Food Processing Fund – 2014-15 – Operational Guidelines

Government of India (GoI) has accorded top priority for the development of the food processing industry in the country and accordingly in reply to the debate on General Budget in Lok Sabha on 18 July 2014, the Finance Minister had announced setting up of a Special Fund of Rs. 2000 crore in NABARD to make available affordable credit to agro-processing units being designated as Food Parks. The Fund has been established in NABARD by RBI. Financial assistance from this Fund, designated as Food Processing Fund – 2014-15, will be provided by NABARD either directly or through consortium arrangements with other financing agencies. State Governments, entities promoted by State/ Central Governments, Joint ventures, Cooperatives, Federation of Cooperatives, SPVs, Farmers' Producers Organizations, Corporates, Companies, Entrepreneurs, etc., may avail loans from this Fund **for establishing the designated Food Parks and also for setting up of individual food/ agro processing units in the designated Food Parks**.

2. The Salient features related with operationalization of the Fund are indicated below.

1	**Objective**	To provide impetus to development of food processing sector on cluster basis in the country to reduce wastage of agricultural produce and to create employment opportunities, especially in rural areas.
2	**Mode of Financial Support**	NABARD will provide **term loans** out of the Fund. Term loans will be provided either directly or through consortium arrangements with other financing agencies.
3	**Eligible Institutions/ Entities**	• State Governments • Entities promoted by State Governments (with or without Government Guarantee) • Entities promoted by Government of India, Joint ventures, SPVs, Cooperatives, Federations of Cooperatives, Farmers' Producer Organizations, Corporates, Companies, Entrepreneurs, etc.
4	**Designated Food Parks**	Only the Designated Food Parks and the individual processing units in the Designated Food Parks will be eligible for financial assistance from the Fund. The designated Food Parks will include:

		• Food Parks promoted by Ministry of Food Processing Industries (MOFPI), Government of India • Mega Food Parks promoted by Ministry of Food Processing Industries (MOFPI), Government of India • Food Parks/ exclusive food processing industrial estates promoted by State Governments • Designated food processing/ agro processing/ multi products SEZs, including de-notified areas of these SEZs. • Any other area having developed enabling infrastructure and designated as Food Park by Ministry of Food Processing Industries (MOFPI), Government of India
5	**Type of Projects**	• Development/ Establishment of all infrastructure required in the designated Food Parks. • Augmentation/ modernization/ creation of additional infrastructure in the designated Food Parks. • Setting up of individual food processing units or any other unit that is established for supporting the operations of the food processing units within the designated Food Parks. • Modernization of existing processing units in the designated Food Parks resulting in process technology upgradation, automation, increased efficiency, improvement in product quality, reduction in cost, etc.
6	**Scope and types of processing activities**	The scope of processing activities undertaken by the individual units set up in the designated Food Parks may cover a wide range of post-harvest processes resulting in value addition and/ or enhanced storage life, such as cleaning, grading, waxing, controlled ripening, labelling, packing and packaging, warehousing, canning, freezing, freeze drying, various levels of product processing (primary/ secondary), etc. The products of processing/ manufacturing undertaken by the units may include:

		• Fruits, vegetables, mushrooms, plantation crops and other horticulture crops. • Milk and milk products • Poultry and meat • Fish and other aquatic & marine products. • Cereals, pulses, oilseeds and oil crops • Herbs, medicinal and aromatic plants, forest produce, etc. • Consumer food products, such as bakery items, confectionery, snacks, etc. • Any other ready-to-eat food/ convenience foods. • Beverages, non-alcoholic drinks, energy drinks, carbonated drinks, packaged drinking water, soft drinks, etc. • Food flavours, food colours, spices, condiments, ingredients, preservatives and any other item which may be required in food processing. • Nutraceuticals, health foods, health drinks, etc. • Any other activity approved by the competent authority for establishment in the designated Food Park.
7	**Terms of Lending**	

Sl. No	Borrowing entity	Max. Quantum of loan (% to eligible project outlay)	Tenure of loan	Rate of interest (% p.a.)	Security
(i)	State Governments	95%	7 years	As decided by RBI from time to time. Presently, it is as applicable for RIDF lending	An **undertaking** to the effect that State Government will repay the loans, with interest, in time and shall make adequate budgetary provisions to make the repayment

