PROJECT FORMULATION

We know that a project grows out of problems or opportunities. Therefore, the need for a project is felt by the project owner (an individual or an organisation), proposing to undertake a project. In the complexities of the business world, it is almost impossible for an organisation to start investing in a business before a plan is drawn for such business—a plan for the proposed investment.

The project formulation is a systemic expression of such plan with detailed estimates within certain parameters. Such estimates in order to be more realistic and reliable are based on actual experiences, environments along with the trends forecasted for the coming years. All these are formulated in a 'project report'. The project formulation needs lot of functional support from the specialists in their relevant fields.

Once the project has been identified necessary steps are taken to explore and assess the viability of the project.

c. The technical collaborator is capable to impart such technology often assured by a term of buy-back of part of the production;

d. The other terms for the know-how are reasonable and acceptable as per norms.

(ii) Economical:

a. The investment for the project is justified considering the overall economical situation and, in particular, relevant to the industry for which the project is being planned.

b. The project cost is justified as against the economic benefit to be derived from it.

(iii) Financial:

a. The necessary resources will be available in time during the implementation of the project and its subsequent operation. Experience indicates that many projects, after being partially carried out, are stopped (particularly in the public sector) due to lack of funds leading to delay in its implementation and cost escalation.

b. The estimated revenue to be generated from the project after being implemented is sufficient to justify the project capital cost.

(iv) Social:

a. The objective of the project is to serve common people through rural development, education, health-care etc. It should be ensured that sufficient funds are available to maintain such project e.g. a hospital built-up and equipped with necessary machineries/apparatus could not be run in the absence of funds to pay the doctors, nurses/maintenance staff etc.

Such studies are made and database prepared having information from various authentic sources as well as professional bodies, market research & analysts etc. The preparation of a project report passes through phases as project profile, pre-feasibility, feasibility and end up with a detailed project report (DPR).

Every such study is a costly affair, and it is not a must that a project should pass through all such studies. The status of the studies and reliability of the forecasted details in the report (pre-feasibility, feasibility etc.) improve with the managerial decision to dig in further as well as more detailed information available with the passage of time.

Analysis of Market Demand

We know that people have numerous wants which vary in intensity and quality. Just desiring or wanting things is not enough to create a demand. Suppose, a mill worker desires or wants to have a car but does not have the necessary means to buy it.

This desire is ineffective and will not become a demand. Similarly, a miser may desire to have the car, has means to purchase it, but will not spend the money. His desire would also not constitute a demand. Thus, we define demand for a commodity or service as an effective desire, i.e., a desire backed by means as well as willingness to pay for it.

The demand arises out of the following three things:

i. Desire or want of the commodity.
ii. Ability to pay,
iii. Willingness to pay.

Only when all these three things are present then the consumer presents his demand in the market.

Definitions:

"Demand for a commodity is the quantity which a consumer is willing to buy at a particular price at a particular time."

"The demand for anything, at a given price, is the amount of it which will be bought per unit of time at that price." -PROF. BENHAM

"By demand, we mean the quantity of a commodity that will be purchased at a particular price and not merely the desire of a thing."-HANSEN

Notes on the Demand Function:

Demand function shows the relationship between quantity demanded for a particular commodity and the factors influencing it. It can be either with respect to one consumer or to all the consumers in the market.

A consumer's demand for a commodity is influenced by the following factors:

1. A consumer's demand for a commodity is influenced by the price of that commodity. Usually the higher the price, the lower will be the quantity demanded.
2. A consumer's demand for a commodity is influenced by the size of his income. In most cases, the larger the income, the greater will be the quantity demanded.
3. A consumer's demand for a commodity is influenced by the prices of related commodities. They may be complementary or substitutes.
4. The tastes of the consumers.

In technical language, it is said that the demand for a commodity is a function of the four variables like:

$q = f(P, Y, P_r, T)$

Where q stands for quantity demanded, P stands for the price of the commodity in question, Y stands for the income of the consumer, P_r indicates prices of the related commodities and T denotes the Tastes of the consumer and f stands for function. But in practice the three of these four variables remain constant. And hence the demand function takes the form of-

$q = f(P)$

Notes in the Factors Determining Individual Demand:

Demand is not dependent on price alone. There are many other factors which affect the demand of a product.

These factors are as follows:

1. Price of the Product:

Demand for a commodity depends on its price. As price rises, for a normal good, demand falls and vice-versa. However, there are exceptions, i.e., for Giffen goods, as price rises demand also rises.

2. Income of the Consumer:

A key determinant of demand is the level of income i.e., the higher the level of income the higher the demand for a given commodity. Consumer's income and quantity demanded are generally related positively. It means that when income of the consumer rises he wants to have more units of that commodity and when his income falls he reduces the demand.

In consumer theory, an inferior good is a good that decreases in demand when consumer income rises i.e., increase in income reduces the demand because the consumer shifts his consumption to superior goods and forgoes his existing product. Thus reducing its demand.

