**8. IncrementaI benefits from implemenation of scheme**

**(I**nd**ic**ate **in terms of capacity utiIization, in eased sales, exports,** reduction in cost of production, increase in produ**ctivity, quality** U**pgradation, attain**ment of pollution **standards. Give quantitative** results)

As stated under st. no. (6), this modernization/technology

up-gradation project was implemented at a cost of Rs. 192.47 lakh

comprising of indigenous (Rs. 30.60 lakh) and imported (Rs. 161.87 lakh) plant & machinery and equipment's. This is a 100% export oriented unit. Hence, the modernization scheme was imp1ementd with an object to upgrading quality of the leather product resulting in better price realization in the export market. Further, there was increase in installed capacity and capacity utilization resulting in higher production viz a viz sales after implementation of the modernization scheme which is detailed in the profitability projections . Subsequent, to implementation of the modernization scheme there was reduction in production cost due to increased yield in raw material utilization, less wastage during processing stage and least rejection of finished product.

The plant, machinery and equipment's procured under the modernization scheme were installed and commissioned over period from February, 2011 to June, 2013. Hence, the effect of modernization started accruing from the financia1 year 2011-12 with improved production and sales revenue. Production improved gradually during the implementation phase of the modernization scheme i. e. financial year 2011-12 and 2012-13 and it is expected that such increase in production to continue during post modernization phase starting from financia1 year 2013-14 finally stabilizing during 3rd year after modernization i. e. financia1 year 2015-16 and remain uniform subsequently. Hence, profitability projection is drawn for period of 8 (eight) years starting from financia1 year 2010-11 to 20 17-18 considering financial year 2010-11 as the

immediate pre-modernization year. Financia1 year 2011-1 2 & 201 2-1 3 is the modernization phase when the project was implemented and the subsequent 5 (five) year from 2 013-1 4 to 2017-18 is considered as the post modernization period.

The assumptions based on which the profitability projection over 8 (eight) year is drawn are as fo11ows:

i) The company’s unit operates single shift p er day and for 300 days in a year;

ii) The company’s product comprise of 1eather bags, wallet, purse and other leather

artic1es of different size, design, style and quality as per export order. For the sake

of simplicity in drawing the projection wallet, purse and other leather articles are

clubbed into one item specified as small leather goods as they are of similar price;

iii) The capacity prior to implementation of the modernization scheme was

3.60lakh pcs. of leather bags and 18.00lakh pcs. of small leather goods per annum. After implementation of the modernization scheme the capacity increased to 3.70lakh pcs. leather bags and 21.00lakh pcs. small leather good s per annum mainly due t o ease of operation an d higher capacity of the new machine s procured under the scheme ;

iv) The profitability statement is drawn for 8 (eight) years starting from financial year



2010-11 to 2017-18. Year 2010-11 is the immediate preceding year prior to

implementation of the modernization scheme. The scheme was implemented

during the year 2011-12 and 2012-1 3 resulting in increase in sales realization.

The profitability statement during these three years are on actual basis. Full

effect in terms of increased revenue due to up-gradation will resu1t from year

2013-14 and onwards. Hence 5 (five) year projected profitability statement is

drawn from 2013-14 to 2017-18 consider ed as post modernization period;

v) The sa1e price on actual basis was Rs.915/-per leather bag and Rs. 210/- per small

leather good during financia1 year 2011-12. The sale price on actual basis was

Rs.1060/-per 1eather bag and Rs.281/- per small 1eather good during financial year

2012-13. The higher sales realization was due to substantia1 improvement in quality

of leather product resulting during implementation of modernization project;

vi) The full effect of the modernization project will accrue from financial year

2013-14 when benefit of the project after completion will be available during the

year. During the 5 (five) year post modernization period the price of leather

Bag and small leather goods have been considered as Rs. 1060/- and 280/- each

respectively.The out put during the financial year 2013-14 has been considered as

