

Major Research Project
On
Financial Appraisal of the Project Financed By SBI

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2K21/DMBA/069

Under the Guidance of Dr. Vikas

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CERTIFICATE

This is to certify that Mr. Lakshay Aggarwal, have completed the project titled **“Financial Appraisal of the Project Financed by SBI”** under the guidance of Dr. Vikas Gupta as a part of Master of Business Administration (MBA) curriculum of Delhi School of Management, New Delhi. This is the original piece of work and has not been submitted elsewhere.

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DECLARATION

I, Lakshay Aggarwal student of Delhi School of Management, Delhi Technological University hereby declare that the Major Research Project on Financial Appraisal of the Project Financed by SBI submitted in partial fulfillment of the requirements for the award of the degree of Master of Business Administration (MBA) is the original work conducted by me. I also confirm that neither I nor any other person has submitted this project report to any other institution or university for any other degree or diploma. I further declare that the information collected from various sources has been duly acknowledged in this project.

Lakshay Aggarwal
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ACKNOWLEDGEMENT

I would like to express my special thanks to my mentor Dr. Vikas Gupta for his time and efforts he provided throughout the semester. Your useful advice and suggestions were really helpful to me during the project's completion. In this aspect, I am eternally grateful to you.

Lakshay Aggarwal
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EXECUTIVE SUMMARY

Every business needs money to continue its operations smoothly, and the bank is one of the sources through which this money is obtained. Before financing a project, the bank evaluates it to see if it complies with the bank's requirements. If it does, then the project is approved for financing.

The financial status of a company is one of the most important factors when giving credit facilities for any project. Banks use a variety of methods for financial analysis. However, neither uniformity in evaluation nor established standards for such evaluation exist. Depending on the kind and scale of the project, the role may vary from bank to bank and from project to project within a same bank. However, there are certain significant, shared characteristics of financial evaluation that will be covered in this paper.

Two key financial statements that must be presented with the loan application to the bank are the center of the financial evaluation. The following financial statements:

1. Balance Sheet.
2. Manufacturing, Trading, and Profit & Loss a/c is also known as profit and loss a/c.

While the profit and loss a/c provides a summary of activities for the operating year, the balance sheet shows the financial status of a company at a certain moment in time (often the closing date of the operating year).

A balance sheet is typically constructed using the "business entity" concept, which treats the company as a distinct legal entity from its promoter with its own assets and obligations. Despite being an asset to the promoter, the capital contribution is a liability for the business. The balance sheet details the assets and liabilities of a company as of the closing date and must also show how these are allocated. Any company's entire assets will always be equal to its total liabilities.

Profit and loss a/c is the statement of working results for the concern's operations for the entire year and is a key sign of how the concern is running its business and its financial outcomes.

A crucial tool in the hands of bankers, financial evaluation serves as the cornerstone of each loan decision they make. Thus, it is crucial that the financial statements provided to the banks be believed. It is preferred that an audited balance sheet and profit and loss statement be provided, as they are typically seen as being more trustworthy.

As the banks are interested in determining the pattern in which the business is being handled from year to year, it is also vital to keep in mind that financial statements from a single year may not be deemed adequate to develop any opinion on the financial status of a concern. To make year-to-year comparisons of the key financial indicators of a concern, the financial statements of the last three or more years are concurrently evaluated. Thus, 'trend analysis' is conducted after the financial analysis, which takes greater importance since banks may be more receptive to concerns with improving trends but comparably poor financial bases.

Financial analysis of the company who is taking the loan is done through ratio analysis to check various conditions and feasibility of the company.

For projects needing significant financial inputs, such as the building of power plants, pipelines, transportation networks, mining facilities, industrial facilities, and heavy manufacturing plants, project finance is a popular technique of financing employed in capital-intensive sectors.

The value of the net cash flows that come from the implementation of a proposed project are evaluated using a procedure called financial appraisal. Economic evaluations are different from financial appraisals in terms of the depth of their research, the variety of impacts they analyze, and the methods they employ. Investment choices are primarily seen from the standpoint of the company making the investment in a financial analysis. Therefore, it exclusively evaluates how an investment choice directly affects the organization's cash flow.

Various techniques have been used to check the profitability of the project

- Payback Period
- Profitability Index
- Average rate of return
- Internal rate of return
- Net Present Value

The project's which has been taken in this research paper is being financed by SBI by checking or measuring the profitability and risk associated with the project and how these risks can be reduced.

Financial evaluation, which primarily results in the feasibility study with capital budgeting calculations and ratio analysis.

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CHAPTER-1

INTRODUCTION

The financial feasibility of a project idea is assessed by comparing its potential benefits to its expected costs. The assessment will be based on the size of the project and how long the costs and benefits will be spread out over. The claim is made that the return will, at the very least, exceed the investment. Several methods are used to determine the net benefit of this return or payback, including:

- Payback analysis solely considers the cash flows from costs and benefits.
 - Discounted cash flow - accounts for the 'time value' of future cash flows
 - For the temporal worth of money, the internal rate of return defines basic return norms.
- The majority of financial evaluation tools now incorporate Excel capabilities, and discounted cash flow is widely employed. Just about anybody may evaluate a business proposal financially without providing a formal project plan. Since they can create both time- and money-based models of the project, this is quite useful for the project manager. Therefore, the model may be read by a non-financial expert to make the necessary alterations and analyses the effect of those changes until a third party is needed for the well-developed plan.

Payback analysis, which looks at the income that will be generated from the original investment, is the most basic kind of financial review. A \$40 million original investment, for instance, will be recovered in 8 years if \$5 million in revenue is made each year. The full life-cycle costs of a product are not included in the study; for example, the model does not accurately reflect financial realities if there are significant disposal or decommissioning costs (for instance, in construction projects).

A technique for accounting for the "time value" of the cash flow is discounting. The investment return's value is compared to what the same sum of money would have been worth if it had been kept in a bank account for the same period of time and earned the same rate of interest. This approach thus considers the potential cost of the project. There is a considerable level of uncertainty when forecasting cash flows over multiple years.

