

Food Corporation of India

June 14, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|--------------------------|------------------|-----------------------|---------------|
| Bonds – Series VII/VII A | 8,000.00 | CARE AAA (CE); Stable | Reaffirmed |
| Bonds – Series VIII | 8,000.00 | CARE AAA (CE); Stable | Reaffirmed |
| Bonds – Series IX | 8,000.00 | CARE AAA (CE); Stable | Reaffirmed |
| Bonds – Series X | 8,000.00 | CARE AAA (CE); Stable | Reaffirmed |

Details of instruments/facilities in Annexure-1.

The above rating is based on the explicit credit enhancement in the form of unconditional and irrevocable guarantee from Government of India (GoI) for servicing of the interest and principal repayment obligations for the entire tenure of the bond issue supported by trustee administered structured payment mechanism.

| | |
|---------------------------|------------------------------|
| Unsupported rating | CARE AA+ [Reaffirmed] |
|---------------------------|------------------------------|

Note: Unsupported rating does not factor in the explicit credit enhancement.

Rationale and key rating drivers for the credit enhanced debt

The rating assigned to the bonds of Food Corporation of India (FCI) continues to factor in the explicit credit enhancement in the form of an unconditional and irrevocable guarantee provided by the Ministry of Consumer Affairs, Food and Public Distribution, Government of India (GoI). The guarantee is also supported by a trustee-administered structured payment mechanism.

The guarantees are legally enforceable, irrevocable, unconditional, cover the entire amount and tenure of the rated instruments and the guarantees are operating through a trustee-administered structured payment mechanism, for the timely transfer of required funds for the repayment of principal and interest to a designated account, ensuring timely debt servicing. the aforementioned structured payment mechanism has been consistently adhered to and is working as devised.

The rating also factors in the 100% ownership of FCI by GoI, its strategic role in India's food distribution programme through established and diversified operations including its role as an agent for executing food policies of GoI. The rating further factors in the support extended by GoI for the reimbursement of all the expenses and funding of the financial requirements of FCI. Going forward, the continued support from GoI and the ability of the Corporation to perform its role as a facilitator for food security, while managing its liquidity position, would remain crucial.

The unsupported rating of FCI considers its standalone business and financial risk profile and factors in its strategic importance to GoI. FCI is the nodal agency for maintaining food security in the nation; however, it only implements the GoI Food Programme and is not involved in any commercial venture. The rating also factors in the expected support from GoI and the fact that it has been incorporated through the Food Corporation Act, 1964.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not applicable

Negative factors

- Any change in ownership of FCI or focus/support from GOI.
- Non- adherence to the structure as defined in the guaranteed agreement.
- Any dilution in the strategic role of FCI as the nodal agency for the India's food programme.

Analytical approach

CE Ratings: Credit enhancement in the form of unconditional and irrevocable guarantee from GoI for servicing of the Interest and principal repayment obligations for the entire tenure of the bond issue.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Unsupported ratings: The unsupported rating of FCI considers its standalone business and financial risk profile of FCI. The unsupported rating of FCI further factors in the strategic importance of FCI to GoI. FCI is the nodal implementing agency for maintaining food security in the nation and is only implementing GoI Food Programme and not involved in any commercial venture.

Outlook: Stable

The Stable outlook on FCI's Bonds reflects CARE's expectation that FCI will continue to received the support from GoI given its strategic importance as the nodal agency implementing GoI Food Programme and not involved in any commercial activity.

Detailed description of the key rating drivers:

Key strengths

Credit Enhancement for the Bond issue in the nature of unconditional & irrevocable guarantee from GoI for the entire bond issue supported by trustee-administered structured payment mechanism: All the bond issues are backed by unconditional and irrevocable guarantee for servicing of the entire bond issue (both principal amount and accrued interest) from GoI through the Ministry of Consumer Affairs, Food and Public Distribution. A trustee-monitored structured payment mechanism is in place to ensure the timely payment of the interest and principal obligations on the bond issue through a tripartite agreement between FCI, Trustee (IDBI Trusteeship Services Limited for bond issues VII, VIII & IX and SBICAP Trustee Company Limited for the bond issue X) and GOI/President of India. The trustee will facilitate timely servicing of FCI's obligations by GOI in case FCI does not have sufficient funds to do so. The following payment structure (wherein "T1" is assumed to be the due date for interest payments, and "T2" is assumed to be the due date for principal repayments of the bonds) is envisaged for meeting the obligations of the rated bonds:

