SUMMER INTERNSHIP PROJECT

"Tittle of the project"

Study on Role of Project Financing

Submitted to:

DMSR

G.S. College of Commerce & Economics, Nagpur.

(Autonomous Institution)

Affiliated To:

Rashtrasant Tukadoji Maharaj Nagpur University, Nagpur

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G.S. College of Commerce & Economics, Nagpur

NAAC Accredited "A" Grade Institution

Academic Year 2021-2022

CERTIFICATE

This is to certify that the investigation described in this report titled **"Study of Role of Project Financing"** has been carried out by **Neeta Gidwani** during the summer internship project. The study was done in the organisation, "**Mulchandani Manish& Associates"**, in partial fulfillment of the requirement for the degree of Master of Business Administration of G. S. College of Commerce & Economics (An Autonomous Insititution) affiliated to **R. T. M. Nagpur University, Nagpur.**

This work is the own work of the candidate, complete in all respects and is of sufficiently high standard to warrant its submission to the said degree. The assistance and resources used for this work are duly acknowledged.

Prof. Kamlesh Thote | **Dr. Sonali Gadekar**

(Faculty Guide) | **(MBA Co-ordinator)**

CERTIFICATE

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TO WHOM IT MAY CONCERN

This is to certify that Miss. **Neeta Gidwani,** Student of MBA Sem-II, Department of Management Sciences & Research, G. S. College of Commerce & Economics, Nagpur has successfully completed her Summer Internship Program from "15th Nov 2021" to "31st Dec 2021" under our guidance. During the period of her internship she was found punctual, hardworking and inquisitive.

The above certifying is only for Experience Purpose, it does not give any assurance of any kind.

Place:- Ballarpur

Date:-15/01/2022

MANISH MULCHANDANI
(Chartered Accountant)

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ACKNOWLEDGEMENT

It is a matter of pride and privilege for me to have done a summer internship project in **“MulchandaniManish & Associates”** and I am sincerely thankful to them for providing this opportunity to me.

I am thankful to **CAManish Mulchandani**for guiding me through this project and continuously encouraging me. It would not have been possible to complete this project without his / her support.

I am also thankful to all the faculty members of DMSR GS College of Commerce and Economics and particularly **Dr. Sonali Gadekar**MBA Coordinator and my mentor **“Prof. Kamlesh Thote”** for helping me during the project.

I am thankful to the Principal of G.S college of Commerce and Economics, Nagpur “**Dr N. Y. Khandait**” and to the Dean of the DMSR” **Mr. Anand kale**”

Finally, I am grateful to my family and friends for their unending support.

Miss. NeetaGidwani

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INTRODUCTION

Project finance refers to the funding of long-term projects, such as public infrastructure or services, industrial projects and others through a specific financial structure. Finances can consist of a mix of debt and equity. The cash flows from the project enable servicing of the debt and repayment.

Project finance risks are therefore highly specific and it is essential that participants such as commercial bankers, investment bankers, general contractors, subcontractors, insurance companies, suppliers and customers understand these risks since they will all be participating in an interlocking structure of debt and equity.

Project finance is generally used to refer to a non-recourse or limited recourse financing structure in which debt, equity and credit enhancement are combined for the construction and operation, or the refinancing, of a particular facility in a capital-intensive industry.

COMPANY PROFILE

Mulchandani Manish & Associates

The company has a clear, logical mind with practical approach to problem solving and a drive to see things through to competition. It has a great eye for detail. We are eager to learn, enjoy overcoming challenges, and have a genuine interest in sharing my thoughts with great leaders.

TERMINOLOGIES:

- **Current Ratio:**

Current Ratio = Current Assets ÷ Current Liabilities

The current ratio is a liquidity ratio that measures a company's ability to pay short-term and long-term obligations. To gauge this ability, the current ratio considers the current total assets of a company (both liquid and illiquid) relative to that company's current total liabilities.

