

Pre-Feasibility Study

(Fodder Production & Trading Company)



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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 an '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 **Fodder Production & Trading** by providing them with a general understanding of the business with the intension 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 thumbs 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 the basis of investment decisions.

3. INTRODUCTION OF 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, 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 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, 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 by 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

The business is proposed to be located in rural areas of Sindh, Punjab, KPK and Balochistan where water is available in abundant quantity. Product(s) include Dry Fodder, and Green Fodder. The proposed business will produce 135 Tons of Dry fodder / 20 Acre and 50 Tons of Green Fodder / 20 Acre. There will be 6 crops per year therefore total produce for 20 Acres will be 810 Tons / annum and 300 Tons / annum for Dry and Green fodder respectively. The total cost estimate of business is Rs. 2.04 million with fixed investment Rs.1.26 million and working capital 0.78 million. As per the cost assumptions, the IRR of the venture is 54%, whereas the Payback period is 2.5 years.

6. BRIEF DESCRIPTION OF PROJECT

Animals consume green fodder in high quantity as compared to 'Alfalfa' (Dry Fodder) due to high water content present in green fodder. However, dry fodder is found to be more economical as compared to green fodder as it gives the same nutrition to the animal in lower quantities. Furthermore, dry fodder is considered beneficial for milking animals as it increases fat droplets content in milk.

The requirement for dry fodder is consistent across Pakistan all round the year and can also be exported to international markets. The proposed project is based on cultivation of Alfalfa crop, employing best agriculture practices and marketing the produce through trading office. Some of the key elements of the project are as follows

- **Technology:** The proposed fodder production unit will use new cutting machines and used bailer machines for cutting and bailing of forage.
- **Location:** Fodder can be cultivated in any rural area where water is easily available and land is suitable for optimum fodder yield.
- **Product:** The proposed project will produce Green Fodder and Dry Fodder
- **Target Market:** In addition to local markets of urban and mostly rural areas, there is a huge potential of exports in dry and bailed form.
- **Employment Generation:** The proposed project will provide direct employment to 06 people. Financial analysis shows the unit shall be profitable from the very first year of operation.

7. CRITICAL FACTORS

The most critical considerations or factors for success of the project are:

- Selection of agriculture land
- Contract management
- Availability of water
- Applying the correct balance of nutrients
- Applying fertilizer at the right time

8. INSTALLED AND OPERATIONAL CAPACITIES

Production capacity of the proposed fodder production and trading unit would be around 25 to 30 tons/acres per annum on contract farming basis. It has been assumed that contract farming would be done on 20 acres of land, where 90% of fodder will be sold as dry fodder and 10% of total production will be sold as green fodder. As moisture content is up to 70%, therefore, production of dry fodder is calculated at 135 Tons / Cut / 20 acres (30% of green) and Green Fodder of 50 Tons / Cut / 20 acres. There will be 6 cut per acre / annum for fodder, therefore total produce for 20 Acres will be 810 Tons / annum and 300 Tons / annum for Dry and Green fodder respectively.

9. GEOGRAPHICAL POTENTIAL FOR INVESTMENT

Pakistan is primarily an agricultural country and majority of its population is directly involved in agriculture business. Therefore, the proposed project can be located in rural

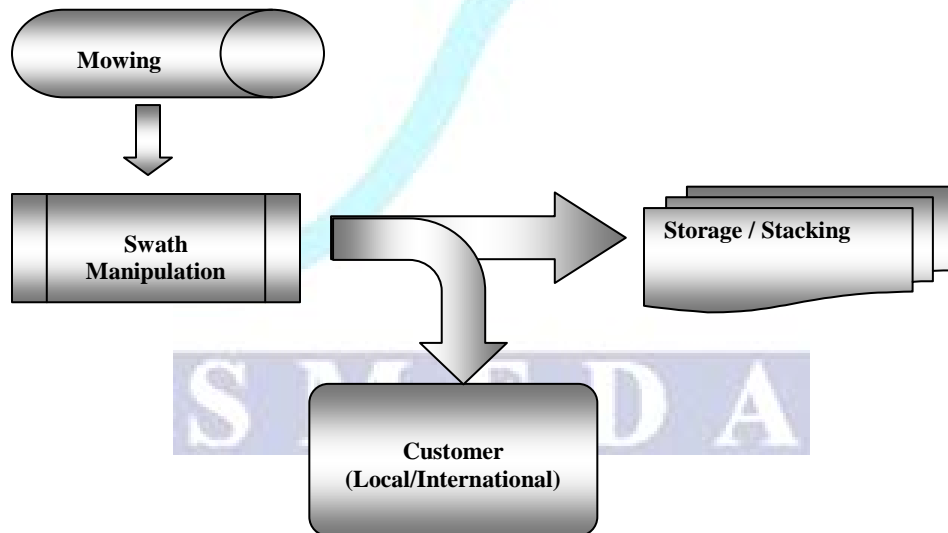
areas of Sindh, Punjab, KPK and Balochistan where water is available in abundant quantity.

