

Gilchery Skip Trace Ltd

Business Plan

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Executive Summary

Business Description

Gilchery Skip Trace Limited (GST) is a business that is primarily focused in the provision of debt management services through offering debt collection services from loan defaulters to debt providers. Majorly GST helps its clients to manage the risk associated with their portfolio and enable them to comfortably extend credit. These include commercial banking institutions, savings and credit organizations, commercial trade firms, consumer credit organizations, mobile based lending organizations (fin-techs) amongst others. The company collects overdue and delinquent debt accounts for these organizations based on a pre-determined fee. The firm is located in the capital city of Nairobi where its headquarters are situated and has one branch located in Eldoret town.

Products and services

In fulfillment of the above objectives we provide several services to our clients. GST Ltd operates a call centre collection service which is a well-established call centre manned by appropriately trained staff to follow up and ensure overdue accounts are settled as soon as possible. Any account that has remained overdue for 30 days despite internal collection efforts is a prime candidate for our call centre collections team. Secondly, we provide commercial collection service which focuses on companies and organizations with unpaid debtors from other companies and organizations. Third, the firm provides consumer collection services that are designed for companies with a customer base made up of many private individuals' majorly utility firms and public organizations. Fourth, we provide debt Surveillance whereby the firm monitors long outstanding debts that may have been written off by companies and attempts to collect them on the client's behalf. Fifth, we aid firms in tracing debtors the client has lost contact. Being the only firm in Kenya that offers skip tracing services, we carry out investigations by ascertaining the debtors' location assets to assist companies serve legal letters and attach assets where judgment has been made.

Market

The transformation of the credit provision industry from the traditional distribution channels to the modern digital channels has opened up the access to credit to many people. This has resulted to higher number of providers whom rely on these platforms. According to the Central Bank of Kenya on an annual basis, the non-performing loan rates increased by 27.2% between June 2017 to June 2018. This has led to many lenders outsourcing collection services to external collectors due to in house under capacity. Currently, we have slightly more than 20 reputable debt collection agencies operating in the country. GST which is a leading collections agency leads the pack with outstanding performance rating from major lenders. We serve almost all commercial banks and we intend to capture all the few remaining mobile lending fin techs

operating locally. Our plans are to venture in to other markets in sub Saharan Africa including Uganda, Namibia, Tanzania and Mozambique.

The opportunity

The firm has a strong brand presence and this is as a result of great investments in physical infrastructure and human resources to propel the organization forward. The continued growth from inception with meager resources to a mid-sized company with over 300 permanent employees which has largely been financed organically portrays the positive returns expected to you as an investor.

The solution

GST is a market leader in the field and the only firm that provides legitimate skip trace services. The firm has a good performance rating for instance it ranks as the leading debt management company amongst one of the leading credit providers i.e. CBA Mshwari in collections whom disburses Kshs 5 billion annually.

Leading Debt Management Companies in Kenya

Name	Nature Of Product Service	Product/Service	Geographic Focus
Credit wise Kenya	Business To Business	Debt Collection & Investigations	Nairobi
Nimble Group	Business To Business	Debt Collection	Africa
Stan Ford Company	Business to business	Global Debt Collection and Investigations	International
Reliable Investment Services	Business To Consumer Business To Business	Debt Recovery, Property and Real Estate Management.	Kenya
Lolwe Auctioneers Kenya Read	Business To Business	Debt Collection And Property Auctioning Services.	East Africa
Demojie Holdings Limited	Business To Business	Debt Collection, Debt Recovery, Debt Management And Consultancy	Nairobi
Exceptional Debt Management Services	Business To Business	Debts, Management of Liabilities, Debt Recovery and Private Investigation	Nairobi
Swipe Recoveries Limited	Business To Business Business To Consumer	Debt Collection Private Investigations Asset Searches	Nairobi
Calm Recoveries Limited	Business To Business	Debt Collection	Nairobi
Excel Credit Management Solutions	Business To Business	Debt Collection	Mombasa
Sky Wave Management	Business To Consumer	Debt Collection	Kenya
Tebz Debt Solutions Limited	Business To Business	Debt Collection	Nairobi
Afrimax Debt Management Services	Business To Consumer	Debt Collection	Nairobi And Mombasa
Ultimate Debt And Trace Limited	Business To Business	Debt Collection Property Consultancy And Management	Nairobi
Ultimate Debt And Trace Limited	Business To Business	Debt Collection Services	Nairobi
Trackpol East Africa Limited	Business To Business Consumer To Consumer	Debt Collection	Nairobi

Management

The organization has grown through leaps and bounds and currently has a strong management of five senior managers whom are supported by a team of seven junior managers. The senior management team is headed by a general manager who supervises the entire GST support heads. These include IT and infrastructure, business development, human resources, operations and finance. The junior management team is comprised of portfolio managers who are account managers for the different clients in the organization. They monitor the performance and advice on strategies to be followed to ensure recovery of delinquent accounts provided. The portfolio managers are accountable to the operations manager.

Key personnel

Table 1: Key Personnel

Role	Name	Back ground	Skills
Business development manager	Peter Thiongo	Marketing-Debt management	Bachelor of Commerce- Marketing and Diploma-Marketing
IT and infrastructure manager	Stanley Huho	Computer science	Bachelor of sciences -Applied sciences& Diploma-IT
Finance manger	Diana Odero	Accounting	Bachelor of commerce-Accounting & CPA-K
Operations manager	Faith Mbage	Administration	Diploma Business Administration

Financial summary

Income Statement summary

Credit Management Services

Table 2: Income Statement Summary

Year ending:	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
Total operating income	164,982,894	272,221,775	449,165,929	741,123,783	1,222,854,241	2,017,709,498
Total Expenses	86,657,384	143,011,906	235,969,645	389,349,913	642,427,357	1,060,005,139
Profit Before Tax	78,325,510	129,209,869	213,196,284	351,773,869	580,426,884	957,704,359
Corporate Tax	23,497,653	38,762,961	63,958,885	105,532,161	174,128,065	287,311,308
Profit After Tax	54,827,857	90,446,909	149,237,399	246,241,708	406,298,819	670,393,051

Credit Reference Bureau

Table 3: Income Statement Summary CRB services

Year ending:	31-Dec-21	31-Dec-22	31-Dec-23	30-Dec-24
Total operating income	921,600,000	1,013,760,000	1,115,136,000	1,226,649,600
Total Expenses	173,106,226	180,834,887	198,918,375	218,810,213
Profit Before Tax	748,493,774	832,925,113	916,217,625	1,007,839,387
Corporate Tax @ 30%	224,548,132	249,877,534	274,865,287	302,351,816
Profit After Tax	523,945,642	583,047,579	641,352,337	705,487,571

Capital requirements

The firm needs to expand into a new business unit and also venture in to other markets within the region. The budgeted cost of expansion is Kshs 165 million.

Sources of funds

Table 4: Sources of Funds

Sources	Amount	Percentage
Owner's Contribution	-	0%
Term Loan	-	0%
New Equity Financing	164,981,140	100%
Total	164,981,140	100%

Uses of funds

Table 5: Uses of Funds

Category	Amount	Percentage
Capital Expenditures	101660000	62%
G & A Expenses	54,960,000	33%
Other	8,361,140	5%
Total	164,981,140	100%

1. Business Description

1.1. Mission statement

We exist to help people resolve their financial obligations for the benefit of all parties in a manner consistent with our core values of integrity, accountability and professionalism.

1.2. Value and Vision Statement

Company Vision

"To continuously strive to be the first choice for debt management services provider in Kenya, by developing beneficial and lasting relationships with our clients through a process of continuous improvement and optimizing their returns by delivering the most efficient and effective service."

Core Values

Integrity:

- Do the right thing
- Be honest and respectful to clients, consumers, suppliers and each other

Accountability:

- Do what we say
- Focus on results
- Communicate openly

Professionalism:

- Do things right
- Value training and education
- Operate within the framework of law
- Be passionate and determined
- To maximize the recovery of all debts whilst remaining sensitive to any existing business relationships.

1.3. Industry Overview

The expected growth in the economy due to a stable macro-economic environment is expected to drive the expansion of private sector credit from the previous 4.4% in 2018 to 5.2% in 2019. Players in the financial and consumer services industry have continued to be innovative by creating products to suit their targeted clientele amid challenges experienced previously in lending to the private sector due to risk premiums using traditional models. The emergence of digital credit avenues have led to an increase in penetration by traditional players who have now shifted to offering credit through mobile based platforms and reaping good returns at lower costs. The ease of access to credit to the market strengthened by sound legal frameworks provides confidence to debt providers to offer loans to the public.

However, this expansion of credit as a result of inherent risks in the market brought about by information asymmetry, inflation and over concentration of portfolios by lenders in a particular sector continues to plague the financial services sector as witnessed by increasing number of non-performing loans. In the first quarter 2019, NPLs among commercial banks increased by an outstanding 10.4% from January 2019 to March 2019. These figures illustrate the hardships the economy is facing albeit reported improved economic growth. Over the past ten years there have been an increasing number of debt management firms setting up shop. Most lenders have increasingly opted to have external debt management solutions as opposed to in house credit officers. This is due to amongst other reasons, reducing effectiveness and efficiency of in-house personnel in debt collection from defaulted borrowers. The trend arises from a need to cushion lenders exposure and avoid complete write offs for a fraction of the cost especially to collapsed firms and runaway borrowers.

1.4. Company description

Gilchery Skip Trace Ltd (GST) is a limited liability company which is limited by shares. The firm specializes in offering debt management solutions to help businesses that extend credit to manage the risk of their credit portfolio and recover delinquent debts cost effectively. The firm employs a more professional approach towards debt collection which involves contacting defaulted borrowers and notifying them on the status of their accounts. Their business model involves direct communication through phone conversations and text messaging as reminders. It heavily relies on negotiation which ultimately makes borrowers to make payments on overdue accounts to avoid unnecessary credit reference bureau listing and skip tracing.

Based on our experience and knowledge of the industry, GST partners with companies to assist in the collection of overdue accounts owed to the company by other companies, institutions and individuals. Most suppliers of goods and services will usually extend credit to their clients for periods ranging from 30 days to 90 days. Any account that remains unpaid from day 1 beyond that credit period is considered overdue while any account that has remained overdue for 90 days or more is considered a default. Most businesses prefer to use internal resources to follow up overdue accounts and will only outsource those accounts they are unable to collect after attempting to do so for some time. Currently, the bulk of debt passed on to private debt collection agents for recovery by businesses is usually default debt that is overdue by one year (360 days) or more and the success rate in the recovery of such debt has been dismally low (in the region of 20%) which means that the balance of the debt is either recovered through court or written off. To reap the benefit of reduced write-offs and avoid the usually lengthy court process, GST encourages businesses to shorten the trigger times for outsourcing overdue debts. Chances of success in collection are much better where debts are outsourced earlier and this benefits cash flow through reduced costs. It is an acknowledged fact the longer a debt remains outstanding, the harder it becomes to collect, and the more resources required to collect such a debt.

