

# Cost of Project

- Land & site development
- Buildings & civil works
- Plant & machinery
- Technical know how & engineering fees
- Expenses on foreign technicians
- Miscellaneous fixed assets
- Preliminary & capital issue expenses
- Pre-operative expenses
- Margin money for working capital
- Initial cash losses

# Land & Site development

- Basic cost of land including conveyance & other allied charges
- Premium payable on leasehold & conveyance charges
- Cost of leveling & development
- Cost of laying approach roads & internal roads
- Cost of gates
- Cost of tube wells

# Building & Civil works

- Buildings for the main plant & equipment
- Buildings for auxiliary services like steam supply, workshops, laboratory, water supply etc.
- Godowns, warehouses & open yard facilities
- Non-factory buildings
- Quarters for essential staff
- Garages
- Sewers, drainage etc.
- Other civil engineering works

# Plant & Machinery

- Cost of imported machinery
- Cost of indigenous machinery
- Cost of parts & spares
- Foundation & installation charges

# Technical know-how & Engineering Fees

- Preparation of the project report
- Choice of Technology
- Selection of the plant & machinery
- Detailed engineering

# Miscellaneous Fixed Assets

- Furniture
- Office Machinery & equipment
- Tools
- Vehicles
- Railway siding
- Diesel generating sets
- Transformers
- Boilers
- Piping systems
- Laboratory equipment etc.

# Preliminary Expenses

- Identifying the project
- Conducting the market survey
- Preparing the feasibility report
- Drafting the memorandum
- Articles of Association
- Incorporating the company

# **Capital Issue Expenses**

- Underwriting commission
- Brokerage
- Fees to managers & registrars
- Printing & postage expenses
- Advertising & publicity expenses
- Listing Fees
- Stamp duty etc.

# Pre-operative Expenses

- Establishment expenses
- Rent, rates & taxes
- Traveling expenses
- Interest & commitment charges on borrowings
- Insurance charges
- Mortgage expenses
- Start up expenses etc.

## **Margin money for working capital**

The principal support for working capital is provided by-

1. Commercial Banks
2. Trade Creditors
3. Long term sources of finance

# Initial Cash Losses

Initial losses in the project cost generally

affects –

1. Liquidity position
2. Impairs the operations.

# Means of Finance

- Share Capital
- Term Loans
- Debenture capital
- Deferred credit
- Incentive sources
- Miscellaneous sources

## **Estimates of Sales & Production**

The starting point for profitability projections is the sometimes supplier of plant & machinery may propose deferred credit facility under which payment for such purchase can be made over a period of time, borne in mind.

1. It is advisable not to assume a high capacity utilization level in the first year operation. In spite of simple technology company may face raw material support as an incentive to certain types of promoters or for setting up industrial units in certain locations, in the form of seed capital assistance, capital subsidy, tax-exemption etc.

50-80 percent in the 2<sup>nd</sup> year.

80-90 percent from 3<sup>rd</sup> year onwards.

# Cost of Production

- Material cost
- Utilities cost
- Labor cost
- Factory overhead cost

# Factory Overheads

- The expenses on repairs & maintenance, rent, taxes, insurance on factory assets, & so on are collectively referred to as factory overheads. Repairs & maintenance expense depends on the state of the machinery- this expense tends to be lower in the initial years & higher in the later years. Rent, taxes, insurance etc. may be calculated at the existing rates. A provision should be made for meeting miscellaneous factory expenses.

## **Working Capital requirement & its financing**

1. The working capital requirement consists of the following:
  - (a) Raw Material
  - (b) Stocks of goods in process
  - (c) Stocks of finished goods
  - (d) Debtors
  - (e) Operating Expenses

## **Working Capital requirement & its financing (contd.. )**

2. The principal sources of working capital finance are :
- Working capital advances provided by commercial banks
  - Trade Credit
  - Accruals & provisions
  - Long term sources of financing
3. To obtaining working capital advances from commercial banks, there are certain limits.
- They are in two forms:
- The aggregate permissible bank finance is specified as per the norms of lending.
  - Against each current asset a certain amount of margin money has to be provided.

# Margin Requirement

While there is no fixed formula for determining the margin amount, the ranges within which margin requirements for various current assets lie are as follows:

<u>Current Assets</u>	<u>Margin</u>
Raw Materials	10%-25%
Work-in-process	20%-40%
Finished goods	30%-50%
Debtors	30%-50%

## Profitability projections

• The estimates of working results may be prepared along the following lines:

- A. Cost of Production
- B. Total administrative expenses
- C. Total sales expenses
- D. Royalty & know-how payable
- E. Total cost of production (A+B+C+D)

## Profitability projections (contd...)

- F. Expected Sales
- G. Gross profit before interest (F-E)
- H. Total financial expenses
- I. Depreciation
- J. Operating Profit (G-H-I)

## Profitability projections (contd....)

- K. Other Income
- L. Preliminary expenses written off
- M. Profit/loss before taxation (J+K-L)
- N. Provision for taxation
- O. Profit after tax (M-N less , dividend on  
Preferred capital & Equity capital)
- P. Retained profit
- Q. Net cash accrual (P+I+L)