National Cooperative Development Corporation

July 27, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/ Short-term bank facilities	30,000.00	CARE AA+; Stable/ CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)	Revised from CARE AA; Stable/ CARE A1+ (Double A ; Outlook: Stable / A One Plus)
Total facilities	**30,000.00 (₹ Thirty thousand crore only)**		
Long-term taxable bonds	500.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Revised from CARE AA; Stable (Double A; Outlook: Stable)
Long-term taxable bonds	500.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Revised from CARE AA; Stable (Double A; Outlook: Stable)
Total long-term instruments	**1,000.00 (₹ One thousand crore only)**		
Commercial paper	3,570.00 (Enhanced from 2,965.00)	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**3,570.00 (₹ Three thousand five hundred seventy crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings for long-term instruments of National Cooperative Development Corporation (NCDC) factors in the increased proportion of state government/ state government guaranteed exposure to 72% of the gross loans as on March 31, 2022 from 55% of the gross loans as on March 31, 2021. Also, with the formation of Ministry of Cooperation (MoC), the focus of Government of India (GoI) has increased towards the cooperative sector with rolling out of various schemes and plans for development of the sector and NCDC being the sole financing body and the only nodal agency under the ministry, augurs well for the operations of the corporation and increases the importance of the corporation for the government via ministry.

The ratings for various instruments of NCDC derive strength from its sovereign ownership and the strategic role played by NCDC as the nodal agency for developing, promoting and strengthening the cooperative sector in India. The ratings also derive strength from NCDC's established track record, strong financial flexibility and diversified resource profile which is reflected in its ability to raise funding from various financial institutions at competitive interest rates. Furthermore, the ratings continue to factor in NCDC's comfortable liquidity profile, healthy asset quality and track record of profitable operations.

These rating strengths are, however, partially offset by limited regulatory supervision as NCDC is a public financial institution (PFI) formed under NCDC Act, 1962, and does not come under the regulatory purview of Reserve Bank of India (RBI), therefore, the RBI's non-performing asset classification, single/group exposure norms and sector concentration limits are not applicable to NCDC. As a result, NCDC faces high sector and entity concentration and has high exposure to certain sectors that are cyclical in nature. The corporation continues to face interest rate risk as part of NCDC's lending is at fixed rate of interest while most of its borrowings are on floating rates, however, CARE Ratings Limited (CARE Ratings) notes that with majority of the corporation's portfolio being short term in nature (68% of gross loan as on March 31, 2022), it gets repriced frequently.

Rating Sensitivities

Positive Factors - Factors that could individually or collectively lead to positive rating action/upgrade:

- Increased exposure to state government
- Maintenance of healthy asset quality metrics
- Improvement in profitability with ROTA above 3% on a sustained basis

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

Negative Factors- Factors that could individually or collectively lead to negative rating action/downgrade:

- Material changes in ownership pattern of GoI or any reduction in focus of GoI on cooperative sector in general
- Deterioration in leverage profile with overall gearing remaining above 8 times on a sustained basis
- Increased sectoral/ borrower concentration
- Deterioration in asset quality

Detailed description of the key rating drivers

Key rating strengths

Sovereign ownership and role as nodal agency in promoting cooperative sector: NCDC, established in 1963 by an Act of Parliament, under NCDC Act, 1962, is a statutory corporation under the Ministry of Agriculture & Farmers Welfare (MAFW), currently operates under MoC. It is a PFI, wholly owned by GoI. With the sovereign ownership, NCDC receives support in the form of representation in board of management (BoM) from various ministries of GoI, central public sector enterprise (CPSE), national and state level federations and state governments and capital support in the form of one-time capital infusion of ₹ 40 crore during inception and subsidies and grants for onward lending towards schemes for cooperative sector rolled out by central government. In FY22, the Joint Secretary of MoC, Mr. Pankaj Kumar Bansal, has been appointed as MD for NCDC. The chairman of the BoM, Mr. Gyanesh Kumar is the Secretary of MoC, while Additional Secretary of MoC, Mr. Vijay Kumar is the vice chairman in the BoM. Also, Mr. Amit Shah, the minister heading the MoC, is the chairman of GC for NCDC.

