PREFEASIBILITY STUDY

ON SETTING UP RUBBER BALLONS MANUFACTURING UNIT IN NIGERIA

DEVELOPED BY

STARTUP BUSINESS FOUNDATION

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DISCLAIMER

ACKNOWLEDGMENT

Startup Business Foundation is thankful to all organizations and individuals who have helped in several ways in preparation of this prefeasibility study.

We also wish to extend our gratitude to all those who reviewed the content and provided valuable inputs for improving the quality, coherence, and content presentation of this prefeasibility study.

ABOUT THIS REPORT

This prefeasibility study is designed to provide potential and startups entrepreneurs' valuable information on setting up Rubber Balloons business 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 Rubber Balloons business shows 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

The prefeasibility study is for setting up a plant for producing and marketing of rubber balloons in most suitable location in Nigeria.

Balloons are colorful rubber items produced in different sizes, patterns, designs, and shapes. Rubber balloons are play materials for children of all age groups and are also used for decorative purposes. They can be marketed through retail outlets, Stationary Shops, Fancy Stores and Gift Shops. The entrepreneur should target marketers and major distributors in the business that would regularly place bulk orders.

The factory can be sited in any part of the country provided the entrepreneur considers some critical factors such as nearness to sources of raw material, basic infrastructures etc.

This investment profile is premised on production of 1,000kgs per month which translates into 312,000kgs per annum.

1.1 SUMMARY OF TOTAL PROJECT COST

S/N	DESCRIPTION	COST INCURRED	COST TO BE INCURRED	TOTAL
1	Land & building	-	300,000	300,000
2	Machinery & equipment	-	810,000	950,000
3	Utility equipment	-	250,000	250,000
4	Office equipment	-	150,000	150,000
5	Vehicle	-	2,800,00	2,800,000
	Total Cost of capital	-	**4,310,000**	**4,450,000**
6	Working capital	-	1,400,000	1,400,000
7	10% Contingencies & preliminary expenses	-	585,000	585,000
	Total project cost	-	**6,295,000**	**6,435,000**

1.2 FINANCIAL ACCOUNTING RATIOS ANALYSIS

PERFORMANCE RATIOS AVERAGES

(a) Return on Sales =15%
(b) Return on Equity = 307%
(c) Return on Investment =116%
(d) Positive NPV = ₦26,340,151
(e) IRR =47%
(f) ARR =116%
(g) Payback Period = 9 months

PART II
MARKET ANALYSIS

2.1 INTRODUCTION

Rubber balloons have a steady demand in the market since they are used in all occasions especially for decorations. Most natural rubber, also called caoutchouc, comes from latex, the milky tree sap of Hevea brasilensis. The trees are tapped by making an incision in the bark of the tree and collecting the sap in a bucket – a very low-tech process and much like the way maple trees are tapped to make maple syrup. The latex is then refined into natural rubber. Although rubber can be made synthetically, natural latex is preferred for its great elasticity. It can be stretched to seven or eight times its original length and still return to its former shape. Synthetic rubber has not proven to be as elastic and resilient as natural latex.

2.2 MARKET AREA ANALYSIS

Close to 21 million tons of rubber were produced in 2005, of which approximately 42% was natural. Since the bulk of the rubber produced is of the synthetic variety, which is derived from petroleum, the price of natural rubber is determined, to a large extent, by the prevailing global price of crude oil.

In Nigeria, while the requirement of natural rubber continued to increase, its production and supply did not increase at the same pace because of plantations are too old, uncared or immature to start yielding. Similarly, the harvested products are mainly exported as commodity to China and other parts of Europe for processing.

Consequently, there is need to encourage the local based processing plants in the country.

2.3 DEMAND AND SUPPLY ANALYSIS

The gap between the demand and supply of natural rubber increased further in 2009 when Thailand, Indonesia and Malaysia, the three largest producers of natural rubber cut down the production by 4.3% of their volume to stabilize global rubber price. Rapid growth in the automobile sectors of China and India also increased the demand for natural rubber in 2011, while the supply remained low.

According to the International Rubber Study group, the global demand for natural rubber may reach 12.4 million tons by 2015 and 14.2 million tons by 2020, while the production of natural rubber can reach only 13.6 million tons/ year in 2025.

2.4 TARGET MARKET ANALYSIS

The target market for the products includes both domestic and commercial consumers. The product is also in demand because of its compulsory usage in decoration for occasions and ceremonies. A part from the open market dealers, the entrepreneur should target event and occasion planners as well as groceries shops and malls.

