

## **National Foam and Furniture Industries Co. Ltd. Summary of Expansion plans**

### **Introduction:**

National foam and Furniture industries co. ltd, is a 100% Iraqi owned and operated industry, established in 2003 in Al Taji area north of Baghdad, to manufacture Polyurethane foams used in Furniture and Bedding. The investment was phased due to the lack of financing, and the first phase started production in May 2004. This proposal outlines the expansion plans into Phase 2, and the capital and financing requirements thereof. Summary of figures are presented in the MSExcell workbook attached.

### **Product diversification.**

The company currently produces and sells Flexible PU foam blocks measuring 2mX2mX1.2m. The Iraqi market has been used to buying foam in blocks to be cut to desired sizes by small workshops all across Iraq. This service industry isn't adequate for Customer tastes and volumes due to being capital intensive. Very accurate figures show the market expanding at a fast pace, and will reach very large volumes that cannot be met with current installed capacities. The Company will add new product lines associated with cutting the foam and producing mattresses, pillows and comforters, which are an ideal addition to our product range. The new production lines will be the only ones in Iraq. The production plan will reach (but will not be limited to) the following levels after three years of the expansion:

Flexible Foam	6000 Tons
Mattresses	124,000 units
Pillows	20,000 units
Comforters	8,000 units

### **Market potential.**

The market in Iraq for these products is very large and currently imports huge quantities of Foam, Mattresses, pillows and comforters to help fulfill demand. The Company's marketing activities are diversified throughout the country and are generating enquiries that outweigh production capacity. Accurate and reasonable forecasts of market size in the years to come will give the company a 15% market share in the foam business, 25% in the mattress business and a very small share of the pillows and comforters markets. This leaves plenty of room for expanding production capacity above current conservative estimates. Market demand has been correlated against accurate industry figures from around the world and particularly from neighboring countries where tastes and trends are similar.

### **Feasibility**

Bedding is considered a vital commodity in any society. Mattresses and other bedding articles in Iraq have been scarce due to the bad economic conditions. About 12,000 tons of foam are being imported from Syria, Jordan and Turkey with very high freight costs and about 8000 tons are produced locally with less than average quality and poor distribution activities and market penetration. Our company brings into the market a wealth of experience in this industry in addition to a strong marketing organization.

Our expansion plans would introduce into the market new furniture styles that are cheap and adequate quality, as well as other highly competitive products that are not manufactured locally. Our manufacturing costs will be lower than imported product and we shall enjoy a margin related to the high freight costs of this volumetric product. In addition, our foams are of higher than standard quality, and coupled with a proactive marketing and advertisement campaigns we forecast to gain a leadership position in this industry within the following year. As a result, we estimate demand for our products will outrun our production capacities.

### **Labor**

Our current workforce of 35 is adequate for operation and will gradually increase to 133 within 2 years. The workers both Blue and White collar are operating with great skill and a good team spirit. All are working on basic salary plus incentive paid at year end. There will be a new training section established to continuously upgrade employee skills. Current base pay is less than estimates for future years as we forecast inflation will dictate higher pay levels. Unemployment is rampant in factory neighborhood and there's a good source of workers for the project. We have endeavored to use a more labor intensive manufacturing process to save on capital and take advantage of the abundance of cheap labor in our society. All employees in the company will be incentive driven and will definitely make more than their salaries in incentive payments.

### **Loan and related financial matters.**

NFFIC started with 100% equity as financing from other sources was not possible. Iraqi banks have very poor financing schemes and international organizations (IFC) consider such a project as too small. The proposed loan would fulfill company plans for expansion into the second phase. The partners are willing to put up current production facilities and land (total worth about \$1.5 million without good will) as collateral, in the hope that this would be adequate. Interest is assumed as 10% of outstanding amounts paid annually at beginning of month 13. The full loan is paid back at the end of year 4 from loan award. The company would have generated enough cash to go into the third phase of expansion: New facilities in the South and Spring Mattress production in Baghdad.

The figures presented here outline the activities of the project as a whole. This includes existing investment (P)

It is assumed that Loan will be awarded in Dec 2005 and interest is accrued January 2006

**Cashflow**

Raw materials will be purchased on cash-in-advance basis for two months until 90 day credit facilities are established. Income from sales will start on cash against sales. After two months, it is forecasted that deferred payment schedule

**Cost of sales**

Selling price assumed as current market level less 20%

Raw materials prices assumed as highest historical level plus 10%

Labour pay considered as double current pay in anticipation of forthcoming inflation.

