Financing of green field projects

(A Step by Step Approach in a Banker's Perspective)

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Green field (GF) project is one where a company will build its own brand new facilities from the ground up (scratch). Here it is not affected by the constraints imposed by the prior work on the site. On the contrary, Brown field Project is where a company purchases or leases an existing facility. In banking terms, it is a project started from scratch i.e. from construction of new factory/production facility/office or setting up of a new business enterprise. It is more than just construction of production facility, it may include set up of premises or place for business in case of Trade & Service industry, construction of office, hiring of staff, accommodation for staff and management creating supply chain or distribution network, construction of godown/warehouse for raw materials and finished goods.

In this article, we will restrict our analysis to MSMEs (in terms of investment in Plant & machinery or equipment's from ₹10 lakh to ₹50 cr). We will be discussing Green field projects about both manufacturing as well as Trade and services sector. The aim of the article is to understand more about the GF projects, the processing of GF projects, challenges involved, benchmarks and standard practices followed and common mistakes done in financing of GF projects, from point of view of an appraising Bank Official. Few examples of GF projects are setting up of paper plate, paper cup & paper bag manufacturing unit, manufacture of auto ancillaries, fabrication unit or food processing or dairy foods manufacturing unit. In case of trade & services, setting up of Shopping Mall, Departmental stores, new 3-star hotel, warehouses & commercial complex for rent, opening of testing laboratories, two-wheeler/car dealers, provisional stores, petrol bunk, dealer of FMCG products etc. Very often we think that only manufacturing units are GF projects but even setting up of provisional store or mobile & accessories showroom is also a GF project/ investment.

Generally, in banks due to various reasons like lack of staff, lack of expertise/knowledge to assess proposals, fear of NPA, fear of accountability, lack of time etc, GF projects are not financed/encouraged compared to our existing/established units. Over the past few years, due to tightened approval/licensing norms, government regulations, investment cost involved, fear of failure, there are only handful of GF projects being taken up by entrepreneurs. Remember when a GF project is started, a budding entrepreneur is born and hence has to be nurtured with care to develop as a business enterprise.

In MSME sector, GF projects play a very vital role in employment generation, for creation of new ideas, business model etc. but of late we see less than 5% of GF projects find place in our Bank's SME portfolio and in some areas it is also NIL. These start-ups or new projects only grow up gradually as a large business enterprise. For example, established brands like GRB Dairy Foods Pvt Ltd., MDH Masala, Agarwal Eye hospital, AMUL etc were all started a few decades back with only few lakhs of investments as GF projects and now doing turnover of more than ₹500 Cr and giving employment to thousands of people.

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Due to the above factors, we easily reject these GF projects or sanction a few without proper appraisal or assessment, which will end up as quick mortality NPA accounts in our books and good GF ventures are financed by our competitors with which they grow profits exponentially in short duration of time. Rule no 1, should be to not reject any loan or GF proposal at the 1st meeting or instance unless he/she is a defaulter, give a patient hearing of about 5 minutes to know about the person, project, product, project cost, loan amount requested, targeted customers or market for their products, experience or expertise in the field, collect basic details like KYC, cost and means of finance and ask them to call on us after say 10 days or 2 weeks so that we will have time to do basic CIBIL check, due diligence about person/ promoters, basic viability of the project, acceptability of the product, market or buyers for the product etc.

Rejection of GF projects even without hearing the customer or rejection at 1st instance leads to customer complaints from DLBC, SLBC, consumer forum, MSME Ministry, CMO and PMO, Banking Ombudsman etc. In this process we tend to lose a potential walk-in client, which is very difficult in case of established units. After say 2 weeks of study/analysis, reject proposal if promoter is a CIBIL defaulter, have overdue loans, have recently taken huge loans etc. If the resident is not from the locality or not residing in the area of operation for quite a few years, example a resident having KYC from Jharkhand who has settled in Coimbatore, within last 6 months wants to set up a restaurant at Coimbatore city. Here the promoter lacks knowledge of local language hence cannot connect with customer easily may not know the taste and flavour of locality, culture and approach differs so he may be considered with caution.

