

# What is Project Financing?

Project Financing is a long-term, zero or limited recourse financing solution that is available to a borrower against the rights, assets, and interests related to the concerned project.

If you are planning to start an industrial, infrastructure, or public services project and need funds for the same, Project Financing might be the answer that you are looking for.

The repayment of this loan can be done using the cash flow generated once the project is complete instead of the balance sheets of the sponsors. In case the borrower fails to comply with the terms of the loan, the lender is entitled to take control of the project. Additionally, financial companies can earn better margins if a company avails this scheme while partially shifting the associated project risks. Therefore, this type of loan scheme is highly favoured by sponsors, companies, and lenders alike.

In order to bridge the gap between sponsors and lenders, an intermediary is formed namely Special Purpose Vehicle (SPV). The main role of the SPV is to supervise the fund procurement and management to ensure that the project assets do not succumb to the aftereffects of project failure. Before a lender decides to finance a project, it is also important that all the risks that might affect the project are identified and allocated to avoid any future complication.

## What Is Special Purpose Vehicle and Why Is It Necessary?

During Project Financing, a Special Purpose Vehicle (SPV) is appointed to ensure that the project financials are managed properly to avoid non-performance of assets due to project failure. Since this entity is established especially for the project, the only asset it has is the project. The appointment of SPV guarantees the lenders of the sponsors' commitment by ensuring that the project is financially stable.

## Key Features of Project Financing

Since a project deals with huge amount of funds, it is important that you learn about this structured financial scheme. Below mentioned are the key features of Project Financing:

- **Capital Intensive Financing Scheme:** Project Financing is ideal for ventures requiring huge amount of equity and debt, and is usually implemented in developing countries as it leads to economic growth of the country. Being more expensive than corporate loans, this financing scheme drives costs higher while reducing liquidity. Additionally, the projects under this plan commonly carry Emerging Market Risk and Political Risk. To insure the project against these risks, the project also has to pay expensive premiums.
- **Risk Allocation:** Under this financial plan, some of the risks associated with the project is shifted towards the lender. Therefore, sponsors prefer to avail this financing scheme since it helps them mitigate some of the risk. On the other hand, lenders can receive better credit margin with Project Financing.

- **Multiple Participants Applicable:** As Project Financing often concerns a large-scale project, it is possible to allocate numerous parties in the project to take care of its various aspects. This helps in the seamless operation of the entire process.
- **Asset Ownership is Decided at the Completion of Project:** The Special Purpose Vehicle is responsible to overview the proceedings of the project while monitoring the assets related to the project. Once the project is completed, the project ownership goes to the concerned entity as determined by the terms of the loan.
- **Zero or Limited Recourse Financing Solution:** Since the borrower does not have ownership of the project until its completion, the lenders do not have to waste time or resources evaluating the assets and credibility of the borrower. Instead, the lender can focus on the feasibility of the project. The financial services company can opt for limited recourse from the sponsors if it deduces that the project might not be able to generate enough cash flow to repay the loan after completion.
- **Loan Repayment With Project Cash Flow:** According to the terms of the loan in Project Financing, the excess cash flow received by the project should be used to pay off the outstanding debt received by the borrower. As the debt is gradually paid off, this will reduce the risk exposure of financial services company.
- **Better Tax Treatment:** If Project Financing is implemented, the project and/or the sponsors can receive the benefit of better tax treatment. Therefore, this structured financing solution is preferred by sponsors to receive funds for long-term projects.
- **Sponsor Credit Has No Impact on Project:** While this long-term financing plan maximizes the leverage of a project, it also ensures that the credit standings of the sponsor has no negative impact on the project. Due to this reason, the credit risk of the project is often better than the credit standings of the sponsor.

## What Are the Various Stages of Project Financing?

### 1. Pre-Financing Stage

- **Identification of the Project Plan** - This process includes identifying the strategic plan of the project and analyzing whether its plausible or not. In order to ensure that the project plan is in line with the goals of the financial services company, it is crucial for the lender to perform this step.
- **Recognizing and Minimizing the Risk** - Risk management is one of the key steps that should be focused on before the project financing venture begins. Before investing, the lender has every right to check if the project has enough available resources to avoid any future risks.
- **Checking Project Feasibility** - Before a lender decides to invest on a project, it is important to check if the concerned project is financially and technically feasible by analysing all the associated factors.

