

Prakruti Resorts

Tourism and Hospitality Sector

BUSINESS VISION

“Enabling unexplored Rural India to carve a niche for itself in the tourism sector, by active involvement of rural participants while delivering a unique proposition to our customers by running a profitable business”

BASIC PRODUCT DESCRIPTION

We offer customers a chance to live and experience the life of a farmer or a fisherman in rural India while simultaneously improving the livelihood of surrounding villages by involving the villagers in the business model. Tourists have a chance to get away from the rush of city life, while the adventurous have a chance to face the elements without urban comforts, and the corporate teams get to strengthen their teamwork capabilities by engaging in activities inspired by those of the villager. Villagers lend us their expertise in their respective occupations which we convert into adventure activities and tools for team building.(Refer Exhibit 3 for Activities)

WHY IS IT SUSTAINABLE?

- The villager lends his skills to the business and receives a higher standard of living in return. Our USP is the service experience which is a first for this industry. Our symbiotic relationship with rural stakeholders and creative service offering guarantee sustainability for years to come.

- Our company would help the villager manage his cash flows which he earns with our association (via microfinance instruments). This way, we provide him with a sustainable source of income.

TARGET SEGMENTS AND MARKETING STRATEGY

The business is setup aimed at the following segments:

- **Corporate Clients** looking for a complete **team-building exercise**: Organizations are spending heavily on consultants and conducting events. What we offer them is a unique chance to experience the “Real India”, and totally different team-building activities.
 - Marketing to corporate clients will need a consistent task force and sales team. The cost advantages and contribution to the client’s social image are pivotal selling points
- **Foreign tourists** looking for a **genuine Indian experience**: Often we see foreigners seeking a genuine experience wanting to live in the slums, or live with fishermen in a village. We provide them the opportunity while providing basic facilities like proper sanitation, healthy food etc.
 - Advertisements and partnerships with travel agents will buy us the market here. We will develop our website as well as advertise in popular tourism portals.

- **Middle class families** looking to **escape the holiday rush**: With planned family activities, we sell the experience as one in which working parents and their children can bond with one another at a low cost and escape the rush.
 - Advertise to the end consumer directly- to disseminate the brand name and associated perception quickly in the target market
 - **Promotions**: In partnership with value retailers, where our product would be part of a lucky draw, or other similar trial inducing instruments.

We believe there is tremendous market potential; Refer Exhibit 1.

EXECUTION

The first steps towards the execution of this project would be to identify a suitable location for the resorts. The factors involved in selection would be suitability of the village to fulfill the promises made to potential customers, accessibility, price of land and acceptance of villagers. ***Ethamukla, a village in Ongole Dist, Andhra Pradesh, India was found suitable.*** The initial stages of the project would require expenditure for the building of the resort. This should take around 4 – 6 months, during this time the marketing team will start working while the corporate sales team will be working to book orders.

The organization will comprise of the Operations team on the ground and the Sales & Marketing team which will be working from different locations.

Refer Exhibit 3 for organization structure.

The Operations team will be working at the resort and taking care of all the possible eventualities. The farmers and fishermen would be recruited from the village to guide the tourists with their regimen for a set number of hours per day.

MANAGEMENT TEAM

- The management team consists of three fresh MBA graduates each with different areas of specialization – Finance, Operations and Marketing
- We are guided by a Social Service worker who has started his own training institute and belongs to Ethamukla, Andhra Pradesh, India.
- One of the three graduates has his roots in the village, so the team will have home advantage when it comes to operations.
- Another team member has previous experience as an entrepreneur.

FINANCIAL SUMMARY & VENTURE CAPITAL DETAILS

Our plan is designed to follow a capital structure with a **Debt Equity ratio of 1**. We intend to invite **Venture Capital investment of 40% or below limited to 30% of the start up capital. The Management team is prepared to supply 10% of the same.**

The fundamental facts for the Financial Summary are as follows:

1. The **discount rate** used for the NPV calculations is **20%** - data obtained by industry averages of live projects. Initial Capital=US\$667,500.
2. The **occupancy rates** for the years after start up are as highlighted in **Exhibit 5.3**
3. The plan has an **NPV of US\$666,573** of and an **IRR of 56%. (Industry Average = 20%)**. **Due to rural location, Real Estate costs are not high. This partly explains the high IRR compared to industry.**
4. The **Sales and Profit projections** are outlined in **exhibit 5.4 and 5.5**
5. Our venture **generates positive cash flows at the end of the first year of operation, and a turnover of US\$ 1 million after 4 years**
 - We offer the VC a share of the profits proportionate with his/her investment
 - Funding has a lock out period of 3 years – After which, the VC can pull out his/her investment if so desired. Full recourse is guaranteed.

