8.1 Validating the Financial Model:

As presented earlier, the CSC project envisages setting up 100,000 rural kiosks and 10,000 semi-urban kiosks catering to approximately 600,000 villages across the country. The roll out of the CSCs is expected to be completed by December 2007 on a pan-India basis. A Business Plan for the CSC scheme had been developed as part of the 'Detailed Project Report' (DPR) exercise. This Business Plan was essentially an assessment based primarily on:

a) A review of existing rural kiosks.

b) Preliminary discussions with a range of technology providers with regard to technology options and the costs thereof.

c) Initial discussions with various potential Content & Service providers with regard to the potential revenue models.

d) Deliberations with other experts in the field of e-governance.

To address some of the limitations emerging as a result of this process, various surveys were undertaken across the country – the two main ones pertaining to G2C services and B2C services respectively. These surveys were conducted by leading consultants, viz. PricewaterhouseCoopers (PWC) and ACNielsen ORG.

The surveys reaffirm the hypothesis that there exists a significant business potential for a service delivery platform that can offer both G2C and B2C services in rural India in an integrated manner. Based on the surveys, and the more detailed discussions held on the various "cost components", the Financial Model has been modified on certain counts – primarily in terms of a better alignment of the basket of services and the CSC configuration.

8.2 Basic Changes in the Model Structure:

8.2.1 The costs of equipment considered in the current Business Plan have been rationalized, based on more detailed discussions and quotations received from a large spectrum of vendors. Further it is expected that the CSCs will start with prevalent connectivity options such as dial-up, GSM, CDMA, broadband and even SWAN based connections - albeit in few locations. Thereafter, there will be a gradual shift towards SWAN connectivity, as the SWAN's rollout across the nation. Based on the same, the various suggested configurations for the Financial Model are as presented in Exhibit 34. The proposed mix is discussed later

Exhibit 34: CSC Equipment Configuration

Type A

- 2 PCs (1 PC after 12 months)
- Multi-functional printer
- Dot matrix printer
- Digital Camera
- TV + VCD Player
- Generator (750VA)
- UPS (500VA)
- IT Software
- Furniture & Fixture
- Phone Line

Type B

- 2 PCs
- Multi-functional printer
- Dot matrix printer
- Digital Camera
- TV + VCD Player
- Generator (750VA)
- UPS (500VA)
- IT Software
- Furniture & Fixture
- Phone Line
- Wireless Networking Equipment

Type C

- 2 PCs
- Multi functional printer
- Dot matrix printer
- Digital Camera
- Generator (1000VA)
- UPS (1000VA)
- IT Software
- Furniture & Fixture
- Phone Line
- Multi function computer/TV/Projector Wireless Networking Equipment

Type D – Urban CSC

- 6 PCs (3 PCs after 12 months)
- Multi functional computer/TV/Projector
- Multi functional printer
- Digital Camera
- Generator (1000VA)
- UPS (1000VA)
- IT Software
- Furniture & Fixture
- Networking Equipment/Switch

8.2.2 Resizing the SCA Plan:

The clusterization of the CSCs under an SCA has been re-configured to 200 rural CSCs in comparison to 500 envisaged earlier. This is to take cognizance of the fact that many States are actually looking at a district as a minimum unit, and hence, there could be a number of SCAs who will then be operating at such scale. The rollout of these CSCs is assumed over a 9-month period from the date of appointment of an SCA. For the purpose of the model, the operative costs incurred by the SCA during the 9-month implementation period have been capitalized, and the model has been developed for a 5-year period after completing the implementation.

8.3 The Configurations:

8.3.1 The Capital Cost: The suggested capital cost of the three rural types of CSCs is provided in Exhibit 35

Exhibit 35: Capital Cost – Type A, B & C

	Equipment	Cost (Rs)
1	1PC + OS	22,000
2	Multi Functional Printer	7,000
3	Dot Matrix Printer	7,500
4	Digicam	7,000
5	TV+VCD Player	6,000
6	Generator (750VA)	25,000
7	UPS (500VA)	2,600
8	IT Software	2,000
9	Furniture & Fixtures	15,000
10	Phone Line	1,500
11	Others	4,400
	TOTAL	**100,000**
Additional CapEx in Yr 2		
1	Additional PC + OS	22,000
2	Others	5,000

	Equipment	Cost (Rs)
1	2PC + OS	44,000
2	Multi Functional Printer	7,000
3	Dot Matrix Printer	7,500
4	Digicam	7,000
5	TV+VCD Player	6,000
6	Generator (750VA)	25,000
7	Wireless Networking Equipment	20,000
8	UPS (500VA)	2,600
9	IT Software	2,000
10	Furniture & Fixtures	15,000
11	Phone Line	1,500
12	Others	9,400
	TOTAL	**147,000**

Type C	Type D – Urban CSC
• 2 PCs • Multi functional printer • Dot matrix printer • Digital Camera • Generator (1000VA) • UPS (1000VA) • IT Software • Furniture & Fixture • Phone Line • Multi function computer/TV/Projector Wireless Networking Equipment	• 6 PCs (3 PCs after 12 months) • Multi functional computer/TV/Projector • Multi functional printer • Digital Camera • Generator (1000VA) • UPS (1000VA) • IT Software • Furniture & Fixture • Networking Equipment/Switch

8.3.2 The Mix and Phasing:

As mentioned earlier, it is expected that the CSCs would be rolled out over a period of nine months post selection of the SCA, for each SCA. Furthermore, taking into consideration the ground realities with regard to the available connectivity options, it is expected that it will be close to three years before all centres move to the SWANs. Accordingly, the capital expenditure on CSC infrastructure has been planned in a modular manner to ensure optimal utilization of resources based on the available connectivity options and the estimated demand scenario. The salient considerations for the phasing are:

(a) Initial deployment will be a mix of 80% A type and 20% C type CSCs.

(b) By year two, additional expenditure of Rs 22,000 each towards acquisition of an additional computer will be incurred at each A type CSC.

(c) 45% of A type CSCs will migrate to B type at a cost of Rs 20,000 each with the investment on wireless connectivity equipment to connect to the SWAN. The balance A type centres will either stay with fixed line/private wireless service providers, or connect to the SWAN through fixed wire line options, and would not need the wireless equipment.

