

A real estate Company has undertaken a redevelopment project in Santacruz (East). The aforesaid project is a real estate venture pertains to construction of a residential building with ground floor, stilt (part) and twelve upper floors (which would be used for residential purpose). The proposed building would be with 2 wings, namely Wing A & Wing B. The residential units in Wing A would be occupied by the existing tenants (50 tenants) who would be provided with the said accommodation free of cost and the residential units in Wing B would be meant for sale. Presently the plans are approved till four floors and the necessary Commencement Certificate has been issued by the MCGM Authorities.

The total built-up area of the building that is proposed to be constructed would be about 38,500 sq. Ft. Out of this an area to the extent of 15,500 sq. Ft. would be handed over to the existing tenants, free of cost. The balance area of 23,000 sq. ft. would be available for sale to outsiders and could be also mortgaged with the Bank as the prime security for the project term loan.

The estimated hard cost of the project would be as below:

Cost of Project:**(Rs. in Lacs)**

| Particulars | Total Cost | Cost Incurred till 31st March 2015 | Balance Cost to be incurred |
|---------------------------|-------------------|--|--|
| Cost of land | 750.00 | 600.00 | 150.00 |
| Cost of TDR | 690.00 | 20.00 | 670.00 |
| cost of construction | 685.00 | 70.00 | 615.00 |
| finishing costs | 520.00 | 0.00 | 520.00 |
| regulatory costs | 730.00 | 65.00 | 665.00 |
| professional fees | 30.00 | 0.00 | 30.00 |
| compensation to tenants | 225.00 | 75.00 | 150.00 |
| site expenses | 25.00 | 0.00 | 25.00 |
| administrative expenses | 25.00 | 0.00 | 25.00 |
| contingency and inflation | 65.00 | 0.00 | 65.00 |
| Total Project Cost | 3745.00 | 830.00 | 2915.00 |

Other than the above stated cost, interest would be charged on the basis of actual loan disbursement and selling commission would be incurred at 2% to the sales value of units as and when sold.

The following points may be relevant:

- a.) The promoters of the Company have approached you to prepare the projected financial statements for the project so as to avail project term loan from the Bank.
- b.) You have discussed the proposal with the Bank officials. The Bank officials have stated the broad guidelines for the preparation of the project report which are as below:
 - I. The Promoter's contribution needs to be at-least 20% of the estimated project cost.
 - II. The core equity capital needs to be at-least double the quasi equity capital.
 - III. The remaining project cost would be met through bank loan to the extent of Rs.1500.00 Lacs and the balance out of advance sales proceeds.
 - IV. Based on the above requirements, promoter's contribution was decided at Rs.650 Lacs and loans from directors was to be restricted to Rs.300 Lacs.
 - V. The balance funds requirement would be met out of the advance proceeds from sale of flats.
- c.) You have obtained the following information regarding the prevailing market rates for residential premises in the said locality:

| Description | Built-up Area in Sq.ft. | Expected Price in Rs. | Rate in Rs. per Sq.ft |
|---|------------------------------------|----------------------------------|----------------------------------|
| Residential Apartment for Sale in Kabra New Vinay, Off Cst Road, Santacruz (East), Mumbai | 1500 sq. ft. | Rs.3,10,00,000/- | Rs.20,667/- |
| A 2bhk independent floor available for sale having 1 bathroom, 2 balconies and one modern kitchen. The flat is semi furnished with wood work and marble flooring.24 hour water and electricity supply is there. Markets and schools are there in the radius of 2 kms. | 575 sq. ft. | Rs.1,25,00,000/- | Rs.21,740/- |

| Description | Built-up Area in Sq.ft. | Expected Price in Rs. | Rate in Rs. per Sq.ft |
|--|------------------------------------|----------------------------------|----------------------------------|
| Independent/Builder Floor for Sale in Santacruz (East). | | | |
| Residential Apartment for Sale in VAKOLA AND KALINA, Santacruz (East), Mumbai, Its a two bhk flat in santacruz east for sale. The flat is with one car park. | 1000 sq. ft. | Rs.1,80,00,000/- | Rs.18,000/- |
| Residential Apartment for Sale in kadamwadi, Vakola, Santacruz (East), Mumbai | 800 sq. ft. | Rs.1,75,00,000/- | Rs.21,875/- |
| Residential Apartment for Sale in Wakola Yashwanth Nagar, Santacruz (East), Mumbai, Near Shiv SenaShaka | 1100 sq. ft. | Rs.1,80,00,000/- | Rs.16,363/- |
| Residential Apartment for Sale in Fortune Height, Vakola, Mumbai | 725 sq. ft. | Rs.1,30,00,000/- | Rs.17,391/- |
| Residential Apartment for Sale Vakola Bridge, 1 bhk flat for sale in vakola 1 bedrooms,, Kitchen, 2 toilets, Balcony. In a well maintained good society with lift and power back up facility. Parking, And other basic amenities | 780 sq. ft. | Rs.1,50,00,000/- | Rs.19,230/- |

