**TASK-2**

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**Case Problem in Brief**

**The main key points of this question are as follows:**

* The businessman has had success running a sweet shop and now wants to invest in real estate by purchasing a luxury flat and renting it out.
* The businessman plans to finance the purchase through a loan with a debt-to-equity ratio of 70:30, with the equity portion being invested by himself.
* The loan will be obtained from commercial banks in India, and the flat will serve as collateral against the debt.
* The cost of the flat is approximately Rs. 1 crore, and the expected monthly rent is Rs. 2.50 lakhs.
* The businessman intends to repay the debt using the rental income received from the flat.
* The analysis of the financial model will determine the feasibility of the project for financing, considering the cost breakdown, revenue collection, and debt repayment.
* The financial model assumes a non-recourse debt structure, where the lender's recourse to recover the debt is limited to the collateral provided.

**Calculations and Assumptions**

**The calculations to be performed in the analysis of the financial model include:**

* **Cost breakdown:** Analyzing the various costs involved in the purchase of the flat, such as the purchase price, taxes, legal fees, registration charges, etc.
* **Revenue collection:** Estimating the monthly rental income based on the expected rent and calculating the annual revenue generated from the flat.
* **Debt repayment:** Determining the loan amount needed based on the debt-to-equity ratio, calculating the monthly debt repayment amount, and assessing if the rental income is sufficient to cover the debt repayment.
* **Feasibility assessment:** Evaluating the financial viability of the project by comparing the rental income with the debt repayment and analyzing if the project is feasible for financing.
* **When preparing a financial model,** there are several assumptions that need to be made. These assumptions help provide a basis for the projections and calculations in the model.

**Here are some common assumptions to consider:**

* **Loan terms**: Determine the terms of the loan, including interest rate, repayment period, and any associated fees. These terms will affect the debt repayment calculations. Assumptions can be made based on prevailing market rates and negotiations with the lending institution.
* **Loan collateral:** Assume that the flat being purchased will serve as collateral for the loan. This means that in the event of default, the lender has recourse to the flat to recover the outstanding debt.
* **Expenses:** Estimate the various expenses associated with the purchase and maintenance of the property, such as property taxes, insurance, maintenance costs, property management fees, and any other applicable fees. Assumptions can be made based on industry standards or specific market conditions.
* **Rental growth:** Assume a growth rate for rental income over time. This growth rate could be based on historical data, market trends, or economic forecasts.
* **Occupancy rate:** Estimate the percentage of time that the property is expected to be rented out or occupied. This assumption helps calculate the expected rental income. Industry benchmarks and market conditions can guide this estimation.
* **Inflation and interest rates:** Assume an inflation rate and interest rate to account for the impact of changing economic conditions over time. These rates can affect expenses, rental income, and loan repayment calculations.
* **Tax implications:** Consider the tax laws and regulations applicable to real estate investments, such as property taxes and income tax on rental income. Assumptions about tax rates and regulations will impact the financial projections.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| ASSUMPTIONS | | | | | |
| Inflation | 4.00% | Debt rate | 10.0% | USD/INR | 70.00 |
| DDT | 0.00% | Moratorium | 0.25 yrs | Discount | 10% |
| Tax Holiday | 0 yrs | Debt tenure | 10.0 yrs | Construction Time | 0.25 yrs |
| Tax rate | 25.00% | Depreciation | 7.00% | MAT | 18.5% |

**Cost sheet**

Capex and Opex are financial terms commonly used in business and finance to distinguish between different types of expenses. They represent two distinct categories of expenditures:

Capex (Capital Expenditure): Capex refers to the spending on acquiring, upgrading, or maintaining long-term assets that will generate future economic benefits for a company. These assets are typically used in the production of goods or services and have a useful life beyond the current accounting period. Examples of capital expenditures include:

* Purchasing or constructing property, plant, and equipment (PP&E)
* Investing in technology infrastructure, such as servers or software
* Upgrading or expanding production facilities
* Acquiring intellectual property rights or patents

Capital expenditures are usually significant investments that aim to enhance a company's productive capacity, improve efficiency, or support future growth. These expenses are typically recorded as assets on the balance sheet and are depreciated or amortized over their useful lives.

Opex (Operating Expenditure): Opex refers to the day-to-day expenses incurred in running a business and maintaining its ongoing operations. These expenses are related to the regular activities required to sustain the company's revenue-generating operations. Examples of operating expenditures include:

* Employee salaries and benefits
* Rent and utilities for office spaces
* Marketing and advertising expenses
* Maintenance and repairs
* Administrative costs, such as office supplies or professional services
* Insurance premiums
* Inventory or raw material expenses

Operating expenditures are considered necessary costs to keep the business functioning on a day-to-day basis. They are typically recorded as expenses on the income statement in the period they are incurred and are deductible for tax purposes.

