Financial Institution (financing of project)

- ↳ Industrial finance Corporation of India (IFCI)
- ↳ Small Industries development Bank of India (SIDBI)
- ↳ Industrial development Bank of India (IDBI)
- ↳ National Small Industries Corporation (NSIC)
- ↳ Small Industrial development Corporation (SIDCS)
- ↳ State financial Corporations (SFCs)

Granting & providing direct financial to industrial & small scale Industries

→ (NSIC) providing common facilities through prototype development & training Centre

→ some financial Institution provides

DIC, SIDO → development activities { → infrastructure facilities; → assistance for raw material

promotional Activities { → preparation of feasibility report; → EDPs; → industrial potential survey

→ Technological Upgradation & Modernisation services to industry.

→ development of Industrial Area.

Project Appraisal

↓

* Assessment of a project in terms of its economic, Social & financial Variability.
* It involves investigation of economic, technical, Organisational, financial, market & managerial aspects of project.

Technical Aspect

* Location of project
* Availability of Input
* Manufacturing & technology selected for project
* Availability of infrastructure facilities.

financial Aspect

* availability of funds from various sources.
* Income & Expenditure

Economic Aspect

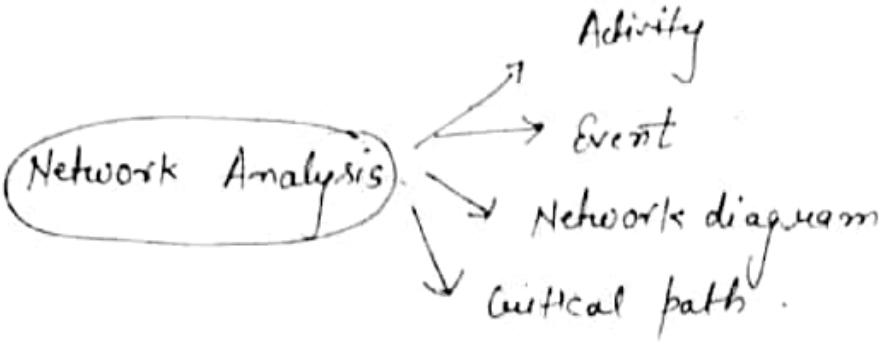
* requirement of raw material
* anticipated Sales
* probable profit

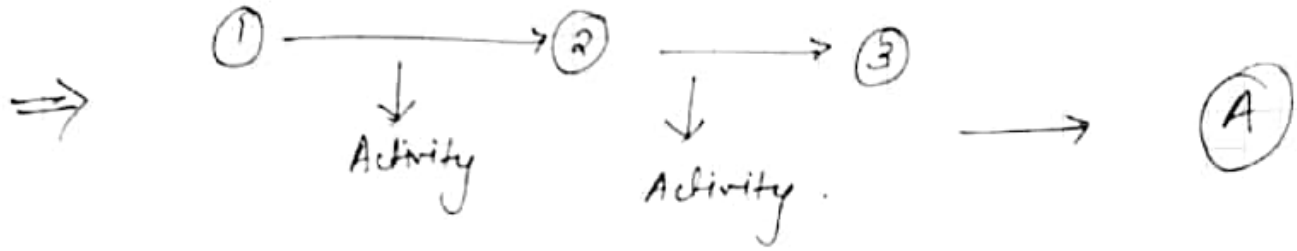
Organisational Aspect

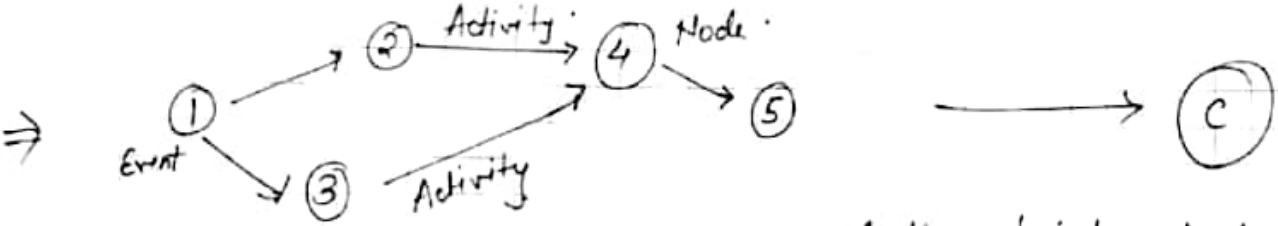
* structure
* Environment
* Recruitment
* training.

Objectives of Network Analysis :

- Ensures Sequential & logical planning of whole project.
- defines clearly the inter relationship of all activities related to project.
- Monitors the progress of project to its Completion date & also examine Critical activities & Critical path.
- determination of Critical path that involve activities that require more focus or Special attention.
- Network Analysis helps & plan alternative Ways to reduce time & Cost related to project.

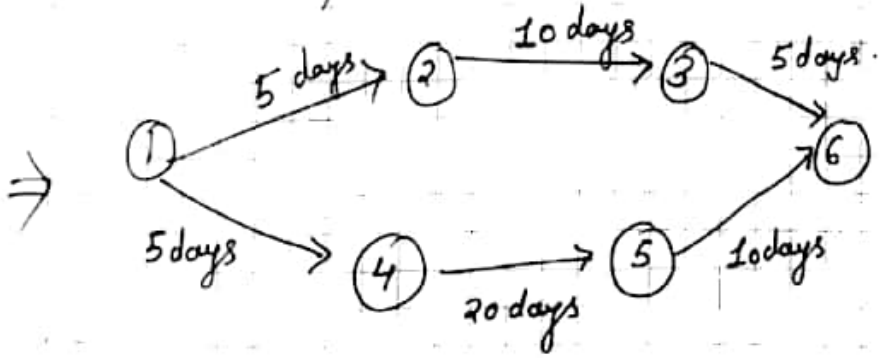






Ending point of two or more activities.

