

BETEL NUTS



1.0 INTRODUCTION

Betel nuts are consumed in large quantities across the country. It is a typical Indian habit and they are eaten by many purely as an addiction whereas some consume it assuming that it helps the digestive system. Apart from this segment, there is a very large market of pan shops literally scattered across the length and breadth of the country. Since last few years, many varieties of betel nuts and other after mints and mouth fresheners are introduced in the market. Consumption of plain betel nuts is being replaced by flavoured varieties of betel nuts and many pan shops also use it while making special pans. It is a working capital oriented activity requiring adequate funds.

2.0 PRODUCT

Consumption of betel nuts is very common in India but over a period of time, plain betel nuts are replaced by flavoured varieties sold in small pouches. Many people eat it out of sheer habit whereas some eat it to stop tobacco addiction. But its consumption is increasing.

2.1 Compliance with PFA Act is necessary.

3.0 MARKET POTENTIAL

3.1 Demand and Supply:

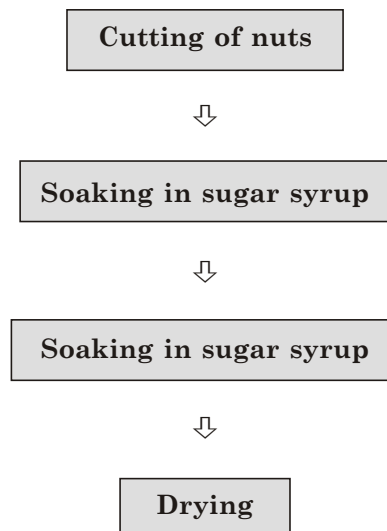
Betel nuts in plain and other forms are consumed in the country since centuries. With the passage of time, many new varieties and flavours are introduced and being sold in huge quantities all over the country. Attractively packed pouches are available in the market like plain, sweet, mentholated, mixed with dry fruit and so on.

3.2 Marketing Strategy:

There are some big and established companies as well as many regional players in the market and most of them are doing fairly well. Key to success is adequate advertisement budget, proper and adequate placement, affordable price and lucrative discounts to retailers. The product is sold in cities, towns, rural areas, highways, bus-stands and railway stations, picnic spots, theatres and many such places mainly through cigarette and pan shops/vendors.

4.0 MANUFACTURING PROCESS

Betel nuts or areca nuts are cut into small pieces with the help of shredder and are soaked in sugar syrup for 72 hours and then syrup is drained. Same process is repeated for additional 24 hours. Then these pieces are dried in the drying chamber and suitably packed. To make mentholated betel nuts, they are cut into small pieces and then are mixed with paste made of menthol, cloves, cardamom and edible oil for about 72 hours. Then they are dried in a dryer and packed. The process flow chart is as under.



5.0 CAPITAL INPUTS

5.1 Land and Building

Total built up area requirement is about 150 sq.mtrs. and hence land requirement is around 250 sq.mtrs. Land may cost Rs.1.00 lac whereas construction cost would be approximately Rs.3.75 lacs. Main production hall would require 75 sq.mtrs. whereas packing room about 25 sq.mtrs. Balance area can be utilised for storage and a small office.

5.2 Plant and Machinery

Market is very vast but there is a competition as well. Further, it is a working capital oriented activity. Hence, the promoters must be financially sound. Production capacity of 30,000 kgs. per year on single shift working basis is suggested with 300 working days per year. Working hours can always be increased. This would require following machinery.

(Rs. in lacs)

Item	Qty.	Amount
SS Soaking Tanks	6	1.20
Shredder Knives	25	0.12
Mixer Grinder- 20Kgs/Hr capacity	1	0.25
Nut-cracker	1	0.35
Tray Dryers with 48 trays	2	4.30
Form, Fill and Seal Machines	2	3.00
Delivery Vehicle	1	1.75
Gas-fired Furnace with Burners	1	0.25
	Total	11.22

5.3 Miscellaneous Assets

Number of other assets like plastic tubs, furniture & fixtures, working tables, storage racks, weighing scale etc. shall be required costing about Rs. 60,000/-.

