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PANESAR KENYA LIMITED - Executive Summary of the Business Transformation Modeling

Summary of conclusions:

- 1. Productivity enhancement – 30% on existing benchmarks**
- 2. Cost sheet improvements –15% in H1 and 23% in the CY 2017**
- 3. Financial engineering – Net margin 33%**

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<u>PANESAR KENYA LIMITED - DASHBOARD IMPLEMENTATION PROGRAMS</u>				
<u>ROADMAP-A: OPERATIONS</u>				
MANAGEMENT DERIVATIVES	WEEKS-1-3: PROGRAM		WEEKS-2-5: PROGRAM	
	Key activity	Elements within the key activity	Key activity	Elements within the key activity
<u>MANPOWER ACCOUNTING STANDARDS</u>	Structuring manpower	1. Dedicating teams for each work station in the process line	Maintenance systems structuring	1. Demonstrating the maintenance activities with the relevant structured teams in each work station
		2. Signing off the quality standards, jig templates (wooden) and standard timelines for structured contractual agreement		2. Documenting the quality and productivity gains through the augmented job card
<u>ZERO BASED BUDGETED TARGETS</u>		3. Identifying the knowledge and skill gaps on empirical understanding to formally grade (starting grades) the workmen in each station		3. Establishing the maintenance standards for each work station with the relevant teams

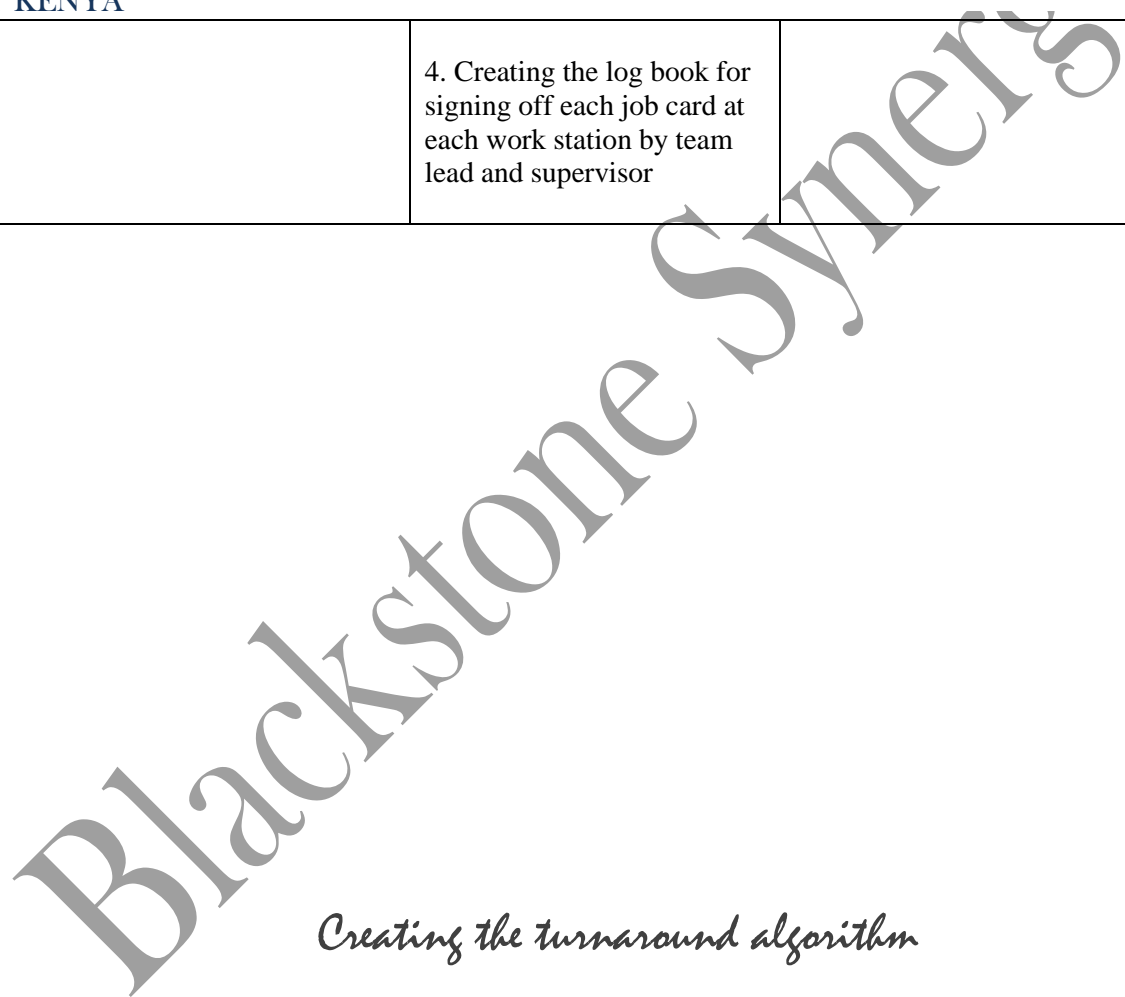
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		4. Creating the log book for signing off each job card at each work station by team lead and supervisor	4. Creating the detailed maintenance check sheets for each equipment and getting the sign-in by each stake holder post-training and demonstration
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<u>ROADMAP-B: STRATEGIC SALES AND FINANCIAL MAPPING</u>				
MANAGEMENT DERIVATIVES	WEEKS-1-3: PROGRAM		WEEKS-2-5: PROGRAM	
	Key activity	Elements within the key activity	Key activity	Elements within the key activity
<u>AUGMENTED JOB CARD AS AN APPRAISAL CARD - BOTH PROCESS AND MANPOWER</u>	Creating visual quality prototypes for A1 categories	5. Promoting the job card to the status of an appraisal card in the workshop	Cost sheet structuring and sales push	5. Factoring the maintenance standard variances in the appraisal program of the augmented job card
		1. Standardization of the jigs for graded perfection to achieve the A1 grades for each work station		1. Contribution estimation for each genere in the job card
		2. Buy-in signing off of the templates / jigs by each workman in the relevant work station		2. Structuring the contribution trends with classification of products into main and sub-categories
		3. New design standardization and signing in by the stakeholders		3. Engineering improvements in low yield products to register growth in margins

