3rd Edition

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Resource Book on Formation and Functioning of Farmer Producer Companies

(The Green Book)

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Developed by

Action for Social Advancement (ASA), Bhopal
www.asaindia.org

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This Resource book is intended as a general summary on the various aspects of producer companies which is based largely around the experience of the producer companies of the farmers . Therefore, a word of caution for those willing to use the manual for generic purpose is to refer other relevant materials conjunctively while using this Resource book.

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Foreword

It is over a decade since the concept of the producer company was first introduced through an amendment in the Indian Companies Act.1956 (now Indian Companies Act.2013). Action for Social Advancement (ASA), a non-governmental development organisation was one of the first few organisations started incorporating the collectives of the small and marginal farmers as producer companies, instead of registering them under the Cooperatives Act. That was 2006/07. Realising that there was hardly any guidelines for the promoting organisation on how to go about registering a producer company, statutory compliances to various statutory authorities and few basic steps to begin business, ASA in 2007 developed the first resource book for establishing producer company. The term "Farmer Producer Company or FPC" was first time used in this manual although there is no sanctity of this term in legal parlance. Later in 2013 the National Policy and Process Guidelines coined the term "Farmer Producer Organisation or FPO" which is a popular term today to denote a farmers' organisation irrespective of their legal entity as producer company or producer cooperatives. The producer company or PC is the legal term used in the Act. However, since ASA's experience has been largely around forming producer companies of small and marginal farmers the term FPC and FPO have been used in substitutable manner in this manual. Since this manual is largely around the experience of the producer companies of the farmers and therefore a word of caution for those willing to use the manual for generic purpose is to refer other relevant materials conjunctively while using this resource book. In 2010, with the request and financial support of the Food and Agriculture Organisation of the United Nations (FAO), we revised the 2007 manual with new chapters added to it. The financial aspects like business planning, etc. was given emphasis in the version of 2010. In 2013, the Department of Agriculture, Government of India included the Resource book of the 2010 version into the National Policy and Process Guidelines of Farmer Producer Organisations.

By 2016 the movement of the Farmer Producer Organisation has gained momentum and demonstrated potential of growing as a sector. Over 3000 FPOs are reported to be functioning across states. Several organisations are the beneficiary of the resource book and have customised in different forms like translating in regional languages (the manual is available in seven languages facilitated by the Small Farmers' Agribusiness Consortium), developing FAQs, etc. We receive frequent enquiries from the cross section of people engaged in the FPC development for issues which are not necessarily covered in the resource book of 2010. We realised that with the passing time and sector growing, there is a need for revision of the resource book of 2010 incorporating latest development and issues around the FPCs. We are grateful that the NABKISAN Finance limited, a subsidiary of the NABARD, readily agreed for a small grant to develop the third edition of the resource book which is now in your hands. Without their support and urge to do the third edition, especially by Shri R. Amalorpavanathan, the Chairman of NABKISAN, it would have perhaps taken some more years before it saw the light of the day.

We owe our gratitude to the organisations such as Centre for Indian Knowledge Systems, Chennai for giving their consent to modify and reproduce their publication "Frequently Asked Questions and Answers on Producer Companies", Small Farmers' Agribusiness Consortium, Techno Serve, Development Support Centre, Madhya Bharat Consortium of Farmer Producer Companies Limited and Action for Social Advancement who have contributed case studies of their work which we believe will inspire many.

This resource book deals with the processes to be followed and preparations required to set up a Farmer producer company. The resource book is developed based on the experiences of ASA in developing a series of FPCs in Madhya Pradesh and other states and the lessons learnt from the contemporary development on the FPOs contributed by the stakeholders.

There are many new features in the third edition. Besides replacing the old facts with new we have added new chapters like – Government support for FPCs (Chapter-6), Credit support to FPCs by NBFCs (Chapter 7), Various compliances for the FPCs (Chapter-8), Emerging marketing models and avenues (Chapter 9), Success stories, Frequently Asked Questions (FAQs), etc. A business planning software for the FPC has been added in the manual. Using the weblink the user can download the software. Pencil drawings have been introduced in the Third edition to make it readers' friendly.

The whole idea behind this resource book is not to provide prescription, as the Producer Companies require context specific strategic interventions (like any other community institutions), which is best manoeuvred by the practitioners working in a given situation, but to provide a methodical guidelines in establishing a FPC. Thus, this resource book should not be considered as the sole source of information. It is suggested that the interested users also seek details of legal compliances related with company affairs, available at the website of Ministry of Corporate Affairs **(www.mca.gov.in)** and also from the websites of the relevant statutory authorities such as Income Tax, Sales Tax, etc.

Finally, I would like to thank profusely my colleagues G. Jayanthi, Neeraj Mansaramani, Vivek Saraf, Shaji John and Yogesh Dwivedi who have worked extensively to finalise the third edition of the Resource book. Our sincere gratitude is also due to Gaurav Gangle Ideas who has meticulously drawn the sketches and M/s. Agitprop which has done the design and layout of the resource book .

I hope that you find the THIRD EDITION of the Resource book useful.

Ashis Mondal
Director
Action for Social Advancement (ASA)

02nd October 2016

Message

India has over 12.5 crore farmer households of which over 85% are small and marginal farmers with land holdings of less than 2 hectares. The average size of land holding is 1.33 hectare/ farmer household. Due to this fragmentation and disorganization, it is not economically viable for farmers to adopt latest technology and use high yielding varieties of inputs like seeds and fertilizers. They are also unable to realize good value from their marketable surplus by individually selling their produce.

Collectivizing farmers into Farmer Producer Organizations (FPOs) has been considered as one of the ways to procure inputs at a lower price, and gain more selling power for their produce/product.A Farmer Producer Company entails the spirit of a cooperative society with professional management.Forming a producer organization can also provide access to timely and adequate finance, build capacity and provide linkages to markets.This approach is demonstrating the potential to evolve farmers owned enterprises and in enabling their effective participation in agri value chain with better access to markets.

Govt. of India has, in fact, identified farmer producer organisation registered under the Companies Act as the most appropriate institutional form for mobilising farmers and for their capacity building which will leverage their collective strength for their economic betterment. Now the concept of Farmer Producer Companies (FPCs) has become a cornerstone of all policy initiatives of Govt. of India, various State Govts., NABARD and other policy makers in the field of agriculture development.Govt. of India has set up a separate fund, PRODUCE in NABARD with a corpus of Rs. 200 crore to facilitate promotion of 2000 FPOs in various parts of the country. As per rough estimates there are about3000 FPOs formed under various programmes including PRODUCE.

NABARD has desired that its subsidiaries, especially Nabkisan Finance Limited (NKFL), should focus on financing FPOs.NKFL is providing credit for promotion, expansion and commercialization of enterprises engaged in agriculture, allied and rural non-farm activities. The experience of financing FPOs in the last one year has revealed that there is an urgent need for capacity building of stakeholders in promoting institutions for key functionaries and board members of FPCs and other concerned etc.

Considering the changed landscape and recent developments, NKFL decided to publish a manual, in association with ASA, on FPCs not only containing basic information on why and how of FPCs but also having information on business planning, emerging marketing opportunities in agriculture, government policies in this sector, success stories, etc. This manual will serve as resource book for all those interested in the emerging sector of Farmer Producer Companies. It is expected that the manual will be helpful not only to key functionaries of FPCs and promoting institutions but also to bankers, developmental organisations, researchers, etc.

The efforts of Shri. AshisMondal and his team at ASA,other resource institutions who have contributed to refinement of the document deserve commendation.

I hope this manual serves its intended objectives and you will find this resource book helpfulin guiding the FPOs to emerge as viable business enterprises.

(Amalorpavanathan)
Chairman
Nabkisan Finance Limited (NKFL)

Place: Mumbai
Date:31st January 2017

ABBREVIATIONS

AGM	Annual General Meeting
APMC	Agricultural Produce Marketing Committee
ASA	Action for Social Advancement
BoD	Board of Directors
CBO	Community Based Organisation
CEO	Chief Executive Officer
CIG	Common Interest Group
DAC	Department of Agriculture and Cooperation
DIN	Director Identification Number
DPIP	District Poverty Initiative Project
DSC	Digital Signature Certificate
DSCR	Debt Service Coverage Ratio
FAO	Food and Agriculture Organization
FAQ	Frequently Asked Questions
FIG	Farmers Interest Group
FPO	Farmer Producer Organization
FWWB	Friends of Women's World Banking India
GDP	Gross Domestic Product
IRR	Internal Rate of Return
LMF	Large and Medium Farmers
MBCFPCL	Madhya Bharat Consortium of Farmer Producer Companies Limited
MCA	Ministry of Corporate Affairs
NABARD	National Bank For Rural And Agriculture Development
NABFINS	NABARD Financial Services Limited
NBFC	Non Banking Finance Companies
NAM	National Agriculture Market
NCDEX	National Commodity and Derivatives Exchange
NKFL	NABARD Kisan Financial Services
NGOs	Non Governmental Organizations
PAN	Permanent Account Number
PO	Producer Organization
PODF	Producer Organization Development Fund
PRADAN	Professional Assistance for Development Action (NGO)
PRODUCE	Producer Development and Upliftment Corpus
RBI	Reserve Bank of India

ABBREVIATIONS

RKVY	Rashtriya Krishi Vikas Yojana
RoC	Registrar of Companies
RRB	Regional Rural Bank
SFAC	Small Farmers' Agribusiness Consortium
WUG	Water Users Group
SHG	Self-Help Group
SMF	Small and Marginal Farmers
TAN	Tax Deduction and Collection Account Number
TIN-FC	Tax Information Network Facilitation Centre
UPNRM	Umbrella Program for Natural Resources Management
VAT	Value Added Tax
WHR	Warehouse Receipt

CHAPTER 1

PRODUCER COMPANIES - CONCEPT AND PRACTICES

The chapter deals with the generic issues in regard to need of farmer's collectives, genesis of Producer Companies Act., key differences in characteristics between producer companies and cooperatives and experience of ASA and other promoting organisations in establishing producer companies

1.1 Background-Why Farmer Producer Organisation ?

Over 83 per cent of Indian farmers are small and marginal (2005-06), cover nearly 50 per cent of operational holdings. An estimated 65 per cent of all farmers are marginal. More than 90 per cent of the small and marginal farmers (SMF) are dependent on rain for their crops. In absolute numbers there are about 90-100 million SMF in India who depend on agriculture for income and employment. Due to continued phenomenon of land fragmentation the number of SMF is ever increasing.

Only a minority of India's farmers is served by the formal agriculture extension system due to various limitations including the structural problems. Only 9% farmers receive extension services from government extension staff, while 19% of farmers depend on private input dealers for advice (NSSO, 2005). This implies that poor extension systems led to a situation where farmers do not have any problem solving mechanism for improving their productivity. This has created a widening gap between the agriculture research results and their adoption on the ground.

A large chunk of SMF seek farm credit from moneylenders while only a limited numbers from banks. In the XI and XII plan there has been significant jump in supply of agriculture credit, however, in RBI's own admission the SMF share in institutional credit is less than 10%.

APMC[1] to some extent has provided needed safeguard to the farmers against exploitation by the market intermediaries. However, it has restricted competitiveness in the market. Also it could not expand its reach to the remote areas. There is one regulated market per 450 sq. km. Perhaps, not even one third of Indian farmers, especially the SMF, have access to the formal agriculture marketing system, leaving the rest dependent on the informal service providers which are exploitative and non-remunerative. The Model APMC Act., which advocates open trade between buyers and sellers outside the market yard, has not been adopted by many state governments. And where adopted it has been either adopted partially or the rules make the changes ineffective. The role of organized private sector in the primary agriculture market is thus very limited. Corporate and other bulk buyers of agriculture commodities find the transaction costs of dealing with a large number of small producers prohibitively high and prefer dealing with bigger farmers and mandi aggregators. The middle men fill the gap by making huge margin. Although the share of cooperatives in fertiliser distribution is 36%, yet there are huge uncertainties in input supplies mainly due to malpractices in distribution system. Things are likely to improve with the Government's recent move to digitize fertiliser distribution system and direct subsidy transfer to the farmers bank account .

A recent paper has noted the competitiveness of small farms on virtually all parameters of resource and input use but concludes that this is in itself not sufficient to pull smallholders out of the grip of poverty. The missing elements of support, information asymmetry and the most critical issue of finance are among the key factors that seem to determine the terms on which small producers relate to the market[2].

Globalization, an expanding domestic middle class and diversification of the food basket are driving growing corporate interest in agriculture as a source for raw material for agriculture value chain[3]. There are numerous examples of backward linkages between the corporate sector and farmers in various parts of the country. However, majority of existing examples of linkages between farmers and processors/retailers involve Large and Medium Farmers (LMF), with very few instances of SMF successfully linking up with processors/retailers. The highly fragmented nature of production and low per capita surplus of SMF make it unviable to directly link with the organized markets and leverage better returns for their produce.

The climate change debate and the linked issue of global population expansion have raised the public's awareness of global warming and the allocation of scarce resources for food and energy production. There is an increasing global trend demanding consumers to become more responsible in their consumption pattern.

The multi-stakeholders (producers, trade and industries and NGOs) voluntary initiatives popularly known as Round Table for Responsible Production, processing and marketing of agriculture commodities like soybean **(www.responsiblesoy.org**,sugarcane **(www.bettersugarcane.org)**, cotton **(www.bettercotton.org)**, palm oil **(www.rspo.org)**, etc. are established mechanisms and fast growing. The organic production standard is already an established system and growing globally including India at a faster speed. All these are happening due to perceived environmental, economic and social benefits.

[1] Agriculture Produce Marketing Committee

[2] Farm Size, Input Use and Productivity: Understanding Strength and Improving Livelihood of Smallholders. Ramesh Chand, P.A. Lakshmi Prasanna and Aruna Singh. Economic and Political Weekly, June 25, 2011 Vol. XLVI Nos. 26 & 27

[3] A recent USDA data shows that about 47% of the income of India's 160 million middle class consumers is spent on food.

The constraints faced by the small and marginal farmers, as summed up, are as following:

a. Shrinking land asset, rising per unit cost of cultivation and shrinking profit margins

b. Difficulties in accessing critical inputs like credit, water, power as well as quality seeds, fertilizers, pesticides and appropriate and timely technical assistance

c. Fragmented value chain in agriculture marketing, monopoly and /or monopsony conditions, few opportunities for value addition at the bottom of the chain

d. Weak bargaining with market agents and low returns on investment

e. Present arrangements for risk mitigation, especially crop insurance instruments, are highly unsatisfactory and do not adequately cover the risks faced by the SMF, leaving them vulnerable to the vagaries of weather.

f. Finally, there is no special targeting or earmarking of resources for SMF in centrally sponsored agriculture development programmes.

Hence, there is an urgent need for solutions that mark a break from the past and significantly improve the terms of smallholder access to the market. The Farmer Producer Organization (FPO) is a necessity in Indian scenario if one has to effectively address the issues mentioned above. Member based FPOs offer a proven pathways to successfully deal with a range of challenges that confront small producers, empowering their members in a variety of ways. Several national experience in the performance of FPOs suggests that FPOs are able to leverage their collective strength and bargaining power to access financial and non-financial inputs and services, technologies, reduce transaction costs, tap high value markets and enter into partnerships with private and public entities on more equitable terms.

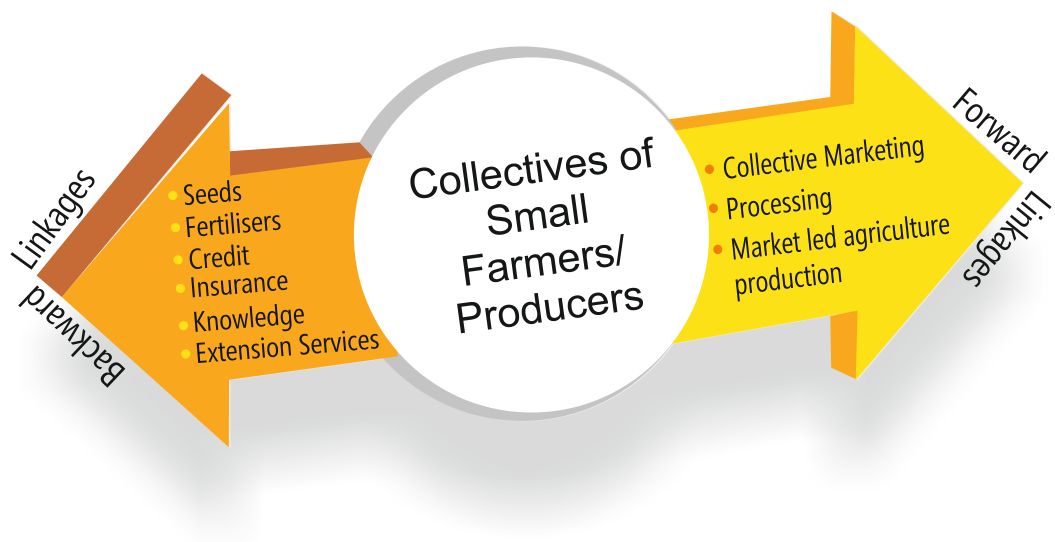
Several institutional models of farmers have been tried or being tried in India to integrate farmers with the value chain. The most common model is the producers' cooperatives, which enable farmers to organise themselves as collectives. The cooperatives are registered with the Registrar of Cooperative Societies. India has a large number of cooperative institutions in a vast range of enterprise sectors. Baring few, the cooperative experience in India has not been a very pleasant one, as cooperatives have largely been state promoted, with a focus on welfare rather than to do business on commercial lines.

In 2002, through an amendment in the Indian Companies Act. 1956[4] the Government of India (GoI) enacted the Producer companies Act. by incorporating a new section IX A in the Indian Companies Act.1956 based on the recommendations of the Y.K. Alagh Committee set up for this purpose. The producer companies are incorporated with the Registrar of Company (RoC). The objective of the Government of India for such an initiative was to formulate a legislation that would enable incorporation of cooperatives as companies and conversion of existing cooperatives into companies, while ensuring that the unique elements of the cooperative business remain intact in the new legislation.

[4]In the amended Companies Act of 2013, the chapter IX of companies act, 1956 to be applicable mutatis mutandis till such time a separate bill for PCs is brought out

A PC is formed with the equity contribution by the members. The day to day operation is expected to be managed by the professionals, under the direction of the Board of Directors (BoD) elected/selected by the General body of the PC for a specific tenure.

Since farmers or the producers are the equity holders of the company, a PC as an organisation provides an appropriate framework for owning the company by the producers themselves. **The basic purpose of the PC is to collectivise small farmers or producers for (a) backward linkage for inputs like seeds, fertilisers, credit, insurance, knowledge and extension services and (b) forward linkages such as collective marketing, processing, market led agriculture production etc. At the heart of this effort is to gain collective bargaining power for small farmers/producers.**



The collectives of farmers in the form of producer companies is gaining popularity among the farmers/producers and among the promoting agencies primarily due to several advantages it carries in comparison to the conventional model of producers cooperatives. The Producer Companies Act. enshrines the ethos and basic tenets of cooperatives and infuses a professional attitude into management. **Table-1** provides a comparative analysis of producer companies and producers cooperatives to understand the difference in the basic premises of these two Acts which enable incorporation of producers collectives.

Table-1 : Key differences between Producer Companies and Cooperatives

Parameters	Cooperatives	Producer Company
Registration	Cooperative Societies Act.	Indian Companies Act.
Objectives	Single object	Multi-object
Area of Operation	Restricted, discretionary	Entire Union of India
Membership	Individuals and Cooperatives	Any Individual, Group, Association, Producer of the goods or services
Share	Non tradable	Not tradable but transferable limited to members on par value
Profit sharing	Limited dividends on shares	Commensurate with volume of business
Voting rights	One member, one vote, but Government and Registrar of Cooperatives hold veto power	One member, one vote. Members not having transactions with the company can not vote
Govt. control	Highly patronized to the extent of interference	Minimal, limited to statutory requirements
Extent of Autonomy	Limited in "real world scenario"	Fully autonomous, self ruled within the provisions of Act
Reserves	Created if there are profits	Mandatory to create every year
Borrowing power	Restricted	More freedom and alternatives
Relationship with other corporate / business houses / NGOs	Transaction based	Producer Company may, subscribe to the share capital of, or enter into any agreement or other arrangement, whether by way of formation of its subsidiary company, joint venture or in any other manner with any body corporate, for the purpose of promoting the objects of the Producer Company by special resolution in this behalf.

Apparently the producer companies have inherent advantages over the cooperatives in many areas. Specifically of the PC there is less government control whereas the cooperative institutions have more state control. The overriding powers of the Registrar of Cooperative Societies to direct and regulate cooperatives, whenever the government deems necessary, has throttled the growth of the cooperative institutions[5] . Majority of the cooperative institutions are currently facing severe financial crisis and at times are heavily dependent on the state subsidy for existence.

1.2 Key characteristics of Producer Companies

- It is a corporate body registered under the Indian Companies Act. 2013. Ownership and membership of such companies is held only by **'primary producers'** or **'Producer Institution'**, and member's equity cannot be traded. However, it may be transferred, only with the approval of the Board of Directors of the producers companies.

- The clauses of Private Limited Company shall be applicable to the producer companies except the clauses specified in Producer Company Act.). For this a new part IXA, divided into 12 chapters and 46 sections numbered as 581A to 581Z and 581ZA to 581ZT has been inserted, which makes it different from a normal private or limited company.(Kindly refer to the Producer Company Act for details).

- The liabilities of the PC is limited to the value of the share capital it has issued. Similarly the member's liability is limited to the value of share capital held by them. The minimum authorized capital at the time of incorporation of PC should be Rs.5 lakh. The authorised capital is such that a company has been authorized to raise by way of equity shares through the Articles of Association / Memorandum of Association of the PC. This is typically the capital at the time it has been incorporated. There cannot be any government or private equity stake in the producer companies, which implies that PC cannot become a public or deemed public limited company.

- Minimum number of producers required to form a PC is 10, while there is no limit for maximum number of members and it can be increased as per feasibility and need. However, based on the experience (not to be treated as prescribed) it is found that for agriculture based PC 800-1000 farmers with about 1000-1500 acre of agriculture land is a good size for initial years to make it economically viable and increasing up to 2000 as the company grows.

- The area of operation for a PC is the entire country.

Key Characteristics of a PC

- ✓ *Corporate body registered under the Indian Companies Act 2013.*
- ✓ *Ownership and membership of such companies is held only by 'primary producers' or 'Producer Institution',*
- ✓ *Member's equity cannot be traded. Can be transferred only on approval of BoDs of producer company.*
- ✓ *Liabilities of the PC is limited to the value of the share capital it has issued. Member's liability is limited to the value of share capital held by them.*
- ✓ *Minimum authorized capital of PC at time of incorporation should be Rs. 5 lakhs.*
- ✓ *Minimum 10 producers required to form the PC. Maximum no limit.*
- ✓ *PC cannot become a public or deemed public limited company.*
- ✓ *PC can operate in entire country*

[5]NABARD, EV Murray, 2008, Producer Company model: Opportunities for bank finances, CAB Calling, April – June issue, 2008

1.3 Salient Features of Producer Companies

Producer Companies are slightly different from other companies in nature of their incorporation, structuring, management, administration, etc. Some of the key highlights of their features are as under:

- **Objects as per Section 581B of the Companies Act, 1956**

  Producer companies are allowed to carry on the activities as specified in Section 581B of the Companies Act, 1956 which makes it slightly different from other companies as Companies Act, 2013/1956 doesn't prescribe the specific objects to be pursued by any company relating to any specific sector i.e. infrastructure sector, IT Sector, etc. Such objects are being specified by the Act so as to make the stakeholders understand the purpose of differentiating producer companies from other companies, to avoid any conflict of objects and to protect the interest of producers and their institutions.

- **Promoters may be minimum 10 individuals or 2 Producer Institutions**

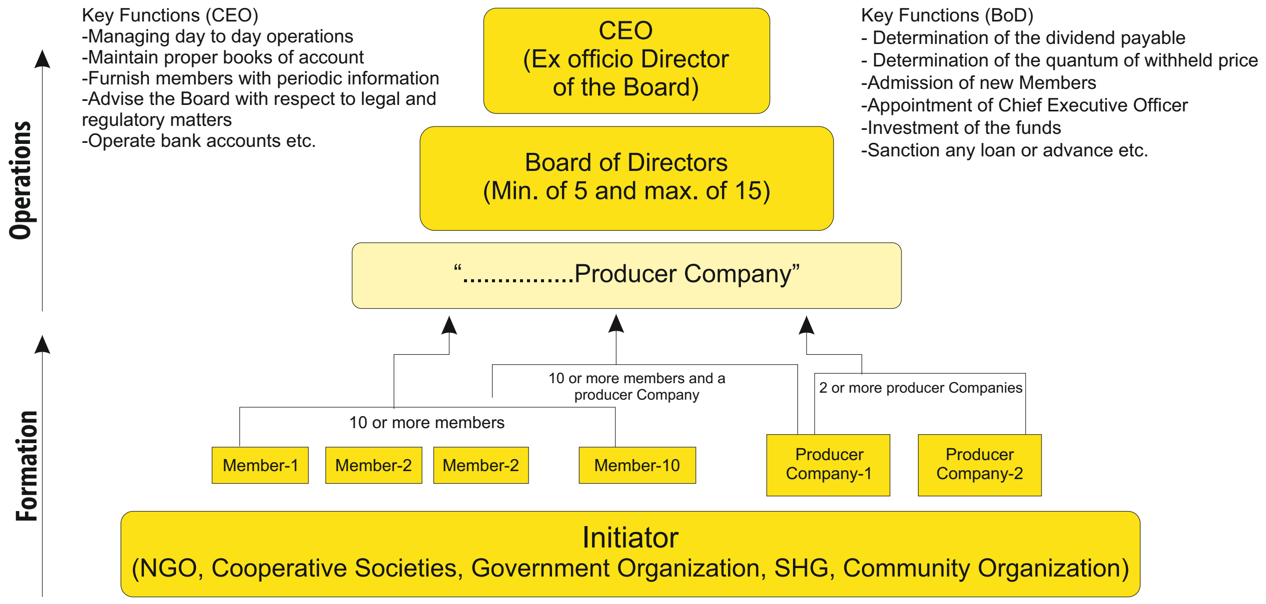
  Minimum 10 (Ten) individuals or 2 (Two) Producer Institutions or a combination of 10 or more individuals and Institutions are required to form a producer company. Producer Company is treated as Private company as per Companies Act, 1956 but the minimum criteria of forming a private company i.e. 2 promoters doesn't apply to it. Such criteria are being determined so as to widen the scope of producer companies rather than making it a closely held company or a business restricted to a family.

- **Single vote of every member without any relation with shareholding or patronage, except where all members are institutional members**

  Single vote of every member irrespective of his shareholding is being determined so as to give equal rights to every producer associated with it rather than giving the controlling power to the person holding maximum shareholding as in the case of private companies.

- **Name ends with "Producer Company Limited"**

  Name of producer company ends with Producer Company limited irrespective of its being a private company so as to give the producer company an identity separate from other corporate entities. 'Limited' doesn't make it a Public Limited company by nature



- **Minimum 5 Directors and maximum 15 Directors:**

  Minimum 5 (Five) Directors and maximum 15 (Fifteen) Directors are stipulated for the Governing Body of Producer Companies.

- **A full time Chief Executive who will be ex – officio Director and not liable to retire by rotation**

  Chief Executive of Producer Companies as per Section 581W of the Companies Act, 1956 shall not be confused with Chief Executive Officer under the Companies Act, 2013 and Key Managerial Personnel under Companies Act, 2013. Role of chief Executive of producer companies have been prescribed in the Companies Act, 1956.

- **A Whole time Company Secretary when average annual turnover exceeds rupees five crore**

  In case of Producer Companies, a whole time Company Secretary is required to be appointed on the basis of average annual turnover rather than as per paid-up capital. In practice it has been found that due to lack of availability of the service of the Company Secretary in the rural areas many farmer producer companies jointly avail the services of the Company Secretary from the nearby urban centre. The services of the Company Secretary is a must for the Producer Companies so as to make them good entity for corporate governance.

- **Share Capital only in Equity Shares as per Section 581ZB of the Companies Act, 1956**

  Contribution to share capital can be made only by way of equity shares.

1.4 Experience of ASA in establishing FPCs

Since late 2004, ASA has been promoting the concept of Farmer Producer Companies in M.P and other states. So far it has promoted 53 FPCs with over 100000 small and marginal farmers in the resource poor regions with an average membership of about 1900 farmers per FPC.

There is a professional management team in each of these FPCs which carries out the operations under the directions of the Board of Directors (BoD) of the respective FPC. The responsibility of the Management Team also includes building the capacity of the BoD by providing handholding support. These FPCs are mainly into agribusiness and focus largely into the seed production, processing and marketing of various crops, marketing of agriculture produce, retailing of agriculture inputs, running farm mechanisation centres on custom hiring basis, linking farm credit and insurance services, price information, agriculture extension services, warehouse rental, etc.

In 2014, a state level farmer producer company was promoted which has current shareholding of over 60 farmer producer companies of Madhya Pradesh. The objective of this apex FPC was to leverage the strength of aggregation at another level for better market realisation and providing much needed marketing and other essential professional support to the FPCs.

1.4.1 Learning and observations :

1. As far as businesses are concerned the market size for agribusiness is quite large and there is plenty of scope for FPC to position itself in the market without affecting anybody's interest immediately.
2. Normally it is expected that FPC eventually should be able to –
   a Meet all agri. inputs requirement of the members,
   b Handle all marketable surplus to a preferred market,
   c Provide/facilitate technical services (e.g. good quality seeds, improved agronomic practices, information, etc.) through service delivery mode, and
   d Connect the producers with the company's governance system. From our experience we know that all these make the task special and challenging. The challenge here is that the company's Management Team has to pursue both the social and economic objectives simultaneously. It is a long drawn agenda and depends largely on the quality of the MT. Our experience has been mixed because some FPCs could balance the economic and social agenda both while some could only achieve the economic objectives undermining the governance objectives or not able to focus equally on the governance issues thus facing severe challenges later on. Some FPCs could achieve neither, due to poor quality of the management team.

So the lesson is that one should not compromise on the quality of the MT. This is perhaps the first and foremost condition for success of any FPC.

3. The external support, mainly for the overheads of the FPC, should be for a longer period of time, minimum of five years. It can be made performance based but there should be assurance of its uninterrupted flow. A short term support makes a FPC (read management team) emphasize more on economic agenda compromising the social agenda.

4. Due to lack of professional service providers the FPC faces problem to comply with the statutory requirements. For the service providers like Company Secretary or Chartered Accountant firms the FPC is a new concept and there is a lack of sufficient knowledge and technical skill at their end to guide FPCs on these matter satisfactorily. In fact, ASA has conducted orientation programme for the CA & CS firms on the producer companies to fill this gap. Things have improved but still lot to be done. Promoting organisations or institutions like SFAC and NABARD should run basic training or orientation courses for the CA and CS firms on the issues specific to the PC.

5. The real challenge for the FPC is to mobilize initial starting capital due to the following reasons:

   a. From the point of view of the financial institutions FPC is a commercial entity and therefore all their proposal for financing need a margin money contribution by the FPC which they can not provide due to unavailability of reserves,

   b. FPCs are also required to provide collateral for the loan which is again a constraint for a new business entity like FPC

   c. Initially FPCs do not have any credentials for doing successful business which also makes the financial institutions uncomfortable for financing.

6. To overcome these initial problems the FPCs in ASA have followed a different business model in the initial years before they have generated reserves and credentials. The FPCs had taken up those business activities which required less or no working capital. Four such examples are given here.

   a. Supply of agriculture inputs like seeds and fertilizers to its members and also non-members. FPCs in this case had taken dealership of seeds and fertilizers from the public and private companies and worked as commission agents on behalf of those companies in supplying materials to the members and non-members on cash. Because of the significant quantity the FPCs could make a good margin and not the least a business relationship with those companies which resulted in getting credit limit from those companies in the subsequent years.

   b. The same experience was repeated in the case of procurement of agriculture produce when the FPCs identified the prospective buyers and arranged buy back guarantee from them. Sale was organized at the farm gate level and therefore no transportation and storage cost were involved at the FPC level. FPC ensured a transparent transaction between the buyers and sellers and by doing so they earned some margin from the buyers as well as from the sellers.

   c. Many FPCs took the advantage of GoI's scheme which provide loan against the pledging of goods called Warehouse Receipts (WHR). As per the scheme the bankers extend loan upto 70-80% (depending upon the commodity) of the value of the produce against the pledging. This was mainly used for the seed production activity where the FPCs had to store raw seeds for over six months before sale.

   d. FPCs took the dealership from various companies for agriculture implements like water pumps, mechanized plough, tractor, etc., which they sold to the members at a reasonable price and earned a margin of commission.

   However, things have changed drastically in the recent years with NBFCs and banking institutions providing collateral free loan. The SFAC has created a Credit Guarantee Scheme for the formal banking institutions to lend FPCs. All these have been discussed in detail in the relevant chapter of this resource book. .

7. It learnt over the years that the promotion of FPC as a standalone activity is difficult. It suits best as a value addition initiative in an area where agriculture based livelihoods activities are on-going or completed and the village level primary institutions are in place. This makes the mobilization easier and the foundation is made on stronger primary groups.
8. Scale- up of FPC initiative is possible if process standardization is done in due course and most importantly, a higher level support mechanism is put in place which provides handhold support to the FPC management team. Later on an apex body of the FPCs at the state or regional level can provide support for handholding, marketing and for several other things
9. The collectives should be formal and size should be reasonably significant. For meaningful engagement with the trade and industries and government the legal and formal status of the collectives is important for the convenience of both the parties. The discomfort to engage with informal farmers' organization for serious businesses is observed with both public and private organizations. About 1200-1500 farmers is a good size for an FPC covering a cluster of 15-20 villages.
10. From the preliminary assessment it appears that farmers collectives like FPC is a cost-effective initiative and can achieve business objectives for the shareholders and at the same time can deliver effective extension services and address social issues. If we extend our imagination little further this platform can also be effective in achieving the social, economic and political objectives in the rural areas. It can be an effective platform for burgeoning with the market and government in favour of small farmers.
11. The point worth mentioning here is that like any other institution the financial viability and the institutional sustainability are two core factors that determine the sustainability of the PC. Also the success of the producer's collectives would largely depend on the skill and commitment of the promoting agency. The real challenge in building such institution is how to connect the individual producer to the governing system of the producer's organisation. The agency promoting the producers organisation has to pursue both the social and economic objectives simultaneously. It is therefore a long drawn agenda irrespective of the legal format under which these institutions are formed. An enabling legal format can facilitate the process well but cannot ensure a profitable institution without a proper process followed.

Finally, with all humility we would like to mention that the experiment that ASA started in 2004 has triggered development of a sector of farmers' collectives popularly known as FPOs. Over 3000 FPOs are reported to be formed in India in recent years promoted by hundreds of promoting institutions. There has been several initiatives by the public, private and NPO sectors to popularise the model across the country. According to us the model of FPO could break the stereotype of rural development model which emphasised building institutions of farmers only around social and governance issues undermining the great need of organising them around agribusiness thus liberating them from the clutches exploitation which they are subjected to for centuries. We, in ASA, feel proud of our contribution in the journey of FPOs in India.

CHAPTER 2

INCORPORATION OF A PRODUCER COMPANY

This chapter is divided in two parts. The first part deals with process to be followed at field level and the preparations required for forming a PC. The second part of the chapter focuses on the legal requirements for establishing a PC and processes involved in it.

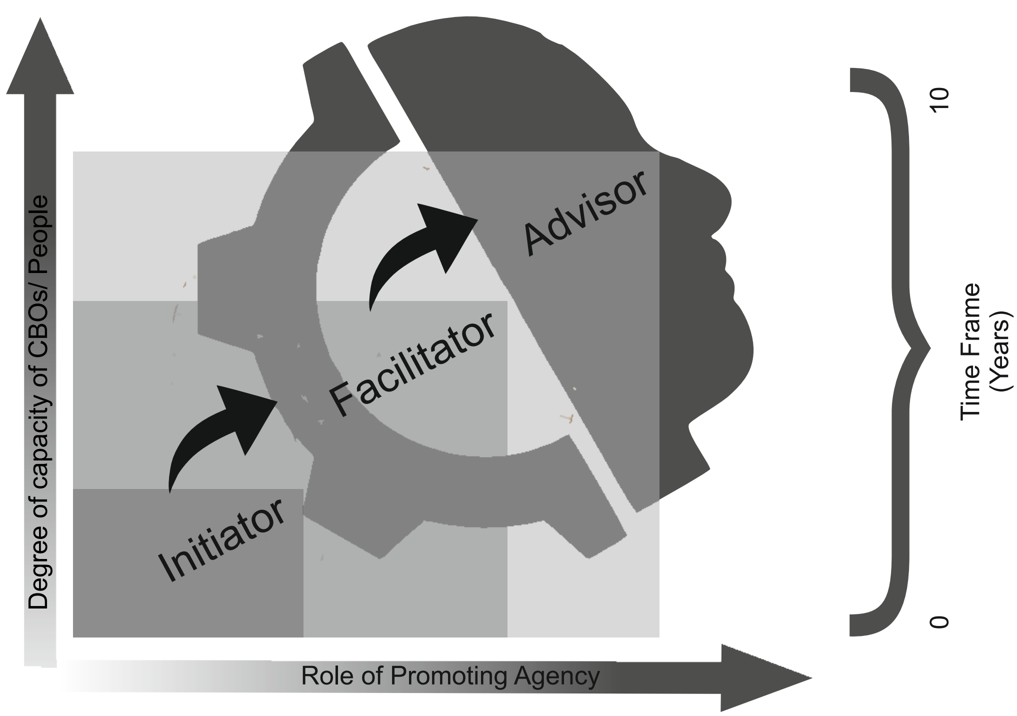
The Producer Company Act. 2002 does not provide any guidelines or directions about the mobilization and social processes that need to be followed while forming PC. However, in last few years there has been significant improvement in efforts for documenting learning and best practices emanating from the farmer producer companies. What is written in the following paragraphs about the social processes while forming FPCs is largely drawn from the current experiences of the promoting organisations, mostly the NGOs and that too primarily for the agriculture sector. Also these experiences are context specific and may vary with the change in context as it happens with any social processes. Attempt has been made to write on those aspects related to social processes which normally come in the minds of practitioners before embarking on setting up a producer company.

2.1 How different should be the social processes while setting up a PC vis a vis a Community Based Organisation (CBO)?

The point to be kept in mind that PC is also a Community Based Organization (CBO) with a shared objective, mutually agreed plan of actions, shared responsibilities and benefits and a mechanism of functioning where the decisions are taken by the opinions of majority. Hence, the processes of building organization can not be different in case of PC than what is generally followed for any CBOs. Generally the processes start with the conceptualization of the idea by the initiator about the objective and structure of the CBO that is intended to be formed in a given situation. It is the initiator, normally an external person or agency, takes the lead and in consultation with the potential members of the CBO forms the organization and continues to provide support till it is stable and growing. In this trajectory the role of promoting agency changes from Initiator to Facilitator and than Advisor. **This is depicted in a diagram below.**

The diagram shows that as the capacity within the people and the CBO increases, the role of the promoting agency changes from one of initiator to that of a facilitator. As this takes place, the methods of participation for dialogue also change.

Fig#1 **Change in role of Promoting Agency as the CBO matures**



2.2 Whether primary CBOs (viz. SHGs, Forest collectors group, water users group, Common interest group, etc.) can be transformed into PC?

It is better to take such approach of organizing the primary groups on the basis of common interest, geographical locations and then federate them as PC to address the bigger issues of integration with the market, value chain development, etc. and that too when such need has been felt by the members of the primary groups. The benefits of taking such approach are:

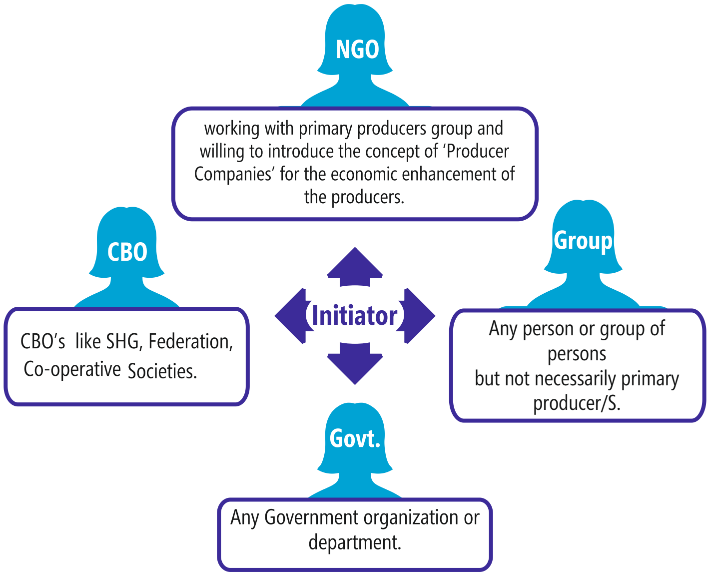
- it builds further on the organization building efforts already made with the primary groups.
- since the primary groups are already strengthened therefore their participation in the process of PC formation will be effective resulting in better leadership and governance of the PC.

