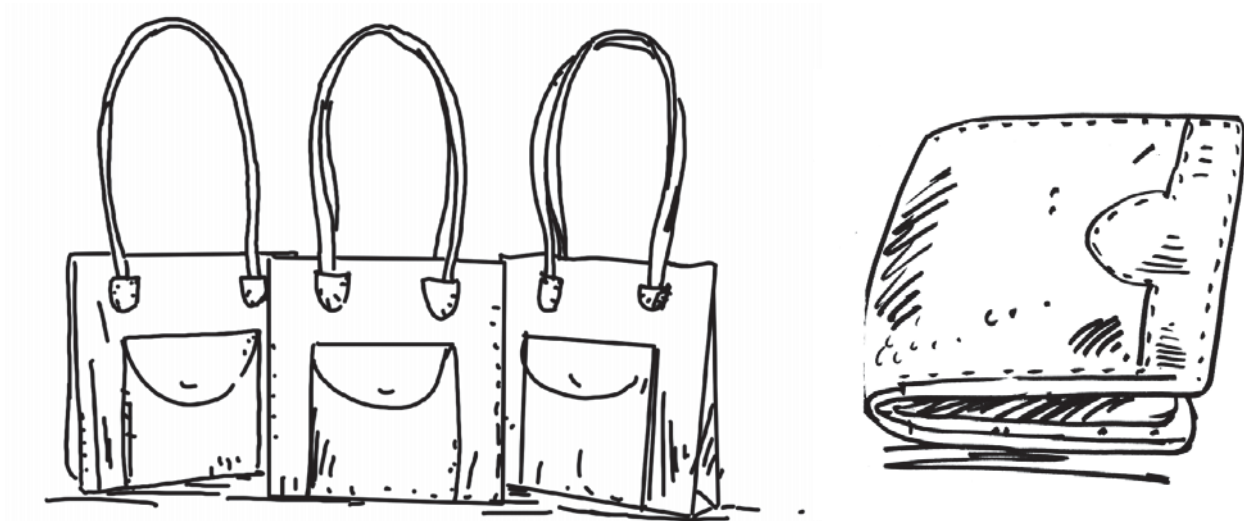


ARTISTIC LEATHER GOODS



1.0 INTRODUCTION

Indian leather industry occupies a place of prominence in Indian economy since the country leads in the availability of raw materials. Leather technology in recent times is fast emerging as a lucrative career option due to massive potential for employment opportunity in the sector. The industry is labour intensive and is concentrated in the small and cottage industry sectors.

This project profile is for setting up of artistic leather goods making unit, based on 300 working days per annum and 8 working hours per day. The installed production capacity of the unit per annum is as follows;

Leather Portfolio Bags	-	6000 Nos.
Ladies Purse	-	12000 Nos.
Gents Wallet	-	12000 Nos.
Travelling Bag	-	6000 Nos.

2.0 MARKET POTENTIAL

Artistic leather goods have unique features like artistic work, aesthetic look and attractive finishing. As a result, such goods have very good market demand around the globe. The scope of manufacturing portfolio bag is increasing due to the growing demand of Portfolio bags in cities mainly from travellers. Travelling bag is again one of the convenient goods used for carrying the belongings such as clothes, daily-use articles and other essentials during travelling from one place to other. Some other types of products are also used for carrying important documents and office use equipments by the executives and high profile personnel. Thus, there is an ample scope of leather goods items with easy and considerably

cheaper availability of indigenous raw material and skilled manpower.

3.0 PROCESS DETAILS

Various components of the expected finished products are marked followed by cutting as per the design and pattern. The components are then skived wherever necessary. Consumables like adhesives etc is applied to the components and lining is attached. Then the components are assembled and stitched. The excess lining is trimmed and then articles are turned inside out. Accessories and fittings are attached as per requirement. The products are then processed for polishing and finishing. The products are then provided brand name, inspected and packed for supply to the market. The process flowchart is shown below;

Purchase of Tanned Leather to required size



4.0. COST OF THE PROJECT

The estimated project cost is given below:

		(Rs. in lacs)
Particulars		Amount (Rs)
Land & Site Development		Rented
Building & Civil works		Rented
Plant & Machinery		10.35
Misc. Fixed assets		0.83
Preliminary & pre-operative expenses		0.82
Contingencies & escalation @ 3%		0.34
Working capital		1.66
TOTAL		14.00

4.1 Land & Site Development: Nil.

Total Land: 3,000 Sq. Ft. ; Covered Area: 1,500 Sq. Ft.

