

ASSESSMENT AND FUNDING OF FIXED CAPITAL

Presented by
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PURPOSE OF CAPEX ANALYSIS

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graph TD; A[PURPOSE OF CAPEX ANALYSIS] --> B[Debt]; A --> C[Equity or Investment decisions]; A --> D[Other Purposes such as M & A Restructuring etc.];
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Debt

Equity or
Investment
decisions

Other Purposes such as
M & A Restructuring etc.

IMPORTANT ELEMENTS IN ANY ASSESSMENT BY US

- Promoters
- Lenders / Investors in Equity
- The project per se

We normally carry out due diligence of the promoters & the project for the Lenders & Investors

PROMOTERS

- His ability
 - ✓ Financial Capability
 - ✓ Technical Qualification
 - ✓ Managerial

- His Experience
 - ✓ Experience in Proposed action
 - ✓ Experience / Track record with existing Bank

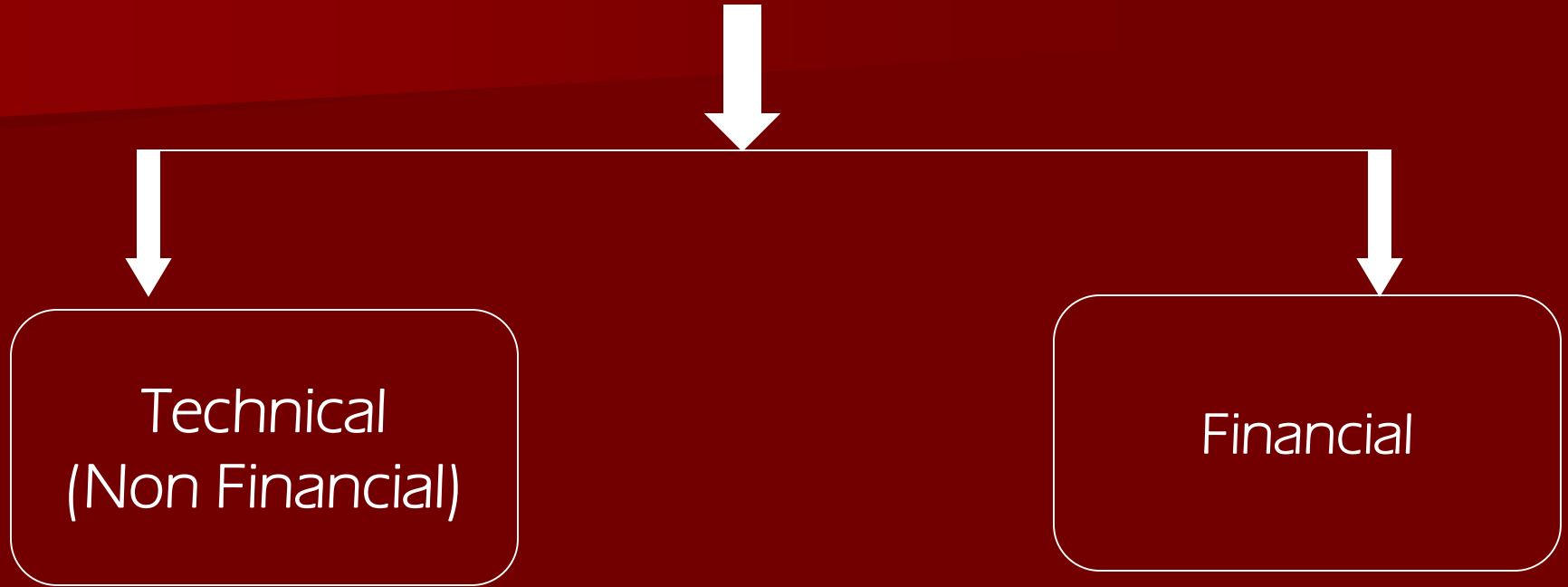
- Present Scale – whether too long a leap ?

PROMOTERS

cont.

