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# Pre-Feasibility Study

## LEATHER GOODS MANUFACTURING UNIT (WALLETS)



**Small and Medium Enterprises Development Authority**

**Ministry of Industries & Production  
Government of Pakistan**

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## Table of Contents

<b>1</b>	<b>DISCLAIMER</b> .....	<b>3</b>
<b>2</b>	<b>EXECUTIVE SUMMARY</b> .....	<b>4</b>
<b>3</b>	<b>INTRODUCTION TO SMEDA</b> .....	<b>4</b>
<b>4</b>	<b>PURPOSE OF THE DOCUMENT</b> .....	<b>5</b>
<b>5</b>	<b>BRIEF DESCRIPTION OF PROJECT &amp; PRODUCT</b> .....	<b>5</b>
5.1	PRODUCTION PROCESS FLOW .....	6
5.2	INSTALLED AND OPERATIONAL CAPACITIES .....	6
<b>6</b>	<b>CRITICAL FACTORS</b> .....	<b>7</b>
<b>7</b>	<b>GEOGRAPHICAL POTENTIAL FOR INVESTMENT</b> .....	<b>7</b>
<b>8</b>	<b>POTENTIAL TARGET CUSTOMERS / MARKETS</b> .....	<b>7</b>
<b>9</b>	<b>PROJECT COST SUMMARY</b> .....	<b>8</b>
9.1	PROJECT ECONOMICS .....	8
9.2	PROJECT FINANCING .....	8
9.3	PROJECT COST .....	9
9.4	SPACE REQUIREMENT .....	9
9.5	MACHINERY & EQUIPMENT REQUIREMENT .....	10
9.6	FURNITURE & FIXTURES REQUIREMENT .....	10
9.7	OFFICE EQUIPMENT REQUIREMENT .....	11
9.8	RAW MATERIAL REQUIREMENTS .....	11
9.9	HUMAN RESOURCE REQUIREMENT .....	12
9.10	UTILITIES AND OTHER COSTS .....	12
9.11	REVENUE GENERATION .....	12
<b>10</b>	<b>CONTACT DETAILS</b> .....	<b>13</b>
10.1	MACHINERY SUPPLIERS .....	13
10.2	LEATHER AND ACCESSORIES SUPPLIERS .....	13
<b>11</b>	<b>USEFUL WEB LINKS</b> .....	<b>13</b>
<b>12</b>	<b>ANNEXURES</b> .....	<b>15</b>
12.1	INCOME STATEMENT .....	15
12.2	BALANCE SHEET .....	16
12.3	CASH FLOW STATEMENT .....	17
<b>13</b>	<b>KEY ASSUMPTIONS</b> .....	<b>18</b>
13.1	OPERATING COST ASSUMPTIONS .....	18
13.2	PRODUCTION ASSUMPTIONS .....	18
13.3	REVENUE ASSUMPTIONS .....	18
13.4	FINANCIAL ASSUMPTIONS .....	19

## 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**

This proposed project presents details about the investment opportunity in the area of leather goods manufacturing. The product being focused is leather wallet. This unit is also capable of manufacturing leather key rings, credit card holders, ladies bill folders and other small articles of leather without any addition of machinery. Quality hides & skins are available in the country and the tanning industry is well equipped to manufacture high quality finished leather.

Leather industry in Pakistan, including leather products, is the third largest export earning sector after textiles and rice. In CY 2014, this sector contributed around \$1.20 billion in exports. Basically, it is a worker intensive sector providing employment to a very large segment of the society besides earning foreign exchange for the country. Pakistan's share in world markets is around 1%. Pakistan has a lot of potential in this sub sector and focused efforts by entrepreneurs can result in substantial export earnings. Export market is the primary market for a leather wallets manufacturing unit, while the major export destinations are the EU and North America.

Leather wallets manufacturing business venture entails a total investment of about Rs. 2.38 million. This includes a capital investment of Rs.1.66 million and a sum of Rs. 0.72 million as initial working capital. The project is financed through 50% debt and 50% equity. The Net Present Value (NPV) of the project is around Rs. 4.61 million with an Internal Rate of Return (IRR) of 40% and a payback period of 3.52 years. The project will generate direct employment opportunity for 16 persons.

