ACE Agricultural Finance Guide

For Small and Medium Size Ventures In India

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I. Characteristics of an Agribusiness Project and Packaging a Project for Financing

Agribusiness projects cover a wide range of sectors including

- Production
- Handling
- Storage
- Packaging
- Processing
- Distribution
- "Soft industries"
  - -Research and development
  - -Biotechnology
  - -Information
  - -Training
  - -Marketing and Merchandising

Capital requirements vary as a function of the type of venture, its stage of development, infrastructure requirements, the level of production, and the targeted market Production-based ventures have relatively low loan requirements and high risks On the other end of the spectrum, biotechnology industries are both capital intensive and equally high risk Financing requirements and strategies are directed by the nature and specific characteristics of the project The key concern of any potential financier, either lending to, or investing in an agribusiness venture, is management and mitigation of the risks involved, followed by the operational viability and profitability of a project

Risk mitigation in agribusiness projects is critical for any potential financier Below are examples of risk mitigation that most promoters can reproduce in a wide variety of projects

- Integration of production and processing to reduce the risk of variability in raw material quality and quantity
- Designing a project with conservative capital requirements
- Cold storage facilities and improved sorting and processing mechanisms which reduce risk of spoilage for perishable products
- Diverse crop selection for year-round supplies that can reduce losses from seasonal scarcities
- Product development that corresponds with market requirements
- The use of attractive and durable packaging which minimizes perishability
- Management must have experience in the proposed project in order to reduce start-up costs and minimize the risk of failure

The manner in which a project is presented to the potential financier is critical There are two basic preparatory steps which the promoter(s) must undertake, and which will determine the final outcome for successful financing of a project

- A feasibility report lays out the technical and financial viability of a project and should include the choice of site, the technology to be used, operational efficiency, the capital needed, and operating costs of production
- An Information Memorandum or Business Plan describing the demand, the market, competition, project description, and the project sponsors is also important

Packaging the project concept, addressing the risks inherent in agribusiness projects, and highlighting the risk-return profile of the project are essential to attract potential financiers Meanwhile, the financial projections bring together all the above mentioned aspects -- procurement, processing, and marketing

II. Sources of Finance

Public Sources

The Policy on Agricultural Financing envisaged the creation of a multi-agency approach, under which various categories of credit institutions were set up to encourage lending to the agricultural sector The system includes

- 27 nationalized banks/public sector banks
- 96 regional rural banks
- 60 private commercial banks and foreign banks
- 389 co-operative banks and agricultural credit societies
- 767 state and land development banks

There are over 1 5 lakh branches of different banks in rural and semi-urban areas The primary purpose/activity of this agricultural financing system is to assist in selection of crop production inputs, purchase of farm implements, development of irrigation systems, reclamation of sub-effective land, and the creation of a market infrastructure From a government policy standpoint, it is mandatory for all banks to achieve the following targets for credit

- Priority sector credit should be at least 40 percent of total lending capability
- Agricultural credit should be at least 18 percent of total lending capability
- Indirect agriculture credit should not exceed 25 percent of total agricultural credit
- Weaker sections of the society should get at least 10 percent of total lending capability

The total disbursement of credit to the agricultural sector during the 15 year period 1980-81 to 1994-95 was Rs 61,857 5 crore from commercial banks and Rs 77,516 8 crore from co-operative banks

Private Sources

Under the current policy, the Reserve Bank of India (RBI) requires all commercial banking institutions in the public and private sectors to lend at least 18 percent of their net bank credit to the agricultural sector Recent downturns in industrial lending, and the following new developments, have enhanced opportunities for agribusiness financing

- Direct lending is being encouraged
- Greater lending potential will be sought through the National Bank for Agriculture and Rural Development's (NABARD) Potential Linked Plans (PLPs)
- State-run seed corporations and agricultural corporations will be requiring more commercial borrowing than was provided for in initial budgetary allocations
- Co-operatives engaged in specific activity areas are now prime loan candidates
- The nursery and horticultural industries have been singled out as good lending opportunity industries by the government
- Hi-tech projects and export oriented firms with foreign collaboration and marketing tie-ups are being targeted
- Branch banking is now better organized to respond to region-specific agribusiness projects
- Commercial banking linkages are being established with specialized agricultural finance branches of public sector banks