An alternate strategy is to determine the project's internal rate of return, or discount rate, for which the net present value (NPV) is zero. The NVP is calculated using the

discrepancy between the present values of benefits and expenses. Calculating this discount rate may require several iterations to reach the required NPV of zero. Consequently, employing IRR may help eliminate the requirement of selecting a discount rate for a project, which can save much discussion. The IRR method is particularly difficult in situations where rates fluctuate quickly and by large percentages, such as during a financial crisis (like the one in 2008), because it cannot account for changes in the discount rate over time. When two project ideas have comparable IRRs but radically different NPVs, the project idea with the highest NPV is the most advantageous one. The process of assessing and deciding if the proposed equipment and machinery would be sufficient to create the intended output within the established requirements is known as technical feasibility. Is evaluated. Technical viability evaluations help to identify whether a firm already possesses the required knowledge or whether it must be obtained from another source. And if the agreement is to be created, the necessary sources are being sought after. Any international cooperation must have very explicit norms and conditions.

- A. The following elements need to be properly taken into account while determining the project's technical viability:
- B. Land and location availability.
- C. Sufficient raw supplies that meet set quality and quantity standards.
- D. Additional inputs like water, power, transportation, and communication facilities are accessible.
- E. Availability of maintenance facilities, such as machine shops and electrical repair facilities.
- F. Sufficient licenses to comply with environmental legislation.
- G. A workforce with the necessary skills is available, and plans have been made for both internal and external training.

RISKS AND BENEFITS OF THE PROJECT

Project evaluation is very advantageous. It brings about the following advantages:

- It aids in determining the project's feasibility.
- They are easy to use, and both small and large businesses may utilise them for a variety of projects.

- For large businesses that are eager to engage in short-term endeavors, it is an excellent instrument.

OBJECTIVES OF THE RESEARCH

Project financial assessment

Associated Goals

1. To be aware of the SBI-financed projects.
2. To be aware of SBI's project financing rules.
3. To be aware of the risks associated with project finance.
4. To evaluate the project using financial instruments.
5. To be aware of the actions the bank takes when customers refuse to pay back the money.

STATE BANK OF INDIA



With the main objective of giving stability to the money market, the State Bank of India was established approximately 200 years ago. Beginning in the 1860s, as the Indian economy started to recover, the bank mobilized money to sustain both the private credit of European and Indian merchants as well as the public credit of the various

governments through the three British India Presidency periods. The bank and the practical financial operations of the sub-continent formed a strong alliance. The biggest beneficiaries were undoubtedly the large European and Indian manufacturers and traders, but the little guy was never forgotten; in rural villages, loans as little as Rs. 100 were provided in exchange for cheery decorations. Up until the Reserve Bank was created in 1935, the bank also carried out a variety of Central Banking duties.

The Bank's capacity to change with the times and the world has been one of its advantages since the end of the Great Depression. For instance, when company opportunities were very limited, the guidelines in the book of instructions were revised in order to save excellent business from disappearing. However, the bank seldom strayed from moral behavior or unethical banking practices in order to sustain or expand its company. A fresh array of offices was created in the forms of branches, sub-branch offices, treasury pay offices, pay offices, sub pay offices, and out stations in order to capitalize on the opportunities given by a growing economy. 1937 saw the avoidance of a novel business strategy in favour of prompt and friendly customer service in order to provide the best financial service.

In terms of business, profitability, internal discipline, and most crucially, credibility, the bank was quickly elevated by a very competent and experienced management team working inside a well-defined organisational framework. The bank's strong financial position, steadfast devotion to the noble traditions of banking, and observance of a high standard of honesty in its business practices all contributed to its ability to establish a distinguished reputation. Given the economic advice the bank got from powerful individuals, including the governors of the independent India Reserve Bank and

members of the chamber of commerce, it is obvious that the administration of the bank was broad.

Modern management techniques were also widely used in the past, before corporate governance had become a problem, when banks were supposed to operate with a high level of accountability and consideration for the shareholders. Asset liability management and prudent management ensured that client commitments were not satisfied while also safeguarding the Bank's interests. Customer satisfaction was guaranteed by these elements, as well as an unblemished track record of success, a respectably high profit margin, and a respectably high dividend margin. Even today, while the State Bank reinvents itself to meet the new challenges of the century, the traditions of the past are nevertheless honored.

ABOUT LOGO



This SBI corporate logo symbolizes harmony, where the world of banking services meet the ever changing demands of customers and unite to form a circle, signifying complete customer service. The bank's customers can also assume from the logo that it will go above and above for them.

The bank's philosophy, which is to always look for new prospects for growth and more challenging and promising areas, is represented by the blue pointer. The keyhole represents safety and security.

PURPOSE STATEMENT:

Keeping a strong focus on the Bank's development banking policy, to continue to be a leader in the growth and diversification of the financial services sector. To keep the Bank in its position as the premier provider of financial services in India with top-notch standards and a sizeable commitment to the globe.

Premier Indian Financial Service Group with aspirational, international-level efficiency, professionalism, and institutional values maintain its status as the nation's innovators in development banking. Maximise shareholder value via high-per-share sustainable profitability. A place where there is a culture of respect and cooperation, a good working environment, and ongoing educational opportunities.

VALUES

- A. Outstanding client
- B. Service profitable
- C. Focus membership
- D. Commitment to the bank fidelity in all interactions
- E. Relationships inventiveness and taking risks team
- F. Sports education and rejuvenation integrity
- G. Policy and system transparency and discipline.

CHAPTER-2

LITERATURE REVIEW

Finance for Projects

The Euro tunnel and Euro Disneyland are only two notable corporate projects that have benefited from the creative and effective funding method known as project finance. Pipelines, refineries, electric-generating facilities, and hydropower projects are just a few examples of large-scale natural resource projects that have historically been financed utilizing a carefully planned financing mix. A market for project financing is growing. Project financing is becoming more and more common as a substitute for traditional methods of funding significant projects like infrastructure across the globe.

Project financing is an excellent way to fund the development and construction of a specific project. The lender uses the assets of the project as collateral for its loan, which means that the overall credit of the project sponsor is not as crucial. This financing method relies more on the projected profits of the project for loan repayment, which is a positive aspect.

This financing strategy is great because the lender is willing to prioritize the cash flows and earnings of the economic unit as the primary source of funds for loan repayment and equity servicing. Additionally, the assets of the economic unit serve as collateral within a specific risk framework, which provides added security.

