FAQ on Equity Guarantee Scheme

Who is the Implementing Agency?

Equity Grant Scheme is being operated by Small Farmers Agri Business Consortium (SFAC)

What is FPC?

Farmer Producer Companies (FPC) means a company of Farmer Producer Members as defined in Part IX A of the Indian Companies Act, 1956 (including any amendments thereto or re-enactment thereof) and incorporated with the Registrar of Companies.

Who can be shareholder of the FPC?

Any farmer (Small/Marginal), landless labourer can become shareholder by contributing to Equity of the Company. For the purpose of Equity Grant Scheme a shareholder is a shareholder member of FPC on the date of its application for Equity Grant under the EGCGFS.

What are the objectives of Equity Grant Scheme?

The Equity Grant Fund has been set up with the primary objectives of :
a) Enhancing viability and sustainability of FPCs;
b) Increasing credit worthiness of FPCs;
c) Enhancing the shareholding of members to increase their ownership and participation in their FPC.

What is the Eligibility Criteria for availing Equity Grant?

An FPC shall be eligible to apply for Equity Grant under the Scheme based on its fulfilling the following criteria :
a) It is a duly registered FPC under Part IX A of the Indian Companies Act, 1956 and incorporated with the Registrar of Companies (RoC).
b) It has raised equity from its Members as laid down in its Articles of Association.
c) The number of its individual shareholders is not lower than 50.
d) Its paid up equity does not exceed Rs. 30 lakh.
e) Minimum 33% of its shareholders are small marginal and landless tenant farmers as defined by the Agriculture Census carried out periodically by the Ministry of Agriculture, Government of India.
f) Maximum shareholding by any one member is not more than 5% of total equity of the FPC.
g) Maximum shareholding of an Institutional Member is not more than 10% of total equity of the FPC.
h) It has a duly elected Board of Directors (BoD) with a minimum of five members, with adequate representation from member farmers and minimum one woman member.
i) It has a duly constituted Management Committee responsible for the business of the FPC.
j) It has a business plan and budget for next 18 months that is based on a sustainable revenue model as may be determined by the implementing Agency.

k) It has an account with a “Bank”.
l) It has a Statement of Accounts duly audited by a Chartered Accountant (CA).

What is the sanction limit under Equity Grant Scheme?

The Equity Grant shall be sanctioned to eligible FPCs as follows:
a) Equity Grant shall be a cash infusion equivalent to the amount of shareholder equity in the FPC subject to a cap of Rs. 10 lakh per FPC.

What are the criteria for calculation Equity Grant?

The criteria for calculation of Equity Grant rounded off to the share unit value subject to the above limits to each shareholder member of the FPC as per authenticated copy of the shareholders register maintained by the Producers Company is as follows :
a) Allocation of shares shall be on matching/pro-rata basis of the shareholders’ current shareholding, subject to the maximum specified above and ensuring that each shareholder member receives minimum one equity share.
b) If the Grant sanctioned to the FPC is not sufficient to ensure a minimum one share to all its shareholder members, allocation of grant shall be based on the shareholders ‘current landholding, starting with shareholder with the least land holding/the smallest producer in case of allied activities/ or by transparent draw of lots where such identification is not possible.

How many times Equity Grant can be sanctioned.?

The FPC shall be allowed to draw the Equity Grant in a maximum of two tranches (within a period of 2 years of the first application) subject to the cap of Rs. 10.00 lakh per FPC, provided and to the extent that it is able to raise additional Member Equity to qualify for an additional matching grant within the overall ceiling of Rs. 10.00 lakh. The request for the second tranche shall be treated as a fresh application and the full process of due diligence shall be repeated.

What is the impact if a member exits the FPC after sanction of Equity Grant?

In the event that a shareholder, who receives additional shares issued by the FPC against Equity Grant sanctioned by SFAC, exits the FPC at any point after receiving the shares, the additional shares received by him/her name must be transferred to another shareholder or new shareholder within 90 days of his/her exiting the FPC, through an open and transparent draw of lots. In such cases, the original shareholder cannot receive the value of the additional shares transferred to other/new members.

Under what circumstances, SFAC can recall the Equity Grant amount from the FPC?

