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# Pre-Feasibility Study

## LEATHER GLOVES 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**

Leather Industry of Pakistan, including leather based manufactured goods, ranks among top 5 export earners, contributing significantly to the national exchequer. International demand for Pakistan's leather products, low investment as compared to other sectors, easy availability of quality hides and skins, high craftsmanship, cheap availability of skilled labor are some of the encouraging factors that provide a potent opportunity for a new entrant to venture into leather goods manufacturing business.

This document provides basic information regarding setting up a leather gloves (fashion) manufacturing unit. The unit will be capable of producing on average 1,100 pairs of fancy / fashion gloves per day. For this purpose, 50 stitching machines will be acquired. The unit is also capable of manufacturing other types of gloves (i.e. sports and working) without any addition of machinery.

The proposed fashion leather gloves manufacturing business involves a total investment of about Rs. 10.95 million. This includes capital investment of Rs. 5.60 million and Rs. 5.35 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. 41.69 million with an Internal Rate of Return (IRR) of 50% and a payback period of 3.09 years.

Project will provide employment opportunities to 20 people including owner manager. 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. 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 **Leather Gloves (Fashion) Manufacturing Unit** 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 reveals 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**

This document provides information on one of the sub sectors of leather manufacturing in Pakistan, namely Leather Gloves. 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 labour puts this sub sector as an attractive opportunity for start-up of leather goods manufacturing in Pakistan.

Leather Gloves can be broadly classified into two main categories, i.e. Sports or Non-Sports Gloves.

Non-sports gloves include fancy / fashion and industrial or working gloves. Fashion Gloves are normally made from high quality leather, whereas industrial and working gloves are made from low quality and split leather.

The proposed project is primarily a fashion leather gloves manufacturing unit, which is also capable of manufacturing leather industrial and sports gloves without any additional machinery. Export market is the primary market for the produced leather gloves, while the major export destinations are the EU and North America.

Proposed unit is based on 50 Lock Stitch (Single Needle) machines along with allied machines (e.g. Lock-stitch Double Needle, Overlock Machine, Cutters, Hydraulic Press etc.) and will have installed capacity of manufacturing 1,100 pairs of fashion leather gloves per day on 8 hours single shift basis. The project will provide direct employment opportunities to 20 people initially.

The Unit will operate on order manufacturing basis, particularly for exporters, traders, and international buyers. Fashion Gloves manufacturing unit is assumed to operate as a sole-proprietorship.

### **5.1 Production Process Flow**

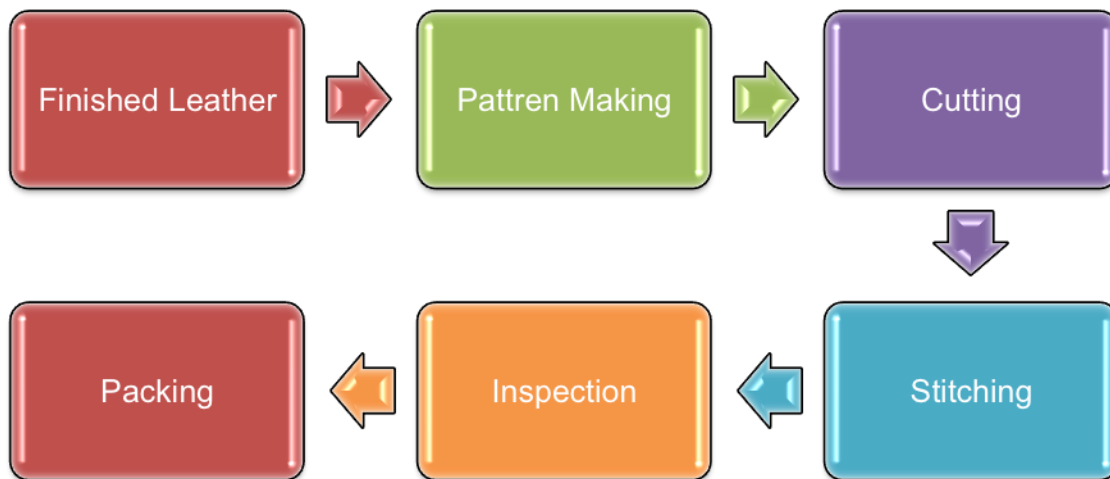
The process of gloves manufacturing starts with the receipt of specification / sample of gloves from the customer and / or design developed by the designing department. These specifications include quality and specifications of leather, accessories to be used, design details, stitching styles, packing instructions and all other necessary information. Based on the specifications received, a sample pair of glove is prepared and sent to customer for approval.

