

Pre-Feasibility Study

(Medical Transcription)



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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 **Medical Transcription** Business by providing them 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 the basis of investment decisions

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 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 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

In this pre-feasibility study, the proposed medical transcription setup is to be located in a commercial area in any of the big cities of Pakistan. Medical Transcription is a process of converting medical information available in the form of audio recordings to accurate medical reports in the text form (electronic and print).

The business will be started with eight medical transcriptionists per shift with an initial capacity utilization of 75% during the first year. For this purpose, premises can be acquired on rent. The business can be run on a one shift basis. The sponsor / entrepreneur of the business in Pakistan has to have a forward purchase contract with a company in USA, which will provide the company with the transcription business. Further, projected workings of the business have been based upon 6 hours of operations per day dedicated solely to core typing by the medical transcriptionists.

The total initial cost for setting up a medical transcription setup is estimated at Rs. 2.00 million out of which capital cost is Rs. 1.72 million along with working capital of Rs. 0.28 million. The project will be financed through 90% debt and 10% equity. The NPV is projected around Rs. 12.38 million, with an IRR of 60% and payback period of 3.03 years. The legal business status of this project is proposed as 'Sole Proprietorship'.

6 BRIEF DESCRIPTION OF PROJECT & PRODUCT

Medical Transcription is a process of converting medical information from audio recordings to accurate medical reports in the text form (electronic and print). There are numerous kinds of reports; however, the most frequently encountered are History, Physical Examination, Consultation, Operative and Discharge reports. A digital transcriber records, saves, opens, and plays files created in sound formats, such as wave files. Quality digital transcribers have an option to compress these files for quicker transfer. In USA, the health care industry follows extensive documentation procedures due to stringent procedural and government regulations.

In order to set-up a medical transcription, the investor must acquire licensed medical transcription software along with high bandwidth internet connection from a renowned service provider. In this pre-feasibility study the proposed medical transcription setup will be established in rented premises with an area of around 1,100 sq. feet, having good speed internet connection along with electricity & telephone connections.

The medical transcription setup will remain operational for 06 hours / day out of 08 hours per shift; core typing by medical transcriptionists is assumed to be for 06 hours, whereas other activities such as handing over of assignments

and debriefing sessions will require approximately additional 2 hours per shift per day. Initial sales volume is calculated at Rs. 6.07 million in the first year, with an annual growth of 10%, providing employment to 18 individuals.

The venture is proposed to be established as a Sole Proprietorship.

7 CRITICAL FACTORS

Some of the Key factors for operating a successful medical transcription setup are:

- Background, experience and technical qualification of the entrepreneur and/or key staff.
- Uninterrupted stream of business orders.
- Thorough understanding of US health care industry, relevant terminology & the English language.
- Hiring and retention of trained manpower; manpower trained in accordance with industry requirements.
- Formulation and implementation of medical transcription work processes and quality procedures.
- Incorporation of latest productivity enhancement tools / technologies catering to a highly competitive environment.

8 INSTALLED & OPERATIONAL CAPACITIES

Initially the business can be started with eight medical transcriptionists per shift during the first year. The business is to be run on a one shift basis. The entrepreneur of the business in Pakistan must acquire a forward purchase contract with a company in USA, which will ensure business orders.

Operations of the business can be started in a rented building in any suitable location, where all utility connections are available. Office space is primarily required for a hall, where the transcriptionists will be seated comfortably. It is envisaged that the business will be operating at 75% capacity utilization at the end of the first year and will be having a 5% capacity increase every year. In the beginning, it is proposed that there would be one working shift, but the business will have the flexibility of increasing production by increasing the number of shifts to three.

9 POTENTIAL TARGET MARKETS / CITIES

Medical transcription business can be established in any city across Pakistan; selection of the location is dependent upon the entrepreneur's choice.

10 PROJECT COST SUMMARY

A detailed financial model has been developed to analyze the commercial viability of the Medical Transcription. 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 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)	60%
Payback Period (Yrs)	3.03
Net Present Value (NPV)	Rs. 12,377,970

Returns on the investments and its profitability are highly dependent on the entrepreneur's practical knowledge about medical transcription and fulfillment of other prerequisites as highlighted in the document.

