

PREFEASIBILITY STUDY

ON SETTING UP PAINT MANUFACTURING UNIT IN NIGERIA

DEVELOPED BY
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ABOUT THIS REPORT

This prefeasibility study is designed to provide potential and startups entrepreneurs' valuable information on setting up paint production unit in the manufacturing industry of Nigeria's market; aimed at encouraging and facilitating industrial activities across the country. It is our realization that industrialization is at the heart of economic development and that every effort has to be made to bring about industrial growth and encourage our people to be part of it.

The paint manufacturing and sales business has over 80% local content in terms of availability of raw material, equipment and machinery, manpower and other requirements.

The key areas covered in this report include:

- i) Technical and economic analysis of the production, marketing and profitability of the project.
- ii) Recommendations in respect of procurement of equipments and associated problems.
- iii) Recommendation on suitable agronomic management practices to ensure efficient running of the projects.
- iv) Detailed financial analysis including project cash flows for the projects.

This prefeasibility report provides a comprehensive and detailed coverage of the above terms of reference and is designed to facilitate investment decisions.

The implementation of this project will also impact positively on the economy of the immediate community where the project is located. This is in terms of employment-direct and indirect, skilled and unskilled. Government also stands to benefit from internal revenue from taxation.

In view of the result of the analysis using some economic indicators as stated in the proposed project, it is hereby recommended that the project is viable.

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PART I EXECUTIVE SUMMARY

This particular prefeasibility study is on setting up paint manufacturing factory in most lucrative part of Nigeria.

Paint manufacture involves the mixing of different chemicals at different sequences and at specified durations for them to set and form a thick and, or sticky solution that is used to coat structure surfaces when applied to give them a decorated look of the desired colours. The mixing is done by a trained person with acumen in that field.

This industry product is on high demand since the construction sector is growing very fast and booming. The capital outlay is a bit stretched but the return on investment justifies it. The industry is characterized by the existence of various tiers which are determined by criteria such as market share, product quality, average turnover and reputation.

The plant has an installed daily capacity of producing 160-20ltr jerry cans of emulsion paint working 312 day per annum, at 60% capacity utilization.

1.1 SUMMARY OF TOTAL PROJECT COST

S/N	DESCRIPTION	COST INCURRED	COST TO BE INCURRED	TOTAL ₦
1	Land & building	-	400,000	400,000
2	Machinery & equipments	-	1,647,000	2,022,000
3	Utility equipment	-	300,500	1,400,000
4	Office equipment	-	150,000	150,000
5	Vehicle	-	3,200,000	3,200,000
	TOTAL CAPITAL COST	-	6,797,000	7,172,000
6	Working capital	-	1,200,000	1,200,000
7	10% Contingencies & preliminary expenses	-	837,200	837,200
	Total project cost	-	8,834,200	9,209,200

1.2 FINANCIAL ACCOUNTING RATIOS ANALYSIS

PERFORMANCE RATIOS AVERAGES

- (a) Return on Sales = 8%
- (b) Return on Equity = 1,116%
- (c) Return on Investment = 146%
- (d) Positive NPV = ₦118,682,283
- (e) IRR = 47%
- (f) ARR = 412%
- (g) Payback Period = 12 months

PART II

MARKET ANALYSIS

2.1 INTRODUCTION

Construction Sector is one of the fastest growing sectors in the country. There is therefore, a ready market for the paint and paint products once quality is taken into account during production. Construction Companies, Estate Developers, Hardware shops, Institutions as well as individuals are the potential customers.

2.2 MARKET AREA ANALYSIS

With the rate building are erecting in the country, paint production business is now more profitable than it has ever been. Old buildings are remodeling their structure to suit the new building and the new ones are making their building more attractive than the usual, different designs are being created by the day and this creates more demand for paint than what it used to be. Houses, hospitals, churches, mosques, banking halls and all other buildings are some of the essential buildings that cannot be done without and instead of a decrease; there is always a surge in building as the years go by. This fact makes paint production a lucrative business as the aesthetics of a house is almost as important as the structure and the painting of a house is a fundamental issue when it comes to the beauty of a house.

