

Pre-Feasibility Study

CHILDREN SHOES MANUFACTURING UNIT



Small and Medium Enterprises Development Authority

Ministry of Industries & Production

Government of Pakistan

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1 DISCLAIMER

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2 EXECUTIVE SUMMARY

The demand for children shoes is continuously 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 particular pre-feasibility study is for setting up of a semi-mechanized shoe-manufacturing unit exclusively for children shoes. The proposed Children Shoe Manufacturing Unit would cater to the demand for children footwear, belonging to the lower middle and middle-income groups. The focus of the business would be to provide quality children footwear, particularly sandals, chapals, fleets and boots in all sizes of (i.e. No. 3 to 5) at affordable prices. The shoes manufactured by the unit will be directly sold to wholesalers and retail outlets operating in major cities of Pakistan.

The proposed business venture should preferably be located in any of the major urban and peri-urban cities of Pakistan; to reduce initial capital investment, the unit is proposed to be established at rented premises. 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 40% (i.e. 240 pair 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 important factors for the success of this project.

The estimated total cost of the proposed children shoe manufacturing unit is Rs. 6.40 million out of which Rs. 3.79 million is the capital cost and Rs. 2.61 million is for working capital. The project is to be financed through 50% debt and 50% equity. The project NPV is around Rs. 19.13 million, with an IRR of 54% and Payback Period of 2.79 years. The project will provide employment opportunities to 12 people including Owner / Manager. 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, and production, marketing, finance and business management.

The purpose of this document is to facilitate potential investors in **Children Shoes Manufacturing Unit** by providing them 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 it's 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

Footwear manufacturing industry in Pakistan can be broadly categorized into two main segments i.e. Organized Sector (mainly includes big brands e.g. Bata, Service, Footlib, Hush Puppies, Borjan, etc.,) and Unorganized Sector (mainly comprising of labor intensive units having semi-mechanized manufacturing facilities).

This particular pre-feasibility provides the basic details for setting up a semi-mechanized Children Shoes Manufacturing Unit. The major product line of the venture includes different varieties of sleepers, chapals, sandals, fleets and boots in all sizes for children, starting from number 03 (European 21) and up to number 05 (European 38). However,

production of different varieties of shoes will vary according to seasonal requirements. For instance, demand for closed shoes (i.e. fleets and boots) is higher in winters and similarly, demand for open shoes (i.e. sleeper, chapel and sandals) is higher in summer. The production of different varieties of footwear will be planned according to the seasonal trend to keep the project operational throughout the year.

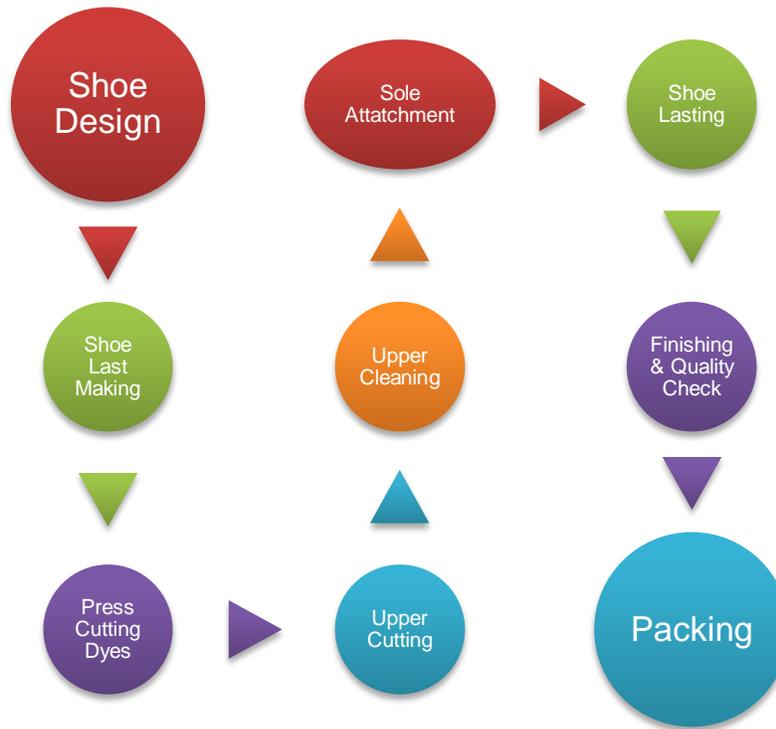
China made machinery is easily available in the local market and will be installed in the proposed unit. Overall installed capacity of the unit will be to produce 600 pairs of shoe per day (198,000 pairs annually). The product mix of open and closed shoes will mainly comprises of “A Grade” and “B Grade” pair of shoes. The proposed venture will provide direct employment opportunity to 12 individuals including the Owner / Manager. It is assumed that unit should be established nearby to any major city in a rented premise to reduce the initial capital expenditures.

