

# Pre-Feasibility Study

## LADIES SHOES MANUFACTURING UNIT



**Small and Medium Enterprises Development Authority**

**Ministry of Industries & Production**

**Government of Pakistan**

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## 1. DISCLAIMER

This information memorandum is to introduce the subject matter and provide a general idea and information on the said matter. Although, the material included in this document is based on data/information gathered from various reliable sources; however, it is based upon certain assumptions, which may differ from case to case. The information has been provided on as is where is basis without any warranties or assertions as to the correctness or soundness thereof. Although, due care and diligence has been taken to compile this document, the contained information may vary due to any change in any of the concerned factors, and the actual results may differ substantially from the presented information. SMEDA, its employees or agents do not assume any liability for any financial or other loss resulting from this memorandum in consequence of undertaking this activity. The contained information does not preclude any further professional advice. The prospective user of this memorandum is encouraged to carry out additional diligence and gather any information which is necessary for making an informed decision, including taking professional advice from a qualified consultant/technical expert before taking any decision to act upon the information.

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### DOCUMENT CONTROL

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## **2. EXECUTIVE SUMMARY**

The demand for shoes is continually rising due to urbanized population and changing life styles. Although, there are a number of local manufacturers producing good quality shoes but still a huge demand exists for potential investment in the footwear sector in Pakistan.

This pre-feasibility study is for setting up of a semi-mechanized shoe manufacturing unit exclusively for ladies. The business will focus on providing good quality ladies footwear at affordable prices; particularly including pumps, coat shoes, sandals, and sleepers of sizes starting from number 6 to 11. The shoes will be directly sold to wholesalers and retail outlets operating in major cities of Pakistan. The unit is assumed to be set up in any city with already established units, such as Karachi, Lahore, Faisalabad, Hyderabad, Sahiwal, Gujranwala and Rawalpindi.

The unit will have an installed production capacity of producing 600 pairs of shoes per day on single shift basis. However, initial operational capacity is assumed at 50% (i.e. 300 pairs of shoes) whereas maximum operational capacity utilization is considered as 80% (i.e. 480 pair of shoes) per day. This production capacity is estimated to be economically viable and justifies the capital as well as operational costs of the project. However, entrepreneur's knowledge of footwear industry, development of quality shoes, attractive designs, competitive pricing and strong linkages with wholesale / retail networks are vital factors for the success of this project.

Total cost of setting up this shoes manufacturing unit is estimated at Rs. 9.93 million. The project is financed through 50% debt and 50% equity. The project NPV is around Rs. 32.67 million, with an IRR of 55 % and payback period of 2.72 years. The legal business status of this project is proposed as 'Sole Proprietorship'.

## **3. INTRODUCTION TO SMEDA**

The Small and Medium Enterprises Development Authority (SMEDA) was established in October 1998 with an objective to provide fresh impetus to the economy through development of Small and Medium Enterprises (SMEs).

With a mission "to assist in employment generation and value addition to the national income, through development of the SME sector, by helping increase the number, scale and competitiveness of SMEs", SMEDA has carried out 'sectoral research' to identify policy, access to finance, business development services, strategic initiatives and institutional collaboration and networking initiatives.

Preparation and dissemination of prefeasibility studies in key areas of investment has been a successful hallmark of SME facilitation by SMEDA.

Concurrent to the prefeasibility studies, a broad spectrum of business development services is also offered to the SMEs by SMEDA. These services include identification of experts and consultants and delivery of need based capacity building programs of different types in addition to business guidance through help desk services.

#### **4. PURPOSE OF THE DOCUMENT**

The objective of the pre-feasibility study is primarily to facilitate potential entrepreneurs in project identification for investment. The project pre-feasibility may form the basis of an important investment decision and in order to serve this objective, the document / study covers various aspects of project concept development, start-up, production, marketing, finance, and business management.

The purpose of this document is to facilitate potential investors in **Ladies Shoes Manufacturing** business by providing them a general understanding of the business with an intention of supporting potential investors in crucial investment decisions.

The need to come up with pre-feasibility reports for undocumented or minimally documented sectors attains greater imminence as the research that precedes such reports reveal certain thumb rules; best practices developed by existing enterprises by trial and error and certain industrial norms that become a guiding source regarding various aspects of business set-up and it's successful management.

Apart from carefully studying the whole document, one must consider critical aspects provided later on, which shall form the basis of any investment decision.

#### **5. BRIEF DESCRIPTION OF PROJECT & PRODUCT**

Footwear manufacturing industry in Pakistan can be broadly categorized into two main segments i.e. Organized Sector (mainly including big brands e.g. Stylo Shoes, Metro Shoes, Insignia Shoes, ECS, Console Shoes, Aerosoft Shoes, Bata, Service, etc.) and Unorganized Sector (mainly comprising of labor intensive units having semi-mechanized manufacturing facilities).