## 2. Financing Stage

Being the most crucial part of Project Financing, this step is further sub-categorised into the following:

- **Arrangement of Finances** - In order to take care of the finances related to the project, the sponsor needs to acquire equity or loan from a financial services organisation whose goals are aligned to that of the project
- **Loan or Equity Negotiation** - During this step, the borrower and lender negotiate the loan amount and come to a unanimous decision regarding the same.
- **Documentation and Verification** - In this step, the terms of the loan are mutually decided and documented keeping the policies of the project in mind.
- **Payment** - Once the loan documentation is done, the borrower receives the funds as agreed previously to carry out the operations of the project.

## 3. Post-Financing Stage

- **Timely Project Monitoring** - As the project commences, it is the job of the project manager to monitor the project at regular intervals.
- **Project Closure** - This step signifies the end of the project.
- **Loan Repayment** - After the project has ended, it is imperative to keep track of the cash flow from its operations as these funds will be, utilized to repay the loan taken to finance project.

## Types of Sponsors in Project Financing

In order to determine the objective of the project and the risks related to it, it is important to know the type of sponsor associated with the project. Broadly categorised, there are four types of project sponsors involved in a Project Financing venture:

- **Industrial sponsor** - These type of sponsors are usually aligned to an upstream or downstream business in some way.
- **Public sponsor** - The main motive of these sponsors is public service and are usually associated with the government or a municipal corporation.
- **Contractual sponsor** - The sponsors who are a key player in the development and running of plants are Contractual sponsors.
- **Financial sponsor** - These type of sponsors often partake in project finance initiatives and invest in deals with a sizeable amount of return.

# DOCUMENTS REQUIRED FOR PROJECT

## FINANCE

<b>A</b>	<b>Promoters</b>
1	Name of unit
2	Name of the product
3	Constitution of unit
4	Capacity of product per shift
<b>B</b>	<b>Sister/Family /Existing concern</b>
1	PAN card
2	ITR for last 3 years
3	Balance sheet & profit loss account since last 3 years duly audited by chartered account if required(Provisional Balance & Profit and loss account for recent period if B/S is more than 6 months old)
4	Name & address of bankers with account number
5	Repayment schedule & track of various loan availed in past / bank statement showing repayment of loan installment( for last 12 Months)
<b>C</b>	<b>Land</b>
1	For lease hold land : Allotment letter/ Lease deed/sale deed/Transfer letter
2	For converted land: sale deed ,Mutation entry in revenue record, Trace map of patwari ,conversion order /lease deed & document regarding proper approach road at site
3	Free hold land: Patta/ sale deed with title of all chain documents for last 30 years.
4	Registered rent deed in prescribed format in case of rented premises
5	Documentary proof regarding DLC rate and market rate of land in question
6	Site plan of land showing four boundaries and complete dimensions.
<b>D</b>	<b>Building</b>
1	Building map from competent authority
<b>E</b>	<b>Plant &amp; Machinery</b>
1	Original quotation of complete P&M from three different reputed suppliers with following details Complete technical section which play major role in deciding cost of machine, Capacity of each machine, power requirement of each machine, Validity of quotation, Delivery period, Mode of supply, Nature of advance and TIN of supplier( From three different supplier for price comparison)
2	Catalogue & Price list of all the P&M from original manufacturer
3	Dealership certificate in case the supplier is authorized dealer of original manufacturer
4	Complete name and addresses of units to whom the proposed supplier has already supplied similar P&M in past.

