

DAIRY PLANT

«KOCHKOR PRODUCT» LIMITED LIABILITY COMPANY



KYRGYZSTAN



Name of the company:

“Kochkor Product” LLC

Brief description of the Project:

The project involves completion of the construction of an existing dairy processing plant of “Kochkor Product” LLC in the Kochkor district, Naryn Region, namely: a waste treatment plant, a packaging facility, a reception and household facility and a lab. The Company also needs to purchase equipment for the production of curdled dairy products, processed cheese, laboratory equipment and working capital.

The enterprise has 15 years of experience in milk processing. Currently, the plant is being completed. Around USD 600,000 has already been invested in the construction of the plant, including costs of acquiring the land plot, construction of plant (around USD 260,000) and purchase of equipment (around USD 239,000).



Description of the Project Initiator:

The Company has been operating since 2005. It produces cheese (chechil, mozzarella, brynza, hard cheese) and dairy products (cottage cheese, sour cream, kefir, butter).

General Director - Bolot Tolonov

Has been engaged in various kinds of businesses since 2005, including milk processing. His overall experience is 20 years. Has an excellent understanding of the raw material market and the dairy products market.

Project cost - \$535,000

- ✓ Purchase of equipment- \$295,000
- ✓ Construction - \$240,000

Amount of investments - \$535,000

Payback period - 4.17 years



PROJECT DESCRIPTION

This project implies the completion of the construction of an operating dairy plant of the Kochkor Product LLC in Naryn region, Kochkor district, namely a treatment plant, packaging, reception and household departments and a laboratory. There is a need in purchase of equipment for the production of fermented milk products, processed cheeses, laboratory equipment and working capital.

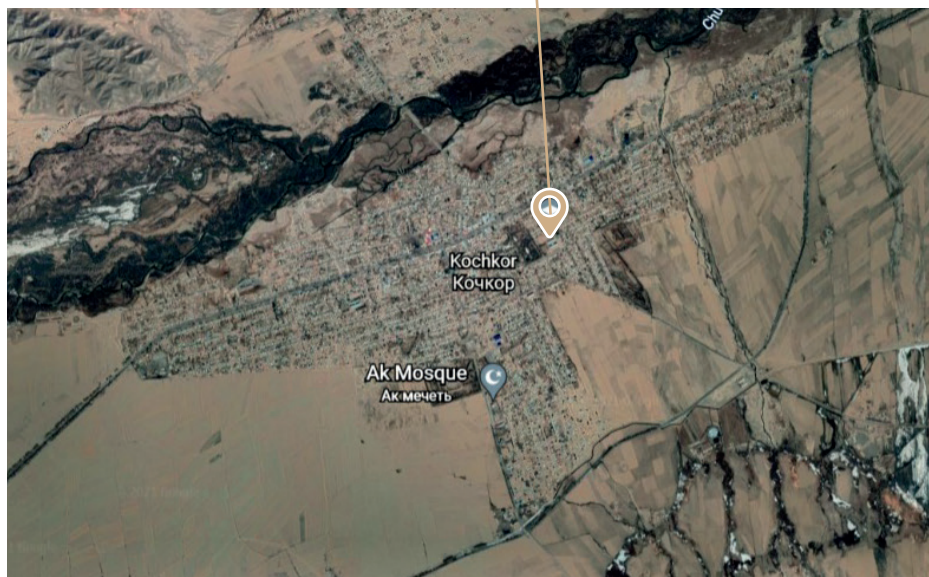
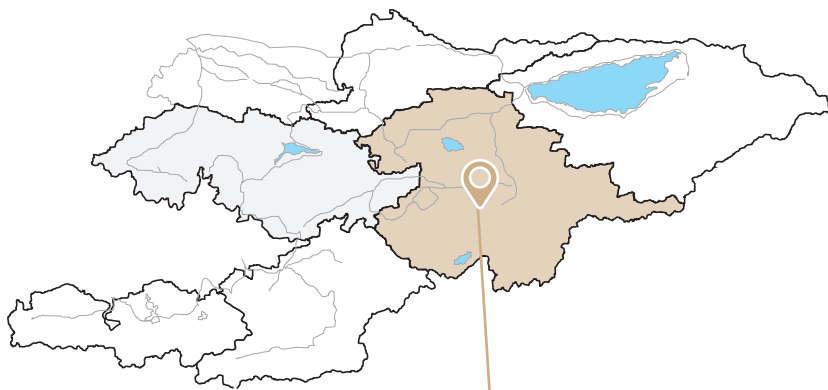
The enterprise has 15 years of experience in milk processing. Currently, the plant is at the final stage of completion. About USD 600 thousand, including expenses for the land plot, construction of the plant (about USD 260 thousand) and equipment (about USD 239 thousand) have been invested in these activities.