Critical path



1—2—3—6 ⇒ 20 days

1—4—5—6 ⇒ 35 days.

Longest path / Critical

CPM (Critical path Method)

* Used for Complex projects with a large no. of activities.

CPM Consist of.

1) all activities
2) time required for their Completion.
3) how each activity is related to previous & next activity.

* a Sequence of activities is Called a path. & the Longest path is (Critical path).

* It is Critical as all the activities must be accomplished in proper time else the whole project will be delayed.

PERT (Program Evaluation Review technique)

* PERT chart is a project managing tool.
* Scheduling, Organizing & Coordinating tasks within a project
* It involve three main Component.

1) optimistic time

→ this is the situation in which every activity looks positive & it should be completed on time.

2) Pessimistic time

→ every activity looks complicated & can't be completed on time in this situation.

3) Most likely time → Neutral (Not positive Or Negative)

equal probability to complete the project on time.

Project Evaluation (Project financial Appraisal)

⇒ It refers the analysis of Cost & benefits of a proposed project with the availability of resources

⇒ It identifies the expected costs & benefits of a project

⇒ It examines real Cost & alternative investment opportunities with the allocation of funds

There are following Appraisal Methods

⇒ pay back period ⇒ Investment / Const annual Cashflow

⇒ ARR (Average Rate of Return) ⇒ Annual Net Income / Avg Investment * 100

⇒ NPV (Net present Value)

⇒ IRR (Internal Rate of Return Method)

(

Discounted Cash flow techniques

- NPV (Net present Value)
- IRR (Internal Rate of Return)

Discounted techniques ⇒ Used for evaluating & Selecting investment project.

* Capital budgeting technique.
* these techniques are more refined & realistic
* Represent the recovery of Original Investment & a return on Capital invested.
* Time-Adjusted techniques.
* determine a Criteria of starting a project.

NPV Net present Value Method:

defines as the excess of present Value of project inflows Over that of outflow.

NPV ⇒ difference between present Value of Cost & benefit stream.

for Conventional Investment

$$NPV = \frac{B_1}{(1+r)^1} + \frac{B_2}{(1+r)^2} + \cdots + \frac{B_n}{(1+r)^n} - C_0$$

'B_t' ⇒ represents Cash inflow in periods 0, 1, 2, ... n.

C_0 ⇒ initial investment.

$$NPV = \sum_{t=1}^{n} \frac{B_t}{(1+r)^t} - C_0$$

for Non Conventional Investment

Where Cash outflows take place over more than One year.

$$NPV = \frac{B_0}{(1+r)^0} + \frac{B_1}{(1+r)^1} + \cdots + \frac{B_n}{(1+r)^n} - \left(C_0 + \frac{C_1}{(1+r)^1} + \frac{C_2}{(1+r)^2} + \cdots + \frac{C_n}{(1+r)^n}\right)$$

$$NPV = \sum_{t=0}^{n} \frac{B_t}{(1+r)^t} - \sum_{t=0}^{n} \frac{C_t}{(1+r)^t}$$

'B_t' = represents Cash inflows in period 0, 1, 2 -- n.

'C_t' = represent Cash outlays in period 0, 1, 2 -- n.

r = desired discount rate

$NPV \geq 0$ ⇒ if NPV is zero or greater than zero → Accept the project

$NPV < 0$ ⇒ if NPV is negative → Reject the project

Internal Rate of Return

↳ Represents return internally generated by project

this is the rate at which NPV is equal to 0

IRR by interpolation Method

$$IRR = = L + (H-L) \times \frac{(NPV_{at\,L})}{NPV_L - NPV_H}$$

if NPV is +ve at one rate & -ve at immediate next rate.

L = lower discount rate where NPV was +ve.

H = Higher " " " NPV -ve.

(IRR = internal Rate of Return Method)

aggregate discounted Cash inflows ← → aggregate initial investment

$$NPV = \sum_{t=1}^{n} \frac{B_t}{(1+IRR)} - C_0 = 0$$

Internal rate of return that equates aggregate discounted benefits with aggregated discounted cost.

PROJECT REPORT

↳ well evolved Course of action devised to achieve specified objective within a specified period with specified resources.

↓

Assesses → demand of proposed product
→ investment & operational cost
→ Estimate expected profitability of project

project Report Cover → Economic
→ Technical
→ financial
→ Managerial
→ Production

All Aspects

* after identification, selection of a project, entrepreneur works on formulation of a feasibility report.

* It is a written document about project containing relevant data.

Contents of Proged Report

1) General Information → Information about the project, characteristic & application

2) Location → location of project, locational advantage.

3) Land & Building → Land area, Construction, Cost of Construction

4) Promoter (education qualification, Work experience)

5) plant & Machinery → (details of technical tools, equipment, machinery)

6) Raw material → (Requirement of Raw material, price, Sources)

7) Production Process → (description of process adopted for production,)

8) Man power → (Requirement of staff, skilled & Semi skilled, Sources of man power)

9) Market → (Market position, trends, anticipated demand)

10) Financial Implications → (project Cost, fixed & Working Capital, profitability)