**Case I:**

M/s. AD&PL has approached you to raise debt capital for the Company for financing its project. The Company’s Accountant has provided you with the following financial statements:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Projected Income Statement | | | | | |
| Particulars | Y1 | Y2 | Y3 | Y4 | Y5 |
| Sales | 30,103.83 | 45,289.68 | 50,697.44 | 56,105.07 | 62,188.83 |
| (-) Cost of Production |  |  |  |  |  |
| Raw Material Consumption | 26,910.60 | 35,913.76 | 39,290.42 | 43,327.48 | 47,934.17 |
| Labour | 200.00 | 840.00 | 966.00 | 1,110.90 | 1,277.54 |
| Power & Fuel | 525.00 | 2,775.00 | 3,135.75 | 3,449.33 | 3,794.26 |
| Other Mfg. Expenses | 173.90 | 519.62 | 789.32 | 767.81 | 821.61 |
| Depreciation | 924.53 | 1,270.17 | 1,077.81 | 915.54 | 778.49 |
| Cost of Production | 28,734.04 | 41,318.55 | 45,259.31 | 49,571.05 | 54,606.07 |
| (+) Op. Stock of FG | 1,252.90 | 1,379.00 | 1,780.10 | 1,955.00 | 2,141.30 |
| (-) Cl. Stock of FG | 1,379.00 | 1,780.10 | 1,955.00 | 2,141.30 | 2,358.60 |
| Cost of Sales | 28,607.94 | 40,917.45 | 45,084.41 | 49,384.75 | 54,388.77 |
| Gross Profit | 1,495.89 | 4,372.22 | 5,613.03 | 6,720.32 | 7,800.06 |
| (-) Interest on TL | 300.13 | 531.47 | 381.41 | 231.35 | 81.28 |
| (-) Interest in WC | 147.00 | 716.63 | 716.63 | 716.63 | 716.63 |
| (-) Admin & Sell Exps | 333.92 | 631.08 | 754.10 | 877.13 | 1,022.37 |
| NPBT | 714.85 | 2,493.04 | 3,760.90 | 4,895.23 | 5,979.79 |
| (-) Tax | 238.26 | 830.93 | 1,253.51 | 1,631.58 | 1,993.06 |
| NPAT | 476.58 | 1,662.11 | 2,507.39 | 3,263.65 | 3,986.72 |

Projected Balance-sheet:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Particulars | Y1 | Y2 | Y3 | Y4 | Y5 |
| Equity Share Capital | 5,000.40 | 5,000.40 | 5,000.40 | 5,000.40 | 5,000.40 |
| Reserves and Surplus | 4,005.04 | 5,667.14 | 8,174.53 | 10,863.18 | 14,274.90 |
| Term Loans | 4,900.00 | 3,675.00 | 2,450.00 | 1,225.00 | 0.00 |
| Unsecured Loans | 740.00 | 740.00 | 490.00 | 490.00 | 490.00 |
| Bank Borrowings for WC | 6,000.00 | 6,500.00 | 6,500.00 | 6,500.00 | 6,500.00 |
| Other Liabilities | 690.21 | 1,411.95 | 1,191.28 | 1,307.12 | 1,930.50 |
| Total Liabilities | 21,335.65 | 22,994.49 | 23,806.21 | 25,385.70 | 28,195.80 |
| Gross Block | 15,393.21 | 15,393.21 | 15,393.21 | 15,393.21 | 16,693.21 |
| Depreciation | 5,917.70 | 7,187.87 | 8,265.68 | 9,181.22 | 9,959.71 |
| Net Block [1-2] | 9,475.52 | 8,205.35 | 7,127.53 | 6,212.00 | 6,733.50 |
| Investment | 170.00 | 170.00 | 170.00 | 511.20 | 723.70 |
| Current Assets | 11,317.10 | 14,428.48 | 16,158.45 | 18,262.48 | 20,288.64 |
| Cash and Bank balances | 373.04 | 190.67 | 350.22 | 400.02 | 449.95 |
| Total Assets | 21,335.65 | 22,994.49 | 23,806.21 | 25,385.70 | 28,195.80 |

Assuming that the above financials are true & fair do you think that the engagement is worth accepting? What basic analysis would you do?