Cheaper cars are examples of the inferior goods. Consumers will generally prefer cheaper cars when their income is constricted. As a consumer's income increases the demand for cheap cars decreases and demand for costly cars increases.

3. Prices of Related Goods:

Consumption choices are also influenced by the alternative options available to users in the relevant market place. Market information regarding alternative products, quality, convenience and dependability all influence choices.

The two products may be related in two ways- Firstly, as complementary goods and secondly as substitute goods.

Complementary goods are those goods which are used jointly and consumed together like tennis ball and a racket, petrol and car. The relationship between the price of a product and the quantity demanded of another is inverse. For example if the price of cars were to rise, less people would choose to buy and use cars, switching perhaps to public transport-trains. It follows that under these circumstances the demand for the complementary good petrol would also decrease.

Goods which are perceived by the consumer to be alternatives to a product are termed as substitute goods. There is direct relationship between the demand for a product and the price of its substitute. Example- scooter and a motorcycle, tea and coffee.

The increase in price of tea would decrease its quantity demanded and people would switch over to its substitute commodity coffee.

4. Consumer's Tastes and Preferences:

Demand for a product is also affected by the tastes and preferences of the consumers. As tastes and preferences shift from one commodity to the other, demand for the first commodity reduces and that of the other rises.

5. Expectation of Future Prices:

The current demand of a product also depends on its expected price in future. If future price is expected to rise, its present demand immediately increases because the consumer has a tendency to store it at low prices for his future consumption. If, however the price of a product is expected to fall then he has a tendency to postpone its consumption and as a result the present demand would also fall.

This is often the case on Budget Day, when consumers rush to fill their petrol tanks prior to an expected increase in taxation. The reverse is also true, in that an expectation that prices are about to fall, will decrease current demand, as consumers will await for the expected price reduction.

6. Economic Conditions:

The demand for commodities also depends upon prevailing business conditions in the country. For, example- during the inflationary period, more money is in circulation and people have more purchasing power. This causes an increase in demand of various goods even at higher prices. Similarly, during deflation (depression), the demand for various goods reduces in spite of lower prices because people do not have enough money to buy.

Notes on the Factors Determining Market Demand:

Market demand for a commodity means the sum total of the demand of all individuals. Market demand depends, not only on the prices of the commodity and prices of related commodities but also on the number of factors.

These are:

1. Pattern of Income Distribution:

If National income is equitably distributed, there will be more demand and vice-versa. If income distribution moves in favour of downtrodden people, then demand for such commodities, which are used by common people would increase. On the other hand, if the major part of National income is concentrated in the hands of only some rich people, the demand for luxury goods will increase.

2. Demographic Structure:

Market demand is influenced by change in size and composition of population. Increase in population leads to more demand for all types of goods and decrease in population means less demand for them. Composition of population also affects its demand. Composition refers to the number of children, adults, males, females etc., in the population.

When the composition changes, for example, when the number of females exceeds to that of the males, then there will be more demand for goods required by women folk.

3. Government Policy:

Government policy of a country can also affect the demand for a particular commodity or commodities through taxation. Reduction in the taxes and duties will allow more persons to enter a particular market and thus raising the demand for a particular product.

4. Season and Weather:

Demands for commodities also depend upon the climate of an area and weather. In cold hilly areas woolens are demanded. During summer and rainy season demand for umbrellas may rise. In winter ice is not so much demanded.

5. State of Business:

The levels of demand in a market for different goods depend upon the business condition of the country. If the country is passing through boom, the trade is active and brisk. The demand for all commodities tends to rise. But in the days of depression, when trade is dull and slow, demand tends to fall.

Demand Schedule:

The demand schedule in economics is a table of quantity demanded of a good at different price levels. Given the price level, it is easy to determine the expected

quantity demanded. This demand schedule can be graphed as a continuous demand curve on a chart where the Y-axis represents price and the X-axis represents the quantity.

According to PROF. ALFRED MARSHALL, "Demand schedule is a list of prices and quantities". In other words, a tabular statement of price-quantity relationship between two variables is known as the demand schedule.

The demand schedule in the table represents different quantities of commodities that are purchased at different prices during a certain specified period (it can be a day or a week or a month).

The demand schedule can be classified into two categories:

1. Individual demand schedule;
2. Market demand schedule.

1. Individual Demand Schedule:

It represents the demand of an individual' for a commodity at different prices at a particular time period. The adjoining table 7.1 shows a demand schedule for oranges on 7th July, 2009.

Table 7·1 : Individual Demand Schedule

Price of Oranges (₹ per kg.)	Quantity of Oranges Demanded (kg.)
15	2
12	3
9	4
6	5
3	6

2. Market Demand Schedule:

Market Demand Schedule is defined as the quantities of a given commodity which all consumers will buy at all possible prices at given moment of time. In a market, there are several consumers, and each has a different liking, taste, preference and income. Every consumer has a different demand.