Higher return on investment and a steady growth of business is expected with the entrepreneur having some prior experience or education in the related field of business. This pre-feasibility encompasses essential information regarding various aspects of starting a Leather Wallets Manufacturing Unit business in Pakistan.

## **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, and production, marketing, finance and business management.

The purpose of this document is to facilitate potential investors in **Leather Goods Manufacturing Unit (Wallets)** by providing them with a general understanding of the business with the 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 its successful management.

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

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

The proposed project provides information on one of the sub sectors of leather manufacturing in Pakistan namely Leather Wallets. This sub sector offers aspiring entrepreneurs a potent opportunity to establish their business in one of the top export oriented sectors of Pakistan. Easy and sustained access to high quality raw material coupled with availability of skilled labor puts this sub sector as an attractive opportunity for start-ups to venture into leather goods manufacturing in Pakistan.

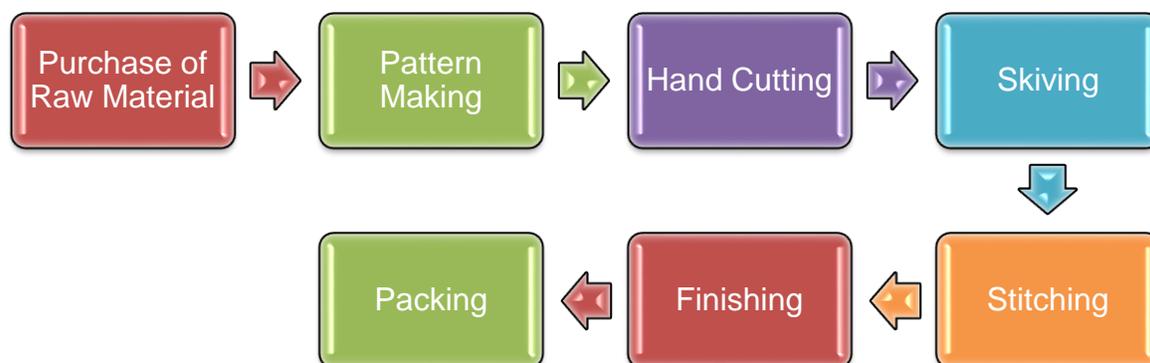
This proposed project provides details about investment opportunity in the area of leather goods manufacturing focusing on leather wallets. However, the unit is also capable of manufacturing leather key rings, credit card holders, ladies bill folders and other small articles of leather without any additional machinery. The leather goods manufacturing unit will primarily focus on exports catering the international leather markets.

This pre-feasibility is based on a unit with 4 stitching machines with a capacity of manufacturing 250 wallets per 8 hours shift. The total labor required for this unit would be 16.

### 5.1 Production Process Flow

The process flow of proposed cold storage facility will be as follow:

**Figure: Process Flow Diagram of Leather Wallets Manufacturing**



### 5.2 Installed And Operational Capacities

This pre-feasibility is based on 4 stitching machines with a capacity of manufacturing 250 wallets per 8 hours shift. The total labor required for this unit would be 16. Total number of wallets produced in year one would be 45,000 achieving 60% of the total installed capacity, while maximum capacity (80%) will be achieved with production reaching at 60,000 wallets in the 5<sup>th</sup> year of operations.

## 6 CRITICAL FACTORS

The most critical considerations / factors for the success of this project are as follows:

- ⇒ Awareness about trends in international leather industry especially wallets.
- ⇒ Higher return on investment and a steady growth of business is closely associated with continuous training and capacity building of the entrepreneur. Prior experience / education in the related field of business can be a big advantage.
- ⇒ Strict compliance regarding local and international environmental regulations.
- ⇒ Wallets must be made from good quality leather conforming to the international standards like REACH (Registration, Evaluation, Authorization & Restriction of Chemical substances) and by using efficient stitching machinery.
- ⇒ Ensuring availability of skilled labor and quality raw material.
- ⇒ Stringent supervision of the production process from procurement to cutting and stitching.
- ⇒ Ensuring continuous flow of export orders through aggressive marketing (website, social media) and international networking.

