

Angel Capital Fund Raising Proposal

PROPOSAL

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At AVL group, business is not just doing great deals; business is having great products, doing great engineering, and providing tremendous service to customers. We believe that innovation is the key to being a leading team and we know that nothing great has ever been accomplished without passion.

Who are we:

AVL Group of companies is a registered private lending and finance consultancy firm in Nairobi, Kenya. It has two subsidiary companies Advance Ventures Limited and PSL Capital Limited which were established in the year 2008 with an aim of offering financial solutions SME and lower end corporate clients. Since inception, our company has continued to achieve its vision of providing tailor made services specific for our clients by providing excellent, and value adding products and services. We want to be recognized and considered as partners in business and have continued to focus on strengthening our foundation and attaining a market niche in the SME and corporate sectors. We are keen to make all our clients our partners by continuous review of our products and structuring their finances to meet their financial demands and not lose their customers or market edge. Our long term focus is to establish a Venture Capital Fund in the next 3 years.

Our vision

“To be the preferred venture capital fund provider in Sub Saharan Africa.”

Mission Statement

To provide excellent, innovative and credible, financial services to each of our clients with an aim of empowering them in building a strong financial base and successful ventures

Our Values

Integrity and excellence

Loyalty and commitment to our customers

Unity of purpose

Teamwork

Innovation

Board of Directors

Its Board of Directors constitutes of individuals who have worked in the finance industry for more than 10 years; Financial analysts, corporate governance specialists, advocates, auditors and business development consultants with hands on experience in wholesale & retail banking, credit and risk analysis, SME Development and Micro finance sectors as directors, project directors and team leaders.

The mandate of the board is ensure policy implementation and sound strategies that are aimed at entrenching sound corporate governance practices. The board has scheduled four quarterly board meetings and four meetings during the year. The executive committee has scheduled monthly meetings and is chaired by the managing director and ensures optimal organizational structure and streamlines operations.

The main departments are: credit & risk, internal audit, information & technology sales & marketing and human resource department.

DIRECTORS

At AVL capital our operations are distinct and specific to our growing organization.

Our company is built on fine leadership, strategy, integrity, team work, results and governance and professionalism are extremely core to our vision, values and mission and we believe that our directors capability to realize those goals. We currently have two full time directors running the companies.

Kenneth Anthony Muhumuza' - Chairman 33 years.

Kenneth Muhumuza is a career banker with over ten years in the industry.

He has a vast of experience in Sales & marketing, SME and general bank operations.

He holds a Bachelor of International business with a major in Marketing and minor in IT from United States international university.

He has worked in Standard Chartered bank, Kenya Commercial Bank and NIC bank.

He brings a wealth of experience in steering the company's strategies and overall direction.

He is married with three children.

He chairs all company board meetings.

ANDREW KANYUTU- MD/CEO-30 years

Andrew Kanyutu is a Bachelor of Commerce (Accounting) Graduate from Catholic university of Eastern Africa and a certified Public Accountant CPA (K) he holds master's degree in Finance from Strathmore University where he is currently finalizing on his thesis. He has a wealth of experience in the banking industry having served for the past eight years in various capacities in operations, Business Banking and general banking operations. He is currently commencing his degree in Corporate Law.

Andrew is responsible for the overall stewardship of the company.

Until his appointment, he was working with NIC Bank in charge of operations at Junction branch.

DR. KATHRYN GUCHU- EXECUTIVE DIRECTOR- 27 years

Dr. Kathryn Guchu is a medic, researcher and entrepreneur. She holds a degree from the University of Nairobi. She has vast experience in the medical and finance sectors having served in the public and private practice sectors for the past four years. She is currently pursuing her masters in Corporate Governance and Finance matters.

Kathryn has been running family business for the last eight years and sits in the board of the same.

She is responsible of implementation of the company strategies with guidance from the Managing Director.

