

Pre-Feasibility Study

ICE CREAM & JUICE PARLOR



Small and Medium Enterprises Development Authority

Ministry of Industries & Production Government of Pakistan

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1 DISCLAIMER

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2 EXECUTIVE SUMMARY

Life in Metropolitan cities is getting hectic day by day. Therefore, people are more interested to go out and spent some quality time which could enliven them in comparatively low price. Therefore, the potential of small Ice Cream & Juice Parlors and coffee shops is rising intensively.

This pre-feasibility is for setting up a small business of Ice Cream & Juice Parlor. The proposed Ice Cream & Juice Parlor should preferably be located in a newly developed or under developed housing societies of metropolitan cities. Product line includes Ice Cream, Juices, Milkshakes and Coffee (both Hot & Cold) only. However more products can be added in the menu later on.

The proposed capacity of ice cream & juice parlor is of serving 69,120 people in a year. Initial capacity utilization is estimated at 80%. Production capacity growth rate is estimated at 2% per annum. This production capacity is estimated to be economically viable and justifies the capital as well as operational cost of the project. However, entrepreneur's knowledge of ice cream industry, development of quality product, competitive pricing, strong management and operational skills are key factors for the success of this project.

Total project cost is estimated as Rs. 2.037 million with capital investment of Rs. 1.381 million and working capital Rs. 0.656 million. Given the cost assumptions IRR, Payback and Net Present Value are 53%, 2.26 years and Rs. 3.834 million respectively.

The project will provide employment opportunities to 09 people including owner manager. The legal business status of this project is proposed as 'Sole Proprietorship'.

3 INTRODUCTION TO SMEDA

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

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

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

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

4 PURPOSE OF THE DOCUMENT

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

The purpose of this document is to facilitate potential investors in **Ice Cream & Juice Parlor** 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 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.

5 BRIEF DESCRIPTION OF PROJECT & PRODUCT

Corporate life in metropolitan cities is getting hectic day by day. Therefore, people are more interested to go out and spent some time which could enliven them. Besides this college / university students and young generation also want a relaxed environment where they could spend quality time with their friends & families. In this scenario, the scope and potential for ice cream & juice parlors is increasing.

This particular pre-feasibility provides the basic details for setting up a small ice cream & juice parlor which will provide quality hygienic food products. The target market for this project will be middle and upper middle class residing in newly developed or under developed housing societies of metropolitan cities of Pakistan. The major product line of the proposed business includes Ice Cream, Juices, Milk Shakes and Coffee.

The proposed ice cream & juice parlor will purchase ice cream from different ice cream manufacturing companies in bulk (Party Packs) instead of producing its own. This will help to reduce the initial capital investment, operational investment and also provide standardization in taste. Companies like Walls and Hico provide free of cost delivery of Party Packs (9.4 Liters) to different restaurants and ice cream parlors. The only machinery required for the said business is deep freezers, display freezer, coffee maker, blender and juicers.

The proposed project will provide direct employment opportunities to 09 people initially.

5.1 Installed And Operational Capacities

The total installed capacity of the project is assumed at 192 servings a day. The initial operational capacity of the project will be 80% with an annual growth of 2%. Maximum capacity utilization of the project is assumed at 95%.

Table 1: Installed and Operational Capacity

Description	Total Serving Capacity (Annually)	% of Total Servings	Operational Capacity 80 % (Year 1)	Maximum Operational Capacity 95% (Year 10)
Ice Cream	27,648	40%	22,118	26,266
Juices / Shakes	27,648	40%	22,118	26,266
Coffee	13,824	20%	11,059	13,133
Total	69,120	100%	55,295	65,664

6 CRITICAL FACTORS

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

- ⇒ Formation of organizational system especially for operations department in order to maintain quality standards.
- ⇒ Develop strong linkages with raw material suppliers for sourcing quality material on time couple with economical prices.
- ⇒ Time management is very important in restaurant business. Order should be served on time without any delay.
- ⇒ Good relations with the customers is key for repeat sales.
- ⇒ Proficient Social Media marketing campaign through facebook and twitter is necessary in order to disseminate business info to maximum people. This will also allow the owner to get feedback from customers and provide interaction opportunity with Customers.

