

Pre-Feasibility Study

(Animation Production Facility)



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 exercised 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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The logo for SMEDA, featuring the letters S, M, E, D, and A in a large, white, serif font, each letter contained within its own square cell of a light blue grid. A thick, light blue curved line arches over the grid from the left side towards the right.

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, and production, marketing, finance and business management.

The purpose of this document is to facilitate potential investors in **Animation Production Facility** 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 & error and certain industrial norms that become a guiding source regarding various aspects of business set-up and its 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, institutional collaboration and networking initiatives.

Preparation and dissemination of prefeasibility studies in key areas of investment has been a 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 / 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 'Small Business Loans Scheme', 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 National Bank of Pakistan (NBP) and First Women Bank Ltd. (FWBL).

Loans from Rs. 0.1 million to Rs. 2.0 million with tenure up to 8 years inclusive of grace period of 01 year 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

Digital animation constitutes a vital part of the overall digital media industry and has become one of the fastest growing sectors. The demand for animated content has increased manifold (in domestic and international markets) due to increase in the numbers and broadcasting hours by cable and satellite television and ever increasingly popularity and dependence on the internet. Today animation is not utilized just to create cartoon series but it has become an essential tool in creating visual materials such as movies, videos, and games. Corporate entities too are dependent on animated content for modelling and advertising campaigns of their products. Animation is increasingly being used as a tool for education and a new phenomenon of 'edutainment' is emerging utilizing interactive compact disc (CDs) and visuals. Currently Pakistan is going through a revolution in electronic media as there is an explosion of T.V channels, broad band adoption and mobile ownership creating huge demand for animated production. Against this surging domestic and international demand, animation development and its allied fields are being considered as a lucrative area for entrepreneurial ventures.

Animation business venture entails a total investment of about Rs. 2.19 million. This includes a capital investment of Rs.1.91 million and a sum of Rs.0.28 million as working capital. The project is financed through 90% debt and 10% equity. The Net Present Value (NPV) of the project is around Rs. 3.44 million with an Internal Rate of Return (IRR) of 54% and a payback period of 2.57 years. The project will generate direct employment opportunity for 6 persons. Higher return on investment and a steady growth of business is expected with the entrepreneur having some prior experience / education in the related field of business. The pre-feasibility study provides information on key facets of starting an Animation Production House.

6. BRIEF DESCRIPTION OF PROJECT & PRODUCT

Rapid advancements in digital media over the last decade have transformed information communication technologies, entertainment and media sector. It has driven the convergence of the said sectors resulting in novel products and services. As high bandwidth digital technologies, ranging from portable devices to wireless and broad band connectivity, become increasingly pervasive around the globe, they continue to fuel an insatiable demand for high quality content that can be delivered to users over these channels. This content encompasses education, information, entertainment and business applications providing huge opportunities to new start-ups / entrepreneurs in countries like Pakistan that can position themselves at the epicenter of creative arts and digital technology revolution.

The proposed animation production house in this pre-feasibility study will be catering to domestic and international clients, offering digital animation as a finished product as well as providing ancillary/customized services for an array of clients i.e. telecommunication companies, T.V channels, video game development companies, advertisement companies, large media, studio and production houses etc. The Animation production house business entails a total investment of about Rs. 2.19 million. This includes a capital investment of Rs.1.91 million and a sum of Rs.0.28 million as working capital. Initially rented premises of 675 square feet shall be sufficient. It shall entail 2 rooms for animation production while 1 room for client/office meetings and a small reception area. The animation house shall employ a total staff of 6 persons.

7. CRITICAL FACTORS

- Selection of a dedicated competitive team of artists, designer, animators and a creative art / production director.
- Ability to conceive creative ideas and translating them into finished product as per client's specifications.
- Safeguarding design and animation production from piracy.
- Employing and retaining skilled staff.
- Strict adherence to timelines.
- Higher return on investment and a steady growth of business is expected with the entrepreneur having some prior experience in the related field of business.