10. POTENTIAL TARGET MARKET

Growth in livestock sector has led to increased demand for dry and green fodder. Therefore, most of the sales take place directly from the farm. However, there are several other sale points available such as regular and temporary mandis (markets), farm houses and down-town areas or suburbs where people raise cattle.

11. PROCESS FLOW

The process flow, showing key activities of a fodder production and trading company are given in the diagram as follows:



12. PROJECT COST SUMMARY

A detailed financial model has been developed to analyze the commercial viability of a Fodder Production and Trading business. 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.

12.1 Project Economics

All the figures in this financial model have been calculated on contract farming basis on 20 Acres of Land with an assumption of 25-30 tons fodder production per acre per annum. There will be 6 crop cut per annum where dry fodder is produced by drying 70% of moisture content from green fodder. For the proposed project, 90% of revenue will come from dry fodder, therefore, average production of dry fodder will be 135 tons / 20 acre / annum and green fodder (10% of total production) 50 tons / 20 acre / annum. The following table shows internal rate of return and payback period.

Table 1 - Project Economics

Description	Details
Internal Rate of Return (IRR)	54%
Payback Period (yrs)	2.5
Net Present Value (NPV)	Rs. 11,164,335

Returns on the scheme and its profitability are highly dependent on fertility of land, good agricultural practices, availability of water and use of good quality seeds.

12.2 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.203,825
Bank Loan (90%.)	Rs.1,834,425
Markup to the Borrower (%age/annum)	8%
Tenure of the Loan (Years)	08
Grace Period (Year)	01

12.3 Project Cost

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

Table 3 - Capital Investment for the Project

Capital Investment	Amount (Rs.)
Tools & Equipments	1,000,000
Building / Infrastructure (Office Renovation)	60,000
Furniture & fixtures	122,000
Preliminary Expenses	80,000
Total Capital Costs	1,262,000
Initial Working Capital	776,250
Total Project Cost	2,038,250

12.4 Space Requirement

Fodder will be cultivated on 20 Acres of fertile land, which will be acquired on contract farming basis. Trading will be managed from the main office situated in any major city and is assumed to be acquired on monthly rental basis. For this project, we have assumed the following lease/rental rates for agriculture land and trading office.

Table 4 - Space Requirement

Area Required	Area	Monthly Rent Charges (Rs.)	Yearly Rent (Rs.)
Management/ Trading Office	200 Sq. Ft.	15,000	180,000
Land on Contract Farming	20 Acres	33,333	400,000
Total Rent			580,000

12.5 Tools and Equipment

The following table provides list of machinery and equipment required for cultivation of fodder:

Table 5 - List of Machinery and Equipment

Description	Quantity	Cost Rs/unit	Total Rs.
Cutter	1	700,000	700,000
Bailer	1	300,000	300,000
Tractor (On rent as per requirement)	1		
Raker (On rent as per requirement)	1		
Total			1,000,000

These costs are based on the assumption that a setup will be required for book keeping, marketing and trading of Fodder across the country.

Table 6 - Office Equipment Cost

	Quantity	Cost	Amount
Computers with UPS	1	35,000	35,000
Computer printer	1	10,000	10,000
Telephones	3	2,000	6,000
Fax machines	1	12,000	12,000
UPS & Battery	1	25,000	25,000
Furniture	Nos	34,000	34,000
Total			122,000

12.6 Raw Material Requirements

Table 7 - Cost of Material (Per Acre)

	Unit	Rate	Rs. / Acre
Seeds (Kg / acre)	10	450	4,500
Fertilizers	1	1,700	1,700
Pesticides – Spray	1	1,000	1,000
PP Bags (50 Kg)	185	50,	9,250
Water	1	1,200	1,200
Cost per Unit			17,650

12.7 Human Resource Requirement

Table 8 - Human Resource Requirement

Description	Nos.	Salary per month	Total
Owner	01	25,000	25,000
Supervisor	01	18,000	18,000
Machine Operator	01	12,000	12,000
Land Labor	02	10,000	20,000
Marketing Executive	01	20,000	20,000
Total Staff	06		95,000

The table above provides details of human resources required to run a fodder production and trading company. Salaries of all employees are estimated to increase at 10% annually.