EXHIBIT 1: MARKET OPPORTUNITY

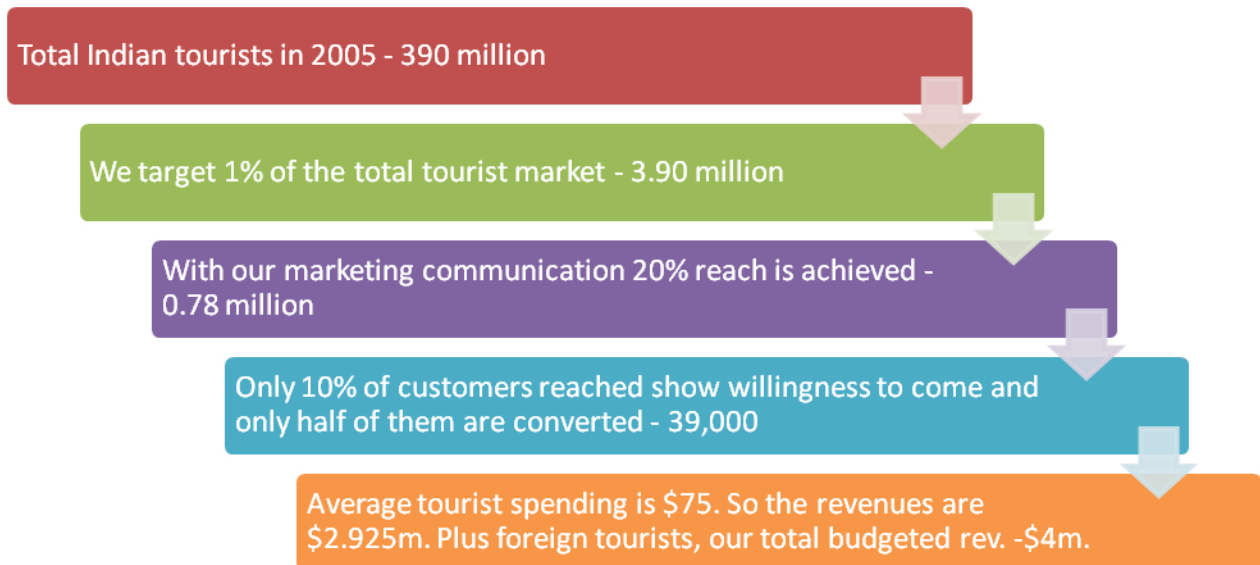


EXHIBIT 2: RISK MANAGEMENT FRAMEWORK

Market Risk

- RISK: The tourism industry is cyclical in nature, and we run the risk of losing business in the troughs of the cycle.
- MITIGATION: Our nature of business is in itself a hedge against this. We cater to diverse segments of customers, ranging from foreign tourists to Indian Corporates.

Project Risks

- RISK: These include cost overruns, and operations mishandling
- MITIGATION: We believe that information is our greatest tool here. Our foresight and planning coupled with up-to-date market data on land prices etc helps mitigate the risk of project mismanagement.

Operation Risk

- RISK: Given the nature of outdoor activities, we foresee a considerable operational hazard when going to sea along with fisherman, for example.
- MITIGATION: To mitigate the damage or loss of property, we will engage in insurance plans tailor made for the industry. We will form a microfinance institution which will handle farmer accounts and also be a cover for any hazard or working capital overruns.

Competitive Risk

- RISK: Various players in the sectors we operate in could initiate a competitive reaction which could undermine the growth of the project.
- MITIGATION: At the moment we do not foresee any direct competition, but we have mitigated this to an extent by extensive war room simulations and tactical plans wherein we predict competitive response and develop strategies to stem the same.

EXHIBIT 3: PACKAGE FOR CORPORATE CLIENTS

Yoga sessions in the morning

Hours on the beach

Time on the farm along with the farmers

A fishing trip

Weaver's Workshop Visit

(The above three designed as a team building exercise)

Motivational lectures

Other team building activities which would contribute to the overall development of the village like designing games for children

