A GUIDE TO PRIORITY SECTOR AGRICULTURAL LENDING

BANK FINANCE FOR MUSHROOM CULTIVATION

by Chidananda Sastry

THE FOUNDATION

Concept of Priority Sector

Reserve Bank of India mandates every bank to direct a fixed share of its total lending toward sectors of national importance. Agriculture is one such sector — and mushroom cultivation qualifies for its benefits.

40%

of Net Bank Credit (NBC)

Total Priority Sector Lending target

18%

of Net Bank Credit (NBC)

Reserved for Agriculture & Allied Activities

Mushroom cultivation is classified under the Agriculture Sector — making it eligible for priority sector lending benefits.

BACKED BY

Refinance Support & Lending Privileges

Refinance Institutions

Agricultural lending by banks is supported through refinance from national institutions, ensuring steady credit flow to the sector.

- **NABARD**
- **RIDF Bonds**

Privileges for Agri Lending

- Interest is debited on a quarterly rest basis
- No EMI structure required
- No compounding of interest
- Simple interest applies throughout

GETTING STARTED

Eligibility to Avail Bank Loan

- Applicant should be an existing customer of the bank
- Should possess the required qualification in the concerned line of activity
- Prior experience in the activity is preferred
- Should not be a defaulter to any bank

Minimum CIBIL Score Required 650

TERMS & CONDITIONS

Loan Security & Applicant's Role

Security for the Loan

Hypothecation of crop and stocks. An Equitable Mortgage (EM) of land is additionally required if the loan amount exceeds Rs. 3.00 lakhs.

Applicant's Responsibilities

- Submit the project plan along with projected income & expenditure in writing, so that net income can be arrived at
- Inform the bank of the arrangements made for selling the produce — a tie-up for sale is preferred by the bank

Capital Expenditure

Permanent fixtures and one-time expenditure required to set up the cultivation unit.

- Constructing a shed and inside arrangement for cultivation
- Water arrangements — over-head tank, pipeline and taps
- Humidifiers, etc.
- Fencing (if cultivation is done in an open field)
- Labour rooms
- Straw chopper
- Sterilizing equipment

Operational Expenditure & Norms

Day-to-day running expenses

- Paddy straw / sugar cane waste (substrate)
- Polythene bags of required size
- Spawn of mushroom
- Electricity charges
- Labour charges
- Miscellaneous charges
- Transportation

Capital + Operational = Project Cost

80 : 20

Banks normally finance 80% of the project cost. The remaining 20% margin is brought in by the applicant.

Loan amount is disbursed directly to the supplier of goods or the person undertaking the work

Repayment is scheduled quarterly, half-yearly, or yearly, based on net income

Capital Cost (One-Time Investment)

Capital Item	Amount (Rs.)
Cost of shed construction on roof top and inside arrangements	1,50,000
Water arrangements — over-head tank, pump, pipeline, taps	60,000
Straw chapper	10,000
Labour shed	10,000
Humidifier	7,000
Autoclave	20,000
Total Capital Cost	**2,57,000**

Operational Cost & Financing Split

Operational Item	Amount (Rs.)
Cost of spawn — 50 kg @ Rs. 100/kg	5,000
Cost of polythene bags — 500 nos. @ Rs. 3/piece	1,500
Racks making, ropes	10,000
Chemicals treatment	300
Electricity bill	1,000
Packing / transport	10,000
Labour charge	10,000
Total Operational Cost	**40,500**

Total Project Cost

Rs. 2,97,500

Bank Finance (80%)

Rs. 2,38,000

Own Margin (20%)

Rs. 59,500

SAMPLE PROJECT • PER TWO-MONTH CYCLE

Income & Expenditure Projection

500 kg

Mushroom yield from 500 polythene bags @ 1 kg each

Rs. 225 / kg

Average selling price

Gross Income	Rs. 1,12,500
Operational Expenditure	Rs. 40,500
Net Income (per cycle)	**Rs. 72,000**

Net Income per Month

Rs. 36,000

Loan Repayment Schedule

Loan Amount	Rate of Interest	Tenure	Instalment
Rs. 2,38,000	**9.5% p.a.**	**4 years**	**Rs. 29,750 x 8**

Repayable in 4 years, in 8 half-yearly instalments of Rs. 29,750 each.

Year	Loan Amount	Principal	Interest (9.5%)	Total	Net Income p.a.	Surplus p.a.
1	2,38,000	59,500	22,610	82,110	4,32,000	3,49,890
2	1,78,500	59,500	16,910	76,410	4,32,000	3,55,590
3	1,19,000	59,500	11,305	70,805	4,32,000	3,61,195
4	59,500	59,500	5,653	65,153	4,32,000	3,66,847

KEY TAKEAWAYS

- Priority sector status makes mushroom cultivation loans easier to access
- Simple interest, no EMI, and quarterly rests ease the repayment burden
- Banks finance 80% of project cost; only 20% margin is required from the applicant

Thank You

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