12.8 Revenue Generation

In the proposed venture, it is assumed that 20 acres of land will be cultivated to produce six crops of fodder in a year. Total 810 tons (30% of green) of dry fodder and 300 tons of green fodder will be produced which will generate average annual revenue of Rs. 5 million. It is assumed that 10% of sales will be on credit.

Table 9 - Revenue Generation

Product	Unit (tons / crop)	Sales Price (Rs./Unit)	First Year Production (6 crops)	First Year Sales Revenue (Rs)
Dry Fodder (30% of Green)	135	5,500	810	4,455,000
Green Fodder	50	2,200	300	660,000
Total Sales Revenue				5,115,000

12.9 Other Costs

An essential cost to be borne by the company is the travelling and associated cost incurred by management staff during their visits to farmers. It is estimated that on an average, Rs. 30,000 will be incurred in a month.

• **Working Capital Requirements:** It is estimated that an additional amount of approximately Rs. 776,250 will be required as cash in hand to meet the initial working capital requirements during operations. The requirement is based on the utilities, salaries, land lease, office rent, raw material inventories and miscellaneous expense for three months. The following table gives the break up.

Table 10 – Working Capital Requirement

	Month	3 Months Charges (Rs.)
Utilities	03	168,000
Salaries	03	285,000
Land Lease	03	100,000
Office Rent	03	45,000
Raw Material Inventory	03	88,250
Miscellaneous Expense	03	90,000
Total		776,250

13. CONTACTS – SUPPLIERS AND OTHERS

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- 3. Dr. M. ASLAM MIRZA**
Director
Institute of Animal Nutrition and Feed Technology
University of Agriculture, Faisalabad
Ph: 041-9920161-70

14. ANNEXURES

14.1 Income Statement

FODDER Production & Trading Business										
Projected Income Statement (Rs.)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Revenue	5,115,000	5,907,825	6,823,538	7,881,186	9,102,770	10,513,699	12,143,323	14,025,538	16,199,496	18,710,418
Sales on Credit	511,500	590,783	682,354	788,119	910,277	1,051,370	1,214,332	1,402,554	1,619,950	1,871,042
Sales on Cash	4,603,500	5,317,043	6,141,184	7,093,068	8,192,493	9,462,330	10,928,991	12,622,984	14,579,547	16,839,376
Beginning Inventory	-	67,885	74,843	82,514	90,972	100,296	110,577	121,911	134,407	148,184
Ending Inventory	67,885	74,843	82,514	90,972	100,296	110,577	121,911	134,407	148,184	163,372
Bed Debt Expenses	10,230	11,816	13,647	15,762	18,206	21,027	24,287	28,051	32,399	37,421
Net (Adjusted Sales)	5,036,885	5,889,051	6,802,219	7,856,966	9,075,240	10,482,392	12,107,702	13,984,991	16,153,321	18,657,809
Cost of Sales	3,190,000	3,480,695	3,799,322	4,148,647	4,531,711	4,951,864	5,412,792	5,918,553	6,473,614	7,082,891
Cultivation Cost	2,118,000	2,335,095	2,574,442	2,838,323	3,129,251	3,449,999	3,803,624	4,193,495	4,623,328	5,097,220
Cultivation Land Rent	400,000	440,000	484,000	532,400	585,640	644,204	708,624	779,487	857,436	943,179
Direct Utility Expense	672,000	705,600	740,880	777,924	816,820	857,661	900,544	945,571	992,850	1,042,493
Gross Profit	1,846,885	2,408,356	3,002,897	3,708,320	4,543,529	5,530,528	6,694,910	8,066,438	9,679,707	11,574,917
Gross Profit Margin	37%	41%	44%	47%	50%	53%	55%	58%	60%	62%
General Administrative & Selling Expenses										
Salaries	1,140,000	1,254,000	1,379,400	1,517,340	1,669,074	1,835,981	2,019,580	2,221,537	2,443,691	2,688,060
Office Rent	180,000	198,000	217,800	239,580	263,538	289,892	318,881	350,769	385,846	424,431
Amortization of Preliminary Expenses	16,000	16,000	16,000	16,000	16,000	-	-	-	-	-
Depreciation Expense	118,200	106,380	95,742	86,168	77,551	70,096	63,086	56,778	51,100	45,990
Maintenance Expense	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Selling & Distribution	151,107	176,672	204,067	235,709	272,257	314,472	363,231	419,550	484,600	559,734
Subtotal	1,615,307	1,761,052	1,923,009	2,104,797	2,308,420	2,520,441	2,774,778	3,058,634	3,375,237	3,728,215
Operating Income	231,579	647,305	1,079,889	1,603,523	2,235,109	3,010,087	3,920,132	5,007,804	6,304,470	7,846,702
Financial Charges	146,754	139,392	122,484	104,173	84,343	62,866	39,606	14,416	-	-
Earnings Before Taxes	84,825	507,912	957,404	1,499,349	2,150,766	2,947,221	3,880,525	4,993,387	6,304,470	7,846,702
Tax	-	50,791	66,111	147,402	277,653	459,305	692,631	1,020,516	1,429,064	1,968,846
Net Profit	84,825	457,121	891,293	1,351,947	1,873,113	2,487,916	3,187,894	3,972,871	4,875,405	5,877,856
Monthly Profit After Tax	7,069	38,093	74,274	112,662	156,093	207,326	265,658	331,073	406,284	489,821

