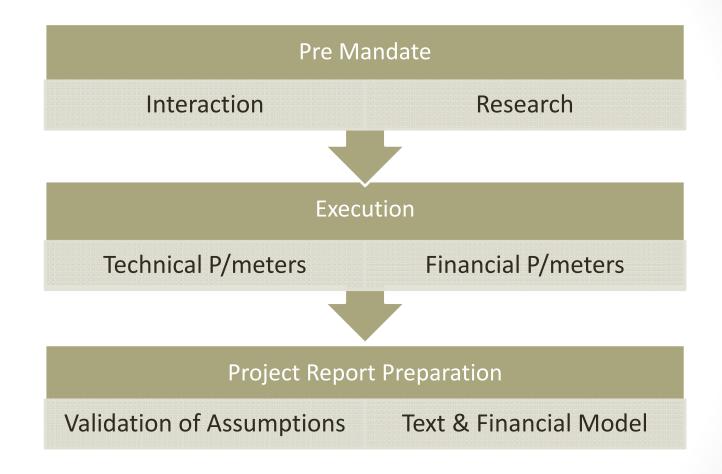
Case Study/Certain Aspects on preparing an Excel Model to submit with Project Report For ICAI – Nashik Branch

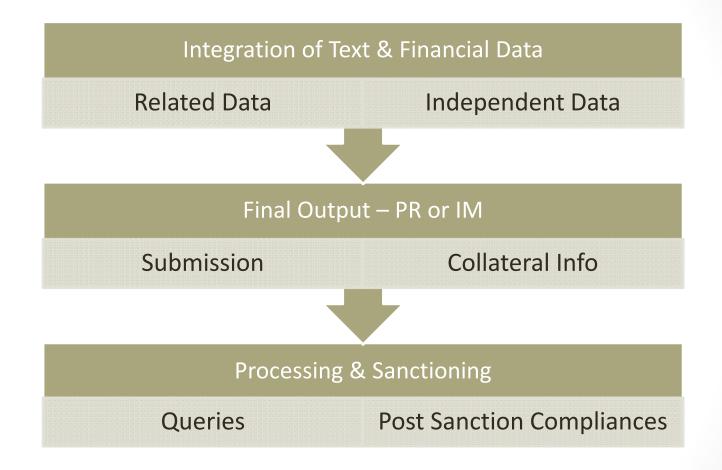
18-April-2015

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LIFE CYCLE of PROJECT REPORT PREPARATION



LIFE CYCLE of PROJECT REPORT PREPARATION



Why Projections are Important?



"Get ready! The next wave of legislation is rolling in."

- Going Concern
- Business Feasibility Studies required by Clients as well as all Stake Holders
- Stakeholders like Banks etc rely on them for credit decisions
- Professional Responsibility
- Sec. 36 of Companies Act 2013
- Internal & External Credit Ratings
- Whether Business is on the right track !!

Important Considerations in CMA preparation

- Past 2 year Actuals of P&L and Balance Sheet
- Current Year Estimates
- Next 2-3 years Projections
- Turnover, EBIDTA Projections
- PAT/ Retained Earnings Calculations
- Working Capital Assessment

Eg a) Trader b) Distributor c) Construction Co d) Term Loan Structuring Eg.

Commerce Professor asks the Student:

What is the most Important source of Finance for Starting Business?

Student: "Father in Law".

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Important Considerations

- Know the nature of business of the client Seasonal, WC Intensive
- Note typical patterns to be incorporated in the CMA/ Projections Cost heads, Revenue items, Repay of existing loans, Unsec Loans, Fixed Assets, Non Current Assets, Current Assets, Equity.
- Find out existing and proposed limits
- Define project cost and means of finance with due care & client involvement
- Repayment Terms, Interest Cost, Finance, Processing Costs

Assumptions



". . . and then I told my wife the expense ratio in our household is not within the norm of our peer group."

- Separate sheet for all the assumptions
- Assumptions should be clearly defined
- It should be properly linked to the main sheet
- Main sheet should not include any bare numbers
- Assumptions to be verified by client or as per industry sources
- Following points to be included on a broad basis:
 - Working days
 - Installed capacity and capacity utilisation
 - Prices of raw materials, chemicals finished products, etc
 - Escalation clause
 - Level of holdings
 - Debt draw down
 - Revenue stream and production cost

Turnover

- Valid basis/ reasoning for projecting too high TO
- As per order book position, if available.
- Thumb Rule may not always be correct!
- Finally, should be achievable as per client's production capacity/ Seasonal impacts/ Macro Factors
- Quantity X Rate = Sale Golden Rule
- Legitimate Quantity, Legitimate Rate