8. INSTALLED & OPERATIONAL CAPACITIES

Essential hardware / equipment for animation production facility will house 4 customized computer machines for animation, backed by a server. With a dedicated team of 4 animation developers it is anticipated that the enterprise shall be able to roll out 50-150 seconds per month of finished and semi finished animation. However for the purpose of this particular pre feasibility study, it is assumed that the enterprise shall be producing 100 seconds of finished / semi-finished animated content. It is estimated that the production cost for animation in Asian countries particularly Pakistan and India is 25% to 35% cheaper compared with cost in developed countries hence attracting considerable business from America and Europe.

9. GEOGRAPHICAL POTENTIAL FOR INVESTMENT AND POTENTIAL TARGET MARKETS

Digital animation continues to grow as an increasingly important and integral part of film and television production, particularly in the current scenario where animation is being fused with live production to gain results that were hitherto considered impossible. As the animation and special effects content has increased in sophistication, the production and post-production activities have also experienced enhanced integration. However, tight production budgets and time schedules are increasingly exerting pressures on the special effects and post production schedules. As a result of this, animation activities are being outsourced to competent and cheaper locations in Asia. The cost of developing animated content in Asian region is estimated to be 25% to 35% of what it would cost in developed countries.

10. PROJECT COST SUMMARY

A detailed financial model has been developed to analyze the commercial viability of Animation Production House under the Prime Minister's Youth Business Loan scheme. Various cost 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 appendix.

10.1. Project Economics

All the assumptions in this financial model are based upon animation production of 1,200 seconds (finished/semi-finished animation) on yearly basis. The project will be running at 50% of its total capacity during the first year.

The following table shows Internal Rates of Return, Payback Period and NPV.

Table 1: Project Economics

Description	Details
Internal Rate of Return (IRR)	54%
Payback Period (yrs)	2.57
Net Present Value (NPV)	Rs. 3,435,688

Returns on the project and its profitability are dependent on efficient management and team work of the project staff.

10.2. Project Financing

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

Table 2: Project Financing

Description	Details
Total Equity (10%)	Rs. 218,550
Bank Loan (90%)	Rs.1,966,950
Markup to the Borrower (%age/annum)	8%
Tenure of the Loan (Years)	8
Grace Period (Year)	1

10.3. Project Cost

Table 3: Capital Investment

Capital Investment	Amount (Rs.)
Licensed Software Cost	545,000
Furniture & Fixtures	478,000
Hardware Cost (computers, server, UPS, scanner, printers etc.)	730,000
Pre-operating Cost	157,500
Total Capital Costs	1,910,500
Initial Working Capital	275,000
Total Project Cost	2,185,500

10.4. Space Requirement

Initially rented premises of 675 square feet shall be sufficient. It shall constitute 2 rooms for animation production while 1 room for client / office meetings and a small reception area. Monthly rent for the said premises is estimated to be Rs. 25,000/-

Following table shows calculations for project space requirement.

Table 4: Space Requirement

Space Requirement	Sq. ft	Rent per month (Rs.)
Animation Production/room (2)	300 (150 each)	
Meeting Room	200	
Reception	175	
Total Area	675	25,000/-

Animation production house can be started in a rented place in any city of Pakistan where access to basic IT infrastructure and human resource is available.

10.5. Required Equipment

Table 5: Equipment for Animation Production House

Description	Quantity	Cost Rs/unit	Total Rs.
Customized Computers	4	75,000	300,000
Main Server	1	100,000	100,000
UPS (7000 watt) backup support	1	250,000	250,000
Printers	2	20,000	40,000
Scanner	1	15,000	15,000
Hub	1	12,000	12,000
Modem DSL	1	8,000	8,000
Networking Cable			5,000
Total			730,000

10.6. Office Furniture and Equipment

Following table provides details of office furniture and equipment required for this project.

