Professional Issues in IT

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Omar Usman Khan, PostDoc., PhD.

omar.khan@nu.edu.pk

Assistant Professor

Department of Computer Sciences

National University of Computer & Emerging Sciences

Peshawar, Pakistan

Financing your Business

- More than likely that you will need $$$ for starting your business. What to do? Sell these ?

Financing your Business

- Customers will not pay you until you have provided them with tangible product.
- Individual clients pay fast (a few days-weeks).
- Company clients pay slow (a few weeks-a few months).
- Government clients pay even slower (few months - many months).
  - پیسے بند ہیں!! ادھار بند ہے!! شیخ رشید کی شادی تک ادھار بند ہے!!

Where does the money go ?

- Salaries;
  However small firm, founders/staff will take some salary
- Office rent, heating, lighting
- Equipment purchases
- Advertising and Marketing costs
- TA/DA, office equipment, stationary, etc.
- Interest on borrowed money

Raising Finances: Business Plan

- A document explaining your plans to potential investors, sponsors.
  - Description of what company is doing (current on-going projects)
  - Description of expertise of company founders
  - Description of market that company is aiming it, i.e., it's size, and possible competition.
  - A prediction of financial performance of the company (budget, projected balance sheets, projected cash flows, profit & loss accounts, etc. More material for this course :-))

Sample Business Plan Templates (slide on next screen)
http://www.smeda.org/files/Business_Plan_Template.pdf
http://www.smeda.org/files/Business_Plan_Template_-_Urdu.pdf

Raising Finances: Business Plan

I. Table of Contents

Some organizations require Business plans as a formality.

Others require you to convince them to help you. If so, the content, and structure of business plan is of least importance.

Raising Finances: Business Plan

- With a business plan, you can approach people who can loan you money (e.g., banks), invest in your company, or even donate you money.
- Sources of Finance:
  - Grants
  - Loans
  - Sale of Equity

Raising Finances: Grants

- A sum of money given to the company such that the company can demonstrate that it has been used for the purpose for which the money was given.
- Not paid back.
- Grant sources:
  - Governments (local, international)
  - Charities

Where are the Grants: PCDC

- Non-Profit organization (Portal for NGO related material) Maintains list of funding organizations.

Raising Finances: Loans

- Sum of money that is lent to the company
- Interest is paid on it. Rate of interest can be fixed or variable. Loan can be granted for a specific period of time.
- If company cannot pay back loan, company is liquidated. Lender can recover loan by selling company assets.
- Initial security is required for a loan.
- If small companies cannot show security, then **lender may ask for personal guarantee's from directors of company**. If director's cannot show security, then lender may ask for other **guarantor's who can vouch for company**.

Raising Finances: Loans

- Types of Loans:
  - Overdraft (usually from Banks).
    - Account holder can spend more than the money available in the account. Small interest is paid on the over-drafted amount, usually payable at the end of the month.
    - Overdraft limit must be agreed to by the bank.
    - Many banks give this facility to you by default. Flexible, but bank can change overdraft amount, interest, and policy without informing you.
  - Long-Term Loans (Banks + any other source): Fixed Interest for Fixed Period. Interest paid at various intervals. At expiry of period, the full loan amount is returned.

Raising Finances: Loans

- Types of Loans:
  - Soft Loans
    - Available due to government initiatives (e.g. below)
    - Usually target new companies
    - Have less relaxed terms and conditions
    - May have less interest rates, and may not require security @ all.

Disclaimer: picture is only for educational purposes, and not to advertise any political party.

سوشل میڈیا کی تاریخ کا انوکھا سروے

ہمیں اُس خوش نصیب انسان کی تلاش ہے
جس کو وزیر اعظم یوتھ لون سکیم سے قرضہ ملا ہو

کیا وہ خوش نصیب آپ ہیں

Raising Finances: Loans

- **SMEDA**:
  Small & Medium Enterprises Development Authority
  - **Comprehensive Business Plan Templates**
  - Provides startup loans for engineering, agriculture, livestock, information technology, food processing, minerals, and many other sectors.
  - Provides information, advice to these sectors also.
  - Provides legal services to organizations.
  - Public listing of all public-projects they support, **their business-plans**, available online.

Raising Finances: Loans

- Loans from Friends, Relatives:
  - Not recommended unless terms and conditions clearly defined in a legal document.
  - If not, will lead to bitter arguments, and possibly spoil personal/family relations.

