BNDE/MIT JOINT DEVELOPMENT BANK TRAINING

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APPRAISAL REPORT
FAMILOSA II

by
Platte Amstutz III
Miklos Antal Vasarhelyi
Lee Wakeman

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The Grupo de Trabalho Misto is the working entity carrying on the goals of the BNDE/MIT Joint Development Bank Training and Research Project. The Project was created in 1967 with the support of a Ford Foundation grant. It is providing training, technical assistance, and action research designed to increase the capability of development finance institutions serving as BNDE financial agents in Brazil. The members of the Grupo de Trabalho Misto are:

Banco Nacional do Desenvolvimento Economico

Dr. Hélio Schlittler Silva, BNDE Director and Co-ordinator
Dr. Roberto Félix de Oliveira
Dr. João Lourenço Corrêa do Lago Filho
Dr. Tarcísio B. Arantes

Massachusetts Institute of Technology

Professor J. D. Nyhart, Co-ordinator and Chief Investigator
Professor George F. Farris
Professor John F. Rockart
Dr. Heinz E. F. Luzny, Senior Representative, Resident in Brazil.
Dr. D. Anthony Butterfield, Representative, Resident in Brazil.

Familosa Appraisal.

4.1 - Organizational Model

Familosa is located in Pereira in the outskirts of one of the major towns in Southeastern Brazil. It is a Sociedade Anônima (Corporation) constituted on November 30, 1964. There is no limit to Familosa's life in its chart. At the present moment nothing illegal about the firm or its operation or its proposed project was found. The organizational design of the firm seems sound, but in practice some problems seem to appear. The firm's president, Dr. Oliveira, directs the firm in a very personalistic and even dictatorial manner. In consequence, the heads of departments direct their departments with a certain fear, and a lot of friction is generated in the horizontal direction. This friction between heads of departments hinders the operations of the firm. Lack of coordination at higher levels affects markedly management/labor relations. It could be suggested that the firm hold management meetings for policy setting, and that Dr. Oliveira give more autonomy to the firm's department heads. Organizations of this size should not have problems either of inter-departmental relationships or labor/management relations.

2. Market and Sales Model.

2.1 - Market and Sales Description Plan

2.1.1 - Market - The firm currently produces crude corn oil and corn fodder which distributes to all of Brazil. Crude corn oil is sold to refiners directly, who refine it into eadible oil. Corn fodder is used for animal feed and sold to retailers. The firm proposes to improve its product line in this project by expanding into crude soya bean oil and soya bean fodder.

There are two types of refined oils which are consumed by the people

threat. Trade forces reveal no plans by other competitors to increase their capacities. All of the competitors are currently operating at 80 to 90 percent of their capacities, from data that the firm has. Inner sources in Rio bear this out. We know of no startling developments among competitive products, which would strongly affect the projections made.

Both the fodder and crude oils are high quality products. There is a relatively low level of price elasticity among these products and competitors. There are currently two new entrepreneurs who are investigating entering this market. However, industry sources do not believe that either will eventually enter the market.

In general, the market appears to be able to absorb Familosa's production with no serious competitive problems, as the market is growing between 2 and 6 percent a year and Familosa's share in this market is relatively small.

2.1.2. Sales - Sales will be increased by an addition of a new set of products, and salesmen will be able to offer a more complete line. At the present, most of the salesmen's time is spent in travelling to and from the customers. In consequence, having a new product similar to the old line will not increase strongly the burden of a salesman. In consequence, it will not be necessary to increase the sales force at all, beyond the present desirable levels.

Familosa will need a strong promotional effort to increase its corn oil and fodder markets. It was suggested that a study of the cost of sales be made during the expansion of the product line.

The distribution system suggested does not appear to generate any problems. The two new products are reasonably similar to the current ones and they will, without burdening the salesmen, decrease the sales costs by better overhead distribution. Some consideration should be given to speeding the delivery process and increasing its reliability. This may be done by the

purchase of trucks or by a contract with a major transportation concern that would better plan deliveries and purchases of raw materials to decrease total transportation costs. If the company would buy trucks (which is not advisable now due to the firm's limited capitalization), a separate department for distribution should be created to coordinate production for the purchases of raw materials and marketing for sales and deliveries.

