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PROJECT FINANCING STRATEGIES AND OUTCOMES: THE CASE OF KESORAM CEMENT

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ABSTRACT

In developing economies, non-recourse project finance has become increasingly popular, particularly in the energy, basic infrastructure, and natural resource industries. Project finance is designed for investments on a grand scale due to its complexity and high cost. Making sure the project can be readily isolated from the sponsors engaged and accurately estimating cash flows and risk analysis and allocation are crucial for high leverage. Emerging nations make it harder to get project financing because they provide unexpected risks with biassed outcomes. Examining project financing as a growth engine in the economy is the focus of this research. As a potential hedge against a lack of domestic financial growth, project financing is seen to be useful for emerging economies. Investment management and oversight should improve as a result of the distinctive contractual structure of project financing.

In financing, the lender does not rely on the project sponsor's general credit but rather on the projected revenues and assets of the project to repay the loan. This type of financing is used for the development and construction of specific projects. Euro Disneyland and the Eurotunnel are just two of the numerous high-profile business projects that have made use of project finance, a novel and timely funding method. It has a long history of funding massive natural resource projects, including as pipelines, refineries, power plants, and hydroelectric dams, via the use of a deliberately designed financing mix. As an alternative to more traditional means of funding infrastructure and other massive projects throughout the globe, project finance is quickly becoming the financing of choice. Among the disciplines that make up project finance is knowing why it's necessary and how to put up a budget.

1. INTRODUCTION

Project finance

Project finance is the long term financing of infrastructure and industrial projects based upon the projected cash flows of the project rather than the balance sheets of the project sponsors. Usually, a project financing structure involves a number of equity investors, known as **sponsors**, as well as a **syndicate** of banks that provide loans to the operation. The loans are most commonly **non-recourse loans**, which are secured by the project assets and paid entirely from project cash flow, rather than from the general assets or creditworthiness of the project sponsors, a decision in part supported by financial modeling. The financing is typically secured by all of the project assets, including the revenue-producing contracts. Project lenders are given a lien on all of these assets, and are able to assume control of a project if the project company has difficulties complying with the loan terms.

Generally, a special purpose entity is created for each project, thereby shielding other assets owned by a project sponsor from the detrimental effects of a project failure. As a special purpose entity, the project company has no assets other than the project. Capital contribution

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commitments by the owners of the project company are sometimes necessary to ensure that the project is financially sound. Project finance is often more complicated than alternative financing methods. Traditionally, project financing has been most commonly used in the mining, transportation, telecommunication and public utility industries. More recently, particularly in Europe, project financing principles have been applied to public infrastructure under public–private partnerships (PPP) or, in the UK, Private Finance Initiative (PFI) transactions.

Risk identification and allocation is a key component of project finance. A project may be subject to a number of technical, environmental, economic and political risks, particularly in developing countries and emerging markets. Financial institutions and project sponsors may conclude that the risks inherent in project development and operation are unacceptable (unfinanceable). To cope with these risks, project sponsors in these industries (such as power plants or railway lines) are generally completed by a number of specialist companies operating in a contractual network with each other that allocates risk in a way that allows financing to take place. The various patterns of implementation are sometimes referred to as "project delivery methods." The financing of these projects must also be distributed among multiple parties, so as to distribute the risk associated with the project while simultaneously ensuring profits for each party involved.

A riskier or more expensive project may require **limited recourse financing** secured by a surety from sponsors. A complex project finance structure may incorporate corporate finance, securitization, options, insurance provisions or other types of collateral enhancement to mitigate unallocated risk.

Project finance shares many characteristics with maritime finance and aircraft finance; however, the latter two are more specialized fields.

NEED FOR STUDY

- Need of financial management study(project financing) to diagnose the information contain in financial statement. So as to judge the profitability and financial position of the firm.
- Financial analyst analyses the financial statements with various tools of analysis before commanding upon the financial health of the firm.
- Essential to bring out the history.
- Significance and meaning of the financial statements.

2. Objectives of Project financial management:

The main objects of financial management are

1) Profit maximization
2) Wealth maximization

Others:

1. Interpret financial reports

Including income statements, Profits and Loss or P&L, cash flow statements and balance sheet statements

2. Improve the allocation of working capital within business operations

3. Review and fine tune financial budgeting, and revenue and cost forecasting

4. Look at the funding options for business expansion, including both long and short term financing

5. Review the financial health of the company or business unit using ratio analyses, such as the gearing ratio, profit per employee and weighted

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cost of capital

6. Understand the various techniques using in project and asset valuations

7. Apply critical financial decision making techniques to assess whether to proceed with an investment

8. Understand valuations frameworks for businesses, portfolios and intangible assets

3. RESEARCH METHODOLOGY

RESEARCH DESIGN

This is a systematic way to solve the research problem and it is important component for the study without which researches may not be able to obtain the format. A research design is the arrangement of conditions for collection and analysis of data in a manager that aims to combine for collection and analysis of data relevance to the research purpose with economy in procedure.