Assessment of GF projects involves both assessment of Term loans for fixed costs or capital expenditure and working capital limits for their day-to-day operational needs. Very often, we miss the assessment of working capital in the 1st instance during loan appraisal and borrower will be short of funds to run the unit for want of working capital. If we approach the appraisal and assessment of the project/loan in a systematic way, then it will give us new business growth and avoid potential NPA or complaints due to wrong selection of customer or approach or appraisal.

Flow chart of GF project appraisal

Initial discussion with customer

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Collection of KYC and basic papers about project

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Conduct CIBIL/ CRIF/Defaulter check and enquire about promoters - if not meeting Bank loan policy / norms - REJECT ✗

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Study and evaluate the promoter, project, process and product, market for the product.

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Call the promoter for detailed discussion along with their technical team

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Involve Branch Head and senior person at branch if High value proposal - if not meeting Bank loan policy / norms – REJECT ✗

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Collect application, projection, cost & means of finance, project implementation schedule etc.

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Visit the project implementation site and collaterals proposed - if not meeting Bank loan policy /norms – REJECT ✗

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Allot to Technical Consultancy team for TEV study if loan is above ₹1 cr

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Coordinate & involve with TEV team and get papers required for completion of TEV study - if not viable REJECT ✗

⬇

Start detailed due diligence on promoter, supplier, vendor, if found viable by TEV experts.

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Discuss more about process, product to know their confidence /capability. Allot for legal and valuation reports for Primary / collateral properties offered.

⬇

Cross check the approvals/licenses received from government departments, for their genuineness. – Reject if any malpractice have been done. ✗

⬇

Visit the proposed project site and collateral property along with legal valuation report without taking along promoter or representative. – verify pathway , extent of site, Land use, adjacent properties, boundaries, SARFAESI compliance etc. and conduct discreet enquire to ascertain market value of the property. - if not meeting Bank loan policy /norms – REJECT ✗

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After satisfying with Promoter integrity, Project Viability, Product feasibility, market for the product etc, call the promoter for discussing details about Cost and Means of project

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Project implementation schedule

⬇

Use only the assessment CMA made by TEV experts if required downside, don't escalate sales, production cost or profit made by the TEV team.

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Prepare CRA /CUE rating as applicable to the loan, submit to Risk Rater - if not meeting Bank loan policy / norms – REJECT ✗

⬇

Prepare other details for preparing the proposal and submit for assessment or additional assessment to next higher authority if proposal fits to Bank norms

⬇

Complete assessment /additional assessment – Recheck promoter capability, CIBIL, project viability, technical viability, assess Net worth of promoter, check Bank norms /policy / RBI guidelines etc. and send for rework to Appraising Official if corrections required. - Not meeting Bank loan policy /norms – REJECT ✗

Submit proposal to sanctioning authority -if not meeting Bank loan policy /norms – REJECT ✘

If sanctioned, note down the sanction conditions put by the sanctioning authority, prepare documentation incorporating the sanction terms and conditions.

Complete Loan Documentation, mortgage of property and MOD, ROC filing etc.

Disburse loans as per stages after inspection by operating official, compliance of conditions as per sanction terms.

Check the progress of the project at stipulated intervals, if required, more than the inspection frequency stipulated and sometimes with surprise element without informing the customer.

Check if the project is running as per implementation schedule submitted, if not take remedial measures and follow up for sanction conditions to be complied.

In case of disbursement of vendors / suppliers, due diligence on supplier to be carried out along with discreet enquiries apart from DNB report, CIR report etc.

If project is delayed due to various genuine reasons, propose shifting of DCCO appropriately till project completion, after thorough discussion with customer.

Before final disbursement take Branch Head / senior functionaries for inspection of the project and disburse only when satisfied with the quality of the work completed and as per estimate / plan submitted during sanction.