In addition to this, it seems that the company has good possibilities of expansion of the market in the north of the country and this may pose regional marketing problems while requiring different means of transportation. Some sales analysis by salesmen and/or by region should be made in order to provide that information and better location to all salesmen resources. The possibility of regional warehouses may be investigated in the long run.

2.2. Demand and Supply. Consumption figures of Table I give 1967, 1968 and 1969 figures using 5% crude corn oil growth, 6% crude soya oil growth and 2% for fodders. This is broken down by Table II into geographic area and producer.

Assumptions on the demand side made by the firm, with which we do not disagree, are that the trends shown vis-à-vis the three major divisions of the country in regions will continue. In a sense, this means that the relative demand in the south will decrease in the next several years as the demand in the middle and northern regions grows somewhat.

2.3. Sales Records and forecasts. Table III shows a projection of the sales of the firm in 1965, 1966 and the projection for the years of 1967 through 1969. For the two groups of products produced by the old firm and the project the percentages remain the same since corn fodder is a by-product of crude corn oil extracting process as is soya fodder of the crude soya oil extracting process.

TABLE II - SUPPLY AND DEMAND STATEMENT

Crude Corn Oil	1965 U	%	V	%	1966 U	%	V	%	1967 U	%	V	%	1968 U	%	V	%	1969 U	%	V	%
Area A = South	6407	60	5789	60	6409	57	6089	57	6390	54	6390	54	6338	51	8873	51	6263	48	12251	48
Area B = Middle	3204	30	2894	30	3598	32	3419	32	4024	34	4024	34	4474	36	6263	36	4958	38	9699	38
Area C = North	1068	10	965	10	1237	11	1175	11	1420	12	1420	12	1615	13	2262	13	1827	14	3573	14
Other Areas																				
TOTAL	10681	100	9648	100	11243	100	10683	100	11835	100	11835	100	12427	100	17398	100	13048	100	25524	100
Firms	990	9	504	9	1042	99	990	9	1315	11	1315	11	1447	12	2026	12	1592	12	3120	12
Competitor A	3525	33	3183	33	3711	33	3561	33	3906	33	3945	33	4179	34	5851	34	4472	34	8765	34
Competitor B																				
Competitor C																				
Others	6178	58	5581	58	6505	58	6179	58	6628	56	6628	56	6711	54	9395	54	7046	54	13783	54
TOTAL	10693	100	9658	100	11258	100	10730	100	11849	100	11888	100	12337	100	17272	100	13110	100	25668	100

U = Tons
V = NCr$1,000

TABLE II (Cont.)

Corn Fodder	1965				1966				1967				1968				1969			
	U	%	V	%	U	%	V	%	U	%	V	%	U	%	V	%	U	%	V	%
Area A = South	23857	60	3554	60	23126	57	3631	57	22356	54	3688	54	21536	51	4975	51	20675	48	5578	48
Area B = Middle	11928	30	1777	30	12983	32	2038	32	14076	34	2322	34	15202	36	3512	36	16368	38	5287	38
Area C = North	3976	10	592	10	4463	11	701	11	4968	12	820	12	5490	13	1268	13	6030	14	1948	14
Other Areas																				
TOTAL	39761	100	5924	100	40572	100	6370	100	41400	100	6830	100	42228	100	9755	100	43073	100	13913	100
Firm	6230	15	523	9	6560	16	775	12	8280	20	1366	20	9108	22	2104	22	10019	23	3236	23
Competitor A	3736	9	577	9	3933	10	617	10	4140	10	683	10	4347	10	1004	10	4564	11	1474	11
Competitor B	5964	15	899	15	6086	15	956	15	6210	15	1025	15	6334	15	1463	15	6461	15	2087	15
Competitor C	6210	16	925	16	6210	15	975	15	6210	15	1025	15	6210	15	1435	15	6210	14	2006	14
Others	17520	45			1783	44	3047	44	16560	40	2732	40	16047	38	3707	38	1594	37	5148	37
TOTAL	39761	100	5924	100	40572	100	6370	100	41400	100	6830	100	42228	100	9755	100	43073	100	13913	100

U = Tons
V = NCr$1,000

TABLE III

FIRM'S SALES RECORD

AND FORECAST

	1965		1966		1967		1968		1969	
	U	V	U	V	U	V	U	V	U	V
Crude Corn Oil	990	504	1,042	745	1,315	1,315	1,447	2,026	1,592	3,120
Corn Fodder	6,230	523	6,560	775	8,280	1,366	9,108	2,104	10,019	3.236
Crude Soybean Oil					978)		1,074)		1,178)	
					)	1,435	)	2,209	)	3.402
					)		)		)	
Soya Fodder					3,912)		4,296)		4,712)	

4.3.3. Sales and Market Analysis.

4.3.3.1 - Firm to date - As a marketing organization this company has an excellent record. Its marketing manager has shown an ability to understand trends and to exploit opportunities available to the firm. In both years of the company's existence, it has sold almost all the corn fodder and crude corn oil it can produce. The company has limited itself to about a 3 to 4 months inventory of both products.

