Question - Estimating Cash Flows

India Pharma Ltd. is engaged in the manufacture of pharmaceuticals. The company was established in 1991 and has registered a steady growth in sales since then. Presently the company manufactures 16 products and has an annual turnover of Rs 2200 million. The company is considering the manufacture of a new antibiotic preparation, K-cin, for which the following information has been gathered:

1. K-cin is expected to have a product life cycle of five years and thereafter it would be withdrawn from the market. The sales from this preparation are expected to be as follows:

Year	**Sales (Rs in million)**
1	100
2	150
3	200
4	150
5	100

2. The capital equipment required for manufacturing K-cin is Rs 100 million and it will be depreciated at the rate of 25 percent per year as per the WDV method for tax purposes. The expected net salvage value after five years is Rs 20 million.

3. The working capital requirement for the project is expected to be 20 percent of sales. At the end of 5 years, working capital is expected to be liquidated at par, barring an estimated loss of Rs 5 million on account of bad debt. The bad debt loss will be a tax- deductible expense.

4. The accountant of the firm has provided the following cost estimates for K-cin:

Raw material cost	30 percent of sales
Variable Labour cost	20 percent of sales
Fixed annual operating and maintenance cost	Rs. 5 million
Overhead allocation (excluding depreciation, maintenance, and interest)	10 percent of sales

While the project is charged an overhead allocation, it is not likely to have any effect on overhead expenses as such.

5. The manufacture of K-cin would also require some of the common facilities of the firm. The use of these facilities would call for reduction in the production of other pharmaceutical preparations of the firm. This would entail a reduction of Rs 15 million of contribution margin.

6. The tax rate applicable to the firm is 40 percent.

Based on the above information, estimate the cashflows for the project.