Old structures are being renewed to suit modern styles and modern styles are not left without a touch of uniqueness and this makes demand for modern, unique and good texture paints higher than ever before.

2.3 INDUSTRY OVERVIEW

The chemical and paints industry has been in existence for a number of years. The industry has gone through various levels of development from the manual based processes to more technologically advanced production methods. However, the level of development of the sector in Nigeria is still low when compared to other countries with more advanced technical know-how. Countries like the US, Mexico and the United Kingdom have more developed paint making processes and as such derive more revenue from paint making.

2.4 DEMAND AND SUPPLY ANALYSIS

The Nigerian paint sector is a highly competitive one. There is free entry and exit due to the rather friendly capital required to set up a business. Also, operating costs are relatively low, thereby increasing the number and longevity of players that exist. With over 1,000 operators, the market can be considered to be saturated. Many new entrants get attracted to paint making business due primarily to inefficient regulatory practices as well as the attractive capital requirement. This has inevitably led to the lowering of standards as most of the fringe players produce sub-standard paints, albeit at relatively cheaper cost which enables them to sell at a lower price.

PART III TECHNICAL ANALYSIS

3.1 PROJECT DESCRIPTION

The product is for the production of Emulsion and other brands of paint products for commercial and domestic use. The increasing population growth which perquisite the need for shelter, has invariably spurred the ever increasing demand of paint products especially in the urban cities.

3.2. SUITABLE LOCATION

This project can be sited in any populated metropolitan cities in Nigeria with especially consideration to availability of main markets and proximity to source of raw materials. Paint manufacture machinery and equipment can be located in a moderate space of about 15ft x 20ft, and a store of about 15ft x 10ft plus an office space of about 120 square feet.

3.3 SPECIFICATION AND QUALIITY STANDARD

The raw materials as well as the machines used in the production must meet quality norms using the best rating to reach the desired quality. In order to achieve these goals, the entrepreneur is to set their own standard with detailed specifications, combining the raw material in right proportions.

3.4 PRODUCTION CAPACITY

The factory production capacity depends on the size of the machinery the shifts operated and the capital invested. However, for the purpose of this study, it is projected at daily capacity of producing 160-20ltr jerry cans of emulsion paint working 312 day per annum, at 60% capacity utilization. If materials and market are available, the factory can operate up to three shifts.

3.5 RAW MATERIALS

The major raw materials used for the production of the emulsion paint: water, **titanium iv oxide**, calcium carbonate, kaolin, calgon, natrosol, biocide P.V.A, ammonia, deformer (Ginap) kerosene, yellow iron oxide and red iron oxide. These chemical can easily be sourced from supplier in different part of the country.

3.6 SOURCES OF FUNDS

The project can be funded through a number of sources which include but not limited to the following; Agric-Business, Small & Medium Scale Investment Scheme (AGSMEIS), Bank of Industry, Nigeria Export-Import (NEXIM) Bank, grants etc., though the conditions and criteria for accessing the loans and grants varies.

PART IV

FINANCIAL ANALYSIS

Basically, the financial section of this prefeasibility study consists of three financial statements: Income statement, Balance sheet, Cash flow projection. This section determines whether or not the project is viable using some economic indicators such as Net Present Value (NPV), Internal Rate of Return (IRR), and payback period as are detailed in the appendices below.

4.1 ASSUMPTIONS

1. Assuming that the project will last for the period of five years and the salvage value at the end of the project life ignored.
2. The Machineries, Equipments and Utility Equipment have uniform depreciation of 20%.
3. The plant has an installed daily capacity of producing 160-20ltr jerry cans of emulsion paint working 312 day per annum, at 60% capacity utilization.
4. The proposed capacity utilization are 60% in the first year of commercial production, 70%, 80% in the 2nd and 3rd year respectively and 90% in the 4th and 5th years.
5. Raw materials will be sourced locally and Market for the product is readily available.
6. Staff and labour cost will increase by 10% yearly.
7. Prices and unit costs are assumed unchanged in the five years of projection.
8. The valuation currency used is Naira.

