

DHARANI FAM COOP LTD.

ANNUAL REPORT – 2016/17

EXECUTIVE SUMMARY

2016-17 has been a crucial year for *Dharani FaM Coop Ltd.*, on many fronts. The year started with many challenges - persistent drought, change in leadership, decline in membership and demonetisation being the most important ones. Focussed planning combined with determined team efforts helped us come out with flying colours. Despite the odds, this year, with support of *the Timbaktu Collective's (TC)* field team, the cooperative procured from the highest number of members ever since its establishment.

Unfortunately the Khariff rains failed again this year after having raised farmer expectations with a few good showers during the sowing period. Many farmers lost their crops and those who were able to get a crop were left with less volumes and hence highly dependent on the cooperative for the market. Due to timely availability of the money, thanks to all the investors and supporters, *Dharani* did not let down any of its members and procured from every farmer member who could and was willing to sell to the cooperative. This helped in increasing the farmers' trust in the cooperative. The Rabi season turned out to be more lucrative for some farmers who had access to water. With great team effort, this year, the cooperative managed to procure 356 tonnes worth ₹ 1.42 crores from 550 members.

Dharani's stringent norms to ensure 100% organic had led to a decline in membership during the last couple of years. But the coop's ideal practices and the benefits that its members have received, has attracted many other farmers in the region. Again with support from *TC's* field team, 2016-17 witnessed a rise in membership from 1,400 members to 2,103 members from 60 villages in 3 mandals (blocks) of Anantapuramu District.

Processing of the produce procured from farmers went strictly as per plan. Storing of groundnut without chemicals is very difficult. Around 170 tonnes of groundnut were processed within a span of 3 months, unprecedented in the history of *Dharani*. Vigilance during procurement helped in arresting wastage during processing.

Value addition has been a key focus area this year. 20 new products have been added to the basket, all of them being ready to eat or ready to cook.

Marketing is another area that witnessed a significant growth during 2016-17. Retail market has been the sole focus. Net sales soared by 19.48% from ₹ 2.03 crores in 2015-16 to ₹ 2.43 crores in 2016-17.

In addition to all the above achievements, *Dharani* takes real pride in being able to contribute to the local economy. It has generated 13,000 woman days and 2,000 man days of employment in the region. A whopping ₹ 25,00,000 has been directly injected into the local economy.

Last, but not the least, 2016-17 witnessed *Dharani* accumulating the highest profits ever. After giving away an incentive of ₹ 6.16 lakhs to farmers and ₹ 3.84 lakhs to employees, *Dharani* is left with a net profit of ₹ 17.26 lakhs, which is 204 % higher than that of previous year.

However, there is a fact that we generally tend to overlook in the joy of success – financial and management support from *TC*. Though *Dharani* is on the course of becoming financially independent, it is still being supported and nurtured by *TC* to a significant level. Plans are being made to ensure that *Dharani* will run smoothly as and when this support is withdrawn in the future.

The small plant that you all have helped nurture has now become a tree and is reaping fruits. All the member farmers are extremely grateful to all the investor and supporters of *Dharani*. On their behalf and our team, I would like to sincerely thank you all for the invaluable support. I also assure you that we will put our best efforts to keep *Dharani* on the growth track. We hope you will continue to extend your support for *Dharani* and also give similar support to the other initiatives of *the Timbaktu Collective*.