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	<p>Standardizing the timeline at each station for specific job cards- each genre to be addressed</p> <p>Standardizing the finishing material to be used for specific job cards - each genre to be addressed</p>	Public place displays of all the standards for each genre of job card for easy references and seamless documentation for future CBA contracts		<p>4. Converting improvements for registering higher margins in high-yield products</p> <p>1. Classifying the key elements of the balance sheet (refer the executive summary)</p>
<p><u>FINANCIAL PERFORMANCE SCORECARD</u></p>	<p>Augmenting existing job card</p>	<p>1. Including stage wise quality of timber</p> <p>2. Creating the scorecard that estimates variances in workmanship(quality) and conversion timelines (productivity)</p> <p>3. Scorecard for finishing to be included that measures variances in material consumption and factor the same in the job card</p>	<p>Balance sheet consolidation</p>	<p>2. Creating appraisal cards for the sales teams</p> <p>3. Factoring the appraisal cards of the workshop job cards and the sales teams into the balance sheet (refer the elements of the executive summary)</p> <p>5. Creation of value to engineer the PBIT / Net profitability through new sales strategies aligned to the operations and conversion dynamics</p>

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ROADMAP-C: SUSTAINABILITY LOOP CREATION				
MANAGEMENT DERIVATIVES	WEEKS-4-7: PROGRAM		WEEKS-4-7: PROGRAM	
	Key activity	Elements within the key activity	Key activity	Elements within the key activity
<u>BALANCED SCORECARD GOALS</u>	MANAGEMENT REVIEW PROGRAMS - <u>Operations</u>	Operational indicators of job card turnover	Gradual movement towards Balanced Scorecard programs - financial and operational consolidation	Gradual linking of PBIT to the job card augmentation
		Critical spares consumption		
		Finishing material consumption trends		
		Scope for further improvements - innovation cycles		
	MANAGEMENT REVIEW PROGRAMS - <u>Strategic</u>	Cost sheet analysis on standard balance sheet fundamentals(review white paper)		
		Sales configuration		
		New clients initiatives and results		

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		Product segmentation and pricing points of equilibrium	
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A. STRATEGIC OPERATIONS – MANAGEMENT AND CONTROLS