- ⇒ Pricing strategy and understanding the demand of customers.
- ⇒ Location considerations for easy access of the customers.
- ⇒ Induction of trained human resource for the handling of business operations especially in operations and sales.
- ⇒ Shop interior and layout of products.
- ⇒ Market intelligence is also very critical in order to have 'know how' about new happenings in market.

7 GEOGRAPHICAL POTENTIAL FOR INVESTMENT

All metropolitan cities of Pakistan like Lahore, Karachi, Islamabad, Sialkot, Faisalabad, Multan etc. are the potential areas for investment in this particular business. It is suggested to open this business in the commercial markets of newly developed areas. The trend of ice cream & juice parlors and coffee shops is intensively increasing in the big cities which motivates the investors to invest.

8 POTENTIAL TARGET CUSTOMERS / MARKETS

The target market for this particular business is the middle and lower middle economic class of metropolitan cities of Pakistan. The target age group is from young to middle age (i.e. 10 to 45 years) mostly as this segment is more interested to eat ice cream on regular basis. Besides this it is also recommended to target different universities and colleges in order to enhance the sales volume.

9 PROJECT COST SUMMARY

A detailed financial model has been developed to analyze the commercial viability of Ice Cream & Juice Parlor. Various costs and revenue related assumptions along with results of the analysis are outlined in this section.

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

9.1 Project Economics

All the figures in this financial model have been calculated for estimated sales of Rs.7.511 million in the year one. The capacity utilization during year one is worked out at 80% with 02% increase in subsequent years up to the maximum capacity utilization of 95%.

The following table shows internal rate of return, payback period and net present value of the proposed venture:

Table 2: Project Economics

Description	Details
Internal Rate of Return (IRR)	53%
Payback Period (yrs.)	2.26
Net Present Value (Rs.)	3,834,219

9.2 Project Financing

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

Table 3: Project Financing

Description	Details
Total Equity (50%)	Rs. 1,018,859
Bank Loan (50%)	Rs. 1,018,859
Markup to the Borrower (%age / annum)	16%
Tenure of the Loan (Years)	5

9.3 Project Cost

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

Table 4: Project Cost

Description	Amount Rs.
Capital Cost	
Machinery & Equipment	782,000
Furniture & Fixture	345,000
Office Equipment	72,000
Pre-operating Cost	77,389
Security Deposit	105,000
Total Capital Cost	1,381,389
Working Capital	
Raw Material Inventory	44,455

Up-front Building Rent	105,000
Cash	500,000
Equipment Spare Part Inventory	6,874
Total Working Capital	656,329
Total Project Cost	2,037,717

9.4 Space Requirement

The space requirement for the proposed ice cream & juice parlor is estimated considering various facilities including dining area, display & kitchen counter, storage area etc. It is proposed to take building on rental basis in order to minimize capital cost and also to minimize the risk factor. Details of space requirement and rent cost related to building is given below:

Table 5: Space Requirement

Description	Estimated Area (Sq ft)
Sitting Area	375
Display & Kitchen Counter	75
Total	450

Monthly rent for the proposed business is assumed at Rs. 35,000 per month. However this may differ from area to area.

9.5 Machinery & Equipment Requirement

Machinery and equipment for the proposed project are stated below:

Table 6: Machinery & Equipment Requirement

Description	Quantity	Unit Cost (Rs.)	Total Cost (Rs.)
Display Freezer	01	400,000	400,000
Deep Freezer (02 Door)	02	40,000	80,000
Juicer & Blender	04	3,500	14,000
Juicer for Citrus & Other	01	5,000	5,000
Coffee Maker	02	9,000	18,000
Water Dispenser	01	15,000	15,000
Generator (15 KVA)	01	250,000	250,000
Total			782,000

9.6 Furniture & Fixtures Requirement

Details of the furniture and fixture required for the project are given below:

Table 7: Furniture & Fixture Requirement

Description	Quantity	Unit Cost (Rs.)	Total Cost (Rs.)
Furniture Set	16	5,000	80,000
Wooden Floor (Sq Ft)	450	110	49,500
Electric Wiring & Lighting (Sq Ft)	450	40	18,000
UPS with Battery	01	30,000	30,000
Air Conditioners (1.5 Ton)	02	50,000	100,000
Shop Renovation (Sq Ft)	450	150	67,500
Total			345,000

