Introductory

C.F

Unit - I.

Securities and Exchange Board of India (SEBI)

SEBI was set up on April 12, ~~1988~~ 1992. To start with SEBI was set up as a non-statutory body. It was made an Autonomous and Independent Regulatory body after passing of the SEBI Act 1992 by the Indian parliament. The Government felt the need for setting up of an apex body to develop and regulate the stock market in India.

Objectives :- According to the preamble of the SEBI Act, the primary objective of the SEBI is to promote healthy and orderly growth of the Securities Market and secure investor protection. The SEBI monitors the activities of not only stock exchange but also merchant bankers etc.

Objectives of SEBI are as follows :- 1) To protect the interest of investors so that there is a steady flow of savings into the capital market.

2. To regulate the securities market and ensure fair practices by the issuers of securities so that they can raise at minimum cost.

3. To promote efficient services by brokers, Merchant bankers and other intermediaries so that they become competitive and professional.

Functions :- Section 11 of the SEBI Act specifies the functions as follows.

1. Regulatory Functions :-

(A) Regulation of stock exchange and self-regulatory organisation

(B) Registration and regulation of stock brokers, sub-brokers, registrar to all issue, Merchant bankers, under-writers, portfolio managers and such other intermediaries who are associated with securities market, agents, banker to issue, trustees to trust deeds, who may be associated with securities market in any manner.

(C) Registration and regulation of working collective investment schemes including mutual funds.

(D) Prohibition of fraudulent and unfair trade practices relating to securities market.

(E) Prohibition of insider trading in securities

(F) Regulating substantial acquisitions of shares and take-over of companies.

2. Development Functions :- (a) Promoting investors education

(b) Training of intermediaries

(c) Conducting research and publish information useful for self-regulatory organisation

(D) Promoting of fair practices and code of conduct for self-regulatory organisation.

(E) Promoting self-regulatory organisation

Powers :- SEBI has been vested with the following powers

1. To call periodical returns from recognised stock exchange
2. To call any information or explanation from recognised stock exchanges or their members
3. To direct enquiries to be made in relation to affairs of stock exchanges or their members.
4. To grant approval to bye-laws of recognised stock exchanges
5. To make or amend bye-laws of recognised stock exchanges
6. To compel listing of securities by public companies
7. To control and regulate stock exchanges
8. To grant registration to market intermediaries
9. To levy fees or other charges for carrying out the purpose of regulation
10. To declare applicability of section 17 of the securities Contract (Regulation) Act in any state or area and to grant license to dealers in securities.
11. Suspend the trading of any security in a recognized stock exchange.
12. Restrain any persons from accessing the securities market and prohibit any person with securities market to buy, sell or deal in securities.

SEBI Guidelines of Capital Market

7. calling for information, undertaking inspection and Audit

8. Performing such functions and exercising such power under the provision of SEBI Act.

9. Levying fee or other charges for carrying out the purposes

10. Conduct research for the above process.

Marks

Head quartered in Mumbai, India. Secured (?)

SEBI has regional offices in New Delhi, Chennai Kolkata, and Ahmedabad ~~..~~ along with other regional offices across prominent cities in India.

→ SEBI functions under the ministry of finance.

→ The Main objective of SEBI is to facilitate the growth and development of capital market and to ensure that the interests of investors are promoted.

Structure: The function of SEBI are carried out by a Board of 9 members

1- chairman and S.M.

2 nominated by Finance ministry

1. RBI

Ajay Tyagi

D22MB114: Project Appraisal and Finance

Course Outcomes
CO1: Understand various terminologies and definitions under Project Appraisal and Finance
CO2 Distinguish between Project Evaluation Techniques, deploy suitable techniques, prepare Project Evaluation Models
CO3: Develop a Multicurrency Financial Model and Evaluate Social Cost Benefit Analysis
CO4: Analyze Projects from Risk Perspective and evaluate Real Options and use them for decision making and risk analysis
CO5: Evaluate tax impact of Projects and Backers like REIT and INVIT; assess the role of PE funding

Unit 1: Planning & Analysis Overview
Capital budgeting concepts, objectives and phases; levels of decision making; resource allocation framework; key criteria for allocation of resources; elementary investment strategies
Learning Outcome: Understand the process of estimating Cash-Flows and distinguish between investment strategies.

Unit 2: Project Ideas
Generation and screening of project ideas; generation of ideas – monitoring the environment – regulatory framework for projects; corporate appraisal – preliminary screening – project rating index (Theory)
Learning Outcome: Discuss the various approaches to generating project ideas that are feasible and acceptable.