Key Institutions Offering Financing

NABARD The institutional role of NABARD is to provide re-finance facilities through commercial banks in order to promote agricultural credit, cottage industries, and handicrafts NABARD is the key development bank providing credit needs for rural development

The National Horticulture Board (NHB) NHB has a number of financing programs such as integrated projects on strengthening post harvest infrastructure and schemes for development marketing through soft loans

All India Financial Institutions (AIFIs) An integrated network of financial institutions exists in the country, providing a variety of financial products and services for industrial development The All India Financial Institutions comprise six All India Development Banks, three specialized financial institutions, and three investment institutions

Stock exchange/capital markets There is a network of 23 stock exchanges located in Mumbai, Calcutta, Delhi, Madras, Ahmedabad and other key cities An Over-the-Counter-

Exchange of India (OTCEI) has been opened to establish a secondary market for small and start-up companies

Joint Ventures The New Industrial Policy invites and facilitates foreign investment in India Foreign investments are approved by automatic approval through the Reserve Bank of India or through government agencies

Ministry of Food Processing Industries (MOFPI) and the Agricultural and Processed Food Export Development Authority (APEDA) These organizations have a developmental and regulatory role in government financial policies MOFPI has programs for state governments, corporations, entrepreneurs, and joint ventures APEDA has various schemes to promote the export of processed foods, infrastructure, packaging, quality control, transportation, and marketing

Financial Institutions -- Industrial Development Bank of India (IDBI), Industrial Finance Credit Corporation of India (IFCI), and Industrial Credit and Investment Corporation of India (ICICI) These financial institutions cater to the varied needs of different types of industrial projects to meet long- and medium-term financing needs Services include project loans, deferred payment guarantees, leasing, venture capital, underwriting, and direct subscription to shares and bonds

State Level Institutions -- State Financial Corporations (SFCs) State Industrial Development Corporations (SIDCs), State Industrial and Investment Corporations (SIICs), and State Agro Industry Corporation (SAIC) Each state has its own SFCs/SIDCs They act as a financial institution (FI) under refinancing schemes of various AIFIs The basic objective of SFCs/SIDCs is to subscribe to equity capital, provide term loans and guarantees, and provide seed capital

Foreign Banks Foreign banks sanction foreign currency loans after they are provided with a No Objection Certificate (NOC) from AIFIs Lending rates are 0 5 percent over London Inter Bank Operating Rate (LIBOR)

International Finance Corporation (IFC) The IFC, part of the World Bank Group, was established to promote investment in developing countries While it supports both private enterprises and joint sector projects, preference is given to private enterprises

Oil Exporting Developing (OED) Countries OED countries can invest up to 40 percent of equity in new ventures The investment can be in the form of equity, bonds, debentures or direct loans

Asian Development Bank (ADB) The ADB extends assistance to Indian companies through term loans and equity support It also extends support to the AIFIs by providing foreign currency loans

III. Financing Options

Fınancıng optıons can be broadly classıfied as eıther debt or equıty posıtıons There ıs a vast range of ınstruments for securıng both debt and equıty financıng

Equıty Fınancıng

Preferred debt to equıty ratıos for project financıng are generally 2 1 The major equıty financıng modes for any project ınclude

- Promoter's equıty
- Venture capıtal
- Seed capıtal
- Foreıgn equıty
- Publıc ıssue/securıtıes markets
  - Delhı Stock Exchange (DSE) -- mın Rs 5 crore paıd up capıtal
  - Bombay Stock Exchange (BSE) -- mın Rs 10 crore paıd up capıtal
  - Natıonal Stock Exchange (NSE) -- mın Rs 10 crore paıd up capıtal

Debt Fınancıng

Debt financıng ıncludes both long-term debt for financıng capıtal needs, and short-term debt for workıng capıtal requırements Among the other major sources of non-commercıal debt financıng are

Subsıdıes Subsıdıes are a cheap source of financıng

- Sources State and federal
- Crıterıa Project promotıon for development purposes
- Amount Average subsıdy value not greater than Rs 50 lakh per project

Soft loans Low ınterest loans wıth long repayment perıods, and grace perıods for repayment

- Sources NHB, APEDA, MOFPI
- Crıterıa Varıes accordıng to the sıze of the project, financıal strength of the promoter, and project locatıon

