

More rice farmers farm organically, improving both their incomes and their land.

Anticipated transaction impact

Briefly describe the anticipated transaction impact

Impact score Pass (17/20)
Credit score Pass (21/28)

Loan Overview

Commitment limit	USD 500,000
Tenor and structure	11 months; 6 months interest-only followed by 5 months of amortizing principal & interest
Interest rate	9%

Financial Overview

2022 Revenue	USD 11,320k
2022 EBITDA	USD 1,149k
2022 Net Assets	(USD 168k)

Company Information

Legal name	Urmatt Limited
Incorporation date	Sep. 1, 2000
Corporate address	1000/30, PB Tower, 9 th floor, Sukhumvit 71 Road, Bangkok
Nature of business	Organic rice producer
Website	www.urmatt.com

Shareholders

Name	Share (%)
Arvind Narula	80
Sinchai Puanginchai	5
Praveen Kumar	5
Edward Rodden	10

Company management

Name	Nationality	Position
Arvind Narula	Thai	CEO
Praveen Kumar	Indian	CFO
Sinchai Puanginchai	Thai	COO

Recommendation

Approval of a \$500,000 working capital loan based on Urmatt's strong social and environmental impact and adequate credit rating.

Urmatt Limited



Business overview

Urmatt is purported to be the largest organic rice producer in Thailand. They work with smallholder farmers located in Chiang Rai, northern Thailand, to grow various organic rice varieties. At harvest time, Urmatt buys the ripened paddy from their farmers and processes the paddy into rice and various other products, such as rice bran, rice flour, micronized rice husk, etc. for export to Europe, USA, Australia, and Asia.

Arvind Narula, founder of Urmatt, recalls, "One day, I saw one of the farmers carrying a baby in a front pack and a pesticide spray pack on his back, and I thought, I don't want to be part of this." In September 2000, he closed his first rice company which used chemical fertilizers and pesticides, and launched Urmatt as a fully-organic business.

Urmatt presently works with 1,609 farmers covering an area of 4,840 ha. There are another 1,741 farmers covering another 4,410 ha. who are in the "conversion period," the 3-year period needed before a farmer switching from conventional can be certified organic. Urmatt enters a contract with farmers, where they will supply seeds, organic fertilizers, bio inputs, and provide technical assistance throughout the growing cycle, before purchasing paddy from farmers at harvest at the contract price. Farmers in turn are obligated to sell their produce in contracted areas to Urmatt.

The company's products have been certified organic by several accrediting bodies, including Ecocert of France, USDA, Naturland, and HACCP Bureau Veritas. Urmatt shares this organic premium with their farmers, paying them on average between 20-35% above local prices.



One of Urmatt's sister companies is Chacha, carrying the consumer brand Perfect Earth foods. Chacha manufactures organic pasta and instant rice noodles using rice it buys from Urmatt. Beneficial Returns made a \$275,000 loan to Chacha in 2020 when it expanded its instant noodles production line. Chacha has been current on the loan since inception.

In Chiang Rai, there are two seasons in rice farming – dry and wet. Wet season is when the main variety, Jasmine rice, is grown and harvested. The dominant variety in the dry season is long grain rice, which is the main ingredient for Chacha's products. The seasonal nature of rice means that Urmatt needs substantial working capital to pay farmers fairly and promptly before processing and selling to its customers.

This proposed loan will be a working capital loan to Urmatt to buy mostly long grain paddy in the dry season; harvest will begin in May.

Impact background

Chiang Rai is a region in northern Thailand, bordering Myanmar to the north and Laos to the east; it is approximately 805 km north of Bangkok. Agriculture is one of the main drivers of the economy there. Within agriculture, rice is one of the main crops. GDP per capita in Chiang Rai was recently estimated at \$2,730¹, 60% below Thailand's average, underscoring the imbalanced income distribution within the country. Smallholder rice farmers located in remote villages often earn less.

As a result, farmers and other locals often leave their homes and villages to seek employment in the cities and elsewhere, causing the family to splinter and adding to instances of human trafficking. In the families surveyed by Urmatt, at least 1 member lived outside the village on average.

