UNIT 7 RESOURCE MATERIAL AND FINANCE

Structure

7.0 OBJECTIVES

After reading this unit, you will be able to:

- identify the important resource materials for the establishment of a meat processing plant;
- list various categories of meat on the basis of procurement;
- enumerate the agencies which can finance your project;
- know the quantum of finance you can get from the financial institutions;
- learn the procedure of presenting a meat processing project for financing; and
- calculate the subsidy that you get as an aid in your establishment.

7.1 INTRODUCTION

Physical infrastructure like land and civil works, plant and machinery and working capital are important resource materials which need financing from the bank and other financial institutions. Ministry of Food Processing provides suitable grant for setting-up or expansion and modernization of a food processing unit. It may go upto 50 per cent of the cost of capital equipment and technical civil work depending upon the area and type of sector. Agricultural and Processed Food Export Development Authority (APEDA) also has several financing schemes to support export-oriented food processing establishments. In this unit, you will learn in detail about the financing of resource material for meat processing factories.

7.2 PHYSICAL INFRASTRUCTURE

Physical infrastructure includes land, civil work and water supply systems. It costs nearly 30 to 35 per cent of the project cost. In many cases, the cost of physical infrastructure may go upto 50 per cent of the entire project cost. If the cost of the land and construction of building is very high, a suitable building of the appropriate floor area could be taken on lease basis to set up the processing unit. Establishment of unit in the Food Park area can ensure potable water supply, uninterrupted electricity supply, good roads and well-developed drainage system besides the facilities of centralized packaging and quality control laboratories. Depreciation on civil structure is calculated as 5 per cent per annum.

7.3 PLANT AND MACHINERY

Plant and machinery includes the animal or poultry dressing equipment, meat processing equipment and miscellaneous fixed assets. Poultry dressing equipments are scalder, bleeding cone, stunner, defeathering machine, dressing table, chilling tank etc. Meat processing equipments includes meat mincer, bowl chopper, mixer, cooker, sausage filler, curing injector, patties mould, slicer, canning unit, smoke house, oven, etc. The fixed assets may be deep freezer, refrigerator, generator, geysers, electricals etc. Three wheeler used for the supply of prepared products is also covered under this head. Plant and machinery for meat processing unit is a costly resource and there are limited machinery suppliers in the field. These equipment and miscellaneous fixed assets together may consume approximately 35 per cent to 50 per cent of the entire project cost. In general, working life of an equipment is taken as ten years and depreciation is calculated at the rate of 10 per cent per annum.

7.4 MEAT-THE BASIC RESOURCE MATERIAL

Meat is the basic resource material for a meat processing unit. It constitutes 70 to 90 per cent of the raw material cost required for the preparation of most of the meat products. It is a costly item. You can slaughter the meat animal and dress it in your own premises if you have a license to do so by the municipal authority. Otherwise you can procure meat from the supplier who obtains it from the animals slaughtered and dressed in a recognized slaughterhouse. Small processors of poultry and/or pig meat can make their own arrangement where authorized slaughterhouses do not exist. The cost of the meat is further increased if it has to be deboned for the preparation of comminuted meat products. In the financial assistance, this cost is covered under the head of working capital. Cost of meat sufficient for the production requirement of 6 or 7 days is included in the working capital.

7.5 OTHER INGREDIENTS

Other than meat, several ingredients like fat, animal by-products, binders (soy products, cereal, flours, starches or potato, egg liquid, milk proteins etc.) spices, condiments etc., are needed for the preparation of meat products. The binders or extenders or fillers are used from 3 to 20 per cent depending upon the product and functionality desired. Spices mix of a suitable formulation is self-prepared from the cleaned spices dried overnight at 60°C or at 80°C for 3 hours. These are ground separately and sieved through a fine mesh. Spices powders are well mixed and stored in airtight containers. Onion, garlic and ginger are the common condiments used in meat products. These are blended to the consistency of fine paste. In general, case of one month or 30 days requirement of these ingredients is included in the working capital.

7.6 FINANCE

Money is required for setting up a business. Now the question is where to get the money from and how will it be used. A business owner can look for the investors to invest money in his/her business.

A company owner should ask few questions to himself like:

- How much money is required for the business?
- What type of lender is required?
- Lender's minimum and maximum loan size?
- Will the lender be able to meet all the needs?
- What type of collateral security is accepted by the lender?

