
Pre-Feasibility Study

SOFTWARE HOUSE



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Ministry of Industries & Production
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1 DISCLAIMER

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2 EXECUTIVE SUMMARY

Pakistan has a huge potential to attract IT-enabled services market by providing software applications to various developed countries. The demand is expected to flourish in the upcoming years. Many countries prefer outsourcing from Pakistan because of the lower cost of manpower and advanced technological infrastructure. It enables the IT sector to bring in good investment opportunities in the country as well as to create of more job opportunities in Pakistan.

This pre-feasibility study provides information on key aspects of establishing a software house that will cater to both local and export markets and can be located in any big city of Pakistan. The software house will offer a wide range of software applications relating to data bases and creation of animations. The applications mainly encompass technology outsourcing, systems integration, application development, processes consulting, business intelligence consulting, and information security consulting among others. Background knowledge and technical qualification of the entrepreneur and key staff is extremely important in success of the proposed venture.

The estimated cost of the project is Rs.6.80 million out of which Rs. 4.76 million would be capital investment and remaining Rs. 2.05 million would be for working capital. The project is proposed to be financed through 50% debt and 50% equity. The project NPV is around Rs. 6.68 million, with an IRR of 38% and payback period of 3.23 years. The project will provide employment opportunities to 13 people including owner manager. The legal business status of this project is proposed as 'Sole Proprietorship'.

3 INTRODUCTION TO SMEDA

The Small and Medium Enterprises Development Authority (SMEDA) was established in October 1998 with an objective to provide fresh impetus to the economy through development of Small and Medium Enterprises (SMEs).

With a mission "to assist in employment generation and value addition to the national income, through development of the SME sector, by helping increase the number, scale and competitiveness of SMEs" , SMEDA has carried out 'sectoral research' to identify policy, access to finance, business development services, strategic initiatives and institutional collaboration and networking initiatives.

Preparation and dissemination of prefeasibility studies in key areas of investment has been a successful hallmark of SME facilitation by SMEDA.

Concurrent to the prefeasibility studies, a broad spectrum of business development services is also offered to the SMEs by SMEDA. These services include identification of experts and consultants and delivery of need based capacity building programs of different types in addition to business guidance through help desk services.

4 PURPOSE OF THE DOCUMENT

The objective of the pre-feasibility study is primarily to facilitate potential entrepreneurs in project identification for investment. The project pre-feasibility may form the basis of an important investment decision and in order to serve this objective, the document / study covers various aspects of project concept development, start-up, production, marketing, finance and business management.

The purpose of this document is to facilitate potential investors in **Software House** business by providing them a general understanding of the business with intention of supporting potential investors in crucial investment decisions.

The need to come up with pre-feasibility reports for undocumented or minimally documented sectors attains greater imminence as the research that precedes such reports reveal certain thumb rules; best practices developed by existing enterprises by trial and error and certain industrial norms that become a guiding source regarding various aspects of business set-up and it's successful management.

Apart from carefully studying the whole document, one must consider critical aspects provided later on, which shall form the basis of any investment decision.

