



## TenStep Supplemental Paper

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### Financial Projections

Once the commercial and financial projections are completed, the project must be assessed with regard to its financial feasibility, which is measured in terms of cost and benefit. The information required to judge a project from a financial standpoint includes:

**Cost of the project.** This is the sum of all items of outlay that are associated with projects supported by long term funds like:

- Land and site development
- Building and civil works
- Plant and machinery
- Technical know-how and engineering fees
- Expenses on foreign technicians and training of technicians abroad
- Miscellaneous fixed assets
- Preliminary and capital issue expenses
- Pre-operative expenses
- Provision for contingencies
- Margin money for working capital
- Initial cash losses

**Means of financing.** As soon as the cost of the project has been estimated, you must figure out how to finance it in the best way possible. The means of the finance should be carefully evaluated and fixed, as this greatly affects the profitability and risk associated with the project. Some important sources of finance are:

- Share capital (equity capital and preference capital)
- Term Loans (domestic term loans and foreign currency term loans)
- Debenture capital (non-convertible debentures and convertible debentures)
- Deferred credit
- Incentive sources (seed capital assistance, capital subsidy, and tax deferment or exemption)
- Miscellaneous sources (unsecured loans, public deposits, and lease and hire purchase finance)

**Estimation of sales and production costs, revenue or something more.** For the projections of profitability, one has to estimate the sales revenue and product based on the following aspects:



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- Product Mix
- Installed capacity
- Capacity utilization

**Cost of production.** The major components taken into account in the estimation of cost of production are:

- Material cost (the cost of raw materials, components and consumable stores required for production)
- Utilities cost (the cost of power, water and fuel)
- Labor cost (the cost of all manpower employed in the company)
- Factory overhead cost (the cost of repairs and maintenance, rent taxes and insurance on factory assets)

**Working capital requirement and financing.** To estimate the working capital requirement, factors to be considered are:

- The build-up of current assets till the rated level of capacity utilization is reached
- The maximum permissible bank finance
- The margin requirements against various current assets

**Estimates of working results.** The measures to be adopted while estimating the working results are as follows:

- Cost of production
- Total administrative expenses
- Total sales expenses
- Royalty and know-how payable
- Total cost of production
- Expected sales
- Gross profit before interest
- Total financial expenses
- Depreciation
- Operating profit
- Other income
- Preliminary expenses written off
- Profit/loss before taxation
- Profit after tax



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- Dividend
- Retained profit
- Net cash accrual

**Break-even point.** BEP point is calculated by using the following formula:

$$\frac{\text{Fixed Costs}}{\text{Unit selling price} - \text{Unit Variable cost}}$$

**Projected cash flow statement.** The cash flow statement, which is really a cash flow budget, is prepared as prescribed by financial institutions. This statement shows the movement of cash into and out of the firm and the net impact on the cash balance with the firm.

**Projected balance sheets.** The balance sheet is prepared according to specific guidelines. The balance sheet shows the financial condition of the firm at a given point of time by highlighting the balances in various assets' and liabilities' accounts.