Lenders use the following eight C's rules:

- Credit – must be good
- Capacity – owner should be able to repay the loan
- Capital – money required in the business
- Collateral – assets to secure the loan
- Character - you
- Conditions – any condition that can affect the business e.g., financial condition
- Commitments – ability and willingness to succeed
- Cash flow – can it support the expenses and debts?

Types of Capital

Two types of capital required by a businessman:

1) *Fixed Capital*

Fixed capital is required to acquire fixed assets like land, building, plant, machinery, office equipment, furniture and fixtures, erection and installation of machinery, etc. In addition, fixed capital is also required for meeting the cost incurred on insurance, technical know-how etc.

2) *Working Capital*

Working capital is needed to meet day-to-day requirements of a business. For example, amount spent on raw material, wages, hire charges, transportation, interest, etc. It is also known as circulatory capital. Once the raw material is purchased and products are manufactured, the process of selling the goods so manufactured starts. Thereafter, efforts are put in to realizing the sale proceeds including that amount of money which gets locked due to the credit sales. The money so realized is once again invested in purchasing raw material, and the operating cycle is continued.

Types of Finance: For financing fixed capital and working capital a businessman needs long term finance as well as short term finance.

1) *Long term finance:* Long term finance is used for investment in fixed assets such as land and building, plant and machinery etc.

2) *Short term finance:* Short term finance is used for investment in working capital. It is used to meet the short term needs of the business.

7.6.1 Sources of Finance

The sources of funds can be broadly divided into owned capital; and borrowed capital.

Owned capital is the money brought in by the businessman himself, while borrowed capital is the money advanced by outside agencies. However, sources can also be segregated into long term sources and short term sources. These sources are explained below:

A) Sources for Long Term Finance

1) *Owned funds:* Owned funds are the funds provided by the owners.

2) *Retained profits:* The businessman may not withdraw the entire profit from the business. Retained profit represents the amount of profit which remains available in the business after taking out profit for his personal and family affairs. Retained profit serves as a long term source of finance.

3) *Friends and relatives:* Amount can also be collected from the friends and relatives of the businessman at either no or very low rate of interest. The repayment schedule may not be fixed and generally no amount is kept as security.

4) *Commercial banks:* The banks are catering to the credit needs of a large variety of projects, big or small, in all sectors of the economy including agriculture, trade, industry, services etc. Long term loans are usually repayable after a period of seven years. Banks are playing an important role for the upliftment of rural and urban poor. In this direction, they are involved in implementing the various Government sponsored schemes like Swarna Jayanti Gram Swarojgar Yojana (SGSY); Prime Minister's Rojgar Yojana (PMRY); Swarna Jayanti Shahari Rojgar Yojana (SJSRY); Scheme for Liberation and Rehabilitation of Scavengers (SLRS), etc.

5) *National-level financial institutions:* Various financial institutions play a significant part in development of big industries. They are a major source of finance for forming of new business organizations and expansion of existing concerns. They also provide promotional, technical and managerial services to various new and existing organizations. The rate and repayment procedures are convenient and economical. Following Financial Institutions offer financial assistance on long term basis for big projects :

   - Industrial Development Bank of India (IDBI),
   - Small Industries Development Bank of India (SIDBI),

- Industrial Finance Corporation of India (IFCI),
- Industrial Investment Bank of India (IIBI),
- Industrial Credit and Investment Corporation of India (ICICI),
- Regional Rural Banks (RRBs), and
- National Bank for Agriculture and Rural Development (NABARD) etc.

6) *State-level financial institutions:* State-level financial institutions were established because the National-level financial institutions were providing finance exclusively to large scale industrial units. The Government, therefore, started establishing development banks at the regional level to provide assistance to small scale industries.

B) Short Term Sources of Finance

Short term finance is required for meeting the short term requirements of business (like working capital). Short term loans are usually repayable within a period of one to three years. The important sources of short term finance are as under:

1) *Bank overdraft:* Here, a customer having a current account with a commercial bank is permitted to withdraw more than what he has deposited. The upper limit of what he can overdraw is fixed.

2) *Cash credit:* Finance against inventory of raw material, semi-finished and finished goods, stores and spares etc., is granted in the shape of cash credit facility where cash withdrawals are permitted against stock of goods.

3) *Discounting of bills of exchange:* Commercial banks also extend financial assistance by discounting bills of exchange. Here the customer i.e. the businessman can get the amount of a bill receivable from the bank before the date of maturity.