This particular pre-feasibility provides basic details for setting up semi-mechanized ladies shoes manufacturing unit. Major product line of the venture includes different varieties of pumps, coat shoes, sandals, and sleepers with a variety of leather and other materials. The proposed unit will manufacture ladies shoes in all sizes starting from number 6 up to number 11. To keep the project operational throughout the year, production of different varieties of footwear will be planned according to seasonal trends.

Second-hand machinery of German and UK origin is proposed to be used. Overall installed capacity of the unit will be to produce 600 pairs of shoe per day, while maximum capacity utilization of the unit is assumed at 80% i.e. 480 pairs per day and 144,000 pairs annually. The proposed venture will provide employment opportunity to 15 individuals including the Owner / Manager. It is assumed that the unit should be established in a rented premise to reduce the initial capital expenditures.

### **5.1. Production Process Flow**

Production process of shoe manufacturing starts with the development of shoe designs. Generally 10 to 12 different designs (including both summer and winter designs) are required for the whole year production cycle. Designs are developed either in-house by employing a full time designer or can be outsourced. However, it is recommended to have a full time designer for maintaining the uniqueness of designs in the market. The proposed unit will have a full time designer to produce new and creative designs. After finalizing the shoe designs, shoe “Last” is prepared; Last is a plastic shape that simulates the foot shape. It is later removed from the finished shoe to be used further in making other shoes. Shoe Last for the proposed unit will be outsourced from the markets. The next step is preparation of press cutting dyes for uppers cutting and synthetic material. Stitchers then perform various stitching operations to stitch together various components of the upper. After stitching is done, the uppers are molded into a shape of foot with the help of developed Last and sole will then be joined / attached with the upper. Final stage of shoe manufacturing is ‘finishing’, and once the finishing has been done, each pair of shoe will be packed in polythene bags and then finally into boxes.



Details of operational and installed capacities are provided in the table below;

**Table 1: Installed and operational capacity:**

Item	% Of Total Production	Total Production Capacity (Annually)	Operational Capacity 50 % (Year 1)	Maximum Operational Capacity 80 % (Year 7)
A-Pairs	80%	144,000	72,000	115,200
B-Pairs	20%	36,000	18,000	28,800
<b>Total</b>	<b>100%</b>	<b>180,000</b>	<b>90,000</b>	<b>144,000</b>

## 6. CRITICAL FACTORS

Following are the factors critical for the success of this business;

- ⇒ Development of attractive designs and good quality shoes at competitive prices.
- ⇒ Develop strong linkages with suppliers for obtaining good quality products at competitive prices.
- ⇒ Networking with shoes wholesaler / retailers for the sale of the product.
- ⇒ Efficient management of stock to keep inventory cost at the minimum.
- ⇒ Knowledge about the latest market trends.
- ⇒ Induction of trained sales personnel for efficient customer handling.
- ⇒ Quality standards should be strictly followed.
- ⇒ Strong presence in the domestic market.
- ⇒ Increasing competition from Chinese products and strong competition with similar type of manufacturers.

## 7. GEOGRAPHICAL POTENTIAL FOR INVESTMENT

Lahore is the footwear centre of the country, followed by Karachi, Faisalabad, Hyderabad, Sahiwal, Gujranwala and Rawalpindi. Therefore, any of the above cities would be suitable for setting up a ladies shoe manufacturing unit. Raw material and labour are also easily available in these cities.

## 8. POTENTIAL TARGET MARKETS

Target customer for the proposed project would be females of ages 14 years and above, belonging to middle and lower middle-income family groups. The middle and lower-middle family income groups dominate the overall population in Pakistan. This phenomenon provides an ample opportunity for the investment in this sector.

## 9. PROJECT COST SUMMARY

A detailed financial model has been developed to analyze the commercial viability of Ladies Shoes Manufacturing Unit. Various costs and revenue related assumptions along with results of the analysis are outlined in this section.

The projected Income Statement, Cash Flow Statement and Balance Sheet are also attached as annexure.

### 9.1. Project Economics

All the assumptions in this financial model are based upon total installed capacity of 180,000 pairs. Whereas, during first year production capacity utilization is targeted at 50%, i.e. 90,000 pairs of shoes to be produced while 83,505 pairs will be sold. The balance quantity of 6,495 pairs will be finished goods inventory for next year.

The following table shows internal rate of return, payback period and Net Present Value.