- Production capacity of the enterprise - 3 tons per day(summer) and 1.2 tons per day(winter);
- Annually the plant produces: 20 tons of Chechil cheese, 10 tons of Brynza cheese, 15 tons of Mozzarella cheese, 5 tons of Suluguni cheese, 0.5 tons of melted butter.
- There is a line for the production of cheese and butter;
- There are 3 milk collection machines;
- The Company supplies finished products (hard cheeses and butter) to the domestic market and partially sold the products in Kazakhstan;
- Total number of employees - 52 staff;
- Total area of the unfinished plant is 1300 m², including production, office and refrigeration premises;
- Milk is collected in 10 villages of the Kochkor district;
- 180 households of Kochkor district are involved in milk collection.

GEOGRAPHIC LOCATION

The processing plant of Kochkor Product LLC is located in Naryn region, Kochkor district, village Bolshevik, Isakeev-Kyrman plot





PROJECT INITIATOR DESCRIPTION

The Company started to work in 2005 in very simple conditions. Due to the high demand for products in neighboring countries, the Company began to export products to Kazakhstan and Russia. The total sales were 10 tons of low-fat cheese.

In 2006, the owner of the Kochkor Product LLC was registered as a private entrepreneur. The production volumes gradually increased: in 2006 - 40 tons, in 2007 - 50 tons, in 2008 - 62 tons of low-fat cheese produced.

In 2009, the demand for low-fat cheese decreased. Kochkor Product LLC started making cheese from full-fat milk.

By 2013, the processing volume of full-fat milk reached one ton. The Company began to produce cheese «Brynza» and «Chechil». In 2014, production of Mozzarella started, which is used in the preparation of pizza. By 2015, the volume of milk processing reached three tons.

In 2017, Kochkor Product LLC started designing a dairy plant from the own funds.

In 2018, a loan of KGS7.5 million for the plant construction was received. The construction costs were estimated KGS 18 million. The construction of a new plant with a useful area of 1,300 m², which meets all standards, has been started.

By now, KGS 14 million been invested in this enterprise. As of now, 70 percent of construction has been completed

The completion of the construction, purchase additional equipment and increase the working capital are required for the launch of plant. This will allow processing 10 tons of milk per shift, and 20 tons per day. Consequently, a stable income for farmers, creation of new jobs (including for young people), and the issue of reduction of migration to big cities and other countries will be solved.

SUSTAINABLE COMPETITIVE ADVANTAGES OF THE PROJECT



Work experience. For 20 years, Kochkor Product LLC has been processing milk in the Kochkor district. Sales channels have been established and trust from both the client and the suppliers of raw materials - farmers has been gained.

Compliance with standards. The construction of the plant is carried out in accordance with HACCP standards. A septic tank has already been installed at the plant and it is planned to invest up to USD 40 thousand in addition to the creation of full-fledged treatment facilities. This will allow not only to produce environmentally friendly and natural products, but also not to harm the ecology.

Sustainable value chain. Within the framework of the project, capacity building activities are planned. This includes organization of trainings on the following topics: keeping, feeding, breeding, milking hygiene of cattle and sustainable farm management, etc., which will improve the quality of milk from farmers.

Cooperation with farmers. Within the framework of the project, conclusion of contracts with farmers for the milk supply is planned. The contracts will include clear requirements on milk quality, delivery time frames, payment periods, etc. The conclusion of the agreement will serve as a guarantor for farmers in cooperation with banks and other financial institutions in obtaining concessional financing. The benefits of cooperation will motivate the small households with 1-2 cows to increase the number to 2-3 cows.



