

## **Guidelines for NDDB Working Capital Finance** **Scheme for Dairy Co-operatives**

In order to support the dairy cooperatives to meet their working capital requirement, NDDB has introduced '**Working Capital Finance Scheme for Dairy Co-operatives**' with effect from 1<sup>st</sup> September 2017. Under this Scheme, NDDB provides financial assistance as Working Capital loan to eligible Dairy Co-operatives for the specified purposes as mentioned below.

### **I. Purpose of the Scheme:**

To meet the fund requirement for:

1. Purchase of conserved commodities<sup>1</sup> to meet the demand for milk & milk Products
2. Conversion of surplus milk into conserved commodities
3. Maintaining the minimum stock level of conserved commodities for day to day operations throughout the year

### **II. Eligibility Criteria:**

1. The Dairy Co-operatives should be registered under a State Co-operative Societies Act with an elected Board or established as a producer company under chapter IX-A of the companies (Amendment) Act 2002 or under relevant chapter of the subsequent Companies Act / its amendment.
2. There should not be any outstanding dues to milk producers/member societies for more than one payment period<sup>2</sup> at the time of application.
3. Past accounts upto the previous financial year must be duly audited.
4. The borrower must not be a defaulter in repayment of loans to NDDB/Bank/any other financial institution during last 3 years.
5. The Debt Service Coverage Ratio (DSCR) of the operations to cover the total liability including the interest accrued against the proposed working capital loan from NDDB should work out to a minimum of 1.5 times.

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<sup>1</sup> Conserved commodities mean commodities which are used for reconstitution of milk like Skimmed Milk Powder (SMP), White Butter (WB), and Whole Milk Powder (WMP).

<sup>2</sup> Maximum payment cycle should not be more than 15 days.

6. The borrower should have posted Operating Profit in the last three consecutive financial years. 'Other income<sup>3</sup> & grant' should not be considered for calculation of Operating Profit.
7. Current Ratio should be a minimum of 1.00. Following points to be noted for calculation of Current Ratio:-
  - (i) Exclude Non recoverable debtors<sup>4</sup>/Provision for doubtful debtors' from Current Assets.
  - (ii) Include Short Term loan & Interest payable within one year in the current liabilities.

The eligible borrower has to submit its application in prescribed format to NDDDB for availing financial assistance under the said Working Capital Finance Scheme. For renewal of facility, the borrower has to submit its application to NDDDB at least one month before the expiry of the approved tenure.

### III. Assessment of Working Capital:

NDDDB shall sanction a maximum limit of working capital (*called 'sanctioned limit' hereinafter*) to each eligible borrower based on their operations in previous three years and estimates for the following year.

The sanctioned limit will be equivalent to 80% of the **peak working capital requirement of the borrower<sup>5</sup>**. The sanctioned limit will be valid for a period of maximum of 12 months.

#### **Drawal limit**

The borrower can withdraw loan to the extent of the '*drawal limit*' as per their fund requirement during the loan tenure. The drawal limit will be equivalent to 80% of the value of stock of conserved commodities held by the borrower at a given point in time subject to the maximum of the sanctioned limit. To calculate the drawal limit for a specific month, stock value as on the last day of the previous month (closing stock value of previous month i.e opening stock of current month) will be

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<sup>3</sup> Other Income includes interest/dividend income on the investments.

<sup>4</sup> Debtors outstanding for more than 180 days

<sup>5</sup> Will be calculated based on the peak stock level (peakest of the monthly average closing stocks) of conserved commodities to be held by the borrower during the loan tenure.

considered. Value of conserved commodities for this purpose will be derived considering the NCDFI e-market price at the given point in time.

During the tenure of loan, the borrower will be allowed to withdraw and maintain the outstanding loan to the extent of drawal limit. At any given point in time, the total loan outstanding of the borrower must not exceed the drawal limit. If exceeded, the borrower will be required to repay the excess loan over and above the drawal limit within the prescribed time limit as per the terms & conditions mentioned hereafter. The excess loan over and above the drawal limit would also attract additional interest @3% p.a. as per the terms & conditions mentioned hereafter.

At the end of the tenure of the loan, the entire loan outstanding including interest is to be repaid to NDDB, if the tenure of 'the sanctioned limit' is not renewed. The application of renewal of the loan tenure has to be received at least one month before the end of the tenure.

#### **IV. Terms & conditions of the Scheme:**

1. **Interest:** Interest will be charged at a floating rate of interest or at such rate as may be decided by NDDB from time to time on monthly rest basis. The monthly interest shall be payable on or before the last working day of the month, failing which, additional interest @3% p.a. will be charged from the 1<sup>st</sup> day of the subsequent month.
2. **Tenure of the Loan:** Maximum tenure of the loan would be 12 months from the sanctioned date as referred in the Sanction Letter. The same can be renewed at the discretion of NDDB. If not renewed, the borrower has to remit the outstanding loan along with interest by the end of the tenure of the loan. Non-payment of loan within the due date shall attract additional interest @3% p.a. over and above the normal rate of interest on the entire outstanding starting from the due date for repayment.
3. **Security:**
  - i. The borrower shall create first charge on entire movable assets including stock and debtors by way of hypothecation. If the borrower has already availed working capital loan facility from any other lender(s), in such a case, the borrower should extend *pari passu first charge* on the movable assets in favour of NDDB.