With the exception of an increased demand for corn fodder in the winter season in the south there is no seasonal fluctuations which influence sales of the firm. The company follows standard industry practices regarding terms of sales. Price competition is not heavy in the industry. Storage facilities for the raw material, corn, are sufficient to maintain supply, providing seasonal buffers for bottlenecks in the input side. The firm is still a minor factor in the market, having a total of 9% of the crude corn oil market and 16% of the corn fodder market. For this reason Familosa should be able to improve its current market share without difficulty. Its major competitor in crude corn oil has one third of the total market. In the corn fodder market, it has no single factor as large as this major competitor, since it wholesales its corn fodder to two other marketing organizations. As a result, Familosa is one of the three approximately equal competitors in the corn fodder field.

The move into the crude soya bean oil field appears to be the logical development in the firm's growth. Marketing management is realizing the necessity of this move. It feels that unless the firm sells an integrated product line its growth will be retarded. We believe that this evaluation of the market is correct and sound. The firm has postulated taking over only approximately 8% of the crude soya oil market and less than 5% of the

soya fodder market, which appears to be a reasonable projection. It is felt also that due to its dynamic marketing management even with some structural difficulties as a new product line, Familosa will not have major problems within the marketing area.

2.4.2. - Analysis of the project. The products of the project are standard products on the brazilian market. They are to be priced by Familosa at approximately the prices which now pertain to the market. The primary problem facing Familosa at this point is not the market itself. It is expected that the growth of the market and the ability to cut into other competitors slightly as well as the ability to replace imports make the penetration in the market a definite possibility for the firm.

The primary problem will be adapting the marketing organization to reach its new group of customers. To achieve this it must be kept in mind that a new kind of product will be sold even if it is in the same line as the former product. When selling two competitive products in the market as corn and soya bean fodder, new arguments and sales techniques should be developed. Therefore, it is important to note that more training for salesmen will be necessary and desirable, although no increase in the size of the sales force is necessary. As the volume of sales increases, better controls on pricing and distribution of sales should be made to prevent Familosa losing its reputation for fast delivery.

2.4.3. - Future of the Firm. It is believed that the firm as a future entity will be greatly strengthened by the project. Through the diversification, the industrial complex composed of the firm plus the project should be a stronger and more profitable entity than the past firm.

2.4.4. - Conclusions. From a marketing point of view, we find that the efforts of the firm are fundamentally sound at this time. The firm is

taking a logical step toward growth and diversified sales, and this should add strength to the firm as an organization. The current marketing personnel are of high caliber. The major question mark at the present time is whether the market organization can move quickly and efficiently to meet the increase in demands that are to be placed upon it. This will mean a training program and re-organization effort to coordinate marketing activities for the different product lines. It also seems that something should be done to lighten the burden of direct sales by the head of the marketing department. Also some consideration should be made for differential pricing in different delivery geographic locations.

3. Production

3.1. Production Description Plan. The current basic production processes are relatively simple, as shown in Chart I. The firm has been carrying out the extraction process in the Pereira plant. The plan forecasts an additional building and equipment in the same location for the project. The factory is located in the center of the corn and soya bean raising area in the southern region of Brazil. No problems with raw materials are expected.

Raw materials inventory varies with the season of the year. Adequate storage facilities are available. Wastage is minimal, as appears to be the standard in the industry. With the company's location, utilities and availability of personnel is assured.

The firm's chief engineer is in charge of the project. He is an engineer with a graduate degree and was in charge of the installation of the equipment in 1964/1965. The job he did at that time was judged to be highly satisfactory. The new production flow appears to be satisfactory.

The machinery is new to be delivered within 3 months after the approval

of the loan. It is expected that the additional building will be completed shortly thereafter. No problems with maintenance is forecasted, because at the present moment the appliances of the firm and equipment are extremely well kept. This is mainly due to the excellent record of the firm's chief engineer.