1.5. History

GST was established in the year 2011 as a small sized firm being run as a sole proprietorship. The firm had employed a handful of employees who assisted the business owners in administrative roles as the promoters tirelessly embarked with collection of debt for a small clientele base. The firm operated in Nairobi's lower hill area in a residential apartment where it extended its services. The business was later incorporated in the year 2013 with its principal business of providing debt collection and skip trace services. It later moved to the Nairobi Central Business District in the year 2012 and they were located at Development house along Moi Avenue. Over the period GST due to good performance was able to acquire more business mandates numbering 30 from more financial institutions and commercial organizations. The key strategy was to focus on their expertise and grow the firm. The increased mandates from newer corporate clients forced the firm to increase their staff count and relocated from the Nairobi central business district to Mombasa Road at Alpha Business Centre. At this stage a more refined management and operational structure was developed in lieu of the increased scale of operations. The firm has since grown steadily and expanded its footprint as demanded by clients with regional branches. This saw the opening up of the Eldoret Branch in the year 2016: The branch was meant to serve the western part of Kenya market. It has a staff count of 48 employees who actively execute the firms mandate with in their geographic focus. Currently, the firm handles 62 clients from the two branches with a total staff count of over 300.

1.6. Goals

- 1.** Extend the customer experience from our clients ensuring client satisfaction.
- 2.** Reduction of the level of outstanding debts for our client's portfolio.
- 3.** Reduction of bad debt and write-offs for our clients.
- 4.** Reduction of the cost of collections for our clients.
- 5.** Employ ethics and integrity in recovery outstanding debt portfolios for our clients.

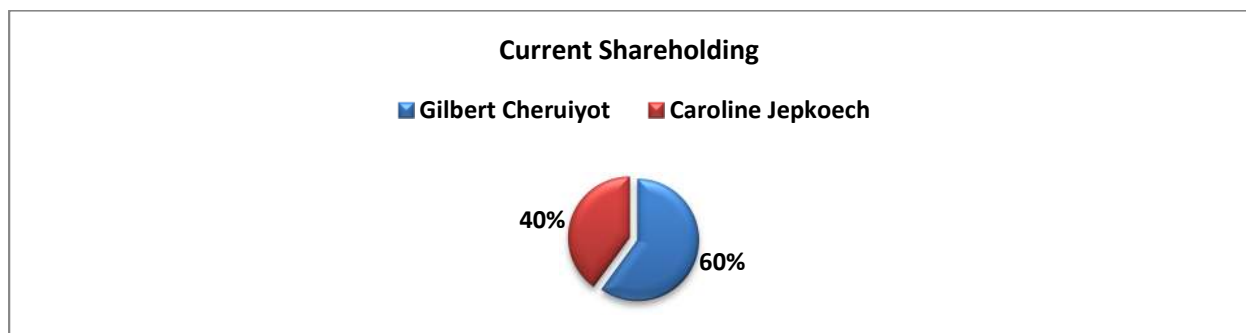
1.7 Critical success factors

In order to reach our objectives the company needs ensure;

- Timely realization of outstanding debt from allocated corporate portfolios with a reasonable timeframe of 60 days at most.
- Maintain adequate staff numbers incognizant to the portfolio mandates at all times.
- Continuously seek new mandates from new clients to ensure the staffs are working on debt collection and recoveries thus reducing idle times.
- Ensure the IT infrastructure more importantly the auto dialer software, delinquent account identification systems are in working condition at all times.
- Adequacy of personnel at all times and continuous training of staff to ensure the organization maintains a skilled workforce
- Efficiency in debt collection and recoveries.

1.8 Company Ownership

Chart 1: ownership



2 Products and Services

2.1 Service description

Table 6: Services

Service	Description	Features	Benefits	Stage of development
Call Centre Collection	Team that collects debts that are overdue by 30 days and not delinquent	Dedicated and trained staff members	Faster cash cycle	Operational
	collection of outstanding debt from retail customers	Robust IT systems	Cost savings in collections	
		Bilingual capabilities	Lower costs to the client	
Commercial Collection	Collection of outstanding corporate debt	Experienced commercial collectors	Transparency and communication	Operational
		-Infield collections	Legal advisory services	
		-Credit reports and customer profiling	Experienced negotiation team	
		Focus and flexibility	Short turnaround time	
Consumer Collection	Collection of outstanding debt from retail customers	In-house tracing	Fees are payable based on results	Operational
	Targeted to utility companies with many private clients	Assessment of debtors' means to pay	Prompt remittance of funds collected	
	Collections of small amounts	Negotiation of payment plans	Debtor default listing management	
		Detailed monthly client reports		
		Regular reviews of debtors' situation		
Debt Surveillance	Monitoring of long outstanding debt	Regular check on income and asset position of debtor has changed	No cost to the client during monitoring	Operational
	Active post legal avenues have been exhausted eg Bankruptcy & Insolvency	Positive feedback followed by quick action to recover debt		
Tracing Services	Tracing of lost debtors by the client	Identify the debtors location	No hit, No fee	Operational
		Identify the assets of debtors	Comprehensive database of Addresses	
		Serving of legal papers post judgment	Real human skip trace specialists	

2.2 Proprietary Aspects

Call centre collection and consumer collection

The firm has invested in training the staff on effective ways of approaching the targeted debtors to ensure that they make payments on outstanding accounts. A professional approach leads to positive results and that's the mantra that the firm employs. Further, the firm has invested heavily in an **Auto GSM Predictive Dialer** which uses statistical algorithms to minimize the time that agents spend waiting between conversations, while minimizing the occurrence of someone answering when no agent is available. When dialing numbers one at a time, there are two sources of delay. First, only some fractions of dials are answered; for example, if 1 out of 3 dials are answered, a predictive dialer might dial 3 lines every time an agent becomes available. Second, even dials that are answered take some time before being picked up. Dialing one number at a time, only when an agent is available, typically keeps agents utilized for 40 minutes per hour (33% idle time). Predictive dialing can increase utilization to 57 minutes per hour (5% idle time).

Skip Tracing Services

The firm utilizes the data obtained from different organizations in identifying the location of untraced borrowers and directors of insolvent firms. The major data sources originate from mobile telephone companies, utility companies, the National Hospital Insurance Fund, National Social Security Fund and the Department of Registry of Persons under the Office of The President. The institutions provide valuable data which has proven to be successful in recovering debts that have been long outstanding.

2.3 New and Follow-on Products & Services

GST limited intends to replicate the success achieved from the debt management business over the past eight years and move towards incepting a Credit Reference Bureau. The plan is to build up from the existing relationships the company has and existing data in its possession and obtain new information from information providers. The setting up of the credit reference bureau will herald new chapter for the firm as it will be able to also secure new contracts from other players in the industry whom provide data. Further, the setting up of the credit reference bureau will provide GST with additional revenue streams from different sources. This will originate from the credit reports that they shall be generating for different users and generating CRB clearance reports to individuals and institutions which have found themselves listed and have an adverse credit rating. We have provided an itemized breakdown of the inherent costs associated with the expansion drive for the new product.

The firm has extensively researched on the viability, ability, capacity and resources it will have to employ to ensure the success of the new product. Currently, we have initiated the application process and the process is ongoing.

To launch the product the project is expected to cost Kshs 165 million which shall cater for established expenses, fixed costs to be incurred in setting up the operations and working capital needs for a period of 12 months. The product licensing will take a maximum period of six months that will ensure the award of an interim license from the Central Bank of Kenya upon meeting all the requisites. A pilot survey period of another six months will follow to pilot test the product ahead of the full launch.

3 The Market

3.1 Industry analysis

Private sector growth in Kenya months prior to the interest capping law was at an all-time high averaging the mid-twenties. After the de-liberalization of the interest rate market, the private sector credit has been constrained since the year 2016 due to a myriad of reasons including political uncertainty surrounding the 2017 general elections and an unstable macro-economic environment. However, in the year 2018, the sector started showing signs of improvement as formal and non-formal debt providers devised innovative products to offer credit to the public. In 2018, private sector credit growth increased from a low of 1.6% to 4.4% in 2017 for instance to between 4% and 8% in 2018. The resultant economic growth in 2018 at 6.0% was supported majorly by increased credit growth in to the private sector. Going forward, in the year 2019 credit growth is expected to be supported by the stable macroeconomic environment and increased economic activity, which are expected to translate to a higher demand for credit from both firms and households. The table below illustrates the growth of credit uptake from the year 2016 to 2019 by provider.

Chart 2: Credit Sector Growth

Credit	2006	2009	2013	2016	2019
Formal					
Personal Bank Loan	1.8	2.6	3.6	4.4	4.3
House/Land Bank/Building Society Loan	0.5	0.2	0.9	0.6	0.3
Overdraft	0.3	0.2	0.5	0.4	0.2
Credit Card	0.8	0.8	1.8	1.2	0.5
Mobile banking Loan	n/a	n/a	n/a	5.9	9.5
Sacco Loan	4.2	3.1	4	5	5.1
MFI Loan	0.8	1.8	1.6	1.8	0.9
Government Loan	0.9	0.3	0.6	1.3	1.3
Hire Purchase	0.6	0.1	0.2	0.1	0.6
Informal					
Employer Loan	0.9	0.5	1	5.1	1.4
Chama Loan	1.7	1.8	6	8.3	8
Informal Moneylender	0.7	0.4	0.4	0.4	0.5
Shopkeeper	22.8	24.3	5.5	9.9	29.7
Buyer Credit	0.9	1.2	1.1	0.3	1
Digital Loan apps	n/a	n/a	n/a	0.6	8.3
Family/friend/neighbor loan	12.6	12.2	5.2	6.6	10.1

Source: Central Bank of Kenya

The percentage of the Kenyans whom have accessed loans from both the mainstream and informal lending non deposit taking organizations and are in collections continues to rise. The motivators for this phenomena majorly arises from the ability to be able to repay loans and willingness to repay loans by borrowers. It is estimated that 2.7 million of Kenyans are in collections. From surveys conducted by FSD Kenya, 500,000 of people whom accessed loans in the year 2018 have been listed by the Credit Reference Bureau. The increasing number of the Kenyans who are delinquent provides a gruesome picture which is a boom to collecting agencies. As more entities, individuals accrue more debt the better the collection opportunities for private debt management firms.

The adoption of IFRS 9 by financial institutions on the methodology used to compute impairment provisions on financial instruments required institutions not only to report incurred credit losses but also expected credit losses in future. This led to an increased provisioning for bad and doubtful debts incurred as well as expected to occur. Higher provisioning leads to lower profitability and commercial banks need to ensure they remain profitable. They need to maximize returns on investment by minimizing unpaid loans even if it's a small fraction of their face value. Lenders cannot afford to continue writing off loans. This has seen most lenders outsource their business to external debt collection agencies to complement their in-house capacity thus increased demand for their services.