Unit 3: Market and Demand Analysis
Market and demand analysis; technical analysis (steps to be discussed in detail); Financial Analysis: estimation of cost of project and means of financing – estimates of sales and production – cost of production – working capital requirement and its financing – estimates of working results – breakeven points
Learning Outcome: Evaluate market demand and its adequacy for financial feasibility.

Unit 4: Modelling Project Cash Flows
Projected cash flow statement – projected balance sheet. Project cash flows: Appraisal criteria: Net Present Value – benefit cost ratio – internal rate of returns urgency – payback period – accounting rate of returns – investment appraisal in practice
Learning Outcome: Prepare Project Cash flow for estimating financial viability.

Unit 5: Types and Measure of Risk
Types and measure of risk, Price Risk, Interest Rate Risk, Foreign Currency Risk, Political Risk, Economic Risk– simple estimation of risk – sensitivity analysis – scenario analysis – Monte Carlo simulation – Decision tree analysis – selection of projects under risk – risk analysis in practice
Learning Outcome: Evaluate Project Risk and prepare an inventory of the various risks.

Unit 6: Risk in Special Decision Situations
Choice between mutually exclusive projects of unequal life – optimal timing decision – determination of economic life – interrelationships between investment and financing aspects – inflation and capital budgeting

Learning Outcome: Report on how cash-flow timing differences can impact project selection.

Unit 7: International Capital Budgeting
Comparative Evaluation of Project cash-flows and conversion of one currency cash-flows into home country cash flows. Interest Rate Parity approach to forecasting Exchange Rate; yield curve and currency revaluation and devaluation; Cost of Equity of a foreign project; approaches to calculate Country Risk Premium; foreign currency cost of debt; Hurdle Rate on domestic projects and Hurdle Rate on Foreign Projects; Economic Analysis and Industry Analysis
Learning Outcome: Perform project evaluation when foreign projects are involved.

Unit 8: Social Cost Benefit Analysis (SCBA)
Rationale for SCBA – UNIDO approach to SCBA – Little and Mirle approach to SCBA. Multiple projects and constraints: Constraints – methods of ranking – mathematical programming approach – linear programming model – Qualitative Analysis: Qualitative factors in capital budgeting – strategic aspects – strategic planning and financial analysis – informational asymmetry and capital budgeting – organizational considerations; Environmental, Social and Green Impact on Project; Impact Investment
Learning Outcome: Articulate to appraise the impact on society, planet and people before accepting a project.

Unit 9: Project Management
Forms of project organization – project planning – project control – human aspects of project management, stakeholder conflict management. – Prerequisites for successful project implementation. Project review and administrative aspects: Control of in-progress projects
Learning Outcome: Evaluate how key stakeholders many have different outcomes often at conflict with each other and appraise managing such conflicts.

Unit 10: Use of Real Options in Project Evaluation
Option to Expand, Abandon and Delay Project using Option Valuation methods; the post-audit, Abandonment Analysis, administrative aspects of capital budgeting, agency problem, evaluating the capital budgeting system of an organization
Learning Outcome: Discuss the Agency Cost impact on project decisions like location, funding and beneficiaries.

Unit 11: Investment Structuring for Projects
Infrastructure Projects preference for debt financing, Zero Coupon Bonds, REIT and INVIT, other financial structuring – innovative financing alternatives, collaboration, lease financing, equity participation – project finance vis-à-vis corporate finance
Learning Outcome: Evaluate the role of Financial Innovation in creating Instruments for Infrastructure Project Investment.

Unit 12: Components and Contents of Project Report
Executive Summary, Objective Project Progress, Risk and Risk Management, Budget, Timelines, Resources, Team, Financial Performance and Conclusion; Project Approval, Tracking, Visibility, Cost Management and Cost Overrun, Financial Turnaround of Projects, Real Estate and Other Projects; Institutional Financial Assistance; Financial Institution and their need for Project Report
Learning Outcome: Discuss the various parts of the Project Report and its interconnectivity between the various parts.

Unit 13: Tax Impact on Project Appraisal
Direct Tax impact on Initial Project Cost, Depreciation method and impact on Taxable Income, Interest Tax Shield, Set-off of loss and Carry Forward of loss, Deferred Tax Asset and Deferred Tax Liability; Indirect Tax and Impact on Initial Investment of a Project; Customs Duty on Project Import. GST input tax credit on Capital Expenditure and the Process of set off against outward supply of goods and services
Learning Outcome: Evaluate the tax impact on project financial viability.

