

Investment Management



Dr. Muhammad Solaiman
EVP & Head of SMEID-I
Islami Bank Bangladesh PLC

Investment mechanism:

- ▶ Investment: Investment is the use of money for the purpose of making more money to gain income or increase in capital or both.”
- ▶ Definition of Mechanism:

“An organized set of doctrines, ideas or principles usually intended to explain the arrangement or working of a systematic whole.”
- ▶ Mechanism of Islamic banking: There are 3 mechanism of investment:
 - A. Bai Mechanism
 - B. Share Mechanism &
 - C. Ijara Mechanism

Modes of Investment:

- A. Bai Mechanism: Bai-Murabaha, Bai-Muajjal, Bai-Salam, Bai-Istisna, Bai As-sarf.
- B. Ijara Mechanism: Ijara, Hire purchase under shirkatul Milk (HPSM).
- C. Share Mechanism: Mudararba, Musharaka.

Specialized Investment Schemes

- ▶ **Specialized Investment Schemes of IBBPLC.**
- ▶ **Goals through specialized Investment Schemes.**
- ▶ **Criteria for selecting a good investment client.**
 - **5Cs**
 - **5Rs**

Project Appraisal:

What is Project?

- ▶ A Project is a scheme or part of scheme for investing resources (Human/Finance) with a view to produce goods or services.
- ▶ A Project is a temporary endeavor undertaken to accomplish a unique purpose.
- ▶ A Project is a unique set of coordinated activities with a definite starting and finishing point, undertaken by an individual or organization to meet specific objectives within defined schedule, cost and performance parameters.

Project Appraisal:

► What is a project appraisal?

Project Appraisal is a consistent process of reviewing a given project and evaluating its content to approve or reject this project, through analyzing the problems or need to be addressed by the project, generating solution options (alternatives) for solving the problem, selecting the most feasible option, conducting a feasibility analysis of that option, creating the solution statement and identifying all people and organizations concerned with or affected by the project and its expected outcomes. It is an attempt to justify the project through analysis, which is a way to determine project feasibility and cost-effectiveness.

Why it is required?

Need for project appraisal:

Entrepreneur's point of view	:	To ensure profitability.
Banker's point of view	:	To ensure repayment of banks finance.
National point of view	:	Optimum utilization of resources and achievement of national objective.

Different Aspects of Project Appraisal:

1. Management aspects
2. Technical aspects
3. Marketing aspects
4. Financial aspects
5. Socio-economic aspects

Management Aspects

- ▶ Board of Directors
- ▶ Chairman
- ▶ Managing Director
- ▶ Successor
- ▶ Management Competence
- ▶ Education
- ▶ Business Experience

Technical Aspects

- ▶ Project location.
- ▶ Technical know how.
- ▶ Civil Engineering, construction, structure, Layout plan for building & machinery.
- ▶ Project implementation Period.
- ▶ Physical resources requirements.
- ▶ Choice of technical process: Erecting/ Installing/ commissioning.
- ▶ Project timing & scheduling.
- ▶ Alternative uses of the project.
- ▶ Provision and expansion.
- ▶ Utility (power, gas, water etc.) transportation & disposal, ETP (Effluent Treatment Plant).
- ▶ Product mix or Bi-Product.
- ▶ Raw materials (sources & price).

Marketing Aspects

- ▶ Demand analysis- effective demand in the past and present.
- ▶ Supply analysis- past and present supply position with supply gap.
- ▶ Import and exports.
- ▶ Structure of competition.
- ▶ Elasticity of demand.
- ▶ Consumer behavior, Intension, Motivation, attitudes.
- ▶ Marketing strategies (Dumping/ Branding).
- ▶ Product pricing and price statistics.
- ▶ Breakdown of demand.

