PROJECT APPRAISAL

It is an assessment of a project in terms of its viability and feasibility. It is an analysis of cost and benefit of a project over the project life.

1. ECONOMIC APPRAISAL
2. FINANCIAL APPRAISAL
3. TECHNICAL APPRAISAL
4. MARKET APPRAISAL
5. MANAGERIAL APPRAISAL
6. ENVIRONMENTAL APPRAISAL

PROJECT APPRAISAL

ECONOMIC APPRAISAL

i. PAYBACK PERIOD

ii. AVERAGE RATE OF RETURN ON INVESTMENT

iii. NET PRESENT VALUE

iv. INTERNAL RATE OF RETURN

v. BENEFIT-COST RATIO

vi. LEVEL OF CAPACITY UTILISATION OR BREAKEVEN ANALYSIS

PROJECT APPRAISAL

FINANCIAL APPRAISAL

i. REQUIRED FINANCIAL RESOURCES

   a. FIXED ASSETS
   b. CURRENT ASSETS
   c. NECESSARY WORKING CAPITAL

ii. AVAILABILITY OF FINANCIAL RESOURCES

   REQUIRED BORROWING
   POTENTIAL SOURCES OF FUNDS
   COST OF BORROWING
   REPAYMENT CONDITIONS
   OPERATION COST ANALYSIS
   FIXED COSTS
   VARIABLE COSTS
   PROJECT CASH FLOW
   PROJECT PROFITABILITY

PROJECT APPRAISAL

TECHNICAL APPRAISAL

i. CRUCIAL TECHNICAL SPECIFICATIONS

a. DESIGN
b. DURABILITY
c. RELIABILITY
d. PRODUCT SAFETY
e. STANDARDIZATION

ii. ENGINEERING REQUIREMENTS

- MACHINES
- TOOLS
- TECHNOLOGY
- WORK FLOW

Cont…

PROJECT APPRAISAL

TECHNICAL APPRAISAL ...Contd.

iii. PRODUCT DEVELOPMENT

a. BLUEPRINTS
b. MODELS
c. PROTOTYPES

iv. PLANT LOCATION

LAND AND SITE AVAILABILITY
PROXIMITY TO MARKET
PROXIMITY TO SOURCE OF RAW MATERIAL
AVAILABILITY OF SUPPORT SERVICES
SCOPE FOR EXPANSION
GOVERNMENT RESTRICTIONS/INCENTIVES
INFRASTRUCTURE
ACCESSIBILITY
AVAILABILITY OF WORKFORCE

PROJECT APPRAISAL

MARKET APPRAISAL

i. MARKET POTENTIAL

ii. UNDERSTANDING OF CUSTOMERS

iii. DIFFERENTIATION

iv. MARKET SEGMENTATION

v. POTENTIAL DEMAND

vi. DEMAND-SUPPLY GAP

vii. MARKET TEST REPORT

viii. SALES PRICE PROJECTIONS

ix. PROPOSED CHANNELS OF DISTRIBUTION

x. PRODUCT PROMOTION STRATEGY

xi. PRODUCT LIFECYCLE ANALYSIS

xii. COMPETITION AND COMPETITOR'S ANALYSIS

PROJECT APPRAISAL

MANAGERIAL APPRAISAL

- PERSONAL BACKGROUND OF THE PROMOTERS
- THEIR EXPERIENCE, SKILL AND KNOWLEDGE BASE
- FINANCIAL LEVERAGE WITH THEM
- CREDITWORTHINESS OF THE PROMOTERS
- ORGANISATIONAL SETUP AND RESPONSIBILITIES AT VARIOUS LEVELS
- AVAILABILITY OF MANAGERIAL RESOURCES

ENVIRONMENTAL APPRAISAL

- ENVIRONMENTAL RISK
- POLLUTION CONTROL PLAN
- COMPLIANCE WITH GOVERNMENT REGULATIONS

MAJOR FINANCIAL RATIOS USED IN PROJECT APPRAISAL

1. DEBT- EQUITY RATIO (1:3)

   = TOTAL DEBTS / [OWNER'S CAPITAL + SUBSIDY]*100

   = TOTAL DEBTS/EQUITY + RESERVES (IN THE CASE OF A LTD. CO.)

2. CURRENT RATIO (2 BUT NOT > 1.33)

   = CURRENT ASSETS / CURRENT LIABILITIES

3. DEBT SERVICE COVERAGE RATIO (2 OR MORE BUT NOT > 1.5)

   = [NET PROFIT AFTER TAX + DEPRECIATION + INTEREST ON TERM BORROWINGS] / ANNUAL REPAYMENT + INTEREST ON BORROWINGS]

Cont…

4. RETURNS ON INVESTMENT (HIGHER THAN THE HIGHEST RATE OF INTEREST)

   = NET PROFIT BEFORE INTEREST AND TAX / INVESTMENT

5. RETURN ON EQUITY (HIGHER THAN THE OTHER INVESTMENTS)

   = NET PROFIT AFTER TAX / OWNER'S CAPITAL

6. NET PROFITABILITY RATIO (> OR = TO INDUSTRY AVERAGE)

   = NET PROFIT / SALES*100

7. OPERATING RATIO

   = COST OF GOODS SOLD + OPERATING EXPENSES / NET SALES * 100

Thank you