

# PROJECT FINANCING NORMS

Peter de Wet









# Entrepreneur vs Financier

- Entrepreneur wants to make money
- Financier wants to make money
- At an effective rate received of 2% (difference between the internal cost of funding and interest rate charged)
- If one project fails need 50 equivalent project to break even
- Financiers will therefore do anything in their power to avoid any defaults



# Financier

- Financiers make decisions based on Norms which mostly consist of certain ratios
- Ratios like return on assets merely starting point
- Own interest first and will do everything possible to avoid default

# Cash is King

- Debt service cover ratio (DSCR) =  
Cash flow available for debt service/  
Debt serviced (Principle and interest)
- If below 1 means you cannot service the debt
- Ratio as required by Financiers vary from project to project Between 1,2 to 2
- Build into covenant of loan agreement



# Loan Life Cover Ratio (LLCR)

- Number of times the cash flow over the scheduled period of the loan can repay the outstanding debt
- Similar to the DSCR but slightly more complex to calculate



# Will need a financial model

- Excel still the tool of choice

## INCOME STATEMENT

Year	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>
Turnover	0	80	130	150	158	165	174	182	191	201
Raw materials	0	36	59	68	71	74	78	82	86	90
Contribution	0	44	72	83	87	91	96	100	105	111
Production costs -fixed	21	22	23	24	26	27	28	30	31	33
Production costs -variable	0	10	17	20	20	21	23	24	25	26
Other expenses	7	8	8	9	9	9	10	10	11	11
Total expenses	28	40	48	52	55	58	61	64	67	70
Depreciation		10	10	10	10	10	10	10	10	10
Interest	10	20	19	17	15	13	11	9	7	5
Tax	0	0	0	1	2	3	4	5	6	7
Return on assets after interest and tax	-38	-26	-6	2	5	7	10	13	15	18
	-38	-65	-70	-68	-63	-56	-46	-33	-17	1
Return on assets		-7%	12%	19%	21%	25%	29%	34%	41%	49%
Return on shareholders' funds		-589%	-22%	8%	16%	25%	35%	46%	57%	68%
Outside funds/ cashflow		-4,9	16,6	5,2	3,8	2,8	2,0	1,4	0,9	0,6
Debt service cover ratio		-0,4	0,5	1,0	1,2	1,4	1,6	1,8	2,1	2,4