Financial Aspects

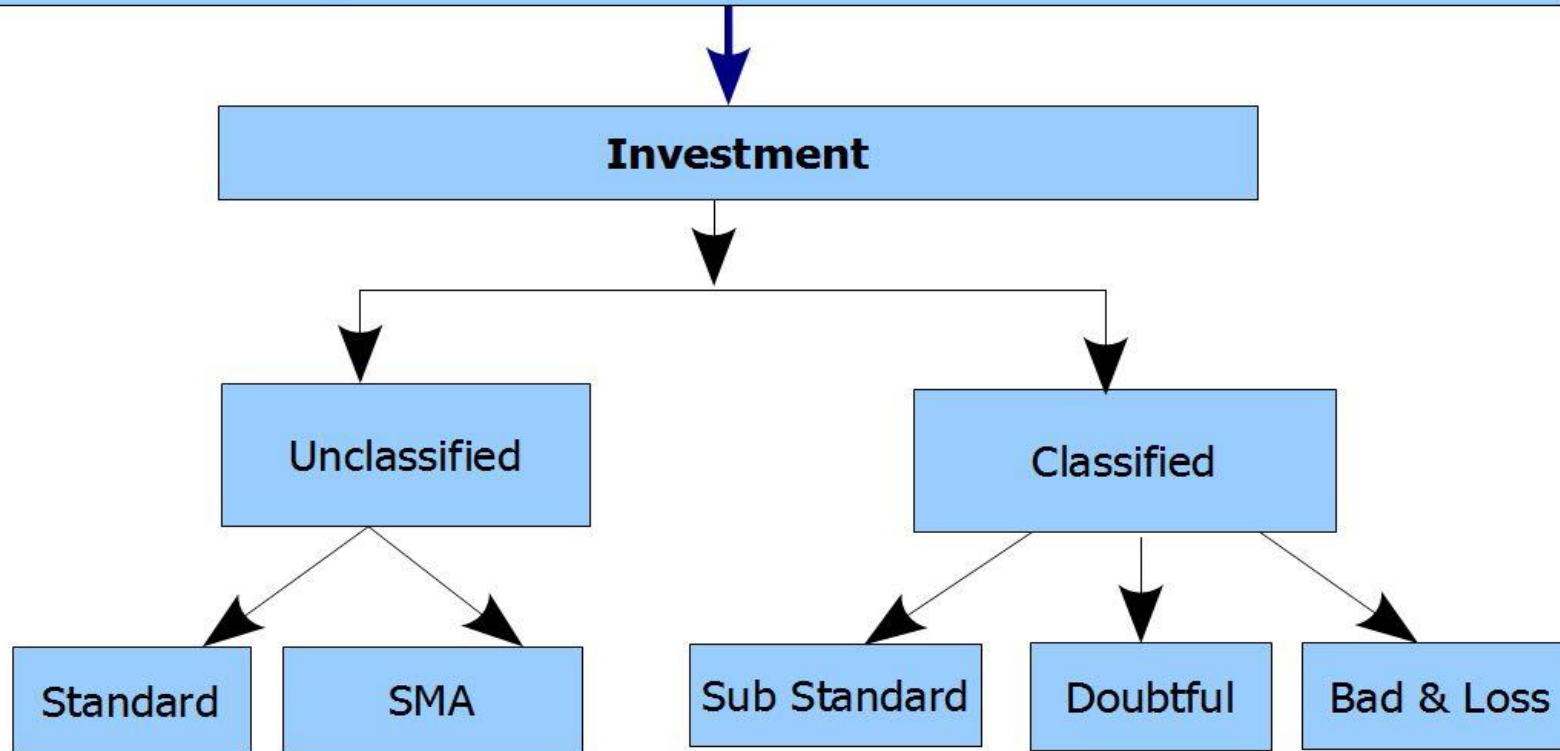
- ▶ Cost of the project/ operating cost.
- ▶ Means of finance and Debt-Equity ratio.
- ▶ Assessment of Working Capital requirement.
- ▶ Sourcing, timing/plans and cost of fund.
- ▶ Sales estimate Financial Budget.
- ▶ Financial statement.
- ▶ Financial viability. (BEP, NPV, IRR, PBP).
- ▶ Sensitivity analysis.
- ▶ Level of risk involved.

Socio-economic Aspects

- ▶ Externalities and social cost-benefit Analysis of the project.
- ▶ Foreign exchange earnings/saving.
- ▶ Contribution to employment generation.
- ▶ Contribution to GDP.
- ▶ Backward and forward linkage.
- ▶ Opportunity Cost.
- ▶ Income Distribution.
- ▶ Self Reliance.
- ▶ Development of Small Industries.
- ▶ Improvement of Life Style.

Classification of Investment

Five Categories on the basis of classification.



Criteria for Classification of Investment

A) Objective Criteria:

A) Objective Criteria: Month/ Installment (over due) BRPD Circular 14 & 3

Types of Investment	Unclassified		Classified		
	Standard	SMA	SS	DF	BL
Continuous Investment	<2	2	3	9	>12
Demand Investment	<2	2	3	9	>12
Term Investment	<8	8	9	15	>18
Short Term Agricultural Credit & Micro Credit	0<12		12	36	>60

A) Qualitative Judgment:

Provision:

Provision: Portion of profit which is segregated to meet up unexpected/ uncertain liability and to save guard the interest of the depositor and the banks.