Disburse working capital limits only if project is implemented fully and commercial production is about to commence and preferably directly to supplier of raw material supplier etc. at least for next 6 months to 1 year period.

Closely monitor progress / production and hand hold the account / customer for next 1 year after DCCO.

Five P's of appraisal of any loan are:

1. People/ Promoter.
2. Project.
3. Product.
4. Place (Market Place).
5. Price (Cost).

Promoter

Promoter/Owner is the person behind the show in the project. Most of the factors like ability to bring in capital, technical know-how, practical work experience, previous experience and the successful implementation of project depend on the promoter.

Few polite questions to the main promoter after making them explain the project will give us a lot of insight in their know-how, experience, confidence etc.

1. Age of the Promoter.
2. Education Qualifications.
3. Prior work experience.
4. Prior Business/Ventures already done and involved.
5. Net worth of promoters.
6. Technical know-how.
7. Relationship between partners in case of partnership, their shareholding pattern and relationship between directors in case of companies and their share holding pattern.
8. Background of their family, their residence location, other interests etc. also be asked & known.

Integrity of the Promoter is the Key aspect in any loan appraisal & rightly so it is kept as an entry barrier.

Few discrete enquiries about the promoter can be done through the peers in the business, who may be our customers, or their vendors or dealers etc. From Chartered Accountants in that area, through friends or neighbours whom we know well or any government officials etc. It is fair to get enquiries through two or more persons before coming to a judgement about the person. Integrity of the promoter should be beyond doubt. Promoter should have financial/ technical capabilities to overcome any cost overrun or time delays during project implementation. Hence net worth/ background/expertise of promoter should be carefully examined.

Project

The crux of the appraisal is in analysis of various aspects like cost and means of finance. The cost of the project should be evaluated carefully through various sources like comparing with competitors, internet sources, discreet enquiries with suppliers/ vendors/contractors etc.

Vetting the cost of the project plays a crucial role as it should not be the case of the inflated project cost to minimise promoter's margin and get higher loan amount. Every aspect of cost like **Land**, if it is owned by promoter for decades, it should be removed from project cost and also, if the land is recently purchased within 1 year, then sale deed cost is to be considered for project cost and not the market value. If it is a lease land or rented premises, then there is no place for land cost in the project.

Building factory/office/premises forms a considerable part in the overall project cost. The design of the building/factory is to suit the industry needs. An auto ancillary industry needs factory shed space enough for production/storage and avoid unwanted expenses like interior decoration/furniture, posh office building etc. These are to be excluded, if not necessary for project/ business. The approvals for construction from the appropriate authority like DTCP/TPA should be in place & estimates should be vetted against approved plan and not against additional/actual/ unapproved constructions. Discussion with panel valuers and existing customers will be very helpful in vetting the **construction cost**.

On the contrary, ground levelling cost, approval cost, preliminary expenses etc, also should be included in the project, else it may result in underfinance and may hamper project completion on time. Calculating the approximate timeline for completion of the project should be carefully done and DCCO be fixed as per validated project implementation schedule. We need to be liberal and practical in fixing project implementation period (moratorium period). We should not fix shorter moratorium period say six to eight months if construction itself involves one year.

A more liberal longer moratorium to be given, as there will be delays anticipated due to various reasons like approval delays, non-availability of labour, raw materials like sand, cement, steel, water etc., extreme weather conditions like rain, flood, fire and any type of natural disaster etc. Comprehensive Insurance should be taken, Contractors All Risk (CAR) policy should be taken from the day of commencement of construction as it will protect bank's interest from any loss due to fire, earthquake, flood etc.