However, this approach takes little longer time than direct formation of PC through membership campaign. In many a cases the PCs were formed with the common interest groups, SHGs, Water Users' Groups, etc. which already existed in the area and after formation of the PC the original identity of the CIGs / SHGs / WUGs was not diluted. They continued to function as primary groups as earlier. It has been found that PCs have matured faster in cases where it was formed in an existing working area of promoting organisation and primary groups like SHGs, FIGs, etc. already existed. PC's governing system was found stronger from the beginning. Further, areas where past project investment (viz. Watershed, Wadi, irrigation projects) on land, water, agriculture development was done the PCs found to have better control over the production systems and better understanding of the market which have worked in positive way for the PC.

2.3 Whether the process of establishing PC is self triggered by the members themselves or externally triggered?

Usually the process of PC formation is externally triggered by the promoting agency because often poor people do not realize the need to organize and use their organization as a means to fight poverty. Hence, the promoting agency leads the initiative in establishing the PC. This is also true for majority of the initiatives for community based organizations.

2.3.1 Who can be the Initiator for establishing PC ?



- An NGO working with the primary producers group and willing to introduce the concept of 'Producer Companies' for the economic enhancement of the producers.
- Any person or group of persons but not necessarily primary producer/s can be the initiator. This could be a socially motivated group of people having no interest for stakes in the PC.
- Already strengthened CBOs like SHG federation and Cooperative societies can also initiate the process of transforming them into PC. In this case it will be a self triggered initiative.
- Any Government organization or department can also promote Producer Companies. The Government can approach an NGO, administrative bodies like village panchayat, state departments etc. or any community organization for this purpose. The Government could provide financial and professional support to the implementing bodies.

2.4 Preparation for the formation of PC

This stage precedes the process of legally registering the company. As mentioned earlier that the processes related to the mobilization of producers is purely context specific and would vary from case to case. The factors which contribute towards mobilization of producers are many and at times quite complex. However, it is experienced that existence of primary groups in the area, rapport of the external agency and their understanding about the local context and issues, play a significant role in effective mobilization of the producers. However, an attempt has been made to describe the **broad general steps** that an initiator should follow while taking the producers on board to form the PC. The steps are neither in chronological order nor are in the water tight compartment. The steps could overlap depending upon the situation.

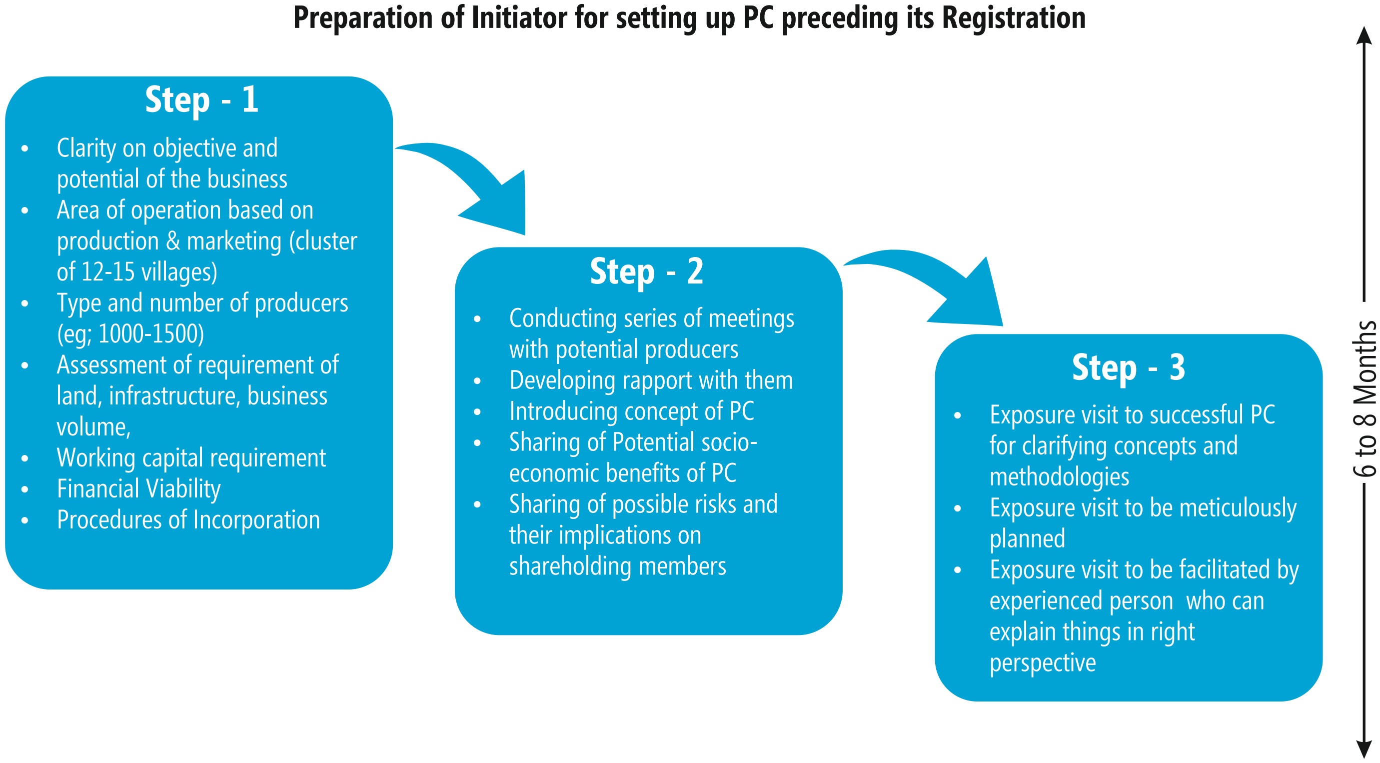
The steps are:

a Before setting off to establish PC the Initiator must be clear with the objective and the potential of the business. S/he ***(hereafter 'he" which denotes both feminine and masculine gender)*** must have done the homework well for the area of operation, type and number of producers, assessment of requirement of land, infrastructures, volume of business, working capital requirement, financial viability, procedures of incorporation etc. In short there should be a blue print or plan with the initiator before hand. Needless to mention that the initiator has to take a professional approach in completing these tasks and may need external support.

b Selection of area of operation on the basis of cluster approach means a cluster of at least 12-15 villages should be targeted. Normally about 800-1000 producers are a good size to form agriculture based PC, however this would change depending upon the products to be handled. Normally selection of the area and the members is done on the basis of the commonalities like produce, farmers' need and common problems they are facing in terms of production and marketing.

c The initiator starts the process through conducting a series of meetings with the potential producers, developing rapport with them and introducing the concept of PC. The potential socio-economic benefits of PC alongwith the possible risks and their implication on shareholding members has to be also shared.

Preparation of Initiator for setting up PC preceding its Registration



d Once the concept is understood by the potential members, an exposure visit to successful producer companies may be organized to further strengthen the understanding of the identified group of producers. The exposure visit is found to be the better approach in clarifying concepts and methodologies to the potential members in comparison to the class room training. However, the exposure visit should be meticulously planned and facilitated by an experienced person who can explain things in right perspectives. **At the later stage when the PC is incorporated the formal training would be required to the BoD members in the areas of (not limited to) – (a) understanding the PC rules and regulations, (b) statutory requirements to the RoC, (c) business plan of the PC, (d) Government schemes, (e) leadership, (f) basic accounting and record keeping and several such aspects as the need is felt. It is suggested that a capacity building plan for BoDs including the training calendar is prepared every year and reviewed periodically by the promoting agency.**

e The Membership process needs to be explained to the producers. Normally the share value is kept at Rs.10 per share. The share capital contribution per member depends upon the economic condition of the producers. In the PCs developed by ASA, the number of shares per member ranges from Rs.100 to Rs.200. In some PCs equal number of shares has been distributed to the members, whereas in some cases it varies. There is no bar on the number of shares per member in the Act. However, it is suggested to have equal number of shares among the members to maintain a balance in the power structure of the PC. The norms for distribution of share should be mentioned in the Articles of Association of the PC. **(The experience suggests that the PCs suffer from low equity which hinders growth. The efforts should be therefore to raise equity as much as possible in the initial period. The first option to be tried to mobilise members' equity. It is a must do. Efforts should be made to make the members realise that without their own capital business cannot be started or grown. Secondly, the equity grant support of the SFAC (discussed in other chapter) should be obtained at the early stage of the PC. A good equity base is healthier in getting into the business quickly, attracting institutional credit and also improving governance by making the shareholders interested in the business because of their equity investment. Experience suggests that PCs could not start business for many years since incorporation due to low equity base. The promoting agency should be particularly aware of this phenomenon and should work on strategies for mobilising maximum equity from the initial years of the PC.)**

f The eligible community members are required to apply through a membership application form (specified in the Act.) to the BoD. The General Body (GB) is the final authority to approve or reject the membership application.

g Once the concept is well accepted, based on the common understanding a business plan is developed in consultation with the members. The business proposal, its viability, market opportunity, size of business and possible benefits of the new enterprises must be shared properly with the potential members. In Chapter 4, the process of business plan development is discussed in detail.

h Simultaneously, the initiator in consultation and support from the members develops the draft 'Memorandum and Articles of Association' specifying the roles and responsibilities of each of the office bearers of PC. The shareholders have also to finalize the authorized capital[6] of the company and the cost of each share.

i Once these documents are in place, the first formal meeting of the shareholders should be organized. The basic agenda of this meeting is to get the approval on the Memorandum and Articles of Association as well as select/elect the Board of Directors of the company. However, it is advisable here for the initiator to avoid election at this stage as it can lead to drift amongst members.

[6]The amount of capital that a company has been authorized to raise by way of equity shares through the Articles of Association / Memorandum of Association of the PC. This is typically the capital at the time it has been incorporated.

However, if the situation is conducive for election the Initiator can go for it as the process of election would enhance the democratic process and transparency.

j After taking the consent of the members on the selected list of Directors of the company and the Memorandum and Articles of Association, the initiator can go ahead with the registration process. The amount collected through shareholders could be used for registration fees and other processing related expenditures like fees for Company secretary, stationary, travel etc. In the books of accounts it can be shown as loan taken from the share capital. Once the company mobilises resources through business it can be repaid.

k After having registration of the company, the first General meeting of the shareholders should be conducted within the mandatory 90 days of the registration. Other than discussing the business plan, the General Body has to select/elect the Board of Directors for the next tenure. The proceedings of the meeting should be sent to the Registrar of Company (RoC) within 60 days of the meeting along with the list of finalized BoD.

What Practitioners say :

The above process might take six to eight months (sometimes more), depending upon the past working experience of the promoting organisation in the area, existence of primary community level institutions and the strategies adopted by the promoting agencies and the quality of human resources deployed for the assignment. For the promoting agency the assignment of developing PC is a long term commitment beyond the normal project life of three years and therefore adequate internal investment in human resources is a necessity.

2.5 Registration of PC

A step-wise basic information for the registration of a 'Producer Company' is described as under:

PROCEDURE FOR INCORPORATION OF PRODUCER COMPANIES

STEPS

1 OBTAIN DIGITAL SIGNATURE CERTIFICATES [DSC] OF PROPOSED DIRECTORS

2 OBTAIN DIRECTOR IDENTIFICATION NUMBER [DIN] OF PROPOSED DIRECTORS

3 APPLICATION TO MINISTRY OF CORPORATE AFFAIRS FOR RESERVATION OF NAME IN E-FORM INC-1

4 DRAFT MEMORANDUM OF ASSOCIATION (MOA), ARTICLES OF ASSOCIATION (AOA)

5 DRAFT AND SIGN VARIOUS DOCUMENTS REQUIRED FOR INCORPORATION OF COMPANY

6 FILE VARIOUS DOCUMENTS WITH THE REGISTRAR OF COMPANIES ELECTRONICALLY ON MCA PORTAL

7 PAYMENT OF INCORPORATION FEES AND STAMP DUTY ELECTRONICALLY

8 RECEIPT OF CERTIFCATE OF INCORPORATION FROM ROC

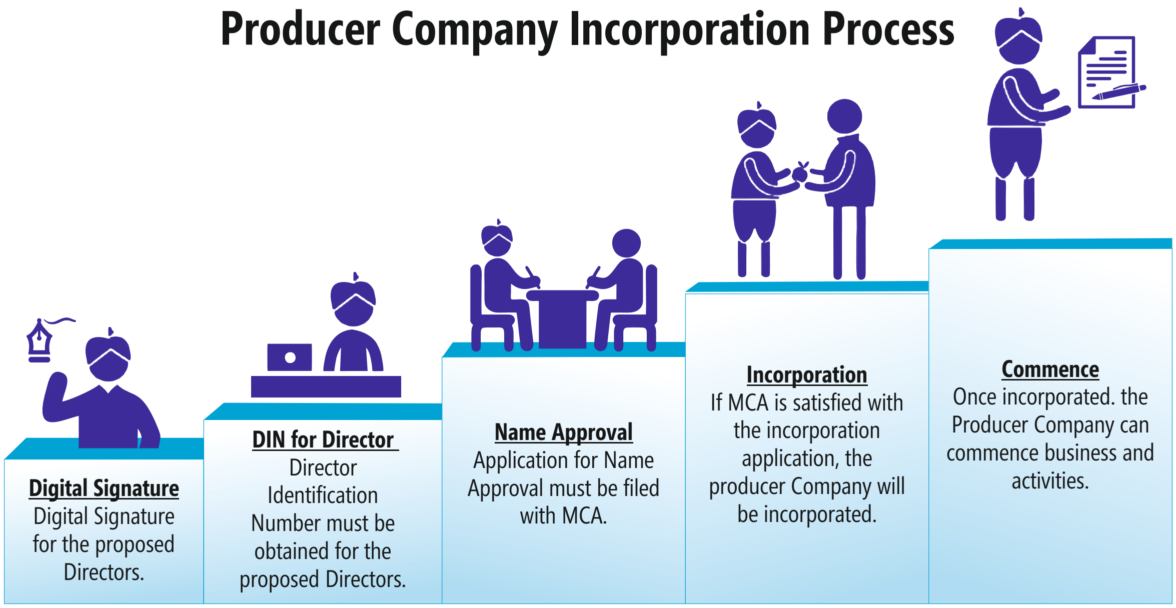
The above mentioned procedure for incorporation will be herein after discussed in detail:

Step 1: Digital Signature Certificate (DSC)[7] :

The Information Technology Act, 2000 has the provision of use of Digital Signatures on the documents in order to ensure the security and authenticity of the documents filed electronically. It is now mandatory to have Digital Signature of minimum one Director or Chairman prior to enter the formal registration process. This is the only secure and authentic way that a document can be submitted electronically. As such, all filings done by the companies are required to be filed with the use of Digital Signatures. Thus, it is necessary for a company to authorize a person's signature who will sign the documents.

The prescribed application form for DSC is available at the website of Ministry of Corporate Affairs (henceforth website of MCA)[8] . After filling the required information, the form has to be submitted online to the 'Certification Agencies[9]. The DSCs are typically issued with one to two year validity. These are renewable on expiry of the period of initial issue. The official fee for issuance of DSC is Rs.1800/- In addition, the Certification Agency charges a service fee which vary from agency to agency.

Producer Company Incorporation Process



Step 2: Director Identification Number (DIN)

The DIN number can be obtained online only from the company affairs cell at Noida, UP with a fee of Rs.500/- by providing identification proof number (Only PAN is accepted) and any one of the following–Voter id./AADHAR/Passport/Driving License is accepted for address proof. The prescribed form is available in the website of Ministry of Corporate Affairs and the application can be done online. DIN is mandatory for all Directors.

Step 3: Naming of a Producer Company[10]

A Producer Company should be named using the following suffix **".....Producer Company Limited"** appropriately indicating its status of producer company. The word "private" is not used in the name and the absence of which does not indicate that the company is a "public".

The procedures for selecting and applying for the availability of name for a Producer Company are:

a Select, in order of preference, at least one suitable name up to a maximum of six names, indicative of the main objects of the company.

b Ensure that the name does not resemble the name of any other already registered company and also does not violate the provisions of emblems and names (Prevention of Improper Use Act, 1950) by availing the services of checking name availability on the portal **(http://www.mca.gov.in**).

c Apply to the concerned Registrar of Companies to ascertain the availability of name in e-Inc-1[11] by logging in to the portal **(http://www.mca.gov.in)**. A fee of Rs. 1000/-[12] has to be paid alongside and the digital signature of the applicant proposing the company has to be attached in the form. If all the proposed six names are not available, the applicant will be intimated by Registrar of Companies (RoC) and subsequently the applicant has to apply for a fresh name on the same application.

[7] From September 16, 2006, Ministry of MCA has initiated an electronic mode transaction for all the process of statutory filings under the Companies Act, 1956.
[8] http://www.mca.gov.in
[9] Certification Agencies are appointed by the office of the Controller of Certification Agencies (CCA) under the provisions of IT Act, 2000. There are a total of seven Certification Agencies authorised by the CCA to issue the Digital Signature Certificates (DSCs). The details of these Certification Agencies are available on the portal of the Ministry of Corporate Affairs www.mca.gov.in
[10] As per the Companies (Amendment) Act, 2002, Section No. 581B
[11] Pursuant to Section 20& 21 of the Companies Act 1956
[12] Fees should be deposited in the regional bank authorised by the MCA.

Moreover, there is further scope of changing the PC's name, if required. However it is not easy to do it frequently. As per the company Act 2013 section 13, an application to RoC with a supporting of a resolutions passed by 2/3 majority of BoD and 1/3 of General Body and fees of Rs.500 is required to be submitted along with new four proposed names.

Step 4: Memorandum & Articles of Association[13]

After ascertaining the name of the producer company, a Memorandum and Articles of Association have to be prepared. **(Refer Annexure no. 1 & 2 for model MoA & AoA)**

a After ascertaining the name of the producer company, a Memorandum and Articles of Association have to be prepared.

b Memorandum and Articles of Association should be printed (preferably a computer print out - printed on both side of the paper)

c Get the Memorandum and Articles of Association duly stamped[14].

d Get the Memorandum and Articles of Association subscribed/signed by the requisite subscribers/promoters with his/her father's name, occupation, address and the number of shares subscribed for. This information was earlier prescribed to be written by hand by the promoter / subscriber, however this has been now changed. This information can be given in typed format.

Step 5: Documents to be submitted to the RoC for the Incorporation of Producer Company[15]

File the following documents along with the fees payable[16] with the Registrar of Companies of the state, where the Registered Office of the company is to be situated:

a Memorandum and Articles of Association duly stamped and signed;

b INC 22 regarding situation (full address) of Registered Office[17]

c DIR 12 (in duplicate) regarding particulars of Directors[18]

d INC 7 (on a stamp paper) declaring compliance of all and incidental matters regarding formation of companies[19]

e DIR-2 – consent of the Director

f An affidavit has to be submitted if the Memorandum of Association is submitted in Hindi by subscribers, claiming the understanding of same.

g Many more documents are required like INC-8 Professional Certificate from CA, CS or ICWAI, INC-9-Affidavit from subscriber to the memorandum, KYC– of subscriber, etc.

Please note that all the information and forms are available on the website of MCA (http://www.mca.gov.in) and that the forms can be directly accessed and filled in on-line.

Step 6: Certificate of Incorporation

- The Registrar of the Companies, on being satisfied that all the documents for the incorporation of a company is submitted, s/he is obliged to register the memorandum, the articles and other documents, if any, and issue a 'certificate of incorporation' within thirty days, which is a conclusive proof of its formation in terms of Part IX A. [Section 581C (2)].
- The incorporation of Producer Company is effective from the date mentioned in the certificate of registration granted by the Registrar of Company.
- On incorporation, a company becomes a juristic person, i.e. a person in the eyes of law. It has perpetual succession i.e. its members may come and go but the company goes on till it is wound up by following the process of law.
- It has a common seal, which is affixed on all the documents executed on behalf of the company in the presence of a Director and be signed by the authorized signatory or signatories. This is optional.
- It is empowered to hold all properties in its own name and has its own right. It can sue others and can be sued by other and enter into contracts in its own name.

Power of Attorney

All the work required to incorporate the Producer Company can be done either by the BoD or alternatively, the General Body can authorize anyone of them or any other person to follow the matter with the RoC (in most cases the service of a Chartered Accounting firm or Company Secretary is acquired for the purpose). In the latter case, they have to execute a power of attorney in favour of the person, who is authorised to act on their behalf.

A power of attorney form duly stamped and executed by all the subscribers of Directors have to be submitted to the RoC.

[13] A small write-up on Memorandum of Association and Articles is given in Appendix 2
[14] E-stamping is applicable. Please consult your Company Secretary for advise
[15] The applicant can apply for registration of the new company within six months of name approval
[16] The amount of registration fees to be paid will depend upon the authorised share capital kept by the company in the Article of Association.
[17] As per the Companies (Amendment) Act, 2002, Section No. 146.
[18] As per the Companies (Amendment) Act, 2002, Section No. 303
[19] As per the Companies (Amendment) Act, 2002, Section No. 33 (2)

Step 7: Tasks to be completed immediately after incorporation of the PC

The following tasks have to be completed immediately after incorporation:

a Open a Bank Account with minimum two officially nominated signatories in the name of the Company.

b Procure PAN number from the Income Tax and TIN number from the Commercial Tax Department to carry out business. Also, the company has to register itself for Service Tax from Commercial Tax Department and VAT from Excise department.

c Apply for the commercial connection of power supply to related agency/board for the office of the PC.

d Establishment of company office means arrangement of furniture and fixture along with a visible signage board.

2.6 Changes in Company Law according to 2013 Act

Topic	New Company Law 2013 Updation
Topic: Publication of name	
	The company's name shall be painted or affixed outside the registered office and any other business place.
	The Company's name, address, CIN, Telephone number, Fax number, email - letter pad
Topic: Allotment of shares:	
	-Share application form and application money shall be through banking channel.
	- Allotment shall be done in 60 days.
	-Valuation certificate from CA.
	-Filing of returns with ROC.
Topic: Transfer of shares	
	-Get calculation of NAV of shares.
	- Execute Tranfer deed and pay stamp duty.
	-Submit the same to company with share certificate with company.
Topic: Nomination of shares	
	-Nomination for shares can be given by any shareholder in the form SH-13.
Topic: Unsecured loan	
	-Unsecured loans from Directors are allowed. However, there are many conditions. Please take appropriate advise from the Company Secretary and Chartered Accountant.
Topic: Loan agreement Registration (Registration of charge)	
	- Register all loan agreement with ROC within 30 days.
	- Register all satisfaction of loan agreement with ROC within 30 days
Topic: Extra information in Annual Return	
	- Details of meetings of members, Board of Director along with attendance details.
	-Details of transaction with related party.
	-Other details as under
Topic: Loans to Directors	
	No company shall, directly or indirectly, advance any loan or give any guarantee or provide any security in connection with any loan taken by any of the Directors Partner of any such Director Relative of any such Director. However there are exemption in case of Managing Director provided there is a loan scheme for all employees. Please take advise from your Company Secretary before exercising such provision.

2.7 Roles and Responsibilities of the Board of Directors and Chief Executive Officer

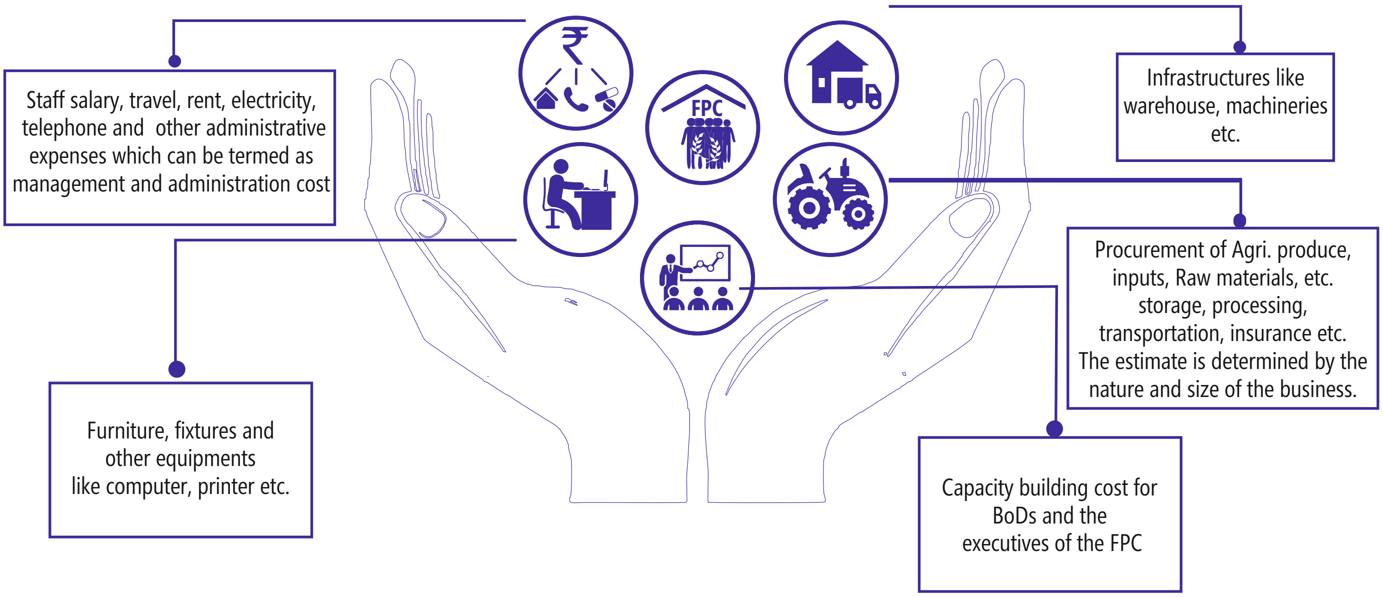
Roles and Responsibilities of Board of Directors	Roles and Responsibilities of the Chief Executive Officer
Creating new shareholders as per the company policy and rules	He/ she shall be the ex-officio Director of the Board
Enable shareholder / members to participate in the activities undertaken by the company	Shall also be responsible for increasing membership of shareholders as per the policy of the company
Play an active role in the business decisions of the company	Shall be the part of procurement and marketing committee formed by the BOD
Get Approval of decisions taken by the Board of Directors in the General Body Meeting, and execute the activities as per the decision	Shall sign all business related documents on behalf of the company. He may exercise the powers as may be necessary in the ordinary course of business
To monitor and supervise the activities of the FPC	Shall also be responsible for providing timely information to the company's members and Board of Directors for scheduled company meetings or emergency or short notice meetings.
To appoint, issue orders, and supervise the activities of the CEO and other FPC employees as per the requirements of the FPC.	Furnishes company members with periodic information to appraise them of the operation and function of the producer company.
To raise the capital as required for FPC business, and then ensure that the raised capital is used for the designated business activities.	Help the Board to raise the capital as required for FPC business
Cause proper books of account to be maintained; prepare annual accounts to be placed before the annual general meeting with the auditor's report and the replies on qualifications, if any, made by the auditors.	Shall be responsible for maintaining proper books of account, prepare annual accounts and thereof; place the audited accounts before the Board and in the annual general meeting of the members.
Sanction any loan or advance, in connection with the business activities of the Producer Company to any Member, not being a Director or his relative;	Shall operate the bank accounts with joint signatory of a member of Board of Director. He / she shall make arrangements for safe custody of cash and other assets of the producer company
Determination of the dividend payable as per the policies of the FPC	Any other task or responsibility as decided by the Board of Directors for the smooth functioning of the company
Determination of the quantum of withheld price and recommend patronage to be approved at general meeting	
Acquisition or disposal of property, and investment of the funds of the Producer Company in its ordinary course of business.	
Take such other measures or do such other acts as may be required in the discharge of its functions or exercise of its powers	

CHAPTER 3

ASSESSING THE CAPITAL REQUIREMENT OF A FARMER PRODUCER COMPANY

This Chapter elucidates the various factors to be considered and limitations faced while estimating the working capital requirement of a FPC. Detail discussion on the methods of financial assessment is in the following chapter.

3 An FPC may require financial assistance for taking up various business activities as indicated below:



While some activities are short term in nature, others have long term credit requirement. FPCs may approach to financial institutions for availing term loans (longer duration loans) for their fixed capital requirements such as requirement for infrastructure, machinery, warehouses, shops, etc., and they may seek working capital loans (short duration loans normally period of 1 year) for their variable capital requirement.

Most of the FPCs require working capital fund support for initial activities like input trading, trading of agriculture produce, etc. Therefore, it calls for an understanding about working capital and its assessment.

3.1 What is Working Capital

Working capital is the capital required by the company which is used in its day to day operations and managing business. It includes cash, inventory, accounts receivable, accounts payable, the portion of debt due within one year, and other short-term accounts.

In simple words working capital is money available to a company for its regular operations.

The formula for working capital is:

Current Assets (cash and other assets that are expected to be converted to cash within a year) - **Current Liabilities** (debts or obligations that are due within one year)

Working capital requirements depend upon the operating cycle of the company's business.

3.2 What is Operating Cycle

Operating cycle means the length of time required to convert items like raw material (RM), work in progress (WIP), finished goods (FG) and receivable into cash. If raw material/ agri produce, etc., are to be held by and FPC for a longer point before actually selling and getting cash then the operating cycle is longer. On the other hand if the time gap between procurement and sale is less then the operating cycle is shorter.

3.3 Components of Working Capital

The following components of the day to day business operations require liquid fund and which form the requirement of working capital when not be met by the current assets.

- Purchase of agri-inputs to be supplied to its members
- Purchase of raw materials in case of processing
- Purchase of agricultural produce in case of simple trading

- Storage of raw material/ finished goods/ agri produce
- Processing (food processing/ seed processing, etc.)
- Transportation of raw material, agri produce, items for selling, etc.
- Insurance of goods
- Staff salary, travel, rent, electricity, telephone and other administrative expenses which can be termed as management and administration cost

While calculating the requirement of capital for the above mentioned items the following points are to be kept in view:

- Number of producers/ acreage/number of products and its month wise availability
- Expected amount of inputs to be supplied to members
- Total expected volume of raw produce to be procured (month wise)
- Time of the activity (no. of days from procurement to sale)
- Purchase price, selling price
- Credit limit with the producers and to the buyers
- Monthly cash-in and cash-out projection
- Storage duration and cost
- Transportation cost (producers to company and company store to buyers)
- Grading / processing, packaging, if any
- Insurance
- Marketing costs, if any
- Any other costs which is specific to the area (statutory requirement. For example, in some states buyers for agriculture produce outside the APMC has to pay certain levy to the APMC for making purchase from the farmers directly)

3.4 Different methods for assessment of working capital

There are various ways in which working capital of a company is assessed based on nature of business and other related factors. As per the RBI guidelines banks have been advised to sanction limits after proper appraisal of the genuine working capital requirements of the borrowers keeping in mind their business cycle and short term credit requirement. For small units operating cycle method and turnover method are used to assess the working capital requirements.

FPOs on their part may learn the following simple methods for estimating their working capital requirements. These methods are used by the financing institutions for calculating working capital loan.

3.4.1 Operating Cycle Method

This method estimates the fund requirement for activities which begins with acquisition of raw materials and ends with collection of receivables.

Stages:

1) Raw materials (RM/RM consumption)
2) Work-in-process (WIP/COP)
3) Finished Goods (FG/COS)
4) Receivables (Debtors/Credit

Less:

Creditors (creditors/purchases)

Example:

Length of operating Cycle:

a. Procurement of raw material : 30 days
b. Conversion/process time : 15 days
c. Average time of holding of finished goods: 15 days
d. Average collection period : 30 days
e. Total operating cycle : 90 days
f. Operating cycle in a year : 4
g. Total operating expenses per annum : Rs.60 lacs
h. Working capital requirement : 60/4= 15 lacs

3.4.2 Turnover Method:

The WC requirements may be worked out on the basis of Nayak Committee recommendations which is popularly known as Turnover Method. Under this method the working capital is assessed on the basis of 20% of the projected annual turnover. In such cases the borrower has to bring in minimum of 5% of turnover as margin. Based on the above, the working capital is assessed as below.

Example:

(a) Projected sales = Rs. 10,00,000
(b) Working capital requirements: 25% of projected sales i.e. Rs.2,50,000
(c) Margin (contribution of Owner) : 5% of projected sales i.e. Rs.50,000
(d) Working capital to be funded by bank : Rs.2,00,000

The experience of ASA suggests that the real challenge for FPC is to mobilize initial working capital. This is due to the following reasons:

- For any financial institution FPC is a commercial entity and therefore they require a margin money contribution in the credit application from FPCs. This is difficult for any FPC in the initial years.
- FPCs are also required to provide collateral for the loan which is again a constraint for a new business entity like FPC. However, things have improved significantly in recent years with SFAC providing credit guarantee to the banks and other selective financial institutions for loan upto rupees one crore. The NBFCs such as NABKISAN, Friends Women's World Bank, Ananya Finance, Sammunati Finance and few others have been providing collateral free loans to the FPCs.
- Initially FPCs do not have any credentials for doing successful business which also makes the financial institutions uncomfortable for financing.

However, to overcome these initial challenges the FPCs promoted by ASA, have followed a business model in the initial years before they have generated reserves and credentials. They were:

The PCs ventured into a business, which required less or no working capital. Four such examples are given here.

- o The business of supplying agriculture inputs like seeds and fertilizers to its members and also non-members. The FPCs in this case had taken dealership of seeds and fertilizers from the public and private companies and worked as commission agents on behalf of those companies in supplying materials to the members and also non-members on cash. Because of the large scale of business the FPCs could make a margin and not the least a business relationship with those companies which resulted in getting credit limit from those companies in the subsequent years.

- Similar experiences are in the case of procurement of agriculture produce when the FPCs identify the prospective buyers and arrange buy back guarantee from them. As the produce is sold at the farm gate level no transportation and storage cost is involved at the FPC. The working capital flows from the buyer to the producers through the conduit of the FPC. The FPCs ensure a transparent transaction between the buyers and the sellers and by doing so they manage to earn a margin from the buyers. Same model is followed for the Government procurement too which deals with a large volume.

- FPCs have made arrangement with the collateral agencies to provide loan and storage facilities to their member and non-member farmers against pledging of the materials.

- Loan against Warehouse Receipts (WHR) has been used extensively by many FPCs. As per the scheme the bankers extend loan upto 70-80% of the value of the produce against the pledging of the WHR. This is used largely for the seed production activity when the FPCs have to store raw seeds for over six months.

From the above examples some learning that can be drawn are:

- Choose those business activities in the initial years which require very less capital or no capital and which are risk free.
- It is important for the FPCs to demonstrate success as quickly as possible to build credibility with the shareholders and other stakeholders. It is imperative therefore for the FPC to start with something small and undertake such activities which are low in risk and not so complicated for the management.
- Demonstration of fair trade practices is very important for the FPC which is appreciated by both the members and the trade and industry with whom FPCs do the business.

3.5 Notes on some other important heads of expenditure are as under:

3.5.1 Management and office administration cost

It is not compulsory for FPC to appoint a team of professional to look after its day to day business. They can do it themselves. However, from the experience it is seen that for the FPC to emerge as a profit making entity the role of professional managers cannot be ignored. The most successful example is the dairy cooperatives in India where professional managers have contributed immensely to make it a success. There are many other successful examples of using professional management viz. ASA's producer companies, PRADAN promoted poultry cooperatives etc. The role of professionals is immense not only for business development but also for establishing the democratic principles and practices in the FPC and strengthening its governing system.

However, how many professionals are required is completely contextual. The number of professional staff would depend on the volume of business, diversity of activities and geographical spread of the business operation.

Every FPC should have a full time Chief Executive Officer (CEO)[20] who is the ex-officio director of the board. The Act has listed key functions of the CEO in the areas of administration including bank account operation, programmatic functions and governance responsibilities. The CEO can be one among the directors or members of the FPC or appointed by hiring.

There is a management team of 2-3 professionals from agribusiness background, in each FPC promoted by the ASA. The senior most of the management team performs the duty of CEO while others look after the production, marketing and accounting functions. The management team works under the direction of the BoD and report to them on a day to day basis. The Chairman or any other director of the BoD also works as a full time member in the management team and is a co-signatory of the bank account.

The management cost, training and capacity building cost of the FPC is estimated at Rs.36 Lakh for three years for 1000 shareholders in the national guidelines. From the experience it is known that although the cost estimation for first three years is somewhat realistic the number of years of support to the FPCs should be five years instead of three years with reducing degree of support.

3.5.2 Cost of furniture and fixtures

FPC will require a minimum office set-up with furniture and fixtures like Computer, printer, cupboards, file cabinet, internet connection etc. It requires about rupees one to one and half lakh for setting up a small office as experienced by ASA. However, what is important to note is that FPC needs a bare minimum office set up for its identity. An office set-up and a formal system contributes in building the identity of the FPC, hence this should not be ignored.

3.5.3 Cost of Infrastructure and Machinery

For FPC involved in agribusiness the basic infrastructure required are like warehouse, weighing machine, graders, bag closure machines, etc. These infrastructure can be purchased or can be taken on rent depending upon the situations. In normal case, it is advisable to take them on rent to reduce the burden of fixed costs. It is possible to get some infrastructure support under the Government schemes. There are plenty of such examples where infrastructures such as land, warehouse, machinery etc. have been accessed by the FPCs from the Government schemes with partial subsidy.

3.5.4 Training and Capacity building of BoDs and FPC functionaries

This is an important aspect for the growth of the FPC and cannot be ignored. The estimation of cost should be based on the annual plan for capacity building including training and exposure visit events.

The requirement of capacity building inputs is again contextual however, as per ASA's experience, two formal training and two exposure visits are required for the BoD in the first year. The training are conducted covering the subjects of provisions in the Act, rules and regulations, statutory compliances, roles and responsibilities of BoD and General body, banking operations, while the exposure visits are taken to the successful FPCs where an interactive learning is facilitated.

[20] It is mandatory as per article 581W of Producer Companies Act)

CHAPTER 4

ASSESSMENT OF THE FINANCIAL VIABILITY OF THE BUSINESS OF PRODUCER COMPANIES

This chapter deals with various methods of assessing financial viability of the business of producer companies

4.1 Introduction

"My business is very small. Do I really need to develop a plan like this?" This is the question that is often asked by owners of small businesses. *The answer is, "You need a plan, if you don't want to remain in a small business for ever."* Every business, small or large needs a business plan, more so in the case of FPC, where for first-time producers are supposed to act as businessmen.

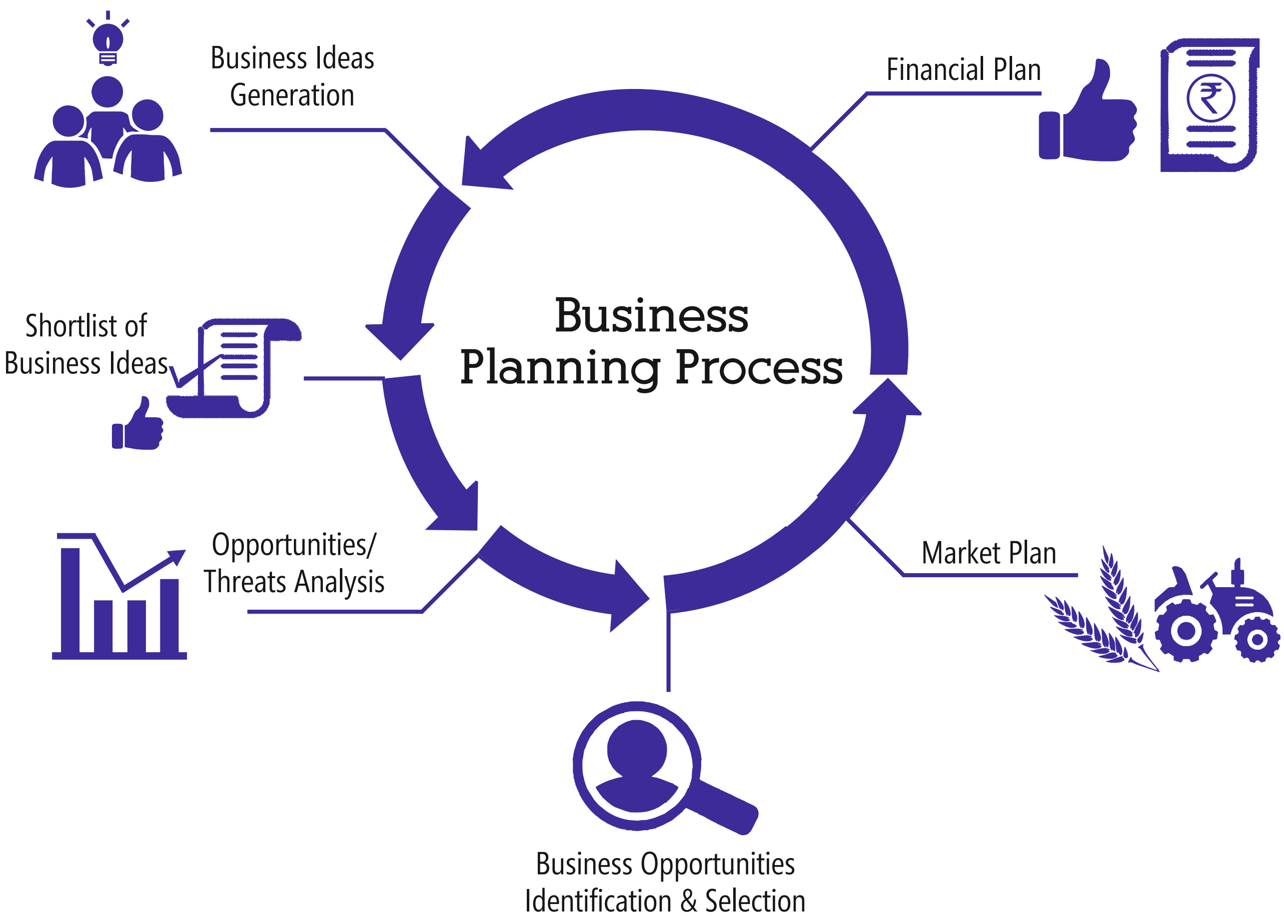
An approach of business plan development has been suggested in this chapter and the methods of assessing financial viability is discussed in an integral manner with other key components of the business plan development like marketing plan, etc.

