

2009

Dharani
Farming and
Marketing
Mutually
Aided
Cooperative
Society, Ltd.

[2010-2013 BUSINESS PLAN

An outline of the cooperative's financial and
policy planning through 2013

WHAT'S INSIDE

<i>Executive Summary</i>	3
1 The Dharani Cooperative Today	4
1.1 VISION.....	4
1.2 MISSION.....	4
1.3 ORGANIZATIONAL SUMMARY.....	5
1.3.1 FARMING	5
1.3.2 PROCESSING.....	7
1.3.3 MARKETING.....	9
1.4 ORGANISATIONAL STRUCTURE	10
1.4.1 HISTORY.....	10
1.4.2 MANAGEMENT STRUCTURE	11
1.4.3 OWNERSHIP STRUCTURE.....	11
1.5 BREAKDOWN OF SALES.....	12
2 The Plan for 2010-2013	13
2.1 AIMS & STRATEGY	13
2.1.1 IMPROVE MARGINS	13
2.1.2 INCREASE SALES VOLUME	14
2.1.3 SMOOTH PROCUREMENT CYCLE.....	15
2.1.4 REDUCE INDIRECT COSTS.....	16
2.2 SUMMARY OF GOALS	18
3 Financial Forecasts	19
3.1 FINANCIAL PLAN.....	21
3.1.1 SALES FORECASTS.....	21
3.1.2 RAW MATERIAL COSTS	22
3.1.3 DIRECT COSTS	22
3.1.4 INDIRECT COSTS	22
3.2 OBSTACLE AND THREATS.....	22
3.2.1 WORKING CAPITAL MANAGEMENT	22
3.2.2 INTRODUCTION OF LABOUR COST	23
3.2.3 DEBT REPAYMENT BURDEN	23
3.2.4 FINANCING OPTIONS	23

EXECUTIVE SUMMARY

Dharani Farming and Marketing Mutually Aided Cooperative Society Ltd., (*Dharani*), a producer owned business enterprise, is registered under the MACS Act of the GoAP, 1995. The purpose of *Dharani* is to ensure financial gains for the 890 small holder farmers who are currently the members and shareholders. *Dharani* will achieve this goal by acting as a link between the producers (members) and consumers, and by promoting ecologically beneficial agricultural practices. Services of *Dharani* include processing and packaging raw goods procured from farmer members, conducting marketing activities to reach viable customer segments, providing agricultural training to the members, and monitoring and evaluating their adherence to organic certification standards.

The organization has broadly achieved the initial objectives set out in its original business plan. It has successfully constructed a processing facility in Chennekothapalli and has processed and sold Rs.4,844,529/- worth of organic produce (as on 31.03.2009) under the “*Timbaktu Organic*” brand since the beginning. Membership has more than doubled since its inception in 2006 bringing in another 2700 acres under organic food production. However, there is still potential both to expand the farming base of the cooperative and to enhance the marketing and sale of organic produce. This business plan is designed to outline the plans for the growth of the cooperative over the period 2010-2013.

The document is divided into three parts: Section 1 gives an overview of *Dharani* today; Section 2 details the plan for development of the organization over the period 2010-2013; and Section 3 translates this plan into financial forecasts.

THE DHARANI FARMING AND MARKETING COOPERATIVE TODAY

VISION

The vision of the *Dharani* is to restore the ecologically beneficial farming practices of smallholder farmers in Anantapur district, Andhra Pradesh, thus improving the health of the soil, the animals and the families of the farmers themselves while ensuring the continued viability of agriculture in the region.

MISSION

The mission of *Dharani* is to **establish a working link between its farmer members and the competitive agricultural produce market, while working to reestablish environmentally sustainable, economically viable farming practices in the area.** We work to unite smallholder farmers in an effort to ensure their economic success by combating the negative impact of recent government agricultural policies.

Anantapur district of Andhra Pradesh is the second most drought-affected region in the country. For decades the state and national government have promoted chemically intensive groundnut mono-cropping and the subsidization of white rice. These policies have caused many of the drought-resistant crops suitable to the region to fall out of favor, and have left farmers in Anantapur district almost entirely dependent on synthetic chemical inputs and on the groundnut commodity market, and thereby extremely vulnerable to external shocks. The recent opening of the market to cheap palm oil has drastically undermined local farmers' livelihoods, and the chemical based mono-cropping practices adopted in recent years have severely degraded the quality of the region's soil. These developments have most negatively affected poor and marginalized farmers, and have led to high rates of farmer suicide and loss of livelihood among the agricultural community.

Dharani is a producer owned commercial venture that is set up by its farmer members to ensure their continued economic success with constructive support of the Timbaktu Collective (NGO). The activities it undertakes to reach this end include agricultural support and training, processing and packaging of raw goods, and marketing of the

finished products. This document outlines these initiatives, and details the plan for expansion of its efforts.

ORGANIZATIONAL SUMMARY

Dharani's work is focused in three specific areas: supporting organic farming practices among its farmer members; processing and packaging raw goods acquired from its farmer members; and marketing the finished product to appropriate customer segments.