**Table 2: Project Economics**

Description	Details
Internal Rate of Return (IRR)	55%
Pay Back Period (Years)	2.72
Net Present Value (NPV)	32,665,861

Returns on the project and its profitability are highly dependent on the efficiency of the entrepreneur in hiring skilled personnel and maintaining good quality in terms of shoes design, quality and customer services.

### 9.2. Project Financing

Following table provides details of required equity and variables related to bank loan.

**Table 3: Project Financing**

Description	Details
Total Equity (50%)	4,965,541
Bank Loan (50%)	4,965,541
Annual Markup to the Borrower– Long Term Loan	16%
Tenure of the Loan (Years)	5 Years
Annual Markup to the Borrower – Short Term Debt	16%

### 9.3. Project Cost

Following fixed and working capital requirements have been identified for operations of the proposed business.

**Table 4: Project Investment**

Description	Amount (Rs.)
<b>Capital Investment</b>	
Machinery & Equipment	4,177,500
Furniture & Fixtures	413,400
Office Equipment	157,000
Pre-operating Costs	693,925
Training Costs	50,000
<b>Total Capital Cost</b>	<b>5,491,825</b>
<b>Working Capital Requirements</b>	
Raw Material Inventory	3,014,401
Upfront Building Rent	900,000
Cash	524,857
<b>Total Working Capital</b>	<b>4,439,258</b>
<b>Total Investment</b>	<b>9,931,082</b>

#### 9.4. Machinery Requirement

Following table provides list of machinery and office equipment required for an average sized Ladies Shoes Manufacturing Unit.

**Table 5: Machinery and Equipment Required**

Description	Quantity	Unit Price (Rs.)	Total Amount (Rs.)
Cutting Clicking Press and Cutting Board	1	180,000	180,000
GP 4 Machine	2	60,000	120,000
Skiving Machine	2	36,000	72,000
Upper Stitching Flat Bed Machine	4	70,000	280,000
Upper Stitching Post Bed Machine	2	40,500	81,000
Cylindrical Bed / Bending Machine	1	48,000	48,000
Sole Attaching Press	1	750,000	750,000
Grinder / Scoring Machine	3	15,000	45,000
Sole Activator	1	480,000	480,000
Zigzag Machine	1	28,000	28,000
Scoring Machine	1	27,000	27,000
Finishing Machine	1	50,000	50,000
Lasts	1	600,000	600,000
Generator - 50 KVA	1	350,000	350,000
Other Machinery (Inland Freight, Electric Wiring & Other Miscellaneous Expenses)		1,066,500	1,066,500

<b>Total Machinery Cost</b>			<b>4,177,500</b>
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### 9.5. Office Equipment Requirement

Office equipment requirements for proposed venture are as under.

**Table 6: Office Equipment Required**

Description	Quantity	Cost/Unit (Rs.)	Total Cost (Rs.)
Computers	3	25,000	75,000
UPS	3	10,000	30,000
Printers	1	20,000	20,000
Telephone Sets	2	1,000	2,000
Fax Machine	1	30,000	30,000
<b>Total Cost</b>			<b>157,000</b>

### 9.6. Furniture and Fixture Requirements

Details of required furniture and fixture are provided in the following table.

**Table 7: Furniture and Fixture Required**

Description	Qty	Cost/Unit (Rs.)	Total Cost (Rs.)
Executive Table	1	25,000	25,000
Tables	7	8,000	56,000
Sofa	1	25,000	25,000
Store Racks/Shelves	5	12,000	60,000
Chairs	14	2,000	28,000
Stools	3	1,200	3,600
Work Tables	2	8,000	16,000
File cabinets	3	4,000	12,000
Fans and Lights		70,000	70,000
Fire extinguishers	3	2,600	7,800
Air Conditioners	2	55,000	110,000
<b>Total Cost</b>			<b>413,400</b>

### 9.7. Space Requirement

In order to reduce the initial capital expenditure, the proposed Ladies Shoes Manufacturing Unit will be established in a rental premises. Therefore, space may be acquired in the industrial state or in outskirts of big cities where skilled workers are available. The rent of the building will depend on the area and geographical location of the unit. An estimated area of 1 Kanal (4,500 sq. ft.) will be required for the proposed venture.

The area requirement has been calculated on the basis of space required for production, management and storage. However, the units operating in the industry do not follow any set pattern.

Following table shows calculations for project space requirement.

**Table 8: Space Requirement**

Space Requirement	Area in Sq. Ft.
Offices	200
Production Hall	3,000
Raw Material Store	500
Finished Goods Store	500
Washrooms	50
Loading Area	250
<b>Total Area</b>	<b>4,500</b>

### 9.8. Raw Material Requirements

Following are the major components of raw material required for manufacturing ladies shoes.