5.1 Production Process Flow

The production process flow of shoe manufacturing starts with the development of designs. Generally 10 to 12 different designs (including both summer and winter season designs) are required for the whole year production cycle. The 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 the services of full time designer to produce new and creative designs. After the completion of 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. Afterwards, cutting dyes will be prepared for Uppers cutting and the synthetic material will be cut with the help of these press cutting dies.

Then stitchers will perform various stitching operations to stitch together various components of the Upper. After stitching, completed Uppers are molded into a foot shape with the help of developed Last and Sole will be joined / attached with the Upper. The final stage of shoe manufacturing is the finishing, and once the finishing has been done, each pair of shoe will be packed in polythene bags and then finally into boxes.

Figure 1: Production Process Flow



5.2 Installed & Operational Capacities

The installed and operational capacity of Children Shoes Manufacturing business venture mainly depends on the installed machinery. This pre-feasibility study is based on an installed capacity of manufacturing 600 pairs of shoe per day on one shift basis (i.e. for 8 hours) and will be able to produce 198,000 pair of shoes annually with 330 operational days. While maximum capacity utilization of the unit is assumed at 80% i.e. 480 pairs per day and 158,400 pairs annually. However, during first year of operation unit will operate at 40% capacity producing 240 and 79,200 pair of shoes per day and during the year, respectively.

Capacity utilization growth rate of 5% is considered for subsequent years, while maximum capacity utilization (i.e. 80%) will be achieved during the 9th year of operation. This production capacity is estimated to be economically viable and justifies the capital as well as operational costs of the project.

It is pertinent to mention that, all the manufactured shoes would not meet the quality standards and therefore will be categorized as “A Grade” and “B Grade” pairs. Out of total production, 95% (i.e. 188,100 pairs) will be “A Grade” and while rest of 5% (i.e. 9,900 pairs) will be “B Grade”. The “B Grade” pair of shoes will be sold at half the price of “A Grade” pair in the market.

The details of operational and installed capacity according to product mix are provided

in the table below:

Table 1: Installed and Operational Capacity

Description	Total Production Capacity (Annually)	% Of Total Production	Operational Capacity 40 % (Year 1)	Maximum Operational Capacity 80 % (Year 9)
A-Pairs Production	198,000	95%	75,240	150,480
B-Pairs Production		5%	3,960	7,920
Total		100%	79,200	158,400

6 CRITICAL FACTORS

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

- ⇒ Development of attractive designs and good quality shoes at competitive prices.
- ⇒ Develop strong linkages with suppliers for sourcing good quality products at competitive prices.
- ⇒ Networking with footwear wholesalers / retailers for sale of 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.
- ⇒ Increasing competition from Chinese products and strong competition with similar type of manufacturers.

7 GEOGRAPHICAL POTENTIAL FOR INVESTMENT

Lahore is the footwear center of the country, followed by Karachi, Faisalabad, Hyderabad, Sahiwal, Peshawar and Rawalpindi. All the shoe manufacturing units are established in these cities. Therefore, any of the above cities would be suitable for setting up a children shoe manufacturing unit. Raw material and labor are also easily accessible in these cities.

