# FINANCING PROJECTS

3P MANAGEMENT CONSULTANCY has been at the forefront of several project financing transactions across various sectors.

We have the necessary expertise to approach numerous Banks, Investment Bankers, Non Banking Finance Companies (NBFCs), Financial Institutions (FIs), Venture Capitalists (VCs), Private Equity Investors (PE), Ultra High Net Worth Individuals (UHNWIs), Family Businesses, Hedge Funds, Pension Funds, Underwriters, Insurance Providers, etc. with great speed and efficiency. We understand how these fund providers and investors work and what are their main areas of interest. Targeting the right source is not just important but also crucial for achieving successful financial close.

**3P MANAGEMENT CONSULTANCY offers:**

1. Identification of projects with a Cash Flows Generating component and bankability potential;
2. Support of project development to achieve bankability;
3. Preparation and structure of transaction by leveraging our consulting, financial and legal expertise;
4. Finding the right investor and achieving financial close;
5. Support to the client through the project execution and construction phases.

We can be present with our services across the entire project lifecycle:

1. Strategy and planning: Assisting long-term planning of individual projects or a portfolio by focusing on feasibility, alignment with corporate objectives and governance procedures in order to maximize return on investment.
2. Financing and procurement: Raising project finance; establishing and managing the procurement process to acquire services, material or equipment to deliver the project, and prioritizing capital allocation between projects.
3. Project organization, execution and construction: Setting up the project for success and strengthening client capabilities to deliver on time and to budget.
4. Operations and maintenance: Assessing ongoing lifecycle costs and providing insights around optimizing the performance and value of assets in operation.
5. Asset recycling, concession maturity & decommissioning: Determining when and how to discontinue investing in an asset, and transaction advisory services for investors in infrastructure assets.

# Stages in Project Financing

**Pre Financing Stage:**

1. Project Identification
2. Risk Identification & minimizing
3. Technical and financial feasibility

**Financing Stage:**

1. Equity arrangement
2. Negotiation and syndication
3. Commitments and documentation
4. Disbursement

**Post Financing Stage:**

1. Monitoring and review
2. Financial Closure / Project Closure
3. Repayments & Subsequent monitoring

# Preparation of Project Report

A Project Report is essential before a decision for setting-up of any project is taken. The most important thing in any project financing is preparation of Detailed Project Report (DPR) which should be made beautifully for getting the project approved from banks/financial institutions. After preparation of DPR the proposal is moved to the banks/financial institutions for processing of the file. Project Report must include the followings:

# Technical Feasibility

All the factors relating to infrastructure needs, technology, availability of machine, material etc. are required to be scrutinized under this head. Broadly speaking the factors that are covered under this aspect include:

1. Availability of basic infrastructure- It includes the land and its location as per present and future needs, lay out and building plan including finalization of structure, availability of water and power, availability of cheap labour in abundant supply.

1. Licensing/ registration requirements

1. Selection of technology/ technical process- The technical process/technology selected for the project must be readily available either indigenously or necessary arrangements for foreign collaboration must be finalized. Further the selected technology must find a successful application in Indian environment and the management shall be capable of fully absorbing the technology.

1. Availability of suitable machinery/ raw material/ skilled labour etc- After selection of technical process, the availability of suitable kind of machinery is most important factor which needs to be considered. It should be ensured that the suppliers are capable to supply the plant and machinery timely along with all spare parts

# Managerial Competence

The ultimate success of even well-conceived and viable project may depend on how competently it is managed. The promoters of the project have to provide necessary leadership and their qualification, experience and track record will be closely examined by lending institution. The detail of other projects successfully implemented by the same promoters may provide the necessary confidence of these institutions and help final approval of the project.

The reputation of the promoters group in the market is also very important factor which the banks/ financial institutions consider while lending to the companies. Also the bank/ financial institutions check the payment history of past loan raised by the companies in which the promoters are directors which shows their willingness of repayment of the loans. CIBIL is a very strong tool in the hand of banks/ financial institutions to verify the payment history and the number of loans raised by the companies from the date of existence.

# Commercial Viability

Any project can be commercially viable only if it is able to sell its product at profit. For this purpose it would be necessary to study demand and supply pattern of that particular product to determine its marketability. Various methods such as trend method, regression method for estimation of demand are employed which is than to be matched with the available supply of a particular product.

# Financial Viability

Factors to be considered for financial viability:

Cost of project: A realistic assessment of cost of project is necessary to determine the source for its availability and to properly evaluate the financial viability of the projects. For this purpose, the various items of cost may be sub-divided as many sub-heads as possible so that all factor are taken into consideration for arriving at the total cost.

**Cost includes the following:**

1. Land Cost- Acquisition of project land, registry charges, and charges for other clearance.

1. Site Development Cost- to make the project easily accessible it is necessary to build roads, water tank, boundary walls, arranging electricity, levelling the site, demarcation of site, making available the basic amenities etc.

1. Buildings Cost- it includes lay out and building plan along with the structure cost, building the site office, factory sheds, godowns, residential flats for staff etc.

1. Plant and Machinery- cost of plant and machinery, any foreign assistance for installation, salary of technical staff, transportation cost, foreign currency fluctuations (if any), bank commissions, L/C Charges etc.

1. Miscellaneous Fixed Assets

1. Preliminary Expenses- licence required to start commercial production from the local authorities along with other clearances etc.

1. Contingencies- normally 5% extra cost is taken as contingency to avoid any kind of cost over-run at the end of implementation of project.

1. Margin for Working Capital- for running a project it is necessary to fuel it with the working capital. It works like a lubricant for any kind of business. It is financed against receivables and stock. A proper assessment of the same should be done. Banks now generally require that 25% of the total current assets (working capital) shall be the margin to be provided from the long term resources and 75% shall be financed by them.

Means of Finance: After estimation of the cost of the project, the next step will be to find out the source of funds by means of which the project will be financed. The project will be financed by contribution of funds by the promoter himself and also by raising loans from others including term loans from banks and financial institutions.

# Environmental, Political and Economic Viability

The performance of the project is also influenced by the external factors also such as existing government policies regarding particular sector, easiness in getting the licence to operate in a particular region or state, effects of the project on the environment, tax exemptions for particular region etc. Hence while compiling the project report it is important to study the industry scenario, government policies etc and these should be covered in the project report.

**Project Appraisal**

Project Appraisal is a process of detailed examination of several aspects of a given project before recommending the same. The lending institution has to ensure that the investment on the proposed project will generate sufficient returns on the investments made and that loan amount disbursed for the implementation of the project will be recovered along with interest within a reasonable period of time. The various aspects of Project appraisal are:

1. Technical Appraisal
2. Commercial Appraisal or Market Appraisal (Demand of the product, supply of the product, distribution channels, pricing of the product and government policies.
3. Economic Appraisal
4. Management Appraisal (assessing the willingness of the borrower to repay the loan)
5. Financial Appraisal