Table 6: Furniture and Fixutre

	Quantity	Cost	Amount
Furniture for the Premises (workstations etc.)			150,000
Fax Machine	1	15,000	15,000
Telephone	3	1,000	3,000
Drawing boards, stationary etc.			40,000
LCD for High Resolution Presentation	1	50,000	50,000
Air-conditioned	3	60,000	180,000
Sound System	1		40,000
Total			478,000

10.7. 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 month (Rs)
Production/Creative/Art Director (owner)	1	55,000
Modeler	1	45,000
Animator	1	40,000
Effects Designer	1	35,000
Receptionist	1	12,000
Office boy	1	10,000
Total	6	197,000

It is assumed that the owner / entrepreneur should have some prior experience or knowledge / education in the related field.

10.8. Revenue Generation

Table 8: Revenue Generation

	Animation / Year	Sales Price (Rs./sec)	First Year Production at 50% capacity	First Year Sales Revenue (Rs)
Animated produced time (in seconds)	1,200 (seconds)	8,000	600	4,800,000
Total Sales Revenue				4,800,000

10.9. Other Costs

Promotional and maintenance expense such as utility bills, entertainment expense, printing and stationery, etc. have not been mentioned in the above text, however they are in detail reflected in the Income Statement of the Pre-feasibility study.

11. ANNEXURE

11.1. Income Statement

Income Statement										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue	4,800,000	5,544,000	6,350,400	7,223,580	8,168,202	9,189,227	10,291,935	11,481,939	12,765,215	14,148,113
<i>Cost of sales</i>										
Salaries	2,100,000	2,310,000	2,541,000	2,795,100	3,074,610	3,382,071	3,720,278	4,092,306	4,501,537	4,951,690
Electricity Expense	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	2,580,000	2,838,000	3,121,800	3,433,980	3,777,378	4,155,116	4,570,627	5,027,690	5,530,459	6,083,505
Gross Profit	2,220,000	2,706,000	3,228,600	3,789,600	4,390,824	5,034,111	5,721,307	6,454,249	7,234,756	8,064,608
<i>General administration & selling expenses</i>										
Administration expense	264,000	290,400	319,440	351,384	386,522	425,175	467,692	514,461	565,907	622,498
Rent expense	300,000	330,000	363,000	399,300	439,230	483,153	531,468	584,615	643,076	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	60,000	63,000	66,150	69,458	72,930	76,577	80,406	84,426	88,647	93,080
Promotional expense	50,000	45,000	40,500	36,450	32,805	29,525	26,572	23,915	21,523	19,371
Depreciation expense	467,300	524,525	622,024	685,114	792,607	923,170	1,041,681	1,118,368	1,249,025	1,333,573
Amortization of pre-operating costs	31,500	31,500	31,500	31,500	31,500	-	-	-	-	-
Janitorial Expenses	60,000	66,000	72,600	79,860	87,846	96,631	106,294	116,923	128,615	141,477
Miscellaneous expense	13,200	14,520	15,972	17,569	19,326	21,259	23,385	25,723	28,295	31,125
Subtotal	1,306,000	1,427,945	1,597,335	1,740,092	1,935,697	2,132,065	2,357,902	2,552,856	2,813,737	3,041,587
Operating Income	914,000	1,278,055	1,631,265	2,049,508	2,455,127	2,902,046	3,363,405	3,901,393	4,421,018	5,023,022
Earnings Before Interest & Taxes	914,000	1,278,055	1,631,265	2,049,508	2,455,127	2,902,046	3,363,405	3,901,393	4,421,018	5,023,022
Interest expense on long term debt (Project Loan)	163,256	149,462	131,333	111,699	90,436	67,407	42,468	15,458	-	-
Interest expense on long term debt (Working Capital Loan)	-	-	-	-	-	-	-	-	-	-
Subtotal	163,256	149,462	131,333	111,699	90,436	67,407	42,468	15,458	-	-
Earnings Before Tax	750,744	1,128,593	1,499,931	1,937,809	2,364,692	2,834,639	3,320,937	3,885,935	4,421,018	5,023,022
Tax	35,112	91,789	147,490	235,062	320,438	431,160	552,734	693,983	848,805	1,029,406
NET PROFIT/(LOSS) AFTER TAX	715,633	1,036,804	1,352,442	1,702,747	2,044,254	2,403,480	2,768,203	3,191,951	3,572,213	3,993,615