In our previous memos, we highlighted how chemical fertilizers and pesticides harm both farmers and the land they farm on. The prolonged chemical agriculture practices wear down farmer health, pollute waterways, and turn living soil into lifeless dirt. The increases in the price of inorganic fertilizers since the Russian-Ukraine war further erodes farmer profitability. The burning of rice straw post-harvest is another environmental scourge; it adds to the emission of pollutants like Sulphur Oxide, CO₂, CO, and carbon.

Impact delivery

The most direct benefit of working with Urmatt is the lift in farmer incomes. On average, in the dry season, Urmatt pays ~30% more than local prices (THB 7.5 vs THB 5.7 per kg). Prices are agreed upon before planting and paid between 15 to 30 days after delivery. Urmatt's contracted farmers, on average, grow rice on ~1.6 ha of land, which yields 5 tons of rice per season and 10 tons per year. This would generate an annual income of ~\$2,200, over \$500 more than what a non-organic field would yield. Organic farming is more labor-intensive, but farmers are willing to work harder to earn more.

Urmatt also supplies seeds, bio-liquid fertilizers, and organic pest control to farmers, which improves quality and farmer profitability. Farmers surveyed have reported spending the additional income on their children's education, loan repayment, food, and water. Mrs. Sriwai Sukkaseam, who is 63 years old and is from Wiang Chaing Roong village said, "Since I joined Urmatt, I have a better living because I have more savings. I can support my children's graduation. The company has always taken good care of me by visiting and giving me bio-fertilizer and seeds without charges. My husband and I are both farmers. I'm glad the family is together." There are numerous other such testimonials from Urmatt's farmers.

¹ [1. The Chiang Mai and Chiang Rai economy | Entrepreneurship in Regional Innovation Clusters : Case Study of Chiang Mai and Chiang Rai, Thailand | OECD iLibrary \(oecd-ilibrary.org\)](#)



Figure 1 (Left) A technical advisor visiting a farmer; (Right) Mrs. Sukkaseam, Wiang Chaing Roong village, 63 years old, farms on 1.92 ha

Mrs. Sukkaseam is one of the hundreds of women farmers Urmatt works with. In fact, ~30% of the farms are managed solely by women. Making farming available to women and even the elderly in a healthier and more profitable way has reversed the trend of family members leaving the village to seek work elsewhere. Among Urmatt's farmer families, at least one member has returned from outside the village to rejoin the family in rice farming.

Urmatt creates positive environmental impact too – a recovery of soil, water, and nature in areas marked for organic farming. The company records the date of last use of chemicals among its farmer population, and a quick scan shows that most farmers have weaned themselves off for between 4 and nearly 20 years. For villages that are willing, Urmatt works with them to reforest the areas around their villages. This is an additional undertaking and not directly related to rice growing.

Industry overview

Rice is the common food for more than half the world's population. Rice is also a key staple food in many parts of Asia, North America, South America, and Europe. The bulk of rice production and consumption occurs in Asia, which accounts for 90% of total production and 80% of total consumption. In trying to achieve the goal of zero hunger around the world, rice is a key enabler. The global rice market is expected to rise at a CAGR of more than 2% by 2022.

Thai rice is well-recognized around the world. But in 2012, Thailand slipped from its position as the world's top exporter and has since struggled to get back to the leading spot. Currently, it is the world's third-biggest rice exporter after India and Vietnam. Droughts and unpredictable rains in recent years have created major challenges for Thailand's rice production. The country is highly vulnerable to climate change. It ranked among the top ten territories that suffered the most from extreme weather events over the last two decades in the Global Climate Risk Index in 2021.

Against this backdrop of volatility in countrywide yield and value of exports, company-level intervention to improve profitability and cushion farmers is even more critical. The next section on company overview will elaborate on the steps Urmatt has taken to do that.