THE REPORT

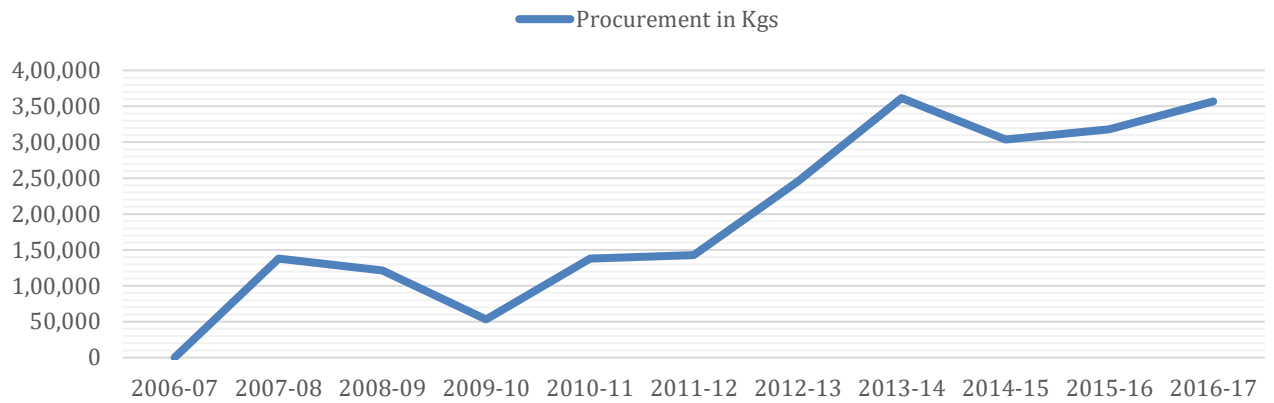
PROCUREMENT

Monsoon of 2016 started on a high note with a few good showers during the sowing season which raised hopes among farmers. Contrary to the adage “*All that starts well ends well*”, monsoon rains didn’t sustain during the growth period. Hence another year had to be marked as a drought year in the meteorological chronicles of Anantapuramu. Thanks to the government’s initiative to supply water through the Handri Niva canal system, some of our farmers’ bore wells got recharged during December, 2106, which resulted in late sowing during Rabi and a bumper Rabi crop (This will come in the account books of next FY). Owing to the lack of rains for 16 consecutive weeks from July through November, many farmers ended up in a near crop loss situations. Several *Dharani* members ended up with volumes that are considered to be too low to procure by the external market. At this juncture, the governing body of *Dharani* decided to procure any quantity that members was willing to sell. To reduce the overheads and to attend to every member, the *TC* field team took up the challenge and gave great support to the *Dharani* procurement team. The small village level mills that has been constructed with *TC* support were used as temporary storage centres.

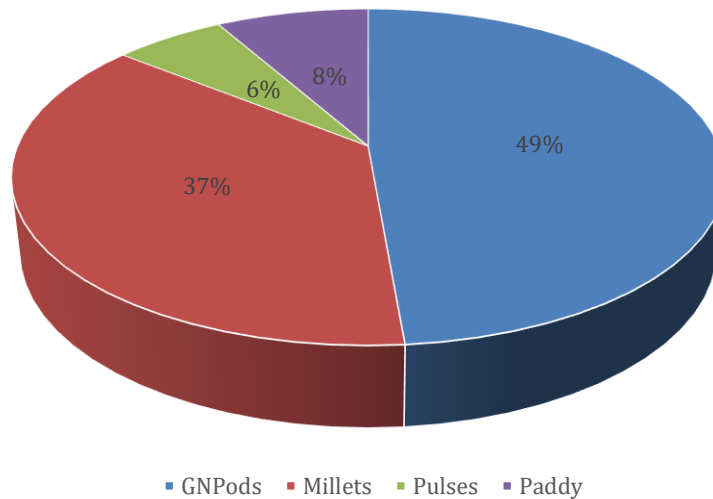
Govt. of Andhra Pradesh’s irrigation initiatives ensured that local tanks get enough supply of water during Rabi. As it took some time for bore wells to get recharged, Rabi witnessed late sowing but assured a bumper crop, most of which will be procured by the coop during April-May, 2017.

In total, by 31st March, 2017, *Dharani* managed to procure 356 tonnes of produce worth ₹ 1.42 crores from 550 member farmers. Kharif procurement was clearly dominated by Ground nut but during Rabi, Millets and Paddy occupied the lion’s share in procurement.