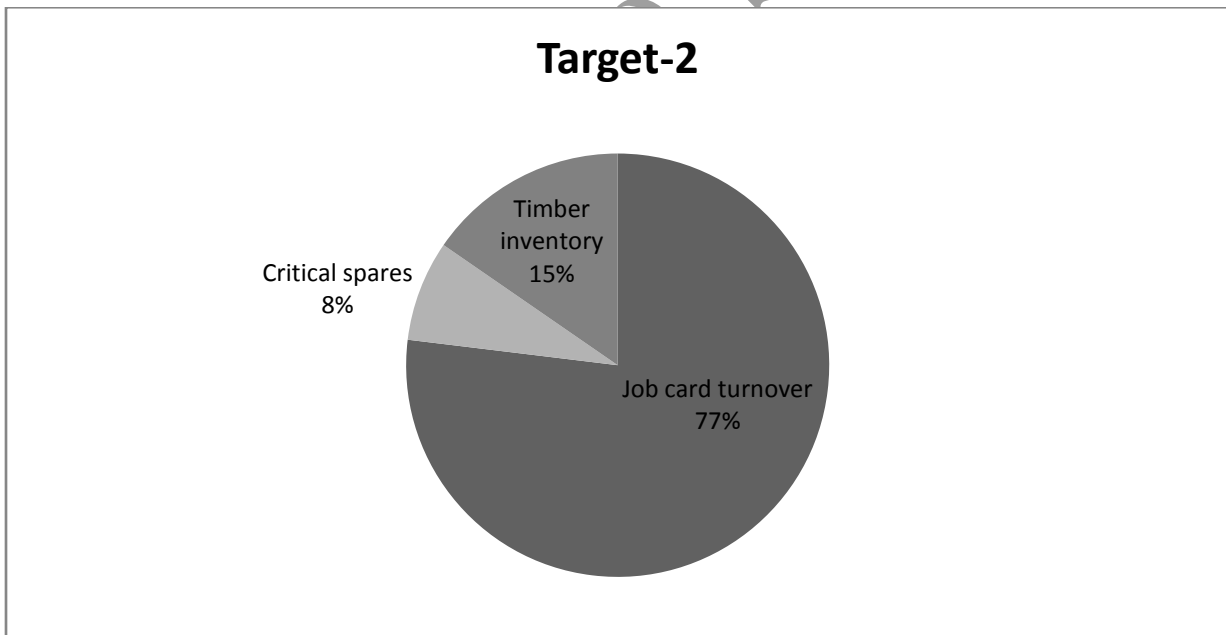
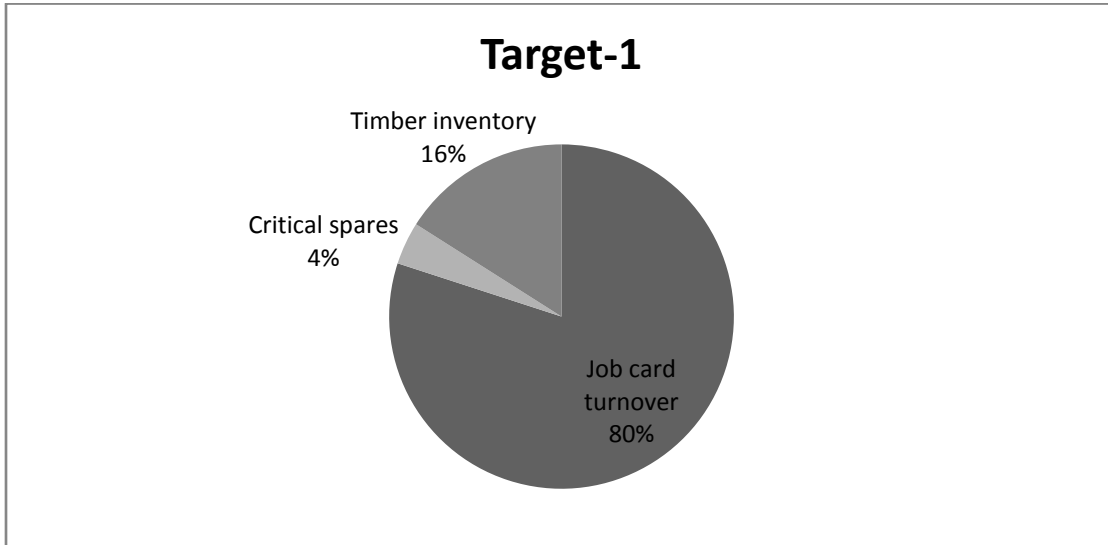
A: STRATEGIC OPERATIONAL INITIATIVES - PANESAR KENYA LIMITED - the delivery points on cost sheet elements									
Analysis of the element costs on the operating costs sheet					Overall impact on costs of elements		Discounting Factor (Element - actual operating costs in costs sheet)	Overall impact on costs of operations	
Impacting factor	UoM- Units of measure	Current benchmarks	HY 2017 targets-1	CY 2017 targets-2	Target-1	Target-2		Target -1	Target-2
Job card turnover	Days	15	9	6	40%	60%	30%	12.0%	18.0%
Critical spares	Months	6	12	18	100%	200%	0.05%	0.6%	1.8%
Timber inventory	Number of kiln fills annually	5	3	3	40%	40%	15%	2.4%	3.6%
							Aggregate impact on product costs	15.0%	23.4%

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A.1. Kiln Management derivatives:

- a) Existing turnover time: 30 days with a combination of logs and cut pieces of user-specific dimensions
- b) Enhanced turnover with kiln optimization: 10 days with only logs – straight after offloading at site with the provision for storing the dried logs in the kiln with the right equilibrium moisture conditions in an inactive mode
- c) Average replenishment lead time: 3-4 months depending on the production programs and usage density @80-85% exhaustion levels in the kiln
- d) Finally, the kiln needs to run for 30 days in a year for 10 days per cycle and the inventory of logs shall be restricted to three kiln fills with no stock in wait outside the kiln
- e) Potential savings – at least 2 replenishment cycles in a year and hence the inventory savings boils down to 2/5 or 40%.
- f) Kiln savings in terms of fuel and energy are ignored in this process since the savings, although substantial in absolute terms do not translate to a major impact in the timber costs.

A.2. Critical spares – costs implications in the plant:

- a) Standardized international norms for advanced manufacturing systems: 2000 operating hours translating to approximately 20 months of equipment run (twice the overall plant run of 10 months for 2000 operating hours)
- b) Condition based maintenance systems that factor in visual quality standards for each work station as the guideline for initiating actions and maintaining the equipment.
- c) Target for first financial quarter shall be 1200 operating hours or 12 working months life span for all the critical spares right through the plant and 1500 hours capability enhancement in the second quarter. Within three working quarters, the capability enhancement is expected to be to the tune of 2000 operating hours.
- d) Potential Savings: Cost of maintenance and repairs inclusive of replenishment of critical spares:
 - d.1. Current levels: approximately 6 months of replenishment cycle.

