



Pre-Feasibility Study

(Internet Café)



Small and Medium Enterprises Development Authority
Ministry of Industries & Production
Government of Pakistan

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Note: All SMEDA Services / information related to PM's Youth Business Loan are Free of Cost

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1 DISCLAIMER

This information memorandum is to introduce the subject matter and provide a general idea and information on the subject. Although, the material included in this document is based on data / information gathered from various reliable sources; however, it is based upon certain assumptions which may differ from case to case. The information has been provided on “as is where is basis” without any warranties or assertions as to the correctness or soundness thereof. Although, due care and diligence has been taken to compile this document, the contained information may vary due to any change in any of the concerned factors, and the actual results may differ substantially from the presented information. SMEDA, its employees or agents do not assume any liability for any financial or other loss resulting from this memorandum in consequence of undertaking this activity. The contained information does not preclude any further professional advice. The prospective user of this memorandum is encouraged to carry out additional diligence and gather any information which is necessary for making an informed decision; including taking professional advice from a qualified consultant / technical expert before taking any decision to act upon the information.

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2 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 **Internet Café** business by providing them with a general understanding of the business with the 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 form basis of any Investment Decision.

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 INTRODUCTION TO SCHEME

'Prime Minister's Youth Business Loan' program, for young entrepreneurs, with an allocated budget of Rs. 5.0 Billion for the year 2013-14, is designed to provide subsidised financing at 8% mark-up per annum for one hundred thousand (100,000) beneficiaries, through designated financial institutions, initially through the National Bank of Pakistan (NBP) and the First Women Bank Ltd. (FWBL).

Loans from Rs. 0.1 million to Rs. 2.0 million with tenure up to 8 years inclusive of 1 year grace period, and a debt: equity of 90: 10 will be disbursed to SME beneficiaries across Pakistan, covering; Punjab, Sindh, Khyber Pakhtunkhwa, Balochistan, Gilgit Baltistan, Azad Jammu & Kashmir and Federally Administered Tribal Areas (FATA).

5 EXECUTIVE SUMMARY

In this pre-feasibility study, the Internet cafe is proposed to be located in a commercial area which is in close proximity of students and business people of middle income groups. A range of services are to be provided including but not limited to internet surfing, audio/video chat, printing, scanning and fax services. Furthermore, projected workings of the business have been based on 16 hours of operations per day.

The total initial cost for setting up an internet cafe is estimated at Rs. 1.54 million out of which capital cost is Rs. 1.24 million along with working capital of Rs. 0.30 million. The project will be financed through 90% debt and 10% equity. The NPV is projected at around Rs. 6.01 million, with an IRR of 49% and payback period of 3.24 years. The legal business status of this project is proposed as sole proprietorship.

6 BRIEF DESCRIPTION OF PROJECT & PRODUCT

In order to set-up an internet cafe, the entrepreneur needs to get a high bandwidth internet connection from a renowned service provider. The internet café is proposed to be established in a location that ensures high visibility and easy access to students and people belonging to the business community. The business can be established in any of the major cities of the country.

In this pre-feasibility study, the internet café will be established in rented premises with an area of around 550 sq. ft, having good speed internet connection along with electricity & telephone connections with proposed investment of Rs. 1.54 million. The business is to provide internet, audio / video

chat, printing, scanning, fax and value added services to its clients primarily in middle income group.

The internet café will remain operational for 16 hours a day. Initial sales volume is calculated at Rs. 2.14 million in the first year, with an annual growth of 10%, providing employment to 4 individuals.

The venture is proposed to be established as a sole proprietorship.

7 CRITICAL FACTORS

Some of the key factors for operating a successful internet café are:

- Background, experience and technical qualification of the entrepreneur and/or key staff.
- Selection of an appropriate location, preferably close to middle income housing societies and private student hostels.
- Availability of value added services such as video/audio chat, good printer, scanner & fax machine.
- Uninterrupted power supply with good internet speed.

