

AVOCADO GROWING, MARKETING & EXPORT

RAPHRAJ LTD



BUSINESS PLAN

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1.0 Executive summary

1.1 Mission Statement

To be the biggest horticultural exporter in tonnage and revenue in Africa.

1.2 Leadership

The company will have a board of directors governing it and a management team in charge of its day to day activities.

1.3 Employees

The company will employ staff to manage its operations in the farm, pack houses, logistics, sales & marketing, quality control, finance and compliance.

1.4 Operations

The company will manage operations on the farm, pack house, logistics, quality control, sales & marketing, finance & legal/compliance. This is explained in details paragraph 3.0.

1.5 Location

Location of the company operations will be at Jombe in the highlands of southern Tanzania. The company plans to acquire arable acreage for the purpose of growing avocado.

Njombe highlands are desirable because avocados grow well in highlands, hence the company is assured of economically viable yield and high-quality avocados that will fetch handsome returns in the world market.

1.6 Expansion & Financing

The company will seek means of expansion and strategic partnership with like-minded individuals or organizations to add value in form of skills, markets, value chain and funds. This will be undertaken but not limited to the below;

- Joint ventures
- Sale of Equity
- Acquisition of smaller firms
- Grants
- Loans
- Horizontal & vertical integration

2.0 Industry Overview

Avocado export market is one of the fastest growing industry in the world. Raking in more than \$5B annually. The industry is under the bigger horticultural industry. Traditional markets include United states & Europe, mainly served by South American countries of Peru, Chille & Mexico, while emerging markets comprise of middle East, China, India & Malaysia. The emerging market has potential to hit \$4B, which is 80% of the current global market value.

Market dominants are the south American countries who constitute aprox 90% of global export.

It is with this in mind, that the company intends to tap in this grossly unexploited market to create a niche that is sustainable and profitable in the foreseeable future.

3.0 Product & Services

3.1 Product & Operations

3.1.1 Product

The company intends to grow, market and export avocado fruits. Specifically, the company will deal in hass variety though not limited and can divest in other varieties like foete & pinktone. Hass variety flourishes in the cool & wet highlands hence desire to grow in the wet highlands of southern Tanzania. The other factor is that land there is relatively affordable.

Hass has a higher global demand and its oil content is higher & healthier than other varieties. Its productivity is approximately 300Kgs per acre per season. It has an average weight of 200gms.

3.1.2 Operation

The company intends to plant avocado trees initially in 10-acre piece of land in Jombe, southern Tanzania. The company plant to increase the acreage as demand grows. The company will plant drafted hass plants from certified nurseries to ensure top notch quality.

The company will also procure additional fruits from other farmers from the region so as to supplement its demand from export market.

The company will ensure that the seedlings used to grow the fruit meet international standards and grafting is done as per standard. The growing process will be organic and as per standards without spraying any dangerous chemicals. Harvesting must be as per standards as well.

All farmers will be registered with the company for traceability purposes. Regular farm visits by company approved agricultural extension officers will also be carried out to ensure compliance with the company's policies and standards. The company will endeavour to comply with global labour requirements.

The fruit will be harvested manually, packed in crates/ganny bags and loaded onto trucks

The fruits will be transported on road from the farm to the pack house.

Initially the company intends to lease/rent pack houses in the region so as to ensure export of fruit in line with minimum international requirements. The fruit will undergo the following process at the pack house.

a. Weighing

The fruit will be weighed in kilos as the unit of measure for traceability and accountability.