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d.2. Initial improvement levels (to be achieved within the first two financial quarters): 12 months for replenishment cycle

d.3. Final settling levels (to be achieved within the end of CY 2017): 18 months for replenishment cycle.
Job card turnover time:

A.3.1. Current levels: Benchmark levels of each job card

A.3.2. HY 2017 levels: AVERAGE 40% turnover time reduction on the job card (ALL JOBS PUT TOGETHER)

A.3.3. FY 2017 levels: AVERAGE 60% turnover time reduction on the job card (ALL JOBS PUT TOGETHER)

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B.STRATEGIC MARKETING AND SALES TURNOVER

B.1: STRATEGIC PROFITABILITY INITIATIVES - FINANCIAL INDICATORS IN THE SCENARIO ANALYSIS FOR CY 2017								
Operating Contribution			PBIT			EAT		
Best	Average	Worst	Best	Average	Worst	Best	Average	Worst
51.1%	44.5%	36.7%	46.9%	39.2%	29.7%	33.1%	27.8%	21.3%
B.2: SALES DYNAMICS IN THE FINANCIAL MODEL								
PRODUCT CLASS	Operating Contribution		PBIT		EAT			
	Best	Product share	Best	Product share	Best	Product share		
OVERALL	51.1%		46.9%		33.1%			
A	4.8%	9.4%	4.3%	9.2%	3.1%	9.2%		
B	4.2%	8.2%	3.8%	8.2%	2.7%	8.2%		
C	2.8%	5.5%	2.6%	5.5%	1.8%	5.5%		
D	21.8%	42.6%	20.0%	42.7%	14.1%	42.7%		
E	17.5%	34.3%	16.1%	34.4%	11.4%	34.4%		

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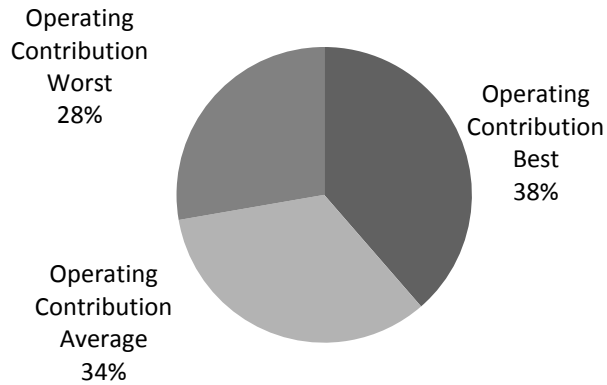
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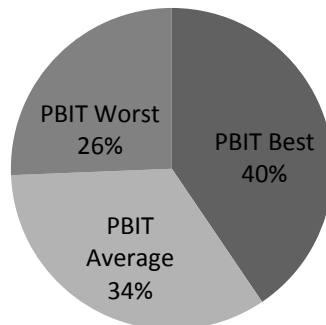
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AGGREGATE ANALYSIS OF THE PRODUCT CONTRIBUTION - 2017 SCENARIO



AGGREGATE ANALYSIS OF PBIT - 2017 SCENARIO



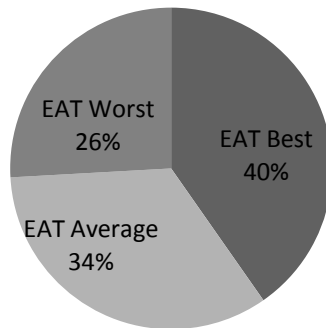
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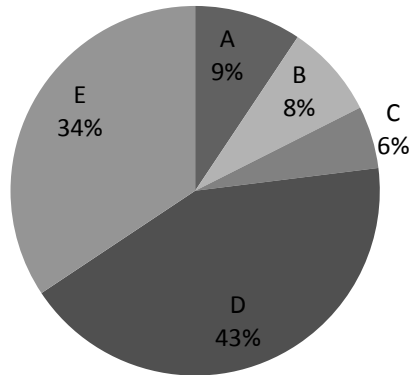


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AGGREGATE ANALYSIS OF THE EAT - 2017 SCENARIO



Segment Analysis of products



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B.1. Real time analysis of product classification and segmental performances in terms of the key financial indicators like contribution per unit sales, gross operating margins and the net profitability after taxation and interests payout.

B.2. Branding products into pricing clusters and building strategies for growth in various clusters within the same product group are the initiatives that shall make a difference.

B.3. Linking the key financial indicators with sales and operating performances as also the supply chain management to clarify the links and the KRA as well KPI scores on a quantitative mode for adaptation to real time profitability and accountability.

Scenario	Variable Expenses Grid						
	Timber Costs	Cutting list realization cost - A PERCENTAGE OF TIMBER COSTS	Materials to be used	Maintenance and repair costs	Energy Costs	Supply chain costs	Branding and marketing costs
Best	2%	90%	0.25%	1.00%	0.20%	5.00%	10%
Average	3%	88%	0.50%	1.50%	0.35%	7.50%	15%
Worst	5%	85%	1.00%	2.00%	0.50%	10.00%	20%