- ii. The borrower shall obtain *No Objection Certificate* (NOC) for creation of charge in favour of NDDB from the existing lenders, if any.
  - iii. The borrower shall give an Undertaking that it will not hypothecate the assets to any other institution(s) for raising funds or for any other purpose.
  - iv. The borrower shall put a name plate on the entrance of the warehouse saying, “This stock is hypothecated to NDDB”.
  - v. The borrower shall execute/provide the following documents as per the format prescribed by NDDB:-
    - a) Certified true copy of Board Resolution for availment of Working Capital loan and authorising the signatory for the said execution
    - b) Working Capital Loan Agreement
    - c) Deed of Hypothecation / Letter of continuation of hypothecation.
    - d) Letter of Continuity
    - e) Demand Promissory Note
  - vi. The borrower shall provide Post Dated Cheque<sup>6</sup> (PDC) for an amount equal to 110% of the sanctioned limit to NDDB.
  - vii. The borrower shall execute any other documents for the said working capital loan as requested by NDDB from time to time.
4. **Insurance of stock:** The borrower shall adequately insure their stock and endorse the insurance policy/policies in favour of NDDB. The policies should be lodged with NDDB and should be kept alive (current) during the currency of the loan.
5. **Draw down and repayment Schedule:** The borrower shall provide monthly draw down / repayment schedule to NDDB at least 10 days prior to the beginning of a quarter. The borrower can avail and repay the working capital loan at any time based on given schedule subject to the drawal limit.
6. **Release of funds:** The borrower has to submit its request for release of funds in prescribed format. NDDB would release the working

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<sup>6</sup> Minimum of one Post Dated Cheque dated last day (working day) of loan tenure.

capital loan after assessing the audited stock statement and physical verification of stock, if required. The outstanding loan should not exceed the drawal limit at any given point in time.

7. **Audited<sup>7</sup> Stock and Cash flow Statement:** The borrower has to submit audited stock statement and cash flow statement in prescribed formats along with copy of stock Register on monthly basis on or before 7<sup>th</sup> day of every month.
8. **Drawal Limit and charging of additional interest for exceeding the Drawal Limit**

The drawal limit for the current month will be equivalent to 80% of the value of stock of conserved commodities held by the borrower on the last day of the previous month i.e. closing stock value of the previous month.

**Additional interest on excess loan in case of submission of stock statement by the borrower on or before 7<sup>th</sup> day of the month**

- i. Upon timely submission of audited stock statement by the borrower (i.e. on or before 7<sup>th</sup> of the month), if it is found that the outstanding loan exceeds the drawal limit, NDDB shall raise demand to the borrower within 3 working days from the date of receipt of stock statement, to repay the excess amount by 15<sup>th</sup> of the respective month.
- ii. If the borrower repays the excess amount on or before the 15<sup>th</sup> of the month, no additional interest shall be chargeable to the borrower. However, if the excess amount is not repaid on or before the 15<sup>th</sup> of the month, additional interest @3% p.a. shall be charged on the excess amount from 8<sup>th</sup> of the month till the date of actual repayment of the excess loan to NDDB.

**Additional interest on excess loan in case of submission of stock statement by the borrower after 7<sup>th</sup> day of the month**

- i. If the submission of stock statement is delayed by the borrower (i.e. submitted after 7<sup>th</sup> day of the month) and if it is found that the outstanding loan exceeds the drawal limit, NDDB shall raise demand to the borrower within 3 working days.

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<sup>7</sup> Duly audited by the chartered accountant

- ii. NDDDB shall charge additional interest @3% p.a. on the excess loan for the period from 8<sup>th</sup> of the month till the date of actual repayment of the excess loan to NDDB.
  - iii. In this instance, the additional interest will be payable by the borrower even if the repayment has been made on or before the 15<sup>th</sup> of the month.
9. **Maintenance of stock register:** The borrower shall maintain up-to-date stock register and other related records.
  10. **Physical verification of stock:** NDDDB shall carry will physically verify the stock as and when felt necessary. The borrower shall permit the officers of NDDDB in the premises where such stocks are stored. Where the premises are leased/hired, necessary approval to the effect from the lessor for this purpose, if required, shall be obtained by the borrower.
  11. **Refund of loan during tenure:** The borrower will have to refund the working capital loan by way of sale proceeds from stock. Borrower can avail the same again as per the requirement during the loan tenure. The borrower will have to ensure that the loan outstanding does not exceed the drawal limit. In case the total loan outstanding exceeds the drawal limit, the borrower shall arrange to repay the same within the prescribed time limit to NDDDB, failing which the Borrower will be liable to pay additional interest @3% p.a. over and above the normal rate of interest as per the terms & conditions.
  12. **Loan from other lenders:** The borrower shall not avail loan/credit facility from any bank/other financial institution without prior approval of NDDDB during the tenure of Loan.
  13. **Right to Call:** All the terms of this Scheme given above are without prejudice to the NDDDB's right to call upon the borrower to repay forthwith the outstanding advance under any head and to suspend further release of funds to the borrower.

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