8 POTENTIAL TARGET CUSTOMERS / MARKETS

The target customer for the proposed project would be children of one to fourteen years of age belonging to middle and lower middle-income family group. Pakistan is the 7th largest populated country in the world. Each year around 3.2 million children are born.

With a population in excess of 180 million people, children under the age of 15 years constitute approximately more than 43% of our total population.

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 Children 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 198,000 pairs annually. Whereas, during first year production capacity utilization is targeted at 40%, i.e. 79,200 pairs to be produced while 75,900 pairs (72,105 A-Grade pairs and 3,795 B-Grade pairs) will be sold. The remaining 3,300 pairs (3,135 A-Grade pairs and 165 B-Grade pairs) will be the 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)	54%
Pay Back Period (Years)	2.79
Net Present Value (NPV)	Rs. 19,131,297

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 assurance and customer services.

9.2 Project Financing

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

Table 3: Project Financing

Description	Details
Total Equity (50%)	3,199,395
Bank Loan (50%)	3,199,395
Annual Markup to the Borrower– Long Term Loan	16%
Tenure of the Loan (Years)	5
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 Cost

Capital Investment	Amount Rs.
Machinery & Equipment	2,853,500
Furniture & Fixture	513,000
Office Equipment	268,000
Pre-Operational Cost	139,748
Training Cost	14,000
Total Capital Cost	3,788,248
Working Capital	
Equipment Spare Parts inventory	12,018
Raw Material Inventory	1,147,725
Upfront Building Rent	900,000
Cash	550,800
Total Working Capital	2,610,543
Total Project Cost	6,398,791

9.4 Space Requirement

In order to reduce the initial capital expenditure, the proposed Children 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 business 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 5: Space Requirement

Space Requirement	Area in Sq. Ft.
Management Building	1,200
Production area	2,100
Store	700
Open area	500
Total Area	4,500

For this particular pre-feasibility the rent amount has been determined at Rs. 150,000 per month (calculated at the rate of Rs. 34 per sq. ft.).

9.5 Machinery and Equipment Requirement

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

Table 6: Machinery and Equipment Requirement

Description	Quantity	Unit Cost (Rs.)	Total Cost (Rs.)
Cutting Clicking Press	2	295,000	590,000
Cutting Board	3	11,500	34,500
Skiving machine	2	45,000	90,000
Upper Stitching Flat Bed Machine	3	23,000	69,000
Upper Stitching Post Bed Machine	4	32,500	130,000
Cylindrical Bed	2	57,500	115,000
Tools for Shoe Uppers	1	75,000	75,000
Tools for Shoe Bottom	1	10,000	10,000

Finishing Tools	1	5,000	5,000
Sole Attaching Press	1	75,000	75,000
Grinder	1	150,000	150,000
Sole Activator	1	180,000	180,000
Zigzag Machine	1	25,000	25,000
Lasts	240	750	180,000
Generator (50 KVA)	1	500,000	500,000
Inland Freight and other Misc. Exp.	1	550,000	550,000
Compressor (5 HP motor)	1	75,000	75,000
Total			2,853,500

9.6 Furniture and Fixture Requirements

Details of furniture and fixture required for the proposed unit are provided in the following table:

Table 7: Furniture and Fixture Requirements

Description	Quantity	Unit Cost (Rs.)	Total Cost (Rs.)
Executive Table and Chair (Owner / Manager)	1	25,000	25,000
Computer Tables	2	10,000	20,000
Visitors Sofa Set	1	18,000	18,000
Store Racks / Shelves	1	75,000	75,000
Chairs	20	3,800	76,000
Renovation of Building	Lump sum	200,000	200,000
Fans & Lights	Lump sum	70,000	70,000
Carpeting, Curtains and etc.,	Lump sum	15,000	15,000
Fire Extinguisher	5	2,800	14,000
Total			513,000

9.7 Office Equipment Requirement

Following office equipment will be required for the proposed business venture:

