PREFEASIBILITY STUDY ON

SETTING UP LOW DUST CHALK 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 Low Dust Chalk manufacturing 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 Low Dust Chalk 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

This prefeasibility study is on setting up low chalk production plant in any suitable part of the country.

Chalk is a soft compacted whitish calcite used as a writing aid in educational institutions. Low dust chalk reduces health hazards that result from excess chalk dust.

The market structure for chalk cuts across academic institutions. It can be produced in a wide range of colours though white chalk is most preferred. Nigeria is blessed with Gypsum rich states and has about 1 billion tons of gypsum deposited in Adamawa, Anambra, Bauchi, Bayelsa, Benue, Borno, Delta, Edo, Gombe, Imo, Kogi, Ondo, and Sokoto.

This is a micro enterprise project and could be setup in rural or semi rural area in any part of the country provided that it is accessible to market.

The project aims at production of 3,900 boxes of chalk per month which translates to 46,800 annually, at 60% capacity utilization. Therefore, to meet up of the production capacity of the plant, the entrepreneur can run two shifts of 8 hours each per day.

1.1 SUMMARY OF TOTAL PROJECT COST

S/N	DESCRIPTION	COST INCURRED	COST TO BE INCURRED	TOTAL
1	Land & building	-	200,000	200,000
2	Machinery & equipments	-	249,900	776,400
3	Utility equipment	-	150,000	150,000
4	Office equipment	-	50,000	50,000
	Total capital cost	**-**	**649,900**	**1,176,400**
5	Working capital	-	400,000	400,000
6	10% Contingencies & preliminary expenses	-	157,640	157,640
	Total project cost	**-**	**1,207,540**	**1,734,040**

1.2 FINANCIAL ACCOUNTING RATIOS ANALYSIS

PERFORMANCE RATIOS AVERAGES

(a) Return on Sales =3%
(b) Return on Equity = 993%
(c) Return on Investment =420%
(d) Positive NPV = ₦25,870,023
(e) IRR =46%
(f) ARR =421%
(g) Payback Period = 7 months

PART II
MARKET ANALYSIS

2.1 INTRODUCTION

Literacy and Government regulation for making primary education compulsory, has ultimately has guarantee that they will be increasing demand for chalk in next coming years.

2.2 MARKET AREA ANALYSIS

According to profitable ventures Magazine, Nigeria is one of the countries in Africa that has loads of players in the chalk production industry. Although the advent of a suitable and good alternative to chalk is flooding the African market, but that those not in any way stop aspiring entrepreneur from starting this business especially if they have done their due diligence and they are sure that there is a market for their product in any part of Nigeria.

It is a fact that chalks are used in close to 100 percent of schools in rural areas and even in most public schools in urban areas in Nigeria and in Africa. Aside from chalk been used in schools, artisan such as tailors, shoes and bag markers and carpenters et al make use of chalk for marking purpose. This goes to show that there is indeed a large market for chalk production companies in Nigeria and in other African countries.

2.3 DEMAND ANALYSIS

History seems to indicate that, despite the name, plaster of Paris was invented by the Egyptians. It was used as an artistic decoration in many Egyptian tombs, and the Greeks picked up the technique, using plaster in their own homes, temples, and works of art. Paris became synonymous with this type of plaster in the 1600s, thanks to a large deposit of gypsum that made it easy to produce plaster of Paris. Fortunately, this gypsum is large scattered in parts of the country and it is veritable raw material for the low dust chalk.

With the growing number of schools in Nigeria, chalk business is still one lucrative activity today because the demand is huge. Even with the emergence of white board maker, there are still many users of the products especially the artisans and marketing of the product is easy.

2.4 TARGET MARKET ANALYSIS

Most schools in semi urban and rural communities are major patronizers of the dust chalk product. Apart from schools, chalks are used in furniture market, constriction work, and tailor education institutes. So the market for chalk goes beyond educational purpose. Therefore, the market for the product is broad and any potential entrepreneur(s) can carve out a market niche for themselves.

PART III
TECHNICAL ANALYSIS

3.1 PRODUCT DESCRIPTION

Gypsum is the most important raw material needed for the production of Low dust chalk. It has the very useful property of becoming plastic like mass when heated up to 175°C. At this temperature it loses about 3/4th of the water molecules. The product thus obtained is known as Plaster of Paris. It can be mixed with water, spread and cast into different forms and sizes.