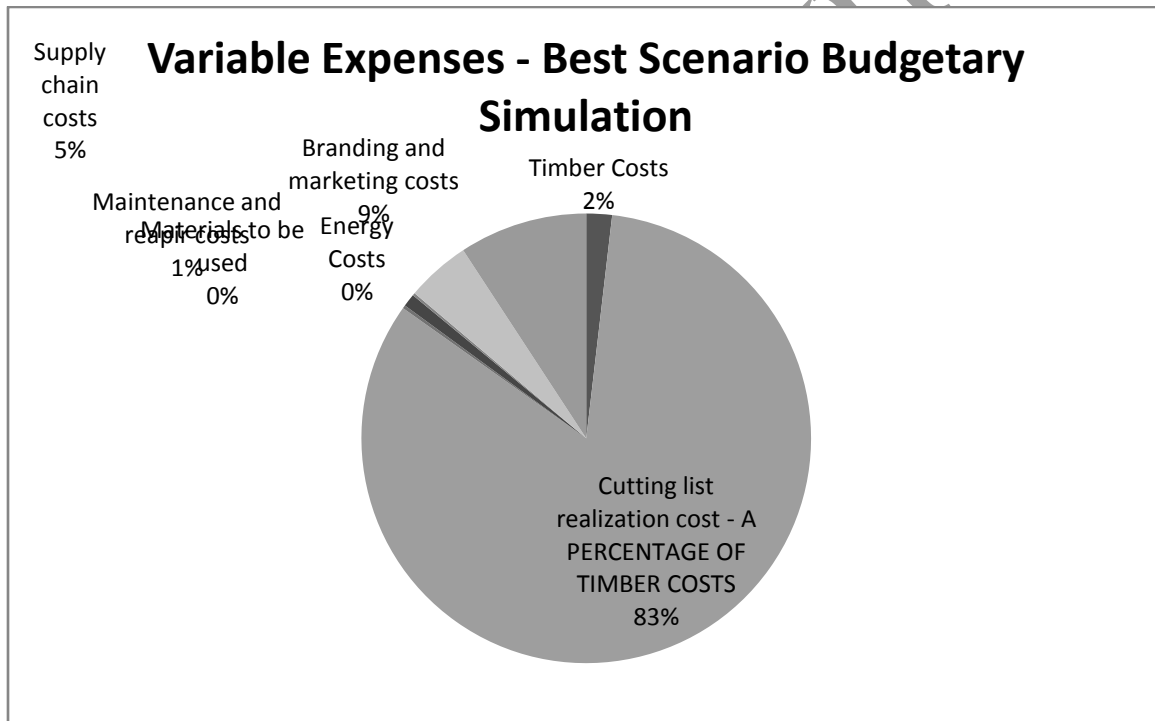
Scenario	Fixed Expenses Grid					
	Direct labor	Overheads	Administrative costs	Warehouse costs - timber	Plant rental costs (notional)	Showroom costs
Best	2.00%	1.00%	0.50%	0.30%	1.00%	1.25%
Average	2.50%	1.25%	0.75%	0.35%	1.50%	1.50%
Worst	3.00%	1.50%	1.00%	0.50%	2.00%	2.00%

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Scenario	Capital Financing Costs	
	Interests on capital employed in operations	Outstanding debt payout on operations
Best	0.15%	1.50%
Average	0.20%	2.00%
Worst	0.25%	2.50%



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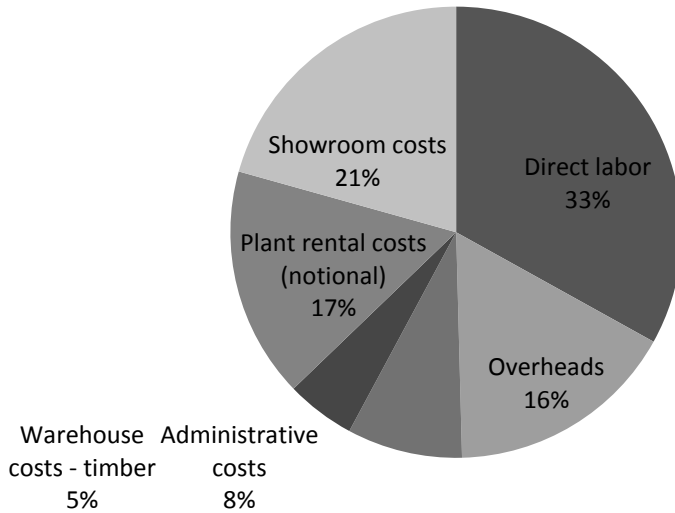
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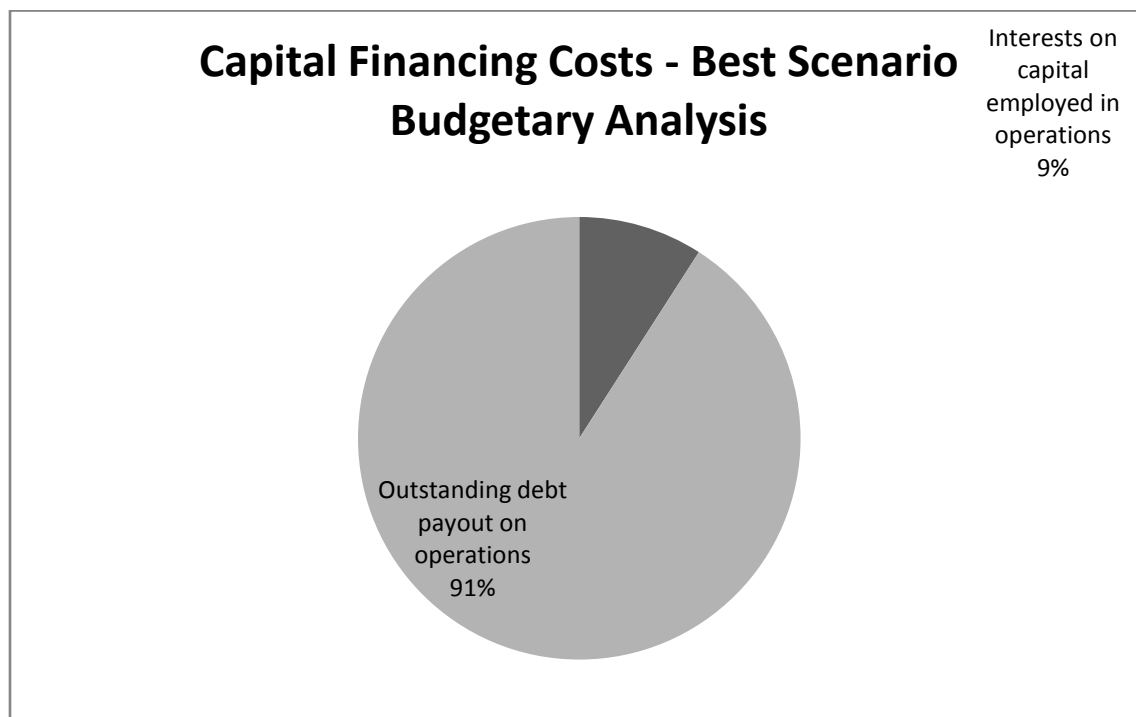
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Fixed Expenses - Best Scenario Budgetary simulation