The market demand actually represents the demand of all the consumers combined together. When a particular commodity has several brands or types of commodities, the market demand schedule becomes very complicated because of various factors. However, for a single item, the market demand schedule is rather simple. Study the market demand schedule for milk in table 7.2.

Table 7·2 : Market Demand Schedule

Price of Milk per litre (in ₹)	Demand of Mr. X. (in Litres)	Demand of Mr. Y. (in Litres)	Market Demand (in Litres)
5	1	2	1 + 2 = 3
4	2	3	2 + 3 = 5
3	3	4	3 + 4 = 7
2	4	5	4 + 5 = 9
1	5	6	5 + 6 = 11

Demand Curves (Diagram):

The demand curve is a graphic statement or presentation of the relationship between product price and the quantity of the product demanded. It is drawn with price on the vertical axis of the graph and quantity demanded on the horizontal axis.

Demand curve does not tell us the price. It only tells us how much quantity of goods would be purchased by the consumer at various possible prices.

Depending upon the demand schedule, the demand curve can be as follows:

1. Individual Demand Curve
2. Market Demand Curve

1. Individual Demand Curve:

An Individual Demand Curve is a graphical representation of the quantities of a commodity that an individual (a particular consumer) stands ready to take off the market at a given instant of time against different prices. In Fig. 7.1, an Individual Demand Curve is drawn on the basis of Individual Demand Schedule given above in table 7.1.

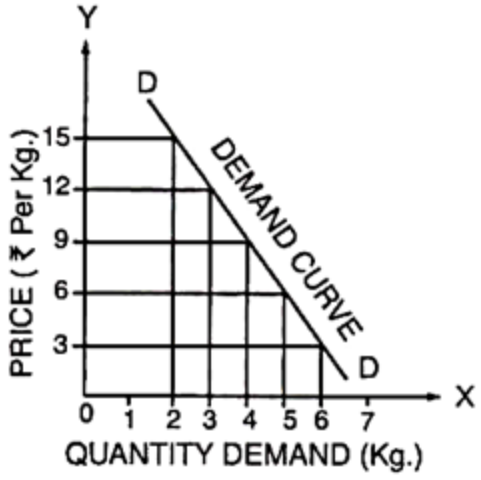

Fig. 7·1

2. Market Demand Curve:

A Market Demand Curve is a graphical representation of the quantities of a commodity which all the buyers in the market stand ready to take off at all possible prices at a given moment of time. In Figure 7.2 a Market Demand Curve is drawn on the basis of Market Demand Schedule given in Table 7.2.

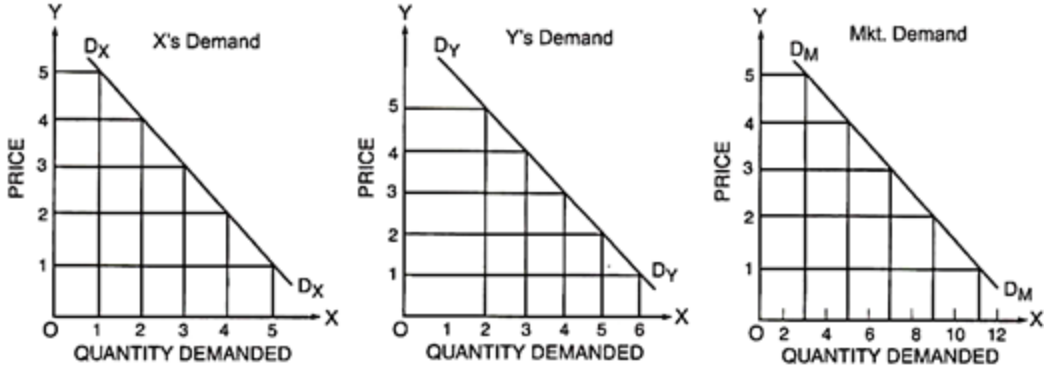

Fig. 7·2 Market Demand Curve

Both, the individual consumer's demand curve is a straight line. A demand curve will slope downward to the right.

It is not necessary, that the demand curve is a straight line. A demand curve may be a convex curve or a concave curve. It may take any shape provided it is negatively sloped.