According to “Yescombe, E. R. (2002)”

Rationale:

The building of power plants, pipelines, transportation networks, mining facilities, industrial facilities, and massive manufacturing facilities are only a few examples of large-scale capital expenditures for which project finance is often employed as a financing strategy. These projects' sponsors often lack the creditworthiness required to get traditional finance or are unwilling to accept the dangers and debt responsibilities that go

along with it. Project financing enables the division of project risks among several parties at prices that are acceptable to all stakeholders.

According to “Yescombe, E. R. (2002)”

Not Coming Back

The typical project finance is made up of a loan that gives the sponsor the ability to construct a project. If project earnings fall short of meeting principal and interest payments, the sponsor is under no obligation to make loan payments since this loan is fully "non-recourse" to the sponsor. It is common practice for a lender to require indirect credit supports from a project's sponsor, its affiliates, and other participants in the form of guarantees, warranties, and other covenants. This is done with the intention of mitigating the risks associated with providing a non-recourse loan.

According to “Tan, W. (2007) Routledge.”

Balancing the Books

Due to the fact that the sponsor has little to no recourse against the loan, it is possible that the sponsor is not required to report any of the project debt on its balance sheet depending on the method through which the project is financed. In addition, having an off-balance-sheet position can make it less difficult for the sponsor to comply with the financial borrowing limits and covenants outlined in the many other indentures and credit agreements to which the sponsor is a party.

According to “Tan, W. (2007) Routledge.”

Increase Tax Benefits

Project financings must to be planned to maximise tax benefits and make sure the sponsor takes full use of any tax advantages available to him or her or transfers them to another party, when allowed, via a partnership, lease, or other vehicle.

According to “Tan, W. (2007) Routledge.”

PROJECT FINANCING PROCESS

Potential Analysis

The hiring of a technical consultant is one of the first steps in the process of project financing. This expert will then provide a feasibility study to demonstrate that the project can be successfully financed. Before deciding whether or not to grant funding for a project, a potential lender would often engage the services of its own team of impartial analysts to conduct an impartial feasibility assessment.

According to “Morris, P. W., & Morris, P. W”

Lawful Format

Project sponsors use a wide range of legal systems to protect their rights to the project. The structure chosen for a given project will depend on a number of things, such as the amount of equity needed for the project, concerns about management, the availability of tax benefits related to the project, and the need to distribute tax benefits to investors in a certain way.

The three fundamental types of project ownership are as follows:

1. Companies

The simplest project ownership structure is shown here. It is possible for a special purpose company to be founded in compliance with the laws of the jurisdiction where the project is situated or with the laws of another jurisdiction and yet be permitted to operate in the jurisdiction where the project is located.

2. Limited Partnership

A general partnership might be formed by the investors. A partnership is treated as a separate legal entity in most countries, allowing it to own, manage, and negotiate finance arrangements for a project under its own name. Partners utilise their share of the partnership's revenue, gain, loss, deductions, and credits to determine their personal tax

liability, despite the fact that the partnership itself is required to file tax returns for record-keeping reasons. There is no special tax treatment for partnerships. This is why partnerships are often employed when there are substantial tax advantages to be gained from a project. Due to the joint and multiple liability of general partners for all partnership obligations, sponsors will often create wholly-owned, special-purpose subsidiaries to serve as general partners in partnerships.

3. Limited Liability Company

When it comes to ownership and control, limited partners in a partnership have less rights and responsibilities than those of general partners, but limited partners are only responsible for their share of the partnership's obligations and liabilities. If the project's backers lack the necessary funds and the endeavour requires substantial outside ownership, a limited partnership might be an effective means of funding the endeavour.

According to “Yescombe, E. R. (2002)”

REASONS FOR PROJECT FAILURE

The quickest way to understand a project's lenders' concerns is to

Review and consider some of the usual causes of project failure, such as the following:

- A delay in the project's completion, which would raise the cost of the construction finance component's interest rate and postpone the projected income flow; an increase in capital costs;
- The financial collapse of a contractor;
- Governmental involvement;
- A rise in the cost of raw commodities or their scarcity;
- The technological obsolescence of a facility; a deterioration in the plant's capacity.

According to “Tan, W. (2007) Routledge.”

CONTRACT RISKS

Project finance is the process of taking out a loan to fund a particular project, such as a mine, toll road, railroad, pipeline, power plant, ship, hospital or jail, then repaying it with the money generated by the project. Project finance is distinct from other forms of financing since the lender largely depends on the project's assets and profits to secure and repay the loan. In contrast to a traditional borrowing scenario, a project financing scenario often results in the financier having little to no access to the borrower's or the project's sponsors' non-project assets. In contrast to a traditional loan transaction, the borrower's credit risk is less relevant in this situation; instead, it is important to identify, assess, distribute, and manage each risk related to the project.

The details that follow show how financiers manage risk in a project financing transaction. This decrease in risk is the foundation of project finance.

When a project is funded with no recourse or limited remedies, the risks for the lender are enormous. The funders stand to lose a significant chunk of money if a substantial component of the project fails since the loan may only be repaid after the enterprise is up and functioning. The resources that are still available are typically highly specialist and may be spread out. They may not have much value outside of the project, even if they are sellable. Therefore, it is not surprising that financiers and their advisers take enormous steps to ensure that the project's risks are either fully avoided or at least greatly reduced. As a consequence, it is not surprising that the risks involved with this kind of financing often lead to higher prices and longer turnaround times.

According to “Morris, P. W., & Morris, P. W”

PROCESS FOR MINIMISING RISK

Financiers place a high priority on reducing the risk of any events that might adversely impact the project's financial performance, particularly those that might:

- 1) Failure to complete the project on time, on budget, or at all;
- 2) The project's performance falls short of its promise;
- 3) The project's failure to generate enough revenue to settle the debt; or
- 4) The project's early completion.

According to “Morris, P. W., & Morris, P. W”

The reduction of these risks involves three phases.

- 1) The initial step of the project must include the identification and analysis of all possible dangers.
- 2) The next step is to divide these risks among the parties.

Phase three involves the creation of risk management protocols.

The risk to the financiers must be taken into account when calculating the interest rate margin for the loan if it cannot be eliminated.

According to “Morris, P. W., & Morris, P. W”

Assessing and recognizing risks is step one.