MEANING OF RESEARCH DESIGN

The formidable problem that follows the task of defining the research problem is the preparation of design of the research project, popularly known as the research design, decision regarding what, where, when, how much, by what means concerning an inquiry of a research study constitute a research design. A research design is the arrangement of conditions for collection and analysis of data in a manager that aims to combine for collection and analysis of data relevance to the research purpose with economy in procedure.

SOURCES OF DATA

Data we collected based on two sources.

- Primary data.
- Secondary data.

Primary data

The Primary data are those information's, which are collected afresh and for the first time, and thus happen to be original in character.

Secondary Data:

The Secondary data are those which have already been collected by some other agency and which have already been processed. The sources of Secondary data are Annual Reports, browsing Internet, through magazines.

1. It includes data gathered from the annual reports of Kesoram.
2. Articles are collected from official website of Kesoram.

METHODOLOGY USED:

1. **TYPES OF FINANCIAL STATEMENTS ADOPTED:**

   Following two types of financial statements are adopted in analyzing the firm financial position

   a. BALANCE SHEET.
   b. INCOME STATEMENTS.

2. **TOOLS OF FINANCIAL STATEMENT ANALYSIS USED**

   The following financial analysis tools are used in order to interpret the financial position of the firm.

LIMITATIONS OF FINANCIAL STATEMENT:

Each project gives rise to its own unique risks and hence poses its own unique challenges.

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1. ONLY INTERIM REPORTS:

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Only interim statements don't give a final picture of the concern. The data given in these statements is only approximate. The actual position can only be determined when the business is sold or liquidated.

2. DON'T GIVE EXTRA POSITION:

The financial statements are expressed in monetary values, so they appear to give final and accurate position. The values of fixed assets in the balance sheet neither represent the value for which fixed assets can be sold nor the amount which will be required to replace these assets.

3. HISTORICAL COSTS:

The financial statements are prepared on the basis of historical costs or original costs. The value of assets decreases with the passage of time current price changes are not taken into account. The statements are not prepared keeping in view the present economic conditions. The balance sheet loses the significance of being an index of current economic realities.

4. ACT OF NON MONITORY FACTORS IGNORED:

There are certain factors which have a bearing on the financial position and operating results of the business but they don't become a part of these statements because they can't be measured in monetary terms. Such factors may include in the reputation of the management.

NO PRECISION:

The precision of financial statement data is not possible because the statements deal with matters which can't be precisely stated. The data are recorded by conventional procedures followed over the years. Various conventions, postulates, personal judgments etc.

4.FINDNGS

1. I found that every year the sales are increases in increased manner. It shows good sign for the organization. It fluctuates only one year due to competition and heavy expenditure in fixed assets.
2. The gross profit was decreased every year. This was happened due to increasing of cost of goods sold every year
3. In the year 2019, they spend more money towards raw material sealing and distribution transportation and administration expenses and debtors also increased. The shows results in reduction of operating profit in 2019.
4. On overall ever year cash & bank balance were increased fixed deposits receipts are decreased inventories on average are in good position.
5. In the year 2019 they minimized the exp .of stores maintenance. But other expensed like packing materials and transportation charges increased rapidly

SUGGESTIONS

- The company should provide notes to explain items not tallying with the profit and loss and balance sheet in the Annual report.

- Instead of disclosing the combined flows of debtors and loans advances as decrease/(increase) in trade and other receivables, their separate disclosure will be more meaningful.

- Globalization of economies and the requirement of shares from investors in capital market, diverse and demanding audience to the company, need a clear and in-depth in information about the company's financial position in Annual report.

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- Comparison of basic and diluted EPS to be included in Annual report to predict the EPS sustainable in future.

5.CONCLUSION

The financial position of Kesoram is quite comfortable with a judicious mix of debt and equity. The overall assessment of Project financial statement (AFC) signifies efficient utilization of the investments, loans and advances. The profitability of the company appears to be impressive, as judged by increase in reserves and surplus.

The management discussions and analysis by Director's report and opinions expressed by Auditor's report through financial statements is true and fair view in accordance with the provisions of the companies Acts, and Accounting standards.

The overall financial position of the company appears to be more than satisfactory. The Project financing is properly maintained By the Kesoram Organization and the overall financial overview of the common risks and methods of risk minimization employed by financiers in project finance transactions. As stated previously, each project financing is different. Each project gives rise to its own unique risks and hence poses its own unique challenges. In every case, the parties - and those advising them - need to act creatively to meet those challenges and to effectively and efficiently minimize the risks embodied in the project in order to ensure that the project financing will be a success.

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