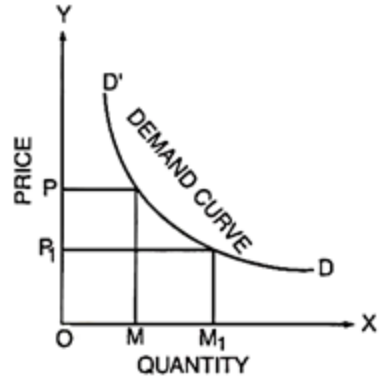

Fig. 7·3

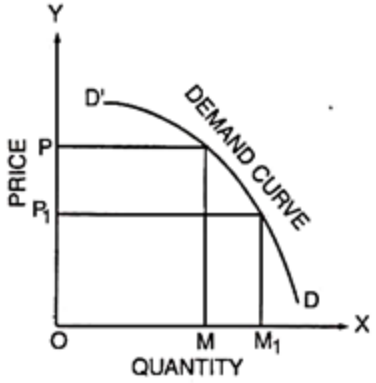

Fig. 7·4

Kinds of Demand:

The demands can be classified as:

1. Price Demand
2. Income Demand

1. Price Demand:

The price demand refers to various quantities of a commodity or services that are purchased at a given time and at given prices from the market. However, in such studies, the consumer's taste, his income, habit and prices of related goods are assumed to be unchanged. Price demand has inverse relation with the price i.e., if

the price of a commodity increases, its demand decreases and as the price decreases, its demand increases.

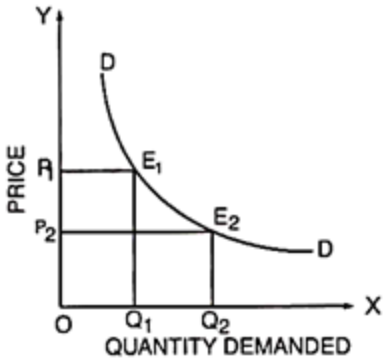

Fig. 7·8

It can be seen in Fig. 7.8, when the price of the commodity was OP_1, the quantity demanded was OQ_1. When the price reduced to OP_2, the quantity demanded increased to OQ_2. Hence the price and the quantity demanded of a commodity show an inverse relationship.

2. Income Demand:

The income demand refers to the various quantities of a commodity or service purchased by the consumers at different income levels. It is assumed that the price of commodity, price of related goods and consumers' tastes do not change. Under such conditions, with the increase in income, a consumer may purchase increased quantity of the commodity even though there may not be any fall in price.

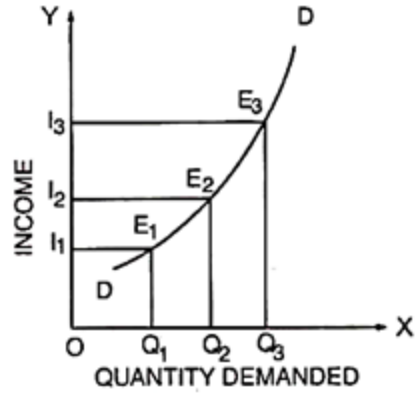

Fig. 7·9

Fig. 7.9 exhibits the direct relationship between income of a consumer and demand of a commodity. As can be seen in the figure that as the income of the consumer increases from OI_1 to OI_2, the demand of the commodity increases from OQ_1 to OQ_2. Similarly when the income increases from OI_2 to OI_3, the demand of the commodity raises from OQ_2 to OQ_3.

3. Cross Demand:

Cross demand refers to the quantity of a commodity which would be demanded as a consequence of changes in price of related complementary or substitute goods.

(i) In the Case of Substitutes:

A rise in the price of good y (say Coffee) raises the demand for good x (Say Tea), similarly, a fall in the price of y, (Coffee) the demand for x (Tea) falls. Fig. 7.10. illustrates it.

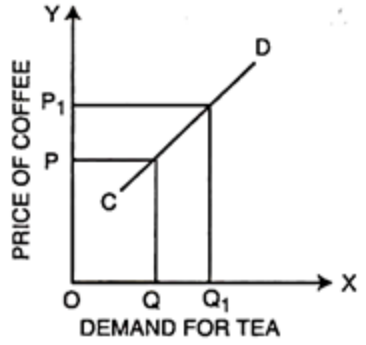

Fig. 7·10

When the price of good y (Coffee) increases from OP to OP_1 the quantity of good x (Tea) also increases from OQ to OQ_1. The cross demand curve CD for substitutes is positively sloping.

(ii) In the Case of Complementary:

In case of complementary goods such as pant and shirt, pen and ink, car and petrol, etc., a fall in the price of one good y (Say car) will raise the demand for good x (Say petrol). Conversely a rise in the price of y (Car) will bring a fall in the demand for x (Petrol). This is illustrated in Fig. 7.11.

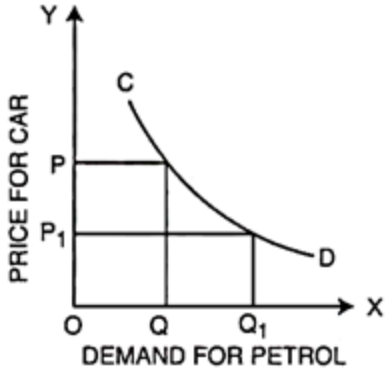

Fig. 7·11

When the price of y (Car) falls from OP to OP_1, the demand for x (Petrol) increases from OQ to OQ_1. The cross demand curve in case of complementary goods CD is negatively sloping.

Inter-Related Demands:

It has been assumed that demand of a particular commodity is quite independent of demand for other goods. But in actual life, most of the demands are closely inter-related.

