Handbook on Project Financing as an Area of Practice for Small and Medium Practitioners

Committee for Capacity Building of CA Firms and Small & Medium Practitioners (CCBCAF & SMP)

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

New Delhi

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Foreword

Project Financing discipline includes understanding the rationale for project financing, how to prepare the financial plan, assess the risks, design the financing mix, and raise the funds. In addition, one must understand the cogent analyses of why some project financing plans have succeeded while others have failed. A knowledge-base is required regarding the design of contractual arrangements to support project financing; issues for the host government legislative provisions, public/private infrastructure partnerships, public/private financing structures; credit requirements of lenders, and how to determine the project's borrowing capacity; how to prepare cash flow projections and use them to measure expected rates of return; tax and accounting considerations; and analytical techniques to validate the project's feasibility.

In the appropriate circumstances, project finance has two important advantages over traditional corporate finance: it can increase the availability of finance, and reduce the overall risk for major project participants, bringing it down to an acceptable level. For a sponsor, a compelling reason to consider using project finance is that the risks of the new project will remain separate from its existing business. Then if the project, large or small, were to fail, this would not jeopardize the financial integrity of the corporate sponsor's core businesses. Proper structuring will also protect the sponsor's capital base and debt capacity and usually allow the new project to be financed without requiring as much sponsor equity as in traditional corporate finance.

Project finance has enjoyed explosive growth in the past five years. Its emergence has resulted from a number of favorable trends, e.g., privatization, deregulation of industries, new attitudes towards the role of the private sector in developing countries and at the multilateral agencies, etc. CAs generally carries out high quality industry research and analysis because of their strong foundation in Commerce and economics. This helps CAs in rationally evaluating the risks associated with any project financing deal being evaluated. I am glad to know that the Committee for Capacity Building of CA Firms and Small & Medium Practitioners (CCBCAF & SMP) of our Institute has brought out the book on 'Handbook on Project Financing as an area of practice for Small and Medium Practitioners'.

I appreciate the efforts put in by the contributors for preparing the Basic Draft of this Book and complement CA. Anuj Goyal, Chairman, CCBCAF&SMP, ICAI and other Members of the Committee for publishing the aforesaid book.

January 21, 2015 — CA. K. Raghu
New Delhi — President, ICAI

Preface

Project finance is a long-term method of financing large infrastructure and industrial projects based on the projected cash flow of the finished project rather than the investors' own finances. Project finance structures usually involve a number of equity investors as well as a syndicate of banks who will provide loans to the project. They are most commonly non-recourse loans, which are secured by the project assets and paid entirely from project cash flow, rather than from the general assets or creditworthiness of the project sponsors, a decision in part supported by financial modeling. The financing is typically secured by all of the project assets, including the revenue-producing contracts. Project lenders are given a lien on all of these assets and are able to assume control of a project if the project company has difficulties complying with the loan terms.

Each project financing is different. Each project gives rise to its own unique risks and hence poses its own unique challenges. In every case, the parties - and those advising them - need to act creatively to meet those challenges and to effectively and efficiently minimize the risks embodied in the project in order to ensure that the project financing will be a success. As CAs, our deep understanding of financial statements is very handy in preparing financial models to project revenues and cash flows. Business/project evaluation is a technique which you will easily pick up once you start working in project financing. This is a skill which bankers develop with experience as they work on more and more transactions.

The Committee has prepared this Book on ''Handbook on Project Financing as an area of practice for Small and Medium Practitioners''. I am confident that this publication would surely help the members in discharging their responsibilities to the profession as well as to the Nation in a very effective manner.

I feel great pleasure in acknowledging the efforts and the contribution made by CA. Subhash Nathuramka in preparation of this book on ''Handbook on Project Financing as an area of practice for Small and Medium Practitioners''. I appreciate the efforts put in by the members of CCBCAF &

SMP and Dr. Sambit Kumar Mishra & other officials of CCBCAF & SMP Secretariat, who have provided necessary support for publishing the aforesaid book.

January 21, 2015

CA. Anuj Goyal
Chairman
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and Small & Medium Practitioners, ICAI

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Chapter 1
Introductory

1.1. Traditional areas of practice like Accounts, Audit, Direct tax, Company law have been the forte of the profession of Chartered Accountancy since its inception. However with the acceptance of globalisation and economic liberalisation as tools for boosting economic growth since early nineties a number of new/non-traditional areas of practice have come to the forefront. These include excise duty, service tax, VAT, FEMA, WTO, arbitration, SEBI and stock exchange, special economic zone related matters etc. Another emerging area of practice which has caught the attention of one and all has been the area of project financing.

1.2. Project Finance is a vast area encompassing law, accounting, management, finance, taxation, engineering and many other related subjects. While it may be difficult to discuss all aspects in the form of one book an attempt is here made to introduce the subject of project finance as an area of practice particularly to new upcoming members. While briefly touching upon the professional opportunities in the field guidance is also provided to encourage further study on the subject.

1.3. There is no universally accepted definition of “project financing”. Sometimes it is identified with firming up various sources of finance for a given project which may be setting up a manufacturing unit or an infrastructure project or a trading unit. Sometimes it is identified only with arrangement of funds through banks and financial institutions for a given project. In common parlance it also includes arrangement of working capital funds for a given project. However with the increasing complexities of the business it would be more appropriate if the term “project financing” is given a wider and more comprehensive meaning to include all finance related activities and decisions starting from identification and conception of the project to the implementation and running of a project. A finance professional has to act as a linchpin amongst all the stakeholders’ viz. investor, lender, borrower, government agencies, suppliers, project manager, insurer etc.

Chapter 2
Professional Opportunities

2.1 Since finance is considered the lifeline of a project the role of finance professional is considered to be of critical importance. Because of their background of integrated knowledge and training cutting across areas of accounts, finance, law and management the members of CA profession are in a unique position in playing a key role in the field of project financing. Due to high ethical standards and professional integrity the members enjoy high credibility in the eyes of all stakeholders be it the investor or promoter or borrower or banker or the government agency which helps in smooth implementation and running of a project.

2.2 In the initial years tying up of finance with the lending institutions was considered to be synonymous with any project finance related assignment. However with the advent of globalisation and liberalisation identification, conception, implementation and running of a venture have become too complex and too demanding. Therefore in the changed scenario tying up of finance is considered to be only one of the aspects of project financing. Because of the highly competitive business environment with fast changing technology it has become imperative for all the stakeholders to ensure that the project being taken up for implementation has a suitable team which can take all the right and timely steps for conceptualising, implementing and running of the project. While promoter or his nominee acts as the head of the project he or she has to be properly guided by able professional advisors to ensure smooth sailing at every step. In view of the present day complexities of the business the role of finance professionals has become critical to the survival and growth of business ventures.

2.3 While being in the shoes of a project finance consultant one should try to emulate the role of the famous character of “Vidur” from great epic of Mahabharata. Vidur always advised his King without fear or favour keeping the interest of the kingdom as uppermost. In the same manner a consultant has to advise keeping the interest of the project as uppermost irrespective of by whom he is appointed. It should be invariably remembered that what is in the interest of the project is also in the interest of its stakeholders and ultimate aim should be that all stakeholders should get their fair share and remain satisfied which is also in line with the concept of good governance.

2.4 A member of the profession can play a vital role in the area of project financing in the capacity of –

(i) Finance manager/Financial advisor;

(ii) Banker's , Lender's , Investor'srepresentative;

(iii) Borrower's , Investee's representative;and

(iv) Independent consultant;

(v) Chartered Accountant in practice

2.5 Even while taking up attest functions like audit and certification a member plays a key role in the overall system of project financing. The certificate of expenditure incurred during implementation acts as a foundation for release of loan. Such a certificate has to be issued not only based on the books of account and supporting but also with reference to the terms of sanction/approved means of finance.

2.6 Banks and Financial Institutions, PE investors have already recognised the role of Chartered Accountants in fields like Stock and Receivables Audit of borrowers, Concurrent Audit of bank branches, Monitoring of projects on behalf of lending institutions, preparation of Techno Economic viability study reports, forensic audits in cases of restructuring of loans, valuation of assets etc. These being specialised areas members have to develop the right kind of experience and background to be selected on the panels of the institutions to undertake specific assignments. In addition to above fields there are a large number of activities from the identification to the implementation of project in which a practitioner can be part of. These include process of tendering for civil contracts, acquisition of plant and machinery, coordination with equipment supplier, engagement of key personnel, coordination with various departments of the government, coordination with banks and financial institutions, PE investors, rating agencies etc.

2.7 A practitioner can play a key role in the process of post disbursement as follows-

(a) By providing information and data on behalf of borrower including creation of lender's charge over assets, filing of charge with ROC , valuation of assets mortgaged, title verification of properties charged, periodical inspection of assets under charge, quarterly data, annual data, stocks/receivables statements etc. ;

(b) By facilitating inspection on behalf of the lender;

(c) By acting as lender's financial advisor (if appointed by the lender) involving monitoring of the project, analysis of audited accounts, ensuring timely payment of interest/principal to the lender;

(d) Acting as a coordinator amongst stakeholders

2.8 A practitioner can play an important role in respect of bank/investor related aspects of audited accounts as follows-

(a) Auditor's qualifications should be avoided as far as possible. Otherwise management should make adequate clarification/reply to the qualification in the directors' report;

(b) Directors' Report should deal with important events occurring after the date of Balance Sheet as those are very much of interest to the stakeholders;

(c) Major deviations in costs and revenues as compared to past year figures should be explained in the directors' report;

(d) Cash Flow/Funds Flow with trends should be adequately explained;

(e) Key developments like change in key personnel, addition/deletion of products, territory etc. should be explained;

(f) Measures taken for cost control, revenue enhancement, research and development should be elaborated

2.9 During the phase of project monitoring and while renewing, enhancing credit facilities banks and financial institutions lay a lot of emphasis on preparation and analysis of Credit monitoring arrangement (CMA) data. A practitioner plays an important part in preparation and validation of CMA data as follows-

(a) By collecting, collating and analysing the appropriate information and data;

(b) By analysing audited accounts, future plans of the borrower/investor;

(c) By discussing with the bank/FI so that the conclusions drawn are correct;

(d) By providing supporting to enable the bank/FI to make its internal credit rating accurately;

(e) If necessary by getting the CMA data reviewed again

2.9 Negotiation with banks and financial institutions on behalf of the borrowers is an important role a practitioner can play. It is necessary that terms like rate of interest, other financial charges, security, margin etc. are fair. At the same time company/borrower should be in a position to fulfil the terms and conditions stipulated. The stage of fulfilment of condition is also paramount as the borrower may find it difficult to fulfil certain conditions before start of release of loan. The timing of raising of promoters' contribution, completion of mortgage, Consent by Pollution board etc. is as critical as the condition itself. Practitioner plays a key role in setting the appropriate time line and plan of action for fulfilment of various conditions laid down by the lenders/investors.

2.10 In recent years with economic slowdown the problem of mounting non-performingassets (NPAs) has aggravated in the Indian banking sector. RBI governor has rightly emphasized on the importance of quality of appraisal of credit proposals and its direct impact on the level of NPAs. It goes without saying that finance professionals have a great role to play in ensuring quality of project appraisal.

2.11 Generally a project is financed through a judicious mix of debt and equity. In the equity portion a certain portion (preferably 25% to 30% of Cost of project) is financed by the promoter group which provides a comfort level to other stakeholders about the continued association and loyalty of the promoters towards the project. A number of projects fail to take off because of lack of adequate promoters' contribution. It is critical for the practitioner to thoroughly examine the sources from where promoters' contribution would be raised. The sources can be found out by examining annual audited accounts and income tax returns filed by promoters, their associates, their group companies etc. A practitioner can also play an important role in finding legitimate ways and means of raising promoter's contribution. Some of the options could be-

(a) Disposal of unproductive fixed assets of the promoter group for raising the requisite contribution;

(b) Disposal of shares in other companies not related with the business of the promoter group;

(c) Regularising the income tax returns, personal balance sheets of the promoters along with their friends, associates and relatives so that the ability to raise contribution becomes transparent;

(d) Exploring the possibility of raising contribution through private equity investor, venture capital funds etc.

2.12 Project financing is an area requiring high skill and experience. At the same time practitioner has to have the trust of stakeholders in the project. Since the stakes are high the practitioners are selected after a lot of deliberation.A practitioner should therefore look project financing as an area of specialisation. Within the area further specialisation can be done in the following manner-

(a) Sector specific specialisation like small and medium sector, special economic zone sector etc.;

(b) Industry specific specialisation like textile, power, sugar, ship building etc.;

(c) Specialisation in industrial incentives like interest subsidy under TFUS, various schemes of the state governments;

(d) Institution specific specialisation like Exim Bank, SIDBI, ECGC, CRISIL, CARE, ICRA, ARCIL etc.;

(e) Revival and sale of stressed units;

(f) Identification of new viable projects;

(g) Corporate debt restructuring cases;

(h) Debt recovery tribunal cases;

(i) External Commercial Borrowing cases

2.14 A practitioner can explore the possibility of -

(a) Networking with the members having practice in traditional areas like accounts, audit and taxation;

(b) By getting empanelment with banks and financial institutions for the purpose of acting as lender's financial advisor, valuer of securities mortgaged ;

(c) By floating LLP or private limited companywith suitable website providing details about the services proposed to be rendered

Chapter 3
Making Preparation for becoming an Efficient Practitioner

3.1 A practitioner has to be conversant with the basic framework of the institutional and bank finance available for the project. In India institutional framework consists of financial institutions, private banks, public sector banks, foreign banks having Indian operations, cooperative banks and regional rural banks which are regulated by RBI. In addition to the banks there are institutions specialising in particular sectors. For example for financing power sector there are institutions like Power Finance Corporation (PFC), Rural Electrification Corporation (REC), Power Trading Corporation (PTC) and PFS. IDFC specialises in infrastructure finance. Exim Bank specialises in foreign currency loans. IFCI is specialising in sugar industry projects and the matters related with sugar development fund. Tourism Finance Corporation of India Ltd. (TFCI) caters to the needs of the tourism industry. Small and medium enterprises can also approach institutions like SIDBI, SIDCS and SFCs. SIDCs and SFCs generally finance to units being set up in their respective states only. It is noteworthy that despite presence of specialised institutions banks because of their longer geographical reach and financial strength continue to be the largest lenders in almost every sector.

3.2 A practitioner has to understand the implications of the circulars and guidelines issued by RBI to banks governing the credit facilities given to various industries/sectors. Individual banks and financial institutions frame their own policies keeping in view guidelines issued by RBI on exposure limits and other aspects. A practitioner has to be conversant with these policies which help in selecting the appropriate bank/ institution for a particular project which in turns ensures better terms for the borrower.

3.3 A practitioner has to be conversant with the industrial policy of the central government as well as the state government where the project is proposed to be set up. The state governments generally declare incentives in respect of land, capital subsidy, electricity duty, VAT, stamp duty etc. for setting up of new/expansion units in their respective states.

3.4 A practitioner has to have knowledge of the various policies of the central government like foreign direct investment (FDI) policy, Manufacturing policy, export import policy, SEZ policy, industry specific policies and schemes etc. At the same time he has to be conversant with incentives schemes for specific industries like interest subsidy for textile units under TUFS, incentives to sugar industry, incentives to ship building industry etc.

3.5 In addition to banks/FIs a practitioner has to be conversant with the framework of private equity investors, venture capital investors and high net worth individuals (HNIs) which are critical to raising of promoters' contribution/equity contribution for the project. Institutions like IDFC are having their venture capital arm to fund equity capital in suitable projects. At the same time knowledge of the policies being pursued by these investors go a long way in selection of the suitable investor.

3.6 Continuous updating of knowledge and latest developments in the field is key to the success of a practitioner. Brushing up of knowledge in the field of business finance could be undertaken by reading reputed journals, magazines, daily newspapers, websites of government departments, RBI, banks, financial institutions, rating agencies, research institutions, business and trade organisations etc. A practitioner can also undertake certification courses undertaken by ICAI particularly on the subject of business finance. In recent years a number of programmes are organised at ICAI on various topics related with project financing. A practitioner should participate in such programmes as delegate or faculty member to keep himself abreast of the latest developments.