Unit 14: Taxation of REIT, INVIT
Overview of Incomes of REIT that is taxed in its hands and those that are taxed in the hands of the unit holders; taxability of interest, dividends and capital gains earned by REIT and INVIT; performance analysis of REITs in India
Learning Outcome: Compute the total income and tax liability of the above persons.

Unit 15: Build Operate Transfer, Build Own Operate Transfer of Project Delivery Method
BOT, BOOT and PPP for Highway and Airlines, BIAL Project, NHAI projects for Highway, National Asset Monetization and its importance to attract PE funds like Black Rock; concessions, tax breaks and sovereign guarantees
Learning Outcome: Develop a view on how future of Infrastructure Project financing will evolve with the involvement of PE funds

Text Books:

Baum, A. E., Crosby, N., & Devaney, S. (2021). *Property investment appraisal*. John Wiley & Sons.

Dayananda, D. (2002). *Capital budgeting: financial appraisal of investment projects*. Cambridge University Press.

problems of Industrial Finance in India :-

Drawbacks:

The following are some of the important drawbacks of industrial finance in India:

1. Backward Financial System:

One of the important drawback of industrial finance in India is that it is not yet developed fully, the extent of capital market which is a source of long term finance including equity and debt is quite small. It also fails to provide risk capital in adequate quantity. The development of non-bank financial intermediaries is also very poor.

Drawbacks:

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2. Paucity of Funds:

Another shortcoming of industrial finance is that it is grossly inadequate for the continuously growing and large requirements, especially to meet the needs of large industries. Moreover, the small industries are also facing shortage of finance in an acute manner. Besides, the securing and servicing of foreign funds are becoming difficult and expensive. Thus as a result of paucity of fund the expansion of industries is becoming very difficult.

3. Unsatisfactory Interest Structure:

The interest rate structure for different type's loans like short term, medium term and long term are more or less unsatisfactory. These rates are not appropriate and are not properly aligned with one another and these rates are largely distorted and does not attain demand – supply equality for capital. Indigenous money lenders also charges high rate of interest from small and village industries distorting the market interest rate structure.

4. Lack of Adequate Capital Formation:

Industrial finance usually suffers from lack of adequate capital formation. There are inherent difficulties of mobilizing the quantum of incremental rural incomes which could have been utilized for financing rural industries.

5. Difficulties of Small Industries:

Small industries located both in urban and rural areas are facing serious problem in realizing adequate finance. The problems faced by SSIs are varied. Firstly, they are lack of institutional finance available to SSI units. Even till to day financial corporations exclusively meant for SSI units have not yet been set up in all the states of the country. Secondly, in meeting the short term needs of SSI Units, banks and other financial institution demand adequate security acceptable to them showing least, regard to potentials and other qualities of SSI units reducing the credit worthiness of these units.

Thirdly, in respect long term capital also, i.e., in raising share capital, SSI units are getting less favor as compared to that of large industries. Finally, whatever financial support are available informal and indigenous sources of industrial finance to SSI units are considered to be small and costly considering the high rate of interest changed by these lenders.

Remedial Measures:
As the industrial finance set up in India suffers from serious shortcomings thus serious attempts should be made to improve the set up and to remove its shortcomings

The following are some of remedial measures suggested for the purpose:
1. Strengthening the Domestic Source of Finance:
In order to improve the system of industrial finance, the domestic sources of finance need to be strengthened and expended. Therefore, reliance on foreign aid needs to be reduced gradually because of its unreliable character.

2. Diversity Sources:
In order to tone up industrial finance, sources of this finance should be diversified by setting up new institutions and expanding the existing ones. Thus the banking institution including regional rural banks, cooperative banks, and non-banking financial institutions need to be expanded for the purpose. Moreover, to expand the scope of long term finance, securities market needs to be developed and strengthened.

3. Expanding Market-finance:
Strengthening of industrial finance in India requires expansion of market finance which includes setting up of market related institutions, and extension of market- based institutions. These requires development of capital market, development of financial instrument, to promote financial deepening of the system, promoting market finance as a good signaling device and finally to attract household savings, especially from the rural untapped areas.

4. Improvement of Banking Institutions:
In order to improve the quantity and quality of industrial finance, banking institutions need to be improved and strengthened. This requires reforming the banking structure and its activities improving the management of banks and upgrade the quality of banking personnel and the internal system followed by banks also needs to be improved.

5. Strengthening NBFIs:
In order to tone up industrial finance, the non-banking financial institutions needs to be strengthened by setting up new units NBFIs, and also toning up the existing ones by developing

appropriate legal framework. Development of long term finance institutions. Mutual fund industry etc. and establishing proper monitoring framework can strengthen this sector of industrial finance.