9.7 Office Equipment Requirement

Following office equipment will be required for the proposed project:

Table 8: Office Equipment Requirement

Description	Quantity	Unit Cost (Rs.)	Total Cost (Rs.)
Laptop	01	50,000	50,000
Printer with Software	01	20,000	20,000
Telephone Sets	02	1,000	2,000
Total			72,000

9.8 Human Resource Requirement

In order to run operations smoothly, details of human resources required along with number of employees and monthly salary are recommended as under:

Table 9: Human Resource Requirement

Description	No. of Employees	Monthly Salary per person (Rs.)
Owner / Manager	01	30,000
Counter Boy	03	13,500
Waiters	04	12,000
Security Guard	1	14,000
Total	09	

9.9 Utilities and Other Costs

An essential cost to be borne by the project is the cost of electricity. The electricity expenses are estimated to be around Rs. 77,670 per month. Furthermore,

promotional expense being essential for marketing of Ice Cream & Juice Parlor is estimated as 01% of sales revenue.

9.10 Revenue Generation

Based on the capacity utilization of 80%, sales revenue during the first year of operations is estimated as under:

Table 10: Revenue Generation – Year 1

Description	Percentage	Installed Capacity	1 st Year Capacity	Wastage	1 st Year Sale	Sale Price	Total
Total Ice Cream Customers		27,648					
Small Cup	30%	8,294	6,635	36.86	6,598	70	461,884
Medium	50%	13,824	11,059	61.44	10,998	130	1,429,709
Large Cup	20%	5,530	4,424	24.58	4,399	190	835,890
Juices / Milk Shakes Customers		27,648	22,118	122.88	21,996	150	3,299,328
Coffee Customers		13,824	11,059	61.44	10,998	135	1,484,698
Total Revenue							7,511,509¹

10 CONTACT DETAILS

In order to facilitate potential investors, contact details of private sector Service Providers relevant to the proposed project be given.

10.1 Machinery Suppliers

All the required machinery for the business start-up of Ice Cream & Juice Parlor is easily available from different home appliance shop. It is suggested to visit the cluster market of Home Appliance in order to get different options with best price.

10.2 Raw Material Suppliers

Name of Supplier	Address	Phone	Fax	E-mail	Website
Hico	15,16/N, Industrial Area ,	+92 (42) 35712096	+92 (42) 35710878	Info@hico.pk	www.hico.pk

¹ Difference is due to rounding off.

	Gulberg II, Lahore				
Yummy Milk Products	124/4-Industrial Area, Kot Lakhpat, Lahore	+92 (42) 35150851	+92 (42) 35113813		

11 USEFUL WEB LINKS

Small & Medium Enterprises Development Authority (SMEDA)	www.smeda.org.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
Security 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
Punjab Small Industries Corporation	www.psic.gop.pk
Sindh Small Industries Corporation	www.ssic.gos.pk
Punjab Food Authority	www.punjabfoodauthority.gov.pk
Agriculture University Faisalabad	www.uaf.edu.pk/