Table: 1.1 Cost and Means of Finance (For Illustrative purpose only)

COST OF FINANCE	Amount in ₹	MEANS OF FINANCE	Amount in ₹
Land cost	1,25,00,000	Equity capital or Promoter capital	2,00,00,000
Construction and Building cost	2,75,00,000	Preference share capital	0
Cost of Plant & Machinery	4,00,00,000	Debentures Raised	0
Other Fixed Asset Costs	50,00,000	Govt Grant / Subsidy	1,00,00,000
Interest During Construction (IDC)	60,00,000	Unsecured Loan	1,00,00,000
Preliminary &Preoperative expenses	20,00,000	Term loan	6,00,00,000
Provision for Contingencies	20,00,000		
Working capital Margin	50,00,000		
Total Cost of Project	10,00,00,000	**Total Means of Project**	10,00,00,000

Various other costs like Interest During Construction (IDC), the interest debited for the term loan from 1st date of disbursement till start of 1st EMI. It has to be calculated as per draw down schedule (Disbursement Schedule), e.g.: 1st disbursement of ₹2.00 Cr, then the interest should be calculated from 1st month for ₹2 cr only and not for entire ₹6 Cr from the start of disbursement. Preliminary and pre-operative expenses are usually taken at 1 to 3% of the total project cost. Preliminary expenses are those that are usually incurred before the incorporation of the company. E.g. Expenses incurred for preparation of MOA, AOA, project report, feasibility study, registration charges, legal charges, travelling expenses etc.

Pre-operative expenses are incurred during the post incorporation period but before the commencement of commercial production. IDC also is a part of Pre–operative expenses but since it forms major portion of expenses, it may also be classified separately. E.g. Day-to-day administrative expenses, rent, taxes, cost on account of creation of mortgage/charge on security, stamp duties, insurance, stationery, travelling expenses, trial run expenses prior to commencement of commercial production etc.

Provision for contingencies is the cost escalation that may occur in project cost due to various reasons like cost of main items including construction costs, duties and taxes on plant and machinery purchase, fixed asset cost, transportation charges, insurance costs, increase in duties and taxes. The provision for contingencies will normally be between 2 to 5% for smaller projects and between 5 to 10% for bigger projects, if it is found to be more than 10%, then entire project cost and project must be revisited carefully.

Machinery cost should be arrived at after vetting by TEV experts, in case of bigger projects and in any case be cross checked with other similar industry or other customers for validating the cost of machinery. Domain experts help can also be taken if the machinery cost is more and complex manufacturing processes are involved. Any Invoice/quotation obtained should be cross checked with the supplier for genuineness of the quote besides due diligence on the supplier of the machinery, their technical capability, their financial standing from Probe 42, MCA portal, verifying CIBIL of Supplier etc. Banker's opinion (CIR) also can be obtained from suppliers' bank apart from DNB or MIRA like credit information company reports. Various costs like taxes and duties, transport cost, freight, loading and unloading cost, insurance, installation, testing expenses, professional expertise fee etc should also be considered to calculate the overall cost of the machinery.

Table 1.2 Calculating the overall Cost of Machinery

S.NO	MAJOR ITEMS		PRICE IN ₹ (Cr).
1	Gross price of the Machinery		1000
2	GST @10%	Add	100
3	Less Discount 5%	Less	50
4	Transport/ Freight charges	Add	25
5	Marine Insurance Cost	Add	10
6	Additional Parts, Moulds, Dyes, Assemblies required	Add	50
7	Installation cost (civil construction, fixtures etc)	Add	20
8	Testing cost /	Add	20
9	Professional fee	Add	25
10	**Overall Cost of Machinery TOTAL**		1200

Working Capital Margin is also one of the important components which is very often excluded from project cost of GF projects erroneously. Working capital margin is calculated for the 1st full year of operation or based on 1st year full commercial sales after DCCO. Working capital margin is to be funded by term loan or promoter margin, basically from long term sources in case of GF projects. Since the company doesn't have other sources of income/ revenue, WC margin is normally funded by means of term loan only. For example, in a manufacturing unit, the sales for 1st full year of operation is ₹8 cr, then as per Nayak Committee method, ₹2 Cr is eligible for Working capital finance and normal WC margin, say 25% of WC limit i.e. 25% of ₹2Cr-₹0.50 Cr is working capital margin to be funded by term loan. (Refer Table 1.1- ₹5,00,000 taken as working capital margin).

