

# **D.D. RUHINDA & CO. LTD.**

## **Business Plan Seeking for Financing the Expansion of Kwamgwe Sisal Estate.**



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## Table of Content

1	EXECUTIVE SUMMARY	1
2	INTRODUCTION	4
2.1	Background	4
2.2	Key Assets.	5
2.3	Ownership and Management	6
2.4	The Proposal.	7
2.5	Security Arrangement	7
2.6	Current Status.	9
2.7	Strategic plans in place	9
3	INDUSTRY OVERVIEW, MARKET & COMPETITIVE ENVIRONMENT	11
3.1	Global Overview	11
3.1.1	Market size and growth trends	12
3.1.2	Tanzania Sisal Board	12
3.1.3	Key Stakeholders in the Tanzania Sisal Industry	12
3.2	Pricing mechanism	14
4	INDUSTRY RISK ANALYSIS:	15
4.1	INDEPTH COVID19 ANALYSIS ON THE SISAL BUSINESS SPECIFICALLY TO RUHINDA	19
5	FINANCIAL PROJECTIONS	21
5.1.1	Assumptions:	21
5.1.2	Capital requirements	23
5.1.3	Revenue Projections.	23
5.2	Income statement	24
5.2.1	Operating Expenses	25
5.2.2	Balance Sheet	25
5.2.3	Cash flow	26
5.3	Ratio Analysis	28
5.3.1	Net Present Value:	28

5.3.2	Internal Rate of Return	28
5.3.3	Debt Service Coverage Ratio (DSCR):	29

6	RECOMMENDATION:	30
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List of Tables

Table 1:	Financing Needs	2
Table 2:	Shareholding Structure	6
Table 3:	Key Management Composition	6
Table 4:	Security Breakdown	Table 8
Table 5:	Sisal buyers for past 3 years.	10
Table 6	SWOT analysis for Tanzania's Sisal Market	15
Table 7:	Inherent Risks	17



## 1 EXECUTIVE SUMMARY

DD Ruhinda & Company Limited (Ruhinda) was established in 1990. Originally the Company started as a trading house, buying, and selling the local sisal fibre produce. However, to sustain itself, the Company decided to acquire Mkumbara Sisal Estate in 1997 during the privatization of farms and industries. At the time of acquisition only 50 hectares were under sisal but by 2016 over 1,784 hectares have been planted with sisal. The Company also has a subsidiary unit known as Tanga Sisal Spinning Mill which is producing sisal yarn and sisal twine. The company, with the potential to become one of the largest sisal exporter's producers in Africa, owns a large sisal plant with a capacity to produce 1,560MT sisal fiber per year. D.D Ruhinda & Company Limited Operations involve:

- Sisal Plantation and processing: The Company owns three sisal estate in Tanga region
- Sisal Spinning Mill: The Company's owns the sisal spinning mill in Tanga which produce the rope which are later been exported to different countries and also sold to local jute bags manufactures.

Also, the company is 100% owned by Tanzanians with aggregate investment cost including land to the tune of 15,55,9282,180. During its 22 years of operations, the company has established a growth and sustainability strategy that will rely on:

- i) In the short term, a focus on reducing costs and increasing production of our existing assets to full capacity.
- ii) In the medium term, continuing marketing, and penetration within the local and international markets, bulk sales and local retail sales from the sisal spinning mill.
- iii) In long term run the company plans to increase acquisition of new properties and establishment of processing plants to add more value on its exports

The company in year 2019 acquired another 3700-hectare farm property at Kwamgwe Sisal Estate located at Handeni district, that they intend to expand the production of sisal through establishing a sisal plantation, the farm is divided into three estates with acreage size of 300 hectares, 1,700 hectares and 1,700 hectares are all under RUHINDA.

RUHINDA is planning to finance the expansion by embarking on a capital raising exercise of USD 1.5 million as a long term loan, with the objective of improving its infrastructure in the new bought estate on which to date the client has invested about US 700K for its establishment and support the company's journey to reach its optimal production capacity.

Despite having the state-of-the-art plant commissioned in May 2014, RUHINDA has not been able to run its operations especially in the new project at full capacity primarily because of lack of funding. It is for this reason the shareholders of RUHINDA are seeking to raise capital to unlock the value of RUHINDA's business. Further investment needed is as per table below:

*Table 1: Financing Needs*

Item Financed	Quantity	Amount (USD)
Water Infrastructure		90,000
Planting of 1800 hectares		570,000
Purchase of tractors	12	560,000
Purchase of disc ploughs and harrows	18	100,000
Purchase of tractor trailers	14	140,000
Purchase of gyro-mowers	9	40,000
Grand Total		1,500,000

As the part of facility structure, it is proposed two (2) years of grace period under which the company will paying the accruing interest, and overall repayment term of 60 months. The payment is proposed due to the growth long term growing of sisal from the planting in the new field to the first harvest season.

Why two years grace period.

Sisal production is carried out under two stages; nursery development and field planting. Sisal is planted in the nursery for up to 12 months when the seedlings reaches 0.5 meters high are transplanted to the field. In the field sisal take a further 18 months to mature where sisal leaf cutting begins, the full growth circle to maturity is 2.5 years. Currently RUHINDA has an existing operation in Mkumbara farm (1,050 hectares of matured sisal) and 400 hectares newly developed at Kwamgwe estate, of which the Mkumbara farm operations will service the interest for the farm under development while waiting for the newly planted sisal at Kwamgwe estate to mature. Its expected that after two years period, the current developed 400 hectares since year 2020 will have matured for processing and hence start servicing the maturing interest and principal obligations of the loan while other sisal is on maturity trajectory.

The project financial analysis shows that the project is a viable undertaking. Financial indicators for the project are as follows.

