

February 03, 2025

## Food Corporation of India: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	4,700.0 <sup>^</sup>	4,700.0 <sup>^</sup>	[ICRA]AAA (CE) (Stable); Reaffirmed
Non-Convertible Debentures	8,000.0 <sup>^^</sup>	8,000.0 <sup>^^</sup>	[ICRA]AAA (CE) (Stable); Reaffirmed
<b>Total</b>	<b>12,700.0</b>	<b>12,700.0</b>	

### Rating Without Explicit Credit Enhancement

[ICRA]AA+

\*Instrument details are provided in Annexure-I

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

<sup>^</sup> Series V Bonds

<sup>^^</sup> Series IX Bonds

### Rationale

The rating is 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 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 Food Corporation of India's (FCI) strategic importance 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 expenses incurred by FCI for the procurement of food grains through consumer subsidy.

The Stable outlook on this rating reflects ICRA's expectation of continued support from the 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 rating of the instruments is 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 tenure of the rated instruments and have a well-defined invocation and payment mechanism. 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 the principal amount of bonds to be issued by FCI for an aggregate nominal amount of Rs. 5,000 crore (amount at the time of issuance) 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 the 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 said 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 the 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 a guarantee of the GoI, as executed with the Trustee on October 5, 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 for the outstanding amount of principal until the final redemption. Interest will be paid annually on the anniversary date of allotment throughout the tenure of the bonds until final redemption.
- » The bond's face value 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 a structured payment mechanism involving the opening of a designated Trust and Retention Account (TRA).
- » The bonds are secured by unconditional and irrevocable guarantee from the GoI towards repayment of principal amount of the bonds and the interest thereon. As the full-face value amount of the bonds along with the interest thereon is secured by 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 the guarantee agreement, the trustee shall forthwith invoke the guarantee as per the terms of the said 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 GoI** – The NCDs rated by ICRA are backed by an unconditional and irrevocable guarantee issued by the Ministry of Consumer Affairs, Food and Public Distribution, GoI, which lends significant strength to the rating.

**Structured mechanism to ensure timely payment of principal and interest amount of the rated instrument** – The rating considers 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 the occurrence of default events, the amount will 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**– The rating factors in FCI's strategic importance for the GoI as the country's nodal agency for food procurement and maintenance of Government stock. Accordingly, the entity is

considered an extended arm of the Government for providing effective price support to farmers, managing the Public Distribution System (PDS) for the 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, and its deficit is borne by the GoI through subsidies. The GoI also finances the capital expenditure needs of the corporation. ICRA has noted the significant reduction of FCI's outstanding debt from FY2021, with the corporation using increased budgetary allocations from the GoI to repay its entire loans from the National Small Savings Fund (NSSF). This has been done by the GoI to reduce its off-budget financing.

## Credit challenges

**Dependence on subsidy payments from GoI** – FCI, being a no-profit-no-loss organisation, witnesses a significant portion of its cash flow through subsidy receipt from the GoI and therefore remains dependent on the release of this subsidy to manage its cash flow and funding requirements. Nonetheless, the demonstrated track record of strong support from the GoI, which reimburses all the expenses incurred by FCI for the procurement of food grains through consumer subsidy, provides comfort.

## 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 provisions and trustee-controlled payment mechanisms 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. It is noted that FCI, being a no-profit-no-loss organisation, derives a significant portion of its cash flow 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 of the corporation.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	The assigned rating is 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 established to ensure an effective price support system for farmers so that they can be paid a minimum support price (MSP) for their produce. FCI is also responsible for ensuring adequate food grain availability through 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 79.8 million tonnes of storage capacity (including storage capacity with state agencies) as of April 2024.

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 MSP level. FCI procures food stocks from farmers directly or through state co-operative agencies, which the latter deliver to the corporation 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 purchases from the state agencies, the procurement cost, along with all incidentals (which includes all handling and storage charges), is reimbursed to the state agencies at the time of stock delivery.

### Key financial indicators (audited)

	FY2023	FY2024	H1 FY2025*
<b>Operating income</b>	225,599	161,121	78,806
<b>PAT</b>	-10.9	33.1	0.0
<b>OPBDIT/OI</b>	0.9%	0.9%	2.0%
<b>PAT/OI</b>	0.0%	0.0%	0.0%
<b>Total outside liabilities/Tangible net worth (times)</b>	7.3	8.8	8.5
<b>Total debt/OPBDIT (times)</b>	20.5	34.0	17.9
<b>Interest coverage (times)</b>	0.5	0.5	0.9

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation \*unaudited ,Amount in Rs. crore

Source: FCI

### 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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				Feb 03, 2025	Feb 05, 2024	Feb 23, 2023	Apr 7, 2022	Apr 8, 2021
1	Non-convertible Debenture	Long term	4,700.0	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)
2	Non-convertible Debenture	Long term	-	-	[ICRA]AAA(CE) (Stable); Withdrawn	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)
3	Non-convertible Debenture	Long term	8,000.0	[ICRA]AAA (CE)(Stable)	[ICRA]AAA (CE)(Stable)	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)

## Complexity level of the rated instruments

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 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
INE861G08027	NCD Series-VB	March 22, 2013	8.80%	March 22, 2028	4,700.0	[ICRA]AAA(CE) (Stable)
INE861G08076	NCD Series-IX	October 23, 2020	6.65%	October 23, 2030	8,000.0	[ICRA]AAA(CE) (Stable)

Source: Company

#### Annexure II: 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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