Base for provision:

=Classified amount – (profit/rent /compensation suspense + eligible security)

Example: Classified amount=10,00,000/-

Profit suspense=1,00,000/-

Eligible security =5,00,000/-

Base for provision: 10,00,000-1,00,000-5,00,000=4,00,000/-

Provision requirement:

Sub Standard =4,00,000*20%=80,000/-

Doubtful =4,00,000*50%=2,00,000/-

Bad& Loss =4,00,000*100%=4,00,000/-

Eligible Securities

In the definition of 'Eligible Securities' as mentioned in the above paragraph the following securities will be included as eligible securities in determining base for provision:

- ▶ -100% of deposit under lien against the loan.
- ▶ -100% of the value of government bond/savings certificate under lien.
- ▶ -100% of the value of guarantee given by Government or Bangladesh Bank.
- ▶ -100% of the market value of gold or gold ornaments pledged with the bank.
- ▶ - 50% of the market value of easily marketable commodities kept under control of the bank.
- ▶ - Maximum 50% of the market value of land and building mortgaged with the bank.
- ▶ - 50% of the average market value for last 06 months or 50% of the face value, whichever is less, of the shares traded in stock exchange.

Rate of Provision

Particulars		Short Term Agricultural Credit & Micro Credit	Consumer Financing		SMEF	All other credits
			Other than HF	HF		
Unclassified (General Provision)	Standard	1%	5%	1%	0.25%	1%
	SMS		5%	1%	0.25%	1%
Off balance sheet and OBU	1% on total off balance sheet items and OBU investment					
Classified (Specific Provision)	SS	5%	20%	20%	20%	20%
	DF	5%	50%	50%	50%	50%
	BL	100%	100%	100%	100%	100%

Written off Investment

- ▶ Banks write off investment that is declared non collectable (such as a investment on defunct business, or a credit card due that is in default), removing it from their balance sheets. A reduction in the value of an asset or earnings by the amount of an expense or loss.

3 (Three) Conditions:

- ▶ 2 Years classified as Bad & Loss.
- ▶ 100% provision kept against the investment.
- ▶ Artha Rin Suit filed against the clients except Tk.500000/- outstanding clients.

(as per BRPD Circular no.4 dated: 18.02.2024)

Note: If written off investment is more than 15% of total classified investment, additional 1% capital charge on Minimum capital requirement (MCR).

Rescheduling of Investment

Investment Reschedule means extension or adding extra time to the existing repayment schedule of a non performing investment classified as sub -Standard (SS), Doubtful (DF) and Bad/Loss (BL) resulting in a revision/Reduction of the monthly installment amount so that the eligible clients may be able to pay a lesser amount in each month/quarter.

Maximum allowable tenure for rescheduling:

- a. Term Investment except Agriculture & Micro Investment:
- b. Demand & Continuous Investment except Agriculture & Micro Investment:
- c. Maximum Moratorium period:
- d. Agriculture & Micro Investment:

Minimum Down payment:

- a. Term Investment:
- b. Continuous & demand investment:

Maximum allowable tenure for rescheduling (Circular no 16 date 18.07.22)

a. Term Investment except Agriculture & Micro Investment:

Particulars	Maximum Tenure (including Moratorium Period)			
	1st Time	2nd Time	3rd Time	4th Time
Below Tk.100 crore	6 years	6 years	5 years	4 years
Tk.100 crore & above but Below Tk. 500 crore	7 years	7 years	6 years	5 years
Tk. 500 crore & above	8 years	8 years	7 years	6 years

b. Demand & Continuous Investment except Agriculture & Micro Investment:

Particulars	Maximum Tenure (including Moratorium Period)			
	1st Time	2nd Time	3rd Time	4th Time
Below Tk.50 crore	5 years	5 years	4 years	3 years
Tk.50 crore & above but Below Tk.300 crore	6 years	6 years	5 years	4 years
Tk. 300 crore & above	7 years	7 years	6 years	5 years

c. Maximum Moratorium period:

In General	Depending on intensity of Business loss
6 Months	1 year

d. Agriculture & Micro Investment:

1st Time	2nd Time	3rd Time	4th Time
3 years	2 years 6 months	2 years 6 months	2 years 6 months

Minimum Down payment (Term Investment):

Investment outstanding	1st& 2nd Time		3rd Time		4th Time	
	Lower of		Lower of		Lower of	
	Overdue Installment	Total outstanding	Overdue Installment	Total outstanding	Overdue Installment	Total outstanding
Below 100 crore	7%	4.50%	8%	5.50%	9%	6.50%
Tk. 100 crore & above but below tk. 500 crore	6%	3.50%	7%	4.50%	8%	5.50%
Tk. 500 crore & above	5%	2.50%	6%	3.50%	7%	4.50%

Minimum Down payment (Continuous & Demand Investment):