- b. Grading & Sorting
The fruit will be graded and sorted to ensure that only fruits that meet international standards pass through. This also helps to ensure that the company only pays for what can be exported to avoid losses.
- c. Washing
The fruit will be washed to ensure high levels of hygiene.
- d. Quality Control
The QC department will carefully sample out fruits that pass the international standards to ensure great value to our customers and ensure that the company passes international requirements.
- e. Post-Harvest treatment
This is to ensure that the fruit does not get infections, dirt or get over ripe in transit in line with international standards.
- f. Packing
Once the fruit passes all the above levels of control, it is now ready for packing and ready to be shipped.
- g. Palletizing
The packed fruit is then palletized in readiness for containerization, it is then stored in cold rooms with temperatures of between 4 to 7 degrees celcius.
- h. Container stuffing & Dispatch
Once customer order is processed, the fruit will be containerized and dispatched for export.

Any waste product will be at the cost of farmer and if the batch belongs to the company can be disposed to avocado processing plants.

3.2 Product Shelf life

Hass has a long shelf life hence desirable for containerization and sea transport.

3.3 Brand Name

The company will use Raphraj as the brand name for its avocado market.

3.4 Benefits to customers

The company will have due advantage especially in logistics because of its affiliation with its sister companies in the field of clearing & forwarding as well as transportation. Customers will derive the below benefits;

- Complete end to end service from farm to customer's warehouse without worrying on logistical red tape.
- Order fulfillments and on time in full orders
- High quality fruits in line with international standards

3.5 Packaging process

The fruits will be packed in paper cartons, stacked and palletized for storage and shipment. Each carton will accommodate approx 20 fruits.

3.6 Pricing

Pricing will be based on CIF cost plus desired margins; (Find below workings). Please note that below workings do not consider savings on logistics due to use of sister companies.

	<u>per container -21tons(40 ft)</u>	
	<u>\$</u>	<u>Kes</u>
Produce	21,000	2,730,000
Freight & transport	13,000	1,690,000
Almashauri TAX	7,000	910,000
packhouse	4,000	520,000
Marine Insurance	420	54,600
Total CIF	45,420	5,904,600
CIF per Kilo	2.16	281
CIF per fruit	0.43	56
Realization per Kg	3.75	488
Realization per Fruit	0.75	98
Mark-up per Kg	1.59	206
Mark-up per fruit	0.32	41
% Mark-up per Kg	73%	
% Mark-up per fruit	73%	
% Margins per Kg	42%	
% Margins per fruit	42%	

3.7 Research & Development

The company will invest in R&D to ensure sustainable quality driven product based on market requirements.

3.8 Patents

The company will patent unique products & brands that it develops along the way.

4.0 Marketing Strategies & Analysis

4.1 Industry

The industry is horticulture export across the globe. The industry is mostly business to business and involves value chain from the farm all the way to the customer in the international markets.

Hass yield is approximately 300kgs per acre if you have 150 trees per acre at its peak after the sixth year. To put this to perspective with an average revenue of approximately Kes350,000 per acre per harvest, this will translate to Kes3.5M per acre per harvest.

Hass requires good drainage and water for it to flourish, hence the reason that the company wants to set its base in the highlands of southern Tanzania.

4.2 Target Market

The company targets traditional international markets in Europe to emerging markets in middle & far East. Chinese market is growing and its annual consumption of avocado is currently estimated at Kes20B, with a potential to grow to over Kes210B. Tanzanian annual production is 40T while it exports a paltry 9T of the fruit. There is also very limited investment in cold storage and pack houses, most of these being done in its neighbouring country Kenya.

4.3 Competition

The main global exporters of avocado fruits are Peru, Chile & Mexico in south America who mainly feed the North American market. Mexico exported 1.7million Tons of the fruit in 2020 mostly to the U.S under the North American trade agreement. The U.S consumed an average of 3 kgs of avocado per person in 2018. Closer home South Africa & Kenya also grows and exports avocado. Kenya exported Kes10.8B worth of avocado in 2018, while its domestic market is worth Kes5.4B. Kenyan season runs from February to November. Counties growing avocado in Kenya include; Murang'a, Kiambu, Kisii, Kirinyaga, Nyamira, Meru, Embu, Bungoma, Machakos, Nyeri & Bomet.