Means of Finance

Equity capital/Promoters capital

Equity capital is the capital brought in by the promoters. We need to ensure that it is not borrowed capital and to ascertain this we have to carefully examine the source of equity capital through various means like Assets and Liability statements, analysis of Bank statements, IT returns of the promoters in the past few years. In case of Proprietor or Partnership firms, Chartered Accountant certificate along with proof of capital investment should be obtained and verified. In case of Private limited, LLP companies, ROC, MCA site should be verified to check the authorised capital and paid up capital infused in the company. The capital infused should be used in major items of the cost of the project say construction expenses, margin for purchase of machinery etc and should be infused as per sanction terms and conditions. For example, if ₹1 cr is estimated as Capital in company for the 1st year itself, then that should have been invested before the balance sheet of that year.

Preference share capital/Debentures

These are not generally used means of finance by MSME's as only Listed companies can issue preference shares and debentures.

Government Grant/Subsidy

Under various Central and State Government schemes like Capital Subsidy Schemes, PMEGP, Ministry of Food Processing Industry subsidies etc, MSME units are eligible for these subsidies. While assessing the means of finance, government grant or subsidy can be considered as a means only if the subsidy amount is sanctioned to the unit prior to the submission of the proposal and subsidy is front ended and coincide with the project implementation timeline. As a measure of precaution, we need to verify the genuineness of the government subsidy by writing directly to the Government department or talking to them or verifying the list of beneficiaries released on their websites. In case the subsidy is back ended, say 2 to 3 years after successful implementation of the project, then it cannot be considered as a means of finance and promoter should be advised to bring in additional capital or USL or increase term loan proportionately.

Unsecured Loans (USL)

USL has become a regular means of finance for MSME's, however we need to scrutinise from whom USL is taken. If it is taken from moneylenders or third parties with higher rates of interest, then it will affect the project viability as interest outgo will be more. If USL is withdrawn in-between the project implementation, then it will adversely affect the project and hence general sanction condition of USL should not be withdrawn during the currency of the

loan, should be put and followed up closely. Further if USL is from Promoters family or friends or relatives, then payment of interest on USL should be lesser than the term loan interest rate which the company is paying the Bank.

The remaining portion of the means is to be funded by the term loan. In case of MSME, it is preferable to have sole banking for a single project as monitoring, follow up and supervision is easier.

Techno Economic Viability (TEV) study or Technical Study

As per Banks' loan policy norms, all new loans above ₹1 Cr is to be subjected to TEV study or can take a specific approval from the sanctioning authority for waiver of TEV study for various reasons like promoter/company's experience in the field, higher promoter margin compared to term loan, project is already approved for subsidy/grant by Government agencies (APEDA, MOFPI, DIC etc.). TEV study is conducted to ascertain the technical feasibility of the project, economic viability and financial viability of the project. TEV study is normally conducted by Domain experts approved by the bank in various fields they are also empanelled like valuers and advocates.

TEV study generally covers the following areas- approvals, licences to be obtained for running the unit or enterprise, manufacturing process involved, discussion with the technical team involved in production process, flow of manufacturing involved, various machineries required for manufacturing process, list of machineries submitted by the company and the due diligence on supplier/price of the machinery, validation of the installed capacity stated by the company, assessment of capacity utilisation assumed for revenue estimation, cost of various machines to be purchased, cost of raw materials, depreciation method followed and revenue assumption based on sale of product or service and per unit price of the product/service. Project implementation schedule should be analysed and comments on moratorium period are required as well. Revenue estimation is the crux of the TEV study and it determines the profitability and viability of the unit. It has to be cross checked with similar industries, internet sources.