3.2. Cost of Production Statement. The production figures and projections for crude corn oil and fodder are shown in Table IV. Similar figures for crude soya oil and fodder combined are shown in Table V.

3.3. Production Record and Forecast. We have audited the firm's figures for 1965 and 1966. We believe their assumptions used for 1967, 1968 and 1969 as regards both fixed and variable costs.

3.4. Analysis.

3.4.1. Firm's past. The technical ability of the firm is sound. Current equipment is very well maintained. They have managed to increase the production rate to 70% of capacity in three years, without noticeable problems in wear and tear on machinery. The preventive maintenance program is being carried on under the direction of the chief engineer. In general, management on the production side appears to be good. Decreases in current transportation costs could decrease the raw materials cost. Familosa being under continuous production process, no great surprises in raw materials demand are anticipated. In consequence, inventory stocks of finished goods and raw materials do not need to be too big. Transportation and price constraints might suggest that sometimes larger amounts of raw materials should be purchased. But, it must be kept in mind that increasing inventory of any one of these might tie up too much working capital.

3.4.2. Process. The technical process of the firm is standard and the new process going into the project is likewise standard. Both labor and energy are in good supply, though training is needed to supply more skilled

TABLE IV

Historical and projected costs and revenues of production - Crude corn oil.

	1965		1966		1967		1968		1969	
	Units	Value	Units	Value	Units	Value	Units	Value	Units	Value
riable Direct costs		465		462		828		1204		1884
riable Indirect costs		39		39		71		109		149
xed Indirect costs		11		14		19		27		42
tal production costs		515		515		918		1340		2075
us beginning inventory		0		174		210		326		464
ss final inventory		174		210		326		446		546
st of Goods Sold	990	341	1042	479	1315	802	1447	1220	1592	1975
Revenues	990	504	1042	990	1315	1315	1447	2026	1592	3120
Gross Profit	990	163	1042	511	1315	513	1447	806	1592	1127