4.4 SWOT Analysis

<u>Strength</u> <ul style="list-style-type: none">• Network in clearing & logistics in Kenya & TZ• Political network in TZ	<u>Weakness</u> Start up
<u>Opportunity</u> Growing global demand in avocado Emerging markets in middle & far East	<u>Threat</u> Global competition from south American countries Local competition from Kenya & TZ based companies

4.5 Expected consumer demand

Global avocado demand is expected to rise. The company's focus is on the conventional & emerging markets especially in far east nations. The company will look for market in conventional markets of Europe, where market distance is shorter by approx 30% compared to south American competitors.

Currently China is importing approx 40,000MT per annum of avocado from Peru, Chile & Mexico which are logistically disadvantaged compared to East Africa proximity to the far east country. Distance from Mexico to China is 12,818 KM while from East Africa is 7,889 which represents 40% saving in transportation costs to the Chinese market.

China has approx 400M people in the middle class, if you take an average 1.5Kg of avocado per person, it translates to a potential of 600,000MT of the fruit per annum which is a colossal potential worth taking advantage of. It is however worth noting that the Chinese market is very particular on taste and quality and the company intends to ensure that the company satisfies the market.

4.6 Marketing strategies

The company intends to use various strategies to attract, retain & reach potential customers.

4.6.1 Attract

The company will attract potential customers initially by one on one engagements mainly from global trade exhibitions and seminars.

Attractive CIF prices as a result of economic advantages from sister companies engaged in customs brokerage, trucking & freight buying logistics.

Subscription to horticultural journals & magazines to know current trends.

We will also use social media on targeted market niche.

4.6.2 Retain

The company intends to retain its customers by providing world class product and services in form of;

- Continuous customer follow ups for feedback on service delivery
- Endeavour to ensure orders are serviced in full and on time
- Provide customers with end to end services including logistical solutions
- Ensure fruits are of top quality and conform to international standards
- Set up a fruit traceability process for quality control

4.7 Distribution channel

The company will use its existing logistical infrastructure to distribute the fruit. The company will rely on its customers to receive and distribute the fruit to the importing country.

4.7.1 Containerization & Export

Upon completion of approved customer order, the fruit will be loaded in containers and dispatched to the port. Having been approved for export by concerned authorities, it will be loaded on ships and exported. The necessary prerequisites including IDF, BL will have to be prepared and certified.

Raphraj is an authorized direct buyer by local agric ministry, having an export permit from the ministry & is global GAP certified

4.7.2 customer receipt

Delivery terms are CIF, with FOB on special orders.

4.8 Advertising

The company will use various types of advertising including and not limited to global exhibitions, potential client visits, company websites, social media and search engine optimization. With time the company will invest and focus on the method that will prove to be efficient and reliable to attract prospective customers.

5.0 Financial Projections

5.1 Year 1 – Developing product & penetrating the market

The company projects to break even in this year.

The first year of operation will be dominated by capital expenditures. Financing will primarily be provided by shareholder's capital and Term Loan for its capex, as well as Short Term Loans for its working capital. The company will apply investment allowances so as to reduce tax expenses in the initial years.

This period will also witness aggressive sales and marketing campaigns to grow our revenue.

The company will also maintain a positive cash position.

Any excess cash after funding working capital will be invested in capex projects.

5.2 Year 2 – Growth

The company expects revenue growth of 30%, this period will be dominated by operating expenditures. Working capital to support these opex will be generated from short term loans from lenders.

We will pay off any short-term loan using funds collected from debtors, this will reduce our finance costs.

The company projects balance sheet value growth of 85%.

The company will also maintain a positive cash position.

Any excess cash after funding working capital will be invested in capex projects.

5.3 Year 3 – Accelerated growth

The company projects to take off in year three as it begins to settle in the market having gained relevant experience in the initial two years as well as engaging in strategic business partners and customers.

We will assume a 169% growth in revenue from previous period.