(d) 60% of the C type CSCs will be connected to SWAN facilities in the second year of operations at an additional expenditure of Rs 20,000 each. The basic logic being that the C type centres would come up in areas with higher potential and the SWAN rollout would also be faster in such places.
Exhibit 36: Proposed CSC Mix

	Number of CSCs per SCA			
	A	B	C	Total
Year 1	160	-	40	**200**
Year 2	136	24	40	**200**
Year 3 onwards	88	72	40	**200**

8.3.3 Urban CSCs: The urban CSCs, however, would have a common and upgraded configuration, described as type D, taking into account the more developed, mature and larger consumer base. The proposed configuration is presented in Exhibit 37

Exhibit 37: Capital Cost – Urban CSC (Type D)

	Equipment	Cost (Rs)
1	3 PCs + OS	66,000
2	Multi Functional Computer/Projector/TV	85,000
3	Printer cum Scanner	7,000
4	Digicam	7,000
5	UPS (1000VA)	8,300
6	Genset (1000VA)	35,000
7	Furniture & Fixtures	200,000
8	Connectivity	10,000
	TOTAL	**418,300**
	Additional CapEX in Yr 2	
1	3 PCs + OS	66,000

8.4 Proposed Means of Finance:

The Capital Cost of the rural CSCs is proposed to be financed with a mix of debt and equity. The Financial Model assumes that 85% of the capital cost would be raised as Term Loans from FIs/Banks. The balance 15% is proposed to be financed through the SCA's equity contribution and/ or quasi-equity by way of interest-free security deposits from the VLEs. For the urban CSCs, the Business Plan assumes a similar mix of debt and equity based funding. However, in the absence of a VLE in urban CSCs, the SCA would contribute towards the entire equity component.

8.5 Business Plan – Rural CSCs:

8.5.1 Addressable Population: Each rural CSC is assumed to cater to around six villages with an aggregate base of approximately 1,400 households. The same has been arrived at on the basis of total number of rural households in India and with a view to provide an equitable spread of CSCs across the country. [1]. Furthermore, taking into account the APL/BPL ratio, on a conservative basis, only 65% of the households i.e. 910 families are considered to be addressable by the rural CSCs.

8.5.2 Operating Costs:

The operating costs of the CSCs have been divided into two segments, namely Fixed costs and Variable costs.

a) The Fixed cost component comprises of items such as Capital Cost Recovery of the CSC Infrastructure, Hardware Maintenance and Insurance, Rent for the premises, Manpower expenses etc, which are detailed along with the assumptions in Exhibit 38.

Exhibit 38: Fixed Costs – Rural CSCs

	A	B	C
Capital Cost Recovery	EMIs Payable on Capital Cost at 12% for 4 yrs incl. 1 yr moratorium		
Hardware Maintenance (p.a.)	10% of Asset Value; Rs 15,000 bulb replacement charge for Type C		
Hardware Insurance (p.a.)	1% of Asset Value		
Training (per VLE pa)	2,500	2,500	2,500
Manpower Cost (per month)	1,500	1,500	1,500
Monthly Service Fee to SCA	500	1,000	1,250
Rent for Premises (per month)	1,000	1,000	1,500
Business Promotion (per month)	500	500	500
Travelling Cost (per month)	500	500	500
Misc/Contingencies (per month)	1,400	1,400	1,900

b) Variable Costs: The variable cost of the CSC mainly comprise of the telecom-related costs and electricity. The consumptions are detailed in Exhibit 39

Exhibit 39: Variable Costs – Rural CSCs

	A	B	C
Connectivity (@ 4 hrs/day)			
- Access Charges	Dial Up Connectivity Costs	-	-
- Lease Line Charge	Annual Internet Lease Line Charges shared		
Subscription Service Cost	Rs 100 per Subscriber		
Electricity Consumption (Watt-hrs)	600	800	1,090
Cost of Genset Operation (Rs/hr)	13	13	23
	Electricity Cost calculated for 8 hrs active operation per day; Electricity availability for 4 hrs @ Rs 6/unit balance genset operation		

c) Connectivity: The connectivity options considered include fixed line dial up connections, Mobile/DSL broadband connections, and the SWAN enabled connections. Initially, it is assumed that connectivity would primarily be through fixed line dial up for 70% of the CSCs – with the balance connected to mobile/ DSL service providers or the SWANs. Fixed line usage is assumed to reduce from 70% to 10% in three years, as the SWAN availability improves from an estimated 10% in the first year to 70% by the third year of operations. Further, it is assumed that there will always be an element of Mobile/DSL based higher bandwidth connectivity solutions available on account of the significant penetration of BSNL and other service providers' services. An illustrative phasing of the 200 CSCs under an SCA is presented in Exhibit 40

Exhibit 40: Connectivity Phasing

	Yr1			Yr2			Yr3-onwards		
	Fixed Line 70%	Mobile/DSL 20%	SWAN 10%	Fixed Line 35%	Mobile/DSL 25%	SWAN 40%	Fixed Line 10%	Mobile/DSL 20%	SWAN 70%
A	126	34		70	50	16	20	40	28
B						24			72
C	14	6	4 16			40			40
TOTAL			200			200			200

8.5.3 Revenue Streams:

The CSC business plan assumes six broad revenue streams, as described below.

(a) Subscription Services: It is proposed that a subscription package would be developed, which would include services such as agri-related news & prices, digital photography, basic computer training etc. The prime objective for launching the subscription package would be to ensure a minimum and regular revenue to the CSC and also offer composite services to the consumer at an attractive price. The annual subscription fee has been assumed at Rs 400 for A and B type CSCs and Rs 600 for C type CSCs.

Exhibit 41: Subscription Services – Rural CSCs

Services	Types A & B	Type C
Family Photo	One A4 size colour photo	2 A4 size colour photo
Computer Training	Basic computer training - 2 hours	Computer Training Programme
Movies	1 movie per month	2 movies per month
Agri-news/prices/weather	Daily update in the kiosk for 365 days	Daily update in the kiosk for 365 days
Agri-query solutions	6 queries in a year	6 queries in a year
Astrology Download	1 download per family	1 download per family
Agri-Training	3 training programmes a year	3 training programmes a year
Resume upload	3 uploads	3 uploads
Free Matrimonial Profile upload	2 uploads	2 uploads
Web surfing + Training	1/2 hour per month	1 hour per month
Games	1/2 hour per month	1 hour per month

The number of households on a subscription model has been assumed to grow from 20% in the first year to 45% of the addressable households in the fifth year for the rural kiosks. The same is presented in Exhibit 42.

Exhibit 42: % of Addressable HHs Considered for Subscription Revenues

0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4	Yr. 5
20%	25%	30%	35%	40%	45%

(b) G2C Services:

i) The estimate of revenue generation from delivery of G2C services is based on findings from the surveys. The estimate of the number of transactions per month for an assumed basket of G2C services and the revenue potential therefore to a CSC is presented in Exhibit 43.

Exhibit 43: Full potential - G2C Services – Rural CSCs

	Services	Est. No of Transactions per CSC per month	Net Revenue to CSC per transaction (Rs)	Est. of Total Potential per month (Rs)
1	Bill collection	543	2	1,086
2	Public grievance handling	99	10	992
3	Issue of nakals	44	10	445
4	Bus pass	55	5	273
5	Passport status check	26	10	258
6	Electoral services	23	10	228
7	Ration card related services	40	5	198
8	Rural development schemes	16	10	162
9	Issue of certificates	12	10	117
10	Various scholarship schemes	10	10	101
11	Encumbrance/Non-encumbrance certificate	8	10	82
12	Application for soil testing	3	20	63
13	Employment Exchange related services	5	10	52
14	Request for market valuation	5	10	50
15	Issue of Birth Certificate / Death Certificate	9	5	46
16	Facilitation/application for driving licence	7	5	37
17	Application for registration of vehicles	4	5	22
18	Application various pension schemes	1	10	13
19	Issue/registration of marriage certificate	1	10	4
20	Issue of senior citizen cards	1	5	4
	TOTAL			4,235

ii) The PWC reports validate the fact that different States are at varying levels of preparedness to deliver the G2C services electronically. Accordingly, the business plan assumes a gradual build up of revenues accruing from these services, as seen in Exhibit 44.