The fundamentals of business plan have been explained in simple terms. Each of these terms is also explained with the help of examples and calculations. Effort has been made to keep the language and applications simple.

The following sections could help in writing the blueprint of the business plan of an FPC.

4.2 The Business Planning Process

The business planning process starts with **Business Ideas Generation**, followed by **Opportunities and Threats Analysis** leading to **Identification of Business Opportunities**. Once the Business Opportunity is identified, the **Marketing Plan** is prepared. The final part of the process deals with the **Financial Plan**.



4.2.1 How to generate business ideas?

The first step in business planning is to identify the business opportunity. In this case the area of business is already chosen, i.e. agribusiness for the small producers. Identification of specific business opportunity is largely a creative process. In the following paragraphs a step by step approach is adopted to discuss various tools of generating business ideas.

Patterns of Creative Business Opportunity Identification

- **Development of problem-solving products/services:** The first step is to hit upon an idea that can be a solution to a problem experienced by farmers. For instance, collective sale of agriculture produce to the bigger market or collective purchase of agriculture inputs like seeds, fertilizers, pesticides, etc. and selling it to the producers is a creative idea since it reduces the role of middlemen and ensures quality products and services to the farmers.
- **Exploitation of new technology or material to meet a widely felt need:** Millions of Indian farmers use hand made implements for agriculture like bullock driven wooden plough, bullock cart, thrashing by hands, etc. since they can not afford to own them. An idea of introducing the services of mechanized implements like tractor, thrasher, etc. on rental basis to the small farmers can change the way farming is done and it can be done in a cost-effective way
- **Creating a demand for Agriculture extension services:** with the poor quality of State's agriculture extension services the idea could be introduction of Agri-clinic where professional extension services can be provided to the farmers on a reasonable price. Similarly, introduction of products like crop insurance can serve the farmers in a big way.
- **Vision:** This is the ability to look into the future and relentlessly pursue the dream. For example Dr. Verghese Kurien of NDDB, saw the potential of linking millions of milk producing farmers with the market.

Brainstorming in small groups, is the technique that is generally used in generating ideas for new businesses. This process is done in two phases:

I In the first phase, the emphasis is on generating a large number of ideas, without commenting on the quality of the ideas. The group coordinator must ensure that ideas are not evaluated, but are only recorded in detail.

II In the next phase, ideas are evaluated and a short-list prepared. The criteria for evaluation may even be subjective.

4.2.2 Opportunity and Threat – Analysis & Business Opportunity Identification

Once a shortlist of ideas is generated, it must be critically evaluated with respect to the external business environment for identifying the business opportunity and threats. This is also called Opportunities and Threats Analysis (O/T Analysis) and is used to evaluate whether a business idea is worth pursuing any further.

For every idea short-listed write down the Opportunities and Threats in terms of:

- Size of the market.
- It's stability i.e., is the demand for the product/service long term or purely temporary?
- The extent to which the market is dissatisfied with the existing service / solution.
- Level of competition, high, medium or low.
- Price and quality sensitivity of the market
- Degree of profitability
- Barriers to entry/exit
- Changes in government's policies such as subsidy, availability of low cost funds, etc

Table-2: At the end of the exercise, the Opportunity and Threats Analysis would look like this:

Factors	Opportunities	Threats
Market Size	Fairly large. The district APMC procures about 10% of the State's requirement of food grains.	
Its stability, i.e., is the demand for the product /service long term or purely temporary?	With increasing population and growing change in food habit this is unlikely to be affected in the next 20 years.	
The extent to which the market is dissatisfied with the existing service / solution.	Due to unavailability of options farmers are dependent on the middlemen and unhappy about their unscrupulous practices. The market is sensitive in favour of procuring directly from the farmers.	
Level of competition (high, medium or low)		Low, however, likely to be Medium with the competition from the middlemen as the business grows for the PC
Market sensitivity towards price and quality		Not very quality conscious, but price sensitive to a certain extent.
Degree of profitability and Barriers to entry/exit		Medium in the short term. Barriers to entry and exit are very low.
Changes in government's policies such as subsidy, availability of low cost funds, etc.	Favourable policy towards small farmers PC, likely to get subsidy and sympathy of the Government.	Banks do not provide any relaxation for loan to PC, it is hard to get loan from them. This can seriously affect the operations.

Based on the Opportunities and Threats analysis, one can identify an appropriate Business Opportunity which could be considered for developing a business plan. However, there could be possibility that the identified business opportunity fails to remain as a potential business opportunity following further analysis, as mentioned further.

4.2.3 Risk mapping and management

a Identification of risks and possible safeguards is an integral part of the O/T analysis. The goal is not to eliminate risk altogether (an impossible proposition) but to identify them and assess whether they can be managed or minimised through operational resilience. If the risks or threats seem unmanageable then one may discard the business idea altogether. However, the point to be noted that even after starting the business the risks continue to remain in the business environment, both internally and externally.

b **Prioritize earnings drivers.** The first step is to identify and then map a company's earnings drivers. These are the factors that would have the biggest impact on earnings if disrupted. For example, a PC would depend heavily on the monsoon as a bad monsoonal year might impact its earnings significantly.

c **Identify critical infrastructure.** The next step is to identify the infrastructure—including processes, relationships, people, regulations, plant, and equipment that supports the PC's ability to generate earnings.

d **Locate vulnerabilities.** The next step is to identify the main vulnerabilities. What are the weakest links, the elements on which all of the others depend? It could be a single buyer for all produces, an employee of the PC (say, CEO) on whom the whole operation of the PC is dependent, etc. Vulnerabilities are characterized by:.

- *An element on which many others depend; a bottleneck*
- *Processes with no alternatives*
- *Association with high-risk geographic areas (e.g. flood zones), and products (eg, perishable commodities like milk, vegetables)*
- *Insecure access points to important infrastructure*

e **Develop responses.** After mapping risk profile, a company will have detailed knowledge of its operational vulnerabilities and how these relate to its strategic goals and earnings. Completing a risk profile will also bring to light opportunities to reduce risk or Risk mitigation plan.

f **Monitor the risk environment.** For each vulnerability, there will be a number of potential responses. In order to evaluate which responses are most appropriate, it is necessary to look at the external environment. Some risks are beyond the control of the PC like sudden change in policy environment due to change of political parties in the power, etc. But most other risks are manageable. By gauging the likelihood of various events, the PC can evaluate how much to invest for each vulnerability. A company's risk profile is constantly changing, economic and market conditions change, consumer preference change, the regulatory environment changes, as will products and processes. It is essential that the company's risk map change in tandem, implementing an early warning system so contingency plans can be activated as soon as possible. Although a detailed development of a PC's risk management profile is a fairly elaborate process, a simple self-assessment can quickly identify the largest gaps.

4.3 Marketing Plan

Once the business opportunity has been selected, market analysis follows. The data for the analysis may be obtained from secondary sources such as procurement of the APMC, Policy guidelines, specific studies conducted by others etc. A market research could be also carried out for this purpose to critically examine the business potential.

The market analysis should cover details about:

- The overall market
- Changes in the market
- Market segments, their attractiveness, profitability
- Target market and customers
- Description of customers
- Competitors – Direct and indirect

Assessment of market opportunities and threats/ risks

Following the market analysis, an analysis of the Strengths and Weaknesses (S/W Analysis) of the products to be handled and PC as an organization should be carried out. It would focus on the following:

- The uniqueness of the products/services with respect to competitor's
- Payment terms
- Quality of manpower in PC and their experience
- Pricing
- PC's standing in the market

The Strengths and Weaknesses analysis (S/W Analysis) together with the O/T analysis is called the SWOT Analysis. The O/T analysis helps to analyze the external business environment, while the S/W analysis focuses on the internal business environment, i.e., PC's product, PC as organization, its competencies, risk bearing ability and policies. At the end of the exercise this is how the **Strengths and Weaknesses analysis** would look like:

Table-3: Strength and Weakness Analysis of Marketing of collective produce of small farmers

Factors	Strengths	Weaknesses
The uniqueness of PC's product /service with respect to competitor's	Small farmers' produce to which the market has positive sensitivity.	
Payment terms		No credit terms
Quality of manpower and their experience	Technically qualified and experienced in agribusiness	Not experienced in marketing.
Pricing	Same as competitor or less	
Standing in the market	Being a small producers PC there is a sympathy in the market	Not very well known

A suggested outline is provided here to write the market plan.

4.3.1 Choosing a Marketing Strategy

After choosing the market segment that the PC management wishes to target and having carried out the SWOT analysis, the suitable marketing strategy should be chosen. The choice depends on a variety of factors including the image that the PC wants to project about the product and the organization, PC's sales objectives like whether the PC wants rapid penetration or is content with slow penetration of the market etc.

The PC may choose one or more combinations of strategy, but needs to strategically plan a right mix of the 4 Ps (Product, Price, Place and Promotion– called the Marketing Mix) to develop an appropriate marketing strategy. In the following sections some of the tools and methodologies are discussed which could be referred to while developing a business strategy. These don't confirm to a complete list of strategies, but are certainly, the important ones.

4.3.2 Positioning Strategy

Once a market has been segmented and a particular segment chosen, the PC has to position the product in that market segment. This means the PC has to tell the customers about what it is offering and how it is different and better than the competitors.

Positioning is done in three steps:

- Identifying advantages of the product over the competitors,
- Selecting the right advantage(s) , and finally
- Signalling the adopted position to the market

4.3.3 Basis of Positioning

It is clear that the same product can then be positioned differently, depending on the specific needs of the customer. To understand the basis of positioning, let us look at positioning in terms of a PC's products in this case Agri-clinic services which it intends to provide to the farmers of a given area:

- **Specific Product Features:** Problem diagnosis and solution, low cost solution, on-farm services, continuous follow up
- **Benefits, problem/solutions or needs:** Services provided within 24 hours after registration, expert suggestions, supply of agro-chemicals which are genuine and at reasonable price,
- **Specific Usage Occasions:** On-farm services. The customer can call the experts to his/her field to discuss the problem and solution
- **User Category:** The services are ideal for small farmers who have small holdings and can not invest much on the farming.
- **Against another services:** The agri-clinic services are more reliable than the Government extension services

4.3.4 Strategies based on Price and Promotion

Price and level of promotional spending are very important tools in achieving market penetration objectives. For instance, if the objective is to quickly gain a large market share, the strategy could be a combination of low price and high decibel promotion, leading to large volume of sales. The market strategies often have to decide on the level of quality and price that it can offer to a chosen market segment as compared to competitors.

Based on the strategies chosen, the Marketing Mix (4 P's of Marketing) could be formulated and the marketing plan written. It should cover the following:

- Target markets
- Competition
- Environment
- Product /service
- Price
- Place
- Promotion
- Targeted sales in the coming year and projections for the next two years.

A suggested outline is provided here to write the market plan.

4.3.5 THE PC's MARKETING PLAN

This is the marketing plan of "PC Name"

I. MARKET ANALYSIS

1.Target Market

i. Who are the customers? Write a brief description of the target customers. (You may write about age, sex, education occupations, occasions of use, frequency of use, income levels, geographic location, etc.)

ii. We will be targeting customers by:

a. Products and Target Customers

Sr.No.	Product line	Target Customer

iii. Geographic area? Which areas? ______________

iv. Expected sales in the coming year

Sl. No.	Months	Product line 1	Product line 2	Product line 3
1	April			
2	May			
3	June			
4	July			
5	Aug			
6	Sep			
7	Oct			
8	Nov			
9	Dec			
10	Jan			
11	Feb			
12	March			
	Total			

II. COMPETITION

i. Who are our competitors?

Name ....
Address..
Years in business ....
Market share ....
Price/Strategy...
Product/Service...
Features ....
(Note: write two more competitors using same template)

ii. How competitive is the market?

High ....
Medium ....
Low ....

iii. List below your strengths and weaknesses compared to your competitor's (consider such areas as location, size of resources, reputation, services, personnel, etc.):

Strengths	Weaknesses
1.________________________	1.________________________
2.________________________	2.________________________
3.________________________	3.________________________

III. ENVIRONMENT

I. The following are some important economic factors that will affect our product or service (such as natural calamity leading to failure of agriculture),

....
....
....

ii. The following are some important legal factors that will affect our market such as APMC imposes levies for purchase of agri commodities outside the market yard):

....

....

....

iii. The following are some important government factors (such as, Govt. policies banning inter-state transfer of food commodities, Govt. provides subsidy to procure directly from the farmers etc.):

....

....

....

IV. PRODUCT OR SERVICE ANALYSIS

i. Description

- Describe here what the product/service is and what it does:

....

....

....

ii. Comparison

- What advantages does our product/service have over those of the competitor's (consider such things as unique features, expertise, guaranteed services, on-farm services, etc.)?

....

....

- What disadvantages does it have?

....

....

iii. Some Considerations

- Where will you get your materials and supplies?

....

- List other considerations:

....

....

....

V. MARKETING STRATEGIES - MARKET MIX

i. Image

- First, what kind of image do we want to have (such as small producers organization, quality service, professional management, low price, convenience)

....

ii. Features

- List the features that we will emphasize:

a...

b...

VI. PRICING

i. We will be using the following pricing strategy:

a. Markup on cost[21]: ____ What % mark up? ______

b. Competitive[22] : ____

c. Below competition: ____

e. Other: ____

ii. Are our prices in line with our image?

YES___ NO___

iii. Do our prices cover costs and leave a margin of profit?

YES___ NO___

VII. CUSTOMER SERVICES

i. List the customer services we provide:

a. ____

b. ____

ii. These are our sales/credit terms:

a. ____

b. ____

iii. The competition offers the following services:

a. ____

b. ____

VIII. ADVERTISING/PROMOTION

i. These are the things we wish to say about the business:..

ii. We will use the following advertising/promotion sources:..

[21] Mark up price = Cost price + profit desired
[22] Competitive price = Follow the competitors in setting your price

4.4 Financial Plan

The last part of the business planning process is the preparation of the financial plan. It is based on the marketing plan. The topics covered in this section are:

A. Concepts of finance
   - Budget and its importance
   - Fixed and Variable costs
   - Working Capital

B. Financial Analysis
   - Break-even sales and BE Analysis
   - Interest rates calculations
   - Net Present Value
   - Internal Rate of Return
   - Cash Flow Statement

C. Sensitivity Analysis
   - Acid test ratio
   - Debt service coverage ratio

4.4.1 What is a 'Budget'?

For any entrepreneur or business, 'budget' is the ultimate tool with which to monitor and keep a control over the business. A budget is a forecast of all cash sources and expenditures. Budgets help to determine how much money you have, where to use it, and whether you can achieve your financial targets. It shows the flow of money into, through and out of the business. The three basic elements of a budget are:

- Sales revenue
- Costs and
- Profits

Sales revenue: Sales revenues are the key figures in any budget. One has to estimate the sales revenues that would accrue to the business as accurately as possible. These should be based upon the past sales records or the industry averages. Once the sales targets have been fixed (as accurately as possible), then the necessary costs can be estimated which would help in realizing the sales revenues.

Costs: Estimating costs in any business is a complicated procedure. Small changes in the assumptions on which the costs are estimated can render the whole budgeting exercise futile. Costs are of two types – ones that change with volumes of sales and ones that do not change. These are called variable costs and fixed costs, respectively.

- **Variable costs:** Variable costs are those that change directly with the sales volumes or with the size of the business. For example the cost of inventory or raw material is a variable cost. The more you sell, the more raw material you have to purchase and vice-versa. Suppose you are in the business of aggregating the agriculture produces and sell it in the bigger market. The more number of farmers you add to aggregate produce, the more you have to spend on procurement, grading, transportation, etc.
- **Fixed costs:** Fixed costs are those which remain unaffected by the sales volumes. This means that you have to incur them, no matter how much is the sales volume. Rent or certain number of staff hired for the business are good example of fixed costs.

Profits: For any business to be viable in the long run, the sales revenues must always be greater than the costs. This difference in the sales and the costs is called profit. Simply put,

Sales – Costs = Profits

or in other words:

Sales = Costs + Profits

This means that one should target the sales to be of such a volume that it covers all the costs and also have a reasonable amount of profits which is atleast equal to the benchmarked Return on Investment.

4.4.2 What is working capital?

Working capital is the difference between a business' current assets and its current liabilities. In simple terms working capital is the amount of money required by a business to cover its short term liabilities. Working capital includes:

- Cash
- Marketable securities
- Accounts receivables
- Inventories
- Accounts payable, and
- Wages/ salaries and taxes

Since any firm or business has about 40% of its capital tied up in current assets, decisions regarding working capital greatly impact business success.

4.4.3 How to prepare a Budget?

To prepare a good budget, the following three questions should be answered:

- ***How much net profit (i.e. sales minus costs) do I want the PC's business to make in the financial year?***

- ***How much it will cost (both fixed and variable costs) to generate that profit?***
- ***How much sales revenue is necessary to support both profit and costs?***

Based upon the answers of the above three questions, the budget can be prepared.

4.4.4 Breakeven analysis

The most commonly used budgeting statement is the **'breakeven analysis'**. In simple terms, this means that one has to find out using the above three answers what should be the sales revenues so that all the costs incurred in the business are recovered. This volume of sales is called the breakeven sales or the breakeven point. The fixed costs that must be recovered from the sales revenues after the deduction of variable costs determines the sales volume required to breakeven. This also means that any amount of sales after this would result in profits for the business. At breakeven point, the total variable costs plus the fixed costs is equal to the total sales revenue. This can be expressed as:

$F + V(X) = P(X)$

Where, F = Fixed costs

V = Variable costs per unit

X = Volume of output (in units)

P = Price per unit

Let us take a simple example to illustrate the above concepts.

Producers company-A (PC-A henceforth) wants to sell agriculture produce Gram to a bigger market. The following would be the costs:

- Cost price of Gram = Rs 3000 per quintal
- Fixed costs per year = Rs 1,00,000 (including rentals, salaries, communication, promotion, etc.)
- Additional variable cost per quintal of produce to be sold = Rs 250 per quintal (including transportation, waste, insurance, etc.)
- The sale price of Gram in open market = Rs 3,600 per quintal

What would be the breakeven sales for PC-A ?

Assuming that the breakeven sales is Vb

The breakeven sales for PC-A would be:

$3600 \times Vb - 100000 - (3000+250) \times Vb = 0$

$350\ Vb = 100000$

$Vb = 285.714$

This means that PC-A will have to sell more than 285 quintals of Gram in one year to break even.

Now if PC-A also wants to recover the depreciation cost of its machinery (grading plant, generators, etc. of about Rs 10,000 per month) and also make a profit of Rs. 140,000 per year, then the quantity of Gram it will have to sell will be calculated by this formula:

Total sales – Total costs = (Rs.10,000 x 12) + Rs.140,000 = Rs 2,60,000

Applying the same formula:

$3600 \times Vb - 100000 - (3000+250) \times Vb = 2,60,000$

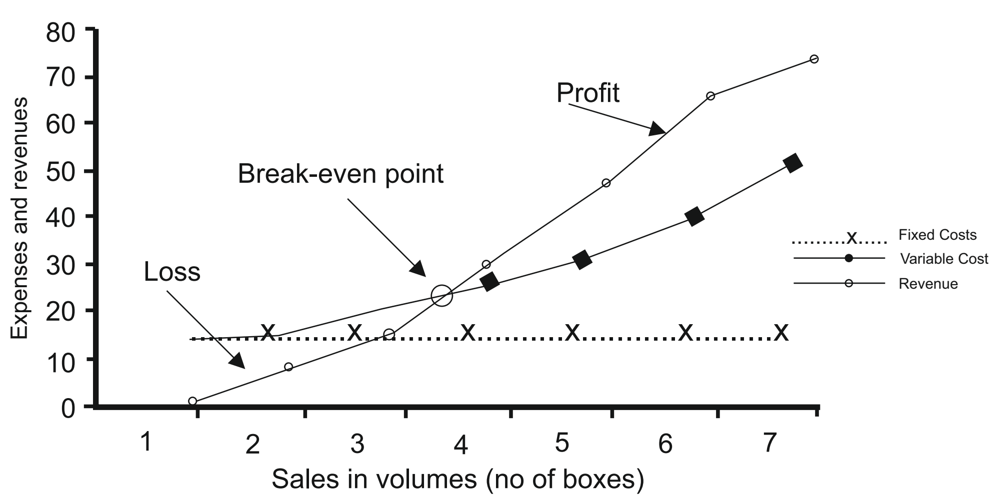
$350 \times Vb = 3,60,000$

$Vb = 1028.57$

This indicates that in order to earn a profit and depreciation cost, the PC-A has to sell more than 571 quintals of Gram per year.

A typical break-even chart would look like this:

Figure 2: A typical Break-even Chart



4.4.5 Sources of finance

In simple terms, ways and means to raise the capital or money required to be invested in a business is called 'financing'. There are four basic but different ways to raise capital or funds for investing in any business. These are:

- **Personal financing:** This is the money that PC has ready access to and the PC does not have to pay any interest on. It may be sourced from the reserve and surpluses from the previous years. This is the easiest (but not the best) way to finance the business. However, in case of a new PC this opportunity will not be there.

- **Credit capital:** Credit capital can be obtained from credit companies or from potential buyers who give a grace period before the amount is due or interest is charged. The producers who sell their products to the PC would not hesitate in giving credit period to the PC if convinced about the soundness of the business idea. On the other hand the PC can get part payment in advance from prospective buyers of certain agriculture produce that PC has made a deal to supply. It can get agriculture inputs from the Agro dealers on the conditions of payment after sales. But mostly this type of finance is not available for start-up businesses or a new venture.

- **Equity financing:** Equity financing does not require the business to directly repay the money lent or invested by the investors. In case of PC the equity comes from the members and no external financier can participate in the equity investment. Being a small producers company the equity contribution is generally less and therefore it cannot contribute significantly to the total fund required for establishing a PC.

- **Debt financing:** This is the most preferred way of financing a new business. Here it is a direct obligation to pay the interest on the money lent by the financier. The biggest advantage is that the financier does not have control over the business as opposed to equity financing. The important point to be noted in this is the rate of interest charged. However, it is not easy to raise debt financing for a producer company without collateral.

- **Grant support:** The PC being a small holders organization may seek working capital support from the Government under certain government schemes (viz. GoMP has a policy for working capital support, SJSY special scheme can provide infrastructure grant to the PC) and from other development agencies.

This brings us to the next concept, which is 'interest' on money borrowed or financed.

4.4.6 What is interest? What are the various ways of calculating interest?

Interest is the cost or value of money. In debt financing, there are two main parties – the borrower and the lender. A borrower is the one who receives money from the lender. An interest rate is the amount, usually stated as a percentage, demanded by a lender (or an investor) to make an amount of money available to a borrower to use or invest in his business. Following are the examples of some interest calculations:

If PC-A borrowed Rs 1,000 for 1 year at 12% interest then it has to repay Rs 1,120, at the end of the year. Of this, Rs 1,000 is the principal (abbreviated capital or lower case P) and Rs 120 is interest (I or i). Together they are called Principal and Interest (abbreviated P & I or p + i).

Whereas, if PC-A were to borrow Rs 1,000 for 1 year at 1% interest per month compounded (meaning paying interest on interest as well as principal) monthly, then he will have to repay Rs 1,127 at the end of the year.

Similarly Rs 1,000 borrowed by PC-A for 2 years at 12% per year, compounded, requires a payment of Rs 1,254 at the end of 2 years.

An interest calculation based on borrowing Rs 1,000 for 5 years at 12% interest per year compounded is as follows:

Table-4: Calculation of Interest

Year 0	Rs 1000.00
Add: 12% for Year 1	Rs 120.00
End of Year 1	Rs 1,120.00
Add 12% for Year 2	Rs 134.40
EOY 2	Rs 1,254.40
Add 12% for Year 3	Rs 150.53
EOY 3	Rs 1,404.93
Add 12% for Year 4	Rs 168.59
EOY 4	Rs 1,573.52
Add 12% for Year 5	Rs 188.82
EOY 5	Rs 1,762.34

EOY = End of Year

Hence if the loan is to be repaid after five years, the payment would be Rs 1762.34 of which the principal returned is Rs 1000, whereas the interest is Rs 762.34.

There are three most common methods of loan repayment calculations. These are:

- **Interest only –** meaning only interests during the loan duration and the last instalment is paid along with the principal amount.
- **Equal payments –** here the interest and the principal to be repaid are spread evenly for the entire loan term.
- **Equal principal payment –** in this case, the principal amount is paid in equal instalments, while the interest decreases (based upon the balance principal amount).

Let us assume that the PC-A has managed to borrow Rs.150000 from a commercial bank. The bank offers the PC-A about the three plans of repayment (interest only, equal payments and equal principal payments).

Given below is the repayment plan for each of the three options.

Table-5: Repayment Plan

Year	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total
Interest Only	24000	24000	24000	24000	24000	24000	24000	24000	24000	24000	24000
Equal Payment	31035	31035	31035	31035	31035	31035	31035	31035	31035	31035	310350
Equal Principal	39000	36600	34200	31800	29400	27000	24600	22200	19800	17400	282000

Given the three options, which option the PC-A should opt for?

To answer the above question, the PC-A could take recourse to calculating **Net Present Value** of the future cash outflows in all the three options.

4.4.7 What is Net Present Value (or NPV)?

Present Value or PV is a method to calculate what would be the value of a future cash flow if it were to happen today. Here a discount rate (similar to interest rate) is used to calculate the PV. An interest rate looks forward in time. It represents what someone expects to earn in the future. A discount rate serves the same function, except that it works backwards in time, taking a future cash flow and giving it a value today. The Present value is calculated in the following manner:

PV = A / (1+D)T

Where A = Amount expected,

D = Discount rate, and

T = Time (in years)

If PC-A were to earn Rs 10,000 in 1 year from today, its present value given a discount rate of 12% would be:

PV = Rs 8928.57

This means that if PC-A were to earn Rs 8928.57 today, it would be equivalent to getting (cash inflow) Rs 1000 in the next year. Please note that it would also mean that if PC-A were to give Rs 1000 next year (cash outflow), it would be equivalent to giving Rs 8928.57 today.

Similarly, if PC-A were to give Rs1000 in two years time from now, its present value would be Rs 7971.94.

The Net Present Value or NPV is the sum total of present values of such cash outflows or inflows over a period of time. This is used when calculating the present worth of future investments or cash inflows or instalment payments.

The formula is as follows:

NPV = A1/(1+D/100)1 + A2/(1+D/100)2 + A3/(1+D/100)3 + …….. + An/(1+D/100)n

Where, **A1, A2, A3, …., An** are the cash flows expected in 1, 2, 3, and nth year respectively and D is the discount rate.

In our example earlier, given the three cash outflow scenarios for PC-A, the NPV for each one of them is given below:

Table-6: Calculation of NPV

Payment plan	NPV
Interest Only	Rs 150,000.00
Equal Payment	Rs 149,999.21
Equal Principal	Rs 150,000.00

As we can observe, the NPV for all the three payment plans is almost same. This means that for PC-A or for the Bank, the three plans are the same. However, depending upon the paying capacity of PC-A or the money requirement of the Bank, one of the options can be chosen. For example, in plan 1– Interest Only, the maximum amount is payable only in the 10th year. This may not suit the Bank as it will get far less money during the initial years to service other loans. Also the risk is higher for the Bank. Most of the repayment plans prefer either plan 2 or 3.

Theoretically, the net present value of a future stream of cash flows (outgoing and incoming) must be positive to justify an investment. In other words, if a project is worth more than it costs (outflows are less than the inflows), its NPV will be positive.

In the example below the NPV has been calculated on three different marketing strategies generating three different cash flow although total cash flow is the same. In such case, a net present value analysis would help the PC-A to compare among the three choices.

Table-7: Cash flow-1

Year	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total	NPV (at 12%)
Strategy A	(300000)	10000	30000	45000	60000	50000	45000	60000	70000	50000	45000	165000	Rs (9,338)
Strategy B	(300000)	30000	45000	70000	60000	50000	45000	65000	35000	50000	15000	165000	Rs 13,944
Strategy C	(300000)	20000	40000	65000	70000	60000	30000	50000	40000	60000	30000	165000	Rs 6,467

Please note that the outgoing cash (in Year zero) is always shown as a negative, as it is an investment.
Looking at these three choices, only two strategies (B & C) have a positive NPV at a 12% discount rate while the third (Strategy A) is negative. This means that even if the three strategies would cost the same (the sum total of all the three cash flows is Rs 1,65,000), the net present value of these is different and the Strategy with the best NPV (Strategy B in this case) should be normally selected over the other two.

Now if the discount rate changes, the NPV would also change. For example if the discount rate is lowered from 12% to 8%, the resulting NPV would be:

Table-8: Cash flow-2

Year	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total	NPV (at 8%)
Strategy A	(300000)	10000	30000	45000	60000	50000	45000	60000	70000	50000	45000	165000	Rs (61,704.20)
Strategy B	(300000)	30000	45000	70000	60000	50000	45000	65000	35000	50000	15000	165000	Rs (81,460.35)
Strategy C	(300000)	20000	40000	65000	70000	60000	30000	50000	40000	60000	30000	165000	Rs. (75,060.21)

Now all the three strategies yield positive net present values.

Now if the discount rate changes to 16%, then NPV for the same streams of cash flow would yield the following result:

Table-9: Cash flow-3

Year	Yr 0	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Total	NPV (at 8%)
Strategy A	(300000)	10000	30000	45000	60000	50000	45000	60000	70000	50000	45000	165000	Rs (57,472.46)
Strategy B	(300000)	30000	45000	70000	60000	50000	45000	65000	35000	50000	15000	165000	Rs (32,732.80)
Strategy C	(300000)	20000	40000	65000	70000	60000	30000	50000	40000	60000	30000	165000	Rs. (40,633.59)

In this case all of the three strategies yield negative NPV and hence do not appear attractive.

This exercise demonstrates that in financial analysis, and especially in net present value (NPV) analysis, the choice of discount rate is crucial. However for investments, analysis only on the basis of NPV may lead to faulty outcome and decision as its result hinges crucially on the discount rate adopted. Calculation of discount rate is complicated and requires expert advice.

Is there another, easier and a surer method to compare different cash flow streams? Yes, another technique called the Internal Rate of Return or IRR – is used for project analysis or the comparison of cash flow alternatives without having a specific discount rate

4.4.8 What is an Internal Rate of Return?

An internal rate of return calculation allows you to determine the interest rate that a business will earn on the original amount of capital invested and the expected future cash inflows. In other words it provides the discount rate that a business produces rather than applying a discount rate determined from outside the business. It is calculated by equating the present value of expected cash outflows with the present value of expected inflows. Mathematically it may be represented as:

A0 = A1/(1+R/100)1 + A2/(1+R/100)2 + A3/(1+R/100)3 + …….. + An/(1+R/100)n

Where **A0** is the initial investment and **A1, A2, A3, …., An** are the cash flows expected in **1, 2, 3,** and **nth** year respectively and **R** is the Rate or Internal Rate of Return.
The Internal Rate of Return – IRR – Requires a computer for calculation.

On computer MS Excel programme:
Enter cash flows in cells
Open f*
Choose Financial
Choose IRR
"OK"
Highlight values from Year 0 to Year n
"OK"
In our example of PC-A's expected cash inflows from the three strategies, the IRR as calculated with the help of computer is as follows:

Table-10: Calculation of IRR

Strategy	IRR
Strategy A	7.74%
Strategy B	9.29%
Strategy C	8.73%

What do these values mean? Or what should be the acceptance criteria?
Here PC-A will have to compare the IRR from the three strategies with the required rate of return. If the IRR is more than the required rate of return, then the proposal would be accepted. For example, if the required rate of return is 12% then the IRR has to be equal to or more than 12% for consideration.

4.4.9 Cash Flow Statement

Cash flow statements show cash inflow and outflow over a period of time and are used for internal planning. If it is an established business, worksheets can be put together from the actual figures of income and expenses of previous years combined with projected changes for the next period. If it is a new venture, one will have to project the financial requirements and disbursements. The profit at the end of the year will depend on the proper balance between cash inflow and outflow. The cash flow statement identifies:

- When cash is expected to be received.
- How much cash will be received.
- When cash must be spent to pay bills and debts.
- How much cash will be needed to pay expenses.

It also allows the Manager to identify the source of necessary cash, i.e., will it come from sales and services rendered or should it be borrowed? One has to make sure that the projections take into account receivables and how long it will take the customers to pay. The cash flow statement deals only with actual cash transactions and not with depreciation or other non-cash expense items.

A cash flow statement can be prepared for any period of time. It should be prepared on a monthly basis for the next year and revised not less than quarterly to reflect actual performance in the preceding three months of operations.

Preparing Cash Flow Statement

The vertical columns of a cash flow statement represent the twelve months, preceded by a total column. Horizontal rows on the statement contain figures for the sources of cash and cash to be paid out copied from the two previous worksheets and from individual budgets.

The figures are projected for each month, reflecting the flow of cash in and out of the business for a one-year period. Begin with the first month of the business cycle and proceed as follows:

- Project the beginning cash balance. Enter under the first month of the business cycle.
- Project the cash receipts for the first month.
- Add beginning cash balance and cash receipts to determine total cash available.
- Project the direct, indirect and interest expenses for the first month.
- Project monies due on taxes, long-term assets and loan repayments. Also project any amounts to be drawn by owners.

- Total all expenses and draws. This is total cash paid out.
- Subtract total cash paid out from total cash available. Enter the result under cash balance/deficiency. If the result is negative, be sure to bracket this figure.
- Project loans to be received and equity deposits to be made. Add to cash balance/ deficiency to get ending cash balance.
- Carry forward the ending cash balance for January as February's beginning cash balance.
- Repeat the process through the last month of the business cycle.

To complete the total column, proceed as follows:

- Enter the beginning cash balance for the first month in the first space of the total column.
- Add the monthly figures for each category horizontally and enter the result in the corresponding total category.
- Compute the total column in the same manner as each of the individual months. If you have been accurate in your computations, the December ending cash balance will be exactly the same as the total ending cash balance.

Table-11: An example of cash flow statement is given below:

Name of business and PC : ____________________ Projected / Actual Date:________

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
								First Month					
Beginning Cash sales													
							CASH IN						
Cash Sales													
A/R Collections													
Interest income													
Sale of Fixed assets													
Loans received													
Other cash sources													
TOTAL CASH IN													
CASH OUT													
Inventory & Raw mat.													
Salaries & Wages													
General supplies													
Rep & Maintenance													
Travel													
Shipping & Delivery													
Legal & Account. Fees													
Telephone, rent													
Utilities													
Interest Charges													
Taxes													
Other operating expen.													
Loan Repayments													
Fixed Asset Payments													
Capital Expenditures													
TOTAL CASH OUT													
							End of Month						
CASH FLOW													
CASH BALANCE													
							Operating Data						
Sales Volume													
Accounts receivables													
Bad Debts													
Inventory on Hand													
Accounts Payable													
Depreciation													

4.4.10 Sensitivity analysis

After having learnt all these concepts, how can we evaluate the performance of PC-A's business? One of the measurements of the financial condition and performance of a business venture is a ratio or index, which relates to pieces of financial data from the business. There are several indices which can be used, here we would be discussing only two of the most commonly used ones, namely, Acid Test Ratio and Debt Service Ratio.

a Acid test ratio

Acid Test Ratio or Quick Ratio is the measure of the ability of the firm to be able to meet short-term obligations. This is a ratio of the current assets of the firm to its current liabilities. The current assets include cash and bank balance, short-term marketable securities and debtors/receivables. It may be noted that the inventories already lying with the firm are not included in the current assets. This ratio is the best available measures of the liquidity position of a firm. Usually an acid test ratio of 1:1 is considered satisfactory as a firm can quickly meet all its current or short-term liabilities.

b Debt Service Coverage

While acid test ratio is a measure of the ability of a firm to pay off its current liabilities, the Debt Service coverage ratio is a measure of the firm's ability to meet long-term obligations. This ratio is expressed as the amount a project pays (or proposes to pay) each year for principal and interest on the debt/loan; that is, the amount of debt service to be paid when compared with the funds available to pay that debt service.

If PC-A's income is Rs 100,000 and its operating expenses are Rs 50,000 it has Rs 50,000 available to pay principal and interest on loans (debt service). If the PC borrows Rs 1,50,000 for 10 years at 16% interest with equal payments every year, its obligation is Rs 31,035. When compared to the Rs 50,000 available for debt service the project has what is called a 1.6 times debt service coverage or debt service coverage ratio or DSCR (arrived at by dividing Rs 50,000 by Rs 31,035).

In real life however, the projects do not have such uniform debt service coverage calculations. For this reason we must look at what is called Average Debt Service Coverage (the sum of all the year's available amounts divided by the sum of all the debt service payments) and examine the coverage ratios of each year. We should then focus on the years when the debt service coverage is the lowest as well as the average DSCR.

4.4.11 Why is the debt service coverage ratio important and how are they used?

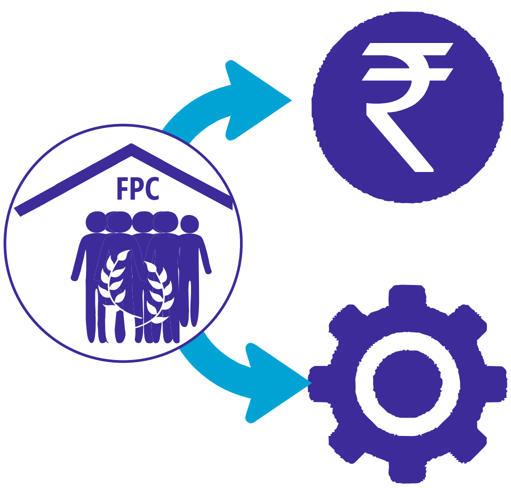
DSCR is important because they tell a lender what excess funds exists in the event revenues or expenses are less or greater than estimated in a project. Most lenders have a specific cut-off ratio that must be met for both average and lowest year debt service coverage. If a business cannot meet these tests then the options with the borrower could be:

- Lowering the amount to be borrowed (and increasing the amount of equity that needs to be put in a project).
- Setting up reserves or credit agreements to pay the shortfall amount in the specific year.

Essentially Debt Service Coverage calculations determine how much debt a project can afford. Combined with IRR, these two tools assist the entrepreneur to determine the business viability.

4.5 Writing a Business Plan

Now that we have completed our marketing and financial plans, we are now ready to write out the business plan.



4.5.1 What is a business plan?

The business plan is a succinct document that specifies the components of a strategy with regard to the business mission, external and internal environments and problems identified in earlier analyses. A business plan is not written each time a modification to a strategy is made. It should be written when you develop a new venture or launch a major new initiative. The business plan serves several important purposes:

- It helps determine the viability of the venture in a designated market.
- It provides guidance to the entrepreneur in organizing his or her planning activities.
- It serves as an important tool in helping to obtain financing / funding.

A well-written business plan also will provide broad parameters upon which progress toward goals can be assessed and control decisions made at a later time.

4.5.2 What are the elements of a business plan?

i. Introduction and Executive Summary: A typical business plan begins with a brief introduction followed by an executive summary. The executive summary is prepared after the total plan has been written. Its purpose is to communicate the plan in a convincing way to important audiences, such as potential investors, so they will read further.

ii. Industry Analysis: An industry analysis usually follows the executive summary. This section communicates key information -- the collection of which was discussed earlier -- that puts the venture or plan into the proper context.

iii. Marketing Plan: The marketing plan is the first step in developing any new strategy. It is developed within the context of the PC's goals and should be based on a realistic assessment of the external environment, as discussed earlier. The marketing plan is written first because marketing decisions typically determine resource needs in other areas. Obviously, a decision to seek a large share of a market will require a significant commitment of resources of various kinds. How you choose to promote and distribute your product or service will have clear ramifications for your organizational, production, human resource and financial plans.

iv. Financial Plan: The financial plan underpins this entire system of plans. Three financial areas are generally discussed.

- Financing pattern
- Cash flow statement
- Three year income statement

Usually an appendix is included in a business plan. This generally contains supporting information, documents and details that would interfere with clear communication in the body of the plan. Examples of this type of information include price lists, economic forecasts, demographic data and market analysis.

4.5.3 Tips on writing a business plan

The text of a business plan must be concise and yet must contain as much information as possible. This sounds like a contradiction, but you can solve this dilemma by using the Key Word Approach. Write the following key words on a card and keep it in front of you while writing:

Who / What / Where / When / Why / How / How Much

Answer all these questions (asked by the key words) in one paragraph at the beginning of each section of the business plan. Then expand on that statement by telling more about each item in the text that follows.

