

## E X E C U T I V E   S U M M A R Y

---

1. Manufacture of leather board can be developed locally. This would not only help the government save foreign exchange and but also help create additional jobs. There is export potential for the product.
  
2. P.T. Duta Abadi the promoter of this industry is established within the framework of the domestic capital investment at the initiative of the owners who have some experience in the field of tannery and its marketing.
  
3. The name of the project is the Shoe Inner Lining (Leather-board Financial/Feasibility Study for Local Market and for its Import Substitution. It's objectives include the establishment of leather board industry as an import substitution and to identify and penetrate the markets to sell leather board.
  
4. The business form selected for this proposed project is a limited company. Total investment required for the proposed company is about Rp 1.4 billion where Rp 550 million is equity financed. The stocks are divided into 1,000 shares at a nominal value of Rp 550,000 each. The balance of the investment is met through leasing and short term and long term loans.

5. The manufacturing process of leather board is already established in this country. The proposed project is to be located in Cakung, South Jakarta where adequate roads and infrastructure are available there. A five hectare site is desirable to meet future expansion plans.
6. The organization will have the President as the chief executive officer. Other important posts include: Sales Manager, Finance Manager, Accountant, Administrative/Personnel Manager, Production Manager, all of which are local staff.
7. Machinery for the factory will be imported. The company to which the machinery was bought will provide the services of a technical expert for one year to supervise the installation of the machinery and at the same time train local workers in the use and maintenance of machinery and factory equipment, until the machinery reaches 100% of its capacity utilization.
8. Implementation of the plans include a 3 (three) months trial production period, at 16 percent capacity utilization. Initial commercial production will be at 65 percent capacity utilization. The company will bear the costs of the project at this stage.

9. The primary sources of funds for the project are through long term, equity financing plus leasing.
  
10. The financial assumptions used in this project are stated and the following pro forma financial statements are calculated:
  - (1) projected balance sheets - Total assets rose from Rp 1.6 billion in 1990 to 3.4 billion in 1994;
  - (2) projected income - Net income increased from Rp 1.6 million in 1990 to Rp 900 million in 1994.

Other financial data include: projected costs of goods manufactured and sold; projected cash flow statement, schedule of usage, inventory and purchase of materials, schedule of pre-operating expenses for three months; sources and application of investment funds; break even analysis and highlights of financial projections.

11. The project has a payback period of 3.48 years, and IRR of 23.17%.
  
12. Sensitivity analysis was based on the factor of price. Assumption used was a 5% reduction on price starting 1991, with all the other factors remaining the same. Effects on the cash flow and net income are as follows:

## NET INCOME (LOSS)

## CASH FLOWS

(In thousand rupiah)

1990	1,631	1,726
1991	23,292	37,636
1992	284,699	( 37,381)
1993	512,496	(156,973)
1994	811,239	(536,703)

13. There are socio-economic benefits from the project. Tangible benefits include; creation of employment, increased income tax revenues to the government. Intangible benefit is providing tannery factories alternative markets for the their waste leather.