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Fundamentals of zero based budgeting for Panesar Kenya Limited

1. The current budgetary estimates need to be pegged in this grid for a comparative analysis of the core issues of concern.
2. The best scenario analysis is an indicator for an ideal budget to get the right contribution and the concomitant derivatives of gross operating profit and net profitability.
3. The turnaround initiatives shall begin around this grid to get the desired yield in the business process model.

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C. STRATEGIC MANPOWER MANAGEMENT

C.1. Assessment of key supervisory and executive staff in quantitative modes for bringing in objectivity in the compensation, raise and promotion schemes of the advanced appraisal mechanisms.

C.2. Factoring the management growth strategies in the compensation structure of the organization to enable higher profitability tracks to be in place.

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	Elemental analysis of manpower accountability					Target-1: HY 2017		Target-2: CY 2017		Overall improvement % on manpower
	Responsibility Grid			Accountability grid		Accountability grid		Accountability grid		
	Team	Responsibility by description	Responsibility weight	Failure contribution	Individual scores	Failure contribution	Individual scores	Failure contribution	Individual scores	
KILN & TIMBER MANAGEMENT - CUTTING LIST	1	Area Supervisor	0.34	13%	52.7%	6%	77.2%	4%	84.7%	61%
	2	Operative	0.22	9%	55.6%	4%	78.9%	3%	86.0%	55%
	3	Operative	0.22	9%	55.6%	4%	78.8%	3%	86.0%	55%
	4	Operative	0.22	9%	55.6%	4%	78.8%	3%	86.0%	55%
MACHINING	1	Area Supervisor	0.34	11%	60.2%	6%	77.2%	4%	84.7%	41%
	2	Operative	0.22	7%	62.8%	4%	78.9%	3%	86.0%	37%
	3	Operative	0.22	7%	62.8%	4%	78.8%	3%	86.0%	37%
	4	Operative	0.22	7%	62.8%	4%	78.8%	3%	86.0%	37%
JOINERY	1	Area Supervisor	0.34	12%	56.0%	6%	77.2%	4%	84.7%	51%
	2	Operative	0.22	8%	59.1%	4%	78.9%	3%	86.0%	45%
	3	Operative	0.22	8%	59.1%	4%	78.8%	3%	86.0%	45%
	4	Operative	0.22	8%	59.1%	4%	78.8%	3%	86.0%	45%



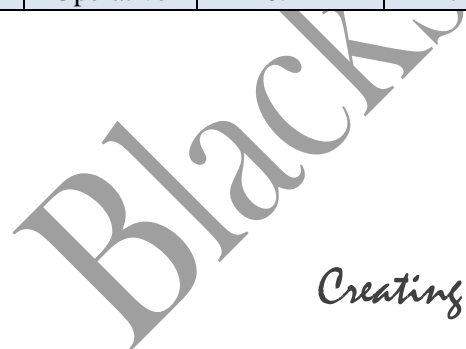
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	Elemental analysis of manpower accountability				Target-1: HY 2017		Target-2: CY 2017		Overall improvement % on manpower	
	Responsibility Grid		Accountability grid		Accountability grid		Accountability grid			
	Team	Responsibility by description	Responsibility weight	Failure contribution	Individual scores	Failure contribution	Individual scores	Failure contribution		Individual scores
CARPENTRY - HIGH SKILL SEGMENTS	1	Area Supervisor	0.34	9%	66.9%	6%	77.2%	4%	84.7%	27%
	2	Operative	0.22	6%	69.2%	4%	78.9%	3%	86.0%	24%
	3	Operative	0.22	6%	69.2%	4%	78.8%	3%	86.0%	24%
	4	Operative	0.22	6%	69.2%	4%	78.8%	3%	86.0%	24%
FINISHING	1	Area Supervisor	0.34	11%	60.2%	6%	77.2%	4%	84.7%	41%
	2	Operative	0.22	7%	62.8%	4%	78.9%	3%	86.0%	37%
	3	Operative	0.22	7%	62.8%	4%	78.8%	3%	86.0%	37%
	4	Operative	0.22	7%	62.8%	4%	78.8%	3%	86.0%	37%

