Awareness Programme

on

Value Added Products from Fruits & Vegetables

SETTING UP AN ENTERPRISE

Sponsored by –
Ministry of Food Processing Industries
(Deptt. of Agriculture & Co-operation)
Govt. of India

School of Agriculture
Indira Gandhi National C
University, New Delhi
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School of Agriculture
Indira Gandhi National Open University
Maidan Garhi, New Delhi-110068
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PROGRAMME INTRODUCTION

Fruits and vegetables have been a part and parcel of the life of human beings since time immemorial. The popularity of vegetarian food not only in India but also in western countries makes the fruits and vegetable sector more important now a days. India ranks second in world fruits and vegetable production but this huge potential is untapped. Lot of produce goes waste due to improper post harvest practices, unplanned marketing strategies of fresh produce and ignorance to value addition. If farmers, farm women, agricultural labourers and rural youth are made aware about the scientific, economic and entrepreneurial aspects of fresh produce marketing and their preservation/ processing, it will be a major boost to our food sector. To make people aware about value addition to fresh as well as processed products, the School of Agriculture, Indira Gandhi National Open University, New Delhi under the sponsorship of Ministry of Agriculture, Deptt. of Agriculture and Cooperation, Govt. of India has developed an awareness programme on “Value added products from fruits and vegetables”. In this programme nine modules including Introduction, Post Harvest Management, Factory Standards and Product Specifications, Processing and Value Addition, Quality Assurance, Packaging, Marketing of Fresh and Processed Fruits and Vegetable Products, Setting Up an Enterprise, Institutional Support to the Entrepreneurs have been developed along with audio visual films on various aspects of value addition to fruits and vegetables.
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1.0 INTRODUCTION

After going through various techniques of value addition to fruits and vegetables and their processing/preservation, I am sure you will be thinking about setting your own enterprise but you may be confused- Which business you want to start? Whether to manufacture something or to simply start a trading business. The answer to your dilemma is to identify the opportunity around you. You can start an enterprise dealing with activities of harvesting to marketing of fresh fruit and vegetable including handling, grading, packaging, transportation, storage and marketing or you can convert the fresh produce into value added products such as juices, jams, jellies, murabba, pickle, chutneys, tomato products, frozen and canned products etc. and branding of your products.

In this module an attempt has been made to answer all your queries related to starting a new enterprise. Setting up an enterprise is a daring and risk taking venture and need rational thinking and careful step by step planning by an entrepreneur. Project report preparation is the crucial step to start a new business and to get financial assistance.

Fig. 1: A Micro Enterprise

2.0 OBJECTIVES

After going through this module you will be able to:

- decide the type and level of enterprise activity;
- develop and implement a viable business plan;
- prepare a detailed project report;
- match your financial resources with the requirements; and
- raise finances for your enterprise.

3.0 SETTING UP AN ENTERPRISE

3.1 Project Report Preparation

A Project Report is meant to provide the necessary information, which may be required for the purpose of processing the business/project proposal for getting the financial assistance. The Report should be prepared in such a way that it is able to provide a complete frame work for the presentation of all the information that would be required by financial institutions for appraising the project. A well prepared Project
Report will not only bring saving of time and energy for the banker but also help the entrepreneur, who will have not many objections and queries from the banker.

These brief project profiles provide certain vital information like product application, production process, machinery and raw materials required, investment, machinery and raw materials suppliers addresses etc. which will help the prospective entrepreneurs to identify a suitable product. After identifying one or few product lines, the entrepreneur may conduct a market survey to satisfy himself about market potential. After market research if the product studied has promising marketing potential, the next logical step would be to start preparing a detailed project report.

The size of the unit and the nature of production as well as the amount of assistance required will be the deciding factors for the amount of the information to be furnished in the Project Report.

The following are broad heads under which the complete information on relevant aspects should be included in the Project Report.