Exhibit 44: G2C Revenue - Percentage of Expected Potential

0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4	Yr. 5
25%	35%	50%	60%	75%	90%

(c) B2C Services Components:

i) The revenue potential for various B2C services has been estimated on the basis of the ACNielsen ORG survey and includes services such as Education, Astrology, Ticketing and Vocational Training. Exhibit 45 presents the list of services, which are expected to contribute significantly along with the percentage of households willing to pay for the respective services and the charges accruable to the CSC from delivery of the same.

Exhibit 45: B2C Services - Rural CSCs

	Services	HHs-WTP in 1400 HH cluster	Transactions per HH p.a.	Net Revenue to CSC per transaction (Rs)	Est. of Total Potential p.a. (Rs)
1	Sale of agri products	264	2	5	2,850
2	Tuitions classes	264	1	50	13,195
3	IT Training	191	1	450	28,665
4	Vocational training	91	1	200	6,067
5	Railway tickets	300	4	10	11,562
6	Astrology services	91	3	20	4,714
				TOTAL	67,052

ii) It needs to be recognized, however, that all the proposed services will not be available for deployment in the first year. Hence, as for G2C services, B2C services have also been phased in. The revenue build up from these services is presented in Exhibit 46.

Exhibit 46: Phasing-in of B2C services

0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4	Yr. 5
50%	50%	60%	70%	80%	90%

iii) Tele-medicine would eventually be a major component of the B2C service basket. The business plan assumes that the necessary equipment required for enabling this service would be provided by the hospitals and the CSC will receive income by way of facilitating the delivery of this service. As presented in Exhibit 47, the ACNielsen survey indicates that a large section of the population in the rural areas is willing to use this service. Accordingly, on a conservative basis it is assumed that the B and C type CSCs would earn revenue ranging from Rs 1,000 to Rs 1,500 per month from second year onwards through Tele-medicine services.

Exhibit 47: Tele-Medicine Revenue Potential

	Services	HHs-WTP in 1400 HH cluster	Transactions per HH p.a.	Net Revenue to CSC per transaction (Rs)	Est. of Total Potential p.a. (Rs)
1	Tele-Medicine	428	5	10	19,589

(d) B2B Services: A potential exists for the CSCs to become the marketing arm for large corporates, banks and insurance companies. The CSCs could not only act as referral points in the initial phase but could also potentially become distribution points for these institutions at a later date. For the model, a conservative revenue ranging from Rs 4,500 to Rs 6,500 per month in the rural CSCs, has been factored in. A major component of this revenue is expected to come from banking, financial and advertising services.

(e) Non-Network Revenue:

i) The revenue streams explained above are based on the network services to be provided by the SCA's portal to the CSCs. There are, however, certain services, which could be accessed without getting into the SCA's portal or be provided without accessing the Internet at all. Such services have been termed as 'Non-Network Services' and the revenue accruing from these services is assumed to be retained by the VLE. The revenue potential from such services is presented in Exhibit 48.

Exhibit 48: Non-Network Services

	Services	HHs-WTP in 1400 HH cluster	Transactions per HH p.a.	Net Revenue to CSC per transaction (Rs)	Est. of Total Potential p.a. (Rs)
1	Forms Downloads/Estimates	82	4	5	1,806
2	Resume upload	100	4	5	1,757
3	Digital Photos	373	2	5	3,806
4	Websurfing	73	7	5	2,402
5	Photocopy	400	4	1	799
6	DTP	46	5	4	850
7	Email/Chats	55	5	5	1,267
8	CD Burning	55	4	15	3,161
				TOTAL	15,847

ii) The revenue build up from these services is presented in Exhibit 49.

Exhibit 49: Non-Network Revenue Build up

0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4	Yr. 5
60%	70%	80%	100%	100%	100%

8.5.4 Financial Snapshot – Rural CSCs:

Based on the foregoing, the projected Profit & Loss (P&L) for the different types of Centres is reflected in Exhibits 50 to 52. The profit sharing between the VLE/SCA/SPV has been assumed at 55:40:5

Exhibit 50: Monthly P&L for a Type A Centre

Figures in Rs per month						
CSC Level	A					
	0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4	Yr. 5
Market Sizing						
- No. of villages in the target area	6	6	6	6	6	6
- No. of households per village	233	233	233	233	233	233
- % Addressable households	65%	65%	65%	65%	65%	65%
No. of relevant Households covered	**910**	**910**	**910**	**910**	**910**	**910**
Subscription charge	6,067	7,583	9,100	10,617	12,133	13,650
G2C services	1,059	1,482	2,117	2,541	3,176	3,811
Multimedia services	-	-	-	-	-	-
B2C services	2,794	2,794	3,353	3,911	4,470	5,029
B2B services	4,250	4,500	4,750	5,000	5,250	5,500
Monetization of Tele-medicine / PC resources through vocational courses	-	-	-	-	-	-
Total Recovery	**14,169**	**16,359**	**19,320**	**22,069**	**25,030**	**27,990**
Less CSC operating cost	11,822	12,201	14,809	15,225	15,823	16,435
Excess for Appropriation	**2,347**	**4,158**	**4,511**	**6,844**	**9,207**	**11,555**
Sharing						
- VLE	1,291	2,287	2,481	3,764	5,064	6,355
- SCA	939	1,663	1,805	2,738	3,683	4,622
- SPV	117	208	226	342	460	578
Loss funding	-	-	-	-	-	-
VLE non-network revenue	792	924	1,056	1,321	1,321	1,321
Total Potential Earning for VLE	**2,083**	**3,211**	**3,538**	**5,085**	**6,384**	**7,676**

Exhibit 51: Monthly P&L for a Type B Centre

Figures in Rs per month

CSC Level	B					
	0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4	Yr. 5
Market Sizing						
- No. of Villages in the target area	6	6	6	6.0	6	6
- No. of Households per Village	233	233	233	233.3	233	233
- % Addressable Households	65%	65%	65%	65%	65%	65%
No. of relevant Households covered	910	910	910	910.0	910	910
Subscription Charge			9,100	10,617	12,133	13,650
G2C services			2,117	2,541	3,176	3,811
Multimedia Services	-	-	-	-	-	-
B2C Services			3,353	3,911	4,470	5,029
B2B Services			4,750	5,000	5,250	5,500
Monetisation of Tele-medicine / PC resources through vocational courses			1,000	1,500	1,500	1,500
Total Recovery	-	-	20,320	23,569	26,530	29,490
less CSC Operating Cost	-	-	15,487	16,071	16,670	17,282
Excess for Appropriation	-	-	4,833	7,498	9,860	12,208
Sharing						
- VLE	-	-	2,658	4,124	5,423	6,714
- SCA	-	-	1,933	2,999	3,944	4,883
- SPV	-	-	242	375	493	610
Loss Funding	-	-	-	-	-	-
VLE Non network revenue	792	924	1,056	1,321	1,321	1,321
Total Potential Earning for VLE	792	924	3,715	5,444	6,744	8,035