Shoe Parts	Material
Upper Material	Natural Leather, Paramedics, Leather Fabrics, Textile Materials, Plastic and Rubber Fall
Insole Material	Leather Board, Texon, Bontex and Other Cellulose Board and Some Special Types of Shoe Construction Textiles
Outsole Material	Ethylene Vinyl Acetate (EVA), Polyvinyl Chloride (PVC), Polyurethane (PU) and Thermoplastic Rubber (TPR)
Grinderies	Shoe Laces, Threads, Tapes, Metal Fittings, Eyelets, Buckles, Different Types of Nails/Tingles, Shanks, Rivets, Hooks Zip Fastener
Auxiliary Material	Adhesives, Finishing Chemicals like Latex, Polish, etc.

### 9.9. Human Resource Requirements

Following table provides details of human resource required for the project along with monthly salaries:

**Table 9: Human Resource Requirement**

Employees	No.	Salary Per Employee Per Month(Rs.)
Owner / Manager	1	60,000
Production Supervisor	1	25,000
Designer	1	40,000
Foreman	1	25,000
Mechanic	1	15,000
Helper	3	12,000
Marketing Executive	1	30,000
Purchaser	1	25,000
Accountant	1	18,000
Store Keeper	1	12,000
Office boy	1	12,000
Watchman	2	12,000
<b>Total</b>	<b>15</b>	

It is assumed that the owner would have prior experience or knowledge about the ladies shoes manufacturing business. Salaries of all employees are estimated to increase at 10% annually.

### 9.10. Other Costs

An essential cost to be borne by the business is the cost of electricity; a three-phase commercial electricity connection is required. The annual electricity expenses are estimated as Rs. 644,144. This project also requires heavy marketing and promotional activities; for which approximately 2.5% of total revenues will be spent on marketing and promotion expenses annually for the first three years. Similarly, during 1st year of operation communication and office expenses are estimated at Rs. 217,200 and 108,600 respectively.

### 9.11. Revenue Generation

Revenue and cost assumptions of the proposed business venture during first year of operation are as follows:

**Table 10: Revenue Generation in First Year**

Description	% Of Production	Sales Price (Rs./Pair)	Y-1 Production capacity (50%)	Y-1 Sales Revenue (Rs)
Sale of A pairs	80%	650	66,804	43,422,600
Sales of B Pairs	20%	325	16,701	5,427,825
<b>Total</b>	<b>100%</b>		<b>83,505</b>	<b>48,850,425</b>

## 10. CONTACT DETAILS

Contact details of private sector Service Providers relevant to the proposed project are as under:

### 10.1. Machinery Suppliers

Name	Address	Phone / Fax	E-mail / Website
New Tech Auto Mission	809 Ravi Block, Near Kharah Stop Main Multan Road, Lahore	042-37490497 36106946	
REX Machinery (Pvt.) Ltd.	Rex Market, 6 Allama Iqbal Road, Lahore.	Ph: +92-42-363 75525, Fax: +92-42-363 05130	<a href="mailto:rexmachinery@hotmail.com">rexmachinery@hotmail.com</a>
R. Sons Machinery	24 AllamaIqbal Road, Shop no 5-6, Near Railway Hospital Lahore	042-36370818 36364965	
United Apparel Machinery	25 United Arcade, Rex Market, Nicolson Road, Lahore	Ph: +92-42-362 91680	<a href="mailto:lhr@unitedmachinery.com.pk">lhr@unitedmachinery.com.pk</a> <a href="http://www.unitedmachinery.com.pk">www.unitedmachinery.com.pk</a>

## 10.2. Raw Material Suppliers

Name	Address	Phone / Fax	E-mail / Website
Ideal Rubber & Engineering Industry	17-A, SIE No. 1, Gujranwala	055-3259034 0300-8465454	
Global Enterprises	40-ST-80, Opposite Local Govt. Complex, Sanda Road, Lahore	042-37148734	<a href="mailto:gle@brain.net.pk">gle@brain.net.pk</a>
Crescent Art Fabric.	10- Abbot Road, Lahore	042-36364208	

## 10.3. Technical Experts / Consultants

Name	Address	Phone / Fax	E-mail / Website
Government Institute of Leather Technology	P.O Anwar Industry, G.T. Road, Gujranwala	Ph: +92-055-923 00562	
Footwear Training Institute	Plot no. 24, Phase 5, Hyatabad, Peshawer	Ph: +92-91-921 7244	
Muhammad Ashraf		+92-300-457 5118	<a href="http://www.kamhank.com">www.kamhank.com</a>