Long-Term Debt Fınancıng Instruments

- Debentures
- Term loans
- Supplıer credıt
- Foreıgn currency loan
- Equıpment leasıng

Short-Term Debt Fınancıng Instruments

- Sales advance
- Inter-corporate deposıts
- Publıc deposıts
- Bıll dıscountıng
- Secured loans
- Unsecured loans
- Commercıal paper

- Amount NHB offers a soft loan up to Rs 1 crore at four percent interest for development of horticulture enterprises

IV. Project-Specific Financing Options

Financing options for projects of three different sizes are included on the following pages These options cover equity, long term debt, and short term debt possibilities for projects of larger than 10 crore, projects between 1 and 10 crore, and projects less than 1 crore

Financing Options More Than Rs 10 Crore Project Size

While a minimum level of promoter's equity is required for any project, the most important source of funding for projects larger than Rs 10 crore are the AIFIs These institutions provide services to meet long-term and medium-term financing needs AIFIs offer project loans, deferred payment guarantees, leasing and venture capital, and underwriting and direct subscription to shares and bonds of industrial units In addition, there is a network of institutions such as the Tourism Finance Corporation of India (TFCI), Risk Capital and Technology Finance Corporation (RCTC), Technology Development and Information Company of India (TDICI), the Shipping Credit and Investment Company of India (SCICI), and SIDBI catering to the financing needs of specific sectors of industry The Export-Import Bank (EXIM) provides deferred payment credit for exports, production loans for export oriented units (EOUs), guarantees, and financing of overseas joint ventures and turnkey contracts executed by Indian companies Larger projects may be eligible for state programs and grants, however, this form of financing can cover only a small portion of the total project cost Other options open to larger projects are

Equity

- Equity funding is in the form of a combination of capital and assets at a level of 30 to 40 percent of the total investment required Foreign equity and public issue are becoming increasingly important at this level as well Venture capital is available, although seed capital is not Sources include promoter's equity, a foreign partner, securities markets and foreign institutions

Long-term debt

- All long term debt options are open to projects of this size
- Debentures and term loans are important, and foreign currency loans (FCLs) can be utilized for the importation of machinery or other equipment
- Supplier's credit is easy to secure when projects are over Rs 10 crore

Short-term debt

- Except for commercial paper, a wide range of options is available

Financing Options Rs 1 to 10 Crore Project Size

The main source of financing for medium sized projects remains promoter's equity However, it is easier for such projects to secure financing from the debt financing network than it is for smaller projects The main financing sources are state institutions, which include state financial corporations (SFCs), SIDCs, state industrial investment corporations, and the specialized state agro-industrial corporations These institutions offer assistance to small- and medium-scale projects They basically act as a financial institution under a refinance scheme of various AIFIs The basic objective of SFCs/SIDCs is to subscribe to equity capital and provide term loans for the promotion and development of medium to large projects These institutions pay special attention to the development of lesser developed areas, and provide assistance to entrepreneurs who have the necessary experience but lack financial resources Some states have special corporations to cater to agricultural industries as well Another source of debt financing is commercial banks Grants and soft loans can be accessed from NHB, APEDA and MOFPI Financing options available to medium-sized projects is laid out below

Equity The choices open in this category are more or less the same as for projects of less than Rs 1 crore Qualifications for equity finance of projects this size include

- As project size increases, securing financing becomes easier
- For larger projects, public issues becomes a viable option (regulations specify a minimum of Rs 5 crore paid-up capital for listing at the Delhi Stock Exchange (DSE) and Rs 10 crore at the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE))
- Promoter's equity remains the most important source of financing, followed by venture capital, seed capital, and foreign equity

Long-term debt

- Supplier's credit, along with term loans and equipment leasing, are viewed as feasible options for this category
- As project size increases, the feasibility of supplier's credit also improves
- Larger projects also have an improved chance of securing an FCL
- Equipment leasing from a foreign partner/buyer is an attractive option

Short-term debt

- Along with bill discounting and secured and unsecured loans, options such as intercorporate deposits (ICDs) and public deposits become more attractive
- Commercial paper is not a popular alternative for securing short-term debt, primarily because of the prevailing illiquidity and constraints in the Indian market