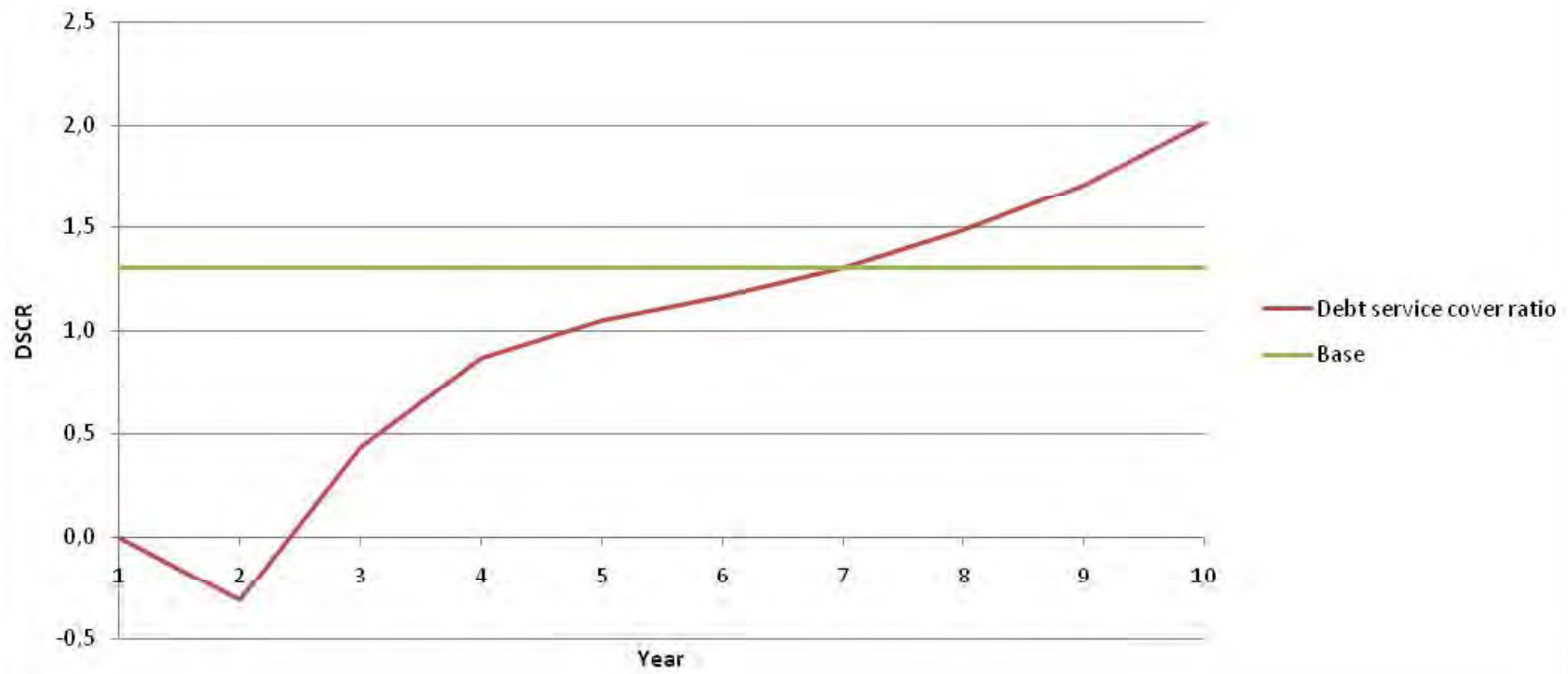
**BALANCE SHEET**

Year	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>
Fixed assets	70	100	100	100	100	100	100	100	100	100
Accumulated depreciation	0	10	20	30	40	50	60	70	80	90
<b>Net fixed assets</b>	<b>70</b>	<b>90</b>	<b>80</b>	<b>70</b>	<b>60</b>	<b>50</b>	<b>40</b>	<b>30</b>	<b>20</b>	<b>10</b>
Stock	0	6	10	11	12	12	13	14	14	15
Debtors	0	13	22	25	26	28	29	30	32	34
Current assets	0	19	31	36	38	40	42	44	46	49
<b>Total assets</b>	<b>70</b>	<b>109</b>	<b>111</b>	<b>106</b>	<b>98</b>	<b>90</b>	<b>82</b>	<b>74</b>	<b>66</b>	<b>59</b>
Creditors	3	8	11	12	13	13	14	15	15	16
Commercial loans	80	80	72	64	56	48	40	32	24	16
Shareholders' loans	26	86	99	98	93	84	74	60	44	26
Retained income	-38	-65	-70	-68	-63	-56	-46	-33	-17	1
Shareholders funds	-13	22	29	30	29	29	28	27	27	27
<b>Total funding</b>	<b>70</b>	<b>109</b>	<b>111</b>	<b>106</b>	<b>98</b>	<b>90</b>	<b>82</b>	<b>74</b>	<b>66</b>	<b>59</b>
Shareholders funds over total assets	-18,3%	19,9%	25,8%	28,5%	30,1%	32,0%	34,3%	37,1%	40,7%	45,3%
Debt/equity	-623%	368%	250%	211%	190%	167%	142%	116%	89%	60%