4) *Short term loans:* Loans provided by commercial banks are repayable in monthly/quarterly/ half-yearly/yearly installments. A loan is granted against security of assets and the personal guarantee of the borrower.

5) *Trade credit from suppliers:* Trade credit is the credit extended by the seller of goods to the buyer as incidental to sale.

6) *Accounts payable:* Here, the buyer is required to sign a debt instrument e.g. a bill of exchange or a promissory note as an evidence of the amount due by him to the seller.

7) *Accrual accounts:* There is usually a time-lag between receipt of income and making payment for the expenditure incurred in earning that income. During this time-lag the outstanding expenditure helps an enterprise in meeting some of its working capital requirement. For example, wages and salaries, taxes due but not paid immediately etc.

8) *Advances from customers:* If the businessman is manufacturing a product which is in short supply, he may demand advance money from his customers at the time of accepting their orders.

9) *Co-operative credit societies:* Co-operative Credit Societies are formed by artisans, agriculturists, industrial workers etc. These societies provide financial assistance at reasonably low rate of interest to its members.

10) *Indigenous bankers:* Indigenous bankers are known by different names like shroffs, seths, sahukars, mahajans, etc., in different parts of the country. They lend against personal credit of the borrowers.

7.6.2 Financial Assistance from MFPI

Financial assistance by way of grants/loans are being provided by Ministry of Food Processing Industries, Government of India, New Delhi.

Table 7.1: Financial Assistance Provided by Ministry of Food Processing Industries, GOI

S.No.	Scheme	Pattern of Assistance
I	Establishment of Post-harvest Infrastructure and Cold Chain facilities.	50% grant/loan of the cost of capital equipment and civil work available upto Rs. 25 to Rs. 75 lakhs depending upon the area and applicants category. Only one form of assistance i.e. grant or loan is available.
II	Establishment of Food Parks.	Grant upto Rs. 4 crore for creation of common facilities.
III	Setting-up/expansion and modernisation of Food Processing Units.	50% of cost of capital equipment and technical civil work upto Rs. 150 lakhs to Rs. 200 lakhs depending upon the type of area and type of sector, as loan. Or Grant of 50% of cost of capital equipment and technical civil work upto Rs. 25 lakhs to Rs. 50 lakhs is available depending upon area and type of Sector.
IV	Dissemination of low cost preservation technology.	Actual cost of technology and plant and equipment upto Rs. 5 lakhs as loan/grant depending upon the type of area/sector.
V	Development/modernization of meat processing units.	50%/75% of the cost of capital equipment and technical civil work upto Rs. 75 lakhs to Rs. 200 lakhs as grant/loan depending upon area/sector.
VI	Development of poultry and egg processing units.	50%/75% of the cost of capital equipment and technical civil work upto Rs. 75 lakhs to Rs. 200 lakhs as grant/loan depending upto area/sector.
VII	Research and Development in food processing industries.	100% of the project as grant to laboratories/ IITs/Universities/NGOs/ and similar non profit organisations.
VIII	Person/power development in rural areas (FPTC).	Rs 2 lakhs to Rs. 7.5 lakhs for fixed capital cost and Rs. 2 lakhs to Rs. 3 lakhs as revolving seed capital as grant. Grant upto Rs. 50,000/- also available for training the trainers at recognised institutes.

IX	Development/ improvement of marketing/ quality control/storage and transportation of meat and meat products.	50% of total cost upto Rs 10 lakhs for PSUs/co-operatives/NGOs as grant. 50% of total upto Rs 10 lakhs for joint/assisted/ private sector as loan.
X	Generic advertisement on processed food and marketing assistance.	50% of cost of campaign upto Rs 25 as grant to central/State organisation. 50% of cost of campaign upto Rs.10 lakhs per annum for maximum period of 2 years to NGOs/cooperatives as grant

7.6.3 Financial Assistance from APEDA

Agricultural and Processed Food Products Export Development Authority (APEDA) is providing various types of incentives/assistance to exporters of agricultural produce, as follows:

Table 7.2: Financial Assistance from Agricultural and Processed Food Products Export Development Authority (APEDA)

