

3 How do the Bank / Financial Institution Appraise our FPO loan?



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Now that our FPO submitted the documents to the Bank/ Financial Institution for a loan as per the business plan, let us see how do they appraise our application...

While each Bank / Financial Institution may have their own FPO rating tool & loan appraisal process, they mostly follow the procedure laid out in this note.

The Bank / FI checks all the documents that have been submitted along with the loan application, to find out if the proposal is **ECONOMICALLY VIABLE**.

That means, will the activities to be taken up, generate enough profits or not! That is why the Bank / Financial Institution asks us to give the **PURPOSE** of the Loan and how much loan that the FPO wants!

The Bank/ FI will then check and see if the FPO can make enough profits from the business proposed to be taken up, so that the FPO can, not only meet the requirements of generating profit for the shareholders but also repay the loan taken from the Bank/ FIs in the timely manner.

They will also check to see if the business plan given by the FPO is **TECHNICALLY FEASIBLE**. By this the Bank will check if the proposed business that our FPO plans to take up will be suitable in that area or not for the commodities of the farmers.

For example, the FPO want to set up a Dal Mill. The Bank / FI will then see if in the command area of the FPO Dal is a major crop or not and if there are other mills.

Again, if the FPO wants to start a Custom Hiring Centre then Bank or FI will see if there is a good demand from FPO members for hiring of tractors and equipment.

Similarly, if FPO wants to start a Milk Collection Centre or put up a Chilling & Processing Plant then the Bank/ FI will study regarding the number of Dairy animals in that area and the availability of electricity and water, major critical requirements for a Milk Chilling and Processing Plant and existing milk chilling capacity around.

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The Bank or Financial Institution will check for the Technical Feasibility and the Economic Viability of any Business Plan that the FPO submits

The FIs/ Bank will assess the FPO Business Plans on the following parameters

Governance & Management of the FPO

Financial Performance of the FPO

Business Plan of the FPO

External Risk for the business of the FPO

System and processes that the FPO has in place

Forward and backward linkages that the FPO plans to have

Appraisal of Output Marketing

During initial stages one of the major activities of the FPOs is the collective procurement and selling of agricultural produce from member-farmers. Hence, most of the FPOs require loans (working capital) to procure agricultural produce.

FPO must satisfy the Bank / FI on the following eligibility criteria that need to be fully addressed. All points will be individually validated and checked.

1. What is the previous experience of the FPO in the same commodity?
2. The authenticity of the business plan submitted will be checked by verifying the assumptions based on which the business plan is formulated.
3. The Bank / FI will verify if the commodity for which the FPO is applying for a loan is the major crop in the operational area of the FPO.
4. The proposed yield of the farmers from whom the FPO is planning to procure the commodity from will be verified from local data in the area.
5. The FI/Bank will check if the procurement prices assumed in the business plan are in line with the current market prices.
6. Similarly, the sales prices will be verified by checking the previous and current price trends of the commodity.
7. FI/Bank will talk to the proposed customer(s) of the FPO for verification of the sales assumptions in the Business Plan.
8. Credit period for the realization of sales by the FPO will be looked into for assessing the requirement.
9. What are the safeguards taken by the FPO, in case of any credit selling, what are the terms & conditions in the written contract will also be verified.





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The Bank/FI will check all aspects of the Output Marketing right from the experience of the FPO in the commodity being purchased & sold to what are the safeguards it has in place to meet any emergent situation !

Examples of successful venture and a not so successful one !!

Procurement from farmers – Not Successful

One of the FPO from Maharashtra applied for working capital support for procuring onion from their farmers. The FPO did not have any previous experience of dealing with onions and the projections were also very ambitious. The proposal got rejected as the price of onion is very volatile and FPO did not have risk mitigation to counter the volatility.

A successful example

Another FPO from Madhya Pradesh applied for support for the procurement of wheat from farmers. The FPO had a fair amount of experience in dealing with wheat. The business plan was based on realistic assumptions backed by crop surveys.

The FPO had a marketing linkage with the local traders as well as the institutional buyer.

The FPO was provided with loan support based on these parameters.

Input Marketing

Input purchase is the second most common activity where FPOs need loan. In these kinds of proposals, the FI/Bank will check the membership base of the FPO and average land holding of the farmers. FI/Bank will also check the nature of selling the input whether it is cash or credit basis. FPOs must practice cash & carry business

A specific approach for a lender – THE FWWB WAY

- a. FWWB spends ample time with the FPOs and their promoters to understand their financial and capacity-building requirements.
- b. It is a very important exercise as it helps the FPOs to understand their potential as well as their strengths and weaknesses. It also helps FWWB to determine suitable products and services for the FPOs.
- c. FWWB offers tailor-made products to FPOs with flexible disbursement and repayment terms and conditions.

Hence, FPOs can maximize the use of the working capital provided by FWWB.

After looking at all aspects of appraisal we can say that the following would be the sum and substance of what the banks / FI look for...

What FPOs should have before applying for a loan?

Legal Compliances

Ensure that FPOs have obtained required licenses for business activities and adhere to all compliance and regulatory & statutory requirements.

Good governance

The board of directors of the FPO should be aware of the activities of the FPO. The involvement of the directors in planning the business, decision-making & ownership of the activities is very crucial.

System and processes

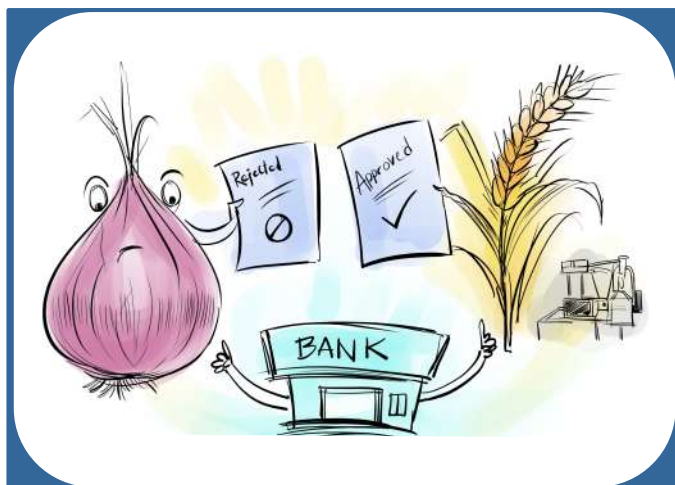
Robust accounting and record-keeping systems, proper systems and processes are essential to present a true & fair account of the business.

Growth-oriented strategy

FPOs should have a growth-oriented strategy backed by a feasible & viable business plan which based on realistic assumptions.

Market linkages

FPOs should identify the possible market linkages in case of applying for a working capital loan.



In the ensuing publications we shall be looking into the actual funds required by FPOs and what we need to do to avail them...

Please do write to us in case you require any clarifications on any issues/ points

For any queries/clarifications/comments,
write to fpofinance@apmas.org