- **QUICK RATIO:**

Indicates the ability to meet short term payments using the most liquid assets. This ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash.

- **RETURN ON CAPITAL EMPLOYED:**

This ratio complements the return on equity ratio by adding a company's debt liabilities, or funded debt, to equity to reflect a company's total "capital employed". This measure narrows the focus to gain a better understanding of a company's ability to generate returns from its available capital base

- **GROSS PROFIT RATIO:**

A company's cost of goods sold represents the expense related to labor, raw materials and manufacturing overhead involved in its production process. This expense is deducted from the company's net sales/revenue, which results in a company's gross profit. The gross profit margin is used to analyze how efficiently a company is using its raw materials, labor and manufacturing-related fixed assets to generate profits.

- **OPERATING PROFIT:**

By subtracting selling, general and administrative expenses from a company's gross profit number, we get operating income. Management has much more control over operating expenses than its cost of sales outlays. It Measures the relative impact of operating expenses.

- **NET PROFIT RATIO:**

This ratio measures the ultimate profitability.

- **EQUITY RATIO:**

This ratio measures the strength of the financial structure of the company

- **DEBT RATIO:**

This compares a company's total debt to its total assets, which is used to gain a general idea as to the amount of leverage being used by a company. This is the measure of financial strength that reflects the proportion of capital which has been funded by debt, including preference shares.

- **INTEREST COVERAGE RATIO:**

This ratio measures the number of times a company can meet its interest expense.

- **AVERAGE COLLECTION RATIO:**

The average collection period measures the quality of debtors since it indicates the speed of their collection.

- **ACCOUNT PAYABLE TURNOVER RATIO:**

The accounts payable turnover ratio is a liquidity ratio that shows a company's ability to pay off its accounts payable by comparing net credit purchases to the average accounts payable during a period.

OBJECTIVE OF STUDY

1. To obtain an Accountant position by adding value through utilizing my superior knowledge, prospecting and calculation abilities in the business.

2. To develop and discover my vision into pragmatic action, as a performance-oriented.

3. To build upon my existing corporate finance skill set in both analytics and transaction execution, leading to increasingly responsible positions in treasury.

4. To employ my knowledge and experience with the intention of securing a professional career with opportunity for challenges and career advancement, while gaining knowledge of new skills and expertise.

5. To make a proper study of Documentation, verification,auditing and many more accounting standards.

SCOPE OF STUDY

1. Internship at Mulchandani Manish & Associates Company was my first experience. I learnt allot more new things in accounting/ Finance sector.

2. Initially I knew only about GST Accounting, The ITR process taxation. Here, I learned more about Project Financing.

3. Then deeply I learned about, what is the main process of doing all these. My main focus in these 45 days was on the filling the ITR and maintaining the balance sheet.

4. After getting detailed information about the service which is exactly given by a CA to the clients, I started implementing the kinds of services.

5. I had gained knowledge to finalize the balance sheet in tally software.

6. And then the most important thing which i came to know was, if any of the clients wants to open up a new factory so firstly they will come to A Chartered Accountant for making a financial report, regarding the loan sanction if needed.

NEED OF THE STUDY

1. Helps in identifying need to determine its worth pursuing.

2. The decision-making process takes place to prioritize and select project with greatest news

3. Project finance is used to build energy infrastructure in industrialized countries as well as in emerging markets.

4. Project finance helps finance new investment by structuring the financing around the project's own operating cash flow and assets, without additional sponsor guarantees.