NCDC is the nodal agency for planning, promotion and financing of cooperatives in India. Currently, there is only one operational scheme, namely, Central Sector Integrated Scheme on Agricultural Cooperation (CSISAC). Additionally, NCDC is the nodal agency for monitoring and recovery of assistance of Sugar Development Fund (SDF) to sugar mills in the cooperative sector and Nodal Loaning Entity for borrowing resources from the Central Sector Scheme Dairy Processing and Infrastructure Development Fund (DIDF). The corporation is one of the nodal agencies for Fisheries & Aquaculture Infrastructure Development Fund (FIDF) Scheme.

Long track record and healthy growth in loan book: Incorporated in 1963, NCDC has a long track record of nearly six decades in lending to the cooperative sector. The loan book has registered growth with the corporation reporting five years compounded annual growth rate (CAGR) of 7.68% in FY22. In FY22 as per provisional results, the corporation's loan book increased by 6% y-o-y to ₹ 21,662 core on account of increase in lending to state government. The disbursements in FY22 have risen by 40% y-o-y to ₹ 34,221 crore.

The loan book is majorly driven by short-tenured loan with 68% of gross loan book comprising of working capital loans with a tenure of one month- two years, followed by term loans making 29% of gross loan book as on March 31, 2022 which has a tenure of eight years and balance comprises of margin money with a tenure of five years. The share of working capital loans is on a rising trend from 56% of gross loan book as on March 31, 2018 to 68% of gross loan book as on March 31, 2022 which is in line with management's decision to focus on short-term loans.

NCDC's loan book profile has traditionally remained dominated by loans to private cooperative societies (50% as March 31, 2022). However, over the past few years, the corporation has increased its focus towards state government loans. The total state loans' exposure has risen to 39% of gross loans as on March 31, 2022 from 16% of gross loans as on March 31, 2018. CARE Ratings notes that loans to state government portfolio has traditionally remained of good quality with no slippages.

Moderate asset quality albeit reduction in exposure to economically vulnerable cooperative sector: NCDC has been maintaining a healthy asset quality over the years as reflected in low gross non-performing assets (GNPA), however, the GNPA% has increased to 1.45% as on March 31, 2022 up from 1.33% as on March 31, 2021 due to fresh slippages, despite rise in recoveries. Also, since NCDC is not registered as non-banking financial institution (NBFC), it is not required to follow NPA classification norms as prescribed by RBI. NCDC recognises an account as NPA when interest repayment is delayed by more than six months past due date and principal repayment is delayed by more than one year past due date. It maintains 100% provision coverage for its NPAs, thereby, leading to nil Net NPA (NNPA) % as on March 31, 2022.

Additionally, with reducing exposure towards other cooperative societies and rise in the state government/ state government guaranteed exposure to 72% of gross loan book as on March 31, 2022 from 35% gross loan book as on March 31, 2018, the inherent portfolio vulnerability is expected to reduce.

Diversified funding profile: Owing to its 100% sovereign ownership, NCDC is able to maintain a diversified funding profile and raise funds at competitive rates via bank borrowings and commercial papers (91%) and debentures (8%). NCDC has banking relationship with various public sector and private sector banks along with financial institutions. As per provisional FY22 results, the borrowings stood at ₹ 17,359 crore, up by 4% y-o-y.