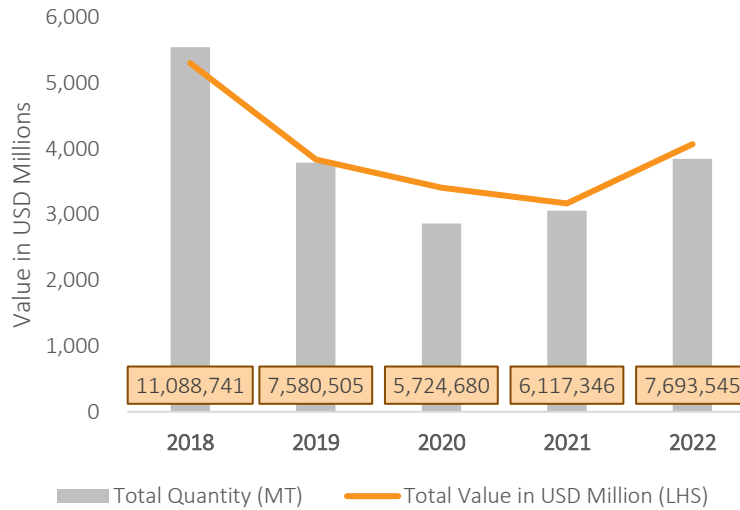


Figure 2 Quantity and value of Thailand's rice exports

The rice industry has drawn flak for its use of water during the wet season, when Jasmine rice is grown. When asked for his perspective, Arvind Narula, the CEO said, “During the monsoon season, there’s heavy rainfall in Southeast Asia. The dikes around rice farms help to trap this water during the monsoon and prevent flooding in the lowlands. The excess water is used in growing a staple food that feeds the millions in this region.”

Others have criticized the rice industry for its methane emission. Farmers often burn the residual high stubble after a harvest. Ploughing it back into the field is more costly and may result in anaerobic conditions that cause methane-emitting bacteria to thrive. In contracts with farmers, Urmatt has the right to discontinue farmers for a season if it’s found that farmers burn straw before planting or after harvest. But they are hoping to do more to improve the situation. In January this year, Urmatt received a EUR 500,000 grant from GIZ, a body affiliated with the German government, as part of the “Utilising rice straw for smallholder rice farmers in Chiang Rai” Project². This will fund further R&D into commercial ways of upcycling rice straw.

Company overview

Urmatt was incorporated in September 2000 when Arvind founded his second rice company, this time farming without the use of chemical inputs. It presently works with 120 full-time employees, and 1,609 farmers.

Because rice is traded as a commodity and prices are transparent, profitable producers of rice must find ways to reduce waste and create more value-added products. For example, broken rice can be upcycled to make rice cakes and crackers. Another common value-added product is rice bran: Milling the brown rice into white rice produces bran, which is rich in nutrients and minerals. Successfully selling value-added products at a premium is critical to the financial sustainability of any rice producer.

A lesser known and more recent product Urmatt has developed is micronized rice husks. In the industry, rice husk is a low value by-product that most producers use to fire their furnaces. Last year, Urmatt successfully developed micronized rice husks that can be used as an anti-caking agent (that which stops powder from coagulating). A product that usually fetches 1 THB per kg now sells for \$5 per kg. This was possible because Urmatt is committed to R&D and coming up with products that customers need.

² [Signing of Cooperation Agreement for “Utilising rice straw for smallholder rice farmers in Chiang Rai” Project – German International Cooperation Based in Bangkok \(thai-german-cooperation.info\)](https://thai-german-cooperation.info/)