- Average Net Profit Margin 33.1%
- Average Debt Service Coverage Ratio 4.9 times
- Average Return on Asset (ROA) 25.2%
- Average Return on Equity (ROE) 43.9%
- Internal Rate of Return (IRR) 58%
- Net Present Value (NPV) TZS 9.7 B

Sensitivity analysis has been performed and indicates that the project is sensitive with decrease of sales price and increase of UG grade sisal fiber. A decrease in unit sales price by 42% or below USD 740 per MT while other variables remain the same, it results into negative NPV TZS 130,055. However, due to steady market for the company's sisal fiber there is minimal possibility of decline of sales prices beyond the tested thresholds. This implies that, the project is technically sound, financially viable and economically feasible thus worth financing.

The proposed collaterals that is debenture over all the project's assets, mortgage over the landed property the farm and machinery, and insurance of the same shall be sufficient and adequate to cover the proposed lending investment arrangements.

## 2 INTRODUCTION

### 2.1 Background

D.D. Ruhinda and Company Limited (RUHINDA) is a Tanzanian Limited Liability Company licensed by the Tanzania Sisal Board (TSB) to cultivate, buy, process and exportation of the raw sisal. It was incorporated on 1998. The company is located at Chumbageni Area, Tanga Municipality in Tanga Region. The company, is among the largest sisal exporter in Sub-Saharan Africa, owns more than 3700 hectares of sisal plantation starting with the capacity to produce 15 Metric Tons of sisal per month in 1998 to 130 tons per month in 2020. This is equivalent to processing 1560 MT per annum.

The existing processing plant was initially funded as an equity debt from TIB Development Bank Limited which is fully paid. The processing plant is now fully operational and is located at Tanga Region in Mkumbara Sisal Estate. RUHINDA started business of planting, harvest of sisal in early 1990s before its full registration and licensing in 1998 and gradually moved into processing plant for exportation in foreign markets. In 2012, RUHINDA decided to diversify its business further into processing of raw sisal into fibre, and also start the construction sisal spinning mill plant.

Mr. Damian David Ruhinda is founder, Director and Executive Chairman of RUHINDA. He is an Economist by profession and was instrumental in sourcing for designs of the current RUHINDA's past and on-going projects. He has been in the in the agriculture sector for more than 40 years, it has been his vision and passion that has led him to emerge from sole buyer to creation of reputable company.

Mr Ruhinda started as a sole buyer from local farmers, due to his discipline an integrity has been able to form a company and secure funds to develop the sisal estates from different financial institution such as TIB and CRDB of which both of the facility where well serviced. The total equity of the company has gradually increase to the tune of TZS 15.5Bn by 2019 report.

## 2.2 Key Assets.

i) Land and Buildings: The processing plant is installed on a land property that is registered in the name of D.D Ruhinda Company Limited. The property, which has a size of 3700 hectare, is designated for cultivation and processing purposes only and is under a long-term right of occupancy for a period of 99 years.

The property comprises the following buildings: administration block, processing plant building, warehouses, workshop building, servant quarters, toilet units, arable faming land. In terms of recent valuation of the property including plant and machinery, it is valued at TZS 2.15Bn.

ii) Plants and Machines: The company has three plants located in different buildings:

- The first Plant located at Mkumbara Sisal estate has worth of TZS 1.8Bn this includes of sisal processing machines.

iii) Motor vehicles: The Company owns registered trucks, trailer and containers to facilitate the transportation of raw materials and final products. It also has other mini vehicles for transportation of personnel.

iv) Supporting infrastructure

## Utilities

- Electricity is connected to the property from the Ugandan National grid and from generators which supply the administration block and all factory buildings in case there is no electricity.
- The company plans to install its own clean energy power plant in order to sustain its production activities.

## 2.3 Ownership and Management

RUHINDA is a family run business. Due to working capital constraints, the top management positions are currently held by family members who have knowledge about the sisal industry and the day-to-day operations of the company. Decision making process is simplified in this type of company ownership. However, to complement their leadership and overall factory operations, RUHINDA has recruited external talent. These talents have brought in the necessary expertise in key areas such as general management, marketing, finance, logistics and distribution. The technical aspects of the processing plant are being managed by locals

*Table 2: Shareholding Structure*

Shareholder	Number of Shares	Percentage
Mr Damian D. Ruhinda	650,000	65 %
Ms Rosemary C Ruhinda	120,000	12 %
Mr. Deogratius Ruhinda	230,000	23 %
Total	1000,000	100%

*Table 3: Key Management Composition*

Title	Name	Qualification/ Previous Experience	Years in the Company	Years in the Industry
Managing Director	Damian Ruhinda	BCom – LSE	22	40+
Head of Operations	Rosemary Ruhinda	MBA (UK)	4	10+
Finance Manager	Deogratus Ruhinda	MBA (UK)	10	12
Accountant	Manfredy Marcelino	BA	3	5

#### 2.4 The Proposal.

This is called for because, 100% of RUHINDA market is outside Tanzania especially in the developed countries which requires high quality production and compliance of safety, quality and standards. For RUHINDA to meet these criteria the company needs to invest in intensive farming for long period of time, this will enhance the maximum utilization of the available 3700 acres of land in Kwamgwe Estate, to ensure this the RUHINDA is requesting

- a) USD 1.5 million- As a long-term borrowing facility with grace period of two (2) years and five (5) years repayment period. The facility will be used to fully operationalize the new Kwamgwe Sisal Estate, under which the company has made an initial investment of US 700K

#### 2.5 Security Arrangement

Primary source of repayment of the loan will be from cash flow from business operations, while secondary source of repayment shall be recovery from realization of Collaterals pledged as

security to secure the loans. Collateral includes Company's Landed Properties and Debentures for both present and future assets.