Corn Fodder

st of Goods Sold	6230	354	6560	497	8280	834	9108	1214	10019	1938

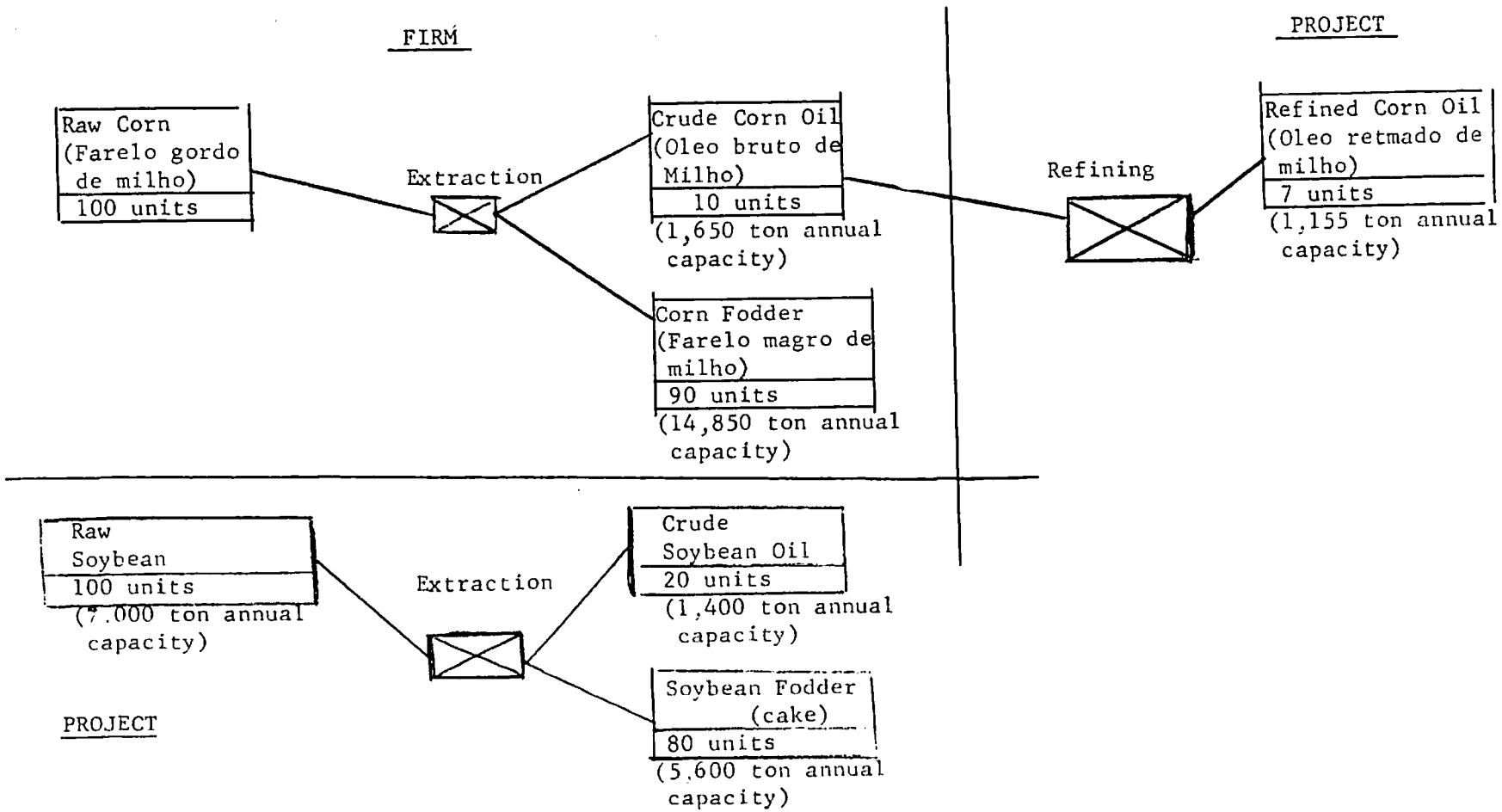
TABLE V

Projected Production Costs for Crude Soybean Oil and Fodder Combined.

	1967			1968			1969		
	Oil Units	Fodder U.	Total Value	Oil Units	Fodder U.	Total Value	Oil Units	Fodder U.	Total Value
Variable Direct Cost			975			1133			
Variable Indirect Cost			72			75			
Fixed Indirect Cost			17			24			
Total production cost	1315	5262	1064	934	3734	1232			
Plus beginning inventory	0	0	0	337	1350	272	197	788	290
Less ending inventory	337	1350	272	197	788	290			
Cost of Goods Sold	978	3912	792	1074	4296	1214	1178	4712	1890

CHART I

FLOW CHART OF PRODUCTION PROCESS



laborers. It would be desirable to design a greater flexibility into the design of the production process, but this appears infeasible.

The chief engineer has convinced us that his choice of plant and equipment is correct. The envisaged plant is somewhat large for the current needs. However, it does provide room for expansion and it is probably a good investment. The amount of excess is not large enough to make us feel that the firm should cut down. Since the engineer expects a high capacity by the end of 1969 this plant is an excellent idea.

3.4.3. The Future of the Firm. Since both the plant and equipment were new two years ago, the facilities appear in good shape for at least the period of the loan. Depreciation is on a ten years basis and those at the firm estimate that the equipment will last that long. At this time there is no known chance of technological obsolescence of the plant. The plant, which was built in 1964-65, is a modern and one story structure. There appear to be no radical shifts in the cost of input with the exception of inflation, to any of the firm's processes over the next several years. There is no flexibility in the equipment, the equipment being viewed for one of the four products in the firm cannot be shifted to another product.

4.0. Financial

4.1. Financial Description and Plan.

4.1.1. The Financial Organization. The firm's financial organization is marginal at best. Their ledger card system is often up to a week behind in posting. The administration in this area is not felt to be very capable. They tend to rely on one local public accountant who does not seem to be adequate. To develop an allocation of cost between the various products, we were forced to do most of the work. We have recommended to the president that he strengthen this area of the firm.

There is no recognized system of control in the firm. No cash forecast is made, the explanation being "that we always have enough money in the bank." There is no formal periodic review of sales reports, although sales records on various customers are kept. Ratio analyses on income and balance sheets are not performed except "when we think we really need them".

One of the directors of the company is an economist who does possess good financial know-how and seems aware of the need for control. The people working in this area, however, are not of very high caliber.