Until her appointment, she was working for the Ministry of Health and University of Washington - Partners in Prevention Programme.

Our Products:

Our products are tailored to meet specific needs for our clients. The company continues to tailor make innovative products to meet specific needs of different sectors of the economy. Our flagship products are:

AVL CAPITAL LIMITED



Boost Products are meant for individuals and Small Scale business which require short term financing to take care of immediate needs and include:

- o Short Term Loans for Salaried Staff
- o Short Term secured loans-based on NSE blue chip shares held
- o Salary Advances
- o Sacco Bridging Loans

ADVANCE VENTURES LIMITED



GO! Products do just that - Allow entrepreneurs to keep moving on with their businesses. These are products tailored for SME's who suffer constraints in managing between business financing demands or cash-flows and the new business opportunities that present. They include:

- o Bill Discounting Services
- o Invoice Discounting and Factoring
- o Overdraft Facilities for Business
- o Short Term Unsecured Business Loans based on guarantors
- o Short Term Secured Business Loans based on NSE Blue Chip Shares

PSL CAPITAL LIMITED



Glide Products enable individuals and business to easily juggle with their finances without the need to tie down what they have or lose their edge. These products are:

- o Bid Bonds & in the longer term - Performance Bonds
- o Financing of Motor Vehicle Insurance & Excess Charges
- o Forex Market hedging for import and exporting companies
- o Business consultancy Services including loan and proposals pre- appraisals

PSL capital is also responsible of Angel Capital Mobilization.

Executive Summary:

Over the last one year, the company has engaged in this market offering customers bill discounting, contract financing, financial consultancy services, short term (secured) & unsecured lending, invoice discounting and invoice factoring as our flagship products for corporate clients and small to medium enterprise sector. Our business has ground in terms of size and reputation and the demand on our funds has become strenuous, where we find that we are turning away business from our already existing customers. This negates our purpose for existence and endangers our ability to grow.

The company did a turnover of Ksh. 15m at an average rate of 12% per contract running for a maximum of 45 days in the financial year ended 2008.

However, the demand has gone up especially with repeat clients and it has been a challenge meeting the same. The monthly average capital requirement for financing of good credit worthy businesses (on whose merit credit risk analysis has been carried out by the credit & risk committee) is to the tune of ksh 10,000,000. This figure is expected to grow by more than 300% in the next quarter of the year 2009. The average numbers of business proposals that are vetted are the tune of ksh 30,000,000 per month translating to 20 business proposals per month.

Our clients represent key sectors in the SME market, this are businesses with annual revenues of 60,000,000 per year.

The main sectors we invest in are retail industry, IT and systems development, light weight manufacturing sector, service industry, and agriculture and energy sectors. Though our clients are credit worthy (good credit rating) they lack access to funds from their banks mainly due to the stage in business (growth and expansion), lack of collateral and bank risk aversion.

We offer tailor made solutions for our clients in order to meet the short term to medium term financial needs and demands .we do this by strict implementation of appraisal ,diligence and risk management in the sectors we operate within.

Angel Capital Concept

Why access to angel capital funding is important to AVL Capital?

SMEs are core to commercializing innovation, driving new products into the economy, job creation and revenue. Today's SME is tomorrow's corporate client. Most institutions take time to prove this sector and often a time we are labeled as 'high risk'. Angel investors with the proper tools of assessment, risk weighting and knowledge understand the dynamics of this early stage investments and high returns from the same. Current market trends are 20% return on investment. This investment is more than just money - to build successful firms whilst impacting networking, specialized knowledge and capacity building

1. Angel capital is a fully legal concept. It targets raising capital from friendly individuals or investment clubs.
2. Angel investors benefit from identifying markets, use of knowledge, tax benefits and shrewd investment opportunities.
3. The recent volatility in the private equity, real estate and hedge market has provided more additional motivation to understand the role of these early critical investors as a key enabler in entrepreneur ventures that hold the greatest potential for growth and sustainable economic development.

