------------------------|------------------|----------------------------------|-------------------------|
| Bank Loan Ratings | 9495.00 | ACUITE AAA Stable Reaffirmed | - |
| Bank Loan Ratings | 50000.00 | - | ACUITE A1+ Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 59495.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE AAA**' (read as **ACUITE t riple A**) on the Rs. 9495 Cr. bank facilities and the short-term rating of '**ACUITE A1+**' (read as **ACUITE one plus**) on the Rs. 50,000.00 Cr. bank facilities of Food Corporation of India (FCI). The outlook is 'Stable'.

Rationale for Reaffirmed Rating

The rating reaffirmed considers the 100 percent ownership of Government of India (GoI) in 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 GOI guaranteed bonds.

About the Company

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

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 GOI 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 Gol ownership

FCI is a 100 percent Gol 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 Gol has provided an undertaking to reimburse the losses arising out of the MSP operations in the form of food subsidy. Additionally, Gol has also issued a Letter of Comfort in favour of FCI's lenders, 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.

Acuité 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 GOI 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 GOI 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 Ministry of Food and Ministry of Agriculture.

FCI being the nodal central agency of Gol, 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 Gol.

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 1.93 lakh metric tonnes of grain in just two days. 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

Volatility in PDS requirement

Production of food grains are largely dependent upon the factors like monsoon, Minimum Support Price amongst others. The wide variation in production puts a challenge on handling the high level of procurement, storage, movement and distribution of food grains. Similarly, at the time of low production, the Corporation has to import food grains to meet PDS requirement. The depleting man power at the Corporation makes the wide variation in the operations a challenge to manage.

Rating Sensitivities

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

Material covenants

None

Liquidity Position - Superior

FCI's has large availability of funds in the form of short-term loans, food credits, CC limits and GoI guaranteed bonds 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. 23,301.06 Cr. as on 31 March 2021 (Provisional) on account of decrease in the inventory levels. 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.

Outlook: Stable

Acuité believes that FCI will maintain a 'Stable' outlook over the medium term on account of its strategic importance to the government in managing its food security programme.

Key Financials

| Particulars | Unit | FY 21 (Provisional) | FY 20 (Provisional) |
|-------------------------------|---------|---------------------|---------------------|
| Operating Income | Rs. Cr. | 242580.94 | 157351.69 |
| PAT | Rs. Cr. | 0.00 | 0.00 |
| PAT Margin | (%) | 0.00 | 0.00 |
| Total Debt/Tangible Net Worth | Times | 9.49 | 31.77 |
| PBDIT/Interest | Times | 1.00 | 1.00 |

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|-------------|---------------------------------------|-------------|------------------------|--------------------------------|
| 01 Dec 2021 | Cash Credit | Long Term | 9495.00 | ACUITE AAA Stable (Assigned) |
| | Short Term Loan | Short Term | 13500.00 | ACUITE A1+ (Reaffirmed) |
| | Short Term Loan | Short Term | 21250.00 | ACUITE A1+ (Reaffirmed) |
| | Short Term Loan | Short Term | 14250.00 | ACUITE A1+ (Reaffirmed) |
| | Short Term Loan | Short Term | 1000.00 | ACUITE A1+ (Reaffirmed) |
| 14 Oct 2021 | Short Term Loan | Short Term | 14250.00 | ACUITE A1+ (Reaffirmed) |
| | Short Term Loan | Short Term | 13500.00 | ACUITE A1+ (Reaffirmed) |
| | Short Term Loan | Short Term | 1000.00 | ACUITE A1+ (Reaffirmed) |
| | Short Term Loan | Short Term | 21250.00 | ACUITE A1+ (Reaffirmed) |
| 14 Jul 2021 | Short Term Loan | Short Term | 13800.00 | ACUITE A1+ (Reaffirmed) |
| | Short Term Loan | Short Term | 11350.00 | ACUITE A1+ (Reaffirmed) |
| | Proposed Bank Facility | Short Term | 24850.00 | ACUITE A1+ (Reaffirmed) |
| 04 Feb 2021 | Short Term Loan | Short Term | 12000.00 | ACUITE A1+ (Assigned) |
| | Short Term Loan | Short Term | 14000.00 | ACUITE A1+ (Assigned) |
| | Short Term Loan | Short Term | 1000.00 | ACUITE A1+ (Assigned) |
| | Short Term Loan | Short Term | 11350.00 | ACUITE A1+ (Assigned) |
| | Short Term Loan | Short Term | 14650.00 | ACUITE A1+ (Assigned) |
| | Short Term Loan | Short Term | 2500.00 | ACUITE A1+ (Assigned) |
| | Short Term Loan | Short Term | 12000.00 | ACUITE A1+ (Assigned) |
| | Short Term Loan | Short Term | 7500.00 | ACUITE A1+ (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|----------------------|----------------|-----------------|------------------|----------------|----------------|-------------------|----------------------------------|
| State Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 9495.00 | ACUITE AAA Stable Reaffirmed |
| Union Bank of India | Not Applicable | Short-term Loan | Not Applicable | Not Applicable | Not Applicable | 12250.00 | ACUITE A1+ Reaffirmed |
| South Indian Bank | Not Applicable | Short-term Loan | Not Applicable | Not Applicable | Not Applicable | 1000.00 | ACUITE A1+ Reaffirmed |
| State Bank of India | Not Applicable | Short-term Loan | Not Applicable | Not Applicable | Not Applicable | 22500.00 | ACUITE A1+ Reaffirmed |
| Punjab National Bank | Not Applicable | Short-term Loan | Not Applicable | Not Applicable | Not Applicable | 14250.00 | ACUITE A1+ Reaffirmed |

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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