Financing Options Less Than Rs 1 Crore Project Size

The financing choices for projects of this size are fairly limited and generally depend on promoter's equity Within the debt financing network, the SIDBI is the most important source of financing for projects this size SIDBI was established for promotion, financing, and development of industries in the niche or cottage sectors and it coordinates the functions of other institutions engaged in similar activities SIDBI not only offers debt financing options but also equity financing, and a host of other innovative schemes to help the promoters of smaller projects Entrepreneurs in this category can also approach the National Small Industries Corporation (NSIC) Grants and soft loans are being offered and operated by NHB, APEDA and MOFPI

Equity options

- Promoter equity is the most important source of financing for smaller projects
- Venture capital represents equity investments With high security/collateral requirements, most seed capital schemes for small scale enterprises are inoperative at present
- Public issues are ruled out for smaller projects given the significant costs involved The Over-the-Counter-Exchange of India (OTCEI) has not been effective
- The option of financing through foreign equity has not been used extensively and is of a limited nature

Long-term debt

- Term loans and equipment leasing are the only options available for smaller projects For projects qualifying as Small Scale Industries (SSIs), SIDBI operates several financing schemes
- Debentures, supplier's credit, and FCLs are closed to small operators Supplier's credit is a cheap and quick financing option, but should not be considered a source of long term funding
- Foreign currency loans are generally offered to EOUs

Short-term debt

- The feasible short term debt options for this category include bill discounting, secured loans, and unsecured loans
- Many banks and other institutions run bill discounting schemes for payment deferment
- Unsecured loans are generally obtained from unofficial sources to cover shortfalls in the promoter's equity Unsecured loans are an important source of financing for smaller enterprises
- ICDs, public deposits, and commercial paper are closed to smaller projects
- Commercial paper is a commonly used money market instrument for raising short-term funds This mode of short-term financing, however, has never become popular for smaller projects

V. Steps to Submitting a Financing Application

For financing an agricultural project, there are many steps that must be taken before, and while, filing an application This guide will walk the borrower through these steps The areas that must be covered are

- The promoters
- The project
- The implementing company
- Cost of the project
- Financing
- Marketing and sales
- Profitability and cash flow

The Promoters

One of the most important considerations of any lending institution regarding financing a particular project is the promoter's business experience, creditworthiness, and reputation A potential borrower should provide the following

Promoter's Bio-Data and Background

Biographical data of all promoters
- Educational qualifications
- Business experience
- Partners in the project

Background of company associated with the promoter
- Articles of association
- Balance sheets and profit/loss statements

List of directors and associated concerns

The Project

The project must be described in the form of a feasibility study and an information memorandum or business plan, including the expected levels of production, returns on investment, engineering and design, and employment projections Included with the project information should be copies of any prefeasibility studies, consultant reports, or engineering layouts

Capacity and Technology Information should be provided about the proposed technology, processes, and capacity levels from start-up through all phase-in stages

- Installed capacity and capacity phase-in with a time line to maximum production
- Capacity and expected down-time/set-up time for each component of the project
- Specifications of each product and end-use requirements
- Description of technical processes with accompanying charts and technical documents
- Copies of all technology transfer arrangements or technical training agreements
- Corporate profile of technology provider
- Proof of government approval of foreign collaboration for technology transfer

Management

Management issues are often responsible for a denied funding request The management structure should be clearly defined by including the information noted below

- Prepare a corporate organizational chart, showing all executives and departments
- Describe management roles during construction and during operation
- Provide details all proposed executive and technical positions
- Include proposed management cost, inventory and budget control, and the procurement system

Material Supply

- Project requirements for raw materials (agricultural products)
- Description of price and distribution controls
- Analysis of transport requirements for raw materials
- Buying/growing arrangements
- Quality control and producer training/education

Land and Plant The location engineering design and ownership of the land and plant/equipment are of key importance to any financier The following information should be provided with any financing application

- A map with the location of project and estimated land use requirements
- Size and cost of land
- Basis of valuation for the targeted property
- Payment method proposed
- Purchase or lease parameters
- Current and future expected zoning of land
- Water and soil tests and survey of the land
- Include a design engineer's master plan showing buildings, roads, rail sidings, and power/water mains
- Plant blueprint showing building plan and equipment layout
- Provide all necessary information on architects, construction firms, and consultants, including project history
- Explain machinery and plant selection process