We realize that we have established a niche market base and are on an expansion curve thus in order to mitigate this we intend to raise angel capital* from friendly individuals or investment clubs for a minimum period of one year to the tune of Kshs. 10 Million in the next one month. The money shall be utilized for secured lending to our clients and shall be attract a competitive fixed interest rate of 18 to 24% per annum from AVL Capital. *

Why Invest with AVL Capital:

AVL Capital offers an opportunity to investment. In comparison to key investment opportunities in the market; the average market return on fixed deposit (10%) treasury bills(8.25%), treasury bonds (12%), equity funds(-49.5%) and infrastructure bond market (12.5%) ***

- o The proposed annual rate is 18% - 24% per annum.
 - o The interest is payable monthly
 - o The lender will be entitled to a 7 % of the net profit made by the company. *
- AVL has sound credit risk analysis tools and risk mitigation analysis. The current default rate of 2% for the year ended against a market risk of 12% for the year ended.
 - AVL is using corporate business approach; this interprets into sector specific knowledge in the businesses we lend to, placing limits on amounts lent, continuous updates on finance markets and consultations with industry experts. This significantly secures the investors from long term exposure.
 - Credit risk mainly arises from lending and invoice discounting. Exposure to credit risk is managed through short term lending, regular analysis of potential borrowers and borrowers and partly by obtaining security and undertaking guarantees which minimizes exposures.
 - AVL target market is Small and Medium Enterprises who have met baseline turn over, innovation and growth analysis and have threshold client referrals. This is a key focus in the market in the growing economy and thus lower default risk as SME market seeks to be a key driver for the economy.
 - AVL capital ensures above par operations by putting in place a comprehensive system of internal controls, establishing systems and procedures to monitor transactions, maintaining proper internal authorizations, key back up procedures and regular contingency planning.
 - The company has engaged full legal and audit support panel to ensure adherence to all statutory requirements, risk analysis as a going concern, proper internal audit and tax compliance and mechanisms for debt collection.

- In line with the company's strategy and vision of been the preferred venture capital fund, the investor stands a chance of been part of the strategic investor in raising the ksh 500m capital required for the same.

Performance FY 2008.

The company turned slightly above 16million with a thin margin of 20%. This is on loans and overdrafts.

Non funded income was Ksh. 700,000.00 mainly from Bill discounting and finance consultancy. The company currently has an O/D facility with the bank to the tune of 3.5m which is fully backed by a fixed deposit of 4m.

The CAPEX outstanding is approximate 2 million which is to be W/O in nine months time.

Human Resources / Staffing

AVL has a team of four dedicated staff.

James Kibuthu- Finance manager / Accountant

He is a qualified accountant. He has vast experience in Accounting. He is currently pursuing a Finance Degree in Strathmore University.

Eva Muchina- Business development / Marketing Manager

She holds a bachelor of Commerce in Marketing and Accounting from Daystar University. She has experience in Sales and Marketing. She is currently pursuing her Masters in Business Administration.

Anne Gitonga- Administration Officer

She is currently pursuing a higher diploma in Business Management at the Kenya Institute of Management. She has experience in Accounting and Administration.

Maurice Opata- Office Administrator

He is proficient in Computer. He is currently pursuing a diploma in Purchasing and Supplies at the Kenya Institute of Management.

Table 1.

PROJECTED INCOME (10M INVESTMENT)

Profit and Loss A/c- Projected		
For the year ended 31st December 2009		
	kshs	ksh
Gross Turnover		
Loans		
Interest Income	7m*18%*12	16,800,000.00
Loan processing fees	7m*2%*12	1,680,000.00
Bill Discounting	1.5m*5%*12	1,200,000.00
		19,680,000.00
Costs		
Fixed costs	1.2m*12	14,400,000.00
Bank Interest-O/D	14%	1,000,000.00
Provision for B/D	3%	2,900,000.00
		18,300,000.00
PBT		1,380,000.00
<u>Tax@30%</u>		417,000.00
PAT		963,000.00
Minority s/h		68,110.00
NPAT		894,890.00

Notes to Profit & Loss Account:

- The lending is based on a 70% utility of the 10m investment.
- The provision for bad debts has been maintained at 3%. However, this reduces significantly due to the insurance cover against the loans.
- The angel interest rate is 18 -24% per annum.

