AB FARMING

Understanding AB

Value chain

input supply

seedlings
fertilizers
equipment

Farming

planting
growing
practices
harvesting

post harvest

quality control
fermentation
wash & dry
milling

exporting and transport

Quality control
packing
logistics

Value chain 2

Roasting

Specialty Roasting. Profile development

Retail

Direct to consumer Wholsale Branding

Brewing &Consumption

Barista Training. Customer Experience.

Waste Management & Sustainability

Recycling &Composting. Fair Trade & Ethics. Carbon Footprint Reduction

success factors

High-altitude, single-origin beans

Ethical sourcing and fair trade certification

Small-batch roasting and freshness

Strong brand identity and customer experience

loan impact

Why did the coffee file a police report, it got mugged

AB Farming ("AB") is a Rwandan coffee cooperative engaged in production, processing and export of organic certified specialty coffee to customers in Europe. AB is seeking a new short term working capital loan of USD 100 to meet growing demand for its certified coffee.

what would the loan be used for

cherry purchases

Advance payments to 1,200+ smallholder farmers for raw coffee cherries, enabling immediate post-harvest cash flow

from evidence based research 40-60% of cooperative revenues typically allocated to farmer payments

$60,000

Processing operations

Labor wages, equipment maintenance, and energy costs for pulping, fermenting, and drying cherries

Coffee Processing Loans target facility upgrades

Quality Controls

Organic certification renewals and lab testing for EU compliance
Premiums require rigorous quality checks

$30,000

Export logistics

Packaging, transport to Mombasa port, and export documentation fees

Trade financing covers international shipping costs

$10,000

balance sheets

pre loan			
Assets		Liabilities & Equity	
Fixed Assets	100,000	Equity	50,000
Trade Receivables	100,000	Trade Payables	200,000
Inventories	100,000	Short-Term Debt	100,000
Cash	50,000		
Total Assets	350,000	Total Liabilities + Equity	350,000
post loan			
Assets		Liabilities & Equity	
Fixed Assets	100,000	Equity	50,000
Trade Receivables	100,000	Trade Payables	200,000
Inventories	100,000	Short-Term Debt	200,000
Cash	149,000*		
Total Assets	449,000	Total Liabilities + Equity	449,000

Profit & loss after loan

Sales	700,000	100%
Cost of Goods Sold (COGS)	525,000	75%
Gross Profit	175,000	25%
Operating Expenses	105,000	15%
EBITDA	70,000	10%

DEBT REPAYMENT

Total Loan Cost:

Principal: $100,000

Facilitation Fee (1%): $1,000 (deducted upfront)

Interest (10% p.a.): $10,000/year

Total Repayable: $121,000 over 24 months

Debt Service Coverage Ratio (DSCR):

- DSCR = EBITDA ÷ Annual Debt Service

$70K ÷ $55,368 = 1.26 ✅ (Above 1.2 is considered healthy)

DEBT REPAYMENT SCHEDULE

Month Range	Principal	Interest	Total Payment	Cumulative Repaid
1–12	$3,333	$833	$4,166	$50,000
13–24	$4,167	$417	$4,584	$100,000

Key Repayment Drivers

COFFEE SALES

Requires $700k annual revenue (40% increase from $500k) to maintain 1.5x debt service coverage ratio.

FARMER RETENTION

15% reduction in farmer attrition needed to sustain cherry supply.

FINANCIAL IMPACT ANALYSIS

pre loan and post loan metrics

Metric	Pre-Loan	Post-Loan
Inventory Coverage	90 days	120 days
Trade Receivables	$100k (60 days)	$140k (75 days)
Debt/EBITDA	2x	4.2x
Current Ratio	0.83x	1.05x

Break-Even Conditions

Sales Growth

Minimum 18% revenue increase ($590k/year) to cover $21k annual debt service.

Margin Preservation

COGS must remain ≤82% of sales (currently 80%)

Risk Mitigation

Buyer-Linked Repayment	Structure 30% repayments (Month 6 and 12) to align with EU buyer payment cycles
Collateral Pool	Pledge $60k of cherry inventory (60% loan coverage) as per Kenya's Coffee Cherry Fund practices
Grace Period	Defer first repayment to Month 3 post-harvest, mimicking Rwanda's CWS financing models.

BUSINESS CONSIDERATIONS

1. Loan Purpose:

The loan is primarily for working capital to cover operational costs, cherry purchases from smallholder farmers, and export logistics. This aligns with common challenges faced by coffee cooperatives, such as seasonal cash flow gaps and high operational expenses.

1. Risk Assessment:

Repayment Risk: AB Farming’s ability to repay depends on timely sales to European buyers and maintaining a stable supply chain. Delays in payments from buyers could strain cash flow.

Market Risk: Fluctuations in global coffee prices and demand could impact revenue projections.

1. Operational Efficiency:

The loan will help maintain operational capacity during peak seasons, reducing processing delays and improving quality control.