FARMING

Dharani is part of larger movement of encouraging farmers to grow regionally appropriate crops using sustainable, organic agricultural methods. It is owned entirely by 890 smallholder farmers, who own equal shares in the organization and who provide the raw materials for the goods that it sells.

Dharani offers a range of services to its farmer members. These include training in sustainable and organic agricultural techniques (with support of Timbaktu Collective, CSA, AMEF), assistance with PGS certification (with support of the PGSOIC), extension of credit facilities (with support from the Mahasakthi Federation of MACT Societies) throughout the growing season, and provision of regionally appropriate varieties of seed. These services act both to assist the farmer members and to ensure that the cooperative has a steady supply of raw materials for procurement. The focus of *Dharani* is on the procurement and marketing of farmers' goods, but given the pioneering nature of the project some vertical integration is necessary.

Procurement

A procurement plan is made every year based on the information gathered on the extent of organic farming in the area and the crops that are sown in a given season. The plan is made before the season's end. Further, a financial projection report, to understand the working capital requirement, is made based on the consolidated acreage and yield estimation. At the same time market prices for agricultural commodities are accessed regularly and registered. This helps to set the procurement price according to the decided norms prepared by the marketing team and the *Dharani* directors during the Board meetings, held usually on the 6th of every month.

Procurement is the job of the marketing team with active involvement of the directors and the crop production team of the Timbaktu Collective. However, labour, moisture meter, weighing scales and gunny sacks are the most essential elements for proper and efficient procurement.

A calibrated spring balance, which shows a minimum reading of 100 gm, is used for weighing. Farmer members are also involved in the weighing and in noting the scale reading. While procedures are common for all members, pricing varies based on the quality of produce, which is checked in front of the farmer through standard out turn checking methods.

Education and Training

Since 2006, with support of the Timbaktu Collective, it has helped conducted more than 100 training sessions to assist farmers in the transition to organic farming. *Dharani* also works to ensure farmer compliance with the Participatory Guarantee System (PGS), an internationally recognized system of organic certification. The *Dharani* team ensures that only certified produce is procured from the farmer members.

Credit Protection

Over and above the credit support given by the *Mahasakthi* federation to the farmer members, *Dharani* has provided credit protection to its farmer members during the last two years. During 2007/08 *Dharani* disbursed crop loans worth Rs. 1.17m to 326 farmers from 14 *sanghas* in 8 villages.

In addition, harvest loans of Rs. 0.51m were extended to 195 members from 14 *sanghas* to counter farmers' dependence on the traders for advances, which force them to sell the produce back to the traders at lesser price and improper measurements.

During 2008/09, *Dharani* extended credit support worth Rs. 1.9m to its farmer members. They have repaid the loan to the *Dharani* in the form of money or crop produce with an interest 12% p.a.

During year 2009/10, an amount of Rs 1.33 m was distributed to farmer members.

Seed Bank

A seed bank consisting of 10 varieties of dry-land grown pulses, millets and oil seeds has been compiled as a means of providing necessary inputs to interested member farmers

while encouraging the maintenance of crop diversity within the community. Farmer members are permitted to take seeds from the seed bank free of charge. However, they are requested to save seeds from the crop and return a portion to the bank for future use by other farmers. In this way *Dharani* assists its members in maintaining a genetically diverse and regionally appropriate crop mix without the financial constraints of purchasing seeds from a company.

PROCESSING

Until June 2007, locally available machine processing units and labour groups were utilized for processing of the raw material and work-in-process goods. Since then, all processing has been done in the *Dharani* storage and processing unit which was set in place.

The Facility

The storage and processing unit houses two mills for de-husking and splitting millet seeds; one flour mill for production of various millets flour; one decorticating machine for shelling groundnuts; two oil rotary machines used for groundnut oil extraction; and one lentil processing mill.

The unit has also either purchased or manufactured various equipment and assets such as trolleys, telephones, steel racks, plastic drums, sealing machines, tool sets, moisture meters, silos, packing and related material such as sacks, covers, cans and cartons.

In addition to the machine processing facility, 10 to 40 women are also engaged every day to facilitate the processing work on a regular basis. The gap in processing of millets and the redgram were addressed through the establishment of exclusive machines acquired in late 2008.

The setting up of the storage and processing unit was a significant achievement for the business venture and has reduced time and costs of operations while increasing the ability of the marketing team to handle higher volumes of farmer produce effectively and maintaining product quality.

Products of Dharani

At present the cooperative procures groundnut, lentils (redgram), and four types of millets (foxtail millet, little millet, great millet and finger millet).

Below is a table illustrating details of all the raw materials procured, processing details and products currently sold by *Dharani*.

