

## National Cooperative Development Corporation

	Amount	Rating Action
	In Rs. Crore	November 2016
Commercial Paper Programme	1,475.00	[ICRA]A1+; Reaffirmed
Long-term Taxable Bonds Programme	750.00 <sup>1</sup>	[ICRA]AA (Stable); Reaffirmed
Cash Credit Bank Lines	573.55	[ICRA]AA (Stable); Reaffirmed
Short-Term Bank Lines	5,114.00	[ICRA]A1+; Reaffirmed

ICRA has reaffirmed the [ICRA]AA (pronounced ICRA double A) rating assigned earlier to the Rs. 750 crore taxable bonds programme of National Cooperative Development Corporation (NCDC)<sup>2</sup>. ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating assigned earlier to the Rs 1,475 crore commercial paper programme of NCDC. ICRA has also reaffirmed the [ICRA]AA/[ICRA]A1+ rating assigned earlier to the Rs. 5,687.55 crore bank lines of NCDC; these bank lines include Rs 573.55 crore of cash credit facilities and Rs. 5,114.00 crore of short term bank lines. The outlook on the long term ratings is 'Stable'.

The ratings factor in NCDC's sovereign ownership (100% equity with the Government of India), its ability to mobilise funds at competitive rates, its track record of maintaining good asset quality (gross NPAs of 0.73% and nil net NPAs as on March 31, 2016), moderate gearing (3.4 times as on March 31, 2016) and stable profitability levels (PAT/ATA<sup>3</sup> of ~2.2% in FY2016). The ratings also favourably factor in NCDC's demonstrated ability to maintain a healthy recovery ratio<sup>4</sup> (99.9% in FY16, more than 99% over the last five years) notwithstanding the difficult operating environment and its relatively vulnerable target borrower segment. NCDC's asset quality profile is supported by strict control on fresh NPA generation (upto 0.15% over last five years) as well as recovery from some existing NPAs.

The long-term ratings are however constrained by the entity's high credit concentration risk (exposure to state level marketing federations constituted ~50% of loan book and ~215% of net worth as on March 31, 2016) and the lack of capital support from the Government of India. The risk is enhanced by virtue of NCDC's mandate of lending to relatively small and vulnerable cooperatives (both banks and societies). ICRA nevertheless notes that the short-term nature of a significant proportion of the portfolio and the good sectoral understanding of the management mitigate the risk to some extent.

As for liquidity profile, NCDC intends to fund long term loans through its net worth and short term loans (margin money, working capital and current portion of term loans) through bank borrowings and commercial paper (CP) borrowings which along with adequate undrawn sanctioned bank lines and comfortable capital structure result in comfortable a liquidity profile. Further, as a policy NCDC maintains undrawn sanctioned bank lines to cover repayment of outstanding commercial papers, which mitigates the refinancing risk.

NCDC's capitalisation profile is comfortable (gearing<sup>5</sup> of 3.4 times as on March 31, 2016) supported by moderate credit growth (CAGR of around 11% FY13-FY16). Given the moderate growth plans, ICRA expects NCDC capital structure is likely to remain comfortable over short to medium term.

NCDC's profitability profile is comfortable as reflected by its PAT/ATA of 2.2% and PAT/ average net worth of 9.6% during FY2016, supported by adequate lending spreads (~2.5% in FY2016), moderate operating expenses (~0.75% of ATA) and low credit cost. Going forward, NCDC's ability to grow at an adequate pace while maintaining adequate profitability and asset quality would be key rating sensitivities.

NCDC is not a registered NBFC and hence not regulated by the Reserve Bank of India, but is a public finance institution reporting to the Ministry of Agriculture & Farmer Welfare, Government of India. NCDC was

<sup>1</sup> Outstanding rated bonds totaling Rs. 250 crore as on March 31, 2016

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA website ([www.icra.in](http://www.icra.in)) or any of the ICRA rating publications

<sup>3</sup> Profit After Tax/Average Total Assets

<sup>4</sup> installments received as % of installments due

<sup>5</sup> Total Debt/Networth

established in 1963 by the National Cooperative Development Act, 1962 (NCDC Act). The NCDC Act prescribes that at the time of dissolution of NCDC, all powers and duties of NCDC shall be exercised and performed by the Central Government or such person or persons as the Central Government may appoint in this behalf. ICRA notes that clause in the Act is likely to reduce the eventual losses to NCDC's lenders in the event of default on dissolution of NCDC.

### **Company Profile**

National Cooperative Development Corporation (NCDC) was established by an act of Parliament in 1963 as a statutory corporation under the Ministry of Agriculture. NCDC is not a registered NBFC with the Reserve Bank of India. The entity was notified as a Public Financial (PFI) under sub-section (2) of section 4A of Companies Act 1956, by the Ministry of Finance in 2003. NCDC is controlled by Ministry of Agriculture, Government of India. NCDC's head office is located in New Delhi and it has 18 regional offices across the country, and a training centre in Gurugram, Haryana.

NCDC is managed by a 51-member widely represented General Council, which defines its policies and programmes and a 12-member Board of Management which manages its operations. NCDC is engaged in planning, promotion and development of cooperatives in agriculture and rural oriented activities. NCDC finances production, processing, marketing, storage, export and import of agricultural produce, food stuffs and certain other notified commodities apart from income generating activities such as poultry, dairy, fishery, sericulture, and handloom. NCDC provides working capital loan to regional/ state level marketing federations. It also provides term loans for creation of infrastructure facilities like godowns, cold storages, equipment financing, purchase of transport vehicles boats and other tangible assets. Further, it provides margin money loans to cooperatives to raise working capital finance. NCDC's loan book stood at Rs 8,363 crore as on March 31, 2016.

### **Recent Results**

NCDC reported a net profit of Rs. 180 crore on an asset base of Rs. 8,670 crore in FY2016 against a net profit of Rs. 169 crore on an asset base of Rs. 7,873 crore in FY2015. As on March 31, 2016, NCDC's gross NPAs<sup>6</sup> stood at 0.73% and net NPAs at nil as on March 31, 2016.

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<sup>6</sup> NCDC recognizes NPA where interest remains overdue for 180 days and/or principal remains overdue for 365 days



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