Once the sample is approved, based on the specifications, pattern master first prepares the pattern on chart paper and then on straw board sheet, which will then be used for cutting leather for confirmed order. By using the patterns prepared, cutters cut the leather for gloves with the help of knives. In case of large quantities, press machines with metal dies can also be used. It is ensured that minimum wastage takes place. The average wastage of leather in cutting process is up to 5%. A cutter cuts around 50 to 60 pairs of gloves per day based on one shift of eight hours.

Stitching is the next process after cutting. The gloves are stitched by stitchers using stitching machines. During the stitching process, accessories are added which mainly include lining / interlining material, foam, velcro, hooks / clips, and labels.

After the completion of stitching process, quality inspection is carried out. In this process a thorough inspection is made pertaining to the quality, stitching, accessories, lining, etc. to ensure it is according to the specifications of buyers. Moreover, extra threads and fibres are also trimmed during this process. Afterwards, each pair of glove is labelled, tagged and packed in plastic polythene bags and then 100 pairs of gloves are packed in a carton for their onward dispatch.

**Figure 1: Production Process Flow**



## 5.2 Installed and Operational Capacities

This pre-feasibility study is based on an installed production capacity of manufacturing 1,100 pairs of fashion gloves per day on single shift basis (i.e. for 8 hours) and will be able to produce 330,000 pair of gloves annually with 300 operational days. While maximum capacity utilization of the unit is assumed at 95% i.e. 313,500 pairs annually. However, during first year of operation unit will operate at 60% capacity producing 198,000 pairs of gloves. Capacity utilization growth rate of 10% is considered for subsequently years.

This production capacity is estimated to be economically viable and justifies the capital as well as operational costs of the project.

**Table 1: Installed and Operational Capacities**

Description	Total Production Capacity (Annually)	Operational Capacity 60 % (Year 1)	Maximum Operational Capacity 95%
Pair of Gloves	330,000	198,000	313,500

## 6 CRITICAL FACTORS

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

- Awareness about international leather fashion trends especially fashion gloves.
- Higher return on investment and a steady growth of business is closely associated with regular training and capacity building of the entrepreneur and employees.
- Prior experience / education in the related field of business.
- Strict compliance regarding local and international environmental regulations.
- Good quality leather conforming to the international standards like Registration, Evaluation, Authorization & Restriction of Chemical (REACH) substances.
- Availability of skilled labour.
- Stringent supervision of the production process at every level.
- Continuous flow of exports orders through aggressive marketing (website & social media) and international networking.
- Special attention on packaging.

## 7 GEOGRAPHICAL POTENTIAL FOR INVESTMENT

Sialkot, Karachi and Lahore are three key clusters of leather goods manufacturing. Availability of skilled labor is vital while selecting a location; all the above cities have adequate availability of skilled labor, raw material and other support infrastructure. Therefore, proposed leather fashion gloves manufacturing unit should ideally be established in the suburbs / periphery areas of these cities.



## 8 POTENTIAL TARGET CUSTOMERS / MARKETS

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

The Unit will operate on order manufacturing basis, particularly for exporters, traders, chain stores and international brands.

## 9 PROJECT COST SUMMARY

A detailed financial model has been developed to analyze the commercial viability of Leather Gloves 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 also attached as annexure.

### 9.1 Project Economics

All the figures in this financial model have been calculated for estimated sales revenue of Rs.124.58 million in the year one. The capacity utilization during year one is worked out at 60% with 10% increase in subsequent years up to the maximum capacity utilization of 95%.