Raw Material	Process	Final Product
Groundnuts/Peanuts	Sun-drying, machine decorticating, grading and cleaning through blower and grader machine, cold-pressed extraction (Ghani) through two oil rotary machines	Groundnut Oil
	Sun-drying, machine decorticating, grading and cleaning through blower and grader machine, hand picking	Raw Peanuts
	Wood fire roasting of raw peanuts, hand pounding along with chilly and garlic	Peanut podi
Lentils / Pigeon Pea	Sun-drying, grading and cleaning through blower and grader machine, de-stoning, hand pounding, machine processing	Unpolished Red Gram Dal
Foxtail Millet (Korra)	Sun-drying, hand grading and cleaning, machine de-husking with millet mill, hand winnowing and de-stoning	Korra Rice
	Sun-drying, hand grading and cleaning, machine de-husking and seed splitting with millet mill, hand winnowing and de-stoning	Korra Rava (Semolina)
Little Millet (Sama)	Sun-drying, hand grading and cleaning, machine de-husking with millet mill, hand winnowing and de-stoning	Sama Rice
	Sun-drying, hand grading and cleaning, machine de-husking and seed splitting with millet mill, hand winnowing and de-stoning	Sama Rava (Semolina)
Great Millet (Jowar)	Sun-drying, hand grading and cleaning, machine processing through flour mill	Jowar Flour
	Sun-drying, hand grading and cleaning, machine processing through flour mill	Jowar Rava (Semolina)
Finger Millet (Ragi)	Sun-drying, hand grading and cleaning, machine processing through flour mill	Ragi Flour
	Sun-drying, hand grading and cleaning, sprouting, shade drying, roasting and machine processing through flour mill along with sprouted, shade dried and roasted green gram	Ragi Malt

MARKETING

Once raw materials have been procured and processed, *Dharani* works to market and sell finished products under the *Timbaktu Organic* brand name. The primarily focus has so far been on urban and semi-urban areas throughout South India. The products are currently sold to the following retailers and distributors:

Location	Store Name
Anantapur	SP Super Stores
Bangalore	Adi Naturals
	Jaivik Krishi Society
	Simply Organics
	Somnath
Hyderabad	Daaram
	R Udaya Kumar
Mumbai	Conscious Food Pvt. Ltd.
Mysore	Nesara Organic Service Society
Nagpur	Gramsree Naturals
Puttaparthi	Karuna Organic Shop

ORGANIZATIONAL STRUCTURE

Outlined in this section is the history of the *Dharani*, its current management and ownership structure, and its current relationship with the promoting organizations, the Timbaktu Collective and *Adisakthi* Mutually Aided Thrift Cooperative Society (MATCS).

HISTORY

Dharani Farming and Marketing Cooperative Ltd., (*Dharani FaM Co-op*), a producer owned cooperative, is an organic extension of the Collective's work with the dryland farmers in Anantapur Dist.

While a marketing unit was established with the funds from SDTT, which helped cover costs of staff and marketing support, additional resources were raised from individual investors ("*Friends of Timbaktu*" and other collaborators) as interest bearing and non-interest bearing loans. One of the women thrift cooperatives (*Adisakthi MATCS*) promoted by the Collective, put in the initial capital for the venture. The total loans raised were invested in the development of the basic infrastructure necessary as the base for further work.

Adisakthi MATCS had initially taken the responsibility (during the year 2005-06) of marketing the organic produce of the small-holder farmers participating in the project. The business venture was called "*Adisakthi Dharani*". However, in due course, the potential for a new producer owned cooperative was found. In 2007/08, after intensive discussions among the participating farmers, the directors of *Adisakthi MATCS* and the leaders of the Timbaktu Collective, it was decided that the participating farmers should form themselves into a producer owned cooperative. As a result, in April 2008, "*Dharani Vyavasaya mariu Marketing Paraspara Sahayaka Sahakara Sangham Ltd*" meaning "*Dharani Farming and Marketing Mutually Aided Co-operative society Ltd*" was registered under Andhra Pradesh Mutually Aided Co-operative Societies Act of 1995. *Adisakthi MATCS*, handed over the venture, including the assets and liabilities, to this newly formed cooperative. Thus the business venture called "*Adisakthi Dharani*" was renamed "*Dharani FaM Co-op Ltd*" with a new board of directors.

All the 350 farmers, that the Collective was working with to grow organic food, became the founding members and shareholders. In January 2008, the Collective had extended its

activities to cover another 540 farmers. They also become shareholders of the Cooperative between February and March 2009, increasing the total membership to 890.

The primary intention of *Dharani FaM Co-operative Ltd* is to procure, process and market the produce of its farmer members, if possible at a premium price. It is hoped that more small-holder farmers will join the co-operative, be encouraged to grow food in a sustainable and organic manner and get the kind of returns they should be getting.

MANAGEMENT STRUCTURE

In keeping with the requirements of the MACS Act 1995 there is a board of directors elected by all the members for 3 year interval who in turn appoint a Chief Executive Officer. The board of directors who meet every month on a fixed date run the Cooperative.