1.29lakh pcs. Of Leather bag and 16.04 lakh pcs. of small 1eather good (total 17.33

lakh pcs.) resulting in aggregate export sales of Rs. 5859.70lakh. During 2nd year after modernization i. e. financial year 2014-15 the projected production of leather bag and small leather goods have been considered as 1.11 lakh pcs. and 18.8 2 1akh pc s. resp e ctive ly (total 19.93 l akh pcs.),

export sales being Rs. 6445.67 lakh, which will further increase during 3 rd year after

modernization i. e. financial year 2015-1 6 to 1 . 3 4 lakh pcs. and 20.26 lakh p cs.

respectively (total- 21.60 lakh pcs.) export sales being Rs. 7090.23 lakh. Subsequently, during 4 t h year (FY 2016-17) and 5' h year (FY 2017-18) production/ export sales will stabilize and remain same as that of financial year 2015-16;

vii) Installed capacity and capacity utilization is determined considering l no. leather bag is approximately equal to 3.80 nos. of small leather good based on sale value;

Viii) Based on past trend aggregate export incentive is considered as 10.5 % of export sales

which is added to sale value to get total sales realization;

ix) Other income comprise of interest on deposit, dividend on investment in share, capital gain out of sale of shares and profit out of sale of asset. This income is taken on actual basis for 3 (three) years from 2010-11 to 2012-13. As modernization project has no effect on profit from sale of share this is excluded in post modernization period. For the sake of uniformity other income excluding income from sale of share for the year 2012-13 (Rs. 11.67 lakh) is considered for each of the 5 (five) year post modernization period;.

x ) The basic raw materia1 for manufacturing leather bag & sma11 leather goods is finished leather. Following the trend at the unit approximately 2.0 sq.ft. of finished leather is

required for 1 no. s mall leather good and 7. 5 sq. ft. of finished leather is required for

1 no. leather bag. The cost of finished leather is considered as Rs.72.00 per sq.ft. ;

xi) Consumables such as lining material, fitting material & accessories, thread & solution

required for making the finished leather product and subsequent packing for despatch is

considered as 37 % of the cost of raw material (finished leather ) based on past trend; .

xii) No change in stock of work- in-progress and finished goods has been considered for

5(five) year post modernization period from 2013-14 to 2017-18 for the sake of simplicity.

xiii**)** Power & fue1 cost has been increased in proportion to increased production ( 1 .2 % of sales) during financial year 2013-14 to 2015-18 and maintained constant during subsequent years.

xiv) Salary & wages includes all employment benefits including P.F.,gratuity,bonus, ex-gratia etc

to all employees excluding Director’s remuneration. Presently(FY 2013-14),the company

employs about 892workers comprising of skilled, semi skilled and unskilled labours

besides employees in supervisory and managerial grade.The employment is considered

to increase to 938 nos. during FY 2014-15 and to 980 nos.

during 2015-16. Employment is maintained constant there after as production becomes uniform. This expenditure is considered on actual basis for 3 (three) years from 2010 — 11 to 2012-13 . Subsequently, for every year salary & wages is increased proportionately with increased employment and also 10% annual increment every year post modernization has been considered for existing employees;

xv) Repair & maintenance cost is taken on actual basis for 3 (three) years from 2010-11 to 2012-13. Based on past trend it is considered as 2.5 % of Gross Block (Rs. 2358.78 lakh) as on 31.032013 for each of the 5 (five) year post modernization amounting to Rs. 58.97 lakh;

xvi) Rent, rate & tax is considered on actual basis for 3 (three) years from 2010-11 to 2012-13 and taken as Rs. 50.00 lakh for every year during 5 (five) year post modernization period;

xvii) Insurance premium considered on actual basis for 3 (three) years from 2010- l l to 2012-13 and taken as Rs. 7.00 lakh for each year during 5 (five) year post modernization period;