From a practical point of view, the inter-related demands can be classified as:

1. Joint Demand
2. Direct Demand and Derived Demand
3. Composite Demand

1. Joint Demand:

When several items are demanded for one particular purpose such demand is known as Joint Demand. Demand for complementary goods is also known as Joint Demand. For example, for fabrication of furniture, the items required are wood, nails, varnish, etc.

Thus, whenever the demand of furniture increases, the demand of wood, nails, etc., also increases. This is called a Joint Demand. Similarly, for the construction of the houses, the demand for bricks, cement, masons, labourers, etc., will constitute a Joint Demand. The Joint Demand for coffee is denoted by the given line diagram (Fig. 7.12).

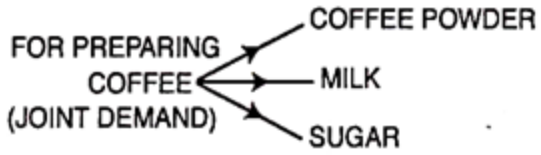

Fig. 7·12

2. Direct Demand and Derived Demand:

Whenever several items are required to make a particular commodity, the demand for various commodities is termed as the Derived Demand and demand of ultimate commodity is called as Direct Demand. For example, the demand for building is a direct demand and demands for cement, bricks, sand, timber, etc., are called as derived demands. It is denoted by the given line diagram (Fig. 7.13).

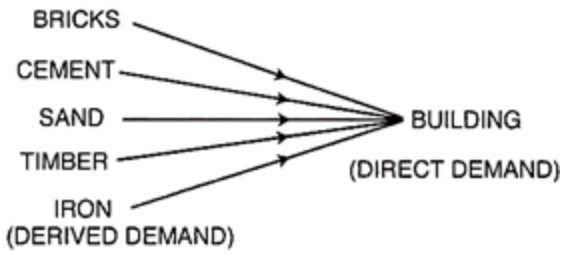

Fig. 7·13

3. Composite Demand:

A commodity can be used for several purposes and its demand is directly linked to its sweets various uses such a demand is known as Composite Demand. For example, milk is used for making tea, coffee, butter, cheese, curd, sweets and for direct consumption. The total demand of milk in the market is for all such purposes and it is called composite demand, denoted by the given line diagram (Fig. 7.14).

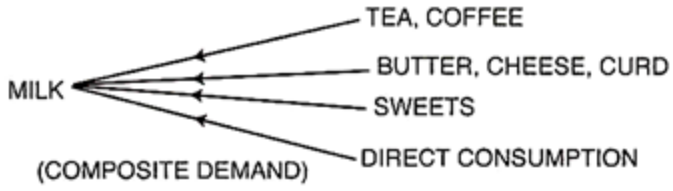

Fig. 7·14

PROJECT FINANCING

Introduction: For whom is it important to understand project finance? a. Financial managers. b. Sponsors. c. Lenders. d. Consultants and practitioners. e. Project managers. f. Builders. g. Suppliers. h. Engineers. i. Researchers j. Students. Why is it important to understand project finance? The people involved in a project are used to find financing deal for major construction projects such as mining, transportation and public utility industries, that may result such risks and compensation for repayment of loan, insurance and assets in process. That's why they need to learn about project finance in order to manage project cash flow for ensuring profits so it can be distributed among multiple parties, such as investors, lenders and other parties. Definition of Project: Organizations perform work continuously. These works include operations or projects though some works may overlap with each other. For the organizations, projects are important elements of

change. They are considered to be the leading edge of change in organizations. A project consists of a combination of organizational resources pulled together to create something that did not previously exist and that will provide a performance capability in the design and execution of organizational strategies. Projects are conceptualized, designed, engineered and produced (or constructed); something is created that did not previously exist. An organizational strategy has been executed to facilitate the support of ongoing organizational life. Projects therefore support the ongoing activities of a going concern. Project Finance Project finance is a method of financing very large capital intensive projects, with long gestation period, where the lenders rely on the assets created for the project as security and the cash flow generated by the project as source of funds for repaying their dues. Simply put, project finance is essentially financing on the security of the project itself, with limited or no recourse against the sponsors of the project or other parties involved in the development and implementation of the project. Due to such characteristics of project finance, the loans sought by the borrowers are always approved by the lenders on the basis of strong in-house appraisal of the cost and viability of the ventures as well as the credit standing of project promoters. Project finance generally covers green-field industrial projects, capacity expansion at existing manufacturing units, construction ventures or other infrastructure projects.