Exhibit 52: Monthly P&L for a Type C Centre

Figures in Rs per month						
CSC Level	C					
	0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4	Yr. 5
Market Sizing						
- No. of villages in the target area	6	6	6	6	6	6
- No. of households per village	233	233	233	233	233	233
- % addressable households	65%	65%	65%	65%	65%	65%
No. of relevant Households covered	**910**	**910**	**910**	**910**	**910**	**910**
Subscription charge	9,100	11,375	13,650	15,925	18,200	20,475
G2C services	1,059	1,482	2,117	2,541	3,176	3,811
Multimedia services	1,138	1,138	2,275	2,275	4,550	4,550
B2C services	2,794	2,794	3,353	3,911	4,470	5,029
B2B services	4,750	5,000	5,500	6,000	6,250	6,500
Monetization of Tele-medicine / PC resources through vocational courses	1,000	1,500	1,500	1,500	1,500	1,500
Total Recovery	**19,840**	**23,289**	**28,395**	**32,152**	**38,146**	**41,865**
Less CSC operating cost	14,914	15,293	21,775	22,380	22,999	23,633
Excess for Appropriation	**4,926**	**7,995**	**6,620**	**9,773**	**15,148**	**18,233**
Sharing						
- VLE	2,709	4,397	3,641	5,375	8,331	10,028
- SCA	1,970	3,198	2,648	3,909	6,059	7,293
- SPV	246	400	331	489	757	912
Loss funding	-	-	-	-	-	-
VLE non-network revenue	792	924	1,056	1,321	1,321	1,321
Total Potential Earning for VLE	**3,502**	**5,322**	**4,698**	**6,696**	**9,652**	**11,349**

8.6 Business Plan – Urban CSCs:

8.6.1 The addressable population: It is assumed that the “urban” CSCs would be located in areas with an approximate household base of 10,000. Furthermore, taking into account the APL/BPL ratio, on a conservative basis, only 70% of the households are considered to be addressable by the urban CSCs. The urban CSCs have been planned with a view to supplement the revenues of the SCA and improve the overall profitability. For the purpose of this Model, it is assumed that the employees of the SCA would operate the urban CSCs and the entire operating surplus from the operations would flow to the SCA.

8.6.2 The key assumptions: The assumptions for the operating costs of the urban CSCs, are as shown in Exhibit 53.

	D
Capital Cost Recovery	EMIs Payable on Capital Cost at 12% for 4 yrs incl. 1 yr moratorium
Hardware Maintenance	10% of Asset Value p.a.; Rs 15,000 bulb replacement charge
Hardware Insurance	1% of Asset Value p.a.
Training (per pa)	2,500
Rent for Premises (per month)	10,000
Business Promotion (per month)	1,000
Connectivity Cost (per month)	1,000
Manpower Cost (per month)	16,000
Electricity	Rs 6/unit bought out power; Rs 23/hr generator operation
Misc/Contingencies (per month)	5,000

Exhibit 53: Operating Costs – Urban CSCs

8.6.3 Revenue Streams:

a) As shown in Exhibit 54, the urban CSCs would deliver Education services as a separate package including tuitions, IT training and vocational training.

Exhibit 54: Full Potential Revenue- Education Services

	Services	HHs-WTP in 10000 HH cluster	Transactions per HH p.a.	Net Revenue to CSC per transaction (Rs)	Est. of Total Potential p.a. (Rs)
1	Tuitions Classes	2,900	1	50	145,000
2	IT Training	2,100	1	450	315,000
3	Vocational Training	1,000	1	200	66,667
			TOTAL		**526,667**

b) The build-up of the same is presented in Exhibit 55.

Exhibit 55: Education Services Revenue build up

0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4	Yr. 5
30%	35%	45%	50%	55%	60%

c) The annual subscription fee arising from subscription services presented in Exhibit 56 has been assumed at Rs 600 for urban kiosks.

Exhibit 56: Subscription Services - Urban CSCs

Services	Urban Kiosks
Family Photo	2 A4 size color photo
Computer Training	Computer Training Programme
Movies	2 movies per month
Agri-news/prices/weather	Daily update in the kiosk for 365 days
Agri-query solutions	6 queries in a year
Astrology Download	1 download per family
Agri-Training	3 training programmes a year
Resume upload	3 uploads
Free Matrimonial Profile upload	2 uploads
Web surfing + Training	1 hour per month
Games	1 hour per month

d) Further, as presented in Exhibit 57, the number of households subscribing to these services has been assumed to grow from 15% to 25% of the addressable population.

Exhibit 57: Subscription Revenue build up - Urban CSCs

0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4	Yr. 5
15%	15%	20%	25%	25%	25%

e) Based on the surveys, an estimate of the potential earnings for the Urban CSCs for G2C services is presented in Exhibit 58. Additionally, a significantly higher volume of bill collections is envisaged at urban centres. The service charge for bill collections has also been assumed at a higher rate (Rs. 5) in view of the enhanced paying capacity of the populace.

Exhibit 58: Full Potential Revenue: G2C Services – Urban CSCs

	Services	Est. No of Transactions per CSC per month	Net Revenue to CSC per transaction (Rs)	Est. of Total Potential per month (Rs)
1	Bill collection	8450	5	42,250
2	Public grievance handling	771	10	7,713
3	Issue of nakals	346	10	3,458
4	Bus pass	425	5	2,123
5	Passport status check	201	10	2,005
6	Electoral services	178	10	1,777
7	Ration card related services	308	5	1,539
8	Rural development schemes	126	10	1,258
9	Issue of certificates	91	10	912
10	Various scholarship schemes	79	10	788
11	Encumbrance/non-encumbrance certificate	64	10	637
12	Application for soil testing	25	20	491
13	Employment exchange related services	41	10	407
14	Request for market valuation	39	10	388
15	Issue of birth certificate/death certificate	72	5	360
16	Facilitation/Application for driving licence	58	5	291
17	Application for registration of vehicles	34	5	171
18	Application various pension schemes	10	10	103
19	Issue/Registration of marriage certificate	3	10	34
20	Issue of senior citizen cards	7	5	33
	TOTAL			**66,738**

f) The revenue build up assumed for G2C services in urban CSCs is presented in Exhibit 59.

Exhibit 59: G2C Revenue build up– Urban CSCs

0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4	Yr. 5
25%	35%	50%	60%	75%	90%

g) As in the case of the rural CSCs, the business plan assumes that a potential exists for the kiosks to become the marketing arm for large corporates, banks and insurance companies. This has been estimated at Rs 5,500 to Rs 8,500 per month in the urban CSCs.