The following table shows internal rate of return, payback period and net present value of the proposed venture:

**Table 2: Project Economics**

Description	Details
Internal Rate of Return (IRR)	50%
Payback Period (Yrs.)	3.09
Net Present Value (Rs.)	41,699,776

### 9.2 Project Financing

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

**Table 3: Project Financing**

Description	Details
Total Equity (50%)	Rs. 5,475,734
Bank Loan (50%)	Rs. 5,475,734
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 4: Project Cost**

Description	Amount Rs.
<b>Capital Cost</b>	
Machinery and Equipment	3,434,500
Furniture and Fixture	665,000
Office Equipment	219,000
Pre-operating Cost	1,031,432
Legal, Licensing, Medical and Trial Production	250,000
<b>Total Capital Cost</b>	<b>5,599,932</b>
<b>Working Capital</b>	
Raw Material Inventory	4,364,250
Up-front Building Rent	600,000
Cash	300,000
Equipment Spare Part Inventory	87,285
<b>Total Working Capital</b>	<b>5,351,535</b>
<b>Total Project Cost</b>	<b>10,951,467</b>

### 9.4 Space Requirement

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

any set pattern. It is proposed to take building on rental basis in order to minimize capital cost as well as the risk factor.

Details of space requirement and rent cost related to building is given below:

**Table 5: Space Requirement**

Description	Estimated Area (Sq ft)
Management / Admin Area	800
Production Area	5,000
Store	1,500
Open Area	1,300
Public Health Facilities	400
<b>Total Area</b>	<b>9,000</b>

Monthly rent for the proposed rental building is assumed at Rs. 100,000 per month. However this may vary from area to area.

## 9.5 Machinery & Equipment Requirement

Machinery and equipment for the proposed project are stated below:

**Table 6: Machinery & Equipment Requirement**

Description	Quantity	Unit Cost (Rs.)	Total Cost (Rs.)
Lock Stitch Single Needle (Used)	50	25,000	1,250,000
Lock Stitch Double Needle (Used)	1	40,000	40,000
Cutters	5	1,500	7,500
Cutting Tables	3	18,000	54,000
Hydraulic Press - Swing Arm 430mm	1	400,000	400,000
Iron Heating Hand	4	6,000	24,000
Store Racks	5	15,000	75,000
Checking Tables	3	7,000	21,000
Tools, Gauges	1	100,000	100,000
Over Lock Machine (3 Threads)	1	25,000	25,000
Electrification	52	3,000	156,000
Machine Base Table	51	2,000	102,000
Generator (50 KVA)	1	900,000	900,000
Miscellaneous	1	200,000	200,000

Industrial Air Coolers	2	40,000	80,000
<b>Total</b>			<b>3,434,500</b>

## 9.6 Furniture & Fixtures Requirement

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

**Table 7: Furniture & Fixture Requirement**

Description	Quantity	Unit Cost (Rs.)	Total Cost (Rs.)
Office / Visitor Chairs	20	6,000	120,000
Office Tables	6	10,000	60,000
Ceiling Fans	25	3,000	75,000
AC 1.5 Tons	2	60,000	120,000
Lights	1	40,000	40,000
Storage Racks etc.	1	50,000	50,000
Fire Frightening Equipment	1	50,000	50,000
Miscellaneous	1	150,000	150,000
<b>Total</b>			<b>665,000</b>

## 9.7 Office Equipment Requirement

Following office equipment will be required for the proposed project:

**Table 8: Office Equipment Requirement**

Description	Quantity	Unit Cost (Rs.)	Total Cost (Rs.)
Laptop	1	60,000	60,000
Computer Desktop (Used)	4	15,000	60,000
Computer UPS	4	12,000	48,000
Computer Printer	1	15,000	15,000
Telephone Sets	4	1,500	6,000
Fax Machine	1	20,000	20,000
Scanner	1	10,000	10,000
<b>Total</b>			<b>219,000</b>

## 9.8 Raw Material Requirement

Following table provides the details and cost of raw material for producing one pair of gloves:

**Table 9: Raw Material Requirement**

Description	Unit	Cost Per Unit	Quantity	Total Cost Per Unit
Leather	Sq. ft	110	4.00	440
Lining	Meters	100	0.20	20
Cutting	LS	12	1	12
Stitching	LS	50	1	50
Misc.	LS	30	1	30
<b>Cost per Unit</b>				<b>552</b>

## 9.9 Human Resource Requirement

In order to run operations smoothly, details of human resources required along with number of employees and monthly salary are recommended as under:

**Table 10: Human Resource Requirement**

Description	No. of Employees	Monthly Salary Per Person (Rs.)
Owner / Manager	1	80,000
Production In-charge	1	40,000
Pattern Master	1	30,000
Stitching Supervisor	1	30,000
QC Supervisor	1	30,000
QC Inspectors	2	18,000
Packing Supervisors	1	25,000
Packers	3	15,000
Mechanic	1	18,000
Accountant	1	25,000
Store In-Charge	1	20,000
Purchaser	1	20,000
Office Assistant	1	18,000

Security Guard	2	15,000
Sweeper	1	13,000
Office Boy	1	13,000
<b>Total</b>	<b>20</b>	

### 9.10 Utilities and Other Costs

An essential cost to be borne by the project is the cost of electricity. The direct electricity expenses are estimated to be around Rs 2.56 million in year one with 10% increase in subsequent years. Furthermore, promotional expenses are estimated as 2% of revenue, i.e. 2.49 million.

### 9.11 Revenue Generation

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

**Table 11: Revenue Generation – Year 1**

Description	Unit	Sale Price (US \$ / unit)	Sale Price in Pak Rs.	1 <sup>st</sup> Year Production	Total Revenue (Rs.)
Leather Gloves (Pair)	No.	\$6.10	647	198,000	128,106,000
Finished Goods Inventory (Minus)				(8,250)	(5,337,750)
Rebate (1.54%)					1,889,462
<b>Total Sales Revenue</b>					<b>124,581,812</b>

## 10 CONTACT DETAILS

In order to facilitate potential investors, contact details of machinery and leather accessories suppliers are provided below.

### 10.1 Machinery Suppliers

Name of Supplier	Address	Phone
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>
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 Gilgit Baltistan	<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>
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>
Pakistan Leather Gloves Manufacturers and Exporters Association (PLGMEA)	<a href="http://www.plgmea.org.pk">www.plgmea.org.pk</a>



