



PROJECT FINANCING



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OBJECTIVE

To understand what project financing is and what steps are involved in securing and managing it.

FOR WHOM IS IT IMPORTANT TO UNDERSTAND PROJECT FINANCE?

- ❖ Financial managers
- ❖ Bankers
- ❖ Lenders
- ❖ Consultants and practitioners
- ❖ Project managers
- ❖ Builders
- ❖ Suppliers
- ❖ Engineers.
- ❖ Researchers
- ❖ Students.

PRESENT SCENARIO – WHY PROJECT FINANCE?

- ❖ In today's era, businesses are emerging/growing like anything. In any business, in any of the sectors, the factor which plays key role is none other than **Finance** I.e. Source of finance. Many questions are associated with it : how to get it? What is a right time to get it?, and last but not the least from where to get it?
- ❖ Situation of today is like there are many entrepreneurs who wish to start up their own projects/business but sometime they do not have their own funds or they have insufficient funds and with that they can't start of

their own business/project, its agreed that they have knowledge regarding the business/projects, they are going to enter, but what about finance?
Who will lend them? On what basis they will get the assistance ?

- ❖ Answer of all the above questions can be: finance will be provided by Banks/Financial Institutions/Private equity source. On the basis of the future viabilities and technical feasibility of the business/projects they will get finance/fund.
- ❖ But still questions are there like : Who will analyse the business/projects to check whether it is technically feasible or not?, Who will do the formality regarding due diligence?, Who will assure promoters to get finance from Bank/Financial Institutions?, Who will prepare all the relevant documentations/relevant financials?

WHOM TO APPROACH FOR PROJECT FINANCING

- ❖ The above problems can be easily solved by professionals who have sound financial knowledge of finance and financial statements and having good tie up with the banks/Financial institutions and one of these professionals are **Chartered Accountants**, who are also treated as total financial solution providers who will assist to the clients about all the procedural aspects regarding how to get assistance from bank/financial institutions?, how to approach lenders?, and most important what documentations/information required for approaching to the lenders.

WHAT IS A PROJECT ?

- ❖ A specific result that a person or system aims to achieve within a time frame and with available resources. Project means a Specific task or activity undertaken by business enterprises, it also means to forecast the future viabilities of the business in best possible way

ADVANTAGES OF PROJECT FINANCING

- ❖ Timely availability of finance
- ❖ Proper balance of debt & Equity investments in the business
- ❖ Tax benefits
- ❖ Successful implementation of the project on deadline
- ❖ Sharing of risk
- ❖ Subsidy benefits
- ❖ Easy Expansion/Diversification of the business
- ❖ Smooth business operations

STAGES IN PROJECT FINANCING

- ❖ Project identification
- ❖ Risk identification & minimizing
- ❖ Technical and financial feasibility

Pre Financing
Stage

- ❖ Pre Visit by Bankers
- ❖ Negotiation
- ❖ Commitments and documentation
- ❖ Disbursement.

Financing
Stage

- ❖ Monitoring and review
- ❖ Financial Closure / Project Closure
- ❖ Repayments & Subsequent monitoring.

Post
Financing
Stage

TYPES OF FINANCIAL ASSISTANCE

❖ TERM LOAN:

It is Assistance provided by bank/ Financial Institution for any of the following purpose to be repayable in scheduled period (normally 5-7 Years) as decided between bank and enterprise while taking up the assistance. It is mainly provided for the purposes like *Purchase of Plant & Machineries, Construction of Factory Building/Shed, Diversification/Expansion of Business.*

❖ CASH CREDIT FACILITY/ OVER DRAFT FACILITY:

It is provided by the banks to cope up with the day to day working capital requirement or for meeting out the day to day expenses.

GOVERNMENT SUBSIDY ASSISTANCE

- ❖ To start up the business for the first time by borrowing the funds from external source involves risk element. So to encourage the enterprises/industrialists Governments are providing subsidy benefits to those industrialists who commence/expand their business by borrowing funds from Banks/Financial Institutions.
- ❖ Various grants/Subsidies/Benefits are provided now a days by State/Central Government.

SUBSIDY FROM CENTRAL GOVERNMENT

- ❖ Central Governments provides many subsidies but here focus is on the subsidy which is being provided to the SME units.
- ❖ NAME OF SCHEME:
Credit Linked Capital Subsidy Scheme – (CLCSS) for Technology Up gradation.
- ❖ This scheme is govern by CLCSS Guidelines which comprises lists of machineries as prescribed by the Ministry of Micro, Small and Medium Enterprises

So if the fund is borrowed to purchase the machineries which are covered within the guidelines so prescribed, then the SME Units shall be eligible for the subsidy.

❖ **ELEGIBLE BENEFICIARIES:**

- Sole Proprietorship
- Partnership firm
- Co-Operative Societies
- Private & Public Ltd Cos. in the ***SSI Sector***
(Priority shall be given to Women entrepreneurs)

TYPE OF UNITS TO BE COVERED UNDER SCHEME:

- ❖ Existing SSI units registered with the State Directorate of Industries, which upgrade their existing plant and machinery with the state of the art technology, with or without expansion.
 - ❖ New SSI units which are registered with the State Directorate of Industries and which have set up their facilities only with the appropriate eligible and proven technology duly approved by the GTAB/TSC
- (SSI – Small Scale Industry)*

QUANTUM OF SUBSIDY:

❖ 15% of Investments in the Eligible Plant & machinery

OR


❖ Rs. 15 Lacs


WHICH EVER IS LOWER

GUJARAT – A GROWING INDUSTRIAL HUB

- ❖ Gujarat is a state which is recognized for its vibrancy and entrepreneurial spirit. The state has a new set of objectives to meet the fast paced globalization drive that is captivating most successful economies today. Entrepreneurs in Gujarat rise above domestic competition with other states to compete in today's globalized economy. Inferring from present scenario where our economy has begun to rebound, Gujarat assumes a pivotal role in the fast changing business dynamics of India.

- ❖ Today, almost all the districts of the state have witnessed industrial development in varying degree. Such a massive scale of industrial development has been possible on account of judicious exploitation of natural resources, such as minerals, oil and gas, marine, agriculture and animal wealth.
- ❖ The discovery of oil and gas in Gujarat in the decade of 60s has played an important role in setting up of petroleum refineries, fertilizer plants and petrochemical complexes. During the same period, the state government has also established a strong institutional network.

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- ❖ Gujarat Industrial Development Corporation (GIDC), established industrial estates providing developed plots and ready built-up sheds to industries all across the state.
 - ❖ Institutions were also set up to provide term finance, assistance for purchase of raw materials, plant and equipment and marketing of products.
 - ❖ Later, District Industries Centers (DICs) were set up in all the districts to provide assistance in setting up industrial units in the form of support services.

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- ❖ The state also developed infrastructure facilities required for industries, such as power, roads, ports, water supply and technical education institutions.
 - ❖ The Government also introduced incentive schemes, from time to time, to promote industries mainly in the under-developed areas of the state to correct regional imbalances.

SUBSIDY BENEFITS FROM GUJARAT GOVERNMENT

❖ Many subsidy/benefits/assistance is provided by the Gujarat government under the new industrial policies issued by the Gujarat government.

❑ ONE OF THE COMMON/GENERAL SUBSIDY IS DISCUSSED AS UNDER :

Name Of The Scheme:

Capital Subsidy and Credit linked Interest Subsidy to Micro, Small and Medium Enterprises.
(CAPITAL & INTEREST SUBSIDY (2015))