4.2 ACCOUNTING /FINANCIAL ANALYSIS

4.2.1 NET PROFIT

The projected Annual Trading Profit and Loss Account is proposed to make the following Net Profit after tax during the corresponding projected periods – all things being equal.

4.2.2 NET PRESENT VALUE (NPV)

NPV is one of the four methods of discounted cash flows techniques which state that money that is immediately available for use, has a greater value than same amount receivables in future date.

Using this method however, all net cash inflows will be discounted to present value using the estimated interest rate of 60% discount factor. At 12% discount factor the project produced a positive **NPV NGN 118,682,283**

4.2.3 INTERNAL RATE OF RETURN (IRR)

This is the discount rate which gives zero NPV or the rate which equates the present value of cash inflows with present value of cash outflows of the project.

The cash flow of this project was discounted systematically until the NPV of the project finally become zero. The project produces the **IRR** of **47%**. Thus, the project accepted as being viable. This is because **IRR** is more than the cost of capital.

4.2.4 ACCOUNTING RATE OF RETURN (ARR)

ARR uses accounting information as revealed by financial statements (Income Statement) to measure profitability of the project under consideration. The forecast **ARR** of the project is 412%.

4.2.5 PROFITABILITY INDEX (PI)

This is the present value of future cash flows over the present value of cash outlays. The project PI further confirm the viability of the project , because as the rules of the accepting and rejecting hold, a project should be accepted if the PI is equal or greater than one (1). Consequently, the PI of this project is **1.72** and thus recommended as being viable to be accepted for financing.

APPENDIX I TOTAL PROJECT COST

	DESCRIPTION	QTY	UNIT PRICE	TOTAL
	LAND & BUILDING			
1	Factory rentage	1	400,000	400,000
	Sub total	1	400,000	400,000
	MACHINERY & EQUIPMENTS			
2	Mixer		1,200,000	1,200,000
3	Electrical Installation		-	375,000
4	Weighing Scale (Digital)		150,000	150,000
5	Laboratory Equipment		200,000	200,000
6	Viscometer		50,000	50,000
7	Carrier Trolley		25,000	25,000
8	Time Watch		2,000	2,000
9	Tool Kit		20,000	20,000
	Sub total		1,647,000	2,022,000
	UTILITY EQUIPMENT			
10	Generator	1	250,000	250,000
11	600 Liter drums	3	50,000	150,000
12	Jerry cans	2,000	500	1,000,000
	Sub total		300,500	1,400,000
	OFFICE EQUIPMENT			
13	Furniture & fittings	1	150,000	150,000
	Sub total	2	150,000	150,000
	VEHICLE			
14	Delivery van	1	3,200,000	3,200,000
	Sub total	1	3,200,000	3,200,000
	TOTAL CAPITAL COST		6,797,000	7,172,000
15	Working capital		1,200,000	1,200,000
16	10% Contingencies & preliminary expenses		837,200	837,200
	Total project cost		8,834,200	9,209,200

APPENDIX II

ESTIMATION OF WORKING CAPITAL REQUIREMENT

N'ooo

Year of Commercial Operation	2 weeks	Year 2	Year 3	Year 4	Year 5
% Capacity Utilization (Inventory)	60%	70%	80%	90%	90%
1 week stock of raw material	1,000	8,194	11,713	15,530	15,530
1 Day stock of finished products	200	3,443	4,887	5,376	5,376
Work in Progress	-	1,071	1,098	1,169	1,169
Bank/ Cash (5% sales of the products)	-	2,287	2,516	2,768	2,768
Working capital	1,200	11,248	13,192	15,419	15,419

APPENDIX III

FINANCING PLAN

₦

DESCRIPTION	EXISTING	PROPOSED	TOTAL
Equity	1,209,200	-	1,209,200
Term loan from	-	8,000,000	8,000,000
Total project cost	1,209,200	8,000,000	9,209,200
% Contribution	15%	75%	100%