4.2 Building & Civil Works: Nil.**4.3 Plant & Machinery:** Details of plant & machinery are given below.

Particulars	Qty	Amount (Rs)
Ball Press	1	845000
Flat bed Sewing Machine single needle with motor and accessories	1	
Cylinder-bed sewing machine	1	
Board Cutting Machine	1	
Glazing Machine	1	
Skiving Machine	1	
Mini Compressor	1	
Zinc Block for design	1	
Wooden Vat for washing	1	
Miscellaneous Tools and Equipment	LS	50000
Sub total		895000
Add: Installation, transportation, etc @ 10%		89500
TOTAL		1034500
Say (Rs. in lacs)		10.35

4.4 Misc. Fixed assets: Details of miscellaneous fixed assets are given below.

Particulars	Qty	Rate (Rs)	Amount (Rs)
Electrification	LS	—	25000
Furniture & fixtures	LS	—	30000
Miscellaneous items	LS	—	20000
Sub total			75000
Add: Installation, transportation, etc @ 10%			7500
TOTAL			82500
Say (Rs. in lacs)			0.83

4.5 Contingencies & escalation: Contingencies & escalation has been assumed at 3% of the cost of land & site development, building & civil works, plant & machinery and miscellaneous fixed assets.

4.6 Preliminary & pre-operative expenses: Details of preliminary & pre-operative expenses are given below.

		(Rs. In lacs)
Particulars	Amount (Rs)	
Travelling expenses	20000	
Professional & other fees	30000	
Interest during implementation	22340	
Miscellaneous expenses	10000	
TOTAL	82340	
Say (Rs. in lacs)	0.82	

4.7 Working capital: Details of working capital are given below.

		(Rs. in lacs)		
	Period (Days)	Total Current Assets		
		Year 1	Year 2	Year 3
Raw materials	30	1.08	1.26	1.44
Power & utility	30	0.04	0.05	0.05
Salary	30	0.90	0.90	0.91
Finished Goods	15	1.04	1.14	1.24
Receivables	15	1.10	1.29	1.47
Total		4.16	4.64	5.11
Working capital margin in Year 1 (40%)	1.66			

5.0 MEANS OF FINANCE

The means of finance for the project is estimated as below.

		(Rs. in lacs)
Particulars	Percent	Amount
<u>EQUITY</u>		
A. Equity from Promoters	40%	5.60
B. Subsidy from Central/State Govt.	-	
<u>DEBT</u>		
Term Loan from Banks/Financial Institutions	60%	8.40
TOTAL	100%	14.00

6.0 PROFITABILITY STATEMENT

		(Rs. in lacs)				
Particulars	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6
<u>A. INCOME</u>						
Production Capacity (Nos./annum)	36000	36000	36000	36000	36000	36000
Capacity utilisation	60%	70%	80%	80%	80%	80%
Production/annum at capacity utilisation	21600	25200	28800	28800	28800	28800
Total income/annum	26.82	31.29	35.76	35.76	35.76	35.76
<u>B. OPERATING EXPENSES</u>						
Raw Materials	13.18	15.37	17.57	17.57	17.57	17.57
Power & Utility	0.47	0.55	0.63	0.63	0.63	0.63
Salary (0.5% increase every subsequent year)	10.92	10.97	11.03	11.08	11.14	11.20
Repair & Maintenance (2% increase every subsequent year)	0.22	0.22	0.23	0.23	0.24	0.24
Other Expenses (2% of sales)	0.54	0.63	0.72	0.72	0.72	0.72
Total Operating Expenses	25.32	27.75	30.17	30.23	30.29	30.35

Operating profit	1.50	3.54	5.59	5.53	5.47	5.41
C. FINANCIAL EXPENSES						
Depreciation	0.60	0.60	0.60	0.60	0.60	0.60
Interest on Term Loan	0.67	0.61	0.48	0.34	0.21	0.07
Interest on Working Capital Loan	0.20	0.22	0.25	0.25	0.25	0.25
Net Profit	0.03	2.11	4.27	4.34	4.42	4.49
Net cash accruals	0.62	2.71	4.87	4.94	5.02	5.09
Principal Repayment	0.00	1.68	1.68	1.68	1.68	1.68

6.1 Production capacity and Sales Realisation: Total production of Artistic Leather Products at 100% capacity utilization is estimated as below.

Portfolio Bags	6000 Nos.
Ladies Purse	12000 Nos.
Gents Wallet	12000 Nos.
Travelling Bag	6000 Nos.
Total production per annum at 100% capacity (in Nos.)	36000 Nos.