4.1.2. The Financial Structure.

4.1.2.1. Assets. The cash position of the firm at this point is almost dangerous. The current ratio, as of 1966, is .9. At the end of 1965, the current ratio was 1.4. The loan which is being asked for is not enough to correct this rather unsatisfactory position, but we have been unable to persuade the directors to ask for more.

Accounts receivable are discounted. About 75% of them are discounted at this point. The remaining 25% of receivables appear fairly sound. Only one customer appears to be in danger of default at this time. Since this is a fairly large account we checked it through, but are still uncertain of the outcome. With this one exception, the receivables appear to be sound.

Inventories for the firm are only about one to two months of net sales. They are evaluated on a fifo basis. They are well stored and appear to present no problem.

4.1.2.2. Investments. The company does not hold shares of participations in any other industrial enterprise.

4.1.2.3. Fixed Assets. Fixed assets were all new in 1965. They are currently in good condition. They are being depreciated on a straight line basis over ten years on book value. The system maintenance is adequate.

Only the boilers had mortgages outstanding.

4.1.2.4. Liabilities. The firm has been very successful in getting extended lines of credit from its suppliers. Every effort is made to avoid paying accounts payable for as long as possible. Despite this, our checks with the suppliers and local credit institutions produced no evidence that the firm is regarded as a risk. Strong support for this conclusion is that the local bank has just doubled its line of credit to the firm, as shown in Table VI. Terms and charges for credit which the firm has received are slightly higher than normal for this area but this is to be expected since the firm is a new enterprise.

4.1.2.5. Provisions. Since the firm itself is relatively new, we did not check this procedure to any great extent.

4.1.2.6. Ownership. At the present time the firm appears under-capitalized but they are attempting to remedy this situation by building up equity through the method of not paying dividends. Profits from the higher margin soya project will also improve the debt/equity ratio through higher earnings.

4.1.2.7. Profitability. The rate of return as a percentage of sales was very low the first two years at 3.6% and 6.8% for 1965 and 1966 respectively. Return on capital invested was less than 4% in the first year, but grew to 10% in the second year as shown in Table VII. These low rates of return are, we believe, the result of starting a new enterprise. The breakeven point for the firm does appear to be high, however, although they produced at roughly 75% of capacity during the first year, they were building for inventory during this year and sold only approximately 58% capacity. We do not regard this as abnormal for a new firm.

4.1.3. Projections. As Table VIII shows, the firm expects higher profitability in the future. This will be achieved through higher capacity

TABLE VI

BALANCE SHEET

(1)

ASSETS

	1965	1966
CASH	310	354
SHORT TERM		
Accounts Receivable	359	485
Inventories	356	428
Misc. Items	2	3
LONG TERM		
Shares and Participations	-0-	-0-
Compulsory Loans	5	5
Misc. Debtors	24	34
FIXED ASSETS		
Lands	75	75
Building	290	290
Machines and Equipment	330	330
Furniture	90	90
Vehicles	50	50
Trademarks and Patents	-0-	-0-
Monetary Correction	165	767
less Depreciation	(42)	(126)
DEFERRED ASSETS		
Anticipated Payments	810	930
TOTAL ASSETS	2824	3 715

TABLE VI(Cont.)

BALANCE SHEET

(2)

LIABILITIES

	1965	1966
SHORT TERM		
Suppliers	374	613
Commercial Banks	-0-	-0-
Discounted Accounts Receivable	185	373
Lines of Credit	55	100
Provisions	-0-	-0-
Dividends	-0-	-0-
Income Tax	9	24
Doubtful Debtors	-0-	-0-
Misc. Items	120	228
LONG TERM		
Bancos de Desenvoltimento	0	-0
FINAME	-0-	-0-
Misc. Items	235	311
NON DEMANDABLES		
Capital Social	1000	1000
Reservas	-0-	-0-
Monetary Correction of Imobilized Working Capital	36	136
Suspended Profits	-0-	-0-
DEFERRED LIABILITIES	810	930
TOTAL LIABILITIES	2824	3715

TABLE VII

INCOME STATEMENT

	1965	1966
NET SALES	1027	1520
less Cost of Goods Sold	695	976
GROSS PROFIT	332	544
less Selling Costs	216	316
less Admin. Costs	56	79
less Financial Costs	15	25
OPERATING PROFIT	45	124
less Eventual Receipts		
less Eventual Payments		
PROFIT BEFORE INCOME TAX	45	124
less Provision for Income Tax	9	24
NET PROFIT	36	100

DISTRIBUTION OF NET PROFIT

Participations	-0-	-0-
Provisions	36	100
Dividends	-0-	-0-
Reserves	-0-	-0-
Earned Surplus	-0-	-0-

Utilization among the existing products and also the introduction of the project. Table V shows that the soya bean oil extraction process is a higher margin process.