There is no set length to a business plan. The average length seems to be 30 to 40 pages, including the supporting documents section. Break the plan down into sections. It takes discipline, time and privacy to write an effective business plan.

You will save time by compiling your list of supporting documents while writing the text. For example, while writing about the legal structure of your business, you will realize the need to include a copy of your partnership agreement. Write partnership agreement on your list of supporting documents. When compiling that section of your plan, you will already have a list of necessary documents. As you go along, request any information that you do not have, such as credit reports.

With the previous considerations in mind, you are ready to begin formulating your plan. Read through this entire publication to get an overall view of the business planning process.

4.5.4 Suggested Outline of a Business Plan

I. Cover sheet

Serves as the title page of the business plan. It should contain the following:

- Name of the Producer Company
- Company address
- Company phone number (include area code)
- Logo (if any)
- Names titles addresses phone numbers (include area code) of CEO/Board of Director
- Month and year of the plan was issued
- Name of the person/organisation who prepared it

II. Brief description of the business

This gives a brief description of the business idea. What is proposed? Why it will be successful?

III. Table of contents

A page listing the major topics and references.

IV. Marketing Plan

A marketing plan includes information about the total market with emphasis on the target market. It helps in identifying the target customers and suggest the means to rightly position and supply the products or services to them.

i **Target market:** Identify characteristics of the customers. Tell how the results have been arrived. Back up information with demographics questionnaires and surveys. Estimate the market size.

ii **Competition:** Evaluate indirect and direct competition. Show how one can compete. Evaluate competition in terms of location market and business history.

iii **Place:** Tell about the manner in which products and services will be made available to the customer. Back up decisions with statistical reports, rate sheets etc.

iv **Promotion:** How the advertising will be tailored to the target market? Include rate sheets, promotional material and time lines for advertising campaign.

v **Pricing:** Pricing will be determined as a result of market research and costing of the product or service. Tell how the pricing structure has been arrived and back it up with materials from research.

vi **Product:** Answer key questions regarding product design and packaging. Include graphics and proprietary rights information.

vii **Timing of market entry:** Decide when to enter the market and how this decision has been arrived at.

viii **Targeted sales:** State the sales targeted for the next 3 years. The first year's sales may be presented month-wise.

ix **Industry trends:** Give current trends about how the market may change and what is the plan to adjust with the changing scenario.

V. Financial documents

These are the records used to show past, current and projected finances. The following are the major documents that would be required to include in the business plan. The work is easier if these are done in the order presented.

i **Cash flow statement (budget):** This document projects what your business plan means in terms of rupees. It shows cash inflow and outflow over a period of time and is used for internal planning. Cash flow statements show both how much and when cash must flow in and out of your business.

ii **Three year income projection:** A pro forma income statement showing your projections for your company for the next three years. Use the pro forma cash flow statement for the first year's figures and project the next according to economic and industry trends.

iii **Break even analysis:** The break even point is when a company's expenses exactly match the sales or service volume. It can be expressed in total rupees or revenue exactly offset by total expenses or total units of production (cost of which exactly equals the income derived by their sales). This analysis can be done either mathematically or graphically.

iv **Debt-service ratio:** The Debt Service coverage ratio is a measure of the firm's ability to meet long-term obligations. This ratio is expressed as the amount a project pays (or proposes to pay) each year for principal and interest on the debt/loan; that is, the amount of debt service to be paid when compared with the funds available to pay that debt service.

VI. SUPPORTING DOCUMENTS

- Brief profile of the PC and Resumes of the key Director/CEO
- Copies of Leases, if any
- Letters of Reference
- Contracts / work order / MoU for selling produces etc.
- Legal Documents (registration, business license, etc

CHAPTER 5

ASSESSING INSTITUTIONAL PERFORMANCE OF FARMER PRODUCER COMPANY

The Chapter describes a practical tool that can be used to measure the health of the Farmer Producer Companies

A method of institutional assessment of producer company, namely, Framework of Participatory Assessment of Institutional Performance of FPC, has been discussed in the following section. This method is used frequently by the promoting and performance rating organisations to assess the institutional performance of the FPC time to time. The findings of the assessment can be used to design and implement the capacity building strategy for the FPC. Point needs mention that the following indicators are more to gauge the institutional maturity of the FPCs. Financial assessment would require additional set of tools, most of which have been already discussed in the previous chapter.

5.1 Framework of Participatory Assessment of Institutional Performance of FPC

The framework is comprised of a set of Criteria and Institutional Maturity Indicators (IMIs), considered important for quality checks to ensure that the formation process and functioning of FPC is such that it contributes towards strengthening of the governing system of the FPC. A suggestive set of criteria and IMIs are given below:

Table-12: Criteria and indicators for assessing FPC formation process and functioning

CRITERIA	INDICATORS
1. Characteristics	•Size: Is the size good enough to be economically viable and socially cohesive •Not dominated by politically / economically powerful members •Poor and women are included (if mandated)
2. Identity & structure	•FPC has a proper work place and compliant to statutory and business requirements •Majority members know the purpose of forming FPC and can give an account of FPC's activities including finances •Single member per household representation norm used
3. Leadership	•Leadership roles change, fixed tenure •Leaders have been elected by the members •Adherence to the procedure while conducting election of the Office Bearers and Executives
4. Functioning	•FPC has a set of rules (bye laws) which has been discussed and agreed and sanctions for rule breakers •Regular BOD meeting and AGM takes place with significant attendance. •The majority of members (X%) contribute to BOD / AGM discussion and decision making. •Up-to-date maintenance of records, books of accounts, statutory and internal audit, etc.
5. Independence (in proportional to the age of the PC)	•Meetings of BOD / AGM regularly take place in the absence of Promoting Institution or with diminishing support •Records are maintained without or with little support from the Promoting Institution •Decisions are taken independent of the Promoting Institution
6. Resource mobilization	•FPC raises fund to carry out business •Overheads expenditure met with the own resources •Reserve funds •Mobilisation of specialised skills, information, resources etc. through public and private sector linkages

7. Resource Management	•Business plan and its implementation •FPC has shown ability to negotiate with the various stakeholders •FPC effectively oversees/manages the work of Executives working as salaried persons •Budget control •Transparency
8. Skill acquisition & use	•Office Bearers and Executives have attended training programmes (including specialised training) •Utilisation of acquired skills to identify and solve operational problems.
9. Distribution of benefits	•Equitable distribution of benefits (dividends and services) •Mechanism of benefits sharing developed and adhered to

Points to Note:

- Against each of the criteria and associated indicators the institutional performance of the FPC can be assessed in different time frame. The timing of the assessment is context specific and therefore difficult to prescribe. However, it is suggested that it can be used for some criteria in the beginning and repeat exercise can be conducted once in a year.
- It is desirable that the assessment is done in a participatory manner, especially involving the members of the BoD, so that they get the maximum benefits by this assessment in the form of discussion, on the spot analysis, etc. This analysis would help the BoD to identify their strength and limitations for course correction. Hence, the process of facilitation is crucial.
- Since the assessment is qualitative in nature therefore the facilitator for this assessment may choose to use different scales viz. 1 to 10 or attributes like very good, good, satisfactory, poor, etc. to bring in some amount of objectivity to the exercise.

5.2 Apart from the generic rating tool given several organisations have for their internal assessment, developed rating tools. The prominent among them being the one developed by NABARD.

http://www.efreshglobal.com/efresh/headers/pdfs/FPOs/4Rating%20Module%20for%20FPO1.pdf

NABKISAN Finance limited has its own tool for assessment of health and eligibility of producer organisations which may be accessed online at http://www.nabkisan.org/fpoonline.php#tab-1

5.3 Advanced Rating Methods for Producer companies

The producer companies in their evolution to maturity, to larger and advanced business process including export, would need to get themselves certified by external credit rating agencies. These agencies provide credit ratings which are accepted by most banks for their financing.

Some of the prominent credit rating agencies include :

- **CRISIL** - http://www.crisil.com/index.jsp
- **CARE** - http://www.careratings.com/
- **ONICRA** - http://www.onicra.com/
- **CREDITMONK** - http://www.creditmonk.com/
- **3Ci** - https://3ci.in/

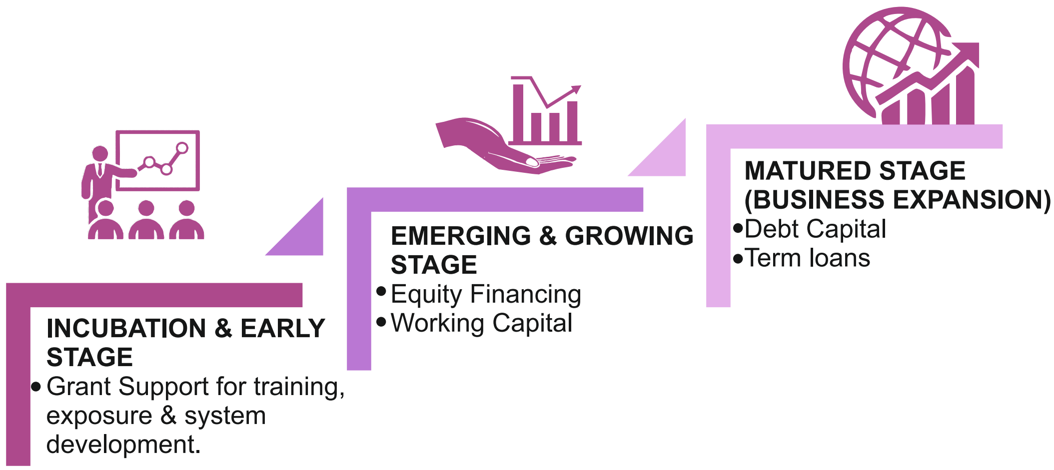
CHAPTER 6

INSTITUTIONAL SUPPORT TO THE FARMER PRODUCER COMPANIES

The Chapter describes about the stages of requirement of finance by the FPOs and various financial services available for the FPCs from the government and private domain

6.1 FINANCING THE FPCs[23]

Given the rapid growth of the FPCs, the issue of access to credit - linking the FPCs to reliable and affordable sources of financing to meet their working capital, infrastructure development and other needs - has assumed center stage. As the FPCs strive to achieve sustainability, there is an urgent need to reorient the funding eco-system to support the newly formed FPCs based on the stages in their life-cycles. The life-cycle stages are broadly categorized into three phases and in each of these phases, the needs are found to be very different as showed in the figure below.



6.1.1 Incubation and Early Stage

At this stage, the financial need of the FPOs revolves around the cost of mobilizing farmers, registration cost, cost of operations and management, training, exposure visits etc. Accordingly, the agencies engaged in promotion of FPOs require grant support to set up FPOs, take them through the various systems and processes, including most importantly governance, for self- management.

Many donors including the Government, Foundations, Bilateral and Multilateral agencies have funded projects for FPO promotion which have accelerated the growth of FPO formation in the country.

Despite the above said initiatives in terms of grant support to incubate FPOs, many promoting institutions face the challenges in strengthening the FPOs already set up. Some of the challenges faced by both the promoting institutions and the FPOs include:

- Most projects funded by donors are limited to 24 to 36 months life cycle. The experience of most Promoting Institutions supports that there is a need to provide handholding support to FPOs for a minimum period of 5 years so as to stabilize their business operations.
- Currently, start-up risks are not covered in FPO promotion programmes. Unlike the traditional livelihood projects, the FPOIs are business entities and so are vulnerable to market factors/fluctuations.
- FPOs cannot access international fund as they do not have FCRA exemption, thereby making Promoting Institutions play a critical role for fund support.

6.1.2 Emerging and Growing Stage

Once FPOs are incubated with grant support from promoting institutions, there are 3 ways to raise fund to meet their working capital and investment need. **They include - Equity Financing, Credit Capital and Debt Financing**

Equity Financing – Given the limited investment capacity of the small and marginal farmers, limited contributions are made by individual farmers to raise the FPOs' equity which often cannot sustain the operations of the FPOs. In order to augment the equity base of the FPOs, the SFAC provides equity matching grant equivalent in amount to the equity contribution of the shareholders, (subject to a maximum of 10 Lakhs) is given under this scheme.

Working Capital – Working capital for FPOs is currently available through the window of public sector banks and NBFCs. Some commercial banks who offer working capital assistance to FPOs are ICICI Bank, Union Bank of India, Canara Bank, Vijaya Bank, Ratnakar Bank etc. The other examples (of NBFCs) to provide working capital are FWWB, NABFINS, Ananya Finance, NABKISAN etc. Maanaveeya Holding (Oikocredit),

[23] Adapted from POLICY PAPER Financing for Farmer Producer Organizations (FPOs) by ACCESS Development Services* www.accessdev.org

6.1.3 Matured Stage (Business Expansion)

As the FPOs move towards expanding their businesses, they need finance for quality improvement in products/ services. Here, finance is required for quality improvement along the value chain of the produce. For example, the FPOs dealing with pulses would require loan for small dal mill, cotton ginning units for the FPOs in cotton growing areas, decorticators in ground nut and so on.

Capital loans are required to build infrastructure that the FPOs want to develop, or to set up processing units, processing/grading/ sorting yards, storage godowns, cold storage, transport facilities, etc.

At present, the availability of capital loans from Banks is low as the development of financial products to the FPO sector by Banks is slow. On the contrary, the NBFCs have taken the lead in fulfilling the finance needs of the FPOs. See table for details.

The window and availability of capital investment loan for the FPOs is limited at the moment. Although RBI has included financing upto two crores to FPOs under the Priority Sector Lending, and loans upto five crores to FPOs under Indirect Agriculture, there has been no movement by the public/private sector banks to develop specific loan products for FPOs.

6.2 Government Programmes supporting FPO promotion

6.2.1 SFAC (Small Farmers Agribusiness Consortium)

SFAC was mandated by Department of Agriculture and Cooperation, Ministry of Agriculture, Govt. of India, to lead a national pilot project to promote FPOs as a demonstration of the benefits of building institutions of producers and their integration in agriculture value chains. SFAC has implemented this project since 2011, in close collaboration with State Governments, civil society and technical organisations as well as private sector companies. Working across 25 states, the project has helped to mobilize approximately 2.85 lakh farmers in over 250 FPOs, the majority of which have been incorporated as producer companies under Chapter IXA of the Companies Act, 1956.

Recognizing the centrality of FPOs to meet national agricultural goals, Department of Agriculture and Cooperation, Government of India, has issued detailed Policy and Process Guidelines for Farmer Producer Organizations, a comprehensive compendium of instructions, methodology and standard costing to encourage State Governments to promote FPOs.

The SFAC has been playing the role of national level nodal agency for the FPOs. It has in recent years extended marketing support to the FPOs for procurement of pulses from the FPOs, provided market information to the FPOs and has also supported formation of state level producer company, a federation of primary producer companies in few states. SFAC continues to support promotion of FPOs by mobilising resources from the central and state governments. There other schemes run by SFAC for FPOs which are discussed later in detail.

6.2.2. National Bank For Agriculture And Rural Development (NABARD)

NABARD has set up a fund called "Producers Organization Development and Upliftment Corpus (PRODUCE) Fund" of 200 crore in to be utilized for the building and promotion of 2000 Farmer Producer Organisations (FPOs) in 2014-15.

Broad objectives of "PRODUCE Fund"is to build, promote and nurture FPOs by way of extending the required financial and Non-financial support during the nascent/ formative stage. It is critical to support FPOs in terms of awareness creation, capacity building, technical support, professional management, market access, regulatory requirements, etc. and provide handholding support for a minimum period of three years and the same is met as grant under the Fund.

Under the scheme the Producer Organisation Promoting Institution (POPI), Resource Support Agencies and the FPOs are supported. Visit https://www.nabard.org for information and/or contact the NABARD officials in the district (District Development Manager) or Regional Office in the State capital for more information.

6.3 Schemes for Supporting Farmer Producer Companies/Organisations –Financial and non-Financial products

6.3.1 Small Farmers' Agribusiness Consortium - Equity Grant Fund

Scheme	Equity Grant Fund
Sponsoring Agency	Small Farmers' Agribusiness Consortium (SFAC)
Legal entity	Ministry of Agriculture and Cooperation, Government of India
Scheme description	• The EGF enables eligible FPCs to receive a grant equivalent in amount to the equity contribution of their shareholder members in the FPC, thus enhancing the overall capital base of the FPC. • The Scheme shall address nascent and emerging FPCs, which have paid-up capital not exceeding Rs. 30 lakh as on the date of application. • EGF is a cash infusion equivalent to the amount of shareholder equity in the FPC subject to a cap of Rs.10 lakh per FPC. • Once approved EGF is directly transferred to the bank account of the FPC.
Contact	For more information visit :http://www.sfacindia.com/PDFs/Equity-Grant-Scheme-and-Credit-Guarantee-Fund.pdf

6.3.2 Small Farmers' Agribusiness Consortium-Credit Guarantee Fund (CGF)

Scheme	Credit Guarantee Fund (CGF)
Sponsoring Agency	Small Farmers' Agribusiness Consortium (SFAC)
Legal entity	Ministry of Agriculture and Cooperation, Government of India
Scheme description	• The Fund has been set up with the primary objective of providing a Credit Guarantee Cover to ELI (Eligible Lending Institutions like Banks and NBFCs promoted by Government organisations viz. NABKISAN, NABFIN) to enable them to provide collateral free credit to FPCs by minimising their lending risks in respect of loans not exceeding Rs. 100 lakhs. • ELI shall be eligible to seek Guarantee cover for a credit facility sanctioned in respect of a single FPC borrower for a maximum two times over a period of 5 years. • Maximum Guarantee cover shall be restricted to the extent of 85% of the eligible sanctioned credit facility, or to Rs. 85 Lakh, whichever is lower.
Contact	For more information visit : http://www.sfacindia.com/PDFs/Equity-Grant-Scheme-and-Credit-Guarantee-Fund.pdf

6.3.3 Small Farmers' Agribusiness Consortium - Venture Capital Assistance (VCA)

Scheme	Venture Capital Assistance (VCA)
Sponsoring Agency	Small Farmers' Agribusiness Consortium (SFAC)
Legal entity	Ministry of Agriculture and Cooperation, Government of India

Scheme description	• SFAC would provide Venture Capital to qualifying projects on the recommendations of the Notified Financial Institution financing the project. This venture capital will be repayable back to SFAC after the repayment of term loan of lending Notified Financial Institution as per original repayment schedule or earlier.
	• SFAC would provide venture capital to agribusiness projects by way of soft loan to supplement the financial gap worked out by the sanctioning authority of term loan under Means of Finance with respect to cost of project subject to the fulfilment of the following conditions:
	• Qualifying projects under Venture Capital:
	  • Project should be in agriculture or allied sector or related to agricultural services. Poultry and dairy projects will also be covered under the Scheme.
	  • Project should provide assured market to farmers/producer groups.
	  • Project should encourage farmers to diversify into high value crops, to increase farm incomes.
	  • Project should be accepted by Notified Financial Institution for grant of term loan.
	• The quantum of SFAC Venture Capital Assistance will depend on the project cost and will be 40% of the promoter's equity or Rs. 50 lakhs, whichever is lower

Contact	For more information and eligibility criteria visit : http://www.sfacindia.com/PDFs/SFAC_%20VCA_Guidelines-Hindi-English31-03-2014.pdf

6.3.4 National Bank for Agriculture And Rural Development (NABARD) –PODF

Scheme	Producer Organisation Development Fund (PODF)
Sponsoring Agency	National Bank for Agriculture And Rural Development (NABARD)
Legal entity	Government

Scheme description	• Support is in the form of grant, loans, or a combination of these is available for capacity building and market interventions. Producers Organization would be eligible for the following types of loans:
	  • Direct lending to Producers Organization for term loans or
	  • Composite loans comprising of both working capital and term loan requirements, or
	  • Working Capital as composite loan
	  • Subordinated Debt as Tier II capital based on the requirements of the PO and provided the Memorandum and Articles of Association/byelaws permit them to accept such a debt.
	• Institutions eligible for assistance from PODF :
	  • Loan Component: Loan is given to registered Producers Organizations under any statute of law.
	  • Grant Component: It is a part of the overall project. However, fund can be given to either the registered PO or the implementing agency or both depending on the situation.
	• Generally projects having duration of around 7 years is considered under the Fund. Projects can have a moratorium up to 1-2 years.
	• NABARD's assistance is limited to a maximum of 90% of the total project outlay subject to certain terms and conditions

Contact	For more information visit : https://www.nabard.org/english/Financing.aspx

6.3.5 State and Central Specific schemes for supporting Farmer Producer Companies.

Some State Governments have devised their own schemes targeting the FPOs. However, it is difficult to collate such information. The Government of Madhya Pradesh was one of the first states to announce schemes for the FPCs in 2007-08 which includes one time working capital grant, allotment of land and funding for construction of infrastructures such as warehouse, soil testing mobile van, shed for Haat-bazar, allocation of Breeder seeds for multiplication, etc. Recent the Government of Till Sept, 2016, apart from Karnataka, no other state has devised specific schemes for the support and business expansion of producer companies. The scheme is implemented by Horticulture Department of Karnataka for empowering farmers to take care of their needs with backward and forward linkages. About 58 Horticulture FPOs had been promoted across state of Karnataka till March 2015. For more details.

visit http://horticulture.kar.nic.in/Design_final/PPP-IHD.html#Farmer_Producer_organisations(FPO):

The Government of Madhya Pradesh, West-Bengal have sanctioned funding to the SFAC for the promotion of FPOs in the recent past. There are several other state governments who are planning to launch schemes targeting the FPOs. The Government of M.P has also sanctioned grant recently for infrastructure development at the FPOs level.

The most notable existing scheme is the Pulses Price Stabilization Scheme under which the Ministry of Agriculture and cooperation, Government of India procure pulses from FPOs across the country. The SFAC is the nodal agency to implement the scheme.

6.3.6.Maharastra Agricultural Competitiveness Project (MACP)

Maharashtra Government has launched Maharashtra Agricultural Competitiveness Project (MACP) in May 2011 with an outlay of Rs. 708.20 Cr of which World Bank contribution was Rs. 464.30 Cr (65.36%), Maharashtra state contribution is Rs. 52.05 Crore (7.19%) and beneficiary contribution of Rs. 191.85 Cr (27.45%). Under three phases of the project, 410 PCs are targeted of which 346 are registered and 230 PC Business Plans are approved. More details can be accessed at http://macp.gov.in/

The Project Development Objective of the World Bank promoted MACP is to increase the Productivity, Profitability and Market Access of the farming community in Maharashtra. This would be achieved by providing farmers with technical knowledge, market intelligence and market networks to support diversification and intensification of agriculture production aimed at responding to market demand. Farmers will also be assisted in establishing farmer organizations, developing alternative market channels outside of the regulated markets and in supporting the modernization of promising traditional wholesale markets. The project has three main components:

- Intensification and Diversification of Market led Production
- Improving Farmers Access to Markets
- Project Management Learning & Adjusting.

6.3.7 Initiatives of Karnataka State Government.

The Dept of Horticulture, Govt of Karnataka has initiated the following measures to support the FPOs in fruits and vegetable sector.

a. Govt. of Karnataka is providing financial support for the infrastructural facilities of FPOs upto 90%.
b. Selected Resource Institutions (RI) to assist and organise the working of FPOs and to provide them management support for 3 years.
c. RI. Engage the Local resource Persons (LRP) to held the farmers with necessary inputs and keep tracking the progress of the activities in field.
d. RIs in turn are provided with technical inputs by the state universities and HR resource persons.
e. The management support will be provided to FPOs for 3 years by the state government.
f. FPOs are granted licenses in seeds, fertilizers and pesticides for storage and sales.
g. The FPOs are provided with APMC Commission Agent licence and trader licence with priority go-down space in APMCs.

CHAPTER 7

CREDIT SUPPORT TO THE FARMER PRODUCER COMPANIES

7.1 NABKISAN Finance Limited (NKFL)

NKFL was incorporated under the Companies Act, 1956 in year 1997, and is a subsidiary of NABARD with equity participation from NABARD, Govt. of Tamilnadu, Several Banks and a few Corporates. The company is notified as a Non-Banking Finance Company (NBFC) by the Reserve Bank of India. The main objective of the company is to provide credit for promotion, expansion and commercialization of enterprises engaged in agriculture, allied and rural non-farm activities. NKFL provides credit for livelihood/ income generating activities to Panchayat Level Federations, Trusts, Societies and Section 25 companies, MFIs for on-lending to its member SHGs/ JLGs and FPOs. Among the government sponsored NBFC, NKFL is one of the most active institutions extending credit to the FPOs. **Profile of FPCs Financed by NKFL is in Annexure No. 3** The various schemes available with NABKISAN is being given below

7.1.1. Loan Products with availability of Collateral/ Guarantee Cover:

Table-13: The broad features of the products that are available with some form of collateral/guarantee cover are as under:

Parameter	Loan for FPO eligible for SAFC Guarantee Scheme	Loan for FPOs/PO not covered under SAFC Guarantee Scheme	Bulk lending to Promoting Institutions for on Lending to POs
Purpose	Working capital, term loan for creation of infrastructure for storage, processing, marketing etc. Bulk loan for on-lending, loan against warehouse receipts.	Working capital, term loan for creation of infrastructure for storage, processing, marketing etc. Bulk loan for on-lending, loan against warehouse receipts.	For on lending to FPOs/POs for working capital, pledge loans and term loans.
Eligible Institutions	FPOs existing for 1-2 years with at least one audited balance sheet for a financial year.	FPOs/POs under any legal form and existing for 2-3 years with at least two audited balance sheets.	Promoting, Institutions, Resource Institutions with good track record and experience.
Minimum share capital	Rs.3 lakhs (minimum) for working capital loans and Rs.5 (minimum) lakhs for term loans.	Rs.3 lakhs (minimum) for working capital loans and Rs.5 (minimum) lakhs for term loans.	NA
Margin	Minimum 15% for WC and TC	Minimum 15% for WC and TC	15% of the Project Cost
Security	Hypothecation of assets created out of loan	Hypothecation of assets created out of loan and also collateral to an extent of 50-100% of loan amount.	Hypothecation of assets created out of loan and also collateral to an extent of 50-100% of loan amount.
Rate of interest	Based on NABARD's refinance rate.	Based on NABARD's refinance rate.	Based on NABARD's refinance rate.
Repayment period	12 months for WC and 3-5 years for term loans.	12 months for WC and 3-5 years for term loans.	12 months for WC and 3-5 years for term loans.
Loan Amount	Up to 6 times of the net worth of the FPO or Rs.1 crore whichever is lower.	Up to 6 times of the net worth of the FPO or Rs.1 crore whichever is lower.	Depending on the project cost and merit of the proposal.
Processing Fee	1% of loan amount	1% of loan amount	1% of loan amount
Insurance	Assets acquired out of the loan will be insured.	Assets acquired out of the loan will be insured.	Assets acquired out of the loan will be insured.

7.1.2 Loan Products without Collateral

a. **Emerging FPOs/POs with promising prospects:** Besides the POs which are established and have required infrastructure and other forms of support to be able to provide adequate collateral, there are organisations which are emerging and in nascent stage but with promising prospects but may not be in a position to provide any collateral. To encourage such organisations and to demonstrate to various stakeholders about their viability with required support, lending to such organisations is considered essential. Proposals of such organizations depending purely on the merits and prospects of the proposal will also be supported up to loan amount of Rs.50 lakh. Such organizations may comply with following minimum norms:

- PO/FPOs generating surplus through operations.
- PO/FPOs having professional management team.
- Active involvement of members
- PO/FPOs promoted by promoting institutes of high repute
- PO/FPOs with sound business plan based on market linkages.

b. **Start-up FPOs/POs:** Normally it is expected that the FPOs/POs have to mobilise a minimum capital of Rs.3-5 lakhs to enable them to take up a business activity with an investment of Rs.15-20 lakhs so that they can meet the requirements of their members. The newly formed FPOs plan initial activities on a low scale covering the requirements of a few active members. This activity by the FPO would enable them in subsequent seasons to seek involvement of more members as also enhance the confidence of the existing/new members in the institution. Demonstration of active business activities by the FPOs even on a low scale, would facilitate the FPOs to enlarge membership and also increase equity participation by existing members. Taking these aspects into account, initial loan based on the capital of the FPO/PO will be provided on select basis without any collateral as per the following norms:

- PO/FPOs promoted by promoting institutes of high repute
- To have a minimum net worth ofRs. one lakh
- A debt equity ratio of 1:4

For more details visit
:http://www.nabkisan.org/products.php

Tata Trusts and NABKISAN have entered into an agreement for workin together for furthering common objectives in the field of promoting Rural Livelihoods and by way of financing a greater number of FPOs. Tata Trusts has created a risk fund known titled as Tata Nabkisan First Loss Guarantee Fund, which would provide credit risk coverage to NABKISAN for the loans extended by it. Under this fund, the Trusts would provide Guarantee coverage for any loss to NABKISAN up to 15% of the entire loan portfolio lent to Producers Organisations/ Collectives etc.

NABKISAN also has an arrangement with RABO Foundation to extend guarantee cover all types of Producer Collectives who are in nascent stage and have credit requirements of small size. Two FPOs in the state of Madhya Pradesh have already been covered under the scheme.

7.2 NABARD Financial Services Limited (NABFINS)

NABFINS is a subsidiary of National Bank for Agriculture and Rural Development (NABARD) with equity participation from NABARD, Government of Karnataka and several Banks. It is a Non-Banking Finance Company (NBFC) registered with the Reserve Bank of India and operates throughout India. The main objectives are to provide financial services in two broad areas of agriculture and microfinance. NABFINS provides credit and other facilities for promotion, expansion, commercialization and modernization of agriculture and allied activities in both rural and urban areas.

NABFINS extends loans to SHGs, JLGs, micro and small enterprises; SHG Federations, Producers' Companies; Cooperative Societies, Trusts, Societies or other Organizations that support production / aggregation /marketing in sectors like agriculture, sericulture, etc. with focus on poor / disadvantaged sections of the population, remote geographies etc.

Loans are extended either directly through Branches/Financial Service Officers or through agents, known as Business Correspondents and Business Facilitators engaged on commission basis for services rendered.

For more information visit : http://nabfins.org/

7.3 FWWB (Friends of Women's World Banking)

FWWB was promoted in 1981, as an affiliate of Women's World Banking, a global network created to focus on the need for women's direct access to financial services and recognizing women's role in building a nation's economy.

FWWB combined its loans with technical assistance to ensure sustainable growth and from 1989 to 2010 it has reached out to more than 300 Micro Finance Institutions (MFIs) with technical assistance and nearly 200 with loan support. For last five years, FWWB has been successfully nurturing and strengthening Farmer Producer Organizations which are of young age through loan support and capacity building. Along with credit support, business planning and performance analysis training are provided to select FPOs to help them have their yearly business plans and strategies in place. FWWB is one of the most caring organisations for credit and other business support to the FPOs especially in their young age.

For more information visit:
:http://www.fwwbindia.org/index.html

7.4 Ananya Finance

Ananya Finance for Inclusive Growth Pvt. Ltd (Ananya) is a registered NBFC. It is among the most responsible NBFCs in India with the urge and ability to serve socially motivated double bottom line enterprises.

Ananya was promoted by Friends of Women's World Banking, India (FWWB) and was set up in 2009. The NBFC has come a long way, withstanding the Andhra Pradesh Microfinance crisis of 2010 and has a robust lending portfolio today diversified across Microfinance Wholesale, Microfinance Retail and Agribusiness segments.

Today, Ananya extends credit support to Agribusinesses including Farmer Producer Organizations (FPOs), Dairy Cooperatives and Agri-enterprises. Ananya offers the following credit products depending upon the requirement of the borrower:

- Working capital demand loans with flexi draw-down and repayment options. The tenor of the loans ranges from 1 month to 12 months.
- Cattle-loans for farmer members.
- Medium Term loans for financing Equipment purchases.
- Long Term loans for meeting Capital expenditure needs.
- Warehouse receipt financing, through partnership with IDBI Bank.
- Cash Credit facilities, through partnership with IDBI Bank.
- Kisan Credit Cards to farmer members, through partnership with IDBI Bank.

For more details visit : http:/ananyafinance.com/

7.5 Maanaveeya Development and Finance Private Limited (Maanaveeya)

It is an Indian subsidiary of Oikocredit, a 40 year old Global Development Financing Institution that responds to the needs of businesses that create jobs and income for disadvantaged people. Maanaveeya operates throughout India. Maanaveeya provides loans that stimulate sustainable development that benefit the poor and disadvantaged people by creation of employment.

For more information visit : http://www.maanaveeya.org/

7.6 Public and private sector bank

As of now, Public and Private Sector Banks have not developed exclusive financial products for FPCs except few although the Credit Guarantee Fund from the SFAC has been available for sometime. However there are cases of banks financing FPCs sporadically under the conventional loan products including credit against pledging of stocks. One interesting experience is that of Bank of Maharashtra who has financed Panchakroshi Pashusamvardhan Produce Company Limited in Satara District for stall-fed goat rearing by small farmers. In this project, bank finance of Rs. 50,000 per farmer is directly extended to100 farmers who are the members of the producer company. The producer company has been promoted by two reputed NGOs with long years of field experience in the sector, Maharashtra Goat and Sheep Research Development Institute (MGSRD) and the Animal Husbandry Division of Nimbalkar Agricultural Research Institute (NARI). The main role of the producer company is envisaged to be provision of backward and forward linkages such as technical assistance and market access to the producer members to profitably rear goats. The company plans in the long term are to have a slaughter facility when the total number of goats available to the company reaches around 20,000. The experience of the bank with this project is being studied by other banks who are venturing into financing producer companies

CHAPTER 8

POST INCORPORATION COMPLIANCE FOR FARMER PRODUCER COMPANIES

(The Chapter deals with various post incorporation requirement for compliance to various statutory authorities to avoid future complication in running business smoothly)

In general, **compliance** means conforming to a rule, such as a specification, policy, standard or law. **Regulatory compliance** describes the goal that organisations aspire to achieve in their efforts to ensure that they are aware of and take steps to comply with relevant laws and regulations. In most cases, a law comes to light only after its contravention, resulting in severe penalties. Compliances is a must in keeping you away from the long arm of the law!

CLASSIFICATION OF COMPLIANCES

a. One Time Compliance
b. Annual compliance
c. Event Based Compliance

All the above mentioned compliances are hereinafter discussed in detail.

8.1 POST INCORPORATION COMPLIANCES

Post incorporation compliances means the compliances required to be done immediately after incorporation of a company and one time compliance. These are :

8.1.1 FIRST MEETING OF THE BOARD OF DIRECTORS OF THE COMPANY

- **Applicable Act:** Companies Act, 2013 and its Rules.
- **Nature of compliance:** Conducting First Board meeting for transaction of various business
- **Time limit allowed for compliance:** In order to comply with the provisions of Section 139(6) of the Companies Act, 2013, the Board of Directors of the company has to hold Board meeting within one month from the date of incorporation of the company.
- **Agenda of Meeting:** There are several important business to be completed in the first meeting of the Board of Directors of the company after the incorporation. Below is the Illustrative list of items of business for the first meeting however strongly recommended that the agenda should be prepared with the help of a Company Secretary in pursuant to the requirement of the law.

✓ **To appoint chairman of the meeting:** All the Directors will appoint any Director as Chairman to chair the meeting of the Board of Directors of the company.

✓ **To note the Certification of Incorporation of the company:** Board of Directors is required to take note of the certificate of incorporation of the newly incorporated company issued by the Registrar of Companies.

✓ **To take note of the Memorandum and Articles of Association of the company, as registered:** Board of Directors of the company is required to take note of the Memorandum of Association & Articles of Association of the company duly registered with the office of the Registrar of Companies and authorize printing thereof.

✓ **To note the situation of the registered office of the company:** Board of Directors is required to take note of the situation of the registered office of the company and ratify the registered document of the title of the premises of the registered office in the name of the company or a notarized copy of lease/rent agreement in the name of the company.

✓ **To note the first Directors of the company**

✓ **To read and record the notices of disclosure of interest given by Directors**

✓ **To consider the appointment of additional Directors**

✓ **To consider appointment of first auditors of the company:** Pursuant to Section 139(6) of the Companies Act, 2013, the first auditor of the company other than a Government company shall be appointed by the Board of Directors within 30 days from the date of registration of the company and in case of failure of the Board to appoint such auditor, it shall inform the members of the company who shall within 90 days at an extra-ordinary general meeting appoint such auditor and such auditor shall hold office till the conclusion of the first annual general meeting. Who can be appointed? According to Companies Act, 2013, only a Chartered Accountant in practice can be appointed as first auditor of the company.

- ✓ **To appoint bankers and to open bank accounts of the company.**
- ✓ To authorize issue of share certificates to the subscribers to the memorandum of association and articles of association of the company
- ✓ **Printing of Share Certificate:** Date of allotment to subscribers will be the date of incorporation of the company and the same date will also be used for printing on share certificate to be issued to subscribers. Stamp Duty is to be paid on Issue of Share Certificates. Stamp Duty varies from State to State.
- ✓ **Issue of Share Certificates:** Share Certificates are to be issued to the Subscribers only after payment of Stamp Duty.
- ✓ **To approve and ratify preliminary expenses and preliminary arrangements:** All the expenses incurred for and on behalf and in connection with the incorporation of the company required to be approved and ratified
- ✓ **To approve the appointment of other senior officials of the company:** Pursuant to Section 581 (R) (e), Board of Directors of Producer Company shall exercise the power for appointment of a Chief Executive and such other officers of the Producer Company, as may be specified in the articles.
- ✓ **Any other matter as may be necessary for the management and administration of the company**

8.1.2 OBTAIN CERTIFICATE OF REGISTRATION UNDER VARIOUS ACTS TO BEGIN BUSINESS

- ✓ **Apply for a Permanent Account Number (PAN):**

  Following form have been notified by the Income Tax department for submitting applications for allotment of new PAN https://www.tin-nsdl.com/download/pan/form49a.pdf. The application can be made either online or through any recognized PAN Facilitation centre.
- ✓ **Apply for Tax Deduction and Collection Account Number TAN**

  TAN is applied through "Form No. 49B" (prescribed under Indian Income Tax Law). A completed form can be submitted online at the NSDL website or at the "Tax Information Network Facilitation Center" (TIN-FC). Application form: https://www.tin-nsdl.com/download/tan/form49b.pdf
- ✓ **Apply for Registration for Shop License**

  Shop license is required to be obtained from state/ municipal bodies. For more details refer to the applicable law of the particular state.
- ✓ **Apply for Registration under VAT/CST**

  Any entity engaged in trading of goods is required to register itself under the State VAT Tax Act. Applicability of such registration is subject to the nature of business in which the company is engaged.
- ✓ **Apply for Service Tax Registration**

  Applicability of service tax registration depends on nature of service provided, value of service provided and other aspects. Portal for service tax registration: https://www.aces.gov.in/

8.1.3 ARRANGEMENT FOR CORPORATE STATIONARY

- ✓ **Publication of name of Company**

  Section 12(3) states that every company shall paint or affix its name, and the address of its registered office, and keep the same painted or affixed, on the outside of every office or place in which its business is carried on, in a conspicuous position, in legible letters, and if the characters employed there for are not those of the language or of one of the languages in general use in that locality, also in the characters of that language or of one of those languages.

- ✓ **Common seal**

  Every company shall have its name engraved in legible characters on its seal. However, vide Companies Amendment Act, 2015; use of common seal is now optional.

- **Compliance regarding mode of communications**
  Every company shall get its name, address of its registered office and the Corporate Identity Number along with telephone number, fax number, if any, e-mail and website addresses, if any, printed in all its business letters, billheads, letter papers and in all its notices and other official publications; and have its name printed on hundies, promissory notes, bills of exchange and such other documents as may be prescribed.
- **Maintain Statutory Registers**
  The Companies Act, 2013 (the Act) and the rules made there under ("the Rules") lays down that every Company incorporated under the Act has to maintain Statutory Registers ("the Registers").
  List of Registers to be maintained by the Company is given in Serial no. 8.4.
- **Minutes book**
  Every company shall maintain Minutes of meeting of Board of Directors, General Meetings, and Committee Meetings in Minute Book. Minutes are required to be maintained, signed as per Companies Act, 2013.

