

2 Is your FPO eligible for a loan_Part 1?

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In our previous publication we had talked about the need of FPO taking a loan or not¹. You might have understood the implications of a loan and are also clear about the many details of taking a loan like, when do we go for a loan, that it must be repaid Let us now find out HOW DO WE GO ABOUT GETTING THAT LOAN!!

There are several ELIGIBILITY CRITERIA that must be met before the Bank or the Financial Institution will grant that loan...



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The FPO must QUALIFY to be eligible for the Loan. FPO cannot get loan from a Bank or Financial Institution by just applying!! In addition to FPO being eligible for a loan, it must be loan appraiser from the Bank!!!

What are these eligibility criteria you may ask? Are they very complicated ?

Let us have a look....



The first and a critical qualifying criterion is ***“The Farmer Producer Companies/Organizations shall be a registered legal entity i.e., under Cooperatives, or Companies Act.”*** So, to be eligible the FPO MUST BE a legal entity.

Its great that your FPO is a registered entity and have the Registration Certificate!

Great... So, the first criteria is met. Now once the FPO is legally registered body the next requirement is ***“Members and shareholders of the FPO are to be only Farmers and the company should be owned by them.”*** Additionally, since individual producers and producer groups can become members, if FPO federation is applying for a loan the registered FPOs are to be owned by farmers only.

To prove this, we need to have the list of the farmer-members in the form of Members' Register with their details like address, land holding, Aadhar nos. etc. along with Memorandum of Association (MOA)/ Articles of Association (AoA) where it should be clearly mentioned that the FPO can apply and raise loans from Banks or Financial Institutions. These documents must be ready for verification by the Bank / lending institution as and when needed.

Also, a Resolution passed by the General Body of the FPO authorising the FPO Board of Directors to apply & take loan for the FPO from Banks and Financial Institutions should be there.

¹If you want you can read it by clicking on the link provided: <https://apmas.org/pdf/fpofunds.pdf>

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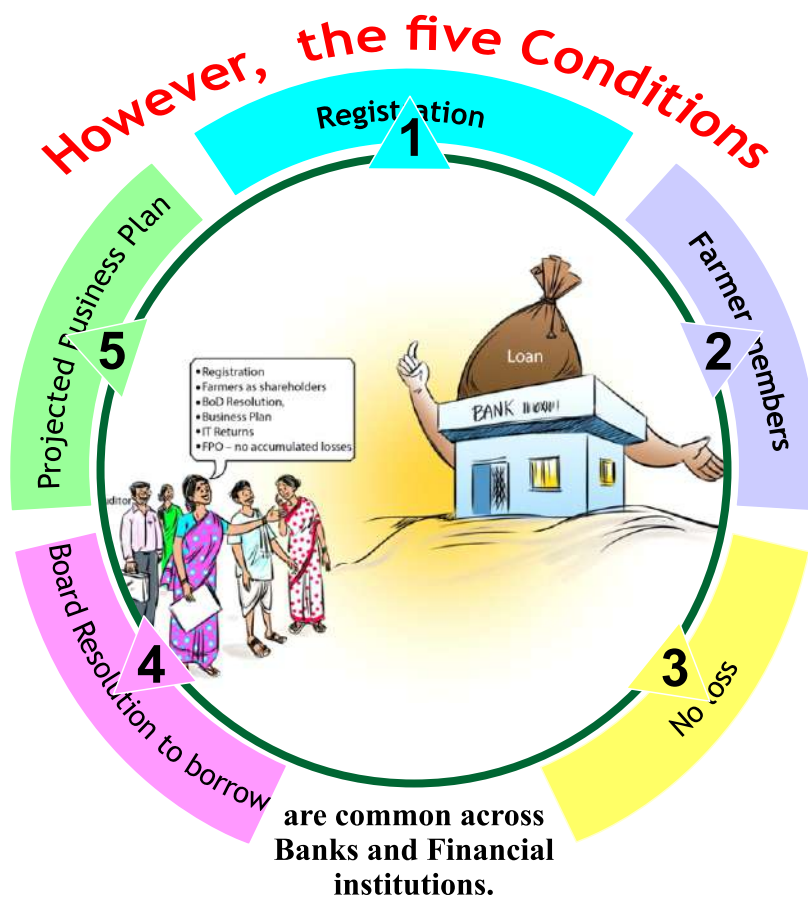
The FPO must keep all documents & records - registration certificate and details of members updated for verification by the Banks & Financial Institutions

Another important eligibility criteria is **“FPC have no accumulated losses of the previous years,”** which means that the FPO should have generated profits and should not be a loss-making farmer-owned enterprise.

In some cases, the Banks want a minimum of 500 members or experience of 2 years. In other cases, one Audited Financial Statement is enough.

Some other Banker / Financial Institution want a minimum of 33% members belonging to Small Farmers (SF) /Marginal Farmers (MF)

These are additional eligibility requirements specific to individual Banks.



Another condition that the Banks look for is the Filing of Income Tax Returns. All FPOs irrespective of the registration as Producer Company or Producer Cooperative and exemption of Tax payment, must file their IT returns. The proof of the filing must be shown to the Bankers / Financial Institutions.

It would be a good practice that while appointment of auditor, you must have an understanding with them that they should do auditing, returns filling, certification whenever required and also legal advisory.

True Speak of an FPO Case Study

FPO should have filed IT Returns !!!