8 INSTALLED & OPERATIONAL CAPACITIES

The proposed project is based on 10 new computers installed in individual cabins along with provision of printer, scanner and fax machine to fulfill the requirement of the users. Additionally, two ACs will be installed in order to keep the environment comfortable for users so that they can stay for extended hours, as required, and spend time at the internet café.

Entrepreneur involved in this business would fare better if adequately familiar with software / hardware installation, computer networking, troubleshooting and internet usage.

9 POTENTIAL TARGET MARKETS / CITIES

An internet café should be easily accessible and should be near or in a commercial area, preferably in close proximity of student hostels and business people belonging primarily to middle income groups. The proposed business can be opened in any of the cities across Pakistan.

10 PROJECT COST SUMMARY

A detailed financial model has been developed to analyze the commercial viability of Internet Café under the 'Prime Minister's Youth Business Loan'

program. 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 attached as annexures.

10.1 Project Economics

Following table shows internal rate of return, payback period and net present value:

Table 1 - Project Economics

Description	Details
Internal Rate of Return (IRR)	49%
Payback Period (Yrs)	3.24
Net Present Value (NPV)	6,009,309

Returns on investment and its profitability are highly dependent on the entrepreneur's practical knowledge about software / hardware installation, computer networking and information technology.

10.2 Project Financing

Following table provides details of the equity required and variables related to bank financing;

Table 2 - Project Financing

Description	Details
Total Equity (10%)	Rs. 154,500
Bank Loan (90%.)	Rs. 1,390,500
Markup to the Borrower (%age/annum)	8%
Tenure of the Loan (Years)	8
Grace Period (Year)	1

10.3 Project Cost

Following requirements have been identified for operations of the proposed business.

Table 3 - Capital Investment for the Project

Capital Investment	Amount (Rs.)
Furniture & Fixtures	361,000

Internet Cafe Equipment	809,000
Pre-operating Cost	75,000
Total Capital Cost	1,245,000
Initial Working Capital	300,000
Total Project Cost	1,545,000

10.4 Space Requirement

Approximately 550 sq. ft. will be required for the Internet Cafe. It is recommended that the area should be acquired on rent. Rent cost for the proposed areas will be ranging between Rs. 20,000 to Rs. 30,000. Rent cost incorporated for financial analysis is Rs. 25,000 per month. One month advance rent along with three months of security deposit is also to be paid.

10.5 Office Equipment Details

The details of different equipment required for the project is given in the following tables:

Table 4 – Internet Cafe Equipment Costs

Equipment	Quantity	Cost per Unit (Rs.)	Total Cost (Rs.)
Computer	11	50,000	550,000
Hub	1	8,000	8,000
Computer Camera	11	2,000	22,000
Head Phones	11	1,000	11,000
UPS	1	150,000	150,000
Printer	2	20,000	40,000
Scanner	1	10,000	10,000
DSL Modem	1	8,000	8,000
Networking Cable (ft.)	500	20	10,000
Total Equipment			809,000

Additionally, some backup inventory of hub & DSL modem is recommended.

10.6 Furniture & Fixture

Details of furniture and fixture are as follows:

Table 5 – Furniture & Fixture Costs

Description	Quantity	Unit Cost (Rs)	Total Cost (Rs)
Computer Tables and Cabins	11	10,000	110,000
Computer Chairs	11	5,000	55,000
Telephone sets	2	1,500	3,000
Fax machine	1	15,000	15,000
Sign Board	1	25,000	25,000
Ceramic Tiles (Sq. Ft)	550	60	33,000
Air Conditioners	2	60,000	120,000
Total Furniture & Fixture Cost			361,000

10.7 Human Resource Requirement

Internet café will run for 16 hours a day in two shifts (i.e. 8 hours per shift). Shift timing will be:

Table 6 - Shift Schedules

Shift 1	9:00 am to 5:00 pm
Shift 2	5:00 pm to mid night

Human resource requirement for the proposed project is as under:

Table 7 - Staff Requirement (2 shifts)

Positions	Number	Salary/Month (Rs.)	Annual Salary (Rs.)
Network Administrator	1	20,000	240,000
Lab Assistant	2	15,000	360,000
Cashier	1	10,000	120,000
Total	4		720,000

Salaries of all employees are estimated to increase at 10% annually.