5 BRIEF DESCRIPTION OF PROJECT & PRODUCT

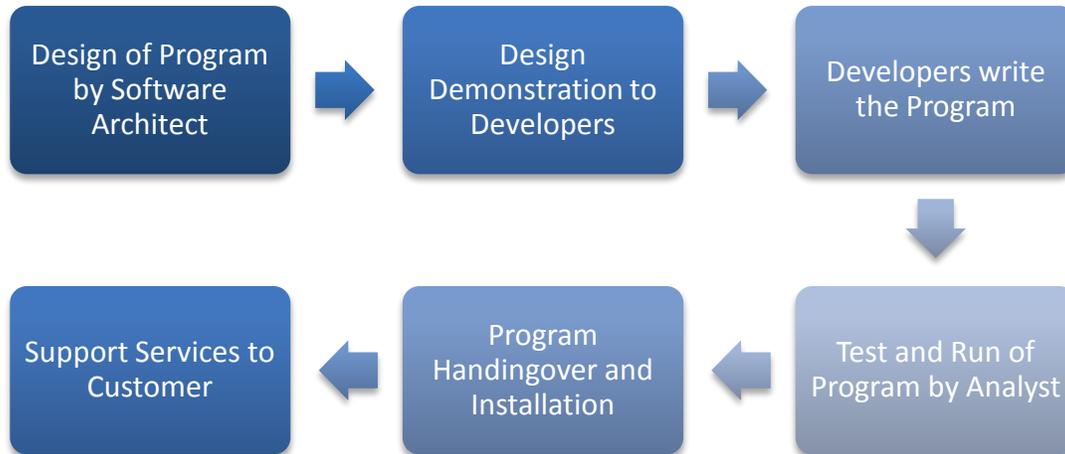
The pre-feasibility study provides information on two of the main sub sectors of software development industry in Pakistan; namely Database Development and Animations. These sub sectors offer aspiring entrepreneurs a compelling opportunity to establish business in one of the top export oriented sectors of Pakistan. Easy and sustained access to highly trained professionals coupled with availability of required infrastructure makes this sub sector an attractive opportunity for entrepreneurs to venture into software development in Pakistan.

This project mainly focuses on potential investment opportunity in the area of software development and more precisely data base development and animation creation. However, other products and services related to various sectors such as finance, insurance, human resource etc. can also be offered under the project, without any additional equipment.

The proposed software house is based upon two divisions, each consisting of a software architect, an analyst and two developers working on an 8 hour shift and generating around 4,160 value hours for customers. In order to set-up a Software House, the entrepreneur needs to get a high bandwidth internet connection from a renowned service provider.

5.1 Process Flow of Services

The process flow of software house services mainly entails the following sequence of activities:



5.2 Installed & Operational Capacities

This pre-feasibility is based on Two (2) parallel project teams; comprising of one (01) software architect, one (01) software analyst and two (02) developers working on 8 hours single shift daily. Total number of value hours to serve customers is 4,160. However, it is assumed that employees would work at 65% efficiency level during first year of operation with 2,704 value hours.

6 CRITICAL FACTORS

Following are the factors critical for the success of this business venture;

- ⇒ Background knowledge and technical qualification of the entrepreneur and key staff.
- ⇒ Thorough understanding of international regulations related to piracy and copyright protection.
- ⇒ Hiring and retention of competent and trained manpower
- ⇒ Higher return on investment and a steady growth of business is closely associated with regular training and capacity building of the entrepreneur and key staff.
- ⇒ Stringent supervision of the development process at every level.
- ⇒ Continuous flow of exports orders through aggressive marketing (website & social media) and international networking.
- ⇒ Formulation and implementation of customer follow up and feedback systems
- ⇒ Make effective use of facilitation agencies like P@SHA, PITB and PESB etc.

7 GEOGRAPHICAL POTENTIAL FOR INVESTMENT

The recommended location for establishing a software house is a commercial plaza of any large metropolitan city of Pakistan due to the easy availability of required labor and IT infrastructure.

In this regard, Pakistan Software Export Board (PSEB) has established Software Technology Parks (STPs) in Islamabad, Karachi, and Lahore to facilitate the IT and IT-enabled Services (ITeS) companies operating in Pakistan. Designed with a view to getting business ventures up and running in the shortest possible time, these STPs provide office space with all the modern conveniences in prime business locations in these major cities. These dedicated premises provide a comfortable working environment, high-speed international data connectivity, and an uninterrupted power supply, with minimal regulatory overheads and paperwork, to its registered companies.

Additionally, STPs in all these cities have facilities for conferences/seminars, business centers, adequate security arrangements, and ample parking space. Investors can lease out office space in an existing Software Technology Park (STP).