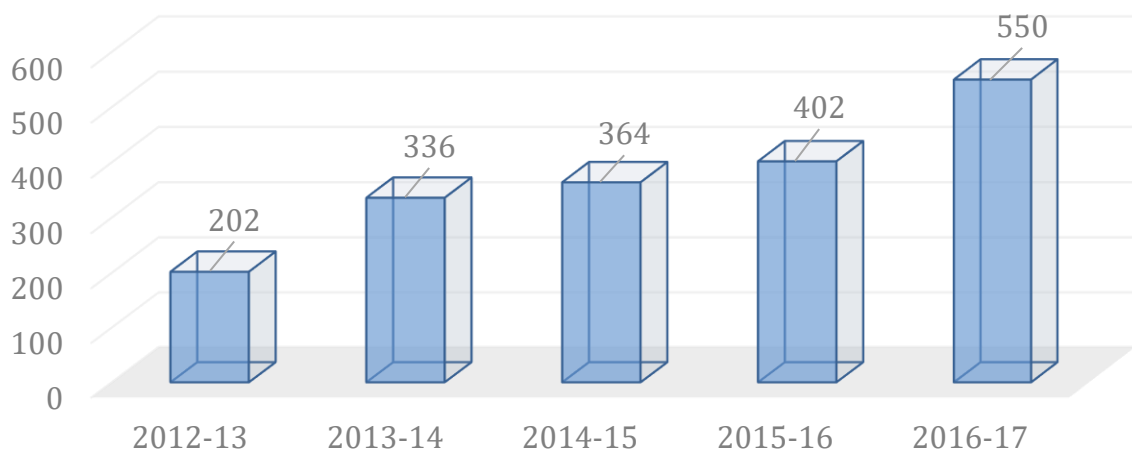
Annual Procurement



Share of different crops in Procurement during 2016-17



No. Of Farmers who sold to Dharani



PROCESSING

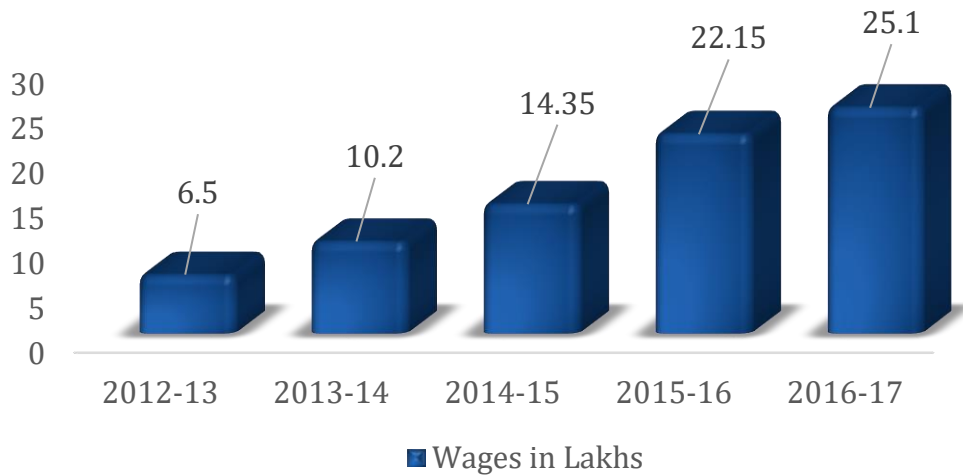
The two new mandal level processing units have not yet become operational owing to legal issues. Hence all the produce that had been procured was processed at the central processing unit located at CK Palli. A total of 450 tonnes of produce (All commodities at all stages) was processed during 2016-17. In an unprecedented manner, total groundnut (172 tonnes) procured during Kharif was processed by the end of February. This has not only helped in dealing with the menace of infestations but also realised higher revenues from by-products like GN Cake and husk. This year witnessed a significant reduction in wastage during processing, thanks to increased vigilance during procurement and improvised storage conditions.

Dharani has been contributing to the local economy by not only purchasing the produce of its members at premium prices and giving incentive bonuses to the members and staff, but also by generating employment for local women and men in the procurement / processing / packaging / VAP units. This year has been no different. A total of 13,000 womandays and 2,000 mandays of employment has been provided to the local people. A whopping ₹ 25,10,000 has been directly injected into the local economy.