5	Performance certificate of similar P&M supplied by proposed supplier to other units from users(from any 2 users)
<b>F</b>	<b>Partnership Concern</b>
1	Copy of partnership/ supplementary partnership deed as per prescribed Performa
2	Copy of firm registration certificate along with form E & entry U/S 60 of partnership act for change if any
<b>G</b>	<b>Company cases</b>
1	Certificate of incorporation & Memorandum and Articles of Association of the Company
2	Prospects(in case of Public Ltd. company offering Share / Debenture to public)
3	Share holding pattern
4	Form No. 32 for incoming & outgoing directors, if any
5	Certificate of commencement of business in case of public Ltd. Company
6	Search report regarding Registration/Modification and satisfaction of charge over company's fixed assets and details regarding present directors of the company.
<b>H</b>	<b>Project</b>
2	SSI/Renewed certificate/SIA certificate for medium scale units
3	NOC from Rajasthan state prevention & control of air/ water pollution board
4	Plant layout chart
5	Sources of availability of raw material
6	Number of similar units in the area with the installed capacity
7	Total connected load of the plant
8	Basis of Installed capacity mentioning Nose of days/annum, Nos. of shift/day, Nos. of hours/shift & efficiency for I,II,III years
9	Quantity of raw material, consumable ,packing material required with prevailing market rate for above capacity with supporting quotations
10	Details of direct/Indirect staff required for the project along with rate salary/wages paid to each per month
11	Details of overhead expenses such as printing/stationery, Telephone, Travelling & Conveyance, Advertisement,
12	Detail quantity of finished product along with selling rate with supporting quotations
13	Process flow chart describing process of manufacturing in details
14	Registration of other Govt. deptt. if any

## **CHECK LIST OF PAPERS/ INFORMATION/ DOCUMENTS REQUIRED FOR PROCESSING LOAN APPLICATIONS**

- Project Information Memorandum
- Profile of promoters & Shareholding pattern
- Status of financial tie-up, giving bank-wise details as to whether in-principle or final sanction, date & amount
- Status of statutory approvals
- Projected Commercial Operation Date
- Implementation schedule and draw down schedule
- In case of existing companies, the status of their account with present bankers
- Chartered Accountants Certificate on Source & Application of funds as on date
- Techno Economic Viability Study by approved agency
- Details of suppliers & their profile
- Details of securities, nature & value, kind of charge (Equitable / Registered mortgage Hypothecation / Assignment / Exclusive or pari-passu etc. LIE/ Chartered Engineer Certificate in case of existing projects Commercial Real Estate Projects:
- Approval of Sanction Plan
- Details of FSI / FAR available, permissible, applied etc
- Confirmation that the project land is independently accessible.
- Status of acquisition of project land, legal opinion, index inspection and confirmation from bank's legal counsel that the project land is free from encumbrance and enforceability under SARFEASI Act.
- Certificate on land usage i.e. the land is non-agriculture & non-industrial and can be used for commercial activity and confirmation that the project area is not located in sensitive area (farmers agitation / local disputes etc)
- Techno Economic Viability Report on the project
- Status of Statutory Approvals / Permission
- Confirmation that the project construction is as per National Building Codes

### **NON-BANKING FINANCIAL COMPANIES**

- Copy of Certificate of Registration with Reserve Bank of India as Investment Company / Infrastructure Finance Company / Asset Finance Company / Micro Finance Institution etc along with confirmation that the registration is current & valid.
- Gross & Net NPA Levels, Capital Adequacy Ratio
- Net Owned Funds & CMA data
- Certificate on compliance of all the Reserve Bank of India, National Housing Bank (in case of Housing Finance Companies) guidelines as stipulated for Non-Banking Financial Companies from time to time
- Copies of Statutory Returns submitted to Reserve Bank of India / National Housing Bank

### **MANUFACTURING UNITS:**

- Project Information Memorandum
- Status of approval from Statutory Authorities
- Confirmation that the project is non-toxic and compliant of pollution control regulations
- Status of financial tie-up in case of large project, giving break up of bank-wise sanction
- In case of existing units, status of payment of statutory dues such as local taxes, Provident Fund, Employees State Insurance etc.
- Licensed Capacity, Installed Capacity, Envisaged Capacity utilization
- Details of suppliers of machineries & their profile

