

Project Finance



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Introduction

What is Project Finance ?

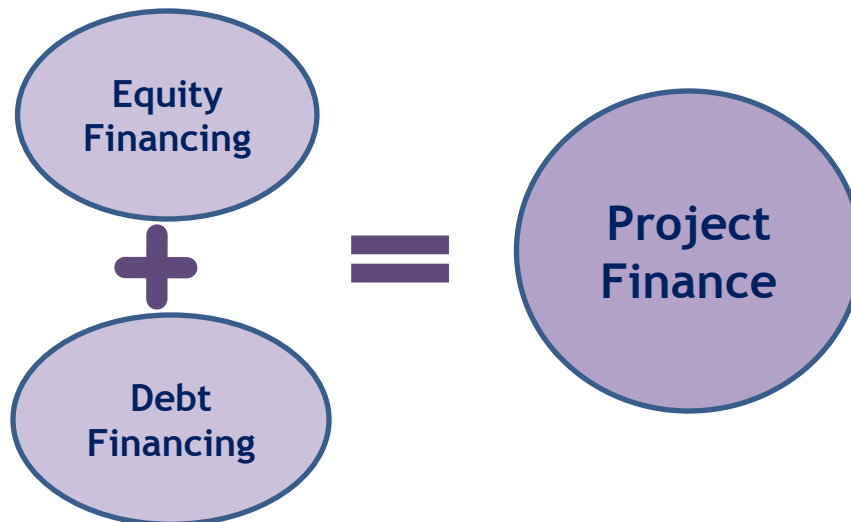
Project finance is defined as :

- ✓ A long-term method of financing large infrastructure and industrial projects based on the projected cash flow of the finished project.
- ✓ Project finance structures usually involve a number of equity investors as well as a syndicate of banks who will provide loans to the project.

