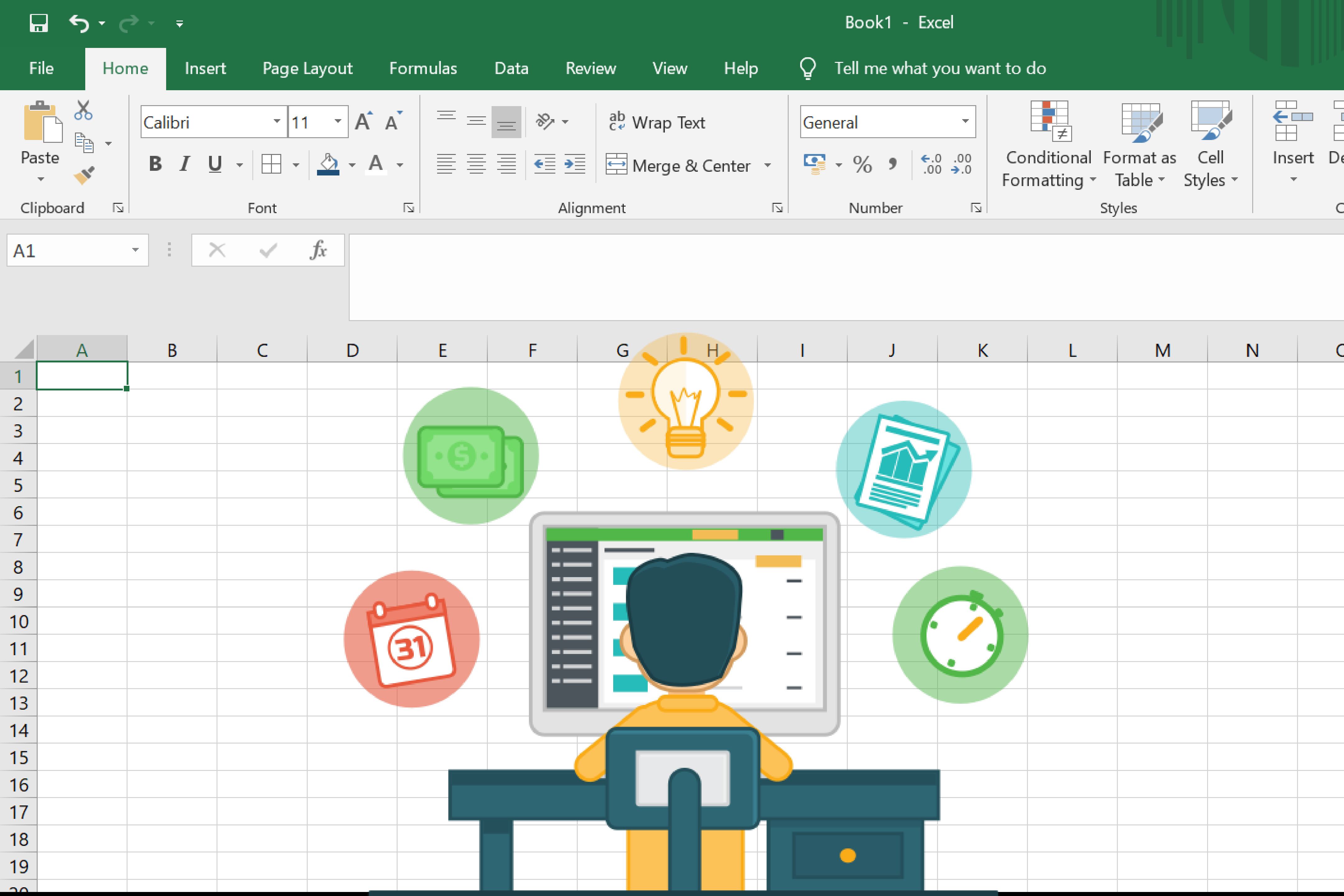

Preparation of Cash Flow Forecasts in an RE Proposal

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Knowledge Bytes S1-E8

Recap

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COMPLETED Ep 1 : Introduction to Investment Banking

COMPLETED Ep 2 : Debt Products in RE- Plain Vanilla CF

COMPLETED Ep 3 : Receivables Funding & LAP

COMPLETED Ep 4 : Structured Financing in RE

COMPLETED Ep 5 : LRD & Vanilla CF + LRD

COMPLETED Ep 6 : Deal Process Flow in RE Financing

COMPLETED Ep 7 : Investment Memorandum (IM)

Ep 8 : Preparation of Cash Flow Forecasts

Cash Flow Statement/ Business Plan

Cash Flow is a statement showing inflows (receipts) and outflows (payments) of cash during a particular period i.e. monthly, quarterly, half yearly or annually. Cash Flow Forecasting is important because if a business runs out of cash and is not able to obtain new finance, it will become insolvent. Cash Flow is the life-blood of all businesses.