## 11. USEFUL LINKS

Small & Medium Enterprises Development Authority (SMEDA)	<a href="http://www.smeda.org.pk">www.smeda.org.pk</a>
Government of Pakistan	<a href="http://www.pakistan.gov.pk">www.pakistan.gov.pk</a>
Ministry of Industries & Production	<a href="http://www.moip.gov.pk">www.moip.gov.pk</a>
Ministry of Education, Training & Standards in Higher Education	<a href="http://moptt.gov.pk">http://moptt.gov.pk</a>
Government of Punjab	<a href="http://www.punjab.gov.pk">www.punjab.gov.pk</a>
Government of Sindh	<a href="http://www.sindh.gov.pk">www.sindh.gov.pk</a>
Government of Khyber Pakhtunkhwa	<a href="http://www.khyberpakhtunkhwa.gov.pk">www.khyberpakhtunkhwa.gov.pk</a>
Government of Balochistan	<a href="http://www.balochistan.gov.pk">www.balochistan.gov.pk</a>
Government of GilgitBaltistan	<a href="http://www.gilgitbaltistan.gov.pk">www.gilgitbaltistan.gov.pk</a>
Government of Azad Jamu Kashmir	<a href="http://www.ajk.gov.pk">www.ajk.gov.pk</a>
Trade Development Authority of Pakistan (TDAP)	<a href="http://www.tdap.gov.pk">www.tdap.gov.pk</a>
Security Commission of Pakistan (SECP)	<a href="http://www.secp.gov.pk">www.secp.gov.pk</a>
Federation of Pakistan Chambers of Commerce and Industry (FPCCI)	<a href="http://www.fpcci.com.pk">www.fpcci.com.pk</a>
State Bank of Pakistan (SBP)	<a href="http://www.sbp.org.pk">www.sbp.org.pk</a>
Punjab Small Industries Corporation	<a href="http://www.psic.gop.pk">www.psic.gop.pk</a>
Sindh Small Industries Corporation	<a href="http://www.ssic.gos.pk">www.ssic.gos.pk</a>
Punjab Vocational Training Council (PVTC)	<a href="http://www.pvtc.gop.pk">www.pvtc.gop.pk</a>
Technical Education and Vocational Training Authority (TEVTA)	<a href="http://www.tevta.org">www.tevta.org</a>
Punjab Industrial Estates (PIE)	<a href="http://www.pie.com.pk">www.pie.com.pk</a>
Faisalabad Industrial Estate Development and Management Company (FIEDMC)	<a href="http://www.fiedmc.com.pk">www.fiedmc.com.pk</a>

