

HPS GROUNDNUTS



1.0 INTRODUCTION

Hand-picked and selected (HPS) groundnuts have very large potential in domestic as well as international markets. India is one of the largest producers of groundnuts along with the USA, China and Argentina. Groundnuts are an agricultural produce and 2 crops are taken every year viz. winter and summer. But winter crop is the mainstay contributing more than 70% of the annual crop. Gujarat, more particularly the Saurashtra region, is famous for groundnuts along with Andhra Pradesh, Tamil Nadu and Maharashtra. The Saurashtra variety is famous all over the world due to its crunchy texture, nutty flavour and big size. Hence, the location has to be somewhere in Saurashtra and nearer to the groundnut producing centres like Rajkot, Gondal, Junagadh, Veraval, Dhari etc.

2.0 PRODUCT

Domestic or international trade in groundnuts is undertaken as per the size of the groundnuts known as "Count". Groundnuts are graded according to size from 20-30 to 70-80 or beyond, and prices vary accordingly. Bigger the size lower the count and higher the price and vice versa. There are 2 main varieties viz. Jawa and Bold. Jawa variety is of smaller size and bigger sizes are known as Bold.

2.1 Compliance with PFA Act is mandatory.

3.0 MARKET POTENTIAL

3.1 Demand and Supply

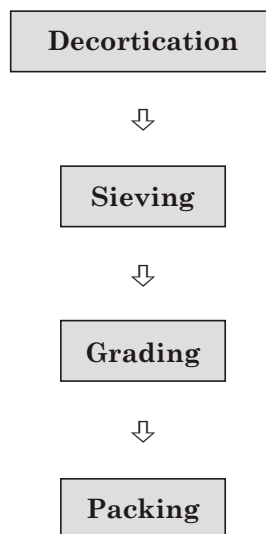
HPS groundnuts have very large market in India as well as abroad. Apart from major use for edible oil, they are consumed in large quantities in individual houses. Chikki and farsan manufacturers, processors making salted peanuts, bars and pubs, some chocolate manufacturers, peanut butter manufactures etc. are the bulk consumers.

3.2 Marketing Strategy

There is a very good export market with many European countries, Indonesia, some far east countries, Japan, USSR etc. buying regularly from India. Off late, China has emerged as an important player in the international market apart from the USA. There are many established merchant exporters at Ahmedabad and Mumbai and certain corporates are also into HPS exports in a big way. Substantial exports take place from Kandla and Mumbai ports depending upon the ultimate destinations. Inland Container Depot (ICD) of Ahmedabad can also be utilised. Domestic market is also very large and there is a demand round the year.

4.0 MANUFACTURING PROCESS

Harvesting of groundnuts in pods or shell starts from November. They can be bought from market yards or directly from farmers. They are first decorticated (shells are broken and groundnuts are separated). Then they are passed through the mechanical shaker sieves to remove dirt and stones, splits and shrivelled peanuts. Then groundnuts are graded mechanically with the help of graders wherein gradation is done automatically in 4 or 5 different grades (sizes). Finally, they are packed in gunny bags according to sizes or counts. Processing of 100 tons of groundnuts gives around 22 tonnes of husk, 23 tonnes of splits or Kapachi and 55 tons of HPS groundnuts. Husk and splits can be sold as boiler fuel and for oil extraction respectively. The process flow chart is as under.



5.0 CAPITAL INPUTS

5.1 Land and Building

A large plot of land shall be required for storage of groundnuts in shell and hence a plot of 500 sq.mtrs. is needed. It may cost Rs.1.50 lacs. The built-up area requirement will be about 250 sq.mtrs. for processing operations and packing. Height of the building has to be around 20' to facilitate stacking with asbestos sheet roofing. It would cost Rs.7.00 lacs It would also have a small office and finished goods godown.

5.2 Machinery

Capacity of the plant depends upon the financial background of the promoters. But it is assumed to be processing of 6 tonnes of groundnut kernels every day. The plant would run for around 200 days during the year and thus the annual rated capacity would be 1200 tons considering single shift working. It is possible to enhance the capacity if the promoters are familiar with the industry and have adequate financial background. A composite plant of this capacity consisting of destoner, elevators, hoppers, vibrating screens along with graders would cost around Rs.15.00 lacs including erection and commissioning charges.