For borrowing purposes, the project proposal needs to meet minimum collateral criteria of 125% of the loan. Considering the plant value as per valuation report dated January, 2020. The Land, Buildings and Plant Equipment has Market Value of USD 2,000,000.

Table 4: Security Breakdown Table

Item	Market Value	Discount Factor	Discounted Value
Existing Assets:	USD	%	USD
Land, Buildings	935,000	75%	701,000
Sub Total	935,000		701,000
Corporate Guarantee from TADB	2,500,000	70%	1,750,00
Debantures			
Sub Total	3,435,000		2,451,000
Total	3,435,000		2,451,000
Loan Outstandings'			Amount USD
Bank Loan	1,500,000		1,500,000
Security cover (times) – TL	1.634 times		

Hence, the facilities are fully covered at Forced Sale Value by a margin greater than the 125% minimum as per Bank of Tanzania requirement.

## 2.6 Current Status.

Currently, Mkumbara Sisal Estate is operating at its full capacity with production of 130MT per month, contributing to over TZS 4 billion of revenue per year. This has been a major contribution on the company profit. Kwamgwe sisal Estate which is another company project is still not fully operational due to lack funds, RUHINDA is currently looking for additional fund to implement the long-term strategy over the new venture which will increase the profit of the company. The requested funds will be directly injected into a new project to make it fully operational, recently the company has invested total of \$ 700k on its initial stage. The requested US 1.5 million will bring the estate at it's fully operation.

## 2.7 Strategic plans in place

To ensure efficient running of the projects that is expected to be operating at its optimal, RUHINDA is working to execute the following strategic plans:

**Raw Materials:** RUHINDA is expanding the new farm to secure a constant supply of raw materials of sisal leafs, that is of paramount importance to maintain optimal production capacity. The company, as a major player, has establish direct contracts with small scale farmers through their primary co-operative societies. RUHINDA, through these contracts, will purchase farmers' produce by offering higher farm-gate prices.

However, to offer higher prices, the farmers must have quality sisal. The company is looking to partner with a bank or not-for-profit organization to assist the farmers in their inputs (in the form of finance and technical expertise). RUHINDA will then serve as a guaranteed market of the produce that meets the quality criteria.

**Marketing and Distribution:** RUHINDA has developed an international client base, from different geographical locations with its good brand reputation already registered in more than 6 countries. The company will continue to invest in and maintain business relationships with their customers since lock-in contracts are advised against due to price volatility.

Table 5: Sisal buyers for past 3 years.

S/N	Buyer Name	Country	Volume (MT)	Value (USD)
1	Hamzah Afza Family	Saudi Arabia	610	1,006,500
2	Zaad Company	Ireland	550	907,500
3	Aljohani Est.	Saudi Arabia	520	858,000
4	AA Idris & Associates	Kenya	500	825,000
5	Trico Logistics Ltd	Sri Lanka	444	732,600
6	Nizam Gypsum Co.	UAE	350	577,500

Empowering Smallholder Farmers: The smallholder farmers are at the center of success of the plant as they supply the vital raw material to produce sisal. In view therefore, RUHINDA would like to foster a long-term relationship so that smallholder farmers have the confidence of having a stable buyer, year after year. They current contribute to 20% of sisal processed at Mkumbara farm.

### 3 INDUSTRY OVERVIEW, MARKET & COMPETITIVE ENVIRONMENT

#### 3.1 Global Overview

World production of sisal and a similar agave fiber, henequen stands at an estimated 300,000MT valued at 75Mil USD with Brazil, China, Tanzania and Kenya commanding over 85% of total global production (FAO 2020). Further, the outlook in production of sisal fiber remains positive as FAO projects production of sisal fiber to grow by 0.8% annually, where most of this growth is anticipated to come from Africa particularly Tanzania, Kenya and Madagascar.

Global trade for sisal fiber is estimated at an average of 86,000MT with China being the major importer of sisal fiber, accounting for about 48.2% (about 42000MT) of total global imports (FAO)According to a report published by Maia Research in 2019 about 303,000MT of sisal fiber were consumed globally. Much of the sisal fiber is consumed by manufacturing industries in production of ropes, twines and cordage, better known as traditional sisal fiber end products.

The sisal fiber industry has a very promising future following the growing awareness of its environmental friendliness which is a strong supporting factor for demand growth. There is a growing industrial demand for natural fibers in higher valued applications such as paper and plastic composites. The FAO anticipates that sisal fiber trade will reach 90,000MT by 2027 (FAO, 2020).

The global prices for sisal as posted by Bank of Tanzania (BoT) have remained stable despite the Covid19 pandemic. Comparing the period for January to May 2020 (peak period of the Covid-19 pandemic) and the same period last year, prices have remained constant at 1.7Usd/Kg.

### 3.1.1 Market size and growth trends

In the past ten years, global sisal production has increased at annual average rate of around 0.8% annually, which is an incremental growth. The three largest producers globally are Brazil, Kenya, and Tanzania accounting for approximately 70% of production. Further, ICO estimates that the long-term average growth demand for sisal is 2.2% as consumption. A slowdown in global economic growth, particularly in emerging and developing economies as described by the International Monetary Fund in its October 2019 Economic Outlook Report, could dampen growth in sisal fibre consumption.

The global sisal fibre market has been growing at a steady pace and is expected to gain momentum in the coming years due to increased consumption of sisal fibre in various parts of the world.

### 3.1.2 Tanzania Sisal Board

TSB allows producers of premium top grade sisal fibre to bypass the auction and sell directly to overseas buyers. TSB is mandated to approve the sale contract after being satisfied that the price offered is higher compared to the sisal sold at the auctions. This aims to establish and enhance a long-term relationship between the growers and international roasters and traders.

