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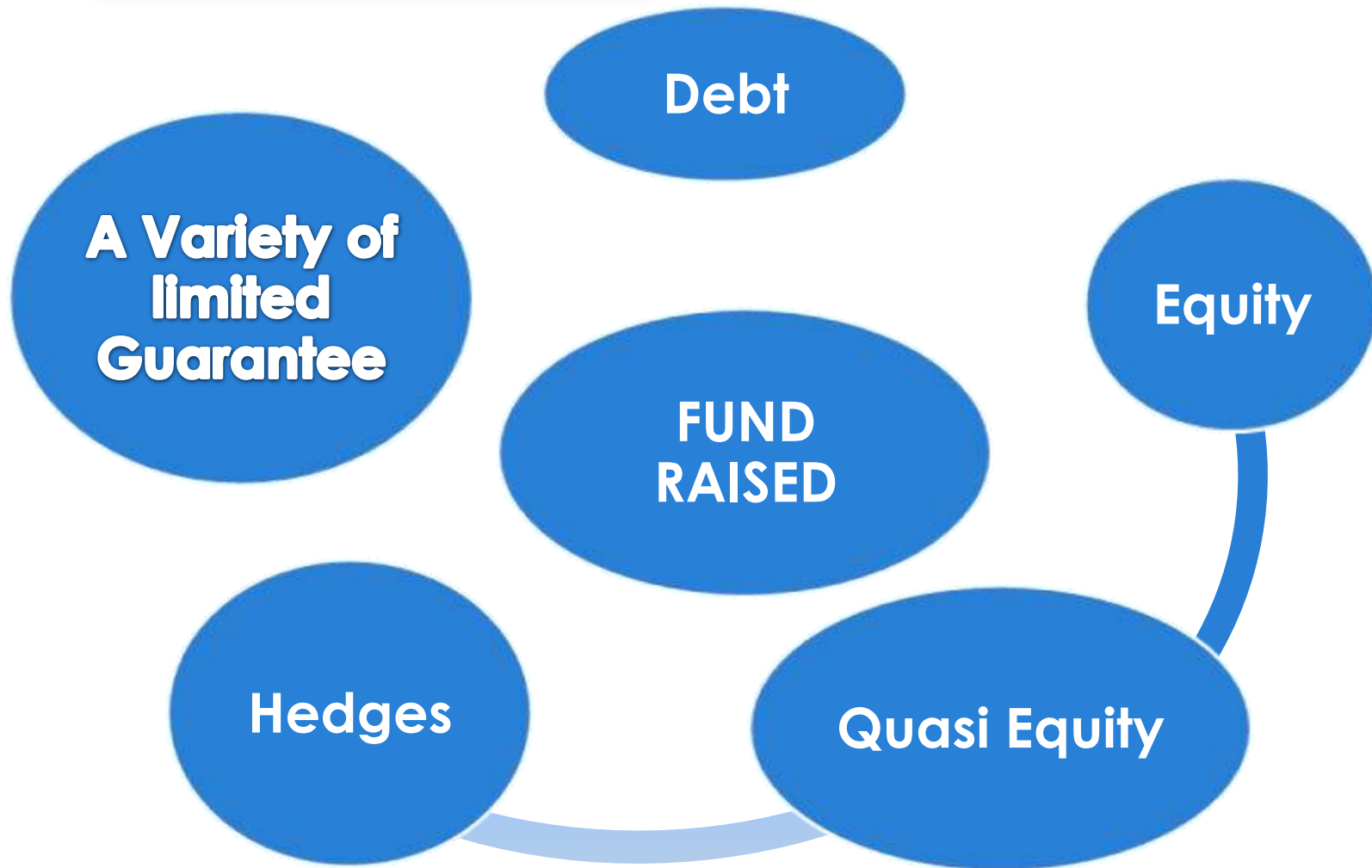
# **ROLE OF CMA IN INDUSTRIAL FINANCING**

## ABOUT CMA SANDEEP GOEL

- He is a Fellow member of Institute of Cost Accountant of India, Post Graduate in Economics and Law Graduate.
- He has vast experience of 24 years in Financial Services and handled large ticket promoter funding for India's fortune 500 companies.
- He is a consultant to management regarding optimum utilization of resources, capital restructuring, taxation, and cost reduction through financial remodeling.
- He is Convenor North West Delhi Study Circle of ICAI



# FUND RAISING



The Banker would like to know the following about any business before financing:

- Promoters Profile
- Proof of Company ownership and registration
- Financials of the company
- Business Plan

- Business Profile
- Bank and other references
- Projected B/S & Cash Flow
- Feasibility Study
- Collateral offered

## BANK LENDING CRITERION

### *Viabile Project*

- A project must be commercially viable.