- General Information
- Project Description
- Market Potential
- Capital Costs and Source of Finance
- Assessment of Working Capital
- Other Financial Aspects
- Economic and Social Variables

### 3.1.1 General Information

To begin with, some information of general nature should be provided. The following are some such aspects:

- Name and address of the entrepreneur
- The qualifications, experience and other capabilities of the entrepreneur. If there are partners, state these characteristics of all the partners individually.
- A little reference of analysis of industry to which the project belongs, e.g. past performance, present status, the way it is organized, the problems it faces etc.
- The constitution and the organization structure of the enterprise.
- In case of a partnership fir, whether it is registered with the Registrar of Firm.
- Whether a Registration Certificate from the Directorate of Industries has been obtained or will be applied later on.
3.1.2 Project Description

A brief description of the project covering the following aspects should be given in the Project Report:

a. Site location (Town, Street, Number etc.)

Whether owned or leasehold land, whether the site is approved industrial area? Is it suitable to the type of enterprise being planned?

b. Raw material

Which are the sources of raw material and what is the probability of getting it on a continuous basis at fair prices.

c. Skilled labour

Whether skilled labour is available in that area? If not, what arrangements have been made to train the labour in various skills?

d. Power

Inadequate supply of electricity or its high unit cost in an area may become a major constraint in running a project. The Project Report should contain the information regarding the power requirements, the load sanctioned, stability of supply of power and the price at different consumption levels.

e. Fuel

Whether other fuel items like coal, coke oil or gas, are required and if yes then state their availability position.

f. Water

Water is an important factor for projects like brewery and soft drinks. The source and the quality of water in such cases should be clearly stated.

g. Waste disposal

Most industrial plants produce waste material or emissions that may have significant problems. The emissions may be of various types like:

(a) Gaseous (smoke, fumes, etc.)

(b) Physical (noise, heat, vibration, etc.) or

(c) Liquid or solid discharged through pumps and swears of dumps, sewage system and sewage treatment plant.

h. Communication system

Availability of communication facilities e.g. telephone, telex etc. should be stated in Report.

i. Transport facilities

The distances over which the basic material inputs will have to be transported and the available as well as potential means of transportation should be stated together with expected bottlenecks, if any.

j. List of machinery and equipment
A complete list of items of machinery and other equipment indicating their type, size and cost should be stated. Source of supply of capital, equipment and the construction services should also be given.

**k. Capacity of the plant**
The installed and licensed capacity should be stated. Also state whether the unit will run on single, double or triple shift basis.

**l. Technology selected**
Is it up to date and appropriate? Which other units are using the same technology and with what results? How the required know-how is proposed to be arranged?

**m. Manufacturing process**
The stages of production and the process involved should be clearly stated. Also state the period of conversion from raw material into finished goods.

**n. Balancing of plant**
While stating the stages of production, also state whether the capacity of various plants at different stages of production is uniform or not.

**o. Quality control**
Whether some system has been designed to check the quality of products on continuous basis? Obtaining quality marks like ‘ISI’, ‘Q’ or ‘Agmark’ in addition to creating confidence among consumers. If there is a probability of getting them for the products, the fact should be included in the Project Report.

**3.1.3 Market Potential**
The following aspects relating to Market Potential should normally be covered in the Project Report:

**a. Total demand and supply of the product**
State the data regarding total expected demand of the product and the level of present production. How much of this gap will be filled up by the proposed unit?

**b. Estimate of cost and price**
An estimate of manufacturing and administrative expenses together with the price expected should be furnished to assess the margin of profit.

**c. Marketing strategy**
What strategy for selling the products is proposed to be followed? Whether any arrangements have been made with reputed suppliers or distributors for lifting the production?

**d. Whether seasonal market**
Whether the items have seasonal fluctuations in sales? If so, the arrangements made for warehousing or stocking of the goods in off season should be stated.

**e. Transportation of goods**
Whether the unit depends for the transportation of goods on public carrier or will it like to own its own transport? If own transport is needed, state the probable cost and the amount of assistance required.
3.1.4  **Capital Costs and Sources of Finance**

An estimate of the various components of capital items required by the unit should be given in the Report. These components may be the following:

- Land and Building
- Plant and Machinery
- Other Miscellaneous Assets
- Preliminary Expenses
- Contingency cushion against price rise
- Margin for Working Capital

Besides the cost factors, if the Report does not include an assurance of present and probable sources of finance, it will serve no purpose. Unless the resource availability covers the requirements of funds for the factors stated above, no banker would like to accept a project. The resources would include the owners’ funds together with loan and deposits raised as well as the limits expected from financial institutions. The estimation of funds for the cost factors involved should be very realistic and correct, since many units run into serious financial problems just because of inadequate estimates of funds requirements made at the initial stage or at operational stage.