A feasibility study is often compiled by the project's backers before a mine or pipeline is built and put into operation. The report will be reviewed thoroughly by the financiers, and other specialists may be consulted as needed. Particular focus will be paid to the concerns of whether or not the project's expenses have been accurately estimated and whether or not the project's cash flow streams have been accurately valued. Using financial modelling, we assess a number of risks to the project's cash flow and, by extension, its ability to meet payback targets and schedules. Inflation, interest rates, currency exchange rates, and the prices of project inputs and outputs will all be changed to test various

theories. In what follows, we'll talk about the many forms of risk that might arise throughout the financing of a project.

According to “Yescombe, E. R. (2002)”

Allocating Risks

After identifying and analyzing the risks, the parties discuss the contract's structure to decide how they will be divided. The party most qualified to carry a risk in terms of managing, controlling, and insuring against it should ideally be the one that has the financial capacity to do so. It has been observed that bankers want to spread out uncontrollable risks so that everyone has a stake in reducing them. In general, efforts are made to move political and financial risks from the public to the private sectors.

According to “Yescombe, E. R. (2002)”

Risk management

Risk management is essential to both lowering the possibility of a risk event occurring and minimizing its impact should it do so. Financiers are more knowledgeable and have greater control over the project the more risks they take on. They must be prepared to take over if the borrower defaults since they accept ownership of the whole project as collateral. This requires that the donors closely monitor the initiative and become involved. This risk management is made possible by the enforcement of reporting obligations on the borrower and controls over project accounting. The borrower's requirement for flexibility and the financier's need for risk management tools may clash as a result of these measures.

According to “Yescombe, E. R. (2002)”

Various Risks

In essence, there are different risks associated with different project kinds. The risks indicated below apply to this particular project as well.

According to “Yescombe, E. R. (2002)”

Threat of Finish:

The distribution of completion risk must be considered while allocating risks to each project. This phase presents the highest danger to the financier. Due to labour, technical, and other construction obstacles, there is a danger that the project won't be done on time, within budget, or at all. As a consequence of such delays or cost increases, which may increase interest and debt, loan repayments may be postponed. They may also jeopardise contracts for the sale of the project's finished product and raw material suppliers.

Common methods for lowering completion risk before to funding include:

- (a) Obtaining completion guarantees that obligate the sponsors to cover all costs and liquidated damages in the event that completion is delayed over the deadline;
- (b) Demanding sponsors to provide stock to the project to ensure they have a large financial interest in its success;
- (c) Demanding that the project be built by recognized and financially stable contract developers under fixed-price, fixed-time turnkey contracts;
- (d) Obtaining evaluations of the project's planning and execution from unbiased experts. During the life of the loan, completion risk is managed using strategies such making pre-complete phase drawdowns of extra funds conditional on certifications being issued by independent experts to confirm that the construction is progressing as anticipated.

According to “Yescombe, E. R. (2002)”

Operational Risk

These are big risks that might make the project less cash flow-positive by increasing operational costs or limiting its capacity to keep generating the quantity and calibre of expected output throughout the project. Operational risks might, for example, be related to the level of experience and resources of the operator, operational inefficiencies, or a shortage of qualified labor. Demanding that the project be operated by a respected and

financially stable operator, whose performance is covered by performance bonds, is the traditional strategy for lowering operational risks prior to lending. Operational risks are managed throughout the loan term by requiring comprehensive reporting on project operations and managing cash flows by requiring that product sale proceeds be deposited into a strictly regulated proceeds account to ensure that money is only used for approved operating expenditures.

According to “Yescombe, E. R. (2002)”

Market Risk

It should go without saying that only if the production can be transformed into cash can the loan be repaid. Market risk refers to the potential for there to be no market for the products at a price that will generate enough cash flow to pay back the loan. The best strategy to lower market risk before financing takes place is to get into a fair advance sales agreement with a dependable buyer.

These are the risks associated with the real borrowers or the sponsors. Whether they have enough money to efficiently handle the project's development, operation, and any possible problems is the question. Credit risk is obviously essential for the sponsors' completion promises. In order to lower these risks (e.g. so that they may inject money into a failing project to preserve it), the funders must be convinced that the project partners have the necessary human resources, have experience with comparable efforts, and are financially stable.

According to “Yescombe, E. R. (2002)”

Technical Risk

This risk relates to technical problems, including hidden faults that might occur during the setup and usage of the project's machinery and equipment. By favouring tried-and-true technologies over innovative, untested ones, financiers often lower this risk. Getting professional advice on the intended technology before funding also lowers technical risk. Technical risks are reduced during the loan term by necessitating the creation of a

maintenance retention account that will receive a portion of cash flows to pay for future maintenance expenditures.

According to “Yescombe, E. R. (2002)”

Risk related to regulations or approval:

These risks include the potential for excessive taxes, royalties, or stringent local supply or distribution requirements to be imposed on the project, as well as the possibility that the government licenses and approvals required to construct or run the project will not be granted (or will only be granted with onerous conditions). Such risks may be reduced by obtaining legal opinions confirming compliance with relevant laws and making sure that any necessary permissions are a condition prior to the withdrawal of funds.

According to “Yescombe, E. R. (2002)”

CHAPTER-3

RESEARCH METHODOLOGY

Purpose of the Study

The formation of a legally distinct project business that is supported by non- or limited recourse loans distinguishes the project finance financing structure, which is used to finance projects. It is clear that project finance is growing in popularity in recent years, notwithstanding the consequences of the Asian financial crisis. Project finance is a common practice for projects involving public-private partnerships, especially in developing nations.

Project finance could benefit project management in ways that other forms of funding do not. The purpose of this research is to examine the processes by which various components have an impact on project risk management as well as how project funding influences those processes.

MAIN OBJECTIVE

- Project financial assessment

Associated Goals

1. To be aware of the SBI-financed projects.
2. To be aware of SBI's project financing rules.
3. To be aware of the risks associated with project finance.
4. To evaluate the initiatives using financial instruments.
5. To be aware of the actions the bank takes when customers refuse to pay back the money.

Data Collection and Instrument used:

Data Collection: Secondary data, specifically, will be mostly used to construct the report. Secondary research is a research method that takes use of previously gathered data. Existing data is gathered and compiled to increase the research's overall effectiveness.