### 3.1.3 Key Stakeholders in the Tanzania Sisal Industry

**Tanzanian Sisal Market Overview** Unlike most traditional export crops, sisal is not a seasonal crop. Sisal is harvested all year long. About 65-70% of Tanzania's sisal fiber is exported. About 27-30% is exported to China and the rest to Saudi-Arabia, Spain, Nigeria, Morocco and Egypt. Considering the measures taken by China and the rest of the world to limit the spread of the corona virus, exports of sisal from Tanzania decreased significantly. However, exporters who had already secured orders before corona pandemic were not much affected compared to

Those who had not secured orders before the pandemic. Sisal stakeholders, interviewed by our team, share a sense of optimism over the sisal market considering the ongoing lifting of lockdown measure in most of the world. The measures have been a major hindrance to the flow of sisal fiber between exporting and importing countries.

- Farmer cooperatives (AMCOS):

There about five AMCOS that operate under the government owned plantations which were previously under the Katani contract farming arrangement. For these farmers, their inventory has a higher chance of being sold considering the government has already announced a tender, where bidding will take place on the 14th day of July 2020. The buyer who wins bears an obligation to buy from farmers for six months from the time the bid is won.

- Non-cooperative farmers:

These will have to continue with the open market approach of selling their produce. However, they too work closely with Sisal Board to identify markets and prices for their produce.

- Traders/Processors:

In the sisal subsector, there are great linkages between upstream and downstream actors as most estates have their own processing plants. Due the volumes of sisal fiber they produce, they tend to focus on export markets. Since sisal fiber can stay up to one year if properly stored, hence, positioning processors to better manage the uncertainty. Typical traders (middlemen) who do not have inventory to sell can be more flexible and the least affected with the ongoing uncertainty.

Tanzanian Sisal Fiber (UG Grade) Indicative Prices 2016-2019 Tanzanian indicative prices for sisal fiber (UG grade) 4 for the past four years have been in the range of TZS 3.0-3.5Mil per MT at an average of TZS 3.3Mil per MT. The Tanzania Sisal Board (TSB) has lowered indicative price for this season by 6%, current indicative price is TZS 3.3Mil per MT from TZS 3.5Mil per MT in the previous year, to incentivize buyers following the coronavirus pandemic

- The Government of Tanzania:

Through Local Government Authorities (“LGAs”) and Ministry of Agriculture, Livestock and Fisheries, the Government is actively establishing favorable environment for the

- Financial Institutions & Non-Government Organizations (“NGOs”):

Both local and international financial institutions and NGOs assist in either the provision of inputs, financial support and/or expertise. They support some stakeholders in various sisal projects to improve livelihood of farmers and overall sisal production.

### **3.2 Pricing mechanism**

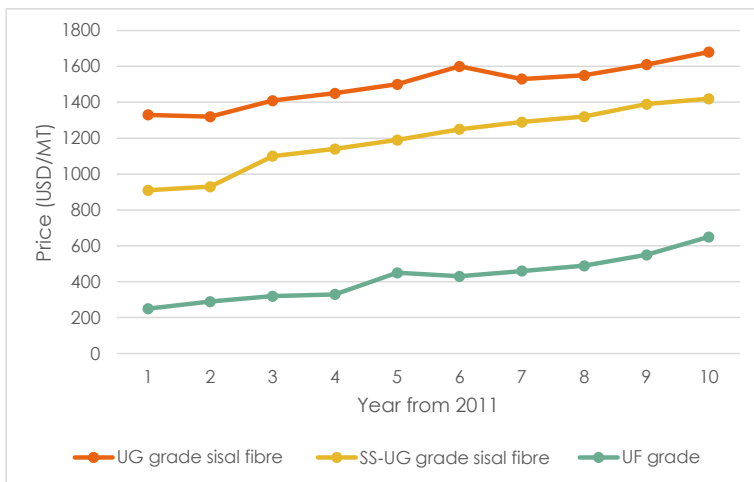
The pricing of sisal is largely controlled by the off-takers and regulated by World Trade Organization since sisal is non-seasonal product and is largely used in manufacturing industry.

Several factors is used in price determination:

- Supply and demand. Pricing takes mostly into consideration the quality (in terms of place of origin, grade and overall quality) and availability (how much of the particular type of sisal is offered).
- End user product to be manufactured e.g. fibre boards, textile etc. will determine the quality and hence different overall prices. Other factors affecting prices are currency exchange rates, market expectations and speculative actions.

- WTO has a composite indicator price that represent and track each type quality available in the world market and are weighted: These weights are reviewed every two years by the WTO.
- The key points to be agreed on in a future's contract are the delivery period and price. When the set future price is high, it stimulates production growth and vice versa is true.

Figure 1: Sisal global prices trend



Source: Mkonge News letter

#### 4 INDUSTRY RISK ANALYSIS:

Table 6 SWOT analysis for Tanzania's Sisal Market

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• Favorable weather condition for sisal growth</li> <li>• Drought resistance ability of sisal, and ability to harvest it more than once in year</li> <li>• Well established International demand</li> <li>• Many different organizations already working on sisal cultivation and supporting farmers</li> <li>• A vast amount of appropriate technology already available that could be applied in Tanzania</li> <li>• Significant interest and support from the international community and private sector in involvement in improved sisal value chains</li> </ul>	<ul style="list-style-type: none"> <li>• Disorganized value chain with weak links</li> <li>• Perceived as politically important crop for national revenue</li> <li>• Local processing plants inefficient, unregistered and unlicensed</li> <li>• Farmers' need to sell commodities immediately after harvest to meet cash needs</li> <li>• Limited use of market information</li> <li>• Too many inefficient and costly steps between producer and consumer in commercial market</li> <li>• Most farmers operating at subsistence rather than commercial level</li> <li>• Inadequate rural infrastructure to transport especially in Bariadi area where most of the companies have shown big interest.</li> </ul>
OPPORTUNITIES	THREATS

