

Business Proposal

Marble Mosaic Development Center

By: Pakistan Stone Development Company

Ministry of Industries & Production

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DISCLAIMER

This information memorandum is to introduce the subject matter and provide a general idea and information on the subject. Although, the material included in this document is based on data/information gathered from various reliable sources; however, it is based upon certain assumptions which may differ from case to case. The information has been provided on 'as is where is' basis without any warranties or assertions as to the correctness or soundness thereof. Although, due care and diligence has been exercised to compile this document, the contained information may vary due to any change in any of the concerned factors, and the actual results may differ substantially from the presented information. PASDEC, its employees or agents do not assume any liability for any financial or other loss resulting from this memorandum in consequence of undertaking this activity. The contained information does not preclude any further professional advice. The prospective user of this memorandum is encouraged to carry out additional diligence and gather any information which is necessary for making an informed decision; including taking professional advice from a qualified consultant/technical expert before taking any decision to act upon the information.

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PURPOSE OF THE DOCUMENT

The objective of the pre-feasibility study is primarily to facilitate potential entrepreneurs in project identification for investment. The project pre-feasibility may form the basis of an important investment decision and in order to serve this objective, the document/study covers various aspects of project concept development, start-up, production, marketing, finance and business management.

The purpose of this document is to facilitate potential investors in **Marble Mosaic Development Center** business by providing them with a general understanding of the business with the intention of supporting potential investors in crucial investment decisions.

The need to come up with pre-feasibility reports for undocumented or minimally documented sectors attains greater imminence as the research that precedes such reports reveal certain thumb rules; best practices developed by existing enterprises by trial & error and certain industrial norms that become a guiding source regarding various aspects of business set-up and its successful management.

Apart from carefully studying the whole document, one must consider critical aspects provided later on, which form basis of any investment decisions.

INTRODUCTION TO PASDEC

The Pakistan Stone Development Company (PASDEC) was established in June 2006 for development of marble and granite sector of Pakistan

The mandate of PASDEC is to establish model project for development of value chain to introduce new technology, practices and to meet skill development needs of the sector. PASDEC has established fifteen

Mechanized Quarries, two machinery pools, two warehouses and work is in progress on three marble cities, four common facility training centers. Besides this PASDEC has trained more than 1400 trainees on different traits of marble and granite value chain.

Concurrent to the prefeasibility studies, a broad spectrum of business development services is also offered to the SMEs by PASDEC. These services include general information, specific information, support in development of business plans, establishment of marble business and identification of skilled work force.

EXECUTIVE SUMMARY

Marble Mosaic Development Center is proposed to be located at or near the marble processing clusters and in areas where basic infrastructure is available for easy transportation of raw material and finished goods. The products include simple mosaic borders however customized mosaics may also be developed.

The proposed project can produce 20000 sq.ft/ year on the basis of a daily shift of 8 hours with 4 female/male workers. Initially 13000 sqft will be produced which will reach to 20000 sqft in 8 years on 85% efficiency.

The total Project Cost is Rs. 1.218 million, including the Capital Cost of 0.148 Million and the Working Capital of 1.070 million. Given the cost assumptions, IRR and payback are 56% and 1 year respectively.

BRIEF DESCRIPTION OF PROJECT AND PRODUCT

Location: The center will be located at or near marble processing clusters at Gujranwala, Lahore, Lasbela, Multan, Karachi, Peshawar, Rawalpindi, Rawat, Risalpur, Quetta or in areas where basic infrastructure is available for easy transportation of raw material and finished goods.

Product: Initially, the center will process Boards and simple mosaics later on it will produce Field Tiles, Split Face Tiles, and Artisan Mosaics (Medallions, Carpets and Rugs, Frames, and Kitchen Backsplash).

Target Market: All major cities across Pakistan.

Employment Generation: The proposed project will provide direct employment to 04 persons.

Profitability: Financial Analysis shows that the center will be profitable from the very first year of the operation.