5.4 Utilities

Power requirement shall be 30 HP whereas water required for washing areca nuts and for potable and sanitation purposes will be 1000 ltrs. per day. 5 LPG cylinders shall be required every month. In other words, annual cost of utilities at 100% would be Rs.1.20 lac.

5.5 Raw Materials

The all important raw material will be fully grown, good quality areca nuts. Even at 100% utilisation, their annual requirement will not be more than 27 tonnes and hence no difficulty is envisaged in procurement. Other materials like sugar, edible oil, cloves, menthol, cardamom etc. shall be required in small quantity and availability will not be a problem. Main packing material will be pouches/ sachets rolls with colourful design and good quality printing. Adequate prior arrangements are advisable. Outer packing shall be of corrugated boxes.

6.0 MANPOWER REQUIREMENTS

Particulars	Nos.	Monthly Salary (Rs.)	Total Monthly Salary (Rs.)
Skilled Workers	2	2,250	4,500
Semi-skilled Workers	2	1,650	3,300
Helpers	4	1,250	5,000
Driver	1	2,000	2,000
Salesman	1	2,500	2,500
		Total	17,300

7.0 TENTATIVE IMPLEMENTATION SCHEDULE

Activity	Period (in months)
Application and sanction of loan	2
Site selection and commencement of civil work	1
Completion of civil work and placement of orders for machinery	4
Erection, installation and trial runs	1

8.0 DETAILS OF THE PROPOSED PROJECT

8.1 Land and Building

Particulars	Area (Sq.Mtrs)	Cost (Rs.)
Land	250	1,00,000
Building	150	3,75,000
	Total	4,75,000

8.2 Machinery

As discussed earlier in detail, the total cost of machinery is estimated to Rs.11.22 lacs.

8.3 Miscellaneous Assets

As spelt out before, a provision of Rs.60,000/-under this head is adequate.

8.4 Preliminary & Pre-operative Expenses

There will be many expenses under this head like market survey expenses, registration, establishment and administrative expenses, travelling, interest during implementation, trial run expenses and so on. A provision of Rs. 1.00 lac is to be made towards these.

8.5 Working Capital Requirements

The project would require following working funds during first year at 60% capacity utilisation.

(Rs. in lacs)

Particulars	Period	Margin	Total	Bank	Promoters
Stock of Raw & Packing Materials	½ Month	30%	1.65	1.15	0.50
Stock of Work in Process	¼ Month	30%	1.20	0.85	0.35
Stock of Finished Goods	½ Month	25%	2.80	2.10	0.70
Receivables	½ Month	25%	3.00	2.25	0.75
Working Expenses	1 Month	100%	0.60	--	0.60
		Total	9.25	6.35	2.90

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

Item	Amount
Land and Building	4.75
Plant and Machinery	11.22
Miscellaneous Assets	0.60
P&P Expenses	1.00
Contingencies @ 10% on Land and Building & Plant & Machinery	1.75
Working Capital Margin	2.90
Total	22.22
Means of Finance	
Promoters' Contribution	6.72
Term Loan from Bank/FI	15.50
Total	22.22
Debt Equity Ratio	2.30 : 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 annual rated capacity of 30 tonnes, actual utilisation in the 1st year is taken at 60% and thereafter it is restricted to 75%.

9.2 Sales Revenue at 100%

Each sachet would contain 7.5 gms. which would be sold @ Rs.3.00. Hence sales value of 30 tonnes would be Rs. 120.00 lacs.

9.3 Raw and Packing Materials Required at 100% (Rs. in lacs)

Product	Qty. (Tonnes)	Price/Ton (Rs.)	Value
Areca nuts	27	2,20,000	59.40
Sugar	2.5	17,000	0.43
Edible Oil	0.5	50,000	0.25
Cloves, Menthol, Cardamom, etc.	2	2,50,000	5.00
Packing Materials	@ 15 paisa per sachet for 42 lac sachets		6.30
		Total	71.38

9.4 Utilities

As explained earlier, the annual cost at 100% utilisation would be Rs.1.20 lac.

9.5 Selling Expenses

There will be expenses like selling commission, free sampling, transportation, display materials, scroll type advertisement in local TV channel, hoardings etc. To take care of these expenses, a provision of 20% of sales value is made every year.