PART III
TECHNICAL ANALYSIS

3.1 PRODUCT DESCRIPTION

Latex balloons are made with 100% natural rubber enabling the balloons to biodegrade completely. The degradation process begins immediately the balloons are inflated and this is accelerated once the balloon is exposed to light.

Latex Balloons are produced from the latex of the rubber trees. The white sap is extracted from the Haevae Brasilienis tree and collected in liquid form, which is then referred to as latex. It is collected without harming the tree using environmentally safe methods. A rubber tree can produce latex for up to 40 years. Since rubber trees consume Carbon Dioxide and give off Oxygen these trees help play a role in the ecological balance of the earth. Rubber (natural or synthetic) is therefore, an indispensible raw material for the production of ballons. Though natural rubber exercises high level of elasticity compare to synthetic counterpart.

3.2 LOCAION ANALYSIS

The industrial location of the factory should be done by considering the following factors. These include; proximity to sources of raw materials, availability of electricity, cheap labour, market accessibility among others.

3.3 RAW MATERIALS

Raw, natural latex is a white or yellowish opaque liquid, similar in appearance to milk. Latex is the secretion of certain plants, in particular the Hevea tree originally found in Brazil. Rubber is grown in Edo, Delta, Ondo, Ogun, Abia, Anambra, Akwa Ibom, Cross River, Rivers, Ebonyi and Bayelsa States where the amount of rainfall is about 1800 mm to 2000 mm per annum.

The harvesting (Tapping) or rubber is done during the dry season. Tapping normally takes place early in the morning, when the internal pressure of the tree is highest. A good tapper can tap a tree every 20 seconds on a standard half-spiral system, and a common daily “task” size is between 450 and 650 trees. Trees are usually tapped alternate or third daily, although there are many variations in timing, length and number of cuts.

3.4 PRODUCTION PROCESS

The latex is prepared, compounded, dipped and the film is dried and beading made with the help of moulds, through dipping and vulcanizing, the latex is stripped off, which gives the finished product; whereby a packet of 100 units of rubber balloons in different colours and sizes is ready for dispatch.

3.5 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, 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 60% installed capacity is 1,000 Kilograms of Rubber Balloons daily and it is assumed that each kilogram contains 50 Rubber balloons.
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.

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 26,340,151**

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 116%.

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

S/N	DESCRIPTION	QTY	UNIT PRICE	AMOUNT
	LAND & BUILDING			
1	Renting of office space	1	300,000	300,000
	Sub total	**1**	**300,000**	**300,000**
	MACHINERY & EQUIPMENT			
2	De-ammoniating Vessel	1	160,000	160,000
3	Pot mill	1	110,000	110,000
4	Paddle Mixer	1	100,000	100,000
5	Dipping ace	2	140,000	280,000
6	Packing Machine	1	240,000	240,000
7	Weighing Balance	1	60,000	60,000
	Sub total		**810,000**	**950,000**
	UTILITY EQUIPMENT			
8	Generating set	1	250,000	250,000
	Sub total		**250,000**	**250,000**
	OFFICE EQUIPMENT			
9	Furniture & fittings	set	150,000	150,000
	Sub total		**150,000**	**150,000**
	VEHICLE			
10	Delivery van		2,800,00	2,800,000
	Sub total		**2,800,00**	**2,800,000**
	Total Cost of capital		**4,310,000**	**4,450,000**
11	Working capital		1,400,000	1,400,000
12	10% Contingencies & preliminary expenses		585,000	585,000
	Total project cost		**6,295,000**	**6,435,000**

APPENDIX II
ESTIMATION OF WORKING CAPITAL REQUIREMENT

N'

Year of Commercial Operation	**2 weeks**
% Capacity Utilization (Inventory)	**60%**
1 week stock of raw material	1,050,000
1 Day stock of finished products	300,000
Work in Progress	-
Bank/ Cash (5% sales of the products)	-
Working capital	**1,400,000**

APPENDIX III
FINANCING PLAN

DESCRIPTION	EXISTING	PROPOSED	TOTAL
Equity	2,435,000		2,435,000
Term loan from	-	4,000,000	4,000,000
Total project cost	**2,435,000**	**4,00,000**	**6,435,000**
% Contribution	**0%**	**100%**	**100%**

APPENDIX IV
TERM LOAN REPAYMENT SCHEDULE

LOAN AMOUNT: 4,000,000 (Four 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	4,000,000	800,000	480,000	1,280,000
2	3,200,000	800,000	384,000	1,184,000
3	2,400,000	800,000	288,000	1,088,000
4	1,6000,000	800,000	192,000	992,000
5	800,000	800,000	96,000	896,000
Total		**4,000,000**	**1,440,000**	**5,440,000**