Photo: Women working in the processing unit

Contribution to the local economy



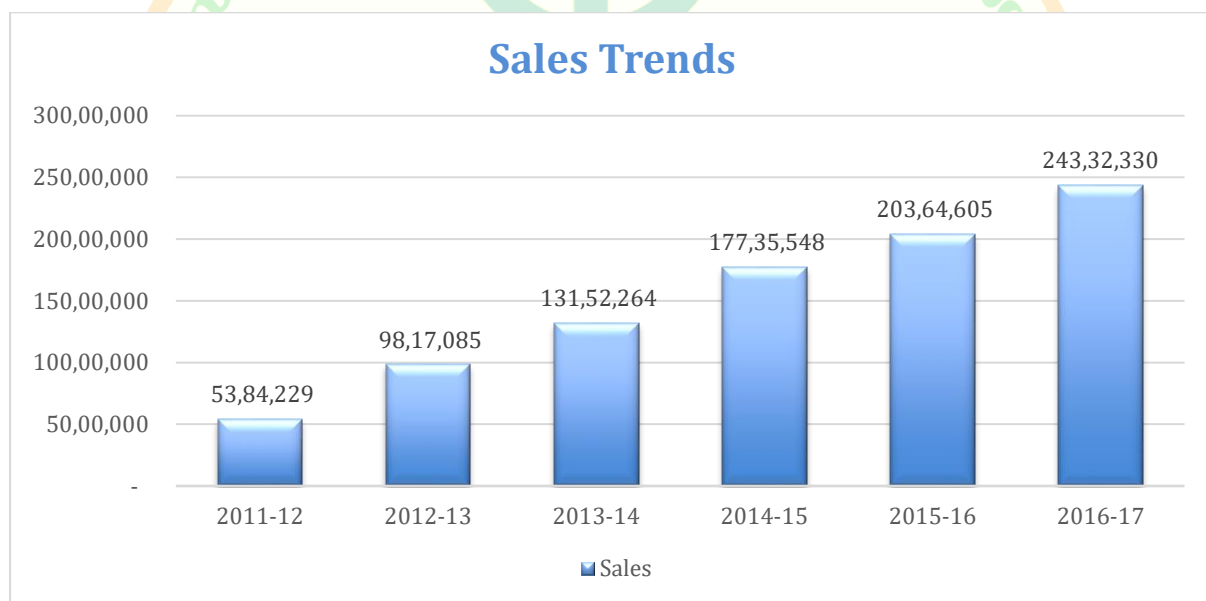
VALUE ADDITION

Listening to feedback from consumers makes them feel more appreciated and part of the value creation process. *Dharani* has been doing exactly the same. The urban 'office-going' segment is one of the important market segments that *Dharani* caters to. To fulfil their need for "ready to cook" products, our value addition team has come out with various "ready to cook" products this year. Several Upma, Pongal, Dosa mixes made out of millets have been added to the basket. Instant Rasam and Sambhar mixes introduced this year have taken the market by storm. Chutney powders using Redgram and Morenga leaves (Drumstick) have been introduced into market. As many as 20 new products have been launched into the market this year and all of them are doing very well.

Thanks to the support from the Collective, *Dharani* now has an exclusively spacious kitchen. A new kitchen room has been constructed and equipment like industrial mixer, oven and chimneys, were installed during 2016-17.

SALES, MARKETING AND DISTRIBUTION

2016-17 witnessed a fantastic growth in *Dharani's* sales. Proper strategy entwined with dedicated efforts of sales force helped *Dharani* in registering record growth figures. 2016-17 recorded highest sales (both Net and Gross) in *Dharani's* history. Total net sales stood at ₹ 2.43 crores which is 19.48% more than that of previous year. It is to be noted that more than 90% of this sales has come from retail market alone. There is a significant increase in number of orders processed during 2016-17. The average number of orders processed per month reached 119 per month against 96 during 2015-16. Not just once but for three consecutive months from January through March '17, the monthly sales figures went beyond ₹ 30 lakhs which is quite an achievement. Exclusive focus on adding new retailers has resulted in addition of 47 new retailers during the reporting period.



2016-17 also witnessed a major change in *Dharani's* distribution system. The experiment of direct delivery to retailers in the urban centres proved to be an immediate success. Most of the issues of regarding transportation delays, damages, returns and margins have been fixed by the direct distribution exercise. Currently, all the retailers in Anantapuram, Hyderabad, Chennai and Bengaluru are given the service of direct delivery. This has pushed up the sales in the respective cities by more than

50%. This also helped *Dharani* move towards Vendor Managed Inventory (VMI) system, which is expected to be in place by the end of 2017-18.

Again with support from the Collective, *Dharani* conducted food demos in several tier-II cities this year. Food demos in Anantapuram, Kurnool, Tadipatri, Prodduturu, Madanapalle and Pavagada have received a thumping response from the public and also helped in pushing the retail sales up.

