
2.8. USE OF PROCEEDS AND A BRIEF FEASIBILTIES STUDY OF THE PROJECT



Order of the day

Currently “Just Agro” LLC’s producing meat that are meets the requirements of the domestic and foreign partners. However the following order of the days are required:

The preparation of livestock

Every year at least prepare 300 thousand head of cattles and involve in test, improve the inspection:

- When receiving large number of livestock an livestock that are lower than the standard weight may received;

- During the slaughtering process derivatives or some useful parts maybe lose;

Finance

The preparation of livestock is seasonal so during June to October the demand of cash increases so it may effect the stable financial position negatively

Also the company cannot fully supply the demand of the cash.

Management and internal control

Improve the managements information system;

Improve the performance monitoring;

Ways to solve

In order to decrease the problems mentioned above, needs to develop a business plan and implement it into management activities and performance monitoring. Also increase the preparation of livestock so that unit price will decreases. In order to increase the preparation of livestock:

- Start the preparation of livestock earlier,
- Start the slaughtering before the competitors,
- Flexible costing,
- Employ meat preparing agencies

Operational schedule and financial planning of 2011-2013

Preparation of livestock and meat processing

- Every year at least preapre 300 thousand head of cattles
- This number is estimated after calculating the natural disaster and other force majeure. This number is 80% of the total capacity of the plants.
- The prices will be different depending on the provinces, the average price per kg would be around 900-1000 MNT.

In 2011 310 thousand head of cattles, in 2012 316 head of cattles will be prepared. This number is estimated 80% of the total capacity of the plants, and in order to calculate this we need to consider the natural disasters and other force majeure.



	2011							2012						
	7	8	9	10	11	12	Дун	7	8	9	10	11	12	Дун
Number of livestock that will be prepared														
Cow	4,500	10,200	10,700	10,200	3,400	1,000	40,000	4,500	10,200	10,700	9,700	6,900	2,500	44,500
Horse	2,300	6,300	6,300	4,600	500	-	20,000	2,300	6,300	6,300	4,500	-	4,600	24,000
Sheep	12,000	12,000	12,000	12,000	87,000	95,000	230,000	12,000	12,000	12,000	12,000	87,000	105,000	240,000
Goat	-	-	-	-	-	20,000	20,000	-	-	-	-	-	20,000	20,000
Average weight of one head of cattle, price /Thousand MNT/														
Cow	270.0	270.0	270.0	270.0	270.0	270.0		283.5	283.5	283.5	283.5	283.5	283.5	
Horse	252.0	252.0	252.0	252.0	252.0	252.0		257.6	257.6	257.6	257.6	257.6	257.6	
Sheep	50.0	50.0	50.0	50.0	50.0	50.0		52.5	52.5	52.5	52.5	52.5	52.5	
Goat	36.0	36.0	36.0	36.0	36.0	36.0		36.8	36.8	36.8	36.8	36.8	36.8	
Expense of preparing one head of cattle,/thousand MNT/														
Cow	2.4	2.4	2.4	2.4	2.4	2.4		2.4	2.4	2.4	2.4	2.4	2.4	
Horse	2.4	2.4	2.4	2.4	2.4	2.4		2.4	2.4	2.4	2.4	2.4	2.4	
Sheep	0.4	0.4	0.4	0.4	0.4	0.4		0.4	0.4	0.4	0.4	0.4	0.4	
Goat	0.4	0.4	0.4	0.4	0.4	0.4		0.4	0.4	0.4	0.4	0.4	0.4	
Cost of one head of cattle,/thousand MNT/														
Cow	272.4	272.4	272.4	272.4	272.4	272.4	-	285.9	285.9	285.9	285.9	285.9	285.9	-
Horse	254.4	254.4	254.4	254.4	254.4	254.4	-	260.0	260.0	260.0	260.0	260.0	260.0	-
Sheep	50.4	50.4	50.4	50.4	50.4	50.4	-	52.9	52.9	52.9	52.9	52.9	52.9	-
Goat	36.4	36.4	36.4	36.4	36.4	36.4	-	37.2	37.2	37.2	37.2	37.2	37.2	-
Total cost /million mNT/,	2,415.4	4,986	5,122.3	4,553.5	5,434.6	5,783.5	28,295.0	2,519.1	5,189.0	5,332	4,578	6,571.5	8,204.1	32,393.8
Cow	1,226.0	2,778.8	2,915.1	2,778.8	926.3	272.4	10,897.4	1,286.7	2,916.5	3,059.5	2,773.6	1,973.0	714.8	12,724.1
Horse	585.2	1,603	1,602.9	1,170.4	127.2	-	5,088.7	598.1	1,638.2	1,638.2	1,170.2	-	1,196.2	6,240.8
Sheep	604.3	604.3	604.3	604.3	4,381.1	4,783.9	11,582.1	634.3	634.3	634.3	634.3	4,598.6	5,550.0	12,685.7
Goat	-	-	-	-	-	727.1	727.1	-	-	-	-	-	743.1	743.1

During the livestock preparation following costs occurs: milling, medicines, ear-tags and these costs were calculated the previous years calculation. The livestock will be bought in bulk. So the cost per head of cattle will not be increase.