Dharani Cooperative and The Timbaktu Collective

Dharani began as a commercial venture of the *Adisakthi* Thrift Society with financial help from the Timbaktu Collective. It is now an independent business venture mentored by the Collective. It still receives financial assistance from the Collective to pay for staff salaries. It is the transition of this expense to *Dharani* that will be a major part of our achieving financial independence. Financial self-sufficiency and the elimination of the need for start-up grant money is one of the primary goals of the cooperative over the next three years. The plan for this endeavor is outlined in section 3 of this document.

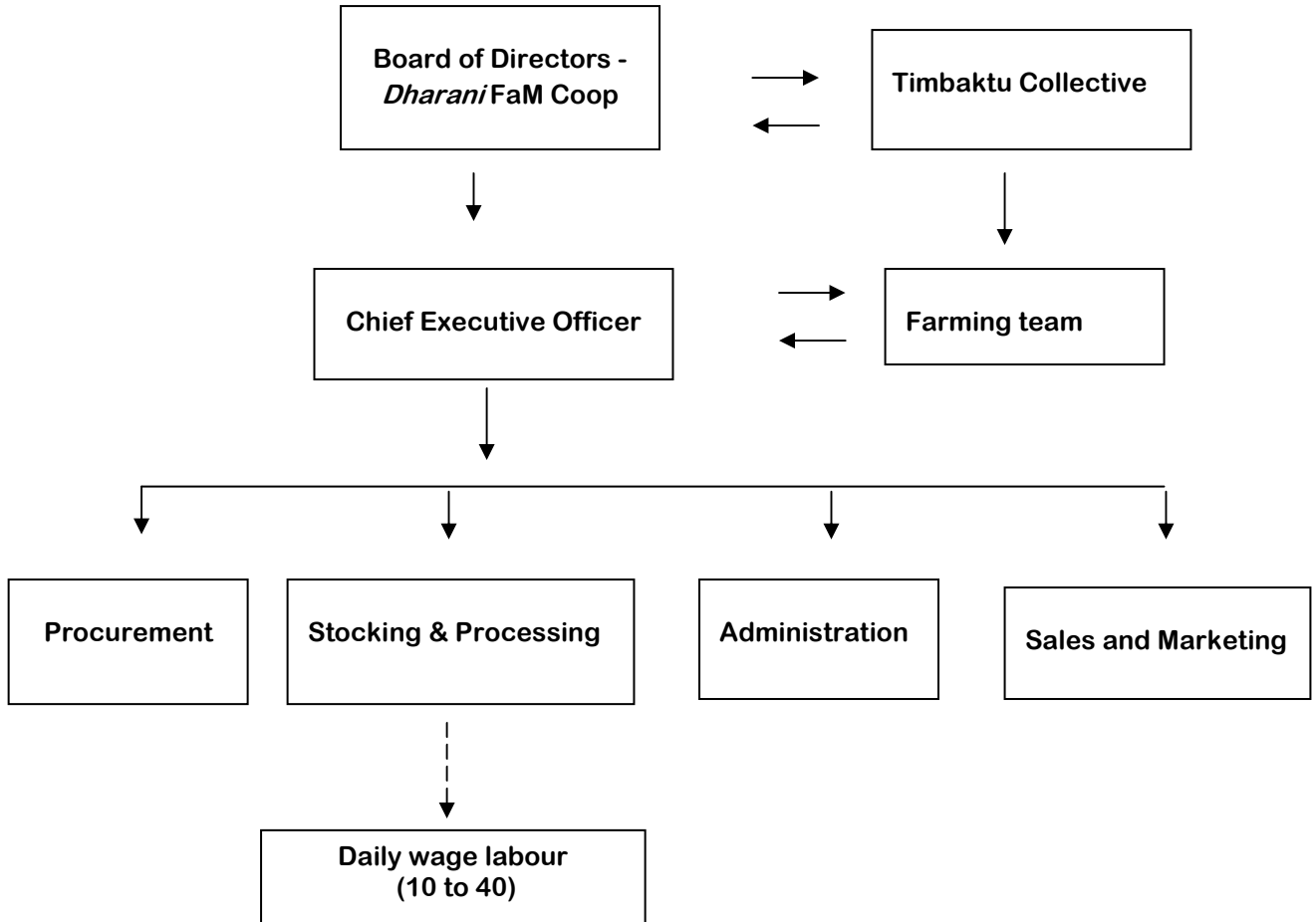
OWNERSHIP STRUCTURE

The cooperative has up to this point achieved its goals of becoming a financially viable cooperative owned entirely by its 890 farmer members.

There are 890 farmer members who are part of 51 organic farming sanghas, in 26 villages in 3 mandals. The Board is elected from the sangha leaders for a term of 3 years. The farming team, presently coordinated by Timbaktu Collective works with farmer sanghas and ensures the production of certified organic millets, pulses and oilseeds to improve yields, and reduce costs and risk to the farmer.