<ul style="list-style-type: none"> <li>• High demand in the world market</li> <li>• Huge potential for export arena</li> <li>• Rise of foreign investors who are interested in Sisal Trading.</li> <li>• Some large-scale processors showing interest in reaching out to producers to improve linkages</li> <li>• New varieties to be introduced to be more productive and better adapted to conditions</li> <li>• Improved use of WRS, better local storage and market information systems</li> <li>• Signing of more international export contracts.</li> </ul>	<ul style="list-style-type: none"> <li>• The inability of the Government to implement changes to policies and regulations</li> <li>• The uncontrolled supply of counterfeit seeds and chemicals</li> <li>• Private sector decides to invest in other countries, not Tanzania</li> <li>• High funding costs for borrowers</li> <li>• Unexpected impact of climate change</li> <li>• Pests and Diseases</li> </ul>
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Table 7: Inherent Risks

S/N	RISK	MITIGANTS
1	Climate change	Sisal is long term crop, it can survival the harsh climate however during the early stages irrigation is required. The new estate has a well which will used to supply water for new plants.
3	Price fluctuations	Sisal is a world commodity and the prices are determined by the demand. It is important to ensure quality all the time and some producers specialize in organic sisal which is growing in demand.

4	Inconsistence policies by Government	Sometimes Government intervenes by promulgating policies aimed at protecting the industry and smallholder farmers but in the process having a negative impact. Government has been flexible in reversing some of the changes which might affect the growth of the industry.
5	Less agronomy support to smallholder farmers	Not all farmers receive adequate agronomy services. AML will employ extension officers who will work closely with Government extension officers to train farmers in best agronomy practices. RUHINDA has a good catchment area in the Tanga Region and it gives an opportunity to train the farmers in order to improve their productivity and quality. It is also important to co-operate with other organizations working with the farmers on capacity building.
6	Lack of access to finance by smallholder farmers	Financial institutions are very selective on how to support the smallholder farmers in order to improve productivity and quality. In most cases they prefer to finance the smallholder farmers during harvest time. RUHINDA will assist farmers in securing finance for inputs (fertilizers & insecticides) which will help farmers to improve the quality of their sisals. Since the smallholder farmers are already organized in co-operative societies and have an assured buyer of their produce, it is hoped that it should attract banks to provide finance to them.
7	Coronavirus disease (COVID-19)	This is an epidemic which is spreading fast globally and is going to impact on business as there is no cure yet. It is going to disrupt supply chains, ban travel, impact human resource etc. RUHINDA need to evaluate potential areas of disruptions to its business and implement long term solutions to ensure

		risks are reduced for both human resource and production in the future. ( COVID19 assessment report narrated)
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#### 4.1 INDEPTH COVID19 ANALYSIS ON THE SISAL BUSINESS SPECIFICALLY TO RUHINDA

Global Impact:

- The COVID-19 pandemic is affecting the everyday lives of people and significantly impacting economies around the world. It also affects the global shipping, fishing, and farming.
- The issues were particularly disruptive in industrialized areas where large proportions of entire categories of crop business are typically imported using just-in-time logistics.
- The covid-19 crisis presents a demand and supply shock that impacts international trade flows and production chains. Most international organizations and research institutes predict a steep initial decline in economic growth, to be followed by a recovery

## IMPACT TO RUHINDA Cont.

- The spread of covid-19 presents a significant additional challenge to the sisal sector. Most of our customers are hugely affected resulting in delays in payments, no new orders received during the hard-hit times i.e. March to mid-June thus affecting our cash flows exporting only few containers less than 40MT per month

### Change in Sales Distribution (Before & After Covid)

- Before Covid 19 Pandemic, 80% of the revenue for RUHINDA was being derived from export sales whereas only 20% were local sales.
- During the Covid 19 Pandemic, for the period of Jan 2020 to April 2020, the sales composition for RUHINDA changed, to date the business only exported 55% with a contribution to profit, while the rest of fibre was processed and been sold locally.
- The redistribution of the sale composition is demonstrating a huge shrink in the global market, whereas an increase the local market is not signifying real growth in local sales.

- The financials indicates that sales trends for 2018, 2019 and Jan 2020 to April 2020. The sales revenue dropped by 40% in 2018/2019 due the changes in the world market for sisal (value wise), whereas there is a huge drop of 50% in the monthly average sales from 2019/2020.

- The huge slump in monthly average sales in 2019/2020 is being directly attributed to COVID 19 Pandemic as articulated below:

- I. Loss of export market (Sisal fibre in stock ready to be shipped)
- II. The closure of the borders meant there was no regional and international trade.
- III. Lock down in most the countries meant lack of trade which has in turn had an impact on the inflow of cash
- IV. Transport and logistics closed leading to delays in payments etc

**Commented [RM1]:** The company exported \$ 1.2M (mfano tuu huu) worth of sisal which accounts only to 55% of total sales compared to \$ 1.9m last year

**Commented [RM2]:** Put absolute figures.

## 5 FINANCIAL PROJECTIONS

### 5.1.1 Assumptions:

#### Operational Variables

Number of Working Days	25.00	Days/Month
Number of Months Per Year	12	Months
No of Hours/Shift	8	Hours
No of Shift/day	2	Shifts
Cost of Inflation	7%	
Farm Hectarage	3,700	Ha
Cubic Meters per hectare	25	M <sup>3</sup>

Total Cubic Meters	92,500	M <sup>3</sup>
Cubic Meters per Tone	35	M <sup>3</sup>
Farm Fibre Production capacity	2,643	MT
USD/TZS Exchange Rate	2,330	