Interest Payments (T1 represents interest payment due date)

| Trigger Date | Action Point |
|----------------|---|
| (T1-30)th day* | Trustees to inform FCI and the GOI in writing regarding the due date of the Instrument and the corresponding interest amount so that the necessary arrangements could be made for meeting the interest payment obligations on the instrument. |
| (T1-8)th day* | The designated Trust and Retention account is to be funded by FCI to the tune of the interest obligations on the Bonds. |
| (T1-7)th day* | If the designated Trust and Retention account is not funded to the requisite extent by (T1-8)th day, the Trustees shall forthwith invoke the GOI Guarantee by sending a Notice of Invocation to GOI. |
| (T1-3)th day* | Last date by which GOI to deposit requisite funds in the designated Trust and Retention account as per the Notice of Invocation. |

*If any Coupon Payment Date falls on a day that is not a business day, the payment shall be made by the Issuer on the following working day in line with SEBI circular No. CIR/IMD/DF-1/122/2016 dated November 11, 2016. Further, interest will include interest for such additional period and Interest for such additional period so paid, shall be deducted out of the interest payable on the next Coupon Payment Date.

Principal Repayment (T2 represents principal payment due date)

| Trigger Date | Action Point |
|----------------|---|
| (T2-30)th day* | Trustees to inform FCI and the GOI in writing regarding the due date of the Instrument and the corresponding Principal amount so that the necessary arrangements could be made for meeting the principal repayment obligations on the instrument. |
| (T2-8)th day* | The designated Trust and Retention account is to be funded by FCI to the tune of the Principal obligations on the Bonds. |
| (T2-7)th day* | If the designated Trust and Retention account is not funded to the requisite extent by (T2-8)th day, the Trustees shall forthwith invoke the GOI Guarantee by sending a Notice of Invocation to GOI. |
| (T2-3)th day* | Last date by which GOI to deposit requisite funds in the designated Trust and Retention account as per the Notice of Invocation. |

* If the Redemption Date (also being the last Coupon Payment Date) of the Bonds falls on a day that is not a business day, the redemption proceeds shall be paid by the Issuer on the immediately preceding business day along with interest accrued on the Bonds until but excluding the date of such payment

Furthermore, in case of accelerated payments (which shall be triggered when investor demands for pre-payment in case of any non-fulfilment of documentary requirement by FCI pertaining to the bond issue), the trustee is required to inform FCI and GOI on T+1st (T being the trigger date) and the trust account has to be funded by T+8th day, failing which the guarantee shall be invoked by T+9th day. The last day for deposit of funds as per the invocation notice shall be T+15th day

Adequacy of credit enhancement structure: The government has provided guarantee for the rated bonds to FCI, which is unconditional, irrevocable and continuous in nature and covers the repayment of the principal amount of the bonds, interest accrued and any other amount payable to the bondholders, in an event if the borrower, i.e., FCI, defaults in servicing of the aforesaid amounts to the bondholders. 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. The guarantee shall not be transferrable to any agency without prior approval of the Budget division of the Department of Economic Affairs, Ministry of Finance. The guarantee also carries a well-defined invocation and payment mechanism wherein a trustee-monitored designated Trust and Retention account has also been opened for the respective issuances. This ensures timely payment of the interest and principal obligations.

Strategic role of FCI and its established and diversified operations including its role as an agent for executing food policies of GoI: FCI, the nodal central agency of GoI, plays a significant role in maintaining India's stable/surplus food security system by acting as a facilitator for food security by providing price and market assurance to the farmers, ensuring steady food grain supplies for public distribution system (PDS), National Food Security Act (NFSA) and other welfare schemes undertaken by GoI. FCI, along with other State Agencies is engaged in the procurement of food grains at minimum support price declared by GoI, store food grains so procured, transport the surplus food grains to deficit states and issue it to state governments under the PDS at a price decided by the GOI. FCI procures grains from the farmers at the minimum support price (MSP) as determined by the central government and sells the food grains at the price, also determined by the central government. The cost incurred by FCI is much higher than that of the selling price. The difference between the cost of FCI's overall operations and sales realisation through the PDS is reimbursed by the government through food subsidies.

In FY23 and FY24 (revised estimate), FCI received food subsidy of ₹200,219 crore and ₹139,661 crore respectively. As on March 31, 2024, FCI's total debt stood at ₹51,595 crore (includes ways and means advance of Rs 10,700 crore, which will be converted to equity as directed by GoI).