I	Feasibility studies, surveys consultancy and database upgradation.	50% of the total cost subject to ceiling of Rs. 2 lakhs assistance to exporters, growers organisations, trade associations for conducting surveys, feasibility studies etc. 50% of the project cost subject to ceiling of Rs. 10 lakhs to semi-government/State Government/public sector undertakings.
II	Infrastructure development.	25% of the cost upto Rs.2.50 lakhs assistance for purchase of specialised transport unit. 25%/50% of the cost of equipment subject to ceiling of Rs. 5 lakhs/10 lakhs/25 lakhs/ 50 lakhs on mechanization of harvest operations/intermediate packaging material/ setting up of sheds/handling facilities/ preshipment treatment such as furnigation, X ray screening, hot water dip treatment. Integrated post harvest system/vapor, Heat treatment, irradiation facility/pollution control. Effluent treatment/high humidity cold storage, deep freezers, controlled atmosphere or modified atmospheres storage. 100% grant for establishing infrastructure facilities by APEDA or any other Government or public sector authority like airport authority of India or Port trust.
III	Export promotion and market development.	Cost of samples or freight or both subject to ceiling of Rs 50,000/-. 100% of the cost for publicity and market promotion by APEDA. 40% of the cost upto Rs.2 lakhs for publicity and promotion in preparation of product literature and publicity material.

		40% of the cost upto Rs 1 lakh for brand publicity through advertisement. 100% of the cost of Export promotion by APEDA for undertaking activities like buyer/seller meet, product promotion, exchange of delegation.
IV	Packaging development	50% of the cost of development upto Rs. 5 lakhs for developing packaging standard and design 100% in case of APEDA. 30% subsidy upto Rs. 1 lakh to exporters for use of packaging materials as per standards and specifications developed or adopted by APEDA.
V	Assistance to promote quality and quality control.	50% of the cost upto Rs 5 lakhs to exporters, producers, trade associations, public institutions for setting-up/strengthening laboratories. 50% of the cost upto Rs.2 lakhs to exporters and producers for quality assurance and quality control system such as ISO 9000, ISO 14000. HACCP. TQM etc.
VI	Up-gradation of meat plants	85% of the cost of upgradation of public sector/municipal slaughterhouses, processing plants engaged in exports for meeting with international standards. 25% of the cost upto Rs. 25 lakhs to privately owned slaughterhouse -processing plants engaged to export production to meet the international standards.
VII	Organisation Building and HRD	50% of the cost of approved training program upto Rs.50,000/- for domestic training to growers and manufacturer, exporter and export related organisation for upgradation for technical and managerial personnel through training in India excluding cost of travel. 50% of the cost of seminar/workshop upto Rs. 1 lakh for National seminar to recognised association of growers/exporters.
VIII	Generating relevant research and development by APEDA through research institutions for common benefit of the trade and industry	Upto 50% of the cost, maximum Rs. 5 lakhs for exporters and trade associations. In case of State/other Government organisation upto maximum of Rs. 10 lakhs to support relevant research and development for export and export enhancement.

7.8 INVESTMENT COST OF CHICKEN DRESSING-CUM-PRODUCT PROCESSING PLANT

To guide you, investment cost of chicken dressing-cum-products processing plant (250 birds/day) is being given here:

T: ble 7.3: Investment Cost of Chicken Dressing-cum-products Processing Plant (250 birds/ day)

Particulars	**Specifications (Rs.)**	**Unit Cost (Rs.)**	**Amount (Rs. in lakh)**
(1)	(2)	(3)	(4)
Land and Civil Works			
Cost of land	100 sqm	1,000/sqm	1.00
Cost of building	60 sqm	3,000/sqm	1.80
Water supply system			0.50
Total			3.30
Plant and Machinery			
Dressing (A)			
Cages	12	500/cage	0.06
Bleeding cones	1	18,000	0.18
Scalding tank	1	15,000	0.15
Defeathering machine	1	20,000	0.20
Rotatory dressing table	1	20,000	0.20
Chilling tank	1	10,000	0.10
Draining table/stand	1	8,000	0.08
Sub-total			0.97
Chicken product unit (B)			
Meat mincer	1	10,000	0.10
Meat mixer	1	10,000	0.10
Bowl chopper	1	1,50,000	1.50
Cooker	1	3,000	0.03
Sausage filler	1	8,000	0.08
Oven	1	15,000	0.15
Packaging machine	1	6,000	0.06
Tables		20,000	0.20
Mould and trays		5,000	0.05
Sub total			2.27
Miscellaneous Fixed Assets (C)			
Deep freezer	1 (300 liters)	50,000	0.50
Refrigerator	1 (300 liters)	20,000	0.20
Generator	1	25,000	0.25
Geysers	1	10,000	0.10
Three wheeler	1	65,000	0.65
Electricals			0.15
Sub-total			1.85
Total (A+ B+ C)			**5.09**
Working Capital			
Cost of birds	250 birds for 6 day	50/ bird	0.75
Contingencies			0.50
Total			1.25
Grand Total			**9.64**
Margin money			2.41
Bank loan			7.23