The methods that might be applied to the study are:

1. Conversations with consumers and the bank's advisor.
2. By looking at project reports.
3. Making Use of Project Techniques:
 - Calculation of IRR
 - NPV
 - PI
 - Ratio analysis

CHAPTER-4

DATA ANALYSIS

Illustration:

Project Cost	Rs 221.41 lakhs
Employment potential	30 employees
Debt Service coverage ratio	2.08
Date of the incorporation:	12 th Feb 2023

Cost of the Project:

Cost of the project	Amount(Lakhs)
Building	25
land	22
Machinery	83.38
Electrification	6.5
Electricity Deposit	5
Preliminary Expenses	
Technical know how	5.00
Personnel training	2.00
Patterns	5.00
Net Working Capital	67.53
Total	221.41

Table 1

Types of Finances used:

Means of finances	Amount in Lakhs
Term loan	102.5
Working Capital loan	50
Own Contribution	51.38
Margin Money for working Capital	17.53
Total	221.41

Table 2

Analyzing finances

Financial analysis, which considers a project's financial aspects, particularly its source of funding, is a key component of financial evaluation. The project's ability to run smoothly throughout the course of its whole life cycle is determined by financial analysis.

Capital structure and liquidity analysis are the two main facets of financial analysis. Ratios are used for this purpose to show the project's current strengths and weaknesses.

1) Liquidity ratios. Liquidity ratios, also known as solvency ratios, assess a project's capacity to pay short-term or current commitments when they become due. The need for a firm's very existence is liquidity. For effective financial management, profitability and liquidity must be properly balanced. It displays the company's short-term financial stability or solvency. The current ratio and quick ratio are two ratios that are computed to assess liquidity.

Current ratio: “The ratio of total current assets to total current liabilities is known as the current ratio”. It's calculated using,

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Particulars	2018	2019	2020	2021	2022
Current assets	91.47	101.7	112.8	129	145.3
Current liabilities	144.3	127.7	121.6	96.1	80.09
Current ratio	0.634	0.767	0.927	1.34	1.813

Table 3 Current Ratio

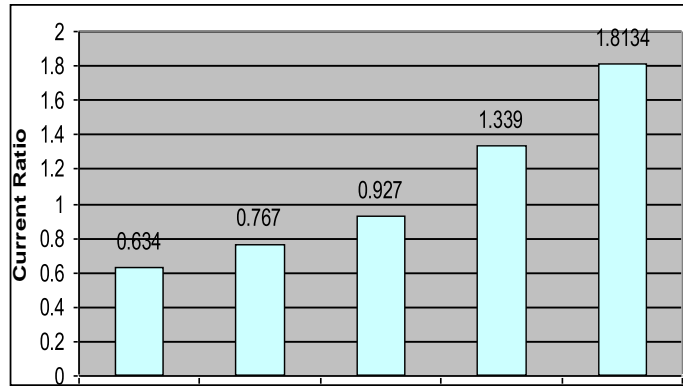


Figure 2 Bar Graph of Current Ratio

The amount of assets that are anticipated to be turned into cash during the course of the claims' maturities is measured, and it is used to calculate the amount that must be paid to short-term creditors. A 2:1 current ratio is optimal. We may infer from the aforementioned chart that the corporation can still meet its current obligations despite having a less than perfect current ratio. The company's rising current ratio demonstrates that it can meet its short-term obligations. The company is still able to sustain liquidity even after paying off all present liabilities.

Acid test or quick ratio: “This liquidity indicator is created by dividing current liabilities by current assets, less inventories and prepayments. The fast ratio removes inventories from current assets since they are not entirely liquid (i.e., they cannot be swiftly turned into cash). Only assets that can easily be turned into cash are included in the fast ratio, making it a more accurate measure of liquidity. It is sometimes referred to as the "quick ratio" since it evaluates how fast a company can turn its assets into cash to pay its current obligations”.

Particulars	2018	2019	2020	2021	2022
Quick assets	60.47	67.65	75.28	87.47	99.9
Current liabilities	144.3	127.66	121.6	96.05	80.09
Quick ratio	0.534	0.53	0.62	0.911	1.247

Table 4 Quick Ratio

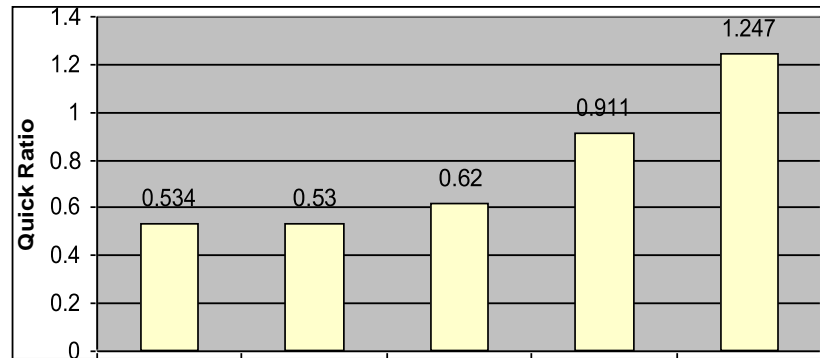


Figure 3 Bar Graph of Quick Ratio

Interpretation: The rigorous indication of a company's ability to pay short-term creditors is the acid test ratio. Because it is often considered as the best test presently available to evaluate a firm's liquidity status, the ratio has value. With an acid test ratio of 1:1, which is often thought to be adequate, a corporation may easily meet all of its current claims. The quick ratio for the aforementioned business is increasing year over year. As a result, it shows that the business can satisfy its pressing short-term needs.