## 12. ANNEXURES

### 12.1. Income Statement

Income Statement										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue	48,850,425	63,049,615	75,947,859	90,563,346	107,328,900	126,541,166	148,522,554	164,115,239	180,573,324	198,633,367
<i>Cost of sales</i>										
Cost of goods sold	31,220,849	39,961,390	48,188,967	57,357,760	67,855,417	79,878,584	93,627,806	103,406,229	113,773,558	125,152,469
Transportation cost	300,000	330,000	363,000	399,300	439,230	483,153	531,468	584,615	643,077	707,384
Operation costs 1 (direct labor)	1,569,894	1,842,009	2,033,931	2,238,778	2,463,716	2,711,081	2,983,145	3,296,332	3,626,900	3,989,645
Operating costs 3 (direct electricity)	476,044	523,648	576,013	633,614	696,976	766,673	843,341	927,675	1,020,442	1,122,486
Packing Material	2,087,625	2,694,428	3,245,635	3,870,228	4,586,705	5,407,742	6,347,118	7,013,472	7,716,809	8,488,605
Operating costs 5 (generator diesel)	518,400	570,240	627,264	689,990	758,989	834,888	918,377	1,010,215	1,111,236	1,222,360
Total cost of sales	36,172,812	45,921,715	55,034,811	65,189,671	76,801,033	90,082,122	105,251,255	116,238,537	127,892,022	140,682,950
Gross Profit	12,677,613	17,127,900	20,913,048	25,373,675	30,527,867	36,459,044	43,271,299	47,876,702	52,681,302	57,950,417
<i>General administration &amp; selling expenses</i>										
Administration expense	2,172,000	2,389,200	2,628,120	2,890,932	3,180,025	3,498,028	3,847,830	4,232,614	4,655,875	5,121,462
Administration benefits expense	108,600	119,460	131,406	144,547	159,001	174,901	192,392	211,631	232,794	256,073
Building rental expense	1,800,000	1,980,000	2,178,000	2,395,800	2,635,380	2,898,918	3,188,810	3,507,691	3,858,460	4,244,306
Electricity expense	168,100	184,910	203,401	223,741	246,115	270,726	297,799	327,579	360,337	396,370
Water expense	30,000	33,000	36,300	39,930	43,923	48,315	53,147	58,462	64,308	70,738
Gas expense	10,000	11,000	12,100	13,310	14,641	16,105	17,716	19,487	21,436	23,579
Travelling expense	108,600	119,460	131,406	144,547	159,001	174,901	192,392	211,631	232,794	256,073
Communications expense (phone, fax, mail, internet, etc.)	217,200	238,920	262,812	289,093	318,003	349,803	384,783	423,261	465,587	512,146
Office expenses (stationary, entertainment, janitorial services, etc.)	108,600	119,460	131,406	144,547	159,001	174,901	192,392	211,631	232,794	256,073
Promotional expense	1,221,261	1,576,240	1,898,696	1,358,450	1,609,934	1,898,117	1,485,226	1,641,152	1,805,733	1,986,334
Professional fees (legal, audit, consultants, etc.)	244,252	315,248	379,739	452,817	536,645	632,706	742,613	820,576	902,867	993,167
Depreciation expense	474,790	474,790	474,790	474,790	474,790	474,790	474,790	474,790	474,790	474,790
Amortization of pre-operating costs	138,785	138,785	138,785	138,785	138,785	-	-	-	-	-
Amortization of legal, licensing, and training costs	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Bad debt expense	488,504	630,496	759,479	905,633	1,073,289	1,265,412	1,485,226	1,641,152	1,805,733	1,986,334
Subtotal	7,295,692	8,335,969	9,371,440	9,621,921	10,753,532	11,882,624	12,560,113	13,786,656	15,118,507	16,582,446
Operating Income	5,381,921	8,791,930	11,541,608	15,751,753	19,774,335	24,576,420	30,711,186	34,090,046	37,562,795	41,367,971
Other income (interest on cash)	-	-	-	-	-	-	-	-	-	-
Earnings Before Interest & Taxes	5,381,921	8,791,930	11,541,608	15,751,753	19,774,335	24,576,420	30,711,186	34,090,046	37,562,795	41,367,971
Interest on short term debt	46,220	46,220	-	-	-	-	-	-	-	-
Interest expense on long term debt (Project Loan)	439,346	375,461	301,354	215,391	115,673	-	-	-	-	-
Interest expense on long term debt (Working Capital Loan)	332,702	278,432	214,814	140,236	52,811	-	-	-	-	-
Subtotal	818,268	700,113	516,168	355,627	168,483	-	-	-	-	-
Earnings Before Tax	4,563,653	8,091,817	11,025,440	15,396,127	19,605,852	24,576,420	30,711,186	34,090,046	37,562,795	41,367,971
Tax	891,596	2,054,635	3,081,403	4,611,144	6,084,547	7,824,246	9,971,414	11,154,015	12,369,477	13,701,289
<b>NET PROFIT/(LOSS) AFTER TAX</b>	<b>3,672,058</b>	<b>6,037,182</b>	<b>7,944,037</b>	<b>10,784,983</b>	<b>13,521,304</b>	<b>16,752,173</b>	<b>20,739,772</b>	<b>22,936,031</b>	<b>25,193,317</b>	<b>27,666,682</b>