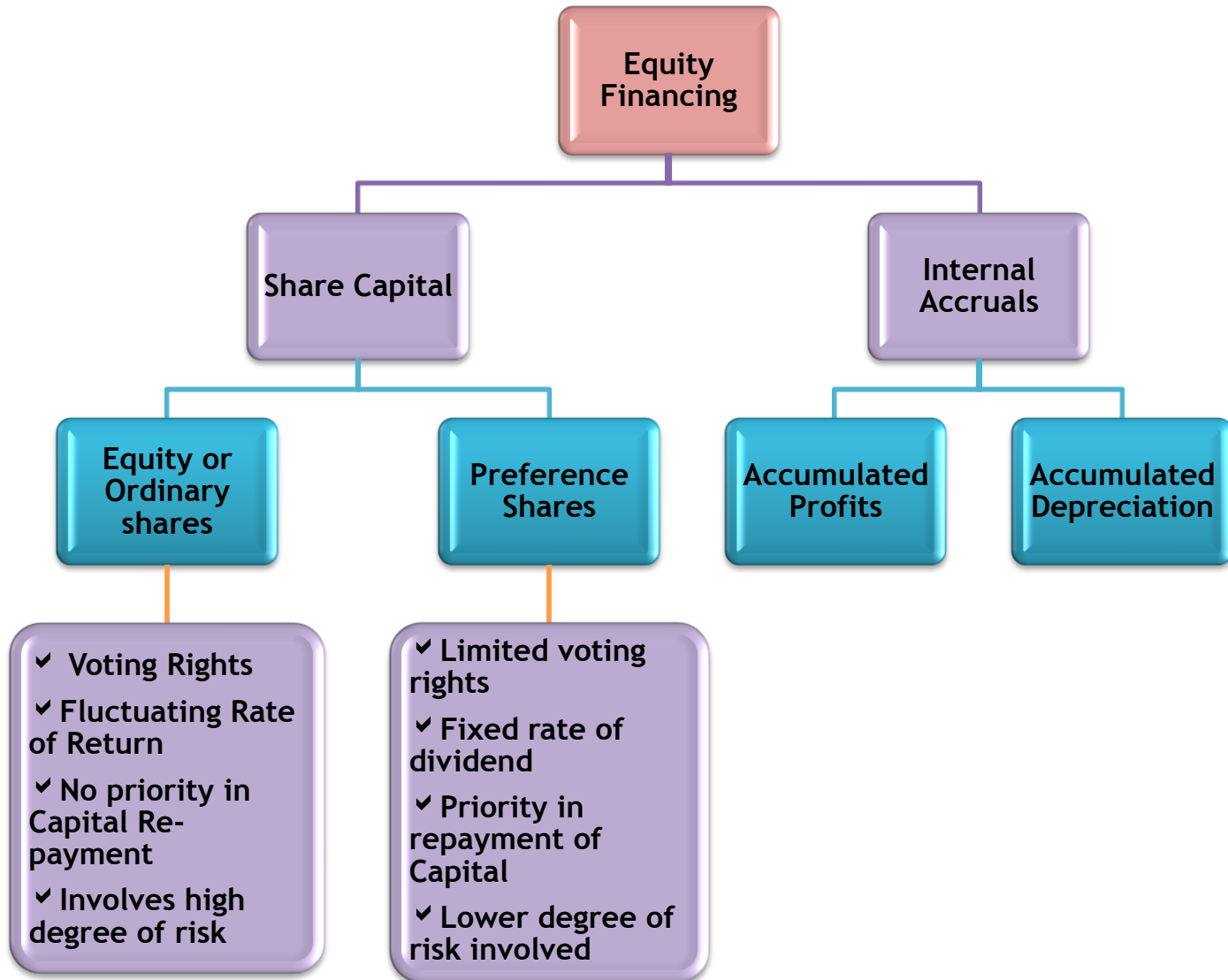
Sources of Finance

There are two sources of finances:

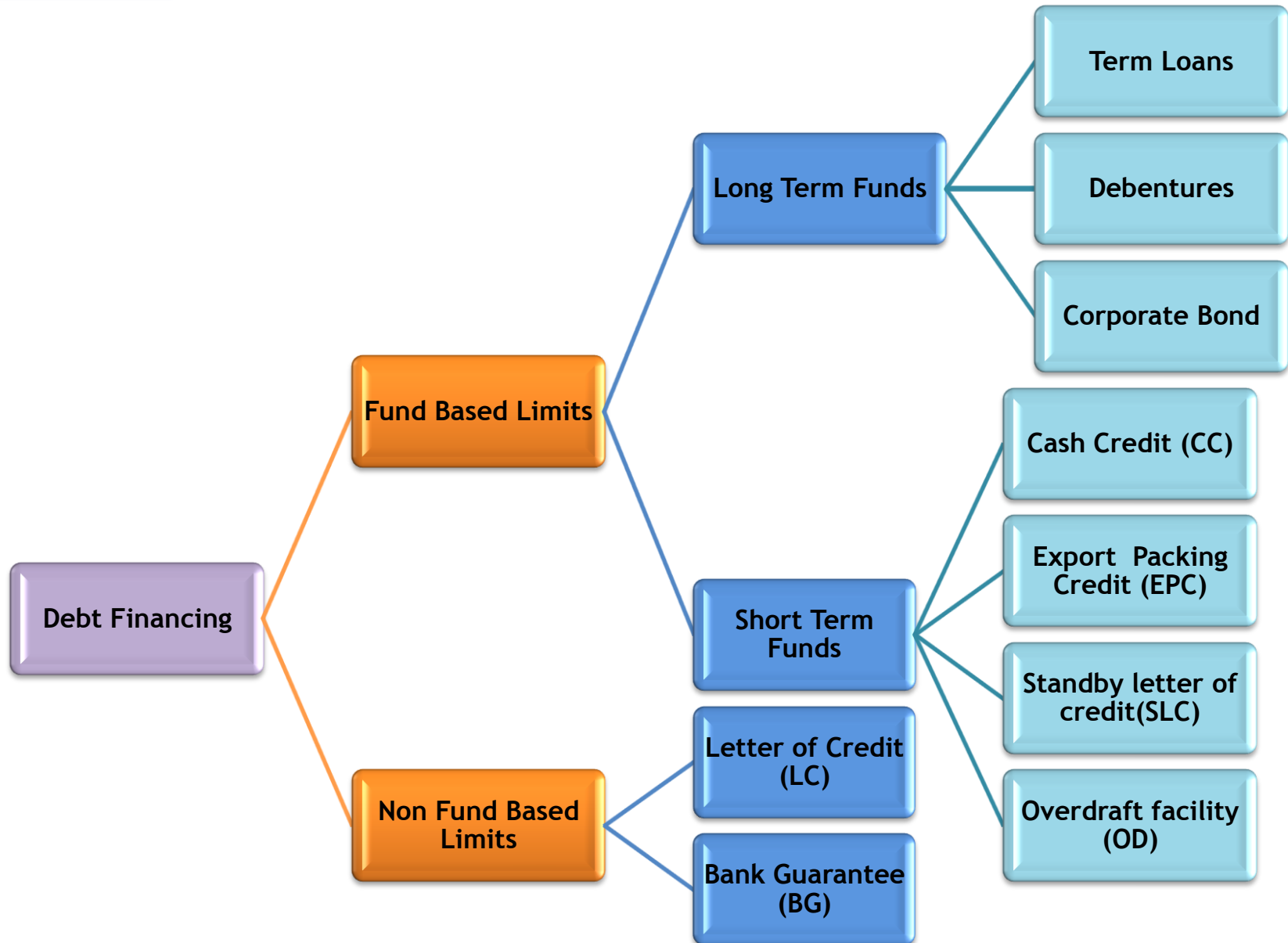
- ✓ **Equity Financing** - Money invested into your business in exchange for a share in its ownership.
- ✓ **Debt Financing** - Debt financing is usually in the form of a loan where the principal amount borrowed and interest accumulated on the loan needs to be paid.