8.6.4 Financial Snapshot-Urban CSCs

Figures in Rs per month						
CSC Level	D					
	0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4	Yr. 5
Market Sizing						
- No. of urban centres in the target area	1	1	1	1	1	1
- No. of households per urban centre	10,000	10,000	10,000	10,000	10,000	10,000
- Addressable households (APL)	7,000	7,000	7,000	7,000	7,000	7,000
- % penetrated for CSC	35%	40%	50%	55%	60%	60%
No. of relevant Households covered	2,450	2,800	3,500	3,850	4,200	4,200
Revenue Streams						
Subscription charge	18,375	21,000	35,000	48,125	52,500	52,500
G2C services	2,143	3,428	6,122	8,081	11,020	13,224
Education services	13,167	15,361	19,750	21,944	24,139	26,333
Other services (Cyber Café + PC based)	1,950	3,900	7,800	7,800	7,800	7,800
B2B services	5,500	6,000	6,500	7,000	7,500	8,000
Bill sollection	9,242	10,562	13,203	14,523	15,843	15,843
Total Recovery	50,376	60,252	88,375	107,474	118,802	123,700
less CSC operating cost	42,607	48,197	72,619	77,905	80,811	83,136
Excess for Appropriation	7,770	12,055	15,756	29,569	37,991	40,565
Sharing						
- VLE	-	-	-	-	-	-
- SCA	7,653	11,874	15,520	29,125	37,421	39,956
- SPV	117	181	236	444	570	608
Loss funding	-	-	-	-	-	-

Exhibit 60: Monthly P&L for an Urban CSC

8.7 The SCA Business Plan:

8.7.1 Capital Cost: The capital cost per SCA is estimated at Rs 5.13 Crores. The break up of the same is provided in Exhibit 61

		Rs Lacs
A	**CSC Equipment Cost**	
	- Rural Kiosks	308
	- Urban Kiosks	97
B	**SCA Related Capital Cost**	
	Establishment Cost	48
	Pre-op Expenses & WC	60
	Total SCA Related Capital Cost	108
	Total Capital Cost	**513**

Exhibit 61: SCA Capital Cost

8.7.2 Means of Finance: The SCAs' Capital Cost of Rs 5.13 Crores is proposed to be funded with a debt-equity mix of 2:1. The details of the same are presented in Exhibit 62

		Rs Lacs
A	**Equity**	**169**
	Equity contribution of SCA	129
	Quasi-equity from VLEs	40
B	**Debt**	**344**
	Total	**513**

Exhibit 62: SCA's Proposed Means of Finance

8.7.3 Operating Costs:
The assumed operating cost break up for the SCA is presented in Exhibit 63

Manpower Norms

		Nos.			
	Norm	0-6 Mth	7-12 Mth	Yr. 2-5	Salary (per month)
VLE Co-ordinators	20	5	8	10	5,000
Supervisors	5	1	2	2	8,000
State Agency Head	1	1	1	1	50,000
Trainer	2	2	2	2	20,000
Finance & Admin.	2	2	2	2	20,000
Marketing + Business Development	2	2	2	2	20,000
Marketing Support Staff	2	1	2	2	12,000
Call Centre Executive	2	1	2	2	6,000
Maintenance Engineer	2	1	2	2	6,000
Total		16	23	25	

Establishment Costs

Aggregate Office Area	1,100	
Cost of furnished office space	30	per sq ft pm
Electricity Cost	10.0	per sq ft pm
Consumables + Misc.	300	per person pm
Communication Cost	1,500	per person pm

	0-6 Mth	7-12 Mth	Yr. 2-5
Marketing Cost (per VLE)	250	250	250

Training Cost	2,500	per person p.a. from Yr. 1
Travelling Cost		
- VLE Coordinators	3,100	per month
- Others	2,000	per month

Exhibit 63: SCA - Operating Cost Assumptions

8.7.4 Revenue Streams:

The SCA would have income streams in two broad segments from the rural and the urban kiosks respectively. These streams would include a Capital Cost recovery (which the SCA in turn would pay to the lenders) and a pre-agreed share of operating surplus from the rural CSCs and the entire surplus from the urban CSCs. Furthermore, it is assumed that the SCA would receive a monthly service charge from the rural CSCs in lieu of the non-network revenue generated by the kiosks.

a) The net operating surplus arising from the CSC operations is proposed to be shared between the VLE and the SCA in the ratio of 55:45. The SCA will in turn pass on 5% of the aggregate income flow from the CSC to the SPV for various services rendered by the SPV, i.e. sharing ratio becomes VLE:SCA:SPV = 55:40:5

b) However, the business plan for the urban CSCs assumes that the SCA would retain 98.5% of the operating surplus from the kiosks and share 1.5% with the SPV.

8.7.5 Financial Highlights

Exhibit 64: P&L for SCA

					Rs lacs
	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5
Income Share from CSC - Rural	53	64	91	122	146
CSC Capital Recovery - Rural	30	80	83	83	83
Total - Rural Kiosks	*83*	*144*	*174*	*205*	*229*
Income Share from CSC - Urban	19	37	70	90	96
CSC Capital Recovery - Urban	9	31	31	31	31
Total - Urban Kiosks	*28*	*68*	*101*	*120*	*127*
Total Revenue	**111**	**212**	**275**	**325**	**355**
Costs					
Manpower Cost	30	37	40	43	46
Establishment Cost	9	11	12	12	12
Marketing Cost	6	6	6	7	7
Training Cost	0.5	1	1	1	1
Travelling Cost	6	8	8	8	9
Contingency (5%)	3	3	3	4	4
Total Operating Costs	54	66	70	74	79
EBIDTA	**56**	**146**	**205**	**251**	**276**
Interest Payments - Rural	24	29	22	14	5
Interest Payments - Urban	9	9	7	4	2
Depreciation - CSC Assets (Rural)	62	62	62	62	62
Depreciation - CSC Assets (Urban)	19	19	19	19	19
Depreciation - SCA Assets	29	15	9	7	6
Pre-Op Expense amortisation	8	8	8	8	8
PBT	**(94)**	**5**	**78**	**137**	**175**
Carried Forward Loss	(94.3)	(89.3)	(11.0)	-	-
Tax	-	-	-	42	59
MAT	-	0.6	8.8	-	-
PAT	**(94)**	**4**	**70**	**95**	**116**
Cash Accruals for SCA	**24**	**108**	**168**	**190**	**211**