3.2 LOCATION ANALYSIS

The best area for any business is close to the targeted market.

A chalk producing enterprises would do fine when situated in a semi-urban region where there are numerous schools and additionally people who utilize chalk most of the time.

3.3 RAW MATERIALS

In chalk making the real basic material is Plaster of Paris, the chemical or scientific name for POP is calcium carbonate. Other than this you should have China clay, white cement, lubricant, and different colors**.**

3.3 PRODUCTION PROCESS 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.

To produce chalk, Plaster of Paris, French chalk and kaolin are mixed and made in a form of paste. The paste is cast in a suitable mould and dried. The dried material is then neatly packed for the market.

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 of 150 boxes of chalk per day and each box normally has 100 chalk pieces, working 312 day annually, at 60% capacity utilization.

If materials and market are available, the factory can operate up to three shifts.

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 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.

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 10%.
3. The installed capacity has estimated capacity of 150 boxes of chalk per day and each box normally has 100 chalk pieces, working 312 day annually 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 5% 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 25,870,023**

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 **46.3%.** 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 **420.6%.**

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
TOTAL PROJECT COST

	DESCRIPTION	QTY	Unit price	Total
	LAND & BUILDING			
1	Factory rentage	1	200,000	200,000
	Sub total	**1**	**200,000**	**200,000**
	MACHINERY & EQUIPMENTS			
2	Oven	1	191,400	191,400
3	Moulds	10	30,000	300,000
4	Vessels	10	28,500	285,000
	Sub total	**21**	**249,900**	**776,400**
	UTILITY EQUIPMENT			
5	Generating set	1	150,000	150,000
	Sub total	**1**	**150,000**	**150,000**
	OFFICE EQUIPMENT			
6	Furniture & fittings	1	50,000	50,000
	Sub total	**2**	**50,000**	**50,000**
	TOTAL CAPITAL COST		**649,900**	**1,176,400**
7	Working capital		400,000	400,000
8	10% Contingencies & preliminary expenses		157,640	157,640
	Total project cost		**1,207,540**	**1,734,040**

APPENDIX II
ESTIMATION OF WORKING CAPITAL REQUIREMENT

N'

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

APPENDIX III
FINANCING PLAN

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DESCRIPTION	EXISTING	PROPOSED	TOTAL
Equity	734,040	-	734,040
Term loan from	-	1,000,000	1,000,000
Total project cost	**734,040**	**1,000,000**	**1,734,040**
% Contribution	**15%**	**75%**	

APPENDIX IV
TERM LOAN REPAYMENT SCHEDULE

LOAN AMOUNT: 1,000,000 (One Million Naira Only)
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	1,000,000	200,000	120,000	320,000
2	800,000	200,000	96,000	296,000
3	600,000	200,000	72,000	272,000
4	400,000	200,000	48,000	248,000
5	200,000	200,000	24,000	224,000
Total		**1,000,000**	**360,000**	**1,360,000**

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

POSITION	No	Unit Scale	Scale/ Month	Scale / Year
DIRECT LABOUR				
Factory Manager	1	60	60	720
Unskilled labour	4	30	120	1,440
Sub total	**5**	**120**	**180**	**2,160**
INDIRECT LABOUR				
Accounts/ Admin	1	50	50	600
Marketing Officer	2	40	80	960
Sub total	**4**	**130**	**170**	**1,560**
Total on staff (1st year)	**8**	**280**	**350**	**4,720**

APPENDIX VI
ESTIMATE OF ANNUAL DEPRECIATION ALLOWANCE
N'

ITEMS	INITIAL VALUE	DEPRECIATION (20%)
Machinery and Equipments	776,400	155,280
Utility Equipment	150,000	30,000
Office Equipments	50,000	10,000
TOTAL	**976,400**	**195,280**

APPENDIX VII
ESTIMATION 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
Miscellaneous Expenses	800	980	1,160	1,376	1,376
TOTAL	4,600	5,160	5,720	6,392	6,392

APPENDIX VIII
ESTIMATION OF ADMINISTRATIVE / OVERHEAD EXPENSES
N'