The firm is currently asking for a loan of NCr$900,000 to be shared by FIPEME and the local bank. They expect to pay it back as shown in Table IX. As mentioned earlier, we believe the size of this loan is not large enough to support the working capital requirements but we have been unable to convince officers of the firm of this. As a result the project is submitted as the firm desires it submitted. No other long term financing is projected.

4.2. Balance Sheet. The balance sheet, Tables VI and IX,provides both past and future information about the situation of the firm. A 40% inflation rate has been assumed to apply throughout the period of the loan.

It has already been mentioned that the current ratio looks very bad throughout the history of the project. It would appear that the firm currently needs a higher share participation and we have impressed this upon the officers. The high debt equity ratio illustrates the degree of under-capitalization of the firm. We would suggest increasing the social capital by at least 50% by the end of 1969. This will contribute to the stability of the firm.

4.3. Income Statement. It will be noticed in Table VIII that income is expected to increase considerably over the next several years. From 1969 onwards, we see no problem. The firm's current projections are to pay dividends starting in 1968 at the rate of 20% of net profit. We have recommended that they not pay these dividends to build up their equity within the firm. This is another point of disagreement with management, but it is not a major factor at this point. Management has been wise enough not to pay dividends over the three year period leading up to 1968.

TABLE VIII INCOME STATEMENT PROJECTION

	1967		1968		1969	
	Firm	Project	Firm	Project	Firm	Project
Net Sales	2681	1435	4130	2209	6356	3402
(less) Cost of Goods Sold	1636	792	2484	1214	3913	1890
Gross Profit	1045	643	1646	995	2443	1512
(less) Selling Costs	555	300	848	452	1310	692
(less) Administrative Costs	110	60	154	84	216	118
(less) Financial Costs		300		220		140
Operating Profit		363				
(plus) Eventual Receipts						
(less) Eventual Payments						
Profit Before Income Tax		363		883		1479
(less) Provision for Income Tax		72		176		296
Net Profit		291		707		1183
Participations						
Provisions		291		566		947
Dividends				141		236
Reserves						
Earned Surplus						

TABLE IX BALANCE SHEET PROJECTION

ASSETS	1967		1968		1969	
	Firm	Project	Firm	Project	Firm	Project
Cash	569		760		926	
Realizable at Short Term						
Accounts Receivable	940	500	1390	720	1715	1090
Inventories	665	272	910	290	1021	313
Prime Materials						
Misc. Materials						
Goods in Process						
Finished Goods						
Misc. Items	5	3	8	5	13	7
Realizable at Long Term						
Shares & Participations						
Compulsory Loans	5		5		5	
Misc. Debtors	92		142		218	
Fixed Assets						
Land	75		75		75	
Buildings	290	150	290	150	290	150
Equipment	330	210	330	210	330	210
Furniture	90	50	90	50	90	50
Vehicles	50		50		50	
Trademarks & Patents						
Monetary Correction	1130	82	1915	278	3015	554
(minus) Depreciation	(208)	(28)	(290)	(70)	(384)	(115)
Deferred Assets						
Anticipated Payments	1140		1310		1480	
Deferred Payments						
TOTAL ASSETS	6412		8618		11103	

TABLE IX (Cont.)

LIABILITIES	1967		1968		1969	
	Firm	Project	Firm	Project	Firm	Project
Demandable at Short-Term						
Suppliers	720	284	1130	494	1530	717
Commercial Banks						
Discounted Accounts Receivable	575	262	900	515	1090	780
Lines of Credit	500		100		100	
Provisions						
Dividends			141		236	
Income Tax	72		176		296	
Doubtful Debtors						
Misc. Items	319		590		806	
Demandable at Long-Term						
Development Banks	500		500		200	
FINAME						
Misc. Items	395		551		710	
Not Demandables						
Capital Stock	1200		1200		1200	
Reserves						
Monetary Correction of Immobilized Working Capital	445		1011		1958	
Suspended Profits						
Deferred Liabilities	1140		1310		1480	
TOTAL LIABILITIES	6412		8618		11103	

Projections are for an increasing profit. Our efforts with the firm resulted in somewhat lower profit projections than in their original project application. Since we believe their marketing plan is relatively sound, we believe Table VIII projects a realistic picture of the future of the firm financially.