EXHIBIT 4: ORGANISATIONAL STRUCTURE

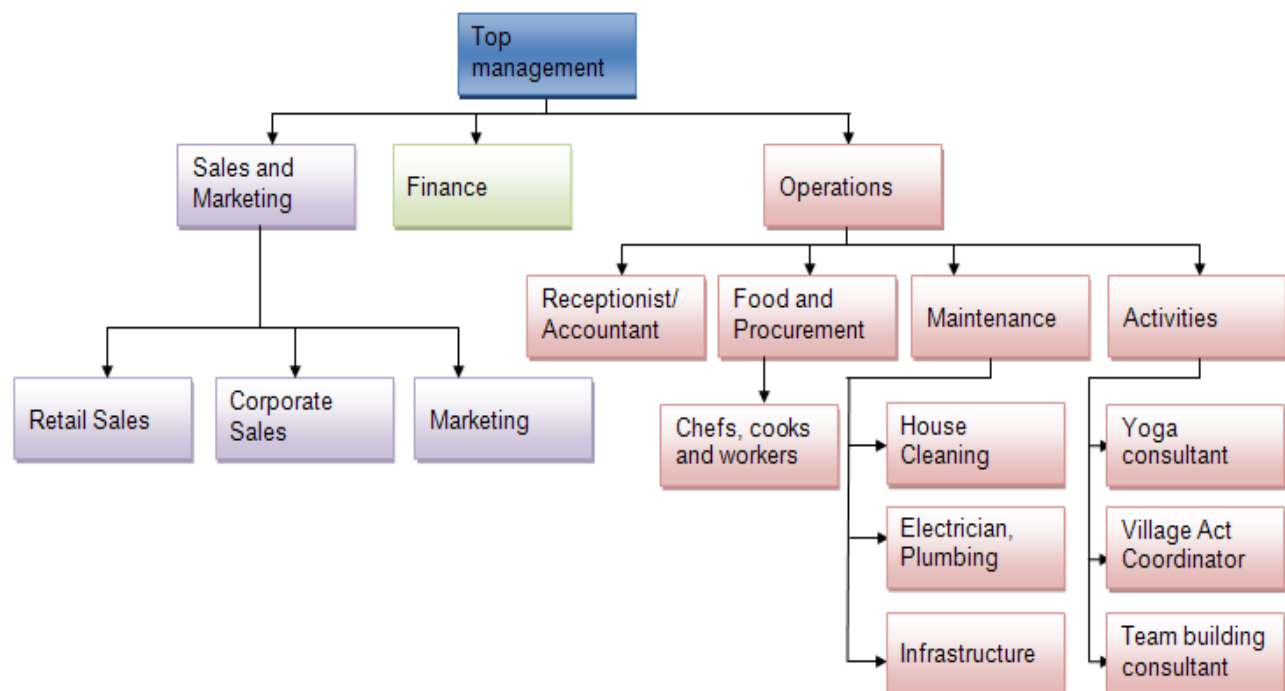


EXHIBIT 5: FINANCIAL SUMMARY(ALL FIGURES IN US \$)

1. Fixed Costs at Start up: Pessimistic values used for calculations.

	Amount in US\$.	
	Optimistic	Pessimistic
Real Estate*	37,500	87,500
Building constructions**	62,500	137,500
MDP Center***	87,500	162,500
Vehicles	50,000	62,500
Fencing and Gate	100,000	5,000
Permissions and registration****	12,500	37,500
Other equipments	100,000	175,000
Total	450,000	667,500

All data estimates have been obtained from Ethamukala, a coastal village in A.P, which is about 4 hours drive from Chennai

*1 acre at Ongole costs about 2 lakhs. We are planning to invest in 4-5 acres for one location

**30 cottages

***MDP center - 1 lecture hall+ recreation(meditation/yoga center) + buffet hall + 10-15 rooms

**** All licenses from government authorities and also cost of speaking and convincing the village panchayat, farmers about the benefits of the program

2. Variable Expenses :

Variable Expenses Break Up (All figures in US\$)	Year 1	Year 2	Year 3	Year 4	Year 5
Head	Amount				
Marketing Costs	50000	62500	75000	100000	100000
Salaries and Wages	116500	136500	149000	161500	161500
Maintenance	1500	1750	2000	2500	2500
Training	1000	1000	1000	1000	1000
Running costs*	33300	42625	51950	75925	90575
Total	202300	244375	278950	340925	355575
Total Fixed + Variable	605975	251875	286450	348425	363075