Principle advantages and disadvantages of Project financing:

Advantages: 1. Non-Recourse: The typical project financing involves a loan to enable the sponsor to construct a project where the loan is completely ‘non-recourse’ to the sponsor, i.e., the sponsor has no obligation to make payments on the project loan if revenues generated by the project is insufficient to cover the principal and interest payments on the loan. In order to minimize the risks associated with a non-recourse loan, a lender typically will require indirect credit supports in the form of guarantees, warranties and other covenants from the sponsor, its affiliates and third parties involved with the project. 2. Maximise Leverage: In a project financing, the sponsor typically seeks to finance the cost of development and construction of the project on a highly leveraged basis. Frequently, such costs are financed using 80 to 100 percent debt. High leverage in

a non-recourse project financing permits a sponsor to put less in funds at risk, permits a sponsor to finance the project without diluting its equity investment in the project and, in certain circumstances, also may permit reductions in the cost of capital by substituting lower-cost, tax-deductible interest for higher-cost, taxable returns on equity. 3. Off-Balance-Sheet Treatment: Depending upon the structure of project financing, the project sponsor may not be required to report any of the project debt on its balance sheet because such debt is non-recourse to the sponsor. Off-balance-sheet treatment can have the added practical benefit of helping the sponsor comply with covenants and restrictions relating to borrowing funds contained in other indentures and credit agreements to which the sponsor is a party. 4. Maximize tax benefit: Project financings should be structured to maximize tax benefits and to assure that all possible tax benefits are used by the sponsor or transferred, to the extent permissible, to another party through a partnership, lease or other vehicle.

Disadvantages: Project financings are extremely complex. It may take much longer period of time to structure, negotiate and document a project financing than a traditional financing, and the legal fees and related costs associated with a project financing can be very high. Because the risks assumed by lenders may be greater in a non-recourse project financing than in a more traditional financing, the cost of capital may be greater than with a traditional financing. Stages in Project Financing Project identification Pre Financing Stage Risk identification & minimizing Technical and financial feasibility Equity arrangement Financing Stage Negotiation and syndication Commitments and documentation Disbursement Monitoring and review Post Financing Stage Financial Closure / Project Closure Repayments & Subsequent monitoring Preparation of Project Report A project report is essential before a decision for setting-up of any project is taken. The most important thing in any project financing is preparation of Detailed Project Report (DPR) which should be made beautifully for getting the project approved from banks/financial institutions. After preparation of DPR the proposal is moved to the banks/financial institutions for processing of the file. Project Report must include the followings: A. Technical Feasibility All the factors relating to infrastructure needs, technology, availability of machine, material etc. are required to be scrutinized under this head. Broadly speaking the factors that are covered under this aspect include: 1. Availability of basic infrastructure- It

includes the land and its location as per present and future needs, lay out and building plan including finalization of structure, availability of water and power, availability of cheap labour in abundant supply. 2. Licensing/ registration requirements 3. Selection of technology/ technical process- The technical process/technology selected for the project must be readily available either indigenously or necessary arrangements for foreign collaboration must be finalized. Further the selected technology must find a successful application in Indian environment and the management shall be capable of fully absorbing the technology. 4. Availability of suitable machinery/raw material/ skilled labour etc- After selection of technical process, the availability of suitable kind of machinery is most important factor which needs to be considered. It should be ensured that the suppliers are capable to supply the plant and machinery timely along with all spare parts B. Managerial Competence The ultimate success of even well conceived and viable project may depend on how competently it is managed. The promoters of the project have to provide necessary leadership and their qualification, experience and track record will be closely examined by lending institution. The detail of other projects successfully implemented by the same promoters may provide the necessary confidence of these institutions and help final approval of the project. The reputation of the promoters group in the market is also very important factor which the banks/ financial institutions consider while lending to the companies. Also the bank/ financial institutions check the payment history of past loan raised by the companies in which the promoters are directors which shows their willingness of repayment of the loans. CIBIL is a very strong tool in the hand of banks/ financial institutions to verify the payment history and the number of loans raised by the companies from the date of existence. C. Commercial Viability Any project can be commercially viable only if it is able to sell its product at profit. For this purpose it would be necessary to study demand and supply pattern of that particular product to determine its marketability. Various methods such as trend method, regression method for estimation of demand are employed which is than to be matched with the available supply of a particular product. D. Financial Viability Factors need to consider for financial viability: 1. Cost of project: A realistic assessment of cost of project is necessary to determine the source for its availability and to properly evaluate the financial viability of the projects. For this purpose, the various items of cost may be sub-divided as many sub-heads as possible so that all factor are taken into consideration for arriving at the total cost.

The various aspects of Project appraisal are: 1. Technical Appraisal 2. Commercial Appraisal or Market Appraisal (Demand of the product, supply of the product, distribution channels, pricing of the product and government policies. 3. Economic Appraisal 4. Management Appraisal (assessing the willingness of the borrower to repay the loan) 5. Financial Appraisal Methods of the Project Financing There are three methods in Project Financing: 1. Cost Share Financing or Low interest loan financing. 2. Debts Financing. 3. Equity Financing. Sources for Financing Fixed Assets The type of funds required for acquiring fixed assets have to be of longer duration and these would normally comprise of borrowed funds and own funds. There are several types of longâ€‘term loans and credit facilities available which a company may utilise to acquire the desired fixed assets. These are briefly explained as under.