- Constitution – If needs change
- Succession Plan
 - ✓ Relations
 - ✓ Executives
- Whether sufficient funds are generated from existing activities to
 - ✓ Fund promoters contribution
 - ✓ To absorb implementation shocks
 - ✓ Other fall back – TNW in form of properties

DUE DILIGENCE OF A PROJECT



TECHNICAL FEASIBILITY STUDY

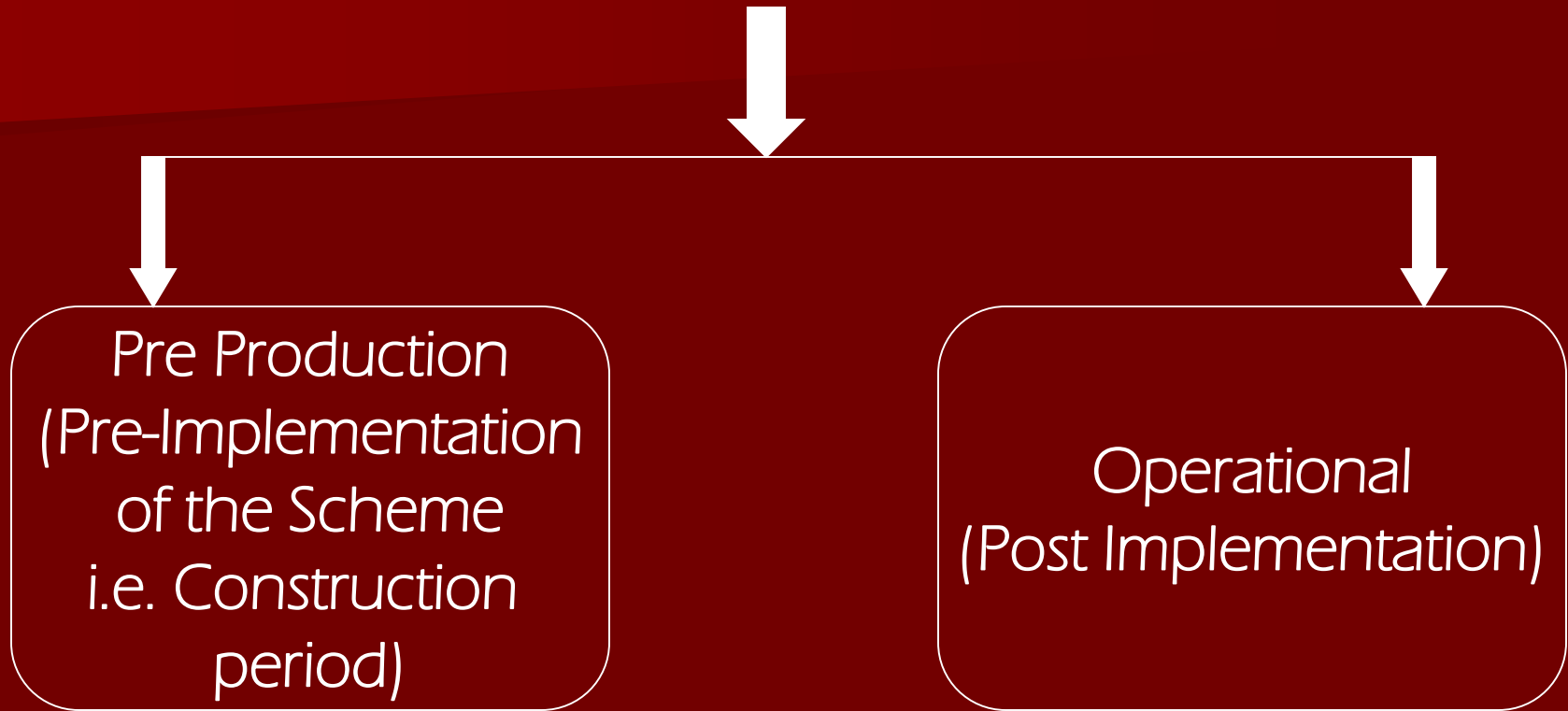
- A Chartered Accountant is not technically qualified
- Take help from the technical team of the client
- If we have done a similar project, our experience will help.
- General reading and keeping eyes and ears open, will help.

TECHNICAL FEASIBILITY

CONT.

- Calculation of Installed capacity
- Bottlenecks that may hamper capacity utilization
- Minimum Economic Size of plant

FINANCIAL VIABILITY



Most of CA's work pertains to preparation of Information Memorandum from financial viability angle.

What is the aim of Our exercise ?

Analyze a proposed project to determine if :

- ✓ it is technically feasible
- ✓ it is possible within the estimated cost
- ✓ it will be profitable
- ✓ The profit so generated will be able to service the debt as well as equity
- ✓ For this we need to assess cost of Project & Resultant Profitability.