<u>Variable Cost (TZS/MT)</u>	TZS/MT	USD/MT
Cutting	350,000	150
Decortication (Brushing and Pressing)	1,000,000	429
Loading, Offloading & Emptying	350,000	150
Transportation	350,000	150
Variable Unit Cost	2,050,000	880

<u>Revenue Drivers (USD/MT)</u>		<u>Distribution</u>
UG grade sisal fibre	1,750	80%
SS-UG grade sisal fibre	1,500	10%
UF grade	680	2%
Tow 1	1,000	5%
Tow 2	900	3%

		Growth (% p.a)	
Repair and Maintenance	3.000%	1.5%	of income
Insurance	0.125%	1.5%	of income
Property Tax	0.100%	1.5%	of income
Land Rent	0.050%	1.5%	of income

Income Tax rate	30%	
Dividend Payout	0%	on positive net income
Costs of Equity	13.6%	yield on 15-yr bond
Costs of Debt	12.0%	
Discount rate (WACC)	7.3%	
Interest on Over Draft	6.0%	Annual
Loan Tenure	10	
Grace Period	1	

Baseline cost of electricity (Year 2020)	USD 26,180	
		<u>Growth (%)</u>
Diesel usage (Backup)		<u>p.a)</u>
Required Dieasel per day	50 litres	
Dailly usage	10%	
Price per litre	2,200	2%
Exchange Rates		
TZS-USD	2,320 per US\$	
Currency Depreciation	2.00% Annual	
Depreciation: Building	2.0%	of property Value
Depreciation: Plant & Machinery	4.0%	of property Value
Depreciation: Furniture and Fittings	12.5%	of property Value
Depreciation: Motor Vehicles	25.0%	of property Value
Depreciation: Pre-operational Expenses	10.0%	of market value

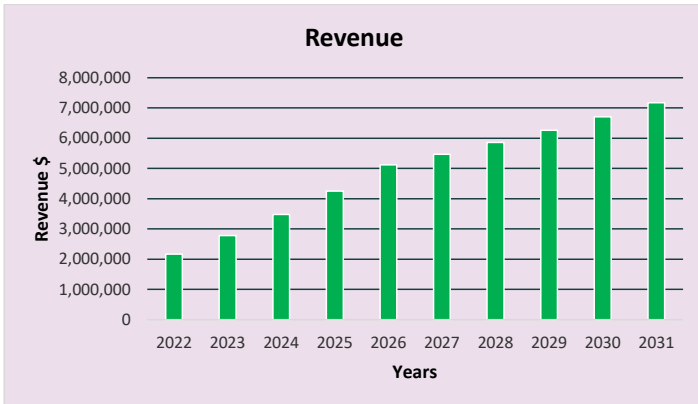
### 5.1.2 Capital requirements

The total capital requirement for this application refers amount of cash for asset acquisition, project implementation, fully operationalize the new estate. The source, type and specification of the fully automated production of the farm and equipment have been identified. It is anticipated that total capital expenditure to be USD 3.25 Milion, while part of it is the total facility USD 1.5 Million requested via this business plan. This will provide the acquisition of multiple machines to be added to the new sisal estate (Kwamgwe Estate) and expansion of the farm to meet the planned production.

### 5.1.3 Revenue Projections.

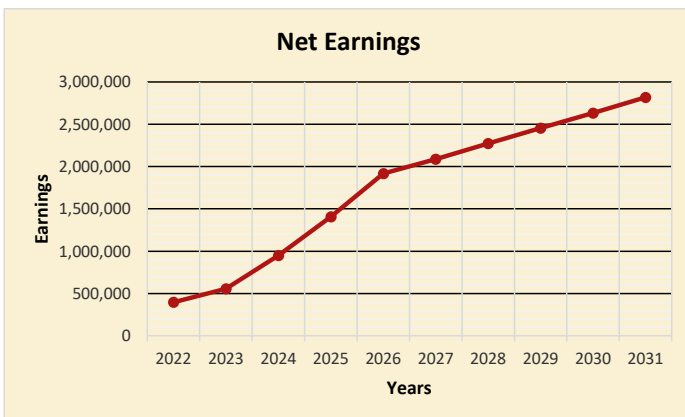
Revenue will is collected monthly in USD depending on customer. Local sales are denominated in TZS while international sales are denominated in USD. Main driver of revenue being periodic

increase of production volumes and off-take price, a change in these two parameters will have either negative or positive impact on revenues.



## 5.2 Income statement

The project registers significant net profit gradually increasing from USD 396K in 2022 to USD 2.8 Million in 2031. The increase is partly due to increase in the farm expansion and maturity of the sisal plant that influences increase in productivity. Also projected increase in prices – which is projected at 7% percent per annum.



### 5.2.1 Operating Expenses

Sisal trading and production is volumetric business that relies on stock and receivables to make profit. Based on this and the fact that most of raw material will have to be heavily procured mostly from Tanga region and different parts of the country through the government auction process. The plant will need to maintain at least a three months stock. During year one operation, the company is using the invested capital amount of not less than USD 1.5 million of which the same is requested in this application.

### 5.2.2 Balance Sheet

The projected balance sheet shows that, the projected account receivables increase at the higher rate compared to inventories which is the clear indication that, liquidity requirement is conversing during the projected ten years' time horizon.