8.2 MANDATORY COMPLIANCE/ ANNUAL COMPLIANCE:

- **Appointment of Auditor**
  Pursuant to Section 139 of the Companies Act, 2013, every company shall, at the first annual general meeting, appoint an individual or a firm as an auditor as per advise by the Company Secretary.
- **Statutory Audit of Accounts**
  Every Company shall prepare its Accounts and get the same audited by a Chartered Accountant at the end of the Financial Year compulsorily. The Auditor shall provide an Audit Report and the Audited Financial Statements for the purpose of filing it with the Registrar. The same will be filed with the Income Tax authority by the Chartered Accountant.
- **Filing of Annual Return (e-form MGT-7)**
  Pursuant to Section 581ZA (9) of the Companies Act the proceedings of every annual general meeting along with the Directors' Report, the audited balance sheet and the profit and loss account shall be filed with the Registrar within sixty days of the date on which the annual general meeting is held, with an annual return along with the filing fees as applicable under the Act.E-form MGT-7 can be downloaded from the below link: http://www.mca.gov.in/MinistryV2/Download_eForm_choose.html. Annual Return will be for the period of 1st April to 31st March.
- **Filing of Financial statements (e-form AOC-4)**
  Every Company is required to file its Financial statements, Auditor report along with Director's report by uploading on MCA portal e-form AOC-4 within 30 days of holding of Annual General Meeting. E- form AOC- 4 can be downloaded from the below link:
  http://www.mca.gov.in/MinistryV2/Download_eForm_choose.html
- **Holding Annual General Meeting**
  Companies are required to hold their AGM within a period of six months, from the date of closing of the Financial Year and not more than fifteen months shall elapse between the date of one annual general meeting of a Producer Company and that of the next. The primary agenda of an AGM includes approval of financial statements, declaration of dividends, appointment or re-appointment of auditors, appointment and remuneration of Directors etc.
- **Preparation of Directors' Report**
  Directors' Report will be prepared with a mention of all the information required under Section 134.
- **Board meetings**
  Frequency of Meetings: There should be at least four Board Meetings in a year having one Board Meeting in every quarter of the year. As per Secretarial Standard on Meetings of the Board of Directors (SS-1) maximum interval between two Meetings should not exceed 120 days.
  Minimum Attendance: The quorum of a Board Meeting shall be one third of its total strength of the Board or two directors, whichever is higher.
- **Filing Income Tax returns**
  Filing of Income Tax Returns (Tax will be payable at a flat rate of 30% plus Education Cess).It is to be noted that though the IT Act does not per-se give any special benefits or exemptions to Producer Companies as such, but depending upon the kind of agricultural activity it carries on, certain tax benefits can be availed. For this consult your Chartered Accountant
- **Internal audit**
  Every Producer Company shall have internal audit of its accounts carried out, at such interval and in such manner as may be specified in articles, by a Chartered Accountant.

8.3 EVENT BASED COMPLIANCE

Besides Annual Filings, there are various other compliances which need to be done as and when any event takes place in the Company. Instances of such events are:

- Change in Authorised or Paid-up Capital of the Company
- Allotment of new shares or transfer of shares
- Giving Loans to other Companies
- Giving Loans to Directors
- Appointment of Managing or whole time Director and payment of remuneration
- Loans to Directors
- Opening or closing of bank accounts or change in signatories of Bank account
- Appointment or change of the Statutory Auditors of the Company

Every agreement, resolution passed at any meeting or between any stakeholders of the company should be filed to Registrar of Companies (ROC) through form MGT 14. This has to be filed with the ROC otherwise every resolution which is not filed will render it invalid.

Different forms are required to be filed with the Registrar for all such events within specified time periods. In case, the same is not done, additional fees or penalty might be levied. Hence, it is necessary that such compliances are met on time.

8.4- List of Registers required to be maintained by the FPC

Table-14

Sr.no.	Relevant Section & Rules	Register
01	Section 88 (1) and Rule 3 (1) of the Companies (Management and Administration) Rules, 2014	MGT-1: Register of Members
02	Section 88 (1) and Rule 4 of the Companies (Management and Administration) Rules, 2014	MGT-2: Register of Debenture holders
03	Section 88 (2) and Rule 6 of the Companies (Management and Administration) Rules, 2014	Index of Members
04	Section 88 (2)	Index of Debenture Holders
05	Section 88(3)	Register and Index of Beneficial Owner
06	Section 88(4) and Rule 7 of the Companies (Management and Administration) Rules, 2014	MGT-3: Foreign Register of Members, Debenture holders, other security holders or beneficial owners residing outside India
07	Rule 6 of the Companies (Share Capital and Debentures) Rules, 2014	Form SH-2: Register of Renewed and Duplicate Share Certificate
08	Section 54 and Rule 8 (14) of the Companies (Share Capital and Debentures) Rules, 2014	Form SH-3: Register of Sweat Equity Shares
09	Section 62 and Rule 12 (10)	Form SH-6: Register of Employee Stock Options
10	Section 68 and Rule 17 (12) of the Companies (Share Capital and Debentures) Rules, 2014	Form SH-10: Register of Shares or Securities Bought Back
11	Section 170(1) and Rule 17 of the Companies (Appointment and Qualification of Directors) Rules, 2014	Register of Directors and KMPs

12	Section 73 and Rule 14 of the Companies (Acceptance of Deposits) Rules, 2014	Register of Deposits
13	Section 85 and Rule 7 of the Companies (Registration of Charges) Rules, 2014	Form CH-7: Register of Charges
14	Section 186 and Rule 12 of the Companies (Meeting of Board and its Powers) Rules, 2014	Form MBP-2: Register of Loans/Guarantee/Security and Acquisition by Company
15	Section 187 and Rule 14 of the Companies (Meeting of Board and its Powers) Rules, 2014	Form MBP-3: Register of Investments not held in its own name
16	Section 189 and Rule 16 of the Companies (Meeting of Board and its Powers) Rules, 2014	Form MBP-4: Register of Contracts or Arrangements in which Directors are interested

8.5- Calendar Of Returns returned to be filed by the Farmer Producer Companies

8.5.1 Annual Returns

Months	Events	Remark	Last Date
April – June	Hold Board meeting for the quarter. Noting of Disclosure by Directors Section 184. Authorization u/s 179, if any	Procure disclosure from all Directors file Relevant form with ROC. Keep records of dispatch of notice and minute book duly signed by chairman.	Within 30 days from date of Board meeting
July – September	Hold Board meeting for quarter Approval of Directors report & financial statement.	File relevant form for approval of Directors report and Balance sheet. Keep records of dispatch of notice and minute book duly signed by Chairman	Within 30 days from date of Board meeting.
	Hold Annual general meeting on or before 30th September	File Annual forms	Within 30 days from date of Annual general meeting
October – December	Hold Board meeting for quarter	Keep records of dispatch of notice and minute book duly signed by Chairman	
January - March	Hold Board meeting for quarter	Keep records of dispatch of notice and minute book duly signed by chairman	

8.5.2 Specific Event Based Returns

<table>
<tr><th>Months</th><th>Events</th><th>Remark</th><th>Last Date</th></tr>
<tr><td>01</td><td>Resolution passed by Board of Directors for following matters.
• Any resolution of the Board of Directors or agreement relating to the appointment, re-appointment or renewal of the appointment, of a Managing Director;
• Resolutions passed by a company U/s 180
-Sell/ lease undertaking of the company
-Borrowing more than paid up capital and free reserve.
• To borrow monies;
• To invest the funds of the company;
• To grant loans or give guarantee or provide security in respect of loans;
• To diversify the business of the company;
• To take over a company or acquire a controlling or substantial stake in another company;
• To appoint internal auditors and secretarial auditor;
• To buy, sell investments held by the company (other than trade investments), constituting five percent or more of the paid-up share capital and free reserves of the investee company</td><td>File relevant form with ROC</td><td>Within 30 days from date of Board meeting.</td></tr>
<tr><td>02</td><td>Allotment of shares
• The share application money shall be through banking channel only.
• Required to Prepare Offer Letter.
• Either offer shares to existing shareholder on proportionate basis or pass special resolution (filing with ROC)
• Collect share application.
• Allotment shall be done in 60 days.
• File return of allotment
• Issue Share Certificates- pay stamp duty.
• The price of the security is required to calculated by Registered Valuer (can be a company secretary, chartered accountant or a cost accountant).</td><td>File relevant form with ROC</td><td>Within 30 days from date of Board meeting.</td></tr>
</table>

Months	Events	Remark	Last Date
03	**Transfer of shares** • Get calculation of NAV of shares. • Execute SH-4 and pay stamp duty. • Submit the SH-4 with share certificate with company and get share transfer	Filing is not required	Note in next Annual return
04	**Nomination of shares** Nomination for shares can be given by any shareholder in the form SH-13.	Filing is not required	Note in register of members
05	**REGISTRATION OF CHARGE CREATION OF CHARGE** Every company creating charge on its property require to register the particulars of the charge signed together with the instruments with ROC within thirty days of its creation: Provided registration to be made within a period of three hundred days of such creation on payment of such additional fees as may be prescribed. **MODIFICATION OF CHARGE.** On modification of charge: the same shall be filed within 30 days from date of agreement with ROC. **SATISFACTION OF CHARGE** Within 30 days of satisfaction, the satisfaction of charge requires to file with ROC.	Relevant form with ROC	Within 30 days from date of loan agreement.
06	**Consolidation of financial statement.** Where a company has one or more subsidiaries/ associates company , it shall prepare a consolidated financial statement of the company and of all the subsidiaries/ associates company in the same form and manner as that of its own which shall also be laid before the annual general meeting of the company along with the laying of its financial statement under sub-section	AOC-1	
07	**Appointment / Ceasement of Directors** **Appointment** • Procure Din No. (Dir-3) • Check the Provision in AOA.		

Months	Events	Remark	Last Date
07	• Procure Dir 2 (consent to act as Director from person) • Pass the resolution in Board meeting/general meeting . • Procure Dir 8 from Director (Intimation of other Directorship and declaration of Non Disqualification) • Company shall File DIR-12 (attachment **Ceasement** • Get the proof of Ceasement: Death certificate, Resignation etc. • Hold a Board meeting: note such ceasement and authorized Director to Sign form • Company shall File DIR-12 (attachment) • Ceased Director shall file DIR-11 with reasons and other papers.	File relevant form with ROC	Within 30 days from date of appointment
08	**SUBJECT MATTER FOR SHAREHOLDERS APPROVAL** • to sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the company (i) "undertaking" shall mean an undertaking in which the investment of the company exceeds twenty per cent. of its net worth as per the audited balance sheet of the preceding financial year or an undertaking which generates twenty per cent. of the total income of the company during the previous financial year; (ii) the expression "substantially the whole of the undertaking" in any financial year shall mean twenty per cent. or more of the value of the undertaking as per the audited balance sheet of the preceding financial year; • to borrow money, where the money to be borrowed, together with the money• already borrowed by the company will exceed aggregate of its paid-up share capital and free reserves, apart from temporary loans obtained from the company's bankers in the ordinary course of business:	File relevant form with ROC	File a copy of special resolution with ROC within 30 days.

Months	Events	Remark	Last Date
08	Explanation- For the purposes of this clause, the expression "temporary loans" means loans repayable on demand or within six months from the date of the loan such as short-term, cash credit arrangements, the discounting of bills and the issue of other short-term loans of a seasonal character, but does not include loans raised for the purpose of financial expenditure of a capital nature; • The company proposes to give • Loan, giving guarantee, provide security or acquire shares • More than 60% of Paid-up+ reserve (profits)+ share premium or More than 100% of free reserve + share premium		
09	**Related party transaction (BOD approval)** Following requires Board of Directors approval a) sale, purchase or supply of any goods or materials; b) selling or otherwise disposing of, or buying, property of any kind; c) leasing of property of any kind; d) availing or rendering of any services; e) appointment of any agent for purchase f) or sale of goods, materials, services or property; g) such related party's appointment to any office or place of profit in the company.	No specific filing, only enter the data in register of contract and specify in Directors report.	NA
10	**Related party transaction (Shareholders approval**) In case of following approval of shareholder by way of special resolution is required for above related party transaction. a) If the paid-up capital is Rs. 10 crores or more. b) Transaction of sale, purchase or supply of goods or services exceeding 25% of annual turnover. c) Buy, sell, lease of any property more than 10% of net worth. d) Appointment of related party on remuneration more than Rs. 2.5 lakhs per month.	File relevant form with ROC	File the same within 30 days from date of passing.

CHAPTER 9

EMERGING MARKETING MODELS AND AVENUES FOR FPCS: FIELD EXPERIENCES

(This Chapter deals with issues and opportunities for backward and forward integration with market by the FPCs; issues with the regulated agriculture markets, emerging marketing mechanisms, etc.)

In India the marketing of agriculture inputs as well as the produce is largely regulated through various laws and Government orders. The sale of agriculture inputs like seeds, fertilisers, agro-chemicals, etc. is governed by the state specific laws meant to control quality of materials, prices, distribution of materials and so on so forth. To enter into the business of inputs manufacturing or marketing requires licenses issued by the State Authority, normally the State's Department of Agriculture and Cooperation. Many cases the licences are issued by district authorities. This means that for an FPC operating in multiple districts requires to obtain licences from each district of their operation. In some states there is a system of unified licenses issued by the State authorities applicable for the whole state.

The chemical fertilisers, especially those which are subsidised by the Government(viz. Urea), are mainly sold through the channels of Primary Agricultural Cooperative Societies or similar institutions promoted by the Government. Fertilisers sold through the channels of cooperatives are meant for the members of the cooperatives. Not necessarily all farmers, especially the small and marginal farmers, are the members of the cooperatives for varieties of reasons ranging from lack of reach of the PACs to the defaulter of bank/Coop. loans, etc..

For sale of agriculture produce the State Act. APMC (Agricultural Produce Market Committees) comes into play. According to the APMC it is mandatory of all buying and selling of agriculture commodities to happen only in the authorised Mandis (Markets). The authorised broker will mediate the transaction between the seller (farmers) and the buyers (processors / retailers or their authorised agents). This means that no buyer can buy directly from the sellers (farmers) directly outside the authorised Mandi. The APMC Act was put in place with the objective of safeguarding farmers from exploitation, however, over the years it has restricted competitiveness in the market, added too many layers of middlemen and encourage dcollusion in fixing prices. Also it could not expand its reach to the remote areas. There is one regulated market per 450 sq. km. Perhaps, not even one third of Indian farmers, especially the Small and Marginal Farmers, have access to the formal agriculture marketing system leaving the rest dependent on the informal service providers which are exploitative and non-remunerative. The Model APMC Act. 2003 by the Central Government, which advocates open trade between buyers and sellers outside the market yard, has not been adopted by many state governments. And where adopted it has been either adopted partially or the rules make the changes ineffective. The role of organized private sector in the primary agriculture market is thus very limited. Corporate and other bulk buyers of agriculture commodities find the transaction costs of dealing with a large number of small producers prohibitively high and prefer dealing with bigger farmers and mandi aggregators (Agents). The middlemen fill the gap by making significant margin.

To overcome the limitations of the multiple levy of mandi fees, requirement for multiple license for trading in different APMCs, licensing barriers leading to conditions of monopoly, poor quality of infrastructure and low use of technology, information asymmetry, opaque process for price discovery, high level of market charges, movement controls, etc. the Government of India in 2015-16 introduced the National Agriculture Market (NAM) scheme, a pan-India electronic trading portal which networks the existing APMC Mandis to create a unified national market for agricultural commodities. The scheme will be implemented by the Department of Agriculture and Cooperation through Small Farmers Agribusiness Consortium (SFAC) in selected 585 regulated wholesale markets in States /UTs desirous of joining the e-platform. The scheme will be implemented in 3 phases covering 250, 200 and 135 mandis during 2015-16, 2016-17 and 2017-18 respectively. For integration with the e-platform the States/UTs will need to undertake prior reforms in respect of (i) a single license to be valid across the State, (ii) single point levy of market fee and (iii) provision for electronic auction as a mode for price discovery. Only those States/UTs that have completed these three pre-requisites will be eligible for assistance under the scheme. The scheme is in its nascent stage and yet to be fully functional. **(http://enam.gov.in/NAM/home/)**

So, in short for the FPOs to enter into the agriculture commodity marketing is challenging given the existing regulatory framework. States like Karnataka, Maharastra made significant reforms in APMC Act. to remove some of the barriers of the APMCs mentioned above. Private mandis, e-auction, etc. are some of the key reforms introduced. Many States are also introducing reforms in the APMC Act. gradually. However, there are successful model of FPOs entering into the agriculture marketing space.

Some of the models practised in recent times has been discussed.

9.1 Government supported pulses price stabilisation scheme:

Central Government is doing pulse procurement through SFAC under Pulses Price Stabilisation Scheme (PPSS) of Government of India. SFAC does the procurement in partnership with the FPCs working in different pulses growing area of various States of India, either directly through FPC or through state federation of farmer's producer Companies who is coordinating the procurement activities in partnership with different member FPC. This programme benefits the farmers in terms of better price realization, timely payment and also provides a branding for the FPCs through coverage of maximum farmers of the area without any restrictions and any risk of market price fluctuation. There are two mechanisms through which the FPCs can participate in the scheme. First, the FPC can be directly contracted by the SFAC for the procurement of pre-decided quantity and quality. All arrangements including registration of farmers, verification of KYC, management of procurement centre, quality control, payment of Mandi or other taxes, transportation of the materials to the SFAC designated warehouse and obtaining Warehouse Receipts are the responsibility of the FPC. The claim for settlement is sent to the SFAC electronically to receive payments in the FPC account, which in turn paid to the farmers by account payee cheque, a compulsory requirement. The farmers must get their payment within 3-5 days of the trade. The FPCs receive 1.5–2 percent commission on the volume of transaction. The Promoting Institution of the FPC can be a party to this arrangement to support the FPC. The second mechanism is procurement through the State Level Federation of FPCs where such apex body is established. In this case the State Level Federation is contracted by the SFAC and they in turn do the procurement through their member FPCs. The State Federation takes responsibility of quality control, claim settlement, training to the FPCs, IT support for smooth operation, and manage overall operation. The commission is shared between the FPCs and the State Federation.

9.2. On-door procurement model

This is a traditional, but the most popular model of commodity trading being practiced in most parts of the country. This model was the most preferred model for farmers as vendors reach the farmer's door, purchase and lift the produce from their home/ farm. Some part of the payment is made immediately and the remaining after sales of the produce which normally takes 1-2 weeks for the completion of the transaction. However, some pilferages exist in this model, particularly on weighing and price aspects where farmers loose. The FPCs came up with a revised version of this model with some variation from place to place which is as following :

- Farmers are informed about the quality parameters and procurement schedule in advance. This is normally based on crop harvesting and arrival
- Daily highest and modal prices are communicated to the farmers (Wall display in the common place through village resource person or lead farmer)
- Third Party Quality Verification Agency is hired by the FPC (or arranged by the State Federation) for quality verification as per quality parameters pre-decided.
- The trade happens when farmers agree to the price offered by the FPC in accordance to the quality. This happens at the village level.
- Once the trade is executed the FPC takes the materials in their custody and send to the warehouse or to the party with whom it has selling agreement.
- Farmers are paid usually on the same day through cheque or cash in some cases. At the most delay can happen for three days.
- The FPCs pay the Mandi and other taxes
- The whole process is done very transparently and the weighing, etc. is done to the satisfaction of the farmers.

This is a very good model of spot procurement where farmers get better price and save transportation cost. However, this requires a forward marketing tie up for the FPCs. Also requires good amount of working capital. The State Federation can provide market linkage, working capital and logistical support to the FPCs especially where the FPCs are in the nascent stage.

9.3. FPC led localised seeds production and marketing model

Seeds production and marketing has emerged as one of the potential business activity for the FPC, particularly in States where seeds replacement rate is poor and/or farmers are using composite and synthetic crop varieties. In this model-

- FPC registers farmers who are progressive, having irrigation facility, and be able to invest on crop health management.
- Registered farmers are provided parent seeds for multiplication
- The farmers are also registered with the State Seed Certification Agency for 'on field' and process verification audit and provide third party guarantee for the quality of the seeds
- Continuous training is provided to the farmers on crop husbandry and quality maintenance
- After harvest, seed is procured by the FPC on the rate of Mandi Modal Price for grain. A Top-up amount is paid as premium.
- The FPC does the processing of raw seeds and marketing on their own- local sale as well as through the outlets of other FPCs under their own brand name.
- There is another model where the FPC works as organiser of seed production for State Federation/Private and Public companies for a volume and quality pre-decided. The FPC after processing, handover the unpacked seeds to the party for whom it has produced. The branding and marketing is done in this case by the other entity.

In this model the farmers get higher yield due to practice of Good Agricultural Practices (GAP) taught during the programme. They also get premium price upfront. In Madhya Pradesh, most of the FPCs are involved in localised seeds production and marketing which has benefitted their farmers significantly and also helped them to achieve financial sustainability. The only limitation of this programme is that, the outreach would be always limited, and due to operational and technical reasons, only the progressive farmers (constituting a small minority) can be covered under this programme

9.4. Credit linked Production and Procurement Model

This is an emerging model, which helps both farmers and FPC by involving a Micro Finance Institution in the process. The model works like as following :

The FPC arranges credit for its member producers for agriculture inputs (seeds, fertilisers, farm machinery services and insurance, etc.) by linking members to an MFI. The FPC provides recommendation to the MFI for lending to a particular member without taking any legal responsibility of recovery of the loan. However, it provides buy-back guarantee to the producer borrower of his produce after harvest at the market rate. This is in a way an assurance to the MFI of the recovery of loan at the end of the season. The loan by the MFI is given in kind i.e. the agriculture inputs and services which farmer needs should be procured from the FPC outlet. Once the borrower farmer has received inputs and services the FPC would raise invoice to the MFI for reimbursement of the amount on behalf of the borrower farmer.

After production, FPC procure the produces of the borrower farmer in market rate, FPC sells it in the open market or process it as required and pays the farmer after adjustment of the credit amount directly or facilitates the repayment to the MFI through collection of cheque from the farmer. Since this finance is made against a well planned production and marketing plan hence possibility of failure is very less. Several such pilots are being continued in Madhya Pradesh.

This is a very good model provides end-to-end solution to the farmers from inputs and field preparation to crop husbandry service to the buy-back guarantee. On the other hand it expands the scope and importance of the FPC for its members and in the local context. It increases business several folds of the FPCs. The relevance of FPCs becomes very important among the members in this model. The FPC ensures that inputs and services supplied by it are of good quality and competitive in price.

9.5. Accessing financial market by leveraging collective strength

In Madhya Pradesh, the apex body or Federation of Farmer Producer Companies was formed with the objective of leveraging the benefits of the economy of scale and transfer the benefits to the farmers through their producer companies. It has been working in the ground for two years since formed. MBCFPCL has a team of financial linkage support cell, which assess the credit needs of the member FPCs based on their business plan and brings it to the negotiating table through networking with different financial agencies, and then obtain a customised loan package as per local need. This helps them to get the best deal with competitive interest rate, which is then disbursed to the FPC. The State federation does only the facilitation between the FPC and the financing agencies without any financial intermediation. This model is now being practiced with more than 25 FPCs in Madhya Pradesh. The State federation also provides handholding and business management support to the FPC for finalization of business plan, real assessment of credit, finalization of loan product for FPCs, timely disbursement of loan to the FPC and also for timely repayment of loan from FPC to financial agency. Some financial agencies have appointed the State federation as their Business Facilitation Agency for facilitation of loan to the FPCs in Mdhya Pradesh.

9.6. Peer group marketing

A good marketing opportunity exists in the sector where one FPC aggregates and supplies the raw material to another FPC who is in need of particular raw material for their processing plant or manufacturing unit. A good example of this marketing arrangement is working in Madhya Pradesh where the State federation in arrangement with many member FPCs are gearing up to supply maize to another State level producer company of poultry farmers who is in need of large quantity of maize as raw material for their poultry feed plant. The same model is being worked out for other commodities like organic cotton, etc. where the State federation of FPCs would run the ginning facility while the member FPCs would supply raw materials.

9.7. Commodities Exchanges

A commodities exchange is an exchange where various commodities and derivatives products are traded. Through commodities exchanges spot transaction as well as future trading of commodities can be done. There are various services provided by these commodities exchanges for hedging of prices for future trading of commodities, thereby minimising the risks of price volatility. In India National Commodity and Derivatives Exchange (NCDEX) and MCX are professionally managed on-line multi commodity exchange. The NCDEX in the recent past has offered the services of their platform to the FPCs for varieties of services such as- spot selling of commodity, future selling, price hedging, etc. Few FPCs in M.P and Bihar have used the services with success. For FPCs to get exposure to the wider market the NCDEX is a very good platform. However, it has limitations of not having trading spots in the remote rural areas, restrictions by the APMC Act. for not having operation outside the Mandi premises in many states, etc. As of March 31, 2015, the Exchange offered trading in 26 commodities, which included 21 agricultural commodities.

For more information on the membership process visit :
http://ncdex.com/Membership/MembershipIntro.aspx
https://www.mcxindia.com/membership

9.8. Warehouse Receipts (WHR)

Warehouse Receipt scheme facilitate farmers for storage of their produce in warehouses and enabling them to sell their produce at remunerative price. It discourages distress sale of produce by farmers and to facilitate farmers for storage of their produce in warehouses for enabling them to sell their produce at remunerative price at a future date. Financing by WHR is an excellent option for farmer producer companies for obtaining short term working capital loans. Producer companies can get short term loans at concessional interest rates by pledging the commodities kept in the warehouse using the Warehouse receipt as a negotiable instrument. With the short term loan FPCs can meet credit obligations for its members and store the commodities for a longer period for getting best prices in future. In Madhya Pradesh the FPCs have taken full benefits of this scheme especially for the seed production activity which needs significant working capital locked in for seven to eight months in a year.

For more information visit :

http://www.prsindia.org/uploads/media/1167471035/bill67_2007010167_Report_ofRBI_working_group_on_warehouse_receipts_and_commodity_futures.pdf

9.9. e-Kisan Mandi

e-KisanMandi.com is an online platform for buying or selling of Fruits and Vegetables directly from farmers/sellers. e-KisanMandi.com is one of the first online Agri Store in India. Producer companies can become the franchisee of e-Kisan Mandi and undertake business of supplying fruits and vegetables in their area and nearby cities. This portal is open to the FPCs.

For more information visit : http://www.e-kisanmandi.com/

CHAPTER 10

Success Stories of Farmer Producer Companies

Aggregation Of Finer Cotton From Small-Holders

Name of Farmer Producer Organisation (FPO):

(1) Nimad Farmer Producer Company Ltd.

(2) Barwani Farmer Producer Company Ltd.

(3) Khargone Farmer Producer Company Ltd.

Supporting Resource Institution (RI):

Action for Social Advancement (ASA)

"Action for Social Advancement (ASA) (www.asaindia.org) a not for profit voluntary organisation established in 1996, has been working for the development of rural livelihoods through agriculture based interventions mainly Land & Water Resource Development, Agriculture productivity enhancement, Small holders' Agribusiness Promotion and Community Institution Building. The organisation works intensively in Madhya Pradesh, Bihar, Chhattisgarh and Jharkhand covering about 1500 villages and about 1,40,00 lakh small holders mainly in the tribal dominated areas. Through around 50 Farmer Producer Companies and a State level Producer Company Federation, ASA has further outreach to another 1,50,000 lakh families."

01

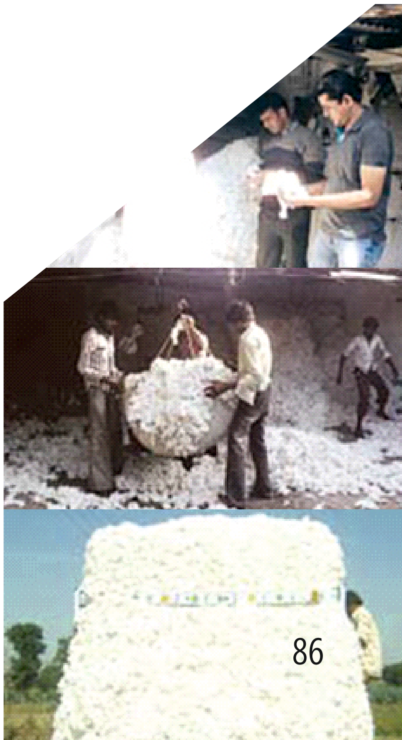
Cotton is a high-paying cash crop, but in spite of increasing investments in this sector, the farmers are not getting adequate returns from cotton production and have even incurred losses in numerous cases. Madhya Pradesh is known as the cotton belt and even though cotton is a cash crop, the farmers are usually smallholders from tribal communities. Due to the unavailability of supporting infrastructure, they face various problems right from the growth stage to the sale of crops.

The baseline survey showed that more than 90% of the target farmers sell cotton to local vendors or middlemen working for bulk procurers, who not only quote low prices but also subject the farmers to the hazards of improper weighing. Add to it the fact that each producer has a small quantum of produce further hampers their bargaining power, thus, resulting in the cotton being priced low. The NGO, Action for Social Advancement (ASA), introduced a way to address this issue by linking small cotton producers with the better cotton value chain in a manner that they get better prices. This has resulted in the elimination of the middlemen, and fair pricing and trade practices. The producers in these areas were the members of the farmer producer companies (FPCs) who motivated the FPCs to step in as aggregators to overcome the various problems.

The mediation is being actively implemented by FPCs and facilitated by ASA in the Barwani and Khargone districts, through the Barwani Farmer Producer Company Ltd, Nimad Farmer Producer Company Ltd and Khargone Producer Company Ltd, which are legal entities located in the general region of the state where most of the farmers are traditionally involved in cotton cropping. The FPCs have entered into formal agreements with nine ginners in addition to establishing village-wise procurement centres where the farmers bring the produce. The farmers are required to grow the cotton under certain scientific guidelines, and the cotton thus produced is said to be more fine in quality, in terms of the fibre length and strength. The cotton quality is checked at the procurement centres, and weighed. The farmers are given a receipt for the goods, and the payment can be collected from the FPC office the following day. Sometimes, in a few bigger villages, the sale proceeds are directly transferred to the farmer's account. This process has innumerable economic, social and professional benefits since it's a good bargain for both stakeholders.

The farmers save time and money in transportation, their produce is correctly weighed and they are paid timely and since no middlemen are involved, while the ginners get bulk produce in small lots and at one place which ensures quality. This aggregation of producers in FPCs also provides farmers with a platform to address the issues of backward and forward marketing linkages. For instance, the timely availability of agricultural inputs such as fertilizers and seeds, etc.

At present, these services are restricted to the members of the company but there are plans to extend it to include non-members who reside in the vicinity. Similar services can also be started for other producers in different locations. One of the hindrances for the process is the lack of availability of the working capital with the FPC. If this problem is resolved, FPC would not be dependent on the ginners and could make direct payments to the farmers at enhanced prices. This is one way of ensuring that finer cotton fetches better prices.



Scaling The Value Chain Through Quality Seed Production

Name of Farmer Producer Organisation (FPO):

Bijawar Farmer Producer Company Limited

Supporting Resource Institution (RI):

Action for Social Advancement (ASA)

"Action for Social Advancement (ASA) (www.asaindia.org) a not for profit voluntary organisation established in 1996, has been working for the development of rural livelihoods through agriculture based interventions mainly Land & Water Resource Development, Agriculture productivity enhancement, Small holders' Agribusiness Promotion and Community Institution Building. The organisation works intensively in Madhya Pradesh, Bihar, Chhattisgarh and Jharkhand covering about 1500 villages and about 1,40,00 lakh small holders mainly in the tribal dominated areas. Through around 50 Farmer Producer Companies and a State level Producer Company Federation, ASA has further outreach to another 1,50,000 lakh families."

02

It is a well known fact that the availability of quality seeds is not only critical but a basic and mandatory factor that affects the increase in production of a particular crop, and if efforts are not made to ensure the quality of seeds, it could lead to a decline in the overall productivity. Therefore, many smallholders under the aegis of farmer producer companies (FPCs) have taken the initiative to produce certified soy seeds through a buyback arrangement with apex government agencies that deal with seed players like the National Seeds Corporation Ltd, etc. On-date seed production is one of the main business activities of more than 25 FPCs in Madhya Pradesh and Bihar. However, the FPC ownership lies with smallholders, who are poorly catered to agriculture extension services. This results in a low- or no-profit making proposition for them. The state is, thus, characterized by a low-seed replacement rate for almost all crops. In order to address these issues, steps have been taken to connect smallholders to a bigger arena through the FPCs. These companies have formally entered into an agreement with national-level seed players like the National Seeds Corporation Ltd and State Farms Corporation of India Ltd for the production of 2870 million tonnes (mt) of certified soy seeds. Seeds is a niche product that fetches a premium price in addition to the ordinary grain.

This entails an extra income that is generally in the range of Rs. 3,000-5,000 per acre. Besides this, through the facilitating agency, farmers receive capacity-enhancement inputs, such as good agriculture practices (GAPs), which reduce production cost and, thus, result in various economic benefits. This initiative has been extremely beneficial to the farmers from economic and social to professional. Economic benefits accrue in terms of an extra income that ranges from Rs. 3,000 to Rs. 5,000 per acre, due to the category of the product (seed) and reduction in the cost of cultivation Thanks to GAP. Social benefits are linked with producer's memberships with the FPC, where they can learn and expand their skills. Professional benefits accrue in terms of capacity building interventions, such as training, exposures, etc. Till date, around 1,000 MT. soy seeds have been successfully procured, and the process is still under way. The model is suitable for other regions as well. It may be applied to any crop, and can be adopted by any community.

Electronic Trading Platform for Small and Marginal Women Farmers in Bihar, India

Name of Farmer Producer Organisation (FPO):

Aryanyak Agri Producer Company Limited (AAPCL)

Supporting Resource Institution (RI):

Techno Serve

About Techno Serve

Techno Serve is a leader in harnessing the power of the private sector to help people lift themselves out of poverty. A non profit organization operating in 29 countries, Techno Serve works with enterprising men and women in the developing world to build competitive farms, businesses and industries. By linking people to information, capital and markets, Techno Serve has helped millions to create lasting prosperity for their families and communities. In India, Techno Serve has 10 projects across 5 states, covering agriculture, youth employability and entrepreneurship development.

03

Background

Purnia district falls under the maize belt of Bihar, and is known to have the highest productivity of rabi (winter crop) maize in the nation . As a result, maize is the primary cash crop for farmers in the district. While the marketable surplus of these farmers is nearly 90%, they themselves have limited access to sell their produce in mandis as most of them are small and marginal farmers (with an average land holding of 1.39 acres). In the absence of an alternate solution, they have to depend on multiple intermediaries for sale of their produce. The intermediary chain is very big and wide ranging from collection agents at the village level to brokers at each mandi to large traders who eventually sell the produce to institutional buyers across the country. Each intermediary charges a commission, reducing the final price the farmer receives. In addition to this, collection agents in villages follow manual grading processes and are known for weighing malpractices that lead to significant losses (approximately Rs.60 – Rs.80 on each quintal of produce procured from farmers). Repealing of the Agricultural Produce Marketing Committee (APMC) Act has also worsened the market infrastructure and trading regulations. Price is now decided by a few big traders and grain quality is judged by its look and feel, without the use of moisture meters. This combination of an unorganised trade network consisting of multiple market intermediaries with weighing and grading malpractices significantly reduces the final price farmers get for their produce.

The Birth of Aryanyak Agri Producer Company Limited

Keeping in mind the above mentioned issues faced by small and marginal farmers in Bihar, JEEViKA , a World Bank supported program for poverty alleviation in rural Bihar, floated a producer company called Aryanyak Agri Producer Company Limited (AAPCL) in November, 2009 under the Companies (Amendment) Act 2002, with its registered office at district Purnia. Initially, AAPCL had an authorized share capital of INR 5 Lakhs and could issue 50,000 shares, each worth Rs. 10 to the small and marginal farmers, categorically the target families of JEEViKA. The shareholders belonged primarily to the Dhamdaha block of the district. Here, 500 target families had subscribed to the shares, each opting for a minimum 20 shares worth Rs. 200. The shareholders of the company were spread out over two clusters, and so the shareholding amount was collected through Village Organizations (VOs) and then the same was transferred to the company's bank account. Since the authorized share capital was already five lakhs, there was no issue of increasing share portfolio with recommendation from BoDs and approval from AGM.

Scope of Business of AAPCL

AAPCL deals in agri commodity trading and fertiliser wholesale business. It is planning to do maize processing in the future as a part of feed business line. Apart from this, rent based farm mechanization services will also be rolled out soon.

The Main Success Story

Even though AAPCL came into being in 2009, it was not active as most producer groups under it were defunct. A majority of the women producer groups in Bihar largely represent small and marginal farmers with little capacity to directly market their produce themselves or hold back the produce to gain lean season premium. The management of these producer groups lacks an understanding of the various marketing tools and does not have the skill to negotiate with buyers, leading to higher risks and losses. As a result of this, the members have never realised the potential of collective aggregation and marketing.

To address this need, JEEViKA, in partnership with TechnoServe India, launched a year-long technical assistance project in Bihar in December, 2014. The objective of the project, funded by the Bill and Melinda Gates Foundation (BMGF), was to build the capacity of the JEEViKA team on value chain development, provide technical assistance to producer groups in Bihar and develop a multi-year roadmap to facilitate producer group formation and strengthen the broader producer group ecosystem in the state. To achieve these objectives, Techno Serve initiated a pilot in Purnia district to demonstrate higher price realization to farmers through collective aggregation and marketing of produce, reducing information asymmetry and reaching out to national buyers through commodity exchange platforms.

Based on an initial assessment of the producer groups in Purnia, their crop profile and existing post-harvest challenges faced, TechnoServe India recommended the AAPCL to adopt an aggregation and market linkage business model which eliminates multiple layers of intermediaries and thus ensures better price realization and also allows farmers to benefit from off season price increase. The project further recommended the producer company to sell their produce on an electronic trading platform to minimize risk.

Leveraging JEEViKA's institutional mechanism, AAPCL raised approx. INR 60 Lakhs working capital through internal sources Producer Groups (gap funding) and Cluster Level Federations (loan @ 0.6% per month) to do maize procurement and marketing. AAPCL members were trained on the post-harvest practices of maize Standard weighing and grading practices (electronic weighing machines, digital moisture meters etc.) to ensure transparency during collection and sales. An electronic trading platform (NCDEX e-Markets Ltd - NeML) was used to reach out to major buyers across India. Farmers' produce was stored in NeML certified warehouses after quality checks and sold to institutional buyers in both the spot market (NeML) as well as futures markets (NCDEX) to maximize returns. With this process, the producer company became the first farmer producer company in India to be registered under the NCDEX platform for forward trading in maize.

In 2015, 300 women from AAPCL sold their maize online, and in 2016, this number went up to 818 women. The main business figures of the producer company for the last two maize seasons are detailed in the table below:

Highlights – Maize Procurement	
2014-15 Season	**2015-16 Season**
1014 MT of maize procured	3064 MT of maize procured
AAPCL revenue 1.28 cr; net profit 0.09 cr	Total revenue earned by the PC till end July is 75 Lacs
11.46% incremental revenue to farmers	Average price offered to PG members who sold maize to AAPCL 13.6% higher than the previous year
70% profit distributed as patronage bonus to members	INR 3.49 Crore transferred in account of 818 members from 27 PGs
Additional return of INR 109 per quintal due to patronage bonus	138% increase in the member's participation in maize selling to AAPCL compared to last year

In addition to the benefits mentioned above, the revival of the producer company made the members aware of how transparent the business should be, and they have thus started asking for better prices from the local collection agents. They are also pressurizing the agents to replace their uncalibrated manual weighing scales and hand based grading practices with industry standard equipment and practices. The use of an electronic trading platform helped the producer company to get connected with nationwide buyers while preventing the risk of delay in payment and any breach of contract by the buyers. Also, with the members receiving the payment for their produce within 3-5 days of sale, they have been able to ensure timely repayment of crop/ other loans.

The producer company sold maize under the brand name 'JEEViKA Maize' and has earned a lot of traction from the buyers because of the higher quality produce. The availability of moisture meter with every producer group helped the members to dry and clean the maize before sale, thus making it Grade A maize.

All the members of AAPCL have acknowledged the power of negotiation through collective marketing. They feel proud to be a part of AAPCL and have already started making plans for its expansion.

Way Forward

Moving forward, AAPCL will focus not only on maize but also other commodities like potato and banana. It will also undertake input (fertiliser) supply business as there is a great demand from the members for the same. AAPCL aims to expand its shareholder base to 10,000 farmers in the next 3 years and plans to reach a turnover of 100 crore.

A Beneficiary Speaks

"I will always sell my produce to the producer company from now on!"

Shakila Khatun is a native resident of Kukrun east village in Purnia district. She is 40 years old and stays in a joint family of 11 members. Having 8 acres of land, the family's major income comes from agriculture. Maize is grown on 95% of the land, while wheat is grown for self-consumption. Rice is grown during kharif season, 50% of which is sold in the local market. Even after the cyclonic-wind in the month of May, her production of maize was 27.7 MT this year. Till last year, she used to sell her maize produce to Mr. Mustaq, a village-level-aggregator-cum-trader who picked the maize from her door-step and offered a price based on hand grading practice. Weighing was done on a handmade wooden weighing machine on which the adhatiyas (intermediaries) always take 7-8 Kg per quintal higher produce showing the reason as moisture loss. Like many others, Shakila doesn't have a say to negotiate with Mr. Mustaq, as she has also taken a loan during the period of crop sowing.

During the first week of March 2015, Shakila participated in the Annapurna producer group meeting, of which she is a member, and came to know that the producer groups will procure maize and sell to AAPCL this season. She participated in all the meetings organised by JEEViKA and Techno Serve team, understood the procedure, and spread the information to all the members of the groups.

She took extra care on the post-harvest practices of maize suggested by the project team, and as a result 100% of her maize was sold as Grade-A produce to the producer group. She herself used the moisture meter to measure the moisture content of her grain. Accurate weight of the produce was measured through the electronic weighing scale and payment was credited directly to her bank account within 3 days of procurement. Such level of transparency convinced her to sell 100% of her produce to the producer group. She earned an average price of INR 1003 per quintal, 6% higher than what she would have got had she sold her produce to Mr. Mustaq. Being a shareholder of the producer company, she will also receive patronage bonus if the company makes enough profit at the end of the financial year, taking her increased price realization to 11.3%.