We will pay off any short-term loan using funds collected from debtors, this will reduce our finance costs.

The company projects balance sheet value growth of 185%.

The board might also approve to start early payment of term loans as cash-flow positions start to improve.

The excess cash might also be used to finance expansion projects.

5.4 3-year financial projections

5.4.1 Statement of financial performance:

	Kes			
	Year 1	Year 2	Year 3	Total
Tonnage	252	328	882	1,462
Revenue:	122,850,000	159,705,000	429,975,000	712,530,000
Expenses:				
Operational costs	70,855,200	92,111,760	247,993,200	410,960,160
Gross Profit	51,994,800	67,593,240	181,981,800	301,569,840
	42%	42%	42%	42%
Admin Costs	18,240,000	21,888,000	26,265,600	66,393,600
EBITDA	33,754,800	45,705,240	155,716,200	235,176,240
	27%	29%	36%	33%
Finance costs	3,310,523	5,709,258	11,374,113	20,393,894
EBTDA	30,444,277	39,995,982	144,342,087	214,782,346
	25%	25%	34%	30%
Depreciation	2,417,792	4,083,212	7,337,664	13,838,668
PBT	28,026,485	35,912,770	137,004,423	200,943,678
	23%	22%	32%	28%

5.4.2 Statement of financial position

	Kes		
	Year 1	Year 2	Year 3
EQUITY	44,888,034	80,800,804	217,805,227
Retained Earnings	-	28,026,485	63,939,255
Shareholder's funds	16,861,549	16,861,549	16,861,549
Profit for the year	28,026,485	35,912,770	137,004,423
LONG-TERM LIABILITY	2,392,734	17,166,327	59,994,254
Loan	2,392,734	17,166,327	59,994,254
	47,280,768	97,967,131	277,799,481
FIXED ASSETS	39,092,208	59,608,996	155,531,332
Asset	41,510,000	66,110,000	169,370,000
Accumulated Depreciation	2,417,792	6,501,004	13,838,668
CURRENT ASSETS	32,812,500	45,928,964	152,842,653
Bank	-	2,802,714	41,848,903
Prepayment	2,000,000	3,000,000	3,000,000
Debtors	30,712,500	39,926,250	107,493,750
Cash	100,000	200,000	500,000
CURRENT LIABILITIES	24,623,940	7,570,830	30,574,504
Creditor's	-	7,570,830	30,574,504
STL	24,623,940		-
WORKING CAPITAL	8,188,560	38,358,134	122,268,149
	47,280,768	97,967,130	277,799,481

5.4.3 Statement of cash flow

	Kes		
Cashflow from operating Activities:	Year 1	Year 2	Year 3
Profit for the period	28,026,485	35,912,770	137,004,423
Adj for:			
Depreciation	2,417,792	4,083,212	7,337,664
Interest expense	3,310,523	5,709,258	11,374,113
Increase in Receivables	- 32,712,500	- 10,213,750	- 67,567,500
Increase in Payables	-	7,570,830	23,003,675
Cash used in operations	1,042,300	43,062,320	111,152,375
Interest paid	- 3,310,523	- 5,709,258	- 11,374,113
Net cash used in operating activities	- 2,268,223	37,353,062	99,778,262
Cashflow from Investing Activities:			
Purchase of PPE	- 41,510,000	- 24,600,000	- 103,260,000
Net cash used in investing activities	- 41,510,000	- 24,600,000	- 103,260,000
Cashflow from Financing Activities:			
Proceeds from borrowing	27,016,674	14,773,593	42,827,927
Capital injection	16,861,549	-	-
STL repayment	-	- 24,623,940	-
Net cash generated from financing activities	43,878,223	- 9,850,348	42,827,927
Net Increase in cash & cash equivalent	100,000	2,902,714	39,346,189
Cash & cash equivalent at start of period	-	100,000	3,002,714
Cash & cash equivalent at end of period	100,000	3,002,714	42,348,903