### *Good Cash Flow*

- As a borrower, you must show that your performance is positive and that operation are not only profitable but also generate sufficient cash to cover all commitments.

### *Adequate Shareholder's Fund*

- you must not be already over-committed to other lenders, but have a reasonable proportion of your own capital in the business.

## *Adequate Security*

- You will not obtain credit from a bank if all your assets are already pledged to other lenders.

## **Experience in Trading**

- Most institution likes to know that you have a good record of successful trading. It is difficult to convince a banker to lend you money if you are complete beginner, or if you are starting a completely new trading activity with untried products and unknown customers or suppliers in countries you have never dealt with before.

## Good Reputation

- Your references and credentials must be acceptable to lenders. even assuming that your past is without blemish, it is helpful to have the backing of a reputable sponsor. This could be a well-known person in business, your trade association or even your customer or supplier.

## Rating Parameters

- The lenders (Banks/ Venture Capitalists, etc.) carefully assess your credit worthiness and assign ratings by analyzing your business information with respect to various parameters.



SOME OF THE KEY PARAMETERS CONSIDERED INCLUDES:

**MANAGEMENT**

- Background
- Industry experience and knowledge
- Past conduct of borrower with banks
- Qualifications
- Background and Capability of the Promoters
- Organisation's Preparedness for meeting Challenges
- Combined net worth of promoters
- Associate concerns

**FINANCIAL**

- Current ratio
- Debt equity ratio
- Average turnover
- Net profits
- Income growth
- Net cash accruals
- Financial Projects and Debt Servicing Capabilities.
- Provision of security for proposed assistance
- Quality of collateral security