10.8 Revenue Generation

Expected revenue generation by the Internet Cafe during the first year is given in the table below:

Table 8 - Expected Revenue Generation during Year-I

Service Category	Expected Sales Amount (Rs.)
Internet Rate per Hour	50
Sales from Internet Usage	1,872,000
Sales from Printing	180,000
Sales from Scanning	54,000
Sales from Faxes	36,000
Total Sales for the first year	2,142,000

The annual sales growth rate is estimated at 10%.

11 ANNEXURE Income Statement

Income Statement										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Sales from Internet Hours	1,872,000	2,217,600	2,613,600	3,066,624	3,584,117	4,174,442	4,846,991	5,612,305	6,173,536	6,790,889
Sales from Printing	180,000	198,000	217,800	239,580	263,538	289,892	318,881	350,769	385,846	424,431
Sales from Scanning	54,000	59,400	65,340	71,874	79,061	86,968	95,664	105,231	115,754	127,329
Sales from Faxes	36,000	39,600	43,560	47,916	52,708	57,978	63,776	70,154	77,169	84,886
Total Sales	2,142,000	2,514,600	2,940,300	3,425,994	3,979,424	4,609,280	5,325,312	6,138,459	6,752,305	7,427,535
<i>Cost of sales</i>										
Internet Connection	60,000	66,000	72,600	79,860	87,846	96,631	106,294	116,923	128,615	141,477
Printing Charges	54,000	59,400	65,340	71,874	79,061	86,968	95,664	105,231	115,754	127,329
Fax Charges	18,000	11,880	13,068	14,375	15,812	17,394	19,133	21,046	23,151	25,466
Electricity Expense	300,000	330,000	363,000	399,300	439,230	483,153	531,468	584,615	643,077	707,384
Total cost of sales	424,800	467,280	514,008	565,409	621,950	684,145	752,559	827,815	910,597	1,001,656
Gross Profit	1,717,200	2,047,320	2,426,292	2,860,585	3,357,474	3,925,135	4,572,753	5,310,644	5,841,708	6,425,879
<i>General administration & selling expenses</i>										
Administration expense	720,000	792,000	871,200	958,320	1,054,152	1,159,567	1,275,524	1,403,076	1,543,384	1,697,722
Rent expense	300,000	330,000	363,000	399,300	439,230	483,153	531,468	584,615	643,077	707,384
Printing & Stationary	60,000	63,000	66,150	69,458	72,930	76,577	80,406	84,426	88,647	93,080
Entertainment	18,000	18,900	19,845	20,837	21,879	22,973	24,122	25,328	26,594	27,924
Promotional expense	25,000	22,500	20,250	18,225	16,403	14,762	13,286	11,957	10,762	9,686
Depreciation expense	341,867	341,867	341,867	384,373	384,373	404,320	453,527	453,527	453,527	510,489
Amortization of pre-operating costs	15,000	15,000	15,000	15,000	15,000	-	-	-	-	-
Janitorial Expenses	60,000	66,000	72,600	79,860	87,846	96,631	106,294	116,923	128,615	141,477
Miscellaneous expense	36,000	39,600	43,560	47,916	52,708	57,978	63,776	70,154	77,169	84,886
Subtotal	1,575,867	1,688,867	1,813,472	1,993,289	2,144,520	2,315,962	2,548,402	2,750,006	2,971,775	3,272,648
Operating Income	141,333	358,453	612,820	867,297	1,212,954	1,609,173	2,024,351	2,560,638	2,869,933	3,153,231
Earnings Before Interest & Taxes	141,333	358,453	612,820	867,297	1,212,954	1,609,173	2,024,351	2,560,638	2,869,933	3,153,231
Interest expense on long term debt (Project Loan)	115,411	105,660	92,844	78,964	63,932	47,652	30,022	10,928	-	-
Subtotal	115,411	105,660	92,844	78,964	63,932	47,652	30,022	10,928	-	-
Earnings Before Tax	25,923	252,794	519,977	788,333	1,149,022	1,561,521	1,994,329	2,549,710	2,869,933	3,153,231
Tax	-	-	11,998	40,750	94,853	159,804	246,366	359,927	439,983	510,808
NET PROFIT/(LOSS) AFTER TAX	25,923	252,794	507,979	747,583	1,054,169	1,401,717	1,747,964	2,189,783	2,429,950	2,642,424