5.4.4 Financial Ratios

	Year 1	Year 2	Year 3
Gross Profit Ratio:	42%	42%	42%
EBITDA %:	27%	29%	36%
Current Ratio:	1	6	5
Debt/Equity Ratio:	5%	21%	28%
ROI:	68%	54%	81%

5.4.5 Notes to Financial statements

- Kes/Usd rate of 130
- Considered 6 months season per annum
- The company must borrow to finance 45 days of sales (STL) as well as capex costs (TL)
- Export lead time of 4 weeks
- Accounts receivable cashflow cycle of 45 days of sales
- Accounts Payable cashflow cycle: Year 1 no credit from suppliers, Year 2 co. will negotiate 30 days credit, year 3, 45 days credit.
- To borrow in USD so as to benefit from lower interest rates approx 10% P.A
- Excess liquidity will be used to fund working capital, instead of borrowing, as well as any Capex expenditure.

5.5 Documentation & terms of payment

The company will ensure that all its documentation is tip top and well recorded for future reference.

The company will utilize international trade procedures and facilities to ensure that it does not lose money in shady customers. Credit facilities will only be given under LC terms to safe guard the company from loss of revenue.

The company will also explore payment of advance from customers before shipping. This will alleviate cash flow constrains.

5.6 Budget – Budgeting will be done on an annual basis, and presented to the board for approval. variance analysis will be done on daily basis and reported to the board on a monthly basis. Management will hinge their focus on the variance report.

5.6.1 Staffing Costs – The company projects staff salaries of Kes 1 million per month in year1, 2 & 3 to maintain its structure save for annual increment of aprox 20%.

5.6.2 Capital Expenditure – Capex will be in three phases as per the table below;

Details	Amount (Kes)			Kes Total	\$ Total	Status	Remarks
	Year 1	Year 2	Year 3				
100 Acre land	4,558,824		5,882,353	10,441,176	80,317	Freehold	135 acres in year 1, 100 acres in year 3(100 acres from equity)
Farm house	400,000						Two farm hse for two parcel of land
1 Tractor	1,950,000			1,950,000	15,000	2nd hand	To be used for ploughing land
7 Ton refrigerated canter	5,067,741			5,067,741	38,983	2nd hand	To be used For cold transportatation
10 Ton canter		3,800,806		3,800,806	29,237	2nd hand	To pick fruits from farm
Service car at Jombe	470,588			470,588	3,620	2nd hand	For admin & operations purposes
Land prep,Seedlings plus planting	5,912,941	10,347,647	20,695,294	36,955,882	284,276		20 acres in yr 1, 35 acres in yr 2, plus 55 acres in yr 3
Irrigation Piping & tanks	615,000	307,500	615,000	1,537,500	11,827		
Fencing	317,640	317,640	635,280	1,270,560	9,774		
Park House + 5 acres + land compacting			15,000,000	15,000,000	115,385		Land acq in year 1 rest is planned to be done in phase 2
Kes Total	19,292,734	14,773,593	42,827,927	76,494,254	588,417		
\$ Total	148,406	113,643	329,446	588,417			

5.6.3 Packaging Costs – This will form part of prime costs under operational expenses. Specific unit costs will however be tabulated upon confirmation from vendors.

5.6.4 Marketing Costs – These have been factored under admin costs in the profit & loss statement, however and major campaign will be factored in amended financials.

5.6.5 Operational expenditures – These have been factored under operational costs in the profit & loss, they are all variable costs and vary based on activity levels of the company. They have been well captured under pricing (section 3.6).