				(Bank Rate – 1.50%)	obligations.
(ii)	Entities promoted by State Governments **(with Government Guarantee)**	95%	7 years	As decided by RBI from time to time. Presently, it is as applicable for RIDF lending (Bank Rate – 1.50%)	Primary security, Government Guarantee and Collateral Security as acceptable to NABARD
(iii)	Entities promoted by State Governments **(without Government Guarantee)**	95%	Up to 7 years	PLR* + Risk Premium	Primary Security and Collateral security as acceptable to NABARD
(iv)	Entities promoted by Government of India, Joint ventures, SPVs, Cooperatives, Federations of Cooperatives, Farmers' Producer Organizations, corporates, companies, entrepreneurs, etc.	75%	Up to 7 years	PLR* + Risk Premium	Primary Security and Collateral Security as acceptable to NABARD

***PLR: Prime Lending Rate of NABARD, as decided by NABARD from time to time**

The Financial Parameters with regard to operationalization of the Fund are presented in **Annexure-1** and the aspects with regard to rating of the borrowing entity and the applicable rate of interest on term loan are indicated in **Annexure-2.**

(For any queries/ clarifications – email to dsm.fpf@nabard.org / or telephone: 022 26539409)

Annexure-1

Food Processing Fund (FPF) 2014-15

Financial Aspects

1. Project Cost

Eligible items in the total project cost may vary depending on the nature of project and will generally include site development, civil works, internal roads, drainage, plant and machinery, equipment and other fixed assets, technology transfer fee and other consultancy charges, preliminary and pre-operative expenses, capitalized working capital for one operating cycle, etc. If specifically requested in the project proposal and based on the merit of the case, capitalization of interest during construction period will be considered. Where land is purchased by the borrowing entity specifically for the project, cost of land, not exceeding 10% of the total project cost, will be reckoned towards eligible project outlay and the balance cost, if any, is considered towards borrower's additional contribution.

2. Extent of Term Loan

(i) The extent of term loan assistance out of the Fund will be variable up to a maximum of 95% for the State Governments and entities promoted by State Governments (whether or not supported by Government Guarantee) of the eligible total project outlay assessed by NABARD.

(ii) For all other categories of borrowing entities, the extent of term loan will be up to a maximum of 75% of eligible total project outlay assessed by NABARD.

3. Rate of Interest and Risk Rating of the Borrowing Entity

(i) The rate of interest on the loans sanctioned to the State Governments and to the state promoted entities guaranteed by the State Government will be as applicable for RIDF, i.e., Bank Rate less 1.50%.

(ii) For the loans sanctioned to private sector entities where the interest rate will be linked to Prime Lending Rate (PLR) of NABARD, the applicable rate of interest is worked out taking also into account the risk premium which is assessed based on the risk rating exercise undertaken for the borrowing entity. Particulars of rating and risk premium and the rate of interest chargeable to the borrower on the term loans sanctioned to private sector entities are furnished in **Annexure-2**. Borrowing entities obtaining a rating of not below "A" will be considered for term loan from the Fund.

(iii) Risk Premium

Risk analysis of the borrowing entity in the private sector will be carried out with reference to certain laid down parameters and weightage of marks allotted for each of the parameters. Depending on the total marks obtained by the entity, rating of the agency will be done and applicable risk premium will be added over and above the PLR of NABARD.

4. Security

(i) For the loans sanctioned to the State Governments, an undertaking to the effect that the State Government will repay the loans, with interest, in time and shall make adequate budgetary provisions to make the repayment obligations will be obtained.

(ii) For the loans sanctioned to entities promoted by State Governments supported by Government Guarantee, the security cover will comprise of Primary security, Government guarantee and Collateral security as acceptable to NABARD. All receivables, wherever possible, shall be routed through an escrow account.

(iii) The loans sanctioned to all categories of private sector will be secured by both Primary and Collateral securities, as acceptable to NABARD. All receivables, wherever possible, shall be routed through an escrow account. Further, personal guarantee of the promoters/ directors will also be obtained as per project.