2) Capital structure ratio: Long-term lenders and creditors assess a company's soundness based on its long-term financial health, which is determined by its capacity to make timely principal and interest payments as well as one lump sum payment at maturity. Leverage and capital structure ratios may be used to analyse a company's long-term solvency. Leverage or capital structure ratios are financial ratios that can be used to determine a company's long-term viability by examining its capacity to guarantee long-term lenders with regard to (i) “periodic interest payments throughout the loan's term” and (ii) “repayment of the principal at maturity or in predetermined installments on the due dates”.

a) The debt-to-equity ratio (D/E) compares the amount of long-term or overall debt to shareholders' equity. This percentage represents claims made against the company's assets by shareholders and creditors. Calculating the Debt Equity Ratio involves:

$$\text{Debt to Equity} = \frac{\text{Long term Borrowings}}{\text{Share holder equity}}$$

Particulars	2018	2019	2020	2021	2022
Debt	82	61.5	41	20.1	0
Equity	56.4	54.1	56.9	68.9	84.5
Debt equity ratio	1.45	1.14	0.72	0.29	0

Table 5 Debt-Equity Ratio

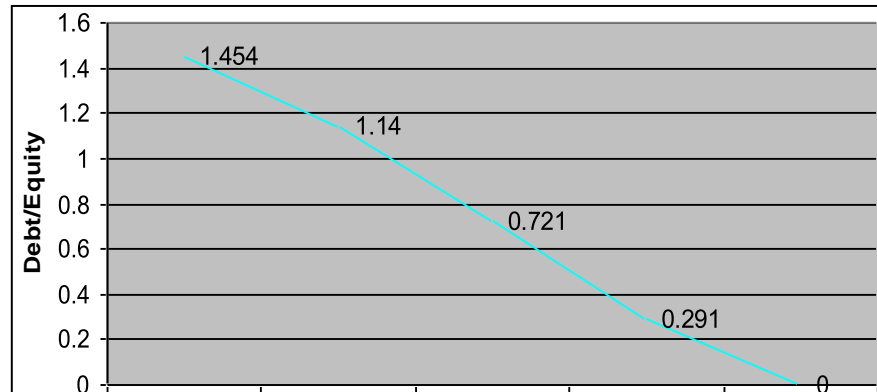


Figure 4 Line Chart of Debt/Equity

Interpretation: When doing financial analysis, determining the firm's financial structure requires the use of a key tool called the debt equity ratio. The ratio demonstrates the equal contributions of creditors and owners to the company's finance. A high ratio shows that a significant share of the money was given by the firm's creditors, whilst a low proportion shows that the creditors have a lesser claim. The margin of safety for creditors is shown by the debt to equity ratio. The debt-to-equity ratio is favourable and will reach zero in 2022, showing that owners are investing a disproportionately higher share of their own money.

1) Sales-related profitability ratios- Based on these criteria, a firm is doing well if it is able to make a profit of at least 1 rupee for every dollar of sales. It will be difficult to pay operating expenses and deliver a profit to the owners if sales are insufficient.

a. Net margin, also known as net profit margin. This gauges the association between a company's net income and sales. Depending on the definition of net profit used, the following formula may be used to calculate this ratio:

$$\text{Net Profit Margin} = \frac{\text{Earnings after tax}}{\text{Net sales}}$$

Particulars	2018	2019	2020	2021	2022
Earnings after tax	10.68	17.82	27.05	35.56	43.75
Net sales	265.49	292.04	321.24	353.36	388.7
Net profit margin	4.02%	6.10%	8.42%	10.06%	11.25%

Table 6 Net Profit Margin

Interpretation: The net profit margin measures the ability of management to run the company successfully enough to pay period revenues, service costs, operating costs, the cost of borrowed money, as well as to leave space for a fair reward for the capital-risking owners. With a large profit margin, the owners would get a solid return and the business would be able to weather tough economic times. The converse happens when there is a low net profit margin. The fact that the net profit margin of the aforementioned business is rising indicates that both product demand and the business's financial status are improving.

3) Investment-related profitability ratios: return on investments, and Return on investments (ROI) gauges how well management uses its resources to generate profits overall. In financial literature, there are three main conceptions for investments: assets, capital utilised, and shareholder's equity. There are three major types of ROIs based on each of them. They are

- “Return on Assets”
- “Return on Total Capital Employed”.

a. Return on Assets the link between net earnings and assets is used to calculate the profitability ratio. The profit-to-asset ratio is another name for the ROA. The calculation is as follows:

$$ROA = \frac{\text{Profit After Tax}}{\text{Average Total Assets}}$$

Particulars	2018	2019	2020	2021	2022
Earnings after tax	10.68	17.82	27.05	35.56	43.75
Average total assets	208.4	199.5	195.9	200.54	208.34
ROA	5.13%	8.93%	13.81%	17.73%	20.99%

Table 7 Return on Assets

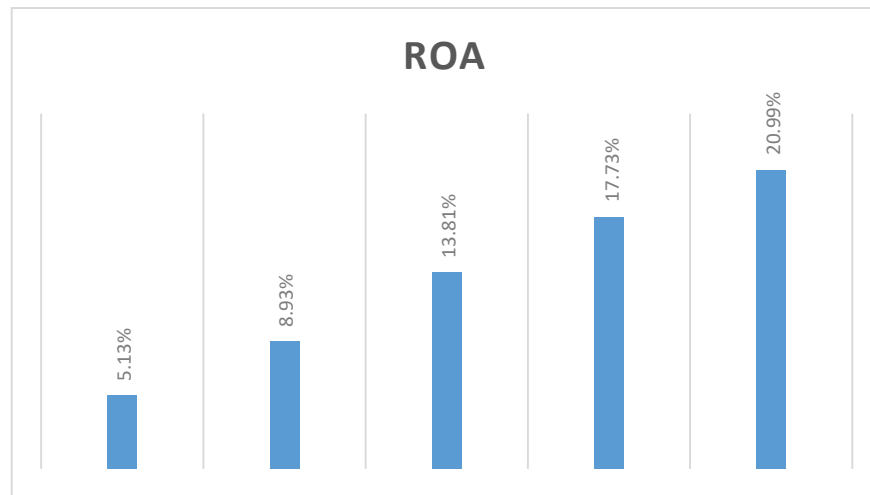


Figure 5 Bar Graph of ROA

Interpretation- The return on invested assets is favorable. This indicates that the company is able to use its resources effectively.