Products	Qty (In Nos.)	Average Rate Per Unit (Rs.)	Amount (Rs)
Portfolio Bags	6000 Nos.	175	1050000
Ladies Purse	12000 Nos.	60	720000
Gents Wallet	12000 Nos.	50	600000
Travelling Bag	6000 Nos.	350	2100000
Total Sale Turnover per annum at 100% capacity			4470000

6.2 Raw materials: Total expenses on raw materials at 100% capacity utilization are estimated as below.

Products	Qty	Average Rate Per Unit (Rs.)	Amount (Rs)
E I tanned leather (In Sq. Ft.)	54000 Sq. Ft.	60	720000
Lining Cloth (In Metre)	3600 Meters	70	252000
Dye and Sprit	36000 Nos.	10	360000
Thread & Adhesives	36000 Nos.	5	180000
Accessories like Zip, Button, D-Ring and Decorative Fittings	36000 Nos.	15	540000
Packaging Expense	36000 Nos.	4	144000
Expense on raw material per annum at 100% capacity			2196000

6.3 Power & Utility: Total expenses on power & utility at 100% capacity utilization is estimated as below.

Particulars	Quantity	Power (Kw)	Total (Kw)
Plant & Machinery (Total HP of 7)	--	5.22	5.22
General Lighting	20	0.10	2.00
Total power requirement/ day (Kw)			7.22

No. of hrs/day	8
No. of days/annum	300
Annual power requirement (kwh)	17333
Rate per unit (Rs)	3.50
Expenses on Power (Rs)	60665
Expenses on Water (Rs)	18000
Expenses on Power & Utility at 100% capacity (Rs)	78665

6.4 Salary: Total expenses on salary in the 1st year are estimated as given below. It is assumed that salary expenses will increase @ 0.5% every subsequent year.

Particulars of Employees	Numbers	Salary/ Month (Rs)	Cost/ annum (Rs)
Manager	1	10000	120000
Accountant cum Store Keeper	5	6000	360000
Sales Persons	4	6000	24000
Skilled workers	5	5000	300000
Unskilled workers	8	3000	288000
Expenses on salary in the 1st year (Rs)			1092000

6.5 Repair & Maintenance: Total expenses on repair & maintenance in the 1st year is estimated as given below. It is assumed that expenses on repair & maintenance will increase @ 2% every subsequent year.

(Rs. in lacs)			
Particulars	Cost (Rs)	Rate	Amount (Rs)
Building & Civil works	0.00	1.00%	0.00
Plant & Machinery	10.35	2.00%	0.21
Misc. Fixed assets	0.83	1.50%	0.01
Expenses on repair & maintenance in year 1			0.22

6.6 Other Expenses: Other expenses have been assumed at 2% of sales realisation.

6.7 Depreciation: Depreciation has been calculated by straight line method. The details of calculation are given below.

(Rs in lacs)			
Description	Cost (Rs)	Rate	Amount/ annum (Rs)
Building & Civil works	0.00	3.34%	0.00
Plant & Machinery	10.35	5.28%	0.55
Misc. Fixed assets	0.83	6.33%	0.05
TOTAL			0.60

6.8 Interest on term loan & principal repayment: Interest rate has been assumed at 8%. Duration of Loan repayment has been considered for a period of 6 years including moratorium period of 1 year with equal monthly instalments. The details of calculation are given below.

(Rs in lacs)							
Month	Year	1	2	3	4	5	6
Month 1	Opening balance	8.40	8.40	6.72	5.04	3.36	1.68
	Repayment	0.00	0.14	0.14	0.14	0.14	0.14
	Interest (8%)	0.06	0.06	0.04	0.03	0.02	0.01
	Closing balance	8.40	8.26	6.58	4.90	3.22	1.54