Exhibit 65: SCA Balance Sheet

	Yr. 0	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5
						Rs lacs
Equity	133	133	133	133	133	133
Deposit from VLE	40	40	40	40	40	40
Asset Financing	344	344	273	193	102	(0)
Reserves	-	(94)	(90)	(20)	74	190
Total Liabilities	**517**	**423**	**356**	**345**	**349**	**362**
Gross Fixed Assets (SCA)	48	48	53	58	63	68
less accumulated depreciation	-	29	43	52	59	64
Net Fixed Assets (SCA)	48	19	10	6	4	4
Gross Fixed Assets (CSC)	405	405	405	405	405	405
less depreciation	-	81	162	243	324	405
Net Fixed Assets (CSC)	405	324	243	162	81	-
Investment in SPV	4	4	4	4	4	4
Net Working Capital	18	18	18	18	18	18
Unamortized Expenses	42	33	25	17	8	0
Cash & Bank Balance	-	24	56	138	233	337
Total Assets	**517**	**423**	**356**	**345**	**349**	**362**
	-	-	-	-	-	-
Equity IRR (Post Tax)	**23%**	(excl. returns obtained from investment in SPV)				
Project IRR (Post Tax)	**14%**					

8.8 Aggregate Project Cost and Means of Finance:

8.9.1 On an aggregate basis, the scheme envisages setting up of 100,000 Rural CSCs and 10,000 semi-urban CSCs. The total capital outlay for the CSC scheme at the SCA level is estimated at Rs 2,566 Crores, based on the infrastructure requirement assumed for the various types of CSCs and the SCAs. The detailed break-up of the project cost is provided in Exhibit 66.

Exhibit 66: Aggregate Project Cost

		Rs Crs
A	**CSC Equipment Cost**	
	- Rural Kiosks	1,542
	- Urban Kiosks	484
B	**SCA Related Capital Cost**	
	Establishment Cost	240
	Pre-op Expenses & WC	300
	Total SCA Related Capital Cost	540
	Aggregate Initial Capital Cost	**2,566**

8.9.2 The project is proposed to be financed with a mix of equity and debt. The total requirement of Rs 2,566 Crores would be funded by equity (including quasi-equity by VLE) capital of Rs 844 Crores and Term Loans of Rs 1,722 Crores. The detailed break up of the proposed means of finance is presented in Exhibit 67.

Exhibit 67: Aggregate Means of Finance

		Rs Crs
A	**Equity**	**844**
	Equity contribution of SCA	646
	Quasi-equity from VLEs	198
B	**Debt**	**1,722**
	Total	**2,566**

8.9 The SPV Financials:

8.9.3 Capital Cost:

The capital cost of the SPV has been estimated at Rs 80 Crores. The envisaged cost includes the initial establishment cost for the SPV's premises at Rs 10 Crores. The cost also includes a provision of Rs 10 Crores for requisite IT infrastructure required for auditing the G2C transactions across the CSC network and monitoring the disbursement of Government's revenue support on a pan-India basis. The estimate also provides Rs 20 Crores for initial advertising the SPV would undertake on behalf of the CSCs. Furthermore, the SPV is also expected to invest Rs 10 Crores for developing new content, service models, technologies etc. Merchant banking fee of Rs 25 Crores has been included in the business plan as a provision for costs likely to be incurred by the SPV to mobilize funds for the scheme. The business plan also provides for Rs 5 Crores towards Working Capital funding including initial loss funding for the entire scheme.

Exhibit 68: SPV Capital Cost

SPV Capital Cost	Rs Crs
Start-up & Establishment Cost	10
IT Equipment & Software, Audit	10
Project Piloting	10
Promotion / Advertising Expenses	20
Merchant Banking Fees	25
WC / Loss Funding for SPV in Yr. 1	5
Total SPV Related Capital Cost	80.0

8.9.4 Means of Finance:

The SPV Capital Cost of Rs 80 Crores is proposed to be financed entirely by means of equity contributions by various strategic investors and the SCAs. The strategic investors would contribute towards 75% of the equity and the residual amount would be contributed by the SCAs.

8.9.5 Financial Highlights

Exhibit 69: SPV P&L Statement

					Rs Crs
	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5
Income					
Income Share of SPV - Rural	23.4	29.7	45.5	63.8	78.8
Income Share of SPV - Urban	1.4	2.8	5.3	6.8	7.3
Total Income Share	24.8	32.6	50.8	70.6	86.1
Expense					
Manpower Cost	1.5	3.2	3.5	3.7	4.0
Establishment Cost	0.4	0.5	0.5	0.5	0.5
Marketing Cost	0.1	0.1	0.1	0.1	0.1
Training Cost	0.03	0.07	0.07	0.07	0.07
Travelling Cost	0.3	0.7	0.7	0.8	0.8
Contingency (5%)	0.1	0.2	0.2	0.3	0.3
Total Operating Expense	2.3	4.7	5.1	5.4	5.8
EBIDTA	22.5	27.8	45.8	65.2	80.3
Depreciation	6.0	2.4	7.0	2.8	1.1
Unamortised Exp. W/o	13.0	13.0	13.0	13.0	13.0
R&D for Content, Technology					
- % of SPV Income Share	5.0%	7.5%	10.0%	10.0%	10.0%
- R&D Expenses	1.2	2.4	5.1	7.1	8.6
PBT	2.2	10.0	20.7	42.4	57.5
Loss Carried forward	-	-	-	-	-
Provision for Taxation	0.8	3.4	7.0	14.3	19.4
PAT	**1.5**	**6.6**	**13.8**	**28.1**	**38.2**
Cash Accruals	**20.5**	**22.0**	**33.7**	**43.9**	**52.3**

Exhibit 70: SPV Balance Sheet

						Rs Crs
	Yr. 0	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5
Equity from Strategic Partners	60	60	60	60	60	60
Equity / Quasi Equity /	20	20	20	20	20	20
Reserves	-	1	8	22	50	88
Total Liabilities	**80**	**81**	**88**	**102**	**130**	**168**
Gross Fixed Assets	10	10	10	20	20	20
less depreciation	-	6	8	15	18	19
Net Assets	10	4	2	5	2	1
Unamortised Exp.	65	52	39	26	13	-
Cash & Bank Balance	5	25	47	71	115	167
Total Assets	**80**	**81**	**88**	**102**	**130**	**168**
	-	-	-	-	-	-
Project IRR (Post Tax)	**24%**					
ROE	**36%**					

8.10 Government Support for Rural CSCs:

8.10.1 Guaranteed Revenue Support: As envisaged, the Government Capital subsidy has been estimated on the basis of the minimum opex a CSC would have to incur. The detailed calculation of the same is provided in Exhibit 71.