Table 1.3 Revenue Estimate Calculation

	1year of operations	2nd year of operations
Installed capacity	100 units per day	100 units per day
Capacity utilisation assumed at 1st year	50% - 50 units per day	65% - 65 units per day
No of working days in a year	300	300
Total production per year	50*300 - 15000 units	65*300 -19500 units
Per unit price	1000	1050
Total revenue / Sales estimated for 1st year	1000*15000 - ₹1,50,00,000	1050*19500– ₹2,04,75,000

Product

It is ultimately the product that is going to be sold to get the revenues/profit. The product which is being produced or service which is being offered has to comply with the quality standards like FSSAI, BIS, IATF, ISO etc, as applicable on the industry. The produced product should have adequate storage place, insurance cover, and packaging as per industry standards. If the product is a perishable commodity then storage place should be close to the market place. Example, if the customer is an auto ancillary manufacturing industry, then material strength, finishing, measurements have to be accurate as per standards. An export oriented unit should meet quality standards of the exporting country and comply with the quality norms of the exporting country. The cost of raw materials, production cost involved be validated in the project appraisal. The product should be generally acceptable as per the expectations of the target population.

Price

The revenue estimate we make in project assumptions/analysis depends on two factors- Production capacity/capacity utilisation and per unit price of the product. Per unit price of the product is

to be validated carefully by comparing with market, interaction with existing customers and comparison of similar prices online. If the final product of the customer is Business to Customer (B to C) then pricing strategy plays a key role. Price refers to the amount a customer pays for a product. It is from the price, we get revenue for the project. Various features determine price like quality of the product, demand for the product, payment terms and most importantly production cost and intended profit margin etc. If the product is B to B product, then per unit price has to be compared with 3 or 4 other suppliers of similar products.

Most Important points to be checked in project Appraisal

Entry Barriers

1) **The Integrity of the promoters and guarantors** of the project, company should be beyond doubt. If there is any default by the borrowers in the recent past or convicted for any involvement in any criminal/unlawful activities, then we should reject the proposal and not proceed further into processing the loan.

2) **Compliance of statutory, regulatory and environmental norms -** The proposed project, product should comply with all statutory laws in place and all necessary approvals like pollution clearance, building plan approval by Town planning authorities and factory license to commence production in case of manufacturing industry must be in place. In case of service industry, it should be approved by concerned Government departments e.g. Health Department in case of hospitals, FSSAI and HAPP approvals in case of Food processing industries etc.

Other Important Check points

Promoter Margin

Generally, for GF projects, promoter margin is fixed at 33% and can be reduced up to 25% on a case to case basis. Margin must be brought in upfront as stipulated and during each term loan disbursement in proportion to the completion stage and Chartered Accountant certificate with UDIN number has to be obtained along with proof of investment, in case margin is already brought in. Source of promoter margin also needs to be examined and it should not be from outside borrowings.

Debt/Equity Ratio

It is the ratio of total Debt in the project/Total Equity infused, here equity can include Government subsidy, USL- in case of USL undertaking that it will not be withdrawn during the currency of the loan needs to be obtained from the company. The benchmark for Debt to Equity ratio is 2:1.

Debt Service Coverage Ratio (DSCR)

$$\text{DSCR} = \frac{\text{PAT + Depreciation +Term loan Interest}}{\text{Term loan instalments + term loan Interest.}}$$

Gross DSCR should be minimum 1.75 YoY and can also be reduced to 1.50 in certain cases, also Average Gross DSCR should be more than 1.75. Higher the ratio better is the repayment capability.

Fixed Assets Coverage Ratio (FACR)

The Depreciation should be calculated as per IT Act and Companies Act norms and it should be ensured that TL should be liquidated before the book value of the asset becomes zero. In case of purchase of machinery, FACR needs to be carefully validated and tenure of loan fixed accordingly.

$$\text{FACR} = \frac{\text{Book value of the Fixed Assets Financed}}{\text{Term loan Outstanding}}$$

Benchmark value of FACR is minimum 1.25, the higher the FACR the better.