## 12 ANNEXURES

### 12.1 Income Statement

SMEDA										
<b>Calculations</b>										
<b>Income Statement</b>										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue	124,581,812	165,838,253	208,638,425	258,340,248	300,696,033	331,492,594	364,641,854	401,106,039	441,216,643	485,338,307
<i>Cost of sales</i>										
Raw Material Cost	104,742,000	139,428,300	175,412,490	217,199,235	252,809,807	278,701,977	306,572,174	337,229,392	370,952,331	408,047,564
Operation costs 1 (direct labor)	3,151,000	3,595,271	3,957,759	4,356,067	4,803,404	5,295,357	5,824,893	6,407,382	7,048,120	7,752,932
Operating costs 2 (machinery maintenance)	523,710	697,142	877,062	1,085,996	1,264,049	1,393,510	1,532,861	1,686,147	1,854,762	2,040,238
Operating costs 3 (direct electricity)	2,558,160	2,813,976	3,095,374	3,404,911	3,745,402	4,119,942	4,531,936	4,985,130	5,483,643	6,032,007
Operating costs 4 (direct water)	180,000	198,000	217,800	239,580	263,538	289,892	318,881	350,769	385,846	424,431
Total cost of sales	111,154,870	146,732,689	183,560,485	226,285,789	262,886,200	289,800,677	318,780,745	350,658,820	385,724,702	424,297,172
Gross Profit	13,426,942	19,105,564	25,077,940	32,054,459	37,809,833	41,691,917	45,861,108	50,447,219	55,491,941	61,041,135
<i>General administration &amp; selling expenses</i>										
Administration expense	2,388,000	2,626,800	2,889,480	3,178,428	3,496,271	3,845,898	4,230,488	4,653,536	5,118,890	5,630,779
Administration benefits expense	119,400	131,340	144,474	158,921	174,814	192,295	211,524	232,677	255,945	281,539
Building rental expense	1,200,000	1,320,000	1,452,000	1,597,200	1,756,920	1,932,612	2,125,873	2,338,461	2,572,307	2,829,537
Electricity expense	292,968	322,265	354,491	389,940	428,934	471,828	519,011	570,912	628,003	690,803
Travelling expense	477,600	525,360	577,896	635,686	699,254	769,180	846,098	930,707	1,023,778	1,126,156
Communications expense (phone, fax, mail, internet, etc.)	358,200	394,020	433,422	476,764	524,441	576,885	634,573	698,030	767,834	844,617
Office expenses (stationary, entertainment, janitorial services, etc.)	238,800	262,680	288,948	317,843	349,627	384,590	423,049	465,354	511,889	563,078
Promotional expense	2,491,636	3,316,765	4,172,768	5,166,805	6,013,921	6,629,852	7,292,837	8,022,121	8,824,333	9,706,766
Professional fees (legal, audit, consultants, Medical etc.)	1,245,818	1,658,383	2,086,384	2,583,402	3,006,960	3,314,926	3,646,419	4,011,060	4,412,166	4,853,383
Depreciation expense	453,750	453,750	453,750	453,750	453,750	1,033,620	1,033,620	1,033,620	1,033,620	1,033,620
Amortization of pre-operating costs	206,286	206,286	206,286	206,286	206,286	-	-	-	-	-
Amortization of legal, licensing, and training costs	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Subtotal	9,497,459	11,242,649	13,084,900	15,190,026	17,136,178	19,176,685	20,988,491	22,981,478	25,173,764	27,585,278
Operating Income	3,929,483	7,862,915	11,993,039	16,864,433	20,673,655	22,515,232	24,872,617	27,465,741	30,318,177	33,455,857
Gain / (loss) on sale of machinery & equipment	-	-	-	-	1,373,800	-	-	-	-	-
Gain / (loss) on sale of office equipment	-	-	-	-	87,600	-	-	-	-	-
Earnings Before Interest & Taxes	3,929,483	7,862,915	11,993,039	16,864,433	22,135,055	22,515,232	24,872,617	27,465,741	30,318,177	33,455,857
Interest on short term debt	141,857	141,857	-	-	-	-	-	-	-	-
Interest expense on long term debt (Project Loan)	391,995	332,693	265,088	188,019	100,159	-	-	-	-	-
Interest expense on long term debt (Working Capital Loan)	349,750	290,405	222,197	143,804	53,702	-	-	-	-	-
Subtotal	883,602	764,955	487,285	331,822	153,862	-	-	-	-	-
Earnings Before Tax	3,045,881	7,097,960	11,505,754	16,532,610	21,981,193	22,515,232	24,872,617	27,465,741	30,318,177	33,455,857
Tax	1,557,273	2,072,978	2,607,980	3,229,253	3,758,700	4,143,657	4,558,023	5,013,825	5,515,208	6,066,729
<b>NET PROFIT/(LOSS) AFTER TAX</b>	<b>1,488,609</b>	<b>5,024,982</b>	<b>8,897,774</b>	<b>13,303,357</b>	<b>18,222,493</b>	<b>18,371,575</b>	<b>20,314,594</b>	<b>22,451,916</b>	<b>24,802,969</b>	<b>27,389,128</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	-	2,030,359	7,068,234	16,318,127	24,035,948	38,961,919	55,596,999	73,457,999	92,539,469	157,779,603
Equipment spare part inventory	87,285	127,809	176,874	240,910	308,449	374,044	452,593	547,637	662,641	801,796	-
Raw material inventory	4,364,250	6,390,464	8,843,713	12,045,508	15,422,452	18,702,180	22,629,638	27,381,862	33,132,053	40,089,784	-
Pre-paid building rent	600,000	660,000	726,000	798,600	878,460	966,306	1,062,937	1,169,230	1,286,153	1,414,769	-
<b>Total Current Assets</b>	<b>5,351,535</b>	<b>22,250,694</b>	<b>29,862,489</b>	<b>43,231,101</b>	<b>61,590,820</b>	<b>78,030,237</b>	<b>101,162,469</b>	<b>126,586,524</b>	<b>154,618,721</b>	<b>185,533,680</b>	<b>213,536,252</b>
<i>Fixed assets</i>											
Machinery & equipment	3,434,500	3,091,050	2,747,600	2,404,150	2,060,700	7,248,547	6,351,967	5,455,387	4,558,808	3,662,228	2,765,648
Furniture & fixtures	665,000	598,500	532,000	465,500	399,000	332,500	266,000	199,500	133,000	66,500	-