CASH FLOWS AND DEMONETISATION

During 2016-17, *Dharani* managed to return an investment of ₹ 68 lakhs made by *TC* employees in 2015. This eased off the accumulating interest burden of *Dharani*. To meet its working capital requirements, *Dharani* approached *Rangde*, an online crowd funding platform, which readily agreed to lend *Dharani* at 5% flat interest rate. *Dharani* is extremely thankful to *Rangde* for this soft loan at a crucial period. This loan not only helped *Dharani* in making timely payments to the farmers but also provided the leverage to increase the prices in case of a few crops like Paddy, which subsequently resulted in inflow of Paddy in large quantities.

Payment follow up is another area that received due attention this year. Besides sales targets, payment targets were given to the sales personnel and this helped in bringing down Days Sales Outstanding (DSO) significantly. A stunning 85% recovery of total sales value has been recorded this year and that helped in easing the cash flows for *Dharani*. It is also to be noted that no debt has turned bad during the year.

During demonetisation, *Dharani* faced a real challenge in terms of payments to the members. However, great support and patience from the members helped *Dharani* overcome the problem. All members readily agreed for online transfers. And now this has become a norm. All the members now have bank accounts and all the payments are digitalised.

BOTTOM LINE

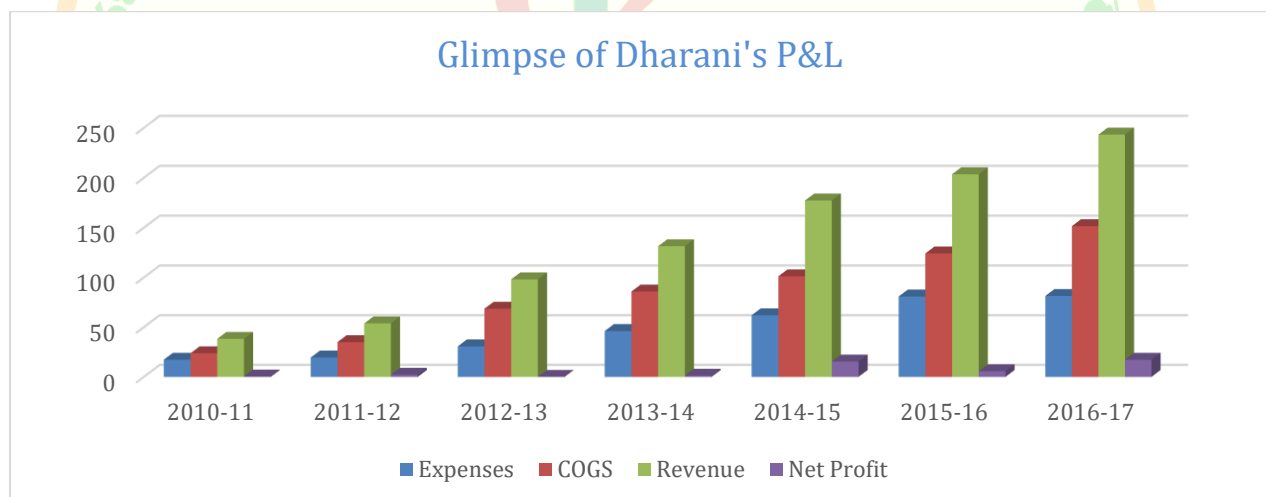
Dharani is a social enterprise where bottom line calculations take back seat as compared to the social benefits we strive for. However that doesn't give any room of complacency in terms of expenditure and profit earnings.

The total expenses (Direct plus Indirect) went up marginally by 0.61% from ₹ 80.96 lakhs in 2015-16 to ₹ 81.46 lakhs in 2016-17. It is to be noted that these figures also include incentives to farmers, staff and daily wage workers, which got more than doubled compared to the previous year. Tight planning and budgeting helped in keeping expenditures under strict control. Proper inventory and stock management systems helped keeping processing expenses at bay.

Cost of Goods Sold (COGS) stood at ₹ 1.51 crores during FY 2016-17.

However, Indirect income has reduced by 3.8%, from ₹ 7.30 lakhs in 2015-16 to ₹ 7.03 lakhs in 2016-17.

Finally the net profit stood at ₹ 17,26,139. This is 204% more than that of the previous year. It is also the highest net profit earned by *Dharani* ever since its establishment.