Term loan repayment schedule should be carefully designed keeping in mind the PAT, DSCR and FACR ratios.

Interest Coverage Ratio (ICR)

$$\text{ICR} = \frac{\text{Profit after Tax}}{\text{Interest Expenses}}$$

Interest Coverage ratio represents the interest paying capability of the company, the benchmark value of ICR is minimum 2.60. Higher the value the better.

Current Ratio

The current ratio determines the liquidity of the company and the flow of funds available for day-to-day operations. Current ratio is seen along with Net working Capital (NWC). The current ratio is calculated by formula Current Assets over Current liabilities. Current ratio plays a major role in assessment of working capital limits.

The benchmark for Current ratio for manufacturing units is 1.33 and for Trade and services is 1.20.

Break Even and Sensitivity Analysis

Breakeven point is where the company achieves no profit or no loss.

$$\text{Break-even Point (BEP)} = \frac{\text{Fixed Cost}}{\text{Contribution (Sale price per unit – variable cost)}}$$

BEP should be achieved at lower capacity utilisation say with 60 to 65% or even lesser. If the BEP is more than 70%, then the viability of the project is in question.

Sensitivity Analysis is carried out with intent of finding the resilience of the project to withstand even if there are one or more adverse features, say drop in sales by 2 to 5%, increase in RM cost by 2 to 5% etc. After sensitivity analysis, if the DSCR remains above 1.25, then the project is viable.

Practical Tips (Do's)

1. Installed Capacity of the project is to be verified and the capacity utilisation is not to be taken more than 50% for 1st year of operation and should not be more than 85% overall. BEP should preferably be at less than 60 to 65% capacity utilisation.
2. Revenue estimate needs to be discussed thoroughly with the customer as it forms the sales data with which we arrive at other financial data-capacity utilisation, per unit cost of product, production schedule (to be calculated at 300 days 2 shifts not 3 shifts of 350 days).
3. Raw material cost, energy consumption, salary and wages data, depreciation rate needs to be carefully validated item wise & compared with similar industry and product.
4. The project cost should be arrived at reasonably, either escalated project cost or under reported project cost will result in project failure and loss to the customer and bank. All items as discussed in the Cost and Means of Finance need to be examined carefully and validated.
5. Means of project, equity capital or promoter contribution need to be brought in upfront and source of capital must be ascertained. It should not be borrowed capital. CA Certificate with UDIN number for capital infusion must be obtained and also verified. The capital should be employed judiciously.
6. Government grant subsidy order must be cross verified with the concerned department and checked, if it is front ended or back ended. If it is back ended subsidy, it should be removed from the means of finance.
7. USL, if any infused to be scrutinised ledger wise, if it is from friends/ family members, it should not be withdrawn during currency of the loan.
8. TL for GF project should be preferably with sole banking arrangement in case of MSME Advances.
9. Disbursement be done directly to suppliers/ vendors along with customer margin and in no case, reimbursement should be given to customer unless specific approvals for reimbursement is taken.
10. Thorough due diligences on suppliers/ vendors needs to be carried out like capability of suppliers (technical, financial) their past experience, location, duration with which materials will be supplied apart from taking DNB report, bankers opinion CIR from supplier's bank. (probe 42, MCA portal also can be verified to check their financial worth, sales trend in past etc).
11. Both TL repayment and moratorium period must be fixed liberally say 3 to 4 months more for moratorium and 6 months to 1 year more for repayment period. Repayment schedule needs to be fixed in such a way that there is little burden during the initial years of the project and is increased gradually and not ballooned

suddenly. DSCR and FACR on YOY basis should be guiding the repayment schedule of the project.

12. In case of GF project, 3 months to 6 months Debt Service Reserve Account (DSRA) needs to be created and brought in by promoter and kept as Deposit with lien marked till loan tenure, before the commencement of the repayment.

