

February 23, 2023

Food Corporation of India: Rating reaffirmed at [ICRA]AAA (CE) (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	5,000.0	5,000.0 [^]	[ICRA]AAA (CE) (Stable); Rating reaffirmed
Non-Convertible Debentures	8,000.0	8,000.0 ^{^^}	[ICRA]AAA (CE) (Stable); Rating reaffirmed
Total	13,000.0	13,000.0	

Rating Without Explicit Credit Enhancement

[ICRA]AA+

*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

[^] Series V Bonds

^{^^} Series IX Bonds

Rationale

The ratings are based on the strength of the unconditional and irrevocable guarantees issued by the Ministry of Consumer Affairs, Food and Public Distribution, Government of India (GoI). The guarantees have a structured payment mechanism designed to ensure timely payment of both the principal and the interest amount of the rated instrument, in case the guarantee has to be invoked by the Trustee. The rating also continues to draw strength from the strategic importance of FCI as the country's nodal agency for food procurement activity and maintenance of buffer stocks. ICRA notes the demonstrated track record of strong support from the GoI, which reimburses all the expenses incurred by FCI for the procurement of food grains by way of consumer subsidy.

The Stable outlook on this rating reflects ICRA's expectation of continued support from the Government of India (GoI), given the strategic importance of the entity as the country's nodal agency for food procurement activity and maintenance of Government stock.

Adequacy of credit enhancement

The ratings of the instruments are based on the credit enhancement features available as a part of the structure. The guarantees are legally enforceable, irrevocable, unconditional, cover the entire amount and tenor of the rated instruments and have a well-defined invocation and payment mechanisms. Given these attributes, the guarantees provided by the GoI are adequately strong for an enhancement in the rating of the said instruments to [ICRA]AAA(CE) against the rating of [ICRA]AA+ without explicit credit enhancement.

Salient covenants of the rated facility (Series V bonds)

- » The Government of India has unconditionally and irrevocably guaranteed the repayment of principal amount of Bonds to be issued by FCI for an aggregate nominal amount of Rs.5000 crore and interest thereon. The said guarantee has been executed vide Guarantee Agreement dated March 12, 2013.
- » The Guarantee Agreement provides for a Structured Payment Mechanism involving opening of a Designated Trust & Retention Account ("TRA").
- » Upon occurrence of a Default as defined in the Guarantee Agreement, the Trustee shall forthwith invoke the guarantee as per the terms of the Guarantee Agreement.
- » The Trustee/ Bondholders would not be in a position to accelerate all payments due under the Bonds even if the Issuer defaults on its other debt obligations.
- » Neither the bondholder(s) shall have any right to exercise put option nor the Issuer shall have right to exercise call option to redeem the bonds, in whole or in part, prior to the redemption date.

Salient covenants of the rated facility (Series IX bonds)

- » The redemption of the principal amount, together with the accrued interest is secured by way of a guarantee of the GoI, as executed with Trustee on October 05, 2020
- » The bonds shall rank parri passu, inter se, without any preference of priority of one over the other or other of them.
- » The bonds shall carry coupon at the respective coupon rate on the outstanding amount of principal till the final redemption. Interest will be paid annually on the anniversary date of allotment throughout the tenure of the Bonds till final redemption.
- » The face value of the bond will be redeemed at par at the end of 10 years from the deemed date of allotment.
- » No put/Call option has been made in the placement of the bonds.
- » The guarantee agreement provides for structured payment mechanism involving opening of a designated Trust and Retention Account (TRA).
- » The bonds are secured by way of unconditional and irrevocable guarantee from the GoI towards repayment of principal amount of the bonds and the interest thereon. Since full face value amount of bonds along with interest thereon are secured by way of unconditional and irrevocable guarantee from the GoI towards repayment of principal amount of the bonds and thereon, no separate security (movable, immovable and tangible) has been provided.
- » Upon occurrence of default as defined in guarantee agreement, trustee shall forthwith invoke the guarantee as per the terms of the guarantee Agreement.
- » The trustee/bondholders will not be in a position to accelerate all payments due under the bonds if the issuer defaults on its other debt obligations.

Key rating drivers and their description

Credit strengths

Unconditional and irrevocable guarantee issued by the Ministry of Consumer Affairs, Food and Public Distribution – The NCDs rated by ICRA are backed by an unconditional and irrevocable guarantee issued by the Ministry of Consumer Affairs, Food and Public Distribution, the GoI, which lends significant strength to the rating.

Structured mechanism in place to ensure timely payment of both principal and interest amount of the rated instrument – The rating takes into account the structured payment mechanism designed to ensure timely payment of both the principal and the interest amount of the rated instrument, even if the guarantee has to be invoked by the Trustee. However, in case the Trustee accelerates repayment of the NCDs due to occurrence of events of default, the amounts would become due and payable immediately. Though the guarantee would be enforceable immediately, the period within which the guarantor will pay is not defined.