3.7 Practising on the banking side (including stock and receivables audit, concurrent/statutory audit of banks etc.) can help a practitioner prepare for bigger assignments in the field of project financing.

3.8 For a practitioner it would be advisable to be proficient in computer applications including knowledge of software like Microsoft word, excel, power point etc. For specific assignments knowledge of the software being used by the client can help in getting the requisite data more efficiently.

3.9 A practitioner should gradually develop a suitable infrastructure including automated office space with modern communication and computer facilities and specialised staff.

3.10 Validation of data is one of the most important aspects in the field of project financing. A practitioner should learn to corroborate the data from more than one source to ensure that the decisions taken are not biased. At the same time provision should be kept for unsuspected errors in data.

3.11 Before taking up an assignment, a practitioner has to make preliminary scrutiny of the proposal. It should be seen whether project logistics are basically on right lines. While project logistics are important,the one of the most important factors to beseen has to be the promoter behind the project. A practitioner has to ensure that theantecedents and credentials of the promoter are satisfactory. The estimates, projections never work out in the manner they are perceived and ultimately the confidence, skill and entrepreneurship, adaptability of the promoter only drives the project through the turbulent periods. Age, the physical and mental health condition, qualification, experience, background of the promoters is important. There are other important guiding factors also like the ability to withstand an adverse situation, tendency to adhere to the laws of the land, adherence to norms of corporate governance, policy towards personnel, track record of implementation of project etc. The appraisal of the promoter is critical as the ability to raise need based funds, corporate image and ability to attract quality customers, suitable personnel largely depend upon the image and track record of the promoter.

3.12 A practitioner should be aware that his own reputation becomes attached with that particular project. So before embarking on the assignment he has to ensure that the promoters and their team are suitable for the project. At the same time the promoter should be in a position to raise the requisite minimum contribution for the project.

3.13 A practitioner has to balance the expectations of all stakeholders to ensure win win situation for all. This is also necessary to ensure long term relationships amongst stakeholders. In a way the interest on investor/lender is intimately connected with the interest of investee/borrower. Both the stakeholders want reasonable return on their investment which in turn is dependent on smooth implementation and running of the project. A practitioner has to keep this perspective in mind even if he is representing a particular stakeholder.

Chapter 4
Identification and Conceptualisation of Project

4.1 Identification of suitable project is a significant initial step towards achieving a successful project. It requires application of high degree of skill and experience before one can identify a suitable project. Large industrial houses have developed separate cells to look after this key function. Various research organisations and industry journals publish market information based on which professionals try to identify new/expansion projects. With the advent of globalisation and market economies the function has become more critical. When Indian economy enters into next phase of development with higher level of technology project identification would become even more important and more complex. There are a number of factors and parameters on which a project is tested. However examination of following elementary aspects can help identification of a suitable project-

(a) Location of project should be suitable keeping in view availability of manpower, proximity to source of raw materials, proximity to market, proximity to port for the purpose of export etc. For example in Pune Sangli Miraj Kolhapur belt in Maharashtra a large number of steel casting units, auto ancillaries have come up. On the one hand there is ample availability of raw materials i.e. scrap and other alloys and manpower. On the other hand major auto component manufacturers like Bosch are based in the same belt. In agro based project like sugar availability of sugarcane is considered to be the key starting point for the project. The location of a project is also examined from the angles of availability of financial incentives by the government, applicability of tax laws, potential for export, adequate availability of power etc.

(b) The promoter should be in a position to mobilise adequate resources in terms of manpower, skill, finance and other logistics required for the project. For projects in small and medium enterprises sector it would be better if the promoter has the requisite qualification, experience and background in the project field. This would provide greater comfort level to the stakeholders.

(c) Selling arrangement is one of the key factors for a project. The promoter should have confidence and suitable plan in place to ensure that sale does not become an impediment to the success of the project.

(d) In some of the projects getting statutory approvals is the key factor. For example setting up a distillery unit requires NOC from the pollution board which is granted only to those projects which have internal arrangements for processing of their pollutants. In other words the plant has to be run on zero discharge basis.

(e) The policies pursued by the central government as well as respective state government have great impact on any project. Some of the states like Maharashtra, Gujrat, and Tamil Nadu with investor friendly policies have attracted large number of projects over the years. The selection of a project should also be in line with the thrust areas of the government. For example recently central government has identified areas like development of infrastructure, housing, tourism, domestic manufacturing in defence sector, production of solar energy etc. as thrust areas. It could be a better proposition if the project identified is within the thrust areas.

(f) The study of domestic and global markets has become key to identification of a project. Because of liberalised trade across countries under World trade organisation (WTO) it has become imperative that the project can sustain competition both domestic as well as international. Because of liberalised import and export the prices of a large number of commodities are driven by prices ruled in international markets. India is considered to be competitive in the fields like Textiles, Engineering goods, Gem and Jewellery, Pharmaceuticals and Software.

(g) There is no project without risk factors. In other words every project has implementation, operational, country, currency and other risks. Risks with proper mechanism in place can be mitigated although cannot be eliminated altogether. In the identification stage itself detailed exercise should be made so as to first list out the risks involved in every stage of process with possible risk mitigation measures in place. Such measures include suitable insurance mechanism in all stages of the project, suitable guarantees/warrantees by equipment suppliers, hedging of foreign currency exposure, engagement of suitable professionals to look after key functions etc.

4.2 The exercise of identification of project is generally undertaken by the promoter. Prior to the era of economic liberalisation the projects used to be taken up for implementation based on availability of industrial licence, family background of the promoter, advantage of monopoly in the market etc. However post liberalisation the restrictions on production of most products have been lifted. With WTO regime in place most products can be imported from international market also. It has therefore become imperative that the project to be undertaken passes the stern test of being competitive in domestic as well overseas market. The practitioners in the field have a great role to play in guiding the promoters in selection of appropriate projects.

4.3 A practitioner should know the business model of the project with factors having a bearing on revenue and cost. Business model should also take into account nature of industry, processes and transaction cycle.

Chapter 5
Appraisal of Project and Preparation of Techno Economic Viability Study Report

5.1 Project Appraisal is an important exercise for Banks, Financial Institutions, and investors before they consider the proposal for financing any project be it an industrial project or any other project in the nature of commercial or trading outfit. It deals with all the relevant factors having a bearing on the project be it technical, commercial, financial or managerial to ascertain whether the project is technically feasible and economically viable. There are a number of factors, which are analyzed in detail. Following aspects need careful consideration-

(a) Sometimes the exercise of project appraisal is tilted more towards the technical side. On other occasions, it is tilted more towards commercial side. Ideally, both technical and economic assessments have to go hand in hand and must be in line with each other. For example, determination of installed capacity as also the assessment of utilization of capacity is considered a technical matter. If it is done on unrealistic basis, entire economic analysis may be vitiated. Similarly input output norms, process loss, raw material consumption norms, inventory norms though technical aspects have a direct bearing on the economic assessment of the project. Any financial analysis without sound technical assumptions is bound to be unreliable. In making assumptions, fixing technical norms the actual experience of similar running units may greatly help.

(b) Selling arrangement is one of the keyfactors, which can make or mar a project. Even with a very positive business scenario, specific plans have to be put into place before actual sale can be achieved. In a number of cases product development, building a customer base take a long time. In cases of customized products, it is not easy to earn profits in initial years. In initial years there may also be teething technical problems hampering production. These aspects need to be suitably factored in.

(c) The project should have a suitable business model with proper backward and forward linkages. A standalone project may prove to be a risky proposition. For example, an integrated sugar cum cogen project would be more viable than a standalone sugar project. Addition of distillery to the sugar cum cogen project may give additional strength to the company. In casting unit addition of machining facility may be beneficial. It is better if the unit is not dependent on one market (indigenous or overseas) only. Multiple products are preferable over single product. Multiple locations (within a company) are preferable to single location. It is therefore essential that there is a suitable business model to support the project.

(d) Steady flow of funds is more important than the security cover. Many borrowers wrongly believe that adequate security should be enough to satisfy the lender. However, the basic approach to lending is to recover money out of inflows in the activity of the project. The security is kept only as a matter of last resort and is not meant to be disposed of in normal course.

(e) The project specific risk factors need to be identified with suitable measures to mitigate them. The risks may relate to timely completion, fluctuation in foreign currency, change in policy of the Govt., seasonal factor, cyclical nature of industry etc.

(f) Sometimes additional fixed assets are purchased toget the benefit of depreciation under the I.T. Act. On other occasions, expansion projects are undertaken to avail the benefits of some sector specific incentive schemes like Technology Up gradation Fund Scheme (TUFS) under which textile units get benefit of interest subsidy. In genuine cases, such benefits enhance the viability of the project. However if other relevant factors are not in place a project set up merely on the foundation of benefits may not work.

5.2 Structure of capital costs for a typical industrial project

Particulars	Basis and Documents to be referred	Comments	Critical factors
Land and Site Development	Sale Deed, land records like 7/12 Extract Search report of lawyer	Market value not admissible even if substantially higher than actual cost Suitability and	Suitability of location from the point of view of workers,customers,suppliers,customers Availability of

		adequacy of land to be seen	infrastructure facilities like power, manpower, transport facilities etc.
Building and civil works	Approved Building Plan Estimates by Architect Work orders	Built up area, height of building to be specified. Credentials of Architect, structural engineer, contractor to be established	
Plant and Machinery	Competitive Quotations Purchase Orders Invoices supporting for govt. taxes	Credentials of critical and major equipment suppliers to be established Machine layout, Machine balancing to be examined Utility of equipment for project to be ascertained Besides basic cost taxes, duties, freight, insurance, handling charges, electrical, foundation charges to be included DG sets,	Satisfactory past record of similar machinery and supplier to be ascertained

		transformers, testing equipment to be included	
Pre-operative Expenses	Cal. of interest during implementation, cost of stamp duty, upfront fee, legal and professional fee	Need to be aligned with implementation schedule	
Contingency	Segregation of firm and non-firm costs	2 to 3% of non-firm costs is usually taken	
Margin money for working capital	25% of (stock, debtors, other current assets) less S. Creditors (for first year)	Need to be aligned with working capital assessment	Working Capital should be tied up with the term loan

5.3 Structure of Means of Finance

Description	Basis and Documents to be referred	Comments
Promoters' Share Capital	Shareholding Pattern, IT returns, Personal Balance Sheets	Promoters' capital cannot be out of borrowed funds It is generally brought in first (before the release of bank loan)
Interest free unsecured Loans from promoter group	IT returns, Personal Balance Sheets	Such loans are in the nature of quasi equity. However nowadays the banks prefer to classify them as term liabilities.
Private Equity	Letters of consent, buyback agreements, Credential of parties	It is generally brought in first (before the release of bank loan)

Internal Accruals	Audited Accounts, ready/ liquid availability of surplus after servicing of existing loans	
Suppliers' Credit	Agreement	Payment schedule to be suitably incorporated in the projections
Soft Loans, Subsidies from Govt.	Govt. schemes, their terms	There should be alternative arrangement of funds till sanction/ release of such loans, subsidies is made.
Term Loan from Bank (s)		In case of more than one bank tie up with all banks is a must before release will start.

5.4 How the assessment of various risks is made?

Financial Risk	
Parameter	Acceptable level/considerations
Current Ratio (Current Assets/ Current Liabilities)	✓ 1.33
Promoters' Contribution (as % of cost of project)	✓ 33.33% of the cost of the project
TOL/TNW (Total outside liabilities/Tangible Net Worth)	✓ Not more than 3:1
Debt/Equity Ratio	✓ 1.5 to 2:1 (It can be more depending on the nature of project e.g. infrastructure project)
PAT/Net Sales (%)	Should be more than 5%
PBDIT/Interest	More than 2.5
Trends in performance	Should be upward trend
Gross Average DSCR (Debt service coverage ratio) – Profit before interest and deer. (after tax) during	✓ 1.75 to 2 (Should also been seen on year to year basis during the tenure of loan)

the tenure of loan /interest on term loan plus repayment obligations	
Achievement in projected profitability	Should achieve at least 90% of projections
Average security coverage (quantum of term loan in relation to fixed assets charged)	25% to 30%
Collateral Security	25% (can be relaxed depending on the financial standing of the company/promoter)
Business Risk	
Technology	Should be able to meet the competition. Should preferably be ahead of the competition
Capacity Utilization vs. BEP	Should be 25% to 30% above the BEP
User/Product Profile	Product should be well accepted by the user and should be able to withstand competition.
Consistency in quality	Should be consistent
Distribution Network	Should be adequate
Consistency of cash flows	Should be consistent
Business Model	Whether there are adequate forward/backward linkages, whether the business is based on the strengths of the borrowers
Receivables profile	Good quality of receivables is considered a plus factor.
Industry Risk	
Competitive edge, industry outlook, regulatory risk and other industry specific risks (like seasonal nature etc.)	
Management Risk	
Integrity/Corporate Governance, Track record, payment record,	Name of the borrower, promoters, directors appearing in the list of RBI

managerial competence/commitment, expertise, organization structure and system, experience in industry, credibility, compliance with statutes, strategic initiatives, length of relationship etc. are considered.	defaulters' list, CIBIL defaulters' list is viewed adversely.
Qualitative Factors	
Factors like contingent liabilities, auditors' qualifications, accounting policies as to depreciation; inventory, adherence to accounting standards etc. are considered.	
Comparison	
Borrowers' financial ratios are compared with the standard industry norms and with the ratios achieved by peers	
Loan Rating by External Credit Agencies (CRISIL, ICRA, CARE, FITCH, BRICKWORK etc.) under Basel II norms	BBB- is considered to be investment grade rating. Anything above would give greater comfort level to the lending bank.

5.5 Other important considerations

(a) Suitability of promoter to take up the project by taking into account background, qualification, experience, past track record, adherence to corporate governance

(b) Suitability of location from the point of view of workers, customers, suppliers, customers

(c) Adequate and uninterrupted availability of inputs like power, fuel, water, transportation, labour

(d) Adequate and uninterrupted availability of raw material

(e) Requisite statutory approvals like NOC from pollution board, clearance from ministry of environment, SIA registration, conversion of land for industrial use etc.

(f) Positive industry scenario – domestic and global

(g) Government Policy – The Govt. has framed favourable policies to encourage industries in sectors like Textiles (rebate in interest under TUFS), sugar cum cogen (soft loans, fiscal incentives). Sectors like infrastructure, power, road etc. are the thrust areas of the Government.

(h) Suitable loan rating by External agencies like CRISIL, ICRA, CARE, BRICKWORK etc.

5.6 Techno economic viability study is an important tool for project appraisal used for the purpose of presenting the proposal before investors, banks, financial Institutions and other stakeholders. It deals with all the relevant factors having a bearing on the project be it technical, commercial, financial or managerial to ascertain whether the project is technically feasible and economically viable.

5.7 A practitioner can play a critical role in collecting, validating and analyzing the appropriate inputs for the report. For example before setting the standards for capacity utilization of plant it is necessary to arrive at the capacity of the plant which is dependent upon a number of factors like specifications of product to be manufactured, normal frequency of breakdown, quality of raw material etc. A true professional tries to take a balanced view taking into account all relevant factors and by corroborating various data and information so that the ultimate project report is reliable.

Chapter 6
Inspection and Monitoring of a Project

6.1 Inspection is an integral and critical part of the exercise to ensure smooth and proper implementation of a project. Post appraisal and post sanction of finance by Banks, financial institutions and other stakeholders it becomes imperative that the project is implemented as per the plan within the envisaged timeframe. Regular inspections are made to check whether the project is being implemented in accordance with the approved plan/project report and deviations are pointed out with remedial measures in the report.

6.2 Banks and Financial Institutions rely heavily on the inspection reports (as also Certificates from Practising Chartered Accountants) before making disbursement of sanctioned credit limits for part financing the projects. The inspections are made by the officials of lending banks, financial institutions or by their authorized empanelled Chartered Engineers.