- a. Return on Capital Employed-** With one exception, it resembles ROI. Profits in this case are correlated with total capital utilised. Long-term finances provided by the firm's owners and lenders are referred to as capital utilised. According to the formula:

$$\text{ROCE} = \frac{\text{EBIT}}{\text{Average Capital Employed}}$$

Particulars	2018	2019	2020	2021	2022
EBIT	34.82	42.24	52.66	62.04	70.99
Total capital employed	203.39	199.54	195.9	200.54	208.34
ROCE	17.20%	21.16%	28.92%	30.90%	34.07%

Table 8 Return on Capital Employed

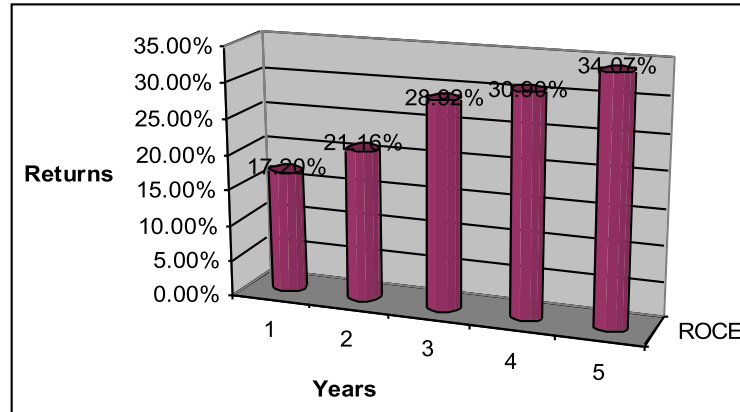


Figure 6 3D Bar Graph of ROCE

Interpretation: - A test of profitability in relation to the source of long-term funding is provided by the capital utilized basis. The greater the ratio increases, the more effectively capital is used. The ROCE is fairly high, as shown in the table above. Compared to the ratio from prior years. That benefits the business.

CAPITAL INVESTMENT EVALUATION METHODS:

The choice of a project must be based on a good "financial assessment" and not on "impressions," since the successful completion of a project largely relies on the selection criteria employed when picking the project in the first stages itself. Discounted Cash Flow (DCF) approaches are one of the many criteria available for the financial evaluation of projects and are used extensively in both the public and commercial sectors. Internal Rate of Returns (IRR), the most widely utilised DCF approach in the nation, is often the fundamental criteria employed in project assessment. It is necessary to explore for alternate project assessment criteria since, in the majority of projects, the actual returns are significantly different from the predicted returns based on IRR. As a result, an effort is made to assess different alternative project evaluation approaches that are accessible to meet the demands of compelling circumstances. DCF approaches are highlighted because they have been shown to be the best project assessment procedures globally.

1) **Pay Back Period (PBP) Method:** first a project with a minimal PBP is acceptable in this paradigm. Payback period is the shortest amount of time necessary to recoup the original investment. This is a very helpful tool to quickly determine if a local manager should make a little investment and also helps to lower the risk of making poor decisions. However, the fundamental economic concepts used in the PBP approach are not as trustworthy as those used in other methods like NPV etc. The PWP method's biggest flaw is that it is insensitive to timing changes inside the payback period and disregards cash flows outside of the PBP. Additionally, this approach lacks a "natural" benchmark by which to evaluate other initiatives. The aforesaid shortcomings are not resolved by the discounted PBP approach, which provides a more precise time to recover the original cost. However, this is a really effective technique to combine with.

$$\text{Pay Back Period} = \frac{\text{Total Cash Outflow}}{\text{Annual Cash Inflow}}$$

Year	Cash Flows (in lakhs)	Cumulative cash flows
1	35.66	35.66
2	36.92	72.58
3	41.72	114.3
4	46.86	161.16
5	52.5	213.66

Table 9 Pay Back Period

The recovery of the investment is in the 3rd year and 0.64 month.

Interpretation: Rather of measuring investment return, the payback time does so. Since the overall cost of the period is less than the completion term, the project may be allowed. It suggests that the company will be able to pay its obligations out of earnings. As a result, it may be said that the project is feasible.

2) **Average Rate of Return.** The accounting rate of return technique is another name for the average rate of return (ARR) approach of assessing planned capital expenditures. It also goes by the name Return on Investment since it gauges an investment's profitability

using the data provided by financial statements. The average after-tax profit divided by the typical investment yields the accounting rate of return.

3) Net Present Value: To determine the present value of a project's cash flows, one uses the required rate of return to cover the cost of capital as a discount rate. The result is the net present value of the undertaking. "If a project's capital cost is less than or equal to the net present value of its cash flows throughout its expected lifetime, then it is economically viable". When choosing between several projects that are mutually incompatible and there are no financial restrictions, this strategy is quite helpful. The biggest rewards will come from choosing the projects with the largest positive NPV. However, this technique just serves to assess a project's acceptability; it does not suggest which project would be the best given the available funds. Since the 'scale' of investment is not taken into consideration when calculating NPV, it is difficult to rate several suitable projects

Year	Cash Flows(lakhs)	PV factor @10%	Total present value
1	35.66	0.909	32.414
2	36.92	0.826	30.495
3	41.72	0.751	31.29
4	46.86	0.683	32.005
5	52.5	0.621	32.603
Total PV		-	158.807
Less- Initial outlay			152.5
Net Present Value	-	-	6.307

Table 10 NPV

Interpretation:

An investment proposal should be approved if its net present value is positive (NPV > 0), and rejected if it is negative (NPV 0), according to the NPV method's acceptance criteria. Positive NPVs increase shareholders' net wealth, which should increase the value of a company's shares. The net present value won't be positive until the project produces cash

inflows faster than the opportunity cost of capital . Since the project's Net Present Value is positive, the proposal may be authorized.

4) Profitability Index: One of the many names for the profitability index is the benefit-cost ratio. It's a lot like the net present value approach. The net present value (NPV) is calculated by subtracting the cash outflows from the cash inflows, whereas the profitability index technique calculates the NPV of the returns per rupee invested . To define it, we may look at the ratio between cash inflows and cash outflows at the present moment. Using the following equation:

$$\textit{Profitability Index} = \frac{\textit{Present Value of Cash Inflow}}{\textit{Present Value of Cash Outflow}}$$

$$\textit{Profitability Index} = 1.041$$

5) Internal Rate of Return: This is the return rate at which a project's Net Present Value (NPV) equals zero. If the IRR surpasses the cost of capital, a project is considered acceptable. With the IRR approach, it is feasible to rank a number of related projects and choose the one with the greatest IRR. When choosing between projects that are mutually incompatible, this strategy is useless. This approach presupposes that a project's net cash flows would initially be negative before becoming positive for the remainder of its life, and vice versa. However, this need isn't always met, leading to different IRRs for the same project. The selection of projects becomes challenging due to confusing findings. Additionally, choosing a project only on the basis of its greatest IRR without taking project-specific risk variables into account may often be deceptive.