Maryadaramanna Patnam FPC Ltd of Madanapalle mandal in Annamayya district of Andhra Pradesh is registered under Producer Companies Act. During the past four Financial Years had turnovers of Rs.35.28 lakhs in the FY 2019-20, Rs. 104.53 lakhs in 2020-21, Rs.86.50 lakhs in 2021-22 and Rs. 191.71 lakhs in 2022-23.

Since inception it has been in profits and also holds audited Financial Returns for all the 4 years. But the FPC did not file the IT returns because it thought the FPCs are having the provision of tax exemption, and hence no need for it!

In December 2022, seeking a business loan for enhancing their business, the FPC approached the ?? Bank Branch in Madanapalle where it was maintaining the business accounts, since its inception.

The Branch Manager inspected the business place, verified the Audit Statements, the FPO Board of Directors CIBIL ratings, etc. He expressed interest to sanction the Cash Credit Limit (CCL) loan of Rs.20 lakhs. But, the FPC did not fulfil the criteria of filing of IT returns. Hence, the loan proposal was not approved!

The Maryadaramanna FPC did not get their loan approved. In the meanwhile, the FPC is struggling for the Finance. Despite having great potential and plans. It is a big learning for the MRP FPC regarding legal compliances.....

Project Manager, MRP FPO, Madanapall



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The FPO must file its IT Return promptly, irrespective of earning profits, having losses, or doing no business. Copies of IT returns needed when apply for a loan !

Now that the FPO Loan Eligibility Criteria known to you, what should to be done would be the next question?

Usually the process of seeking finance / loan from a Bank or a Financial Institution begins with filling up of an application form. This application form would be specific to the Bank or Institution. But all these forms would be seeking the BASIC INFORMATION of the FPO.



A sample of a loan application format is given as annexure 1.

The details will usually be

1. Name of the FPO:
2. Address : Village , Mandal , District
3. Legal Status (Act under which Registered):
4. Operational Area of FPO: Crops grown and crop wise production during last three years (seasonwise)
5. No. of shareholders- breakup of SF/MF, SC.ST, Women etc... and so on

The application will also ask for what purpose and how much loan is being requested? The Bank or FI will also ask for FPO Business Plan?

The Application forms will be in both English as well as Regional Languages

The filled-up application must be given to the Bank with all details as are required. MoA, AoA or Bye Laws, Copies of Aadhar Cards of FPO Board etc

The FPOs would have submitted some of the following documents to the Bank at the time of opening their account. A quick check of the documents that need to be submitted along with the application form will ensure that time is not wasted in “to-and-fro” correspondence between Bank and FPO!!



1. PAN Card of the Company
2. Latest six months Bank Statement
3. MoA/AoA
4. Latest 2 years' Balance Sheets / P& L
5. Minimum one Year IT return filed proof
6. Certificate of Incorporation
7. Share holding Pattern (latest) on letter head of Company
8. Board Resolution copy on letter head to borrow from the Bank/ FI
9. List of Directors with DIN
10. Attested copies of PAN Cards of Directors
11. Attested copies Aadhar cards
12. First page of Bank accounts of directors (individual)
13. Passport size photos of Directors (number of photos will be dependent on Banks)

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List of documents need to be submitted with application seeking loan to be checked and kept in readiness to avoid delays in reminders and collection at later date !!

Once the documents are submitted to the Bank / Financial Institution, they will do an APPRAISAL to find out if the loan can be permitted or not. The basic parameters on which the loans are appraised are :

- ❖ Technical Feasibility of the business
- ❖ Economic Viability of the business
- ❖ Bank ability of the proposal.

We will be looking into each of these in depth in the following modules.

In case you have any query of want further details about anything discussed here...please do not hesitate to get back to us...

In the next module we will speak about the assessment process followed by Banks or Financial Institutions for appraisal of the loan application that an FPO submits...

Loan Application Format

1	Name of FPO	
2	Address of FPO	Village Mandal District State Pin
3	Legal Status (Act under which registered)	
4	Operational area of FPO	
5	Crops grown and Crop wise production during last three seasons	Kharif -- 1. 2. 3. 4. Rabi -- 1. 2. 3. 4. Summer -- 1. 2. 3. 4.
6	No. of shareholders (category wise-S&MF, Women, SC, ST, etc.)	Total of which SF/MF SC ST Women
7	No. of non-members availing services of FPO	
8	No. of BoDs (composition) - Names	
9	No. of Board meetings in a year (details)	
10	Details of CEO	
11	Name of Producer Organisations Promoting Institutions - POPI, if any	
12	Assistance provided by POPI	
13	Compliances	
14	Infrastructure available	
15	Details of various certificates/ licences obtained by the FPO	
16	Share Capital of FPO	
17	Type of loan (Term Loan/Cash Credit)	
18	Purpose of loan requested	
19	Loan Amount requested	
20	Present business activities (activities with turnover – in detail)	
21	Business plan – in brief	
22	Whether eligible for debt coverage from NABARD/ SFAC	
23	Backward linkages	
24	Forward linkages (marketing tie up, etc)	
25	Financial Statement (for the last three years, if in existence for more than three years; otherwise for all years of existence)	
26	Projection of financial statement in next three years	
27	Whether taken any loan previously, if yes, then details (for which activity) and status	
28	Collateral to offer	
29	Documents to be submitted - MoA, AoA, Bye Laws, etc	

For any queries/clarifications/comments,

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