S.No.	Particulars	Whether applicable or not (Y/N)	If applicable, whether enclosed or not (Y/N)
1	Loan Application in the prescribed Form		
2	Audited Balance Sheet, Profit & Loss Account for last 3 years in case of existing units		
3	Tax Audit Report for last 3 years		
4	Copies of Income Tax / wealth Tax / Sales Tax / Excise Duty Assessment Order (or Returns or payment Receipt) for last 3 years		
5	Projected Balance Sheet for the <ul style="list-style-type: none"> <li>· Next 2 years in case of newly established entities</li> <li>· Next year in case of renewal / reviewal of existing entities.</li> </ul>		
6	Credit Monitoring Arrangement (CMA) Data on the prescribed proforma - Working Capital has been assessed by Permissible Bank Finance method and DSR (in case of Term Loan)		
7	In case the property is to be taken as security / collateral security <ul style="list-style-type: none"> <li>· Legal Opinion / Index Inspection from legal counsel</li> <li>· Valuation Certificate from approved valuer</li> <li>· Valuation Report of Branch Manager &amp; Accountant</li> <li>· Visit Report</li> </ul>		
8	In case of Ltd. company) <ul style="list-style-type: none"> <li>· Memorandum &amp; Article of Association</li> <li>· Certificate of Incorporation</li> <li>· Certificate of commencement of business (for Public Limited Company only)</li> <li>· Certified Copy of latest list of Directors</li> <li>· Resolution authorizing the company for bank borrowing</li> </ul>		



	<ul style="list-style-type: none"> <li>· Certificate of Registration of Charge from Registrar of Companies in case of existing facilities availed</li> </ul>		
	<ul style="list-style-type: none"> <li>· A Certificate from statutory auditors of the company that the company has not defaulted in payment of interest / principal to small depositors (deposit less than 20000/-) and that the company has complied with the provision of section 58AA of the companies Act 1956.</li> </ul>		
	<ul style="list-style-type: none"> <li>· Names and shareholdings of major shareholders.</li> </ul>		
9	In case of Trust -		
	<ul style="list-style-type: none"> <li>· Trust Deed</li> </ul>		
10	<ul style="list-style-type: none"> <li>· Resolution for the borrowing</li> </ul>		
	In case of Cooperative societies		
	<ul style="list-style-type: none"> <li>· By-laws</li> </ul>		
11	<ul style="list-style-type: none"> <li>· Permission from Registrar of Societies for proposed borrowings</li> </ul>		
	<ul style="list-style-type: none"> <li>· Resolution for the borrowing, creation of charge on assets of the society</li> </ul>		
12	In case the borrower has allied concerns		
	<ul style="list-style-type: none"> <li>· Balance Sheet, P&amp;L A/c, Manufacturing / Trading account</li> </ul>		
	<ul style="list-style-type: none"> <li>· Income Tax / Wealth Tax assessment orders</li> </ul>		
	<ul style="list-style-type: none"> <li>· Details of borrowings of borrower and group from Banking system</li> </ul>		
13	Partners / Guarantors / directors etc.		
	<ul style="list-style-type: none"> <li>· Credit Report from present bankers</li> </ul>		
	<ul style="list-style-type: none"> <li>· IT / Wealth Tax Assessment Orders for the last 3 years (only for the previous year in case of renewal/reviewal)</li> </ul>		
	<ul style="list-style-type: none"> <li>· Asset and Liability statement/ Net Worth Certificate</li> </ul>		
14	Confidential Report from the existing bankers of the borrower		
15	NOC received from the existing bankers of the borrower		
16	NOC from financial Institution / Banks for ceding pari-passu charge in favour of the bank		