Investment outstanding	1st & 2nd Time	3rd Time	4th Time
	Total outstanding	Total outstanding	Total outstanding
Below 50 crore	4%	5%	6%
Minimum amount of Down payment for tk. 50 crore & above but below Tk.300 crore	3.00% but not less then Tk. 2.00crore	4%	5%
		1% shall be added for each time of rescheduling	
Minimum amount of down payment for Tk. 300 crore & above	2.50% but not less then Tk. 9.00crore	3.50%	4.50%
		1% shall be added for each time of rescheduling	

Non Performing Investment (NPI):

▶ *Components of Non-Performing Investment:*

1. Overdue
2. Classified Investment
 - ▶ Sub Standard
 - ▶ Doubtful
 - ▶ Bad & Loss
3. Rescheduling & Restructuring
4. Written off

➤ **Causes of Non Performing Investment:**

➤ **Steps to be taken for Reduction of NPI:**

➤ **Strategies which to be taken for reducing NPI and safeguarding bank's provision:**

➤ **Impact of Non-Performing Investment:**

Causes of Non Performing Investment (NPI):

- ▶ Wrong selection of the client.
- ▶ Violation of discretionary power.
- ▶ Lack of close monitoring and supervision.
- ▶ Fund diversion
- ▶ No control over the stock.
- ▶ Delay in sanction.
- ▶ Political unrest and recession in the market.
- ▶ Under financing or over financing.
- ▶ Lack of corporate management.
- ▶ Natural disasters/calamity.
- ▶ Non-compliance of Shariah principles.

Steps which to be taken for reduction of NPI:

- ▶ Best Selection of Client.
- ▶ Motivation Strategy for clients to be adopted.
- ▶ Adherence to Shariah Principles.
- ▶ Marketability of Goods to be assessed.
- ▶ Security & Documentation formalities to be ensured.
- ▶ Prompt Disposal of investment sanction.
- ▶ Close Supervision, Follow up and Monitoring.
- ▶ Control of Goods & Disposal of Goods under pledge in Time.
- ▶ Violation of Discretionary Power to be stopped.
- ▶ Personal Relationship to be developed
- ▶ Right Drive in Right Time by Right Person

Strategies which to be taken for reducing NPI and safeguarding bank's provision:

- ▶ Extending term to maturity of non- performing investment.
- ▶ Rescheduling of classified investment.
- ▶ Restructuring of classified investment.
- ▶ Conversion of short-term liability into long term liability against freehold and rentable assets of client.
- ▶ Collecting installment to reduce level of classified liability i.e., social engineering.
- ▶ Investment written off.
- ▶ Withdrawal of the writ cases.
- ▶ Wavering of partial liability for adjusting of classified liability.
- ▶ Valuation of properties including financial securities.
- ▶ Check up the last CL status and change the status of CL.
- ▶ Arrest fresh NPI.
- ▶ Strengthening task force activities.
- ▶ Special measures to be taken for quick disposal of suits.
- ▶ Personal contact and communication with the NPI clients.

Impact of Non-Performing Investment:

- ▶ Loss of profit of the Bank.
- ▶ Decrease of PPD and resulting to decrease Deposit.
- ▶ Provision required from the hard-earned income of bank.
- ▶ Lower grading in CAMELS Rating.
- ▶ Facing difficulty to open New Branch & AD permission.
- ▶ Difficulties to maintain IDR and CAR under Basel-III.
- ▶ Decrease of EPS & Dividend of Shareholders.
- ▶ Decrease the facilities of Bank officials.
- ▶ Business Growth to be decreased drastically.
- ▶ Loss of Goodwill & Reputation of the Bank.

Decision for Legal Action for recovery of Bank's dues:

- If all Persuasions, Contacts & Efforts failed, then decision to be taken for legal action.
- Proposal to be sent HO seeking permission for selling of mortgaged property and filing of suit.
- After getting HO permission, the next course of action to be started.

CR Case Filed for recovery of Bank's dues:

Legal Action - CR Case Filed

- ▶ Criminal case as per NI Act to be filed against the defaulter client before expiry of cheque.
- ▶ Legal notice to be served for dishonoring that cheque giving 30 days time.
- ▶ Criminal case to be filed in the CMM court for recovery.
- ▶ In case of without mortgaged property, CR case to be filed at the earliest.
- ▶ Remember even after cases, persuasion to be continued to settle the issue outside the court.

Artho Rin Adalat for recovery of Bank's dues:

Legal Action - Artho Rin Adalat

- ▶ Recovery notice to be served giving 7-15 days' time asking client to adjust liability.
- ▶ Final notice to be served giving 15 days' time warning that otherwise case may be filed.
- ▶ Legal notice to be served giving 15 days time.
- ▶ Advertisement in 2(two) dailies to be served for selling out mortgaged property giving 15 days' time.
- ▶ If liability not adjusted even of selling of mortgaged property then Money Suit may be filed.