4.4. Uses and sources of funds. The proforma cash flow for the disbursement period and while Familosa will pay for the new installations of the project and the equipment is not included. But it should be kept in mind that while disbursement is being made none of the project's money should be used for working capital requirements. In order to avoid this a well planned disbursement scheme should be stated. It should be suggested that, as Mr. Oliveira is not specially receptive to advice, the bank's loan should be broken down in more than three disbursements, maybe 5 or 8, and before each disbursement the group's recommendations should be checked to see if they are being followed. Perhaps some auditing should be done on the specific project expenditures. Also, the team should get together with the directors of Familosa, especially the financial director, and work out a disbursement scheme. Familosa should state which are the amounts of its expected sources of revenue broken down by months for the next three years. Our team, together with them, should consult the equipment manufacturers on the conditions of payment and negotiate the disbursement scheme.

By breaking down the disbursement into several periods, control and auditing of this project will increase, and the involvement by CODEST will be decreased. It might be stated that the cost to CODEST will be larger under the scheme, but it is felt that in this case a tighter control on the loan would be required.

4.5. The project's financial and physical plan of execution. The firm is currently asking for a sum of NCr$0.9 million to be split 500,000 from FIPEME and 400,000 from the local bank. Working capital will be financed by the local bank and by the firm, but not with project money. The FIPEME portion of the loan will be used to finance equipment. The suppliers are reputable and the prices are fair.

4.6. Analysis.

4.6.1. Firm's past. Much of the data analyzing the firm in the past has already been given above in the presentation on the income sheet, balance sheet, etc. It has been noted that the public accountant is of dubious repute. The accounting organization has also been questioned as to its effectiveness. The records kept in management accounting are not extensive. On the other hand, the records that are kept do appear to be reasonably well kept and the firm is not in trouble because of its accounting system. For a new firm of its size, this is not an unusual condition.

4.6.2. Project. Pay back period on the project calculated as the number of years to pay back the original loan from profit after taxes plus depreciation on the project alone is two years. Discounted cash flow is not calculated for the project.

4.6.3. Firm's future. If the assumptions made in developing the income statement and balance sheet, both of which are based on marketing and production forecasts, hold true, the firm's future appears good.

Memo to: Dr. Barros, President of CODEST

From: Project Analysis Team working on Familosa

Subject: Summary of the recommendations on the loan

We recommend that the loan should be extended to Familosa with the total amount as stated. The main concerns of the team on the present situation of Familosa can be expressed three-fold:

1. Financial recording, which in Familosa is very bad, and possibly the conditions for the loan will be the improvement of the system.

2. Labor relations within the company are somewhat of concern to the team and several measures to ease these should be suggested to the company. These measures can be seen in the report and are two fold:

    a. greater independence for head of departments.

    b. common problem-solving at the inter-departmental level and in addition to these, some effort should be made to tell the managers the necessity of better communications among the company's employees.

3. Financial analysis and financial procedures should be improved with some of modern managerial financial techniques applied periodically. We strongly suggest the review of financial forecasts every three months on the basis of new inflation rates.

We have great confidence in Mr. Júlio Silva, chief engineer of the firm who seems extremely capable and not a major concern on the production side. It is also felt that the marketing side is very well directed and the profits of the firm show that marketing director has his feet on the ground.

The macroeconomic and national forecast and the projections seem reasonable and accurate to the best of our knowledge.

A. Recommend that the loan should be disbursed in larger number of installments than usual. This is due to the fact that this would make it possible to better control the application of our above mentioned ties to the loan.

B. To have some control on the loan after the disbursement period, some application fee should be collected as an advance for control services after the disbursement. This 'advising' by our accountants would in one sense be part of the loan and would help us to keep some kind of control on the lender during the repayment period. He would consider that the services of one of our own staff members have already been paid by him and therefore he would not lose his services.

We find that this tie might be worthwhile because of the specific difficult nature of the top executives of Familosa to deal with and his notorious attitude toward advice.

C. Within this framework the additional expenditures on control by part of the development bank we feel are justified.

The Appraisal Committee.