11.2. 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		715,633	1,036,804	1,352,442	1,702,747	2,044,254	2,403,480	2,768,203	3,191,951	3,572,213	3,993,615
Add: depreciation expense		467,300	524,525	622,024	685,114	792,607	923,170	1,041,681	1,118,368	1,249,025	1,333,573
amortization of pre-operating costs		31,500	31,500	31,500	31,500	31,500	-	-	-	-	-
Deferred income tax		35,112	91,789	147,490	235,062	320,438	431,160	552,734	693,983	848,805	1,029,406
Pre-paid building rent	(100,000)	(10,000)	(11,000)	(12,100)	(13,310)	(14,641)	(16,105)	(17,716)	(19,487)	(21,436)	235,795
Cash provided by operations	(100,000)	1,239,544	1,673,618	2,141,355	2,641,113	3,174,157	3,741,704	4,344,902	4,984,815	5,648,608	6,592,389
<i>Financing activities</i>											
Project Loan - principal repayment		-	(218,425)	(236,554)	(256,188)	(277,452)	(300,480)	(325,420)	(352,430)	-	-
Additions to Project Loan	1,966,950	-	-	-	-	-	-	-	-	-	-
Issuance of shares	218,550	572,250	1,405,688	630,906	1,549,770	1,305,636	1,708,622	766,870	1,883,756	845,474	-
Purchase of (treasury) shares											
Cash provided by / (used for) financing activities	2,185,500	572,250	1,187,262	394,351	1,293,582	1,028,184	1,408,142	441,450	1,531,326	845,474	-
<i>Investing activities</i>											
Capital expenditure	(1,910,500)	(572,250)	(1,405,688)	(630,906)	(1,549,770)	(1,305,636)	(1,708,622)	(766,870)	(1,883,756)	(845,474)	-
Acquisitions											
Cash (used for) / provided by investing activities	(1,910,500)	(572,250)	(1,405,688)	(630,906)	(1,549,770)	(1,305,636)	(1,708,622)	(766,870)	(1,883,756)	(845,474)	-
NET CASH	175,000	1,239,544	1,455,193	1,904,801	2,384,925	2,896,706	3,441,224	4,019,482	4,632,386	5,648,608	6,592,389