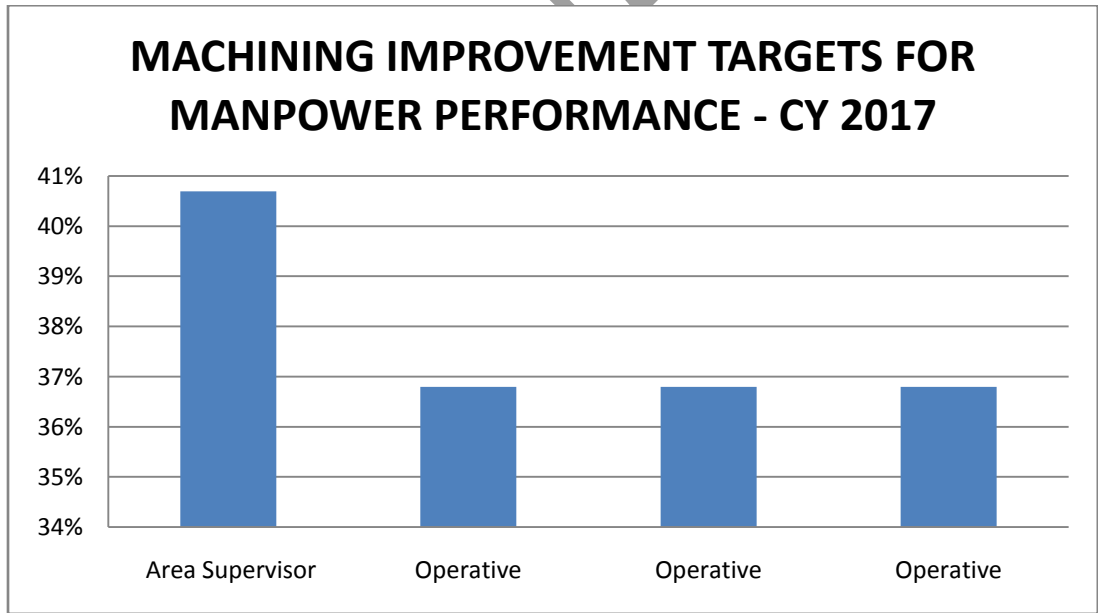
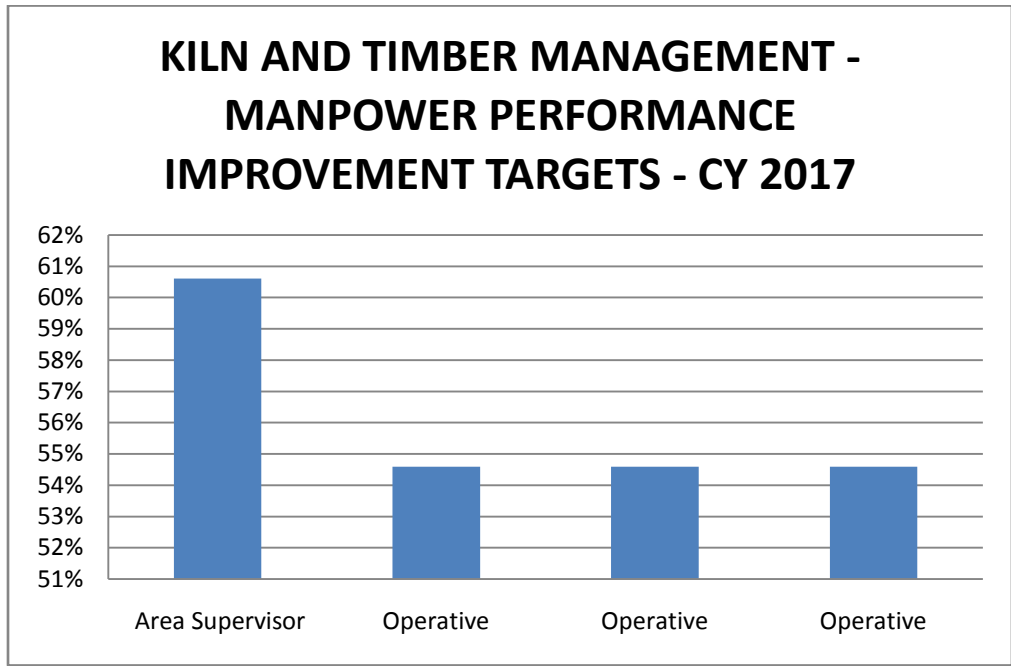


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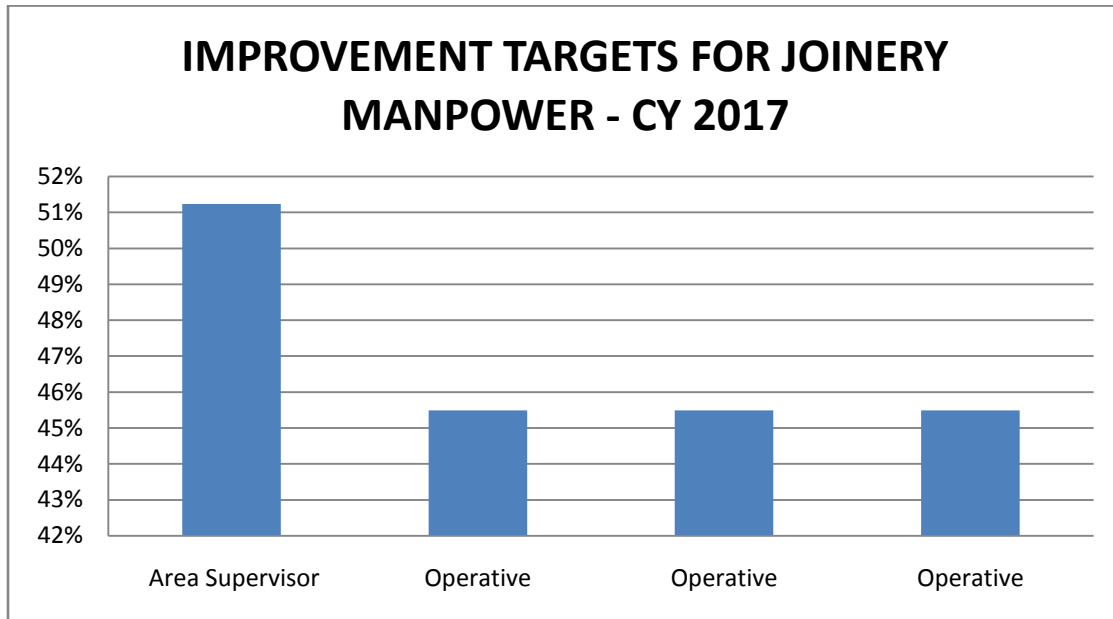