## 7 GEOGRAPHICAL POTENTIAL FOR INVESTMENT

Lahore, Karachi and Sialkot are three key clusters of leather manufacturing. Availability of skilled labor is important while selecting a location; all the above cities have adequate availability of skilled labor, raw material and other support infrastructure. Leather Goods Manufacturing Unit can be established in the suburbs / periphery areas of these cities.

## 8 POTENTIAL TARGET CUSTOMERS / MARKETS

Leather wallets manufactured in this unit will be primarily exported. Germany, USA, United Kingdom, Turkey, Japan, France & UAE are some of the key importing countries of Pakistani leather products. Export market usual customers include chain stores and major leather product brands in Europe and USA.

## 9 PROJECT COST SUMMARY

A detailed financial model has been developed to analyze the commercial viability of Leather Goods Manufacturing Unit. Various cost 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 attached as appendix.

### 9.1 Project Economics

The installed production capacity of the project is 75,000 leather wallets per year. However, during first year of operations it will operate at 60% of the installed capacity producing 45,000 leather wallets. All the figures in this financial model have been calculated for estimated production and sale of 45,000 leather wallets in year one with an increase of 5% in subsequent years.

The following table shows Internal Rate of Return, Payback Period and Net Present Value of the proposed venture.

**Table 1: Project Economics**

Description	Details
Internal Rate of Return (IRR)	40%
Payback Period (Yrs.)	3.52
Net Present Value (Rs.)	4,616,415

### 9.2 Project Financing

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

**Table 2: Project Financing**

Description	Details
Total Equity (50%)	Rs. 1,193,074
Bank Loan (50%)	Rs. 1,193,074
Markup to the Borrower (%age / annum)	14 %
Tenure of the Loan (Years)	5

### 9.3 Project Cost

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

**Table 3: Project Cost**

Description	Amount Rs.
<b>Capital Cost</b>	
Machinery	540,000
Furniture	467,000
Office Equipment	211,000
Pre operational expenses	328,071
Security Deposit	120,000
<b>Total Capital Cost</b>	<b>1,666,071</b>
<b>Working Capital</b>	
Equipment Spare Part Inventory	10,781
Raw Material Inventory	289,297
Upfront Building Rent	120,000
Cash	300,000
<b>Total Working Capital</b>	<b>720,078</b>
<b>Total Project Cost</b>	<b>2,386,149</b>

### 9.4 Space Requirement

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

**Table 4: Space Requirement**

Space Requirement	Sq.ft.
Management building	250
Production area	1,200
Store	400
Open area	400

<b>Total Area</b>	<b>2,250</b>
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Premises will be obtained on rent @ Rs 40,000 per month.

## 9.5 Machinery & Equipment Requirement

Plant, machinery and equipment required for the proposed project are stated below:

**Table 5: Machinery & Equipment Requirement**

Description	Quantity	Unit Cost (Rs.)	Total Cost (Rs.)
Stitching Machine – Single Needle Flat Bed Stitching Machine (Taiwan Make)	4	50,000	200,000
Skiving Machine	1	90,000	90,000
Creasing Tools	4	15,000	60,000
Genset 5kva (China)	1	80,000	80,000
Tools, Gauges, Patterns, Knives, Scissors, etc.	1	100,000	100,000
Industrial Exhaust Fan	1	10,000	10,000
<b>Total Machinery and Equipment Cost</b>			<b>540,000</b>

Flat bed lock stitch industrial stitching machines are used for the manufacturing of leather wallets. Skiving machine is used for reducing the thickness of leather pieces along the stitching seems.

Metal patterns are preferred over strawboard patterns due to their durability and ease of use.

## 9.6 Furniture & Fixtures Requirement

Details of the furniture and fixture required for the project are given below:

**Table 6: Furniture & Fixture Requirement**

Description	Quantity	Cost/ unit	Total Cost
Office / Visitor Chairs	12	6,000	72,000
Office Tables	5	10,000	50,000
Working Table with Stone Top	4	25,000	100,000
Packing Table	2	15,000	30,000
Store Racks	5	15,000	75,000
Ceiling Fans	10	3,000	30,000

AC 1.5 Tons	1	60,000	60,000
Miscellaneous	1	50,000	50,000
<b>Total Furniture and Fixture Cost</b>			<b>467,000</b>

## 9.7 Office Equipment Requirement

Following office equipment will be required for the proposed unit:

**Table 7: Office Equipment Requirement**

Description	Quantity	Unit Cost (Rs.)	Amount (Rs.)
Computer Laptop	1	60,000	60,000
Computer Desktop (Used)	3	20,000	60,000
Ups	3	12,000	36,000
Computer Printer	1	12,000	12,000
Flat Bed Scanner	1	8,500	8,500
Networking	1	10,000	10,000
Telephone	3	1,500	4,500
Fax	1	20,000	20,000
<b>Total</b>			<b>211,000</b>

## 9.8 Raw Material Requirements

Cow leather will be used in the manufacturing of the wallets while satin polyester based lining will be used for partitioning purposes. Following table shows raw material requirement to produce one leather wallet having two pockets with six card slots:

**Table 8: Raw Material Requirements**

	Unit	Rate	Quantity	Rs. / Unit
Cow Finished Leather	Sq ft	80	1.50	120.00
Satin Lining	Meter	60	0.15	9.00
Metal Corners	Number	0.50	4	2.00
Zip	Number	5	1	5.00
Misc. (Thread, Glue, Etc.)	Lump Sum	25	1	25.00
<b>Cost Per Unit</b>				<b>161</b>

## 9.9 Human Resource Requirement

Following table provides details of human resource required for this venture:

**Table 9: Human Resource Requirement**

Description	No. of Employees	Monthly Salary Per Person (Rs.)
Owner Manager	1	60,000
Accountant	1	20,000
Office Assistant	1	13,000
Stitchers	4	22,000
Skiving Machine Operator	1	18,000
Fitter / Helper	4	13,000
Store Keeper	1	13,000
Cutter	1	18,000
Security Guard	2	13,000
<b>Total</b>	<b>16</b>	

## 9.10 Utilities and Other Costs

An essential cost to be borne by the project is the cost of electricity. The electricity expenses are estimated to be around Rs 0.381 million per annum. Furthermore, promotional expenses are estimated as 1% of revenue.

## 9.11 Revenue Generation

Based on the 60% capacity utilization, sales revenue during the first year of operation is estimated as under:

**Table 10: Revenue Generation – Year 1**

Product	Sales Price (Rs. / Unit)	First Year Production (Units)	First Year Sales Revenue (Rs.)
Leather Wallet (2 Pockets with 6 Card Slots)	300	45,000	13,500,000
Less (Finished Goods Inventory)	300	(1,875)	(562,500)
<b>Total Revenue</b>		<b>43,125</b>	<b>12,937,500</b>

## 10 CONTACT DETAILS

In order to facilitate potential investors, contact details of private sector Service Providers relevant to the proposed project are given as under:

### 10.1 Machinery Suppliers

Name of Supplier	Address	Contact Number
Rex Machinery (Pvt) Ltd	Rex market, 6 Allama Iqbal Road, Lahore	042-36375524
Al Mahmood Sewing Machine Company	7-Rex Market, 6-Allama Iqbal Road, Lahore	042-36311300

### 10.2 Leather and Accessories Suppliers

Name of Supplier	Address	Contact Number
F.K. Leather	Manga Mandi Road, Niaz Nagar, Kasur	049-2761413
Mehar Dhaga Store	Naseem Hayat Market, Sialkot	052-4582497

## 11 USEFUL WEB 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>
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 Gilgit Baltistan	<a href="http://www.gilgitbaltistan.gov.pk">www.gilgitbaltistan.gov.pk</a>
Government of Azad Jamu Kashmir	<a href="http://www.aik.gov.pk">www.aik.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.gov.pk">www.psic.gov.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>
Pakistan Leather Garments Manufacturers & Exporters Association	<a href="http://www.plgmea.pk">www.plgmea.pk</a>
Pakistan Institute of Fashion Design.	<a href="http://www.pifd.edu.pk">www.pifd.edu.pk</a>
Pakistan Tanners Association	<a href="http://www.pakistantanners.org">www.pakistantanners.org</a>