5.3 Miscellaneous Assets

Other assets like furniture and fixtures, picking or inspection tables, weighing scales etc. would cost Rs.1.00 lac.

5.4 Utilities

Total power requirement shall be 35 HP whereas water requirement will be mainly for potable and sanitation purposes.

5.5 Raw and Packing Materials

The only raw material would be good quality groundnut kernels. Saurashtra is considered to be the groundnut bowl of India and availability would not be a problem. But proper care has to be taken while selecting them as they have to be fully matured and as dry as possible. Quality procurement is crucial as ultimately it decides not only yield of peanuts in terms of size or count but also quality of peanuts and price. It is better to buy directly from the farmers as it would be economical. Or else there are market yards at all major centres but then the price would be higher by about 6-7%. It is also possible to avail credit of 8-10 days.

6.0 MANPOWER REQUIREMENTS

Particulars	Nos.	Monthly Salary (Rs.)	Total Monthly Salary (Rs.)
Machine Operators	2	2,500	5,000
Semi-skilled Workers	2	1,750	3,500
Helpers	10	1,250	12,500
Clerk	1	2,000	2,000
		Total	23,000

7.0 TENTATIVE IMPLEMENTATION SCHEDULE

Activity	Period (in months)
Application and sanction of loan	2
Site selection and commencement of civil work	2
Completion of civil work and placement of orders for machinery	6
Erection, installation and trial runs	2

8.0 DETAILS OF THE PROPOSED PROJECT

8.1 Land and Building

Particulars	Area (Sq.Mtrs)	Cost (Rs.)
Land	500	1,50,000
Building	250	7,00,000
	Total	8,50,000

8.2 Machinery

The total cost of machinery would be Rs. 15.00 lacs as explained earlier.

8.3 Miscellaneous Assets

A provision of Rs.1.00 lac is adequate as discussed before.

8.4 Preliminary & Pre-operative Expenses

A provision of Rs. 1.50 lacs would take care of pre-production expenses like travelling, registration, establishment and administrative charges, interest during implementation, trial runs etc.

8.5 Working Capital Requirements

Capacity utilisation in the first year is assumed to be 65% for which following working funds shall be needed:

(Rs. in lacs)

Particulars	Period	Margin	Total	Bank	Promoters
Stock and Finished Goods	¼ Month	25%	2.40	1.80	0.60
Receivables	½ Month	25%	6.00	4.50	1.50
Working Expenses	1 Month	100%	0.50	--	0.50
		Total	8.90	6.30	2.60

8.6 Cost of the Project & Means of Financing (Rs. in lacs)

Item	Amount
Land and Building	8.50
Machinery	15.00
Miscellaneous Assets	1.00
P&P Expenses	1.50
Contingencies @ 10% on Land and Building & Plant & Machinery	2.35
Working Capital Margin	2.60
Total	30.95
Means of Finance	
Promoters' Contribution	9.35
Term Loan from Bank/FI	21.00
Total	30.95
Debt Equity Ratio	2.25 : 1
Promoters' Contribution	30%

Financial assistance in the form of grant is available from the Ministry of Food Processing Industries, Govt. of India, towards expenditure on technical civil works and plant and machinery for eligible projects subject to certain terms and conditions.

9.0 PROFITABILITY CALCULATIONS

9.1 Production Capacity & Build-up

As against the installed capacity of 1200 tonnes per year, the plant is expected to run at 65% in the first year and 75% from second year.

9.2 Sales Revenue at 100%

Price of HPS groundnuts fluctuate almost on daily basis and the promoters must be very vigilant. It is a typical high volume low margin business. Prices depend on size and moisture contents. Hence an average price of Rs. 25,000/- per ton is assumed. There will be income from the sale of husk and splits as well. Thus, total annual income at 100% capacity utilisation would be as under:

(Rs. in lacs)

Product	Qty. (Tonnes)	Price/Ton (Rs.)	Value
HPS Groundnuts	660	25,000	165.00
Husk	264	4,000	10.56
Splits	276	15,000	41.40
		Total	216.96

9.3 Raw and Packing Materials Required at 100%

(Rs. in lacs)

Product	Qty. (Tonnes)	Price/Ton (Rs.)	Value
HPS Groundnut Kernels	1200	15,000	180.00
Jute Bags	--	--	2.00
		Total	182.00

9.4 Utilities

Expenditure on utilities at 100% capacity utilisation would be Rs. 1.50 lacs.