Table 8: Office Equipoment Required

Description	Quantity	Unit Cost (Rs.)	Total Cost (Rs.)
Fax Machine	1	10,000	10,000
Computer	2	13,000	26,000
UPS	2	7,500	15,000
Printer (HP Laser Black 1102)	1	10,000	10,000
Printer (Dot. Matrix)	1	17,000	17,000
Air Conditioner	2	50,000	100,000
File cabinet	10	8,000	80,000
Calculator	5	1,000	5,000
Telephone set	5	1,000	5,000
Total			268,000

9.8 Human Resource Requirement

In order to smoothly run operations of the proposed unit, details of recommended human resource required along with their proposed monthly salaries are as follows:

Table 9: Human Resource Requirement

Description	No. Of Employees	Salary per Employee Per Month (Rs)
CEO / Owner Manager	1	50,000
Foreman	1	35,000
Designer	1	35,000
Mechanic	1	25,000
Accountant	1	20,000
Store Keeper	1	14,000
Helper	4	12,000
Office Boy	1	12,000
Watchman	1	12,000

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

9.9 Raw Material Requirement

Synthetic material, chemicals, EVA sheet, sole, rubber solution, cement solution, packing material and accessories, etc., are the major components of raw material

required for manufacturing of shoes. Majority of these items are imported, however, local suppliers are easily available in the market. In order to maintain efficient stock of raw material, a 30 days stock has been recommended and included in the working capital requirements for the proposed unit.

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. 966,572. This project also requires heavy marketing and promotional activities; for which approximately 5% of total revenues (i.e. Rs. 1,202,541) will be spent on marketing and promotion expenses annually. Similarly, during 1st year of operation communication and office expenses are estimated at Rs. 120,000 and 129,600 respectively. The cost of maintenance of machinery and equipment is assumed as Rs. 2 per unit of production.

9.11 Revenue Generation

Following table provides revenue and cost assumptions of the proposed Children Shoe Manufacturing Unit during first year of operation:

Table 10: Revenue Generation in First Year

Description / Product Range	No of Pairs Produced (@ 40% Capacity)	No of Pairs Sold	Average Sale Price (Rs. / Pair)	Finished Goods Inventory	* Sales Revenue Rs.
A-Pair Shoes	75,240	72,105	265	3,135	23,434,125
B-Pair Shoes	3,960	3,795	163	165	618,585
Total					24,052,710

* The difference in Sales Revenue of Income Statement is due to rounding off.

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	Phone / Fax	E-mail / Website
United Apparel Machinery	25 United Arcade, Rex Market, Nicolson Road, Lahore	Ph: +92-42- 362 91680	lhr@unitedmachinery.com.pk www.unitedmachinery.com.pk
REX Machinery (Pvt.) Ltd.	Rex Market, 6 Allama Iqbal Road, Lahore.	Ph: +92-42- 363 75525, Fax: +92-42- 363 05130	rexmachinery@hotmail.com

10.2 Raw Material Suppliers

Raw Material Supplier
Moti Bazar, Shahalam Market, Lahore

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, Hayatabad, Peshawer	Ph: +92-91-921 7244	
Muhammad Ashraf		+92-300-457 5118	www.kamhank.com