Exhibit 71: Government Support Calculation

CSC Level	Base Configuration - Type A					
	0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4	Yr. 5
Fixed Costs						
Capital Cost Recovery - **Equated**	2,843	2,843	2,843	2,843	2,843	-
Hardware Maintenance - **Equated**	457	457	457	457	457	-
Hardware Insurance	64	64	64	64	64	-
Training	208	208	208	208	208	-
Incidentials	-	-	-	-	-	-
Rent for Premises	1,000	1,000	1,000	1,000	1,000	-
Business Promotion	250	250	260	270	281	-
Misc. / Contingencies	950	950	988	1,028	1,069	-
Total Fixed Costs	*5,772*	*5,772*	*5,820*	*5,870*	*5,922*	-
Variable Costs	100%					
Connectivity						
- Access Charges	-	-	-	-	-	-
- Phone Charges	750	750	750	750	750	-
Monthly Fee to SCA	-	-	-	-	-	-
Subscription Kit Charge	-	-	-	-	-	-
VLE Cost	1,500	1,500	1,560	1,622	1,687	-
Manpower Cost	1,500	1,500	1,560	1,622	1,687	-
Electricity	200	200	208	216	225	-
Consumables	-	-	-	-	-	-
Total Variable Costs	*3,950*	*3,950*	*4,078*	*4,211*	*4,350*	-
Total CSC Cost	**9,722**	**9,722**	**9,898**	**10,082**	**10,272**	-
Government Support (33%)	**3,241**	**3,241**	**3,299**	**3,361**	**3,424**	-
Total Govt. Support over 4 Yrs	**159,897**					
Staggering of Govt. Support	30%	30%	30%	20%	20%	0%
Actual Suport Quantum	**3,997**	**3,997**	**3,997**	**2,665**	**2,665**	-

8.10.2 The new estimate is not significantly different from the DPR estimate, and hence the earlier estimate of Rs 1,586 Crores can be retained. In any case, the actual revenue support expected would be determinable only after the SCA selection process is completed across the country.

Exhibit 72: Government Fund Leverage

	Rs Crores
CSC Capital Expenditure	1,542
Project Opex (4 Yrs) - Min Lel	3,255
Total Capex + Opex	**4,797**
Govt. Contribution	**1,599**
Leverage	**3.0**

8.11 Debt Service Reserve Fund (DSRF):

Whilst the revenue support will contribute to longer-term viability, slower revenue build up could impact ability to service debt at a point of time. Hence, to mitigate cash flow risks for debt servicing during the gestation period (four years), it is proposed to establish a Debt Service Reserve Fund. Such fund would be to the tune of 20% of the initial capital expenditure. This fund would be created by depositing the fund into a “Trust & Retention Account” – effective to an escrow with the lenders. The account would operate under the instructions from DIT as well as the Special Purpose Vehicle. Monies would be drawn from this account, only if project revenues of the SCA/VLE fall short of debt service obligations. If the DSRF is accessed, such monies would be treated as a subordinate, interest bearing loan, recoverable after secured lenders have been discharged. The repayments of such money utilized will be made from operational surplus generated from the project by the SCA, in subsequent years. Based on this model, the corpus of the Debt Service Reserve Fund (DSRF) @ 20% of the Initial Infrastructure cost for the rural CSCs would need to be approximately Rs. 308 crores (20% of Rs.1542 crores). However, the DPR estimate of Rs 280 Crores can be retained.

8.12 Assessing the Project Risks:

8.12.1 Evaluating the potential impact: A viable CSC would need to see the convergence of a variety of aspects - the roll out of G2C and B2C services, the credibility established by the centers, the appropriateness of the IT configurations, adequate connectivity, trained VLEs - all assimilated under a framework established by a financially sound and managerially competent SCA. A review of the various pertinent elements has resulted in a set of assumptions for the Financial Model, which reflects that a viable IT-enabled Service Delivery Platform can be made a reality. A project of this size would necessarily have a number of complex issues, the potential impact of which needs to be tested out to the extent possible in the financial modeling. There are multiple stakeholders in the project - Government, SCAs, VLEs, and Financial Institutions etc. Each stakeholder has a different role, and therefore, would have a different perspective of the risks and the possible mitigation framework thereof.

8.12.2 Roll out of G2C services:

a) Deployment of G2C services is a must not only from a government perspective, but also to give a CSC necessary credibility in the local community. Hence, it is the first building block for developing the CSC Business Plan. An evaluation of the e-readiness of the various State Governments reflects that the number of services available for deployment are initially limited and that too not necessarily to the same extent across all States. There is, however, a lot of progress being made to computerize various Government back-ends across the country and it would be fair to assume that over a 2-3 year timeframe, most of the key services would be available across the country. For the financial model, therefore, it has been assumed that G2C services would phase in gradually. It may, however, happen that actual rollout of G2C services in large parts of the country could be even slower than the rate assumed, or, some future government or local body may make available its services through alternate channels, eg., an APOnline type of portal. To test the potential impact of the same, Exhibit 73 presents the projected profitability of the CSC in a scenario where no G2C services are available.

Exhibit 73: Assuming no G2C service revenues

SCA P&L	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5
					Rs lacs
Total Revenue	98	192	250	295	319
Total Operating Costs	54	66	70	74	79
EBIDTA	**44**	**126**	**181**	**221**	**240**
Interest	33	37	28	18	7
Depreciation	110	96	90	88	87
Pre-Op Expense amortisation	8	8	8	8	8
PBT	(107)	(15)	54	106	138
PAT	**(107)**	**(15)**	**48**	**93**	**92**
Equity IRR (Post Tax)	**14%**	(excl. returns obtained from investment in SPV)			
Project IRR (Post Tax)	**11%**				

CSC Level	Base Configuration - Type A					Figures in Rs per month
	0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4	Yr. 5
- No. of Households covered	**910**	**910**	**910**	**910**	**910**	**910**
Total Revenue	**13,111**	**14,877**	**17,203**	**19,528**	**21,853**	**24,179**
less CSC Operating Cost	11,822	12,201	14,809	15,225	15,823	16,435
Excess for Appropriation	**1,288**	**2,676**	**2,394**	**4,303**	**6,031**	**7,743**
Sharing						
- VLE	709	1,472	1,317	2,367	3,317	4,259
- SCA	515	1,070	958	1,721	2,412	3,097
- SPV	64	134	120	215	302	387
Loss Funding	-	-	-	-	-	-
VLE Non network revenue	792	924	1,056	1,321	1,321	1,321
Total Potential Earning for VLE	**1,501**	**2,396**	**2,373**	**3,687**	**4,637**	**5,580**

b) The above analysis reflects that from a plain business perspective, the CSCs can still play a powerful role by providing a range of B2C services to meet other commercial and developmental needs of the rural communities. However, to re-iterate, G2C services are a must for the CSC to establish its credibility in the community.

c) Mitigating the Risk: The Minimum Revenue Support: The minimum guaranteed revenue support concept is essentially to address the viability concerns arising out of uncertainty on the rollout of G2C services. At the stage of developing the DPR, it was assumed that the Government support of 33% of the minimum operating expenditure of a CSC would be a sufficient buffer to support the viability. As reflected in Exhibit 74, the Government support could potentially go up to Rs. 3,200 – 3,400 per month.

Exhibit 74: Government Support

At this level of support, the SCA viability would be protected.

					Figures in Rs per month
CSC Level	Base Configuration - Type A				
	0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4
Fixed Costs					
Total Fixed Costs	*5,772*	*5,772*	*5,820*	*5,870*	*5,922*
Total Variable Costs	*3,950*	*3,950*	*4,078*	*4,211*	*4,350*
Total CSC Cost	**9,722**	**9,722**	**9,898**	**10,082**	**10,272**
Government Support (33%)	**3,241**	**3,241**	**3,299**	**3,361**	**3,424**

d) The scheme also provides for a Debt Service Reserve Fund, which would help address any liquidity mismatches vis-à-vis the debt servicing requirements.