|  |  |  |  |
| --- | --- | --- | --- |
| **Project Cost (CapEx)** |  |  |  |
|  | Rate (Rs./sq.ft) | **3000** | **% of Project Cost** |
| Flat | 2500 | 75,00,000 | 73.7% |
| Interior Decoration | 125 | 3,75,000 | 3.7% |
| Furniture | 250 | 7,50,000 | 7.4% |
| Fixtures | 10 | 30,000 | 0.3% |
| Building Registration | 10 | 30,000 | 0.3% |
|  |  |  |  |
| Broker Fee | 75 | 2,25,000 | 2.2% |
| Stamp Duty | 250 | 7,50,000 | 7.4% |
| Fund Raising Fee | 25 | 75,000 | 0.7% |
| Tranfer of Deed Fee | 50 | 1,50,000 | 1.5% |
|  |  |  |  |
| Interest During Moratorium | 60 | 1,80,000 | 1.8% |
| Loan and Documentation Fee | 25 | 75,000 | 0.7% |
|  |  |  |  |
| CSR, HSE, Training | 10 | 30,000 | 0.3% |
|  |  |  |  |
|  |  |  |  |
| **Total Project Cost** |  | **1,01,70,000** |  |
|  |  |  |  |
| **O & M Cost (Monthly Breakdown) (OpEx)** | |  |  |
| Building Maintainence | 15 | 45,000 |  |
| Utilities (Electric + Water + Internet) | 4 | 12,000 |  |
| Salary (Maid + Acountant) | 4 | 12,000 |  |
| Plumber + Electrician + Misc etc | 3 | 9,000 |  |
| Insurance (0.35 %) | 10 | 30,000 |  |
|  |  |  |  |
| **Total O&M Cost (per year)** |  | **9,66,000** |  |

**Revenue**

The bank will try to find out the mistake in Revenue mostly , therefore taking real case scenario is better than taking the best case .

Example –

* The flat may not be fully booked for all 12 months.
* Broker fees may or may not be applicable, depending on the situation.
* Consider the deposit amount that will be collected along with the rent.
* Aim for an optimal rent appreciation rate.
* Optimize the interest earned on the deposit. Even if the interest is not obtained directly, the bank may still benefit from it.
* Strive for a steady revenue stream to facilitate a smooth deal.
* Therefore, it is necessary to optimize these assumptions.

**Finflows**

"Finflows" seems to be a term specific to your particular case or context. Without further information or clarification, it is difficult to determine the exact meaning or calculation associated with "finflows." It would be helpful if you could provide more details or context about the term so that I can assist you more accurately.

However, in general financial analysis, the term "cash flows" is commonly used. Cash flows refer to the movement of money into or out of a business or investment over a specific period. Cash flows can be categorized into three main types: operating cash flows, investing cash flows, and financing cash flows. These cash flows are essential for evaluating the financial health and performance of a business or project.

**Key points related to cash flows and their calculations include:**

**Operating Cash Flows:** These represent the cash inflows and outflows directly related to a company's core operations. It includes revenues, expenses, and changes in working capital. The main calculation involves determining the net cash provided by or used in operating activities, which reflects the cash generated from the company's day-to-day operations.

**Investing Cash Flows:** These represent the cash inflows and outflows related to the acquisition or disposal of long-term assets, such as property, plant, and equipment, as well as investments in other companies. The main calculation involves assessing the net cash provided by or used in investing activities, which reflects the cash used for investment purposes.

**Financing Cash Flows:** These represent the cash inflows and outflows related to raising or repaying capital, such as issuing or buying back shares, obtaining or repaying loans, or paying dividends. The main calculation involves determining the net cash provided by or used in financing activities, which reflects the cash generated or utilized from financing sources.

**Cash Flow Statement:** The cash flows from operating, investing, and financing activities are summarized in the cash flow statement. This financial statement provides insights into how cash is being generated and utilized within a business or project.

|  |  |  |
| --- | --- | --- |
| PROJECT DETAILS | | |
| Size in Sq. Ft | 3000 | 10.17 |
| Equity | 30% | 3.05 |
| Debt | 70% | 7.12 |
| Debt Service Resv (DSR) | 0.25 yrs |  |

|  |  |
| --- | --- |
| **RESULTS** | |
| Equity IRR | 23.29% |
| Min DSCR | 1.28 |
| Avg DSCR | 1.54 |
| Project IRR | 17.19% |

**Calculating parameters**

|  |  |  |  |
| --- | --- | --- | --- |
| Year ------> |  | **Today** | **COD** |
| Date ---> |  | 29-May-2023 | 28-Aug-2023 |
| **Revenue Collection** | | | |
| Rent |  |  |  |
| Interest on Deposit |  |  |  |
| Other Sources |  |  |  |
| **Total Revenue (million INR)** | |  |  |
| **Operating expenses** | | | |
| Building Maintainence |  |  |  |
| Utilities (Electric + Water + Internet) | |  |  |
| Salary (Maid + Acountant) |  |  |  |
| Plumber + Electrician + Misc etc | |  |  |
| Insurance (0.35 %) |  |  |  |
| **Total Operating Expenses** | |  |  |
|  |  |  |  |
| **EBITDA** |  |  |  |
| **Non Operating Expenses** | | | |
| Interest payment |  |  |  |
| Depreciation |  |  |  |
| **Total Non-Operating Expenses** | |  |  |
| Income before taxes |  |  |  |
| Tax |  |  |  |
| **Net Income** |  |  |  |
| **Cash Flow** | | | |
| Equity |  | -3.05 |  |
| Net Income |  |  |  |
| Add back depreciation |  |  |  |
| Principal Payment (-) |  |  |  |
| CSR (0.50 % of Net Income) (-) | |  |  |
| Final Project Cashflow (Equity) | | -3.05 | 0.0 |
|  |  |  |  |
| DSCR ---> |  |  |  |
|  |  |  |  |
| Final Project Cashflow |  | -10.17 | 0.0 |

In brief, a financial model will help the businessman in assessing the feasibility and potential returns of the real estate investment. It will analyze the cost breakdown, revenue collection, and debt repayment to determine if the project is viable for financing. The model allows for investment evaluation, risk analysis, and debt planning, aiding in informed decision-making. Additionally, it supports communication and presentation of the investment opportunity to lenders or investors. Overall, the financial model is a valuable tool for optimizing financial outcomes and making strategic choices for the real estate investment.