9.6 Interest

Term loan of Rs.15.50 lacs shall be repaid in 5 years including a moratorium period of 1 year with interest @ 12% per annum. Interest on bank finance for working capital is taken @ 14% per annum.

9.7 Depreciation

It is calculated on WDV basis @ 10% on building and 15% on machinery and other assets.

10.0 PROJECTED PROFITABILITY

(Rs. in lacs)

No.	Particulars	1st Year	2nd Year
A	Installed Capacity	--- 30 Tonnes ---	
	Capacity Utilisation	60%	75%
	Sales Realisation	72.00	90.00
B	Cost of Production		
	Raw and Packing Materials	42.80	53.53
	Utilities	0.72	0.90
	Salaries	2.08	2.40
	Stores and Spares	0.48	0.66
	Repairs & Maintenance	0.60	0.78
	Selling Expenses @ 20%	14.40	18.00
	Administrative Expenses	0.78	0.96
	Total	61.86	77.23
C	Profit before Interest & Depreciation	10.14	12.77
	Interest on Term Loan	1.80	1.35
	Interest on Working Capital	0.90	1.15
	Depreciation	2.33	1.99
	Profit before Tax	5.11	8.28
	Income-tax @ 20%	1.11	1.68
	Profit after Tax	4.00	6.60
	Cash Accruals	6.33	8.59
	Repayment of Term Loan	--	3.75

11.0 BREAK-EVEN ANALYSIS

(Rs. in lacs)

No	Particulars	Amount	
[A]	Sales		72.00
[B]	Variable Costs		
	Raw and Packing Materials	42.80	
	Utilities (65%)	0.47	
	Salaries (70%)	1.42	
	Stores & Spares	0.48	
	Selling Expenses (70%)	10.08	
	Admn. Expenses (50%)	0.39	
	Interest on WC	0.90	56.54
[C]	Contribution [A] - [B]		15.46
[D]	Fixed Cost	9.35	
[E]	Break-Even Point [D] ÷ [C]		60%

12.0 [A] LEVERAGES

Financial Leverage

$$\begin{aligned} &= \text{EBIT/EBT} \\ &= 8.01 \div 5.11 \\ &= 1.57 \end{aligned}$$

Operating Leverage

$$\begin{aligned} &= \text{Contribution/EBT} \\ &= 15.46 \div 5.11 \\ &= 3.02 \end{aligned}$$

Degree of Total Leverage

$$\begin{aligned} &= \text{FL/OL} \\ &= 1.57 \div 3.02 \\ &= 0.52 \end{aligned}$$

[B] Debt Service Coverage Ratio (DSCR)

(Rs. in lacs)

Particulars	1st Yr	2nd Yr	3rd Yr	4th Yr	5th Yr
Cash Accruals	6.33	8.59	9.41	10.45	11.50
Interest on TL	1.80	1.35	0.90	0.45	0.23
Total [A]	8.13	9.94	10.31	10.90	11.73
Interest on TL	1.80	1.35	0.90	0.45	0.23
Repayment of TL	--	3.75	3.75	3.75	3.75
Total [B]	1.80	5.10	4.65	4.20	3.98
DSCR [A] ÷ [B]	4.52	1.95	2.22	2.60	2.95
Average DSCR	----- 2.85 -----				

[C] Internal Rate of Return (IRR)

Cost of the project is Rs. 23.55 lacs.

(Rs. in lacs)

Year	Cash Accruals	24%	28%	32%
1	6.33	5.10	4.94	4.80
2	8.59	5.58	5.24	4.93
3	9.41	4.93	4.49	4.09
4	10.45	4.42	3.90	3.44
5	11.50	3.92	3.35	2.88
	46.28	23.95	21.92	20.14

The IRR is around 26%.

These machines are available from many sources. Some of them are

1. Marathe Corpn; Pimpri, Pune
2. Apurva Engg. Works, Borivali, Mumbai 400 098
3. Septu (India) Pvt. Ltd., 39kms Milestone, Delhi Jaipur Highway, Gurgaon- 122001.
Tel No. 2371354
4. Wintech Taparia Ltd. 25/1, Yaswant Niwas Road, Indore- 452003. Tel No. 2433950/2534586