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	**810,000**	162,000
Utility Equipments	**250,000**	50,000
Office equipment	150,000	30,000
Vehicle	2,800,000	560,000
TOTAL	**4,010,000**	**802,000**

APPENDIX VII
ESTIMATE OF ADMINISTRATIVE / OVERHEAD EXPENSES
N'000

COST ITEM	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Selling and Distribution	3,800	4,180	4,560	5,016	5,016
Repairs & Servicing	1,800	1,980	2,160	2,376	2,376
Diesel / Fuel	2,800	3,080	3,360	3,696	3,696
TOTAL	**8,400**	**9,240**	**10,080**	**11,088**	**11,088**

APPENDIX VIII
ESTIMATION OF PRODUCTION AND OPERATION COST

Cost Item	Units	@	Qty/ day	cost/ day	cost/ month	cost/ year
Direct Costs						
Latex	kg	45	1,000	45,000	1,170,000	14,040,000
Chemicals and dyes	kg	60	200	12,000	312,000	3,744,000
Packing Materials	No	360	10	3,600	93,600	1,123,200
Sub-total		**1,410**	**1,210**	**60,600**	**1,575,600**	**18,907,200**

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					
Rubber balloons	312,000	343,200	374,400	411,840	411,840
Total output	312,000	343,200	374,400	411,840	411,840
2. Cost of Production	**N'000**	**N'000**	**N'000**	**N'000**	**N'000**
Rubber balloons @ N33.6/ box	18,907,200	20,797,920	22,688,640	24,957,504	24,957,504
Total cost of production	**18,907,200**	**20,797,920**	**22,688,640**	**24,957,504**	**24,957,504**
3. SALES					
Rubber balloons @ N80/ pack	44,928,000	49,420,800	53,913,600	59,304,960	59,304,960
TOTAL SALES/ TURNOVER	**44,928,000**	**49,420,800**	**53,913,600**	**59,304,960**	**59,304,960**

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	44,928,000	49,420,800	53,913,600	59,304,960	59,304,960
VAT @ 5%	2,246,400	2,471,040	2,695,680	2,965,248	2,965,248
Net Revenue	**42,681,600**	**46,949,760**	**51,217,920**	**56,339,712**	**56,339,712**
2. OPERATION COST					
Cost of Raw materials consumed	18,907,200	20,797,920	22,688,640	24,957,504	24,957,504
Staff and labour	6,600,000	7,260,000	7,986,000	8,785,000	8,785,000
Admin. & Overhead Expenses	8,400,000	9,240,000	10,080,000	11,088,000	11,088,000
Depreciation	802,000	802,000	802,000	802,000	802,000
Total Operating Cost	**34,709,200**	**38,099,920**	**41,556,640**	**45,632,504**	**45,632,504**
3. OTHER COSTS					
Interest on Term Loan (12%)	480,000	384,000	288,000	192,000	96,000
Loan Repayment	800,000	800,000	800,000	800,000	800,000
Total (Other Costs)	**35,989,200**	**39,283,920**	**42,644,640**	**46,624,504**	**46,528,504**
Profit Before Tax	6,692,400	7,665,840	8,573,280	9,715,208	9,811,208
Corporate Tax (12%)	803,088	919,900.8	1,028,793.6	1,165,824.96	1,177,344.96
Profit after tax (NET PROFIT)	**5,889,312**	**6,745,939**	**7,544,486**	**8,549,383**	**8,633,863**
% Return on Sales	0.14	0.14	0.15	0.15	0.15
% Return on Equity	2.42	2.77	3.10	3.51	3.55
% Return on Investment	0.92	1.05	1.17	1.33	1.34

APPENDIX XI

FORECAST HIGH RATE AND LOW RATE COMPUTATION

Year	C/F	DF 12%	NPV
	N'		N'
0	(6,435,000)	1	(6,435,000)
1	5,889,312	0.893	5,259,155
2	6,745,939	0.797	5,376,513
3	7,544,486	0.712	5,371,674
4	8,549,383	0.636	5,437,407
5	8,633,863	0.567	89400
Total Profit	**37,362,983**		**26,340,151**
Average Profit	**7,472,596**		