Previously in the previous century, the debt collection industry was dominated by more aggressive auctioneers who terrorized the customers and tarnished the noble profession of debt collection. Up to 50% of the population perceives debt collectors in the same light as auctioneers who use gangster tactics to repossess assets in a bid to recover outstanding debts. However this has really changed and currently the practice of debt collection has transformed to debt management. The majority of users of this service constitute lenders who on one end would like to recover their money but also maintain the same customer experience and retain market status. A significant change in approach by debt management companies has seen considerable progress in recoveries through fostering a less aggressive approach and a more professional approach.

Debt management firms in modern times use a more borrower centric approach which offers borrowers a best fit solution to clear their delinquent accounts. This involves negotiations to ensure loans are paid up in a comfortable manner with unnecessary confrontations. Due to their lean organizations and capacity to profile the distressed borrowers, debt collection agencies are able to make quick decisions and tailor make suitable repayment patterns on delinquent borrowers.

The Credit Reference Bureaus (CRB) in the country are regulated and licensed by the Central Bank of Kenya. Currently, in the local market we do have three licensed CRBs. Any delinquent account that has been overdue for more than 90 days can be reported for listing in any of these reference bureaus. Two of these players, also provide debt management services to money lenders. Through the CRB regulations under the Banking and Finance Act, financial institutions are mandated to share information through the CRBs to assist in vetting borrowers for eligibility for loans. Any lender or borrower will obtain information from the CRBs at a fee of around Kshs 200/= to access their status and also obtain clearance certificate upon listing.

According to data from the latest Central Bank of Kenya annual report for 2018, there has been an increased request from lenders for credit reports from credit reference bureaus. In one year alone i.e. June 2017 to June 2018, the number of credit reports requests jumped up by 88% or 2.3 million reports. The commercial banks were the leading in credit report requests followed by micro finance banks and lastly by customers. All these reports were generated by the three existing CRBs and on average, each produced 767,000 reports.

Table 7: Credit Report Requests

	Jun-17	Jun-18	Change	%Change
Credit Reports Requests-Commercial Banks only	2,421,048	4,576,593	2,155,545	89%
Credit Reports Requests-Micro Finance Banks only	110,594	195,623	85,029	77%
Credit Reports Requests -Customers	76,124	138,026	61,902	81%
	2,607,766	4,910,242	2,302,476	88%

Source: Central Bank of Kenya

Market Analysis

The debt management business in Kenya follows a more traditional approach which involves debt collection firms being remunerated on a commission basis. In more developed countries collection agencies purchase the entire debt portfolio and collect on their own behalf. The size of the market therefore is dependent on the total outstanding non-performing loans market in the Kenyan market. We have 47 commercial banks operating in the country offering different credit products. There is a lot of consolidation happening in the financial services sector thereby stronger financial institutions and more capacity to lend. The co-operative sector in today's market is revolutionizing their business model and accommodating members from different occupations and through leveraging on technology, expanding their credit products.

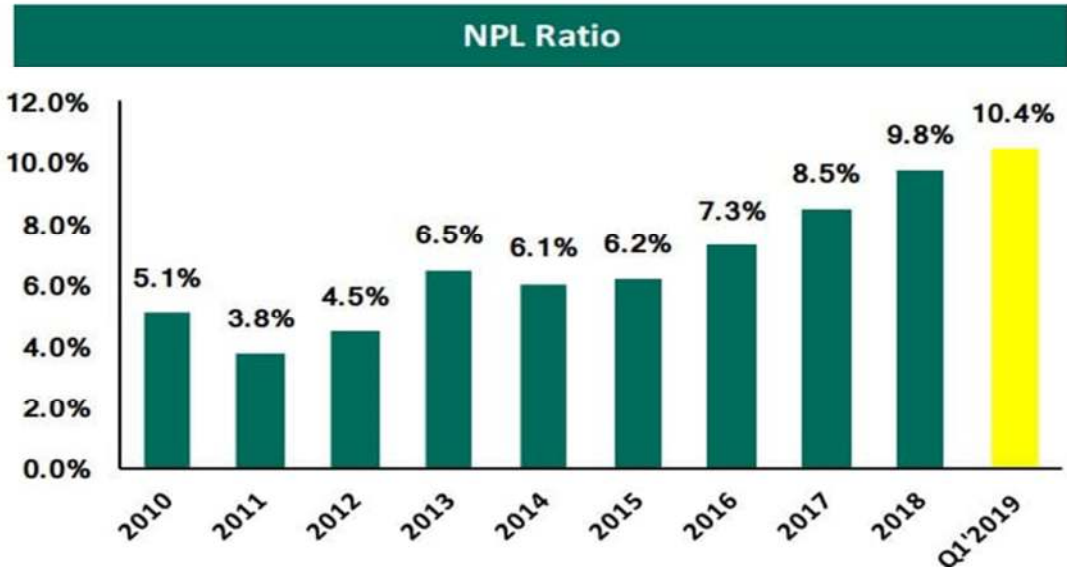
The advent of digital credit in the Kenyan market in the past five years expanded the options for retail customers to access credit facilities. On the supply side, the options are provided by both mobile based applications and mainstream banking institutions. For instance the sheer growth of the digital credit market is confirmed by supply-side figures. Mshwari - Kenya's first digital banking product offered by the Commercial Bank of Africa (CBA) - supplied over 20 million loans to 2.6 million borrowers in its first two years. To put that into perspective, CBA only had 13,000

open loan accounts the year before Mshwari was launched, between 2013 and 2015, CBA opened over twice as many loan accounts - 27,400 on average - per day, effectively transforming CBA from a niche bank serving corporate clients to a bank serving the mass market. Mobile based applications such as Tala have disbursed a total of Kshs 28 billion from 2014 and Branch has managed to disburse a total of 3.63 billion since the year 2015.

On the demand-side, the introduction of digital loans met a need for a type of credit that had not been satisfied by other formal lenders. In 2009, only one in ten adults with a mobile phone had ever used a formal loan from a bank or non-bank financial institution, five times as many (one in two adults) had used a loan from informal sources, such as friends and family, an employer, or savings group. By 2017, almost three in four adults with a mobile phone had ever used a formal loan (including mobile loans). Over this time period, the prevalence of formal borrowing among the poorest 40% of the adult population increased more than two fold. The growth in exposure to formal loans accelerated significantly after 2013, strongly suggesting these trends represent digital credit’s influence in expanding the credit ‘frontier.

It has been reported from different surveys that 50% of digital borrowers have repaid their loans while 12% of the borrowers, have defaulted. It also has been established that digital credit in the country has been used for consumption activities. This thereby increase the likelihood of a loan borrowed within the unregulated digital credit platforms will have a higher probability of not being paid. The total nonperforming loans ratio which combines the mainstream sector traditional loans and digital loans has been increasing over the last nine years. The table below illustrates the digital credit default rates by March 2019.

Chart 3: Non Performing Loans

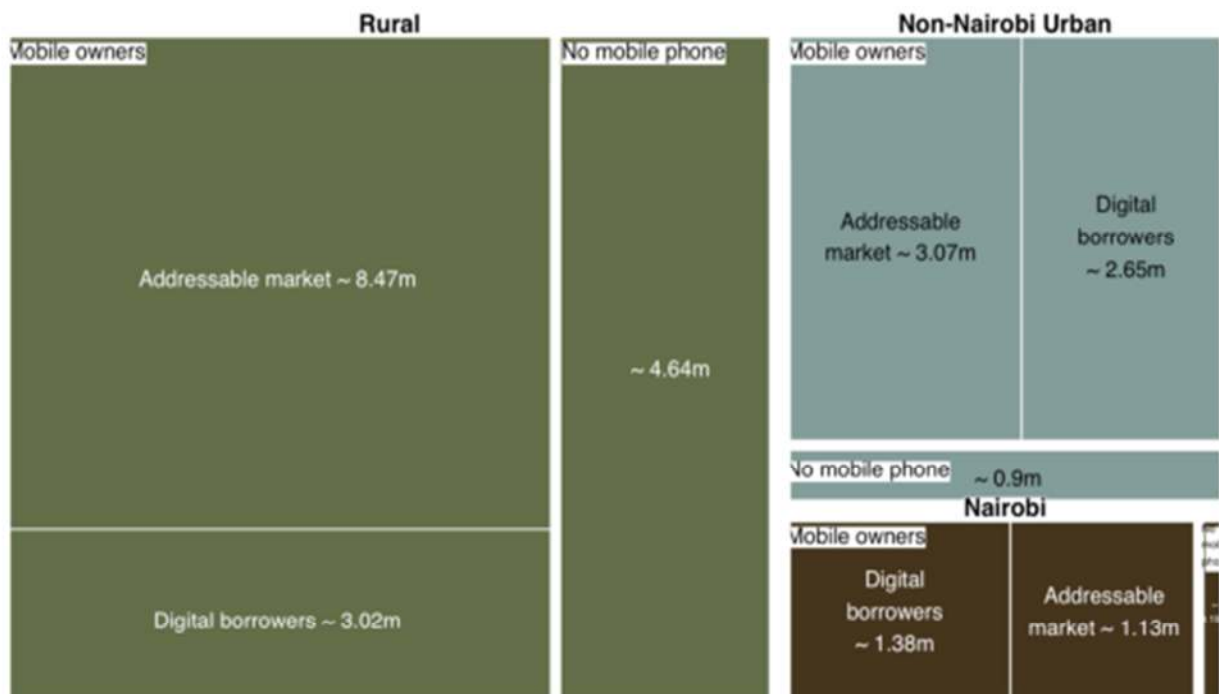


Source: Central Bank of Kenya

As a private debt management agency the total addressable market is quite huge. The table below illustrates the potential addressable market size.

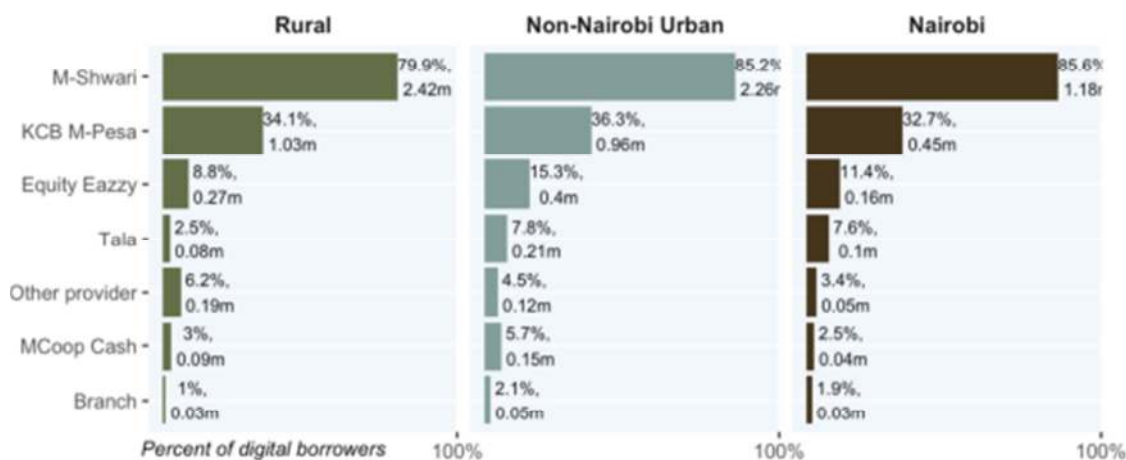
3.2 Total Addressable Market: Credit Supply by Region

Chart 4: TAM



Source: FSD Kenya

Chart 5: Digital borrowers by location and provider



Source: FSD Kenya

As credit risk exposure continue to rise, banking and non-banking financial institutions have never underestimated the important role the private debt collection agencies play in ensuring they are able to collect and recover the issued loans to the public. They understand that the collection firms usually seek to recruit and maintain high performance staff to perform the agency role. By offering good remuneration packages which is a retainer and commission, the staff within agencies is able to perform beyond expectations. Agencies further are able to subject their staff to training modules which sharpen their skills and ensures a qualified work force. To the debt providers, they immensely benefit from best business practice, expertise and technology which they would not ordinarily invest in. It is a fact the effectiveness of in-house expertise in financial institutions is underpinned by frequent rotation of staff and this reduces their proficiency.