COST OF PROJECT

		(Rs. in lacs)
Land		
Site Development		
Building & Civil Works :		
Main Shed		
Foundations		
Water Arrangement		
Office & Others		
Plant, Machinery & Equipments :		
Plant as per annexed schedule		
Installation, Transportation, taxes etc.		
Misc. Assets :		
Deposits		
Furniture & Office Equipments		
Preliminary & Preoperative Exps.		
To be Capitalised :		
Contingency Provision		
Margin Money for Working Capital		
TOTAL		

COST OF PROJECT

- Land and site development :
 - ✓ Land cost includes purchase consideration, stamp duty, registration and brokerage.
 - ✓ Land is duly registered in company's name and duly mutated in land records
 - ✓ Use of Land: Permission for industrial use, if situated outside industrial area
 - ✓ Chain of documents: all previous sale deeds
 - ✓ Advisable to obtain certificate from lawyer regarding no objection received in paper publications
 - ✓ Look for adequacy and locked lands.

contd...

COST OF PROJECT

cont.

- Building & Civil works:
 - ✓ This is the single most overrun area both in terms of time & cost as well as source for siphoning of funds by promoters
 - ✓ Sanction of building plans by Competent Authority
 - ✓ Estimates to be based on local price of materials
 - ✓ Suitability/Adequacy excessive area- In most of the cases, building is non productive asset.

Building

Sr. No.	Particulars	Type of construction	Dimensions L*B*H in Mts.	Area sq. Mts.	Rate per sq. mts	Estimated Cost (Rs. In lacs)
1	Factory Building					
2	Administrative/Office Building/ Canteen etc					
3	Warehouses for					
4	Meter Room/Transformer Yard					
5	Security Cabin					
6	Residential / Staff quarters					
7	Water Reservoirs					
8	Borewells					
9	Sewerage & Drainage					
10	Architect's Fees					
	TOTAL					

COST OF PROJECT

cont.

- Plant & machinery:
 - ✓ List out with power requirement
 - ✓ Suppliers' credentials and reference list
 - ✓ Selection criteria: whether quotes from similar suppliers of repute is obtained
- Utilities & Misc. Fixed assets
- Preliminary & preoperative expenses
- Contingencies – Suggested 10% of non firm cost
- Working capital margin

Preliminary and Preoperative expenses

	Cost already incurred	Proposed to be incurred	Total
Preliminary & capital issue expenses: a) Brokerage and commission on capital b) Other capital issue expenses (legal, advertisement, printing, stationery, etc.) c) Other preliminary expenses (company floatation and other initial expenses). Pre-operative expenses a) Establishment inclusive salaries etc b) Rent, rates and taxes c) Traveling expenses d) Misc. expenses e) Processing and Upfront Fees on borrowings f) Interest during Construction period g) Insurance during construction including erection insurance. h) Mortgage expenses i) Interest on deferred payments, if any. j) Deposit including Line Laying Charges to be paid for obtaining power k) Other Deposits l) Trial Run Expenses m) Product Launching expenses			
TOTAL			

Provision for contingencies

ITEM OF COST	Considered		Reasons for considering the cost as Firm
	Firm (Rs in Lacs)	Non Firm (Rs in Lacs)	
Land			
Site Development			
Buildings			
Plant & Machinery			
Electrical Equipment & Installations			
Technical know-how fees etc.			
Utilities except power			
Effluent Treatment Facilities			
Expenses on foreign technicians' and training of Indian technicians abroad.			
Miscellaneous fixed assets.			
Preliminary & Preoperative Expenses			
TOTAL			

WORKING CAPITAL MARGIN

- 25% of the working capital requirement to be met from long term sources
- Inadequate and timely non availability of working capital is single most important factor for sickness
- Holding limits should be in line with the industry norms and based on past experience
- Never under assess working capital requirement to lower promoters contribution

COMPARISON OF PROJECT COST

- Capitalization cost
- Comparison with similar units
- If varies materially, explanation therefor

MEANS OF FINANCE

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graph TD; A[MEANS OF FINANCE] --> B[EQUITY]; A --> C[DEBT]; B --- B1[✓ Additional Equity]; B --- B2[✓ Unsecured loans from promoters]; B --- B3[✓ Internal accruals: properly calculated based on last years balance sheet]; C --- C1[✓ Term Loans]; C --- C2[✓ Cash Credits]; C --- C3[✓ Working Capital term loans.];
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EQUITY

- ✓ Additional Equity
- ✓ Unsecured loans from promoters
- ✓ Internal accruals: properly calculated based on last years balance sheet

DEBT

- ✓ Term Loans
- ✓ Cash Credits
- ✓ Working Capital term loans.