1. Social Impact:

By providing timely payments to farmers, AB Farming can improve farmer loyalty and encourage better quality beans, contributing to sustainable agriculture practices

BUSINESS CONSIDERATIONS

The Target Outcomes:

- Increase in sales and market share

- Strengthened supply chain efficiency

- Improved customer retention and satisfaction

Market Differentiation:

- Will the investment allow the business to offer higher-quality coffee or unique roast profiles?

- Will the business gain a competitive edge through better pricing, quality, or customer service?

**Scalability:

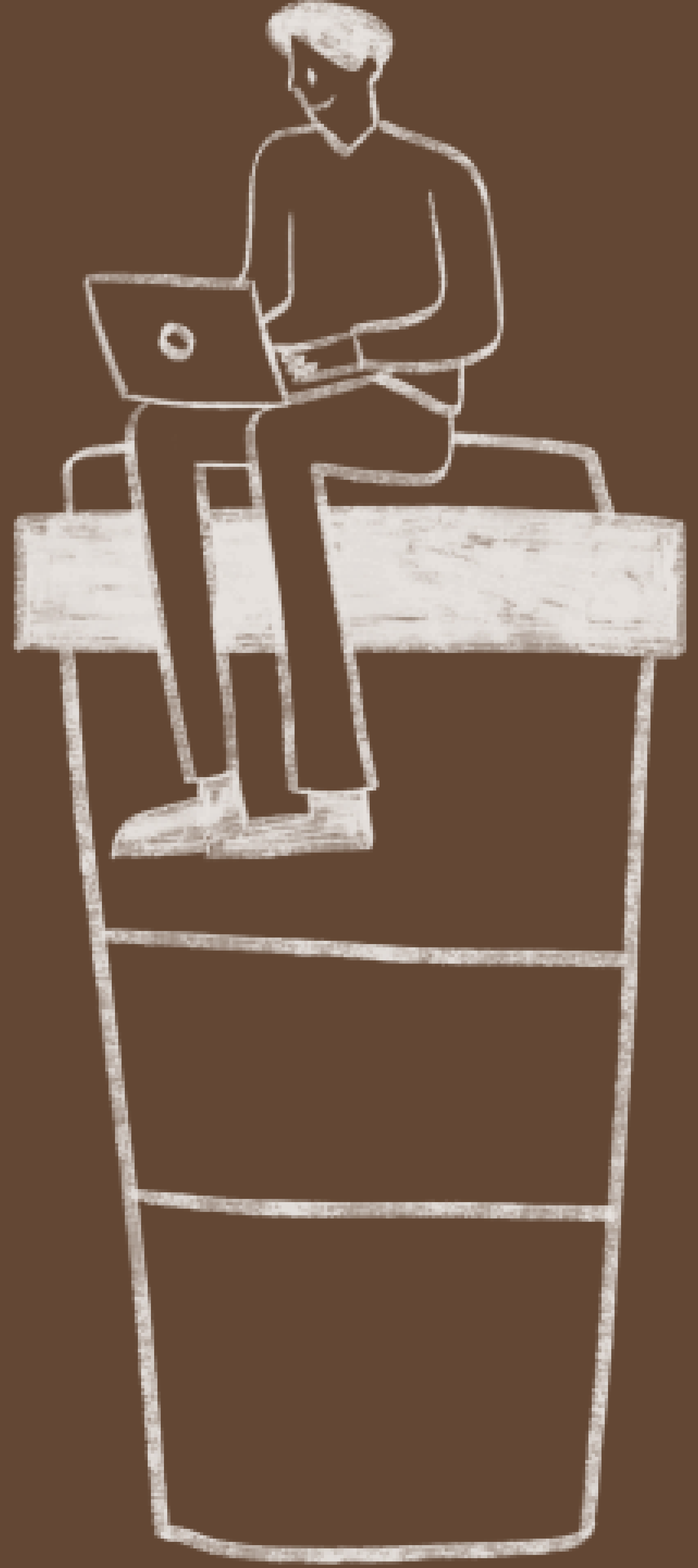
- Can the business handle increased production without operational bottlenecks? 30%

- Will the current workforce and infrastructure support higher output?

FINANCIAL CONSIDERATION

1. Financial Health:
   - Current Ratio: 0.83x indicates liquidity challenges, which the loan will temporarily alleviate by increasing current assets.
   - Debt/EBITDA Ratio: Currently at 2x, increasing to 4x post-loan, which is high but manageable if sales grow as projected.
2. Repayment Schedule:
   - Interest Rate: 10% p.a. is relatively high but common in agricultural lending due to risk factors.
   - Facilitation Fee: 1% upfront fee adds to the total cost of the loan.
   - Total Repayment: $121,000 over 24 months, requiring consistent cash flow from operations.
3. Cash Flow Projections:
   - Break-Even Analysis: Requires a 12% increase in sales to cover additional debt service costs, assuming no significant changes in COGS or operating expenses.
   - Sensitivity Analysis: Should consider scenarios with reduced sales or delayed payments from buyers to assess resilience.
4. Collateral and Security:

Inventory (coffee beans) could serve as collateral, but its value may fluctuate with market prices.