**Case II**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Projected Income Statement | | | | | | | |
| Particulars | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** |
|  |  |  |  |  |  |  |  |
| Domestic Sales |  | 486.28 | 563.76 | 670.68 | 846.37 | 992.48 | 1,142.11 |
| Job Work charges |  | 23.80 | 28.05 | 33.88 | 43.92 | 51.98 | 60.72 |
| Sales | Nil | 510.08 | 591.81 | 704.56 | 890.29 | 1,044.45 | 1,202.82 |
| Cost of Production |  |  |  |  |  |  |  |
| Raw Materials Consumed |  | 327.65 | 342.86 | 397.48 | 489.05 | 555.26 | 620.42 |
| Power & Fuel |  | 25.50 | 29.59 | 35.23 | 44.51 | 52.22 | 60.14 |
| Driect Labour |  | 34.68 | 37.25 | 44.26 | 56.62 | 65.34 | 74.87 |
| Other Direct Expenses |  | 5.10 | 5.92 | 7.05 | 8.90 | 10.44 | 12.03 |
| Depreciation |  | 76.16 | 64.74 | 55.25 | 47.34 | 40.70 | 35.10 |
| Total Cost of Production |  | 469.09 | 480.36 | 539.27 | 646.42 | 723.97 | 802.55 |
| (+) Opening Stock of FG |  | - | 36.08 | 39.81 | 44.61 | 53.20 | 59.98 |
| (-) Closing Stock of FG |  | 36.08 | 39.81 | 44.61 | 53.20 | 59.98 | 66.56 |
| Cost of Sales |  | 433.00 | 476.63 | 534.47 | 637.83 | 717.19 | 795.98 |
| Gross Profit |  | 77.07 | 115.18 | 170.09 | 252.46 | 327.26 | 406.85 |
| Sell. Admin Expenses |  | 5.10 | 5.92 | 7.05 | 8.90 | 10.44 | 12.03 |
| Interest on Term Loan |  | 48.64 | 43.52 | 37.76 | 30.08 | 19.20 | 6.40 |
| Interest on WC |  | 13.16 | 14.00 | 15.75 | 18.20 | 22.40 | 31.50 |
| Net Profit before tax |  | 10.17 | 51.74 | 109.53 | 195.27 | 275.22 | 356.92 |
| (-) Tax |  | 3.46 | 17.59 | 37.24 | 66.39 | 93.57 | 121.35 |
| Net Profit After Tax |  | 6.71 | 34.15 | 72.29 | 128.88 | 181.64 | 235.57 |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Projected Balance-sheet | | | | | | | |
| **Particulars** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** |
| Liabilities |  |  |  |  |  |  |  |
| Short Term Bank Borrowing | - | 94.00 | 100.00 | 112.50 | 130.00 | 160.00 | 225.00 |
| Trade Creditors | - | 15.36 | 16.07 | 18.63 | 22.92 | 26.03 | 29.08 |
| Provision for Tax | - | 3.46 | 17.59 | 37.24 | 66.39 | 93.57 | 121.35 |
| Installments of term loan due within one year | 36.57 | 36.57 | 45.72 | 64.00 | 91.43 | 91.43 | - |
| Total Current Liabilities | 36.57 | 149.39 | 179.38 | 232.38 | 310.75 | 371.04 | 375.43 |
|  |  |  |  |  |  |  |  |
| Term Loan From Bank not due within one year | 329.16 | 292.59 | 246.87 | 182.87 | 91.43 | - | - |
| Share Capital | 205.40 | 255.05 | 255.05 | 255.05 | 255.05 | 255.05 | 255.05 |
| Reserves & Surplus | - | 6.71 | 40.86 | 113.15 | 242.03 | 423.67 | 659.24 |
| Tangible Net Worth | 205.40 | 261.76 | 295.91 | 368.20 | 497.08 | 678.72 | 914.29 |
| Total Liabilities | 571.14 | 703.74 | 722.16 | 783.44 | 899.27 | 1,049.76 | 1,289.72 |
| **Particulars** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** |
| Assets |  |  |  |  |  |  |  |
| Cash & Bank Balance | - | 6.70 | 50.72 | 75.00 | 104.30 | 141.73 | 136.88 |
| Receivables | - | 121.57 | 140.94 | 167.67 | 211.59 | 248.12 | 285.53 |
| Raw Material Stock | - | 40.96 | 42.86 | 49.69 | 61.13 | 69.41 | 77.55 |
| Finished Goods Stock | - | 36.08 | 39.81 | 44.61 | 53.20 | 59.98 | 66.56 |
| Advance Tax Paid | - | 3.46 | 17.59 | 37.24 | 66.39 | 93.57 | 121.35 |
| Total Current Assets | - | 208.76 | 291.92 | 374.20 | 496.61 | 612.81 | 687.87 |
|  |  |  |  |  |  |  |  |
| Gross Block | - | 571.14 | 571.14 | 571.14 | 571.14 | 571.14 | 771.14 |
| CWIP | 571.14 | - | - | - | - | - | - |
| Acc. Depreciation | - | (76.16) | (140.90) | (196.15) | (243.49) | (284.19) | (319.28) |
| Net Block | 571.14 | 494.98 | 430.24 | 374.99 | 327.65 | 286.95 | 451.85 |
| Other non-current assets | - | - | - | 34.25 | 75.00 | 150.00 | 150.00 |
| Total Non Current Assets | 571.14 | 494.98 | 430.24 | 409.24 | 402.65 | 436.95 | 601.85 |
| Total Assets | 571.14 | 703.74 | 722.16 | 783.44 | 899.26 | 1,049.76 | 1,289.72 |

Calculate MPBF Based on the above information.