14.2 Balance Sheet

FODDER Production & Trading Business

Projected Balance Sheet (Rs.)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Assets											
Current Assets											
Cash & Bank Balance	688,000	708,265	1,052,401	1,799,573	2,975,498	4,636,656	6,865,665	9,758,768	13,399,062	18,257,855	24,103,097
Raw Material Inventory	88,250	176,500	194,591	214,537	236,527	260,771	287,500	316,969	349,458	385,277	424,768
Finished Goods		67,885	74,843	82,514	90,972	100,296	110,577	121,911	134,407	148,184	163,372
Accounts Receivable	0	42,625	49,232	56,863	65,677	75,856	87,614	101,194	116,879	134,996	155,920
Total Current Assets	776,250	995,275	1,371,067	2,153,486	3,368,674	5,073,579	7,351,356	10,298,842	13,999,806	18,926,312	24,847,158
Fixed Assets											
Plant Machinery & Facility	1,000,000	900,000	810,000	729,000	656,100	590,490	531,441	478,297	430,467	387,420	348,678
Factory Construction	60,000	54,000	48,600	43,740	39,366	38,429	34,586	31,128	28,015	25,214	25,692
Furniture & Fixtures	122,000	109,800	98,820	88,938	80,044	72,040	64,836	58,352	52,517	47,265	42,539
Total Fixed Assets	1,182,000	1,063,800	957,420	861,678	775,510	700,959	630,863	567,777	510,999	459,899	416,909
Intangible Assets											
Preliminary Expenses	80,000	64,000	48,000	32,000	16,000	-	-	-	-	-	-
Total Assets	2,038,250	2,123,075	2,376,487	3,047,164	4,160,184	5,774,539	7,982,219	10,866,619	14,510,805	19,386,211	25,264,067
Owner's Equity	203,825	288,650	745,771	1,637,065	2,989,011	4,862,125	7,350,040	10,537,934	14,510,805	19,386,211	25,264,067
Long Term Liability	1,834,425	1,834,425	1,630,716	1,410,100	1,171,172	912,414	632,179	328,684	0	0	0
Total Equity & Liabilities	2,038,250	2,123,075	2,376,487	3,047,164	4,160,184	5,774,539	7,982,219	10,866,619	14,510,805	19,386,211	25,264,067