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. 200,280
Bank Loan (90%.)	Rs. 1,802,520
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.)
IT Equipment for Medical Transcriptionists	955,000
Furniture & fixtures	416,600
Office Equipment	273,000
Pre-operating Cost	75,000
Total Capital Costs	1,719,600
Initial Working Capital	283,200
Total Project Cost	2,002,800

10.4 Space Requirement

Approximately 1,100 sq. ft. will be required for business setup. It is recommended that the area should be acquired on rent. Rent cost for the proposed areas will be ranging between Rs. 25,000 to Rs. 35,000. Rent cost incorporated for

financial analysis is Rs. 33,300 per month. One month advance rent along with three months of security deposit is also to be paid.

10.5 IT Equipment for MTs Details

Details of equipment required for the project is given in the following table:

Table 4 – IT Equipment for MT Costs

Equipment	Quantity	Cost per Unit (Rs.)	Total Cost (Rs.)
Laptops for QC Manager	1	45,000	45,000
Laptops for MTs	8	45,000	360,000
Laptops for QCs	3	45,000	135,000
Laptops for Formatters	1	45,000	45,000
Computer Server	1	100,000	100,000
Head Phones	12	1,500	18,000
Foot Pedals	12	300	36,000
UPS for Server	1	75,000	75,000
Printer	1	20,000	20,000
Scanner	1	15,000	15,000
Modem DSL	1	8,000	8,000
Networking Cable (Ft)	500	20	10,000
Reference Books (Set)	2	16,500	33,000
Software License	1	55,000	55,000
Total Equipment			955,000

10.6 Office Equipment Details

The details of the office equipment required for the project is given in the following table:

Table 5 – Office Equipment Costs

Equipment	Quantity	Cost per Unit (Rs.)	Total Cost (Rs.)
Laptops for Management Staff	3	45,000	135,000
Printer	1	20,000	20,000
Telephone Sets	2	1,500	3,000
Fax Machine	1	15,000	15,000
Generator	1	100,000	100,000
Total Equipment			273,000

10.7 Furniture & Fixture

Details of furniture and fixture are as follows (figures may vary in the 'total cost' column due to rounding):

Table 6 – Furniture & Fixture Costs

Description	Quantity	Unit Cost (Rs)	Total Cost (Rs)
Computer Tables and Chairs	3	15,000	45,000
Workstations for MTs with Chairs	14	12,500	175,000
Sign Board	1	10,000	10,000
Ceramic Tiles (Sq. Ft)	1,110	60	66,600
Air Conditioners	2	60,000	120,000
Total Furniture & Fixture Cost			416,600

10.8 Human Resource Requirement

Medical transcription will run for 08 hours in single shifts. Human resource requirement for the proposed project is as under:

Table 7 - Staff Requirement

Positions	Number	Salary/Month (Rs.)	Annual Salary (Rs.)
CEO	1	40,000	480,000
Finance & Admin. Manager	1	30,000	360,000
System Administrator (IT Expert)	1	20,000	240,000
Data Distribution Manager	1	20,000	240,000
Quality Control Manager	1	25,000	300,000
Medical Transcriptionist	8	15,000	1,440,000
Quality Assurance Executive	3	20,000	720,000
Formatters	1	12,000	144,000
Office Boys	1	10,000	120,000
Total	18		4,044,000

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

10.9 Revenue Generation

Expected revenue generation by the Medical Transcription setup during the first year is given in the table below:

Table 8 - Expected Revenue Generation during Year-I

Service Category	Expected Sales Amount (Rs.)
Starting capacity utilization	75%
Revenue	6,075,000
Sales price growth rate	10%
Export Sales	100%