The market has been growing steadily over the last five years and is expected to grow going forward with robust economic growth. The number of players who provide credit management is also growing fast however professionalism, product differentiation and investment in technology shall differentiate the losers and winners in this industry. As players continue to lobby the government for legislation and recognition as professional service providers, which will be very much welcome, Gilchery Skip Trace Services will continue to be a market leader in provision of best in class services.

With the buoyant economic environment as exhibited above all these organization's involved in credit provision require reference checks to establish the credit worthiness of their borrowers to minimize their credit risk exposure. The demand which arises from both the retail and corporate sectors needs to be supported by a strong credit controls to enhance responsible lending. The ratio of non-performing loans in the mainstream banking sector has still remained unchanged albeit with the introduction of the CRB system from the year 2010, more still needs to be done especially within the non-banking sector. There exists a lot of information asymmetry especially in the non-bank credit only lenders with high levels of indebtedness amongst the public. Moreover lenders through moral suasion by the Central Bank of Kenya are being sensitized to strictly adhere to the CRB regulations and promote fair trade practices when it involves assessment of borrower's applications.

The situation can be reversed to ensure there are no disturbances in the credit system. Locally the private credit reference bureau sector players comprise of three registered firms namely Credit Reference Bureau Africa Ltd, Metropol East Africa and Credit Info Kenya. The three entities have been in operation for the past couple of years. The credit reference system modular scheme adopted in the country is a direct approach where players access information directly from the system.

3.3 SWOT Analysis: Skip Trace Services

Table 7: SWOT analysis

Factor	Strength	Weakness	Importance To Client
Products	Well structured products	Need of technological investment to expand service offering	Very Important
	Diversified		
	Investment in technology		
Price	Good pricing -good margins	Market dependent	Very Important
	Cost management practices		
Service	Extension of customer experience accorded by lenders	N/A	Important
	Professional services		
Reliability	Adequate with current client mandates	Limited office space as new mandates increase	Very Important
	Adequate office space- status quo		
Expertise	Expert staff	Cost of external training	Very Important
	Good training programs		
Company Reputation-Performance	Very good company image among money lenders and the targeted clientele		Very Important
Location	The firm has two local branches	Limited resources	Important
	Intention to expand to Sub Saharan Africa	Geographic focus-Expansion needed	
Marketing	Experience in the industry by the promoters	Cost of marketing	Very Important
	Good networks with debt providers(formal & informal)		
	Ability to get referral mandates		

3.4 Competitor analysis: Credit Reference Bureau

We have listed below the players who provide credit reference bureau services in the country and their major products for comparison.

Table 8: Competitor Analysis

Firm	Service Description		Geographic Focus
Credit info Bureau Kenya Limited	N/A	Credit Reference Bureau	International
Metropol Credit Reference Bureau	Credit Management	Credit Reference Bureau	Local
Credit Reference Bureau Africa Ltd(Transunion)	Credit Management	Credit Reference Bureau	International
Gilchery Skip Trace Ltd	Credit Management	Application for Credit Reference Bureau license in Progress	Regional

4 Marketing

Gilchery Skip-Trace Limited prides itself on being a market leader in the industry by providing the client with modern level of service whilst using the latest collection and debt skip tracing techniques. This will ensure client satisfaction and client referrals. The strategies used by the firm in its collection and recovery efforts, provides a strong marketing tool enabling the firm obtain more mandates due to its performance.

4.1 Performance

The firm over the years has attributed its growth to having achieved good performance ratings owing to their collection strategies employed. GST uses simple and effective market segmentation strategies which are as described below.

4.2 Risk-based segmentation

The objective is to identify a hybrid of high, medium and low propensity to pay distressed borrowers to ensure that appropriate, tilted treatments are applied across the delinquent life cycle.

By analyzing the borrowers previous payment behavior combined with credit bureau data, GST will be able to identify where high risks, medium risk or low risk are. This segmentation into three basic categories gives the firm with the opportunity to treat each debtor appropriately based on risk.

It is critically important to create and implement defined workout protocols that support rehabilitation and establishes an escalation trigger in early-stage collections. Ensuring the collections and recovery strategy covers the 'rehabilitation, repayment and recovery mantra'. Our processes are situational – based on the delinquency cycle and asset/product class. Rehabilitation endeavors should be explored and exhausted before the commencement of one being listed at CRB. A fundamental requirement for consistent, accurate strategy execution is to deploy a tilted treatment framework across call scripts, short message services and any other engagement channel. Our techniques that are used for debtor segmentation include Know Your Customer (KYC) data provided during initial applications and parties engagement. By also using a method that includes machine learning, our debt collection software models are continuously updated with new information provided and will teach itself if a debtor was identified as low-risk, but in fact, rolled on payment and how to determine such cases in future.

By investing in the creation of a credit reference bureau GST will leverage on this through acquired data to segment these debtors. Combining through historical payments and operational data by clients from files supplied, with credit bureau data, it will enable the firm to get a more accurate picture of a debtor's propensity to pay or roll over existing debt.

4.3 Target Strategy

Gilchery Skip Trace Limited aims to work with a number of different organizations in different industries who want to maximize their cash-flow in their debt collection cycle.

Gilchery Skip Trace Limited aims to provide services to corporates who represent at least 90% of the firm's clients. Some of the clients are;

- Financial institution e. g Commercial banks and Insurance firms.
- Established private corporate companies.
- Government bodies e.g. County and National Government, Parastatal
- SME and NGOs.
- Individual clients.
- Micro finance and deposit taking institutions.

4.4 Positioning Strategy

An effective positioning strategy considers the strengths and weaknesses of the organization, the needs of the customers and market and the position of competitors. The purpose of a positioning strategy is that it will allow GST to spotlight specific areas where they can outshine and beat their competition.

GST aims to provide innovative products, competitive pricing and excellent service associated with it. An important step in developing key operational strategies depends upon how a GST will position itself in the marketplace. This will make it competitive in areas like quality, cost, flexibility, speed, innovation and service delivery.

4.5 Product/Service Strategy

The firm has structured and packaged the products and services with the clients in mind. It will seek to offer added value advantage to their customers, going an extra mile to ensure their satisfaction. The following are array of service GST customers will benefit from:

- Call Centre Collection
- Commercial Collection
- Consumer Collection
- Debt Surveillance
- Tracing Services

4.6 Pricing Strategy

The pricing of collection agencies operate on contingency fees. This means fees are charged on percentage of the collected debt as commission. Many factors contribute to the pricing, but in the end, it comes down to confidence in how much you can collect. The cost of debt collection can range from 10% to 95% dependent on the case.

The following provide current breakdown per service on the following services; call center, commercial, consumer collection, debt surveillance and tracing services.

Table 9: Pricing Strategy

Services	Rates
<i>Debt collection and recovery</i>	
Call Centre and Commercial Debt	25%
Consumer Collection	10%-35% Depending On Case By Case
Debt Surveillance And Tracing	Kshs. 2,500 Minimum, Kshs. 10,000 Maximum
<i>Gilchery Credit Reference Bureau</i>	
Credit report	Kshs 200
Clearance certificate	Kshs 2,200

4.7 Distribution Channels

The team of staff contemplated will by all means provide a medium upon which contacts shall be made directly to the customers about Gilchery Skip-trace Limited on debt collection. We have positioned ourselves in secure, accessible and customer convenient locations.

4.8 Promotion and Advertising Strategy

A profitable debt collection service is about more than supply and demand. It's about designing ways to entice new customers to engage with your products and to encourage existing customers to increase the frequency of their purchases.

Marketing a debt collection service has changed dramatically over the past twenty years. A robust marketing plan will cement GST relationships with customers. With that in mind, it's important to leverage marketing as a path toward better customer engagement in GST collection service's strategic plan. The marketing strategy for the gilchery services will be through;

- Advertisement media such as TV, Radio, Newspaper Advert, Flyers.
- Bill Boards / Road signs
- Websites and social media platform like Facebook, Twitter, Instagram, and YouTube.
- Referrals from corporate institutions

5 New Product Development

In the spirit to further achieve growth the firm intends to incept a Credit Reference Bureau as part of its service offering. A Credit Bureau's is a licensed agency that collects and researches individual credit information and sells it for a fee to creditors so they can make a decision on granting loans. CRB ensure that creditors have the information they need to make lending decisions. Fundamentally, it facilitates the exchange of information between credit providers and their customers and, as a consequence, to increase the availability of credit and financial services in the targeted region.

The Banking (Credit Reference Bureau) Regulations 2013 governs the licensing, operation and supervision of CRBs by the Central Bank of Kenya. The information provided by CRB comes from many sources but falls into two main categories – public domain information and credit experiences:

- Public Domain Information: Electoral Roll, Telephone & Postal Directory information, Court Judgments, Bankruptcies
- Payment Performance Information: CRB subscribers share with each other details of their credit experiences.

To achieve this, the firm will store details of these experiences as an independent and objective entity. This allows any subscriber to enquire, when a company or an individual applies for credit, how the credit applicant has performed on other subscribers' credit facilities in the past.

Gilchery CRB shall provide factual credit, identity and location information to businesses – for example banks, credit card companies, finance institutions and commercial enterprise- to assist them in making accurate and responsible decisions when companies or individuals apply for cash or goods and services on credit. The CRB also helps creditors guard against fraud, which is a growing and serious problem that ultimately affects all consumers.

Leveraging on its current portfolio of clients which majorly consist of commercial banks, SACCOS, utility firms, non-bank credit only lenders commonly refereed as mobile lending applications and other consumer finance organizations, the firm has a large base of credit providers as its clients whom would want to access credit information and also would provide information to the bureau.

5.1 Solutions

The product has been designed to offer to main services; i.e.

