

8 March 2013

MBA G523 PROJECT MANAGEMENT

FINANCIAL ESTIMATES AND PROJECTIONS (PRASANNA CHANDRA: CHAPTER 6)

✘ Financial Projections

EXAMPLE: PROPOSED OUTLAYS AND FINANCING

	Construction Period	First Operating Year (millions)	Second Operating Year (millions)
Outlays			
Prelim and preoperative expenses	2	-	-
Fixed Assets	20	20	10
Current Assets (other than cash)	-	20	10
Financing			
Share Capital	10	15	-
Term Loan	15	15	7.5
Short-term bank borrowing	-	12	6

PROJECTED REVENUES AND COSTS

	First Operating Year (millions)	Second Operating Year (millions)
Sales	30	60
Cost of sales (excluding interest and depreciation)	30	40
Interest	4.8	6.4
Depreciation	2	2.8

PROJECTED PROFIT AND LOSS STATEMENTS

	First Operating Year (millions)	Second Operating Year (millions)
Sales	30	60
Cost of sales (excluding interest and depreciation)	30	40
Interest	4.8	6.4
Depreciation	2	2.8
Losses (absorbed)	-	6.8
Profits before tax	(6.8)	4
Tax	-	2.4
Profit after tax	(6.8)	1.6

PROJECTED CASH FLOW STATEMENTS

	Construction Period	First Operating Year (millions)	Second Operating Year (millions)
Sources of Funds			
Share Issue	10	15	-
Profit before taxation and interest added back		(2)	17.2 (ignores first year losses)
Depreciation provision for the year		2	2.8
Increase in secured medium and long term borrowings	15	15	7.5
Increase in bank borrowings for working capital		12	6
Total (A)	25	42	33.5
Disposition of Funds			
Capital Expenditure for project	20	20	10
Increase in current assets	-	20	10
Interest	-	4.8	6.4
Other expenditure (prelim and preoperative expenses)	2	-	-
Taxes	-	-	2.4
Total (B)	22	44.8	28.8
Opening balance of cash in hand and cash at bank	-	3	0.2
Net surplus/deficit (A-B)	3	(2.8)	4.7
Closing balance of cash in hand and at bank	3	0.2	4.9

PROJECTED BALANCE SHEETS (MILLIONS)

Liabilities	End of constr period	End of year 1 of operating	End of year 2 of operating	Assets	End of constr period	End of year 1 of operating	End of year 2 of operating
Share Capital	10	25	25	Fixed assets	20	38	45.2
Reserves and surplus			1.6	Current assets			
Secured loan				Cash	3	0.2	4.9
				Others	-	20	30
Term loan	15	30	37.5	Misc exp	-	-	-
Short term bank borrowing	-	12	18				
				Prelim and preop exp	2	2	2
				Profit and loss acct balance		6.8	
Total	25	67	82,1		25	67	82.1

MINICASE

- ✘ “Projects” by Prasanna Chandra, Pages 8.31-8.32.
- ✘ Solve numerical problem and bring it on 15 March 2013 for case discussion.
- ✘ Criteria for eligibility for case study mark will be presence for *completing numerical calculations by 15 March 2013* and *class discussion on 15 March*

FINANCIAL ESTIMATES AND PROJECTIONS

- × NPV
- × Payback Period
- × IRR
- × MIRR