6.3 A Chartered Accountant is a competent professional to certify the expenditure incurred based based on verification of vouchers, supporting and books of account. On the other hand, a Chartered Engineer is a competent professional to certify the physical progress of the work done. A practitioner should ensure that deviations between an inspection report and the CA certificate are properly analysed and attended to.

6.4 There may be following situations where the expenditure has actually been incurred and certified by C.A. but it does not provide the lending bank the right input or guidance required to take a fair view in the matter of release of credit facility -

a) Although the expenditure has been incurred by the company it does not relate to the specific project under consideration;

b) The expenditure incurred on purchase of items, equipment is not as per the approved plan;

c) The expenditure has been incurred on a head other than the head envisaged in the approved plan e.g. more civil works, higher preoperative expenses, higher soft costs, less expenditure on equipment and machinery.

6.5 For taking an integrated and fair view the project has to be viewed from all angles viz. technical, commercial, financial and managerial. A Chartered Accountant as a professional can play a key role in ensuring compliance of the stipulations with regard to increasing authorized capital, raising of promoter's equity, unsecured loans, Private Equity, Govt. subsidies, soft loans etc. A Chartered Accountant is also in a position to take a view on the fairness of the expenditure incurred under various heads, engagement of suitable key personnel, outside professionals like architect, technical consultant etc. for the smooth implementation of the project, compliance of the terms and conditions of the suppliers of the key equipment, statutory approvals from various departments of the Govt., adherence to the time schedule of implementation etc.

6.6 In an ever-changing business environment, a number of developments having a significant bearing on the outcome of the project can take place during the implementation of the project. A fair and integrated assessment during an inspection goes a long way in factoring in the impact of such developments and taking necessary corrective steps. Some of the illustrations are given below-

(a) In some cases, a significant part of the cost of project may constitute imported equipment. In case of wild fluctuation in unhedged foreign currency (in which payment is to be made), the cost of project may increase more than the contingency provided. ;

(b) Promoter or key personnel becoming dead or incapacitated, disputes amongst promoter groups, default in honouring the financial obligations towards banks, FIs, statutory defaults etc.;

(c) Significant change in Govt. Policy having deleterious effect on the activity involved in the project;

(d) Significant change in market/industry scenario having deleterious effect on the activity involved in the project;

(e) Withdrawal of govt. subsidy, fiscal incentives having a significant bearing on the financial plan;

(f) Non-fulfillment of critical conditions stipulated by the lending bank;

(g) Promoters' inability to raise their contribution envisaged in the means of finance;

(h) Certain costs not included in the cost of project necessitating raising of more funds than envisaged in the means of finance;

(i) Delay in implementation having material effect on cost of project and initial operations e.g. in one of the sugar cum cogen project the project was delayed by four months and by the time the project became ready for production sugarcane season was already over resulting into loss of revenue for the whole year besides increase in cost of project;

(j) Initial teething troubles like installed equipment not functioning optimally, machine balancing difficulties etc.;

(k) In some sectors like castings industry development of patterns, samples take a long time. If such an exercise is not started in an early stage, the performance of the project in initial year may get adversely affected.

(l) Conversion of agricultural land into N.A. land is necessary before mortgage in favour of the lending bank can be possible.

6.7 In a rapidly changing business environment, deviations from original plan have become integral part of the process of implementation of a project. Any deviation by itself need not be considered a negative feature. In fact, several timely changes effected for the betterment of the project should be considered as positive feature. A practitioner should keep the lenders informed of the changes being made which will promote faith and confidence between the borrower and the lender. At the same time, it will keep the lenders positively involved in the process of implementation. Change in equipment, change in equipment supplier, Change in shareholding pattern, Major cost or time overrun etc. are some of the developments, which need to be discussed in an inspection report along with suitable actions to be taken.

6.8 Structure of capital costs for a typical industrial project

Particulars	Documents to be referred (In addition to Approved Project Report, Appraisal Memorandum, letter of sanction by Bank, FI)	Check Points	Suggested Corrective Action
Land and Site Development	Sale Deed, land records like 7/12 Extract	Adequacy of land for the project Suitability of	In case of agricultural land action to

	Search report of lawyer Sanction letter for supply of power	location from the point of view of workers, customers, suppliers, customers Arrangement of infrastructure facilities like power, manpower, transport facilities etc.	convert it for industrial use should be initiated.
Building and civil works	Approved Building Plan Estimates by Architect Work orders	Built up area, height of building to be specified. Credentials of Architect, structural engineer, contractor to be established Whether Quality of construction is upto the standard	
Plant and Machinery	Competitive Quotations Purchase Orders Invoices supporting for govt. taxes L/C Documents Correspondence with the suppliers	Whether critical and major equipment suppliers are approved by Bank/FI at the time of appraisal Machine layout, Machine balancing to be examined Whether additional equipment have been purchased and the reasons thereof	In case of change in supplier of major equipment approval of lender should be taken

		Whether the capacity, make, specifications of the equipment match with the approved list	
Pre-operative Expenses	Cal. of interest during implementation, cost of stamp duty, upfront fee, legal and professional fee	Whether there is any material upward deviation under any head, reasons to be analyzed	
Contingency		Cost overrun, if any, should be within the amount provided under "Contingency"	
Margin money for working capital		Whether action has been initiated to tie up working capital well before the commissioning of the project	

6.9 Structure of Means of Finance

Description	Documents to be referred (In addition to Approved Project Report, Appraisal Memorandum, letter of sanction by Bank, FI)	Check Points
Promoters' Share Capital	Shareholding Pattern, IT returns, Personal Balance Sheets	Promoters' capital cannot be out of borrowed funds It should be raised upfront or proportionately as per the terms of sanction
Interest free	IT returns, Personal	

unsecured Loans from promoter group	Balance Sheets	
Private Equity	Letters of consent, buyback agreements, Credential of parties	It is generally raised before the release of bank loan
Internal Accruals	Audited/Provisional Accounts	Only internal accruals readily available in liquid form after servicing of existing loans should be considered
Suppliers' Credit	Agreement	
Soft Loans, Subsidies from Govt.	Govt. schemes, their terms	There should be alternative arrangement of funds till sanction/ release of such loans, subsidies is made.
Term Loan from Bank (s)		In case of more than one bank tie up with all banks is a must before release will start.

6.10 An inspection report should throw light on the following aspects-

(a) Whether on the basis of physical inspection made it was found that the capital expenditure incurred for the purpose of the project is appropriate;

(b) Physical progress of Civil Works – Factory building, Office building;

(c) Status of arrival, erection and commissioning of equipment and machinery;

(d) Whether the company has obtained or has initiated actions to get requisite govt. approvals like Approval of building plan by the competent authority like Town Planner, Industrial Development Corporation, NOC from Pollution Board, Power purchase agreement (for projects like cogeneration and power generation projects)

(e) Adequacy, competence and experience of implementation team, arrangement of their training;

(f) Whether there has been or likely to be cost overrun or cost saving (head wise analysis should be made);

(g) In case the project is in an advanced stage of implementation it would be advisable that post commissioning preparatory steps like orders for procurement of raw materials etc. are taken;

(h) Whether arrangement of inputs like power, fuel, water, transportation, labour has been made;

(i) Whether there are deficiencies in project report with remedial actions;

(j) Whether some of the assumption in project report need to be changed with remedial actions;

(k) Whether action has been initiated to ensure compliance with pre disbursement conditions e.g. raising of promoters' contribution, conversion of agricultural land into N.A. land, NOC from Pollution Board, etc. ;

(l) Whether the assets of the project have been got adequately insured against various risks like fire, flood, earthquake etc.

(m) Whether the project is being implemented as per approved project report(Major deviations like change in equipment, change in supplier etc. should be reported);

(n) Whether there are some post appraisal developments having a significant bearing on the outcome of the project;

(o) Whether the process of implementation is satisfactory and whether the project is being implemented as per schedule.

6.11 Format of Financial Inflow and Outflow upto Dec. 31, 2014

Financial Inflow Till Dec.31, 2014 (Rs. Cr.)

S. No.	Heads	Approved Means of Finance	Amount raised till Oct.31, 2014	Amount raised during Nov.-Dec. 14	Cumulative upto Dec. 31, 2014
1	Equity	5.00	5.00	0.00	5.00
2	Internal Accruals	22.83	7.00	0.00	7.00
3	Unsecured Loans	15.00	10.00	0.00	10.00

4	Term Loan Bank A	35.00	0.00	0.00	0.00
5	Term Loan Bank B	100.00	-	6.75	6.75
	Total	177.83	22.00	6.75	28.75

Financial Outflow till Dec. 31, 2014 (Rs. Cr.)

S. No.	Heads	Approved Cost of Project	Amount incurred till Oct.31, 2014	Exp. incurred Nov.-Dec. 14	Cumulative upto Dec. 31, 2014
1	Site development	2.77	2.77	0.00	2.77
2	Building and civil works	16.39	1.79	2.21	4.00
3	Purchase of corporate office including furniture/fixtures	15.23	8.70	-	8.70
4	Plant and Machinery	120.31	7.42	4.38	11.80
5	Misc. Fixed Assets	2.50	-	-	-
6	Preliminary and Preop. Exp. / IDC	17.57	1.32	0.16	1.48
7	Contingency	3.06	-	-	-
8	**Total**	177.83	22.00	6.75	28.75

6.12 Status of Statutory approvals (Format)

Sn	Statutes	Requirement, procedure	Validity / Frequency	Authority	Remarks	Status
1	Construction Permission	Submit construction plan, machinery layout to Associate Town Planner (ATP)	Applied to Associate Town Planner (ATP)	ATP	Appraised by Factory Inspector, Fire Department	Const. Permission recd. Construction plan approved on ---

2	Air & Water Act	Maintenance of valid consent order		State Pollution Board	Consent to establish is available	
		Compliance with conditions prescribed in the Consent Order			Applied	Approval recd. On ---
3	Environment Protection Act	Compliance with emission standards (if applicable) as prescribed by the Act				
		Compliance with conditions prescribed in the Consent Order		Ministry of Environment and Forests	Applied	Approval recd. On --
4	Hazardous Wastes Handling and Management Rules	Maintenance of Valid authorization for transporting and treating Hazardous wastes. To seek membership of M/s. GEIPL	Membership to be renewed every 5 yrs. Waste disposal once in a yr.	PCC		Applied. In process.
5	NOC for construction of storage facility for	Maintenance of valid license for storage and	To be renewed annually or three yearly.	CCOE		Received on --

	class C product CCOE - Once	transport of petroleum (Furnace Oil)				
6	Atomic Energy Regulatory Board	License for importing radioactive source	Once off		Nucleonic Level Gauges for Reactors	Received on --
7	Usage of Electricity	Approval for availability and use of Electricity supply from State Electricity Board	Once off	Executive Engineer - Electricity Department	While actual usage necessary clearance to be done	Done
8	Boiler Act - 1923	Steam Boiler and associated piping and fitting approval - IBR	Every Year	Boiler Inspector	Arranged by Boiler, pipe and fitting supplier for initial supply	Being obtained

6.13 Status of Civil Works (Format)

SN	Name of Building	Estimated Time For Completion	% of Physical Progress
1	CP	By March 2015 the inside work would be complete. Full building would be complete by Mid June 2015	30%
2	PTA / Chips Storage	End of March 2015	30%
3	Tank Farm	End of March 2015	25%
4	Underground Water Tank	End of March 2015	10%

5	HTM	End of March 2015	0%
6	Utility	End of May 2015	0%
7	Cooling Tower	End of April 2015	0%
8	Water Treatment Plant	Mid June 2015	0%
9	Weigh Bridge	End of Feb 2015	0%
10	ETP	Mid June 2015	0%
11	Pipe Rack	End of May 2015	0%

6.14 Equipment and Order Status (Format)

Sr.No.	Name of Equipment	Quantity	Order Date	Expected Delivery	Actual Delivery Date
1	Chip Pneumation Conveyor	1	Ordered on		
2	PTA Chain-Style Conveyor	1	Ordered on		

6.15 Status of Civil Works (Format)

S. No.	Description	Location	Plot Area(Sq. Mtrs)	Built Up (Sq. Ft.)	When constructed	Cost incurred (Rs.)
1	Land					
2	Main building incl Mezzanine Floor					
3	DG Room					
4	Toilet Block					
5	Security Cabin					
6	Others					

6.16 Status of Machinery (Format)

S. No.	Location (Dept)	Date of installation	Capacity	Machine No.	Make/model/type and year of manufacture	Specifications	Qty	Brief description of Supplier of critical equipment	Connected load HP

6.17 Details of Key personnel (Format)

Name	Designation	Qualifications	Age	Experience	Years in the company	Duties assigned

6.18 Depending upon a given situation inspection of a project can be undertaken by any of the stakeholder or an independent professional viz. promoter, major investor, director, auditor (internal, statutory, stock, asset verification etc.), banker, govt. dept., researcher, credit rating agency etc. There can be different angles of over viewing the project by different people involved in the exercise of inspection and their objectives may also be differ. At the same time the stage or status of a project may differ, i.e. it may be under implementation or in production or in a state of closure due to seasonal or other factors. Even after the commissioning of the project, the inspections can greatly help in monitoring the actual operations of the project vis-à-vis projections. However, in most cases it would be beneficial to take an integrated view encompassing technical, financial, managerial, legal and other aspects to arrive at a fair conclusion.

6.19 Sometimes efficient running of the plant itself is considered synonymous with the satisfactory running of the project. On other occasions, financial data depicting handsome profits are considered sufficient to conclude that all is well with the project. Such a one dimensional approach may provide erroneous conclusions as would be seen from following illustrations-

(a) Although plant may appear to be running well its capacity utilization, quality and rejection levels, consumption of material level may be poor compared with the standard norms ;

(b) Impact of adverse factors like recent change in govt. policy, sudden resignation of key personnel, spurt in raw material prices, adverse monsoon (for agro based industries), currency fluctuations with no forward cover, stoppage due to labour unrest, fire etc. have to be properly studied as these may not be readily visible at the site or in the accounts;

(c) Impact of important events occurring after the date of last audited Balance Sheet need to be studied;

(d) It is also important to analyse whether there are systems in place to take timely corrective steps wherever a need arises.

6.20 It is imperative on the part of the practitioners to guard against the tendency to consider “Expenditure incurred” as synonymous with the “Implementation of the project”. There is a need to take an integrated view of the entire project encompassing all relevant aspects to ensure timely and orderly implementation of the project.

Chapter7
Process of Obtaining External Credit Rating

7.1 External credit rating plays an important role in negotiating the fair credit terms for the borrower while approaching banks and financial institutions. Higher rating provides comfort level even to other stakeholders in the project. A practitioner can play an important role in the process of getting external credit rating as follows-

(a) By collecting, collating, validating and analysing the appropriate information and data;

(b) By analysing audited accounts, future plans of the borrower/investor;

(c) By discussing with the rating agency so that the conclusions drawn are correct;

(d) If necessary by getting the rating reviewed again

7.2 Basel II is a recommendatory framework for banking supervision, issued by the Basel Committee on banking supervision in June 2004. The objective of Basel II is to bring about international convergence of capital measurement and standards in the banking system. It aligns regulatory capital requirements more closely with underlying risks. The Basel Committee members who finalized the provisions are primarily representatives from the G10 countries, but several countries that are not represented on the committee have also stated their intent to adopt this framework. Over 100 countries including India have accepted it. RBI, in April 2007, has issued guidelines on the New Capital Adequacy Framework to banks operating in India, based on the Basel II framework. These guidelines replaced the ones issued in April 1992 when RBI had implemented the first set of recommendations of the Basel Committee, known as Basel I.

7.3 Of late Indian banks have been moving towards risk based pricing (by factoring in probable credit losses); borrowers with better credit profiles have been benefited in the form of lower rate of interest. However, till 2007, regulations did not allow banks to allow lower capital for borrowers with better credit profiles and banks had to apply a uniform 100% risk weight to all exposures, irrespective of the underlying credit risk. The Practice has undergone a change under the Basel II approach. The guidelines for the implementation of a new capital adequacy framework issued by Reserve Bank of India (RBI) in April 2007 allow commercial banks to allocate capital in relation to the credit risk embedded in their exposures. Such embedded credit risks are measured through ratings assigned by RBI approved domestic rating agencies (External Credit Assessment Institutions or ECAIs) like CRISIL, ICRA, CARE, BRICKWORK and FITCH. Thus under the revised framework banks can lower their capital allocation to as much as one fifth of the earlier requirement for rated exposures depending upon the level of external credit rating.