Assets Quality Improvement of a Bank:

- ❑ **Pre-sanction of Investment:**
- ❑ **Post Sanction but pre-disbursement of Investment stage:**
- ❑ **Post Disbursement of Investment stage:**
 - **Investment policies of IBBPLC**
 - **Investment Structuring & Pricing**
 - **Building blocks of Investment pricing**

Pre-sanction of Investment:

- ❑ Selection of the Client
- ❑ Business Address of the Client
- ❑ Nature of Business
- ❑ Needs of Finance
- ❑ Project Appraisal
- ❑ Collaterals and its clean Legal Opinion
- ❑ Sanctioning Formalities

Post Sanction but pre-disbursement of Investment stage:

- ❑ Terms & Condition of Sanction to be conveyed to the Client.
- ❑ Sanction Advice to be duly accepted by the Client.
- ❑ Title of Security & Relevant Documents to be received.
- ❑ Mortgage & Documentation Formalities to be observed.
- ❑ Guarantor Identification to be confirmed.
- ❑ Entry the Security Documents and Preserved in the Custody.

Post Disbursement of Investment stage:

- Review Transactions in Current Account regularly.
- Ensure Stock of Goods & Quality of the same.
- Physical Visit the Godown & Business Establishment/Project.
- Posting of Godown Guard & Controlling of Goods.
- Ensuring Timely Adjustment/Payment & Follow up continuously.
- Ensure Deposit of Sale Proceeds to the Bank.
- Strong Communication with the Client.

Documentation:

- ▶ **Document:** A piece of written, printed on electronic matter that provides information or evidence or that serves as an official record.
- ▶ **Documentation:** Creation of charge over the property/asset by some documents is called documentation. It is process of execution of documents in right form & right manner.
- ▶ **Nature of Documentation:**
 - **Charge Document:** It is a pre-formatted & printed forms provided by the Bank to the client for the execution of charge against investment.
 - **Legal/ Mortgage Document:** It is the legal papers provided by the owner of the paper certifying the legal status of borrower related to the creation of charge on the paper.
- ▶ **Importance of Documentation:**

Documentation:

- ▶ Importance of Documentation:
 - ▶ It is written evidence of transaction
 - ▶ To Protect Banks Interest
 - ▶ To Take Legal Action
 - ▶ To Ensure Recovery
 - ▶ To Avoid Future Complexity.

Items of charge/ Mortgage documents

Sl	Items of Charge Documents	Items of Mortgage Documents
1	Application	Original Title Deed
2	Sanction Letter (dully signed by the client).	Baya Deed
3	Letter of Agreement	CS, SA, RS, BS, City Jorip Khatian
4	DP Note	Mutation Khatian with DCR
5	DP note delivery letter	Up to date Rent Receipt
6	Letter of Hypothecation	NEC
7	Trust Receipt	Mouza Map/Site plan
8	Letter of Guarantee	Clean Legal Opinion
9	Letter of Pledge	Genuineness Certificate
10	Lien of deposit, Stamping.	Valuation Certificate (Surveyor & Branch)

What is Mortgage?

- ▶ Mortgage means, transfer of an interest in specific immoveable property for the purpose of securing the repayment of money advanced or to be advanced by way of loan, an existing or future debt, or the performance of an engagement which may give rise to a pecuniary liability. (TP Act- 1882, Section 58).
- ▶ The transferor is called a mortgagor, the transferee is called a mortgagee, the principal money and interest of which payment is secured for the time being are called the mortgage-money and the instrument by which the transfer is affected is called a mortgage-deed.

Types of Mortgage:

There are six kinds of Mortgages (TP Act-1882)

- ▶ **Simple Mortgage/Registered mortgage:** Mortgagee shall have to seek the intervention of the court for selling the mortgage property.
- ▶ **Mortgage by conditional sale:** It is an ostensible sale not a real sale. Mortgagee upon applying to the court can get decree in his favor.
- ▶ **English Mortgage:** Property mortgaged is transferred to the mortgagee absolutely. Mortgage property may sale without intervention of the court
- ▶ **Usufructuary Mortgage:** Property is delivered to the mortgagee who is entitled to recover the rents and profits. Mortgagee remains in possession of the property.
- ▶ **Equitable Mortgage:** Deliver the tittle of immovable property with the intention to create a security there on, no legal transfer of property take *place*
- ▶ **Anomalous Mortgage:** Containing a mixture of the characteristics of the different types of above mortgage, take various forms depending upon customers, local usage or contact.