From Droplets to Ocean

Name of Farmer Producer Organisation (FPO):

Krushidhan Producer Company Ltd (KPCL)

Supporting Resource Institution (RI):

Development Support Centre

Development Support Centre

Development Support Centre (DSC), Ahmedabad www.dscindia.org is a resource organization established in 1994. It provides knowledge based support required by facilitating agencies on Participatory Natural Resource Management especially with focus on Participatory Irrigation Management (PIM), Watershed Management, Joint Forest Management and Agriculture Enhancement, Policy Research and Advocacy, etc.

04

Genesis

DSC initiated watershed development works in rain fed villages in Dhari block of Amreli District in Gujarat in 1995 and formed 10 Watershed Users' Association (WUA). The WUAs later formed a federation. With enactment of Act on Producer Company under Companies Act 1956 in 2002 in India, late Shri Anil Shah, Founder Chairman, DSC initiated transforming Dhari Federation into this unique structure, taking the advantage that watershed plus program was already implemented in Dhari region and watershed federation already existed. After various consultations and sensitization of farmers, federation at Dhari was transformed into Dhari Krushak Vikas Producer Company Ltd (DKVPCL) on 23rd June 2005, which was first registered Producer Company in India.

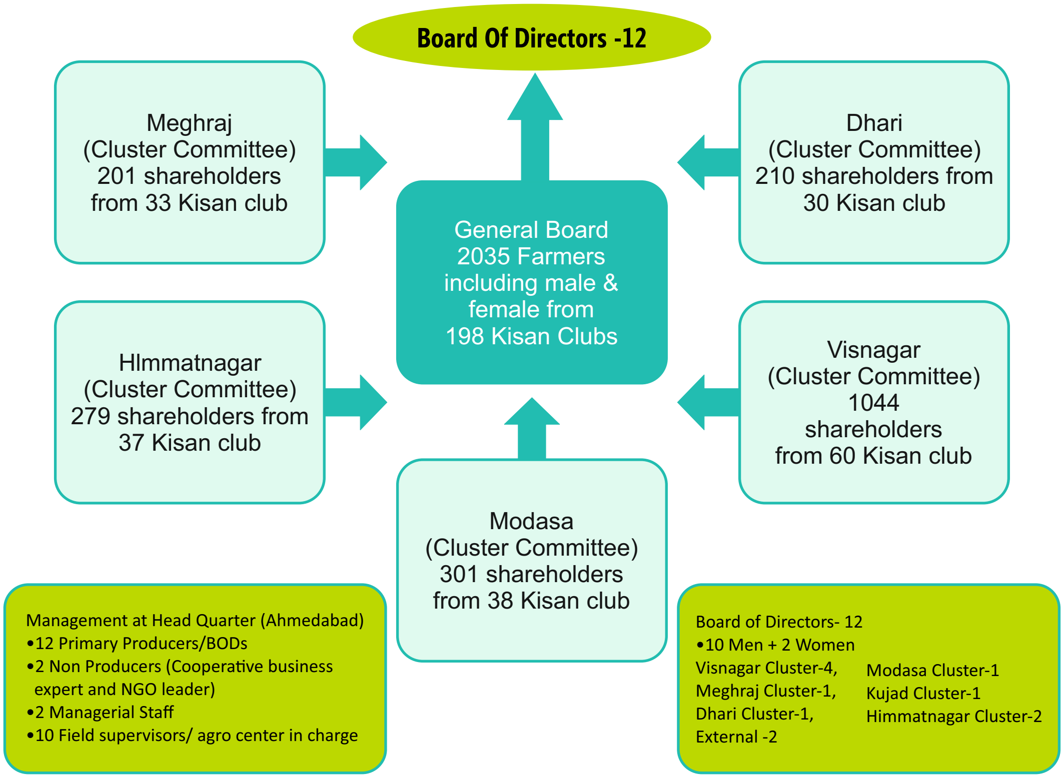
Though in initial phase it had smooth functioning, there were serious issues to be addressed for its effective functioning and sustainability. The company had institutional shareholding and thus lacked ownership of farmers. Moreover, it has limited coverage, mainly in Dhari region, which led to issues of lower share capital and scaling up for financial viability. Though it was a producer's institution, it required handholding and continuous guidance from support agency like DSC for initial period. But remote support of DSC in initial period led to de-mobilization of the initiative. Due to lack of enabling environment, appropriate business plan, and local support Hence the company became non-functional at later stage.

Table-1

Details of Company Transformation		
Details	Origin	Reformed
Company Name	Dhari Krushak Vikas Producer Company Ltd. (DKVPCL)	Krushidhan Producer Company Ltd (KPCL)
Registration	23rd June 2005	2nd December 2013
Authorised Share Capital	Rs. 1 lakh	Rs. 25 lakh
Registered Office	Dhari	Ahmedabad
Share Holder (M/F)	10	2035 (M-1655/F380)
Operational Areas		
Cluster	1	7
Villages	18	172
District	1 (Amreli)	4 (Amreli, Ahmedabad, Sabarkantha, Mehsana)
Blocks	1	11

Revival

While reviewing project phase-I of LEPNRM (Livelihood Enhancement through participatory Natural Resource Management) Project under financial support of RBS (Royal Bank of Scotland) Foundation, need was felt for collective input supply and value addition of agricultural products, marketing support as well as structuring of farmers' organizations for collective benefits. Hence under phase II of the project, the DSC team decided to revive existing producer company rather than creation of new entity through reformed structure, increased leadership and ownership of farmers and increased region coverage across Gujarat for enhanced benefits to farmers. Series of meetings were held within DSC board members and Kisan Clubs in various blocks and legal consultants. DKVPCL was then revived on 2nd December 2013, comprising of 12 Board of Directors from 7 clusters/regions of Gujarat. The reformation evolved new company termed as "Krushidhan Producer Company Ltd" (KPCL).



Objectives

- Promote Farmers' led and demand driven value chain for input supply and marketing.
- Carry on the business of production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce e.g. groundnuts, oilseeds, grains, and other agro products of the members or import goods or services for their benefit.
- To provide for mutual assistance and technical consultancy services.
- To provide insurance cover and credit facilities to the farmers in a profitable manner.
- To provide for welfare measures or facilities for the benefit of members.

Outreach and Membership:

- 2035 members across 5 districts of Gujarat.
- Total capital available Rs. 25 lakhs including grant support for business by DSC.

Services Offered:

- Input Supply of seeds, pesticides, fertilizers, culture and vermi compost, affordable tools and goods.
- Marketing & Distribution Support:
  - ✓ Assisting collective sale of major crops like wheat, castor seed, cotton and groundnut.
  - ✓ Support and liasoning with APMC (Agricultural Produce Market Committee), NCDEX (National Commodity & Derivatives Exchange Limited), SFAC (Small Farmers' Agri-business Consortium)
  - ✓ Retail/bulk supply outlet centres- 3 (Vadnagar, Himmatnagar, Modasa).
- Aggregation of products and production of organic fertilizers and pesticides and its sale.
- Technical assistance to farmers
  - ✓ Technical Assistance Centre (Gyan Jyoti Kendra)- 2 (Visnagar and Modasa cluster)
  - ✓ Seminars, trainings and tours

Financial Achievements (Rs. in Lakh)
Table-2

Year	Equity/Share Capital in lakh	Other support in lakh	Total Available working Capital in lakh	Turnover in lakh	Profit/Surplus in lakh	Financial Support by DSC For admin in lakh
2013-14	5.38	10	15.38	27.47 (151)	3.81	7.65
2014-15	7.8	10	17.8	51.74	1.67	18.45
2015-16	10.17	10	20.17	114.36	7.22	22.21

(Note:- In year 2013-14 Krushidhan producer company in support SFAC Jointly procured Groundnut from Dhari block of Amreli District .The total volume was 379 MT worth R.s 150 lakhs.)

- The company has served 14000 farmers in three years through input and output supply.
- The company has last three year turn over Rs.200 lakhs.
- The company could achieve maximum turnover of Rs. 114. lakhs with limited available funds of Rs. 35 lakhs (including equity capital, revolving fund and surplus generated from two years business) in the financial year of 2015-16. Their business turnover is growing steadily from Rs. 27.14 Lakh in 2013-14 to Rs. 51.74 Lakh in 2014-15 and Rs. 114.36 Lakh in year 2015-16 leaving a cumulative surplus of Rs.12 lakhs (The detail are give in annexure Table-2)*

Future Planning:

- Phase 1(Start Up Phase): Producer company in nascent stage where RBS Foundation is patronizing and providing grant.
- Phase 2 (Evolution Phase): Company development where financial support would be given for administrative works only and support for programmatic development would be withdrawn.
- Phase 3 (Maturity Phase): Company will be self-sufficient and self-sustained
- To increase the paid up capital from the current level of Rs. 10 lakhs to Rs. 45 lakhs by means of matching equity grant and increasing strength of share holders from 2000 to 4500. The company has to scale up its reach to male and female farmers in about 200 villages through input supply services ensuring a fine balanced representation from all the existing geographical areas
- To increase the approximate turn over to Rs.800 lakhs in next three year.

Learnings:

- Focus on enterprise development rather than mere bulk business, ensuring need based model rather than project based interventions, women's ownership and entrepreneurship model as well as addressing market risks are key to sustainability of farmers' based organizations.
- The FPC need at least 5 year incubation support and also HR & admin support

Success through Self-discipline and Perseverance

Name of Farmer Producer Organisation (FPO):
Neshkala Crop Producer Company Private Limited (NCPCPL), Guna

Supporting Resource Institution (RI):
Techno Serve

About Techno Serve

Techno Serve is a leader in harnessing the power of the private sector to help people lift themselves out of poverty. A non profit organization operating in 29 countries, Techno Serve works with enterprising men and women in the developing world to build competitive farms, businesses and industries. By linking people to information, capital and markets, TechnoServe has helped millions to create lasting prosperity for their families and communities.

05

In India, Techno Serve has 10 projects across 5 states, covering agriculture, youth employability and entrepreneurship development.

In Madhya Pradesh, Techno Serve has been working with five Farmer Producer Organizations (FPOs) to help them scale-up their business processes and community linkages. One among them is Neshkala Crop Producer Company Private Limited (NCPCPL), Guna with which Techno Serve has been working since 2013-14. Techno Serve has a three tier approach for supporting the NCPCPL and the farming community. To begin with, 1700 farmers are being trained by Techno Serve's field team on a fortnightly basis on building climate change resilience through improved agriculture techniques. As a result of the training, demand for products and services related to improved agriculture increases, and this is being met with by a pool of local entrepreneurs named as Centres of Excellence (CoE). These CoEs are connected with the producer company for supply of agri inputs. Both CoEs and the producer company are provided business planning and hand holding support for smooth running of the business.

Background

A detailed analysis done by the Madhya Pradesh District Poverty Initiatives Project (MPDPIP) revealed that despite receiving initial financial support from the project, the livelihoods of the target farmers did not show an improvement. A number of reasons were identified for this issue, the main being the unavailability of and inaccessibility to quality inputs. The market was flooded with spurious seeds, and farmers could not afford the price of fertilizers and pesticides.

To overcome these issues of low quality and expensive inputs, MPDPIP followed the recommendations of the Y K Alagh committee to pave the way for creating Farmer Producer Companies (FPCs) in Madhya Pradesh. Neshkala Crop Producer Company Private Limited (NCPCPL) was one of the 14 FPCs incorporated for seed production by MPDPIP.

FPCs enable farmers and producers to function in a formal business environment while still retaining the essential strengths of a cooperative. The core idea is to empower smallholder farmers to get better access to modern agriculture technologies and participate in well-coordinated value chains, breaking their isolation and dependency on middlemen. By aggregating smallholder farmers, FPCs enable timely and accurate dissemination of information and provide economies of scale for market activities as well as training and capacity-building.

The birth of Neshkala Crop Producer Company Private Limited Neshkala Crop Producer Company Private Limited started its operations in 2006 from a village named Neshkala in Chachoda block of Guna district. It was registered in this village with 10 Board of Directors and 5 shareholders. Thereafter, the company has taken great strides towards becoming a self-sustaining organization capable of empowering small and marginal farmers. The use of self-help principles to create Farmer interest Groups (FIGs) has helped facilitate savings, enhance the aggregation of farmer surpluses to generate more marketing power, and allowed for training and capacity building sessions to directly benefit well over 2035 farmers in more than 50 villages in Guna, Aron and Bamori blocks of Guna district.

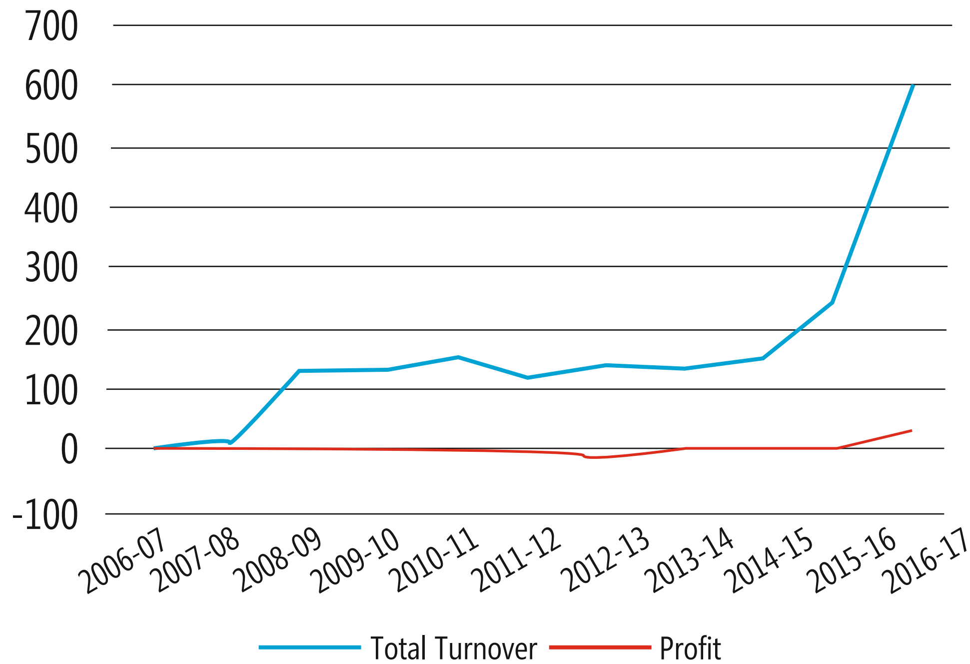
Scope of Business of NCPCPL

NCPCPL was largely dependent on seed production and inputs supply in the initial years. With support from Techno Serve, it started trading in Soyabean from FY 2015-16 and is now supplying to large companies like Ruchi Soya and Bansal Soya. The FPC has also participated in a large scale pulses procurement program for Small Farmers' Agribusiness Consortium (SFAC), GoI.

The Main Success Story

With support from DPIP and other state government functionaries in Madhya Pradesh, NCPCPL had achieved a turnover of INR 70 - 80 lakh till 2011-12 and had nearly reached business saturation with seed production. More than 80% of the portfolio was of seed production and the company needed to diversify to reduce future business risks.

Year on Year Performance 2006-07 to 2016-17



This is when TechnoServe came in, and undertook a detailed diagnostic study to understand the bottlenecks inhibiting the FPC to become sustainable. Through multi stage training and capacity building of member farmers and CoEs, TechnoServe helped NCPCPL move its foot towards agri output trading business from FY 2014-15.

First among the many changes made to improve the FPC's business was to put in place a strong team, led by a capable and professional CEO. The CEO and his team were provided with complete hand holding support including business planning, market development and good governance principles so that they could enhance the business from below Rs. 1 Crore mark to a higher scale.

Secondly, the awareness of the Board members on FPO management was enhanced, with a number of training sessions conducted to capacitate the Board on FPC governance. Techno Serve brought on board a chairperson and an independent Director as well.

Thirdly, with increase in business volume, it was observed that the gap between the FPC and the shareholders was increasing year after year and the number of active members remained limited to 300 farmers. This bottleneck was countered by building the capacity of the management and Directors through training sessions so that they could develop a vision for the company's future. This helped the FPC in mobilizing and touching base with new farmers which eventually translated to increased farmer shareholders.

It was also identified that there was no formal business plan and hence lots of ad-hoc business decisions were made, resulting in losses. Techno Serve conducted brainstorming sessions with the management and the Board to outline business ideas, which were incorporated as a three year business plan.

On the market linkage side, inefficient market and financial linkages were key bottlenecks. To address this, Techno Serve facilitated partnerships with companies for fertilizers, seeds and other farm inputs. Systems were also established for the FPC to procure farm produce from FPC shareholders. A partnership was established with FWWB for institutional funding of Rs.40 lakh. As a result, the company did a business of 45 lakhs from selling fertilizers in 2013-14, as against a business of only INR 7 lakhs the previous year.

Before the intervention, the company was running into losses, and it was only because of subsidies and grants from the government that it was in business. Techno Serve helped the company to strategize its operations, create market linkages and develop a business plan. As a result, NCPCL not only attained a turnover of 2.5 crores in the year 2013-14 (a jump of 66% from the year 2012-13), but also made a profit of 17 lakhs with no support of grants and subsidies. In 2015-16, the company stabilised the business volume to 2.5 crore. In 2016-17, NCPCL has overshot its target of 6 crore and has already done a business of 8 crore by procuring 1328 MT of pulses for a contract with SFAC (August, 2016). This has been a big achievement for the company as well as the member farmers who have greatly benefited. The Rs. 10 crore target is not far, and when it is reached, NCPCL will become one of the biggest FPCs in the State of Madhya Pradesh.

Way Forward

NCPCL, through extended deliberations among its Board and management, has realised the need to shift gears. They hope to do so by strengthening supply chain and creating more aggregation centres. Some of the concrete steps envisaged to make use of opportunities are described below:

- Backward Linkages
  - Creation of Mini Retailers (MRs) – These are the local people who have interest to pursue business with the FPC. Starting in 2016, NCPCL will appoint at least 6 MRs to strengthen its supply chain of agri and other inputs.
  - Seeds Trading – As the FPC on its own is not able to cater to the demand, it plans to trade seeds from registered producers and ensure seed supply to its members. Over the years, this trading would be further complemented by increase in its own seed production.
  - Addition of new input companies to its portfolio – As of now, NCPCL holds sdistributorship of Syngenta and IPL to promote and sell its products. It plans to link itself further with other input companies and supply other inputs not available with the current companies so that it can cater to all input requirements of the FPC members.

- **Forward Linkages**
  - NCPCL, with support from TechnoServe, will identify buyers for Soyabean, Maize and Wheat and will undergo association or establish relationship with these buyers.
  - The FPC will establish collection centres in different clusters to reduce farmers' transportation cost, pilferage loss and other losses by giving the farmer the optimum price for quality produce.
  - The FPC will leverage its relation and strong base of its members for procurement of above commodities and sell them at a competitive price with the aim to create a separate identity.

A Beneficiary's Story

Hemant Lodha is a farmer who resides in village Hirnauda in Bamori block, district Guna. In 2006, his family was categorized under BPL, and was registered in a livestock group by MPDPIP. Under this, Hemant himself went and bought a cow and started his dairy business.

In the same year, the NCPCL came into being, and Hemant joined it as a shareholder. In the very first year of NCPCL's operation, Hemant took part in its seed production activity and earned an income of INR 10,000. He also got an additional 15 quintal of yield from his Soyabean crop, from which he earned INR 24,000. Satisfied with this benefit, Hemant has been participating in the company's seed production business in both seasons – Rabi and Kharif – every year. Hemant also acts as a lead farmer by showcasing different varieties of crops on his field and encourages other farmers to join the company. In addition, Hemant owns 15-20 cows whose dung he uses to produce biogas and natural fertilizer.

Today, Hemant is known as a well aware farmer of the producer company, and he is constantly informing other farmers about the availability of seeds, fertilizers and pesticides with NCPCL. Hemant has inspired all the farmers in his village to join the responsible Soyabean program run by the company. He is now a member of the Board of Directors of NCPCL, and his efforts for adopting a progressive attitude towards agriculture will go a long way in making NCPCL a huge success.

Name of Farmer Producer Organisation (FPO):

Madhya Bharat Consortium of Farmer Producer Company Limited (MBCFPCL)

Supporting Resource Institution (RI):

Action for Social Advancement (ASA)

Introduction:

The state level federation of FPCs in Madhya Pradesh was formed in September 2014 as Madhya Bharat Consortium of Farmer Producer Company Limited (MBCFPCL). It is based at Bhopal. MBCFPCL, is jointly promoted by Action for Social Advancement (ASA), Small Farmers Agribusiness Consortium (SFAC), Rajya Ajeevika Forum, Rabo Bank Foundation & Other Dev. Organisations. like Vrutti, ADS, IGS. It has state wide coverage, with present reach upto 33 districts.

06

Objective of MBCFPCL is to create an umbrella support to member FPOs Particularly on market, brand development, financial linkages, value adding, Insurances and leverage the benefits of the economy of scale.

MBCFPCL has a vision of Transforming agriculture of small & marginal farmers of the Madhya Pradesh from means of subsistence to profitable livelihood enterprises through promotion of Collectivization, branding and better positioning in the supply/value chain.

MBCFPCL works towards garnering the collective strength of the FPCs in the market place, providing larger capacity building support in all aspects especially financial to member FPCs , in order to contribute to the FPC eco system in the state and country. MBCFPCL currently has 57 FPCs (16 more have applied) share holders + 47 cooperatives business member working in over 33 districts of Madhya Pradesh. They are covering more than 1.64 Lakh small and marginal farmers. Current equity base, Rs. 24.87 Lakhs.

Within a very short span of time, MBCFPCL became whole sale supplier/distributor for most of agriculture inputs and services and started delivering best services to their member FPOs in very competitive market price both in cash and credit terms

Scope of business of FPO, commodities dealt in, etc.

- Responsible business and delighted customers
- Provide win to win business proposition to business partners
- Produce, market & deliver best quality seeds, Agri inputs / produces and other Agri services in most competitive price.
- Horizontal business development by sharing maximum profit to the partners
- Aggregation, primary processing & trading of farm produces
- Support for production & marketing of seeds in partnership with member FPOs,
- Backward integration for agriculture inputs to member FPOs for sustainable farming,
- Extending linkages for farm mechanization & custom hire centers
- Niches based processing-packing/ value additions

Dimensions of success of MBCFPCL:

Out of the whole spectrum of activities that MBCFPCL is involved in, there are many outstanding achievements of it, in support of the FPOs of the state. Some of the major ones are given as follows:

Benefits to the farmers: Per quintal additional price realized by the farmers ranged from Rs. 100 to 300 and the benefits ranged between Rs 2500-15000/-.

Incentive to FPOs: - Incentive distributed up to 30.00 Lakh to member FPOs.

- **Trading of Agri Produces:**

Small Farmers Agribusiness Consortium (SFAC) designated MBCFPCL as their nodal agency for procurement for creation of buffer stock under pulses price stabilization scheme (PSF) of Government of India. Procurement was done directly from the farmers with help of local farmer producer companies. More than 8000 farmers participated in the procurement. All payments were made through their bank accounts only. MBCFPCL has made payment to the concerned producer company based on the material procured by them from farmers and same is deposited in the designated warehouse. Pulses like Blackgram, pigeon pea were procured through 18 FPOs from Districts like Panna, Chhatarpur, Damoh, Jabalpur, Guna, Shivpuri, Vidisha, Dewas, Tikamgarh, Hoshangabad, and Narsinghpur of Madhya Pradesh. Brief of the procurement is as under:

- Total no. of farmers participated in the procurement:- 6500
- Total No. of FPOs participated in the programme 15
- No. of procurement centres operated: 20
- Name of pulses procured - Blackgram, pigeon pea, blackgram

- **Financial Linkages & Credit Linkages to FPOs**
  The details of support provided for Financial Linkages & Credit Linkages to FPOs are here
  - ✓ Provided SFAC equity grant – Rs. 90 .00 Lakh, and credit guarantee scheme to 300 lakh,
  - ✓ Provided SBI CC limit to 4 FPOs – Rs. 181.00 Lakh, FWWB working capital loan – Rs. 23.50 Lakh / FWWB Warehouse Loan – Rs. 12.00 Lakh / Nabkisan Working Capital Loan – Rs. 12.50 Lakh / Ananya Finance Sanctioned -Rs. 150 Lakh for 5 FPOs
  - ✓ Infrastructure Development Funds Mobilized for FPOs under RKVY: Rs. 324 Lakh- for 15 FPOs for development of grading, processing, storage, marketing and Farm machineries custom hire facilities
- **MIS management and business management support:**
  Support was provided for compliances of all statutory requirements as per norms. Training to Member FPOs - BoDs & Staff for governance & Accounting System & procedure
  Exposure Visit to BoDs and Other Staff were organised – within State and one out side

The challenges faced.

MBCFPCL has encountered several challenges within a short span of time particularly regarding arrangement of working capital and getting APMC licenses. Every business needs capital particularly for advance booking of agri inputs, arrangement of parent material required for seeds production to be done by member FPOs, procurement of farm produces and all this is must for getting it timely on reasonable prices. Bankers do not approve to give loan without any collateral. Therefore, MBCFPCL has tried to link with other unconventional financial institutes like Ananya Finance who have finally provided loan of 2 crore without collateral and one core by IDBI with SFAC under their credit guarantee scheme.

Due to poor outside market demand of normal and BCI cotton trading activities of MBCFPCL & partner FPCs were affected adversely as overall trading of cotton was very less as compared to our plan, yet it was compensated with pulses which were done in big scale.

Erratic, and untimely rainfall has also affected overall seeds production plan as many of the crops failed (not suitable for seeds quality) in both Bundelkhand and Malwa regions. Therefore we are extending our operation in all other regions (different agro climate) so that impact of adverse climate can be mitigated in the overall business plan and execution.

Lessons learned.

Rigorous follow up, continuous meeting and communication with concerned authorities with whom help is required, approaching higher level authorities, apprising them about our works and mandate, creating awareness amongst all stakeholders through using all communication channels including meeting with senior officials and by organizing regional awareness events might help to resolve such problems.

We realized that agri produce trading activity is the most promising and important activity for all FPOs - however for making it successful, FPO must have capacity to purchase all kinds of produce supplied by farmers, then only required volume can be generated. During this year plan for trading of Maize was done but due to higher moisture rate were unable to procure the material during the beginning of the season when price was less as it cannot be stored in higher moisture due to chances of fungus infection but when moisture reduced and we entered into the market, price of maize was increased up to 30% and then we were not able to purchase it. While on the other hand local merchant who had drying facilities, purchased raw seeds at a very low price, dried it and sold it on very high market price. So for better standing with our competitors, we need to be equipped properly otherwise probability of failure would be higher.

Future Plans:

MBCFPCL intends for future activities in year 2016-17, as under:

- Business Target Total - ₹ 100 Crore
- Seeds Business- ₹ 10 Crore,
- Trading of agi inputs- ₹ 5 Crore, Aggregation
- Trading of farm produces- ₹ 85 Crore
- Extended outreach up to min 80% members FPOs and increased members up to 100 FPOs with minimum equity base of ₹ 50 - 100 lacs
- Strengthening of MIS and increased use of IT in monitoring, business & finance management
- Exploring new corporate tie up for trading of farm produces-as per annual plan of 2016-17
- Creation of regional storage & processing/ value adding infrastructures for FPOs
- Explore possibilities for e-trade or e-commerce business for MBCFPCL

CHAPTER 11

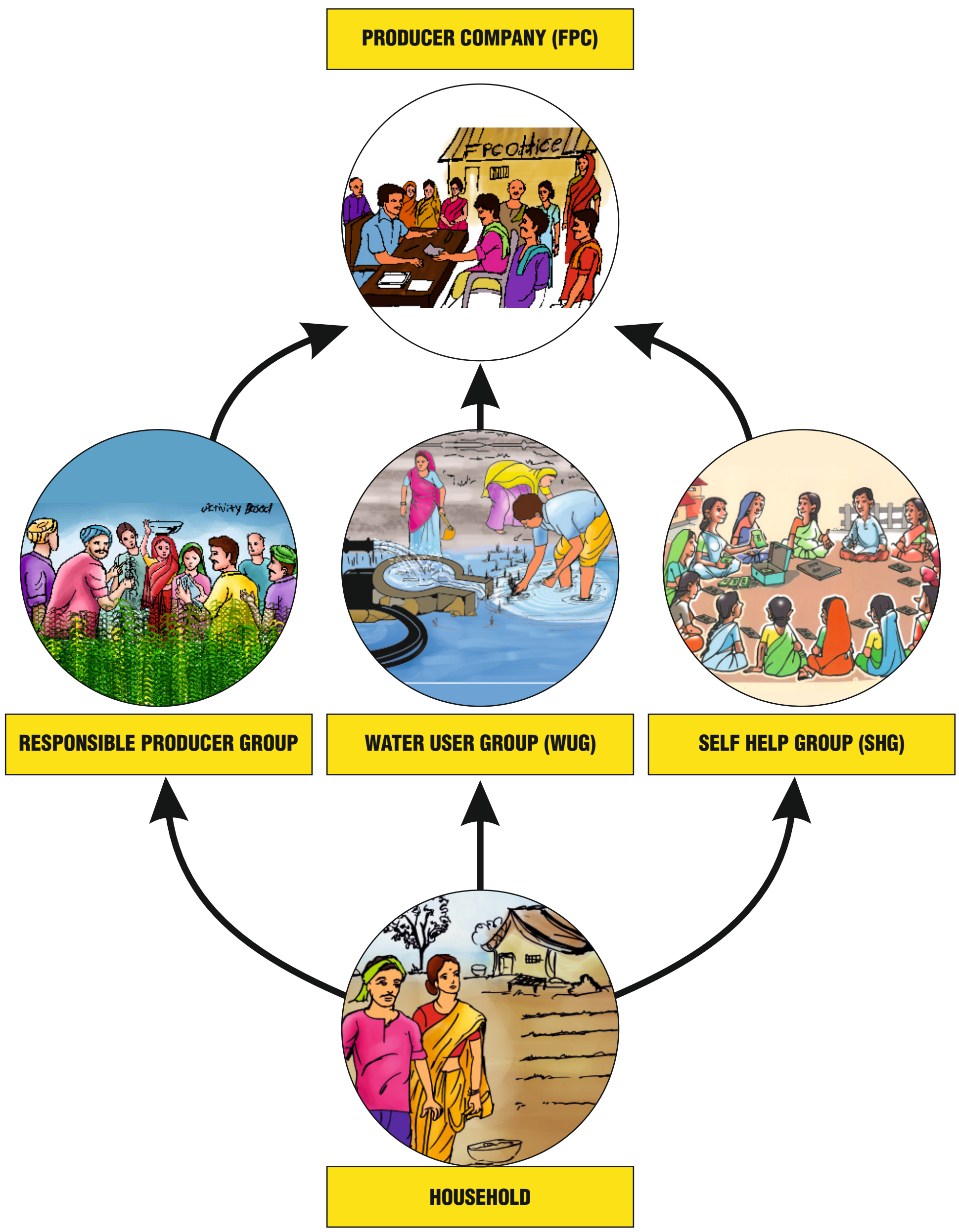
Frequently Asked Questions (FAQs) of Producer Companies Act

11.1 DEFINITIONS, INCORPORATION OF PRODUCER COMPANIES AND OTHER MATTERS

DEFINITION:

Q1: What is a Producer Company?

A1: A Producer Company is a body corporate and is a kind of company limited by shares. The unique aspect of a Producer Company is that it contains important elements of a private limited company and also borrows some of the principles of cooperative societies including mutual assistance principles. Only primary producers can be members/shareholders in a Producer Company. It was introduced by an amendment to the Companies Act in the year 2002 by insertion of Chapter IX-A.



OBJECTS:

Q2: What are the matters a Producer Company can deal with?

A2: A Producer Company can deal with the following:

- Production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce of the Members or import of goods or services for their benefit;
- Processing including preserving, drying, distilling, brewing, canning and packaging of produce of its Members.
- Manufacture, sale or supply of machinery, equipment or consumables mainly to its Members.
- Providing education on the mutual assistance principles to its Members and others.
- Rendering technical services, consultancy services, training, research and development and all other activities for the promotion of the interests of its Members;
- Generation, transmission and distribution of power, revitalization of land and water resources, their use, conservation and communications relatable to primary produce;
- Insurance of produces or their primary produce;
- Promoting techniques of mutuality mutual assistance;
- Welfare measures or facilities for the benefit of Members as may be decided by the Board.
- Any other activity, which may promote the principle of mutuality and mutual assistance amongst the Members in any other manner;
- Financing of procurement, processing, marketing or other activities which include extending of credit facilities or any other financial services to its Members.

FORMATION AND REGISTRATION:

Q3: How many people are required to form a Producer Company? Should all of them be individuals or can institutions also be involved?

A3: A Producer Company can be formed by:

- 10 or more individuals who are producers.
- Two or more producer institutions.
- Combination of both.

Q4: Who is an initiator/promoter of a Producer Company?

A4: This is usually a term given to an NGO or an external agency which assists a group of individual producers or producer institutions in the formation and Registration of a Producer Company. In the Companies Act, 1956 a promoter is the term given to a person who is involved in the incorporation of the company. Once the Company is registered, the promoters will be termed as BOD-The terms "promoters" and "BOD" are used in the pre and post registration phase of the FPC

Q5: Should the initiator/promoters necessarily be a primary producer?

A5: If the initiator/promoter is looking to be a member of the Producer Company then they would have to be a primary producer.

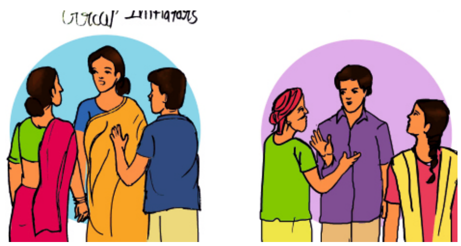
Q6: Who are the types of initiators?

A6: The following are the types of initiators:

- Any individual person or group of persons;
- Any Non-Governmental Organization or any organization working with producers and who are interested in helping the producers set up a Producer Company;
- Any existing Multi-Sate Cooperative Society;
- Any governmental organization as well.

INDIVIDUAL INITIATORS

GROUP INITIATORS



NGO

MULTI-STATE COOPERATIVE SOCITY

Govt.

Q7: Who will bear the cost incurred to incorporate the company?

A7: The promoters shall initially bear the costs incurred in incorporating the Company. The Producer Company may reimburse the direct costs associated with the promotions and registration of the company including the registration costs, legal fees, printing of the memorandum and articles etc. This payment will be subject to the approval of the members of the Producer Company at the first general meeting.

Q8: What are the responsibilities an initiator has to take before incorporation?

A8: The initiator is responsible for the incorporation of the company She/he, along with other promoters, have to get drafted the 'Memorandum and Articles of Association', file them with 'the Registrar of Companies' along with other documents and papers, carry out corrections, if any, required by the 'Office of the Registrar' and finally collect the 'Certificate of Incorporation'. Initiator also has to mobilize as well as invite people to be shareholders of the company.

Q9: What is Memorandum of Association (MoA)?

A9: Memorandum of Association of a company is a fundamental document in its formation. It sets out the constitution and charter of the company. It defines the scope of its activity and the extend of its power it could exercise.

Q10: Can the objects mentioned in the MoA be changed according to the needs?

A10: To change the objects in the MoA there are certain procedures. They are explained in detail in the Act. It is not possible to change the objects without the permission of the Registrar of Companies.

Q11: What are the important things that any MoA should contain?

A11: The MOA should contain the name of company, the State in which the registered office is situated and the main and the ancillary objects of the company. Besides this, it should also contain the names and addresses of the promoters. The authorized share capital with division into shares should be mentioned. The names of the first Directors, their address, occupation, number of shares taken by each subscriber and also the jurisdiction of the company should find a mention in MoA.

Q12: What is Article of Association (AoA)?

A12: The Articles of Association (AoA) are the rules and regulations for managing the company's internal affairs. It defines the relationship between the subscribers and the management. Generally, it brings about clarification on anything contained in the memorandum.

Q13: Can the rules and regulations mentioned in the AoA be amended?

A13: Amendment of rules and regulations mentioned in the AoA can be done by passing a special resolution. However, when an amendment is made care has to be taken to make sure that it does not have any conflict with the company law and the MoA of the company.

Q14: What are the important matters that should find place in AoA?

A14: The AoA of a company should provide for the qualifications for membership, the conditions for continuance or cancellation of membership and the terms, conditions and procedure for transfer of shares. It should also contain information and procedure for transfer of shares. It should also contain information on the voting rights of the subscribers. Election of Directors, dividend on shares and method of cooperation with other Producer Companies. Details of other matters that should find place in the AoA are mentioned in detail in the Act.

Q15: Within how many days will a company be registered after submission of documents?

A15: If the Registrar is satisfied that all the requirements under the Act have been complied with respect to the registration and all the documents submitted are intact, he has to issue the certificate of incorporation within 30 days of receipt of all the documents.

Q16: What is a round seal? Should all Producer Companies have one compulsorily?

A16: There is no specific definition for a round seal. It is a seal which is round in shape. All Producer Companies should have one compulsorily. The seal should be made in a such way that the name of the company is clearly visible in this.

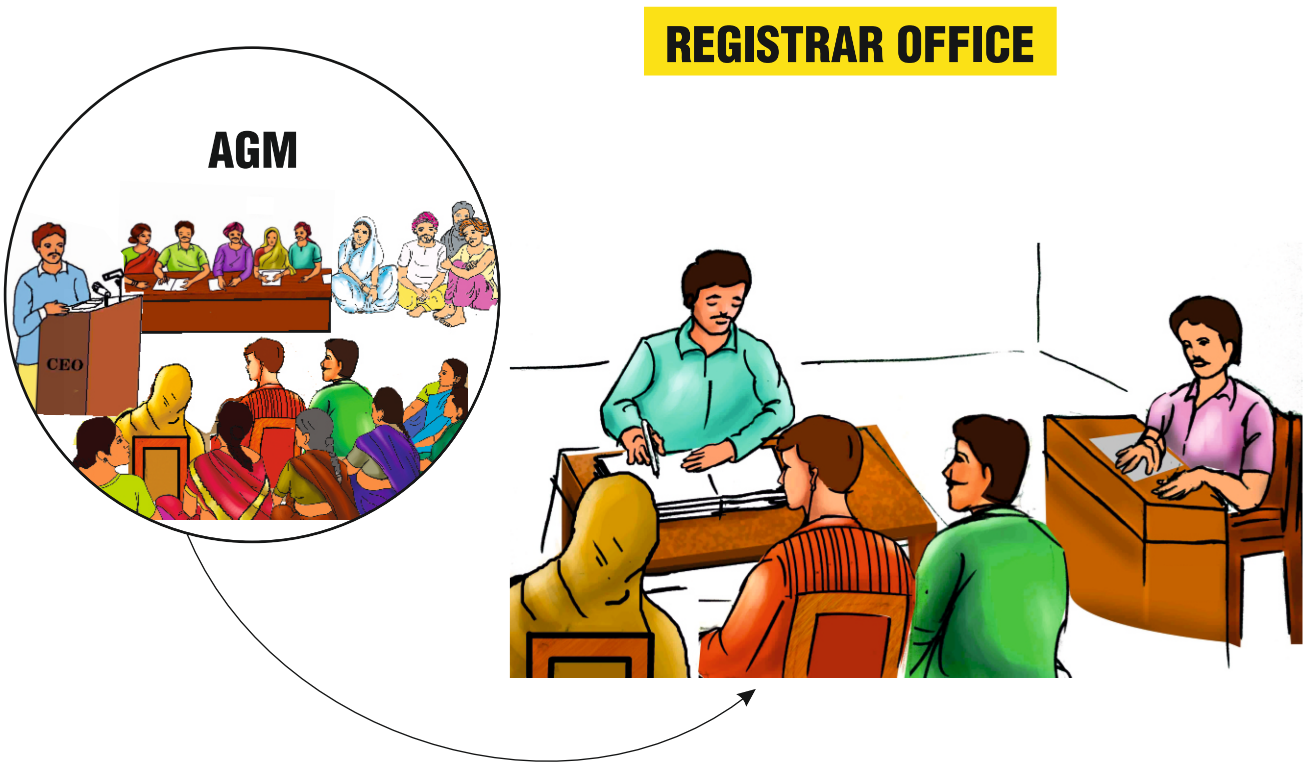
Q17: Is digital signature required for all Directors and not CEO?

A17: Yes. Various documents need to be filed online through the website of the ROC. For this filing digital signature is required. The CEO and Directors file this on behalf of the company. Hence, digital signatures are compulsorily required.

Q18: What are the important documents required for obtaining PAN card and DIN card?

A18a: ***Documents required for obtaining PAN card:***

- To obtain a Pan card for an individual proof of address, proof of identity, proof of date of birth has to be submitted to the income tax department along with other details in the prescribed form.
- To obtain the PAN card for a company the certificate of incorporation alone is required to be submitted along with the prescribed form filled up.



A18b: ***Documents required for obtaining DIN card:***

- Full name of the applicant, father's name and nationality.
- Applicant's PAN card.
- Permanent address and current address. If the permanent address and the current address are the same, that should be clearly mentioned. Proof of address should be produced. It could be bank pass book, driving licence or voter's ID. If the telephone bill is given the bill should have been paid within less than 2 months.
- Recent passport photograph.
- Details regarding occupation of the applicant.
- Details regarding educational qualification of the applicant.
- Applicant's email ID and phone number.

Q19: What are the methods to change the registered office of a company? What is the method to inform the registrar?