Production exp. (raw material consumes, labour exp.etc)

- % to sales should be more or less consistent
- Previous trends should be followed
- If projected at lower rate, valid reasoning should be there to support it

Interest cost

- Check sanction letter for pricing
- Check Base Rate
- Link it properly to the repayment schedules

Profit margins

- Gross profit and net profit Consistancy
- If gross profit for the immediate previous year is very less/ not consistent with historical, then historical trends may be followed while projecting with reasoning in explanations submitted to Bank
- In an attempt to increase net profit, other income should not increase absurdly unless there is valid justification
- Tax provision

Cash Credit

- If existing limits are renewed, then outstanding balance of the previous year (actual) should not be carried forward while projecting
- To be projected at renewed or enhanced limit

MPBF

- Level of holdings to be maintained
- If variations are to be brought then they should be maintained for further projections
- Cannot be increased or decreased at one's own free will
- Current assets not be projected at more than 90 days as they become non current thereafter (exceptions)
- Valid reasons for variations in level of holding
- Limits to be justified by both methods

Term loans

- Repayment schedule should be prepared with utmost care
- Rol, Moratorium, Monthly, Quarterly, Water-fall repayment, EMI/ Installment
- It should be properly linked to the CMA/ Projections sheet
- Outstanding balance at the year end should be bifurcated into current liability and long term liability
- Amt. to be repaid within the next year to be included in current liability
- The same should be deducted from the outstanding balance for the year

Unsecured loans

- Check whether it is from family members or outsiders
- Try to keep them constant till the currency of Term Loan requested.
- It should be treated as term liability (long term loan) and not to be included in current liability or as quasi capital
- Once increased while projecting, these cannot be withdrawn later
- Compliance of Sec 73-76 Companies Act 2013 (Deposits)
- Compliance of 185-186-188 Companies Act 2013 (Loans to Directors)

Important Considerations contd...

Net worth

- It mainly includes share capital/ partner's capital/ proprietor's capital, reserves and surplus, profits for the year, subsidy if already received and not to be repaid, share application money
- NETWORTH-INTANGIBLE ASSETS=TNW
- Quasi Equity Treatment/ Justification/ Need/ Solution

Current assets

- While feeding the actuals, debtors for more than 6 months, deposits included in loans and advances, advances from family members to be considered as NON CURRENT assets
- Items like cash balance, other current assets should not be projected too high
- FD should be created for BG requirement at % of margin
- Level of holdings to be maintained
- Investment in shares/sister concerns to be shown in non current assets

Ratios

Current ratio

Atleast 1.33 to justify MPBF

While calculating current ratio, cash credit/ working capital loan should be included in current liability

- Debt Equity
 - Maximum depends on sector/ exposure
 - Consider Unsecured as Term liability
 - In TOL/TNW, include all outside liabilities including current liabilities
 - TL/TNW, should include only term loans
- DSCR
 - Min. 1.50 for all the years and avg.
 - PBT+ non cash exp.+ Interest on TL
 (Principal amt+ interest for the same)

Non-cash expenses include dep., preliminary exp.w/off. Etc

Fund flow

- Fund flow summary should draw the following conclusion
- "Long term funds should be used for long term applications and can be used for short term applications and short term funds should be utilized strictly for short term applications"

Other Minute Points

- Cash Accruals= PAT+dep.+other non-cash exp.
- Adjusted TNW= TNW Investments in sister concerns
- Deferred tax liability to be included in reserves as part of Net worth
- Preliminary exp. To be written off over 5 years
- Advance tax not to be projected unless and until it already appears in actuals
- Additional items apart from those already in audited balance sheet and P&L not be projected

Cost of Project & Means of Finance

- Amt. of CAPEX to support quotations
- Interest during construction (IDC) to be included in project cost and simultaneously to be capitalized into fixed assets proportionately.
- Pre-operative expenses to be capitalized in fixed assets proportionately.
- Preliminary exp. to be written off in P&L
- Margin for working capital to be linked from assessment of working capital for the 1st year.
- TL should be 75% of ³hard cost (or as per industry)
- Remaining funds to be financed through own funds including capital, unsec. Loans, subsidy, reserves and surplus of existing unit, if any

Points other than that listed in CMA

- Sensitivity analysis sheet
 - First prepare income sheet and calculate DSCR from it
 - Then, analyze the effect of changes in major components on DSCR
 - For example: Change in Selling prices, Change in cost of raw material prices, etc.
 - FUNDING PATTERN OF CURRENT ASSETS

THANKS!

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