5.1.1 Individual Solutions

Credit score reports

This facility shall enable individuals to access their credit information at a fee in line with Credit Reference Bureau Regulations 2013. This involves the generation of credit score reports and clearance certificates.

Credit monitoring

This facility shall allow individuals to get alerts on any changes concerning their credit status amongst the existing credit bureaus. These added services will generate additional revenue streams to the firm.

Financial profile

Using this service, the public will have the capacity to see what prospective information lenders are viewing. They will also get to see the identity of the person who has requested to view their information and also get to understand their financial picture. This will of course also come at an extra fee over and above the credit score reports.

5.1.1.1 Process

An individual whom desires to seek a credit score report will make an application to Gilchery CRB through its website, SMS USSD and a convenient mobile based application to availed on Google play store and App Store which will then gather the required information from its database. A credit report shall be generated which shall provide the individual a comprehensive report detailing the current credit score. The credit report shall attract a small fee depending on the applicant. For obtaining the clearance certificates a similar process shall be followed and the applicant will be required to remit a sum of Kshs 2,200.

5.2 Business Solutions

5.2.1 Decision Analytics

Quick decision module

Gilchery CRB will at best provide an accurate credit assessment through the quick decision module that will be tailor-made for lenders to enable them make credit decisions. Commercial banks and other credit providers will be able to obtain quantitative and qualitative information on third parties which they shall use as a base for decision making and evaluate their creditworthiness.

Predictive Modeling

Using these feature prospective lenders will be able to determine the loan applicant probable outcomes in future. Using big data, they will be able to determine likelihood of default or success in honoring obligations.

Business enquiry- basic and comprehensive credit reports

In addition, additional services shall include the provision of business background reports to third parties. This shall include the period of existence of target businesses, address and contact details of the businesses, the current directorship in the business, and a facility behavior summary. These services will be available upon request through direct contact with the firm on a contractual basis.

5.3 Timeline

The roll out of the GST credit reference bureau will be done in two stages. The first stage will encompass the application for the required licenses and permits from the Central Bank of Kenya. The process is expected to take about six months at the outside. Later we shall have a pilot study period of six months which will culminate to the launch of the product within one year.

The below schedule illustrates the itemized schedule towards the launch.

Chart 5: Milestones

i	<ul style="list-style-type: none"> Preparation of the statutory documentation required by the Central Bank of Kenya for licensing.
ii	<ul style="list-style-type: none"> Setting up adequate IT infrastructure both the hardware and software systems including databases management systems servers.
iii	<ul style="list-style-type: none"> Set up operational manuals to guide in the management of the business unit.
iv	<ul style="list-style-type: none"> Establish accurate information sources and enter into contracts with specific entities. The information should be factual and updated accordingly. The sources have to be approved by the CBK.
v	<ul style="list-style-type: none"> Description of systems and their design of the data collection
vi	<ul style="list-style-type: none"> Setting up of appropriate governance and management structures.
vii	<ul style="list-style-type: none"> Development of the prototype of the final product for approval.
viii	<ul style="list-style-type: none"> Submission of information to CBK for approval.
ix	<ul style="list-style-type: none"> Approval from CBK.
x	<ul style="list-style-type: none"> Launch

5.4 Cost

Table 10: Expansion cost schedule

Summary	Kshs
Total fixed costs	101,660,000
Total operational costs	54,960,000
Total fixed and operational costs	156,620,000
Transaction advisory fees (inclusive of taxes)	7,361,140
Legal fees	1,000,000
Total	165,000,000

6 Management

6.1 Company organization

The company shall be organized to provide two products. These include credit management and credit reference bureau services. The credit management business function which is currently operational is structured as below with the respective personnel as highlighted including their key competencies.

Table 11: Staff Bio

Management Position	Name	Role	Skills/Competencies
General Manager	Isaac Kimani	Overseeing daily business operations.	9 years' experience in the debt collection industry
		Developing and implementing growth strategies.	Understanding of the various dynamics around collections & recoveries
		Training low-level managers and staff.	Manage & see the team grow from 10 to over 100 employees Clients & assets under management have also grown from 24 to 59 valued from 1.2Billion to over 10Billion
		Creating and managing budgets.	
		Improving revenue.	
		Hiring employees.	
		Evaluating performance and productivity.	
		Analyzing accounting and financial data.	
Researching and identifying growth opportunities.			
Generating reports and giving presentations.			
Business Development Manager	Peter Njoroge Thiongo,	Overseeing the annual business planning	Bachelors of Commerce (Marketing)
		Sourcing of opportunities	Diploma in Business Information Technology
		Operations, and marketing	
		Assist in underwriting	
		Due diligence	
		Strategies and execution for debt and credit management.	
Finance Manager	Diana Odero	Collecting, interpreting and reviewing financial information	Bachelors of Commerce (Accounting Option)
		Predicting future financial trends	Certified Public Accountant of Kenya
		Reporting to management and stakeholders, and providing advice how the company and future business decisions might be impacted	
		Producing financial reports related to budgets, account payables, account receivables, expenses etc.	
		Developing long-term business plans based on these reports	
		Reviewing, monitoring and managing	

		budgets	
		Developing strategies that work to minimize financial risk	
		Analyzing market trends and competitors	
Operations manager	Faith Mbage,		Diploma in Business Administration
		Make important policy, planning, and strategy decisions.	Over 15 years' experience in management and logistics
		Develop, implement and review operational policies and procedures.	
		Help promote a company culture that encourages top performance and high morale.	
		Oversee budgeting, reporting, planning, and auditing.	
		Work with the board of directors to determine values and mission, and plan for short and long-term goals.	
		Support worker communication with the management team.	
ICT & Infrastructure Manager	Stanley Huho	Running regular checks on network and data security	Degree in Applied Computer Science
		Identifying and acting on opportunities to improve and update software and systems	10 years of experience in call center Information systems
		Developing and implementing IT policy and best practice guides for the organisation	ICT Projects Management and ICT Operations
		Designing training programs and workshops for staff	
		Conducting regular system audits	
		Running and sharing regular operation system reports with senior staff	
		Overseeing and determining timeframes for major IT projects including system updates, upgrades, migrations and outages	
		Managing and reporting on allocation of IT budget	
		Providing direction for IT team members	
		Identifying opportunities for team training and skills advancement	

6.2 Junior Management

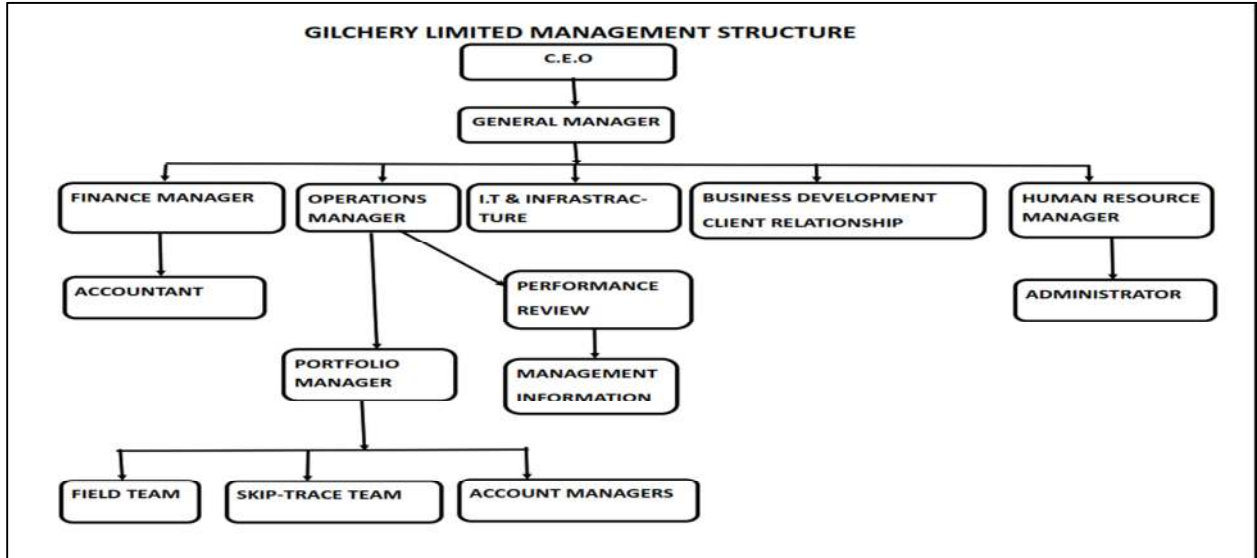
Table 12: Staff Bio (JM)

Position	Name	Job description	Skills and competencies
Portfolio Manager 1	Doreen Mwale	Oversees daily operation and management of various debt and collection portfolio from different clients	Diploma In Business Management
		Due diligence process	She Brings 5 Years' Experience In Debt Recoveries And Risk Management
		Performing assessment and analysis and research in debt and credit management	Bachelor's Degree In Business And Economics
Portfolio Manager 2	Janet Kiptoo	Oversees daily operation and management of various debt and collection portfolio from different clients	Degree In Finance And Accounting
		Due diligence process	5 Years' Experience In Finance Administration Management.
		Performing assessment and analysis and research in debt and credit management	
Portfolio Manager 3	Caroline Wangui	Oversees daily operation and management of various debt and collection portfolio from different clients	Certified Public Accountant CPA-K
		Due diligence process	3 Years' Experience In Debt Recoveries And Risk Management.
		Performing assessment and analysis and research in debt and credit management	
Portfolio Manager 4	Ruth Sang	Oversees daily operation and management of various debt and collection portfolio from different clients	Master's Degree In Leadership And Management
		Due diligence process	Bachelor Of Science -Nutrition
		Performing assessment and analysis and research in debt and credit management	Diploma In Nutrition And Dietetics
Portfolio Manager 5	Mariam Miraji	Oversees daily operation and management of various debt and collection portfolio from different clients	Diploma In Tours And Travel
		Due diligence process	5 Years' Experience In Debt Recoveries And Risk Management.
		Performing assessment and analysis and research in debt and credit management	