The company will conquer more of the short-term loan during the years, specific for inventory, since there is a clear indication that the products will attract most of the major customer based on high demand in the Asia, and Middle East

'USD' Balance Sheet	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>ASSETS</b>										
<b>CURRENT ASSETS</b>										
Cash	636,968	-252,847	497,559	1,665,688	3,304,606	5,111,697	7,056,165	9,554,068	12,223,686	15,076,992
Accounts Receivable	541,984	334,036	416,988	509,916	613,812	656,779	702,753	751,946	804,582	860,903
Inventories	0	0	0	0	0	0	0	0	0	0
Other Current Assets	633,037	400,843	500,385	611,900	736,574	788,134	843,304	902,335	965,499	1,033,083
Total Current Assets	1,811,989	482,032	1,414,932	2,787,504	4,654,993	6,556,610	8,602,222	11,208,349	13,993,767	16,970,979
<b>PROPERTY &amp; EQUIPMENT</b>	2,584,400	2,497,096	2,412,963	2,331,880	2,253,731	2,178,406	2,105,798	2,035,803	1,968,324	1,903,264
<b>TOTAL ASSETS</b>	4,396,389	2,979,128	3,827,895	5,119,384	6,908,724	8,735,017	10,708,020	13,244,153	15,962,091	18,874,243
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>										
<b>CURRENT LIABILITIES</b>										
Short Term Debt	67,459	87,468	110,401	136,599	166,442	180,461	195,632	212,050	229,814	249,032
Accounts Payable & Accrued Expn	633,037	400,843	500,385	611,900	736,574	788,134	843,304	902,335	965,499	1,033,083
Other Current Liab	65,038	40,084	50,039	61,190	73,657	78,813	84,330	90,234	96,550	103,308
Current portion of long term debt	0	0	0	0	0	0	0	0	0	0
Total Current Liabilities	765,534	528,395	660,824	809,689	976,673	1,047,408	1,123,267	1,204,619	1,291,863	1,385,424
<b>LONG TERM DEBT (less current portion)</b>	1,500,000	1,500,000	1,267,061	1,004,579	708,807	375,525	0	0	0	0
<b>STOCKHOLDERS' EQUITY</b>										
Common Stock	1,735,000	0	0	0	0	0	0	0	0	0
Preferred Stock	0	0	0	0	0	0	0	0	0	0
Retained Earnings	395,855	950,733	1,900,010	3,305,117	5,223,243	7,312,083	9,584,754	12,039,534	14,670,228	17,488,819
Total Equity	2,130,855	950,733	1,900,010	3,305,117	5,223,243	7,312,083	9,584,754	12,039,534	14,670,228	17,488,819
<b>TOTAL LIABILITIES &amp; EQUITY</b>	4,396,389	2,979,128	3,827,895	5,119,384	6,908,724	8,735,017	10,708,020	13,244,153	15,962,091	18,874,243

### 5.2.3 Cash flow

The project's cash flow is strong save for value of land as the gearing ratio for the project is a desirable one with equal distribution of debt and equity. On the basis of the sisal production operations, the project has positive cash flow from year 1 of operations with a slight deep in year 2 but consequently straight with positive cashflow in the following years. The project shall solely rely on the existing internal generated funds from the Mkumbara farm operations as and when its sisal is maturing in the first two years. The interest payment during the grace period of the facility shall be met both using the current revenue from the developed farm and cashflow from Mkumbara farm operations.

<b>"USD" Cash Flow Statement</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>
<b>OPERATING ACTIVITIES</b>										
Net Earnings	395,855	554,878	943,277	1,405,107	1,918,126	2,088,840	2,272,670	2,454,780	2,630,634	2,818,531
Depreciation	90,600	87,304	84,133	81,083	78,148	75,325	72,608	69,935	67,480	65,059
Working Capital Changes										
(Increase)/Decrease Accounts Receivable	-541,984	207,948	-82,952	-92,929	-103,895	-42,967	-45,975	-49,193	-52,636	-56,321
(Increase)/Decrease Inventories	0	0	0	0	0	0	0	0	0	0
(Increase)/Decrease Other Current Assets	-633,037	232,195	-99,543	-111,514	-124,675	-51,560	-55,169	-59,031	-63,163	-67,585
Increase/(Decrease) Accts Pay & Accord Expenses	633,037	-232,195	99,543	111,514	124,675	51,560	55,169	59,031	63,163	67,585
Increase/(Decrease) Other Current Liab	65,038	-24,954	9,954	11,151	12,467	5,156	5,517	5,903	6,316	6,758
Net Cash Provided/(Used) by Operating Activities	9,509	825,176	960,413	1,404,413	1,904,847	2,126,354	2,304,821	2,481,485	2,651,854	2,834,088
<b>INVESTING ACTIVITIES</b>										
Property & Equipment	-2,675,000	0	0	0	0	0	0	0	0	0
Other										
Net Cash Used in Investing Activities	-2,675,000	0	0	0	0	0	0	0	0	0
<b>FINANCING ACTIVITIES</b>										
Increase/(Decrease) Short Term Debt	67,459	20,009	22,932	26,198	29,843	14,019	15,172	16,418	17,764	19,218
Increase/(Decrease) Curr. Portion LTD	0	0	0	0	0	0	0	0	0	0
Increase/(Decrease) Long Term Debt	1,500,000	0	-232,939	-262,482	-295,771	-333,283	-375,525	0	0	0
Increase/(Decrease) Common Stock	1,735,000	-1,735,000	0	0	0	0	0	0	0	0
Increase/(Decrease) Preferred Stock	0	0	0	0	0	0	0	0	0	0
Dividends Declared	0	0	0	0	0	0	0	0	0	0
Net Cash Provided / (Used) by Financing	3,302,459	-1,714,991	-210,007	-236,284	-265,929	-319,264	-360,353	16,418	17,764	19,218
<b>INCREASE/(DECREASE) IN CASH</b>	<b>636,968</b>	<b>-889,814</b>	<b>750,406</b>	<b>1,168,129</b>	<b>1,638,918</b>	<b>1,807,091</b>	<b>1,944,468</b>	<b>2,497,903</b>	<b>2,669,618</b>	<b>2,853,306</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>0</b>	<b>636,968</b>	<b>-252,847</b>	<b>497,559</b>	<b>1,665,688</b>	<b>3,304,606</b>	<b>5,111,697</b>	<b>7,056,165</b>	<b>9,554,068</b>	<b>12,223,686</b>
<b>CASH AT END OF YEAR</b>	<b>636,968</b>	<b>-252,847</b>	<b>497,559</b>	<b>1,665,688</b>	<b>3,304,606</b>	<b>5,111,697</b>	<b>7,056,165</b>	<b>9,554,068</b>	<b>12,223,686</b>	<b>15,076,992</b>

