Detailed Project Report [DPR]

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What is a DPR?

It is a formal document, presented to the lender/investor, containing details of the business aimed at establishing its credit worthiness.

Who uses the DPR?

- **LENDERS**: To decide whether to provide credit facilities.
- **INVESTORS**: To decide whether to invest in the business.
- **OWNERS**: To monitor performance in line with projections.

Benefits of Understanding the DPR

- Develop a better understanding of the business with financial overview. Evaluate performance and identify relevant relationships among different variables
- Achieve efficient management of cash flows
- Be able to forecast future business growth supported by financial data

What’s inside a DPR?

- Promoters’ details
- Technical Details
- Market Study
- Project Cost and Finance Structure
- Financial Projections and Ratios
- Sensitivity Analysis
- Risk Analysis and Mitigation
- Competitive Analysis
- SWOC Analysis

What's inside a DPR?...1

- **Promoters' Details Promoter's Qualification** - the academic or professional background of the promoter
- **Experience** - the past experience of the applicant with all key details
- **Legal History-** organization form, litigation issues if any
- **Ownership**- details about the promoters (proprietor, partners, key shareholders etc)
- **Past Performance** - key past achievements of the business financially as well as in other parameters

What's inside a DPR?....2

Technical Details

- Product - the technical details as well as its utility and any USP related to the product.
- Manufacturing Process & Technology - the manufacturing process including sourcing of raw material, machinery used, plant layout and the technology used.

Market & Industry Details

- Industry - Size, Growth rate, Long-term Prospects
- Market Segmentation- Various segments and the target market

What's inside a DPR?....3

Project Cost and Finance Structure

- Capital Expenditure: the amount of investment required in fixed assets or long term assets
- Working Capital: funds required for everyday operations of the business
- Sources of Funding: proposed sources of funds including bank finance

Financial Projections and Ratios

- Financial Statements: projected income statement, balance sheet, cash flows
- Key Ratios: depicting financial performance of the business

What’s inside a DPR?...4

Sensitivity Analysis

Sensitivity analysis shows the impact on net profit if the sales forecast fluctuates from the projected figures. It can also be studied with respect to other key variables. This analysis is also termed as a “What-If” analysis as it predicts the outcome under different conditions.

Risk Analysis and Mitigation

Types of risk associated with the business- financial, operational or economic depending upon the nature of the industry and strategies to reduce them should be explained.

What’s inside a DPR?....5

Competitive Analysis

This section focuses on competitor analysis which describes present and possible competitors, impact of competition and strategy to face it. It is a separate section in bigger projects while in smaller projects , it may be mentioned under market scenario.

SWOC Analysis

Strengths, Weaknesses, Opportunities and Challenges for the business may be described for a better assessment of the future potential of the business.

Financial Information in DPR

- COST OF PROJECT
- MEANS OF FINANCE
- ASSUMPTIONS FOR COST AND SALES
- PROJECTED INCOME STATEMENT
- TERM LOAN REPAYMENT
- DEPRECIATION ON FIXED ASSETS
- BALANCE SHEET
- CASH FLOW STATEMENT
- DEBT SERVICE COVERAGE & OTHER KEY RATIOS
- BREAK EVEN ANALYSIS

Financial Information In DPR…1

1. **COST OF PROJECT**: Overall financial layout of the project.

2. **MEANS OF FINANCE**: Sources of Funding- Self Contribution plus bank finance/other sources.

3. **ASSUMPTIONS FOR COST AND SALES**: The basis for unit cost and unit sales.

Financial Information In DPR…2

4. **PROJECTED INCOME STATEMENT**: Forecast of items of revenue and expenses for a particular time.

5. **TERM LOAN REPAYMENT**: Repayment schedule of the term loan during the loan tenure.

6. **DEPRECIATION ON FIXED ASSETS**: Rate and schedule of deprecation of fixed assets.

Financial Information In DPR…3

7. **BALANCE SHEET**: Statement of Assets, Equity and Liabilities.

8. **CASH FLOW STATEMENT**: Inflow and outflow of cash under operating, investing and financing activities.

9. **DEBT SERVICE COVERAGE & OTHER KEY RATIOS**: Ratios to analyze profitability, liquidity and solvency.

10. **BREAK EVEN ANALYSIS**: The no profit-no loss level of operations.

THREE FINANCIAL STATEMENTS

Income Statement

- Revenues and Expenses related to the business

Cash Flow Statement

- Movement of Cash in and out from the business

Balance Sheet

- Assets and the sources of their finance

Importance of Income Statement

- The items of revenue and expenses can give us good insight about a company's business performance.

- The net profit is an important figure as it leads to calculation of earnings per share which is a crucial figure for owners of the business and the prospective investors.

- This is also used as a key input for valuation of businesses.