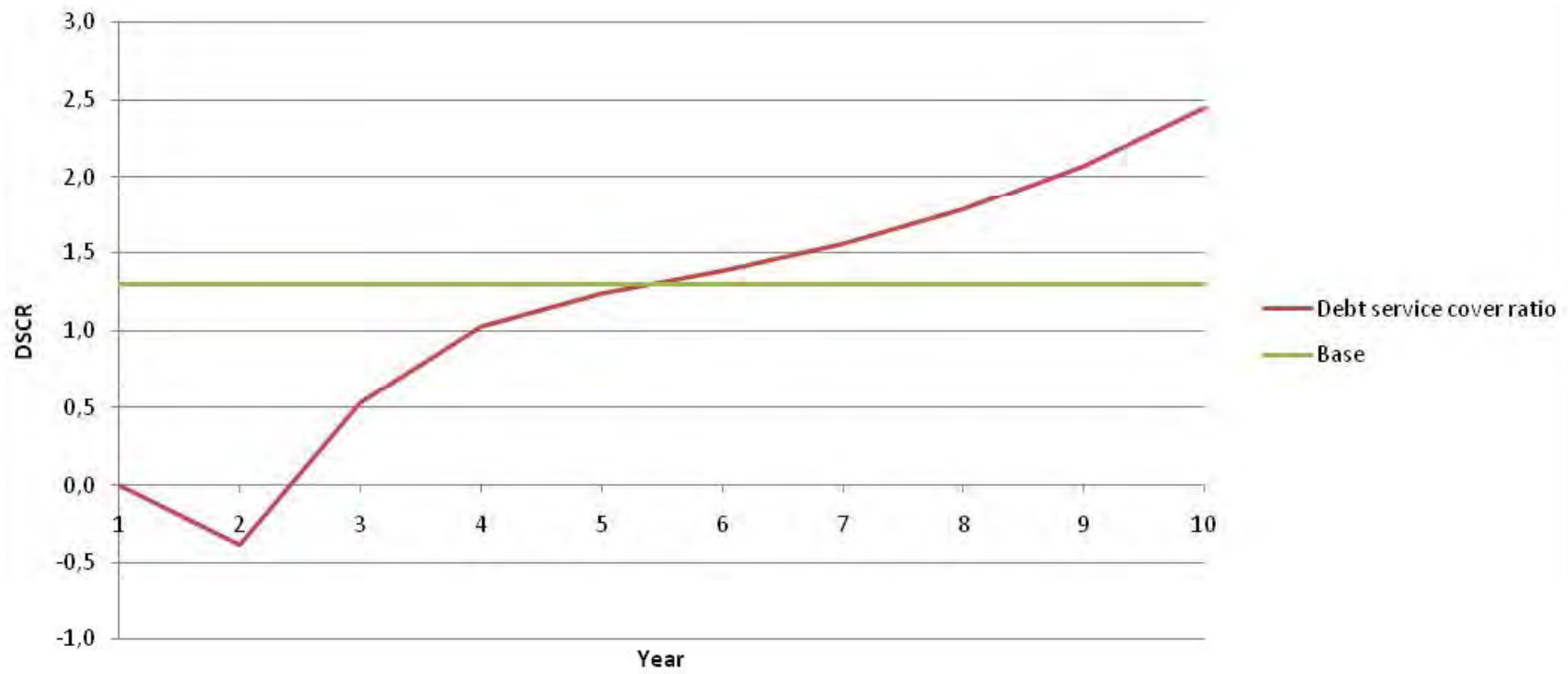
# Mistakes made in project financing models

- Assumptions and calculations are intertwined
- Calculations are too complex and compact
- Rows contain more than one unique formula
- Mix of actual data and forecasts
- No built-in scenario or sensitivity analysis
- Complicated or incorrect financing ratios
- Automatic re-sculpting of debt repayment
- No executive summary or notes on assumptions
- Lack of integrated financial statements
- Complicated undocumented VBA macros