5. It primarily helps in financing the broad range of economic unit'sworldwide, which sets many of the examples.

CONTRIBUTION DURING SIP

DOCUMENTS AND INFORMATION DONE WHILE PREPARING Project Report:

1. Past 2 years Audited Financial statement.
2. Provisional Financial for the current year; in the absence of provisional financials, details of the top line shall be essential.
3. Latest Sanction letter (in case of renewal).
4. Term Loan Repayment Schedule, if any
5. Details of proposed enhancement (if any) along with the terms and conditions

In the third week I learned how to make Project Report of different companies. Following are the companies who's Projects were drafted by me:

- SHIVAM CONSTRUCTION
- P R LOGISTICS
- SHREE BALAJI PETROLEOUM
- NARAYAN INDUSTRUES

LIMITATIONS

1. Complexity of the process due to the increase in the number of parties and the transaction cost.

2. Expensive as the project development and diligence process is a costly affair.

3. Complexity due to lengthy documentation.

4. Requires qualified people for performing the complicated procedures of project finance.

5. Higher level of control which might be exercised by the banks, which might bring conflict with the businesses or contracts.

RESEARCH METHEDOLOGY

Data collection is the systematic approach to gather and measure information from variety of sources to get a complete and accurate picture of an area of interest.

It mainly includes two types of data:

- Primary data
- Secondary data.

Primary data: -

Data used in research originally obtained it through the direct efforts of the researchers through surveys,interviews and direct observations. For this report primary data is collected through online survey, forms and interactions with the clients during internship.

Secondary data: -

It refers to the data that was collected by someone other than the user. Secondary data can be collected through references.

SWOT Analysis for project Finance Approval

Strengths:

- Distinguished financial services provider, with local talent catering to local customers.
- Vast distribution network especially in rural areas and small towns, diversified product range and robust collection systems.
- Simplified and prompt appraisal and disbursements.
- Product innovation and superior delivery.

Weakness:

- Regulatory restrictions - continuously evolving Government regulations may impact operations.
- Uncertain economic and political environment.

Opportunities:

- Demographic changes and under penetration.
- Large untapped rural and urban markets.
- Growth in Industrial Sector.

Threats:

- High cost of funds.
- Restrictions on deposit.


PROJECT
FINANCE

Project Financing:

Project finance is the financing of long-term infrastructure, industrial projects and public services based upon a non-recourse or limited recourse financial structure, in whichproject debt and equity used to finance the project are paid back from the cash flow generated by the project.

Financial model:

- A financial model is constructed by the sponsor as a tool to conduct negotiations with the investor and prepare a project appraisal report. It is usually a computer spreadsheetdesigned to process a comprehensive list of input assumptions and to provide outputs that reflect the anticipated real-life interaction between data and calculated values for a particular project.

- Properly designed, the financial model is capable of sensitivity analysis, i.e., calculating new outputs based on a range of data variation

Contractual framework:

The typical project finance documentation can be recon ducted to four main types:

- Shareholder/sponsor documents
- Project documents
- Finance documents
- Security documents
- Other project documents
- Director/promo tore Contribution

Engineering, procurement and construction contract:

The most common project finance construction contract is the engineering, procurement and construction (EPC) contract. An EPC contract generally provides for the obligation of the contractor to build and deliver the project facilities on a fixed price, turnkey basis, i.e., at a certain pre-determined fixed price, by a certain date, in accordance with certain specifications, and with certain performance warranties. The EPC contract is quite complicated in terms of legal issue;therefore, the project company and the EPC contractor need sufficient experience and knowledge of the nature of project to avoid their faults and minimize the risks during contract execution.

PROBLEM FACED BY THE SECTOR IN GENERAL AND THE COMPANY:

In order to ensure lower levels of project risk, equity and debt provider perform a large amount of due diligence so as to get a better idea about risks associated with a project. One of the major risk elements in the project finance is Repayment Risk. The mitigation process for this is to establish the preferential claim of investors to a project's cash flows. The higher the seniority, the lesser risk one has in a project. Debt holders mostly have the primary claim on cash flows, followed by tax equity investors, and then project sponsors.

Project finance life cycle is a long and complex one and it is but natural to have multiple risk elements. Some of the other risk factors in project finance are (1) Construction Risk (2) Currency Risk (3) Operational Risk and (4) Political Risk. Effective management of risk is the crux of project finance and it is the responsibility of the Project Finance Manager to look after this aspect.