11 ANNEXURES

10.10 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	6,075,000	7,128,000	8,330,850	9,702,990	11,266,250	13,045,131	14,349,644	15,784,609	17,363,069	19,099,376
<i>Cost of sales</i>										
Software Renewal Fee	16,000	17,600	19,360	21,296	23,426	25,768	28,345	31,179	34,297	37,727
Direct Labor	2,844,000	3,128,400	3,441,240	3,785,364	4,163,900	4,580,290	5,038,319	5,542,151	6,096,367	6,706,003
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	3,160,000	3,476,000	3,823,600	4,205,960	4,626,556	5,089,212	5,598,133	6,157,946	6,773,741	7,451,115
Gross Profit	2,915,000	3,652,000	4,507,250	5,497,030	6,639,694	7,955,919	8,751,511	9,626,662	10,589,329	11,648,262
<i>General administration & selling expenses</i>										
Administration expense	1,200,000	1,320,000	1,452,000	1,597,200	1,756,920	1,932,612	2,125,873	2,338,461	2,572,307	2,829,537
Rent expense	399,600	439,560	483,516	531,868	585,054	643,560	707,916	778,707	856,578	942,236
Water expense	12,000	13,200	14,520	15,972	17,569	19,326	21,259	23,385	25,723	28,295
Gas expense	9,000	9,900	10,890	11,979	13,177	14,495	15,944	17,538	19,292	21,222
Communications expense (phone, fax, mail, internet etc.)	150,000	165,000	181,500	199,650	219,615	241,577	265,734	292,308	321,538	353,692
Printing & Stationary	90,000	94,500	99,225	104,186	109,396	114,865	120,609	126,639	132,971	139,620
Entertainment	255,000	267,750	281,138	295,194	309,954	325,452	341,724	358,811	376,751	395,589
Promotional expense	50,000	45,000	40,500	36,450	32,805	29,525	26,572	23,915	21,523	19,371
Depreciation expense	489,470	489,470	489,470	563,039	553,489	576,509	661,675	650,620	650,620	749,210
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	30,000	33,000	36,300	39,930	43,923	48,315	53,147	58,462	64,308	70,738
Subtotal	2,760,070	2,958,380	3,176,659	3,490,329	3,744,749	4,042,866	4,446,746	4,785,767	5,170,226	5,690,986
Operating Income	154,930	693,620	1,330,592	2,006,701	2,894,945	3,913,054	4,304,765	4,840,895	5,419,102	5,957,275
Earnings Before Interest & Taxes	154,930	693,620	1,330,592	2,006,701	2,894,945	3,913,054	4,304,765	4,840,895	5,419,102	5,957,275
Interest expense on long term debt (Project Loan)	149,608	136,968	120,354	102,362	82,876	61,772	38,918	14,166	-	-
Subtotal	149,608	136,968	120,354	102,362	82,876	61,772	38,918	14,166	-	-
Earnings Before Tax	5,322	556,652	1,210,237	1,904,340	2,812,069	3,851,281	4,265,847	4,826,730	5,419,102	5,957,275
Tax	-	15,665	104,035	228,368	425,517	685,320	802,254	970,519	1,148,230	1,309,682
NET PROFIT/(LOSS) AFTER TAX	5,322	540,987	1,106,202	1,675,972	2,386,552	3,165,961	3,463,594	3,856,211	4,270,872	4,647,593

10.11 **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	249,900	506,704	1,320,724	2,765,190	4,951,976	8,009,158	12,083,119	16,652,916	21,741,837	27,739,553	34,453,202
Accounts receivable		249,658	292,932	342,364	398,753	462,997	536,101	589,711	648,683	713,551	784,906
Pre-paid building rent	33,300	36,630	40,293	44,322	48,755	53,630	58,993	64,892	71,382	78,520	-
Total Current Assets	283,200	792,992	1,653,948	3,151,876	5,399,483	8,525,784	12,678,213	17,307,520	22,461,901	28,531,623	35,238,108
<i>Fixed assets</i>											
Machinery & equipment	955,000	639,850	324,700	1,115,082	740,706	375,881	1,290,847	857,460	435,129	1,494,316	992,617
Furniture & fixtures	416,600	333,280	249,960	166,640	83,320	531,699	425,359	319,019	212,680	106,340	-
Cafe equipment	273,000	182,000	91,000	316,032	210,688	105,344	365,846	243,897	121,949	423,513	282,342
Total Fixed Assets	1,644,600	1,155,130	665,660	1,597,754	1,034,714	1,012,924	2,082,052	1,420,377	769,757	2,024,169	1,274,959
<i>Intangible assets</i>											
Pre-operation costs	75,000	60,000	45,000	30,000	15,000	-	-	-	-	-	-
Total Intangible Assets	75,000	60,000	45,000	30,000	15,000	-	-	-	-	-	-
TOTAL ASSETS	2,002,800	2,008,122	2,364,608	4,779,630	6,449,197	9,538,708	14,760,265	18,727,897	23,231,658	30,555,792	36,513,067
Liabilities & Shareholders' Equity											
<i>Current liabilities</i>											
Short term debt	-	-	-	-	-	-	-	-	-	-	-
Total Current Liabilities	-	-	-	-	-	-	-	-	-	-	-
<i>Other liabilities</i>											
Deferred tax		-	15,665	119,701	348,068	773,586	1,458,906	2,261,160	3,231,678	4,379,908	5,689,591
Long term debt (Project Loan)	1,802,520	1,802,520	1,602,354	1,385,575	1,150,803	896,545	621,184	322,968	-	-	-
Total Long Term Liabilities	1,802,520	1,802,520	1,618,019	1,505,276	1,498,871	1,670,131	2,080,089	2,584,127	3,231,678	4,379,908	5,689,591
<i>Shareholders' equity</i>											
Paid-up capital	200,280	200,280	200,280	1,621,844	1,621,844	2,153,542	3,799,180	3,799,180	3,799,180	5,704,211	5,704,211
Retained earnings		5,322	546,309	1,652,511	3,328,483	5,715,035	8,880,996	12,344,590	16,200,801	20,471,672	25,119,265
Total Equity	200,280	205,602	746,589	3,274,354	4,950,326	7,868,577	12,680,176	16,143,769	19,999,980	26,175,883	30,823,476
TOTAL CAPITAL AND LIABILITIES	2,002,800	2,008,122	2,364,608	4,779,630	6,449,197	9,538,708	14,760,265	18,727,897	23,231,658	30,555,792	36,513,067