7.4 Capital Adequacy" is the ratio of capital funds (own funds or net worth) to risk weighted assets. Under the Basel I framework all assets were given a uniform risk weightage of 100% while the stipulated minimum capital adequacy ratio (CAR) for a bank was 9%. Under Basel II while the minimum CAR is unchanged at 9% the risk weights assigned to assets would be proportionate to the credit risk of these assets.

7.5 As capital is the most expensive source of funding any increase or decrease in such capital allocation could translate into substantial savings/additional costs for banks. For instance for exposures to investment grade (Triple B and above) borrowers a bank could save on cost depending on the cost of capital for the bank and the underlying credit rating. If however the borrowers do not opt to get themselves rated the bank concerned would be required to maintain 50% additional capital; hence its cost could go up. The banks may at their discretion decide to share the savings achieved through lower capital allocation with investment grade borrowers; at the same time given the pressures on profitability banks may be forced to pass on the additional costs for unrated exposures to their borrowers.

7.6 The revised framework for capital adequacy became effective from March 31, 2008 for all foreign banks operating in India and Indian banks having operational presence outside India (12 public sector banks and 5 private sector banks). It have become applicable to all other commercial banks (except local area banks and regional rural banks) from March 31, 2009.

7.7 External rating can be sought for all types of loans, working capital facilities, project loans, corporate loans, general purpose loans, working capital demand loans, cash credit facilities and non-fund based facilities like letters of credit, bank guarantees. Under RBI guidelines credit rating is not mandatory. However in order to achieve saving in capital requirement banks have started insisting on rating of credit facilities by ECAIs since unrated loans with higher risk weight require more capital.

7.8 **The Process of Rating :** The rating process by the agency is initiated on receipt of a formal request (mandate) from the prospective borrower. Request can be made even during implementation stage of the project. Request can also be made when the credit facility from the bank is under process. A rating team with the expertise and skills required to evaluate the business of the borrower is involved with the rating assignment. The borrower is given a list of information required and the broad framework for discussions. The requirements are derived from the rating agency's understanding of business of the entity and cover all aspects which have a bearing on the rating. The rating agency would look into the following information to be furnished by the entity-

(a) Detailed resume of Board of Directors , Key managerial personnel

(b) Details of existing production facilities, capacities and production, infrastructure and manufacturing processes (including technology used) for each product.

(c) Details of capital expenditure, their funding patterns and the benefits thereof.

(d) Product wise sales (value and volume), showing domestic and export sales separately.

(e) Region-wise break-up (separately for each product) of sales (volume and value).

(f) Country-wise break-up of exports (separately for each product), if any, in value and volume terms.

(g) Break up of cost structure of each of the finished goods on a per tonne basis for the last 3 years showing materials costs (separately for each raw material), consumables, power, other manufacturing costs and overheads.

(h) Details of new projects, if any, including the description of project(s), completion schedule, costs and funding pattern, progress made/status of implementation, cost incurred and sources of funds till date. Detailed calculations highlighting the benefits (e.g. cost reductions in various steps, higher capacities etc.) expected from such project(s).

(i) List of major clients (top 10) for each product, sales (volume and value) made to each of them. Company's credit terms offered to clients.

(j) List of major raw materials, sourcing arrangements and credit terms enjoyed from the suppliers. Price trends for each raw material for the last three years.

(k) Finance related

   (i) Financial performance in the last 5 years

   (ii) Details (interest rate and repayment terms) of all borrowings

   (iii) Account-wise debt repayment schedule and actual repayments made in the last 5 years

   (iv) Details of the sanctioned limits and month wise utilizations of all bank limits (both fund and non-fund based)

   (v) Copy of the latest CMA.

   (vi) Latest audited financials of group companies, if any.

   (vii) Projections along with all underlying assumptions for the next five years.

7.9 The rating agency also draws on secondary sources of information including their own research. The rating involves assessment of a number of qualitative factors with a view to estimating the future debt servicing capacity of the entity. This requires extensive interaction with the borrower's management especially on subjects relating to plans, outlook, and competitive position and funding policies. Plant visits are made to gain a better understanding of the production process, make an assessment of the state of equipment and main facilities, evaluate the quality of technical personnel and form an opinion on the key variables that influence the level, quality and cost of production. These visits also help in assessing the progress of projects under implementation.

7.10 After completing the analysis a Rating Report is prepared which is presented to the rating committee of the agency. The committee has independent members who are qualified and experienced in the field. The members with background of banking are also inducted in the committee. A presentation on the borrower's business and management is also made the Rating Team. The committee after careful consideration assigns the rating.

7.11 The assigned rating along with rating rationale is communicated to the management of the entity for acceptance. The process of rating takes three to four weeks. If the entity does not find the rating acceptable it has a right to appeal for a review. Such reviews are generally made only if fresh inputs are provided. During a review the response from the borrower is presented to the Rating Committee. If the inputs and/or fresh clarifications so warrant the committee would revise the initial rating.Non-accepted ratings are not disclosed by the rating agency.

The ratings once accepted are subject to regular periodic reviews. The assigned rating may be retained or revised (that is upgraded or downgraded) following review. The criteria for assigning bank loan ratings incorporate all the features of the criteria applied for rating bonds and debentures. However the criteria factor in features such as technical defaults and minor differences in defining due dates that are specific to bank facilities.

Rating Methodology

Business Risk Analysis

Industry Risk- Macroeconomic factors, Industry Structure, Industry demand supply, Industry growth prospects , Industry profitability, Market size, Extent of competition, Extent of cyclical nature, Regulatory Environment

Market Position-Key competitive advantages, Brand Strength, Product profile, Pricing power, Distribution Network

Operational Efficiency- Cost structure, Technological factors, Access to resources, Labour Relations, Capacity Utilization, Integration (Forward and Backward), Flexible production capacities, R & D capabilities

Accounting Quality- Accounting Policies, Reporting and Disclosure, Integrity of data

Existing and Future Financial Position- Capital Structure, Profitability Analysis, Debt protection ratios, Off Balance Sheet Obligations, Liquidity/short term factors, Working Capital Management

Cash Flow Adequacy-Sources and Uses of funds, Cash accruals in relation to debt payments, Capital expenditure plans, Funding profile, Working Capital needs

Financial Flexibility -Bank limits Utilization, Cash and marketable securities, Access to capital markets, Relationship with bankers, Contingency Plan Ability to defer cap. Exp.

Integrity- Adherence to laws and regulations, Tack record of debt repayments,

Inter group transactions, Reputation in financial markets

Risk Appetite -Financial Policy, Growth Plans, funding profile,unrelated diversification, Attitude towards business risk, Risk management practices

Competence , Track record , Consistency of performance , Success of past strategies, Succession plans , Quality of senior management, Experience in managing downturns , Ability to attract/retain talent

Governance Practices -Equitable treatment of shareholders, Transparency and disclosures, Value creation to stakeholders, Board Composition, Vision

Project Risk Analysis -Project Evaluation, Project Size, Implementation Risk, Funding Risk, Technology Risk, Track record in timely implementation, Cost overruns, and contingency

Govt. support policy role - Strategic importance to the Govt., Criticality of sector to economy

Implications of default/moral obligations - Political implications of default, Public perception of sovereign backing

Group Support- Relevance of the entity to the group, Percentage ownership by the group/promoters, Eco. Incentives to the group

Any analysis in the above framework is of immense value not only to the lending bank but also the borrower entity as also its various stakeholders viz. investors, creditors, customers, employees, and the Govt. At the same time the analysis can become a guideline for the entity towards making the necessary improvements in various spheres of its working.

Rating: Enhancing Factors

Rating can be enhanced by the following factors-

(a) Leadership position in the market

(b) Consistency in production, turnover and profitability

(c) Consistency in cash flows

(d) Consistency in quality of products

(e) Wide acceptance and uses of the product

(f) Wide market (non-dependence on certain regions, customers)

(g) Wide distribution network (domestic and overseas)

(h) Good quality of receivables

(i) Adherence to norms of corporate governance (transparency in accounts, compliance with accounting standards, compliance with environment regulations, compliance with various statutes, dealings with employees, suppliers, customers, govt., banks etc.)

(j) Integrity, competence and experience of promoter and key managerial personnel

(k) Good Record of timely implementation of projects

(l) Proven technology to withstand competition

(m) Favourable industry scenario

(n) Strong presence of brand

(o) Low gearing

(p) Favourable key financial ratios like current ratio, TOL/TNW, PAT/Net Sales, PBDIT/INTT, ROCE etc.

(q) Strong business model with suitable forward and backward linkages

(r) Strong risk management system (involving identifications of risks attached with every aspect of business and putting into place measures to mitigate them to the extent possible and feasible)

(s) Favourable government policy framework

Rating: Constraining Factors

(a) Rating can be constrained by the following factors-

(b) Cyclical nature of industry

(c) Dependence on Monsoon (rainfall)

(d) Unhedged forex risk

(e) High gearing

(f) Small market share

(g) Inconsistency in production, turnover and profitability

(h) Inconsistency in cash flows

(i) Inconsistency in quality of products

(j) Limited acceptance and uses of the product

(k) Limited market (dependence on certain regions, customers)

(l) Poor quality of receivables

(m) Low on adherence to norms of corporate governance (non-transparency in accounts, noncompliance with accounting standards, noncompliance with environment regulations, noncompliance with various statutes, unsatisfactory dealings with employees, suppliers, customers, govt., banks etc.)

(n) Low managerial competence of promoter and key managerial personnel

(o) Unsatisfactory record of timely implementation of projects

(p) Outdated technology

(q) Unfavorable industry scenario

(r) Unfavourable key financial ratios like current ratio, TOL/TNW, PAT/Net Sales, PBDIT/INTT, ROCE etc.

(s) Non-existent or incomplete risk management system

Indicative Rating Scale Long term credit facilities (Cash credit Facility is also treated as long term facility)	What do the ratings denote?
AAA	Highest credit quality rating. Shows lowest credit risk. Highest safety for timely servicing of loan obligations.
AA	High credit quality rating. Shows very low credit risk. High safety for timely servicing of loan obligations.
A	Adequate credit quality rating. Shows low credit risk. Adequate safety for timely servicing of loan obligations.
BBB	Moderate credit quality rating. Shows Moderate credit risk. Moderate safety for timely servicing of loan obligations.
BB	Inadequate credit quality rating. Shows high

	credit risk. Inadequate safety for timely servicing of loan obligations.
B	Risk prone credit quality rating. Shows very high credit risk. Low safety for timely servicing of loan obligations.
C	Poor credit quality rating. Very high likelihood of default in servicing of loan obligations.
D	Lowest credit quality rating. Shows very low prospect of recovery. Either in default or likely to be in default soon.

Indicative Long term to Short term(maturity upto 365 days) Mapping Long Term Rating	Short Term Rating
AAA	P1+
AA+	P1+
AA	P1+
AA-	P1+
A+	P1
A	P1
A-	P2+
BBB+	P2
BBB	P2
BBB-	P3+/P3
BB+	P4

+' (plus) and '-' (minus) signs are applied from '"AA" to "C" on the long term scale and from "P1" to "P3" on the short term scale to reflect comparative standing within the category.

Benefits for borrowers

Generally it is felt that the rating under Basel II is only aimed at compliance with the capital adequacy norms for the lending banks. However the rated entity is also benefited on several counts such as-

- Being a rating from an independent and reputed agency it is free from bias and has high credibility for all the stakeholders of the rated entity.

- Although it is a loan rating methodology involved is such that the final rating reflects not only the debt servicing capacity of the entity but also the overall quality of management, adherence to norms of corporate governance, competitive position, industry scenario etc. The rating rationale is made open to the public and is displayed on the website of the rating agency. The rating remains under surveillance and it can be reviewed on the basis of feedback received from the entity, new developments in the field.
- The borrowers may get pricing benefits, faster loan approval, better terms flowing from the capital relief for the bank
- The rating can provide a higher level of comfort to the prospective/existing lenders/investors

Comparison between internal rating/assessment by the banks and rating exercise by external rating agency Internal rating/assessment by bank

Particulars	Internal rating/assessment by banks	Rating by external rating agency under Basel II
Security	Due weightage is given. Comfort level of bank increases with better quality of security.	The aspect is given low weightage unless there is some structured escrow payment mechanism in place.
Cash flows and debt servicing ability	This is given high weightage. However perception of the bank may differ with that of external rating agency.	This is given very high weightage. The assessment is made after taking account all relevant factors including nature of industry, regulations, competitive position, operational efficiency, quality of management, funding policies of the borrower etc.
Transactions in account	Small irregularities are condoned. Reasons for	All overdawings, irregularities in the

	overdrawings and other irregularities on genuine grounds are discussed and remedial actions are taken.	operation of the account are viewed seriously.
Sector in which entity falls	The sector specific decisions are made on the basis of RBI directives, internal management decisions.	The domestic and global position of the sector is considered critical. Some sectors are in speculative category. In such cases higher ratings become difficult
Quality of management	This aspect is viewed more in relation to the satisfactory operations with the bank.	The aspect of good corporate governance is considered important.
Leadership position in the market /Size of operations	Small size of operations itself is not a constraint as the bank sanctions need based credit facilities with adequate security.	Strong Leadership position in the market is seen as a strong positive feature. Otherwise small size of operations constraint the rating.
Track record with the bank	Satisfactory past track record is viewed as a positive feature and becomes foundation to further business with the borrower.	Weightage is given keeping in view other criteria which may at times outweigh this aspect.

Suggested Indicative List of Readings and References

Reserve Bank of India	www.rbi.org
Securities and Exchange Board of India	www.sebi.gov.in
SBI Capital Markets Ltd.	www.sbicaps.com
Credit Rating Information Services of India Ltd. (CRISIL)	www.crisil.com
ICRA Ltd.	www.icraindia.com
Credit Analysis and Research Ltd. (CARE Ratings)	www.careratings.com
FITCH Ratings	www.fitchindia.com
Brickwork Ratings	www.brickworkratings.com
SME rating agency of India Ltd. (SMERA)	www.smera.in
Mitcon Consultancy Services Ltd.	www.mitconconsultancy.org
Mott MacDonald Private Ltd.	www.mottmac.com
Ministry of Corporate Affairs, Govt. of India	www.mca.gov.in
Credit Information Bureau (India) Ltd. (CIBIL)	www.cibil.com
Asset Reconstruction Company (India) Ltd. (ARCIL)	www.arcil.co.in
Technology Up gradation Fund Scheme for Textile and Jute Industries (TUFS)	www.txcindia.com
ECGC Ltd.	www.ecgcindia.in
Websites of various commercial banks, financial institutions, PE investors	
Small Industries Development Bank of India	www.sidbi.com
SBI Global Factors Ltd.	www.sbiglobal.in
Websites of various departments of GOI, State Governments for policy initiatives	
Leading Economic Newspapers like “The Economic Times”, “Business Standard”, “Financial Express”	
Business Magazines like “Business India”, Business World	
Journals/Publications by various trade and industry associations	
Official Journals of ICAI, ICAI (Formerly ICWAI) ICSI	

Important Legislations, Policies and Other Documents

1. Micro, Small and Medium Enterprises Development (MSMED) Act, 2006
2. National Manufacturing Policy 2011
3. FDI policy 2014
4. The Foreign Exchange Management Act (FEMA) 1999
5. SEBI guidelines, listing agreement
6. Technology Up gradation Fund Scheme (TUFS)
7. Sugar Development Fund Schemes
8. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002
9. The recovery of debts due to banks and financial institutions Act 1993
10. Special Economic Zone (SEZ) Act 2005
11. Ready Reckoner of respective state government for levy of stamp duty
12. RBI Master Circular on Prudential Norms on Income Recognition, Asset Classification and provisioning pertaining to Advances
13. RBI circulars on Corporate Debt Restructuring
14. RBI Master circulars on exposure norms for financial institutions, wilful defaulters, frauds, financing to small and medium sector
15. Model Appraisal Memorandum of the banks/FIs
16. Model Appraisal Memorandum of Private Equity Investors
17. Model letter of sanction/letter of subscription issued by lender/investor
18. Model shareholders' agreement
19. Model Loan Agreement executed by lending institutions, Security Documents
20. Title Investigation – report by empanelled lawyer

21. Valuation report by empanelled Chartered Engineer/Chartered Accountant
22. Rating model used by bank/FI for internal rating
23. Rating model used by External Credit Rating Agencies, Rating rationale

Important Terminology

(Some of the terms used in the field are briefly explained here, readers are encouraged to learn more and more such terms)

Base Rate is the minimum rate of interest charged by a bank or financial institution which is determined keeping in view its cost of funds, net interest margin and other relevant factors. Depending upon the risk profile of the borrower, income level in the account, conditions prevailing in the market the lenders make suitable additions to the base rate to arrive at the rate of interest to be levied in a particular account.