State Ministry of Food Processing Industries, Govt. of India is offering grant for setting up food processing unit including poultry meat processing unit in the private sector to the extent of Rs. 50 lakhs or 25% of the capital cost, whichever is lower. In the proposed product processing unit grant to the extent of Rs. 2.0 lakhs could be obtained and margin money (money which has to be the minimum input by an entrepreneur himself) and bank loan would be Rs. 1.90 and 5.74 lakhs respectively.

For grant, you can contact at the following address:

Deputy Secretary (Meat, Poultry, Fish, Cereals, Pulses, Oilseeds)
Panchsheel Bhavan,
August Kranti Marg,
New Delhi- 110 049.

Check Your Progress 1

1) Answer in True/False

   i) Margin money refers to the money which has to be the minimum input by an entrepreneur himself. (..................)

   ii) It is compulsory to have our own land to set up a meat processing unit. (..................)

   iii) A three wheeler used for the supply of prepared products is a fixed asset of the meat processing unit. (..................)

   iv) A working capital of 5 per cent is enough to run the unit. (..................)

   v) MFPI provides financial assistance even to the establishment of a cold chain. (..................)

   vi) MFPI is also sponsoring the entrepreneur development programmes in food processing. (..................)

2) Fill in the blanks:

   i) .... supports export oriented food processing units.

   ii) Physical infrastructure includes ....and ....

   iii) ....is the basic resource material for a meat processing unit.

   iv) A grant of Rs. .... crore is given by MFPI for the creation of common facilities in food parks.

   v) Dissemination of .... preservation technology is also a priority area of MFPI.

3) List the sources of long term finance.

   ....

   ....

   ....

   ....

   ....

7.9 LET US SUM UP

Physical infrastructure and equipment consume more than 70 per cent of the entire project cost of a meat-processing unit. Depreciation on physical infrastructure and equipment is calculated as 5 per cent and 10 per cent per annum respectively. A working capital of approximately 20 per cent is kept to cover the cost of meat, other ingredients and contingencies for a specified period of time. Ministry of Food Processing Industries provides a financial assistance of Rs. 2 Lakhs in the form of a grant on an investment of Rs. 10 Lakhs in the setting up of a meat-processing unit. Margin money has to be borne by the entrepreneur himself. Funds may come from owned capital, different commercial banks, national level financial institutions, state level institutions, cooperative societies, friends and relatives, indigenous bankers etc. APEDA also provides financial assistance for infrastructure development, packaging development and market development of export-oriented food processing units. You should maintain the expenditure cash flow statement, production statement and repayment schedule to satisfy the financial agency, licensing authority, tax authorities etc., as and when required.

7.10 KEY WORDS

APEDA : Agricultural and Processed Food Products Export Development Authority.

Grant : Grants are funds dispersed by one party, often a Government Department, corporation, foundation or trust, often (but not always) to a non profit entity, educational institution or business.

Loan : A loan is a type of debt. The borrower initially receives an amount of money from the lender, which they pay back, usually but not always in regular installments, to the lender.

MFPI : Ministry of Food Processing Industries.

7.11 SOME USEFUL BOOKS/REFERENCES

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7.12 ANSWERS TO CHECK YOUR PROGRESS

1) (i) True (ii) False (iii) True
   (iv) False (v) True (vi) True

2) Fill in the blanks.
   i) APEDA
   ii) land, civil work, water supply systems
   iii) meat
   iv) four
   v) low cost

3) The sources of long term finances are listed below:
   1) Owned funds
   2) Retained profits
   3) Friends and relatives
   4) Commercial banks
   5) National-level financial institutions like:
      - Industrial Development Bank of India (IDBI),
      - Small Industries Development Bank of India (SIDBI),
      - Industrial Finance Corporation of India (IFCI),
      - Industrial Investment Bank of India (IIBI),
      - Industrial Credit and Investment Corporation of India (ICICI),
      - Regional Rural Banks (RRBs),
      - National Bank for Agriculture and Rural Development (NABARD) etc.
   6) State-level financial institutions.