## 12.2. Balance Sheet

Calculations											SMEDA
Balance Sheet											
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<b>Assets</b>											
<i>Current assets</i>											
Cash & Bank	524,857	-	3,262,522	8,221,712	15,358,464	24,340,109	36,860,121	53,278,417	71,511,499	91,269,676	146,828,089
Accounts receivable		2,007,552	2,299,316	2,856,112	3,421,463	4,066,279	4,805,549	5,651,994	6,424,064	7,082,642	7,791,918
Work in Process & Finished goods inventory		2,813,513	3,522,568	4,217,401	4,994,822	5,883,933	6,900,887	8,062,386	8,895,507	9,786,641	10,765,394
Raw material inventory	3,014,401	4,209,491	5,549,343	7,230,621	9,370,366	12,089,847	15,538,252	18,876,335	22,845,659	27,643,586	-
Pre-paid building rent	900,000	990,000	1,089,000	1,197,900	1,317,690	1,449,459	1,594,405	1,753,845	1,929,230	2,122,153	-
<b>Total Current Assets</b>	<b>4,439,258</b>	<b>10,020,555</b>	<b>15,722,749</b>	<b>23,723,747</b>	<b>34,462,805</b>	<b>47,829,627</b>	<b>65,699,213</b>	<b>87,622,978</b>	<b>111,605,959</b>	<b>137,904,698</b>	<b>165,385,402</b>
<i>Fixed assets</i>											
Machinery & equipment	4,177,500	3,759,750	3,342,000	2,924,250	2,506,500	2,088,750	1,671,000	1,253,250	835,500	417,750	-
Furniture & fixtures	413,400	372,060	330,720	289,380	248,040	206,700	165,360	124,020	82,680	41,340	-
Office equipment	157,000	141,300	125,600	109,900	94,200	78,500	62,800	47,100	31,400	15,700	-
<b>Total Fixed Assets</b>	<b>4,747,900</b>	<b>4,273,110</b>	<b>3,798,320</b>	<b>3,323,530</b>	<b>2,848,740</b>	<b>2,373,950</b>	<b>1,899,160</b>	<b>1,424,370</b>	<b>949,580</b>	<b>474,790</b>	<b>-</b>
<i>Intangible assets</i>											
Pre-operation costs	693,925	555,140	416,355	277,570	138,785	-	-	-	-	-	-
Legal, licensing, & training costs	50,000	45,000	40,000	35,000	30,000	25,000	20,000	15,000	10,000	5,000	-
<b>Total Intangible Assets</b>	<b>743,925</b>	<b>600,140</b>	<b>456,355</b>	<b>312,570</b>	<b>168,785</b>	<b>25,000</b>	<b>20,000</b>	<b>15,000</b>	<b>10,000</b>	<b>5,000</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>9,931,082</b>	<b>14,893,805</b>	<b>19,977,424</b>	<b>27,359,846</b>	<b>37,480,330</b>	<b>50,228,577</b>	<b>67,618,373</b>	<b>89,062,348</b>	<b>112,565,539</b>	<b>138,384,488</b>	<b>165,385,402</b>
<b>Liabilities &amp; Shareholders' Equity</b>											
<i>Current liabilities</i>											
Accounts payable		1,468,370	1,883,866	2,292,435	2,758,661	3,303,472	3,941,095	4,645,299	5,212,459	5,838,091	5,172,323
Short term debt	-	536,600	-	-	-	-	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>-</b>	<b>2,004,970</b>	<b>1,883,866</b>	<b>2,292,435</b>	<b>2,758,661</b>	<b>3,303,472</b>	<b>3,941,095</b>	<b>4,645,299</b>	<b>5,212,459</b>	<b>5,838,091</b>	<b>5,172,323</b>
<i>Other liabilities</i>											
Long term debt (Project Loan)	2,745,912	2,346,631	1,883,465	1,346,191	722,955	-	-	-	-	-	-
Long term debt (Working Capital Loan)	2,219,629	1,904,606	1,535,313	1,102,403	594,914	-	-	-	-	-	-
<b>Total Long Term Liabilities</b>	<b>4,965,541</b>	<b>4,251,237</b>	<b>3,418,778</b>	<b>2,448,594</b>	<b>1,317,869</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Shareholders' equity</i>											
Paid-up capital	4,965,541	4,965,541	4,965,541	4,965,541	4,965,541	4,965,541	4,965,541	4,965,541	4,965,541	4,965,541	4,965,541
Retained earnings		3,672,058	9,709,239	17,653,276	28,438,259	41,959,563	58,711,737	79,451,508	102,387,539	127,580,856	155,247,538
<b>Total Equity</b>	<b>4,965,541</b>	<b>8,637,599</b>	<b>14,674,781</b>	<b>22,618,817</b>	<b>33,403,800</b>	<b>46,925,104</b>	<b>63,677,278</b>	<b>84,417,049</b>	<b>107,353,080</b>	<b>132,546,397</b>	<b>160,213,079</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>	<b>9,931,082</b>	<b>14,893,805</b>	<b>19,977,424</b>	<b>27,359,846</b>	<b>37,480,330</b>	<b>50,228,577</b>	<b>67,618,373</b>	<b>89,062,348</b>	<b>112,565,539</b>	<b>138,384,488</b>	<b>165,385,402</b>