8 POTENTIAL TARGET MARKETS

In local market there is great trend towards automation of business processes and a lot of small, medium and large organizations are converting their processes from paper-pencil methodology to IT based processes.

Whereas, in export market, United States of America is the largest buyer of Pakistan IT-enabled services followed by UK, Australia, Canada, Thailand, UAE and others countries.

9 PROJECT COST SUMMARY

A detailed financial model has been developed to analyse the commercial viability of Software House. Various costs and revenue related assumptions along with results of the analysis are outlined in this section.

The projected Income Statement, Cash Flow Statement and Balance Sheet are also attached as annexure.

9.1 Project Economics

This project has capacity to generate 4,160 value hours, which would be utilized at 65% efficiency in project's life.

The following table shows Internal Rate of Return (IRR), Payback Period and Net Present Value (NPV).

Table 1: Project Economics

| Description | Details |
|-------------------------------|---------------|
| Internal Rate of Return (IRR) | 38% |
| Pay Back Period | 3.23 Years |
| Net Present Value (NPV) | Rs. 6,675,900 |

Returns on the scheme and its profitability are highly dependent on acquiring and maintaining export orders, adhering to the schedules. Quality assurance and adherence to international standards are other considerations.

9.2 Project Financing

Following table provides the details of required equity and variables related to bank loan:

Table 2: Project Financing

| Description | Details |
|---|---------------|
| Total Equity (50%) | Rs. 3,401,526 |
| Bank Loan (50%) | Rs. 3,401,526 |
| Annual Markup to the Borrower– Long Term Loan | 12% |
| Tenure of the Loan (Years) | 5 |

9.3 Project Cost

Following fixed and working capital requirements have been identified for operations of the proposed business.

Table 3: Project Investment

| Capital Cost | Amount Rs. |
|------------------------------|------------------|
| Office Equipment | 2,264,000 |
| Furniture and Fixtures | 2,208,750 |
| Pre-operating Cost | 270,530 |
| Training Costs | 14,000 |
| Total Capital Cost | 4,757,280 |
| Working Capital | |
| Building Rent | 744,000 |
| Cash | 1,301,772 |
| Total Working Capital | 2,045,772 |
| Total Project Cost | 6,803,052 |

9.4 Office Equipment Requirement

Following tables provides list of office equipment required for setting-up an average size software house.

Table 4: Office Equipment

| Description | Quantity | Unit Cost (Rs.) | Total Cost (Rs.) |
|---|----------|-----------------|------------------|
| Laptop (Window Based) | 4 | 100,000 | 400,000 |
| Laptop (IOS Based) | 5 | 125,000 | 625,000 |
| Computer Server (Refurbished) | 1 | 1,000,000 | 1,000,000 |
| Multipurpose Machine (Printing/Scanning/Coping/Fax) | 2 | 30,000 | 60,000 |
| Desktop PCs | 2 | 40,000 | 80,000 |
| Telephone | 7 | 2000 | 14,000 |
| Thumb Impression Device | 1 | 35,000 | 35,000 |
| Telephone exchange | 1 | 50,000 | 50,000 |
| Total | | | 2,264,000 |

9.5 Furniture and Fixture Requirements

The details of required furniture and fixture for the proposed software house are provided in the following table:

Table 5: Furniture and Fixture Required

| Description | Quantity | Unit Cost (Rs.) | Total Cost (Rs.) |
|---------------------------------|----------|-----------------|------------------|
| CEO Office | 1 | 150,000 | 150,000 |
| Fixtures Including Renovation | 1 | 250,000 | 250,000 |
| Presentation Equipment | 1 | 100,000 | 100,000 |
| Architect Office | 1 | 200,000 | 200,000 |
| Analysts Office | 1 | 200,000 | 200,000 |
| False Ceiling | 1,125 | 85 | 95,625 |
| Wooden Flooring | 1,125 | 185 | 208,125 |
| Developers Work Stations | 1 | 160,000 | 160,000 |
| Lighting and Allied Equipment | 1 | 100,000 | 100,000 |
| Conference Room Furniture Set | 1 | 175,000 | 175,000 |
| Reception | 1 | 150,000 | 150,000 |
| Air Conditioner (1.5 ton Split) | 6 | 70,000 | 420,000 |

| Description | Quantity | Unit Cost (Rs.) | Total Cost (Rs.) |
|--------------|----------|-----------------|------------------|
| Total | | | 2,208,750 |