11 USEFUL LINKS

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

12 ANNEXURES

12.1 Income Statement

Calculations										SMEDA
Income Statement										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue	24,050,813	30,913,137	37,800,296	45,755,756	54,924,305	65,469,006	77,573,404	91,443,991	107,312,963	118,352,468
<i>Cost of sales</i>										
Raw Material Cost	11,609,549	14,922,056	18,246,551	22,086,725	26,512,468	31,602,492	37,445,397	44,140,857	51,800,956	57,129,827
Wages	2,163,150	2,780,353	3,399,790	4,115,311	4,939,937	5,888,337	6,977,016	8,224,548	9,651,817	10,644,719
Operation costs 1 (direct labor)	1,716,000	1,883,072	2,066,411	2,267,599	2,488,376	2,730,648	2,996,508	3,288,252	3,608,401	3,959,720
Operating costs 2 (machinery maintenance)	144,210	185,357	226,653	274,354	329,329	392,556	465,134	548,303	643,454	709,648
Operating costs 3 (direct electricity)	649,772	750,205	832,260	915,768	1,000,872	1,087,734	1,176,528	1,267,448	1,360,707	1,391,816
Total cost of sales	16,282,680	20,521,043	24,771,665	29,659,757	35,270,983	41,701,766	49,060,583	57,469,409	67,065,334	73,835,730
Gross Profit	7,768,132	10,392,094	13,028,631	16,095,999	19,653,322	23,767,239	28,512,821	33,974,583	40,247,628	44,516,739
<i>General administration & selling expenses</i>										
Administration expense	1,296,000	1,422,180	1,560,646	1,712,593	1,879,333	2,062,308	2,263,097	2,483,435	2,725,226	2,990,558
Administration benefits expense	129,600	142,218	156,065	171,259	187,933	206,231	226,310	248,343	272,523	299,056
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	316,800	348,480	383,328	421,661	463,827	510,210	561,231	617,354	679,089	746,998
Office refreshment expense	96,000	105,600	116,160	127,776	140,554	154,609	170,070	187,077	205,785	226,363
Communications expense (phone, fax, mail, internet, etc.)	120,000	132,000	145,200	159,720	175,692	193,261	212,587	233,846	257,231	282,954
Office expenses (stationary, entertainment, janitorial services, etc.)	129,600	142,218	156,065	171,259	187,933	206,231	226,310	248,343	272,523	299,056
Promotional expense	1,202,541	1,545,657	1,890,015	2,287,788	2,746,215	3,273,450	3,878,670	4,572,200	5,365,648	5,917,623
Professional fees (legal, audit, consultants, etc.)	240,508	309,131	378,003	457,558	549,243	654,690	775,734	914,440	1,073,130	1,183,525
Depreciation expense	104,900	104,900	104,900	104,900	104,900	119,709	119,709	119,709	119,709	119,709
Amortization of pre-operating costs	27,950	27,950	27,950	27,950	27,950	-	-	-	-	-
Amortization of legal, licensing, and training costs	2,800	2,800	2,800	2,800	2,800	-	-	-	-	-
Subtotal	5,466,698	6,263,134	7,099,130	8,041,063	9,101,760	10,279,616	11,622,526	13,132,437	14,829,321	16,310,146
Operating Income	2,301,434	4,128,959	5,929,501	8,054,936	10,551,562	13,487,623	16,890,294	20,842,145	25,418,307	28,206,593
Gain / (loss) on sale of office equipment	-	-	-	-	107,200	-	-	-	-	-
Gain / (loss) on sale of Furniture & Fixtures	-	-	-	-	-	-	41,040	-	-	-
Earnings Before Interest & Taxes	2,301,434	4,128,959	5,929,501	8,054,936	10,658,762	13,487,623	16,931,334	20,842,145	25,418,307	28,206,593
Interest expense on long term debt (Project Loan)	287,383	241,502	187,829	125,039	51,583	-	-	-	-	-
Interest expense on long term debt (Working Capital Loan)	198,040	166,423	129,436	86,166	35,546	-	-	-	-	-
Subtotal	485,423	407,926	317,265	211,205	87,129	-	-	-	-	-
Earnings Before Tax	1,816,011	3,721,034	5,612,236	7,843,732	10,571,633	13,487,623	16,931,334	20,842,145	25,418,307	28,206,593
Tax	210,702	652,758	1,206,170	1,967,805	2,922,571	3,943,167	5,148,466	6,517,250	8,118,907	9,094,807
NET PROFIT/(LOSS) AFTER TAX	1,605,309	3,068,276	4,406,065	5,875,926	7,649,062	9,544,456	11,782,868	14,324,895	17,299,400	19,111,786