KEY INDICATORS OF THE COMPANY

Production assets of Kochkor Product LLC:

- ✓ Land plots (address): Kochkor district, Bolshevik village, Kyrman plot, 0.47 acres
- ✓ Real estate: 1,300 m (new unfinished), other objects 864 m²
- ✓ Key production assets (equipment, date of acquisition)

Name	Quantity	Power	Price (USD)	Year of purchase
Boiler	1	1 t/p / h	25 000	2018
Steam generator	1	5 t/h	36 00	2018
Separator	1	5 t/h	54 000	2018
Hard cheese press	1	36 head	12 000	2018
Closed cheese vat	1	5 t/h	45 000	2018
Compressor	1	12 a.p.	7 000	2018
Cooler	1	5 t/h	22 000	2014
Press trolley	1	5 t/h	10 000	2018
Pasteurizer	1	5 t/h	16 000	2018
Refrigerators compartment	1	37 m3	12 000	2016
Total:			239 000	

Sales channels and product distribution:

Share of sales - wholesale / retail:	Share in sales volume	
Sales channel	Volume (kg) / year	Percent
Frunze TC	2 654	5%
Naryn region	1 350	2,5%
Issyk-Kul region	1 350	2,5%
Kazakhstan	47 780	90%

MANAGEMENT TEAM



Tolonov Bolot Niyazbekovich
General Director

- ✓ Since 2005 has been engaged in milk processing and production of dairy products. A very good understanding of the commodity economy and dairy market. Chief technologist.



**Akmatova Jenishkul
Taabaldievna**
Financial Director

- ✓ 14 years of experience in the financial sector



**Monkonova Gulnazira
Zerikbekovna**
Production Director

- ✓ 5 years of experience in the Company

HISTORICAL PROJECT PRODUCTION AND FINANCIAL PERFORMANCE INDICATORS

Project indicators, tons	2016	2017	2018	2019	2020
Milk intake, tons	271	234	365	468	327
Production of cheese products (Chechil, Mozzarella, Brynza, hard cheese), tons	26	22	35	44	31
Sales, USD	136 518	117 688	183 593	235 376	164 763



FORECAST FINANCIAL INDICATORS

Project indicators, tons	1st year	2nd year	3rd year	4th year	5th year
Milk intake	608	1 365	1 365	1 365	1 365
Production of cheese products (Chechil, Mozzarella, Brynza, hard cheese)	57,7	124,7	129,7	129,7	129,7
Production of fermented milk products (cottage cheese, sour cream, kefir, butter)		71,0	71,0	71,0	71,0
Sales, USD	1st year	2nd year	3rd year	4th year	5th year
Sales	305 989	686 706	689 031	705 304	705 304
EBITDA	73 120	144 208	151 586	162 219	169 273

- ✓ IRR 18%
- ✓ Payback period 4.17 years. Discounted payback period 5 years

FUNDING SOURCES AND USE OF FUNDS

Funding sources	Amount, USD
Financial investor	535 000
Total:	535 000

Use of funds	Amount, USD
Packaging equipment	70 000
Refrigeration equipment	80 000
Cheese pots	55 000
Containers - thermoses	45 000
Laboratory equipment	45 000
Construction of treatment facilities	90 000
Construction of an admission department and laboratory	80 000
Construction of auxiliary premises	70 000
Total:	535 000

BRIEF OVERVIEW OF THE DAIRY MARKET IN KYRGYZSTAN

The annual milk production in Kyrgyzstan is over 1.6 million tons. Until now, more than 98% of raw milk for processing is produced at private farmsteads who sell raw materials either through small wholesalers or directly through the plant.

There are 1.71 million cattle in Kyrgyzstan, most of which have low productivity of 2-4 liters of milk per day. Due to insufficient volumes of industrial processing, a significant part of the products on the market - yoghurts, cheeses, butter and other products - are imported from Russia or Kazakhstan.

In 2020, 1.67 million tons of raw milk were produced throughout Kyrgyzstan. The largest amount of milk was produced in Chuy region - 422.9 thousand tons, and the smallest in Talas region - 75.9 thousand tons.

In some countries of the Eurasian Economic Union, there is a situation in which less milk is produced than consumed. For example, Russia covers its needs by 82%. A similar situation is in Armenia and Kazakhstan, where milk needs are covered by 90%. Such data are provided by the Eurasian Economic Commission. But at the same time, production volumes in Belarus and Kyrgyzstan exceed domestic demand (in Belarus - by 2.5 times, in Kyrgyzstan - by

1.2 times), which gives these countries the opportunity to increase milk supplies both within the EAEU and to third countries.