## 12 ANNEXURES

### 12.1 Income Statement

Statement Summaries										SMEDA
Income Statement										
	Rs. in actuals									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue	12,937,500	16,035,938	19,000,781	22,398,234	26,285,170	28,989,180	31,888,098	35,076,908	38,584,599	42,443,058
Cost of goods sold	9,430,699	11,528,376	13,505,636	15,774,495	18,376,326	20,351,623	22,489,497	24,862,728	27,499,382	30,431,281
Gross Profit	3,506,801	4,507,562	5,495,145	6,623,739	7,908,844	8,637,557	9,398,601	10,214,179	11,085,216	12,011,777
<i>General administration &amp; selling expenses</i>										
Administration expense	1,631,520	1,794,672	1,974,139	2,171,553	2,388,708	2,627,579	2,890,337	3,179,371	3,497,308	3,847,039
Rental expense	480,000	528,000	580,800	638,880	702,768	773,045	850,349	935,384	1,028,923	1,131,815
Utilities expense	236,176	259,794	285,773	314,350	345,785	380,364	418,400	460,240	506,264	556,891
Travelling & Comm. expense (phone, fax, etc.)	158,400	174,240	191,664	210,830	231,913	255,105	280,615	308,677	339,544	373,499
Office vehicles running expense	-	-	-	-	-	-	-	-	-	-
Office expenses (stationary, etc.)	47,520	52,272	57,499	63,249	69,574	76,531	84,185	92,603	101,863	112,050
Promotional expense	129,375	160,359	190,008	223,982	262,852	289,892	318,881	350,769	385,846	424,431
Insurance expense	-	-	-	-	-	-	-	-	-	-
Professional fees (legal, audit, etc.)	64,688	80,180	95,004	111,991	131,426	144,946	159,440	175,385	192,923	212,215
Depreciation expense	142,900	142,900	142,900	142,900	142,900	255,631	255,631	255,631	255,631	255,631
Amortization expense	65,614	65,614	65,614	65,614	65,614	-	-	-	-	-
Property tax expense	-	-	-	-	-	-	-	-	-	-
Miscellaneous expense	129,375	160,359	190,008	223,982	262,852	289,892	318,881	350,769	385,846	424,431
Subtotal	3,085,568	3,418,390	3,773,409	4,167,333	4,604,393	5,092,985	5,576,720	6,108,829	6,694,149	7,338,000
Operating Income	421,233	1,089,172	1,721,736	2,456,406	3,304,452	3,544,573	3,821,881	4,105,350	4,391,068	4,673,777
Other income	-	-	-	-	-	-	-	-	-	-
Gain / (loss) on sale of assets	-	-	-	-	300,400	-	-	-	-	-
Earnings Before Interest & Taxes	421,233	1,089,172	1,721,736	2,456,406	3,604,852	3,544,573	3,821,881	4,105,350	4,391,068	4,673,777
Interest expense	200,638	150,276	70,958	46,839	19,162	-	-	-	-	-
Earnings Before Tax	220,595	938,895	1,650,778	2,409,567	3,585,690	3,544,573	3,821,881	4,105,350	4,391,068	4,673,777
Tax	-	63,334	177,655	329,413	618,922	608,643	677,970	754,105	839,820	924,633
<b>NET PROFIT/(LOSS) AFTER TAX</b>	<b>220,595</b>	<b>875,561</b>	<b>1,473,122</b>	<b>2,080,154</b>	<b>2,966,768</b>	<b>2,935,930</b>	<b>3,143,911</b>	<b>3,351,246</b>	<b>3,551,248</b>	<b>3,749,144</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	300,000	-	32,015	1,194,452	2,893,732	4,221,659	6,955,234	9,889,360	12,955,622	16,128,685	22,424,699
Accounts receivable		1,063,356	1,190,689	1,439,865	1,701,329	2,000,688	2,271,549	2,501,806	2,751,987	3,027,185	3,329,904
Finished goods inventory		410,030	481,894	564,415	659,101	767,679	847,984	937,062	1,035,947	1,145,808	1,267,970
Equipment spare part inventory	10,781	16,170	23,183	33,067	46,954	62,659	83,399	111,004	147,746	196,650	-