Year	C/F	DF 60%	NPV
	N'		N'
0	(6,435,000)	1	(6,435,000)
1	5,889,312	0.625	3680820
2	6,745,939	0.3906	2634963.773
3	7,544,486	0.2441	1841609.033
4	8,549,383	0.1526	1304635.846
5	8,633,863	0.0954	823670.5302
Total Profit	**37,362,983**		**10,285,699**
Average Profit	**7,472,596**		

APPENDIX XII
FORECAST IRR AND ARR COMPUTATION

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

Where

a = 12%

b= 60%

A = 26,340,151

B= 10,285,699

$$12\% + \frac{26,340,151}{26,340,151 + 10,285,699} (60-12)$$

$$12\% + 34.5$$

$$47\%$$

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

$$ARR = \frac{7,472,596 * 100}{6,435,000}$$

$$116\%$$

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	2,435,000	-	-	-	-	-
Term Loan	4,000,000	-	-	-	-	-
Gross Revenue	-	42,681,600	46,949,760	51,217,920	56,339,712	56,339,712
Total Receipts	**6,435,000**	**42,681,600**	**46,949,760**	**51,217,920**	**56,339,712**	**56,339,712**
B) CASH PAYMENTS						
Capital Payment						
Machinery & Equipments	810,000	-	-	-	-	-
Utility Equipment	250,000	-	-	-	-	-
Office equipments	150,000	-	-	-	-	-
Vehicle	2,800,000	-	-	-	-	-
TOTAL	**4,010,000**	-	-	-	-	-
(ii) Operating Expenses						
Depreciation	-	802,000	802,000	802,000	802,000	802,000
Change in working capital	2,425,000	33,907,200	37,297,920	40,754,640	44,830,504	44,830,504
Sub total	**2,425,000**	**34,709,200**	**38,099,920**	**41,556,640**	**45,632,504**	**45,632,504**
(iii) Financial Expenses						
Repayment of Term Loan	-	800,000	800,000	800,000	800,000	800,000
Interest on Term Loan	-	480,000	384,000	288,000	192,000	96,000
Value Added Tax	-	2,246,400	2,471,040	2,695,680	2,965,248	2,965,248
Corporate Tax	-	803,088	919,900.8	1,028,793.6	1,165,824.9	1,177,344.9
Sub total	-	**4,329,488**	**4,574,941**	**4,812,474**	**5,123,073**	**5,038,593**
Total cash payment (ii)-(iii)	**2,425,000**	**30,379,712**	**33,524,979**	**36,744,166**	**40,509,431**	**40,593,911**
Net cash flow c/f	2,425,000	30,379,712	33,524,979	36,744,166	40,509,431	40,593,911

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	810,000	-	-	-	-	-
Utility equipment	250,000	-	-	-	-	-
Office Equipment	150,000	-	-	-	-	-
Vehicle	2,800,000	-	-	-	-	-
Value at Acquisition	-	4,010,000	4,010,000	4,010,000	4,010,000	4,010,000
Less Cumulated Depreciation	-	802,000	1,604,000	2,406,000	3,208,000	4,010,000
Net fixed assets	**4,010,000**	**3,208,000**	**2,406,000**	**1,604,000**	**802,000**	**0**
(ii)Current Assets/ liability						
Stock of Raw Materials	1,400,000	8,390,376	15,565,120	18,018,679	20,186,019	22,546,849
Debtors /prepayment	-	1,453,000	2,098,000	3,308,000	4,139,000	5,653,000
Bank and Cash Balances	1,025,000	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	-	(803,088)	(919,900)	(1,028,793)	(1,165,824)	(1,177,344)
Net current assets	**2,425,000**	**9,116,312**	**15,864,251**	**17,521,425**	**19,326,869**	**20,418,246**
TOTAL NET ASSETS	**6,435,000**	**12,324,312**	**18,270,251**	**19,125,425**	**20,128,869**	**20,418,246**
(ii) FINANCED BY						
Equity Capital	2,435,000	2,435,000	2,435,000	2,435,000	2,435,000	2,435,000
P&L	-	5,889,312	6,745,939	7,544,486	8,549,383	8,633,863
Retained Profit	-	-	5,889,312	6,745,939	7,544,486	8,549,383
SHAREHOLDERS FUND	**2,435,000**	**8,324,312**	**15,070,251**	**16,725,425**	**18,528,869**	**19,618,246**
Long Term Loan	4,000,000	4,000,000	3,200,000	2,400,000	1,600,000	800,000
TOTAL EQUITY & LIABILITY	**6,435,000**	**12,324,312**	**18,270,251**	**19,125,425**	**20,128,869**	**20,418,246**