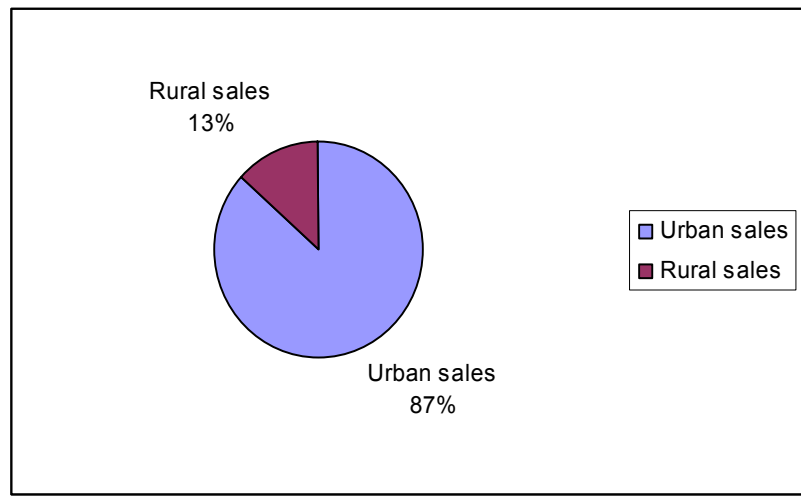
Dharani Farming & Marketing Cooperative Business Plan 2010-2013

The marketing component which was initially governed by the *Adisakthi* Mutually-aided Thrift Cooperative Society was transferred to the new cooperative called “*Dharani FaM Coop*” in April 2008. The Dharani organogram is as below.



BREAKDOWN OF SALES

The diagramme below shows **the** share of Dharani’s sales in rural and urban markets during 2008-09.



The following table provides details of the sales in the year 2008-09.

Sales heads	Amount (Rs)
Sales - Organic Certified	5,96,179
Sales - Organic Non Certified	3,061
Sales - Non organic	4,119
Sales - Dharani store	41,537
Sales - Packing material	6,728
Sales - Misc	350
Sales - Urban debtors	5,26,770
Sales - Local debtors	1,17,059
Total	12,95,803

THE PLAN FOR 2010-2013

AIMS & STRATEGY

The primary aim of *Dharani* is to be **financially self-sufficient by the year 2013**. As a start up enterprise *Dharani* has been reliant on grants, interest free loans and the support of Timbaktu Collective. However it is hoped that by 2013 *Dharani* will be in position to self finance its operating activities and cover its overhead costs. It may well be that further external financing will be required after this point to pay for expansion of procurement and processing capacity but this will be for capital expenditure rather than running costs. There are four components to achieving this goal:

IMPROVE MARGINS

Analysis of profit margins is complicated by the cyclical nature of procurement and processing costs and the holding of partially processed stock. Estimates over the 18 month period between March 2008 and September 2009 suggest that raw material costs are approximately 75% sales while direct costs are roughly 20% of sales. This leaves a gross profit margin of just 5% to cover financing costs of overheads (predominately wages). The target profit margin is between 10-15%. Details of how this can be achieved are set out in the following section.

STRATEGY

As stock stabilizes cost of raw materials and operations should stabilize at 75% of the sales. Indirect costs have been falling as a proportion of sales as volumes have increased. This suggests that economies of scale exists meaning that indirect costs can be reduced to 10% of sales by 2013. This would leave a profit margin of 15%. Dharani will further boost margins by introducing new higher margin products, concentrating on its current high margin products and targeting premium, less price sensitive urban markets.

INCREASE SALES VOLUME

In addition to improving margins *Dharani* aims to boost sales volumes significantly over the period 2010-2013. Sales have grown considerably over the past two financial years with full year 2009-2010 sales expected to be Rs 2.75m, a 106% year-on-year increase. However this does not make full use of the *Dharani's* procurement and processing capacity. The target for 2010-2011 is for sales to double again to Rs 5.5m. A detailed breakdown by product of this target is outlined below in Sales Forecasts.

STRATEGY

1. Increase Number of Distribution Channels

Within the next year, the marketing team will approach 40 large-scale retailers and 10 value added resellers in 10 cities of South India. An analysis of *Dharani's* potential customer segments and its production and distribution costs has indicated that *Dharani* needs to focus the expansion of its efforts on large-scale wholesalers, value added resellers and organic retailers in urban and semi-urban areas. The primary focus will be on cities within a 150 km radius to minimize transportation costs. However, the plan is also to approach large-scale distributors such as "Mother Earth" who have branches outside of *Dharani's* immediate area, as these distributors have regular large-scale demand and are responsible for their own transportation costs.

2. Develop and Maintain Online Presence

While *Dharani* and the *Timbaktu Organic* brand have a nominal presence on the internet at the present, it is in the process of being developed to reach its full

potential as a powerful tool for conducting marketing and sales by end 2009. The plan is to set up an integrated online order system through the *Dharani* website especially to service large-scale bulk orders.

3. Increase Participation in Market Exhibitions

A recent strategy to step up marketing is participating in regional bazaars and craft fairs in nearby urban areas. These events have the potential to be excellent venues for increasing sales, networking, and promoting the *Timbaktu Organic* brand in areas where the products are regularly sold through traditional distribution channels. These exhibitions will serve to supplement a planned increased presence in urban and semi-urban organic food stores. They will also provide opportunities for networking with individuals and organizations working in related areas, and with potential retail distributors. The goal is to have a regular presence at 4 exhibitions annually by 2013.

