

Criterion of Financial Appraisal before Investment Compiled



Having worked in industry over a period of years, certain guidelines were issued to us by Bankers to assess to whether any investment made is paid back quickly. Before investing in renovation, adding balancing machinery, any retrofitting, new project or any expansion for adding capacity, basic financial parameters were ascertained for the recovery of investment.

Viability was assessed before forwarding to Banks for availing loan from Banks. After critical financial appraisal, projects were considered for financial assistance.

The following indices were critically examined which are as follows:

1. Debt equity Ratio 1.5
2. Average DSCR for repayment for 6 to 8 years 1.5 or above
3. Gross profit to turnover (Sales) 12% above
4. Operating profit to sales 3% above
5. Break-even point above 65%
6. Cash break-even point 35% above
7. RIO – on capital employed 14% above
8. Internal Rate of Return 15% above
9. Return on Equity Investment 15 to 20%
10. Input / Out ratio new project 1:1

All above indices must be critically examined with respect production and market related parameters and new investment must be justified. Sensitivity analysis should also be carried out at 5% and 10.6% fluctuations in raw material rate and setting price.

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