xviii ) Incidental and other processing expenses has been taken on actual basis for 3 (three) years from 2010-11 to 2012-13. However, during the post modernization period these expenses will reduce due to increased yield in raw material utilization, less wastage during processing stage and least rejection of finished product. This expense will be reduced from 877.87 (FY 2012-13) to about Rs. 800.00 lakh each for 5 (five) year during the post modernization period;

xix) Directors remuneration is considered as administrative salary which is taken on

actual basis for 3 (three) years from 2010-1 l to2012-13 and. increased 20% every

year during 5 (five) year post modernization period. All incidental expenditure for

running the unit is other administrative expenses which is taken on actua1 basis for

3 (three) years from 2010-11 to 2 012-13 and based on past trend it is considered as

3 . 5 % o f to t a1 revenue for 5 (five) year post modernization period.

xx) Selling expenses comprise traveling expense (domestic and abroad), local conveyance, clearing, forwarding & fright, export expense and advertisement & business promotion expenses. Selling expenses is considered on actual basis for 3 (three) years from 2010-11 to 2012-13 and. taken as 2.5% of total sales realization for

each of the 5 (five) year post modernization period;

Depreciation on fixed assets has been provided on written down value method

at the rate specified under Schedule IV to the Companies Act, 1956,

except in the case of lease hold land which has been amortised in equal

proportion during the lease period;

The company enjoys export packing credit facility and foreign bill purchase facility from State Bank of India aggregating Rs.16.00 Cr. at an interest rate of 9.0% per annum. Interest is considered on actual basis form F Y 2010 -11 to 2012-13. During the post modernization period interest on these facilities is calculated considering value of 1 (one) export sale amounting Rs.488.31 lakh during FY 2013-1 4,

Rs. 537.14 lakh during FY 2014-15, Rs.590.85 lakh during FY 2015-16 and

onwards. Bills are purchased immediately on export;

For determining incremental post tax profit during 2 (two) year implementation of modernization project and 5 (five) year post modernization period, earning from sale of share (i. e . transaction in investment portfolio) and loss/gain in foreign currency transaction are excluded from operating profit as these incomes are not uniform over the years and are not related to the modernization project;

Income tax on operating profit (excluding earning from investment activities and loss/gain in foreign currency transaction) is determined at the prevailing rate applicable for domestic company;

As stated earlier the figures in profitability projections for the F Y 2010-11 , 2011-12,

2012-13 are on actual basis and for 5 (five) year post modernization period i. e. from FY 2013-14 to 2017-18 are projected figures based on past trend. However, income tax for the years FY 2010-11 , 2011-12, 2012-13 are recalculated after excluding earning from investment activities and lo s s/gain in foreign currency transaction;

Based on the above assumptions export sales (including export incentive) post

modernization will be Rs . 6474.97 lakh during 1st year (FY 2013-14), Rs .7122.46 lakh during 2 nd year (FY 2014-15) and Rs. 7834.70 lakh during 3rd year (FY2015-16) and onwards with capacity utilization being 60%, 66% and 72% respectively. F Y 2015 — 1 6 is the normal year of operation after which the production/sale

stabilize s during subsequent years. The pro fit before interest,

depreciation and tax is Rs. 672.17 lakh ( 8.58% of sale including export incentive) and operating profit is Rs. 496.671akh (6.34 % of sale inc1uding expo rt incentive) during 3rd year (FY 2015 — 16) post modernization.

During normal year post modernization (FY 2015-1 6) incremental

Return (PA T)/ incremental capital employed (Rs. 192.47) is 116%, indicating that the investment for the modernization/technology up-gradation project is

justified. After implementation of the modernization scheme there is not only increase in installed capacity but also improvement in capacity utilization as it is evident in the profitability projection. Moreover, there is improvement in quality of the

leather product post modernization resulting in improved sales realization.

P roj e cte d pro fi tab i lity estimate is atiache d to prProjected profitability estimate is attached to this note.