- Ability of the promoters and source for their contribution should invariably be ascertained
- Debt Equity, Promoters contribution, Asset coverage ratio (1.5+)

PROJECTION OF PROFITABILITY

- Perhaps most important task for a CA to arrive at an achievable profitability projections
- Better to stick to standard format of FIs & Banks
- Exercise conservative attitude
- Double-check all input parameters for correctness
- In case of existing concerns, one should not project an extremely rosy picture than what is achieved by the company

PROJECTION OF PROFITABILITY

- Capacity utilization should be realistic, Sales/revenues and all inputs should be at prevailing price levels.
- Should have supporting data/information relating to every input parameter- profitability undergo maximum scrutiny after promoters , all workings must be explainable
- Ratio Analysis – Sensitivity with 5 to 10% adverse variance should be made

ESTABLISHMENT OF FEASIBILITY

- In my opinion, a normal SME project should be able to pay back in 5 to 6 years after a moratorium of one year.
- It should give the acceptable level of ratios i.e.
 - ✓ DSCR
 - ✓ Debt Equity Ratio
 - ✓ IRR
 - ✓ Current Ratio
 - ✓ TNW to outside liabilities ratio.

SUMMING UP

- Preparation & Presentation of Project Report to raise fund is an acquired art
- Every person improves with experience – both of his own and of those he knows
- A good homework before approaching funding agencies will give desired results

QUERIES AND SUGGESTIONS ARE
SOLICITED !

GRATITUDE

THANKS FOR YOUR PATIENT HEARING.

*WISH YOU A MERRY CHRISTMAS
AND A VERY PROSPEROUS 2020*

Sitaraman Iyer

LETTER OF CREDIT

i) For Raw Material	Inland	Foreign
1. Estimated Purchases against LC (For accepted level of Turnover)		
2. Lead / Transit Time (No. of days)		
3. Usance Period (No. of Days)		
4. Total No. of Days (2+3)		
5. No. of cycles in a year (365/Total No. of Days as per Sr. No.-4)		
6. LC Requirement (Sr. 1/Sr. 5)		

- ✓ Letter of Credit is a formal commitment given by the Bank to a person, generally a supplier, that the buyer's bill will be paid on presentation or after expiry of a stipulated period
- ✓ Letter of Credit is subject to the terms and conditions narrated in the Letter of Credit
- ✓ Letter of Credit is document based and normally does not concern itself to the goods

BANK GUARANTEE

1	Amount of contracts in hand / Under Implementation	
2	Value of contracts to be completed in a year :	
3	Value of Contracts in pipeline for which bids are to be made	
4	Bid requirement @ _____ % per annum.	
5	Advance payment guarantees @ _____ % of Contract Value.	
6	Performance guarantees @ _____	
7	Earnest Money guarantee @ _____ % on _____	
8	Security deposits / Retention Money guarantee @ _____	

- Bank Guarantee is a contract to perform in case the borrower fails
- Usual Bank Guarantees are
 - ✓ Financial Bank Guarantee
 - ✓ Performance Bank Guarantee

DOCUMENTS REQUIRED FOR PROJECT FINANCE

- LAND :
 - ✓ Copy of Sale Deed
 - ✓ 7/12 Extract
 - ✓ NA Order
 - ✓ Site Plan annexure
 - ✓ Latest Local Tax Paid Receipt

- BUILDING & CIVIL WORKS :
 - ✓ Copy of Building Plan duly approved by local authorities
 - ✓ Area Statement
 - ✓ Architects' Estimate for Building & Civil Works
 - ✓ Plant Layout

- PLANT, MACHINERY & EQUIPMENTS :
 - ✓ List of Machineries
 - ✓ Offer Letters/Quotations
 - ✓ Incase of Turnkey Project, Agreement with Turnkey Suppliers
 - ✓ Details of Utilities : Boiler etc.
 - ✓ A note on reason for chosing the shortlisted supplier
 - ✓ A write up on available alternative technology with comparative study

DOCUMENTS contd..

■ OTHER FIXED ASSETS :

- ✓ List of other fixed assets, MSEB Deposits etc.
- ✓ Supporting documents for above

■ OTHER INFORMATION :

- ✓ Copy of Balance-sheet of ALL Group Concerns with Audit Reports for the last 3 years
- ✓ Copy of IT Returns, Computation and Personal B/Sheet of All the promoters for the last 3 years
- ✓ Copy of Memorandum & Articles of Association - 3 copies
- ✓ Copy of IEM/SSI/MSI Registration/Other Registrations
- ✓ Copy of MSEB Application/MPCB Application
- ✓ PAN Card Copy of Company and Directors
- ✓ Passport Size Coloured Photo of ALL Directors

■ FINANCIAL INFORMATION :

- ✓ Installed capacity – product wise
- ✓ Cost sheet for each product
- ✓ Power, water and fuel requirement @ 100% capacity
- ✓ Marketing arrangement proposed
- ✓ Effluents & treatment envisaged
- ✓ Any other relevant detail