9.6 Space Requirement

The proposed software house will be set-up in a rental premises. In this regard office space may be acquired in a commercial plaza or existing Software Technology Parks in any of the metropolis city of Pakistan. An estimated covered area of 1,550 sq. ft. will be required for the proposed venture; this space requirement has been calculated on the basis of proposed manpower and other official engagements. Following table provide the details of space requirement:

Table 6: Space Requirement

| Space Requirement | Covered Area Sq. ft. |
|-------------------|----------------------|
| CEO Office | 200 |
| Analysts Area | 150 |
| Architects Area | 150 |
| Developers Area | 200 |
| Reception | 425 |
| Conference Room | 425 |
| Total Area | 1,550 |

The estimated rent of required office space in a commercial plaza or Software Technology Parks in a large city is assumed at Rs. 80 per sqft per month with back-up electricity, i.e. Rs. 124,000 per month for the proposed software house.

9.7 Human Resource Requirement

Following table provides details of human resource required for the project along with monthly salaries:

Table 7: Human Resource Requirement

| Description | No. Of Employees | Salary per Employee Per Month (Rs) |
|--------------------|------------------|------------------------------------|
| CEO | 1 | 200,000 |
| Software Architect | 2 | 150,000 |
| Analysts | 2 | 100,000 |
| Developers | 4 | 50,000 |
| Accountant | 1 | 25,000 |

| | | |
|----------------|-----------|--------|
| Receptionist | 1 | 25,000 |
| Office Boy | 1 | 15,000 |
| Security guard | 1 | 15,000 |
| Total | 13 | |

The CEO will focus on export marketing, monitoring products along with overall management of the unit. Whereas, business operations and other responsibilities will be managed by respective project staffs. Salaries of all employees are estimated to increase at 10% annually.

9.8 Revenue Generation

Following table provide assumption for revenues and generation of the proposed software house during first year of operation:

Table 8: Revenue Generation in First Year

| Product Description | Unit | Sales Price (Rs./Unit) | First Year Sales Quantity (Hours) | First Year Sales Revenue (Rs) |
|------------------------------|------|------------------------|-----------------------------------|-------------------------------|
| Value Hours (65% Efficiency) | Hour | 8,000 | 2,704 | 21,632,000 |
| Total Sales Revenue | | | | 21,632,000 |

9.9 Other Costs

Other essential costs to be borne by the company are; promotional expenses equal to 10% of revenue and communication expenses of 240,000 per annum due to the export orientation of the business.

10 CONTACT DETAILS

| Contact Details of Institutions | |
|---|---|
| <p>Pakistan Software Houses Association for IT & ITES (P@SHA) Secretariat Room 310, 3rd Floor, Business Center, Block 6, PECHS, Main Shahrah-e-Faisal, Karachi, Pakistan Phone: +92-21-35418121, +92-21-36061051, +92-21-32008251</p> | <p>Pakistan Software Export Board (PSEB) Islamabad - Head Office 2nd Floor, Evacuee Trust Complex, F-5, Islamabad UAN: +92-51-111-333-666, Telephone: +92-51-9204074, Fax: +92-51-9204075</p> |