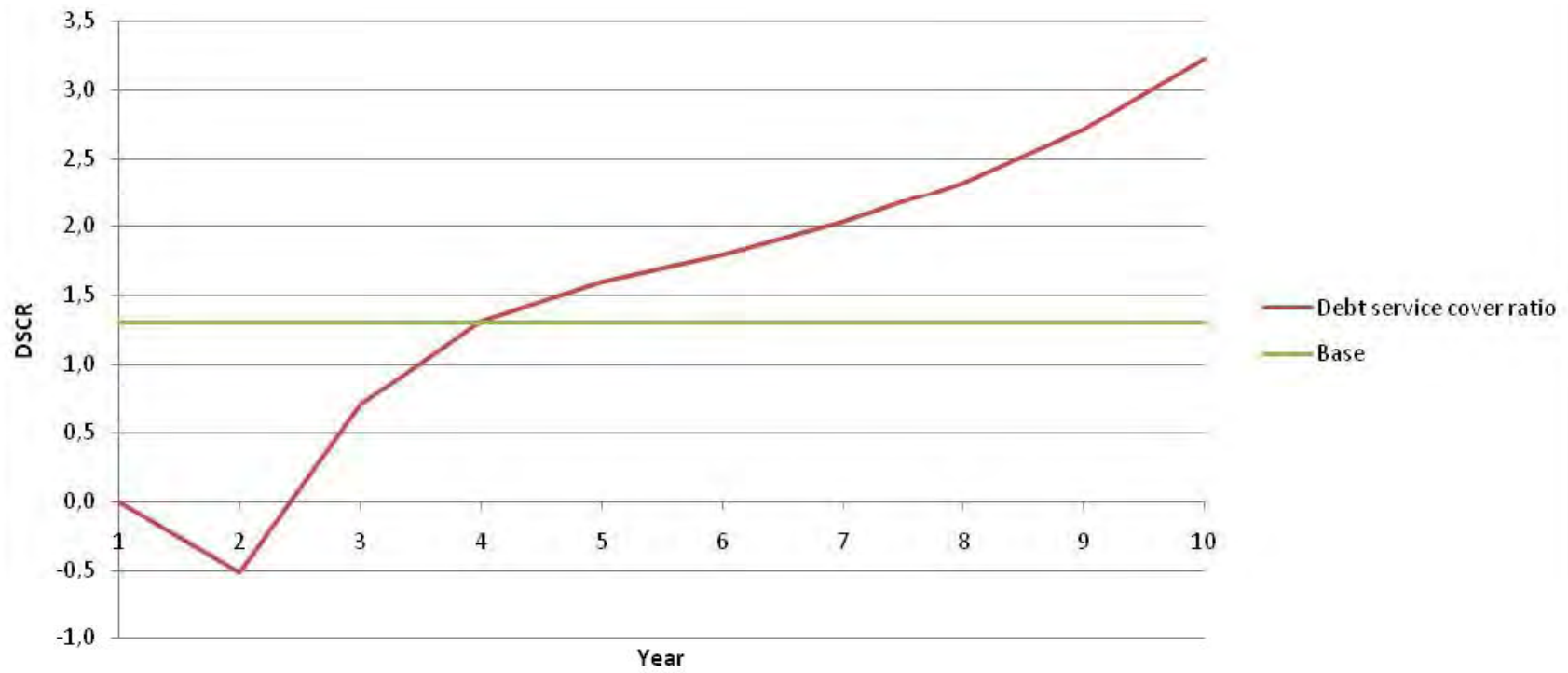
### Initial Funding Ratio 100%



### Initial Funding Ratio 124%



### Initial Funding Ratio 174%



ನಿಷೇಧಿಸಿದೆ / PROHIBITED



ಪ್ಲಾಸ್ಟಿಕ್  
PLASTICS



ಧೂಮಪಾನ  
SMOKING



ಮದ್ಯಪಾನ  
LIQUOR



ಉಗುಳುವುದು  
SPITTING

ಸಹಿ/-  
ನಿರ್ದೇಶಕರು  
ತೋಟಗಾರಿಕೆ ಇಲಾಖೆ