Average DSCR (Debt service coverage ratio) – Profit before interest and depr. (After tax) during the tenure of loan /interest on term loan plus repayment obligations.DSCR is calculated to ascertain the capacity of the project to honour its debt (interest and instalments of loan) obligations. Average DSCR should be in the range of 1.50 to 2 and should also been seen on year to year basis during the tenure of loan.

Average security coverage ratio indicates the proportion of fixed assets to quantum of loans– The standard norm for fixed assets of the project is 1.25 times (or more) of the quantum of term loan.

Current Ratio is the ratio of current assets (assets generally convertible into cash/cash equivalent within one year (like inventories, receivables, advances etc.) to current liabilities(liabilities payable within one year)(like creditors, expenses payable, instalments of bank loans etc.). The standard norm for current ratio is 1.33 which varies from industry to industry. Current ratio analysis is important part of CMA data submitted to banks and financial institutions.

TOL/TNW Ratio is the ratio of total outside liabilities (long term liabilities and current liabilities) to total net worth (share capital,reserves and surplus, accumulated profits). It should generally not exceed 3.

Credit monitoring arrangement (CMA) involves submission of information and data (with assumptions) in prescribed format (which include Profit and Loss Account, Balance Sheet, Cash Flow, financial ratios) by borrower to the lender for the purpose of analysis and decision making like sanction of new/additional credit facility, renewal of existing facility etc. CMA data provides the basis for the future plans and direction of the company. These are thoroughly discussed amongst borrower, lender and the practitioner before finalisation.

Basel II is a recommendatory framework for banking supervision, issued by the Basel Committee on Banking Supervision in June 2004. The objective of Basel II is to bring about international convergence of capital measurement and standards in the banking system. Based on the Basel II framework, RBI issued guidelines on the new capital adequacy framework to banks operating in India, in April 2007.

A **bank loan rating** indicates the degree of risk with regard to timely payment of the bank facility being rated. The facility includes principal and interest.

Promoters' Contribution is the amount raised by promoter group by way of equity/quasi equity/unsecured loans as part of means of finance for the project. Banks and financial institutions generally stipulate minimum promoters' contribution to ensure their continued attachment with the project as also to mitigate their risk on loan. Although it varies on case to case basis as per standard norm One third of the cost of project should be financed by the promoters through their equity contribution. This would result into a standard debt equity ratio of 2:1. The proportion of debt can be more depending on the nature of project e.g. infrastructure project.

Debt Equity Ratio (D/E) is a financial ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets. The ratio is also known as **Risk**, **Gearing** or **Leverage**.

Lender's Engineer (LE) is a specialist independent technical consultant appointed by the lender for overviewing technical aspects of the implementation and running of the project financed. It is an important monitoring tool in the hands of the lender. Such consultants usually specialise in that particular field e.g. power sector and are chosen out of the approved panel of consultants.

Lender's Financial Advisor (LFA) is a specialist independent financial consultant appointed by the lender for overviewing financial and accounting aspects of the implementation and running of the project financed. It is an important monitoring tool in the hands of the lender. Such consultants usually specialise in that particular field e.g. power sector and are chosen out of the approved panel of consultants.

Internal Rate of Return or economic rate of return is the discount rate at which the net present value of costs (negative cash flows) of the investment equals the net present value of the benefits (positive cash flows) of the investment.

Sensitivity Analysis is the analysis of impact of various possible eventualities like fall in selling price, rise in price of major raw material etc. to check whether the project would continue to be economically viable if that eventuality happens.

Moratorium periodis the initial period of (about 6 months to 18 months) after initial disbursement of loan in which only interest become due and instalments of loan does not fall due. The moratorium period is allowed for the project to stabilise before funds of repayment of loan are drawn.

Pre disbursement Conditionsas stipulated in the letter of sanction issued by the lender/investor are important stipulations like raising of promoters' contribution, statutory approvals, acquisition of land etc. which have to be complied with before disbursement of facility takes place. Before acceptance of the conditions the borrower/investee must examine the feasibility of the compliance.

Post disbursement Conditionsas stipulated in the letter of sanction issued by the lender/investor are important stipulations like submission of periodical information, allowing audit/inspection by lender's representatives etc. which have to be complied with after disbursement of facility takes place. Before acceptance of the conditions the borrower/investee must examine the feasibility of the compliance.

Consortium Financeinvolves joint financing by more than one bank, financial institution in which one of the lenders becomes lead institution to look after appraisal, legal documentation and monitoring. The arrangement provides administrative convenience to the borrower who can primarily deal with the lead bank.

Multiple Finance involves financing by more than one bank, financial institution. In the absence of consortium each of the lenders individually deals with the borrower for the purpose of appraisal, legal documentation and monitoring which makes the process cumbersome for the borrower.

Lead Bank which generally takes the highest share is considered to be the leader of the consortium of banks in case of joint financing of a project. It generally is responsible for appraisal, legal documentation and monitoring. In consortium meetings representative of lead bank usually presides over.

CA certificate for expenditure incurred is a critical document based on which banks and financial institutions rely for making disbursement of loans to projects under implementation. It is furnished in the prescribed format on the basis of verification of books of accounts of borrower and is seen with reference to means of finance and terms and conditions laid down in the letter of sanction issued by the lender.

Chartered Engineer's certificate for expenditure incurred is a critical document based on which banks and financial institutions rely for making disbursement of loans to projects under implementation. It is furnished in the prescribed format on the basis of physical progress of the project, fixed assets created at the site and are seen with reference to means of finance and terms and conditions laid down in the letter of sanction issued by the lender.

Techno Economic Feasibility Study Report or popularly known as project report involves appraisal of a project to check whether it is technically feasible and economically viable. It is one of the key documents based on which investor/lender takes a decision to invest/lend.

Corporate Debt Restructuring as spelt out by RBI is meant for facilitating timely and transparent mechanism for restructuring corporate debts of viable corporate entities affected by internal or external factors, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned.

Stock and Receivables Audit conducted for the projects in operation involves verification of authenticity of inventories and receivables of borrower units and is usually conducted by auditors who are empanelled by banks and financial institutions. Since lenders have only floating charge over stock and receivables such audits are necessary to provide comfort level to them about the quantity, quality, valuation and insurance of stock as also recoverability of receivables as being disclosed in the monthly stock and receivables statements submitted by the borrower to the lender.

Asset Reconstruction companies (ARCs) are formed to acquire non-performing loans (NPL) from banks and financial institutions with the objective of focused management and optimal recovery, thereby relieving banks and financial institutions of the burden of non-performing loans and allowing them to focus on core activities.

Credit Information Bureau (India) Limited (CIBIL) is India's first Credit Information Company (CIC) founded in August 2000. CIBIL collects and maintains records of an individual's payments pertaining to loans and credit cards. These records are submitted to CIBIL by member banks and credit institutions, on a monthly basis. This information is then used to create Credit Information Reports (CIR) and credit scores which are provided to credit institutions in order to help evaluate and approve loan applications. CIBIL was created to play a critical role in India's financial system, in order to help loan providers manage their business or help consumers secure credit faster and at better terms.

Bank Guarantee is an instrument issued by the Bank in which the Bank agrees to stand guarantee against the non-performance of some action/performance of a party. The quantum of guarantee is called the 'guarantee amount'. The guarantee is issued upon receipt of a request from 'applicant' for some purpose/transaction in favour of a 'Beneficiary'. The 'issuing bank' will pay the guarantee amount to the 'beneficiary' of the guarantee upon receipt of the 'claim' from the beneficiary. This results in 'invocation' of the Guarantee. Bank guarantee may be bid bond guarantee, advance payment guarantee, guarantee for warranty obligation, loan guarantee, deferred payment guarantee etc. Banks generally grant specific bank guarantee limits to their customers in their letters of sanction. Bank guarantee limit is considered to be a non-fund based facility.

Buyback Agreement is executed between the promoters and the investors like financial institutions, Private Equity firms etc. in which suitable framework with terms and conditions is provided through which interests of investors are protected. It also contains mechanism of valuation of shares and timing of exit.

ECGC Ltd. (formerly known as Export Credit Guarantee Corporation of India Ltd.) runs various schemes for exporters and banks to provide export credit insurance. Banks generally insist on their borrowers to get their export credit covered under ECGC schemes.

Wilful default broadly covers the following:

(a) Deliberate non-payment of the dues despite adequate cash flow and good net worth;

(b) Siphoning off of funds to the detriment of the defaulting unit;

(c) Assets financed either not been purchased or been sold and proceeds have misutilised;

(d) Misrepresentation / falsification of records;

(e) Disposal / removal of securities without bank's knowledge;

(f) Fraudulent transactions by the borrower.

Non-performing asset (NPA) is a classification used by financial institutions that refer to loans that are in jeopardy of default. Once the borrower has failed to make interest or principal payments for 90 days the loan is considered to be a non-performing asset.

A non-performing asset (NPA) is a loan or an advance where;

1. Interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
2. The account remains 'out of order' for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC),
3. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
4. Interest and/or instalment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and
5. Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.
6. Non-submission of Stock Statements for three continuous quarters in case of Cash Credit Facility.
7. No active transactions in the account (Cash Credit/Over Draft/EPC/PCFC) for more than 90 days.

Banks are required to classify non-performing assets further into the following three categories based on the period for which the asset has remained non-performing and the realisability of the dues:

1. Sub-standard asset: a substandard asset is one which has been classified as NPA for a period not exceeding 12 months.
2. Doubtful Asset: a doubtful asset is one which has remained NPA for a period exceeding 12 months.
3. Loss assets: where loss has been identified by the bank, internal or external auditor or central bank inspectors. But the amount has not been written off, wholly or partly.

"**Capital Adequacy"** is the ratio of capital funds (own funds or net worth) to risk weighted assets. Under the Basel I framework all assets were given a uniform risk weightage of 100% while the stipulated minimum capital adequacy ratio (CAR) for a bank was 9%. Under Basel II while the minimum

CAR is unchanged at 9% the risk weights assigned to assets would be proportionate to the credit risk of these assets.

Manufacturing Enterprises i.e. Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

(i) A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;

(ii) A **small enterprise** is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and

(iii) A **medium enterprise** is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No.S.O. 1722(E) dated October 5, 2006.

Service Enterprises i.e. Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below.

(i) A **micro enterprise** is an enterprise where the investment in equipment does not exceed Rs.10 lakh;

(ii) A **small enterprise** is an enterprise where the investment in equipment is more than Rs.10lakh but does not exceed Rs. 2 crore; and

(iii) A **medium enterprise** is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore.

A **Greenfield investment** is the investment in a project in an area where no previous facilities exist. Accordingly **Greenfield projects** are new factories, power plants, airports which are built from scratch. When existing facilities are modified/upgraded these are called **Brownfield projects.**

An **Escrow account** refers to an arrangement where assets or revenue streams are held in the safe custody of a Bank as safety against a situation when a contract isn't fulfilled. The escrow arrangement ensures that obligations between parties are met with and transactions are operated in terms of the underlying agreement. An Escrow account is typically used for lending arrangements, project financing, securitisations, mergers and acquisitions, buy-back of shares, take-overs, litigations, purchase and sale of land etc.

Mezzanine financing is basically debt capital that gives the lender the rights to convert it to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to debt provided by senior lenders such as banks

Bridge loan is a type of gap financing arrangement wherein the borrower can get access to short-term loans for meeting short-term liquidity requirements. It helps in bridging the gap between short-term cash requirements and long-term loans. These loans are normally extended for a period of 12 months. These loans are generally provided at relatively higher rate of interest and are normally backed by a collateral security like equity, debentures etc.

Adhoc credit facility is the facility extended for meeting temporary exigencies like seasonal spurt in business activity, special order etc. to existing borrowers. Such facilities are extended for a short period of time.

Revolving letter of credit is a single letter of credit that covers multiple-shipments over a long period. Instead of arranging a new letter of credit for each separate shipment, the buyer establishes a letter of credit thatrevolves invalue (a fixed amount is available which is replenished when exhausted).

Factoring is a financial transaction and a type of debtor finance in which a business sells its accounts receivable (i.e., invoices) to a third party (called a factor). Factor gets charges for the facility extended.

Corporate governance is the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company'srelationship with its all stakeholders viz. financiers, customers, management, employees, government, and the community with an aim to balance the interests of its stakeholders.

Risk management is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities.

A **global depository receipt** (GDR) is a certificate issued by a depository bank which purchases shares of foreign companies and deposits it on the account. GDRs represent ownership of an underlying number of shares of a foreign company and are commonly used to invest in companies from developing or emerging markets by investors in developed markets. Prices of global depositary receipt are based on the values of related shares, but they are traded and settled independently of the underlying share. It is a negotiable instrument which is denominated in some freely convertible currency. GDRs enable a company, the issuer, to access investors in capital markets outside of its home country. Several international banks issue GDRs, such as JPMorgan Chase, Citigroup, Deutsche Bank, The Bank of New York Mellon. GDRs are often listed in the Frankfurt Stock Exchange, Luxembourg Stock Exchange, and the London Stock Exchange.

Quasi Equity is a category of debt taken by a company that has some traits of equity, such as having flexible repayment options or being unsecured. Examples of quasi-equity includemezzanine debt and subordinated debt. Sometimes interest free unsecured loans (to be retained in the company till the currency of bank loans) brought in by promoter group are considered as quasi equity.

Ballooning is the mechanism in which repayment of debt is scheduled in unequal instalments with instalments in final phase significantly larger than the payments preceding it. For example only 5% of loan is scheduled for repayment in first three years and thereafter repayment increases. The system is useful in projects where cash flows in initial years are slow which increase in later years with pick up in level of activity.

External Commercial Borrowing (ECB) is any money that is borrowed from foreign sources for financing the commercial activities in India. The Government of India permits ECBs as a source of finance for Indian corporates for expansion of existing capacity as well as for fresh investment. ECBs include commercial bank loans, buyers' credit, suppliers' credit, securitised instruments like fixed rate bonds, Credit from official export credit agencies and commercial borrowings from the private sector window of Multilateral Financial Institutions such as International Finance Corporation (Washington), ADB etc.

Basic Information/Details Required to be covered in Project Report and Documents/Papers to be Submitted For Techno-Economic Viability (TEV) Study

1. General

(a) Introduction giving background of the promoters and the concern, its office and factory locations (unit wise, if there are multiple locations); reasons for starting of the proposed activity or for expansion.

If a company - duly certified copy of Memorandum & Articles of Association.

If an existing unit, key figures of the last three years performance including production and sales (quantity and value), net profit, net worth, unsecured loans.

Similar details to be submitted for the associate concerns, if any.

(b) Last three years complete balance sheets and profit and loss accounts of the concern and its *associate/sister concerns*, including Sales and Production Data (with quantity and value) and Groupings/Annexures to be submitted along with the application.

(c) Up-to-date sales and production figures (quantity and value) of the concern and its *associates* since the date of the last balance sheet.

(d) Copy of Application to the Bank with all the Annexures thereto and earlier Project Report, if any.