In Real Estate, following 4 sheets form a major part of a Cash Flow Statement –

1. Cost, Means & Profitability
2. Cash Flow Backup, Construction Schedule
3. Interest & Principal Repayment Schedule
4. Cash Flow Statement (CFL Sheet)

Assumptions

Cash Flow Period

This is based on project stage, completion date and future sales timeline. It can be greater than project completion (if sales lag) but cannot be greater than loan tenure.

Proposed Loan Amount

Lower of –

$$\frac{\text{Net Receivables}}{\text{Required Receivables Cover}} \quad \text{or} \quad \frac{\text{Property Valuation}}{\text{Required Security Cover}}$$

Loan Tenor

Loan Tenor (incl. moratorium) varies on the basis of project construction stage & sales velocity. Loan tenor cannot exceed the maximum limit set as per the lender's policy.

Capitalization/SI*

Capitalization % is based on project completion stage.
At initial stages of construction, sales are low and construction costs are high. Hence to maintain a positive net CF balance, a lower SI % (Standing Instruction) is acceptable to the lender.
Whereas towards project completion, a higher SI can be demanded on account of higher inflows.

*Fixed % is deducted from Lender's Escrow account (wherein sales receivables are collected) which is utilized towards Repayment of loan obligation

Financial Closure

One of the most important stages in project life cycle is to decide the 'source of finance' and finalize the 'financial closure'.

Financial Closure in Real Estate means –

1. Finalization of sources of finance for the project
2. Fixing the amount of loan(s) required
3. Consensus on terms and conditions of lending (Rate of interest, tenor etc.)
4. Disbursement schedule (Release of funds)
5. Repayment schedule
6. Execution of loan agreements

It generally means that the balance project cost is to be met by loan, promoter equity and future receivables (in a proportion subjective from deal to deal)

Note:

Low dependency on unsold receivables and promoter equity is best combination for Financial Closure

Cost Table (Sample)

Particulars	Total Cost	Cost incurred	Balance Cost	% of total cost
Land Cost				
Construction Cost				
Approval Cost				
Consultancy Charges				
Admin Expenses				
Marketing Expenses				
Contingencies				
Finance Cost				
Grand Total				

Inputs:

- ✓ "Total Cost" of the Project – Based on assumptions
- ✓ "Cost Incurred" till date – Actual cost incurred

Means Table (Sample)

Means (Sources of Funds)	Total Funds	Infused till date	Balance (to be infused)	% of total
Promoter Contribution				
Booking Advances Received				
Term Loan Proposed				
Term Loan Availed				
Grand Total				

Inputs:

- ✓ "Promoter Contribution" – Total required 20% ; infused in balancing amount
- ✓ "Booking Advances Received" till date – Total is balancing amount, till date is the actual amount received from customers
- ✓ "Term Loan Availed" – Secured debt availed on the project

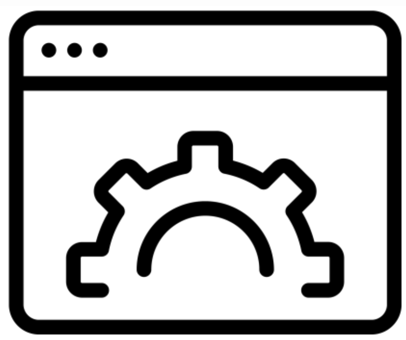
Cash Flow Backup + Construction Schedule

The Cash Flow Back up Sheets depict the quarterly position of receivables.
It is plotted considering the below assumptions –

1. **Project's Sales plotting –**
   Based on the past sales velocity and per square feet rate achieved in the last 6 months

2. **Project's Collection plotting –**
   Developer's demand for payment from the flat buyers is never completely met. (The gap between money demanded & money actually received needs to be met by other sources of funding like loans or promoter equity).

3. **Construction Schedule –**
   Generally to be provided by the developer.



Interest & Repayment Schedule

Key Points:

- Loan should be fully drawn during moratorium period.
- Principal repayments made through capitalization should be considered while calculating interest.
- Repayment of the balance of loan amount (Total drawl – (minus) Paid from SI should be equally distributed over the period of loan tenor.

CFL (Cash Flow Statement of the Project)

This sheet depicts the forecasted receivables & expenses for a given project over its lifecycle. (Monthly/Quarterly/Yearly – as required)

Inflow Projections:

- Promoter Equity – If infused amount is less than total, in proportion to lenders contribution
- Sales Collection – Collection back up
- Term Loan – Broken into tranches as per the requirements of the developer and the project. Total tranches should not go beyond the moratorium period

Outflow Projections:

- Land & JDA deposits – Based on agreements
- Construction & developments – Linked to construction schedule sheet
- Approvals – As and when required
- Admin Expenses – More amount allocated in the initial periods
- Marketing Expenses – As a percentage of sales in each quarter
- Finance Cost – As per repayment schedule
- Contingencies – During last few quarters of the loan tenor

‘Know Your Numbers’ is a fundamental precept of business

- Bill Gates

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