Below is the example of planning and financing stage of a renewable energy project. At this stage it is required to determine projected revenues, costs and returns and also to quantify risks.

FUTURE POTENTIAL OF THE SECTOR:

Project finance is a rapidly expanding field, with almost USD 200bn lent to companies to finance particular projects in 2004. While project finance has its origins in the natural resource and infrastructure sectors, the current demand for infrastructure and capital investments is primarily fueled by deregulation in the power, telecommunications, and transportation sectors; by the globalization of product; and by the privatization of government Owned entities in developed and developing countries. The long-term prospects are strong, as countries with limited government resources try to meet the growing demand for infrastructure assets. Given the right applications and structures, the benefits of project finance can more than offset the higher transaction costs, increased time commitments, and higher debt rates typically associated with project financings. However, project finance may result in unsustainable practices because banks and project sponsors (bank clients) often do not carry out adequate environmental and social impact assessments of the projects they are financing. In addition, financiers often take inadequate steps to address the issue of sustainability, as environmental and social regulations in some host countries can be weak. This is especially true in developing countries. As a result of the adverse consequences big infrastructure projects may have, civil society has increasingly targeted the financiers involved in the projects to act more responsibly.

Mr. Nitin Gadkari, Minister of Road Transport and Highways, and Shipping, has announced the government's target of Rs 25 trillion investment in infrastructure over a period of three years, which means the India will see lot of power, bridges, dams, roads and urban development in years to come. Most of these will be funded by the Public or PPP (Public Private Partnership) method. This clearly shows that Project finance will be on major growth trajectory in future and the economy stands to gain from it. Needless to say, highly qualified and experienced professionals will be great demand to manage and analyse the financing of such massive projects.

FINDINGS

ACTUAL WORK DONE:

WEEK WISE DETAILS:	
1st Week	Introduction of the Company
2nd Week	Preparation of Net Worth Statements
3rd Week	Introduction of Ratio Analysis and future projections.
4th Week	Filling of ITR, Preparation of Financial Statements, and Brief Introduction of Proposal Note.
5th Week	Project Report

INTRODUCTION OF THE COMPANY:

Mulchandani Manish & Associates is a boutique SME Business Advisory firm focusing the enterprises in Central India. They provide capacity building and support to Small, Medium and Large Industries across the region.It's a firm of diversified professionals with excellence in their individual areas of profession, all dedicated and strong in their domain knowledge.

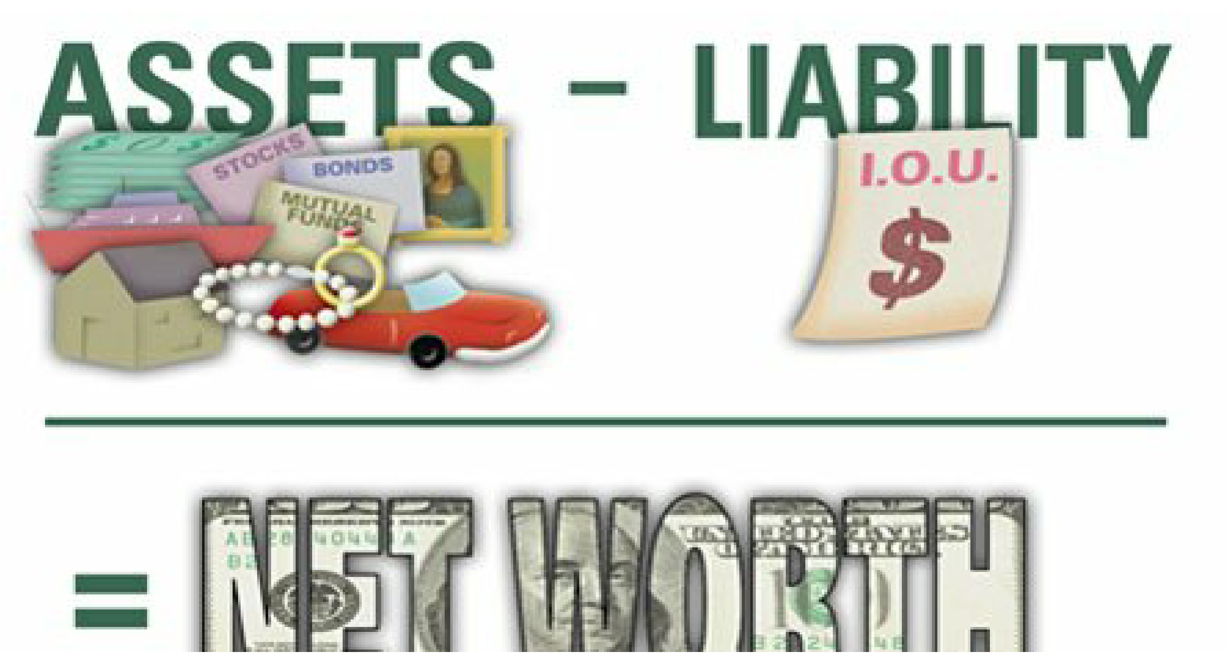
Mulchandani Manish & Associates works in collaboration with the industry in responsive strategies to support and facilitate sustainable development through debt and equity raising, access to market programs, enterprise development, business linkages, feasibility assessment, risk assessment, technology solutions and to set up investments in new and innovative business services, specifically targets the niche opportunities.

