

Summer Project

Organization - Power Finance Corporation Ltd., New Delhi

Organizational Guide - Mr Manoj Sharma

Faculty Guide - Prof. Neeta Gupta

Title - Project Appraisal of Thermal Power Plant

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Project Summary

This Summer Internship project with the objective of studying and analyzing "Project Appraisal of a Power Project of the company ABC Ltd." revolves around the appraisal of the power project promoted by company XYZ Ltd. which has come to PFC for financial assistance of its Capital Expenditure and Working Capital Requirements. This project also includes the appraisal of the promoters of the project.

The appraisal of the project is done based on various guidelines and parameters set by PFC which helps in concluding whether the project is viable for financing or not. It includes calculating the projected financials of the project for 25 years (P&L, Cash Flows and Balance Sheet), evaluating on parameters like cost, tariff, fuel requirements, IDC etc, calculating tariff and various ratios like IRR and DSCR, doing cost benefit and sensitivity analysis and then calculating the Project Rating, which after combining with Promoter Rating, gives the Final Rating.

In Promoter Appraisal, the promoter of the project is evaluated on their financial flexibility and stability, the analysis of their business operations and the competence of the management.

The Final Rating then decides the interest rate on which the loan is sanctioned to the promoter for the project. The projections of finances are done using assumptions as per CERC guidelines, Electricity Act and base rates from Ministry of Power, Ministry of Coal, and Income Tax Act etc.

MS Excel is used for the purpose documenting and calculations for financial evaluation. It is also used for doing the sensitivity analysis of various variables in detail. The detailed sensitivity analysis is done with the objective to find out what and how much change affects the two main criteria of project appraisal in PFC i.e. DSCR and IRR.

Furthermore, as studied in various papers, journals and books, some financial variables/ratios are used to calculate the financial viability of a project. Here in PFC, Project Rating (PR) gives the feasibility of the project and Final Rating (FR), the overall feasibility and viability.

Thus by finding correlation between the variables like IRR, DSCR with PR and FR, it can be verified whether these variables affect the rating as they should as per the literature. This correlation has been found using Spearman's Rank correlation and can be concluded that DSCR and COG have correlation with the Project Rating of a thermal power project in PFC. IRR does not seem to play a role in project appraisal except for calculating it to checking the threshold or for example 14%, which is the minimum requirement of PFC to sanction a loan.