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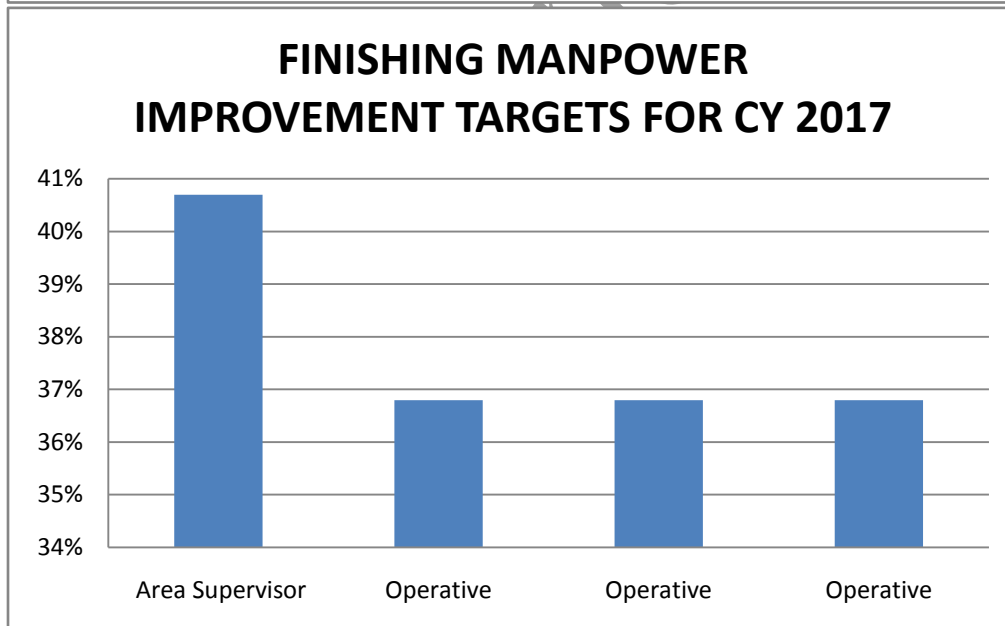
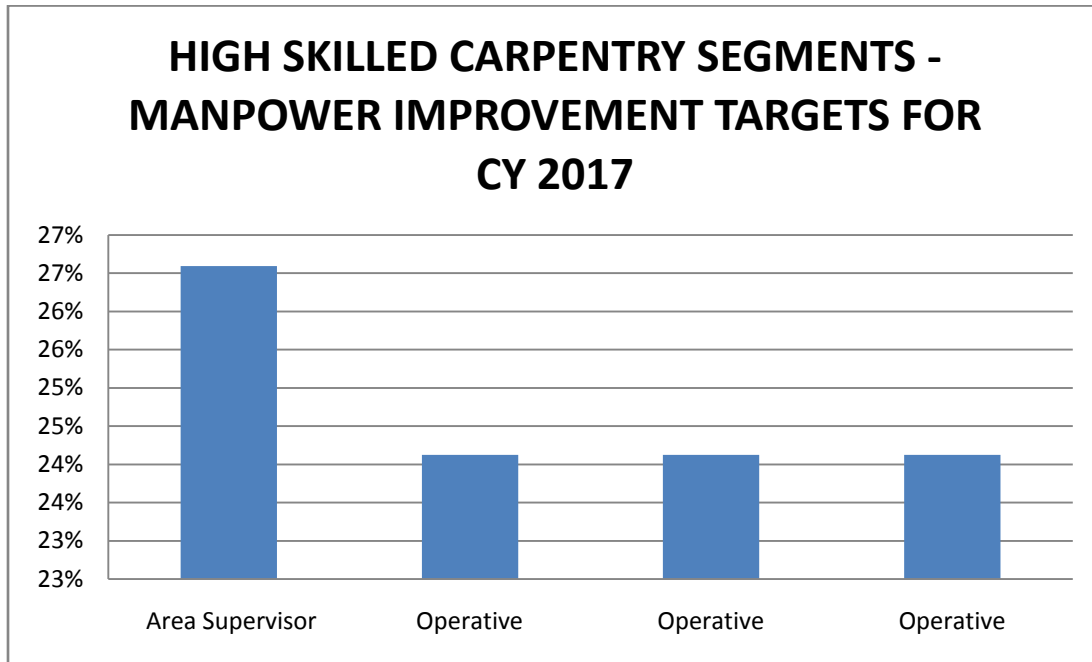
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