Types of Equity Financing



Types of Debt Financing



Features of Debt Financing

Long Term Debts

Debentures

- Instrument acknowledging debt
- Fixed rate of Interest
- Fixed Maturity Period
- Secured by Floating Charge

Term Loan

- Fixed Tenor
- Pre defined utilization
- Secured by equitable mortgage
- Economical source of fund

Corporate Bond

- Alternative to bank finance
- Project tailored funding
- Cost Saving through disintermediation
- Access to international investors

Short Term Debts

Non Fund Based Limits

Letter of Credit

- Eliminates credit risk
- Minimum rate of interest
- Secured by means of fixed deposits

Bank Guarantee

- Facilitate Exporters in securing overseas contracts.
- Issued against margin money & term deposits

Features of Debt Financing

Short Term Debts Fund Based Limits

Cash Credit

- Need based working capital limit
- Secured by way of hypothecation /pledge of inventory & book debts
- Interest is charged on daily basis on amount utilized.

Standby Line of Credit

- For meeting need based working capital
- Secured against inventory & other current assets
- High rate of interest as compare to CC.

Overdraft

- Allowed in current account
- Lower pricing than cash credit
- Provided for a very short period

Export Packing Credit

- Working capital assistance for export
- Internationally comparable interest rate
- Available in popular foreign currencies