SMOOTH PROCUREMENT CYCLE

Dharani faces fluctuation in procurement levels both over the agricultural cycle and on an annual basis. The cooperative is only able to procure raw materials at one particular time in the agricultural season, December-January, thereby restricting its ability to adjust procurement levels to meet demand. It also faces unpredictable procurement volumes as a result of the quality of the harvest. In order to mitigate these fluctuations *Dharani* plans to build up inventories of stock and increase the number of crop purchases in each year by purchasing organic produce grown in irrigated lands. This will enable the cooperative to know, with a greater degree of certainty, how much produce it will need to process and sell each year.

STRATEGY

1. Increase Number of Farmer Members

The aim to increase membership by about 66% over the next two years, from 890 to 1200 farmers during 2010-2011, and to 1500 by the end of 2012. Increased membership will, in addition to increasing equity, ensure a more steady supply of raw goods over the course of the year.

2. Increase Number of Crop Purchases

At present *Dharani* purchases its raw materials on an annual basis as it is now buying only from rainfed lands. It undertakes one large-scale procurement each December/January, and process these goods throughout the year. The goal is to shift to a three-month procurement cycle, making purchases on a quarterly basis throughout the year. This is only possible if *Dharani* begins procuring from members who also produce food in irrigated lands. A more constant flow of resources will allow *Dharani* to process and sell raw goods immediately, without having large quantities of working capital tied up in stock.

3. Accumulate Stock Holding

Within the next two years *Dharani* aims to establish a consistent stock holding of Rs. 2.5 m through the year. This will ensure that it is able to fulfill sales even if there are irregularities in the procurement.

REDUCE INDIRECT COSTS

During the first two years, debt financing was the major fixed cost. Up until March 2009 the wages of *Dharani* workers were paid by Timbaktu Collective and thus did not appear as a *Dharani* expense. This has changed for the financial year 2009-2010 meaning that indirect costs will now double to approximately Rs 0.9m per year. This is a significant financial burden for a growing organization. *Dharani* will aim to reduce these costs by 30% by 2013. There is limited scope to reduce wages but *Dharani* aims to reduce the interest payable on its debt over this period to achieve its target savings. As the scale of operations go high, the percentage of 'Indirect cost' will naturally go down.

STRATEGY

1. Replace interest bearing loans with interest free loans where ever possible

Dharani plans to try and talk with the investors and convince them to extend interest free loans.

2. Raise additional equity capital to replace debt financing

All of the farmer members own an equal share of *Dharani*. Unfortunately, as the membership is primarily small holder dryland farmers, the amount of money they can provide to the cooperative in exchange for their share of equity is minimal. Until this year, farmer members have been required to provide Rs. 50 in the beginning, to the cooperative in exchange for their equity share. The members, however, have agreed to increase this amount to Rs. 1000 by March 2010. It is also discussed among the members to contribute a certain percent of sales towards the share capital on every year's crop sold to Dharani. Yet, this is not enough. Therefore an external grant may be required to compensate for the inability of producer members to provide capital immediately.

3. Carefully manage increasing wage bill and processing expenditure

This can be managed by proper planning and attaining scale of economics.

SUMMARY OF GOALS

In summation, *Dharani* has set the following objectives for itself to achieve over the course of the next three years. It is hoped that these targets will provide measurable benchmarks for the success of the enterprise, and that they will effectively help it reach the level of maturity that the it wants to achieve by 2013.

Dharani Cooperative: Strategies for Achieving Financial Independence by 2013			
Goal	Current	Target	Strategy
Improve Profit Margins	5%	15%	Increase sales volume to Rs. 10 million by 2013
			Introduce new higher margin products; example: peanut butter & multi millet dalia
			Focus efforts on current high margin products; example: peanut poddi, Ragi malt, peanut butter, etc
			Concentrate efforts on urban and semi-urban markets; have 40% of sales made in urban and 40 % sales made in semi-urban and 20 % in rural areas
Increase Sales Volume	2.75 million projected for 2009-2010	Double sales to 5.5 million in 2010-2011	Increase number of distribution channels; approach 40 retailers and 10 wholesalers / value added resellers in 10 cities in south India
			Develop and maintain online presence; establish online ordering system by December 2009
			Increase participation in market exhibitions to 4 annually
Smooth Procurement Cycle	One annual procurement; irregular stock holdings	Four annual procurements; stock regularity	Increase number of farmer members to 1500 by 2012 end
			Increase number of crop purchases to four times a year
			Increase stock holding of 2.5 million through out the year by 2014
Reduce Indirect Costs	0.9 million per year	Reduce by 30% by 2013	Replace interest bearing loans with interest free loans where possible
			Raise Rs 2.5m additional equity capital to replace debt financing
			Carefully manage increasing wage bill

FINANCIAL FORECASTS

The following section is a translation of the objectives set out above into financial forecasts.