Importance of Balance Sheet

- The balance sheet shows the overall financial position of a business on a given date.
- It is used by shareholders, creditors and analysts to determine the risk profile as well as profitability position of the business.
- Various key analytical ratios are derived from this statement.

Importance of Cash Flow Statement

- This statement is important as it shows how cash has been handled throughout the year.
- It helps the finance manager to plan well in advance for cash so that there are no liquidity problems.
- Many times, the firm may show a large profit but a small cash balance. The cash flow statement can explain the reasons for this in a comprehensive manner.

THREE CRITICAL TESTS OF FINANCIAL HEALTH

LIQUIDITY →	The ability to convert assets into cash in order to meet financial obligations
PROFITABILITY →	The ability to generate profit from operations
SOLVENCY →	The optimal mix of debt and equity in the capital

SIGNIFICANCE OF FINANCIAL RATIOS

- Ratios are used to gauge the financial health of business on all important parameters.
- They help in comparing performance with industry and competitors.
- They help the management to identify deficiencies in the firm's performance and take corrective action.
- They are used in making budgets and evaluating employee performance

BASIC RATIOS FOR LIQUIDITY

Show a firm's ability to pay short term debt obligations

- Current Ratio

Current Assets divided by Current Liabilities

The proportion of current assets relative to current liabilities. It hence shows the level of liquidity enjoyed by the business.

- Quick/Acid Test Ratio

Current Assets less Inventory divided by Current Liabilities

Stock/Inventory is excluded from the current assets to get a more aggressive outlook of liquidity.

BASIC RATIOS FOR PROFITABILITY

Show a firm's ability to generate profit from operations/investment

- Gross / Operating / Net Profit Ratio

Gross or Operating or Net Profit divided by Sales

Derived from the Income Statement, this ratio compares the amount of net /gross profit with total sales.

- Return on Assets/Equity

Net Income divided by Total Assets or Total Equity

Profit is compared to the total assets employed in the business.

RATIOS FOR SOLVENCY

Show a firm's ability to service its debt obligations

- Debt / Equity Ratio

Total debt divided by Total Equity

This ratio describes the proportion of long term outside liabilities to the equity contributed by the owners and is a measure of long term solvency.

- Debt Service Coverage Ratio [DSCR]

Net Operating Income divided by Total Debt Obligation

It is a measure of how sufficient are the earnings of a firm with respect to its debt repayment obligations.

Breakeven Analysis

- Breakeven analysis examines the short run relationship between changes in volume and changes in total sales revenue, expenses and net profit

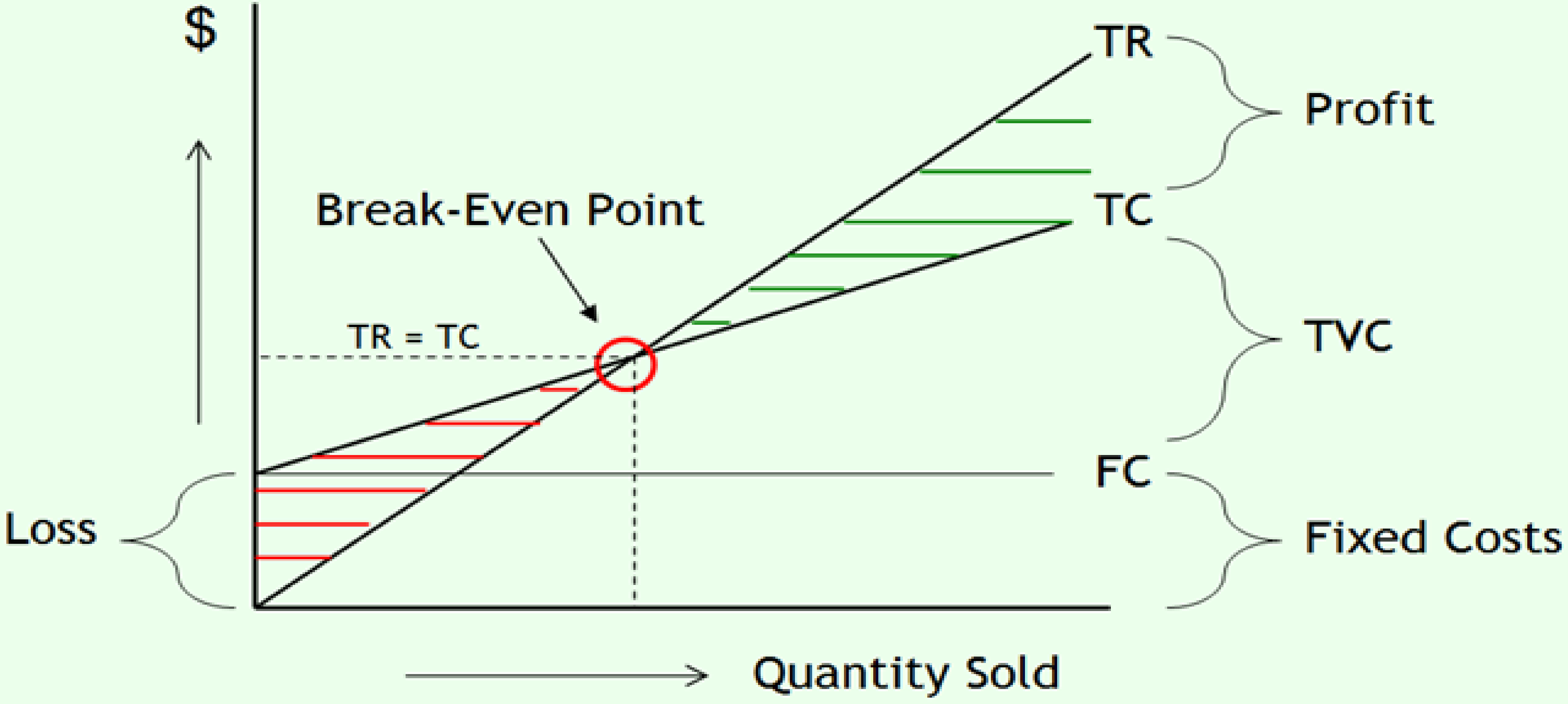
- Also known as C-V-P analysis (Cost Volume Profit Analysis)