A19:

- If the registered office of the company is shifted from one address to the other in the same town or village a resolution has to be passed by the Board of Directors. This resolution has to be filed with the ROC, and after getting acceptance the registered office will be considered as shifted.

- If the registered office is to be shifted from one town to the other or from one village to the other within the same jurisdiction of the ROC, a resolution has to be passed in the AGM with 75% votes. This resolution has to be filed with ROC and after getting acceptance the registered office will be considered as shifted.

- If the registered office is to be shifted from one town to the other or from one village to the other which comes under different jurisdiction of the ROC, a resolution has to be passed in the AGM with 75% votes. This resolution has to be filed with ROC and after getting acceptance the registered office will be considered as shifted.

SOME EXPLANATIONS:

Q20: Who is a producer ?

A20: A producer is any person who is engaged in any activity connected with or relatable to primary produce.

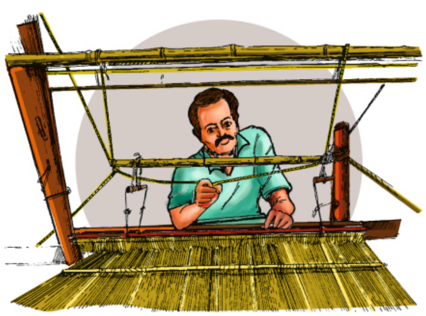
Q21: Who is a primary producer ?

A21:

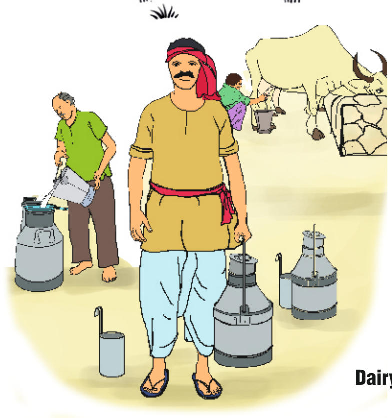
- Primary Produce essentially means the procedure of farmers which arises from agriculture.
- The term agriculture includes animal husbandry, horticulture, floriculture, pisciculture, viticulture, forestry, forest products, re-vegetation, bee keeping and farming plantation products.
- It also includes any other primary activity or service which promotes the interests of farmers or consumers.
- It includes the produce of persons who are engaged in handloom, handicraft or other cottage industries.
- It also includes any product resulting from any of the above activities including by-products of such products.
- It also includes products from an ancillary activity that would assist or promote any of the aforesaid activities.

AGRICULTURE PRODUCTS

BEE KEEPING



HANDLOOM HANDICRAFT etc.



Dairy

Q22: Who is a member of a Producer Company?

A22: Members can mean persons or producer institutions. The Producer institutions need not be necessarily incorporated. The AoA of the Company may list the qualifications necessary for a member. The most important qualification is that they should be producers.

Q23: What is withheld price? Is it a must that the Company should pay a defined percentage of the value of the product as soon as it receives the products from its members or can it vary from company to company? Who determines it?

A23: When a Company procures goods from its members it may not pay the entire amount of consideration for the same at the time of procurement. A percentage of the same may be paid immediately and the rest may be withheld by the Producer Company for payment at a subsequent date. The amount that is withheld in this manner is called the 'withheld price'. There is no defined percentage prescribed under the Act. The Board of Directors and General Body of every company have the powers to determine this. Some companies may define a cap on the percentage that can be withheld by providing for the same in their AoA.

11.2 SHARE CAPITAL AND MEMBERS' RIGHTS:

SHARE CAPTITAL:

Q24: What is the definition of shares ?

A24: A Company requires money to run the business and this capital which is required to run the company is raised through various means. Shares are a kind of movable property which is transferrable in a manner provided by the AoA of the company or by the Companies Act itself. A share is basically a right to a specified amount of share capital of the Company. It carries with it certain rights and liabilities. It represents the intersect of the holder which is measured for the purpose of liability and dividend by a sum of money.

Q25: How does the share differ from membership ?

A25: In the context of Producer Companies, all members have to be shareholders. Hence there is no difference.

Q26: What is the meaning of authorised share capital?

A26: Authorized share capital of a company is the maximum amount of share capital that is fixed for a particular Company as per the MoA of a Company.

Q27: What is paid up share capital?

A27: Paid up share capital means the aggregate amount of money credited as paid-up and is equivalent to the amount received as paid-up in respect of the shares issued.

For example, the Authorized share capital of a Company may be 1,00,000/- (Rupees One Lakh). The Company might have issued shares worth Rs. 50,000/- in the form of 5,000 shares at the rate of Rs.10/- each. A and B are the shareholders, each holding 2,500 shares each and have paid only Rs.8/- per share. The paid up share capital is Rs.40,000/-only (2,500x8x2). The liability of A and B is only to the extent of the amount unpaid on the shares ie. Rs. 5,000/- each. (2,500x2).

Q28: What should be the minimum paid up capital at the time of incorporation?

A28: The minimum paid up capital at the time of incorporation of a Producer Company is Rs.1,00,000/- (Rupees One Lakh only).

Q29: Is there a cap on the maximum share capital that can be raised?

A29: There is no cap on the maximum share capital that can be raised by a Producer Company.

Q30: What are the different categories of shares that a Producer Company can issue?

A30: There is only one kind of share issued in a Producer Company. They are equity shares. There are no different categories of shares as is the case in certain kinds of Companies.

Q31: How many shares can a member have?

A31: There is no such limit under the Act. The Producer Company may restrict the same through its AoA.

Q32: How is the shareholding by the members determined?

A32: The shareholding is determined as per the rules laid down in that regard in the MoA of the Company. Subsequent decision regarding the issuance of shares etc., is taken by the Board of Directors.

Q33: Is the voting right proportional to the number of shares held?

A33:

- If the membership of the Company is only made up of individual members then voting is on the basis of one vote per member and not one vote per share.
- If the membership of the Company is only made up of Producer Institutions, then the voting is based on their participation in the business of the Producer Company in the previous year and the details of this may be specified in the AoA of the company.
- If the membership consists of both individual members as well as producer institutions, then voting is on the basis of one vote per member.
- Unless expressly provided otherwise, every member has only one single vote.

Q34: Can a producer trade his share?

A34: The shares of a Producer Company cannot be traded publicly. They can be transferred only to an existing active member with the approval of the Board.

Q35: What are the differences between the shares held by producers and that of a private limited company?

A35:

- Producer Companies have only one kind of shares i.e. equity shares; private limited companies can have both equity shares as well as preference shares. In addition, in the preference shares there are various kinds that can be issued by a private company.
- Only producers can be members; not anyone else.

Q36: Can a member hold shares in more than one Producer Company? Is there any restriction on the same?

A36: A member can hold shares in more than one Producer Company. There is no restriction posed by the Act of this. However when the AoA for a company is formulated it can be defined that a member cannot hold shares in more than one Producer Company.

SPECIAL USER RIGHTS:

Q37: Do active members have special rights ?

A37: Active Members of the producer company have special rights if the AoA provide for the same.

Q38: Are the special rights transferable to another active members ?

A38: Yes, special rights are transferrable to another active member.

Q39: What is an example of a special right ?

A39: Special right may mean any right relating to the supply of additional produce by the active member ex: the right may be in the form of a better procurement price or some additional services can be provided by the Producer Company to those active members for whom special rights have been granted.

TRANSFER OF SHARES AND OTHER RIGHTS:

Q40: Can the shares of a member transferred to another member ?

A40: A member, only with the previous consent of the board, can transfer whole or part of his shares along with special rights to an active member at par value.

Q41: Can the shares be sold?

A41: Shares cannot be sold to outsiders. Shares can only be transferred to an active member in the company at par value.

Q42: Whose approval is required for the transfer of shares?

A42: Prior approval of the Board of Directors is required for the transfer of shares.

Q43: Is a nomination of shareholding possible in the event of the death of the member?

A43: Yes, nomination is possible and is required under the Act.

Q44: What are the rights of the nominee?

A44: Nominee shall become entitled to all the rights in the shares of the Producer Company which were held by the deceased member.

Q45: Can a member who was a primary producer at the time of joining and ceases to be one in due course continue to be a member?

A45: In such cases. the Board can direct the surrender of shares along with special rights at par value or such other value as determined by it.

Q46: Can a Producer Company issue bonus shares?

A46: Yes.

Q47: How is this done?

A47: Upon recommendation of the Board, and passing of the resolution in the general meeting, bonus shares can be issued by the capitalisation of amounts from general reserves. Bonus shares should be issued in proportion to the shares held by the members on the date of issue of such shares. Capitalisation of profits or reserves refer to converting a company's retained earnings which represent the profits held in the business over time to capital.

Q48: What is the criteria for deciding the bonus shares to members?

A48: It is issued in proportion to the shares held by the members on the date of issue of such bonus shares. Criteria are decided by BOD and it is approved by GB.

11.3 BOARD OF DIRECTORS

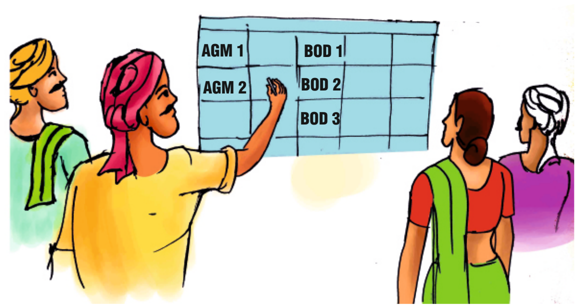
CONSTITUTION:

Q49: Who constitute the Board of Directors of a Company?

A49: The members of the Producer Company who sign the MoA and AoA for the 1st time designate the Board of Directors. There should be a minimum of 15 Directors and there can be a maximum of 15 Directors designated.

Q50: What happens if the Annual General body Meeting (AGM) of a producer company is not conducted within 90 days of incorporation ? Is there a fine that would be levied for the same?

A50: If the AGM is not conducted within 90 days of incorporation the registration can be cancelled. If proper reasons are cited the registrar may give additional time for conducting the AGM. Even after providing this additional time if the AGM is not conducted a fine of Rs. 1 lakh can be levied. Besides this for every additional day of default a fine of Rs. 5,000 can be levied.



Q51: Should the names of the BoD form part of the original MoA of the Company or can it be added at a later stage?

A51: Yes, it should form part of the original MoA of the Company.

Q52: Who selects and appoints the Board of Directors?

A52: The first BoD are designated by the Members who sign the MoA and AoA. But within 90 days of registration of the Producer Company, elections are to be conducted for the BoD. All the members of the Producer Company participate in this voting. There is no restriction on the first board of members also being elected as directors. In addition, since the directors are being appointed at the general meeting of the Producer company there is nothing that prevents either the replacement of the entire board and bringing in of a totally new set of directors. Alternatively, certain forming directors can be retained by the members and certain new directors can also be brought in.

Q53: Are they appointed by selection or election?

A53: After the first BoD, the appointment is through elections at the AGM of the Company.

QUALIFICATION AND TERMS:

Q54: What is the term of the Board of Directors?

A54: Every Director shall hold office for a minimum period of 1 year and a maximum period of 5 years. The AoA of the Producer Company can fix the term as anything between these two frames.

Q55: Can the same person be a member on the BoD of different companies? What are the rules regarding this?

A55: The same person can be a Board of Director in more than one Company. The Companies Act provides that the same person can be on the Board of a maximum of 20 companies. The limit is 10 in case of Public Companies. However, every Company can specify a lower limit for it's Directors by including the requisite provision in the AoA.

Q56: Under what conditions can a member of the BoD resign or be removed?

A56: A Director can resign of his own free will at any point of time. The circumstances in which a Director would be asked to resign from the board or would be removed from the board are:

- The Director is convicted by a Court of any offence involving moral turpitude and sentenced to imprisonment for not less than six months;
- The Producer Company in which he is a Director has defaulted in the repayment of any advances or loans taken from any company or institution or any other person and such default continues for ninety days;
- The Director himself has defaulted in repayment of any advances or loans taken from the Producer Company in which he is a Director;
- The Producer Company, in which he is a Director
  - (i) has not filed the annual accounts and annual return for any continuous three financial years.
  - (ii) for a period of one year or more has failed to, repay its deposit or withheld price or patronage bonus or interest on due date, or pay dividend.
- There is a failure in holding the election for the office of a Director as per the provisions of the Companies Act and AoA and
- The AGM or the extraordinary general meeting of the Producer Company in which a person is a Director is not held in accordance with the Companies Act.

Q57: Is there a salary for the members of the BoD?

A57: Remuneration may be fixed for the BoD and the same has to be approved by the shareholders at the GB meeting.

FUNCTIONS:

Q58: Who are the other functionaries of the Company appointed by the Board and how do they select them and supervise them?

A58: The Chief Executive Officer is the functionary who is appointed by the Board of Directors. He/she is chosen among people other than the members of the Producer Company. A shareholder/member cannot be the CEO.

The AoA may specify the list of other functionaries to be appointed by the BoD. The BoD can also delegate the powers of appointing the other functionaries to the CEO.

Q59: What are the functions to be performed by the BoD which require the resolution by Members at the AGMs of the Company?

A59: The Board of Directors shall exercise the following powers on behalf of the Company only after resolutions are passed at the AGM of its members:

- Approval of the budget and adopting the annual accounts of the Producer Company.
- Approval of Patronage bonus.
- Issue of bonus shares.
- Declaration of limited return and decision on distribution of Patronage.
- Specifying the conditions and limits of the loans that may be given by the Board to any Director.
- Any other transaction which requires the approval of the Members as specified in the Articles of Association of the Company.

Thus, while the Board can ordinarily do all acts that a Company is authorized to do, the above listed activities require the express approval of the Members of the Company through a resolution at the AGM.

MEETINGS:

Q60: What is the frequency in which the BoD has to meet?

A60: The BoD has to meet at least once in every 3 months and at least four times a year. Frequency can be increased.

Q61: What is the procedure for giving notice to the members Of the BoD to attend the meeting? Whose responsibility is it to issue such notice?

A61: The notice of the meeting must be:

- In writing
- Sent to every Director who is in India and for those who are not in India, it should be sent to their usual address in India.
- Sent at least 7 days prior to the date of meeting.

The responsibility of sending this notice as per the specifications listed above is on the Chief Executive Officer. If the CEO fails to give notice within the 7 day period, he/she can be fined up to Rs. 1,000/-.

Q62: Are there circumstances under which the notice period can be waived?

A62: If the reasons for shorter notice are recorded in writing by the BoD, then the meeting can be called with shorter notice.

Q63: What is the required quorum for such meetings?

A63: The quorum for such meetings is one-third of the total strength of Directors and is subject to a minimum of three Directors being present.

GENERAL MEETINGS:

Q64: What are the categories of general meetings?

A64: General meetings are classified into two categories. They are Annual General body Meeting (AGM) and special AGM.

Q65: When should the first AGM be conducted?

A65: The first AGM should be conducted within 90 days of incorporation.

Q66: What is the interval permitted between two AGMs?

A66: Not more than 15 months shall elapse between the date of one AGM and the other.

Q67: If it is not possible to conduct the AGM within this period will the Registrar provide grace time?

A67: If the ROC is convinced that the AGM cannot be conducted for reasons beyond control he may provide a grace period of three month.. However, this shall not apply for the first AGM.

Q68: How should the notice for the AGM be prepared ?

Q68: The AGM should be called by the Board giving at least 14 days notice. This notice should specify the date' time' venue and the agenda. The notice should be sent to all members and the auditors. The agenda, minutes of the previous AGM names of the candidate and qualifications for the Board of Directors election (if it is being conducted in the AGM), audited balance sheet and profit and loss account of Producer Company should be sent along with the notice.

Q69: What is the quorum for an AGM?

A69: It is l/4th of the total shareholders or as specified in AoA MoA.

Q70: What is a special AGM?

A70: A special AGM is an AGM conducted under the basis of the request by members of the Producer Company to discuss certain specific issues for which action can be taken only in a AGM.

Q71: What is required to be done after an AGM?

A71: The minutes of the meeting, audited stock register, profit and loss statements, annual income along with the Director’s report should be filed with the Registrar with the prescribed fee within 60 days of conducting the AGM.

COMMITTEES:

Q72: What are committees of Directors?

A72: The Board can constitute committees for assisting the Board in the discharge of its functions. The Board cannot delegate any of its powers or assign the powers of the CEO to any Committee.

Q73: How many members can such Committees have?

A73: There is no specification as to the number of members who can be on such Committees. The CEO or any one of the Directors has to be a member on the committee compulsorily. In addition, the committee can co-opt such number of persons as it deems fit as members of the Committee.

Q74: What are the functions of these Committees?

A74: These Committees have to function under the superintendence, direction and control of the Board. The Board will also duration the duration of its functioning and the manner of functioning. The committees can be given a specific mandate for its operation by the Board. The committees have to maintain regular minutes of meetings and the same have to be placed before the Board regularly.

Q75: Is there any salary/fee/allowance to the members of the Committee?

A75: The BoD can fix the fee and allowance to be paid to the members of the Committee.

LIABILITY:

Q76: Who is the BoD accountable to? Who do they report to?

A76: The BoD is accountable to the entire company and their responsibility is to all the members of the Company and they report about their functioning at the AGM of the Company.

Q77: What is the liability of the Directors?

A77: If the Directors vote for a resolution or approve by any other means anything done in contravention of the law or the AoA and if the company suffers loss or damage because of the same, the Directors are held liable jointly and severally for the loss.

Q78: What can the Company recover from the Directors?

A78: The Company can recover:

- If a Director makes any profit as a result of a contravention of law as detailed above, the Company can recover an amount equal to that Profit made.
- If the Company has suffered loss or damage as a result of such an act, the Company can recover an amount equal to the loss or damage.

Q79: Do the members of the BoD have any special privileges with respect to procurement of their own produce by the Company?

A79: No.

Q80: Do members of the BoD get preferential treatment with respect to loans?

A80: No.

Q81: Where do disputes regarding the selection, appointment, functioning and liability of the Directors get decided? Which is the appropriate forum?

A81: All disputes in this regard shall be settled through Arbitration under the Arbitration and Conciliation Act as if the parties to the dispute had consented to the same in writing.

11.4 FUNCTIONARIES/STAFF OF PRODUCER COMPANY

CHIEF EXECUTIVE:

Q82: Who is the chief functionary of the Producer Company?

A82: The Chief Executive is the chief functionary of a Producer Company. He/She should be outsider not from BOD family.

Q83: Is he / she responsible for carrying out the day to day functioning of the company?

A83: Yes. He / she is responsible for carrying out the day to day functioning of the company.

Q84: Who appoints the Chief Executive?

A84: The Chief Executive is appointed is appointed by the Board of Director of the Producer Company.

Q85: Can the Chief Executive be one of the members of the Producer Company?

A85: No. The Chief Executive is appointed from among those who are not members of a Producer Company.

Q86: Is the Chief Executive a Director of the Board?

A86: The Chief Executive is not initially chosen from among the Board of Directors. But on appointment, the Chief Executive becomes a member of the Board in an ex-officio manner.

Q87: Should the Chief Executive also retire by rotation?

A87: No, the Chief Executive need not to retire by rotation like other members of the Board of Directors.

Q88: Who determines the criteria for the selection and appointment of the Chief Executive?

A88: The qualifications, experience, terms and condition of service of the Chief Executive may be provided in the AoA of the company. If it is not provided in the Articles, it can be determined by the Board of Directors from time to time.

Q89: What powers does the Chief Executive have?

A89: The Chief Executive has substantial powers of management of the company.

Q90: Who determine the power of the Chief Executive?

A90: The powers of the Chief Executive are determined by the Board.

Q91: What are the functions of the Chief Executive with respect to administration and finance?

A91a. **Administration**

- The Chief Executive has to perform administrative acts of a routine nature which includes managing the day to day affairs of the Producer Company.
- Sign documents for and behalf of the Company as authorized by the Board.

A91b. **Finance**

- The Chief Executive has to operate the bank account or authorize any other persons to operate the bank account. Such other person needs to have the approval of the Board of Directors.
- The Chief Executive also has to make arrangements for the safe custody of cash and other assets of the Producer Company.
- Maintain proper books of accounts prepare annual accounts and audits of the same and also place the audited accounts before the Board and also before the AGM of the members.

Q92: Is it essential for the Chief Executive to provide information to the members about the operation and function of the Company?

A92: Yes. This is one of the main functions of the Chief Executive. He/She has to provide the members with periodic information to appraise them about the operation and functions of the Producer Company.

Q93: Who appoints various other staff of the Producer Company and what are the guidelines for appointment?

A93. The Chief Executive can appoint people to various other posts of the Company to the extent of powers delegated by the Board.

Q94: Does the Chief Executive have a role in formulation of goals, objectives, strategic plan and policies?

A94: Yes. The Chief Executive has to assist the Board of Directors in the formulation of goals, objectives, strategies, plans, and policies.

Q95: Who advises the Board with respect to legal and regulatory matters?

A95: The Chief Executive s supposed to advise the Board with respect to legal and regulatory matters concerning both the proposed and ingoing activities of the Producer Company. If any action is required to be taken in respect of these matters the responsibility of the same is also on the Chief Executive.

Q96: What other roles does the Chief Executive have?

A96: The Chief Executive can exercise other powers which may be necessary in the ordinary course of business. He/She can also discharge other functions and exercise other powers which may be delegated by the Board of Directors.

Q97: Can the Chief Executive function independently?

A97: The Chief Executive can function independently- but he/she works under the general superintendence, direction and control of the Board of Directors. The Chief Executive is accountable for the performance of the Producer Company.

Q98: Can a person be appointed as a CEO for more than one company? What are the regulations regarding this?

A98: A person can be appointed as a CEO for more than one Company. If both the companies for which he is a CEO have any business transaction with each other it will be considered as related party transaction according to the law. Hence, all precautionary measures have to be taken why such transitions are made and all Directors have to be kept informed about it. Such transactions can be made after special resolutions by the Board of Directors.

11.5 FINANCE, ACCOUNTS AND AUDIT

RECORDS/BOOKS OF ACCOUNTS:

Q99: What are the records / books that a Producer Company should maintain?

A99: Every producer company has to maintain proper books of account with respect to:

- All sums of money received and spent by the Company including details of the matters with respect to which they took place;
- All sales and purchase of goods;
- Instruments of liability executed by or on behalf of the Company;
- Assets and liabilities of the Company and
- Particulars relating to utilization of material and other items of costs in case the Company is engaged in production, processing and manufacturing.

Q100: If a Producer Company is also engaged in production, processing and manufacturing does it need to maintain any additional records?

A100: In case the Producer Company is engaged in production, processing and manufacturing, the Company in its books of accounts needs to maintain details relating to utilization of materials or labour or other items of costs.

Q101: Is it necessary for a Producer Company to prepare a balance sheet and profit and loss of accounts?

A101: Yes, it is necessary for a Producer Company to prepare a balance sheet and profit and loss accounts.

Q102: If so, what is the guideline for preparing the same?

A102: They shall be prepared in accordance with the provisions of Section 2Il of the Companies Act, 1956 (Section 129 of the Companies Act,20l3) which lays down the detailed procedure regarding preparing the same.

INTERNAL AUIDIT:

Q103: Should a Producer Company undertake an internal audit of its accounts?

A103: Yes. A Producer Company has to undertake an internal audit of its accounts.

Q104: What is the frequency of such audits?

A104: Frequency shall be prescribed by the AoA of the Producer Company.

Q105: Who should do the internal audit?

A105: Chartered Accountant as defined under Section 2 (t) (b) of the Institute of Chartered Accountants Act, 1949 has to do the audit.

Q106: What are the guidelines?

A106: The manner of carrying out the internal audit shall also be prescribed by the AoA of the Company.

DUTIES OF THE AUDITOR:

Q107: What are the duties of the Auditor of a Producer Company?

A107: The auditor of a Producer Company is required to comply with the statutory requirements of Section22T of the Companies Act, 1956 (Section 143 of the Companies Act,2013). In addition to those requirements, the auditor of a Producer Company is duty bound to report on the following:

- Amount of debts due along with particulars of bad debts if any
- Verification of cash balance and securities
- Details of assets and liabilities
- Transactions which are contrary to (against) what is permitted for Producer Companies
- Loans given by the Producer Company to its directors
- Donations or subscriptions given by the Producer Company
- Other matters which may be considered necessary by him/her.

Q108: Is it essential that the Auditor should be a Chartered Accountant?

A108: Yes. The auditor has to be a Chartered Accountant as defined Under Section2(1)(b) of the institute of Chartered Accountants Act,1949 has to do the audit.

DONATIONS OR SUBSCRIPTIONS BY PRODUCER COMPANY:

Q109: Can a Producer Company make donation or subscription?

A109: Yes. This can be done by a special resolution passed at a meeting of the Members of a Producer Company' At the said meeting, at least 3/4th of the Members present and must vote in favour of the resolution to make a donation.

Q110: Should this donation be limited to an institution or individuals?

A110: No. It can be either to an institution or an individual.

Q111: For what purposes can the producer company make such donations or subscriptions?

A111: It can be for the following purposes:

- Promoting social and economic welfare of producer members or producers or general public
- Promoting mutual assistance principles

Q112: Is there a limit to the donation or subscription and if so what is it?

A112: Yes. The aggregate amount of all such and subscriptions in any financial year should three percent of it. net profit of the Producer n the financial year immediately preceding the financial year in which the donation or subscription was made.

Q113: Can a Producer Company make a contribution to a political Party?

A113: No. A Producer Company cannot make a contribution or subscription either directly or indirectly to a political party or to any person for a political purpose. It shall also not make available any facilities including personal or material to any Political Party.

Q114: Can a Producer Company take donations from individuals? Can the donations be both in cash and kind? Is there a limit to which a donation can be taken in a particular year?

A114: A Producer Company can take donations from individuals both in cash and kind. There is no limit to the amount that can be taken in a particular year. However, individuals cannot claim tax exemption like they do when donations are made to non-profit organisations. These donations will still be considered as "income" for the individual and taxes would be levied.

GENERAL AND OTHER RESERVES

Q115: What are the reserves a Producer Company has to maintain?

A115: Producer Company has to maintain a general reserve which will be in addition to any other reserve which may be specified in the articles.

Q116: What is a general reserve?

A116:
- The word general reserve is not defined in the Act. The word free reserves is defined as those reserves which, as per the latest audited balance sheet of the Company, are free for distribution as dividend and shall include balance to the credit of the securities premium account but shall not include share application money.
- A Producer Company is required to maintain a general reserve in addition to any other reserve that seeks to maintain as required by its articles.
- In the context of a Producer Company, a general reserve, would be an amount that is set aside after payment of limited return on share capital and the amount proposed to be disbursed as patronage bonus.

Q117: How often should a general reserve be maintained?

A117: A general reserve should be maintained every financial year.

Q118: How do members contribute this reserve?

A118: If the Producer Company is required to ask its members to contribute to the reserve, it would do so after ascertaining the amounts that are required to be paid by the respective members and ask them to make the requisite contribution.

Q119: Can credit facilities be made available to members?

A119: Yes, it can be made available to the members of a producer Company.

Q120: If so, for what purpose can these credit facilities be made available?

A120: It can be made available only in connection with the business of the Producer Company.

9.6 LOANS AND INVESTMENTS

LOANS TO MEMBERS

Q121: What is the period of the credit?
A121: The period of credit cannot exceed 6 months or as decided by Board.

Q122: Can loans and advances be provided against security?
A122: Both loans and advances can be provided to the members against security. The nature and extent of security required has to be provided in the articles.

Q123: What is the repayment period of the above mentioned loan?
A123: The repayment period should be more than 3 months but less than a maximum limit of seven years.

Q124: Can loans and advances be provided to Directors?
A124: Yes, it can be provided to Directors of a Producer Company.

Q125: If so, what are the additional requirements that are needed to be fulfilled?
A125: The members of the Producer Company must approve of such loans and advances in a general meeting. This is the additional requirement for grant of such loan or advance to a Director. Only after this approval has been given can the loan be extended to the said Director.

BORROWING FROM MEMBERS, DIRECTORS AND OUTSIDERS

Q126: Can the general reserves of the Company be invested?
A126: Yes, the general reserves of the Company have to be invested compulsorily.

Q127: If so, where should it be invested?
A127: It has to be invested in such a manner that the highest returns are available.

Q128: Can a Producer Company acquire shares of another Producer Company?
A128: Yes, a Producer Company may acquire the shares of another Producer Company.

Q129: Should the other Company also have similar objectives?
A129: Though it is not specifically mentioned that the other Company should also have similar objectives, the reason for acquiring shares has to be for the promotion of the objectives of the main Producer Company.

Q130: What are the other ways of investing in another Producer Company apart from acquiring shares?
A130: The following are the other ways. The Producer Company can
(i) Subscribe to the share capital of another Producer Company
(ii) Enter into any agreement or any other arrangement which can be
- By formation of subsidiary
- Formation of joint venture
- In any other manner with anybody corporate in order to promote the objects of the Producer Company.

These methods require a special resolution of the members in order to be executed.

Q131: What are the records that have to be maintained regarding such investments?

A131: The Producer Company has to maintain a register containing particulars of all investments. This register should contain the following information.

- Name of the Companies in which shares have been acquired
- Number and value of shares
- Date of acquisition
- Manner and price at which the shares have been subsequently disposed of

Q132: Where should the registers be kept?

A132: The register shall be kept in the registered office of the producer Company.

Q133: Are the registers open to inspection by other members? What are their rights?

A133: Yes, the registers are open to inspection by any member of the Producer Company.
The members can take extracts from such registers.

Additional Resources

Tool Kit for Financial Analysis

For the convenience of the practitioners and others an Excel programme based software has been developed for the financial analysis. This will be useful for appraising different variables while doing the financial analysis. The softcopy of the Tool kit is attached in a CD separately.

COMPANIES ACT 2013
COMPANY LIMITED BY SHARES
MEMORANDUM OF ASSOCIATION
OF
MA MACHNA CROP PRODUCER COMPANY LIMITED

1. The name of the company is **MA MACHNA CROP PRODUCER COMPANY LIMITED**
2. The Registered Office of the Company will be situated in the State of **MADHYA PRADESH**

3. A) The objects to be pursued by the company on its incorporation are:

1. To carry on the business of production, harvesting, procurement, grading, pooling, handling, marketing, selling, export, storage, packing, distribution, trading of wheat, rice, vegetables, crops including of cereals, pulses, oilseeds, fibre crops, and soybean, spices crops, seeds, fertilizers, pesticides, for benefit to the members of the company

2. Processing including preserving, drying, distilling, brewing, venting, canning and packaging of produce of its Members

3. To manufacture, sale or supply of machinery, equipment or consumables mainly to its members

4. To provide education on the mutual assistance principles to its Members and others;

5. To rendering technical services, consultancy services, training, research and development and all other activities for the promotion of the interests of its Members;

6. To ensure insurance of producers or their primary produce;

7. To promoting techniques of mutuality and mutual assistance;

8. To undertake welfare measures or facilities for the benefit of Members as may be decided by the Board;

9. To finance procurement, processing, marketing or other activities specified in clauses 1 to 8 which include extending of credit facilities or any other financial services to its Members.

The objects of the producer company are not confined to the state of Madhya Pradesh and it will extend to the whole of India.

B) Matters which are necessary for furtherance of the objects specified in clause 3A are: NIL

4. Subscribers clause (name and address of subscribers to the emorandum):

Sr. No	Name of subscribers	Address of subscribers
1	Mr. Haran	Deshawadi, Shahpur, Betul--460440 Madhya Pradesh
2	Mrs. Manisha Puware	Gram Daudi, Shahpur, Betul-460440 Madhya Pradesh
3	Mrs. Parvati	Gram Deshawadi, Shahpur, Betul-460440 Madhya Pradesh
4	Mrs. Sharda Dhurvey	Mokhamal, Shahpur, Betul-460440 Madhya Pradesh
5	Mr. Tulceram Chore	18, Shahpur, Betul-460440 Madhya Pradesh
6	Mr. Jivan	Village Daudi, Shahpur, Betul-460440 Madhya Pradesh
7	Mr. Sampatrao Pavare	Gram Daudi, Shahpur, Betul-460440 Madhya Pradesh
8	Mrs. Shivpyari	Gram Mardanpur, Shahpur, Betul-460440 Madhya Pradesh
9	Mrs. Laxmi Barse	Desawari, Shahpur, Betul-460440 Madhya Pradesh
10	Mr. Champa Lal	Gram Mokhamal, Shahpur, Betul-460440 Madhya Pradesh

5. The authorised share capital of the company is Rs.1,00,000/- (Rupees One Lakh only), divided into 10,000 equity shares of Rs. 10/- (Rupee Ten only) each.

6. The liability of the member(s) is limited and this liability is limited to the amount unpaid, if any, on the shares held by them.

Names, Addresses, description & Occupation & other details of Subscribers	No. of shares taken by each subscriber	Signature of the Subscriber	Signature, Names, addresses, description and occupation of Witnesses
1. Full name: LAXMI BARSE Photograph:  Father's/~~Mother's~~ Name: Mr. LAXMAN Nationality: INDIAN Date of Birth: 01/01/1982 Place of Birth (District and State): SHAHPUR AND MADHYA PRADESH Occupation: FARMER Income-tax permanent account number: CJVPB6272R Permanent residential address: DESHAWADI, SHAHPUR, BETUL Present address: DESHAWADI, SHAHPUR, BETUL	1,000 shares (ONE THOUSAND) equity shares of Rs. 10/- (Ten) each	लक्ष्मी बारसे	CS YASH PAREEK S/o Mr. SUNIL PAREEK R/o 21, Hamidia Road, BHOPAL OCC- Practicing Company Secretary M.No-A42874 C.P.No-15887 I witness to the subscriber who has signed and subscribed in my presence on 01/08/16 at BHOPAL. Further, I have verified her identity details for her identification and satisfied myself of her identification particulars as filled in

Date: 01/08/2016
Place: BHOPAL

Names, Addresses, description & Occupation & other details of Subscribers	No. of shares taken by each subscriber	Signature of the Subscriber	Signature, Names, addresses, description and occupation of Witnesses
2. Full name: CHAMPA LAL Photograph:  Father's/~~Mother~~'s Name: TULSI RAM Nationality: INDIAN Date of Birth: 01/08/1980 Place of Birth (District and State): SHAHPUR AND MADHYA PRADESH Educational qualification: — Occupation: FARMER Income-tax permanent account number: AHYPL7104P Permanent residential address: GRAM MOKHAMAL, SHAHPUR, BETUL Present address: GRAM MOHKAMAL, SHAHPUR, BETUL	1,000 (ONE THOUSAND) equity Shares of Rs. 10/- (Ten) each	[illegible]	[illegible] CS YASH PAREEK S/o Mr. SUNIL PAREEK R/o 21, Hamidia Road, Bhopal OCC - Practicing Company Secretary M. No - A42874 C.P No - 15887 I witness to the subscriber who has signed and subscribed in my presence on 01/08/2016 at Bhopal. Further, I have verified his identity details for his identification and satisfied myself of his identification particulars as filled in.

Date: 01/08/2016
Place: BHOPAL

Names, Addresses, description & Occupation & other details of Subscribers	No. of shares taken by each subscriber	Signature of the Subscriber	Signature, Names, addresses, description and occupation of Witnesses
3. Full name: SHIVPYARI Photograph:  Father's/~~Mother~~'s Name: Ganesh Nationality: INDIAN Date of Birth: 01/01/1976 Place of Birth (District and State): SHAHPUR AND MADHYA PRADESH Educational qualification: - Occupation: FARMERS Income-tax permanent account number: GPGPS6644P Permanent residential address: Gram Mardanpur, Shahpur, Betul Present address: Gram Mardanpur, Shahpur, Betul	1,000 (ONE THOUSAND) equity shares of Rs. 10/- (Ten) each	शिवप्यारी	CS YASH PAREEK S/o Mr. SUNIL PAREEK R/o 21, Hamidia Road, Bhopal OCC- Practicing Company Secretary M.No-A42874 CP No-15887 I witness to the subscriber who has signed and subscribed in my presence on 01/08/2016 at Bhopal. Further, I have verified her identity details for her identification and satisfied myself of her identification particulars as filled in

Date: 01/08/2016
Place: BHOPAL

Names, Addresses, description & Occupation & other details of Subscribers	No. of shares taken by each subscriber	Signature of the Subscriber	Signature, Names, addresses, description and occupation of Witnesses
4. Full name: SAMPAT-RAO PAVARE Photograph:  Father's/~~Mother's~~ Name: GULLU PAVARE Nationality: INDIAN Date of Birth: 01/01/1970 Place of Birth (District and State): SHAHPUR AND MADHYA PRADESH Educational qualification: — Occupation: FARMERS Income-tax permanent account number: DBXAP9539Q Permanent residential address: Gram Daudi, Shahpur, Betul Present address: Gram Daudi, Shahpur, Betul	1,000 (ONE THOUSAND) equity Shares of Rs. 10/- (Ten) each	[signature]	[signature] CS YASH PAREEK S/o Mr. SUNIL PAREEK R/o 21, Hamidia Road, Bhopal occ- Practicing Company Secretary M. No - A42874 C.P.No - 15887 I witness to the subscriber who has signed and subscribed in my presence on 01/08/16 at Bhopal. Further, I have verified his identity details for his identification and satisfied myself of his identification particulars as filled in.

Date: 01/08/2016
Place: BHOPAL

Names, Addresses, description & Occupation & other details of Subscribers	No. of shares taken by each subscriber	Signature of the Subscriber	Signature, Names, addresses, description and occupation of Witnesses
5. Full name: JIVAN Photograph:  Father's/~~Mother~~'s Name: DALLI Nationality: INDIAN Date of Birth: 04/06/1982 Place of Birth (District and State): SHAHPUR AND MADHYA PRADESH Educational qualification: — Occupation: FARMERS Income-tax permanent account number: BDRPJ2351J Permanent residential address: Village Daudi, Shahpur, Betul Present address: Village Daudi, Shahpur, Betul	1,000 (ONE THOUSAND) equity shares of Rs. 10/- (Ten) each		CS YASH PAREEK S/o Mr. SUNIL PAREEK R/o 21, Hamidia Road, Bhopal occ - Practicing Company Secretary M. No - A42874 C.P No - 15887 I witness to the subscriber who has signed and subscribed in my presence on 01/08/2016 at Bhopal. Further, I have verified his identity details for his identification and satisfied myself of his identification particulars as filled in.

Date: 01/08/2016
Place: BHOPAL

Names, Addresses, description & Occupation & other details of Subscribers	No. of shares taken by each subscriber	Signature of the Subscriber	Signature, Names, addresses, description and occupation of Witnesses
6. Full name: TULCERAM CHORE Photograph:  Father's/~~Mother's~~ Name: DALICHAND CHORE Nationality: INDIAN Date of Birth: 19/06/1981 Place of Birth (District and State): SHAHPUR AND MADHYA PRADESH Educational qualification: — Occupation: FARMERS Income-tax permanent account number: AOCPC9726M Permanent residential address: 18, SHAHPUR, BETUL (M.P) Present address: 18, SHAHPUR, (M.P)	1,000 (ONE THOUSAND) equity shares of Rs. 10/- (Ten) each	तुलसीराम-चोरे	Yash CS YASH PAREEK S/o Mr. SUNIL PAREEK R/o 21, Hamidia Road, Bhopal - 462001 OCC - Practicing Company Secretary M. No - A42874 C.P No - 15887 I witness to the subscriber who has signed and subscribed in my presence on 01/08/2016 at Bhopal. Further I have verified his identity details for his identification and satisfied myself of his identification particulars as filled in.

Date: 01/08/2016
Place: BHOPAL

Names, Addresses, description & Occupation & other details of Subscribers	No. of shares taken by each subscriber	Signature of the Subscriber	Signature, Names, addresses, description and occupation of Witnesses
7. Full name: SHARDA DHURVEY Photograph:  Father's/~~Mother~~'s Name: BHUTA SINGH Nationality: INDIAN Date of Birth: 03/09/1983 Place of Birth (District and State): SHAHPUR AND MADHYA PRADESH Educational qualification: — Occupation: FARMER Income-tax permanent account number: CLYPD5364B Permanent residential address: Gram Mokhamal, Deshawadi, Shahpur, Betul (M.P) Present address: DESHAWADI, SHAHPUR, BETUL	1,000 (ONE THOUSAND) equity shares of Rs. 10/- (Ten) each	शारदा	CS YASH PAREEK S/o Mr. SUNIL PAREEK R/o 21, Hamidia Road, Bhopal (M.P) Occ- Practicing Company Secretary M.No- A42874 C.P No- 15887 I witness to the subscriber who has signed and subscribed in my presence on 01/08/16 at Bhopal. Further, I have verified her identity details for her identification and satisfied myself of her identification particulars as filled in.

Date: 01/08/2016
Place: BHOPAL

Names, Addresses, description & Occupation & other details of Subscribers	No. of shares taken by each subscriber	Signature of the Subscriber	Signature, Names, addresses, description and occupation of Witnesses
8. Full name PARVATI Photograph:  Father's/~~Mother's~~ Name RAJAN HANOTE Nationality INDIAN Date of Birth 01/01/1985 Place of Birth (District and State) SHAHPUR AND MADHYA PRADESH Educational qualification — Occupation FARMERS Income-tax permanent account number: DB2PP5868N Permanent residential address DESHAWADI, SHAHPUR, BETUL Present address: DESHAWADI, SHAHPUR, BETUL	1,000 (ONE THOUSAND) equity shares of Rs. 10/- (Ten) each	पार्वती	CS YASH PAREEK S/o Mr SUNIL PAREEK R/o 21, Hamidia Road, Bhopal Occ - Practicing Company Secretary M.No - A42874 C.P.No - 15887 I witness to the subscriber who has signed and subscribed in my presence on 01/08/16 at Bhopal. Further, I have verified her identity details for her identification and satisfied myself of her identification particulars as filled in.