Raising Finances: Equity Capital

- Equity Capital: Money paid to a company in exchange for a share in ownership of the company
- Who pays this money?
  Venture Capitalists (companies),
  Business Angels (individuals)
- Both help the company to expand and become successful. When target is achieved, they sell their share of ownership at very high prices.
  - Will therefore occupy a permanent role in decision-making inside the company

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By Farooq Baloch Published: November 14, 2013

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New private equity fund exposes lucrative prospects in Pakistan

By Reuters Published: August 3, 2013

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"So many companies, amazing returns, growing in leaps and bounds - it's a buyers' market," says Shaharyar Ahmed. PHOTO: REUTERS

KARACHI: Private equity is poised to take off in Pakistan, with contrarian investors betting that the country is endowed with far greater potential than news reports chronicling Taliban bombings, the war in neighbouring Afghanistan or an evolving democracy's frequent bouts of political drama might imply.

Raising Finances: Equity

- How do the equity firms get so much money?
  - Equity company itself borrows money through banks (who want to co-invest) or through inviting people to invest in its stocks

RETURN

275%

is the percentage return Cyan shareholders have earned during January 1, 2012 and December 31, 2014

675%

or Rs67.5 per share, is the amount of cash dividends paid by Cyan in 2014

About Us

Cyan Capital ("Cyan") is a Pakistan focused private equity firm. We make investments in companies with high growth potential and are managed by driven entrepreneurs/management teams.

We have discovered that Pakistan is a country full of untapped potential in several high impact sectors. Limited access to capital has been one of the drivers in restricting companies in taking their businesses to the next level.

We are passionate about providing "Smart Capital" to a segment of the business community that has historically been underserved in Pakistan. We believe that, through our investments, we can build and grow businesses and consequently drive economic development in the Pakistan.

Raising Finances: Equity Capital

- Askari Equity Fund
- Lakson Equity Fund
- Meezan Bank Tahafuz Equity Fund
- Pakistan Islamic Pension Equity Fund
- UBL Bank Savings Equity Fund
- Cyan Equity Fund

TOP FUND HOLDINGS FOR LAKSEQT

Filing Date: 01/31/2015

Name	Position	Value	% of Total
Lucky Cement Ltd	452,689	235,180,800	8.640%
Engro Fertilizers Ltd	2,722,958	232,186,600	8.530%
Fatima Fertilizer Co Ltd	6,011,910	231,097,800	8.490%
Lalpir Power Ltd	4,984,747	190,267,800	6.990%
Oil & Gas Development Co Ltd	900,709	189,995,600	6.980%
Pakistan Petroleum Ltd	1,093,718	186,457,000	6.850%
Kohat Cement Co Ltd	745,630	158,148,200	5.810%
Pakistan National Shipping Cor	768,837	132,017,000	4.850%
Fauji Cement Co Ltd	4,253,966	129,022,800	4.740%
United Bank Ltd/Pakistan	618,533	111,329,800	4.090%

Lakson Equity Fund :::: Source: Bloomberg

Exercise

- A company is in need of finances.
- You have $$$, and you want to help.
- Should you give the $$$ to them as loan, or should you purchase their shares?

Exercise

- Share-holders have greater risk of lower returns as compared to lenders (They may lose their worth entirely).
- Share-holders have greater profit margins than lenders if all goes well.

Scenario

- Suppose a company is started with
  - (1) a share capital of £100, owned by its two founders,
  - (2) and a fixed term loan of £100,000, at an interest rate of 10 per cent
- If, in its first year the company makes an operating profit of £10,000, the interest charges will consume all the profit and the shareholders will receive nothing.
- If the company's operating profit doubles, to £20,000, the lender will still receive £10,000 but, neglecting taxation and assuming that all the profit is distributed to the shareholders, the shareholders will receive £10,000, a very handsome return on an investment of £100.
- If, on the other hand, the company is unsuccessful and goes into liquidation, the lenders will be at the front of the queue of people to whom money is owed, whereas the shareholders will get nothing until everyone else has been paid in full.

Scenario

Years	1	2	3	4	5	6	7	8	9	10	Total
Profit	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	100,000
S. Holder	0	0	0	0	0,	0	0	0	0	0	0
Lender	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	100,000

Years	1	2	3	4	5	6	7	8	9	10	Total
Profit	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	200,000
S. Holder	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	100,000
Lender	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	100,000

Years	1	2	3	4	5	6	7	8	9	10	Total
Profit	10,000	15,000	20,000	25,000	30,000	35,000	40,000	45,000	50,000	55,000	325,000
S. Holder	0	5,000	10,000	15,000	20,000	25,000	30,000	35,000	40,000	45,000	225,000
Lender	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	100,000

As Profits increase
so does company value
and share value

Ignoring all risks
+ market dynamics
+ assuming steady growth

Leverage

- If a company has taken LOANS + EQUITY CAPITAL, then difference b/w both is called LEVERAGE (or GEARING)
- **Shareholders: Not happy** with loans because mosts of the money will be going to pay loan interests
- **Lenders: Not happy** because they know share-holders may encourage company to trade RECKLESSLY (no profit means no loan repayment).
- **New Lenders: Will not invest** in a heavily leveraged company.