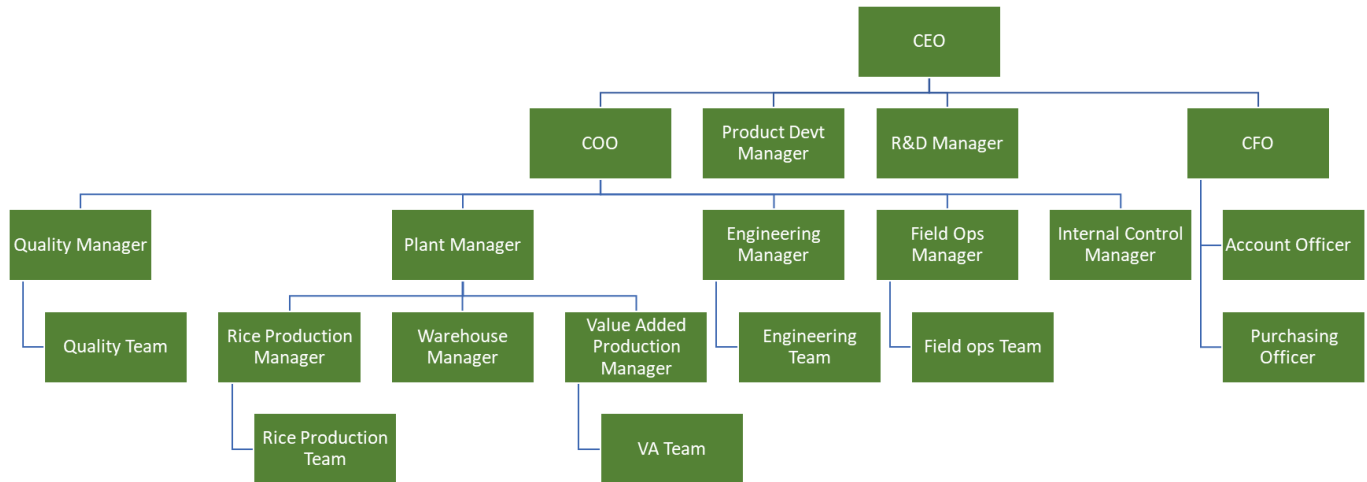


Figure 3 Company Organizational Chart

Related to developing value-added products, Urmatt’s sister company Chacha (mentioned under Business Overview) was incorporated to manufacture gluten-free pasta and instant noodles using rice. More recently, Chacha has taken over the rice cracker and seasoning business from another sister company, Urmatt Vie (which has been wound up, more in the financial performance section). Urmatt Holdings is a 25% shareholder in Chacha, along with 3 other directors Ted has known for years, in equal shares. Chacha is both a current borrower of BR and a profitable business (2022 NI: \$325k). Lotus Foods, the largest organic noodle seller in the US, has recently approved a noodle product they commissioned Chacha to manufacture and is expected to start bulk buying in 2023.

Chacha is the main buyer of the dry season long grain rice that this loan will provide working capital for, so both its profitability and sales pipeline give us added confidence to recommend this loan. There is a service-level agreement that guides transactions between Urmatt and Chacha.

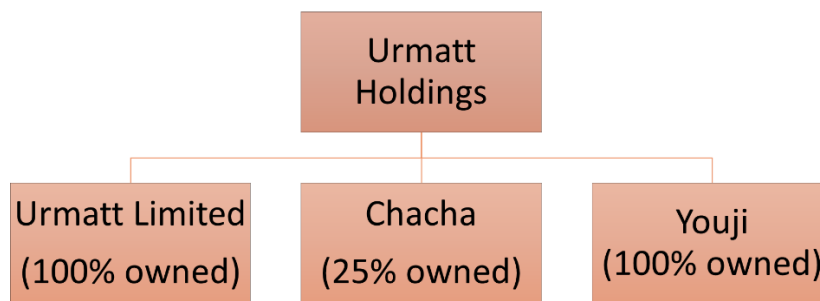


Figure 4 Urmatt corporate holdings structure (Youji is a dormant entity)