13. In case, if completion of project is delayed for various genuine reasons, shifting of DCCO by 1 year for non-Infra projects and 2 year for Infrastructure projects and subsequent increase in repayment schedule could be redrawn as per RBI guidelines and repayment in any case should commence only after commencement of commercial production.

14. Strong collateral security for above ₹2 Cr limits should be obtained at least to an extent of 75 % to 100% in case of GF projects.

15. Disbursement must be done as per sanction terms, as per stage completion after inspection by operating officials.

16. Handholding of unit is to be done (working capital release to be done directly to the supplier as per production level to the maximum possible extent) and account should be closely monitored even after 1 year of start of commercial production and then as per stipulated inspection frequency.

17. Legal and valuation should be allotted by bank and not the other way of getting legal / valuation themselves by customers, rather be done from our panel of advocates and engineers, who are allotted with in-depth knowledge, experience and integrity, which is beyond doubt.

18. Collateral security offered should be accepted only after proper due diligence and physical inspection by operating official and taking guidance from legal and valuation reports.

Common mistakes done in appraisal/ financing of Green field projects:

1) Project cost is escalated in every possible way to bring down the promoter margin and increase the term loan.

2) Land cost which is already owned is included in the project cost.

3) Construction estimate is given for actual construction whereas approved construction area is lesser.

4) Preliminary and pre-occupied expenses, contingencies are quoted on higher side to increase project cost and may not be actual expenses.

5) Capital, as stated in means of finance may not be brought in, will remain in paper only.

6) Government grant/ subsidy envisaged may be reduced or given as back end subsidy but considered as means of finance.

7) USL may be bought in first year and withdrawn in subsequent years.

8) Capital infused itself may be borrowed funds, so assessment of net worth is essential.

9) Giving shorter moratorium or shorter loan term will make project Ab-initio.

10) Project may be started without necessary statutory approvals in place.

11) Disbursement may be given as reimbursement to customer without taking approvals during sanction.

12) Working capital requirement may not be assessed at all or sometimes would be released even before start of commencement of commercial production.

13) Disbursement may be given to different vendors other than submitted by customer during loan approval or purchasing different machine altogether.

14) Disbursement given without proper inspection and assessment of implementation of project.

15) Collaterals accepted without proper due diligence and title is not clear, overvalued and not SARFAESI complaint.

Conclusion

If we approach the appraisal and assessment of the project /loan in a systematic way then it will give us solid new business growth and avoid potential NPA or complaints due to wrong selection of customer or approach or appraisal. The growth of Green Field projects in MSME's are not only important for the customers but also to banks, due to its sustained growth as it puts engines of our economy into fast-track growth by providing numerous employment opportunities to unskilled, semi-skilled and skilled workforce of the country but also important for the growth of a nation. We support Green field MSME projects as we are **Banker to Every Indian**.

Abbreviations:

GF –Green Field

TL – Term loan

CAR – Contactors All Risk Policy

DSCR – Debt service coverage ratio

FACR – Fixed asset coverage ratio

ICR – Interest coverage ratio

PAT – Profit after Tax

KYC – Know your customer

RBI – Reserve Bank of India

ROC – Registrar of Companies

NPA – Non Performing Assets

MSME –Micro small and medium enterprise

CIBIL –credit Information bureau of India Limited

DNB – Dun and Bradstreet report

RBI – Reserve Bank of India

TEV –Techno economic viability study

DCCO – Date of commencement of commercial production

IDC – Interest During construction

CIR – Credit Information Report

PCB –Pollution control Board

BIS –Bureau of Indian Standards

JIT – Just in time.

DTCP – District Town and Country Planning

TPA – Town Planning Authority

Bank Quest Articles - Honorarium for the Contributors

S.No.	Particulars	Honorarium Payable
1	Invited Articles	₹7000
2	Walk-in Articles	₹4000
3	Book Review	₹1000
4	Legal Decisions Affecting Bankers	₹1000