**Other notes**

There will be an amount of foam generated as scrap and used in rebonded foam manufacturing.

the cost is already calculated in the main foam costing and the sales are an added bonus, not measured in this

Capital required for the expansion is \$ 3,311,743. Of this \$2,350,000 will be financed through medium term loan

Cash generated in the 4th and 5th years will be used for third phase expansion, including Spring mattress production

Sales plan in line with forecasts which are conservative in relation to observations from market

Loan pay back in 4 years. No dividend distribution larger than loan repayment throughout loan period

IRR for whole project calculated as 46%

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	Year 2004		Year 2005		Year 2006		Year 2007		Year 2008	
	#	\$/Month	#	\$/Month	#	\$/Month	#	\$/Month	#	\$/Month
Total	0	\$ 200\$	1	\$ 200\$	200	\$ 200\$	200	\$ 200\$	200	\$ 200\$
Secretary	4	\$ 80\$	8	\$ 200\$	1,600	\$ 200\$	1,600	\$ 200\$	1,600	\$ 200\$
Guards	1	\$ 200\$	2	\$ 250\$	500	\$ 250\$	500	\$ 250\$	500	\$ 250\$
Maintenance Mechanic	1	\$ 200\$	3	\$ 250\$	750	\$ 250\$	750	\$ 250\$	750	\$ 250\$
Electrician	2	\$ 100\$	4	\$ 200\$	800	\$ 200\$	800	\$ 200\$	800	\$ 200\$
Maintenance helpers										
Nurse										
Safety supervisor										
Foaming section										
Foaming technician	1	\$ 300\$	300	\$ 400\$	400	\$ 400\$	400	\$ 400\$	400	\$ 400\$
Assistants	2	\$ 100\$	200	\$ 250\$	500	\$ 250\$	500	\$ 250\$	500	\$ 250\$
Block Cutter technician	1	\$ 120\$	120	\$ 300\$	300	\$ 300\$	300	\$ 300\$	300	\$ 300\$
Helper	1	\$ 80\$	80	\$ 200\$	200	\$ 200\$	200	\$ 200\$	200	\$ 200\$
Foam handlers	4	\$ 80\$	320	\$ 200\$	1,200	\$ 200\$	1,600	\$ 200\$	1,600	\$ 200\$
Foam stacker	1	\$ 120\$	120	\$ 300\$	300	\$ 300\$	300	\$ 300\$	300	\$ 300\$
Foam cutting section										
Vertical cutter		\$ 300\$	-	\$ 300\$	600	\$ 300\$	600	\$ 300\$	600	\$ 300\$
Helper		\$ 200\$	-	\$ 200\$	400	\$ 200\$	400	\$ 200\$	400	\$ 200\$
Horizontal cutter		\$ 300\$	-	\$ 300\$	600	\$ 300\$	600	\$ 300\$	600	\$ 300\$
Helper		\$ 200\$	-	\$ 200\$	400	\$ 200\$	400	\$ 200\$	400	\$ 200\$
Contour Cutter		\$ 300\$	-	\$ 300\$	900	\$ 300\$	900	\$ 300\$	900	\$ 300\$
Helpers		\$ 200\$	-	\$ 200\$	600	\$ 200\$	600	\$ 200\$	600	\$ 200\$
Carousel technician		\$ 300\$	-	\$ 300\$	300	\$ 300\$	300	\$ 300\$	300	\$ 300\$
Helper		\$ 200\$	-	\$ 200\$	400	\$ 200\$	400	\$ 200\$	400	\$ 200\$
Other cutting technicians		\$ 300\$	-	\$ 300\$	900	\$ 300\$	900	\$ 300\$	900	\$ 300\$
Section General handlers		\$ 200\$	-	\$ 200\$	400	\$ 200\$	400	\$ 200\$	400	\$ 200\$
Bedding Production Hall										
Carding machine operator		\$ 300\$	-	\$ 300\$	300	\$ 300\$	300	\$ 300\$	300	\$ 300\$
Carding oven supervisor		\$ 250\$	-	\$ 250\$	250	\$ 250\$	250	\$ 250\$	250	\$ 250\$
Carding section helpers		\$ 200\$	-	\$ 200\$	600	\$ 200\$	600	\$ 200\$	600	\$ 200\$
Pillow machine operator		\$ 250\$	-	\$ 250\$	250	\$ 250\$	250	\$ 250\$	250	\$ 250\$
Pillow packers		\$ 200\$	-	\$ 200\$	400	\$ 200\$	600	\$ 200\$	600	\$ 200\$