Utilities

Utilities are an often over-looked component of new and expansion projects, but are a component that financiers look at closely, as utility tariffs can often be a major expense for projects of any size

Power demand, peak requirements, tariffs, costs per annum
Agreements with Electricity Board
Electrical layout

Water circulation, boiler feeds, cooling
Source of water arrangements and tariff levels
Water treatment and effluent control
Disposal certificates and approval by local authorities

Steam steam requirements and capacity/types of boiler systems

Transport trucking, rail, and air service arrangements
Safety issues and training programs
Transportation contracts, purchases, and leases

Employment

- Estimates of total employment requirement at start-up, through phase-in, and at full capacity

- Training programs
- Levels of unskilled versus skilled labor
- Estimated payroll costs
- Estimated benefits costs

Proposed Financing

As a promoter will generally not secure all needed financing from one institution, a financing proposal should include all expected sources of financing and how capital will be raised This proposal will describe the following

- Sources of financing already secured
- Sources of foreign exchange
- Promoter's contribution
- Grant and subsidy applications
- Banks and organizations involved in the project, especially those offering guarantees
- Partners or collaborators that are providing buy-back arrangements, leasing, or equipment financing

Project Cost All lending institutions will require an estimate of all costs associated with the proposed project Cost estimates should include the following

- Land and site development
- Plant/equipment
- Buildings/construction
- Technology transfer and training
- Purchase of fixed assets
- Labor costs
- Start-up costs
- Contingency funds
- Working capital
- Maintenance and replacement

Marketing

Few projects are successful without an effective and well implemented marketing plan After conducting market surveys and product analysis for the markets targeted, promoters must prepare a marketing plan that will ensure the company's products compete with items already on the market The promoter should provide the following

- Product analysis on the targeted products, end-users, potential markets, and competing products
- Supply and demand estimates
- Competitive analysis
- Export potential and constraints to export
- Detailed marketing plan
- Marketing budget
- Advertising campaigns -- print, radio, television, industry events
- Marketing personnel responsibilities
- Expected returns to marketing investment
- Targeted list of customers

Additional Documentation

Many lenders ask for copies of certain documents along with an application for financing Borrowers need to be ready to provide all relevant documents before filing an application for financing Some of these additional documents include

- Small Scale Industries/ Directorate General of Trade and Development (DGTD) registration certificates
- Deed of ownership for land associated with the project
- Construction approvals by any relevant authorities
- Quotations for plant and machinery
- Partnership deed/Articles of Association
- Registration certificate from the Registrar of Firms
- Copies of agreement of sale
- Income tax/wealth tax assessment of the existing company and the promoters
- Inventory of movable and immovable assets owned by the promoters
- Copy of sanction of power from the Security and Exchange Board of India (SEBI)

Project Implementation For each of the following activities, a commencement and completion date should be provided

- Purchase of land
- Civil work/land development
- Building/plant construction
- Plant and machinery import
- Machinery delivery/set-up
- Utilities arrangements
- Commissioning of equipment
- Training of personnel
- Purchase of raw materials
- Marketing and sales program
- Trial runs
- Commercial production start-up
- Full commercial production

In case the borrower is an existing company, the following documents must be submitted

- List of shareholders
- List of directors and shares owned
- Dividends declared during the last three years
- Notes on the re-valuation of assets

VI. Lenders' Criteria for Financing

Some of the important criteria that must be met at the time of filing an application are given below

- Debt/equity ratio the maximum permissible ratio is 3 1 for small-scale projects, and

1 75 1 for medium scale projects

- Promoters contribution is generally stipulated by lending institutions These contributions are shown below

Promoter's Investment

Category of Investment	*Contribution*	*Subsidy*
Category A (Most Backward)	12 5%	25 lakhs
Category B	17 5%	15 lakhs
Category C (Least Backward)	20 0%	10 lakhs
Category D (Non-backward)	22 5%	--