PATRONAGE INCENTIVE

As the Coop has recorded decent profits this year, The BoD of *Dharani* decided to issue patronage bonus to the farmers who had sold their produce to the cooperative proportionate to their contribution. A total of ₹ 6.16 lakhs will be distributed to the

farmers in the coming AGM. The board has also decided to distribute a sum of ₹ 3.94 lakhs as incentive to the staff of *Dharani* (Which includes permanent staff and daily wage labourers)

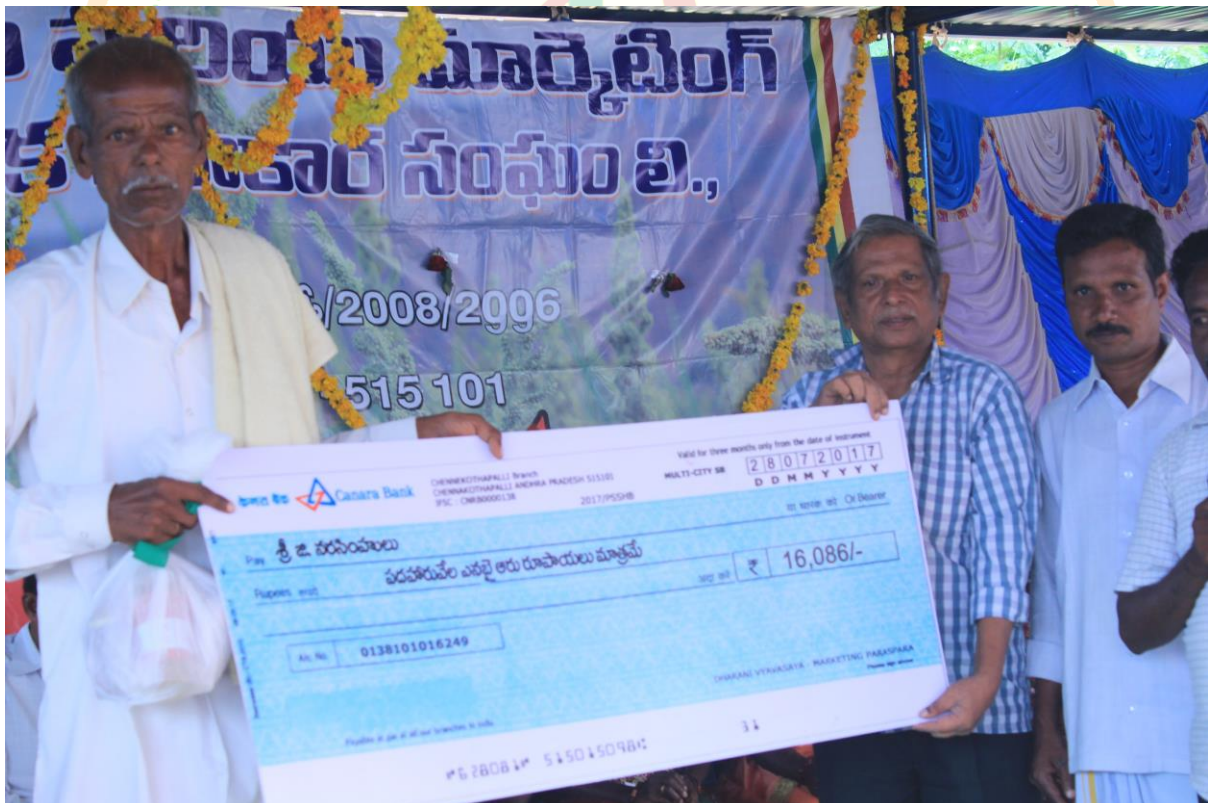
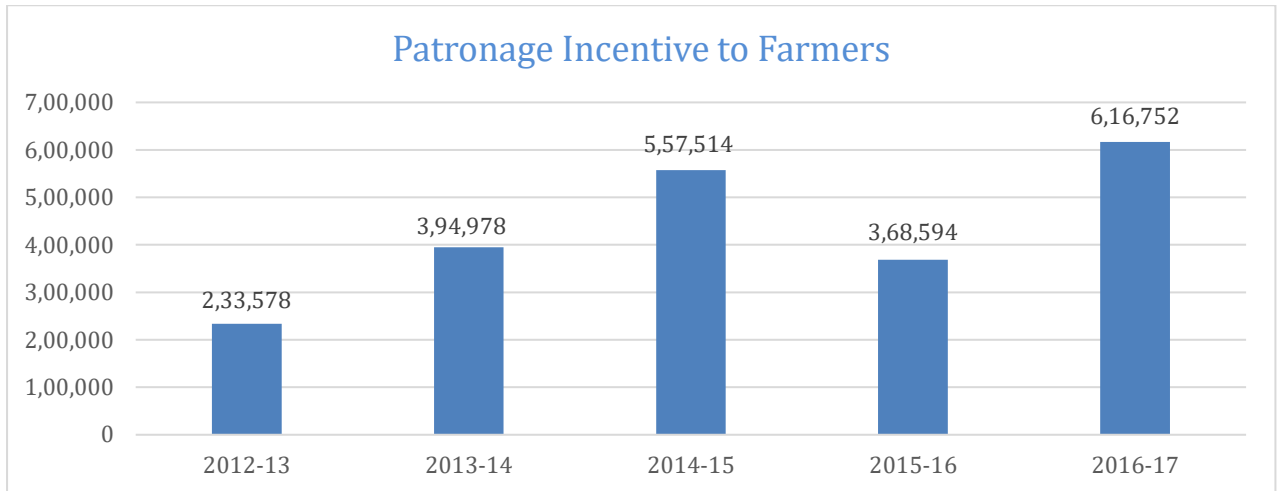