Raw material inventory	289,297	394,440	514,103	666,631	860,548	1,043,981	1,263,217	1,528,493	1,849,477	2,237,867	-
Pre-paid building rent	120,000	132,000	145,200	159,720	175,692	193,261	212,587	233,846	257,231	282,954	-
<b>Total Current Assets</b>	<b>720,078</b>	<b>2,015,996</b>	<b>2,387,083</b>	<b>4,058,149</b>	<b>6,337,356</b>	<b>8,289,928</b>	<b>11,633,970</b>	<b>15,201,572</b>	<b>18,998,009</b>	<b>23,019,149</b>	<b>27,022,573</b>
<i>Fixed assets</i>											
Security Deposit	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Machinery & equipment	540,000	486,000	432,000	378,000	324,000	1,139,675	998,708	857,740	716,773	575,805	434,838
Furniture & fixtures	467,000	420,300	373,600	326,900	280,200	233,500	186,800	140,100	93,400	46,700	-
Office equipment	211,000	168,800	126,600	84,400	42,200	339,818	271,854	203,891	135,927	67,964	-
<b>Total Fixed Assets</b>	<b>1,338,000</b>	<b>1,195,100</b>	<b>1,052,200</b>	<b>909,300</b>	<b>766,400</b>	<b>1,832,993</b>	<b>1,577,362</b>	<b>1,321,731</b>	<b>1,066,100</b>	<b>810,469</b>	<b>554,838</b>
<i>Intangible assets</i>											
Pre-operation costs	328,071	262,457	196,842	131,228	65,614	-	-	-	-	-	-
<b>Total Intangible Assets</b>	<b>328,071</b>	<b>262,457</b>	<b>196,842</b>	<b>131,228</b>	<b>65,614</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>2,386,149</b>	<b>3,473,552</b>	<b>3,636,126</b>	<b>5,098,677</b>	<b>7,169,370</b>	<b>10,122,921</b>	<b>13,211,332</b>	<b>16,523,302</b>	<b>20,064,108</b>	<b>23,829,617</b>	<b>27,577,411</b>
<b>Liabilities &amp; Shareholders' Equity</b>											
<i>Current liabilities</i>											
Accounts payable		625,684	780,496	933,419	1,111,572	1,313,646	1,466,128	1,634,187	1,823,748	2,038,009	2,036,658
Export re-finance facility	-	-	-	-	-	-	-	-	-	-	-
Short term debt	-	725,323	-	-	-	-	-	-	-	-	-
Other liabilities											
<b>Total Current Liabilities</b>	<b>-</b>	<b>1,351,007</b>	<b>780,496</b>	<b>933,419</b>	<b>1,111,572</b>	<b>1,313,646</b>	<b>1,466,128</b>	<b>1,634,187</b>	<b>1,823,748</b>	<b>2,038,009</b>	<b>2,036,658</b>
<i>Other liabilities</i>											
Long term debt (Project Loan)	833,035	708,876	566,400	402,905	215,291	-	-	-	-	-	-
Long term debt (Working Capital Loan)	360,039	-	-	-	-	-	-	-	-	-	-
<b>Total Long Term Liabilities</b>	<b>1,193,074</b>	<b>708,876</b>	<b>566,400</b>	<b>402,905</b>	<b>215,291</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Shareholders' equity</i>											
Paid-up capital	1,193,074	1,193,074	1,193,074	1,193,074	1,193,074	1,193,074	1,193,074	1,193,074	1,193,074	1,193,074	1,193,074
Retained earnings		220,595	1,096,156	2,569,278	4,649,432	7,616,200	10,552,130	13,696,041	17,047,286	20,598,534	24,347,678
<b>Total Equity</b>	<b>1,193,074</b>	<b>1,413,670</b>	<b>2,289,231</b>	<b>3,762,353</b>	<b>5,842,507</b>	<b>8,809,274</b>	<b>11,745,204</b>	<b>14,889,115</b>	<b>18,240,361</b>	<b>21,791,609</b>	<b>25,540,752</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>	<b>2,386,149</b>	<b>3,473,552</b>	<b>3,636,126</b>	<b>5,098,677</b>	<b>7,169,370</b>	<b>10,122,921</b>	<b>13,211,332</b>	<b>16,523,302</b>	<b>20,064,108</b>	<b>23,829,617</b>	<b>27,577,411</b>