12 ANNEXURES

12.1 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	7,511,470	8,515,342	9,595,368	10,806,245	12,163,344	13,683,801	15,386,715	17,293,374	19,226,229	21,150,089
Cost of goods sold	5,353,876	6,008,836	6,712,106	7,495,942	8,369,423	9,342,641	10,426,808	11,634,382	12,889,148	14,178,763
Gross Profit	2,157,594	2,506,506	2,883,262	3,310,304	3,793,921	4,341,160	4,959,907	5,658,993	6,337,081	6,971,326
<i>General administration & selling expenses</i>										
Administration expense	543,840	598,224	658,046	723,851	796,236	875,860	963,446	1,059,790	1,165,769	1,282,346
Rental expense	420,000	462,000	508,200	559,020	614,922	676,414	744,056	818,461	900,307	990,338
Travelling & Comm. expense (phone, fax, etc.)	10,560	11,616	12,778	14,055	15,461	17,007	18,708	20,578	22,636	24,900
Office expenses (stationary, etc.)	5,280	5,808	6,389	7,028	7,730	8,503	9,354	10,289	11,318	12,450
Promotional expense	75,115	85,153	95,954	108,062	121,633	136,838	153,867	172,934	192,262	211,501
Professional fees (legal, audit, etc.)	37,557	42,577	47,977	54,031	60,817	68,419	76,934	86,467	96,131	105,750
Depreciation expense	119,900	119,900	119,900	119,900	119,900	219,705	219,705	219,705	219,705	219,705
Amortization expense	15,478	15,478	15,478	15,478	15,478	-	-	-	-	-
Miscellaneous expense	225,344	255,460	287,861	324,187	364,900	410,514	461,601	518,801	576,787	634,503
Subtotal	1,453,074	1,596,216	1,752,582	1,925,613	2,117,078	2,413,261	2,647,670	2,907,026	3,184,917	3,481,493
Operating Income	704,520	910,290	1,130,680	1,384,691	1,676,844	1,927,899	2,312,237	2,751,966	3,152,165	3,489,832
Gain / (loss) on sale of assets	-	-	-	-	312,800	-	-	-	-	-
Earnings Before Interest & Taxes	704,520	910,290	1,130,680	1,384,691	1,989,644	1,927,899	2,312,237	2,751,966	3,152,165	3,489,832
Interest expense	139,642	94,442	75,801	54,178	29,096	-	-	-	-	-
Earnings Before Tax	564,878	815,848	1,054,879	1,330,512	1,960,548	1,927,899	2,312,237	2,751,966	3,152,165	3,489,832
Tax	16,488	44,877	80,732	122,077	239,609	233,080	309,947	410,491	510,541	594,958
NET PROFIT/(LOSS) AFTER TAX	548,390	770,971	974,147	1,208,436	1,720,939	1,694,820	2,002,290	2,341,475	2,641,624	2,894,874

12.2 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	500,000	702,471	802,833	925,512	1,059,200	1,687,905	3,546,328	5,702,178	8,187,995	10,964,579	14,644,758
Finished goods inventory	-	29,910	33,387	37,294	41,650	46,503	51,910	57,934	64,643	71,611	78,771
Equipment spare part inventory	6,874	8,182	9,681	11,447	13,529	15,981	18,869	22,267	25,994	30,024	-
Raw material inventory	44,455	55,436	68,714	85,124	105,395	130,427	161,324	199,446	243,912	295,150	-
Pre-paid building rent	105,000	115,500	127,050	139,755	153,731	169,104	186,014	204,615	225,077	247,585	-
Total Current Assets	656,329	911,499	1,041,664	1,199,132	1,373,504	2,049,920	3,964,445	6,186,440	8,747,620	11,608,949	14,723,529
<i>Fixed assets</i>											
Machinery & equipment	782,000	703,800	625,600	547,400	469,200	1,389,052	1,211,047	1,033,042	855,037	677,031	499,026
Furniture & fixtures	345,000	310,500	276,000	241,500	207,000	172,500	138,000	103,500	69,000	34,500	-
Office equipment	72,000	64,800	57,600	50,400	43,200	36,000	28,800	21,600	14,400	7,200	-
Total Fixed Assets	1,199,000	1,079,100	959,200	839,300	719,400	1,597,552	1,377,847	1,158,142	938,437	718,731	499,026
<i>Intangible assets</i>											
Pre-operation costs	77,389	61,911	46,433	30,955	15,478	-	-	-	-	-	-
Total Intangible Assets	77,389	61,911	46,433	30,955	15,478	-	-	-	-	-	-
TOTAL ASSETS	1,932,717	2,052,510	2,047,298	2,069,387	2,108,382	3,647,472	5,342,292	7,344,581	9,686,056	12,327,680	15,222,555
Liabilities & Shareholders' Equity											
<i>Current liabilities</i>											
Total Current Liabilities	-	-	-	-	-	-	-	-	-	-	-
<i>Other liabilities</i>											
Long term debt	1,018,859	590,261	473,758	338,615	181,849	-	-	-	-	-	-
Total Long Term Liabilities	1,018,859	590,261	473,758	338,615	181,849	-	-	-	-	-	-
<i>Shareholders' equity</i>											
Paid-up capital	1,018,859	1,018,859	1,018,859	1,018,859	1,018,859	1,018,859	1,018,859	1,018,859	1,018,859	1,018,859	1,018,859
Retained earnings	-	548,390	659,681	816,914	1,012,675	2,733,613	4,428,433	6,430,723	8,772,198	11,413,822	14,308,696
Total Equity	1,018,859	1,567,249	1,678,539	1,835,773	2,031,533	3,752,472	5,447,292	7,449,581	9,791,056	12,432,680	15,327,555
TOTAL CAPITAL AND LIABILITIES	2,037,717	2,157,510	2,152,298	2,174,387	2,213,382	3,752,472	5,447,292	7,449,581	9,791,056	12,432,680	15,327,555