In the first week of internship Mulchandani Manish & Associates helped me to gain the knowledge about the corporate life and it's working. During these days sir gave me a project on NATURE RICH FOOD to analyze it so that I can grasp the knowledge which will help me to make such projects in future. I use to read different legal sections daily so that next day sir could check my knowledge. It helped me to increase my experience in the field of Project financing.

NET WORTH STATEMENT:

A personal net worth statement is a snapshot of an individual's financial health, at one particular point in time. It is a summary of what is owned (assets), less what is owed to others (liabilities). The formula used is: assets - liabilities = net worth.

In second week of my SIP I was guided by my seniors about how to make network statements and which helped me a lot due to which I was able to make such statements of different companies it gave me a great exposure about the organization.



CREDIT MONITORING ARRANGEMENT:

CMA Data means Credit Monitoring Arrangement data. As per RBI guidelines, CMA data is required for Project Loans, Term Loans and Working Capital Limits. This data is to be provided by a company to bank for getting the loan from bank and every year, for renewing or enhancing their existing Bank loan. CMA Data is a systematic analysis of working capital management of the borrower and the purpose of this statement is to ensure the use of funds effectively.

CMA data generally include 2 years Audited Financials and 3 future years Financial Projection of company, Fund flow statement, Changes in Working Capital report, Ratio analysis and Maximum Permissible Bank Finance (MPBF) report.

The banks rely very much on this report and carefully evaluate CMA data for eligibility of funding. Our experts help to highlight the potential of your business in CMA data to be submitted to the bankers at the time of sanction and renewal.

It basically contains 7 statements which help Banker to understand the financial health of the company:

1. Particulars about the present limit and the proposed limit. It will show both Fund and Non-fund based limits of the borrower and usage limit or current balance.

2. Operating Statement/Profit and loss account statement, bank will know performance of company. It also helpful to know earning cycle for paying the expenses.

3. Balance sheet, bank will know the financial position. Is it sound or not? Do company has own assets or all assets on debt. So, to study balance sheet is must. CMA Data will have 2 years Audited balance sheet and 3 years projected balance sheet. So, analyst can make comparative balance sheet for knowing the changes in the balance sheet's position.

4. With fund flow statement, bank can know the flow of fund. Is company wasting their fund or applying fund for growing.

5. Changes in working capital report – helps to understand the changes in current assets and current liabilities. It will also helpful to know short term solvency of company. If it has enough money to pay current liabilities, it cannot misuse its long term resources.