11 USEFUL LINKS

| | |
|--|--|
| Small and Medium Enterprises Development Authority | www.smeda.org.pk |
| Government of Pakistan | www.pakistan.gov.pk |
| Ministry of Industries & Production | www.moip.gov.pk |
| Government of Punjab | www.punjab.gov.pk |
| Government of Sindh | www.sindh.gov.pk |
| Government of Khyber Pakhtunkhwa | www.khyberpakhtunkhwa.gov.pk |
| Government of Balochistan | www.balochistan.gov.pk |
| Government of GilgitBaltistan | www.gilgitbaltistan.gov.pk |
| Government of Azad Jamu & Kashmir | www.ajk.gov.pk |
| Trade Development Authority of Pakistan (TDAP) | www.tdap.gov.pk |
| Federation of Pakistan Chambers of Commerce and Industry (FPCCI) | www.fpcci.com.pk |
| Pakistan Software Export Board | www.pseb.org.pk |
| Pakistan Software Houses Association for IT and ITEs | www.pasha.org.pk |

12 ANNEXURES

12.1 Income Statement

| Calculations | | | | | | | | | | SMEDA |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Income Statement | | | | | | | | | | |
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
| Revenue | 21,632,000 | 23,795,200 | 26,174,720 | 28,792,192 | 31,671,411 | 34,838,552 | 38,322,408 | 42,154,648 | 46,370,113 | 51,007,124 |
| <i>Cost of sales</i> | | | | | | | | | | |
| Operation costs 1 (direct labor) | 8,400,000 | 9,240,000 | 10,164,000 | 11,180,400 | 12,298,440 | 13,528,284 | 14,881,112 | 16,369,224 | 18,006,146 | 19,806,761 |
| Operating costs 3 (direct electricity) | 480,000 | 528,000 | 580,800 | 638,880 | 702,768 | 773,045 | 850,349 | 935,384 | 1,028,923 | 1,131,815 |
| Total cost of sales | 8,880,000 | 9,768,000 | 10,744,800 | 11,819,280 | 13,001,208 | 14,301,329 | 15,731,462 | 17,304,608 | 19,035,069 | 20,938,575 |
| Gross Profit | 12,752,000 | 14,027,200 | 15,429,920 | 16,972,912 | 18,670,203 | 20,537,224 | 22,590,946 | 24,850,040 | 27,335,045 | 30,068,549 |
| <i>General administration & selling expenses</i> | | | | | | | | | | |
| Administration expense | 3,372,000 | 3,709,200 | 4,080,120 | 4,488,132 | 4,936,945 | 5,430,640 | 5,973,704 | 6,571,074 | 7,228,181 | 7,951,000 |
| Administration benefits expense | 337,200 | 370,920 | 408,012 | 448,813 | 493,695 | 543,064 | 597,370 | 657,107 | 722,818 | 795,100 |
| Building rental expense | 1,488,000 | 1,636,800 | 1,800,480 | 1,980,528 | 2,178,581 | 2,396,439 | 2,636,083 | 2,899,691 | 3,189,660 | 3,508,626 |
| Electricity expense | 120,000 | 132,000 | 145,200 | 159,720 | 175,692 | 193,261 | 212,587 | 233,846 | 257,231 | 282,954 |
| Water expense | 60,000 | 66,000 | 72,600 | 79,860 | 87,846 | 96,631 | 106,294 | 116,923 | 128,615 | 141,477 |