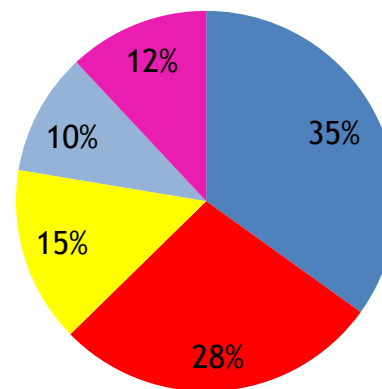
External Credit Rating

Introduction

- ✓ An assessment of the credit worthiness of a borrower with respect to a particular or financial obligation.
- ✓ A credit rating can be assigned to any entity that seeks to borrow money .
- ✓ Credit assessment and evaluation for companies and governments is generally done by a credit rating agency.
- ✓ These rating agencies are paid by the entity that is seeking a credit rating for itself or for one of its debt issues.
- ✓ Credit ratings are derived from the credit history maintained by credit-reporting agencies.
- ✓ Credit ratings for borrowers are based on substantial due diligence conducted by the rating agencies.
- ✓ The credit rating has an inverse relationship with the possibility of debt default. A high credit rating indicates that the borrower has a low probability of defaulting on the debt; conversely, a low credit rating suggests a high probability of default.
- ✓ Credit rating agencies typically assign letter grades to indicate ratings.

Credit Score Factors

Colour	Factor	Weightage(in %)
■	On Time Payments	35%
■	Capacity Used	28%
■	Length of Credit History	15%
■	Types of Credit Used	10%
■	Past Credit Applications	12%



Advantages of Credit Rating

To Investors

1. • Helps in Investment Decision
2. • Benefits of Rating Reviews
3. • Assurance of Safety
4. • Easy Understanding of Investment Proposal
5. • Choice of Instruments
6. • Saves Investor's Time and Effort

To Borrowers

1. • Improves Corporate Image
2. • Lowers Cost of Borrowing
3. • Wider Investor Base for Borrowing
4. • Good For Non-Popular Companies
5. • Act as a Marketing Tool
6. • Helps in Growth and Expansion

Credit Rating Agencies in India



Current Scenario of Bank Finance

Significant Banking Rates

(Percent)

Item/Week Ended	2013	2014				
	May 3	Apr. 4	Apr. 11	Apr. 18	Apr. 25	May 2
	1	2	3	4	5	6
Policy Repo Rate	7.25	8.00	8.00	8.00	8.00	8.00
Reverse Repo Rate	6.25	7.00	7.00	7.00	7.00	7.00
Bank Rate	8.25	9.00	9.00	9.00	9.00	9.00
Term Deposit Rate >1 Year	7.50/9.00	8.00/9.25	8.00/9.25	8.00/9.25	8.00/9.25	8.00/9.25
Savings Deposit Rate	4.00	4.00	4.00	4.00	4.00	4.00

Role of a Chartered Accountant in Equity Financing

- ✓ Understand the business model of the enterprise.
- ✓ To assist in assessment of equity needs of the enterprise.
- ✓ Selection of an appropriate source for procuring the assessed equity capital.

Appropriate Source of Finance	Fund Required (Rs. in Crores)
High Net Worth Individuals & Venture Funds for Eg. SIDBI	1-10
PE Fund	10 to 100
Large PE Fund	Above 100

Kinds of Equity Investor

Pure Financial Investor-

- ✓ Infusion of funds in the form of equity.
- ✓ May belong to any class or industry.
- ✓ completely focused on the financial return as to earn as higher return as possible.

Strategic Investor-

- ✓ Infusion of funds. along with sharing technology as well as know how etc
- ✓ Generally the investor belongs to the same industry.
- ✓ Investment may be made with a sort of strategic interest
- ✓ These investments can usually bring some sort of value to The fledgling company.

Role of Chartered Accountant in Debt Financing

- ✓ Assessment of the long term/short term borrowing needs of the client,
- ✓ Selection of an appropriate source,
 - Domestic investor, or
 - Overseas investor
- ✓ Helps in preparation of project appraisal by calculation of important ratios like projected IRR, DSCR, Current Ratio for debt syndication.
- ✓ Implementation of project & follow up.
- ✓ Assist in determination of Working Capital needs of the project.
 - Fresh/renewal/enhancement proposal.
 - Preparing project report for the entire proposal.
- ✓ **Corporate Restructuring:** CA plays an important role in corporate restructuring by taking steps for Revival of Sick units, Maintenance of financial health by facilitating the following:
 - Merger
 - Demerger
 - Disinvestment
 - Take over/acquisition

Thank you