Decision-Makings

1. Due Diligence:

- Review AB Farming’s historical financial performance, export contracts, and repayment history with previous loans. So lets look at what the ratios mean for us.

*Over–leverage Risk:**

Debt–to–equity rising from 2.0x ⟶ 4.0x increases financial leverage risk.

Cash Flow Pressure:

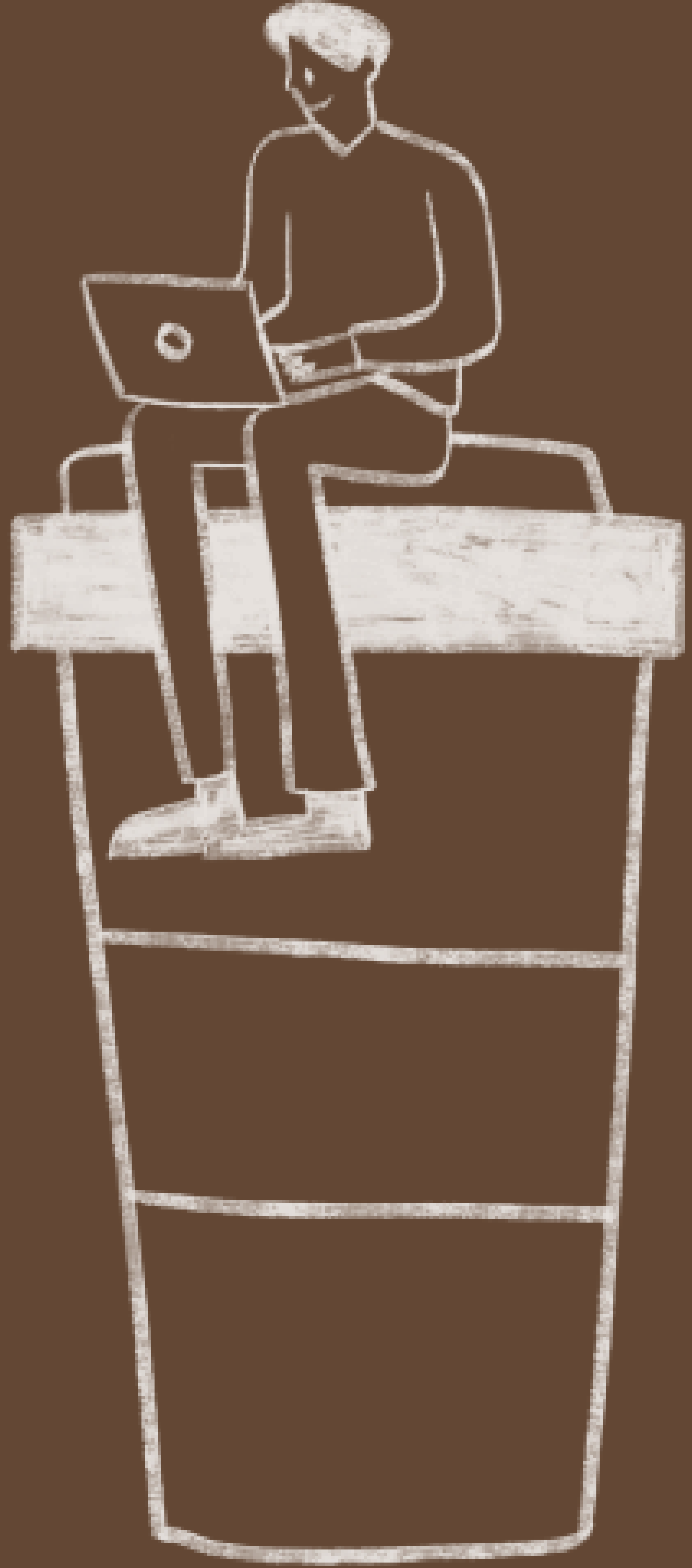
Although monthly payments are manageable, seasonal revenue dips could strain cash flow.

*Market Risk:**

If demand for specialty coffee drops or competitors improve, sales growth may not materialize.

Execution Risk:*

Inefficient allocation of loan funds could limit the expected business improvements.



Decision-Makings

What would our reccommendations be

- Ensure cash flow forecasting –to cover monthly debt repayment comfortably.
- Monitor leverage closely– aim to reduce debt–to–equity to below 2.5x within 12–18 months.
- Focus on high–margin products– and premium market segments to maximize ROI.
- Diversify market channels – leverage direct–to–consumer platforms and subscription models.
- Explore early repayment– if cash flow improves to reduce interest burden.

conclusion

The loan provides a strong growth opportunity, but the increased leverage and repayment burden introduce higher financial risk. Success will depend on execution, sales growth, and efficient use of funds. If the business can increase sales by 20%+ and maintain strong margins, the loan should drive positive financial and operational impact.

loan giver POV: I would need more financial statements to improve due diligence

AB POV: I would ensure my excecution is certain and improve my manpower to handle the facility .

SEE YOU LATTE

HAPPY SIPPING