2. Promoters

(a) Bio-data of promoters and the key technical/managerial/financial and marketing personnel employed with their age, qualifications and experience related to the proposed activity with supporting documents in regard to qualifications/experience.

(b) Management set-up-Organisation Chart giving the functional responsibilities and remuneration including perquisites.

3. Product

(a) Names of products with technical specifications

(b) Proposed product-mix quantity-wise

(c) End-users of the product

(d) Special features vis-a-vis competitors' (mention also the names and addresses of the competitors including local) with particular mention of the features giving the competitive edge.

(e) Manufacturing Process with Flow-chart

(f) Expected yield (or wastage), and comparison with others

(g) Estimated returns, rejects, and their salability etc.

(h) By-products (if any)/Wastage and their salability

(i) Pricing of products vis-a-vis competitors

Trend of prices in the past. Applicable excise/sales tax and its working along with MODVAT benefit.

(j) Whether price subject to Government control and the relevant details

(k) Costing of products backed by documents in support of the direct costs like raw materials, consumables, power, water and fuel and other inputs.

(l) Calculation of export benefits (duty-drawback etc.), if product exported.

4. Technical Knowhow

(a) Arrangements for technical knowhow

(b) Background of knowhow suppliers (bio data etc.) and salient features of the agreement with the knowhow suppliers specifying the terms of payment, production parameters, penalties etc.

(c) Copy of technical knowhow agreement, if any, to be submitted.

5. Plant & Machinery

(a) Technical specifications of proposed machinery and equipment with individual power requirements

Technical literature to be submitted along with the application

(b) Comparative quotations in respect of machinery and equipment and copies of orders (if already placed) to be submitted with the application

(c) Estimate of excise/import duties, sales tax, freight, octroi, erection/installation and other charges to arrive at landed cost of the machinery.

(d) If secondhand machinery, a chartered engineer's certificate as to its technical condition, value and residual useful life.

(e) Calculations for excise refund/sales tax set-off/modvat etc.

(f) Delivery and Installation Schedule for plant and machinery

(g) Details of aftersales service available

(h) Reasons for selection of a particular make of machinery and equipment (from viewpoint of say price, quality, delivery schedule, payment terms, after sales service etc.)

(i) Plant layout drawn to scale

(j) Production capacity calculation (installed and optimum possible) - with stage wise balancing of the capacity - keeping in view proposed no. of shifts working.

(k) Projected capacity utilisation with justification.

6. Locational Aspects

(a) General particulars of the location, accessibility, availability of social infrastructure and other amenities.

(b) Reasons for the site selection along with the specific locational advantages if any

(c) Present stage of development of the site, if not developed, and the likely time for its complete development.

(d) If in backward area, backward area benefits in detail including subsidy (rate and amount) and when available, sales tax benefit *with calculations*. If an existing unit, extent of the benefits availed till date and balance remaining along with relevant calculations.

I Land & Building

(a) Land

Important points from the purchase agreement including name of seller, land tenure, cost ofacquisition.

Copies of Purchase Documents & Title Verification Report to be submitted.

(b) Building

Salient particulars regarding built-up area, suitability to the proposed activity, type of construction, FSI consumed etc. to be included in the Project Report

Approved plans for construction to be submitted - approval from competent authorities like FDA in the case of drugs and from Explosive Department in the case of explosives etc. and how the stipulated requirements of these authorities are being complied with.

(c) Architect's estimate for land development (including boundary wall/fencing, land-levelling, gates etc.) and building construction cost including factory building, ancillary buildings like stores, workers' quarters, security, utilities etc.).

II Power

(a) Power requirements - for individual machinery and for lighting - estimate of connected load, maximum demand, power factor and the arrangements being made for ensuring continuous supply (viz. separate feeder line, if any)

(b) Power Rate per unit (if differential then rates applicable for different periods in the day), duty, minimum demand charges etc. with supporting document

(c) Power Sanction Letter

(d) Electrical Installations (including transformer, CTPT, cabling, wiring D.G. Set) details supported by quotations/estimates of electrical contractor.

(e) Deposit payable to electricity authorities.

(f) Power situation in the area and the justification for D.G. set if required to be installed.

(g) Overall power cost estimates with back-up calculations.

III Water

(a) Water requirements estimate with supporting calculations.

(b) Availability and cost.

(c) Water sanction letter (to be submitted with application)

(d) Storage equipment specification and cost. (Quotation to be submitted)

IV Fuel

(a) Type of heating system required

(b) Fuel requirements estimate) Fuel availability and cost

(c) Boiler, specification with cost. (Quotation to be submitted)

V Compressed Air

Estimate of requirement, compressor specifications, cost. (Quotation to be submitted)

VI Transportation

Transportation arrangements for raw materials and finished goods with cost details.

VII Licences (to be submitted with application)

(a) SSI Registration or Other Registrations/Licenses required as the case may be.

(b) Pollution Control - NOC/Consent

(c) `NOC from local authorities for setting up the unit

(d) Other statutory clearances, if any, required, for industries such as food, drugs, insecticides,

(e) food processing, explosives etc. as the case may be

Particulars of above to be incorporated in the Project Report

7. Raw Materials

(a) Requirements (Quantity and Value) of individual raw materials with *technical specifications* of the raw material.

(b) Availability of the different raw materials with names of major suppliers with rates for the required specifications and other terms of supply.

(c) Whether covered under quota system and if so the details.

(d) If imported, details of the source and license, if any required, along with the credit period available and other terms of supply (Quotations/Invoices of raw materials to be submitted)

8. Staff & Labour

(a) Function wise requirements with Nos. and individual monthly salary/wages for each shift of working for existing and proposed operations and details of perquisites proposed.

(b) Availability of skilled labour at the proposed location

(c) Industrial climate at the location (labour relations etc.)

9. Selling & Marketing

(a) Demand and Supply estimates - existing and future - for the area in which the products are to be marketed - with source of the data. Justification for the proposed sales levels

(b) Names and addresses of the existing competitors operating in the area where the products are to be marketed, with their present capacities and utilisation thereof today.

(c) General scenario of the particular industry present and future including existing and likely future competition along with source of the data. d) Letters of inquiry, if any received by the unit for the products.

(d) MARKETING TIE-UP - names and addresses of main customers with their present and future requirements and from where being presently met by these customers.

(e) Marketing arrangements in COMPLETE detail (manpower deployment, area of operation, advertisement and other promotional measures, whether through distributors or direct, commission to intermediaries (vis-a-vis the competitors) and other marketing costs break-up etc.)

10. Profitability

(a) Projected production and sales (after accounting for adjustment in opening and closing stocks) with quantity and value and if the products exported, relative break-up be given of indigenous and export sales along with export benefits.

(b) Unit Costing (costing per unit which may be per piece) of the products backed by quotations for raw materials (with modvat details), consumables, packing material and other basic inputs. If products exported, costing break-up in respect of exports to be given.

(c) Complete next 5 to 7 Years Projections (Balance-Sheet, Profit & Loss A/cuss and Fund/Cash Flow (in CMA Data Form - prescribed by Bank) along with detailed assumptions for each item of profit & loss accounts, and schedules/annexure for depreciation - straight line and WDV -, income tax computation (based on applicable number of shifts working), loan repayment and interest, Debt Service Coverage Ratio (DSCR) and Break-Even Calculations

(d) Comments on profitability in particular the ratio: Profit before Interest, Depreciation and Tax PBIDT/Sales compared to average level of the industry.

11. Working Capital Requirements

(a) Working capital assessment (in CMA Data Form or prescribed Bank's application form)

(b) Normal holding pattern (no. of months) for

Raw materials

Packing material

Stores & consumables

Semi-finished goods

Finished goods

Receivables

and normal credit (in no. of months) received for purchases (with and without L/C) and normal creditor on expenses

to be justified commented upon vis-a-vis RBI's Norms, if any/general industry levels.

(c) Whether credit restrictions of RBI applicable to stocks, and if so the relative particulars

(d) Deviations vis-a-vis RBI norms/past levels (if existing unit) to be explained

12. Cost of Project

(a) Land, land development and building cost estimates as stated under `locational aspects' above

(b) Plant & Machinery cost estimates as mentioned under the relative heading above, with estimate of cost for excise, sales tax, freight, octroi, installation charges etc.

(c) Technical Knowhow cost along with the tax payable, if any

(d) Other Miscellaneous & Fixed Assets cost estimates (electricals, plumbing and sanitary fittings, furniture and fixtures, cooling tower, chilling plant, quality control equipment etc.). Quotations to be submitted.

(e) Preliminary & Pre-operative expenses estimate (with break-up of all the heads including interest and salaries during construction period, and working notes) and how proposed to be appropriated.

(f) Calculation of contingencies

(g) Cost of Project already incurred item wise with CA certificate; and to be incurred.

13. Means of Finance

(a) Proposed means of finance including term loan, capital, unsecured loans, subsidy etc.

(b) If subsidy to be availed, calculation thereof and the time-period in which it is expected to be received.

(c) CA certificate as to the cost of project already incurred and the sources already raised for meeting the project cost already incurred.

(d) Details of cost to be incurred and the sources of finance thereof.

14. Schedule of Implementation (New/Expansion/Shifting)

Time frame for commencement and completion of the activities of:

acquisition of licenses/permissions

acquisition of land

building construction

plant & machinery - placement of orders, delivery, installation etc.

manpower selection and training

trial runs

and date of commencement of commercial production giving preferably a GANTT/PERT Chart.

Guidelines for Empanelment of Outside Consultants for Techno-Economic Viability (TEV) Study

Norms for Empanelment of Consultants (may be differ from Bank to Bank)

The following aspects are to be looked at for considering empanelment;

I. Requisite technical qualification;
II. Proven track-record of industrial consultancy;
III. Registration/affiliation with professional bodies;
IV. Knowledge of financial analysis;
V. Empanelment by other bank/FIs (desirable but not essential)
VI. Satisfactory status reports from bankers/previous employers
VII. Reasonability of consultancy charges
VIII. Adequate and definite office space

Methodology and process of Empanelment

A formal request may be obtained from outside consultants seeking approval for inclusion of their name in the panel of approved outside consultants as per application form placed in Annexure 3.

(A) Scope of Assignment

Project appraisal & Techno Economic Viability study (TEV) of Industrial Manufacturing units, assessment of finance requirement and capacity to service debt, market study/research, management consultancy, assessment of potential viability in sick units and their rehabilitation. Comments on each and every component of Cost of project on its acceptability and price competitiveness along with comments on machinery suppliers/vendors are to be made. Empanelment should be sought for specific industrial segments based on the areas of expertise of the consultancy firm/organization.

(B) Pre-requisites for enlistment as Consultant

1. Technical Expertise & qualification

The consultancy firm/company should have specialist staff with minimum

BE/B.Tech/CA/ICWA or equivalent qualification in the field of service offered on the rolls of employment or available on retention basis. Such specialist staff may include senior retired engineers/professors or bureaucrats. Technically qualified staff should be a minimum of 10 and include both technical and finance professionals.

2. Experience

The firm/company should be engaged in the activity of TEV preparation for a minimum of 5 years and the promoters/staff should have minimum 10 years of experience in the field of specialization/services.

Consultants already listed with other banks/financial institutions will be given due weightage, while considering empanelment. This, however, is not a pre-condition for empanelment.

3. Proper knowledge of financial analysis

The firm/company should have good team of technical/professional persons having financial qualifications like MBA, CA, ICWAI or any equivalent qualification.

4. Proven track-record of industrial consultancy

The firm/company should have a good track record in providing TEV consultancy. The actual performance of 3 projects appraised by the company in past 3 years would be evaluated.

5. Satisfactory reference reports from bankers

6. Constitution

Partnership firm, private/public limited company with network of offices across India. Individuals, Proprietorship-Concern and Co-operative Society have been excluded from the purview of these ground rules for empanelment of outside consultants for TEV Study.

7. The organization should have a fixed office premises with reasonable space and adequate infrastructure.

(C) Financial status/ Background

Copies of last 3 years financial statements will be obtained in case of firms/companies etc. Cross checking of their conduct/details through market reports may be done. Reports from other Banks where empanelled, may be obtained.

(D) Consultancy charges

The charges/fees of the consultants should be reasonable and in line with the market trend. It is clarified that the service charges/fees may vary and depends on the size and scope of the project, for which consultant is to finalize the charges with the project company.

(E) Procedure for empanelment

Provide all the information requested in the application form. Enclose all the supporting papers as listed below under„ F ‟Attach the pay order/Demand Draft of applicable charges, favouring Bank‟ with the application. Submit the same to the respective Regional Office / Field General Manager‟s Office falling in the area. The Regional Office / Field General Manager's Office will forward the application to Project Appraisal Cell, Corporate Office after scrutiny of the credentials along with their views and recommendations.

(F) Copies of Documents to be submitted along with application

1. Registration with local authorities.
2. Memorandum & articles of association for company and registered partnership deed along with the Registrar of Firm certificate in case of partnership firms.
3. Audited Balance sheets for the last three years.
4. Other documents supporting expertise.
5. Registrations with professional bodies/organizations.
6. Letters of empanelment from other banks/financial institutions.
7. TEV reports prepared in the past (at least last three along with present status of these projects).
8. CV of all key personnel, including that of technical/financial experts.
9. Letters of assignments from other clients.
10. Copies of „No Objection Certificate‟ in case of present employers of part-time professionals.
11. Copies of consent letters from associates.

(G) Validity

This empanelment will be valid for two years. The consultant will be required to apply for renewal of empanelment along with renewal charges, one month prior to anniversary date of original empanelment/last renewal to the branch. Failure to do so will require the consultant to pay charges as applicable for fresh empanelment.

(H) Charges for empanelment

For first time approval – Rs 25000/- + Applicable Service Tax

For renewal – Rs 5000/- + Applicable Service Tax

NOTE: The charges given above are in order to recover the cost involved in the process and are non-refundable.

The complete document as detailed above, complete in all respects, should be submitted by the intending applicants. The details of the applicants and their experience shall be furnished in the prescribed "Application Format" only. Wherever required and if the space provided is not sufficient, particulars can be furnished in Annexures, but such details shall be clearly mentioned in the respective columns of the Application Format. Applicant shall enclose latest copies of brochures and technical documentation giving additional information about the applicant. Each page of the document shall be duly signed by the Applicant or their authorized representative.

GENERAL RULES AND INSTRUCTIONS TO THE INTENDING APPLICANTS:

1. The empanelment of Consultants is proposed for conducting Techno Economic Viability Study of the new and existing projects. However, the Bank has the right to accept or not, the TEV report at its own discretion.

2. The Consultants should clearly mention in the application, their domain of expertise for which they are seeking empanelment.

3. No costs incurred by the applicant in applying, in providing necessary clarifications or attending discussions, conferences or site visits will be reimbursed by the Bank.

4. Documentary proof with respect to the details furnished in the application form regarding eligibility criteria shall be furnished along with the application form. In this regard, copies of the work order and completion certificate and/or such documents shall be submitted.

Incomplete applications or applications without proper proofs for establishing their credentials will be summarily rejected and no correspondence will be entertained in this regard.

5. If the application is made by a partnership firm, a certified copy of the partnership deed, current address of the firm and the full names and current addresses of all the partners of the firm shall also accompany the application.

6. If the application is made by a limited company, it shall be signed by a duly authorized person holding the power of attorney for signing the application, in which case certified copies of the power of attorney and the certification of incorporation, Memorandum of Articles of Association shall accompany the application.

7. The empanelment shall be made for specific industrial segment/s and shall be valid for a period of two years unless otherwise revoked.

8. The evaluation will be based on the experience of the consultants and their financial capabilities and may also include inspecting the works furnished by them for which, necessary co-ordination shall be made by them. Decision of the Bank regarding selection / rejection for empanelment will be final and binding and no further correspondence will be entertained. The empanelled consultants will only be informed by post.

9. If information and details furnished by applicants are found to be false at any time in future or any information withheld, which comes to the notice of the Bank at a later date, the empanelment of such applicant will be cancelled immediately. The consultants should send their application to the Regional Offices located in their respective jurisdiction.