Rs.	Income statement				Forecasts			
	2007-2008	2008-2009	H1 2009-2010	H2 2009-2010	2009-2010	2010-2011	2011-2012	2012-2013
Sales	3,026,878	1,332,819	2,211,211	546,780	2,757,991	5,486,500	7,000,000	10,000,000
Closing stock inventory	960,866	2,264,313	531,887	4,149,141	4,149,141			
Total cost of raw materials	2,648,416	2,227,947	86,116	4,000,000	4,086,116			
Cost of raw materials for goods sold	2,255,556	924,500	1,818,543	382,746	2,201,289	4,114,875	5,250,000	7,500,000
<i>as a % of sales</i>	75%	69%	82%	70%	80%	75%	75%	75%
Direct expenses (processing)	672,795	388,744	246,200	246,200	492,400	822,975	910,000	1,000,000
<i>as a % of sales</i>	22%	29%	11%	45%	18%	15%	13%	10%
Gross profit/loss	98,528	19,575	146,469	-82,166	64,303	548,650	840,000	1,500,000
Gross margin	3.26%	1.47%	6.62%	-15.03%	2.33%	10.00%	12.00%	15.00%
Other Income (financial & misc)	22,132	278,816	91,459	91,459	182,918	150,000	200,000	200,000
Indirect expenses (tax & financial)	280,613	353,869	217,239	217,239	434,478	350,000	250,000	250,000
Wages - indirect expenses	0	0	161,988	319,188	481,176	638,376	702,214	772,435
Total profit/loss	-159,953	-55,478	-141,299	-527,134	-668,433	-289,726	87,786	677,565

Sales													
Column1	2008-2009			H1 2009-2010			H2 2009-2010 expected			FY 2009-2010	2010-2011		
	Quantity (units)	Price (Rs)	Sales (Rs)	Quantity (units)2	Price (Rs)3	Sales (Rs)4	Quantity (units)5	Price (Rs)6	Sales (Rs)7	Sales (Rs)8	Quantity (units)9	Price (Rs)10	Sales (Rs)11
Groundnut oil	6,758	80	540,640	3,212	92	296,789	4,000	100	400,000	696,789	12,000	100	1,200,000
Peanuts	5,883	44	258,852	1,264	59	74,576	0	0	0	74,576	35,000	60	2,100,000
Groundnut pods	4,182	20	81,549	66,030	21	1,386,630	0	0	0	1,386,630	0	0	0
Groundnut cake	10,781	15	161,715	10,050	19	185,925	0	0	0	185,925	25,000	20	500,000
Kandi dhal	1,402	44	61,666	1,282	72	92,689	124	95	11,780	104,469	7,000	75	525,000
Kandi nooka	536	20	10,710	0	0	0	0	0	0	0	2,500	20	50,000
Kandulu	1,042	28	29,162	0	0	0	0	0	0	0	0	0	0
Finger Millet ragi whole	72	12	864	175	16	2,775	0	0	0	2,775	0	0	0
Finger Millet ragi flour	275	14	3,843	555	18	9,815	800	15	12,000	21,815	800	20	16,000
Finger Millet malt	0	0	0	64	129	8,211	50	120	6,000	14,211	300	120	36,000
Great Millet whole	113	12	1,350	151	15	2,318	0	0	0	2,318	0	0	0
Great Millet semolina	99	16	1,584	105	20	2,111	0	0	0	2,111	0	0	0
Great Millet flour	173	44	7,590	554	18	9,686	500	25	12,500	22,186	1,200	25	30,000
Little Millet rice	512	16	8,184	465	29	13,625	1,200	35	42,000	55,625	1,200	35	42,000
Little Millet semolina	109	18	1,962	158	31	4,930	0	0	0	4,930	300	35	10,500
Little Millet flour	0	0	0	35	50	1,761	0	0	0	1,761	0	0	0
Foxtail Millet rice	4,062	16	64,992	2,292	26	60,050	800	30	24,000	84,050	15,000	30	450,000
Foxtail Millet semolina	1,051	18	18,909	351	32	11,127	0	0	0	11,127	8,000	32	256,000
Foxtail Millet flour	62	18	1,116	45	41	1,820	0	0	0	1,820	1,000	32	32,000
Foxtail Millet husk	512	2	768	677	1	745	500	1	500	1,245	15,000	1	15,000
Pearl Millet	18	12	210	26	13	341	0	0	0	341	0	0	0
Peanut poddi	0	0	0	169	140	23,626	150	100	15,000	38,626	1,200	120	144,000
Peanut butter	0	0	0	0	0	0	0	0	0	0	100	300	30,000
Paddy rice	0	0	0	0	0	0	200	60	12,000	12,000	0	0	0
Roasted peanuts	0	0	0	117	90	10,541	0	0	0	10,541	0	0	0
Groundnut husk						11,124	0	0	0	11,124	25,000	2	50,000
Neem Flour							1,100	10	11,000	11,000			
Total Sales			1,255,666			2,211,211			546,780	2,757,991			5,486,500