SFAC shall have the right to recall the Equity Grant amount from the FPC which shall be legally liable to comply with the same in the case of :
a) Failure to issue additional shares to members against the Equity Grant received by the FPC within 45 days of its receipt, and
b) Closure/Dissolution of FPC within three years of the receipt of the Equity Grant.
c) Instances of misuse / misappropriation of the Equity Grant (viz. Use of funds for activity other

than mentioned in Memorandum of Association/Articles of Association/Business plan of the FPC) of the Equity Grant.

What is the Application process for Equity Grant?

Eligible FPCs that meet the eligibility criteria shall apply for the Equity Grant in the prescribed Application Form only. Other mandatory documents required to be submitted along with the application are listed below :

i) Shareholder list and share capital contribution by each member verified and certified by a Chartered Accountant (CA) prior to submission.

ii) Resolution of the FPC Board/Governing Council to seek Equity Grant for members.

iii) Consent of shareholders, stating name of shareholder, gender, number of shares held, face value of shares, land holding, signifying consent for SFAC to directly transfer the equity grant sanctioned to the FPC on their behalf, to FPC Bank account, against the consideration of additional shares of equivalent value to be issue to them by FPC and on exit – transfer of the shares as per rules.

iv) Audited financial statements of FPC.

v) Photocopy of Bank Account Statement for last six months authenticated by the Branch Manager of the “Bank”

vi) Business Plan of FPC and budget for next 18 months.

vii) Names, photographs, and identity proof (any one from among ration card, Adhaar Card, election identification card, passport) of Representatives/Directors authorised by the Board for executing and signing all documents under the Scheme.

viii) Each page of the Application form and accompanying documents shall be signed by a minimum of two Board Member/Authorised Representatives of the FPC.

For Clarifications in respect of points no. I, ii & iii, please refer our Circular No. SFAC/EGSC/2014-15/1295 dated 01/07/2014 (available at www.sfacindia.com)

What is the process of Institutional Due Diligence?

The Implementing Agency shall undertake a due diligence process to establish the credibility, sustainability and viability of the FPC, before taking a decision on its application for Equity Grant. The due diligence shall cover the following aspects :

a) Governance;

b) Business and Business Plan Viability

c) Management Capability;

d) Financials.

Due diligence shall be conducted through Desk Appraisal on the basis of documents received and a Filed Visit to the FPC and its Promoter Organisation if applicable.

Who is the Sanctioning Authority for sanction of Equity Grant?

An Equity Grant Sanction Committee (EGSC) with four members, the Managing Director SFAC as Chairman, two officers of the organisation nominated by MD, SFAC, is constituted for the purpose of evaluating applications received under this Scheme. The EGSC, meeting under the Chairmanship of MD, SFAC, shall have full authority to decide on the applications and its decision in this regard shall be final.

Sanction of Equity Grant by EGSC shall be conveyed to the FPC through a Sanction Letter issued within seven working days of the decision of the EGSC.

What is the process of disbursement?

After accepting the terms of sanction, the FPC shall enter into Agreement with SFAC. SFAC shall transfer sanctioned funds to the FPC Account.

What are the post disbursement formalities?

The FPC shall submit the following documents to SFAC:
i) List of additional shares issued by it to its shareholder members under the Scheme along with the respective Folio Numbers, verified and certified by a Chartered Accountant (CA) within 45 days of the funds having been received by it.
ii) Copy of application with enclosures submitted to the RoC for increasing Authorised/Paid up Capital.

What action will be taken if FPC is not able to comply with terms of sanction?

If the FPC does not honour its commitment in any manner whatsoever, either in the matter of issuing shares or in notifying SFA within the specified time limit, the Equity Grant amount sanctioned and released by SFAC to the FPC is liable to be cancelled and recalled by SFAC as detailed in the Agreement between SFAC and FPC.

What is the legal process for recovery of Equity Grant in case of default occurs?

In the event of violation of any of the terms and conditions herein contained or contained in the rules or any of the instructions issued by SFAC from time to time or instances of misuse/misappropriation of the Equity Grant sanctioned and released to FPC by SFAC, SFAC shall have the right to demand and enforce forthwith repayment of the entire amount of Equity Grant sanctioned by SFAC.
The Agreement between SFAC and the FPC is governed and construed according to the laws of India. Controversies and claims arising out of/relating to this Agreement, or the breach thereof, shall be settled through Legal process or Arbitration at Delhi. However, before taking any legal action, the parties shall endeavour to mobilise all efforts and to enter into discussions in order to find a mutually acceptable settlement by direct negotiation.