APPENDIX IV
TERM LOAN REPAYMENT SCHEDULE

LOAN AMOUNT: 8,000,000 (Eight Million Naira)
 TYPE : ANY LOCAL AVAILABLE SME FUND
 INTEREST RATE USED: 12%
 REPAYMENT: 5 YEARS EQUAL INSTALLMENT (Annually)

YEAR	OPENING BALANCE	REPAYMENT	INTEREST DUE	TOTAL YEAR INTEREST
1	8,000,000	1,600,000	960,000	2,560,000
2	6,400,000	1,600,000	768,000	2,368,000
3	4,800,000	1,600,000	576,000	2,176,000
4	3,200,000	1,600,000	384,000	1,984,000
5	1,600,000	1,600,000	192,000	1,792,000
Total		8,000,000	2,880,000	10,880,000

APPENDIX V
FORECAST STAFFING SCHEDULE (1ST OPERATIONAL YEAR)
N'000

POSITION	No	Unit Scale	Scale/ Month	Scale / Year
DIRECT LABOUR				
Factory Manager	1	80	80	960
Production Manager	1	60	60	720
Unskilled labour	8	30	240	2,880
Sub total	10	90	120	4,560
INDIRECT LABOUR				
Accounts/ Admin	1	50	50	600
Marketing Officer	2	40	80	960
Driver	1	40	40	480
Sub total	4	130	170	2,040
Total on staff (1st year)	14	220	290	6,600

APPENDIX VI
ESTIMATE OF ANNUAL DEPRECIATION ALLOWANCE
N'

ITEMS	INITIAL VALUE	DEPRECIATION (20%)
Machinery & equipment	2,022,000	404,400
Utility Equipment	1,400,000	280,000
Office Equipments	150,000	30,000
Vehicle	3,200,000	640,000
TOTAL	6,772,000	1,354,400

APPENDIX VII
ESTIMATION OF ADMINISTRATIVE / OVERHEAD EXPENSES
N'

COST ITEM	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Selling and Distribution	1,328,400	1,394,820	1,461,240	1,534,302	1,534,302
Repairs and maintenance	900,000	945,000	990,000	1,039,500	1,039,500
Utilities (Power & water)	2,904,400	2,999,620	3,094,840	3,199,582	3,199,582
Miscellaneous	226,800	238,140	249,480	261,954	261,954
TOTAL	5,359,600	5,577,580	5,795,560	6,035,338	6,035,338

APPENDIX VIII ESTIMATION OF PRODUCTION AND OPERATION COSTS

Cost Item	Units	@	Qty/ day	Pdn Cost/ day	Pdn Cost/ mth	Pdn Cost/ yr
Direct Costs						
TT	Kgs	900	96	86,400	2,246,400	26,956,800
PVA	Kgs	600	80	48,000	1,248,000	14,976,000
Whiting	Kgs	45	1,600	72,000	1,872,000	22,464,000
Foam line	Mlgm	450	11.2	5,040	131,100	1,572,600
Ammonia	Mlgm	6	400	2,400	62,400	748,800
Nitrosal	Kgs	3,300	24	79,200	2,059,200	24,710,400
Water	Ltrs	9	1,920	17,280	449,400	5,391,300
Packaging Materials	Pcs	600	160	96,000	2,496,000	29,952,000
Sub-total		5,910		406,320	10,564,500	126,771,900

APPENDIX IX ESTIMATION OF RAW MATERIAL/PRODUCTION COST AND SALES

Year of Commercial Production	Year 1	Year 2	Year 3	Year 4	Year 5
% Capacity Utilization	60%	70%	80%	90%	90%
1. Output					
Paint (kgs)	49,920	54,912	59,904	65,894	65,894
Total output	49,920	54,912	59,904	65,894	65,894
2. Cost of Production	N'	N'	N'	N'	N'
Paint @N2,539/ Jerry can	126,771,900	139,449,090	152,126,280	167,338,908	167,338,908
Total cost of production	126,771,900	139,449,090	152,126,280	167,338,908	167,338,908
3. SALES					
Paint @N3,250/ Jerry can	149,760,000	164,736,000	179,712,000	197,682,000	197,682,000
TOTAL SALES/ TURNOVER	149,760,000	164,736,000	179,712,000	197,682,000	197,682,000