Photo: Farmer receiving model cheques in recently concluded AGM

MEMBERSHIP, BoD AND THE TEAM

The member base that had come down during the last couple of years due to several reasons – stringent PGS norms, persistent drought, etc., has again recorded an upward trend this year. With the financial and management support from *Timbaktu Collective's* field team, *Dharani* expanded its work to 60 villages across 3 blocks. Total member base soared up to 2,103 from 1,452 during the year.

Board of Directors during 2016-17 comprised of 12 directors, each representing 3 to 4 villages. During 2016-17, the BoD met regularly once every month along with one extraordinary BoD meeting.



Photo: Board of Directors of Dharani

Mr. K. Murugesan, the CEO of *Dharani*, left the organisation on 31st March, 2016. Subsequently, the board appointed Mr. C.K. Ganguly as the CEO of *Dharani* and Mr. Sathish Kumar, as the COO of *Dharani*. Also Ms. Smruthy Shetty joined *Dharani* as Marketing coordinator and Mr. K Venkatesh joined the team as machinery in-charge.



Photo: Organic Team

DHARANI

FaM Co-op

Food for the soul

ROAD AHEAD

2017-18 marks decennial year of *Dharani*. There are a few targets that the organisation has set for itself. Most important task is to consolidate the achievements of 2016-17 and continue on the growth trajectory. Next is to expand the market proportionate to the procurement and thereby reach out as many customers as possible with an intention to provide good, clean and fair food at reasonable prices. Third is the increase the range of value added products with at least two new products released every month. Fourth is to get the two de-centralised mills operational in order to deal with larger procurement that has been planned. And the last but not the least, further empower the BoD so as to ensure the smooth running of the cooperative.

Consolidated Financial Statements

Balance Sheet

As on 31st March, 2017

LIABILITIES	AMOUNT Rs	ASSETS	AMOUNT Rs
Capital Grant	3,827,859.00	Fixed Assets less Depreciation	5,029,100.70
Deposits From Farmers	1,874,000.00	Closing Stock	6,476,781.41
Share Capital	1,974,000.00	Fixed deposits	6,144,602.00
Loans (Liability)	9,734,652.08	Loans & Advances (Asset)	243,470.00
Current Liabilities & Provisions	3,098,683.77	Sundry Debtors	4,053,022.98
Reserve & Surplus	3,983,729.78	Cash-in-Hand	8,087.72
		Bank Accounts	1,973,333.82
		Deposits	439,470.00
		Receivable From Sales Tax	65,379.00
		TDS 2016 - 2017	59,677.00
Total	24,492,924.63	Total	24,492,924.63

Profit & Loss Statement for FY 2016-17

Particulars	Amount Rs	Particulars	Amount Rs
Opening Stock	6,107,211.33	Sales Accounts	24,332,330.45
Purchase Accounts	14,275,231.00	Closing Stock	5,219,560.99
Direct Expenses	4,145,157.78	Indirect Incomes	703,371.79
Indirect Expenses	4,001,523.34		
Net Profit	1,726,139.78		
Total	30,255,263.23	Total	30,255,263.23