1. Term Loan :- (a) Rupee loan- Rupee loan is available from financial institutions and banks for setting up new projects as, well as for expansion, modernisation or rehabilitation of existing units. The rupee term loan can be utilised for incurring expenditure in rupees for purchase of land, building, plant and machinery, electric fittings, etc. The duration of such loan varies from 5 to 10 years including a moratorium of up to a period of 3 years. Projects costing up to Rs. 500 lakhs are eligible for refinance from all India financial institutions and are financed by the State level financial institutions in participation with commercial banks. Projects with a cost of over Rs. 500 lakhs are considered for financing by all India financial institutions. They entertain applications for foreign currency loan assistance for smaller amounts also irrespective of whether the machinery to be financed is being procured by way of balancing equipment, modernisation or as a composite part of a new project. For the convenience of entrepreneurs, the financial institutions have devised a standard application form. All projects whether in the nature of new, expansion, diversification, modernisation or rehabilitation with a capital cost upto 5 crores can be financed by the financial institution either on its own or in participation with State level financial institutions and banks. (b) Foreign Currency term loan. Assistance in the nature of foreign currency loan is available for incurring foreign currency expenditure towards import of plant and machinery, for payment of remuneration and expenses in foreign currency to foreign technicians for obtaining technical knowâ€‘how. Foreign currency loans are sanctioned by term lending institutions and commercial banks under the various lines of credits

already procured by them from the international markets. The liability of the borrower under the foreign currency loan remains in the foreign currency in which the borrowing has been made. The currency allocation is made by the lending financial institution on the basis of the available lines of credit and the time duration within which the entire line of credit has to be, fully utilised.

2. Deferred payment guarantee (DPG) - Assistance in the nature of Deferred Payment Guarantee is available for purchase of indigenous as well as imported plant and, machinery. Under this scheme guarantee is given by concerned bank/financial institutions about repayment of the principal along with interest and deferred instalments. This is a very important type of assistance particularly useful for existing profitâ€‘making companies who can acquire additional plant and machinery without much loss of time. Even the banks and financial institutions grant assistance under Deferred Payment Guarantee more easily than term loan as there is no immediate outflow of cash.

3. Soft loan - This is available under special scheme operated through allâ€‘India financial institutions. Under this scheme assistance is granted for modernisation and rehabilitation of industrial units. The loans are extended at a lower rate of interest and assistance is also provided in respect of promoters contribution, debtâ€‘equity ratio, repayment period as well as initial moratorium.

4. Supplier's line of credit - Under this scheme nonâ€‘revolving line of credit is extended to the seller to be utilised within a stipulated period. Assistance is provided to manufacturers for promoting sale of their industrial equipments on deferred payment basis. While on the other hand this credit facility can be availed of by actual users for purchase of plant/equipment for replacement or modernisation schemes only.

5. Buyer’s credit - Under a buyer's credit arrangement, a specific long-term loan is granted by a designated lending agency in the exporter's country to the buyer in the import, country against a guarantee by an acceptable bank or financial institution. The supplier receives payment for the exports on his delivering to the lending agency the requisite documents specified in the loan agreement and the relative commercial contract. The lending agency realises the payment from the buy

(importer) in instalments as and when they fall due. Ordinarily, the supplier of his obligation reckons the period credit as the duration from the date of completion.

6. Debentures - Long - term funds can also be raised through debenture with the objective of financing new undertakings, expansion, diversification and also for augmenting the longâ€‘term resources of the company for working capital requirements. Debenture holders are long term creditors of the company. As a secured instrument, it is a promise to pay interest and repay principal at stipulated times. In the contrast to equity capital which is a variable income (dividend/ security, the debenture / notes are fixed income (interest) security).

7. Leasing - Leasing is a general contract between the owner and user of the assets over a specified period of time. The asset is purchased initially by the lessor (leasing company) and thereafter leased to the user (lessee company) which pays a specified rent at periodical intervals. The ownership of the asset lies with the lessor while the lessee only acquires possession and right to use the assets subject to the agreement. Thus, leasing is an alternative to the purchase of an asset out of own or borrowed funds. Moreover, lease finance can be arranged much faster as compared to term loans from financial institutions.

8. Public deposits - Deposits from public is a valuable source of finance particularly for well established large companies with a huge capital base. As the amount of deposits that can he accepted by a company is restricted to 25 per cent of the paid up share capital and free reserves, smaller companies find this source less attractive. Moreover, the period of deposits is restricted to a maximum of 3 years at a time. Consequently, this source can provide finance only for short to medium term, which could be more useful for meeting working capital requirements. In other words, public deposits as a source of finance cannot be utilised for project financing or for buying capital goods unless the payback period is very short or the company uses it as a means of bridge finance to be replaced by a regular term loan. Before accepting deposits a company has to comply with the requirements of section 58A of the Companies Act, 1956 and Companies (Acceptance of Deposits) Rules, 1975 that lay down the various conditions applicable in this regard.