Balance Sheet			
Rs.	31/3/2007	31/3/2008	31/3/2009
Capital account	409,750	495,758	1,310,238
Interest free loans	319,000	3,494,000	614,000
Interest bearing loans	1,861,000	2,101,000	2,213,522
Accrued interest	39,849	117,117	178,899
Advances & Deposits	18	1,068	250
Revolving fund	0	0	1,350,000
Total Liabilities	2,629,617	6,208,943	5,666,909
Fixed Assets	1,377,529	1,836,089	1,774,861
Plant & Machinery	198,318	199,573	240,487
Furniture & Fixtures	12,797	16,377	14,528
Miscellaneous Assets	16,848	111,576	100,669
Deposits	3,000	94,320	94,320
Receivables from debtors	160,890	215,740	252,741
Loans & Advances	0	75,372	600,090
Inventory	568,066	960,867	2,264,313
Cash	258,300	2,505,236	75,529
Total Assets	2,595,747	6,015,150	5,417,537
	-33,870	-193,793	-249,372

FINANCIAL PLAN

SALES FORECASTS

Sales figures have grown considerably over the previous two years although they are subject to significant seasonal variation of stock holding. For example the Sales figures for 2007-2008 were artificially high as a result of selling off large amounts of unprocessed raw materials, at a profit. 2008-2009 then saw considerably lower sales as stock was accumulated and held as inventory at the end of the financial year. This inventory was then sold off in first half of 2009-2010 resulting in very high sales. *Dharani* expects to restock in second half of 2009-2010 and as such will reduce sales over this period.

Forecasts for 2010 onwards have been smoothed to account for inventory fluctuations. These figures are the sum of forecast sales in each products based on expected procurement levels and sales capabilities.

RAW MATERIAL COSTS

As can be seen from the figures above raw material costs have been higher in periods of destocking and lower in periods of restocking. This is the result of some stock being held in semi-processed form and thus having a smaller mark-up in the next period.

Analysis of the period from 2007-2009 reveals that on average raw material costs are approximately 75% of sales; this is in keeping with management's expectations and has been used as the basis for forecast raw material costs.

DIRECT COSTS

There are two complications in the analysis of direct costs for *Dharani*: the first is that processing of raw material does not necessarily take place in the same financial period as the sale of the goods. This means that periods of restocking see proportionately higher direct costs while the opposite is true in periods of de-stocking; secondly, direct costs have fallen proportionately as sales volumes have increased.

Smoothing direct costs over the period 2007-2009 gives an average of 20% of sales. However given this tendency to fall as sales increase, *Dharani* predicts that by 2013 direct costs can be gradually reduced to 10% of sales.

INDIRECT COSTS

Indirect costs consist primarily of financing expenses and, from 2009-2010 onwards, labour costs.

Labour costs currently stand at an annualized rate of Rs 0.64m. This is a considerable burden for the organization but is a necessary part of the growth strategy. It is vitally important that this wage bill is efficiently managed over the next three years so that the growth in sales and margins can cover indirect costs. *Dharani* hopes to reduce the level of financing expenses by 30 - 40%.

OBSTACLE AND THREATS

WORKING CAPITAL MANAGEMENT

The nature of the organization's business is that crops need to be purchased annually or in some cases semi-annually. This is then processed and sold on a steady basis over the course of the year. This requires significant working capital particularly when expanding volumes. The cooperative has made some attempts to delay payment to farmers but in fact there is a need to loan money to farmers in advance of receiving crops. The result is that there

Dharani Farming & Marketing Cooperative Business Plan 2010-2013

is a significant time lag between procurement costs and sales revenue. The cooperative is restricted in its ability to grow by this obstacle and will need to finance substantial investment in working capital in order to achieve the planned expansion.

INTRODUCTION OF LABOUR COSTS

In previous years wages have been paid by Timbaktu Collective rather than by *Dharani*. This will change from the year 2009-2010. The wage bill, predominately for management and administration is approximately Rs 600,000. This is roughly equal to half the total sales in the previous year. While it is the intention of the Cooperative to, in the future, be able to cover all costs through operating profit, this will not be possible until 2011-2012 when sales are forecast to have multiplied by a factor of ten.

DEBT REPAYMENT BURDEN

Large amounts of capital were required to finance the setting up of the infrastructure for the organization. It was unfeasible to raise this through equity because, as a mutually aided cooperative, *Dharani* must remain wholly owned by its producer members who are not in a position to provide capital. For this reason the start up capital was predominately provided by a range of interest bearing and interest free loans. The interest and principal repayment on these loans is a financial burden that restricts the growth of the business.

FINANCING OPTIONS

As can be seen from the plan outlined above *Dharani* has set itself the achievable goal of being financially self-sufficient by 2013. However this plan requires the injection of additional capital for three purposes: to provide working capital, to cover wages in the growth period and to repay interest bearing debt.