Cost Item	Units	@/ day	Qty/ day	Pdn cost/ day	Pdn cost/ mth	Pdn Cost/ Year1
Direct costs3:						
Plaster of Paris	Bags	6,900	50	345,000	8,970,000	107,640,000
French Chalk	Kgs	6,000	15	90,000	2,340,000	28,080,000
Kaolin	Kgs	4,500	10	45,000	1,170,000	14,040,000
Binder	Kgs	6,000	10	60,000	1,560,000	18,720,000
Packaging materials	Pieces	45	100	4500	117,000	1,404,000
Subtotal		**23,445**		**544,500**	**14,157,000**	**169,884,000**

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					
Low dust chalk (grms)	46,800	51,480	56,160	61,776	61,776
Total output	**46,800**	**51,480**	**56,160**	**61,776**	**61,776**
2. Cost of Production	**N'**	**N'**	**N'**	**N'**	**N'**
Low dust chalk @N3,630/ carton	169,884,000	186,872,400	203,860,800	224,246,880	224,246,880
Total cost of production	**169,884,000**	**186,872,400**	**203,860,800**	**224,246,880**	**224,246,880**
3. SALES					
Low dust chalk @N4,200/ carton	196,560,000	216,216,000	235,872,000	259,459,200	259,459,200
TOTAL SALES/ TURNOVER	**196,560,000**	**216,216,000**	**235,872,000**	**259,459,200**	**259,459,200**

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	196,560,000	216,216,000	235,872,000	259,459,200	259,459,200
VAT @ 5%	9,828,000	10,810,800	11,793,600	12,972,960	12,972,960
Net Revenue	**186,732,000**	**205,405,200**	**224,078,400**	**246,486,240**	**246,486,240**
2. OPERATION COST					
Cost of Raw materials consumed	169,884,000	186,872,400	203,860,800	224,246,880	224,246,880
Staff and labour	4,720,000	5,192,000	5,664,000	6,230,000	6,230,000
Admin. & Overhead Expenses	4,600,000	5,160,000	5,720,000	6,392,000	6,392,000
Depreciation	195,280	195,280	195,280	195,280	195,280
Total Operating Cost	**179,399,280**	**197,419,680**	**215,440,080**	**237,064,160**	**237,064,160**
3. OTHER COSTS					
Interest on Term Loan (12%)	120,000	96,000	72,000	48,000	24,000
Loan Repayment	200,000	200,000	200,000	200,000	200,000
Total (Other Costs)	**179,719,280**	**197,715,680**	**215,712,080**	**237,312,160**	**237,288,160**
Profit Before Tax	7,012,720	7,689,520	8,366,320	9,174,080	9,198,080
Tax @ 12%	841,526.4	922,742.4	1,003,958.4	1,100,889.6	1,103,769.6
Profit after tax (NET PROFIT)	**6,171,194**	**6,766,778**	**7,362,362**	**8,073,190**	**8,094,310**
% Return on Sales	0.0330484	0.032944	0.0328562	0.03275311	0.03283879
% Return on Equity	8.4071631	9.218541	10.029919	10.9982971	11.0270694
% Return on Investment	3.5588533	3.902319	4.2457856	4.65571152	4.66789117

APPENDIX XI

FORECAST HIGH RATE AND LOW RATE COMPUTATION

Year	C/F	DF 12%	NPV
	N'		N'
0	(1,734,040)	1	(1,734,040)
1	6,171,194	0.893	5,510,876
2	6,766,778	0.797	5,393,122
3	7,362,362	0.712	5,242,002
4	8,073,190	0.636	5,134,549
5	8,094,310	0.567	4,589,474
Total Profit	**36,467,834**		**25,870,023**
Average Profit	**7,293,566.8**		

Year	C/F	DF 60%	NPV
	N'		N'
0	(1,734,040)	1	(1,734,040)
1	6,171,194	0.625	3,856,996
2	6,766,778	0.3906	2,643,103
3	7,362,362	0.2441	1,797,153
4	8,073,190	0.1526	1,231,969
5	8,094,310	0.0954	772,197
Total Profit	**36,467,834**		**10,301,418**
Average Profit	**7,293,566.8**		