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
Assets											
<i>Current assets</i>		707,942.63									
Cash & Bank	550,800	209,265	2,110,193	4,923,161	8,865,075	13,800,247	21,423,222	30,804,098	42,132,157	56,468,375	90,114,908
Accounts receivable		988,390	1,129,396	1,411,920	1,716,905	2,068,768	2,473,835	2,939,228	3,472,960	4,084,047	4,636,961
Finished goods inventory		707,943	859,020	1,036,471	1,240,522	1,474,745	1,743,161	2,050,293	2,401,229	2,801,685	3,076,489
Equipment spare part inventory	12,018	16,219	20,824	26,467	33,358	41,751	51,944	64,293	79,223	91,741	-
Raw material inventory	1,147,725	1,622,721	2,182,673	2,906,242	3,837,456	5,031,613	6,558,085	8,503,780	10,977,456	13,317,403	-
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	-
Total Current Assets	2,610,542	4,534,536	7,391,106	11,502,162	17,011,007	23,866,583	33,844,651	46,115,538	60,992,255	78,885,405	97,828,358
<i>Fixed assets</i>											
Machinery & equipment	2,853,500	2,853,500	2,853,500	2,853,500	2,853,500	2,853,500	2,853,500	2,853,500	2,853,500	2,853,500	2,853,500
Furniture & fixtures	513,000	461,700	410,400	359,100	307,800	256,500	205,200	153,900	102,600	51,300	-
Office equipment	268,000	214,400	160,800	107,200	53,600	342,043	273,635	205,226	136,817	68,409	-
Total Fixed Assets	3,634,500	3,529,600	3,424,700	3,319,800	3,214,900	3,452,043	3,332,335	3,212,626	3,092,917	2,973,209	2,853,500
<i>Intangible assets</i>											
Pre-operation costs	139,748	111,798	83,849	55,899	27,950	-	-	-	-	-	-
Legal, licensing, & training costs	14,000	11,200	8,400	5,600	2,800	-	-	-	-	-	-
Total Intangible Assets	153,748	122,998	92,249	61,499	30,750	-	-	-	-	-	-
TOTAL ASSETS	6,398,790	8,187,135	10,908,055	14,883,461	20,256,656	27,318,627	37,176,986	49,328,164	64,085,173	81,858,613	100,681,858
Liabilities & Shareholders' Equity											
<i>Current liabilities</i>											
Accounts payable		639,281	825,668	1,019,412	1,247,145	1,514,593	1,828,496	2,196,806	2,628,920	3,102,960	2,814,419
Total Current Liabilities	-	639,281	825,668	1,019,412	1,247,145	1,514,593	1,828,496	2,196,806	2,628,920	3,102,960	2,814,419
<i>Other liabilities</i>											
Long term debt (Project Loan)	1,894,124	1,624,015	1,308,026	938,363	505,909	-	-	-	-	-	-
Long term debt (Working Capital Loan)	1,305,271	1,119,135	901,381	646,641	348,630	-	-	-	-	-	-
Total Long Term Liabilities	3,199,395	2,743,149	2,209,407	1,585,003	854,539	-	-	-	-	-	-
<i>Shareholders' equity</i>											
Paid-up capital	3,199,395	3,199,395	3,199,395	3,199,395	3,199,395	3,199,395	3,199,395	3,199,395	3,199,395	3,199,395	3,199,395
Retained earnings		1,605,309	4,673,585	9,079,650	14,955,577	22,604,638	32,149,094	43,931,962	58,256,857	75,556,258	94,668,044
Total Equity	3,199,395	4,804,704	7,872,980	12,279,045	18,154,972	25,804,033	35,348,489	47,131,357	61,456,252	78,755,653	97,867,439
TOTAL CAPITAL AND LIABILITIES	6,398,790	8,187,135	10,908,055	14,883,461	20,256,656	27,318,627	37,176,986	49,328,164	64,085,173	81,858,613	100,681,858