Office equipment	219,000	175,200	131,400	87,600	43,800	352,702	282,161	211,621	141,081	70,540	-
<b>Total Fixed Assets</b>	<b>4,318,500</b>	<b>3,864,750</b>	<b>3,411,000</b>	<b>2,957,250</b>	<b>2,503,500</b>	<b>7,933,748</b>	<b>6,900,128</b>	<b>5,866,508</b>	<b>4,832,888</b>	<b>3,799,268</b>	<b>2,765,648</b>
<i>Intangible assets</i>											
Pre-operation costs	1,031,432	825,146	618,859	412,573	206,286	-	-	-	-	-	-
Legal, licensing, & training costs	250,000	225,000	200,000	175,000	150,000	125,000	100,000	75,000	50,000	25,000	-
<b>Total Intangible Assets</b>	<b>1,281,432</b>	<b>1,050,146</b>	<b>818,859</b>	<b>587,573</b>	<b>356,286</b>	<b>125,000</b>	<b>100,000</b>	<b>75,000</b>	<b>50,000</b>	<b>25,000</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>10,951,467</b>	<b>27,165,590</b>	<b>34,092,349</b>	<b>46,775,924</b>	<b>64,450,607</b>	<b>86,088,985</b>	<b>108,162,598</b>	<b>132,528,032</b>	<b>159,501,609</b>	<b>189,357,948</b>	<b>216,301,901</b>
<b>Liabilities &amp; Shareholders' Equity</b>											
<i>Current liabilities</i>											
Accounts payable	-	13,781,587	18,387,867	23,249,092	28,851,304	33,676,037	37,378,075	41,428,915	45,950,577	51,003,946	50,558,770
<b>Total Current Liabilities</b>	<b>-</b>	<b>15,546,479</b>	<b>18,387,867</b>	<b>23,249,092</b>	<b>28,851,304</b>	<b>33,676,037</b>	<b>37,378,075</b>	<b>41,428,915</b>	<b>45,950,577</b>	<b>51,003,946</b>	<b>50,558,770</b>
<i>Other liabilities</i>											
Long term debt (Project Loan)	2,799,966	2,376,377	1,893,486	1,342,990	715,425	-	-	-	-	-	-
Long term debt (Working Capital Loan)	2,675,768	2,278,392	1,821,672	1,296,744	693,423	-	-	-	-	-	-
<b>Total Long Term Liabilities</b>	<b>5,475,734</b>	<b>4,654,769</b>	<b>3,715,158</b>	<b>2,639,734</b>	<b>1,408,847</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Shareholders' equity</i>											
Paid-up capital	5,475,734	5,475,734	5,475,734	5,475,734	5,475,734	5,475,734	5,475,734	5,475,734	5,475,734	5,475,734	5,475,734
Retained earnings	-	1,488,609	6,513,591	15,411,364	28,714,722	46,937,214	65,308,789	85,623,384	108,075,299	132,878,269	160,267,397
<b>Total Equity</b>	<b>5,475,734</b>	<b>6,964,342</b>	<b>11,989,324</b>	<b>20,887,098</b>	<b>34,190,455</b>	<b>52,412,948</b>	<b>70,784,523</b>	<b>91,099,117</b>	<b>113,551,033</b>	<b>138,354,002</b>	<b>165,743,130</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>	<b>10,951,467</b>	<b>27,165,590</b>	<b>34,092,349</b>	<b>46,775,924</b>	<b>64,450,607</b>	<b>86,088,985</b>	<b>108,162,598</b>	<b>132,528,032</b>	<b>159,501,609</b>	<b>189,357,948</b>	<b>216,301,901</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		1,488,609	5,024,982	8,897,774	13,303,357	18,222,493	18,371,575	20,314,594	22,451,916	24,802,969	27,389,128
Add: depreciation expense		453,750	453,750	453,750	453,750	453,750	1,033,620	1,033,620	1,033,620	1,033,620	1,033,620
amortization of pre-operating costs		206,286	206,286	206,286	206,286	206,286	-	-	-	-	-
amortization of training costs		25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Equipment inventory	(87,285)	(40,524)	(49,065)	(64,036)	(67,539)	(65,595)	(78,549)	(95,044)	(115,004)	(139,155)	801,796
Raw material inventory	(4,364,250)	(2,026,214)	(2,453,249)	(3,201,795)	(3,376,944)	(3,279,728)	(3,927,458)	(4,752,224)	(5,750,191)	(6,957,731)	40,089,784
Pre-paid building rent	(600,000)	(60,000)	(66,000)	(72,600)	(79,860)	(87,846)	(96,631)	(106,294)	(116,923)	(128,615)	1,414,769
Accounts payable		13,781,587	4,606,280	4,861,226	5,602,212	4,824,733	3,702,037	4,050,840	4,521,661	5,053,369	(445,176)
<b>Cash provided by operations</b>	<b>(5,051,535)</b>	<b>(1,243,928)</b>	<b>4,734,862</b>	<b>6,113,299</b>	<b>10,480,780</b>	<b>15,010,667</b>	<b>14,925,971</b>	<b>16,635,079</b>	<b>17,861,000</b>	<b>19,081,470</b>	<b>65,240,134</b>
<i>Financing activities</i>											
Project Loan - principal repayment		(423,589)	(482,891)	(550,496)	(627,565)	(715,425)	-	-	-	-	-
Working Capital Loan - principal repayment		(397,375)	(456,720)	(524,928)	(603,321)	(693,423)	-	-	-	-	-
Additions to Project Loan	2,799,966	-	-	-	-	-	-	-	-	-	-
Additions to Working Capital Loan	2,675,768	-	-	-	-	-	-	-	-	-	-
Issuance of shares	5,475,734	-	-	-	-	-	-	-	-	-	-
Purchase of (treasury) shares											
<b>Cash provided by / (used for) financing activities</b>	<b>10,951,467</b>	<b>(820,964)</b>	<b>(2,704,503)</b>	<b>(1,075,424)</b>	<b>(1,230,887)</b>	<b>(1,408,847)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Investing activities</i>											
Capital expenditure	(5,599,932)	-	-	-	-	(5,883,998)	-	-	-	-	-
Acquisitions											
<b>Cash (used for) / provided by investing activities</b>	<b>(5,599,932)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,883,998)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CASH</b>	<b>300,000</b>	<b>(2,064,892)</b>	<b>2,030,359</b>	<b>5,037,875</b>	<b>9,249,893</b>	<b>7,717,821</b>	<b>14,925,971</b>	<b>16,635,079</b>	<b>17,861,000</b>	<b>19,081,470</b>	<b>65,240,134</b>