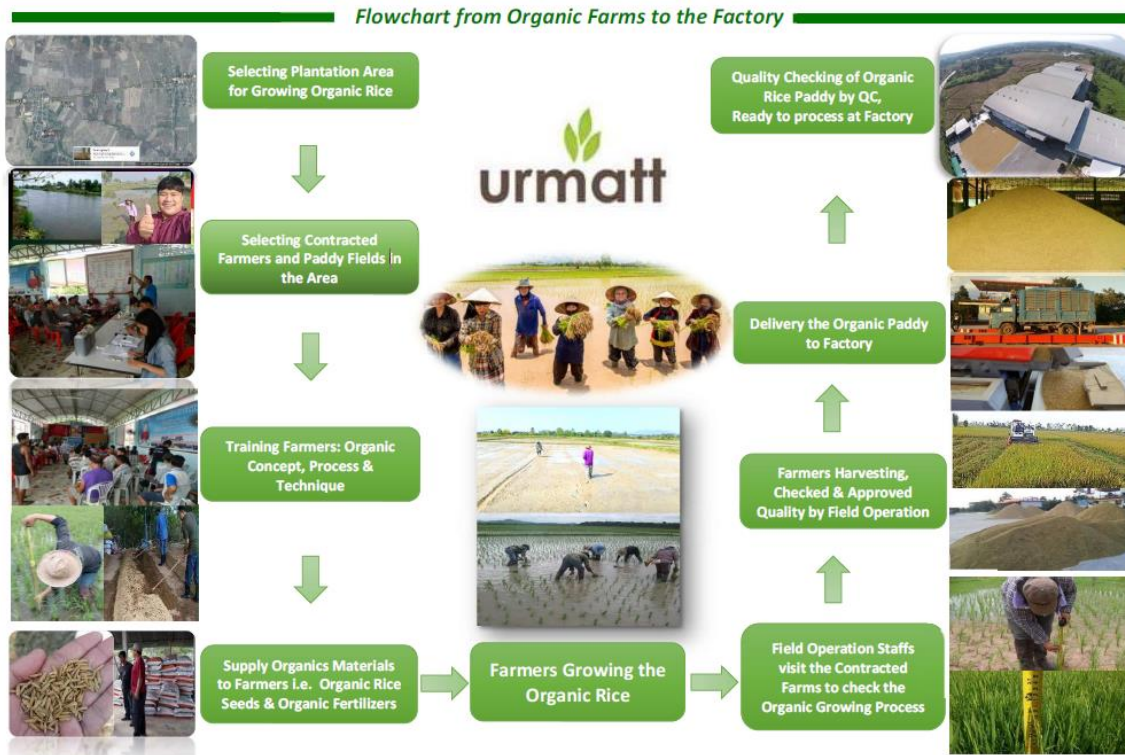
Management

Arvind Narula has been the CEO since the incorporation of the company in 2000. He is a respected social entrepreneur in the region and within the rice industry in Thailand. As CEO, he now focuses on overall strategy, research and development, and customer relations. It was him working with the R&D team that produced micronized rice husks. In 2015, he was named by the YPO (Young Presidents’ Organization) as a Global Impact honoree in recognition of his contribution to social business through Urmatt.

Praveen Kumar joined as group CFO in 2015 and in 2020, became the CEO of Chacha. He now holds both positions as CFO of Urmatt and CEO of Chacha. Under his leadership, Chacha has improved both its top and bottom lines in the last 3 years. As CFO of Urmatt, he is responsible for funding the business in an optimal way and deputizing Arvind in his absence. He is not usually involved in the operations of both companies.

Sinchai is a native of Chiang Rai and has been with the company from the start. He manages farmer relations and is overall in charge of the rice mill. When Alex visited the facility in 2022, he couldn't help but notice how tightly knitted Sinchai and Praveen were. They enjoyed working with each other and regularly credited each other for praiseworthy parts of the business. Ted spent several days with Arvind and Sinchai in 2017 and was equally impressed.

Supply chain



Urmatt’s supply chain follows the sequence above. Farmers switching from conventional to organic rice farming must go through a 3-year conversion period. During this time, they receive inputs from Urmatt but cannot sell their produce to the company. The conversion period is required by organic standards, but it also serves as a sieve – sifting for committed farmers who are intent on moving away from chemicals into higher value farming. Farmers receive support but must continue selling their harvest to non-organic buyers of paddy. There is a 30-member field department that is responsible for recruiting farmers and selecting plantation areas. Plantation areas certified organic need to be separated from conventional fields by a buffer zone, usually a road or a canal which has a low likelihood of flooding over.