## 12.3 Cash Flow Statement

Calculations											SMEDA
Cash Flow Statement											
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<i>Operating activities</i>											
Net profit		220,595	875,561	1,473,122	2,080,154	2,966,768	2,935,930	3,143,911	3,351,246	3,551,248	3,749,144
Add: depreciation expense		142,900	142,900	142,900	142,900	142,900	255,631	255,631	255,631	255,631	255,631
amortization of pre-operating costs		65,614	65,614	65,614	65,614	65,614	-	-	-	-	-
Accounts receivable		(1,063,356)	(127,333)	(249,176)	(261,464)	(299,358)	(270,861)	(230,257)	(250,181)	(275,199)	(302,719)
Finished goods inventory		(410,030)	(71,863)	(82,521)	(94,687)	(108,578)	(80,305)	(89,078)	(98,885)	(109,861)	(122,162)
Equipment inventory	(10,781)	(5,388)	(7,013)	(9,884)	(13,887)	(15,705)	(20,740)	(27,605)	(36,742)	(48,904)	196,650
Raw material inventory	(289,297)	(105,143)	(119,664)	(152,527)	(193,917)	(183,434)	(219,236)	(265,276)	(320,984)	(388,390)	2,237,867
Pre-paid building rent	(120,000)	(12,000)	(13,200)	(14,520)	(15,972)	(17,569)	(19,326)	(21,259)	(23,385)	(25,723)	282,954
Accounts payable		625,684	154,812	152,924	178,153	202,074	152,482	168,059	189,560	214,261	(1,350)
Cash provided by operations	(420,078)	(541,125)	899,814	1,325,932	1,886,893	2,752,712	2,733,575	2,934,126	3,066,261	3,173,064	6,296,014
<i>Financing activities</i>											
Project Loan - principal repayment		(124,160)	(142,476)	(163,495)	(187,614)	(215,291)	-	-	-	-	-
Working Capital Loan - principal repayment		(360,039)	-	-	-	-	-	-	-	-	-
Short term debt principal repayment		-	(725,323)	-	-	-	-	-	-	-	-
Additions to Project Loan	833,035	-	-	-	-	-	-	-	-	-	-
Additions to Working Capital Loan	360,039	-	-	-	-	-	-	-	-	-	-
Issuance of shares	1,193,074	-	-	-	-	-	-	-	-	-	-
Purchase of (treasury) shares											
Cash provided by / (used for) financing activities	2,386,149	(484,199)	(867,799)	(163,495)	(187,614)	(215,291)	-	-	-	-	-
<i>Investing activities</i>											
Capital expenditure	(1,666,071)	-	-	-	-	(1,209,493)	-	-	-	-	-
Acquisitions											
Cash (used for) / provided by investing activities	(1,666,071)	-	-	-	-	(1,209,493)	-	-	-	-	-
<b>NET CASH</b>	<b>300,000</b>	<b>(1,025,323)</b>	<b>32,015</b>	<b>1,162,437</b>	<b>1,699,280</b>	<b>1,327,928</b>	<b>2,733,575</b>	<b>2,934,126</b>	<b>3,066,261</b>	<b>3,173,064</b>	<b>6,296,014</b>

## 13 KEY ASSUMPTIONS

### 13.1 Operating Cost Assumptions

Description	Details
Machine Maintenance (Per Year) (% Of Sales)	2%
Machine Maintenance Growth Rate	10%
Pre-Paid Building Rent (Months)	3
Rent Growth Rate	10%
Communication Expense (% of Admin Expenses)	5%
Electricity Price Growth Rate	10%
Salaries Growth Rate	10%

### 13.2 Production Assumptions

Description	Details
Number Of Machines Installed	5
Capacity Utilization (Year 1)	60%
Maximum Capacity Utilization	80%
Total Production Per 8 Hour Shift	250 Units
Annual Production Capacity	75,000
Hours Operational Per Day	8
No. Of Shifts	1
Days Operational Per Year	300

### 13.3 Revenue Assumptions

Description	Details
Production Cost Per Unit	Rs. 161
Sale Price Per Unit In Year 1 (In Rs.)	300
Sale Price Growth Rate	10%
Export Sales	100%

### 13.4 Financial Assumptions

Description	Details
Project Life (Years)	10
Debt: Equity	50:50
Interest Rate On Long Term Debt	14%
Debt Tenure	5
Debt Payments Per Year	4
Cash in Hand (Rs.)	300,000