Strategic importance of FCI as India's nodal agency for food procurement activity – The rating factors in FCI's strategic importance for the GoI, as the country's nodal agency for food procurement activity and maintenance of Government stock. Accordingly, the entity is considered as an extended arm of the Government, in achieving its objectives of providing effective price support to farmers, managing Public Distribution System (PDS) for distribution of subsidised staples to economically vulnerable sections of society, and maintaining strategic reserves to stabilise markets for basic foodgrains. FCI is a no profit, no loss entity, whose deficits are borne by the GoI in the form of subsidy. This apart, the GoI also finances the capital expenditure needs of the Corporation. ICRA has noted the significant reduction in the debt outstanding in the books of FCI from FY2021 onwards, with the corporation using increased budgetary allocations from the GoI to repay its entire exposure under the loans from National Small Savings Fund (NSSF). This has been done by the GoI to reduce its off-budget financing.

Credit challenges – Not applicable

Liquidity position

For the CE rating – Superior

The liquidity position of the guarantor, the GoI, is **superior**. The rating for the rated bond programmes is based on the unconditional and irrevocable guarantee from the GoI that would cover the interest and principal repayment obligations to

bondholders. ICRA expects the servicing of debt through budgetary provision and trustee-controlled payment mechanism, so that adequate funds are made available by the GoI to service debt in a timely manner.

For rating without explicit credit enhancement – Adequate

The liquidity profile of FCI without factoring in the explicit credit enhancement is **adequate**, as the FCI has access to subsidy receipts from the GoI as well as credit lines (like working capital loans/ unsecured short-term loans/ cash credit limits) to manage its interim funding and cash flow requirements. ICRA notes that budgetary allocation for subsidies to FCI has increased significantly from FY2021 onwards, to reduce off-balance sheet exposure of the GoI, which has materially brought down the FCI's reliance on external debt in the past two fiscal years. It is noted that the FCI, being a no-profit-no-loss organisation, derives a significant proportion of its cash flows through subsidy receipt from the GoI and therefore remains dependent on the release of this subsidy to manage its cash flow and funding requirements.

Rating sensitivities

Positive factors: Not applicable

Negative factors: Non-adherence to the guarantee structure could lead to a downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support Approach for rating debt instruments backed by implicit support from parent or group
Parent/Group Support	The assigned ratings are based on unconditional and irrevocable guarantee extended by the GoI
Consolidation/Standalone	Not applicable

About the company

FCI is a 100% GoI-owned corporation set up by the Central Government under the Food Corporation Act in 1964. It was set up to ensure an effective price support system for farmers, so that they can be paid an MSP for their produce. FCI is also responsible for ensuring adequate food grain availability through the public distribution system (PDS) and maintaining a satisfactory level of operational and buffer stocks of food grains.

The management of FCI is vested in the board of directors appointed by the Central Government. It operates through a country-wide network with its corporate office in New Delhi, zonal offices in major metros, regional offices practically in all the state capitals, district offices and depots. It has around 42.7 million tonnes of storage capacity as of April 2022.

The food grain procurement activity in India is organised by the Department of Food (DoF), GoI in surplus foodgrain states to regulate the market prices of agricultural produce at the minimum support price (MSP) level. FCI procures the food stocks from farmers directly or through state co-operative agencies, which later deliver the same to the company as per an offtake plan provided by the latter. FCI/state agencies immediately make the procurement payments to the farmers by drawing from the food credit accounts. In case FCI makes purchases from the state agencies, the cost of procurement, along with all incidentals (which includes all handling and storage charges), is reimbursed to the state agencies at the time of delivery of stocks.

Key financial indicators (audited)

	FY2021	FY2022
Operating Income (Rs. crore)	241,747	235,519
PAT (Rs. crore)	0.0	0.0
OPBDIT/OI (%)	11.7%	1.2%
PAT/OI (%)	0.0%	0.0%
Total Outside Liabilities/Tangible Net Worth (times)	17.6	11.9
Total Debt/OPBDIT (times)	2.1	18.1
Interest Coverage (times)	1.0	0.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: FCI

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)*	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2020
				Feb 23, 2023	Apr 7, 2022	Apr 8, 2021	Oct 16, 2020	Oct 13, 2020	Mar 27, 2020
1 Non-convertible Debenture	Long term	5,000.0	5,000.0	[ICRA]AA A(CE) (Stable)	[ICRA]AA A(CE) (Stable)	[ICRA]AA A(CE) (Stable)	[ICRA]AA A (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)
2 Non-convertible Debenture	Long term	8,000.0	8,000.0	[ICRA]AA A(CE) (Stable)	[ICRA]AA A(CE) (Stable)	[ICRA]AA A(CE) (Stable)	[ICRA]AA A (CE) (Stable)	Provisional [ICRA]AAA (CE) (Stable)	-

*Outstanding as on January 31, 2023

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-Convertible Debentures	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, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE861G08019	NCD Series-VA	March 22, 2013	8.62%	March 22, 2023	300.0	[ICRA]AAA(CE) (Stable)
INE861G08027	NCD Series-VB	March 22, 2013	8.80%	March 22, 2028	4700.0	[ICRA]AAA(CE) (Stable)
INE861G08076	NCD Series-IX	October 23, 2020	6.65%	October 23, 2030	8,000.00	[ICRA]AAA(CE) (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Branches



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