6. Encouraging Foreign Capital:
Considering the paucity of domestic finançe, arrangement be made for smooth flow of foreign capital. In this respect, inflow of foreign direct investment in more important than the entry of portfolio of investment. Foreign capital should also facilitate entry of advanced technology and improved business practices.

7. Benefitting Small Industries:
Industrial finance set up should benefit the small scale industrial units adequately, without discriminating their stature.

Export- Import Bank of India - Role, Functions and facilities

→ The Export and Import Bank of India, popularly known as the EXIM Bank was set up in 1982. It is the principal financial institution in India for foreign and international trade. It was previously a branch of the IDBI, but as the foreign trade sector grew it was made into an independent body.

→ The Main function of the Export and Import Bank of India is to provide financial and other assistance to importers and exporters of the country. And it oversees and coordinates the working of other institution that work in the import - export sector.

→ The ultimate aim is to provide foreign trade activities in the country.

→ The Management of the EXIM bank is done by a board, headed by the Managing Director. There are 17 other Directors on the board. The whole paid-up capital of the bank [100 crores currently) is subscribed by the central government.

→ EXIM Bank has two broad business streams:- one, the traditional finance typical of export credit agencies around the world, and two financing of export oriented units [export capability creation].

(2)

Functions of EXIM Bank

1. Finances import and Export of goods and services from India
2. It also finances the Import and export of goods and services from countries other than India.
3. It finances the import or export of Machines and machinery on lease or hire purchase bases as well.
4. provides refinancing services to banks and other financial institutes for their financing of foreign trade.
5. EXIM bank will also provide financial assistance to businesses joining a Joint venture in a foreign country.
6. The bank also provide technical and other assistance to importers and exporters. The EXIM bank will provide guidance and assistance in administrative matters as well.
7. undertakes functions of a Merchant bank for the importer or exporter in transactions of foreign trade.
8. will also underwrite shares/ debentures/ stocks/ bonds of companies engaged in foreign trade
9. will offer short-term loans or lines of credit to foreign banks and government.
10. EXIM bank can also provide business advisory services and expert knowledge to Indian exporters in respect of multi-funded projects in foreign countries.

③

Role of EXIM Bank in Export finance

Introduction :- Finance and Credit are available to help not only export production but also to sell to overseas customers on Credit.

→ There are different schemes like: (1) Pre-shipment or packing credit.

(2) Post-shipment credit.

(3) Finance for Deffered payment Exports.

→ Both pre shipment and post-shipment Credits are also available in foreign currency.

What is Export finance?

→ Financial assistance is extended by the banks to the exporters at pre shipment and post-shipment stages

→ Pre-shipment finance is provided for working capital for the purchase of raw Material, processing, packaging, transportation, warehousing etc. of the goods meant for export.

→ Post-shipment finance is generally provided in order to bridge the gap between shipment of goods and the realization of proceeds.

(9)

Role of EXIM Bank in Export Financing

- Export credits
- Finance for EOUs (Export oriented uni

Export Credits :- For Indian Companies Executing Contra overseas

- → Pre shipment credit
- → Supplier's credit
- → For project Exporters
- → For Exporters on Consultancy and technological services
- → Guarantee facilities
- → Deffered payment Exports
- → Term loans for Export production
- → overseas Investment finance
- → finance for Export marketing.

For Commercial Banks

- → Export bills Rediscounting
- → Refinance of supplier's credit
- → Guaranteeing of obligations

For overseas Entities

- → Buyer's Credit
- → Eligible goods
- → lines of credit
- → Relending faculty to Banks overseas

(5)

Finance for Export oriented units

1. Term finance [For Exporting Companies]

1. Project finance
2. Equipment finance
3. Import of Technology & Related services
4. Domestic Acquisition of business/ Companies / brands
5. Export product Development / Research & development
6. General Corporate finance

2. 1. Working Capital finance [For Exporting Companies

A. Funded :- 1) Working Capital Term loans (<2 years

2) Long term Working Capital (up to 5 years)

3) Export Bills Discounting

4) Export packing credit

5) Cash flow financing

B. Non-Funded :-

1) Letter of Credit limits

2) Guarantee limits

Term Finance [For Non-Exporting Companies]

→ Import of Equipment

Working Capital finance [Non-Exporting Companies]

→ Bulk Import of Raw Material

Export finance :- 1) pre-shipment Credit 2) Post-shipment Credit 3) Buyer's Credit 4) Supplier's Credit 5) Bills discounting 6) Warehousing