Tools & Techniques of verification of Mortgage Documents

- ▶ Physical verification by the authorized Bank Officials.
- ▶ Searching report from SRO/ AC land Office.
- ▶ Valuation Report made by Bank's enlisted Surveyor Co.
- ▶ Registered Mortgage Deed (Conformation of Physical presence of the Mortgagor).
- ▶ Registered Power of Attorney.
- ▶ Approved Plan with Forwarding Letter from Competent Authority-Verification from RAJUK/ Competent Authority.
- ▶ Mouza Map.
- ▶ Site Map/ Location Map.
- ▶ Original Allotment Letter (In case of property of Housing Authority/Others Authority i.e. RAJUK, CDA, KDA, RDA, BEPZA).
- ▶ Mutation Permission (In case of Property of Housing Authority/Others Authority i.e. RAJUK, CDA, KDA, RDA, BEPZA).
- ▶ Mortgage Permission (In case of Property of Housing Authority/Others Authority i.e. RAJUK, CDA, KDA, RDA, BEPZA).
- ▶ Sale Permission (In case of Property of Housing Authority) Procedures/Formalities that should be observed at the time.

Lapses & irregularities found in Mortgage formalities

- ▶ Obtaining conditional legal opinion instead of clean opinion.
- ▶ Lawyer's opinion does not contain the chain of ownership in details.
- ▶ Valuation Certificate made without physical inspection.

3rd (Third party):

- ▶ Having no relation with the client.
- ▶ Head office permission to be obtained.
- ▶ Enhance Due Diligence is to be given in case of 3rd party mortgage.

Investment Risk Management

▶ What is Investment Risk Management:

Investment Risk Management is the process of identifying possible risks in the investment and analyzing them well in advance and to take necessary steps to prevent them. In case of businesses when they make financial investments, they do risk management so efficiently, so that they can identify the potential economic risks, their impacts and ways to overcome them. Risk management takes place when an investor or fund manager quantifies of the potential losses and takes necessary actions to tackle the risk involved in the investment.

▶ Importance of investment risk management:

▶ Techniques used by Islamic banks to reduce their investment risks:

▶ Risk involved in short term & long term investment:

What is ICRRS?

- Internal Credit Risk Rating System.
- Introduced by Bangladesh Bank
- Through BRPD Circular No.16 dated 30.10.20218
- Replaces CRG (Credit Risk Grading)
- CRG was valid up to 30.09.2021
- ICRRS Effective from 01.10.2019

ICRRS Rating & Score:

Rating	Scores Aggregate
Excellent	≥80%
Good	≥70% to <80%
Marginal	≥60 to <70%
Unacceptable	<60%

Whatever score in the Qualitative Part, If score in Quantitative Part is Less 50%, ICRR shall be 'Unacceptable'

Due to COVID-19, following Rating & Score will be effective up to 31.12.2024

Rating	Scores Aggregate
Excellent	≥75%
Good	≥65% to <75%
Marginal	≥50 to <65%
Unacceptable	<50%

Whatever score in the Qualitative Part, If score in Quantitative Part is Less 40%, ICRR shall be 'Unacceptable'

Quantitative Indicator	Weight (60%)	Qualitative Indicator	Weight (40%)
Leverage	10%	Performance Behavior	10%
Liquidity	10%	Business & Industry Risk	7%
Profitability	10%	Management Risk	7%
Coverage	15%	Security Risk	11%
Operational Efficiency	10%	Relationship Risk	3%
Earning Quality	5%	Compliance risk	2%

Ratio Analysis?