Planting for the dry season starts shortly after wet season harvest is over, in late November/early December. Urmatt supplies organic seeds and fertilizers to farmers to begin the process. The seedling grows and matures over five months, ready for harvest in May and subsequent processing in Urmatt’s mill. Field staff visit farmers when paddy is growing to provide the necessary technical assistance e.g. water access, pest control, fertilization.

Our loan drawdown coincides with the dry season harvest because it is then farmer payments must be made. The interest-only period gives the company time to process the paddy and ready the rice for sale. By the time principal paydown is required, the Company should have begun to convert the harvest into cash.

Financial overview

We assess Urmatt’s credit standing to be adequate. There is a trend of underlying profitability in the rice business that looks likely to improve in 2023 with the introduction of new value-added products. From 2019 to 2022, however, Urmatt’s profitability was affected by a related company, Urmatt Vie (refer following section). We believe the company will resume its profitable path.

Financial performance

Urmatt's rice business is a high-volume but low-margin business. Rice is the main product, but it is what a company can make out of by-products such as bran, husk, and broken rice that will determine margin and profitability. Over the years, Urmatt's core rice business has been marginally profitable, and it's expected to improve further this year. That business line has a reasonably diversified customer base – the top customer makes up 20% of sales, and the top 5 customers 51%. The top 3 customers, Sage V Foods (USA), Transimpex (DE), and Western Foods (USA) have been clients for nearly two decades.

In the last couple of years, there has been a bigger push to improving margin and profitability through the production and sales of value-added products, mentioned earlier under the section on Company Overview. Rice bran has contributed to revenue and margin growth but from 2023, micronized rice husks will also contribute to profitability (Purchase Order \$1.2m). Its sister company Chacha which makes rice-related value-added products like pasta, instant noodles, rice crackers, and rice cake continues to gain market share. Comprising 10% of Urmatt's annual sales, this will have a positive knock-on effect.

In 2023, in line with the push to value-added products, the company will prioritize margin over volumes. That's why revenues are forecasted to be 9% lower, but both gross and net margins will improve. This will strengthen the company's financial position, priming it to scale further in the coming years.

Since 2017, however, there has been a drag on profitability by a related company that has since been wound up – Urmatt Vie.

In USDk	2019	2020	2021	2022	2023F
Revenue	10,369.2	11,153.9	9,494.1	11,320.8	10,343.8
Cost of Sales	-8,120.0	-8,921.3	-6,443.1	-8,521.1	-6,889.0
Gross Profit	2,249.2	2,232.7	3,050.9	2,799.6	3,454.8
Overhead costs	-2,230.8	-1,514.3	-1,814.1	-1,651.0	-1,321.6
EBITDA	18.4	718.4	1,236.8	1,148.6	2,133.2
Extraordinary Item	-	-	-	-1,798.0	-
Net Profit	-1,031.2	-234.5	312.1	-1,449.5	2,111.7
Financial performance metrics					
Annual revenue growth rate		8%	(15%)	19%	(9%)
Gross profit margin	22%	20%	32%	25%	33%
Operating cost of each USD 1 of revenue	0.22	0.14	0.19	0.15	0.13

Figure 5 Urmatt Income Statement 2019 – 2023F

Urmatt Vie

Urmatt Vie (UV) was incorporated in 2016 to manufacture and supply rice crackers and rice cakes to an Australian company, Simple Foods. Simple Foods was the business venture started by two of Arvind's YPO contacts. All went according to plan for a year, and UV was profitable. Into the second year, the business partners of Simple Foods had a fallout, and the company was subsequently wound up, leaving UV without its sole customer. There was a scramble to look for other customers, and they succeeded in part but not enough to turn a profit. There was little integration with the rest of Urmatt's operations, which revolved around farmers and the processing of paddy; UV's breakeven point was high and beyond reach. It accumulated losses from Year 2 onwards. This implicated Urmatt as well. In 2019 for example, Urmatt set aside a large broken rice inventory for UV, which never materialized. The inventory was damaged and had to be sold at throwaway prices, resulting in an uncharacteristic but significant loss for Urmatt.