| Softwares updation, purchase and Licencing renewal expenses | 260,000 | 275,000 | 302,500 | 332,750 | 366,025 | 402,628 | 442,890 | 487,179 | 535,897 | 589,487 |
| International Travelling expense | 865,280 | 951,808 | 1,046,989 | 1,151,688 | 1,266,856 | 1,393,542 | 1,532,896 | 1,686,186 | 1,854,805 | 2,040,285 |
| Communications expense (phone, fax, mail, internet, etc.) | 240,000 | 264,000 | 290,400 | 319,440 | 351,384 | 386,522 | 425,175 | 467,692 | 514,461 | 565,907 |
| Office expenses (stationary, entertainment, janitorial services, etc. | 750,000 | 825,000 | 907,500 | 998,250 | 1,098,075 | 1,207,883 | 1,328,671 | 1,461,538 | 1,607,692 | 1,768,461 |
| Insurance expense | - | - | - | - | - | - | - | - | - | - |
| Professional fees (legal, audit, consultants, etc.) | 216,320 | 237,952 | 261,747 | 287,922 | 316,714 | 348,386 | 383,224 | 421,546 | 463,701 | 510,071 |
| Depreciation expense | 975,542 | 975,542 | 975,542 | 1,094,496 | 1,094,496 | 1,094,496 | 1,232,201 | 1,232,201 | 1,232,201 | 1,391,611 |
| Amortization of pre-operating costs | 54,106 | 54,106 | 54,106 | 54,106 | 54,106 | - | - | - | - | - |
| Amortization of legal, licensing, and training costs | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | - | - | - | - | - |
| Subtotal | 10,904,448 | 11,880,648 | 12,965,468 | 14,277,724 | 15,590,356 | 16,977,346 | 18,703,335 | 20,450,449 | 22,372,273 | 24,645,691 |
| Operating Income | 1,847,552 | 2,146,552 | 2,464,452 | 2,695,188 | 3,079,847 | 3,559,878 | 3,887,611 | 4,399,592 | 4,962,771 | 5,422,858 |
| Gain / (loss) on sale of office equipment | - | - | 1,358,400 | - | - | 2,251,718 | - | - | 2,946,245 | - |
| Gain / (loss) on sale of Furniture & Fixtures | - | - | - | - | - | - | - | - | - | - |
| Earnings Before Interest & Taxes | 1,847,552 | 2,146,552 | 3,822,852 | 2,695,188 | 3,079,847 | 5,811,596 | 3,887,611 | 4,399,592 | 7,909,016 | 5,422,858 |
| Interest expense on long term debt (Project Loan) | 265,559 | 218,712 | 165,924 | 106,442 | 39,415 | - | - | - | - | - |
| Interest expense on long term debt (Working Capital Loan) | 133,701 | 111,015 | 84,941 | 54,973 | 20,529 | - | - | - | - | - |
| Subtotal | 399,260 | 329,728 | 250,865 | 161,415 | 59,944 | - | - | - | - | - |
| Earnings Before Tax | 1,448,292 | 1,816,825 | 3,571,987 | 2,533,773 | 3,019,903 | 5,811,596 | 3,887,611 | 4,399,592 | 7,909,016 | 5,422,858 |
| Tax | 139,744 | 210,865 | 615,496 | 355,943 | 477,475 | 1,265,978 | 694,402 | 842,377 | 1,990,655 | 1,149,357 |
| NET PROFIT/(LOSS) AFTER TAX | 1,308,548 | 1,605,960 | 2,956,490 | 2,177,830 | 2,542,427 | 4,545,617 | 3,193,208 | 3,557,215 | 5,918,361 | 4,273,501 |