The cut ability from one head of cattle will not decrease from 2010s rate.

Indicators		2011	2012
Total weight of carcass meat, in tons	Cow	5,076.0	5,647.1
	Horse	2,800.0	3,360.0
	Sheep	4,025.0	4,200.0
	Goat	320.0	320.0
Total		12,224.0	13,530



The cost of meat processing of 1 kg meat is around 2314 MNT.

Indicators	2011	2012
Cost of livestock preparation /million MNT/	28,295.4	32,393.8
Total weight of meat, /tons/	12,221.0	13,527.1
The cost of 1 kg meat	2,314	2,394

The cost of livestock preparation cannot determine the direct materials costs, because the cost of previous year meat processing influences. This cost is estimated in the financial sectors as an switching cost. So when calculating the costs, try to consider if there are an increase in buying cost from herders.

Sales prediction

Sales predictions are divided into following categories: Exporting, domestic and reserved meat, and derivatives.

Prediction of export is determined by the average price of the advanced made contracts (3395 MNT per kg), domestic sales prediction is determined by the average retail price of previous years (2900 MNT per kg).

Sales prediction /million MNT/

	2011-2012	2012-2013
Export	29,387.5	32,825.0
Domestic selling	6,702.6	7,521.4
Other incomes	4,143.3	4,460.0
Total	40,233.4	44,806.5

The meat businesses cash flow cycle usually lasts for 12 to 15 months. In other words cash spend for livestock preparation of June 2010 likewise become meat on September to December of that year and sell it until next years new meat preparation. Next years new meat selling usually starts from September. So the cashes spend for 2010 meat preparation cannot fully fund the next years meat preparation.

Cost of Goods Sold

Gost of Goods Sold is calculated the following method: $COGS = \text{beginning inventory} + \text{inventory purchased} - \text{ending inventory}$.



Because preparation of livestock, processing and storages are in one cycle, so the cycling period is different from the fiscal years.

Forecast of revenue

For calculate the forecast of revenue didn't use the accounting period instead used the meat processing period from June 30th of 2011 till July 01st of 2012. Because if we use the accounting period then there will be difference between livestock preparation cost. Explaining the reason:

The cost of the first half years sales of the meat is prepared previous year so the cost is different, and the cost of the last half years sales of meat is prepared this year and also the cost is different so the costs are different, in order to calculate the revenues the calculation must be done by livestock preparation cycling period.

Forecast of revenues /million MNT/

	2011-2012	2012-2013
Sales revenue	40,233.4	44,806.5
Bonuses from reserved meat	1,200.0	1,200.0
GOGS	30,327.5	34,290.2
Gross profit	11,105.9	11,716.3
Administration and marketing expenses	1,987.8	1,977.6
Depreciation expenses	1,754.3	2,279.7
Financial expenses	4,787.0	842.0
Operating incomes	2,576.6	7,020.5
Non operating incomes /expenses/	403.6	403.6
Tax	298.1	702.0
Net income	2,682.1	6,318.5

By the forecast of revenue the administration and depreciation expenses are constant.

Forecast of cash flow

According to "Just Agro" LLC all the meat that are prepared previous year must be finished by June of the next year and by July all the warehouses and other facilities must be cleaned and ready to receive the livestock. The forecast of cash flow also calculated by the livestock preparing cycle.



Indicators	2011	2012
Sales revenue	3,678,772.73	11,201,457.93
Export revenue	7,150,000.00	55,062,500.00
Storage revenue	76,291.27	76,291.27
Slaughtering revenue	327,272.73	327,272.73
Bonuses for reserved meat	-	1,200,000.00
Loans of operations	935,750.21	1,976,221.46
VAT receivable	-	-
Fundings from bonds	30,000,000.00	-
Amount of cash flow in	42,168,086.94	69,843,743.39
Loan payment	752,987.13	1,975,988.30
Current asset loan payment	-	-
Repayment of bonds	-	30,000,000.00
Investment	-	-
Inventory Purchase	25,723,063.64	29,448,900.30
VAT of purchased inventory	2,572,306.36	2,944,890.03
Factory overheads	3,801,858.85	4,998,901.19
Administrational expenses	1,574,607.50	3,570,781.59
Marketing expenses	317,105.90	472,950.76
Loan interest rate	16,843.50	32,003.44
Current asset loan interest rate	-	-
Interest rate of bonds	810,000.00	4,050,000.00
Expense of introducing bonds	705,000.00	-
Long term loan interest rate	-	-
Balanced budget incidence	(337,161.97)	1,310,289.78
Amount of cash flow out	35,936,610.92	78,804,705.40
Depreciation expenses	839,641.11	2,054,510.89
Net cash flow	7,071,117.13	(6,906,451.12)
Ending balance of cash	7,071,117.13	164,666.01

According to the forecast of cash flow statement of 2011-2012 the financial resource is not enough to fund the livestock preparation so the issuer company is issuing bonds in order to fund their livestock preparation. According to the calculation the issuer company can fully repay the payments and has the potential to collect enough financial resources.

