Indian Institute of Corporate Affairs

Project Appraisal And Data Analysis

Project Appraisal by Banks:

The Bank's analyse various factors before approving any Project for funding. Some of the Important factors are given below:

1. **Promoter's Contribution:** Generally the Bank's stipulate that a certain amount of the total project cost should be contributed by the Promoters. The idea is that the Project should not be funded by Bank's loan alone and it is the promoters contribution which provides safety to the Bank money. Generally Bank's insist for a minimum contribution of 25% of total project cost from the Promoters.

2. **Current/Non-Current:** The Bank not only need the Promoters' Contribution overall, but it also need the contribution to be evenly distributed across Current and non-current investment. For Example: If a Company acquires all the Fixed Assets from promoters money and then approaches the Bank for the working capital, the contribution towards fixed assets would not be considered for the purpose of considering the limits for the working Capital.

3. **Debt Service Coverage Ratio:** A sufficient Debt Service Coverage Ratio of more than 1.5 is generally required. A lower DSCR indicates that in case of any negative developments of even small nature will make it difficult for the Company to repay the debt.

Project Appraisal by Banks:

4. **Business Past Credentials:** Bank evaluate the past credentials of the Business, the previous trend gives a fairly good idea about the future prospects of the Business. The previous Banking also indicates whether the Business is prudently managed or not. In addition to the Business, the background of Promoters and Associate Entities is also relevant for the Bank.

5. **Project Report Evaluation:** The Bank analyze the information contained in the Project Report and the fairness of assumptions used in preparation of project report. The accuracy of project report is analyzed through various tools and analysis by the Bank. A discussion with the Promoters and the supporting documents like quotations etc. also provides a good idea to the Bank about the reliability of the information.

6. **Credit Rating:** Generally for projects more than Rs. 25 Cr. Outside Credit Rating is insisted by the Bank, for the lower size projects the internal rating is done by the Bank. The Bank however gives better costing for the projects which gets good rating from a reputed credit rating agency.

7. **Need Analysis:** The Bank analyse the need of the Business from the project report. For working capital limits the working capital cycle is understood. Normally there is a presumption that the working capital cycle of a business should not be more than 3 months. Therefore the Banks usually don’t give working capital limits of more than 25% of projected Turnover.

Financial Analysis & Planning:

Various Tools of Financial Analysis & Planning:

- **Capital Budgeting –**

  a) Pay Back Period,
  b) Net Present Value,
  c) IRR

- **Ratio Analysis –**

  a) Profitability,
  b) Solvency,
  c) Liquidity,
  d) Stability

- **Comparison between – Budget, Forecast Vs. Actuals**

- **Fundamental Analysis**

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