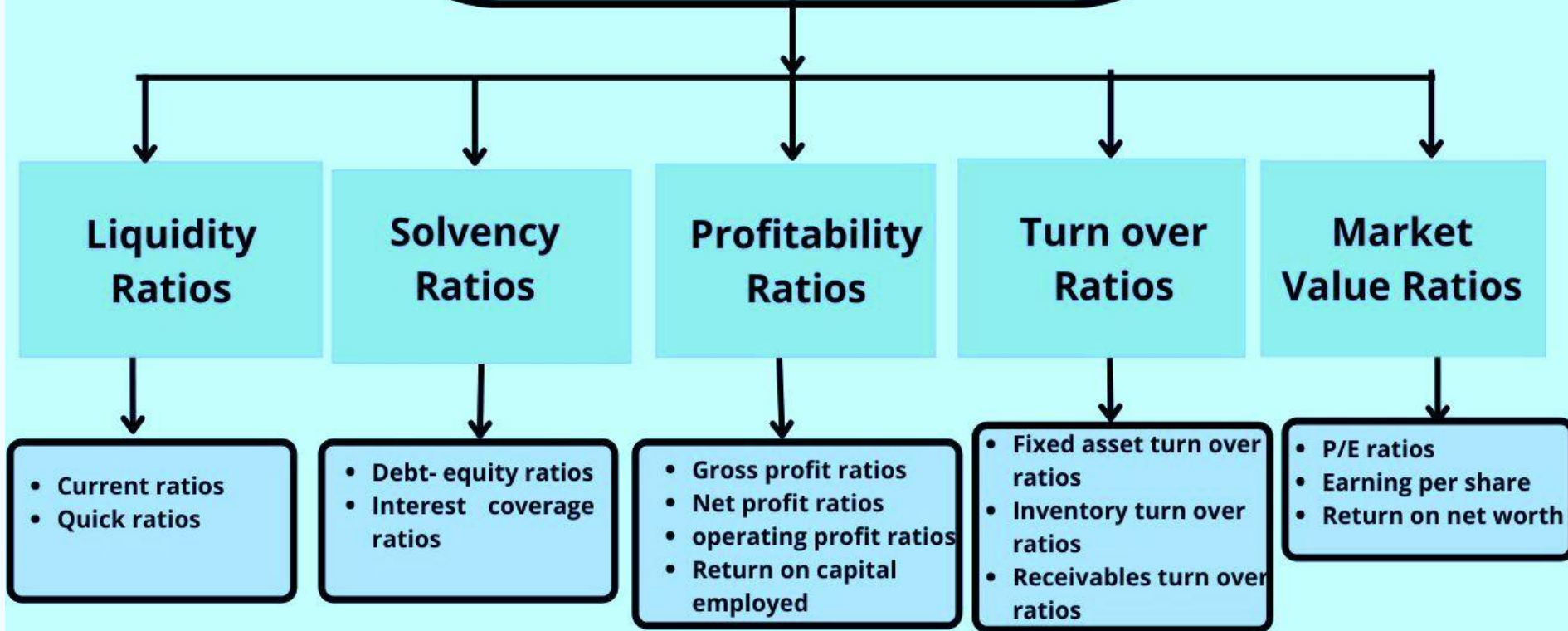
- ▶ What is Ratio Analysis?

Ratio analysis is defined as the systematic use of ratio to interpret the financial statements so that the strengths and weakness of a firm could be known. It is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by studying its financial statements such as the balance sheet and income statement.

- ▶ Objective of using ratio analysis.

Ratio Analysis?

Types of Ratio Analysis



Ratio Analysis?

Example:

Total Sale for the year 2023 were Tk.27,00000/- and the balance sheet of ABC co. Ltd. As on 31st December was as follows:

Assets	Taka	Equity & Liability	Taka
Cash in hand	3,00,000	Sundry creditors	5,00,000
Sundry debtors	3,00,000	Outstanding expenses	2,00,000
Short term investment	10,00,000	Notes payable	3,00,000
Inventory	3,00,000	Long term debts	8,00,000
Goodwill	1,00,000	Reserves	2,00,000
Fixed assets	10,00,000	Paid up capital	10,00,000
Total	30,00,000	Total	30,00,000

Ratio Analysis?

Example:

Now Calculate the following ratios:

- ▶ Current ratio
- ▶ Quick ratio
- ▶ Inventory turnover ratio
- ▶ Debt equity ratio
- ▶ Debt to total asset ratio
- ▶ Fixed asset turnover ratio

Solution:

$$\text{i) Current ratio} = \frac{\text{Current Asset}}{\text{Current Liability}} = \frac{19,00,000}{10,00,000} = 1.90 \text{ times}$$

$$\text{ii) Quick ratio} = \frac{\text{Current Asset} - \text{Inventory}}{\text{Current Liability}} = \frac{19,00,000 - 3,00,000}{10,00,000} = 1.60 \text{ Times}$$

$$\text{iii) Inventory turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}} = \frac{21,60,000}{3,00,000} = 7.20 \text{ Times}$$

Solution:

Assumption: GP rate is 20%,
So, Cost of goods sold = $27,00,000 * 80\% = 21,60,000$
Assumption: Opening Inventory is Tk. 3, 00,000.00

$$\text{iv) Debt Equity ratio} = \frac{\text{Total debt}}{\text{Equity}} = \frac{\text{External Liability}}{\text{Owners Fund/ Equity Capital}} = \frac{18,00,000}{12,00,000} = 1.50 \text{ times}$$

$$\text{v) Debt to total Assets ratio} = \frac{18,00,000}{30,00,000} = \frac{\text{Total debt}}{\text{Total Asset}} = 0.60 \text{ times}$$

$$\text{vi) Fixed Assets turnover ratio} = \frac{\text{Net Sales}}{\text{Fixed Assets}} = \frac{27,00,000}{10,00,000} = 2.7 \text{ Times}$$

Capital Budgeting?