10. Bank reserves its right to reject any/or all the applications without assigning any reasons, whatsoever.

12. Bank reserves the right to approve consultants of repute directly based on their credentials available in the Public Domain with or without charges.

Miscellaneous

1. Regional offices / Field General Manager's Office shall forward the applications along with the recommendations after verifying the credentials of the consultants.

2. Bank may invite applications from intending organizations for empanelment.

3. The existing approved consultants should apply for renewal/review of their empanelment based on the above guidelines.

4. Based on credentials available in the public domain, the Bank may directly approve consultants of repute without any fees and without seeking formal application.

CMA FORMAT

Name of the Borrower: ____

ASSESSMENT OF WORKING CAPITAL REQUIREMENTS
(For Manufactures)

FORM I

Particulars of the existing/ proposed limits from the Banking System
(Limits from all Banks and Financial Institutions as on date of application)

(Amount Rs. in lakh)

Sl. No.	Name of Bank/ Financial Institution	Nature of Facility	Existing Limits	Extent to which limits were utilised during the last 12 months		Balance outstanding as on (Date….)	Limits now requested
				Maximum	Minimum		
A. Working Capital Limits							
1							
2							
3							
4							
5							
6							
7							
8							

Sl. No.	Name of Bank/ Financial Institution	Sanctioned Limit	Outstanding as on	Overdues, if any	Remarks
B. TERM LOANS/ DPGs (Excluding Working Capital Term Loans)					

ABC Pvt. Ltd.				
				(Amount Rs. Lakh)
	As per Profit & Loss accounts/ estimates for the year ended/ending			
	31-Mar-2011	31-Mar-2012	31-Mar-2013	31-Mar-2014
	Last 2 years actuals		Curr. Year	Following
	Audited	Audited	Estimates	Year-proj
	1	2	3	4
Number of Months	12	12	12	12
Gross Sales				
(i) Domestic Sales				
(ii) Export Sales				
(iii) Other Operating Income				
TOTAL	0.00	0.00	0.00	0.00
Less Excise Duty				
Net Sales (1 - 2)	0.00	0.00	0.00	0.00
% age rise (+) or fall (-) in net sales				
as compared to previous year				
Cost of Sales				
(i) Raw materials (including stores and other items used in the process of manufacture)	0.00	0.00	0.00	0.00
(a) Imported				
(b) Indigenous				
(ii) Other Spares	0.00	0.00	0.00	0.00
(a) Imported				
(b) Indigenous				

(iii) Power and fuel				
(iv) Direct labour				
(Factory wages & Salaries)				
(v) Other mfg. expenses				
(vi) Depreciation				
(vii) SUB-TOTAL (I TO VI)	0.00	0.00	0.00	0.00
(viii) Add : Opening stocks-in-process		0.00	0.00	0.00
Sub-Total	0.00	0.00	0.00	0.00
(ix) Deduct : Closing stocks-in-process				
(x) Cost of production	0.00	0.00	0.00	0.00
(xi) Add : Opening Stock of finished goods		0.00	0.00	0.00
Sub-Total	0.00	0.00	0.00	0.00
(xii) Deduct : Closing Stock of finished goods				
(xiii) Sub-Total	0.00	0.00	0.00	0.00
(Total cost of sales)				
Selling, general and admn. expenses				
Sub-Total (5 + 6)	0.00	0.00	0.00	0.00
Operating profit before interest (3 - 7)	0.00	0.00	0.00	0.00
Interest				
Operating profit after interest (8 - 9)	0.00	0.00	0.00	0.00
(i) Add other non-operating income				
(a) Interest				
(b) Dividend				
(c) Misc. Income				
(d)				
Sub-total (income)	0.00	0.00	0.00	0.00

(ii) Deduct other non-operating expenses				
(a) Misc. Exp. Written off				
(b)				
(c)				
Sub-total (expenses)	0.00	0.00	0.00	0.00
(iii) Net of other non-operating income/	0.00	0.00	0.00	0.00
expenses [net of 11(i) & 11(ii)]				
Profit before tax/loss [10+11(iii)]	0.00	0.00	0.00	0.00
Provision for taxes				
Prior years adjustment (if any)				
Net Profit/loss (12 - 13 + 13a)	0.00	0.00	0.00	0.00
(a) Equity dividend paid				
(b) Dividend Rate				
Retained Profit (14 - 15)	0.00	0.00	0.00	0.00
Retained Profit/ Net Profit (% age)				

ANALYSIS OF BALANCE SHEET					
	ABC Pvt. Ltd.	(Amount Rs. Lakh)			
		As per balance sheet as at			
		31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14
	Liabilities	Last 2 years actuals	Curr. Year	Following	
		Audited	Audited	Estimates	Year-proj
		1	2	3	4
	Current Liabilities				
1.	Short-term borrowings from Banks (include. bills purchased,				

	discounted & excess				
	borrowings placed on repayment basis)				
	(i) From applicant Bank				
	(ii) From other Banks				
	(iii) (of which BP & BD)				
	Sub-total (A)	0.00	0.00	0.00	0.00
2.	Short term borrowings from others				
3.	Sundry creditors (Trade)				
4.	Advance payments from customers/				
	deposits from dealers				
5.	Provision for taxation				
6.	Dividend payable				
7.	Other statutory liabilities				
	(due within one year)				
8.	Deposits/Instalments of term loans/DPGs/				
	debentures, etc. (due within one year)				
9.	Other current liabilities & Provisions				
	(due within one year)				
	(specify major items)				
	Sub-total (B)	0.00	0.00	0.00	0.00
10.	TOTAL CURRENT LIABILITIES	0.00	0.00	0.00	0.00
	(total of 1 to 9)				
	Term Liabilities				
11.	Debentures (not maturing within one year)				
12.	Preference Shares				
	(redeemable after one				

	year)				
13.	Term loans				
	(exclude. instalments payable within one year)				
14.	Deferred Payment Credits				
	(exclude. instalments due within one year)				
15.	Term Deposits				
	(repayable after one year)				
16.	Other term liabilities				
17.	TOTAL TERM LIABILITIES	0.00	0.00	0.00	0.00
	(Total of 11 to 16)				
17a.	Deferred Tax Liabilities (Net)				
17b.	Share Application Money pending allotment				
18.	TOTAL OUTSIDE LIABILITIES (10 + 17)	0.00	0.00	0.00	0.00
	Net Worth				
19.	Ordinary Share Capital				
19a.	Preference Share Capital				
20.	General Reserve				
21.	Revaluation Reserve				
22.	Other Reserves (excluding provisions)				
23.	Surplus (+) or deficit (-) in				
	Profit & Loss Account				
24.	Net Worth	0.00	0.00	0.00	0.00
25.	Total Liabilities (18 + 24)	0.00	0.00	0.00	0.00

ANALYSIS OF BALANCE SHEET

					(Amount Rs. Lakh)
		As per balance sheet as at			
		31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14
	Assets	Last 2 years actual (As per audited bs)	Curr. Year Estimates		Following Year-proj
		1	2	3	4
	Current Assets				
26.	Cash and Bank balances				
27.	Investments				
	(other than long term investments)				
	(i) Government & other Trustee Securities				
	(ii) Fixed deposits with banks				
28.	(i) Receivables other than deferred &				
	exports (including bills purchased &				
	discounted by banks)				
	(ii) Export Receivables (incldg. Bills				
	purchased/discounted by banks)				
29.	Instalments of deferred receivables				
	(due within one year)				
30.	Inventory	0.00	0.00	0.00	0.00
	(i) Raw materials	0.00	0.00	0.00	0.00

	(incldg. stores &				
	other items used in the process of				
	manufacture)				
	(a) Imported				
	(b) Indigenous				
	(ii) Stocks-in-process				
	(iii) Finished Goods				
	(iv) Other consumable spares				
	(a) Imported				
	(b) Indigenous				
31.	Advances to suppliers of raw materials				
	and stores/spares				
32.	Advance payment of taxes				
33.	Other current assets (specify major items)				
34.	TOTAL CURRENT ASSETS	0.00	0.00	0.00	0.00
	(Total of 26 to 33)				
	Fixed Assets				
35.	Gross Block (land & building, machinery,				
	other assets)				
36.	Depreciation to date				
37.	NET BLOCK (35-36)	0.00	0.00	0.00	0.00
37a.	Capital Work in Progress (CWIP)				
	Other Non-Current Assets				
38.	Investments/ book debts/ advances/	0.00	0.00	0.00	0.00
	deposits which are non-				

	Current Assets				
	(i) (a) Investments in subsidiary				
	companies/affiliates				
	(b) Others				
	(ii) Advances to suppliers of Capital				
	goods & contractors				
	(iii) Deferred Receivables				
	(maturity exceeding one year)				
	(iv) Debtors more than 6 months				
	(v) Others				
38. a	Deferred Tax Assets (Net)				
39.	Non-consumable stores & spares				
40.	Other Non-current assets including dues				
	from directors				
41.	TOTAL OTHER NON-CURRENT ASSETS	0.00	0.00	0.00	0.00
	(Total of 38 to 40)				
42.	Intangible assets (patents, goodwill, prelim.				
	expenses, bad/doubtful debts not provided				
	for etc.)				
43.	TOTAL ASSETS (Total of 34, 37, 41 & 42)	0.00	0.00	0.00	0.00
44.	TANGIBLE NET WORTH (24 - 21- 42)	0.00	0.00	0.00	0.00
45.	NET WORKING CAPITAL	0.00	0.00	0.00	0.00

	[(17 + 24) - (37 + 41 +42)] to tally with (34 - 10)				
46.	Current Ratio (Items 34 / 10)				
47.	Total Outside Liabilities/Tangible Net Worth				
	(18/ 44)				
48	Total Term Liabilities/Tangible Net Worth				
	(17/ 44)				
	Additional Information				
(A)	Arrears of depreciation				
(B)	Contingent liabilities				
	(i) Arrears of cumulative dividends				
	(ii) Gratuity liability not provided for				
	(iii) Disputed excise/customs/tax liabilities				
	(iv) Other liabilities not provided for				
	CHECK (Total assets - Liabilities)	0.00	0.00	0.00	0.00

FORM IV

COMPARATIVE STATEMENT OF CURRENT ASSETS & CURRENT LIABILITIES

ABC Pvt. Ltd.			(Amount Rs. Lakh)			
			As per balance sheet as at			
			31-Mar-12	31-Mar-13	31-Mar-14	
	Assets	Norms	Last year	Curr. Year	Following	Peak reqt.
			Actuals	Estimates	Year-proj	As on
		1	2	3	4	5
A.	Current Assets					
1.	Raw materials (incldg. stores & other items		0.00	0.00	0.00	
	used in the process of manufacture)					
	(a) Imported		0.00	0.00	0.00	
	Months' consumption		0.00	0.00	0.00	
	(b) Indigenous		0.00	0.00	0.00	
	Months' consumption		0.00	0.00	0.00	
2.	Other Consumable spares, excluding		0.00	0.00	0.00	
	those included in 1 above					
	(a) Imported		0.00	0.00	0.00	
	Months'		0.00	0.00	0.00	

	consumption					
	(b) Indigenous		0.00	0.00	0.00	
	Months' consumption		0.00	0.00	0.00	
3.	Stocks-in-process		0.00	0.00	0.00	
	Months' cost of production		0.00	0.00	0.00	
4.	Finished Goods		0.00	0.00	0.00	
	Months' cost of sales		0.00	0.00	0.00	
5.	Receivables other than deferred & exports (including bills purchased & discounted by bankers)		0.00	0.00	0.00	
	Months' domestic sales excluding deferred payment sales		0.00	0.00	0.00	
6.	Export Receivables (incldg. bills purchased/ discounted by banks)		0.00	0.00	0.00	
	Months' export sales		0.00	0.00	0.00	
7.	Advances to suppliers of raw materials		0.00	0.00	0.00	

	and stores/ spares, consumables					
8.	Other current assets incl. cash & bank balances & deferred receivables due within one year (specify major items)		0.00	0.00	0.00	
9.	Total Current Assets (to agree with item 34 in Form III)		0.00	0.00	0.00	
B.	**Current Liabilities**					
	(other than bank borrowings for working capital)					
10.	Creditors for purchase of raw materials, stores & consumable spares Months' purchases			0.00	0.00	0.00
11.	Advances from customers			0.00	0.00	0.00
12.	Statutory liabilities			0.00	0.00	0.00
13.	Other current liabilities (specify major items)			0.00	0.00	0.00
	Short Term Borrowings, unsecured loans,					

	dividend payable, instalments of TL, DPG, public deposits, debentures etc.				
14.	TOTAL CURRENT LIABILITIES		0.00	0.00	0.00
	(to agree with subtotal B in Form III)				

	ABC Pvt. Ltd.	(Amount Rs. Lakh)			
		As per balance sheet as at			
	ASSETS	31-Mar-12	31-Mar-13	31-Mar-14	
		Last year	Curr. Year	Following	Peak reqt.
		Actuals	Estimates	Year-proj	As on
		1	2	3	4
.	Total Current Assets (9 in form IV)	0.00	0.00	0.00	
2.	Current Liabilities (other than bank borrowings) (14 of form IV)	0.00	0.00	0.00	
3.	Working Capital Gap (1 – 2)	0.00	0.00	0.00	
.	Min. stipulated net working capital i.e. 25% of total current assets (excluding export receivables)	0.00	0.00	0.00	
5.	Actual/ projected net working capital (45 in form III)	0.00	0.00	0.00	

6.	Item 3 minus item 4	0.00	0.00	0.00	
7.	Item 3 minus item 5	0.00	0.00	0.00	
8.	Maximum permissible bank finance (Item 6 or 7 whichever is lower)	0.00	0.00	0.00	
9.	Excess borrowings representing short fall in NWC (4 - 5)	0.00	0.00	0.00	

FORM VI

FUNDS FLOW STATEMENT

ABC Pvt. Ltd.		(Amount Rs. Lakh)		
		As per balance sheet as at		
		31-Mar-12	31-Mar-13	31-Mar-14
	Assets	Last Year Actuals Audited	Curr. Year Estimates	Following Year-proj
		1	2	3
1.	Sources			
	(a) Net Profit (after tax)	0.00	0.00	0.00
	(b) Depreciation	0.00	0.00	0.00
	(c) Increase in capital	0.00	0.00	0.00
	(d) Increase in term liabilities	0.00	0.00	0.00
	(includg. Public Deposits)			
	(e) Decrease in			
	(i) Fixed Assets	0.00	0.00	0.00
	(ii) Other non-current assets	0.00	0.00	0.00
	(ii) Intangible assets	0.00	0.00	0.00
	(f) Others			
	(g) Total	0.00	0.00	0.00
2.	Uses			

	(a) Net Loss	0.00	0.00	0.00
	(b) Decrease in Term Liabilities (includg. public deposits)	0.00	0.00	0.00
	(c) Increase in			
	(i) Fixed Assets	0.00	0.00	0.00
	(ii) Other Non-current assets	0.00	0.00	0.00
	(ii) Intangible assets	0.00	0.00	0.00
	(d) Dividend payments	0.00	0.00	0.00
	(e) Others			
	(f) Total	0.00	0.00	0.00
3.	Long Term Surplus (+)/ Deficit (-) (1 - 2)	0.00	0.00	0.00
4.	Increase/ Decrease in Current Assets	0.00	0.00	0.00
	* (as per details given below)			
5.	Increase/ Decrease in Current Liabilities	0.00	0.00	0.00
	other than Bank Borrowings			
6.	Increase/ Decrease in working capital gap	0.00	0.00	0.00
7.	Net Surplus (+)/ Deficit (-) (Difference of 3 & 6)	0.00	0.00	0.00
8.	Increase/ Decrease in Bank Borrowings	0.00	0.00	0.00
	INCREASE/ DECREASE IN NET SALES	0.00	0.00	0.00
		1	2	3
Break-up of (4)				
(i)	Increase/ Decrease in Raw Materials	0.00	0.00	0.00
(ii)	Increase/ Decrease in	0.00	0.00	0.00

	Stocks-in-process			
(iii)	Increase/ Decrease in Finished Goods	0.00	0.00	0.00
(iv)	Increase/ Decrease in Receivables			
	(a) Domestic	0.00	0.00	0.00
	(b) Export	0.00	0.00	0.00
(v)	Increase/ Decrease in Stores & Spares	0.00	0.00	0.00
(vi)	Increase/ Decrease in Other Current Assets	0.00	0.00	0.00
	Total	0.00	0.00	0.00

Note: Increase/decrease under items 4 to 8 as also under break-up of (4) should be indicated by (+) (-).