6. Banks ask the maximum permissible bank finance (MPBF) working. It should not more than 75% of working capital or 20% of Sales.

DOCUMENTS/INFORMATION REQUIRED PREPARING CMA:

1. Past 2 years Audited Financial.

2.Provisional Financial for the current year; in the absence of provisional financials, details of the top line shall be essential.

3.Latest Sanction letter (in case of renewal).

4. Term Loan Repayment Schedule, if any.

5 Details of proposed enhancement (if any) along with the terms and conditions

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Income Tax Return:

The definition of an income tax return is a document you file with the Internal Revenue Service or the state tax board reporting your income, profits and losses of your business and other deductions as well as details about your tax refund or tax liability.

Financial Statements:

Financial statement is a formal record of the financial activities and position of a business, person or other entity.

Relevant financial information is presented in a structured manner and in a form easy to understand. They typically include basic financial statements, accompanied by a management discussion and analysis:

1. A balance sheet or statement of financial position, reports on a company's assets, liabilities, and owners' at a given point in time.

2. An income statement or statement of comprehensive income, statement of revenue & expense, P&L or profit and loss report, reports on a company's income, expenses, and profits over a period of time. A profit and loss statement provides information on the operation of the enterprise. These include sales and the various expenses incurred during the stated period.

3. A Statement of changes in equity or equity statement or statement of retained earnings, reports on the changes in equity of the company during the stated

period.

4. A cash flow statement reports on a company's cash flow activities, particularly its operating, investing and financing activities.

Proposal Note:

A business proposal is a written document sent to a prospective client in order to obtain a specific job. Proposals may be solicited or unsolicited. Solicited proposals, obviously, mean that the client has already decided to make a purchase.

In the 4th Week of the internship company helped me to know the Filling of Income Tax Return, Preparation of Financial Statements and gave me the brief introduction of Proposal note.

Project made by me was on a new upcoming industry M/s Narayan Industries

M/s. Narayan Industries is promoted by Mr. Nanak BherumalBhavnani for setting up

a plastic granule processing unit at Plot No. 240, Behind Vijaya Bank, CA Road, Satnami

Nagar, Nagpur. The firm intends to set up a manufacturing unit with latest technology

that will manufacture Plastic bags, Box Liners, Industrial Liners & Industrial LDPE Bags.

The firm has approached Mulchandani Manish & Associatesfor structuring its business model and

Appraising its fund requirement. It has also mandated Mulchandani Manish & Associatesfor fund syndication for proposed project.

CONCLUSION

CONCLUSION

To study at **Mulchandani Manish & Associates** gave a vast learning experience to me and has helped to enhance my knowledge during the study. I learnt how the theoretical financial analysis aspects are used in practice during the long termassessment. I have realized during my project that a project financer must have multi-disciplinary talents like financial, technical as well as legal know how.

The credit appraisal for business loans has been devised in a systematic way. It is a process of appraising the credit worthiness of loan applicants. The project finance is a financing of a particular economic unit in which a lender is satisfied to look initially to the cash flow and earnings of that economic unit.

Thus, I have gained knowledge and learned all the aspects which are covered below related to my project:-

1. Filling Income Tax Return
2. Financial Statement Analysis
3. ¬¬¬Working Capital and its Assessment Techniques
4. Documentation
5. Preparation of Net Worth Statement
6. Preparation of Credit Monitoring Arrangement

Mulchandani Manish & Associates is promoted by qualified professionals having strong execution, capabilities in the entire Project Life Cycle, in sectors like Infrastructure, Pharmacy, Energy and Natural Resources, Agro Processing, Real estate etc, through its service offerings in Investment Banking & Management Consultancy.

Besides, we also represent CRISIL for their risk management services.

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2. The information to be collected from Wikipedia.

   https://www.investopedia.com

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4. Referred books such as :-

   The Principles of Project Finance by ROD MORRISON(Published by Elsevier Inc.)

   Principles of Project Finance by E.R. YESCOMB(Published by Taylor and Francis)