### 5.3 Ratio Analysis

"USD"	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>Summary Financials</b>											
Revenue		2,167,936	2,783,629	3,474,897	4,249,303	5,115,099	5,473,156	5,856,276	6,266,216	6,704,851	7,174,190
Gross Profit		737,098	1,152,315	1,707,736	2,334,676	3,040,398	3,252,217	3,478,712	3,720,898	3,979,859	4,256,756
EBIT		646,498	1,065,021	1,623,603	2,253,593	2,962,249	3,176,892	3,406,104	3,650,903	3,912,379	4,191,697
Net Earnings		395,855	554,878	949,277	1,405,107	1,918,126	2,088,840	2,272,670	2,454,780	2,630,694	2,818,591
Net Cash from Operating Activities		9,509	825,176	960,413	1,404,413	1,904,847	2,126,354	2,304,821	2,481,485	2,651,854	2,834,088
Capital Expenditures		3,235,000	0	0	0	0	0	0	0	0	0
Interest Income/(Expense)		0	-180,000	-167,465	-137,922	-104,633	-67,121	-24,853	0	0	0
Dividends		0	0	0	0	0	0	0	0	0	0
Cash		636,968	-252,847	497,559	1,665,688	3,304,606	5,111,697	7,056,165	9,554,068	12,223,686	15,076,992
Total Equity		2,130,855	950,733	1,900,010	3,305,117	5,223,243	7,312,083	9,584,754	12,039,534	14,670,228	17,488,819
Total Debt		1,500,000	1,500,000	1,267,061	1,004,579	708,807	375,525	0	0	0	0
<b>Growth</b>											
Revenue Growth Rate - CAGR:			28%	25%	22%	20%	7%	7%	7%	7%	7%
Net Earnings Growth Rate - CAGR:			40.2%	71.1%	48.0%	36.5%	8.9%	8.8%	8.0%	7.2%	7.1%
<b>Ratios</b>											
Current Ratio		2.37	0.91	2.14	3.44	4.77	6.26	7.66	9.30	10.83	12.25
Debt to Capital (LT Debt + Equity)		0.41	0.61	0.40	0.23	0.12	0.05	0.00	0.00	0.00	0.00
DCCR		0.00	0.00	9.49	5.83	7.59	8.12	8.69	9.29	0.00	0.00
<b>Profitability</b>											
Gross Profit %		34.0%	41.4%	49.1%	54.9%	59.4%	59.4%	59.4%	59.4%	59.4%	59.3%
Net Earnings %		18.3%	19.9%	27.3%	33.1%	37.5%	38.2%	38.8%	39.2%	39.2%	39.3%
<b>Returns</b>											
Return on Assets (ROA)		9.0%	12.6%	31.9%	36.7%	37.5%	30.2%	26.0%	22.9%	19.9%	17.7%
Return on Equity (ROE)		18.6%	26.0%	99.8%	74.0%	58.0%	40.0%	31.1%	25.6%	21.9%	19.2%
Return on Capital (LT Debt + Equity)		10.9%	22.6%	30.0%	32.6%	32.3%	27.2%	23.7%	20.4%	17.9%	16.1%
Internal Rate of Return (IRR)											58%
NPV											9,707,291.60

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#### 5.3.1 Net Present Value:

The project net present value (NPV) is calculated, taking into account the computed weighted average cost of capital of 7.3%. The project shows NPV of USD 9.7 Million, for 10 years' time horizon. The analysis takes into consideration the salvage value of the project.

#### 5.3.2 Internal Rate of Return

The internal rate of return (IRR) has cemented the investment decision for this project. For the project to be financial viable, the IRR should be greater than the cost of funding is at 12% and the IRR that is calculated at 58%. Conclusively, the business is viable for both scenario and thus the said capital investment worth financing on the proposed rates.

### 5.3.3 Debt Service Coverage Ratio (DSCR):

The minimum DSCR is minimum during year one that is calculated at minimum of 0.0, steadily rising up to 9.29 during year 10. The average DSCR is 4.9 times that indicate the cash flow can pay-out the loan obligation and thus the project cannot run out of liquidity.

## 6 RECOMMENDATION:

Because all of the assumptions are valid and risks have been assigned relevant mitigations, then the following is recommended: -

- a) The Client will take 7 years period to liquidate all the Loan obligations
- b) The Client needs 24 months (2years) of capital (principal) moratorium as he imports and install the Plant and wait for maturing of the sisal crop ready for harvest and production.
- c) The maximum deficit during the marketing cycle (hence the Long Term required).
- d) The Client needs to operate at the assumed level of sisal volumes, short of that he will not be able to service the Loans.
- e) The Costing structure must remain strictly within the assumed parameters, any cost overruns or contingencies should be borne by the Client himself. Any other cost escalations apart from the budgeted ones will significantly harm the project's viability
- f) It is observed that macro-economic environment in Tanzania is improving amid declining COVID19 pandemic. Therefore, RUHINDA will be able to mitigate all risks which were brought by the COVID19 pandemic.

Having looked at the business strategy, borrowing causes, industry and market trends, risk and it's classification related to the company, it is recommended that the company be availed a credit facility of USD 1.5 Million as Term Loan servicing which will be necessary for enhance production quality for successful access of international markets to meet sales growth and other financial obligation.