3.1.5  **Assessment of Working Capital Requirements**

Planning for working capital requirements is very crucial for an entrepreneur. Even while estimating the capital costs, margin for working capital will have to be taken into account since the unit will be able to function only when adequate working capital funds are available. In other words, at the initial stage itself, the estimate of working capital requirements should be made and shown along with the total cost of the project.

It has been generally noticed that the entrepreneur present the working capital requirements in their own way which is ultimately reacted by the banker. Hence, if they project their requirements in the prescribed ways, it will certainly minimize objections from the banker’s side.

3.1.6  **Other Financial Aspects**

One of the objections of setting up a project is to earn a livelihood. Besides the project set up must be able to retrieve the investments made within its life cycle. This would be possible only if the products taken up for production are profitable. This would require preparation of a projected Profit and Loss Account, which would indicate likely Sales Revenue, Cost of Production, Allied Costs and Profit.

A projected balance Sheet and cash Flow Statement would also be prepared to indicate financial position and financial requirements. After all, a smooth functioning of the unit necessitates availability of funds for various commitments.

Next the Break-Even Analysis must be given. Break-even point is that level of production/sales where the industrial enterprise shall make no profit no loss. It will just break even. This facilitates knowing the gestation period and the likely moratorium required for repayment of loans.
It is also a good idea to calculate and indicate the following ratios:

\[
\text{Net Profits} \times 100
\]

i) Profitability ratio = \(\frac{\text{Sales}}{\text{Net Profits} \times 100}\)

ii) Return on Investment = \(\frac{\text{Capital employed}}{\text{Debt}}\)

iii) Debt Equity ratio = \(\frac{\text{Net Profit after Tax + Depreciation + Interest for 1 year}}{\text{Equity}}\)

iv) Debt Service coverage = \(\frac{\text{Installments + Interest for 1 year}}{\text{Net Profit after Tax + Depreciation + Interest for 1 year}}\)

3.1.7 Economic and Social Variables

What will be the Abatement Costs – i.e. the costs for controlling the environmental damages (e.g. Pollution)? The abatements costs will constitute the value of the additional engineering and technology needed for treating the effluents and emissions.

Whether the project will have some social benefits, of which the following are a few examples:

(i) Promoting employments: The number of persons proposed to be employed vis-à-vis employment situation of that area may be mentioned.

(ii) Development of the area: How the establishment of the unit will bring an overall development in the area of its operation?

3.1.8 List of Appendices of a Project Report

The following is an illustrative list of appendices, which may be attached along with a Project Report and should be preceded by the descriptive presentation as discussed in earlier pages:

- Equipment required
- Details of preliminary expenses
- Cost of production and profitability estimate (Appendix-A)
- Labour and staff requirements
- Break-even point
- Working capital requirements
- Debt service coverage ratio
- Cash flow statement
3.2 Success Stories

For success of any enterprise or project, market potential study report about the product to be produced and the place / site at which produced is a must. A person or group of persons are successful who have done this homework well and studied the project on small or tiny scale and learnt the market / consumer very well and grown and sustained with them. Fruit and vegetable farms or other farms located on major high way / roads or near to cosmopolitan city, urban area and town can take the benefit by establishing unit in their premises and sales counter on their farm. A methodology can be worked out by which daily or weekly demand requirements could be collected and executed by supply of goods and services. This also has to be worked out by persons who are setting unit in rural and semi urban areas.

3.2.1 Success Story of Fruit Based Enterprise- “Swarna Mango Pulp Production Unit”

Mathur block in Dharmapuri district of Tamil Nadu emerged as a model in the development of Micro Enterprise. In this district large no. of SHGs are in operation. As a milestone in rural development the Stathyumurthy women organisation took much initiative and formed eight women SHGs comprising 120 members to avail themselves of the provisions under SGSY (Swarnjyanti Gram Swarojgar Yojna). This organization gave adequate training to these members for mango pulp production and obtained legal permission from the central government to produce the goods. This group received financial and technical support from Tamil Nadu Women Development Corporation, DRDA (District Rural Development Agency) and NGOs.

