# 4 FPO Primer on Understanding and Managing Funds
## Working Capital Loans - Introduction How and What?

Mahesh Alagappa, Consultant-APMAS

FPOs can usually avail two types of loans from the Banks

| Working Capital Loans | Term Loans |
|---|---|
| **WCL / CCL** | **TL** |
| **(Cash Credit Loans)** | |

Mature and well established FPOs, that are doing collection and output marketing activities with value addition, storage etc. can go in for Book Debt financing too . But for the present we will discuss the WC and TL only

We will discuss each of them in detail and understand how to use them to the best advantage of our FPO !

## WORKING CAPITAL LOANS

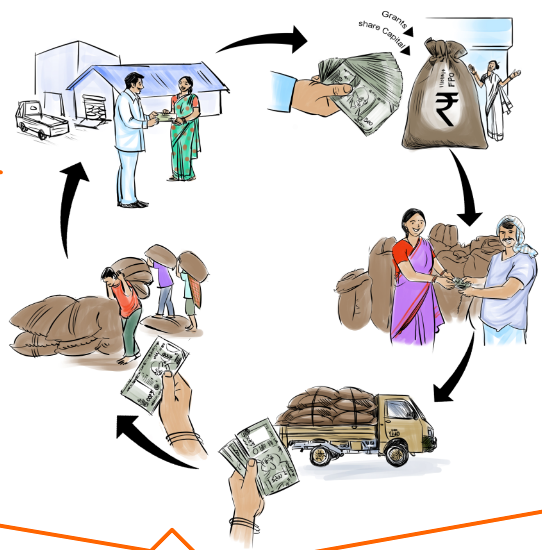
The Working Capital Loans also called as WC or CCL Loans are primarily obtained to meet the day-to-day expenses of the FPOs and are dependent on what is called as a **WORKING CAPITAL CYCLE**

For example, our FPO is doing Output Marketing. While procuring crop / produce from farmers, FPO needs to make the payment to them immediately.

**A typical Working Capital Cycle for output business is as shown here.**

**It starts with**

1. Cash – the FPO would be having either their own funds (mobilized Share Capital or Grants) which would be used for the business. In the WC Cycle we call it as CASH
2. Using this cash ( funds available with it) the FPO will pay the farmers for the produce.
3. The cash / funds will also be used for paying the Hamali and other charges.
4. We also pay for the transportation of the produce to the buyers. Sometimes the buyers may adjust this and FPO does not incur this expense.
5. On receipt of the produce the buyers make the payment to us and so again the FPO will have cash or funds which it can use for the next cycle.



FPOs generally do not receive advance payment from the buyer or farmers do not sell on credit, and if we do not have suficient share capital / grant funds then, FPO needs to take loan for procurement. This can be repaid immediately after receiving the payment from the buyer.

FPO may require similar kind of loan to meet expenses related to procurement, value addition and other regular expenses of FPO. The need for such loan would be there year on year and can be repaid after receiving the payment from the buyers.

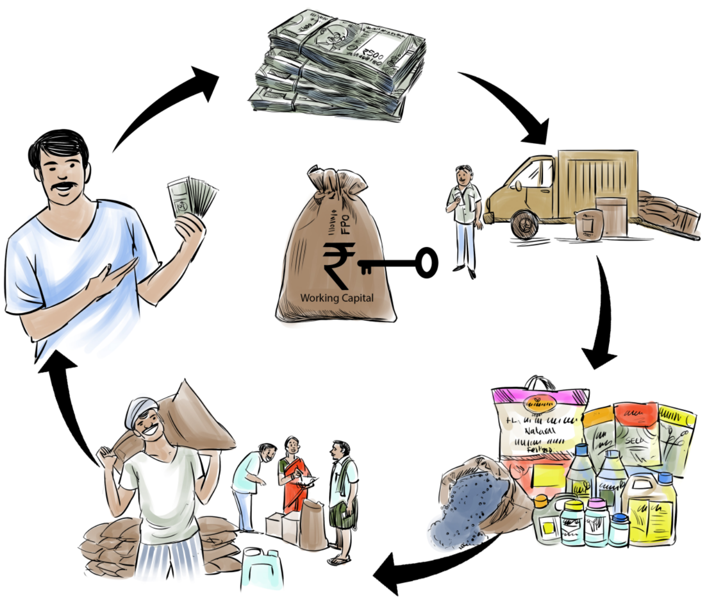
Similarly for INPUT Marketing the FPO may be needing funds to get seeds, fertilizers, pesticides, and other inputs that it would be selling to its members.

A Working Capital Cycle for Input Business will look somewhat like this.

As stated above the FPO will use its funds (share capital or grants) to make payment to the suppliers, receive the inputs from them, sell the inputs to the farmers receive the payment from the farmers and so have cash / funds for the next cycle.

**This type of loan/ debt is known as working capital loan. The key features of working capital are –**

1. It is required for running the key business activity and operations of FPO.
2. It is required for short-term ranging from a day to one year depending upon the cycle of FPO's business.
3. FPOs will always need working capital and the quantum needed will keep on increasing with the scale of PO's business.