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		1,605,309	3,068,276	4,406,065	5,875,926	7,649,062	9,544,456	11,782,868	14,324,895	17,299,400	19,111,786
Add: depreciation expense		104,900	104,900	104,900	104,900	104,900	119,709	119,709	119,709	119,709	119,709
amortization of pre-operating costs		27,950	27,950	27,950	27,950	27,950	-	-	-	-	-
amortization of training costs		2,800	2,800	2,800	2,800	2,800	-	-	-	-	-
Accounts receivable		(988,390)	(141,007)	(282,524)	(304,985)	(351,863)	(405,067)	(465,392)	(533,733)	(611,087)	(552,914)
Finished goods inventory		(707,943)	(151,078)	(177,451)	(204,051)	(234,223)	(268,416)	(307,132)	(350,936)	(400,456)	(274,804)
Equipment inventory	(12,018)	(4,201)	(4,605)	(5,643)	(6,892)	(8,393)	(10,193)	(12,349)	(14,930)	(12,518)	91,741
Raw material inventory	(1,147,725)	(474,996)	(559,952)	(723,570)	(931,213)	(1,194,157)	(1,526,472)	(1,945,696)	(2,473,676)	(2,339,947)	13,317,403
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
Accounts payable		639,281	186,387	193,744	227,733	267,448	313,903	368,310	432,114	474,040	(288,542)
Cash provided by operations	(2,059,742)	114,711	2,434,671	3,437,372	4,672,378	6,131,754	7,622,975	9,380,876	11,328,059	14,336,218	33,646,533
<i>Financing activities</i>											
Project Loan - principal repayment		(270,109)	(315,989)	(369,663)	(432,453)	(505,909)	-	-	-	-	-
Working Capital Loan - principal repayment		(186,136)	(217,753)	(254,741)	(298,010)	(348,630)	-	-	-	-	-
Additions to Project Loan	1,894,124	-	-	-	-	-	-	-	-	-	-
Additions to Working Capital Loan	1,305,271	-	-	-	-	-	-	-	-	-	-
Issuance of shares	3,199,395	-	-	-	-	-	-	-	-	-	-
Purchase of (treasury) shares											
Cash provided by / (used for) financing activities	6,398,790	(456,246)	(533,743)	(624,404)	(730,464)	(854,539)	-	-	-	-	-
<i>Investing activities</i>											
Capital expenditure	(3,788,248)	-	-	-	-	(342,043)	-	-	-	-	-
Acquisitions											
Cash (used for) / provided by investing activities	(3,788,248)	-	-	-	-	(342,043)	-	-	-	-	-
NET CASH	550,800	(341,535)	1,900,928	2,812,969	3,941,914	4,935,172	7,622,975	9,380,876	11,328,059	14,336,218	33,646,533

13 KEY ASSUMPTIONS

13.1 Operating Cost Assumptions

Description	Details
Administration Benefit Expenses	10% of Administration Cost
Refreshment Expenses	Rs. 8,000 per Month
Communication Expenses	Rs. 10,000 per Month
Office Expenses	10% of Administration Cost
Promotional Expenses	5% of Revenues
Professional Fee	1% of Revenue
Depreciation Method	Straight Line
Depreciation Rate	10% on Furniture & Fixtures 20% on Office Equipment
Operating Cost Growth Rate	10%

13.2 Production Cost Assumptions

Description	Details
Upper Material (on average)	27.01
Sole	50.00
Rubber Solution	5.00
Cement Solution	5.00
Desmokol for Sole	11.00
Desmoder	8.00
MEK (for cleaning)	8.00
EVA sheet	10.00
Other accessories	10.00
Packing	17.00
Foam Lining	5.00
Miscellaneous	5.00
Raw Material Cost per Pair	Rs. 161.01
Cutting Man	5.00
Upper Man	10.00
Bottom Man	10.00
Finishing Man	5.00
Wages per Pair	Rs. 30.00 per Pair

Machinery Maintenance per Pair	Rs. 2.00
Production Cost Growth Rate	10%

13.3 Revenue Assumptions

Description	Details
Growth in Sales Price	10%
Days Operational / Year	330
Per Day Production Capacity	600 Pairs
Production Capacity in First Year	40%
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