12.2 Balance Sheet

| Calculations | | | | | | | | | | | SMEDA |
|---|------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Balance Sheet | | | | | | | | | | | |
| | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
| Assets | | | | | | | | | | | |
| <i>Current assets</i> | | | | | | | | | | | |
| Cash & Bank | 1,301,772 | 2,158,094 | 4,079,393 | 4,594,418 | 6,962,813 | 9,574,164 | 11,936,239 | 16,093,179 | 20,587,279 | 23,900,787 | 31,138,311 |
| Accounts receivable | | 888,986 | 933,436 | 1,026,779 | 1,129,457 | 1,242,403 | 1,366,643 | 1,503,307 | 1,653,638 | 1,819,002 | 2,000,902 |
| Pre-paid building rent | 744,000 | 818,400 | 900,240 | 990,264 | 1,089,290 | 1,198,219 | 1,318,041 | 1,449,846 | 1,594,830 | 1,754,313 | - |
| Total Current Assets | 2,045,772 | 3,865,480 | 5,913,068 | 6,611,461 | 9,181,560 | 12,014,786 | 14,620,923 | 19,046,332 | 23,835,747 | 27,474,102 | 33,139,213 |
| <i>Fixed assets</i> | | | | | | | | | | | |
| Furniture & fixtures | 2,208,750 | 1,987,875 | 1,767,000 | 1,546,125 | 1,325,250 | 1,104,375 | 883,500 | 662,625 | 441,750 | 220,875 | - |
| Office equipment | 2,264,000 | 1,509,333 | 754,667 | 2,620,863 | 1,747,242 | 873,621 | 3,033,977 | 2,022,651 | 1,011,326 | 3,512,207 | 2,341,471 |
| Total Fixed Assets | 4,472,750 | 3,497,208 | 2,521,667 | 4,166,988 | 3,072,492 | 1,977,996 | 3,917,477 | 2,685,276 | 1,453,076 | 3,733,082 | 2,341,471 |
| <i>Intangible assets</i> | | | | | | | | | | | |
| Pre-operation costs | 270,530 | 216,424 | 162,318 | 108,212 | 54,106 | - | - | - | - | - | - |
| Legal, licensing, & training costs | 14,000 | 11,200 | 8,400 | 5,600 | 2,800 | - | - | - | - | - | - |
| Total Intangible Assets | 284,530 | 227,624 | 170,718 | 113,812 | 56,906 | - | - | - | - | - | - |
| TOTAL ASSETS | 6,803,052 | 7,590,313 | 8,605,453 | 10,892,261 | 12,310,958 | 13,992,782 | 18,538,400 | 21,731,608 | 25,288,823 | 31,207,184 | 35,480,685 |
| Liabilities & Shareholders' Equity | | | | | | | | | | | |
| <i>Current liabilities</i> | | | | | | | | | | | |
| Total Current Liabilities | - | - | - | - | - | - | - | - | - | - | - |
| <i>Other liabilities</i> | | | | | | | | | | | |
| Long term debt (Project Loan) | 2,378,640 | 2,009,260 | 1,593,034 | 1,124,020 | 595,523 | - | - | - | - | - | - |
| Long term debt (Working Capital Loan) | 1,022,886 | 870,978 | 696,384 | 495,716 | 265,080 | - | - | - | - | - | - |
| Total Long Term Liabilities | 3,401,526 | 2,880,239 | 2,289,419 | 1,619,736 | 860,603 | - | - | - | - | - | - |
| <i>Shareholders' equity</i> | | | | | | | | | | | |
| Paid-up capital | 3,401,526 | 3,401,526 | 3,401,526 | 3,401,526 | 3,401,526 | 3,401,526 | 3,401,526 | 3,401,526 | 3,401,526 | 3,401,526 | 3,401,526 |
| Retained earnings | | 1,308,548 | 2,914,508 | 5,870,999 | 8,048,829 | 10,591,257 | 15,136,874 | 18,330,082 | 21,887,297 | 27,805,658 | 32,079,159 |
| Total Equity | 3,401,526 | 4,710,074 | 6,316,034 | 9,272,525 | 11,450,355 | 13,992,782 | 18,538,400 | 21,731,608 | 25,288,823 | 31,207,184 | 35,480,685 |
| TOTAL CAPITAL AND LIABILITIES | 6,803,052 | 7,590,313 | 8,605,453 | 10,892,261 | 12,310,958 | 13,992,782 | 18,538,400 | 21,731,608 | 25,288,823 | 31,207,184 | 35,480,685 |