DAIRY PRODUCTS EXPORT POTENTIAL

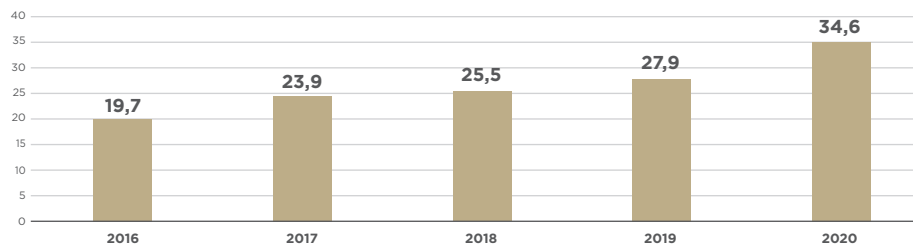
Central Asian countries (Kazakhstan, Uzbekistan, Tajikistan and Russia) are considered to be potential markets for milk and dairy products.

According to the National Statistical Committee of the Kyrgyz Republic, the volume of exports of milk and dairy products has increased by 1.8 times over 5 years. So, in 2020, compared to 2016, the total volume of its export supplies reached almost 35 thousand tons for a total of USD 46 million.

Currently, such basic dairy products as butter (37% of the marketable volume), cheese and cottage cheese (21%), condensed and dry milk and cream (17%), as well as uncondensed milk and cream (13%) and fermented milk products (about 11%) are offered to the foreign markets.

Basically, dairy products are exported to Kazakhstan, where in 2020 products were delivered for the amount of USD 24.1 million, which is more than 52 percent of the total export of these products, as well as to Russia (USD 21.0 million, or about 46%). Also, dairy products are supplied to such countries as Uzbekistan (USD 705 thousand) and Tajikistan (USD 217 thousand).

Export of dairy products (thousand tons)



Export of the Kyrgyz Republic of milk and dairy products (in thousand USD)

Country-partner	2016	2017	2018	2019	2020
Kazakhstan	10 862,5	20 922,6	15 875,5	16 057,0	24 084,0
Russia	11 717,5	12 965,5	14 889,9	28 889,7	21 043,4
Uzbekistan	-	0,2	596,8	298,5	704,5
Tajikistan	29,4	78,0	286,0	143,6	217,1
Total:	22 610,2	33 971,1	31 663,4	45 404,1	46 086,7

CHEESE PRODUCTS EXPORT POTENTIAL

In 2020, Kyrgyzstan exported 4,727 tons of cheese for USD 9.81 million and increased by 64.6 percent compared to 2019. The main importers of Kyrgyz cheese are Russia, Kazakhstan and Uzbekistan. Export of Kyrgyz cheese to the Russian Federation in 2020 amounted to USD 5.4 million or 2,777 tons. Export to Kazakhstan in 2020 amounted to USD 4.39 million or 1,944 tons, and to Uzbekistan - USD 11 million or 6 tons of cheese.

Partner country	2016		2017		2018		2019		2020	
	tons	thousand, USD	tons	thousand, USD	tons	thousand, USD	tons	thousand, USD	tons	thousand, USD
Russia	USD	3 718	USD	2 697	USD	3 790	USD	6 467	USD	5 408
Kazakhstan	531	1 272	5 277	13 669	979	2 548	909	2 297	2 777	4 394
Uzbekistan	0	0	0	0	5	8	11	19	6	11
Total	2 098	4 990	6 213	16 367	2 286	6 346	2 871	8 784	4 727	9 813

In 2019, the global cheese market amounted to USD 114.1 billion or 26 million tones, showing growth over the past three years after a two-year decline. The global cheese market is projected to grow with an expected CAGR of + 0.6 percent between 2019 and 2030, which is projected to increase the market size to 27 million tons by the end of 2030.



The largest importers of cheese on the world market in 2019 were Germany (778 thousand tons), Italy (536 thousand tons), Great Britain (495 thousand tons), the Netherlands (390 thousand tons), France (377 thousand tons), Belgium (341 thousand tons), Spain (310 thousand tons), Japan (303 thousand tons) and Russia (284 thousand tons) accounting for 54 percent of total imports. The USA (180 thousand tons), Saudi Arabia (148 thousand tons) and Greece (135 thousand tons) have relatively small shares in the total volume of imports.

Russia, Ukraine, China, Kazakhstan are potential export markets for Kyrgyz cheese. These countries show high growth in cheese imports. Average growth in imports for these countries from 2016 to 2020 is 47 percent.

INVESTMENT PROPOSAL

LEGAL MECHANISM	✓ Limited Liability Company
FUNDING TYPE	✓ Direct investment in capital
AMOUNT	✓ 535 000 USD
NUMBER OF TRANCHES	✓ Tranche No.1 - completion of the construction of the plant ✓ Tranche No.2- procurement of equipment
COLLATERAL	✓ 100% of the Company's share