- d.) The maximum moratorium period may be considered as 24 months and the term loan repayment should start not later than 3 months after the COD. Based on the size of the project, the Company's architect has estimated that it would take 24 months for completing the main RCC & brick work. The finishing time may extent further by 3-6 months. However the extent of such works may not be very substantial.
- e.) It is proposed that the term loan would be repaid in 4 quarters after the end of the moratorium period. Thus the door-to-door project duration would be about 36 months.
- f.) For the preparation of the cost phasing you have consulted the architect of the Company and have taken the work progress chart from the architect which is as below:

| | 2015-16 | | | | 2016-17 | | | | 2017-18 | | | | Total |
|---------------------------|---------|--------|--------|--------|---------|--------|--------|--------|---------|--------|-------|-------|-------|
| Cost Phasing | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | |
| Cost Heading | | | | | | | | | | | | | |
| Cost of land | 40.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 60.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100% |
| Cost of TDR | 40.00% | 30.00% | 30.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100% |
| cost of construction | 10.00% | 5.00% | 15.00% | 15.00% | 12.50% | 7.50% | 10.00% | 10.00% | 15.00% | 0.00% | 0.00% | 0.00% | 100% |
| finishing costs | 0.00% | 0.00% | 12.50% | 15.00% | 15.00% | 10.00% | 17.50% | 12.50% | 10.00% | 7.50% | 0.00% | 0.00% | 100% |
| regulatory costs | 50.00% | 40.00% | 10.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 100% |
| professional fees | 10.00% | 5.00% | 15.00% | 15.00% | 12.50% | 7.50% | 10.00% | 10.00% | 15.00% | 0.00% | 0.00% | 0.00% | 100% |
| compensation to tenants | 12.50% | 12.50% | 12.50% | 12.50% | 12.50% | 12.50% | 12.50% | 12.50% | 0.00% | 0.00% | 0.00% | 0.00% | 100% |
| site expenses | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 0.00% | 0.00% | 100% |
| administrative expenses | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 0.00% | 0.00% | 100% |
| contingency and inflation | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 10.00% | 0.00% | 0.00% | 100% |

- g.) The entire promoter's contribution is required to be brought up-front and the term loan disbursal would start only after the same is infused.
- h.) The rate of interest on term loan may be assumed at 15% and the corporate tax may be assumed as 30%.
- i.) The revenues may be recorded on the basis of project completion method.
- j.) The built up area is generally computed by adding 20% to carpet area and the saleable area for the project may be considered at carpet area + 50% (loading).
- k.) The cost incurred till March 2105 has been financed as under:
 Core equity contribution: Rs.600 Lacs, Quasi-Equity: Rs.230 Lacs
 The balance promoters contribution would be infused in Q1 of 2015-16.
- l.) The term loan draw down may be adjusted as per requirement.
- m.) The pattern of sales on the basis of the saleable area is as under:

| Workings of sales | 2015-16 | | | | 2016-17 | | | | 2017-18 | | | |
|-----------------------------|---------|-------|--------|--------|---------|--------|--------|--------|---------|--------|--------|---------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| % of area sold (agreements) | 0.00% | 0.00% | 12.50% | 7.50% | 6.00% | 6.00% | 6.00% | 6.00% | 10.00% | 12.50% | 13.50% | 20.00% |
| Cumulative area sold % | 0.00% | 0.00% | 12.50% | 20.00% | 26.00% | 32.00% | 38.00% | 44.00% | 54.00% | 66.50% | 80.00% | 100.00% |

You are required to prepare the following:

1. The quarterly cash flow statement & the overall project profitability statement.
2. The annual profit & loss account & Balance-sheet for the project period.
3. The computation of financial parameters such as:
 - a. DSCR on the basis of Quarterly Closing Cash balances
 - b. DSRC on the basis of annual closing cash balance
 - c. DSCR on the basis of end of project cash balance
 - d. DSCR on the basis of project profits
 - e. Break-Even Point
4. Also carry out a sensitivity analysis and determine the impact on the above financial results under the following different scenarios:
 - a. Selling price per sq. ft. decreases by 5%.
 - b. The cost excluding interest & commission increases by 5%
 - c. Selling price per sq. ft. decreases by 5% along-with increase in cost excluding interest & commission by 5%.