Year	Cash flows	Weights	Weighted average CF's
1	35.66	5	178.3
2	36.92	4	147.68
3	41.72	3	125.16
4	46.86	2	93.72
5	52.5	1	52.5
Total		15	597.36
Weighted average Cost =			39.824

Table 11 Weighted Average Cost

$$\text{Pay Back Period} = \frac{\text{Initial Investment}}{\text{Weighted average cost}}$$

Payback period = 3.8 Years

Year	CashFlows(lakh s)	PV factor @10%	Present value	PV factor @ 12%	Present value
1	35.66	0.909	32.414	0.893	31.84
2	36.92	0.826	30.495	0.797	29.43
3	41.72	0.751	31.29	0.712	29.7
4	46.86	0.683	32.005	0.636	29.8
5	52.5	0.621	32.603	0.567	29.76
Total PV		-	158.807		150.53
Less- Initial outlay			152.5		152.53
Net Present Value	-	-	6.307		-1.97
IRR	11.52398212				

Table 12 Internal Rate of Return

SBI's actions when a repayment is not feasible

- 1) They initially send out a notice to the clients requesting that they settle their obligations.
- 2) If there are no changes in the customers' repayments even after the notification has been given, the bank will send them a legal notice ordering them to make payments.
- 3) A compromise agreement is the third alternative. In this scenario, all parties debate their choices and decide on the next step, such as whether the clients should make the payments, whether to file a lawsuit, whether to sell the assets, etc.

Analysis:

- This analysis focuses on the project's potential profitability.
- Using ratio analysis, I was able to determine the company's strong liquidity position and its continued maintenance of the standard ratio.
- The debt-to-equity ratio has been decreasing over the last several years as a result of the company's responsible management of its borrowings.
- Increases in both sales and capital utilisation profit ratios are indicative of improving resource efficiency.
- The company's capacity to make timely loan repayments over the project's debt life is shown by the debt service coverage ratio, which is also rising.
- The time frame for repayment is the same as the debt life of the project.
- Until the project generates cash inflows at a quicker rate than the opportunity cost of capital, the net present value will remain negative. The application may be approved since the Net Present Value of the project is positive.
- Since the project's IRR is greater than the threshold, it may proceed.

CHAPTER-5

RECOMMENDATIONS AND CONCLUSION

FINDINGS:

The State Bank of India is rigorously adhering to the RBI's Project Finance Sanctioning Regulations for the projects that have been approved by RASMECC (Retail Assets Small and Medium Enterprises Credit Cell).

- The bank solely uses term loans to finance the projects. The State Bank Advance Rate is the interest rate that is established based on the projects.
- Three months after the loan's due date, if the clients don't pay the interest, the term loan will be considered a non-performing asset.
- If the interest is overdue by three more months, it will be considered a questionable asset, and the interest rate will be zero.
- Once more, for another three months, it is treated as a lost asset, and the bank writes off the account. Any company beginning a new project should have an insurance coverage with the same bank.

LIMITATIONS:

In a world where there is a clearly defined reward for a clearly defined investment, the idea of "financial appraisal" works perfectly fine. But things are rarely so straightforward in reality. Where: Using a quantitative and traditional method might be very troublesome.

- There is no assurance of profit.
- The advantage is gained through manpower cost reduction.
- It will be difficult to demonstrate a monetary return on a project that is deemed to be strategic in nature, such as installing a new computer system that would speed up information flow and result in a more connected organization.
- The company belongs to the non-profit sector, such as the government or a charity.

RECOMMENDATIONS:

Due to their importance from the viewpoints of risk and economic development, sensitivity analysis and social cost-benefit evaluations of projects should be taken into consideration by banks. Banks now only consider a project's feasibility from a financial, technical, and commercial standpoint. The bank should exercise caution on the availability of security and examine the sincerity of both the borrower and the guarantor in order to avoid the account from becoming a loss asset.

There are a number of crucial aspects that should be taken into account when evaluating a project for bank funding in order to make sure that it is feasible and has the potential to succeed. Here are some suggestions for bank-financed project appraisal:

1. Carry out a comprehensive feasibility study: To ascertain if the project is economically feasible and whether it can be finished within the allotted budget and timeline, a feasibility study should be carried out. An examination of the project's market demand, technical viability, financial viability, and legal viability should all be included in the research.
2. Create a thorough business plan: A thorough business plan including the project's goals, tactics, and budget has to be created. The project, its target market, marketing and sales plans, operational expenses, and revenue estimates should all be fully described in the business plan.
3. Evaluate the project's risks: The project's risks, including market risks, operational risks, financial risks, and regulatory risks, should be identified and evaluated. The evaluation should also take into account any prospective effects of outside circumstances, such as regulatory changes and economic downturns.
4. Assess the project team: The project team should be assessed to make sure they have the knowledge and expertise needed to finish the project effectively. Checking references and evaluating the team's past performance are recommended.

5. worth the project to establish its fair market worth. The project should be valued to ascertain its fair market value. This will assist in determining the project's necessary amount of finance.

6. Examine the project's adherence to legal and regulatory standards: The project's adherence to legal and regulatory requirements should be examined. This might include zoning, environmental, and health and safety standards.

7. Perform a sensitivity analysis: To ascertain how modifications in important factors like sales, expenses, and interest rates may impact the project's financial performance, a sensitivity analysis should be carried out.

To guarantee that the project is feasible and has the potential to succeed, a comprehensive project evaluation that takes into account all of these elements is necessary.

CONCLUSION:

In relation to the State Bank of India, the project that was performed has greatly aided in understanding the notion of project financing in nationalized banks. An essential factor that contributes to the banks' ability to make more money is the project financing.

When a bank wants to fund a project, it may be very challenging to apply every component to every sort of project. It can also be very challenging to cover every part of this project.

In conclusion, it wouldn't be out of place to say that the State Bank of India has given "Project Financing" a special push. The State Bank of India has made significant progress in practically all key areas thanks to the coordinated efforts of its management and workforce.

Lastly, a thorough examination of the projects prior to funding will be crucial to the success of project finance.

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