

January 12, 2023

## Farmers Agriculture Credit Co-operative Society Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund-based bank facility	9.75	9.75	[ICRA]A4; Reaffirmed
<b>Total</b>	<b>9.75</b>	<b>9.75</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating reaffirmation factors in Farmers Agriculture Credit Co-operative Society Limited's (FACCSL) established track record of over four decades, access to funds at favourable rates and adequate capital profile. The rating is, however, constrained by the modest scale of operations with a portfolio of Rs. 13.5 crore as on March 31, 2022 (Rs. 11.3 crore as on March 31, 2021), geographically concentrated operations with a presence in a single district and the marginal borrower profile, which remains vulnerable to income shocks and agro-climatic risk. Given the short-term nature of most of the advances, the society's portfolio remains small, though disbursements increased gradually to Rs. 28.0 crore in FY2022 from Rs. 26.9 crore in FY2021 (Rs. 21.1 crore in FY2020). The society receives subsidy and interest subvention for the loans offered, though the timeliness of the same would be crucial from a liquidity perspective.

### Key rating drivers and their description

#### Credit strengths

**Established track record of operations** – FACCSL is a co-operative society established in 1976 in the Periyapatna region (Mysuru district, Karnataka) and registered under the Co-operative Societies Act. The society was established for financing agriculture and agriculture-allied activities. It extends agri loans to about 30 villages in and around Periyapatna town. Loans extended by FACCSL are eligible for subsidies and interest subvention from various schemes of the state and Central governments, the benefits of which are passed on to the borrowers.

**Access to funds at favourable rates and adequate capital profile** – FACCSL's members provide share capital at the time of joining the society and contribute 10% of the loan amount availed towards the share capital at the time of availing a loan. Further, the society receives deposits from members at average interest rates of about 7-8%, which support its cost of funds. As on March 31, 2022, the society's total share capital and deposits stood at Rs. 4.02 crore and Rs. 19.2 crore, respectively.

In addition, deposits with a maturity of about 1 year accounted for 74% of the total borrowings as on March 31, 2022. FACCSL also received funding through a Kisan Credit Card (KCC) facility from banks (26% of total borrowings as on March 31, 2022). The rate of interest for this facility is 7.0% (reduced from 10.7%) and is largely used for extending crop loans. FACCSL's capital profile is adequate with a gearing of 4.2 times as of March 2022 (3.7 times as of March 2021).

#### Credit challenges

**Modest scale and limited geographical diversity** – FACCSL's product profile comprises of crop loans, agriculture-allied activity loans, gold loans and loans against member deposits. It had also introduced two-wheeler loans. FACCSL's scale of operations remains small with a loan portfolio of Rs. 13.5 crore as on March 31, 2022 (Rs. 11.3 crore as on March 31, 2021). As of March 2022, agriculture-allied activity loans, crop loans, gold loans, and deposit loans constituted 65.9%, 10.8%, 12.7% and 7.1%, respectively, of the loan portfolio. Although crop loans account for the majority of the disbursements (76% in FY2022),

repayments at the end of March in any fiscal reduce the year-end outstanding. As such, the overall portfolio remains small at year-end despite the gradual scaling-up of disbursements (Rs. 27.9 crore in FY2022 from Rs. 26.9 crore in FY2021 and Rs. 21.1 crore in FY2020).

However, going forward, FACCSL's scope to scale up its operations and earnings is limited as it is expected to function in its existing area of operations, which is the Periyapatna region (comprising 30 villages) in Mysuru district, Karnataka. The concentration of the assets under management (AUM) in one district exposes the company to regional risks.

**Asset quality vulnerable to agro-climatic conditions and marginal borrower profile** – The rating factors in the susceptibility of FACCSL's loan portfolio to agro-climatic risks as crop loans form the majority of its disbursements. FACCSL's overdue accounts/annual disbursements stood at 2.82% in FY2022 compared to 1.86% in FY2021. Its borrowers are primarily marginal farmers with limited ability to absorb economic and agro-climatic shocks.

**Lack of robust regulatory framework for co-operative entities** – FACCSL is registered under the Co-operative Societies Act and is not regulated by the Reserve Bank of India (RBI). The regulatory framework for co-operative societies is quite limited compared to the requirements of RBI-regulated non-banking financial companies.

### Liquidity position: Stretched

As of November 30, 2022, FACCSL had an unutilised KCC facility of Rs. 0.2 crore and fixed deposits of Rs. 1.2 crore, which would be used for further disbursements. The society does not have any other bank facilities apart from the KCC facility at present. Significant reliance on deposit mobilisation from members and limited availability of other funding avenues at present are areas of concern from a liquidity perspective.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the rating if the society grows and diversifies its portfolio, while maintaining a healthy asset quality and earnings profile and improving its liquidity.

**Negative factors** – ICRA could downgrade the rating if the liquidity profile weakens.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Non-banking Finance Companies</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the society

### About the company

Farmers Agriculture Credit Co-operative Society Limited (FACCSL; erstwhile Syndicate Rythara Sahakara Sanga Niyamita) was incorporated in 1976 as a multi-state state co-operative society. It extends advances for various farming requirements in and around 30 villages in Periyapatna, which is in the Mysuru district of Karnataka. The society also trades (small-sized) in fertilisers, seeds and food grains and provides warehouse facilities to farmers. It receives interest subvention as well as subsidies under various schemes of the Central and state governments.

As on March 31, 2022, FACCSL had a total member base of 2,904 and a total managed portfolio outstanding of Rs. 13.5 crore. In FY2022, the society reported a net profit of Rs. 0.2 crore (provisional) on a total asset base of Rs. 34.9 crore (provisional) vis-à-vis a net profit of Rs. 0.8 crore on a total asset base of Rs. 32.6 crore in FY2021.

### Key financial indicators

FACCSL	FY2020	FY2021*	FY2022*
Total income	3.4	3.5	3.3
Profit after tax	0.3	0.8	0.2
Net worth	5.3	6.3	6.2
Loan book	14.9	11.3	13.5
Total assets	28.0	32.6	34.9
Return on assets	0.9%	2.7%	0.5%
Return on net worth	4.9%	13.9%	2.7%
Gross gearing (times)	3.8	3.7	4.2
Gross NPA <sup>^</sup>	2.5%	4.4%	5.9%
Net NPA	NA	NA	NA
CRAR	NA	NA	NA

Source: FACCSL, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations

<sup>^</sup>Gross NPA% – Total overdues/Portfolio outstanding; Amount in Rs. crore

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Jan 12, 2023	Nov 18, 2021	Sep 30, 2020	Jun 28, 2019	
1	Bank facility	Short term	9.75	9.75	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term fund-based bank facility	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	<b>Short-term fund-based bank facility</b>	NA	NA	NA	9.75	[ICRA]A4

Source: FACCSL

**Annexure II: List of entities considered for consolidated analysis**

Not Applicable

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