- Debt Service Coverage Ratio (DSCR) is the ratio that determines the repayment capacity of the project, and is derived from the net cash accruals, interest on the term loan, and the amount of installments Usually it is required that the DSCR be approximately 1 5 for the project to be considered as having enough capacity to generate adequate levels of operating cash flows to meet its debt obligations
- Security margin is an important factor which is evaluated by financial institutions while considering project financing Financial institutions prefer to finance 80-85 percent of tangible assets, and expect the balance to be provided by the promoters
- The ratio of profit before interest, lease rental, and depreciation to total income should be at least 10 percent A project is generally accepted if the internal rate of return (IRR) is higher than a pre-determined cut-off rate
- The market rate of return (MRR) is a variation of IRR in which the effect of income tax and internal duties has been eliminated The cut-off figure for MRR is less than for IRR
- The economic rate of return (ERR) is again a variation of IRR which attempts to estimate the cost of a project in terms of international prices, given the locational advantages
- The Domestic Resource Cost (DRC) measures the cost incurred for foreign exchange saved by import substitution or foreign exchange earned by export The DRC should be less than the relevant exchange rate

Lenders assess the financial viability of a project by deriving ratios from the financial projections The following ratios are commonly utilized

Loan Safety Ratios

Debt-equity ratio
Current ratio
Debt-service coverage ratio
Margin on safety

Productivity Ratios

Capital employed to value of output/sales
Capital employed to net value added
Investment per worker
Productivity per worker

Profitability Ratios

Percentage of raw materials to value of output
Percentage of wages and salaries to value of output
Percentage of interest to value of output
Percentage of operating profits to sales
Percentage of profit after tax to equity

In addition, projects are assessed on the basis of various criteria, such as those listed below

The Promoter

- Past experience and background

The Project

- Total capacity to be installed
- Technical process to be adopted
- Technical arrangements
- Management structure
- Location
- Specifications of buildings
- Particulars of plant and machinery
- Arrangements for procuring raw materials
- Utilities and other facilities
- Labor requirements
- Effluent disposal scheme/status of NOC
- Implementation schedule

Cost of Project

- Land and site development
- Building and civil work
- Miscellaneous fixed assets
- Technical expertise
- Interest charged during construction
- Escalation and contingencies
- Preliminary and pre-operative expenses

Means of Financing

- Share capital, authorized and subscribed

- Rupee loans
- Foreign currency loans
- Debentures
- Internal accruals
- Promoter's contribution

Marketing and Selling Arrangements
- Existing and potential demand
- Existing and potential supply
- Demand and supply analysis

Profitability
- Projected cost of production and profitability and projected cash flow statement
- Break-even analysis
- IRR

Economic Consideration
- Socio-economic benefits

VII. Processing of Applications

The processing of a financial application involves two issues -- an understanding of the various stages involved in application processing and an understanding of the criteria used to judge applications Knowing these factors can ensure that applications are dealt with promptly and there are not unnecessary objections and clarifications

There are three stages in the processing of applications These include Project Design, Project Report, and Project Review/Implementation

During project design the promoter selects the product/project for financing The project report includes a feasibility study and business plan, and the submission of a detailed application to financing institutions During review, a detailed appraisal of the project is initiated by the institution It is also at this stage that the promoter enters into negotiations with the financial institutions The appraisal techniques, both in a central financial institution or at a state financial institution are almost the same

The registration committee, state level institutions, or senior executives meeting (SEM) will consider the application favorably if the application meets the preliminary scrutiny parameters Normally, an appraisal officer is assigned to the project within two weeks, and a small profile (normally called a flash report) is prepared by the SEM

The SEM either accepts or rejects the proposal, and it can also decide on the lead institution to handle the loan Flash reports for the SEM will take one month for a site inspection and one month for an inter-institutional meeting Normally the total process should take approximately three months However, in some instances, the process can be substantially longer (6 to 8 months) Site inspection is one of the key steps for project appraisal, as details given in the application are verified Site inspections are conducted by a team of officers comprising technical and financial personnel During site inspection, the suitability of the location is also assessed During appraisal, the SEM will look at factors such as

- managerial competence
- technical competence
- commercial viability
- economic justification
- financial soundness

Lenders also carry out a detailed appraisal of the market, involving estimations of demand, supply, distribution, pricing, and promotion To make a proper appraisal of the demand forecast, the lending institutions may require information which is verified through the due diligence process conducted by the lending institution