12.3 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	-	548,390	770,971	974,147	1,208,436	1,720,939	1,694,820	2,002,290	2,341,475	2,641,624	2,894,874
Add: depreciation expense	-	119,900	119,900	119,900	119,900	119,900	219,705	219,705	219,705	219,705	219,705
amortization expense	-	15,478	15,478	15,478	15,478	15,478	-	-	-	-	-
Finished good inventory	-	(29,910)	(3,477)	(3,907)	(4,355)	(4,853)	(5,407)	(6,024)	(6,709)	(6,967)	(7,160)
Equipment inventory	(6,874)	(1,308)	(1,499)	(1,767)	(2,082)	(2,452)	(2,887)	(3,398)	(3,727)	(4,031)	30,024
Raw material inventory	(44,455)	(10,981)	(13,278)	(16,410)	(20,272)	(25,032)	(30,897)	(38,122)	(44,466)	(51,239)	295,150
Pre-paid building rent	(105,000)	(10,500)	(11,550)	(12,705)	(13,976)	(15,373)	(16,910)	(18,601)	(20,462)	(22,508)	247,585
Cash provided by operations	(156,329)	631,069	876,546	1,074,736	1,303,129	1,808,606	1,858,423	2,155,849	2,485,817	2,776,584	3,680,179
<i>Financing activities</i>											
Change in long term debt	1,018,859	(428,598)	(116,503)	(135,143)	(156,766)	(181,849)	-	-	-	-	-
Issuance of shares	1,018,859	-	-	-	-	-	-	-	-	-	-
Cash provided by / (used for) financing act	2,037,717	(428,598)	(116,503)	(135,143)	(156,766)	(181,849)	-	-	-	-	-
<i>Investing activities</i>											
Capital expenditure	(1,381,389)	-	-	-	-	(998,052)	-	-	-	-	-
Cash (used for) / provided by investing act	(1,381,389)	-	-	-	-	(998,052)	-	-	-	-	-
NET CASH	500,000	202,471	760,043	939,592	1,146,363	628,705	1,858,423	2,155,849	2,485,817	2,776,584	3,680,179

13 KEY ASSUMPTIONS

13.1 Operating Cost Assumptions

Description	Details
Administration Benefit Expenses	3% of Administration Cost
Office Expenses (Stationery, Entertainment etc)	1% of Administration expenses
Communication Expenses	1% of Administration Cost
Promotional Expenses	1% of Revenue
Professional Fee	0.5% of Revenues
Depreciation Method	Accelerated depreciation
Depreciation Rate	10% on Machinery 10% on Office Equipment 10% on Furniture & Fixture
Inflation Growth Rate	10%
Electricity Price Growth Rate	10%
Salaries Growth Rate	10%

13.2 Production Cost Assumptions

Description	Details
Ice Cream Purchase Price (Party Pack of 9.4 Litter)	Rs.1,500
Cost of Goods sold Growth Rate	10% per year
Juice / Milkshake Production Cost (Avg)	Rs.70
Coffee Production Cost (Avg)	Rs.60
Topping Cost (Per Scope)	Rs. 8

13.3 Revenue Assumptions

Description	Details
Growth in Sales Price	10%
Days Operational / Year	360
Per Day Serving Capacity	192 Persons
Production Capacity in First Year	80%
Percentage Increase in Production Capacity every Year	02%
Maximum Production Capacity	95%

13.4 Financial Assumptions

Description	Details
Debt	50%
Equity	50%
Interest Rate on Debt	16%
Debt Tenure	5 Years
Debt Payment / Year	1