**Learning Alert**

***A typical WC Cycle is FROM CASH TO CASH***

## Let us take the following example to explain the same.

Sri Nallareddy Swamy FPC was established in Gonegandla Mandal of Kurnool district in October 2019 under the RKVY Scheme promoted by the Horticulture Department of Govt of AP with APMAS acting as the FPO promoter. As at March 2023 they have mobilised 544 members with a Share Capital of Rs.13.60 lakhs. The prime indicators of business till FY 2022-23 are given in the table

| Indicators | | | | Rs. In lakhs |
|---|---|---|---|---|
| | FY 2019-20 | FY 2020-21 | FY 2021-22 | FY 2022-23 |
| Share Capital - Rs. | 6.20 | 8.12 | 8.16 | 13.60 |
| Membership Nos. | 248 | 324 | 326 | 544 |
| Turn Over - Rs. | 2.94 | 9.70 | 76.58 | 445.00 |
| Of which Fertilizers | 0.00 | 3.68 | 73.75 | 439.02 |
| Tarpaulins | 2.94 | 5.20 | 1.86 | 5.35 |
| Sprayers | 0.00 | 0.82 | 0.97 | 0.63 |

The major crops grown in the command area of the FPO are Red Chilli, Onion, Cotton, Maize, Paddy, Groundnut & Vegetables.

During initial years, the FPO utilised their own Share Capital and did a modest Turn Over of Rs. 2.94 lakhs.

When in 2020-21 they were able to get the fertilizer licence and rotated their share capital to 119% and achieved a Turn Over of Rs.9.70 lakhs. During 2021-22 they were able to get a finance of Rs. 5.00 lakhs from Sammunati, based on the TO achieved, and utilised it to improve their fertilizer business. They sold the fertilizer to their members and other farmers and were able to repay the loan taken from Sammunati, and also achieve a Turn Over of Rs.76.58 lakhs

Encouraged by this during Kharif season of 2022 they approached Nabkisan for a WC limit of Rs.25.00 lakhs and on getting the loan they have increased their Turn Over to a massive Rs 4.45 crores during FY 2022-23.

The have thus rotated their Share Capital and Working Capital loan over 11 times !!!

**Learning Alert**

***The key to better Turn Over is to use Working Capital Funds in as many rotations as possible !***

## Banks or FI, apprise the need and amount of Working Capital loans of any FPO based on

- Crops that are being grown, or the activities that are being taken up by the FPO
- what are the average expenses incurred per acre for cultivation of the crop, also know as Cost of Cultivation,
- the number of members and acreage under each crop during a season
- In case the FPO is doing non -crop activity like say a dairy activity then the WC requirement will depend on the amount of expenses it meets to buy feed , medicines, labour cost and the cycle when it is able to get paid for the milk it sells, or does it convert the milk into dairy product before selling etc.

Banks sanction Working Capital as a CCL -Cash Credit Limit for a period of a year while the FI (like Sammunati or Nabkisan) give as a WCDL -Working Capital Demand Loan. The CCL is a running account where we can draw as many times as per requirement but once a year the balance has to be brought to zero, whereas the WCDL is not a running limit and has to be repaid in full once the tenure is over.

Again, the Interest in case of Working Capital Loans is applied on the amounts actually used by the FPO and for the periods for which it is used. The following example will clarify the issue

Let us say our FPO took a Working Capital Loan of Rs. 10000.00. It has taken out amounts of Rs.5000.00 on 01.0823, Rs.2000.00 on 07.08.23, and again Rs.2000.00 on 25.8.23 to make some payments. It repaid amounts of Rs. 1000.00 on 18.08.23 and Rs.2000.00 on 25.08.23 as it got some receipts. The position of Interest for the month of August 2023 that will be applied is as under.

| | Amount sanction | | 10000.0 | | |
|---|---|---|---|---|---|
| Date | Amount Drawn / Taken out | Amount Paid back / Put In | Balance (Amount of loan actually taken) | No of Days | Interest |
| 01.08.23 | 5000.0 | | 5000.0 | 6 | 7.60 |
| 07.08.23 | 2000.0 | | 7000.0 | 11 | 19.51 |
| 18.08.23 | | 1000.0 | 6000.0 | 7 | 10.64 |
| 25.09.23 | 2000.0 | | 8000.0 | 6 | 12.16 |
| 31.08.23 | | 2000.0 | 6000.0 | 1 | 1.52 |
| | | | Total Days | 31 | **51.45** |
| **If Interest is Calculated on total sanctioned of Rs.10,000.00 for the full month of 31 da** | | | | | **78.56** |

In Working Capital loans, that are sanctioned as CCL (Cash Credit Limits), banks charge interest on amounts that has actually been taken and for the number of days it is taken.

**More practical example of CCL will be delt in future publications....**
**Please do feel free to write to us in case any clarifications are needed.....**

apmas
11 & 12, HIG, HUDA Colony, Tanesha Nagar, Near Dream Valley,
Manikonda, Hyderabad - 500089, Telangana.
Phone: +91 - 8413 - 403118
Website: http://apmas.org