10.12

10.13 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		5,322	540,987	1,106,202	1,675,972	2,386,552	3,165,961	3,463,594	3,856,211	4,270,872	4,647,593
Add: depreciation expense		489,470	489,470	489,470	563,039	553,489	576,509	661,675	650,620	650,620	749,210
amortization of pre-operating costs		15,000	15,000	15,000	15,000	15,000	-	-	-	-	-
Deferred income tax		-	15,665	104,035	228,368	425,517	685,320	802,254	970,519	1,148,230	1,309,682
Accounts receivable		(249,658)	(43,274)	(49,432)	(56,389)	(64,244)	(73,105)	(53,610)	(58,971)	(64,868)	(71,355)
Pre-paid building rent	(33,300)	(3,330)	(3,663)	(4,029)	(4,432)	(4,875)	(5,363)	(5,899)	(6,489)	(7,138)	78,520
Cash provided by operations	(33,300)	256,804	1,014,185	1,661,246	2,421,558	3,311,440	4,349,323	4,868,013	5,411,889	5,997,715	6,713,649
<i>Financing activities</i>											
Project Loan - principal repayment		-	(200,166)	(216,779)	(234,772)	(254,258)	(275,361)	(298,216)	(322,968)	-	-
Short term debt principal repayment		-	-	-	-	-	-	-	-	-	-
Additions to Project Loan	1,802,520	-	-	-	-	-	-	-	-	-	-
Issuance of shares	200,280	-	-	1,421,564	-	531,699	1,645,637	-	-	1,905,031	-
Cash provided by / (used for) financing activities	2,002,800	-	(200,166)	1,204,784	(234,772)	277,441	1,370,276	(298,216)	(322,968)	1,905,031	-
<i>Investing activities</i>											
Capital expenditure	(1,719,600)	-	-	(1,421,564)	-	(531,699)	(1,645,637)	-	-	(1,905,031)	-
Cash (used for) / provided by investing activities	(1,719,600)	-	-	(1,421,564)	-	(531,699)	(1,645,637)	-	-	(1,905,031)	-
NET CASH	249,900	256,804	814,019	1,444,466	2,186,786	3,057,182	4,073,962	4,569,797	5,088,921	5,997,715	6,713,649

10.14 Useful Project Management Tips

Marketing

- **Price - Bulk Discounts, Cost plus Introductory Discounts:** Price should never be allowed to compromise quality. Price during introductory phase may be lower and used as promotional tool. Product cost estimates should be carefully documented before price setting.
- **Human Resources**
- **List of Human Resource (As per Section 10.8)**
- **Adequacy & Competencies:** Skilled and experienced staff should be considered an investment and be retained on better terms, if necessary.
- **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.

10.15 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>
- 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

12 KEY ASSUMPTIONS

Table 9 - Operating Assumptions

Working hours in a shift	06 hours
Shift length	08 hours
Days operational per month	25 days
Day operational per year	300 days

Table 10 - Revenue Assumptions

Starting capacity utilization	75%
Annual Installed Capacity (lines)	1,800,000
Annual Operational Capacity	1,350,000
Price per Line (Rs.)	4.50
Typing Capacity per MT per hour (lines)	125

Table 11 Expense Assumptions

Software Renewal Fee	Rs. 16,000 per annum
Printing & Stationery	Rs. 90,000 per annum
Entertainment	Rs. 255,000 per annum
Electricity cost growth rate	10%
Electricity Expense per annum	Rs. 300,000
Depreciation Rate on IT Equipment	33%
Depreciation Rate on Office Equipment	33%
Depreciation Rate on Furniture	20%

Table 12 - Financial Assumptions

Project Life	10 Years
Debt	90%
Equity	10%
Debt Tenure	8 Years
Grace Period	1 Year
Interest rate	8%