### 12.3. Cash Flow Statement

<b>Cash Flow Statement</b>											
	<b>Year 0</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Year 6</b>	<b>Year 7</b>	<b>Year 8</b>	<b>Year 9</b>	<b>Year 10</b>
<i>Operating activities</i>											
Net profit		3,672,058	6,037,182	7,944,037	10,784,983	13,521,304	16,752,173	20,739,772	22,936,031	25,193,317	27,666,682
Add: depreciation expense		474,790	474,790	474,790	474,790	474,790	474,790	474,790	474,790	474,790	474,790
amortization of pre-operating costs		138,785	138,785	138,785	138,785	138,785	-	-	-	-	-
amortization of training costs		5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Deferred income tax		-	-	-	-	-	-	-	-	-	-
Accounts receivable		(2,007,552)	(291,764)	(556,797)	(565,351)	(644,816)	(739,270)	(846,445)	(772,070)	(658,577)	(709,277)
Finished goods inventory		(2,813,513)	(709,055)	(694,833)	(777,421)	(889,111)	(1,016,954)	(1,161,499)	(833,121)	(891,134)	(978,753)
Equipment inventory		-	-	-	-	-	-	-	-	-	-
Raw material inventory	(3,014,401)	(1,195,090)	(1,339,853)	(1,681,278)	(2,139,745)	(2,719,481)	(3,448,405)	(3,338,084)	(3,969,324)	(4,797,927)	27,643,586
Pre-paid building rent	(900,000)	(90,000)	(99,000)	(108,900)	(119,790)	(131,769)	(144,946)	(159,440)	(175,385)	(192,923)	2,122,153
Advance insurance premium		-	-	-	-	-	-	-	-	-	-
Accounts payable		1,468,370	415,496	408,569	466,226	544,811	637,623	704,204	567,160	625,632	(665,769)
Other liabilities		-	-	-	-	-	-	-	-	-	-
<b>Cash provided by operations</b>	<b>(3,914,401)</b>	<b>(347,152)</b>	<b>4,631,580</b>	<b>5,929,374</b>	<b>8,267,478</b>	<b>10,299,514</b>	<b>12,520,011</b>	<b>16,418,297</b>	<b>18,233,081</b>	<b>19,758,177</b>	<b>55,558,413</b>
<i>Financing activities</i>											
Project Loan - principal repayment		(399,281)	(463,166)	(537,273)	(623,237)	(722,955)	-	-	-	-	-
Working Capital Loan - principal repayment		(315,023)	(369,292)	(432,911)	(507,489)	(594,914)	-	-	-	-	-
Short term debt principal repayment		-	(536,600)	-	-	-	-	-	-	-	-
Additions to Project Loan	2,745,912	-	-	-	-	-	-	-	-	-	-
Additions to Working Capital Loan	2,219,629	-	-	-	-	-	-	-	-	-	-
Issuance of shares	4,965,541	-	-	-	-	-	-	-	-	-	-
<b>Cash provided by / (used for) financing activities</b>	<b>9,931,082</b>	<b>(714,305)</b>	<b>(1,369,058)</b>	<b>(970,184)</b>	<b>(1,130,725)</b>	<b>(1,317,869)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Investing activities</i>											
Capital expenditure	(5,491,825)	-	-	-	-	-	-	-	-	-	-
<b>Cash (used for) / provided by investing activities</b>	<b>(5,491,825)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CASH</b>	<b>524,857</b>	<b>(1,061,456)</b>	<b>3,262,522</b>	<b>4,959,190</b>	<b>7,136,752</b>	<b>8,981,645</b>	<b>12,520,011</b>	<b>16,418,297</b>	<b>18,233,081</b>	<b>19,758,177</b>	<b>55,558,413</b>

## 13. KEY ASSUMPTION

### 13.1. Operating Cost Assumptions

Description	Details
Administration Benefit Expenses	05% of Administration Expenses
Travelling Expenses	05% of Administration Expenses
Communication Expenses	10% of Administration Expenses
Office Expenses	05% of Administration Expenses
Promotional Expenses (Year 1-3)	2.5% of Revenues
Professional Fee	0.5% of Revenue
Depreciation Method	Straight Line
Depreciation Rate	10% on Furniture & Fixtures 10% on Office Equipment
Operating Cost Growth Rate	10%

### 13.2. Production Cost Assumptions

Description	Amount (Rs.)
Upper Material (on average)	151.88
Sole	130.00
Rubber Solution	3.00
Cement Solution	3.00
Desmokol for Sole	7.00
Desmoder	2.00
MEK (for cleaning)	2.00
EVA Sheet	8.00
Packing	18.00
Foam Lining	1.00
<b>Raw Material Cost per Pair</b>	<b>325.88</b>
Cutting Man	2.50
Upper Man	12.00
Bottom Man	8.00
Finishing Man	2.50
<b>Wages per Pair</b>	<b>25</b>

### 13.3. Revenue Assumptions

Description	Details
Growth in Sales Price	10%
Days Operational / Year	300
Per Day Production Capacity	600 Pairs
Production Capacity in First Year	50%
Percentage Increase in Production Capacity every Year	5%
Maximum Production Capacity	80%

### 13.4. Financial Assumptions

Description	Details
Debt	50%
Equity	50%
Interest Rate on Debt	16%
Debt Tenure	5 Years
Debt Payment / Year	4