CRITICAL FACTORS

The following factors should be considered thoroughly:

- Efficient and cost effective procurement system of raw material.
- Market knowledge and trends about the international and domestic market.
- Availability, training, and retention of skilled labor.
- Availability of electricity, water supply and proximity to variety of supply sources and markets.
- Know-how about mesh mounted products.
- Effective marketing campaign.

PRODUCTION AND OPERATIONAL CAPACITY

Installed capacity of the project will be 20000 sq. ft/ year on the basis of daily shift of 8 hours, whereas the production capacity of year 01 will be 13000 sq. ft./year. No such machinery will be installed only trained workers will be hired and raw material will be obtained from market for manufacturing the product. Hence production capacity can be increase many as per requirement.

GEOGRAPHICAL POTENTIAL FOR INVESTMENT

The Marble and Granite industry of Pakistan has a total estimated reserve of around 160 million tons. The marble and onyx mines of Pakistan are mainly located in Baluchistan (Chaghi, Lasbela, Loralai, Mastong, and Naal), Khyber Pakhtunkhwa /FATA (Bunair, Mardan,

Mohamand and Swat), Chitral, and Sindh (Dadu, Johi range). The major marble processing clusters are concentrated in Gujranwala,

Islamabad, Rawalpindi, Karachi, Lasbela, Lahore, Peshawar, Swat, Buner, Nowshera and Risalpur. As the production is dependent upon the easy availability of marble and onyx, therefore, the project should be established in or around marble and onyx mines. Resources like skilled labour, utilities, infrastructure and transportation are also easily available in these cities.

POTENTIAL TARGET MARKETS

Marble mosaic products are famous worldwide for their application in construction industry as well as for decorative purposes. Promising export markets for onyx mosaic are Central Asian Republics, United States of America, and Australia. Domestic market also carries a great untapped potential for marble mosaic with a target market comprising architects, builders, corporate customers, domestic consumers and exporters of Faisalabad, Gujranwala, Hyderabad, Islamabad/Rawalpindi, Karachi, Kohat, Lahore, Lasbela, Nowshera, Peshawar, Sargodha, Sialkot, and Quetta.

PROJECT COST SUMMARY

A detailed financial model has been developed to analyze the commercial viability of the Marble Mosaic Development Center. Various costs and revenue related assumptions along with results of the analysis are outlined in this section.

Project Economics:

All the figures in this financial model have been calculated for production capacity of 20,000 sq. ft/ year with initial capacity utilization at 13000 sq.ft in year 1, reaching 20,000 sq. ft from in 8 years.

The following table shows internal rates of return and payback period.

Description	Details
Internal Rate of Return (IRR)	56%
Payback Period (yrs)	2.3
Net Present Value (NPV)	Rs.4.1m

PROJECT COST AND ITS FINANCING PLAN

Following requirements have been identified for operations of the proposed business.

CAPITAL COST		(PKR)
Furniture and Fixtures		148,000
TOTAL		148,000
NET INITIAL WORKING CAPITAL(3months)		1,070,513
TOTAL PROJECT COST		1,218,513
EQUITY	10%	121,851
BANK FINANCING	90%	1,096,661
		1,218,513

Space Requirement

Following table shows total rental space requirement for the project on the basis.

Space Requirement (in ft.)	Sq. ft
Management building	100
Production Area	450
Store	150
Grounds	300
Total	1,000

Total investment in building and infrastructure rent is calculated to be approximately Rs.120, 000 per annum, which is reflected in the working capital.

Office Equipment & Furniture

Following are the office furniture and equipment requirements

Description	Qty	Cost	Total
Chairs	4	2000	8,000
Computer	1	60000	60,000
Tables	5	10000	50,000
Cabinets	2	5000	10,000
Printer ,Scanner, Camera,	1	20000	20,000
			148,000

Administration and Marketing Expenses:

ADMINISTRATION AND MARKETING EXPENSES FOR THE YEAR ENDING ON 30 JUNE

	Years							
	1	2	3	4	5	6	7	8
Electricity	12,000	12,600	13,230	13,892	14,586	15,315	16,081	16,885
Communication	24,000	25,200	26,460	27,783	29,172	30,631	32,162	33,770
Printing and Stationary	12,000	12,600	13,230	13,892	14,586	15,315	16,081	16,885
Yard Rent/Factory Rent	120,000	126,000	132,300	138,915	145,861	153,154	160,811	168,852
Newspapers and periodicals	6,000	6,300	6,615	6,946	7,293	7,658	8,041	8,443
Entertainment expenses	12,000	12,600	13,230	13,892	14,586	15,315	16,081	16,885
Bank charges	24,050	26,418	28,871	31,412	34,042	35,745	37,532	39,408
Depreciation	2,220	2,220	2,220	2,220	2,220	2,331	2,448	2,570
Medical Expenses	-	-	-	-	-	-	-	-
Marketing Expenses	20,000	22,000	24,200	26,620	29,282	32,210	35,431	38,974
	232,270	245,938	260,356	275,570	291,629	307,674	324,668	342,673

Operational Expenses:

	Years							
	1	2	3	4	5	6	7	8
	(PKR)							
Salaries, wages and benefits	120,000	126,000	132,300	138,915	145,861	153,154	160,811	168,852
Electricity	96,000	100,800	105,840	111,132	116,689	122,523	128,649	135,082
Stores spares consumed	-	-	-	-	-	-	-	-
Labor Cost	585,000	630,000	675,000	720,000	765,000	765,000	765,000	765,000
Consumable	650,000	682,500	716,625	752,456	790,079	829,583	871,062	914,615
Water charges	12,000	12,600	13,230	13,892	14,586	15,315	16,081	16,885
Insurance	-	-	-	-	-	-	-	-
Raw Material	2,600,000	2,730,000	2,866,500	3,009,825	3,160,316	3,318,332	3,484,249	3,658,461
Contigencies	65,000	5,040	5,292	5,557	5,834	6,126	6,432	6,754
Depreciation	12,580	12,580	12,580	12,580	12,580	12,580	12,580	12,580
Medical Expenses	6,000	6,300	6,615	6,946	7,293	7,658	8,041	8,443
Total Operating Cost	4,146,580	4,305,820	4,533,982	4,771,302	5,018,238	5,230,271	5,452,906	5,686,672

S.No	Staff	Salaries per month	Annual salaries
1	Labour	10,000	120,000

Production Schedule:

PRODUCTION SCHEDULE

	Years								
	1	2	3	4	5	5	5	5	
Capacity Utilization	100%	65%	70%	75%	80%	85%	85%	85%	85%
Production per year	20,000	13,000	14,000	15,000	16,000	17,000	17,000	17,000	17,000

Projected Sales and Sales Price:

PROJECTED SALES

	Years							
	1	2	3	4	5	6	7	8
Capacity Utilization	65%	70%	75%	80%	85%	85%	85%	85%
Product Sales	4,810,000	5,283,600	5,774,220	6,282,351	6,808,498	6,944,668	7,083,562	7,225,233
	4,810,000	5,283,600	5,774,220	6,282,351	6,808,498	6,944,668	7,083,562	7,225,233
Total Sales per piece	13,000	14,000	15,000	16,000	17,000	17,000	17,000	17,000
Sales price per piece	370	377	385	393	400	409	417	425
Total Sales	4,810,000	5,283,600	5,774,220	6,282,351	6,808,498	6,944,668	7,083,562	7,225,233

100%	sq ft	
Total Production Capacity	20,000	Sales price per sq ft
Production per Month sq ft	20,000	370

Projected Financial Statements:

Income Statement

PROJECTED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING ON 30 JUNE

		Years								
		1	2	3	4	5	6	7	8	
APPENDIX		(PKR)								
		SALES	4,810,000	5,283,600	5,774,220	6,282,351	6,808,498	6,944,668	7,083,562	7,225,233
	2	Operating cost	(4,146,580)	(4,305,820)	(4,533,982)	(4,771,302)	(5,018,238)	(5,230,271)	(5,452,906)	(5,686,672)
		GROSS PROFIT	663,420	977,780	1,240,238	1,511,049	1,790,260	1,714,397	1,630,656	1,538,561
	3	Administration marketing and other expenses	232,270	245,938	260,356	275,570	291,629	307,674	324,668	342,673
		Markup Payment on Loan	87,733	87,733	77,900	67,281	55,813	43,427	30,050	15,603
			-	-	-	-	-	-	-	-
		NET PROFIT BEFORE TAX	343,417	644,109	901,981	1,168,198	1,442,819	1,363,296	1,275,938	1,180,285
		Provision for taxation	-	24,411	50,198	76,820	104,282	96,330	87,594	78,028
		PROFIT / (LOSS) AFTER TAX	343,417	619,698	851,783	1,091,378	1,338,537	1,266,967	1,188,344	1,102,256
		Un- appropriated profit / (loss) b/f	-	343,417	963,115	725,959	726,935	826,189	837,262	810,242
		Appropriation of profits	343,417	963,115	1,814,899	1,817,337	2,065,472	2,093,155	2,025,606	1,912,499
			-	-	1,088,939	1,090,402	1,239,283	1,255,893	1,215,364	1,147,499
		Un-appropriated profit / (loss) carried forward to balance sheet	343,417	963,115	725,959	726,935	826,189	837,262	810,242	764,999

Projected Cash Flow Statement

PROJECTED CASH FLOW STATEMENT FOR THE YEAR ENDING ON 30 JUNE

	Start	Years							
		1	2	3	4	5	6	7	8
ASH FLOW FROM OPERATING ACTIVITIES									
Profit / (Loss) before taxation		343,417	644,109	901,981	1,168,198	1,442,819	1,363,296	1,275,938	1,180,285
Adjustment for									
- Depreciation		14,800	14,800	14,800	14,800	14,800	14,800	14,800	14,800
- Financial charges		24,050	26,418	28,871	31,412	34,042	35,745	37,532	39,408
Profit before working capital changes		382,267	685,327	945,653	1,214,410	1,491,661	1,413,841	1,328,269	1,234,493
Change in working capital:									
Increase/(Decrease) in current assets									
Accounts receivable		(400,833)	(39,467)	(40,885)	(42,344)	(43,846)	(11,347)	(11,574)	(11,806)
Stores and Spares		-	-	-	-	-	-	-	-
Increase/(Decrease) in accrued liabilities		14,000	700	735	772	810	851	893	938
Payment of financial charges		(4,566)	646,560	905,503	1,172,837	1,448,626	1,403,344	1,317,588	1,223,625
Payment of Tax		(24,050)	(26,418)	(28,871)	(31,412)	(34,042)	(35,745)	(37,532)	(39,408)
Payment of Loan installment		-	(24,411)	(50,198)	(76,820)	(104,282)	(96,330)	(87,594)	(78,028)
Net cash flow from operating activities		(28,616)	472,826	693,695	921,249	1,155,476	1,104,058	1,011,874	911,153
ASH FLOW FROM INVESTING ACTIVITIES									
Purchase of fixed assets	(148,000)	-	-	-	-	-	-	-	-
Net cash flow from Investing activities	(148,000)	-	-	-	-	-	-	-	-
ASH FLOW FROM FINANCING ACTIVITIES									
Equity contribution	121,851	-	-	-	-	-	-	-	-
Payment of Profits	-	-	-	(1,088,939)	(1,090,402)	(1,239,283)	(1,255,893)	(1,215,364)	(1,147,499)
Long Term Loan(Debt)	1,096,661	-	-	-	-	-	-	-	-
Net cash flow from financing activity	1,218,513	-	-	(1,088,939)	(1,090,402)	(1,239,283)	(1,255,893)	(1,215,364)	(1,147,499)
Net cash flow for the year	1,070,513	(28,616)	472,826	(395,244)	(169,154)	(83,807)	(151,835)	(203,489)	(236,346)
Cash and bank balances at the beginning of year	-	1,070,513	1,041,896	1,514,722	1,119,479	950,325	866,518	714,683	511,194
Cash and bank balances at the end of the year	1,070,513	1,041,896	1,514,722	1,119,479	950,325	866,518	714,683	511,194	274,847

Projected Balance Sheet:

PROJECTED BALANCE SHEET AS AT YEAR ENDED 30 JUNE									
	Start	Years							
		1	2	3	4	5	6	7	8
LIABILITIES									
(PKR)									
CAPITAL AND RESERVES									
Equity	121,851	121,851	121,851	121,851	121,851	121,851	121,851	121,851	121,851
Accumulated profit / loss		343,417	963,115	725,959	726,935	826,189	837,262	810,242	764,999
	121,851	465,268	1,084,967	847,811	848,786	948,040	959,113	932,094	886,851
CURRENT LIABILITIES									
Accrued liabilities	-	14,000	14,700	15,435	16,207	17,017	17,868	18,761	19,699
Long Term Loans	1,096,661	1,096,661	973,756	841,018	697,661	542,835	375,624	195,036	-
	1,218,513	1,575,930	2,073,422	1,704,264	1,562,654	1,507,892	1,352,605	1,145,890	906,550
ASSETS									
FIXED ASSETS									
Fixed Assets	148,000	148,000	148,000	148,000	148,000	148,000	148,000	148,000	148,000
depreciation	-	14,800	29,600	44,400	59,200	74,000	88,800	103,600	118,400
Total Fixed Asset	148,000	133,200	118,400	103,600	88,800	74,000	59,200	44,400	29,600
CURRENT ASSETS									
Accounts receivable	-	400,833	440,300	481,185	523,529	567,375	578,722	590,297	602,103
Store and spares	-	-	-	-	-	-	-	-	-
Cash and bank balances	1,070,513	1,041,896	1,514,722	1,119,479	950,325	866,518	714,683	511,194	274,847
Total Current Assets	1,070,513	1,442,730	1,955,022	1,600,664	1,473,854	1,433,892	1,293,405	1,101,490	876,950
	1,218,513	1,575,930	2,073,422	1,704,264	1,562,654	1,507,892	1,352,605	1,145,890	906,550

Useful Project Management Tips

Quality Assurance Equipment & Standards: Whatever means required products quality standards need to be defined on the packaging and a system to check them instituted, this improves credibility.

Marketing

Product Development & Packaging: Expert's help may be engaged for product/service and packaging design & development

Sales & Distribution Network: Strong contacts with the civil works contractors & architects focusing upon house constructions for middle and higher class people and owners of retail shops.

Price - Bulk Discounts, Cost plus Introductory Discounts: Price during introductory phase may be lower and used as promotional tool. Product cost estimates should be carefully documented before price setting. Government controlled prices shall be displayed.

Human Resources

- **Adequacy & Competencies:** Recruitment of skilled and experienced staff.
- **Performance Based Remuneration:** Attempt to manage human resource cost should be focused through performance measurement and performance based compensation.
- **Training & Skill Development:** Encouraging training and skill of self & employees through experts and exposure to best practices is a route to success. Least cost options for Training and Skill Development (T&SD) may be linked with compensation benefits and awards.

Useful Links

- Prime Minister's Office, www.pmo.gov.pk
- Government of Pakistan, www.pakistan.gov.pk
- Ministry of Industries & Production, www.moip.gov.pk
- Pakistan Stone Development Company www.pasdec.com.pk
- SMEDA – www.smeda.org.pk
- State Bank of Pakistan (SBP), www.sbp.org.pk
- National Bank of Pakistan (NBP), www.nbp.com.pk
- First Women Bank Limited (FWBL), www.fwbl.com.pk
- Pakistan Institute of Fashion Design (PIFD), www.pifd.edu.pk
- Government of Punjab, www.punjab.gov.pk
- Government of Sindh, www.sindh.gov.pk
- Government of KhyberPakhtunkhwa, www.khyberpakhtunkhwa.gov.pk
- Government of Balochistan, www.balochistan.gov.pk
- Government of Gilgit Baltistan, www.gilgitbaltistan.gov.pk
- Government of Azad Jamu Kashmir, www.ajk.gov.pk
- Trade Development Authority of Pakistan (TDAP), www.tdap.gov.pk
- Securities & Exchange Commission of Pakistan (SECP), www.secp.gov.pk
- Federation of Pakistan Chambers of Commerce and Industry (FPCCI), www.fpcci.com.pk