12.3 Cash Flow Statement

| Calculations | | | | | | | | | | | SMEDA |
|---|--------------------|------------------|------------------|--------------------|------------------|------------------|--------------------|------------------|------------------|--------------------|------------------|
| Cash Flow Statement | | | | | | | | | | | |
| | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 |
| <i>Operating activities</i> | | | | | | | | | | | |
| Net profit | | 1,308,548 | 1,605,960 | 2,956,490 | 2,177,830 | 2,542,427 | 4,545,617 | 3,193,208 | 3,557,215 | 5,918,361 | 4,273,501 |
| Add: depreciation expense | | 975,542 | 975,542 | 975,542 | 1,094,496 | 1,094,496 | 1,094,496 | 1,232,201 | 1,232,201 | 1,232,201 | 1,391,611 |
| amortization of pre-operating costs | | 54,106 | 54,106 | 54,106 | 54,106 | 54,106 | - | - | - | - | - |
| amortization of training costs | | 2,800 | 2,800 | 2,800 | 2,800 | 2,800 | - | - | - | - | - |
| Accounts receivable | | (888,986) | (44,449) | (93,344) | (102,678) | (112,946) | (124,240) | (136,664) | (150,331) | (165,364) | (181,900) |
| Pre-paid building rent | (744,000) | (74,400) | (81,840) | (90,024) | (99,026) | (108,929) | (119,822) | (131,804) | (144,985) | (159,483) | 1,754,313 |
| Cash provided by operations | (744,000) | 1,377,610 | 2,512,118 | 3,805,571 | 3,127,528 | 3,471,955 | 5,396,051 | 4,156,940 | 4,494,100 | 6,825,715 | 7,237,525 |
| <i>Financing activities</i> | | | | | | | | | | | |
| Project Loan - principal repayment | | (369,380) | (416,226) | (469,014) | (528,497) | (595,523) | - | - | - | - | - |
| Working Capital Loan - principal repayment | | (151,908) | (174,594) | (200,668) | (230,636) | (265,080) | - | - | - | - | - |
| Additions to Project Loan | 2,378,640 | - | - | - | - | - | - | - | - | - | - |
| Additions to Working Capital Loan | 1,022,886 | - | - | - | - | - | - | - | - | - | - |
| Issuance of shares | 3,401,526 | - | - | - | - | - | - | - | - | - | - |
| Cash provided by / (used for) financing activities | 6,803,052 | (521,287) | (590,820) | (669,682) | (759,133) | (860,603) | - | - | - | - | - |
| <i>Investing activities</i> | | | | | | | | | | | |
| Capital expenditure | (4,757,280) | - | - | (2,620,863) | - | - | (3,033,977) | - | - | (3,512,207) | - |
| Acquisitions | | | | | | | | | | | |
| Cash (used for) / provided by investing activities | (4,757,280) | - | - | (2,620,863) | - | - | (3,033,977) | - | - | (3,512,207) | - |
| NET CASH | 1,301,772 | 856,322 | 1,921,298 | 515,025 | 2,368,395 | 2,611,351 | 2,362,075 | 4,156,940 | 4,494,100 | 3,313,508 | 7,237,525 |

13 KEY ASSUMPTION

13.1 Operating Assumptions

| Description | Details |
|--|---|
| Administration Benefit Expenses | 10% of Administration Cost |
| Office Expenses (Stationery, Entertainment etc.) | Rs. 62,500 per month |
| Communication Expenses | Rs. 20,000 per month |
| Professional Fee | 1% of revenue |
| Depreciation Method | Straight Line depreciation |
| Depreciation Rate | 10% on Machinery 33% on Office Equipment 10% on Furniture & Fixture |
| Inflation Growth Rate | 10% |
| Electricity Price Growth Rate | 10% |
| Salaries Growth Rate | 10% |

13.2 Revenue Assumptions

| | |
|-----------------------------------|-------|
| Starting capacity utilization | 65% |
| Annual Installed Capacity (lines) | 4,160 |
| Annual Operational Capacity | 2,704 |
| Price per hour (Rs.) | 8,000 |

13.3 Financial Assumptions

| | |
|---------------|----------|
| Project Life | 10 Years |
| Debt | 50% |
| Equity | 50% |
| Debt Tenure | 5 Years |
| Interest Rate | 12% |