6.0 Human Resource & Org Chart

6.1 Human resource

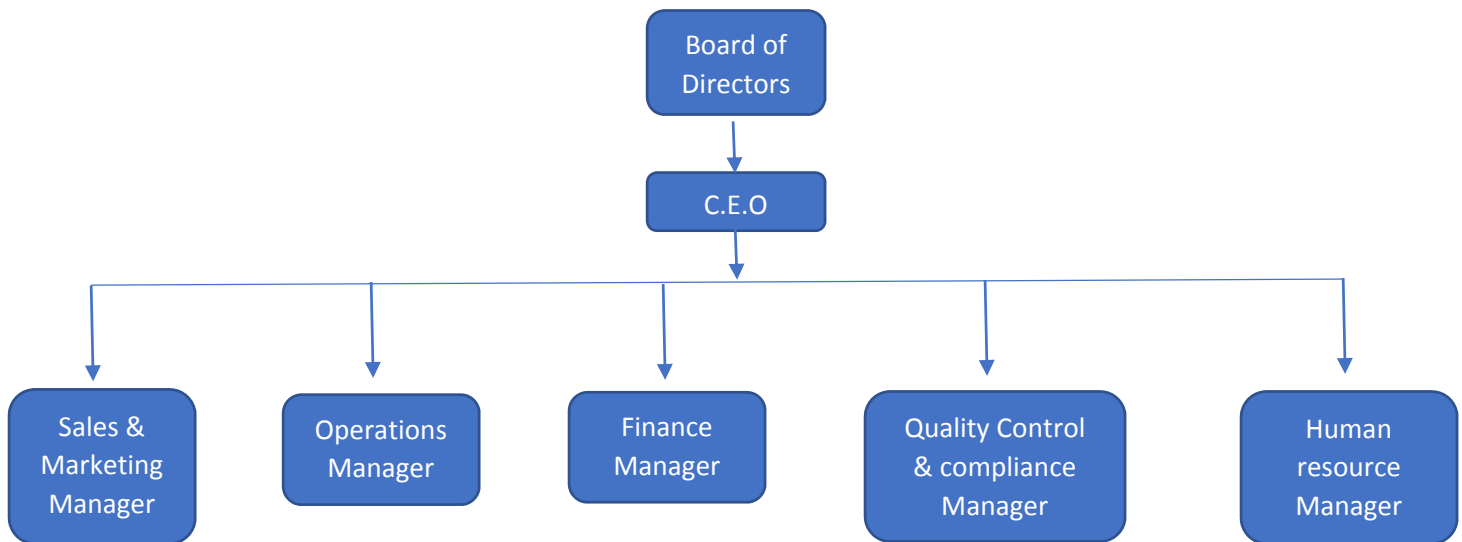
The company is keen on ensuring that day to day running of the business is carried out by professionals and is divorced from the board.

The board remains supreme in making decisions on behalf of the company and monitor management's fiduciary duties.

The company will abide by the country's labour laws and will provide competitive salaries to its staff.

Apart from the administrative staff, the company will maintain casual labour from outsourced contractors. This will eliminate emergence of trade unions.

6.2 Organization chart; Below is the proposed organization chart for senior management.



7.0 Legal & Compliance

7.1 Incorporation & Registration

The company will be registered, incorporated and domiciled in Tanzania.

7.2 Govt Licenses

The company will ensure that it meets all statutory & regulatory requirements in its domiciled country as well as all the countries that it will be operating in, both operationally and logistically.

7.3 Registration to trade bodies

The company will register in all the required industry bodies, both regulatory and trade. These bodies include and not limited to TAHA, global GAP- European market

7.4 Land acquisition

Land will be acquired; year one – 135 acres, year 2 100 acres and cultivated in three phases; 20 acres in year 1, 35 acres in year 2 & 70 acres in year 3. The remaining acreage will be left for future development.

The company will also acquire 5 acres of prime commercial land close to the highway for the construction of a pack house and dispatch center.

The company will follow all due procedures in legally acquiring these pieces of real estate to avoid future losses or litigations. We will engage services of required professionals & government agencies in these transactions.

7.5 Taxation

The company will ensure that it complies with all taxation laws of the land, and take advantage of all tax incentives offered by the government for new investors.