The eight SHGs planned to produce juice, squash and jam from the locally available fruits viz., Mango, Grapes, Pine Apple and Tomato. Each group received Rs. 3 lakhs (Rs. 1.75 lakh as loan and 1.25 lakh as subsidy) from the State Bank of India, Pochampalli.

Panchayat Union also helped them a lot by providing Community Hall to these SHGs. Besides, Dhamapuri DRDA provided Rs. 8-lakh worth of machineries to them. Due to the officials’ cooperation, this activity was performed well and they faced a constant demand for these products. In promotion of these activities, a basic building infrastructure was erected in the two hectares of Government land worth of Rs. 10 lakhs taken from the infrastructure development fund of the programme SGSY. Finally they could commence their marketing of products from the month of May 2000 with good quality and attractive packing. Various products of these SHGs are Mango Squash, Pulp, Jams and Juices, similar products from Grape, Pineapple Oranges and Pickles from Mango, Lemon, Chilli, Onion, Tomato and Gooseberry etc.

All members in the women organization received employment on a rotation basis. The wage has been fixed @ Rs. 5 per hour for manual work. It has been ensured that every member will get eight hours work per working day. The net profit is distributed equally to all the members of the group.

Sathyamurthy women organization’s products branded as ‘Swarna’ are packed in attractive bottles with eye-catching labels. These products are distributed through a network of retailers in the districts and blocks of Dharmapuri, Salem, Krishnagiri, Thirupattur, Ambur, Vaniyambadi and Velur. In each Government exhibitions, the
Swarna products are exhibited and sold. They obtain whole/retail order through such exhibitions and promote the sales turnover. This organisation has identified more than 50 fruit juice producing micro-enterprises and supplies the semi-processed juices to them during the seasons. During the year 2000-2001, they had a sales turnover of Rs 4 Lakhs and expected to increase in the coming years. At the State level exhibitions held at Coimbatore and Madurai, the organization received first prize for their product quality, taste and packing. In future, they planned to promote the sales from Chennai as headquarter.

This organization envisaged providing continuous employment to the members of the group throughout the year by way of expanding their activities. The members get self-confidence and acquaint leadership qualities while engaged in these activities. It has been aimed to provide continuous employment and each member should get income around Rs. 2000 per month.

3.3 Loans

Financial assistance and incentives from the Central / State sponsored financial corporations, nationalized banks, industrial and cooperative banks for setting up of fruit or vegetable processing unit is available in two forms i.e. fixed capital and working capital. Fixed capital covers for acquiring the assets of land, building and plant machinery while the working capital covers the utilities required for running the enterprise like raw material, packaging, salaries of staff, utilities in terms of electricity, telephone, water etc. For detailed information on financial help and incentives, following organizations have to be approached:

1. Ministry of Food Processing Industries and their regional and local offices in the country.
2. Small Industries Service Institutes under the Ministry of Small Scale Industries located in various regions.
3. District Industries Centers under the State Governments located at district headquarters.
4. State Financial Corporation offices located in the states and region.
5. National banks viz. SBI and its ancillaries, NABARD, SIDBI, etc.

You will get some more information on financial help in Module 9.

4.0 LET US SUM UP

In this module, project report preparation is an important information covering decision about industrial activity, general information, project description, market potential, capital costs and source of finance, assessment of working capital, financial aspects and economic and social variables besides the cost of production and profitability estimates. This is comprehensive information for the preparation of project report, to be submitted to the financial institute for approval and sanction of finance for the project. Further, the points for the success of project particularly the market potential study report and location of the unit has been highlighted. A source of finance for the project is of paramount importance and therefore, this has been covered with classification of finance and the public institution where from the finance is available.
5.0 SELF ASSESSMENT QUESTIONS AND ANSWERS

Q.1 Which is the most crucial step for setting up an enterprise?  
Ans. Project Report Preparation

Q.2 What is the purpose of project report preparation?  
Ans. The purpose is to:  
- provide complete information required for the processing of proposal for getting financial assistance;  
- arise less objections and queries from the banker;  
- save time and energy of banker;  
- judge the viability of proposed business plan; and  
- reduce the chances of failure in part of entrepreneur.

Q.3 What is Break-Even Point?  
Ans. It is the level of production or sale where the enterprise or unit shall make no profit no loss. It will just break even. This decides the gestation period and moratorium period to repay the loan.

