

FINANCING E.E. PROJECTS

LENDER'S PERSPECTIVE & CONCERNS



State Bank of India, New Delhi

What we understand is an “Energy Efficiency Project”

- Improving “Energy Efficiency” means use of less energy for achieving the same or better output.
- Thus a viable Energy Efficiency (EE) project would involve measures leading to savings of energy for performing same or better output, ensuring that the expected financial benefits (i.e. energy savings, expressed in monetary terms) over a reasonable period would be adequate & reasonable to justify investment.



Assumptions...

- Each and every project is based upon assumptions, involving capital expenditure in the hope of a reasonable return on investment over a future period of time.
- From lender's point of view, Project Appraisal necessarily involves validation of various assumptions



EE projects, in Industrial or commercial establishments, may broadly be classified into two simple categories:

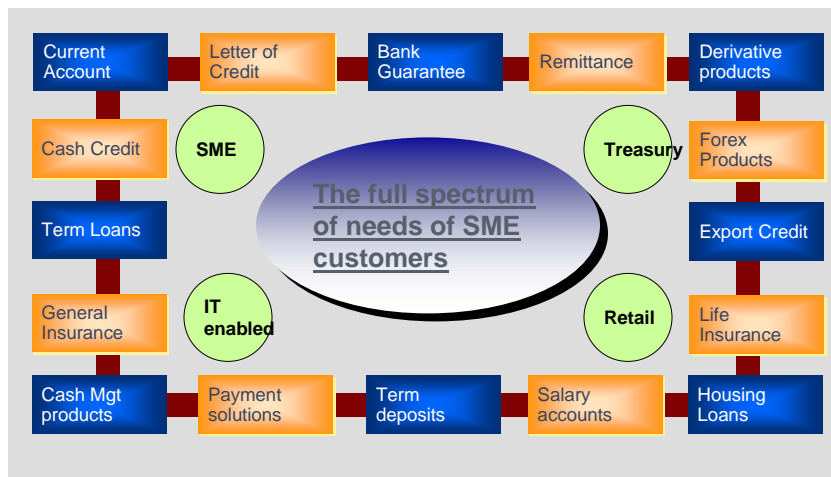
- **New establishments**
 - Dovetail EE concepts / technologies at the design stage itself.
- **Existing establishments**
 - energy inefficient areas are to be identified and techno-economic feasibility of improving energy efficiency of each of such areas to be examined.




EE Sub-Projects

- ❖ **Sub-projects may broadly be of three types**
 - ❖ **Involving negligible investments and immediate benefits.**
 - ❖ **Involving small investments and quick pay-back where promoters may not require external funding.**
 - ❖ **Involving significant investments with benefits over medium-large time frame where external funding may be required.**
- ❖ **DPR is required for projects requiring significant investment.**


SBI offers.....



SBI INHOUSE CONSULTANCY SERVICES

- Techno-economic Viability Studies For Prospective Borrowers
 - Techno-economic evaluation of expansion etc by existing borrowers
 - Evaluation of Loan restructuring cases for existing borrowers
 - Services provided through SME Facilitation Centre
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SERVICES PROVIDED BY SME FACILITATION CENTRE

- Objective: to accelerate the growth of SME business as well as to improve the quality of SME business assets
 - Management Consultancy and Technical / Financial / General Advisory Support to high value SME Customers of the Bank.
 - Conduct of workshops and seminars with SME focus.
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SBI APPROACH

- Need Based Finance
- Term Loan
Industry- 8 Years Repayment
- Working Capital Limits
For One Year Renewable every Year



CORPORATE LOAN

- **Target Group:** Existing C&I and SSI customers and also non customers.
- **Eligibility**
SME (Manufacturing) segment with ratings of SB 8 and above
- **Purpose**
Repayment of high cost debt, VRS scheme, acquisition of trademarks, patents, shoring up of net working capital, etc.
- **Type of facilities**
Term Loan
- **Quantum of Finance:** Rs. 25 lacs to Maximum of Rs. 100 lacs



OPEN TERM LOAN

- **Target Group:** Existing or new Corporate/ Non-corporate customers of SME (Manufacturing) segment
- **Eligibility**
SME (Manufacturing) segment with ratings of SB7 only
- **Purpose**
Any genuine commercial purpose in line with regular business activity of the customer like Expansion & Modernization, Substitution of High cost debts of own or other banks, Up-gradation of Technology/ machinery, Acquisition of software etc.
- **Type of facilities :**Term Loan
- **Quantum of Finance:** Maximum of Rs. 250lacs