Assessment of Letter of Credit Limit				
Letters of credit limit:	Sight	Usance	Total	
Existing:				
Applied:				
Assessment of sight LC:	FOR FLC		FOR ILC	
1. Annual Purchase/Import				
2. Out of the above on sight LC basis				
3. Average of (2) per month				
4. Lead time (in terms of months)				
5. Sight LC requirement: (3) x (4)				
Assessment of Usance LC				
1. Annual Purchase/Import				
2. Out of the (1) on credit basis				

3. Out of the (2) on Usance LC basis				
4. Average of (3) per month				
5. Lead time (in terms of months)				
6. Usance period (-do-)				
7. Usance LC requirement (5 + 6) x (4) + 10% due to tolerance clause				

	ASSESSMENT OF BANK GUARANTEE		
M/s		Rs. in Crore	Rs. in Crore
		2014-15	2015-16
I	Bid Bond Guarantee		
1	Projected sales/contracts for the ensuing year		
2	Projected bids to be submitted in one year		
3	Average monthly bids		
4	Anticipated period of BG for bids		
5	Quantum of BG limit (03 x 04 x10%)	0.00	0.00
II	Bank Guarantee in lieu of Security Deposit		
1	Projected amount of security deposit		
2	Quantum of BG limit in lieu of Security Deposit	0.00	0.00
III	Bank Guarantee for Mobilisation Advance		
1	Expected amount of Mobilisation Advance in one year		
2	Average monthly mobilisation	0.00	0.00
3	Period of retention of mobilisation advance		
4	Quantum of BG limit for mobilisation advance	0.00	0.00
IV	Bank Guarantee for release of retention		

	money		
1	Anticipated holding of retention money by		
	various buyers		
2	Average monthly retention	0.00	0.00
3	Period of retention money		
4	Quantum of BG limit for release of retention money	0.00	0.00
V	Performance Guarantees		
1	Projected performance guarantees for one year	0.00	0.00
	Taken as 15% of Service Income		
	Service Income treated as 60% of Turnover		
2	Period of performance guarantees		
3	Quantum of Performance Guarantee limit	0.00	0.00
VI	Bank Guarantee for Duty Exemption		
1	Projected Duty exemptions for one year		
2	Average duty exemption available per month		
3	Period of duty exemption BG		
4	Quantum of BG limit for duty exemption	0.00	0.00
	Total Bank Guarantee requirement for next one year	0.00	0.00
	(I + II + III + IV + V + VI)		

CREDIT RISK ASSESSMENT BY BANKS OF THE BORROWER ACCOUNT(Bank to bank format my differ)

Name of borrower: *Reference Year:

(A) MANAGEMENT RISK FACTORS:										
PARAMETER	COLUMN A	Cross	COLUMN B	Cross	COLUMN C	Cross	COLUMN D	Cross	COLUMN E	Cross
Management/Group reputation	Excellent		Very good		Good		Average		Poor	
Management succession	Excellent		Very good		Good		Average		Poor	
Dealing of the borrower/sister concerns with our bank	Above 10 years		Above 8 & upto 10 years		Above 5 & upto 8 years		Above 3 & upto 5 years		3 years & Below	
Track Record (unit and or group accounts as a whole)	Excellent		Very Good		Good		Average		Poor	
Transparency	Excellent		Very good		Good		Average		Poor	
Total Crosses	xxxxxxxx		xxxxxx		xxxxxx		xxxxxx		xxxxxx	
Multiplying factor	xxxxxxxx	4.0	xxxxxx	3.0	xxxxxx	2.0	xxxxxx	1.0	xxxxxx	0.0
Marks obtained	xxxxxxxx		xxxxxx		xxxxxx		xxxxxx		xxxxxx	
Total Marks obtained (Column A+B+C+D+E)					Maximum Marks		20			

(B) INDUSTRY & UNIT RISK FACTORS:										
PARAMETER	COLUMN A	Cross	COLUMN B	Cross	COLUMN C	Cross	COLUMN D	Cross	COLUMN E	Cross
Industry Cycle	Excellent		Very Good		Good		Satisfactory		Poor	
Competition, forecast & Market Risk	No competition		Less Competition		Average Competition		Medium Competition		Heavy Competition	
Technology (for Mfg. & Processing) and Product Characteristics (for trade advances)	Excellent		Very Good		Good		Satisfactory		Poor	
Regulatory position	Excellent		Very Good		Good		Satisfactory		Poor	
Retention of profits within the unit	Excellent		Very Good		Good		Satisfactory		Poor	
Total Crosses	xxxxxxxx		Xxxxxxxx		xxxxxxxx		Xxxxxxxx		xxxxxxxx	
Multiplying factor	xxxxxxxx	2.0	Xxxxxxxx	1.5	xxxxxxxx	1.0	Xxxxxxxx	0.50	xxxxxxxx	0
Marks obtained	xxxxxxxx		Xxxxxxxx		xxxxxxxx		Xxxxxxxx		xxxxxxxx	
Total Marks obtained (Column A+B+C+D+E)					Maximum Marks			10		

(C) FINANCIAL RISK FACTORS:				
(a) Net Sales/contract receipts /gross receipts (reference year - 31.03.)	(Rs. in lacs)	Parameter	Marks	Cross
Projection (X)		Achievement above 90%	5	
Net Sales achieved (Y)		Achievement above 80% & upto 90%	4	
Achievement (%) {(Y/X)*100}		Achievement above 70% & upto 80%	3	
		Achievement above 50% & upto 70%	2	
		Achievement 50% & below	0	

* Reference year represents the year, performance of which is taken as the base for the CRA purpose.

Previous year is the preceding year with reference to the reference year.

(b) Profit after tax to Net Sales (Mfg. Units)		Parameter		Marks	Cross
Indicator	Reference Year 31.3.	More than 8%	Lowest Risk Score	7.5	
Net Sales		More than 6.5% to 8%	Low Risk Score	6.0	
Profit after tax (excluding other/Misc. income)		More than 5% to 6.5%	Medium Risk	4.5	
Profitability % (PAT*100)/Net sales		More than 3.5% to 5%.	High Risk Score	3.0	
		More than 1% to 3.5%	Highest Risk score	2.0	
		1% and below.	Caution Score	0	

(b) Profit after tax to Net Sales (others)		Parameter		Marks	Cross
Indicator	Reference Year 31.3.	More than 5%	Lowest Risk Score	7.5	
Net Sales		More than 4% to 5%	Low Risk Score	6.0	
Profit after tax (excluding other/Misc. income)		More than 3% to 4%	Medium Risk	4.5	
Profitability % (PAT*100)/Net sales		More than 2% to 3%.	High Risk Score	3.0	
		More than 1% to 2%	Highest Risk score	2.0	
		1% and below	Caution Score	0	

(c) Solvency (TOL/TNW)		All other borrowers	Marks	Cross	Traders	Marks	Cross
Indicator	31.3.	2 and below	10		2 and below	10	
Tangible Net Worth (TNW)		2.01 to 4.00	8		2.01 to 4.00	8	
Total Outside Liabilities (TOL)		4.01 to 5.00	6		4.01 to 6.00	6	
		5.01 to 6.00	4		6.01 to 9.00	4	
TOL/TNW		6.01 to 7.00	2		9.01 & above	0	
		7.01 & above	0				

(d) Liquidity (Current Ratio) Ref.Year - 31.3.		Limits over Rs.6.0 crores	Marks	Cross	Limits up to Rs.6.0 crores	Marks	Cross
Minimum acceptable Current ratio (1.15 or 1.33)		1.33 & above	10		1.25 & above	10	
		1.25 to <1.33	8		1.15 to <1.25	8	
Current Ratio		1.20 to <1.25	6		1.13 to <1.15	6	
		1.15 to <1.20	3		1.10 to <1.13	3	
		Less than 1.15	0		less than 1.10	0	

(e) Interest Coverage		Parameter	Marks	Cross
Indicator	31.03.	4.00 & above	7.5	
Actual Interest Coverage Ratio: Net Profit before Interest, Tax & Depreciation Interest		Above 3.00 to < 4.00	6.0	
		Above 2.00 to < 3.00	4.5	
		Above 1.00 to < 2.00	2.0	
		Below 1	0	

(f) Inventory Turnover (Others)		Parameter	Marks	Cross
Indicator	Reference Year 31.3.	Upto 1.50 months	2.50	
Inventory turnover ratio $\frac{\text{Inventory *(RM+WIP+FG)} \times 12}{\text{Net Sales}}$		above 1.50 upto 2 months	2.00	
		above 2.00 upto 3 months	1.50	
		above 3.00 upto 6 months	1.00	
		above 6.00 months	0	

*(RM=Raw Material, WIP=Work in progress FG=Finished Goods)

(f) Inventory Turnover (Fabrication, Seasonal industries)		Parameter	Marks	Cross
Indicator	Reference Year 31.3.	Upto 2.00 months	2.50	
Inventory turnover ratio Inventory*(RM+WIP+FG) x12 Net Sales		above 2.00 upto 3 months	2.00	
		above 3.00 upto 4 months	1.50	
		above 4.00 upto 6 months	1.00	
		above 6.00 months	0	

*(RM=Raw Material, WIP=Work in progress FG=Finished Goods)

(g) Receivables Collection Period		Parameter	Marks	Cross
Indicator	Reference Year 31.3.	3 months & below	2.50	
Receivables Collection period Receivables x 12 Net Sales		Above 3 upto 4 months	2.00	
		Above 4 upto 5 months	1.50	
		Above 5 upto 6 months	1.00	
		Above 6 months	0	

(h) Debt Service Coverage Ratio		Parameter	Marks	Cross
Indicator	Reference year 31.03.	Above 2.00	2.50	
Debt Service Coverage Ratio: (Existing TLs & where TL & working capital limits co-exists) Net Profit + Interest on TL + Depreciation Interest on TL + TL Instalment		Above 1.80 upto 2.00	2.00	
		Above 1.60 upto 1.80	1.50	
		Above 1.50 upto 1.60	1.00	
		Above 1.40 upto 1.50	0.50	
		Below 1.50	0	

(i) Debt/ Equity Ratio	SSI advances	Marks	Cross	All other advances	Marks	Cross
(Existing TLs & where TL & working capital limits co-exists)	<=2.00 Lowest risk	2.50		<=1.50 Lowest risk	2.50	
	> 2.00 to 2.50 Low risk	2.00		>1.50 to 1.75 low risk	2.00	
	> 2.50 to 3.00 Medium risk	1.50		>1.75 to 2.00 Medium risk	1.50	
Long Term Liability / Net worth	> 3.00 to 3.50 High risk	1.00		>2.00 to 2.25High risk	1.00	
	> 3.50 to 4.00 Highest risk	0.50		>2.25 to 2.50 Highest risk	0.50	
	> above 4.00 Caution risk	0		> 2.50 Caution score	0	
*Net worth = Share Capital + Free Reserves – intangible assets like patents, good will preliminary & pre-operative expenses, accumulated losses and bad & doubtful debts not provided for.						

(i) Financial Risks not transparent (Negative Marks)		
Parameter	Marks	Cross
The impact of auditors comments and off balance sheet items on net worth/profitability is more than 30%.	(-) 5	
The impact of auditors comments and off balance sheet items on net worth/profitability is more than 15%.	(-) 3	
The impact of auditors comments and off balance sheet items on net worth/profitability is more than 5%	(-) 2	
The impact of auditors comments and off balance sheet items on net worth/profitability is less than 5%	0	

(j) Unhedged Forex Risks (Negative Marks)		
Parameter	Marks	Cross
Unhedged forex exposure of the borrower to total forex exposure is more than 75%	(-) 5	
Unhedged forex exposure of the borrower to total forex exposure is more than 50% to 75%.	(-) 4	

Unhedged forex exposure of the borrower to total forex exposure is more than 25% to 50%.	(-) 3	
Unhedged forex exposure of the borrower to total forex exposure is more than 5% and upto 25%	(-) 2	
Unhedged forex exposure of the borrower to total forex exposure is below 5%.	0	

FINANCIAL RISK FACTORS	MAXIMUM SCORE	MAXIMUM SCORE FOR APPLICABLE POINTS	SCORE SECURED
	50		

(D) OPERATIONAL EXPERIENCE:								
PARAMETER	COLUMN - A		COLUMN - B		COLUMN - C		COLUMN - D	
Submission of stock statement/QIS/ renewal proposal	Most regular		Regular with delay		Irregular but submitted		Highly irregular and not submitted	
Allotted score	3		2		1		0	
Repayment of interest and instalment	Most regular		Regular with delay		Irregular but paid		Over dues are persisting	
Allotted score	4		3		2		0	

PARAMETER	COLUMN - A		COLUMN - B		COLUMN - C		COLUMN - D	
Collateral Security coverage (incl. Govt. guarantee, surplus 2nd charge)	Above 50%		25% to 50%		Below 25%		No collateral security	
Allotted score	5		4		3		0	
Personal guarantee	Available		----		------		Not available	

of directors (in case of companies) Co-obligation from 3rd party (in case of proprietary/ Partnership firms)								
Allotted score	5		----		-----		0	
Operational experience in Cash Credit and Non-Fund accounts. (In case of divergence in operational experience between cash credit and non-fund limits, lower score applicable to either of them is to be adopted.	Liability not exceeded DP or limit. Adhoc /excess drawals are adjusted as per sanction terms. Meeting all commitments on time and no BG/LC devolvement.		Liability exceeded limit occasionally but within DP. Adhoc/excess drawals are mostly adjusted as per sanction LC/ BG devolved but paid with-in 15 days from the date.		Liability exceed-ded frequently but regularized. Adhoc/excess drawals adjusted with some delay. LC/BG devolved but paid after 15 days.		Liability exceeded without DP frequently. Adhoc/excess drawals adjusted after long delay. LC/BG Devolvements not paid.	
Allotted score	3		2		1		0	
Total Marks								
Maximum allotted marks		20	Total marks scored (Columns A + B + C +D)					

(E) SUMMARY OF MARKS FOR VARIOUS PARAMETERS:				
Parameter	Maximum Marks (Col.1)	Maximum Marks for applicable points (Col.2)	Marks secured (Col.3)	Normalized marks Col.3 ------- X Col.1 Col.2
(A) Management Risk Factors	20			
(B) Industry & Unit Risk Factors	10			
(C) Financial Risk Factors	50			
(D) Operational Experience	20			
Total	100			

(F) APPLICABLE RATE OF INTEREST:					
Marks secured	Credit Rating	Grade	Applicable Spread	Cross	Interest applicable
Acceptable Credit Rating:					
Above 95%	A+++	Prime			
>90 to 95%	A++	Excellent			
>80 to 90%	A+	Very good			
>70 to 80%	A	Good			
>60 to 70%	B	Satisfactory			
>40 to 60%	C	Average			
Unacceptable Credit Ratings:					
40% & Below	D	Poor			
NPA accounts are classified under this rating category	D1	Substandard(SSA)	Spread as applicable to 'C' rating shall be applied		
	D2	Doubtful (DA)			
	D3	Loss (LA)			

	Present	Proposed
CRA Rating		
Rate of Interest		

Date:

Date:

Feedback Page

This is the first edition of the handbook by the Committee. As such, there is scope for its improvement. We intend to make it as useful as possible in its present format. The committee, therefore, hopes to keep updating this handbook on a regular basis to make it functional.

We solicit comments and suggestions from practitioners and other to improve the usefulness of the Handbook. In particular, we welcome the views of the practitioners on enhancement of their knowledge base.

Your valuable inputs may be sent to ccbcaf@icai.in.

We are thankful to CA. Subhash Nathuramka for preparing the draft of this book on Project financing as an area of practice for SMPs.

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