APPENDIX X
FORECAST INCOME STATEMENT (PROFIT & LOSS ACCOUNT)

Year of commercial operation	Year 1	Year 2	Year 3	Year 4	Year 5
% Capacity Utilization	60%	70%	80%	90%	90%
1. SALES	N'	N'	N'	N'	N'
Gross Sales	162,240,000	178,464,000	194,688,000	214,155,500	214,155,500
VAT @ 5%	8,112,000	8,923,200	9,734,400	10,707,775	10,707,775
Net Revenue	154,128,000	169,540,800	184,953,600	203,447,725	203,447,725
2. OPERATION COST					
Cost of Raw materials consumed	126,771,900	139,449,090	152,126,280	167,338,908	167,338,908
Staff and labour	6,600,000	7,260,000	7,986,000	8,785,000	8,785,000
Admin. & Overhead Expenses	5,359,600	5,577,580	5,795,560	6,035,338	6,035,338
Depreciation	1,354,400	1,354,400	1,354,400	1,354,400	1,354,400
Total Operating Cost	140,085,900	153,641,070	167,262,240	183,513,646	183,513,646
3. OTHER COSTS					
Interest on Term Loan (12%)	960,000	768,000	576,000	384,000	192,000
Loan Repayment	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
Total (Other Costs)	142,645,900	156,009,070	169,438,240	185,497,646	185,305,646
Profit Before Tax	11,482,100	13,531,730	15,515,360	17,950,079	18,142,079
Corporate Tax @ 12%	1,377,852	1,623,807.6	1,861,843	2,154,009	2,177,049
Profit after tax (NET PROFIT)	10,104,248	11,907,922	13,653,517	15,796,070	15,965,030
% Return on Sales	0.06	0.07	0.08	0.09	0.09
% Return on Equity	8.4	9.8	11.3	13.1	13.2
% Return on Investment	1.1	1.3	1.5	1.7	1.7

APPENDIX XI

FORECAST HIGH RATE AND LOW RATE COMPUTATION

Year	C/F	DF 12%	NPV
	N'		N'
0	(9,209,200)	1	(9,209,200)
1	10,104,248	0.893	24,055,662
2	11,907,922	0.797	24,290,215
3	13,653,517	0.712	24,219,451
4	15,796,070	0.636	24,343,047
5	15,965,030	0.567	21,773,906
Total Profit	67,426,787		118,682,283
Average Profit	13,485,357.4		

Year	C/F	DF 60%	NPV
	N'		N'
0	(9,209,200)	1	(9,209,200)
1	10,104,248	0.625	6,315,155
2	11,907,922	0.3906	4,651,234
3	13,653,517	0.2441	3,332,823
4	15,796,070	0.1526	2,410,480
5	15,965,030	0.0954	1,523,063
Total Profit	67,426,787		18,232,757
Average Profit	13,485,357.4		

APPENDIX XII

FORECAST IRR AND ARR COMPUTATION

$$IRR = a + \left(\frac{A}{A+B} \right) * (b-a)$$

Where

$$a = 12\%$$

$$b = 60\%$$

$$A = 118,682,283$$

$$B = 18,232,757$$

$$12\% + \frac{118,682,283}{118,682,283 + 18,232,757} (60-12)$$

$$12\% + 34.5$$

$$47\%$$

$$ARR = \frac{\text{Estimated Average Profit}}{\text{Estimated initial investment}} * 100$$

