



TALK TO EXPERTS -19

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overleveraged balance sheet of the developer (To continue.....).

As it is said earlier, a commercially productive, profitable balance sheet guarantees loan from a bank since the profit enables the borrower to repay the money to the lender, both a specific part of the capital and the interest for the loan. In order to obtain a project from the government, naturally, a developer will present a productive balance sheet to the banker for loan .

Usually, there will be leverage in any company's or firm's balance sheet; we saw leverage means borrowed money to hike investment so that the business volume increases producing greater profits. In finance, leverage is a measure of a company's debt in relation to its total assets. When a developer has borrowed heavily to get and execute the project by means of an overleveraged balance sheet, if the project moves on in a smooth uninterrupted planned way, the developer will get profits.

A highway project involves too many factors like the cost of materials, the subcontracts, sometimes, the developer has too many projects on hand than he can efficiently manage thereby leading to diversion of funds and so on. And he might have banked hope on revenue generation by

collecting tariff from the commuters. In every aspect of the project there could be unforeseen problems affecting financial provision leading to interruption in the execution of the project. More than the provision made in the budget for escalation of prices, the cost of materials would have skyrocketed throwing entire plan out of gears; the subcontractor may not be so efficient as he impressed; tariff collection might have provoked angry protests from the locals. All these incidents have to damage the execution of the project.

He cannot go in for additional loans from the banks which will refuse to support him because he has already not paid dues for more than a marginal

period allowed, dues for the capital and interests on the loan. All doors are blocked. In the balance sheet, the projected revenue figures do not match the reality and it happens to be an overleveraged investment, that is, more of the investment is from the borrowed money which demands interest. In such a situation if there is a company, it is facing the threat of bankruptcy; a project by a developer who has invested in the project through overleveraged balance sheet faces the imminent fate of intervention in the execution of the project. On the other hand, if the developer has not shown an overleveraged balance sheet to obtain financial assistance, his position would be different; there will be some possibility of raising loans on his own assets.

The situation becomes all the more difficult if the very economy of the nations is passing through downturn as a result of global crisis. In total, the developer will not be in a position to pay the loan, the interest; it would be very near impossible for him to fulfil debt servicing. The overleveraged investment, steep fall in revenue generation, above all, the larger condition of economy downturn affecting the trade and commerce at multilayer level-- all lead to the unproductive state of a project being allowed to linger on. The government must find ways to solve this riddle.