Once appraisal of the project has been undertaken by the financial institution, the institution submits a letter of intent or a letter of sanction Institutions' standard conditions for loans which are normally applied to all projects, and specific conditions are applied to particular projects A lending institution will also enforce pre-disbursement conditions These conditions normally deal with the following

- Legal documentation
- Means of tie-up financing
- Level of promoter's contribution
- Availability of security margin (minimum acceptable being the margin as mentioned in the sanction letter) This is generally imposed by SFCs/SIIDs
- Sanction of re-finance of IDBI, if the disbursement is preconditioned with the above condition (in case of SFC/SIDC)

Post-disbursement Conditions

- Disposal of shares by the promoters
- Declaration of dividends
- Increase in capital reserves
- Change of capital mix
- Diversification/balancing/modernization
- Investment in subsidiary companies
- Disposal of mortgaged assets
- Issue of debentures
- Leasing/sub-leasing of premises or part of premises
- Modification of repayment schedule

Bridge loans serve as interim financing until a project is completed and long-term financing is arranged As compared to the legal formalities for securing a regular term loan, it is slightly easier to secure a bridge loan as there is no mortgage involved Bridge loans sanctioned by institutions vary from 75 percent to 90 percent of the term loan For bridge loans, the borrower is generally required to pay 1 percent more than the normal lending rate

Besides the pre-disbursement conditions, institutions impose certain conditions which can be classified as post-disbursement conditions The borrower has to comply with these conditions after the loan has been disbursed to the company

Government Approvals

In addition to the reviews by lending institutions, the government must approve a number of documents related to any new project Some of these approvals include

- Consent of controller of capital issues
- Clearance under the Monopolies and Restrictive Trade Practices (MRTP) Act
- Import licenses
- Foreign exchange permission
- Industrial licenses
- Letters of intent
- Capital goods clearance

Implementation

Once the requisite institutional approvals and government approvals have been secured, and the financing is being disbursed through a bridge loan or direct financing, project promoters can move into the implementation stage of their project Because financing is often tied to the performance of the project, it is recommended that borrowers continually provide updates to financiers on both the progress being made and the hurdles encountered during implementation

Glossary

ADB	Asian Development Bank
AIFI	All India Financial Institution
APEDA	Agricultural and Processed Food Export Development Authority
BSE	Bombay Stock Exchange
DGTD	Directorate General of Trade and Development
DRC	Domestic Resource Cost
DSCR	Debt Service Coverage Ratio
DSE	Delhi Stock Exchange
EOU	Export Oriented Unit
ERR	Economic Rate of Return
EXIM	Export Import Bank of India Ltd
FCL	Foreign Currency Loans
FI	Financial Institution
FIPB	Foreign Investment Promotion Board
GDP	Gross Domestic Product
GNP	Gross National Product
ICD	Inter Corporate Deposits
ICICI	Industrial Credit and Investment Corporation of India Limited
IDBI	Industrial Development Bank of India
IFC	International Finance Corporation
IFCI	Industrial Finance Corporation of India Limited
IRR	Internal Rate of Return
LIBOR	London Inter Bank Operating Rate
MOFPI	Ministry of Food Processing Industry
MRR	Market Rate of Return
MRTP	Monopolies and Restrictive Trade Practices
NABARD	National Bank for Agriculture and Rural Development
NHB	National Horticulture Board
NOC	No Objection Certificate
NSE	National Stock Exchange
NSIC	National Small Industries Corporation Limited
OED	Oil Exporting Developing Countries
OTCEI	Over the Counter Exchange of India Ltd
PBILD	Profit Before Interest Lease Rental and Depreciation
RBI	Reserve Bank of India
RCTC	Risk Capital and Technology Finance Corporation Ltd
RTS	Ready to Serve
SAIC	State Agro Industry Corporations
SBI	State Bank of India
SCICI	Shipping Credit and Investment Company of India Ltd

SEBI	Securities and Exchange Board of India
SEM	Senior Executives Meeting
SFC	State Financial Corporations
SIA	Secretariat for Industrial Approval
SIDBI	Small Industries Development Bank of India
SIDC	State Industrial Development Corporations
SIIC	State Industrial and Investment Corporations
SSI	Small Scale Industries
SME	Small and Medium Enterprises
TDICI	Technology Development and Information Co of India Ltd
TFCI	Tourism Finance Corporation of India Limited