Adequate profitability: NCDC has been reporting rising PAT over the years and in FY22, as per provisional results, it reported PAT of ₹ 666 crore, up by 25% y-o-y on account of reduction in interest expenses and operating expenses, despite a rise in provisioning expenses by 12% y-o-y. With improvement in yields and lower cost of funds, the net interest margin (NIM) has improved to 4.37% as on March 31, 2022 from 3.59% as on March 31, 2021. Owing to wholesale nature of the loan book, the operating expenses over total assets for the corporation has remained low over the years and stood at 0.42% as on March 31, 2022. Due to rise in provisioning expenses owing to rise in GNPA, the provisions over average total assets has increased to 0.47% as on March 31, 2022 from 0.34% as on March 31, 2021. The corporation reported return on total assets (RoTA) of 3.09% as on March 31, 2022, up from 2.23% as on March 31, 2021.

With the favourable interest rate scenario for NCDC in FY22 due to its fixed lending rate, its yields rose to 8.09% in FY22 from 7.69% in FY21. With NCDC having sovereign support, it received competitive rate of interest on borrowings, leading to improvement in NIM in FY22 from FY21.

Key rating weaknesses

Limited regulatory oversight: Since NCDC is not registered as an NBFC nor is it formed under the Companies Act, therefore, it does not come under regulatory supervision of RBI and hence faces limited regulatory oversight. As a result, NCDC is not required to follow single party and group exposure concentration limits, asset classification, capitalisation and liquidity related norms as mandated by RBI for NBFCs or financial institutions (FIs). However, NCDC's financials are audited annually by the Comptroller and Auditor General (CAG) and presented to MoC and thereafter presented to the Parliament.

High borrower and sector concentration risk: As NCDC is not governed by the RBI, the exposure norms are not applicable to NCDC. As mandated by the GoI, the corporations' entire portfolio is towards cooperative sector with its loan book comprising of loans to cooperatives societies including state-level marketing federations, societies engaged in sugar, textile, dairy and other activities, state governments and state cooperative banks. The sector-wise exposure also remains high with marketing, service co-operations and dairy/livestock constituting 48%, 18% and 14% of the advances respectively as on March 31, 2022.

The top 20 accounts of NCDC comprise 89% of the loan book and 440% of the net worth as on March 31, 2022, up from 83% of the loan book and 459% of the net worth as on March 31, 2021.

Interest rate risk arising on account of fixed-rate lending of NCDC: As on March 31, 2022, NCDC's entire lending book was at fixed rate of interest. Against this, only 8% of borrowings are at fixed rate of interest for longer tenure while the remaining 90% are shorter tenure/ floating rate of interest and hence exposes NCDC to interest rate risk in case of rising interest rate scenario. However, the risks get mitigated to a large extent as NCDC funds short-tenure loan book through short-tenure borrowings and long-term loans majorly through its net-worth and long-term funding. Also, since the corporation majorly lends short-tenured loans, they get re-priced easily.

Liquidity: Adequate

The liquidity profile of NCDC remains adequate with the corporation matching its short-term requirements from short-term borrowings which keeps revolving, and long-tenured advances from net worth and long-tenured borrowings. Additionally, the corporation has sanctioned bank lines of ₹ 40,750 crore, out of which ₹ 24,088 crore were unutilised limits as on March 31, 2022.

Analytical approach:

Standalone; factoring in sovereign ownership of GoI via MoC

Applicable Criteria

Policy on Default Recognition
Notching by Factoring Linkages with Government
Financial Ratios – Financial Sector
Criteria on Assigning 'Outlook' or 'Credit Watch' to Credit Ratings
Criteria for Short Term Instruments
Rating Methodology - Non Banking Finance Companies (NBFCs)

About the Company

NCDC was established by an Act of Parliament in 1963 as a statutory corporation under the MAFW, now operates under MoC. NCDC is neither a company, under the Companies Act nor is it governed by the RBI. NCDC is engaged in the planning, promotion and development of cooperatives in agriculture and rural-oriented activities. It provides financial assistance for production, processing, marketing, storage, export and import of agricultural produce, food stuffs and certain other notified commodities besides income-generating activities such as poultry, dairy, fishery, sericulture and handloom. Since its incorporation, NCDC Act has been amended twice (in 1974 and in 2002) and further notifications in 2003, 2004 and 2010 to broaden the scope of NCDC to include rural industrial cooperative sectors and for certain notified services in rural areas such as water conservation, irrigation and micro irrigation, agri-insurance, agro-credit, rural sanitation, animal health, health and education, etc. The corporation provides loans in the form of working capital loans to regional and state-level marketing federations, term loans for creation of infrastructure facilities like godowns, cold storages, equipment, transport vehicles boats and other tangible assets and margin-money loans to cooperatives to raise working capital finance.