Quilting machine operator	\$ 300	\$ -	1	\$ 300	\$ 300	300	2	\$ 300	\$ 600	2	\$ 300	\$ 600	2	\$ 300
Quilting machine prep technicians	\$ 250	\$ -	2	\$ 250	\$ 500	500	4	\$ 250	\$ 1,000	4	\$ 250	\$ 1,000	4	\$ 250
Handlers	\$ 200	\$ -	3	\$ 200	\$ 600	600	6	\$ 200	\$ 1,200	6	\$ 200	\$ 1,200	6	\$ 200
Matress tackers	\$ 250	\$ -	3	\$ 250	\$ 750	750	3	\$ 250	\$ 750	5	\$ 250	\$ 1,250	5	\$ 250
Matress tape edge operators	\$ 300	\$ -	3	\$ 300	\$ 900	900	3	\$ 300	\$ 900	5	\$ 300	\$ 1,500	5	\$ 300
Handlers	\$ 200	\$ -	3	\$ 200	\$ 600	600	3	\$ 200	\$ 600	4	\$ 200	\$ 800	4	\$ 200
Sewing machine operators	\$ 200	\$ -	3	\$ 200	\$ 600	600	4	\$ 200	\$ 800	4	\$ 200	\$ 800	4	\$ 200
General section line feeders			2	\$ 200	\$ 400	400	4	\$ 200	\$ 800	4	\$ 200	\$ 800	4	\$ 200
<b>Total Monthly Direct labor</b>	<b>18</b>	<b>\$ 2,060</b>	<b>80</b>		<b>\$ 18,700</b>	<b>92</b>			<b>\$ 21,300</b>	<b>97</b>		<b>\$ 22,600</b>	<b>97</b>	
<b>Total annual direct labor</b>	<b>18</b>	<b>\$ 24,720</b>	<b>80</b>		<b>\$ 224,400</b>	<b>92</b>			<b>\$ 255,600</b>	<b>97</b>		<b>\$ 271,200</b>	<b>97</b>	

<b>Indirect Labor</b>														
General Manager	1	\$ 700	\$ 700	1	\$ 1,000	\$ 1,000	1	\$ 1,000	\$ 1,000	1	\$ 1,350	\$ 1,350	1	\$ 1,350
Financial controller		\$ 500	\$ -	1	\$ 500	\$ 500	1	\$ 500	\$ 500	1	\$ 500	\$ 500	1	\$ 500
Materials Manager		\$ 400	\$ -	1	\$ 400	\$ 400	1	\$ 400	\$ 400	1	\$ 400	\$ 400	1	\$ 400
Sales Manager	1	\$ 300	\$ 300	1	\$ 500	\$ 500	1	\$ 500	\$ 500	1	\$ 500	\$ 500	1	\$ 500
Employee relations manager		\$ 350	\$ -	1	\$ 350	\$ 350	1	\$ 350	\$ 350	1	\$ 350	\$ 350	1	\$ 350
Plant Manager		\$ 500	\$ -	1	\$ 500	\$ 500	1	\$ 500	\$ 500	1	\$ 500	\$ 500	1	\$ 500
Accountants/Payroll clerk	1	\$ 150	\$ 150	3	\$ 250	\$ 750	3	\$ 250	\$ 750	3	\$ 250	\$ 750	3	\$ 250
Dispatcher/Store keeper	2	\$ 120	\$ 240	4	\$ 300	\$ 1,200	4	\$ 300	\$ 1,200	4	\$ 300	\$ 1,200	4	\$ 300
Secretaries	1	\$ 120	\$ 120	3	\$ 200	\$ 600	3	\$ 200	\$ 600	3	\$ 200	\$ 600	3	\$ 200
Salesmen	4	\$ 150	\$ 600	8	\$ 350	\$ 2,800	8	\$ 350	\$ 2,800	8	\$ 350	\$ 2,800	8	\$ 350
Drivers	2	\$ 120	\$ 240	6	\$ 200	\$ 1,200	6	\$ 200	\$ 1,200	6	\$ 200	\$ 1,200	6	\$ 200
ER staff	1	\$ 135	\$ 135	2	\$ 250	\$ 500	2	\$ 250	\$ 500	2	\$ 250	\$ 500	2	\$ 250
Gofers	2	\$ 100	\$ 200	2	\$ 200	\$ 400	2	\$ 200	\$ 400	2	\$ 200	\$ 400	2	\$ 200
Guards	2	\$ 100	\$ 200	2	\$ 200	\$ 400	2	\$ 200	\$ 400	2	\$ 200	\$ 400	2	\$ 200
<b>Total Monthly Indirect Worforce</b>	<b>17</b>	<b>\$ 2,885</b>	<b>36</b>		<b>\$ 11,100</b>	<b>36</b>			<b>\$ 11,100</b>	<b>36</b>		<b>\$ 11,450</b>	<b>36</b>	
<b>Total Annual Indirect worforce</b>	<b>17</b>	<b>\$ 34,620</b>	<b>36</b>		<b>\$ 133,200</b>	<b>36</b>			<b>\$ 133,200</b>	<b>36</b>		<b>\$ 137,400</b>	<b>36</b>	

<b>Total Company Monthly Workforce</b>	<b>35</b>	<b>\$ 4,945</b>	<b>116</b>		<b>\$ 29,800</b>	<b>128</b>			<b>\$ 32,400</b>	<b>133</b>		<b>\$ 34,050</b>	<b>133</b>	
<b>Total Company Annual Workforce</b>	<b>35</b>	<b>\$ 59,340</b>	<b>116</b>		<b>\$ 357,600</b>	<b>128</b>			<b>\$ 386,800</b>	<b>133</b>		<b>\$ 408,600</b>	<b>133</b>	

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total \$	
\$	200
\$	1,600
\$	500
\$	750
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\$	-
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\$ 600
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\$ 34,050
\$ 408,600