Risks to the Investor:

The investor faces five major risks in the course of on going business

1. Risk Models used by AVL to mitigate against bad debts.
2. Legal structures in place to deal with defaulters and how effective are the structures
3. Any Financial and non-financial risk which is likely to affect the business.
4. Credibility of our bankers
5. Operational risk and credibility of the Directors/ shareholders.

The above risks have been adequately covered and the following measures put in place;

- The provision for bad debts for the FY is at 2.5 %-(400k/16m*100). This is irrespective the fact that this was the first year of operation and most of the lending was unsecured. AVL shall further continue to mitigate this risk through the use of credit risk analysis models, implementation of secured on lending and analysis of the borrower and potential borrowers to meet debt obligations and scheduled repayment.
- In appraising any facility, there are minimum requirements to be met and a credit worth analysis and full KYC is carried out for both the business and the individuals running the same. CAMPARI model is followed to the letter. Taking risk is core to our business and operational risks are inevitable consequences of being in business. Our aim is to balance between risk and returns and minimize potential adverse effects on its financial performance,
- The company has engaged a panel of lawyers to pursue defaulters as well as two different firms for the same assignments.
- The company shall have an open book policy to its angels and be entitled to access to the management reports to enable track how the funds are been utilized. The angel will be able to compare target vs. actual numbers and if need be offer advice to enable better performance.
- The company banks with credible banks in terms of capital base as well as reputation wise AVL directors are highly credible individuals with banking and finance, Administration and banking backgrounds. The company has run for one year and registered an impressive growth especially the last quarter of 2008 FY. This is irrespective of the political turmoil experienced last year. This

clearly demonstrates the ability of the directors to achieve the ambitious plans.

Risk Analysis.

The company faces the following major business risks;

- Credit risk- this is the risk that the borrower is unable to meet its financial obligation to the lender. The company measures, monitors and manages risk for each borrower and at the portfolio level. This is primarily attributed to loans and advances
- Liquidity risk- the inability to meet obligations as and when they fall due- the company has operated for more than one year and managed to meet all its obligations. We however continue to put strict controls especially on cost controls.
- Default risk- the risk that the borrowers will be unable to meet their obligations. This is mitigated by taking an insurance cover for all advances.
- Operational risk- this arises due to failure in obtaining proper internal authorizations and documentation. This basically involves having proper internal systems with proper checks and balances. The company has so far strived in adopting strict and acceptable controls in place.
- Regulatory Risk. - The risk that any legal regulatory body shall come up with new rules which can cause a change in the company operations.

AVL group has positioned its operations to ensure flexibility in case of such an occurrence.

The BOD continuously consults widely with the relevant bodies including CBK, CMA and to some extent KRA. This ensures that we are prepared for any change in relation to their rules.

AVL been a non-deposit taking company, we intend to be selective and to reduce the number of individuals or organizations offering the angel capital. We hope to have a mutual partnership now and in future.

Going by our long term strategy of establishing a venture capital fund, key investors shall have the option of converting their Debt to shareholding. This is however subject to the BOD and any statutory body approval.

Product Development.

Our marketing department is in the process of finalizing different products offerings tailor made for different market segments to diversify our market reach. In AVL we invest in a lot of market research in order to have innovative and competitive products.

We hope that you will find our proposal worth while and that you will make a decision to partner with us. We are available to make a formal presentation to interested parties and do look forward to hearing positively from you soon.

AVL Capital Group Team