9.5 Interest

Interest on term loan of Rs. 21.00 lacs is computed @ 12% assuming repayment in 3½ years including a moratorium period of 6 months. On working capital loan from bank, it is computed @ 14% per annum.

9.6 Depreciation

It is computed on WDV basis @ 10% on building and 15% on machinery and miscellaneous assets.

10.0 PROJECTED PROFITABILITY

(Rs. in lacs)

No.	Particulars	1st Year	2nd Year
A	Installed Capacity	--- 1200 Tonnes ---	
	Capacity Utilisation	65%	75%
	Sales Realisation	141.00	162.72
B	Cost of Production		
	Raw and Packing Materials	118.30	136.50
	Utilities	0.98	1.12
	Salaries	1.84	2.20
	Stores and Spares	0.36	0.45
	Repairs & Maintenance	0.45	0.60
	Selling Administrative Expenses @ 4%	5.64	6.50
	Total	127.57	147.37
C	Profit before Interest & Depreciation	13.43	15.35
	Interest on Term Loan	2.36	1.56
	Interest on Working Capital	0.88	1.01
	Depreciation	3.10	2.67
	Profit before Tax	7.09	10.11
	Income-tax @ 20%	1.40	2.01
	Profit after Tax	5.69	8.10
	Cash Accruals	8.79	10.77
	Repayment of Term Loan	3.30	6.60

11.0 BREAK-EVEN ANALYSIS

(Rs. in lacs)

No	Particulars	Amount	
[A]	Sales		141.00
[B]	Variable Costs		
	Raw and Packing Materials	118.30	
	Utilities (70%)	0.70	
	Salaries (70%)	1.30	
	Stores & Spares	0.36	
	Selling & Adm. Expenses (60%)	3.38	
	Interest on WC	0.88	124.92
[C]	Contribution [A] - [B]		16.08
[D]	Fixed Cost		8.99
[E]	Break-Even Point [D] ÷ [C]		56%

12.0 [A] LEVERAGES

Financial Leverage

$$\begin{aligned} &= \text{EBIT/EBT} \\ &= 10.33 \div 7.09 \\ &= 1.46 \end{aligned}$$

Operating Leverage

$$\begin{aligned} &= \text{Contribution/EBT} \\ &= 16.08 \div 7.09 \\ &= 2.27 \end{aligned}$$

Degree of Total Leverage

$$\begin{aligned} &= \text{FL/OL} \\ &= 1.46 \div 2.27 \\ &= 0.64 \end{aligned}$$

[B] Debt Service Coverage Ratio (DSCR)

(Rs. in lacs)

Particulars	1st Yr	2nd Yr	3rd Yr	4th Yr
Cash Accruals	8.79	10.77	11.98	12.81
Interest on TL	2.36	1.56	0.72	0.28
Total [A]	11.15	12.33	12.70	13.09
Interest on TL	2.36	1.56	0.72	0.28
Repayment of TL	3.50	7.00	7.00	3.50
Total [B]	5.86	8.56	7.72	3.78
DSCR [A] ÷ [B]	1.90	1.44	1.65	3.46
Average DSCR	----- 2.11 -----			

[C] Internal Rate of Return (IRR)

Cost of the project is Rs. 30.95 lacs.

(Rs. in lacs)

Year	Cash Accruals	18%	20%	24%
1	8.79	7.45	7.32	7.08
2	10.77	7.73	7.47	7.00
3	11.98	7.30	6.94	6.28
4	12.81	6.61	6.17	5.42
5	13.67	5.97	5.50	4.66
	58.02	35.06	33.40	30.44

The IRR is around 23%.

Some of the machinery suppliers are

1. Forsberg Agritech Pvt. Ltd. GIDC Estate, Makarpura, Vadodara.
2. Fowler Westrup India (Pvt. Ltd.), 250, Bommasandra Industrial Estate, Bangalore-562158.
Tel No. 27832991
3. Harvest Sortmac Shosha Pvt. Ltd., New tech Vikas, No. 6, 1ST Avenue, Chennai-600083.
Tel No. 24717588
4. Intenational Food Machinery Corp., Opp. Deepbhavan, Pt. Nehru Marg, Jamnagar-361008.
5. Sahyog Steel Fabrication, 28, Bhojrajpara, Gondol-360311. Tel No. 224075