$$ARR = \frac{13,485,357.4}{9,209,200} * 100$$

$$412\%$$

**APPENDIX XIII
CASH FLOW PROJECTION**

Year of Comm. Production	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
% Capacity Utilization		60%	70%	80%	90%	90%
A) CASH RECEIPTS	N'	N'	N'	N'	N'	N'
Equity Capital	1,209,200	-	-	-	-	-
Term Loan	8,000,000	-	-	-	-	-
Gross Revenue		154,128,000	169,540,800	184,953,600	203,447,725	203,447,725
Total Receipts	9,209,200	154,128,000	169,540,800	184,953,600	203,447,725	203,447,725
B) CASH PAYMENTS						
Capital Payment						
Machinery & Equipments	2,022,000	-	-	-	-	-
Utility Equipment	1,400,000	-	-	-	-	-
Office equipments	150,000	-	-	-	-	-
Vehicle	3,200,000	-	-	-	-	-
TOTAL	6,772,000	-	-	-	-	-
(ii) Operating Expenses						
Depreciation	-	1,354,400	1,354,400	1,354,400	1,354,400	1,354,400
Change in working capital	2,437,200	138,731,500	152,286,670	165,907,840	182,159,246	182,159,246
Sub total	2,437,200	140,085,900	153,641,070	167,262,240	183,513,646	183,513,646
(iii) Financial Expenses						
Repayment of Term Loan	-	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
Interest on Term Loan	-	960,000	768,000	576,000	384,000	192,000
Value Added Tax	-	8,112,000	8,923,200	9,734,400	10,707,775	10,707,775
Corporate Tax	-	1,377,852	1,623,807.6	1,861,843	2,154,009	2,177,049
Sub total	-	12,049,852	12,915,008	13,772,243	14,845,784	14,676,824
Total cash payment (ii)-(iii)	2,437,200	128,036,048	140,726,062	153,489,997	168,667,862	168,836,822
Net cash flow c/f	2,437,200	128,036,048	140,726,062	153,489,997	168,667,862	168,836,822

**APPENDIX XIV
BALANCE SHEET PROJECTION**

Year of comm. Operation	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
ASSETS	N'000	N'000	N'000	N'000	N'000	N'000
(i) Fixed assets						
Machinery and Equipments	2,022,000	-	-	-	-	-
Utility equipment	1,400,000	-	-	-	-	-
Office Equipment	150,000	-	-	-	-	-
Vehicle	3,200,000	-	-	-	-	-
Value at Acquisition	-	6,772,000	6,772,000	6,772,000	6,772,000	6,772,000
Less Cumulated Depreciation	-	1,354,400	2,708,800	4,063,200	5,417,600	6,772,000
Net fixed assets	6,772,000	5,417,600	4,063,200	2,708,800	1,354,400	0
(ii)Current Assets/ liability						
Stock of Raw Materials	1,200,000	12,366,824	25,962,947	30,192,143	34,351,722	37,698,608
Debtors /prepayment	-	1,453,000	2,098,000	3,308,000	4,139,000	5,653,000
Bank and Cash Balances	1,237,200	4,150,024	5,160,031	6,170,539	7,180,674	7,180,741
Creditor / accruals	-	(4,074,000)	(6,039,000)	(8,947,000)	(11,013,000)	(13,785,000)
Company Tax	-	(1,377,852)	(1,623,807.6)	(1,861,843)	(2,154,009)	(2,177,049)
Net current assets	2,437,200	13,895,848	25,558,170	28,861,839	32,504,387	34,570,300
TOTAL NET ASSETS	9,209,200	19,313,448	29,621,370	31,570,639	33,858,787	34,570,300
(ii) FINANCED BY						
Equity Capital	1,209,200	1,209,200	1,209,200	1,209,200	1,209,200	1,209,200
P&L	-	10,104,248	11,907,922	13,653,517	15,796,070	15,965,030
Retained Profit	-	-	10,104,248	11,907,922	13,653,517	15,796,070
SHAREHOLDERS FUND	1,209,200	11,313,448	23,221,370	26,770,639	30,658,787	32,970,300
Long Term Loan	8,000,000	8,000,000	6,400,000	4,800,000	3,200,000	1,600,000
TOTAL EQUITY & LIABILITY	9,209,200	19,313,448	29,621,370	31,570,639	33,858,787	34,570,300