Capital budgeting in corporate finance, corporate planning and accounting is area of capital management that concerns the planning process used to determine whether an organization's long term capital investments such as new machinery, replacement of machinery, new plants, new products, and research development projects are worth the funding of cash through the firm's capitalization structures (debt, equity or retained earnings).

- ▶ Basic principles & Methods of Capital Budgeting.

Working Capital?

Any enterprise whether it is industrial, trading or other acquires two types of assets to run its business. It requires fixed assets for carrying on the production/business such as land and buildings, plant and machinery, furniture and fixtures etc. For a going concern these assets are of permanent nature and are not to be sold. The other types of assets is required for day to day working of a unit are known as current assets which are floating in nature and keep changing during the course of business. These current assets are generally referred to working capital.

- ▶ Factors consideration in determining the working capital needs.

Working Capital?

A. Particulars of the Project:

01. Name of the concern : Shathi Auto Rice Mill [Pvt] Ltd.
02. Location of the project : Baka Brick field, Jibannagar.
03. Nature of the firm : Private Limited Company
04. Nature of business : Automatic Rice Mill
05. Capacity of the project : Existing (unit-I) : 96 MT/day (24 MT x 2 dryer x 2 batch/day)
: BMRE (unit-II): 192 MT/day (32 MT x 3 dryer x 2 batch/day)
06. Source of Basic Raw materials (paddy) : Locally purchased.

Working Capital Assessment :

i) For existing unit (Unit-I) :		(Taka in million)			
Capacity Utilization		100%	70%	60%	50%
Current Assets	Tied up Period				
Raw Materials (paddy)	45	116.64	81.65	69.98	58.32
Work in process	1	2.84	1.99	1.71	1.42
Finished goods	7	19.91	13.94	11.95	9.95
Receivables	30	85.32	59.73	51.19	42.66
Total Working Days	83	0.00	0.00	0.00	0.00
Total		224.72	157.30	134.83	112.36
Less Margin 20%		44.94	31.46	26.97	22.47
Bank Finance may be		179.77	125.84	107.86	89.89

Working Capital Assessment :

Main Assumptions:

i.	Production capacity	:	96 MT per day [24 MT x 2 dryer x 2-batch/day)
ii.	Paddy price (paddy 28/29)	:	<u>Tk.27000</u> /MT
iii.	Jute suck	:	<u>Tk.50.00</u> per pcs
iv.	Operating hour	:	16 hour per day (2 shift)
v.	Working days	:	300 days
vi.	Salary wages others	:	<u>Tk.1250.00</u> per MT

Working Capital Assessment :

ii) For proposed unit (Proposed Unit-II) : (Taka in million)

Inventory	Tied up Period days	Capacity Utilization			
		100%	70%	60%	50%
Raw Materials (paddy)	45	233.28	163.29	139.97	116.64
Work in process	1	5.42	3.80	3.25	2.71
Finished goods	7	37.94	26.55	22.76	18.97
Receivables	30	162.60	113.82	97.56	81.30
Total	83	439.24	307.46	263.54	219.62
Less Margin 20%		87.85	61.49	52.70	43.92
Bank May Finance		351.39	245.97	210.84	175.70

Working Capital Assessment :

Main Assumptions:

i.	Production capacity	:	192 MT per day [32 MT x 3 dryer x 2-batch/day)
ii.	Paddy price (paddy 28/29)	:	<u>Tk.27000/MT</u>
iii.	Jute suck	:	<u>Tk.50.00 per pcs</u>
iv.	Operating hour	:	16 hour per day (2 shift)
v.	Working days	:	300 days
vi.	Salary wages others	:	<u>Tk.1250.00 per MT</u>

Working Capital Assessment :

C. Investment needs assessment: (considering sales as per audited financial statement 31.12.2022)

If we consider yearly trading sales and 03 [three] months cycle to calculate the trading limit requirement at 15% growth of yearly sales, then the trading limit will stand:

Yearly sales for trading	:	<u>Tk.251.19 million.</u>
Add.20% growth	:	<u>Tk.50.24 million.</u>
Total expected sales	:	<u>Tk.301.43 million</u>
Cost of Goods Sold [90% of sales]	:	<u>Tk.271.28 million</u>
Capital Requirement	:	<u>Tk.90.43 million</u> [271.28/12*4]
Less: 10% cash margin	:	<u>Tk.9.04 million</u>
Bank may investment	:	<u>Tk.81.39 million</u>

Thank You