3. Running Costs

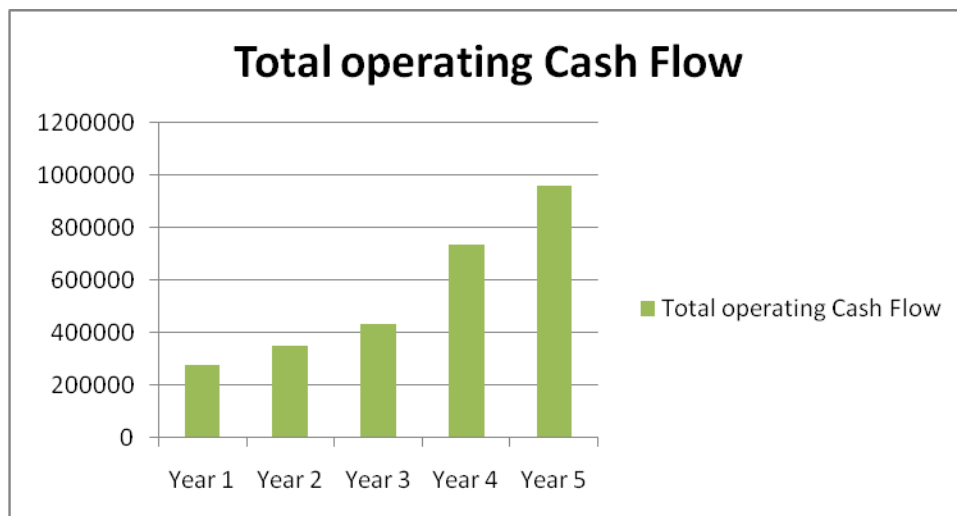
Running Costs - Dependant on occupancy					
	Year 1	Year 2	Year 3	Year 4	Year 5
Salaries per visit	500	625	750	1125	1375
Food/sustenance	28800	36000	43200	64800	79200
Electricity	4000	6000	8000	10000	10000
Total	33300	42625	51950	75925	90575
Occupancy:	0.2	0.25	0.3	0.45	0.55

4. Steady State revenues

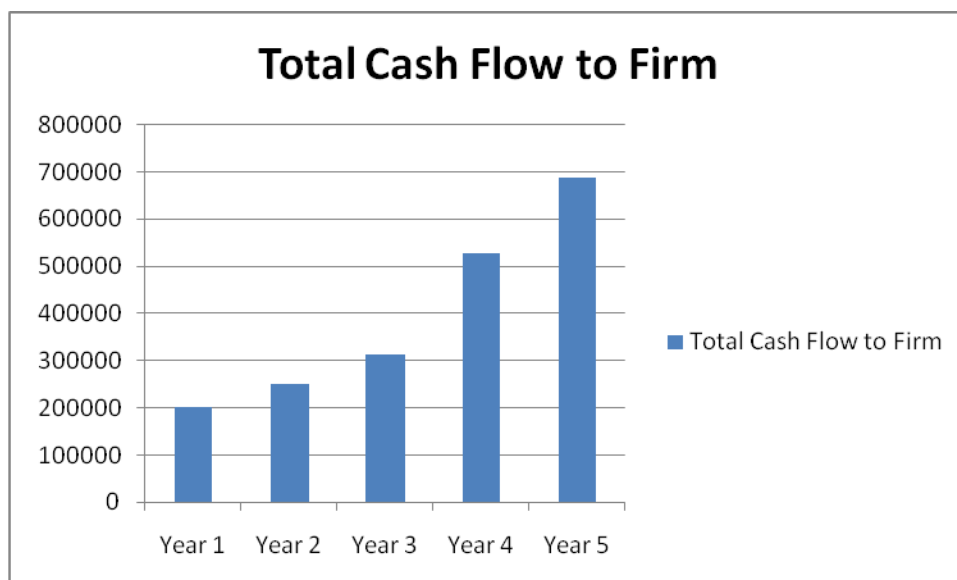
Steady state yearly revenues	Charges per day	no. per week	Days a week	Revenue per week
Corporate exercise (all activities + workshops)	375	1 team of 20 or equivalent	3	22500
	Package/person /day			
Adventure Trail (all activities)	125	20	5	12500
Holiday Package (lesser/no activities)	75	20	3	4500

5. Total Cash Flow

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Yearwise Investment Made:	869,800	0	0	0	0
Total Costs	-	251875	286450	348425	363075
Total Revenue	481,250.00	601,562.50	721,875.00	1,082,812.50	1,323,437.50
Total operating Cash Flow	278,950	349,688	435,425	734,388	960,363



	Year 1	Year 2	Year 3	Year 4	Year 5
Total operating Cash Flow	278950	349687.5	435425	734387.5	960362.5
Interest (D/E =1; 12% pa)	16737	20981.25	26125.5	44063.25	57621.75
Tax (Net rate = 30%)	78663.9	98611.875	122789.85	207097.275	270822.225
Profit After Tax	200286.1	251075.625	312635.15	527290.225	689540.275
Total Cash Flow to Firm	200286.1	251075.625	312635.15	527290.225	689540.275



6. NPV and IRR Calculations:

IRR	56%	Cost of property isn't a major cost - hence the high IRR	
NPV	\$666,573.10	Cost of Capital - Expected returns in the Hospitality industry	20%