11.2 Balance Sheet

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	275,000	655,289	1,107,788	1,814,378	2,817,648	4,166,243	5,915,639	8,129,016	10,878,237	14,196,338	17,919,007
Pre-paid building rent	25,000	27,500	30,250	33,275	36,603	40,263	44,289	48,718	53,590	58,949	-
Total Current Assets	300,000	682,789	1,138,038	1,847,653	2,854,251	4,206,506	5,959,928	8,177,734	10,931,827	14,255,287	17,919,007
<i>Fixed assets</i>											
Furniture & fixtures	361,000	288,800	216,600	144,400	72,200	460,738	368,590	276,443	184,295	92,148	-
Cafe equipment	809,000	539,333	269,667	936,519	624,346	312,173	1,084,137	722,758	361,379	1,255,025	836,683
Total Fixed Assets	1,170,000	828,133	486,267	1,080,919	696,546	772,911	1,452,727	999,201	545,674	1,347,172	836,683
<i>Intangible assets</i>											
Total Intangible Assets	75,000	60,000	45,000	30,000	15,000	-	-	-	-	-	-
TOTAL ASSETS	1,545,000	1,570,923	1,669,304	2,958,572	3,565,797	4,979,416	7,412,655	9,176,935	11,477,501	15,602,459	18,755,690
Liabilities & Shareholders' Equity											
<i>Current liabilities</i>											
Total Current Liabilities	-	-	-	-	-	-	-	-	-	-	-
<i>Other liabilities</i>											
Deferred tax	-	-	-	11,998	52,747	147,601	307,404	553,770	913,697	1,353,680	1,864,488
Long term debt (Project Loan)	1,390,500	1,390,500	1,236,088	1,068,860	887,752	691,613	479,194	249,144	-	-	-
Long term debt (Working Capital Loan)	-	-	-	-	-	-	-	-	-	-	-
Total Long Term Liabilities	1,390,500	1,390,500	1,236,088	1,080,858	940,500	839,213	786,598	802,914	913,697	1,353,680	1,864,488
<i>Shareholders' equity</i>											
Paid-up capital	154,500	154,500	154,500	1,091,019	1,091,019	1,551,756	2,635,894	2,635,894	2,635,894	3,890,918	3,890,918
Retained earnings	-	25,923	278,716	786,695	1,534,278	2,588,447	3,990,164	5,738,127	7,927,910	10,357,860	13,000,284
Total Equity	154,500	180,423	433,216	1,877,714	2,625,297	4,140,203	6,626,057	8,374,021	10,563,804	14,248,778	16,891,202
TOTAL CAPITAL AND LIABILITIES	1,545,000	1,570,923	1,669,304	2,958,572	3,565,797	4,979,416	7,412,655	9,176,935	11,477,501	15,602,459	18,755,690