6.3 Management Style and Structure

Skip Trace Services and CRB services

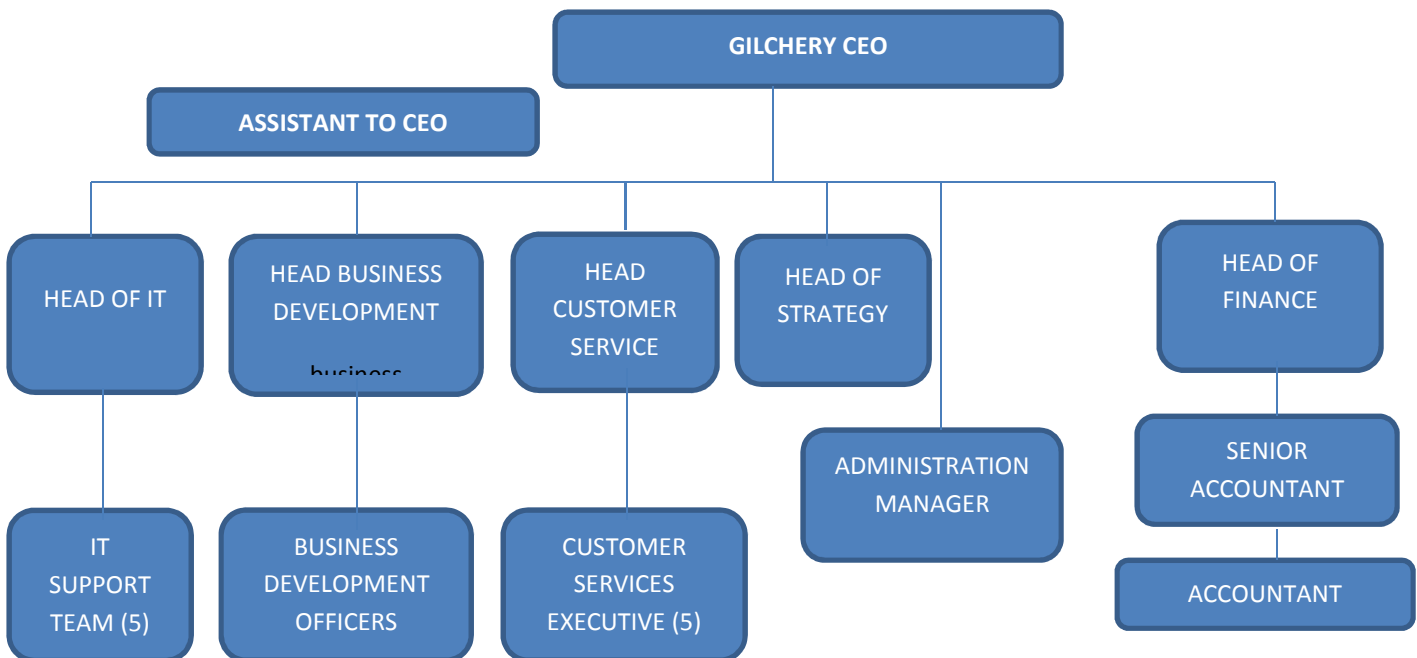
Chart 6: Management Structure



The organization will require a separate management structure to effectively rollout the credit reference bureau platform. The chart below illustrates the expected organogram of the new business unit.

GILCHERY CRB MANAGEMENT STRUCTURE

Chart 8: Management Structure (CRB)



6.4 Current Ownership

Table 13: shareholding structure

Name	Title	Number of Shares	Percentage
Gilbert Cheruiyot (Founder & CEO)	Mr.	600	60%
Caroline Jepkoech (Founder)	Mrs.	400	40%
TOTAL		1,000	100%

7 Operations

7.1 Operational Strategy

GST has developed a more focused debt collection strategy to help reduce costs, save time and maximize resources. This has helped the firm refine its client's debt management and recovery options.

7.1.1 Locate hard-to-find debtors

Obtain up-to-date contact information for your most hard-to-locate debtors. Gilchery Skip Trace Limited frequently refreshes its extensive databases of consumer and commercial information, enabling it to locate elusive debtors, make contact and collect unpaid debt.

7.1.2 Collection prioritization and strategy.

The company has improved on collection efforts and increased their client accounts receivable by identifying accounts with the highest payment potential, analyzing industry trends and testing new strategies. GST advanced scoring and segmentation tools arm you with complete portfolio.

7.1.3 Monitor unpaid debt

Know when customers who've gone into arrears become solvent. Gilchery monitors the clients' debtor accounts and let clients' know when a customer's ability to pay has improved so you can immediately return to working the account and collect the unpaid balance.

7.1.4 Collections management system

A comprehensive collection system is critical to keeping clients company solvent. GST services collections is a unified debt management system that includes data connectivity, decisioning, workflow, and self-service capabilities that can be managed by users. The result is a more effective, customer-focused collections process that turns even hard to find and difficult debtors into valuable customers while increasing recoveries and reducing costs.

7.1.5 GST Credit Bureau Expertise

In today's highly competitive markets, lenders need to ensure that they are making the right credit decisions. To achieve this, decisions need to be based on the most accurate and up-to-date information available. This will be provided by the Gilchery Credit Reference Bureau.

7.1.6 The Most Accurate Information

Credit grantors in the credit market will benefit from the information services provided by Gilchery Credit reference Bureau. These services range from a simple credit report to sophisticated risk and customer management tools. This service will not only cover Kenya only but in the near future Sub Saharan Africa.

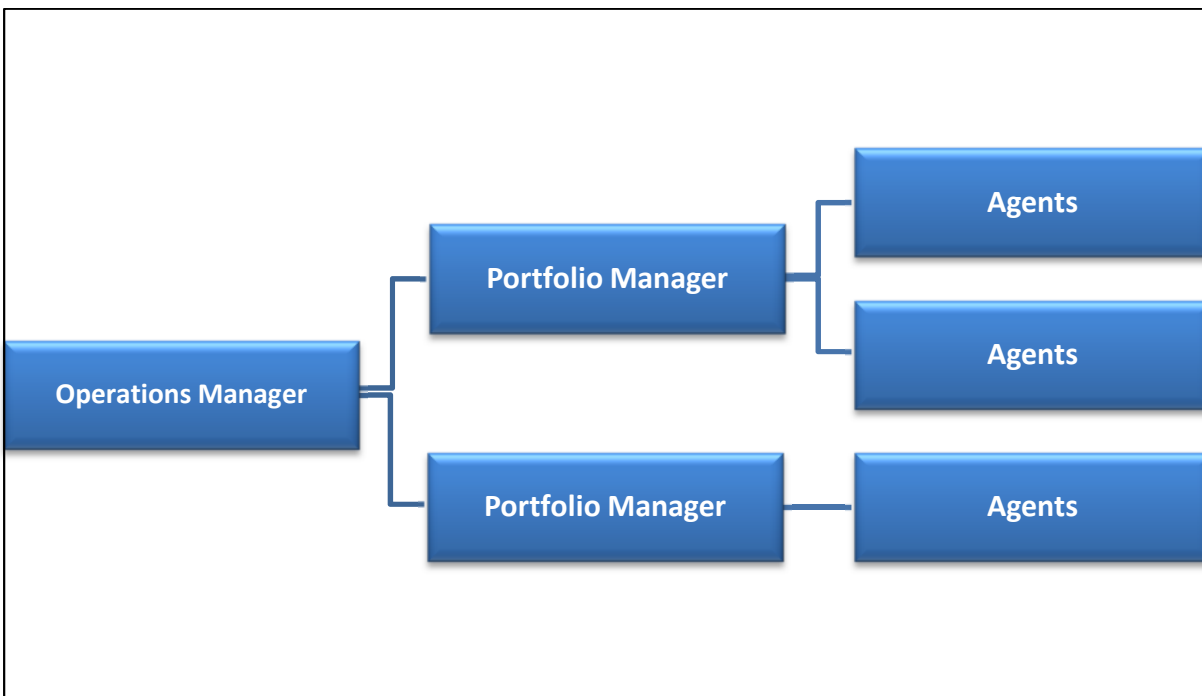
7.2 Location

Being in the right location is a key ingredient in a debt management success and credit reference services. If a company selects the wrong location, it may have adequate access to customers, workers, transportation, materials, and so on. Consequently, location often plays a significant role in a company's profit and overall success. Currently GST has two branches; the headquarters is located along Mombasa Road at Alpha Center and another branch is located in Eldoret town at Khetias Building. Both of the location plays an important role in space and good working environment.

7.3 Personnel

Gilchery Skip Trace has lean and efficient personnel that bring out productivity and success growth of GST. The personnel in this department are the active agents who are managed by the portfolio managers. The structure is as illustrated below.

Chart 8: Operations Department Management Structure



7.4 Suppliers

The firm utilizes the below entities as its suppliers;

FIRM
Zoa Taka
Pin Point
Messages Labs
Airtel
Simbanet
Safaricom
Liquid Telecom
Little Cabs
City Prime
Aquavita
Crafted
Ultimate Office Automation
Rosewood
Pompey
Circuit Power
Messohh Consult
Infosky Solution Ltd
Edel Africa
Nation Media Group Ltd
N Itec Designs
Mafrag Eenterprises
Sunstar Distribution Ltd
Quick Books Online
Creditinfo Credit Reference
Avama Office Furniture
Khetia Drapers Ltd
Unified Business Platforms
Glitz And Pixels
Total Kenya
Real Management

7.5 Credit Management Policies

The following guidelines and procedures have been set and formulated by GST are intended as best practice in the management of 'trading' income and to reduce outstanding debtors by identifying considerations to be made before, during and after the services provided for by GST.

The purpose is to:

- Help to manage any financial and reputational risks to the company
- Provide efficient procedures
- Reduce the time and effort required to chase overdue debts
- Prevent bad-debt provisions being lodged against the Gilchery Skip Trace Limited accounts
- Prevent loss through minimizing the writing off of bad debts.

7.6 Credit risks

It is important to consider the credit risks associated with the customer you (staff) are agreeing to extend credit to, in order to minimize the associated risks of late or non-recovery in all circumstances. The biggest credit risk to GST is non-payment of invoices due over a 45 day period. It's important an agreement set out by company stipulates the interest accrues from late payment after 45 day period. These payments should be invoiced charging the appropriate VAT rate.

7.7 Credit worthiness of external customers

Before agreeing to services on credit (i.e. without receiving payment in advance), the credit worthiness of a customer must be assessed. This is to ascertain whether the firm is in a position to honor payment on time when presented for payments.

7.8 Credit checks

Assessment of the credit-worthiness of clients may involve obtaining credit references or having a credit check performed by registered Credit Reference Bureau. The Finance Manager should be asked to perform a basic credit check using an external credit reference agency covering limited companies and non-limited organisations.

Typical information provided by credit checks includes:

Limited companies

- Company information – registered and trading addresses, industry, shareholders
- Accounts – profit and loss, balance sheet, capital and reserves, ratios
- Rating and limit – credit rating and recommended limit

- County Court Judgment (CCJ) information
- Group structure – parent and subsidiary companies

7.9 Determining the correct VAT treatment

Prior to any invoice being made it must be established whether VAT needs to be charged for the particular provision of service, to this particular client.

7.10 Payment methods

Certain methods of payment of commissions due incur charges and it is therefore important to establish the method of payment by the clients. This is especially the case for all clients.

Cash

- This method should be discouraged to reduce potential security risks to staff.
- Payment in cash to be deposited in designated bank accounts provided.
- Foreign currency should also be discouraged as any loss or gain on exchange, as well as any bank charges, will be charged to the department.

7.11 Invoicing

3.1 Responsibilities

All invoices raised must be in the name of Gilchery Skip Trace Limited and show the VAT number. Invoices must be raised promptly, properly recorded and processed and must comply with the VAT regulations. Invoices should be raised in the Accounts department to ensure that the transaction is immediately logged on the company's accounts systems.