## 13 KEY ASSUMPTIONS

### 13.1 Operating Cost Assumptions

Description	Details
Administration Benefit Expenses	5% of Administration Cost
Office Expenses (Stationery, Entertainment etc.)	10% of Administration Expenses
Traveling Expenses	20% of Administration Expenses
Communication Expenses	15% of Administration Cost
Promotional Expenses	2% of Revenue
Professional Fee	1% of Revenues
Depreciation Method	Accelerated depreciation
Depreciation Rate	10% on Machinery 20% on Office Equipment 10% on Furniture & Fixture
Inflation Growth Rate	10%
Electricity Price Growth Rate	10%
Salaries Growth Rate	10%
Production Cost Growth Rate	10%

### 13.2 Production Assumptions

Description	Details
Number of Stitching Machines Installed	50
Capacity Utilization (Year 1)	60%
Maximum Capacity Utilization	95%
Total Production Per Day	1,100
Annual Production capacity (Year 1)	198,000
Hours Operational Per Day	8 Hours
Days Operational Per Month	25 Days
No. Of Shift	Single Shift (8 Hours)
Days Operational Per Year	300 Days

### 13.3 Revenue Assumptions

Description	Details
Cost of Production per Pair of Gloves	Rs. 552
Leather (4 Sq. Ft)	Rs. 440
Lining	Rs. 20
Cutting	Rs. 12
Stitching	Rs. 50
Misc.	Rs. 30
Sale Price Per Unit (Year 1)	Rs. 647
Growth in Sales Price	10%
Export Sales	100%
Export Rebate	1.54%

### 13.4 Financial Assumptions

Description	Details
Debt	50%
Equity	50%
Interest Rate on Debt	14%
Debt Tenure	5 Years
Debt Payment / Year	1