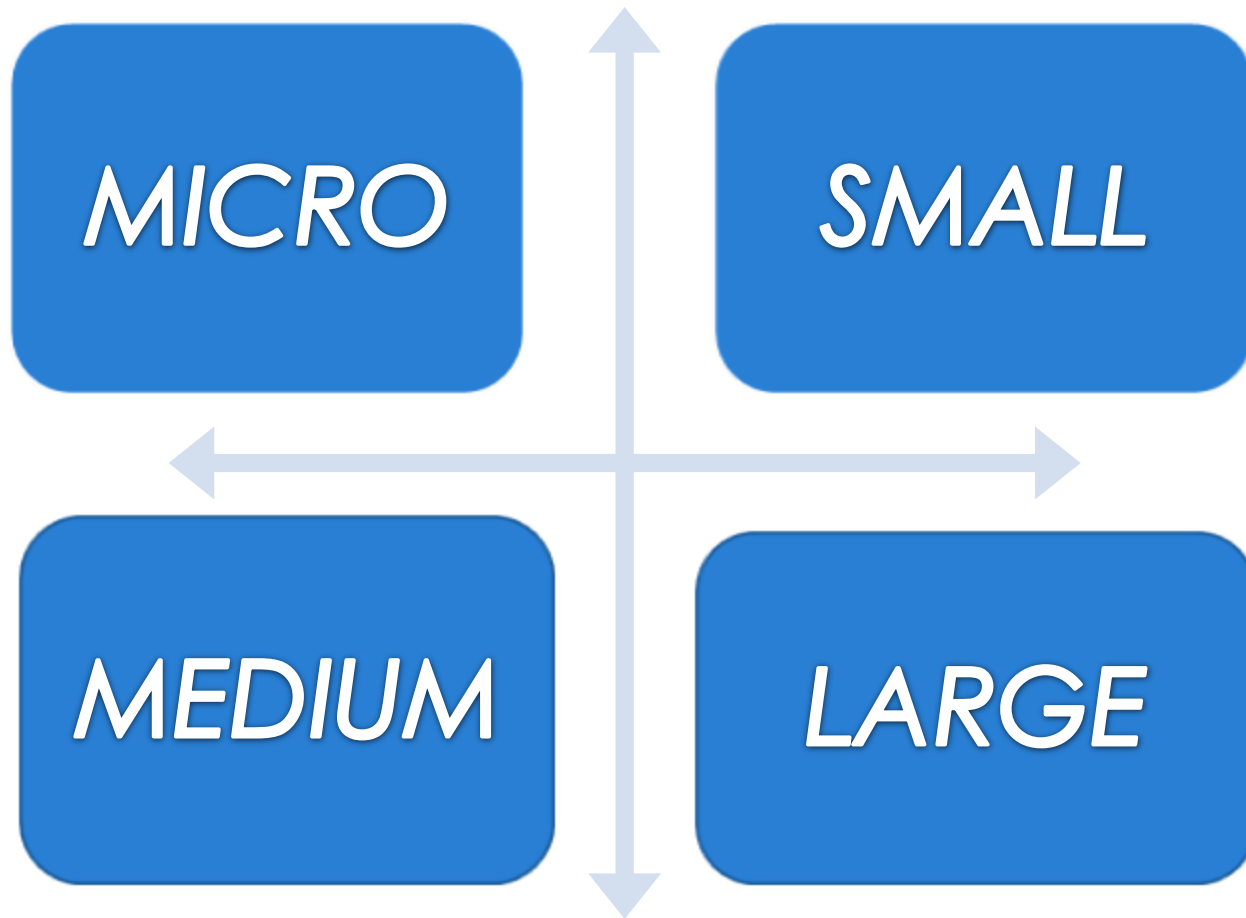
## ***OPERATIONAL***

- Proximity to branch
- Location of unit
- Borrowers proximity to market
- Type of technology
- Equipment supplier
- Quality certifications

## **INDUSTRY**

- Nature of industry – cyclical/ seasonal
- Eligibility under assistance scheme, if any
- Competitive advantage
- Branding of product
- Number of applications of product/ machinery

## STRUCTURE OF ORGANISATION



## Definition of MSME

**Micro, small and medium enterprises as per MSMED Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services.**

## Some Facts about SMEs in India

### 1. ON THE GROWTH TRAJECTORY

SME sector has been registering steady growth year after year

No. of SMEs (in millions)

2008	39.1
2009	40.9
2010	42.7
2011	44.7
2012	46.7
2013*	48.8

\*Estimated

### 2. INDIA'S BIGGEST EMPLOYER

SMEs are the backbone of the job market, employing 40% of the country's workforce.

Informal Sector *	96%
Formal Sector	4%

Informal jobs include casual workers working in both formal and informal sectors Job growth in India in the last 5 years has largely been created in the informal category

No. of Employees (in millions)

2006-07	59.5
2007-08	62.6
2008-09	65.9
2009-10	69.5
2010-11 (E)	73.2
2011-12 (E)	77.1
2012-13 (E)	81.2

### **3. SMALLER SMEs DOMINATE**

SMEs with staff strength of under 10 comprise 94.94% of all SMEs in the country

Micro (under 10)	94.9%
Small (10-100)	4.9%
Medium (100-1000)	0.2%

#### 4. THE URBAN-RURAL MIX

There are more SMEs in Urban areas

URBAN	55%
RURAL	45%

#### 5. SECTORS THAT ATTRACT SMEs

*Food Products and beverages top the charts with garments a close second. Somewell known sectors do not figure within the top ten.*

Food Products & Beverages	14.3%
Apparel	13.7%
Fabricated metal products	9%
Repair & maintenance (Household goods)	8.5%
Textiles	6.8%
Furniture	6.4%
Machinery & equipment	4.7%
Other non-metallic mineral products	3.8%
Repair maintenance (motor vehicles)	3.7%
Wood and wood products	3.5%

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The present ceilings on investment for enterprises to be classified as:

<b>CLASSIFICATION</b>	<b>MANUFACTURING ENTERPRISES (INVESTMENT LIMIT IN PLANT &amp; MACHINERY)</b>	<b>SERVICE ENTERPRISES (INVESTMENT LIMIT IN EQUIPMENT)</b>
MICRO	Rs. 25 Lakhs	Rs. 10 Lakhs
SMALL	Rs. 5 Crores	Rs. 2 Crores
MEDIUM	Rs. 10 Crores	Rs. 5 Crores