Month 2	Opening balance	8.40	8.26	6.58	4.90	3.22	1.54
	Repayment	0.00	0.14	0.14	0.14	0.14	0.14
	Interest	0.06	0.06	0.04	0.03	0.02	0.01
	Closing balance	8.40	8.12	6.44	4.76	3.08	1.40
Month 3	Opening balance	8.40	8.12	6.44	4.76	3.08	1.40
	Repayment	0.00	0.14	0.14	0.14	0.14	0.14
	Interest	0.06	0.05	0.04	0.03	0.02	0.01
	Closing balance	8.40	7.98	6.30	4.62	2.94	1.26
Month 4	Opening balance	8.40	7.98	6.30	4.62	2.94	1.26
	Repayment	0.00	0.14	0.14	0.14	0.14	0.14
	Interest	0.06	0.05	0.04	0.03	0.02	0.01
	Closing balance	8.40	7.84	6.16	4.48	2.80	1.12
Month 5	Opening balance	8.40	7.84	6.16	4.48	2.80	1.12
	Repayment	0.00	0.14	0.14	0.14	0.14	0.14
	Interest	0.06	0.05	0.04	0.03	0.02	0.01
	Closing balance	8.40	7.70	6.02	4.34	2.66	0.98
Month 6	Opening balance	8.40	7.70	6.02	4.34	2.66	0.98
	Repayment	0.00	0.14	0.14	0.14	0.14	0.14
	Interest	0.06	0.05	0.04	0.03	0.02	0.01
	Closing balance	8.40	7.56	5.88	4.20	2.52	0.84
Month 7	Opening balance	8.40	7.56	5.88	4.20	2.52	0.84
	Repayment	0.00	0.14	0.14	0.14	0.14	0.14
	Interest	0.06	0.05	0.04	0.03	0.02	0.01
	Closing balance	8.40	7.42	5.74	4.06	2.38	0.70
Month 8	Opening balance	8.40	7.42	5.74	4.06	2.38	0.70
	Repayment	0.00	0.14	0.14	0.14	0.14	0.14
	Interest	0.06	0.05	0.04	0.03	0.02	0.00
	Closing balance	8.40	7.28	5.60	3.92	2.24	0.56
Month 9	Opening balance	8.40	7.28	5.60	3.92	2.24	0.56
	Repayment	0.00	0.14	0.14	0.14	0.14	0.14
	Interest	0.06	0.05	0.04	0.03	0.01	0.00
	Closing balance	8.40	7.14	5.46	3.78	2.10	0.42
Month 10	Opening balance	8.40	7.14	5.46	3.78	2.10	0.42
	Repayment	0.00	0.14	0.14	0.14	0.14	0.14
	Interest	0.06	0.05	0.04	0.03	0.01	0.00
	Closing balance	8.40	7.00	5.32	3.64	1.96	0.28
Month 11	Opening balance	8.40	7.00	5.32	3.64	1.96	0.28
	Repayment	0.00	0.14	0.14	0.14	0.14	0.14
	Interest	0.06	0.05	0.04	0.02	0.01	0.00
	Closing balance	8.40	6.86	5.18	3.50	1.82	0.14
Month 12	Opening balance	8.40	6.86	5.18	3.50	1.82	0.14
	Repayment	0.00	0.14	0.14	0.14	0.14	0.14
	Interest	0.06	0.05	0.03	0.02	0.01	0.00
	Closing balance	8.40	6.72	5.04	3.36	1.68	0.00
Principal Repayment		0.00	1.68	1.68	1.68	1.68	1.68
Interest		0.67	0.61	0.48	0.34	0.21	0.07

7.0 DEBT SERVICE COVERAGE RATIO (DSCR)

(Rs. in lacs)

Year	1	2	3	4	5	6
Profit After Tax (Net Profit)	0.03	2.11	4.27	4.34	4.42	4.49
Depreciation	0.60	0.60	0.60	0.60	0.60	0.60
Interest	0.67	0.61	0.48	0.34	0.21	0.07
Total	1.30	3.32	5.34	5.28	5.22	5.16
Interest	0.67	0.61	0.48	0.34	0.21	0.07
Loan repayment	0.00	1.68	1.68	1.68	1.68	1.68
Total	0.67	2.29	2.16	2.02	1.89	1.75
DSCR	1.93	1.45	2.48	2.61	2.77	2.95

Average DSCR = 2.85

8.0 BREAK EVEN POINT (BEP)

(Rs. in lacs)

Year	1	2	3
A. Net sales	26.82	31.29	35.76
B. Variable cost			
Raw Materials	13.18	15.37	17.57
Power & Utility	0.47	0.55	0.63
Other expenses	0.54	0.63	0.72
Interest on Working Capital Loan	0.20	0.22	0.25
Total variable cost	14.38	16.77	19.16
C. Contribution (A-B)	12.44	14.52	16.60
D. Fixed & Semi-fixed Costs			
Salary	10.92	10.97	11.03
Repair & maintenance	0.22	0.22	0.23
Interest on Term Loan	0.67	0.61	0.48
Depreciation	0.60	0.60	0.60
Total fixed cost	12.41	12.41	12.33
E. BREAK EVEN POINT	99.79%	85.46%	74.28%
F. BEP at operating capacity	59.88%	59.82%	59.43%
G. Cash BEP	56.99%	56.93%	56.54%

9.0 INTERNAL RATE OF RETURN (IRR)

(Rs. in lacs)

Year	0	1	2	3	4	5	6
CASH OUTFLOW							
Capital Expenditure	11.51	0.00	0.00	0.00	0.00	0.00	0.00
Working Capital	0.00	4.16	0.47	0.47	0.00	0.00	0.00
Total (A)	11.51	4.16	0.47	0.47	0.00	0.00	0.00
CASH INFLOW							
Profit After Tax		0.03	2.11	4.27	4.34	4.42	4.49
Add: Depreciation		0.60	0.60	0.60	0.60	0.60	0.60
Add: Interest		0.67	0.61	0.48	0.34	0.21	0.07
Add: Salvage Value							
Total (B)	0.00	1.30	3.32	5.34	5.28	5.22	5.16
NET FLOW (B-A)	-11.51	-2.87	2.85	4.87	5.28	5.22	5.16

IRR = 23%