Rating Rationale

Primary Agriculture Credit Co-Operative Society Ltd., Kallukamba.

30Mar2019

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 11.69 Crores of Primary Agriculture Credit Co-Operative Society Ltd., Kallukamba (PACS-Kallukamba)

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Dec, 2017)	Present
Fund based Cash Credit	11.69	11.69	**Long Term**	**BWR BB-** (Pronounced as BWR Double B minus) **Outlook: Stable**	**BWR BB-** (Pronounced as BWR Double B minus) **Outlook: Stable (Reaffirmed)**
Total	**11.69**	**11.69**	**INR Eleven Crores and Sixty Nine Lakhs Only**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Ratings: Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results upto FY18, Projections upto FY20, publicly available information and information/clarifications provided by the management.

The ratings continue to draw strength from the society's operational track record of over four decades, loan portfolio, established market position as a co-operative society catering to rural financing needs in Kallukamba and surrounding villages of Bellary district, Karnataka including managing fertilizer distribution to farmers. It also factors in the State and Central Government support in the form of interest subsidy. However, the ratings continue to be constrained by the small scale and regionally concentrated nature of the society's operations, high competition from the other fertilizer distributors, its exposure to customers with modest credit profile and vulnerability to agro - climatic risks. The rating also factors in the society's limited financial flexibility and the limited regulatory supervision of cooperative societies.

Going forward, the ability of the society to obtain interest subsidy payments on time from the Government, increase its loan portfolio while maintaining the asset quality, profitability and capital structure, diversify the resources profile and effectively manage inventory levels will be the key sensitivities.

Description of Key Rating Drivers

Credit Strengths

- Established Track Record: Primary Agriculture Credit Co-operative Society Limited, Kallukamba has an established track record of over four decades in this industry. It is primarily engaged in the supply of fertilizers and PDS (Public Distribution System) to the farmers/ members at subsidized rates.
- Consistent growth in loan portfolio: The society's loan portfolio (KCC Loans) stood at Rs.7.51 Crs in FY18. The Society also issues business loans and loans against salary & deposits.

Credit weaknesses

- Small scale and intense competition: The Society's scale of operations has remained low at Rs. 0.40 Crs of interest income and Rs. 0.67 Crs from other income (sale of fertilizers and other income) in FY18. There has been a marginal decrease in other income (mainly from sale of fertilizers) for FY18 due to high competition.
- Limited financial flexibility: PACS Kallukamba's sources of revenue are interest income and sale of fertilizers and agricultural equipment. However, the society is dependent on Banks for funds. Fertilizer distribution is also highly regulated and prices fixed by the Government.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **Primary Agriculture Credit Co-Operative Society Ltd., Kallukamba.** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Society

Primary Agriculture Credit Co-operative Society Limited, Kallukamba, Bellary is a credit co-operative society registered under Karnataka Co –operative Societies' Act 1959. The society was incorporated on September 09, 1976. It is an institution setup with the objective of providing timely and affordable credit and other services to its members (farmers) like input facilities in the form of cash or kind component. The society is also engaged in the supply of fertilizers and public distribution system to the members at a subsidized rate. The society buys fertilizers from KRIBHCO, IFFCO, etc and distributes it to the farmers with nominal margin of one to two per cent.

The society consists of 2617 members as on March 31, 2017 (Members details not made available for March 2018). Out of 2617 members, loans have been granted to 623 members of the society. The society provides maximum loan upto Rs 3 Lakhs to its farmers. The society issues interest free agricultural loan to its members and it receives 6.90% interest from the State Government and 3% from the Central Government. The Society also provides Business loans, SHG loans, loan against deposits and loan against salary.

The society is managed by Mr. Eswarappa K (President) and Mr. Channabasappa (Chief Executive Officer), who are elected by the members. The members of the society and State Government hold 98.15 per cent and 1.85 per cent of the total share capital respectively in FY18.

Financial Performance

PACS Kallukamba reported net interest income of Rs.0.40 Crs for FY18 as against Rs.0.13 Crs for FY17. PAT increased from Rs 0.12 Crores in FY 17 to Rs 0.26 Crores in FY 18. Net worth was Rs.2.32 Crores as of March 31, 2018. Total debt was Rs 8.77 Crs as on March 31, 2018. Society has an interest rate spread of 4.08% as on March 31, 2018.

Rating History for the last three years

S.No	Facility	Current Rating (2019)			Rating History		
		Type	Amount (₹ Crs)	Rating	15.3.2019	14.12.2017	31.5.2016
	Fund Based	Long Term	11.69	**BWR BB-** (Pronounced as BWR Double B Minus) (Outlook:Stable) (Reaffirmed)	**Rating Not Reviewed**	**BWR BB-** (Pronounced as BWR Double B Minus) (Outlook:Stable)	**BWR BB-** (Pronounced as BWR Double B Minus) (Outlook:Stable)
	Total		**11.69**	**₹ Eleven Crores and Sixty Nine Lakhs Only**			

Status of non-cooperation with previous CRA: Nil
Any other information: Nil

Key Financial Indicators

Key Parameters	Units	2017	2018	2019	2020
Result Type		**Audited**	**Audited**	**Projections**	**Projections**
Net Interest Income	Rs. Crs	0.13	0.40	0.46	0.48
Total Operating Income	Rs. Crs	1.51	1.06	1.11	1.23
PAT	Rs. Crs	0.12	0.26	0.27	0.28
Net worth	Rs. Crs	2.07	2.32	2.55	2.81
Spread	%	2.77	4.08	4.38	4.09

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Infrastructure Sector
- Short Term Debt

For any other criteria obtain hyperlinks from website

Analytical Contacts	Media
AP Kamath ***Senior Director-Ratings*** analyst@brickworkratings.com	media@brickworkratings.com **Relationship Contact** bd@brickworkratings.com
Phone: 1-860-425-2742	

For print and digital media
The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.