## ***VARIOUS TYPES OF PRODUCT FOR FUNDING***

**Trade Credit**

**Bill Discounting**

**Packing Credit**

**Buyer Credit**

**Factoring**

**CC/OD**

**Hire Purchase**

**Leasing**

**Term Loan**



## Credit Guarantee Scheme for MSME

- Any collateral / third party guarantee free credit facility (both fund as well as non fund based) to new as well as existing Micro and Small Enterprise, including Service Enterprises, with a maximum credit cap of Rs.100lakh (Rupees Hundred lakh only) are eligible to be covered under the above scheme administered by CGTMSE
- The available guarantee cover is to the extent of 75% / 80% of the sanctioned credit facility, with a maximum guarantee cap of Rs.62.50 lakh / Rs. 65 lakh. The extent of guarantee cover is 85% for micro enterprises for credit up to Rs.5 lakh. The extent of guarantee cover is 80% for (i) Micro and Small Enterprises operated and/or owned by women; and (ii) all credits/loans in the North East Region. Application in respect of eligible facilities sanctioned during a particular quarter must be submitted latest by end of subsequent calendar quarter. Guarantee will commence from the date of payment of guarantee fee. 3.5%

## Information Required For Promoter Funding

- Financial of The company
- Reputation of the promoter
- Market Capitalization
- Share Price
- Volume of trade
- Purpose of Borrowing
- Coverage Required

## Information Required for LRD

- 1.Executive Summary
  - a. Background
  - b. Company and Group Overview
  - c. Key Investment Considerations
  - d. Industry Outlook
  - e. Present Proposal
- 2. Promoters Assessment
- 3. Company Overview
  - a. Profile
  - b. Shareholding Pattern
  - c. Past Financial Performance
  - d. Present Banking Arrangements
- 4. Management
  - a. Management and the Board of Directors
  - b. Key Management Team
- 5. Project Details
- 6. Market Overview, Location, SWOT & Risk Analysis
- 7. Financial Analysis - Key Financials & Key Financial Indicators
  - Annexure- 1 Profile of Directors
  - Annexure -2 Brief Profile of Consultants and Suppliers
  - Annexure -3 List of Tenants in the Property
  - Annexure -4 Monthly Receivable Tenants
  - Annexure-5 Ascertainment of Loan Entitlement against LRD
  - Annexure-6 Monthly Total Net Receivables Proposed for LRD
  - Annexure-7 Monthly Repayment Schedule
  - Annexure -8 Detailed Projected Financials
  - Annexure -9 Details of Rental Agreements

**A CMA has to do the Following:**

***Business Plan***

***Prepare Project Report***

***Monitoring financial  
before closing of FY.***

## ROLE OF CMA

- Interact and develop strong network , finding gap in existing financial source, suggest cheap funding options and arrangement under various scheme of bank / governments
- Motivate the promoters with some references.
- After consent plan steps for funding , make gist of requirement and target bank/ FIs for funding
- Prepare Good profile of entrepreneur and his constituent, partner, director and other key employee. Industry data, growth prospectus, government plan and policies
- Make feasibility Report having nature of business, process, market trend, demand and supply, competition, SWOT analysis, Source of orders, availability of Raw material, Labour, Logistics, Power, critical requirement or any other risk analysis.
- Research data with similar industry / set up and finding variance and narrow the same with appropriate reason like reason of high cost, low cost.

- Financial, Projections as per required norms of the FY. Estimate working capital requirement and justify with industry norms
- key ratio analysis and keep data for contingencies and keep target on conservative basis.
- Prepare entrepreneur to answer before bank officer.
- Make justification and resolve query of the bank .
- Explore benefit of non- fund based limit as well as supplier's credit.
- Find break even and monthly fixed cost .
- Prepare cash flow to estimate his fund requirement to keep smoothness in business.
- Take final decision on type of funds to ensure smooth business with contingencies.
- Finding innovative funding , discuss with financial institution then after in principal approval verbal or written.
- Guide and ensure compliance of various prevailing laws and rules like ESI, EPF, Factories Act, Minimum Wage act, Bonus and Gratuity act, other labour act.
- Help in understanding make or buy decision.

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**Thank You**

**For any query please contact  
CMA Sandeep Goel  
9810741090  
cmasandeepgoel@gmail.com**