The corporation operates through a General Council (GC) of 51 members to give shape to its policies and programmes and BoM of 12 members to cater to the day-to-day activities. Besides its Head Office, NCDC functions through 18 Regional/State Directorates. Various functional divisions look after the programmes. The field offices play an important role in project identification/formulation and oversee its implementation.

NCDC provides loans to cooperative societies which forms majority proportion of the loan book with 50%, followed by loans to state government which comprises 39% of gross loan book, cooperative banks with 12% of gross loan book and balance to multi-state societies as on March 31, 2022.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (P)	Q1FY22
Total operating income	1,786.06	1,695.26	Not Available
PAT	534.31	666.34	
Interest coverage (times)	1.90	2.28	
Total assets	20,892.74	22,286.50	
Net NPA (%)	0.00	0.00	
ROTA (%)	2.23	3.09	

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: not applicable

Any other information: not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	December 02, 2025	30,000.00	CARE AA+; Stable / CARE A1+
Long-term taxable bonds	INE014N07054	February 27, 2020	7.85%	May 26, 2023	500.00	CARE AA+; Stable
Long-term taxable bonds	INE014N07054	February 27, 2020	7.85%	May 26, 2023	50.00	CARE AA+; Stable
Long-term taxable bonds	INE014N07047	August 23, 2019	8.16%	November 22, 2022	450.00	CARE AA+; Stable
Sub Total	-	-	-	-	***500.00***	
Grand Total	-	-	-	-	***1,000.00***	
Commercial paper-(Standalone)	-*	-	-	7-365 days	3570.00	CARE A1+

**Nil outstanding as on July 12, 2022*

Annexure-2: Rating history of 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	Date(s) and Rating(s) assigned	Date(s) and Rating(s) assigned	Date(s) and Rating(s) assigned

					in 2022-2023	in 2021-2022	in 2020-2021	in 2019-2020
1	Bonds	LT	500.00	CARE AA+; Stable	-	1)CARE AA; Stable (29-Jul-21)	1)CARE AA; Stable (04-Jan-21) 2)CARE AA; Stable (25-Aug-20)	1)CARE AA; Stable (09-Oct-19)
2	Commercial paper-Commercial paper (standalone)	ST	3570.00	CARE A1+	-	1)CARE A1+ (29-Jul-21)	1)CARE A1+ (04-Jan-21) 2)CARE A1+ (25-Aug-20)	1)CARE A1+ (09-Oct-19) 2)CARE A1+ (24-Jul-19)
3	Fund-based/Non-fund-based-LT/ST	LT/ST *	30000.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (29-Jul-21)	1)CARE AA; Stable / CARE A1+ (04-Jan-21) 2)CARE AA; Stable / CARE A1+ (25-Aug-20)	1)CARE AA; Stable / CARE A1+ (09-Oct-19)
4	Bonds	LT	500.00	CARE AA+; Stable	-	1)CARE AA; Stable (29-Jul-21)	1)CARE AA; Stable (04-Jan-21) 2)CARE AA; Stable (25-Aug-20)	1)CARE AA; Stable (24-Jan-20)

**Long term / Short term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- not available

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Bonds	Simple
2	Commercial paper-Commercial paper (Standalone)	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple

Annexure 5: Bank lender details for this company

To view the lender-wise details of bank facilities please click here

Note on complexity levels of the rated instrument: 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.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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