CREDIT GUARANTEE FUND TRUST FOR MICRO AND SMALL ENTERPRISES(CGTMSE)

- **Target Group**
Micro and Small enterprises (as per RBI guidelines), without any collateral security and/or third party guarantee and not exceeding Rs.100 lakh by way of term loan and/or working capital facilities
- **Eligibility**
NO collateral security and / or third party guarantee has been taken by the Bank.
The account has not become bad or doubtful of recovery; and / or The business or activity of the borrower for which the credit facility was granted has not ceased; and / or
The credit facility has not wholly or partly been utilized for adjustment of any debts deemed bad or doubtful of recovery, without obtaining a prior consent in this regard from the Trust.
- **Tenure of cover**
The guarantee cover under the CGTMSE would be for agreed tenure of the term loan/ composite credit. The tenure is 5 years or block of 5 years, in case of working capital credit facility covered under CGTMSE
- **Extent of Cover**
Upto a max. of Rs.100 lacs



CREDIT LINKED CAPITAL SUBSIDY SCHEME

- ***Target Group***

The Scheme aims to facilitate technology up gradation of SSI units in the specified products / sub-sectors by providing 12% capital subsidy for induction of well established and improved technologies approved under the scheme.

Calculation of admissible subsidy will be done with reference to the purchase price of plant and machinery




BANKABLE EE PROJECT


- Investment grade Project.
- The promoter (s) must have ownership of the project
- Complete techno-economic feasibility (TEF) of the project should be examined.
- DPR incorporates examination of TEF of the EE project.
- Simple pay back period is only indicative and is considered as tool for examination of TEF of a EE sub-project.
- Investment grade / Bankable project (basically combination of a few selected sub-projects) is judged on the basis of TEF as outlined in DPR and not on Simple pay back period.



Financing EE Projects - Lender's perspective

- Background and past financials of the company.
 - Who are the present lenders / bankers to the company?
 - What Securities are held by existing lenders / bankers?
 - Is the company approaching new lenders? Why?
 - Security to be offered to the lender for the EE project?
 - Risk perception, evaluation and mitigation
 - Sensitivity to various variable factors
 - Credibility / track record of the EE Consultant
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Financing EE Projects Contd....

- Financing an EE project similar to financing any other project.
 - From lender's point of view, financing a well documented EE project should be easier than financing new projects where techno-managerial uncertainties are more and project viability is based upon assumptions, with nothing other than the project itself to fall back upon.
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SBI PROJECT UPTECH- ENERGY EFFICIENCY

With the primary objective of extending support to the SMEs in improving their competitiveness, SBI had launched “**Project Uptech – Energy Efficiency**” from New Delhi in the year 2003, on pan- India basis.

Key features appear hereafter:



Project Components

The Energy Efficiency projects result in additional cash flow due to savings and this is the crucial parameter in success of the project not additional assets generated.

- Components of cost of project
 - (I) energy audit charges
 - (ii) consultancy fees for detailed project report (DPR) & implementation
 - (iii) cost of plant & machinery including the cost of retrofitting /renovating / modification of existing items, monitoring system.
 - (iv) Charges for monitoring the energy efficiency on long term basis.



Financial Package (Project Uptech-EE)

Stage I-

Energy Audit & preparation of Detailed Project Report (DPR)

Financing pattern

Grant from SBI	50% of the cost
Unit's contribution	Balance amount



Financial Package Contd..

Stage II-

Acquisition /Modification/renovation of plant and machinery and establishment of monitoring system

Financing pattern	Medium Term Loan
Quantum	90% of cost
Interest	8%
Tenure	5-7 years

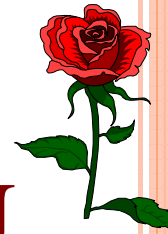


Our Experience With Project Uptech-EE in Delhi

- Three renowned consultants engaged for executing the project.
- Walk Through Audit done for about 25 companies in consultation with consultants.
- Units identified mainly in energy intensive areas e.g. glass, rolling and forging.
- Three units agreed for detailed audit .
- The implementation of the audit recommendations by these units was mixed.



THANK YOU



State Bank of India , New Delhi