16	Credit / Opinion Report (Market Report) on the borrower		
17	Copies of permission from competent authorities like Pollution Control Board / Municipal Corporation etc.		
18	In case of renewal, copy of latest renewal / sanction		
19	In case of existing borrowal accounts	Yes/ No	
	· Whether the party / sister concern is a defaulter in repayment of dues to the Bank & Rebate has been allowed earlier in any case (If yes, attach details with the proposal)		
	· Whether Insurance Policies are alive and securities are properly insured & mortgage charged to Bank		
	· Changes in management since last sanction.	Yes/ No	
		Yes/ No	
20	In case of term loans for construction / alteration etc		
	· Approved plan		
	· Architects estimate for the construction / alteration of the building		
	· NOC from the competent authority for mortgage / equitable mortgage of land / building in case of lease hold property.		
21	In case of Letter of Credit facility		
	· Copy of valid permit / import license for goods imported		
	· IEC No., in case of imports.		
	· Related contract between buyer & seller in case of import of capital goods.		
22	In case of Bill Discounting –		
	· List of Drawee(s)		
	· Banker's opinion / Report from External agency on drawee		
23	In case of manufacturing units		
	· Project Report along with implementation schedule		
	· Industrial Licenses		
	· SSI Registration Certificate		

	<ul style="list-style-type: none"> <li>Power sanction letter from the Electricity Department.</li> </ul>		
24	Valuation Certificate in case of old machinery to be taken as primary /collateral security		
25	In case of manufacturing units, report of Technical officer		
26	Pre lending Visit report of BM / Official of ZO / ZM		
27	In case of Bank Guarantee		
	<ul style="list-style-type: none"> <li>Proforma of Bank Guarantee, if the beneficiary insist for bank guarantee on a proforma other than Banks own model Bank Guarantee form</li> </ul>		
	<ul style="list-style-type: none"> <li>Copies of primary contracts</li> </ul>		
	<ul style="list-style-type: none"> <li>BM's site visit Report in case of performance Bank Guarantee</li> </ul>		
28	In case of partnership concerns/ Limited Liability Partnership –		
	<ul style="list-style-type: none"> <li>Partnership deed</li> </ul>		
	<ul style="list-style-type: none"> <li>Registration Certificate issued by Registrar of firms</li> </ul>		
29	CIBIL Report of all promoters / directors / guarantors		
	<ul style="list-style-type: none"> <li>Confirmation that the promoters / directors / guarantors are not in the defaulters' list of ECGC / RBI / CIBIL</li> </ul>		
30	Compliance of KYC norms		
31	Lending under Consortium / Multiple Banking		
	<ul style="list-style-type: none"> <li>Minutes of last lenders' meeting</li> </ul>		
	<ul style="list-style-type: none"> <li>Confirmation that the Common Loan Agreement / Security Documents have been vetted by Lenders Independent Legal Counsel</li> </ul>		
	<ul style="list-style-type: none"> <li>Lenders Independent Engineers Report on status of the project giving specific comments on physical progress (status of implementation) vis-à-vis projected schedule</li> </ul>		
	<ul style="list-style-type: none"> <li>In case of delay in implementation of project the reason for the delay and measures initiated</li> </ul>		

	<ul style="list-style-type: none"> <li>· Details of Security Trustee (name &amp; address), Certificate of Creation of Security &amp; copy of registration with ROC</li> </ul>		
	<ul style="list-style-type: none"> <li>· Joint Inspection Report / Unit Visit Report of lenders</li> </ul>		
	<ul style="list-style-type: none"> <li>· Status of pending approvals if any</li> </ul>		
32	External Rating (if available)		
33	Succession plan of management		
34	Undertaking with regard to non-withdrawal of unsecured loans from business		
35	Sales/ Profit figures up to last quarter		

RR Financial Advice

## **\*\* Important Points To For All Applicants\*\***

- 1. Please Note, If There Are Existing Loans, Submit Payment Track Record And Sanction Letter To Respective Loan Provider For Finalizing Loan Amount Eligibility.**
- 2. Credit Score Plays An Important Role In Finalizing Loan Amount & ROI\*\***
- 3. Timely Payment Of EMI Helps In Maintaining A Good & Healthy Credit Score.**
- 4. Please Keep Sufficient Amount In Account Before ECS Hitting Date.**
- 5. Wisely Usage Of Money Is Highly Required For Financial Planning.**
- 6. Don't Miss To Pay Any EMI Amount , Neither Get Delayed On Due Dates.**
- 7. There Can We Change In Loan Documentation Requirements From Time To Time And My Vary In Banks, NBFC & Private Lenders. Will Update , If There Will Be Some Changes In Documentations.**