

PROJECT PROFILE

ON

JUTE BAGS (Shoppers Bags)

Month & Year

July 2010

**PREPARED BY
TANSTIA-FNF SERVICE CENTRE
B-22, INDUSTRIAL ESTATE
CHENNAI-600032**

Supported by

Friedrich Naumann
STIFTUNG **FÜR DIE FREIHEIT**

JUTE BAGS (Shoppers Bags)

A. INTRODUCTION:

Despite the introduction of many other materials for sacks, bags, pouches and other carry bags, the importance of jute bags and sacks has remained as ever. Of late, being environment friendly, bio-degradable and ecologically harmless in nature, these jute bags are increasingly used in common life. The domestic usage and exports are going up and they are commonly used as shopping bags. There is an increased demand as bags are sturdy. The common carry bags can be manufactured with jute as the main material either with lamination or without lamination.

B. PRODUCT USES & SPECIFICATIONS:

Bureau of Indian Standards has prescribed ISI standards for ordinary jute bags only.

C. MARKET POTENTIAL:

Shoppers bags made of jute attractively printed are widely used for carrying articles. They are durable and biologically disposable. They can carry heavy articles. The demand for shopping jute bags is increasing due to necessity of restricting the usage of plastics.

The Indian packaging industry is expected to grow to Rs 82,500 crores by 2015 from the current Rs 65,000 crores.

India stands at the 11th position in the world packaging industry, which is \$550-billion, and with the rising consumer demand and new technologies, it is expected to grow at 18-20 per cent from the current 15 per cent, as per Indian Institute of Packaging (IIP).

Among the total packaging sources, plastic packaging is at 6.8 million tonne and growing at 20-25 per cent per annum, whereas paper packaging is 7.6 million tonne. Glass packaging contributes to 4-5 per cent and metal 8 per cent. Forty per cent of the total paper production goes for packaging.

Today, whatever we use needs a packaging. Last year, our GDP growth was 8.5 per cent while the packaging industry grew 15 per cent.

Indian Packaging Industry

- The market volume of the Indian packaging industry amounts to about Rs. 77,570 crore and has constantly grown by approximately 15 percent year on year.
- The pace of growth will accelerate to between 20-25 percent over the next five years.
- The highest demand for packaging and the associated equipment come from the food processing industry at 50 percent and from the pharmaceutical industry at 25 percent.
- The large growing middle class, liberalization and organized retail sector are the catalysts to growth in packaging. Also food and Pharma packaging are the key driving segments.
- The Indian food market is estimated to total about Rs. 8,82,350 crore according to the 'India Food Report 2008' published by Research and Markets.
- Food retail turnover is expected to grow from the current Rs 3,39,365 crore mark to 7,27,212 crore by 2025.
- The pharmaceutical industry is expected to average an annual growth of 16 percent till 2012.
- There are about 600-700 packaging machinery manufacturers, 95 percent of which are in the small and medium sector located all over India.
- Indian packaging machinery imports are around Rs 606 crore (20-25 percent) while the Indian packaging machinery exports are rapidly growing.
- Germany and Italy are the largest suppliers of packaging machinery to India but focus is now shifting on Taiwan and China.
- Indian companies are now placing increasing emphasis on attractive and hygienic packaging. This promises enormous potential for the future.

Packaging & Allied Industries – The South India Scenario

- Southern states including Andhra Pradesh, Karnataka, Kerala, Bangalore and Tamil Nadu -- now lead the country in a number of indices, including Packaging.
- South India has emerged as the largest consumer of 'poly ethylene terephthalate' (PET) material for packaging mineral water.
- South India is emerging as a strong pharma hub with strong infrastructure of research facilities and scientists.
- Dairy product packaging constitutes a large portion of the South India Packaging industry.
- Abundant tea production in South India brings opportunities in paper bag packaging industry.
- Retail Sales of packaged food is growing at a rate of 12 percent in South India.
- As Coffee and Spice output in the Southern hemisphere see a steady incline of close to 10 percent individually and export markets pick up again, newer opportunities arise for various packaging segments.
- While major components such as cartons, cans and laminates, which are Bureau of Indian Standards (BIS) certified, are of global standards, the glass bottles and outer cartons are areas that need to be upgraded.

Another factor which has been helping the industry is the Jute Packaging Act 1987. This Act stipulated compulsory use of jute bags for package of food-grains, sugar, fertilisers and cement for a specified proportion of their dispatches. This was a protection offered by the government to the crisis ridden industry to overcome a part of their marketing problems on account of the threat posed by the more economic options made available by the petrochemicals sector.

D. TECHNICAL ASPECTS:

Installed Capacity:

The installed capacity of the unit proposed is 150000 jute bags per annum. This is based on a production of 500 bags per shift of 8 hours per day.

(Size - 19" x 15')

Plant & Machinery:

The plant and machinery required for manufacturing shoppers bags are the following.

Sl	Particulars	Nos.	Rs.
1	Fabric Cutting Machine	1	6000
2	Heavy Duty Sewing Machine	1	25000
3	Ordinary sewing machine	3	7000
4	Stencil Equipments for printing colouring paints		10000
5	Other Misc. equipments		2000
	Total		50000

Manufacturing Process:

The process of manufacturing of shoppers bags consists of the following.

Purchase of white quality jute in rolls - Laminating with LDPE/HDPE if required on job work basis - Cutting with cutting knives - Stitching with heavy duty stitching machines

Raw Materials:

The raw material required for jute bag is jute fabric in rolls. From one roll (200 metres x 1.2 metres) of jute fabric 400 bags of 19" x 15" size can be manufactured. Production envisaged per annum of 300 days working is 150000 bags.