8.11.2 Timely Rollout of Centers

It is the Government's intent that the entire network be rolled-out by December 2007. The speed of deployment is actually a combination of the readiness of the various State Governments to take the scheme forward and the ability of the SCA to provide the necessary managerial and financial resources for the same. Prima-facie, the government has more to lose if there is a delay in deployment of CSCs. One suggested measure to influence the SCA on this count, therefore, is to release the committed revenue support, only after all the CSCs to be set-up by the SCA are rolled out. That way there will be an incentive for the SCA to speed up the implementation.

8.11.3 The Catchment Area

a) The Financial Model suggests that a CSC should have a minimum catchment area with a population of 7,000-7,500. There are a number of States, which, however, are keen on establishing a larger number of centers. This would potentially reduce the per center revenue and the overall SCA viability as is shown in Exhibit 75

Exhibit 75: The P&L assuming a 3,500 population

						Figures in Rs per month
CSC Level	Base Configuration - Type A					
	0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4	Yr. 5
- No. of Households covered	455	455	455	455	455	455
Total Revenue	7,085	8,180	9,660	11,034	12,515	13,995
less CSC Operating Cost	11,064	11,253	13,671	13,898	14,306	14,729
Excess for Appropriation	(3,979)	(3,074)	(4,011)	(2,863)	(1,791)	(734)
Sharing						
- VLE	-	-	-	-	-	-
- SCA	-	-	-	-	-	-
- SPV	-	-	-	-	-	-
Loss Funding	3,979	3,074	4,011	2,863	1,791	734
VLE Non network revenue	792	924	1,056	1,321	1,321	1,321
Total Potential Earning for VLE	792	924	1,056	1,321	1,321	1,321

					Rs lacs
SCA P&L	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5
Total Revenue	119	261	303	326	332
Total Operating Costs	89	110	117	124	132
EBIDTA	**29**	**151**	**186**	**202**	**200**
Interest	57	66	50	32	12
Depreciation	172	157	152	149	148
Pre-Op Expense amortisation	13	13	13	13	13
PBT	**(212)**	**(86)**	**(29)**	**7**	**26**
PAT	**(212)**	**(86)**	**(29)**	**6**	**23**
Equity IRR (Post Tax)	-	(excl. returns obtained from investment in SPV)			
Project IRR (Post Tax)	**-9%**				

b) A possible mitigant in this scenario could be to get the CSC infrastructure as a contribution from the State Government. Even in such a scenario, however, the expected revenue profile suggests that there should be a minimum population of 4,500 as reflected in Exhibit 76

Exhibit 76: 3500 Population base Zero rural CapEx

						Figures in Rs per month
CSC Level	Base Configuration - Type A					
	0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4	Yr. 5
- No. of Households covered	**455**	**455**	**455**	**455**	**455**	**455**
Total Revenue	**9,479**	**10,944**	**12,925**	**14,764**	**16,745**	**18,726**
less CSC Operating Cost	9,984	10,174	10,828	11,055	11,464	11,886
Excess for Appropriation	**(505)**	**771**	**2,097**	**3,709**	**5,281**	**6,839**
Sharing						
- VLE	-	424	1,153	2,040	2,905	3,761
- SCA	-	308	839	1,484	2,113	2,736
- SPV	-	39	105	185	264	342
Loss Funding	505	-	-	-	-	-
VLE Non network revenue	792	924	1,056	1,321	1,321	1,321
Total Potential Earning for VLE	**792**	**1,348**	**2,210**	**3,361**	**4,225**	**5,082**

					Rs lacs
SCA P&L	**Yr. 1**	**Yr. 2**	**Yr. 3**	**Yr. 4**	**Yr. 5**
Total Revenue	73	146	218	281	318
Total Operating Costs	89	110	117	124	132
EBIDTA	**(17)**	**36**	**102**	**156**	**186**
Interest Payments - Urban	9	9	7	4	2
Depreciation	48	34	28	26	25
Pre-Op Expense amortisation	13	13	13	13	13
PBT	**(87)**	**(20)**	**53**	**113**	**146**
Equity IRR (Post Tax)	**11%**	(excl. returns obtained from investment in SPV)			
Project IRR (Post Tax)	**10%**				

8.11.4 Other Concerns

Interest rates have firmed up over the last few months. The new financial plan, therefore, assumes a cost of 12% as against 10% in the DPR calculations, which is expected to be reasonable at this juncture. However, one element of cost, which may need to be looked at, is the service tax. Currently, the model assumes that the service tax will be a pass-through. However, the CSC may have to absorb the incidences of Service Tax, the impact of which is reflected in Exhibit 77

Exhibit 77: Service Tax Impact

CSC Level	Base Configuration - Type A					Figures in Rs per month
	0-6 Mth	7-12 Mth	Yr. 2	Yr. 3	Yr. 4	Yr. 5
- No. of Households covered	**910**	**910**	**910**	**910**	**910**	**910**
Total Revenue	**12,044**	**13,905**	**16,422**	**18,759**	**21,275**	**23,792**
less CSC Operating Cost	11,822	12,201	14,809	15,225	15,823	16,435
Excess for Appropriation	**222**	**1,704**	**1,613**	**3,534**	**5,452**	**7,356**
Sharing						
- VLE	122	937	887	1,944	2,999	4,046
- SCA	89	682	645	1,414	2,181	2,943
- SPV	11	85	81	177	273	368
Loss Funding	-	-	-	-	-	-
VLE Non network revenue	792	924	1,056	1,321	1,321	1,321
Total Potential Earning for VLE	**914**	**1,862**	**1,944**	**3,264**	**4,319**	**5,367**

SCA P&L	**Yr. 1**	**Yr. 2**	**Yr. 3**	**Yr. 4**	**Yr. 5** (Rs lacs)
Total Revenue	87	181	239	285	310
Total Operating Costs	54	66	70	74	79
EBIDTA	**33**	**116**	**170**	**210**	**231**
Interest Payments - Urban	33	37	28	18	7
Depreciation - CSC Assets (Rural)	110	96	90	88	87
Pre-Op Expense amortisation	8	8	8	8	8
PBT	**(118)**	**(25)**	**43**	**96**	**130**
PAT	**(118)**	**(25)**	**38**	**86**	**87**
Equity IRR (Post Tax)	**8%**	(excl. returns obtained from investment in SPV)			
Project IRR (Post Tax)	**9%**				

8.11.5 The Credibility Factor

The CSC would be the face of the Government in the rural community. The quality of the services at the CSC, the capacity of VLE, potential abuse of authority, etc. would certainly reflect adversely on the Government and on the SCAs. This is probably the single most important aspect that the SCA needs to address through an appropriate training, monitoring and controlling framework. At a macro level, the Government needs to launch and maintain a sustained communication campaign to create the right 'aura' around the CSC