APPENDIX XII

FORECAST IRR AND ARR COMPUTATION

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

Where

a = 12%

b= 60%

A = 25,870,023

B= 10,301,418

$$12\% + \frac{25,870,023}{25,870,023 + 10,301,418} (60-12)$$

12% + 34.3

46%

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

$$ARR = \frac{7,293,566.8 * 100}{1,734,040}$$

421%

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	4,940,000	-	-	-	-	-
Term Loan	12,000,000	-	-	-	-	-
Gross Revenue		186,732,000	205,405,200	224,078,400	246,486,240	246,486,240
Total Receipts	**16,940,000**	**186,732,000**	**205,405,200**	**224,078,400**	**246,486,240**	**246,486,240**
B) CASH PAYMENTS						
Capital Payment						
Machinery & Equipments	6,514,000	-	-	-	-	-
Utility Equipment	1,850,000	-	-	-	-	-
Office equipments	350,000	-	-	-	-	-
Vehicle	2,240,000	-	-	-	-	-
TOTAL	**10,954,000**	-	-	-	-	-
(ii) Operating Expenses						
Depreciation	-	195,280	195,280	195,280	195,280	195,280
Change in working capital	5,986,000	179,204,000	197,224,400	215,244,800	236,868,880	236,868,880
Sub total	**5,986,000**	**179,399,280**	**197,419,680**	**215,440,080**	**237,064,160**	**237,064,160**
(iii) Financial Expenses						
Repayment of Term Loan	-	200,000	200,000	200,000	200,000	200,000
Interest on Term Loan	-	120,000	96,000	72,000	48,000	24,000
Value Added Tax	-	9,828,000	10,810,800	11,793,600	12,972,960	12,972,960
Corporate Tax	-	841,526.4	922,742.4	1,003,958.4	1,100,889.6	1,103,769.6
Sub total	-	**10,989,526**	**12,029,542**	**13,069,558**	**14,321,850**	**14,300,730**
Total cash payment (ii)-(iii)	**5,986,000**	**168,409,754**	**185,390,138**	**202,370,522**	**222,742,310**	**222,763,430**
Net cash flow c/f	5,986,000	168,409,754	185,390,138	202,370,522	222,742,310	222,763,430

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	6,514,000	-	-	-	-	-
Utility equipment	1,850,000	-	-	-	-	-
Office Equipment	350,000	-	-	-	-	-
Vehicle	2,240,000	-	-	-	-	-
Value at Acquisition	-	10,954,000	10,954,000	10,954,000	10,954,000	10,954,000
Less Cumulated Depreciation	-	2,190,800	4,381,600	6,572,400	8,763,200	10,954,000
Net fixed assets	**10,954,000**	**8,763,200**	**6,572,400**	**4,381,600**	**2,190,800**	**0**
(ii)Current Assets/ liability						
Stock of Raw Materials	1,650,000	29,922,096	64,402,802	72,640,297	82,187,786	86,056,820
Debtors /prepayment	-	11,453,000	12,098,000	13,308,000	14,139,000	15,653,000
Bank and Cash Balances	4,336,000	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	-	(3,992,918)	(4,484,739)	(4,983,041)	(5,568,354)	(5,631,715)
Net current assets	**5,986,000**	**37,458,202**	**71,137,094**	**78,188,795**	**86,926,106**	**89,473,846**
TOTAL NET ASSETS	**16,940,000**	**46,221,402**	**77,709,494**	**82,570,395**	**89,116,906**	**89,473,846**
(ii) FINANCED BY						
Equity Capital	4,940,000	4,940,000	4,940,000	4,940,000	4,940,000	4,940,000
P&L	-	29,281,402	32,888,092	36,542,303	40,834,603	41,299,243
Retained Profit	-	-	29,281,402	32,888,092	36,542,303	40,834,603
SHAREHOLDERS FUND	**4,940,000**	**34,221,402**	**67,109,494**	**74,370,395**	**82,316,906**	**87,073,846**
Long Term Loan	12,000,000	12,000,000	10,600,000	8,200,000	6,800,000	2,400,000
TOTAL EQUITY & LIABILITY	**16,940,000**	**46,221,402**	**77,709,494**	**82,570,395**	**89,116,906**	**89,473,846**