Ownership and support of GOI: FCI, a 100% GoI-owned undertaking, and the nodal central agency of GoI, operates a unique business model, which runs on the basis of zero profit and zero loss and accrues 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 funding requirements. FCI is only implementing GoI programme and is not involved in any commercial venture. Since the issue prices declared by the GoI under different schemes are much lower than the cost of food grains procured, the differential amount is reimbursed to FCI as food subsidy by the GoI. FCI also maintains buffer stocks of food grains as mandated by the GoI and intervene in the domestic market to control the rising prices of the food grains.

Also, FCI has a track record of receiving regular support from the government in the form of equity infusion and guarantee for the borrowings of the Corporation. GOI supports the funding for delayed receivables, to maintain sufficient inventory and to manage its working capital requirements by equity infusion/guarantees to obtain funds from market. The repayment of these loans, including interest cost, is also carried out by GOI by providing additional subsidy/new loans. FCI has been operating for over five decades. The management of FCI is vested in the Board of Directors appointed by the central government.

Liquidity: Strong

The rating is supported by unconditional and irrevocable Guarantee from GoI. The payment T-structure has been designed accordingly, and the trustee-administration ensures that it is followed. The servicing of FCI's debt is expected 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 and the liquidity position of the guarantor (GOI) is strong.

The liquidity profile of FCI, without factoring in the explicit credit enhancement, is adequate. Since FCI needs to maintain buffer stock of close to six months in order to ensure National Food Security, as well as high level of receivables from GOI, majorly food subsidy receivables, it has high reliance on external borrowing, including working capital limits to support its operations. FCI also avails multiple short-term loans with various banks for supporting its working capital requirement. However, support from GoI and its ability to raise funds provide comfort to its liquidity position. FCI has access to various

sources of finances like Cash Credit limits, working capital loans, ways and means advance and unsecured short-term loans to support its operations. It is to be noted that FCI's reliance on the external debt has reduced in the past few years on the back of increased budgetary allocation by GOI in order to reduce its (GOI's) off balance exposure.

Assumptions/Covenants: Covered in Annexure 3

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Service Sector Companies](#)

[Financial Ratios – Non financial Sector](#)

[Rating Credit Enhanced Debt](#)

[Factoring Linkages - Government Support](#)

Adequacy of credit enhancement structure: Adequate, as facilities rated by CARE Ratings are fully backed by unconditional, and irrevocable corporate guarantee given by GoI till the tenor of instrument. The guarantee will not be transferrable to any agency without prior approval of the Budget division of the Department of Economic Affairs, Ministry of Finance. A trustee-monitored designated trust and retention account has been opened for the issuances and a well-defined T-structure, ensures timely payment of the interest and principal obligations

About the company and industry

Industry classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|--------------------------|----------|--------------------------------|------------------------|
| Services | Services | Commercial Services & Supplies | Trading & Distributors |

FCI is a public sector undertaking under the Department of Food & Public Distribution, Ministry of Consumer Affairs, Food & Public Distribution, Government of India (GoI), wholly owned by GoI, and is the main agency responsible for execution of food policies of the GoI. FCI was constituted on January 14, 1965, under The Food Corporations Act, 1964, in order to fulfil various objectives of the Food policy of Government of India through effective price support operations for safeguarding the interests of the farmers, distribution of food grains throughout the country for Public Distribution System (PDS) and maintaining satisfactory level of operational and buffer stocks of food grains to ensure National Food Security. FCI operates through a country-wide network with its corporate office in New Delhi, five zonal offices in major metros, 24 regional offices in major state capitals and more than 160 divisional offices.

The GoI fixes the minimum support price (MSP) of food grains at which procurement is made from the farmers. The central issue price (CIP) of food grains and allocations of quantity of food grains under National Food Security Act (NFSA) and various Welfare schemes of GoI, for different states/union territories (UTs) are fixed by the GoI. The difference between the Economic Cost (MSP, Procurement Incidentals and Distribution Cost) and the CIP is the operational loss of the Corporation, which is reimbursed by the GoI as food subsidy. Besides, GoI also reimburses the cost of carrying the buffer stock of food grains to FCI as a part of food subsidy. The arrears of food subsidy stood Nil as on March 31, 2024 (PY: Nil).