Jute fabric required per annum -- 375 rolls of 200 metres each

Rate per metres Rs.25.00

Total cost of fabric = 375 rolls x 200 mt. x Rs.25.00

= Rs.18.75 lakhs

Land & Building:

Building required 200 sqft. Rent Rs. 2000 advance Rs. 20000.

Utilities:

Electricity: Power requirement is 2 HP.

Water : Water is not required for process.

Man Power Requirement:

Production		Rs./Mont h	Total
1. Workers	3	3000	9000
			9000
Add: Benefits 20%			1800
			10800
			Total
Annually			Rs.1.30 lakh.

7. IMPLEMENTATION SCHEDULE:

The machines are available from the suppliers indigenously. The project can be implemented within one month's period.

8. ASSUMPTIONS

1. The installed capacity is 150000 Jute bags per annum. (size -19"X 15")
2. The capacity utilization assumed is 60% in first year, which will be increased to 70% and 80% in subsequent years.
3. Selling price per bag is assumed at Rs.16.00 per bag.
4. The raw material cost at 100% capacity is Rs.18.75 lakhs.
5. The cost of power charges at 100% is Rs.0.24 lakh p.a (Rs. 2000 p.m).

6. Wages and salaries is assumed at Rs.1.30 lakh p.a. as per the break up given above with annual increase 5%.
7. Repairs & maintenance is provided at Rs.0.12 lakh p.a (Rs. 1000 p.m) with annual increase 5%.
8. Depreciation is provided on WDV method at 15% on plant and machinery.
9. Administration and General expenses is provided at Rs.0.60 lakh per annum Rs. 5000 per month with annual increase 5%..
10. Selling expenses is provided at 2% on sales
11. Interest on term loan is calculated at 12% per annum.
12. Income tax is calculated at 33.22% on taxable profits.

LIST OF MACHINERY SUPPLIERS:

1. M/s. Usha International Ltd, No 4/59 Mount Ponamalle Road, Nandambakkam, Chennai-600089
2. M/s.Sagar Overseas Pvt. Ltd., 632, Annasalai, Chennai - 600006.
3. Any other sewing machinery suppliers.

JUTE RAW MATERIALS SUPPLIERS

1. Karnawat Udyog, No: 18, Ramanan Road, (opp Elephant Gate Police Station) Sowcarpet, Chennai-600079
- 2 Sarah Jute Bag Printers, 486, T.H.Road, Tondiarpet, Chennai - 600081.
3. M/s.Bengal Trading Co., 28, Audiappa Naicken Street, Chennai-600001.
4. Hind Industrial Corporation, 35/19, Waltax Road, Chennai - 600079.
5. Sakaria Jute Corporation, 192, Govindappa Naicken Street, Chennai - 01.

Marketing assistance for Jute Products

Jute Manufacturers Development Council, 18, Cathedral Garden Road,
Chennai-600034. Phone: 28224462

1. COST OF PROJECT	Rs.lakhs
Land & Building (Advance)	0.20
Equipment & Furniture	0.50
Contingencies	0.05
Other Misc. assets	0.20
Pre-Operative expenses	0.30
Margin for WC	0.20
	1.45
2. MEANS OF FINANCE	
Capital	1.04
Term Loan	0.41
	1.45

Term loan is calculated at 75% on plant and machinery

3. COST OF PRODUCTION & PROFITABILITY STATEMENTS

Years	1	2	3
Installed Capacity (Nos.)	150000	150000	150000
Utilisation	60%	70%	80%
Production/Sales (Nos.)	90000	105000	120000
Selling Rate	Rs.16.00		
Sales Value (Rs.lakhs)	14.40	16.80	19.20
Raw Materials	11.25	13.13	15.00
Power	0.14	0.17	0.19
Wages & Salaries	1.30	1.37	1.44
Repairs & Maintenance	0.12	0.13	0.14
Depreciation	0.08	0.07	0.06
Cost of Production	12.89	14.87	16.83
Admin. & General expenses	0.60	0.63	0.66
Selling expenses	0.29	0.34	0.38
Interest on Term Loan	0.06	0.05	0.04
Interest on Working Capital	0.00	0.00	0.00
Total	13.84	15.89	17.91

Profit Before Tax	0.56	0.91	1.29
Provision for tax	0.00	0.00	0.44
Profit After Tax	0.56	0.91	0.85
Add: Depreciation	0.08	0.07	0.06
Cash Accruals	0.64	0.98	0.91

4. WORKING CAPITAL:

	Months	Values	%	Margin	Bank
	Consumptions			Amount	Finance
Expenses	1.00	0.20	100%	0.20	0.00
		0.20		0.20	0.00

6. PROFITABILITY RATIOS BASED ON 80% UTILISATION

<u>Profit after Tax</u>	=	<u>0.85</u>	4%
Sales		19.20	
<u>Profit before Interest and Tax</u>	=	<u>1.33</u>	92%
Total Investment		1.45	
<u>Profit after Tax</u>	=	<u>0.85</u>	82%
Promoters Capital		1.04	

7. BREAK EVEN LEVEL

Fixed Cost (FC):

Rs.lakhs

Wages & Salaries	1.44
Repairs & Maintenance	0.14
Depreciation	0.06
Admin. & General expenses	0.66
Interest on TL	0.04
	2.34
Profit Before Tax (P)	1.29

$$\text{BEL} = \frac{\text{FC} \times 100}{\text{FC} + \text{P}} = \frac{2.34}{3.63} \times \frac{80}{100} \times 100 = 52\% \text{ of installed capacity}$$