Date 01/08/2016
Place BHOPAL

Names, Addresses, description & Occupation & other details of Subscribers	No. of shares taken by each subscriber	Signature of the Subscriber	Signature, Names, addresses, description and occupation of Witnesses
9. Full name: MANISHA PUWARE Photograph:  Father's/~~Mother~~'s Name: FULSINGH PUWARE Nationality: INDIAN Date of Birth: 16/07/1980 Place of Birth (District and State): SHAHPUR AND MADHYA PRADESH Educational qualification: — Occupation: FARMER Income-tax permanent account number: DBYPP1540N Permanent residential address: Gram Dandi, Shahpur, Betul Present address: Gram Dandi, Shahpur, Betul	1,000 (ONE THOUSAND) equity shares of Rs. 10/- (ten) each	मनिषा	CS YASH PAREEK S/o Mr. SUNIL PAREEK RP 21, Hamidia Road, Bhopal occ - Practicing Company Secretary M. No - A42874 C.P.No - 15887 I witness to the subscriber who has signed and subscribed in my presence on 01/08/2016 at Bhopal. Further, I have verified her identity details for her identification and satisfied myself of her identification particulars as filled in.

Date: 01/08/2016
Place: BHOPAL

Names, Addresses, description & Occupation & other details of Subscribers	No. of shares taken by each subscriber	Signature of the Subscriber	Signature, Names, addresses, description and occupation of Witnesses
10. Full name: HARAN Photograph  Father's/~~Mother's~~ Name: DINOO Nationality: INDIAN Date of Birth: 12/03/1981 Place of Birth (District and State): SHAHPUR AND MADHYA PRADESH Educational qualification: — Occupation: FARMER Income-tax permanent account number: AJDPH0127P Permanent residential address: BESHAWADI, SHAHPUR, BETUL Present address: DESHAWADI SHAHPUR, BETUL	1,000 (ONE THOUSAND) equity Shares of Rs. 10/- (Ten) each	हरन	CS YASH PAREEK S/o Mr. SUNIL PAREEK R/o 21, Hamidia Road, Bhopal Occ- Practicing Company Secretary M. No - A42874 C.P.No - 15887 I witness to the subscriber who has signed and subscribed in my presence on 01/08/2016 at Bhopal. Further, I have verified his identity details for his identification and satisfied myself of his identification particulars as filled in.
	Total 10,000 (TEN THOUSAND) equity Shares of Rs. 10/- (Ten) each only.		

Date 01/08/2016
Place BHOPAL

THE COMPANIES ACT, 2013
AND
PART IXA OF COMPANIES ACT, 1956
(COMPANY LIMITED BY SHARES)
ARTICLES OF ASSOCIATION
OF
PRODUCER COMPANY LTD

1. PRELIMINARY

The regulations contained in table 'F' in the first schedule to the Companies Act, 2013 shall not apply to this producer company.

2. INTERPRETATIONS

In these Articles unless there be anything repugnant to the subject or context the following words shall have the meaning written against them:

a) "The Act" or "The Companies Act" means the Companies Act, 1956 otherwise specifically provided the words "Companies Act 2013" and its statutory modifications from time to time and all rules made there under.

b) "Companies Act, 2013"- is an Act of Parliament of India effected from 1st April, 2014 which regulates the Company and has replaced the old Companies Act, 1956 except the Part IXA which relates to the Producer Company.

c) "The Company" or "this company" when used with reference to this company shall mean the "________ PRODUCER COMPANY LIMITED".

d) "Articles of Association" means these articles, which may be altered, from time to time, by the Company with approval by a General Meeting and filed with the Registrar of Companies.

e) "Active Member" means a member who is involved in any of the operations mentioned in the Memorandum of Association and who fulfills the qualifications as laid down in the Articles.

f) "ABGs/FGs/PGs/SHGs" means Activity based Groups/ Farmers Groups, Producers Groups, and Self Help Groups respectively formed at community level.

g) "Auditors" shall mean and includes those persons appointed as such for the time being by the company as per the provisions of the Companies Act, 2013.

h) "Board" means the Board of Directors (BoD) constituted under the provisions of these Articles.

I) "Chairman" means a member of the Board who has been elected as Chairman by the Directors of the Board under the provisions of these Articles.

j) "Commodity" includes all agricultural, horticultural, medicinal, spices, forestry; their allied products, raw or processed.

k) "Chief Executive Officer (CEO)/Managing Director" means an individual, by whatever name called and has been appointed/approved by the Board as chief executive/Managing Director for the overall management of the affairs of the Company, from amongst persons, other than Members of the Company.

l) "General Meeting" includes annual and extra ordinary or special general meetings.

m) "Limited return" means the maximum dividend as may be specified by the articles.

n) "Member" means a person admitted as a member of the Company and who retains the qualification which are specified under these articles and Part IX of the Companies Act, 1956.

o) "Mutual Assistance Principles" means the principles set out in sub-section (2) of 581G of the Act and which are also described under these Articles.

p) "Person" shall include any Association, Corporation, Company as well as individual.

q) "Patronage" means the use of services offered by the Company to its Members by participation in its business activities;

r) "Patronage Bonus" means payments made by the Company out of the resultant surplus income to the Members in proportion to their contribution/participation in the promotion of business of the company

s) "Proxy" includes attorney duly constituted under a power of attorney.

t) "Promoting NGO/Project" means promoting agency may be government or non-government organization promoting this producer company for the interest of the farmers/ producers only.

u) "Special Resolution", "Ordinary Resolution" and "Resolution requiring Special Notice" respectively by the Act shall have the meaning assigned thereto.

v) "The Seal" shall mean the Common Seal of the company approved by the Board of Directors from time to time.

w) "The Office" means the Registered Office for time being of the company.

x) "The Registrar" means the Registrar of Companies to which the Company is registered for the time being under section 2(75) of the Companies Act, 2013

y) "Withheld price" means part of the price due and payable for goods supplied by any Member to the Company; and withheld by the Company for payment on a subsequent date.

z) Words importing the singular shall include the plural and the words importing the plural shall include the singular. Words importing the masculine gender include the feminine gender and vice versa.

3. Unless the context otherwise requires, words or expressions contained in these Regulations shall bear the same meaning as in the Act or any statutory modification thereof in force.

4. THE COMPANY TO BE A PRIVATE COMPANY:

a. The Company is a Private limited Company by virtue of provisions of sub-section 5 of Section 581C of the Act to which the provisions of Part IXA shall apply. However, there shall not be any limit to the number of members.

b. The right to transfer shares of the company is restricted in the manner and to the extent hereinafter provided.

c. No invitation shall be issued to the public to subscribe for any share or debenture of the Producer Company.

d. No deposits shall be accepted from the public by the Company except from the members, directors or their relatives.

5. MUTUAL ASSISTANCE PRINCIPLES:

The company shall adopt the following mutual assistance principles, namely: -

a. The membership shall be voluntary and is available to all eligible members or non-members of CIGS/SHGs who can participate and avail the facilities or services of the Producer Company and who are willing to accept the duties of membership;

b. Each Member shall, save as otherwise provided in the Part IX A of the Act, have only a single vote irrespective of the shareholding;

c. The Producer Company shall be administered by a Board consisting of persons elected or appointed as directors in the manner consistent with the provisions of the Part IX A of the Companies Act and the Board shall be accountable to the Members;

d. Save as provided in the Part IX A of the Companies Act, there shall be limited return on share capital;

e. The surplus arising out of the operations of the Producer Company shall be distributed in an equitable manner by-

(i) Providing for the development of the business of the Producer Company;
(ii) Providing for common facilities; and
(iii) Distributing amongst the Members, as may be admissible in proportion to their respective participation in the business;

f. Provision shall be made for the education of Members, employees and others, on the principles of mutuality and techniques of mutual assistance ;

g. The Producer Company shall actively co-operate with other Producer Companies (and other organizations following similar principles) at local, national or international level so as to best serve the interest of their Members and the communities it purports to serve.

6. FUNDS:

Funds may be raised by:

a) Shares from new members;

b) Additional shares issued in proportion to the business transacted with the Producer Company from time to time on the terms and conditions as decided by the Board of the Producer Company and communicated to the members;

c) Deposits and/or Debentures received from members;

d) Loans from any financial institution;

e) Grants, aids and subsidies from any Government and Non-Government Organization;

f) Donations from any individual or organization.

g) The Producer Company may accept funds from any development agency or any other financing institution in the form of loans or grants or in any other forms except equity capital, as per the terms and conditions prescribed by such institutions as may be mutually agreed upon.

7. SHARE CAPITAL

7.1 The Share capital of the Company shall consist of Equity shares only.

7.2 The Authorized Share Capital of the Company is such that stated in clause V of the Memorandum of Association of the company.

7.3 The shares shall be under the control of the Board of Directors who may allot or otherwise dispose of the same to such members on such terms as the Board of Directors think fit and to give any persons any shares whether at par or at premium and for such consideration as the Board of Directors think fit and proper, may also allot and issue shares in capital of the Company in payment or part payment for any property sold or transferred to or for service rendered to the Company in or about the conduct of its business and the shares which may be so allotted may be issued as fully paid up shares and if so issued deemed to be fully paid up shares.

7.4 Every person whose name is entered as a member in the register of members shall be entitled to receive share certificate-

i. Within 2 months after incorporation, in case of subscriber to the memorandum;
ii. Within 2 months after the allotment, in case of allotment of any further shares;
iii. Within 1 month after the application of registration of transfer or intimation of transmission.

7.5 Every Share certificate shall be under the seal and shall specify the number of shares to which it relates and the amount paid-up.

7.6. ALTERATION OF SHARE CAPITAL

7.6 The Company may, from time to time, by ordinary resolution alter such share capital by such sum, to be divided into shares of such amount, as may be specified in the resolution.

7.6.1 Subject to the provisions of section 61 of the Companies Act, 2013,the Company has the power-

7.6.2 To increase or reduce the capital;

7.6.3 To consolidate and divide all or any of its share capital;

7.6.4 To convert its fully paid-up shares into stock, and reconvert the stock into fully paid-up shares of any denomination;

7.6.5 To sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the memorandum, so, however, that in the sub-division the proportion between the amount paid and the amount, if any, unpaid oneach reduced share shall be the same as it was in the case of the share from which the reduced share is derived;

7.6.6 To cancel shares which, at the date of the passing the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

8. TRANSFER OF SHARES

8.1 Subject to the provisions of Section 581ZD (2) of the Companies Amendment Act) 1956, a member of the Producer Company may, after obtaining the previous approval of the Board , transfer the whole or part of his shares along with any special rights to an active member at par value.

8.2 There is no such holding period requires for transfer of share and may transfer the whole or part of his shares along with any special rights, must notify to the Board of Directors of the number of shares and the value.

8.3 The Board of Directors must offer to the other active members, the shares offered at the fair value and if the offer is accepted, the shares shall be transferred to the acceptors. In case of any dispute, regarding the fair value of the share it shall be decided and fixed by the experts appointed by the Board for this purpose, whose decision shall be final.

8.4 The Board of Directors may refuse to register any transfer of shares (1) where the Company has a lien on the share, or (2) where the share is not a fully paid up share, subject to Section 58 of the Companies Act, 2013.

9. FORFEITURE OF SHARES

9.1 If a member fails to pay any call, or installment of a call, on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or installment remains unpaid, serve a notice on him requiring payment of so much of the call or installment as is unpaid, together with any interest which may have accrued.

9.2 The notice aforesaid shall --(a) name a further day (not being earlier than the expiry of fourteen days from the date of service of the notice) on or before which the payment required by the notice is to be made; and(b) state that, in the event of non-payment on or before the day so named, the shares in respect of which the call was made shall be liable to be forfeited.

9.3 If the requirements of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may, at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect.

9.4 (i) A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the Board thinks fit.

(ii) At any time before a sale or disposal as aforesaid, the Board may cancel the forfeiture on such terms as it thinks fit.

9.5 (i) A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares, but shall, notwithstanding the forfeiture, remain liable to pay to the company all monies which, at the date of forfeiture, were presently payable by him to the company in respect of the shares.

(iii) The liability of such person shall cease if and when the company shall have received payment in full of all such monies in respect of the shares.

9.6 (i) A duly verified declaration in writing that the declarant is a director, the manager or the secretary, of the company, and that a share in the company has been duly forfeited on a date stated in the declaration, shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share;

(ii) The company may receive the consideration, if any, given for the share on any sale or disposal thereof and may execute a transfer of the share in favour of the person to whom the share is sold or disposed of;

(iii) The transferee shall thereupon be registered as the holder of the share; and

(iv) The transferee shall not be bound to see to the application of the purchase money, if any, nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the share.

(v) The provisions of these regulations as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of the share or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

10. MEMBERSHIP

10.1 The Producer Company shall consist of members of FGs/PGs/SHGs or any type of producer's group/individual producers whether incorporated or not and to any producer person sincerely engaged in providing any organizational, technical or financial assistance to above producers groups.

10.2 An individual who, or a producer institution which, fulfills eligibility conditions under the provisions of these Articles, and as decided by the Board in the Board meeting by way of unanimous Board resolution, may apply for membership in the prescribed form to the Board of the Company undertaking to carry out the responsibilities of membership in writing. Such form shall be called as Share Application form.

10.3 Where admission is refused by the Board, the decision with the reasons for refusal shall be communicated to the concerned person by registered post or delivered by hand within fifteen days of the date of the decision, or within thirty days from the date of application for membership, whichever is earlier.

10.a. Qualifications for Obtaining Membership:

10.3.1 A member of any Producer Groups/Farmers Groups / Self Help Groups or any non-member/individual belongs to the above category of producer or farmers and desirous to becoming a member shall subscribe at least one share to the Producer Company.

10.3.2 Member who is not declared as defaulter in repayment of any advances or loans or services taken from the Producers Company or similar institutions and don't have the possibility to repeat such act again and same guaranteed by the any member of the producer company, if already exists in the same area.

10.3.3 No person who was convicted by the Board/Committee formed by the Board or any court in producer company matter and membership seized.

10.3.4 No person who has any business interest which is in conflicts with business of the producer company shall become a member of that company.

10.b. Qualifications of Active Member

10.3.5 "Active member" a member/ members who will actively participate in activities /business/ services offered by the company like crop production, procurement, purchases or sales of agriculture inputs and supply of produces, organize certified crop production, procurement, crop supervision or inspection or taking any other responsibility given by the BoDs for the interest of the Producer Company shall be considered as active member of the company and same should be declared by the Board of the Directors. (We could not define active members with EXACTITUDE, because every producer company may have different objectives)

10.3.6 A member who is willing and participating in all company's affairs, meetings and programs and not to absent in most meeting or programs (like, production, procurement and sales, if qualifies the criteria of that activity and invited) so far without prior information or any beyond control or unavoidable reason, shall be considered as an active member of the company.

10.c. Cancellation of membership

10.3.7 If any member has ceased to be a producer institution, or has failed to retain qualifications to continue as a member as specified, the Board shall serve a written notice to the concerned member/s and provide an opportunity of being heard in the next Board meeting.

10.3.8 If the Board is satisfied it may direct the member for surrender of shares together with special rights, if any to the Producer Company, at par value or the Board may determine such other value.

11.a. BENEFITS TO MEMBERS

11.1 Every Member shall initially receive only such value for the produces supplied to the Producer Company as the Board may determine, and the withheld price may be disbursed at a later date during the financial year, in cash or in kind or by allotment of equity shares, in proportion to the value of various produces supplied to the Producer Company to such extent and in such manner and subject to such conditions as may be decided by the Board.

11.2 The surplus, if any, arising after setting aside provision for payment of limited return and after making provisions for reserves as per the provisions of Article No. 19 may be disbursed as patronage bonus amongst the Members, in proportion to their participation in the business of the Producer Company, either in cash or by way of allotment of equity share or both, as may be decided by the general meeting as a special services or facilities like group health/crop insurance, soil sample test, use of company's tools and machineries with subsidized or without cost etc .

11.b. Provisions for special user rights:

The Board of the Producer Company may from time to time, based on measurable criteria, issue special user rights valid for a specific duration to the active members, to promote the business interests of the Producer Company. Such user rights shall be issued in the form of appropriate instruments.

The instruments so issued shall, subject to the approval of the Board in that behalf, be transferable to any other active member of the Producer Company.

11.c. Voting Rights

11.3 All members can cast their vote during the voting. However newly admitted members may be restricted to exercise voting rights for at least such period as may be decided by the Board for the election of the chairman or the Board of the directors unless he/she has very actively participated in the business activity of the company.

11.4 Same as otherwise provided in subsections (1) and (3) of section 581D, every active member shall have only one vote irrespective his/her shareholding or patronage.

11.5 There shall be no allocation of additional votes to any type of member irrespective of anything. However patronage bonus and additional share can be issued as a bonus or reward against his active participation in the business of the company.

11.6 During voting, in the case of equality of votes, the chair person or the presiding shall have a casting vote except in the case of election of the chairman.

11.7 Member who earned additional share as a patronage bonus/rewarded or eligible for maximum patronage bonus on the basis of his/her performance in terms of participation/contribution in the growth and business promotion of the company and same is declared by the BoD or AGM, shall be given preference for contesting in the election of BoD member or chairman.

11.8 After completion of the restricted period (given in clause 11.3) as an active member, he/she can contest the election of Chairman/BoD.

11.9 In a case of mixed membership consists of individuals and producer institutions, the voting rights for each member shall be single vote.

11.10 The producer institution shall be represented by their leader as authorized in a special meeting and the same is recorded in their meeting register, signed by all members of such institution.

12.a. GENERAL MEETINGS

12.1 The first general meeting is a Special General meeting which shall be held within 90 days from the date of incorporation of the company.

12.2 The special general meeting shall be held only for following purposes:-

a) Adoption of Memorandum of Association
b) Adoption of Articles of Association and
c) Election of first director.

12.3 All general meetings other than annual general meeting and first general meeting shall be called extraordinary general meeting.

12.4 The Annual General Meeting shall be called once in every year but not more than 15 months shall elapse between the date of one general meeting and that of the next. It shall be held within 6 months from the end of each financial year.

12.5 Every General meeting shall be held by serving a proper notice for not less than 14 days to every Shareholder, all directors and Auditors.

12.6 The notice calling the annual general meeting shall be accompanied by the following documents, namely :

(a) The agenda of the annual general meeting;

(b) The minutes of the previous annual general meeting or the extraordinary general meeting;

(c) The names of candidates for election, if any, to the office of director including a statement of qualifications in respect of each candidate;

(d) The audited balance-sheet and profit and loss accounts of the Producer Company and its subsidiary, if any, together with a report of the Board of directors of such Company with respect to:

(i) The state of affairs of the Producer Company;
(ii) The amount proposed to be carried to reserve;
(iv) The amount to be paid as limited return on share capital;
(v) The amount proposed to be disbursed as patronage bonus;
(vi) The material changes and commitments, if any, affecting the financial position of the Producer Company and its subsidiary, which have occurred in between the date of the annual accounts of the Producer Company to which the balance sheet relates and the date of the report of the Board;
(vii) Any other matter of importance relating to energy conservation, environmental protection, expenditure or earnings in foreign exchanges;
(viii) Any other matter which is required to be, or may be, specified by the Board ;

(e) The text of the draft resolution for appointment of auditors ;the text of any draft resolution proposing amendment to the memorandum or articles to be considered at the general meeting, along with the recommendations of the Board

12.7 The Chief Executive Officer or any director duly authorized by the Board is responsible to serve such notice.

12. b. Proceedings at General meeting

12.8 Attendance of one-fourth of the total number of members shall form a quorum for the general meeting.

12.9 The Chairperson, if any, of the Board shall preside as Chairperson in every general meeting of the Company.

12.10 If there is no such Chairperson, or if he is not present within fifteen minutes after the time appointed for holding the meeting, the directors present shall elect one them to be Chairperson of the meeting.

12.11 If no director is willing to act as Chairperson or if no director is present within fifteen minutes after the time appointed for holding the meeting, the members present shall choose one of their members to be Chairperson of the meeting.

12.12 MATTERS TO BE TRANSACTED AT ANNUAL GENERAL MEETING

The Board of directors of a Producer Company shall exercise the following powers on behalf of that company, and it shall do so only by means of resolutions passed at the annual general meeting of its Members, namely : -

(a) Approval of budget and adoption of annual accounts of the Producer Company;
(b) approval of patronage bonus;
(c) Issue of bonus shares;
(d) Declaration of limited return and decision on the distribution of patronage;
(e) Specify the conditions and limits of loans that may be given by the Board to any director; and
(f) Approval of any transaction of the nature as is to be reserved in these articles as follows:

- Confirm the proceedings of the previous General Meeting.
- Consideration and adoption of report of Board of Directors and Profit & loss account and Balance sheet as on 31st March of preceding financial year of the Company and sanction the appropriation of profits.
- Appointment/Reappointment of Auditor.
- Appointment of Directors in place of those retiring.

13. ADJOURNMENT OF MEETING

13.1 The Chairperson may, with the consent of any meeting at which a quorum is present, and shall, if so directed by the meeting, adjourn the meeting from time to time and from place to place.

13.2 No business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

13.3 When a meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting.

13.4 Save as aforesaid, and as provided in section 103 of the Companies Act, 2013, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting

14. BOARD OF DIRECTORS

14.1 Board of Directors of the Producer Company shall consist of not more than 15 members as follows: i.e.

a) Initially, minimum 5 members shall be acted as Directors who have subscribed to the Memorandum and Articles of the Company, until the directors are elected in accordance with the provision of section 581P from amongst the members or other than members;
b) The Board may co-opt one or more expert directors or an additional director. The total number of such co-opted directors shall not exceed one-fifth of the total strength of the Board.
c) The Expert directors shall not have any right to vote in the election of the chairman, although, but would be eligible for being elected as a chairman of the producer company;
d) Chief Executive Officer shall be the ex-officio director of the board;
e) The Minimum and the Maximum number of Directors of the Company shall be 5 (five) and 15 (Fifteen) respectively. The First Directors of the Company shall be:

1.
2.
3
4
5.

14.2 The conduct of elections of directors to the board of the Producer Company shall be the responsibility of the incumbent board of the producer company, in the manner specified in these articles of association.

14.3 The election must be held at least 10 days before the term of office of the outgoing directors comes to an end. The outgoing directors shall cease just after the expiry of the term and new directors shall take over from the very next day.

14.4 Election of directors shall normally take place at the Annual General meeting. The first election shall be held within 3 months from the date of incorporation of the company.

14.5 The election rules shall be formulated by the Board and approved by the general meeting.

14.6 Where the Board fails to conduct elections before the expiry of the term of the directors or where there are no directors remaining on the board, the chief executive of the company shall call an extra ordinary general meeting, within twenty days after the expiry of the terms of the directors for the purpose. If the board is not constituted in the meeting, three members ad-hoc board shall be appointed among the members for the specific purpose of conducting elections and to abide by the articles of association.

14.7 The term and the ad-hoc board so appointed shall not exceed three months and the ad-hoc board shall cease to function as soon as a regular board is elected in accordance with the articles of association.

14.8 The term of the elected board shall be minimum 1 year and maximum 5 years from the date of assumption of office, except for the first Board.

15. MEETINGS OF BOARD

15.1 The chairman shall preside over the meeting of the board. In case of his absence, the directors present shall elect one of the directors as the Chairman of the meeting.

15.2 The Board may meet as often as it may consider necessary for transaction of the business. However it shall meet at least once in every four months.

15.3 The Board meeting shall be called generally with seven days' notice, but in case of Exigencies it can be called at a shorter notice.

15.4 The Chief Executive officer is responsible to serve the notice.

15.5 The Presence of at least three Directors or one third of its total strength, whichever is higher, shall form the quorum for the Board's meeting.

15.6 Each member of the Board shall have one vote.

15.7 Decision at the meeting of Board shall be arrived at by majority votes of the directors present. In case of a tie the Chairman of the meeting shall have a casting vote in addition to his usual vote except in case of election of the Chairman. Tie in case of election of chairman, the matter shall be decided by draw of lots.

15.8 A person competent to represent a CIG/SHGs, shall not be eligible for election/Continuance as a director of the Board unless the CIG/SHGs, which he is representing:

15.8.1 Has fulfilled all the obligations as mentioned in the articles of association as on 31st March of the preceding year;

15.8.2 Is an active member of the Producer Company as on the day of election.

15.8.3 Has not withdrawn / cancelled the authority in writing given to him to represent in the general meeting.

15.9 Any individual or the person representing the CIG/SHGs farmers group shall also not be eligible for election and continue as such, if –

I. He is convicted by a Court of any offence involving moral turpitude and sentenced in respect thereof imprisonment for not less than six months.

ii. The Producer Company, in which he is a director, has made a default in repayment of any advances or loans taken from any company or institutions or any other person and such defaults continues for ninety days.
iii. He has made a default in repayment of any advances or loans taken from the Producer company in which he is a director;
iv. He has direct or indirect interest in any contract made with the Producer Company or any property sold or purchased by the Producer Company or any other transaction of the Producer Company except in any investment made in or in any loan taken from the Producer Company.
v. He is engaged directly or indirectly indulging in running the same type of business as that of the Producer Company or is having direct or indirect interest in such activities.

16.a. VACATION OF OFFICE BY THE DIRECTORS

16.1 The office of the director of a Producer Company shall become vacant if

a. He is convicted by a Court of any offence involving moral turpitude and sentenced in respect thereof to imprisonment for not less than six months;
b. The Producer Company, in which he is a director, has made a default in repayment of any advances or loans taken from any company or institution or any other person and such default continues for ninety days;
c. He has made default in repayment of any advances or loans taken from the Producer Company in which he is a director;
d. The Producer Company in which he is a director –
i. Has not filed the annual accounts and annual returns for any continuous three financial years or
ii. Has failed to, repay its deposit or withheld price or patronage bonus or interest thereon on due date, or pay dividend and such failure continues for one year or more.
e. Has defaulted in holding election for the office of directors in accordance with the provision of this Act and articles.
f. Has failed to convene the annual general meeting or extraordinary general meeting in accordance of the provision of this Act except due to natural calamities or such other reasons.

16.b. Powers and Functions of the Board of Directors:

16.2 Subject to the provisions of the Companies Act, 2013 and Section 581R of the Act, the Board of directors shall exercise the following powers:
i. To admit members;
II. To formulate corporate mission;
III. To establish specific long-term annual objectives to be achieved, consistent with the mission and the goals;
IV. To formulate and approve corporate strategies and financial plans;
V. To make periodic appraisal of operations of the Producer Company in relation to its mission and objectives;
VI. To formulate, approve and periodically review corporate policies related to major functional activities of the Producer Company;
VII. To appoint Managing Director/ Chief Executive Officer as per the provisions of Articles.
VIII. To finalize the proposed annual budget and supplementary budget, if any for approval at the General Meeting;

IX. To cause

a) Proper books of accounts to be maintained by the Producer Company, including in computerized form as permitted by the Companies Act

b) The annual accounts to be prepared for the financial year,

c) The annual accounts to be duly audited by a qualified chartered accountant appointed for that purpose by the General Meeting, and the duly audited accounts to be placed before members at an annual general meeting.

X. To ensure the calling of annual and other meetings of the General Meeting including the delivery of formal notice; the agenda of the meeting; the names of candidates for election to the board and a statement of their qualifications; the text of any amendment proposed to the Memorandum of Association and / or articles of association and the rationale for such amendment; and the audited statement of accounts with comments on the auditor's qualification or adverse remarks; and the proposed annual or supplementary budget to be considered by the General Meeting;

XI. To ensure that elections are conducted as provided in the articles of association;

XII. To determine the quantum of withheld price to be disbursed at the end of any year;

XIII. To acquire or dispose property in the ordinary course of business;

XIV. To raise funds as provided in these articles.

XV. To cause adequate security, insurance of the assets of the producer company;

XVI. If required, the Board may constitute committee/s for specific duration in farming policies or seeking suggestions in any matter that Board may deem fit under section 581 U of the Act. The advisory committee shall cease to exist after finalizing its suggestions and recommendations in the matter for the Board.

XVII. The committee/s may be formed of the following members;

1. Up to two members of the board provided that the Chief Executive Officer or a director shall be the member of the committee.
2. Expert/s in concerned field from outside as decided by the Board.
3. The Managing Director of the Producer Company as member secretary.

XVIII. Institute conduct, defend, compound or abandon any legal proceedings by or against the Producer Company or its officer or otherwise concerning the affairs of the Producer Company and also allow time for payment or settlement of any debt due settle any claims and / or demands by or against the Producer Company any arbitration or otherwise.

XIX. Delegate to the Chief Executive Officer any of its powers under these articles of association of the Producer Company.

XX. To ensure compliance, terms and conditions of agreement with the financing institutions for loan and grant as mutuality agreed upon.

XXI. The Directors shall exercise their power regarding the affairs of the Producer Company only at meetings of the Board.

XXII. Borrowing powers:- Subject to Section 2(31), 73, 74, 76A 179, 180 of the Companies Act 2013 and the Regulations made there under and directions issued by the RBI the Board of Directors shall have the power, from time to time and at their discretion to borrow, raise or to secure the payment of any sum of money for the purpose of the Company in such manner and upon terms and conditions in all respects as they think fit and in particular by the issue of debentures or bonds of the Company or by mortgage charged upon all or any of the properties of the company both present and future including its uncalled capital for the time being.

17. a. RETIREMENT OF DIRECTORS

17.1 Each director shall be liable to retire by rotation at Annual General meeting.

17.2 Every director shall retire after pre-determined period decided by the Board and shall be eligible for re-appointment subject to the clause 17.8 of these Articles.

17.3 Directors who are longest in office since their appointment shall retire first.

17.4 If directors were appointed on same day, then retirement shall be

- By agreement between them; or
- By draw of lots.

17. b. CHIEF EXECUTIVE OFFICER

17.5 The Producer Company shall have a full time Chief Executive Officer who shall functions as chief executive and shall be appointed by the Board from amongst persons other than Members.

17.6 The Chief Executive Officer shall be ex officio director of the Board having voting rights equals to any other Director, but he shall not vote in the election of the Directors or Chairman or on any matter in which he is an interested party. He shall not retire by rotation.

17.7 Save as otherwise provided in these articles, the qualifications, experience and the terms and conditions of service of the Chief Executive Officer shall be such as may be determined by the Board.

17.8 The Chief Executive Officer shall be the regular and paid employee of the company entrusted with substantial powers of management as the Board may determine. The amount of remuneration/ salary and other facilities shall be decided by the BoDs (can take help of outside consultant, if not capable to decide) based on the outside market rate, experience, qualification and market value of the person.

17.9 Subject to the substantial powers of management entrusted by the Board the Chief Executive Officer may exercise the powers and discharge the functions namely:-

i. Do administrative acts of a routine nature including managing the day-to-day affairs of the Producer Company.
ii. Operate bank accounts or authorize any person, subject to the general or special approval of the Board in this behalf, to operate the bank account;
iii. Make arrangement for safe custody of cash and other assets of the Producer Company;
iv. Sign such documents as may be authorized by the Board, for and on behalf of the company;
v. Maintain proper books of account, prepare annual accounts and audit thereof; place the audited accounts before the Board and in the annual general meeting of the Members;
vi. Furnish Members with periodic information to appraise them of the operation and functions to the Producer Company;
vii. Make appointments to posts in accordance with the powers delegated to him by the Board;
viii. Assist the Board in the formulation of goals, objective, strategies, plans and policies;
ix. Advise the Board with respect to legal and regulatory matters concerning the proposed and ongoing activities and take necessary action in respect thereof;
x. Exercise the powers as may be necessary in the ordinary course of business;
xi. Discharge such other functions, and exercise such other powers, as may be delegated by the Board;

17.10 The Chief Executive Officer shall manage the affairs of the Producer Company under the general superintendence, direction and control of the Board and be accountable for the performance of the Producer Company.

18. APPOINTMENT OF COMPANY SECRETARY

18.1 If the average annual turnover exceeds Five Crore rupees in each of three consecutive financial years, the Producer Company shall have a whole-time secretary.

18.2 No individual shall be appointed as whole time secretary unless he/she possesses membership of Institute of Company Secretaries of India Constituted under the Company Secretaries Act, 1980.

19. APPROPRIATION OF NET PROFIT

19.1 The Producer Company shall maintain a general reserve fund, which shall be decided by the Board, in every financial year.

19.2 In case of insufficient funds in any financial year, the contributing to reserve shall be shared amongst the members in proportion to their patronage in the business of that company in that year.

19.3 There shall be a limited return per annum which shall be specified by the Board and approved by the General Body from time to time, on fully paid share capital;

20. ACCOUNTS

20.1 The Company shall keep at its registered office proper books of account.

20.2 The Board shall from time to time determine whether and to what extent and at what times under what conditions or regulations, the accounts and books of the company, or any of them, shall be open to the inspection of members not being directors.

20.3 The Balance-sheet and profit & loss account shall be prepared as far as may be, in accordance with the provision of section 129 of the Companies Act,2013.

21. MISCELLANEOUS

21.1 In addition to the sum as provided in the provision of these articles of association all subsidies, entrance fees, receipts on account of forfeited shares and fines other than those collected from the employees shall be carried to the Reserve Fund.

21.2 Any other income other than normal trading income, excess provision and reserves, donations other than those for specific purpose etc. can be carried to a General Reserve Fund and shall be utilized with the permission of the Board from time to time.

21.3 The accounting year of the Producer Company shall be from 1st April to 31st March. The books of accounts of accounts and other records shall be maintained as prescribed.

21.4 The Producer Company shall not alter the conditions contained in its memorandum except in the cases, by the mode and to the extent for which express provision is made in the Companies Act, 2013.

21.5 The Company may, by special resolution, not inconsistent with section 581B, alter its objects specified in its memorandum. A copy of the amended memorandum, together with a copy of the special resolution duly certified by two directors, shall be filed with the Registrar within thirty days from the date of adoption of any resolution.

22. AMENDMENT OF ARTICLES

22.1 Any amendment of the articles shall be proposed by not less than two-thirds of the elected directors or by not less than one-third of the Members of the Producer Company, and adopted by the Members by a special resolution.

22.2 A copy of the amended articles together with the copy of the special resolution both duly certified by two directors, shall be filed with the Registrar within thirty days from the date of its adoption.

22.3 THE SEAL: The Board of Directors shall select a seal for the Company and provide by resolution for the safe custody and affixing thereof. Unless otherwise determined, the Director may use and affix the seal of the company to any document and the Director in accordance with these articles sign every document to which the seal is so affixed.

23. SECRECY CLAUSE

23.1 Subject to the provisions of the Act no member shall be entitled to visit or inspect works of the Company without the permission of the Director or Managing Director or Chief Executive Officer or of the officer authorized by the Director to grant such permission or to require inspection of any books of accounts or documents of the Company or any discovery of any information or any detail of the Company's business or trading or any other matter which is or may be in the nature of a trade secret, mystery of trade or secrete processor which may relate to the conduct of business of the company and which in the opinion of the Managing Director or the Directors will not be expedient in the collective interest of the members of the Company to communicate to the public or any member.

23.2 If in any case the company wants to go for amalgamation, merger or any division it can do so by passing by necessary resolution in the General meeting subject to the provisions of the Section 581ZN of the Act.

23.3 The Companies Act, 2013 and the Part IXA of the Companies Act, 1956 shall override these articles if in any of discrepancy.

24. INDEMNITY

Every officer of the company shall be indemnified out of the assets of the company against any liability incurred by him in defending any proceedings, whether civil or criminal, in which judgment is given in his favour or in which he is acquitted or in which relief is granted to him by the court or the Tribunal.

"Foreseeing a Bright Future with Adoption of Good Agricultural Practices"

Narmadanchal Farmer Producer Company Ltd. promoted by Vrutti Livelihoods Resource Centre

Estd: September 2013; Location: Sehore, MP; NKFL Loan: Rs 11 lakh

The activities of this FPC, located in the interior and backward areas of Sehore district, have been able to benefit 796 farmers and generate surplus and sustain the business operations. The company has been set up in an area wherein the access to services for the farming community is difficult. The company is being managed by the Board of Directors elected by the members. At present, NFPCL has 10 member board with due representation to villages in their area of operation and women members. The community is sensitised on the roles and responsibilities of directors before they are elected. The company has designed a business plan to meet its emerging requirements with long term perspective. Accordingly, the FPC plans to establish a spice grinding unit to cater to the market demand and establish market linkages with Walmart for vegetable marketing which will contribute to the enhancement in income of the farmers. The FPC is working towards enterprise promotion of high value crops and organic farming in the operational area and has also introduced good agricultural practices amongst the farmers.

"Tribal Women Farmer Collective in the interiors of Ranapur"

Ranapur Tribal Mahila Farmers ProducerCompany Ltd. promoted by Action for Social Advancement (ASA)

Estd: June 2012; Location: Jhabua, MP; NKFL Loan: Rs 30 lakh

This FPC comprises of 1,131 women shareholders in the backward district of Jhabua. It has been set up in an area which is backward and wherein the access to services for the farming community is difficult. The main objective of the company is to function as 'One Window Service Provider' for all crop inputs such as seeds, crop protection measures, farm implements, advisory services for members and non-members as well. The company is engaged in input supply and procurement operations and it proposes to expand their operations in the ensuing seasons. Taking into account the requirements of members, local needs, the company in future proposes to take up activities like seed processing, procurement and sale of agricultural produce like Soyabean, Cotton, Wheat, Maize, Pulses etc. and supply of inputs required for agricultural operations.

"Tribal Farmers Organise into FPC and Take up Business Activities"

Mandla Tribal Farmers Producer Company Ltd. promoted by Action for Social Advancement (ASA)

Estd: January 2012; Location: Mandla, MP; NKFL Loan: Rs 25 lakh

Mandla Tribal Farmer's Producer Company Limited (MTFPCL) is a farmer producer company promoted by experienced farmers belonging to the tribal block Binjhiya of Mandla district. The company is mainly into the business of trading, input supply and seed production. The 1085 shareholders of this FPC belong to the tribal and Other Backward Castes in 22 villages of Mandla district. The company has endeavored to enable the small farmers to have better access to markets through collectivization and promote a culture of entrepreneurship. A sum of Rs. 4.54 Lakh has been received from SFAC as matching equity grant to support the equity base of the FPC to increase the credit worthiness of the FPC and enhancing the shareholding of members to increase their ownership and participation in their FPC. The FPC is presently engaged in Agro inputs sale, Procurement and Trading of agri produce from farmers, Seed Production etc.

"Agro Advisory, Fruits and Vegetable Trading Services"

Green Vision Farmers Producer Company Ltd. promoted by Yuva Mitra

Estd: January 2014; Location: Nasik, Maharashtra ; NKFL Loan: Rs 28 lakh

The Green Vision Farmer's Producer Company, Vadangali was formed by a group of farmers to address the multiple issues like execution agricultural Imput & Extension services for the members of the FPO through Agri mall, establishment of market linkages to undertake the sale of pomegranate & maize on behalf of member farmers. The Company was established at NABARD's initiative with regards to Pilot Project on Onion value chain management and NABARD has provided Rs 9 lakh as grant for establishment of Storage, Grading, and packaging house.

The FPC has setup an agri-input shop cum agri-mall and involved in procuring fruits, vegetables and pulses from about 950 farmers. The Company has started a 2200 sq. ft. agri-input shop which is well stocked with insecticides, pesticides, seeds. Also, a 2000 sq ft grading and packing house has been constructed for onion procurement, sorting, grading and packing. Majority of their activities of purchasing of insecticide, pesticide and seeds are carried out in colloboration with other FPCs promoted by Yuva Mitra. GVFPCL also has a technology solution for recording day to day operations and reports generation.

"A Move towards Sustainability: Income Diversification through Allied Activities"

Valanadu Sustainable Agriculture Producer Company Ltd promoted by Centre for Indian Knowledge Systems

Estd: November 2013; Location: Nagapattinam, TN; NKFL Loan: Rs.40.40 lakh

Valanadu Sustainable Agriculture Producer Company Limited (VSAPCL) is a farmer producer company promoted by experienced farmers belonging to Sirkazhi, Mayiladuthurai and Vedharanyam of Nagapattinam district. The Company has a robust membership of 2640 shareholders covering 42 villages and reaps the benefit of economies of scale for enhancing income of its members. VSAPCL has got the necessary licenses from the competent authorities to undertake dealing in seeds and fertilizers. The company has built rapport with the line departments of the state government, which would help in running their operations smoothly and explore convergence. The company supported its members by providing quality inputs, ensuring better margins through crop procurement. The Company has marketed over 113 tonnes of paddy, 4.4 tonnes of pulses, 6.4 tonnes of gingelly and 1.7 tonnes of groundnut during last year. The company was also instrumental in providing credit linkages to the member farmers for purchase of milch animals, thus achieving the income diversification to allied activities. Company has facilitated in marketing of about 7500 litres of milk each month for its members thereby enhancing the members' income.

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