9. Own Fund: a. Equity: Promoters of a project have to involve themselves in the financing of the project by providing adequate equity base. From the bankers/financial institutions' point of view the level of equity proposed by the promoters is an important indicator about the seriousness and capacity of the promoters. Moreover, the amount of equity that ought to be subscribed by the promoters will also depend upon the debt: equity norms, stock exchange regulations and the level of investment, which will be adequate to ensure control of the company. The total equity amount may be either contributed by the promoters themselves or they may partly raise the equity from the public. So far as the promoters stake in the equity is concerned, it may be raised from the directors, their relatives and friends. Equity may also be raised from associate companies in the group who have surplus funds available with them. Besides, equity participation may be obtained from State financial corporation/industrial development corporations. Another important source for equity could be the foreign collaborations. Of course, the participation of foreign collaborators will depend upon the terms of collaboration agreement and the investment would be subject to approval from Government and Reserve Bank of India. Normally, the Government has been granting approvals for equity investment by foreign collaborators as per the prevailing policy. The equity participation by foreign collaborators may be by way of direct payment in foreign currency or supply of technical knowâ€‘how/ plant and machinery. Amongst the various participants in the equity, the most important group would be the general investing public. The existence of giant corporations would impossible but for the investment by small shareholders. In fact, it would be no exaggeration to say that the real foundation of the corporate sector are the small shareholders who contribute the bulk of equity funds. The equity capital raised from the public will depend upon several factors viz. prevailing market conditions, investors' psychology, promoters track record, nature of industry, government policy, listing requirements, etc. The promoters will have to undertake an exercise to ascertain the maximum amount that may have to be raised by way of equity from the public after asking into account the investment in equity by the promoters, their associates and from various sources mentioned earlier. Besides, some equity may also be possible through private placement. Hence, only the remaining gap will have to filled by making an issue to the public. b. Preference share: Though preference shares constitute an independent source of finance, unfortunately, over the years

preference shares have lost the ground to equity and as a result today preference shares enjoy limited patronage. Due to fixed dividend, no voting rights except under certain circumstances and lack of participation in the profitability of the company, fewer shareholders are interested to invest moneys in preference shares. However, section of the investors who prefer low risksâ€‘fixed income securities do invest in preference shares. Nevertheless, as a source of finance it is of limited import and much reliance cannot be placed on it. Compliance with Different Laws & Regulations In this context it would be pertinent to note that while initiating the process for making a public issue of equity /preference shares, the promoters will have to comply with the requirements of different laws and regulations including Securities Contracts (Regulation) Act, 1956, Companies Act, 1956 and SEBI guide-lines etc., and various rules, administrative guidelines, circulars, notifications and clarifications issued there under by the concerned authorities from time to time. c. Retained earnings: Plough back of profits or generated surplus constitutes one of the major sources of finance. However, this source is available only to existing successful companies with good internal generation. The quantum and availability of retained earnings depends upon several factors including the market conditions, dividend distribution policy of the company, profitability, Government policy, etc. Hence, retained earnings as a source plays an important role in expansion, diversification or modernisation of an existing successful company. There are several companies who believe in financing growth through internal generation as this enables them to further consolidate their financial position. In fact, retained earnings play a much greater role in the financing of working capital requirements. d. Unsecured Loans: If there is some shortfall in the mean-of-finance, the promoters/ directors can mobilize funds from their friends, relatives and well-wishers. Such loans are always unsecured i.e., the lenders cannot have any charge over the assets of the company. Banks and financial institutions stipulate the following conditions if unsecured loan is to form part of the means-of-finance. - The promoters shall not repay the unsecured loan till the term loan persists. - Interest if any payable on unsecured loan shall be paid only after meeting the term loan repayment committees. -The rate of interest payable on unsecured loan shall not be higher than the rate of interest applicable for term loans. Normally unsecured loan component is expected not to exceed 50% of the equity capital.

10. Bridge Loans: This is a temporary loan meant for tying up the capital cost of the project. The necessity for bridge finance arises in situations where finance from particular source is being delayed. However, the availability of finance from that source is certain.

11. Seed Capital: In consonance with the Government policy which encourages a new class of entrepreneurs and also intends wider dispersal of ownership and control of manufacturing units, a special scheme to supplement the resource & of an entrepreneur has been introduced by the Government. Assistance under this scheme is available in the nature of seed capital which is normally given by way of long term interest free loan. Seed capital assistance is provided to small as well as medium scale units promoted by eligible entrepreneurs.

12. Government subsidies: Subsidies extended by the Central as well as State Government form a very important type of funds available to a company for implementing its project. Subsidies may be available in the nature of outright cash grant or long - term interest free loan. In fact, while finalising the mean of finance, Government subsidy forms an important source having a vital bearing on the implementation of many a project.