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | March 31, 2024 (UA) |
|----------------------------|--------------------|--------------------|---------------------|
| Total operating income | 235,567.16 | 2,25,650.66 | 1,61,159.66 |
| PBILDT | 2,895.77 | 2,054.35 | 3,426.75 |
| PAT | 0.00 | 0.00 | 0.00 |
| Overall gearing (times) | 6.33 | 4.10 | 5.10 |
| Interest coverage (times) | 0.78 | 0.56 | 1.04 |

A: Audited UA: Unaudited;

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|------------------------|--------------|-------------------------------|-----------------|----------------------------|-----------------------------|---|
| Bonds – Series VII | INE861G08043 | 01-Mar-2019 | 8.95 | 01-Mar-2029 | 2737.7 | CARE AAA (CE); Stable |
| Bonds – Series VII A | INE861G08068 | 09-Jan-2020 | 7.60 | 09-Jan-2030 | 5262.3 | CARE AAA (CE); Stable |
| Bonds – Series VIII | INE861G08050 | 12-Dec-2019 | 7.64 | 12-Dec-2029 | 8000.00 | CARE AAA (CE); Stable |
| Bonds – Series IX | INE861G08076 | 23-Oct-2020 | 6.65 | 23-Oct-2030 | 8000.00 | CARE AAA (CE); Stable |
| Bonds – Series X | INE861G08084 | 13-Aug-2021 | 7.09% | 13-Aug-2031 | 8000.00 | CARE AAA (CE); Stable |
| Unsupported Rating | - | - | - | - | 0.00 | CARE AA+ |

Annexure-2: Rating history for the last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---------|--|-----------------|------------------------------|-----------------------|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2024-2025 | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 |
| 1 | Bonds | LT | 8000.00 | CARE AAA (CE); Stable | - | 1)CARE AAA (CE); Stable (21-Jul-23) | 1)CARE AAA (CE); Stable (25-Jul-22) | 1)CARE AAA (CE); Stable (27-Jul-21) |
| 2 | Bonds | LT | 8000.00 | CARE AAA (CE); Stable | - | 1)CARE AAA (CE); Stable (21-Jul-23) | 1)CARE AAA (CE); Stable (25-Jul-22) | 1)CARE AAA (CE); Stable (27-Jul-21) |

| | | | | | | | | |
|---|--------------------|----|---------|-----------------------|---|-------------------------------------|-------------------------------------|-------------------------------------|
| 3 | Unsupported Rating | LT | 0.00 | CARE AA+ | - | 1)CARE AA+ (21-Jul-23) | 1)CARE AA+ (25-Jul-22) | 1)CARE AA (27-Jul-21) |
| 4 | Bonds | LT | 8000.00 | CARE AAA (CE); Stable | - | 1)CARE AAA (CE); Stable (21-Jul-23) | 1)CARE AAA (CE); Stable (25-Jul-22) | 1)CARE AAA (CE); Stable (27-Jul-21) |
| 5 | Bonds | LT | 8000.00 | CARE AAA (CE); Stable | - | 1)CARE AAA (CE); Stable (21-Jul-23) | 1)CARE AAA (CE); Stable (25-Jul-22) | 1)CARE AAA (CE); Stable (27-Jul-21) |

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

| Name of the Instrument | Detailed Explanation |
|-----------------------------------|--|
| A. Financial covenants | NA |
| B. Non-financial covenants | |
| I | The Government of India guarantee would only cover the principal amount and the normal interest. |
| II | The guarantee shall not be transferrable to any agency without prior approval of the Budget division of the Department of Economic Affairs, Ministry of Finance |
| III | Annual review of the guarantees and proper utilisation of funds so guarantees shall be undertaken in order to curtail the risk of default |
| IV | In case of default, the trustee shall invoke the GoI guarantee forth so that GoI can transfer the fund to the designated trust & retention account before the due date, but the invocation should be within 60 days from commencement of default. In case, the guarantee is not invoked within the stipulated period of 60 days, GoI shall not be liable to pay any interest beyond the commencement of default. Further, in case, the guarantee is not invoked within the stipulated period of 60 days, the guarantee shall cease to exist only for that portion of demand for which the GoI guarantee has not been invoked |
| V | Prior written concurrence or consent of GOI shall be obtained for any modification, amendments, alteration and/or variation in the terms of the bonds, which may result in enhancement of liability or guarantee obligations of GOI. |

Annexure-4: Complexity level of the various instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|------------------------|------------------|
| 1 | Bonds | Simple |
| 2 | Un Supported Rating | Simple |

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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