Invoices must be raised promptly. This should be within one week of the files worked on and accounts reconciliation effected. All other invoices must be no more than one month subsequent to the transaction taking place.

7.12 Debt Management

7.12.1 Responsibilities

The collection of income (and any subsequent debts) is the responsibility of the finance department requesting the invoice to be raised, with the finance team assisting with the task. The procedures detailed in this section outline best practice in relation to the collection of overdue debts from external clients (debtors). The risk of late or non-settlement can never be entirely eradicated but there should be a structured, recorded and pro-active approach to recovery as soon as the invoice is raised.

7.12.2 Debt monitoring

Credit control is a very important process that establishes controls to ensure the timely recovery of income and minimizes the risks of non-settlement. As debts become overdue, the risk of non-settlement becomes significantly greater. The finance department perform checks each month end for outstanding debts.

7.12.3 Agreeing to proposed payment plans

Judgment may be taken to offer payment terms by installments in exceptional cases and if this is acceptable, terms and conditions of payment will be drawn up on a case by case basis.

7.12.4 Legal recovery

If payment is still not received after 180 days from the date of invoice or if agreed payment terms are breached then the finance manager will make arrangements to contact the company lawyers to issue a demand letter.

7.12.5 Interest & fines

The Company shall be entitled to charge interest per month or annum above depending on the case for any overdue payment from the date payment is due to the date payment is received on all invoices

8. Financials

In this section we have illustrated the current performance for GST Ltd for the first quarter of 2019. A projected income statement for five years has been presented showing expected performance.

8.1. Operational income Q1 2019

GILCHERY SKIP TRACE LTD OPERATING INCOME STATEMENT FOR THE PERIOD ENDED 31ST MARCH 2019

Table 14: Income Expenditure Statement Q1 2019

Income	Budgeted Average Turnover Kshs	Actual Turnover Kshs	Difference Kshs
Operating Income	41,749,513	45,328,658	3,579,145
Expenses			
Telephone & Courier	913,455	725,300	(188,155)
Print Copies & Upgrades	255,795	135,280	(120,515)
Internet Expense	359,281	205,950	(153,331)
Fuel & Service	76,878	42,348	(34,530)
Utilities (Electricity & Water)	115,279	108,325	(6,954)
Professional fees	246,000	-	(246,000)
Hospitality & Sundry	434,551	256,800	(177,751)
Travel, Fuel & Stay	477,175	490,256	13,081
Repairs & Service	269,217	149,652	(119,565)
Rent & Rates	775,616	835,650	60,034
Market & Development	5,332,762	6,325,825	993,063
Auditors Fee	210,693	-	(210,693)
Cleaning & Sanitation	163,973	178,504	14,531
Insurance Expenses	28,438	-	(28,438)
Bank Charges	159,294	145,245	(14,049)
Mpesa Transaction Costs	4,473	5,627	1,154
Salaries and wages	21,092,698	18,763,689	(2,329,009)
Total Expenses	30,915,577	28,368,451	(2,547,126)
Profit	10,833,936	16,960,207	

8.2. Financial projections

The projections below provide an illustration of the expected net income for the credit management business and expected credit reference bureau services in two parts.

8.2.1. GILCHERY SKIP TRACE PROJECTED INCOME STATEMENT 2019-2023

Table 14: 5 Year Income Statement projections

	Actual	Projected	Projected	Projected	Projected	Projected
Period ending	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
Income	164,982,894	272,221,775	449,165,929	741,123,783	1,222,854,241	2,017,709,498
Total operating income	164,982,894	272,221,775	449,165,929	741,123,783	1,222,854,241	2,017,709,498
Expenses	-	-	-	-	-	-
Telephone & Courier	2,187,917	3,610,063	5,956,604	9,828,397	16,216,854	26,757,810
Print Copies & Upgrades	325,853	537,657	887,135	1,463,772	2,415,224	3,985,120
Internet Expense	349,665	576,947	951,963	1,570,739	2,591,719	4,276,337
Fuel & Service	152,234	251,186	414,457	683,854	1,128,359	1,861,793
Depreciation	3,317,740	5,474,271	9,032,547	14,903,703	24,591,110	40,575,331
Utilities (Electricity & Water)	387,493	639,363	1,054,950	1,740,667	2,872,101	4,738,966
Professional fees	480,000	792,000	1,306,800	2,156,220	3,557,763	5,870,309
Hospitality & Sundry	1,368,666	2,258,299	3,726,193	6,148,219	10,144,561	16,738,526
Travel, Fuel & Stay	1,334,755	2,202,346	3,633,870	5,995,886	9,893,212	16,323,800
Repairs & Service	815,808	1,346,083	2,221,037	3,664,712	6,046,774	9,977,177
Rent & Rates	3,020,899	4,984,483	8,224,398	13,570,256	22,390,922	36,945,022
Marketing & Development	19,569,768	32,290,117	53,278,693	87,909,844	145,051,243	239,334,550
Auditors Fee	355,600	586,740	968,121	1,597,400	2,635,709	4,348,921
Cleaning & Sanitation	-	27,222	44,917	74,112	122,285	201,771
Insurance Expenses	113,750	187,688	309,684	510,979	843,116	1,391,141
Bank Charges	455,126	750,958	1,239,081	2,044,483	3,373,397	5,566,105
Mpesa Transaction Costs	17,891	29,520	48,708	80,369	132,608	218,804
Salaries and wages	52,404,219	86,466,961	142,670,486	235,406,302	388,420,399	640,893,658
Total Expenses	86,657,384	143,011,906	235,969,645	389,349,913	642,427,357	1,060,005,139
Profit Before Tax	78,325,510	129,209,869	213,196,284	351,773,869	580,426,884	957,704,359
Corporate Tax @ 30%	23,497,653	38,762,961	63,958,885	105,532,161	174,128,065	287,311,308
Profit After Tax	54,827,857	90,446,909	149,237,399	246,241,708	406,298,819	670,393,051
Performance ratios	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23
Gross margin	47%	47%	47%	47%	47%	47%
Net income margin	33%	33%	33%	33%	33%	33%

8.2.2 GILCHERY CRB PROJECTED INCOME STATEMENTS 2021-2024

Table 15: Gilchery CRB 4 Year Income Projections

	Gilchery CRB 31-Dec-21	Gilchery CRB 31-Dec-22	Gilchery CRB 31-Dec-23	Gilchery CRB 30-Dec-24
Income	921,600,000	1,013,760,000	1,115,136,000	1,226,649,600
Total operating income	921,600,000	1,013,760,000	1,115,136,000	1,226,649,600
Less:				
Expenses				
Telephone & Courier	12,221,778	12,832,867	14,116,154	15,527,769
Print Copies & Upgrades	1,820,226	1,911,237	2,102,361	2,312,597
Internet Expense	1,953,240	2,050,902	2,255,993	2,481,592
Fuel & Service	850,384	892,903	982,194	1,080,413
Depreciation	18,533,007	18,533,007	20,386,308	22,424,939
Utilities (Electricity & Water)	2,164,549	2,272,776	2,500,054	2,750,059
Professional fees	2,681,296	2,815,361	3,096,897	3,406,587
Hospitality & Sundry	2,000,000	2,100,000	2,310,000	2,541,000
Travel, Fuel & Stay	3,000,000	3,150,000	3,465,000	3,811,500
Repairs and maintenance	5,000,000	5,250,000	5,775,000	6,352,500
Rent & Rates	8,100,000	8,505,000	9,355,500	10,291,050
Marketing & Development	75,000,000	78,750,000	86,625,000	95,287,500
Auditors Fee	1,986,394	2,085,713	2,294,285	2,523,713
Cleaning & Sanitation	1,000,000	1,050,000	1,155,000	1,270,500
Insurance Expenses	635,411	667,182	733,900	807,290
Bank Charges	1,200,000	1,260,000	1,386,000	1,524,600
Mpesa Transaction Costs	99,940	104,937	115,430	126,973
Salaries and wages	34,860,000	36,603,000	40,263,300	44,289,630
Total Expenses	173,106,226	180,834,887	198,918,375	218,810,213
Profit Before Tax	748,493,774	832,925,113	916,217,625	1,007,839,387
Less:				
Corporate Tax @ 30%	224,548,132	249,877,534	274,865,287	302,351,816
Profit After Tax	523,945,642	583,047,579	641,352,337	705,487,571

8.2.3. Performance ratios

Period ending:	31-Dec-21	31-Dec-22	31-Dec-23	30-Dec-24
Gross margin	81%	82%	82%	82%
Net income margin	57%	58%	58%	58%

8.3. Financial history and analysis

8.3.3. Financial history

8.3.3.1. Income Statement

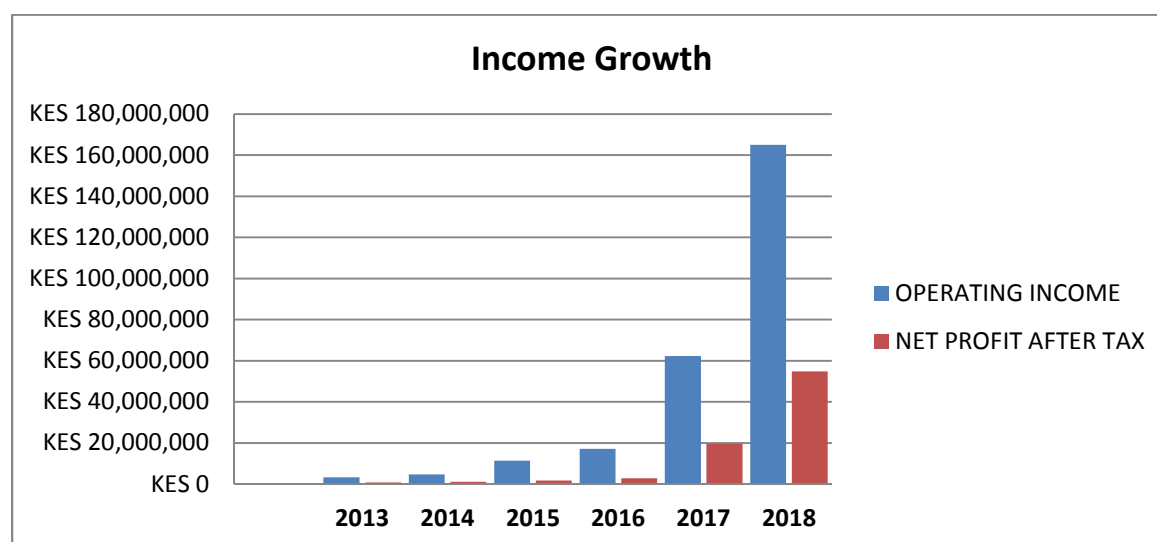
Table 16: Summarized Audited Income Statements

For the period ending 31 st December	2013	2014	2015	2016	2017	2018
Operating Income	3,373,690	4,665,838	11,475,426	17,086,221	62,343,084	164,982,894
Operating Expenses					23,835,085	52,404,219
Administrative Expenses	2,349,704	3,122,675	8,949,013	12,356,834	18,786,151	33,780,148
Finance Costs		-	-	-	-	473,017
Net Profit/ Loss	1,023,986	1,543,163	2,526,413	4,729,387	19,721,848	78,325,510
Net Profit Before Tax						
Tax	1,023,986	1,543,163	2,526,413	4,729,387	19,721,848	78,325,510
Corporate Tax	285,551	467,124	757,924	1,883,261	5,916,554	23,497,653
Net Profit After Tax						
Tax	738,435	1,076,039	1,768,489	2,846,126	19,721,848	54,827,857

8.3.3.1.1. Positive Performance

The firm has grown steadily over the years as shown by the growth chart below.