In 2022, Arvind and the directors of Chacha agreed that there was much better integration for UV's business within Chacha. For example, food scientists and a nutrition team already exist within Chacha and would be leveraged for rice crackers and rice cakes. As a producer of instant noodles, Chacha needs a seasoning line that UV had. Transferring the useful parts of UV's business to Chacha made much more business sense. Consequently, UV's productive assets

were revalued and sold to Chacha at ~\$750k, and the remaining carrying value was written off. UV's receivables on Urmatt's books were also written off, resulting in a significant extraordinary loss in 2022 of \$1.798 million.

2023 and beyond

Based on past track records and more recent breakthroughs in product development and sales, we believe that Urmatt will continue its pattern of profitability and "stick to its lane" of manufacturing and selling that which is directly related to paddy and rice.

Financial position

in USDk	2019	2020	2021	2022	2023F
Cash	43	35	129	10	109
Receivables	2,421	2,493	2,559	857	843
Inventory	5,735	3,446	4,747	2,511	2,472
Other current assets	1,833	2,004	2,313	1,785	1,805
Current assets	10,031	7,977	9,748	5,163	5,230
Current liabilities	9,089	7,109	6,153	4,375	3,793
Working Capital	942	868	3,595	788	1,437
Total assets	13,593	11,462	12,935	8,554	8,672
Total liabilities	13,175	10,481	11,642	8,722	6,720
Total equity	418	981	1,293	(168)	1,952

Figure 6 Urmatt Balance Sheet 2019 – 2023F

The write-off of receivables weakened the company's balance sheet due from UV when the company wound up in 2022. The cash level is low because the company repays working capital whenever it has excess cash. Hivos-Triodos fund has been a working capital lender to Urmatt for the wet season for several years, charging them a favorable interest rate of 7% for the impact that the company generates. The loan from Hivos-Triodos will be renewed in September 2023 and will have Urmatt repaying for 8 months from January to September 2024, with a pause in April for the dry season. We expect to be fully repaid in April 2024 on our proposed loan.

Another lender to the company is the Bank of Agriculture and Agricultural Products (BAAC), based in Thailand. They are a cooperative bank tasked by the Thai government to work with and empower farmers, and they chose Urmatt to partner with in making funding available to farmers. They act as an intermediary between Urmatt and some farmers; they pay individual farmers within certain cooperatives and collect from Urmatt.

Even though Urmatt had a negative net worth in 2022, its holding company, Urmatt Holdings, does not. It has a net worth of ~\$1m from its stake in Chacha. We believe 2023's profit will re-strengthen Urmatt's balance sheet.

Transaction Overview

We are proposing a \$500,000 loan to Urmatt for them to purchase long grain paddy in the dry season, beginning in May. 70% of the processed rice will be bought by Chacha for further processing into pasta, instant noodles, rice crackers, and rice cake. Chacha operates a profitable business that is about to grow with the contract with Lotus Foods. The balance 30% will be exported to Europe, we have sighted the purchase orders of these sales. This loan will be interest-only for six months, and principal repayment will begin on month 7 for five straight months. We picked month 7 to begin principal repayment because sales of the dry season paddy would have commenced by then and cash generated from sales can be progressively used to reduce principal outstanding. We expect the full principal to be repaid 11 months after disbursal. Subject to a fresh approval, the company can reborrow in May 2024 for another business cycle.

Arvind Narula, CEO, will provide a personal guarantee for this loan.

