

April 23, 2024

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
Total	9.75	9.75	

*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. 15.9 crore as on March 31, 2023 (Rs. 13.5 crore as on March 31, 2022), geographically concentrated operations with a presence in a single district, and the marginal borrower profile, which remains vulnerable to income shocks and agro-climatic risks. Given the short-term nature of most of the advances, the society's portfolio remains small, though disbursements increased gradually to Rs. 30.5 crore in FY2023 from Rs. 28.0 crore in FY2022 (Rs. 26.9 crore in FY2021). The society receives subsidy and interest subvention for the loans offered, though the timeliness and adequacy of the same has varied over the years, resulting in weak profitability over the years.

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 taking the loan. Further, the society receives deposits from members at an average interest rate of about 7-8%, which supports its cost of funds. As on March 31, 2023, the society's total share capital and deposits stood at Rs. 4.34 crore and Rs. 22.8 crore, respectively.

Deposits with a maturity of about 1 year accounted for 57% of the total borrowings as on March 31, 2023. FACCSL also received funding through a Kisan Credit Card (KCC) facility from banks (43% of total borrowings as on March 31, 2023). The rate of interest for this facility is 9.3% and it is largely used for extending crop loans. FACCSL's capital profile moderated with a gearing of 6.0 times as of March 2023 (4.2 times as of March 2022), as it scaled up its portfolio in FY2023.

Credit challenges

Modest scale and limited geographical diversity – FACCSL's product profile comprises crop loans, agriculture-allied activity loans, gold loans and loans against member deposits. Its scale of operations remains small with a loan portfolio of Rs. 15.9 crore as on March 31, 2023 (Rs. 13.5 crore as on March 31, 2022). As of March 2023, agriculture-allied activity loans, crop loans, gold loans, and deposit loans accounted for 63%, 16%, 13% and 8%, 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. 30.5 crore in FY2023 from Rs. 27.9 crore in FY2022 and Rs. 26.9 crore in FY2021).

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 society 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. The overdue accounts/annual disbursements increased to 4.13% in FY2023 from 2.82% in FY2022. However, as per the management, this is expected to have reduced in FY2024 with the improvement in collections. FACCSL's customers 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 March 31, 2023, FACCSL had a cash and bank balance of Rs. 26.5 crore. Its cash flows are seasonal with collections typically concentrated in the last quarter of the fiscal, while disbursements are made during peak crop seasons, leading to stretched liquidity during this period. The society depends on deposit mobilisation from members to a large extent. In addition, it has a KCC facility with a bank. Limited flexibility in availing other funding avenues, at present, is a challenge for FACCSL's liquidity position.

Rating sensitivities

Positive factors – Significant scale-up and diversification of portfolio, while improving the liquidity position and maintaining a healthy asset quality and earnings profile.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
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, 2023, FACCSL had a total member base of 2,998 crore (3,079 members as of December 2023) and a total managed portfolio outstanding of Rs. 15.9 crore. It reported a net profit of Rs. 0.21 crore (provisional) in FY2023 on a total asset base of Rs. 48.6 crore (provisional) vis-à-vis a net profit of Rs. 0.17 crore on a total asset base of Rs. 34.9 crore in FY2022.

Key financial indicators

Farmers Agriculture Credit Co-operative Society Limited	FY2021	FY2022	FY2023
Total income	3.5	3.3	3.4
Profit after tax	0.8	0.2	0.2
Total managed assets ¹	32.6	34.9	48.6
Return on managed assets	2.7%	0.5%	0.5%
Gearing (reported; times)	3.7	4.2	6.0
Gross NPA [^] (90+ dpd)	4.43%	5.86%	8.04%
CRAR	NA	NA	NA

Source: FACCSL, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

[^]Gross NPA% – Total overdues/Portfolio outstanding

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					Apr 23, 2024			
1	Bank facility	Short term	9.75	9.75	[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](#)

¹ Total managed assets = Total assets + Off-book AUM

Annexure I: Instrument details

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

Source: FACCSL

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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