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11.3. 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	175,000	1,414,544	2,869,737	4,774,538	7,159,462	10,056,168	13,497,392	17,516,874	22,149,260	27,797,868	34,390,257
Pre-paid building rent	100,000	110,000	121,000	133,100	146,410	161,051	177,156	194,872	214,359	235,795	-
Total Current Assets	275,000	1,524,544	2,990,737	4,907,638	7,305,872	10,217,219	13,674,548	17,711,746	22,363,619	28,033,662	34,390,257
<i>Fixed assets</i>											
Machinery & equipment	545,000	1,062,750	1,551,888	2,010,982	2,438,531	2,832,958	3,192,605	3,515,736	3,800,522	4,045,049	3,359,553
Furniture & fixtures	478,000	430,200	382,400	334,600	286,800	849,063	740,256	631,450	522,644	413,838	305,031
Cafe equipment	730,000	365,000	804,825	402,413	887,320	443,660	978,270	489,135	1,078,542	539,271	-
Total Fixed Assets	1,753,000	1,857,950	2,739,113	2,747,994	3,612,651	4,125,680	4,911,132	4,636,321	5,401,709	4,998,157	3,664,585
<i>Intangible assets</i>											
Pre-operation costs	157,500	126,000	94,500	63,000	31,500	-	-	-	-	-	-
Legal, licensing, & training costs	-	-	-	-	-	-	-	-	-	-	-
Total Intangible Assets	157,500	126,000	94,500	63,000	31,500	-	-	-	-	-	-
TOTAL ASSETS	2,185,500	3,508,494	5,824,350	7,718,632	10,950,023	14,342,899	18,585,679	22,348,066	27,765,327	33,031,820	38,054,841
Liabilities & Shareholders' Equity											
<i>Other liabilities</i>											
Deferred tax		35,112	126,900	274,390	509,451	829,890	1,261,049	1,813,783	2,507,767	3,356,572	4,385,978
Long term debt (Project Loan)	1,966,950	1,966,950	1,748,525	1,511,970	1,255,782	978,330	677,850	352,430	-	-	-
Total Long Term Liabilities	1,966,950	2,002,061	1,875,425	1,786,360	1,765,233	1,808,219	1,938,899	2,166,213	2,507,767	3,356,572	4,385,978
<i>Shareholders' equity</i>											
Paid-up capital	218,550	790,800	2,196,487	2,827,393	4,377,164	5,682,800	7,391,422	8,158,291	10,042,047	10,887,521	10,887,521
Retained earnings		715,633	1,752,437	3,104,879	4,807,626	6,851,880	9,255,359	12,023,562	15,215,514	18,787,727	22,781,342
Total Equity	218,550	1,506,433	3,948,925	5,932,272	9,184,790	12,534,679	16,646,781	20,181,854	25,257,561	29,675,248	33,668,863
TOTAL CAPITAL AND LIABILITIES	2,185,500	3,508,494	5,824,350	7,718,632	10,950,023	14,342,899	18,585,679	22,348,066	27,765,327	33,031,820	38,054,841

12. USEFUL PROJECT MANAGEMENT TIPS

Technology

- **List of Equipment:** Customized computers and software are essential for animation development.
- **Energy Requirement:** Should not be overestimated or installed in excess and alternate source of energy for critical operations be arranged in advance
- **Equipment Suppliers:** Should be asked for training/orientation and after sales services under a contract with the suppliers.
- **Quality Assurance Equipment & Standards:** Products/Service quality standards need to be defined and a monitoring system for compliance to be instituted. This improves credibility.

Marketing

- Extensive marketing required through social media / websites to minimize marketing budget.

Human Resources

- **Staff:** Qualified staff in the field of animation development to be hired.
- **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.

12.1. Useful Links

- Prime Minister's Office, www.pmo.gov.pk
- Government of Pakistan, www.pakistan.gov.pk
- Ministry of Industries & Production, www.moip.gov.pk
- Ministry of Education, Training & Standards in Higher Education, <http://moptt.gov.pk>
- Pakistan Software Houses Association, www.pasha.org.pk
- Pakistan Software Export Board, www.pseb.org.pk

- Punjab Information Technology Board, www.pitb.org.pk
- Lahore school of Animation, www.lsa.org.pk
- National College of Arts, www.nca.edu.pk
- Beacon house National University, www.bnu.edu.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
- Trade Development Authority of Pakistan (TDAP), www.tdap.gov.pk
- Securities & Exchange Commission of Pakistan (SECP), www.secp.gov.pk
- Federation of Pakistan Chambers of Commerce and Industry (FPCCI) www.fpcci.com.pk
- State Bank of Pakistan (SBP), www.sbp.org.pk
- National Bank of Pakistan (NBP), www.nbp.com.pk
- First Women Bank Limited (FWBL), www.fwbl.com.pk

13. KEY ASSUMPTION

Table 9: Operating Assumptions

Project	
Hours Operational per day	8
Days operational per month	25
Days operational per year	300

Table 10 - Economy Related Assumptions

Annual Electricity Price Growth	10%
Annual Salary Growth Rate	10%
Rent Growth Rate	10%

Annual Sale Price Growth Rate	5%
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Table 11 - Financial Assumptions

Project Life (Years)	10
Debt Equity Ratio	90 : 10
Interest Rate on Long Term Debt	8%
Long Term Debt Tenure (Years)	8
Number of Payment/Year	12
Income Tax Rates	Sole Proprietorship Tax Slabs

