

Design X → Design Y

Alarm is ringing and very casually I turned around to see the timeOh my GOD its 9 amI have to rush to meet Mr. Samar who can let my dream of owning a business come true. Yesterday night while coming back home I ran into Rohan, a friend rather an old and a best friend from design X where I worked till last month.

Then, we both friends with all old memories headed towards a café to rewind old memories.It seemed as it was yesterday when I had joined design X and had met Rohan. He bought back all old and bad days as we discussed about it over a cup of coffee and didn't realize when it was 1 in the night.

It was then we parted our ways and I came back home.

Again I am getting nostalgic about my days spent in Design X with old buddies.....

It's already 9:30 now and I should rushMeeting with Mr. Samar is not just about designs, he wants to understand whether investing in this business would be profitable enough for me or not. (As soon as you start your own business and want money, everybody has to be addressed professionally (Specially the investors!) Mr. Samar is my father ;-)!)

I am Mohit, a renowned interior designer of US and known across industry for my work. After working with Design X for 5 years, I want to start up my own factory which would deal into manufacturing and designing of customized furniture.

As I see the Market potential

The market for furniture is large, accounting for \$145 billion in the U.S. last year, a 13% increase from 2009, according to the Consumer Furniture Association. The group estimates that the average American spends \$1,200 on furniture annually. Meanwhile, consumers seem to be increasingly willing to pay a premium for design--witness the proliferation of Design Within Reach stores.

My thoughts on Investments & financing

My dad has currently invested his money in one of his friend's furniture factory. This is not exactly competing with the designed furniture that I am going to produce, but I think it should take around USD 100 Mn from its sales.

I have done a thorough analysis and found out that the minimum initial investment needed in starting such kind of factory would be around **USD 400 Mn (which includes the cost of machinery which has depreciation @ 20% every year and would also have a salvage value of 20mn after 10 years) and a starting working capital of \$100mn which is 40% of revenue).**

If Mr. **Samar can invest 50% of the money required**, then I would easily get the rest from a bank. **The bank would charge me around 7% interest**, which I think I should be able to generate easily.

My dad's Expectations!!

Currently Mr. Samar invests in **G. Sec bonds at a risk free rate of Interest of 4%**. I am sure he is going to demand a better return from me (He is a shrewd businessman)!! The **stock market gave a return of 10%** last year.

Definitely my business is going to be riskier than the market in general. Yesterday, Rohan was speaking about Beta (Don't know what it means). He said that **my beta should be 1.2** or so... Don't understand all this.. I just want to start by business..

Not sure, what would be expected of me!!

The real potential in my venture:

I can see that the firm is going to be a huge success! **I would easily be able to make USD 250 Mn in the first year itself**. Given the market potential, I expect a year on year **growth of at least 10%**.

The good about designed furniture (as compared to ordinary one) is that it enjoys good margins! **The variable expenses in my business are not going to be more than 40%** of the revenue generated! My concern is the money that goes into government's kitty! The prevailing **Tax rate in the market is around 30%**.

I am sure Mr. Samar is going to see the potential and invest in my venture (Design Y)!

The case has been drafted for discussion purpose. It has been written by Pristine (www.edupristine.com) and would be discussed by experts from Pristine & Chandoo.org. There would be a step by step analysis and financial model building to come to a conclusion on the investment decision.

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