- It helps to determine the point of sales at which it can cover all the costs.

- It is important as it is required as a crucial input in operational planning.

- The break-even data can help us analyze the revenue, costs, profit or loss at different levels of production.

Break-Even Chart



BANK DECISION TO SANCTION CREDIT…1

Prima Facie Acceptability

Bank's / RBI / Government Rules and regulations; Credit Report : Various Defaulter's List; Various Licenses – Pollution Clearance Certificate; KYC Compliance & Market Report.

Technical Feasibility

Selection and compatibility of Machines; Capacity of Machines – installed capacity and operating capacity; Input – output ratio of Raw Materials and Finished Products, Wastage, Availability of Raw Materials, Power, Water, Labour etc; Factory Layout and accessibility; Disposal of wastes and effluents.

BANK DECISION TO SANCTION CREDIT…2

Economic Viability

Demand & Supply; Taste & Preference of users; Competition; Techno Economic Viability Report

Financial Feasibility

Cost of Project- Land & Land Development, Civil Constructions; Machineries; Furniture & Fixtures, Contingencies; Means of Finance : Bank Loan, Margin / Subsidy

Commercial Viability

Profitability Study; Break Even Analysis; DSCR analysis

BANK DECISION TO SANCTION CREDIT…3

Managerial Competence

4 Cs - Character, Capacity – Experience, Expertise, Capital- Sources, Collaterals- Value & Acceptability

Pre Sanction Inspection & Market Report

Personal Assets & Liabilities; Net Means; Market Report

SAMPLE DPRs

See and download http://niftem.ac.in/site/Internal_NIFTEM.aspx?menulevel=2&MenuID=143 http://iifpt.edu.in/ab-pmfme.php

Thanks

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TYPES OF BANK FINANCE

- CREDIT FACILITIES
  - FUND BASED
    - TERM LOAN
    - OVERDRAFT CASH CREDIT
- CREDIT FACILITIES
  - NON FUND BASED
    - LETTER OF CREDIT
    - BANK GUARANTEE

Fund based Credit Facilities

Term Loan: As the name suggests, it is a credit facility granted for a term. It is used to finance fixed or long term assets like building, plant & machinery, furniture and fixtures, vehicles etc.

Cash Credit: This facility is used to fund the working capital requirements of the firm like purchase of stock, holding of finished goods, financing of debtors (credit sales) etc.

Overdraft: This relates to overdrawing allowed by banks to meet trade exigencies.

Non-Fund based Credit Facilities

Letter of Credit: The Bank gives a guarantee of payment to the seller on fulfillment of all terms of sale and presentation of the related documents.

Bank Guarantee: The bank guarantees payment to the beneficiary on non fulfillment of contract terms by the customer.

ASSESSMENT OF CREDIT FACILITY

1. **TERM LOAN**

- Term Loan assessment is done on the basis of projected cash flows which are dependent on earning capacity and life of the asset
- Loan period is between 5 to 7 years which in some cases may go up to 10 years.
- The decision is based upon Debt Service Coverage Ratio (DSCR) which should be between 1.5 to 2.

ASSESSMENT OF CREDIT FACILITY

2. WORKING CAPITAL

- Limits up to Rs.5 crores are normally assessed on the basis of turnover method.
- This method assumes CC limit requirement as 25% of the annual turnover.
- Bank will finance 80% of the assessed limit while the remaining 20% would be provided as margin.
- Operating Cycle may be used in case of seasonal businesses.