11.3 Cash Flow Statement

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		25,923	252,794	507,979	747,583	1,054,169	1,401,717	1,747,964	2,189,783	2,429,950	2,642,424
Add: depreciation expense		341,867	341,867	341,867	384,373	384,373	404,320	453,527	453,527	453,527	510,489
amortization of pre-operating costs		15,000	15,000	15,000	15,000	15,000	-	-	-	-	-
Deferred income tax		-	-	11,998	40,750	94,853	159,804	246,366	359,927	439,983	510,808
Pre-paid building rent	(25,000)	(2,500)	(2,750)	(3,025)	(3,328)	(3,660)	(4,026)	(4,429)	(4,872)	(5,359)	58,949
Cash provided by operations	(25,000)	380,289	606,910	873,818	1,184,378	1,544,734	1,961,815	2,443,427	2,998,365	3,318,101	3,722,669
<i>Financing activities</i>											
Project Loan - principal repayment		-	(154,412)	(167,228)	(181,108)	(196,140)	(212,419)	(230,050)	(249,144)	-	-
Additions to Project Loan	1,390,500	-	-	-	-	-	-	-	-	-	-
Issuance of shares	154,500	-	-	936,519	-	460,738	1,084,137	-	-	1,255,025	-
Cash provided by / (used for) financing activities	1,545,000	-	(154,412)	769,291	(181,108)	264,598	871,718	(230,050)	(249,144)	1,255,025	-
<i>Investing activities</i>											
Capital expenditure	(1,245,000)	-	-	(936,519)	-	(460,738)	(1,084,137)	-	-	(1,255,025)	-
Cash (used for) / provided by investing activities	(1,245,000)	-	-	(936,519)	-	(460,738)	(1,084,137)	-	-	(1,255,025)	-
NET CASH	275,000	380,289	452,498	706,590	1,003,270	1,348,595	1,749,396	2,213,377	2,749,221	3,318,101	3,722,669

11.4 Useful Project Management Tips

Marketing

- **Ads & P.O.S. Promotion:** Business promotion and dissemination through banners along with product brochures from good quality service providers is highly recommended.
- **Price - Bulk Discounts, Cost plus Introductory Discounts:** Price during introductory phase may be lower and used as promotional tool. Price cost estimates should be carefully documented before price setting.

Human Resources

- **List of Human Resource** **(As per Section 10.7)**
- **Adequacy & Competencies:** Skilled and experienced staff should be considered an investment even to the extent of offering share in business profit.
- **Performance Based Remuneration:** Attempt to manage human resource cost should be focused through performance measurement and performance based compensation.
- **Training & Skill Development:** Encouraging training and skill of self & employees through experts and exposure of best practices is the route to success. Least cost options for Training and Skill Development (T&SD) may be linked with compensation benefits and awards.

11.5 Useful Links

- Prime Minister's Office, www.pmo.gov.pk
- Small and Medium Enterprises Development Authority, www.smeda.org.pk
- First Women's Bank Limited (FWBL), www.fwbl.com.pk
- National Bank of Pakistan (NBP), www.nbp.com.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 Gilgit Baltistan, www.gilgitbaltistan.gov.pk
- Government of Azad Jamu Kashmir, www.ajk.gov.pk

11 KEY ASSUMPTIONS

Table 9 - Operating Assumptions

Hours operational per day	16 hours
Days operational per month	30 days
Day operational per year	360 days

Table 10 - Revenue Assumptions

Revenue from Internet Hours (Rs. 50 per hour)	1,872,000
Revenue from Printing (25 pages per day @ Rs. 20 per page)	180,000
Revenue from Scanning (10 pages per day @ Rs. 15 per page)	54,000
Revenue from Fax (5 pages per day @ Rs. 20 per page)	36,000
Sales growth rate	10%

Table 11 Expense Assumptions

Printing Expenses (% of Price per print)	30%
Fax (% of Price per fax)	30%
Internet Connection Expense	Rs. 60,000 per annum
Printing & Stationary	Rs. 60,000 per annum
Entertainment	Rs. 18,000 per annum
Electricity cost growth rate	10%
Electricity Expense per Month	Rs. 25,000
Depreciation Rate on Internet Café Equipment	33%
Depreciation Rate on Furniture	20%

Table 12 - Financial Assumptions

Project Life	10 Years
Debt	90%
Equity	10%
Debt Tenure	8 Years
Interest rate	8%
Minimum Cash Balance	Rs. 0.20 Million