Chart 9: Income Growth



8.3.3.2. Balance sheet

Table 17: Audited Balance Sheet for Gilchery Skip Trace Ltd From 2013-2018

Balance Sheet For The Period Ending 31st December	2013	2014	2015	2016	2017	2018
ASSETS						
NON CURRENT ASSETS						
Property, Plant & Equipment	540,855	1,196,125	1,548,037	3,545,347	13,103,032	11,822,158
Investments						52,537,655
Total Non-Current Assets	540,855	1,196,125	1,548,037	3,545,347	13,103,032	64,359,813
CURRENT ASSETS						
Debtors & prepayments	437,290	880,000	806,791	1,790,260	4,512,530	18,078,563
Cash & bank balances	200,290	125,000	2,599,501	455,088	8,714,086	1,030,442
Total Current Assets	637,580	1,005,000	3,406,292	2,245,348	13,226,616	19,109,005
TOTAL ASSETS	1,178,435	2,201,125	4,954,329	5,790,695	26,329,648	83,468,818
FINANCED BY LIABILITIES & EQUITY						
LIABILITIES						
CURRENT LIABILITIES						
Tax Payable						23,497,653
Creditors & Accruals	340,000	250,000	85,000			209,873
Directors contribution				3,922,205	4,739,311	
Total Current Liabilities	340,000	250,000	85,000	3,922,205	4,739,311	23,707,526
LONG-TERM LIABILITIES						
Borrowings	-	-	-	-	-	4,833,435
Total long-term liabilities	-	-	-	-	-	4,833,435
TOTAL LIABILITIES						28,540,961
EQUITY						
Share capital	100,000	100,000	100,000	100,000	100,000	100,000
Retained earnings	738,435	1,814,515	3,796,405	1,768,490	21,490,337	54,827,857
Shareholders' funds		36,610	972,924			
TOTAL EQUITY	838,435	1,951,125	4,869,329	1,868,490	21,590,337	54,927,857
TOTAL EQUITY & LIABILITIES	1,178,435	2,201,125	4,954,329	5,790,695	26,329,648	83,468,818

8.3.4. Ratio Analysis

Table 18: Ratio Analysis

Audited Accounts For The Period Ending:	2013	2014	2015	2016	2017	2018
Gross profit margin	30%	33%	22%	28%	32%	47%
Net Profit Margin	22%	23%	15%	17%	32%	33%
<i>Liquidity Ratios</i>						
Current ratio	1.88	4.02	40.07	0.57	2.79	0.81
Quick ratio	0.59	0.50	30.58	0.12	1.84	0.04
<i>Profitability ratios</i>						
Return on Equity	-	19%	13%	21%	42%	36%
Return on Assets	-	16%	12%	13%	31%	25%
Working Capital	297,580	755,000	3,321,292	(1,676,857)	8,487,305	(4,598,521)

9. Funding Request

9.2. Offer

The principal owners' of Gilchery Skip Trace Ltd would like to invite you as our target investor to purchase 367 newly created ordinary shares at a price of Kshs 450,000 per share all with a total value of Kshs 165 million. The proceeds of sale will go towards investment in the launch of the new product, Gilchery Credit Reference Bureau. By subscribing to these shares you will acquire a shareholding of 27% of the company. By subscription, you will be participating in the management of an upcoming business venture in a vibrant industry with very high growth potential. The subscription shares will be entitled to all full rights ordinarily applicable to these class of shares. You will be also accorded upon expressed willingness, to a seat in the board of directors and management and partake in the decision making process and direction and control of the enterprise.

9.3. Capital requirements

As mentioned, we need a capital injection of Kshs 165 million which will enable the expansion strategy in to offering credit information sharing. The product will run simultaneously together with the existing successful debt management business. Great strides have been made to procure the license for offering the new product which will roll out within a period of six months. Periodic inspections are being carried out by the regulator to ensure fit for the envisaged new business.

9.4. Risk and Opportunity

The current and intended business is exposed to particular manageable and un-diversifiable risks that would impacts the organizations performance.

9.4.3. *Market liquidity*

Liquidity in the market would limit the capacity of banking and non-banking institutions to offer credit. This would affect the income streams to be obtained as the GST greatly relies on commissions earned from collections on outstanding dent. Low volumes of credit disbursements would mean lower incomes negatively in the short run period. Further the ability of the targeted distressed borrowers to be able to repay defaulted loans is a significant risk. The turnover ratio of players determines the success in the business.

9.4.4. *Geopolitical risks*

Periods of uncertainty as a result of heightened political activity especially surrounding the electioneering period have tendencies of limiting credit growth. This has been witnessed with the previous elections in 2017. As a debt management company business has always been

prevalent on the back of the fact that institutions sit on high volumes of non-performing loans which can ensure business continuity even in short periods of uncertainty.

9.4.5. *Availability of Data*

Of critical importance in creation of a reference bureau is the availability of data concerning the individual and the enterprise. A huge budget needs to be invested in acquiring information to be stored in the firm's databases and their timely update on different aspects concerning the targeted subjects to ensure reliability of reports from the bureau. The successes of any credit reference system lies in a functioning credit information sharing system. Through credit information sharing Kenya a tool developed by the by the Association of Kenya Credit Providers, data can be obtained to ensure sustainability of operations. Further to mitigate this risk the organization through its separate business unit has access to data through its collections business on particular persons and enterprises which will be input into the proposed CRB database.

9.4.6. *Collection of Data*

Data collection plays a significant part as well in designing a proper reference bureau. The effort and extensiveness in obtaining data without infringing on personal rights and ensuring their protection from unauthorized use is mandatory as per the requirements of the Central Bank of Kenya. The data collected has to be verified before being uploaded or updated in the firms' database.

9.4.7. *Legal Risk*

As a credit reference bureau, the actions that follow any complaint from a subscriber introduces a risk element to the firm. When a customer expresses a reservation as to the accuracy of the information that has been presented in their credit report necessary steps should be taken to remedy the situation to avoid litigation against the CRB. According to the law, the CRB upon receipt of a complaint should follow precise procedures to ensure the dispute is resolved within the specified time frame.

9.4.8. *Repeal of The Interest Rate Capping Law*

The expected repealing of the interest capping law will open the floodgates for renewed credit supply to the private sector. As new applications are made by SMEs, individual's credit references will be required and this will benefit reference bureaus as they will be able to get income from issuing reports and applicants paying for the clearance certificate to exhibit qualification.

9.4.9. *Macro-economic stability and increased private sector credit growth*

Kenya's economic growth has and will always be championed by the private sector. The forecast positive growth forecasts at 5.8% to 6.0 % in the year 2019 and 2020 respectively and will lead to higher demand for investment by the private sector. Access to credit will lead to increased lending and thus more business to the reference bureau as well.

9.4.10. *Perception of negative CRB listing*

The consequences of negative listing with credit reference bureaus and upfront costs for clearance necessitate borrowers to clear outstanding loans with a very short duration. Further the inability to obtain credit from all lenders upon negative listing will ensure the users of credit make good accounts prior to intention of listing by debt providers. This will result in high collection rates for debt collection agencies in the field.

9.4.11. *Outsourcing of debt management business*

In the recent past it has been witnessed banks are moving away from investment in house capacity and opting to outsource non-core functions to professional firms who employ ethical standards in collection of their overdue accounts. the importance of ethics and integrity is that in midst of cut throat completion in the lending market, banks and other financial institutions want to retain their customers thus enhancing customer experience is paramount. This creates the need to only work with more established and professional players.

9.5. Valuation of the business

The firm is currently valued at Kshs 450 million. This was according to a valuation carried out on the 31st of May 2019. The valuation was based on the income approach by analyzing the income the business has been able to generate and forecasting on the future period. The valuation provided concluded providing the business value/enterprise value of the firm.

10. APPENDICES

10.2. APPENDIX 1: INCORPORATION CERTIFICATE



10.3. Expansion Budget

Fixed Costs	Kshs
Establishment Expenses	
Registration Documents	50,000
CBK Preliminary License Fee	10,000
CBK License	100,000
Final Audit	1,500,000
Security and Systems Preliminary Audit	1,000,000
Total Establishment Expenses	2,660,000
Other Fixed Costs	Kshs
Furniture and Partitions	7,000,000
Enhanced Security Systems	2,000,000
Computers, Laptops, Networking and Accessories	10,000,000
Complete Data Centre (Software License Purchase, Hardware Servers, Software Development and Data Base Licenses	75,000,000
Miscellaneous Costs	5,000,000
Total	99,000,000
Operational costs	Kshs
Key Staffing-Implementation Stage	34,860,000
Office Maintenance -Set Up Period	12,000,000
Annual Rental Building 4,500sqft @Kshs 150/SF	8,100,000
Total Variable Costs	54,960,000

Staffing Cost Break Down

	MONTHLY	TOTAL MONTHLY	LEAN PERIOD ANNUAL	ANNUALLY
GENERAL MANAGER	300,000.00	300,000.00	3,600,000.00	3,600,000.00
OFFICE MANAGER (ASST TO GM)	100,000.00	100,000.00		1,200,000.00
IT HEAD	400,000.00	400,000.00	4,800,000.00	4,800,000.00
(5) IT SUPPORT TEAM	100,000.00	500,000.00	1,200,000.00	6,000,000.00
HEAD OF BUSINESS DEVELOPMENT	200,000.00	200,000.00	2,400,000.00	2,400,000.00
(4) BUSINESS DEVELOPEMNT OFFICE	70,000.00	280,000.00		3,360,000.00
HEAD OF STRATEGY	200,000.00	200,000.00		2,400,000.00
ADMINISTARTION MANAGER	150,000.00	150,000.00	1,800,000.00	1,800,000.00
HEAD OF CUSTOMER SERVICE TEAM	120,000.00	120,000.00		1,440,000.00
5 CUTOMER CARE TEAM	60,000.00	300,000.00		3,600,000.00
HEAD OF FINANCE	200,000.00	200,000.00	2,400,000.00	2,400,000.00
SENIOR ACCOUNTANT	100,000.00	100,000.00	1,200,000.00	1,200,000.00
ACCOUNTANT	75,000.00	75,000.00	900,000.00	900,000.00
BOARD OF DIRECTORS-ALLOWANCES		100,000.00		1,200,000.00
TOTALS		2,905,000.00	18,300,000.00	36,300,000.00