**Contents of a Project Report**

|  |
| --- |
| **Particulars** |
| Executive Summary with main highlights of the project |
| Fact-Sheet |
| Company Back-Ground |
| Directors Profile |
| Key Employees & Managerial Staff |
| Shareholding pattern |
| Details of Group Companies / Companies under the same management |
| Analysis of the Companies Past performance (if applicable) |
| Proposed Project |
| Site Status / Visit Report |
| Technical Feasibility   1. Overview of Industry 2. Structure of the Industry 3. Manufacturing Process Flow-Chart 4. Detailed Explanation of the manufacturing process |
| Basic Infrastructure & Other Utilities   1. Details of Land proposed / acquired for the proposed factory 2. Building 3. Plant & Machinery 4. Power & Water 5. Labour |
| Commercial Feasibility  Demand – Supply gap analysis, etc. |
| Economic Feasibility |
| Details of Securities offered to lender with working of SCR |
| Projected Profit & Loss Account |
| Basis of Assumptions   1. Expenses 2. Estimated Sales 3. Analysis of past sales 4. Analysis of the Projected Sales plan |
| Projected Balance-Sheet |
| Basis of assumption in respect of the main items of balance-sheet such as capital, current assets, current liabilities, etc. |
| Projected Cash-flow statement |
| Sensitivity Analysis |
| Conclusion |
| Disclaimer |

**Case III: Hotel Case-Study**

HHCL is planning to construct a 5 star hotel in Pune. The proposed hotel would be having about 150 hotel rooms, 3 restaurants, 4 banquet hall along-with other facilities. The Company’s Architects have given the following cost estimates:

|  |  |
| --- | --- |
| Cost of Project | Amt in Rs. In Lacs |
|  |  |
| Land Cost | 350 |
| Site Development Cost | 450 |
| Civil Construction Cost | 2,500 |
| Finishes Cost | 2,000 |
| Machinery & Equipments | 1,000 |
| Design & Consultancy | 400 |
| FF&E Cost | 600 |
| Contingencies | 300 |
| PMC | 500 |
| Construction Taxes | 350 |
| Technical Fees | 50 |
| Pre Operatives -Set up Cost | 250 |
| **Total Hard Cost of Project** | **8750** |

The Company has started with the process of preparing the necessary architectural designs & drawings and has initiated the process for obtaining the necessary approvals for starting the construction work.

The Company is desirous of raising debt for financing the project. They have approached you prepare the project report. Your first task is to prepare the projected financials for the project for getting the same approved from the Company directors.

The Architects of the Company have provided to you the following information:

a.) The Construction work would start from 1st April 2014 and would take not more than 3 years to be completed.

b.) The Hotel can start its operation full-fledged from 1st April 2017 onwards.

c.) The quarterly estimates of the work that would be completed on site would be as below:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Cost Phasing | 2014-15 | | | | 2015-16 | | | | 2016-17 | | | |
| Particulars | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Land Cost | 100% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Site Development Cost | 0% | 75% | 25% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Civil Construction Cost | 0% | 0% | 30% | 20% | 25% | 15% | 10% | 0% | 0% | 0% | 0% | 0% |
| Finishes Cost | 0% | 0% | 0% | 0% | 0% | 25% | 15% | 15% | 20% | 15% | 10% | 0% |
| Machinery & Equipments | 0% | 0% | 0% | 0% | 0% | 0% | 20% | 20% | 20% | 20% | 10% | 10% |
| Design & Consultancy | 0% | 0% | 30% | 25% | 25% | 15% | 5% | 0% | 0% | 0% | 0% | 0% |
| FF&E Cost | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 40% | 30% | 20% | 10% |
| Contingencies | 0% | 0% | 0% | 0% | 0% | 0% | 20% | 20% | 20% | 20% | 20% | 0% |
| PMC | 0% | 20% | 15% | 10% | 7% | 7% | 7% | 7% | 7% | 7% | 7% | 6% |
| Construction Taxes | 0% | 0% | 30% | 20% | 25% | 15% | 10% | 0% | 0% | 0% | 0% | 0% |
| Technical Fees | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 40% | 40% | 20% |
| Pre Operatives -Set up Cost | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 50% | 25% | 25% |