5. Evaluation Fee

(i) For the loans sanctioned to State Governments and entities promoted by the State Government where RIDF lending norms are applicable, no evaluation fee will be charged.

(ii) For the projects sanctioned to all categories of private sector where PLR-based interest is applicable, an evaluation fee of 0.25% of project cost, subject to a minimum of Rs. 2.00 lakh and a maximum of Rs.30.00 lakh per project, will be charged. Service taxes, if applicable, will be charged extra.

6. Annual Monitoring Fee

(i) For the loans sanctioned to State Governments and entities promoted by the State Government where RIDF lending norms are applicable, no annual monitoring fee will be charged.

(ii) In respect of all projects where PLR-based lending rates are applicable, the expenditure incurred by NABARD in undertaking technical, financial and legal inspections of the Project during the implementation / construction phase as also periodic monitoring visits undertaken in the post-construction phase during the currency of the loan, either by itself or through a Licensed Independent Engineer

(LIE) / Lender's Legal Counsel (LLC) appointed for the specific purpose, shall be reimbursed by the borrowing entity to NABARD.

7. Insurance

The borrowing entities would ensure adequate and comprehensive insurance cover for all the assets created under the project as also the stock of raw material and semi-finished/ finished goods stored in the unit, during the currency of the loan.

8. Repayment of Loan and Payment of Interest

(i) For the loans sanctioned to State Governments the tenure of the loans will be 7 years with two years of initial moratorium and the loan is repayable in five annual installments. Further, each loan installment released will be treated as a separate loan having 7 years of repayment, with 2 years of grace period. Interest will be payable during the grace period also at quarterly rests.

(ii) The loans sanctioned to the entities promoted by the State Governments guaranteed by the State Government will also have a tenure of 7 years with two years of initial moratorium. The principal will be repayable in quarterly/ half-yearly/ annual installments, depending on the project activities and the nature of project cash flows. Interest will be payable during the grace period also at quarterly rests. If specifically requested by the borrowing entity and based on analysis of the agency's capacity in meeting the payment of interest obligations during the gestation period, capitalization of interest during moratorium period will be considered.

(iii) For the loans sanctioned to various types of private sector entities, the total repayment will be worked out based on the projected cash flows of the project / borrowing entity, which shall not exceed 7 years. Depending on the cash flows of the Project / borrowing entity, grace period up to a maximum of two years will be considered for repayment of installments of principal amount. Interest will be payable during the grace period also. The interest on loans will be payable on quarterly rests.

(iv) If the borrowing entity fails to pay the interest on the due date, it shall be liable to pay penal interest on the interest overdue at the same rate as applicable to the principal amount.

9. Prudential norms

The prudential norms will apply to the loans extended under the Fund. Risk mitigation will be handled at the product customization. As asset classification depends on the availability of security, additional collateral security for loans will be taken to attract lower provisioning, in case the assets become non-performing.

10. Due diligence and other aspects

All steps, including analyzing through CIBIL Reports, mortgage with central registering authority, etc., will be followed for due diligence.

Annexure - 2
Food Processing Fund (FPF) 2014-15

Lending to Private Sector Entities: Rating of the Borrowing Entity and Interest Rate

1. **Rating of the Borrowing Entity**

The rating of the borrowing entity will be based on total marks obtained in various parameters grouped into 4 major segments viz. Financials, Security offered for the loan being sanctioned, Management and Compliance, against maximum marks of 100. Segment-wise coverage will be as under:

Sl. No	Segment	Maximum Marks
1	Financials	50
2	Security	30
3	Management	10
4	Compliance	10
	TOTAL	**100**

The rating of the borrowing agency will be based on the Total Marks obtained and will be as under:

Sl. No.	Total Marks obtained	Rating
1	90 and above	AAA Plus (Prime)
2	80 to 89	AAA
3	70 to 79	AA
4	60 to 69	A

2. **Risk Premium**

Based on the rating obtained as above, Risk Premium will be loaded on to the PLR of NABARD as indicated below.

Sl. No.	Rating	Risk Premium (% p.a.)
1	AAA Plus (Prime)	Nil
2	AAA	0.25
3	AA	0.50
4	A	0.75