Major risks and mitigating factors

Risk	Risk factor	Probability	Risk mitigating factor
Inability to sustain profitable operations due to climate change	An affected harvest will mean lower incomes for farmers and less raw materials for Urmatt. At the worst, Urmatt might lose the seeds and fertilizer they have invested in farmers	Moderate	<ul style="list-style-type: none"> ▪ Urmatt monitors the weather especially during critical times like sowing and harvest and communicates it with farmers so they can make informed decisions well. ▪ We are funding dry season purchase. While monsoon risk is a concern during the wet season, dry season paddy is much more dependent on irrigation and less on rain. ▪ Repayment on our loan will begin on 1 December, before the financial effects of an affected wet season harvest is felt. ▪ Urmatt will not be liable to their customers for reduced production.
Inability to service debt to Beneficial Returns	Sales slowdown and/or Urmatt loses customers	Moderate	<ul style="list-style-type: none"> ▪ Top clients are long-time, recurring clients of Urmatt. ▪ Urmatt has the competitive edge, being the largest supplier of organic rice in Thailand.
	Urmatt contracts with farmers at an elevated price that makes the company’s rice overpriced compared to competition.		<ul style="list-style-type: none"> ▪ Urmatt obtains fixed-price purchase orders from its long-tenured customers before it contacts with farmers. ▪ Urmatt caps its contractual obligation to the farmers at a certain volume. If there is a bumper crop Urmatt is not required to purchase the excess.

Conclusion

Urmatt’s work with farmers to raise their incomes by moving them away from conventional farming into organic agriculture is both an important and an urgent one. Farmers, the environment, and consumers all benefit from this change. Urmatt Vie was a costly venture and a detractor within an otherwise steady and profitable business. Now that its book value has been written down, its loss recognized, and suitably transferred to Chacha, Urmatt can refocus on what it does best. The successful development and sales of value-added products will be a further boon to bottom line. The proposed working capital loan of \$500,000 will fund sales that have been mostly secured. We recommend an approval of this loan.

Appendix 1: Urmatt Limited Impact Assessment

Impact score: 17 out of 20

Prospective borrowers are rated with 1 point for Low, 2 points for Moderately Low, 3 points for Moderately High, and 4 points for High. Minimum score of 14 for approval.

	Moderately				Score
	Low	Low	High	High	
1 DEPTH AND BREADTH Is the breadth of impact wide, relative to the current size of the org? How meaningful are the changes to the beneficiaries? Are the beneficiaries truly excluded and marginalized?				✓	4
2 SYSTEMIC CHANGE Is the social enterprise focused on systemic change? Is the social enterprise directly driving policy change or serving as an example to the industry and its peers? What behavior change has taken place? Do the beneficiaries become dependent on the social enterprise?				✓	4
3 COMMUNITY ENGAGEMENT Does the social enterprise engage all stakeholders in their work? Is the social enterprise building local, human resources? Does it actively share its insights with others? Are indigenous communities involved?			✓		3
4 INTENTION How committed to its social or environmental mission is the social enterprise?				✓	4
5 ADDITIONALITY Is Beneficial Returns' investment crucial to the company's goals related to the loan?		✓			2
TOTAL					17

Appendix 2: Urmatt Limited Credit Assessment
Credit score: 21 out of 28

Prospective borrowers are rated with 1 point for Low, 2 points for Moderately Low, 3 points for Moderately High, and 4 points for High. A minimum score of 20 for approval.

	Low	Moderately		High	Score
		Low	High		
1 BELIEF IN MANAGEMENT Does the social enterprise have a strong management team (extensive industry experience, strong leadership and entrepreneurial background)? Is the governance structure adequate?				✓	4
2 ACCOMMODATIVE BUSINESS ENVIRONMENT Is the social enterprise operating in an industry with low level of competition? Does the social enterprise provide products or services that have low threat of substitution?			✓		3
3 RELIABILITY OF FINANCIAL INFORMATION Can the financial information provided be depended on? Has its financial statements been audited? What is their financial reporting cadence?				✓	4
4 ABILITY TO BE PROFITABLE Does the social enterprise have a positive earnings trend? Are the earnings sustainable?			✓		3
5 STRENGTH OF FINANCIAL POSITION Does the social enterprise maintain adequate financial ratios (DSCR, Debt-to-equity, Current ratio) to support a debt obligation?		✓			2
6 ABILITY TO SERVICE DEBT Does the social enterprise have the ability to establish a strong cash position to meet its debt obligations on time?			✓		3
7 COLLATERAL OR GUARANTEES Is there collateral for the loan with an adequate loan-to-value amount? Is there a guarantor for the loan?		✓			2
TOTAL					21