SMEDA

14.3 Cash Flow Statement

FODDER Production & Trading Business											
Projected Statement of Cash Flows (Rs.)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Cash Flow From Operating Activities											
Net Profit	0	84,825	457,121	891,293	1,351,947	1,873,113	2,487,916	3,187,894	3,972,871	4,875,405	5,877,856
Add: Depreciation Expense	0	118,200	106,380	95,742	86,168	77,551	70,096	63,086	56,778	51,100	45,990
Amortization Expense	0	16,000	16,000	16,000	16,000	16,000	-	-	-	-	-
(Increase) / decrease in RM		-88,250	-18,091	-19,946	-21,990	-24,244	-26,729	-29,469	-32,489	-35,819	-39,491
(Increase) / decrease in FG Inventory		-67,885	-6,958	-7,671	-8,458	-9,325	-10,280	-11,334	-12,496	-13,777	-15,189
(Increase) / decrease in Receivables	-	(42,625)	(6,607)	(7,631)	(8,814)	(10,180)	(11,758)	(13,580)	(15,685)	(18,116)	(20,924)
Net Cash Flow From Operations	0	20,265	547,845	967,788	1,414,853	1,922,916	2,509,245	3,196,597	3,968,978	4,858,793	5,848,242
Cash Flow From Financing Activities											
Receipt of Long Term Debt	1,834,425										
Repayment of Long Term Debt		0	(203,709)	(220,616)	(238,927)	(258,758)	(280,235)	(303,495)	(328,684)	-	-
Owner's Equity	203,825										
Net Cash Flow From Financing Activities	2,038,250	0	(203,709)	(220,616)	(238,927)	(258,758)	(280,235)	(303,495)	(328,684)	0	0
Cash Flow From Investing Activities											
Capital Expenditure	(1,000,000)					(3,000)					(3,000)
Factory/Office Furniture	(122,000)										
Preliminary Operating Expenses	(80,000)										
Office Renovation Cost	(60,000)										
Land for Cultivation	0										
Purchase of RM	(88,250)										
Net Cash Flow From Investing Activities	(1,350,250)	0	0	0	0	(3,000)	0	0	0	0	(3,000)
NET CASH FLOW	688,000	20,265	344,136	747,171	1,175,926	1,661,157	2,229,009	2,893,103	3,640,294	4,858,793	5,845,242
Cash at the Beginning of the Period	0	688,000	708,265	1,052,401	1,799,573	2,975,498	4,636,656	6,865,665	9,758,768	13,399,062	18,257,855
Cash at the End of the Period	688,000	708,265	1,052,401	1,799,573	2,975,498	4,636,656	6,865,665	9,758,768	13,399,062	18,257,855	24,103,097

14.4 Useful Project Management Tips

Technology

- **Machinery Suppliers:** Should be asked for training and after sales services under the contract.
- **Quality Assurance & Standards:** Product quality standards need to be defined on the packaging and a mechanism to check them should be instituted, this improves credibility.

Marketing

- **Product Development & Packaging:** Experts' help may be engaged for product / service and packaging design & development
- **Advertisements & Promotion:** Business promotion and dissemination through banners and launch events is highly recommended. Product brochures should be developed from good quality service providers.
- **Sales & Distribution Network:** Experts' advice and distribution agreements should be sought for developing the sales and distribution network.
- **Price / Bulk Discounts, Cost plus Introductory Discounts:** Pricing decisions should never compromise quality of the products. Price during introductory phase may be kept lower and used as promotional tool. Product cost estimates should be carefully documented before price setting. Government controlled prices need to be displayed, if required.

Human Resources

- **Adequacy & Competencies:** Skilled and experienced staff should be considered as an asset of the business and investments should be made in developing and motivating them through various means and incentives.
- **Performance Based Remuneration:** Efforts to manage human resource cost should be focused through performance measurement and performance based compensation.
- **Training & Skill Development:** Encouraging training and skill development of self & employees through experts and exposure to best practices helps in continuous improvements in the business. Least cost options for Training and Skill Development (T&SD) should be developed and linked with compensation benefits and awards.

14.5 Useful Links

Prime Minister's Office

www.pmo.gov.pk

Small & Medium Enterprises Development Authority (SMEDA)

www.smeda.org.pk

National Bank of Pakistan (NBP)

www.nbp.com.pk

First Women Bank Limited (FWBL)

www.fwbl.com.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>

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 Jammu & 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

15. KEY ASSUMPTIONS

Description	
Debt Equity Ratio	90:10
Interest Rate	8%
Loan Tenure	8 Years
Grace Period	1 Year
Sales Price Growth Rate	10%
Depreciation Rate	10%
Weighted Average Cost of Capital	9.2%
Prepaid Rent Period	6 Months
Increase in Staff Salaries	10%
Increase in Office expense	10%
Credit Sales	10%