Q.4 What is abatement cost?  
Ans. It is the cost of controlling the environmental damages. It constitutes the value of the additional technology needed for treating the effluents and emissions.

Q.5 From whom you can obtain the registration certificate for your firm?  
Ans. Directorate of Industries

Q.6 To whom you should approach for financial assistance?  
Ans. For financial assistance you can approach to:  
- Ministry of Food Processing Industries and their regional and local offices in the country.  
- Small Industries Service Institutes under the Ministry of Small Scale Industries located in various regions.  
- District Industries Centers under the State Governments located at district headquarters.  
- State Financial Corporation offices located in the states and region.  
- National banks viz. SBI and its ancillaries, NABARD, SIDBI, etc.

Q.7 List out the different broad heads of the project report.  
Ans. The following are broad heads under which the complete information on relevant aspects should be included in the Project Report:  
- General Information  
- Project Description  
- Market Potential  
- Capital Costs and Source of Finance
- Assessment of Working Capital
- Other Financial Aspects
- Economic and Social Variables

Q.8 List out the points to be considered for the preparation of Market Potential Study Report.

Ans. The following aspects should be considered in the preparation of Market Potential Study Report:
- Total demand and supply of the product
- Estimate of cost and price
- Marketing strategy
- Whether seasonal market
- Transportation of goods

Q.9 How does a well prepared project report help the entrepreneur as well as the banker?

Ans. A well prepared Project Report will not only bring saving of time and energy for the banker but also help the entrepreneur, who will have not many objections and queries from the banker.

### 6.0 ACTIVITIES

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<tr>
<td><strong>Objective:</strong> To prepare the project report</td>
<td><strong>Objective:</strong> To learn about the success stories and the source of finance for setting up of project.</td>
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<td><strong>Material:</strong> Black Board, chart, notebook, pencil and a visit to any financial institute.</td>
<td><strong>Material:</strong> Calling a successful entrepreneur running a processing unit or sales counter and also the official from the District Industries Centre in the region.</td>
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</tbody>
</table>
| **Method:** Participants to list out the points required for the project report preparation on the blackboard or in their note book one by one and elaborate the points. This could be done by the visit of participants along with instructor to any financial institute and organizing one to one deliberations for the preparation of project report. | **Method**
Arrange a deliberation of successful entrepreneurs in this line of activity and ask the participants to raise their points and doubts for successful implementation of project. A DIC official would give a full account of finance and source of finance required for setting up of such enterprise while the successful entrepreneur would share his experiences with the participants about his venture / enterprise. Participants may take active participation in this deliberation. |
7.0 ASSIGNMENT

1. Work out the market potential of fresh grapes or raisins in domestic market
2. Work out the capital costs and sources of finance for marketing fresh mangoes
3. Attempt project report for unit for the production of raisins

8.0 DO'S AND DON'TS

<table>
<thead>
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<tr>
<td>• Look for site having all amenities for starting enterprise.</td>
<td>• Do not select site having no amenities for starting enterprise.</td>
</tr>
<tr>
<td>• Make good survey in terms of availability of good quality water,</td>
<td>• Do not select site unless survey in terms of all inputs required for</td>
</tr>
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<td>cheaper raw material, skilled labour and adequate power.</td>
<td>unit is undertaken.</td>
</tr>
<tr>
<td>• Look for good and approachable roads and transport facilities.</td>
<td>• Do not select place without good and approachable roads and transport</td>
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<td>facilities.</td>
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9.0 KEYWORDS

**Project Report**: A report providing necessary information required for the processing of proposal for getting the financial assistance from the financial institute

**Fixed capital**: A capital, which is required for acquiring the assets like land, building, and plant and machinery

**Working capital**: A capital which is required to finance the items like raw material, packaging, staff salary, utilities in terms of electricity, telephones, water etc. on daily / weekly or monthly basis

**Market potential report**: It is an important document indicating the potential of market for the products indented for sale within the country and abroad. This establishes the viability of an enterprise and bankers relies more on this document

**Breakeven point**: It is the level of production or sale where the enterprise or unit shall make no profit no loss. It will just break even. This decides the gestation period and moratorium period to repay the loan

**Debit equity ratio**: It is ratio of debit to equity
# COST OF PRODUCTION AND PROFITABILITY ESTIMATES

<table>
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<th>Sl. No.</th>
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