You have discussed the proposal with the Bankers who have told you the following:

a.) The general moratorium period for any project by the Bank is 24 months. If higher moratorium period is required then the same would require the approval from higher authorities at the Bank. The maximum moratorium that can be offered would be 36 months.

b.) The minimum margin expected is as below:

Land: 100%, Site Development: 50%, Construction Cost of building & other allied costs: 30%, plant Machinery: 25%.

c.) Since it is a part of commercial real estate and the overall cost of the project is less than Rs.125 Crs, the promoter’s contribution would be required upfront to the extent of hard cost. The interest would have to serviced during the construction period out of promoters contribution which may be brought in by the promoters as may be necessary.

d.) The rate of interest is agreed at 11%.

e.) As a special case, the term loan would be allowed repayment tenure of 7 years commencing from 2017-18 onwards.

f.) Ballooning of repayment would be acceptable within reasonable limits, with minimum of 40% repayment within the first 4 years and the balance 60% in the next 3 years.

g.) The average DSCR for the project should not be less than 1.50 times and that in none of the year in the term loan tenure can it be less than 1.25 times.

h.) 25% margin is stipulated on working capital.

You are required to prepare the projected financial statements and assess the financial feasibility of the project.

a.) The current prevailing rate per room day in the Pune area is as below:

|  |  |
| --- | --- |
| Hotel Name | Room Rate |
| Corinthians Club, Hadapsar | Rs.5,284/- |
| Hilton Double Tree | Rs.5,076/- |
| Oakwood Premier | Rs.5,393/- |
| Hyatt Regency | Rs.5,812/- |
| JW Mariott | Rs.7,221/- |
| LE Meridian | Rs.5,479/- |
| Sayaji | Rs.4,750/- |

b.) From you analysis of the industry, you have identified the following three main sources of income in the hospitality industry:

* Room Revenue
* Food & Beverages & Other Services

You have analysed the financial statements available in public domain of few listed companies. The analysis reveals:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Particulars | Financial Year 2012-13 | | | | | | | |
|  | Taj GVK | % of total income | EIH | % of total income | Oriental | % of total income | Leela | % of total income |
| Room Revenue |  |  | 43562 | 38.43% | 16426 | 56.63% | 35586 | 54.42% |
| Food & Beverages |  |  | 46221 | 40.78% | 12578 | 43.37% | 20380 | 31.17% |
| Miscellaneous |  |  | 23566 | 20.80% | 9421 | 14.41% |
| total |  |  | 113349 | 100.00% | 29004 | 100.00% | 65387 | 100.00% |

d.) You have done the following expense analysis:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **PARTICULARS** | **TAJ GVK** | | **EIH** | | **ORIENTAL HOTELS** | | **LEELA HOTELS** | |
| **INCOME** |  |  |  |  |  |  |  |  |
| I. Revenue from operations | 25,269.82 | 100.00% | 113,349.80 | 100.00% | 29,003.50 | 100.00% | 65,385.72 | 100% |
| **EXPENSES** |  |  |  |  |  |  |  |  |
| Employee Benefits Expense | 5,281.72 | 20.90% | 32,893.40 | 29.02% | 7,158.89 | 24.68% | 18,663.61 | 29% |
| Food & Beverages Consumed | 2,666.17 | 10.55% | 16,863.10 | 14.88% | 3,665.27 | 12.64% | 5,102.42 | 8% |
| Other operating and general expenses | 11,225.49 | 44.42% | 43,508.90 | 38.38% | 13,493.55 | 46.52% | 30,353.39 | 46% |

(Imp: Above are chains of hotels, where as the project under consideration is a stand-alone project)

e.) The proposed term loan repayment is as below:

|  |  |
| --- | --- |
| Term loan repayment | Principal repayment |
| 2017-18 | 6.50% |
| 2018-19 | 9.50% |
| 2019-20 | 11.00% |
| 2020-21 | 14.00% |
| 2021-22 | 17.00% |
| 2022-23 | 19.50% |
| 2023-24 | 22.50% |
| Total | 100.00% |

f.) The main determinants of working capital are as below:

|  |  |
| --- | --- |
| Average receivables in days | 30 days |
| average inventory in days | 75 days |
| average payables in days | 75 days |

g.) You have estimated the Working Capital requirement for the business at Rs.250 Lacs for the FY 2017-18.

h.) The classification of FA for the purpose of calculation of depreciation may bas assumed as below:

|  |  |
| --- | --- |
| Particulars | Amount in Rs. In Lacs |
| Land & Site Development | 800.00 |
| Building (including IDC) | 7,729.63 |
| Plant & Machinery | 1,000.00 |
| Total Cost Including IDC | 9,529.63 |

You may make all reasonable assumptions are prepare the projected financial statements.