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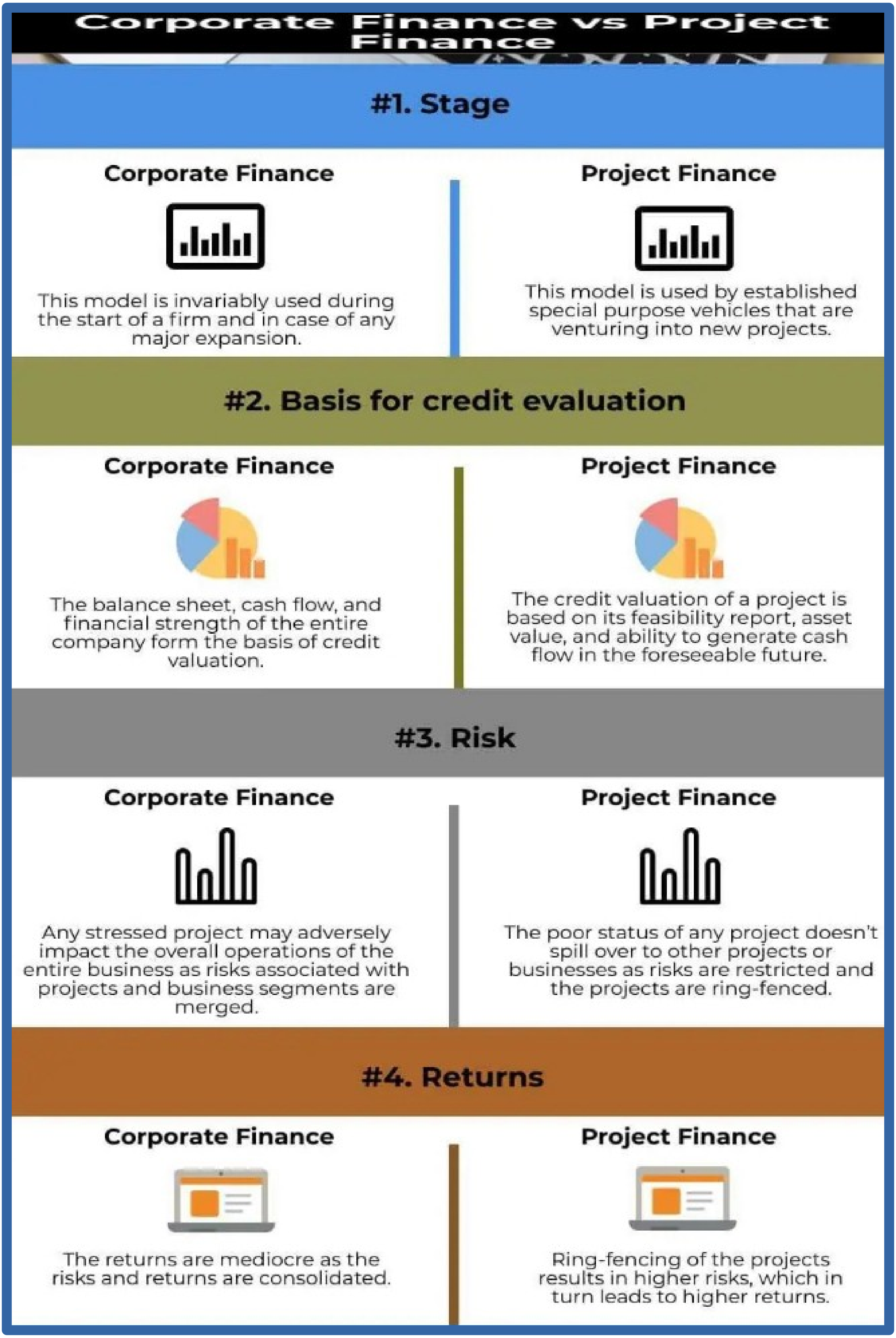


Corporate Finance vs Project Finance

#1. Stage

Corporate Finance

This model is invariably used during the start of a firm and in case of any major expansion.

Project Finance

This model is used by established special purpose vehicles that are venturing into new projects.

#2. Basis for credit evaluation

Corporate Finance

The balance sheet, cash flow, and financial strength of the entire company form the basis of credit valuation.

Project Finance

The credit valuation of a project is based on its feasibility report, asset value, and ability to generate cash flow in the foreseeable future.

#3. Risk

Corporate Finance

Any stressed project may adversely impact the overall operations of the entire business as risks associated with projects and business segments are merged.

Project Finance

The poor status of any project doesn't spill over to other projects or businesses as risks are restricted and the projects are ring-fenced.

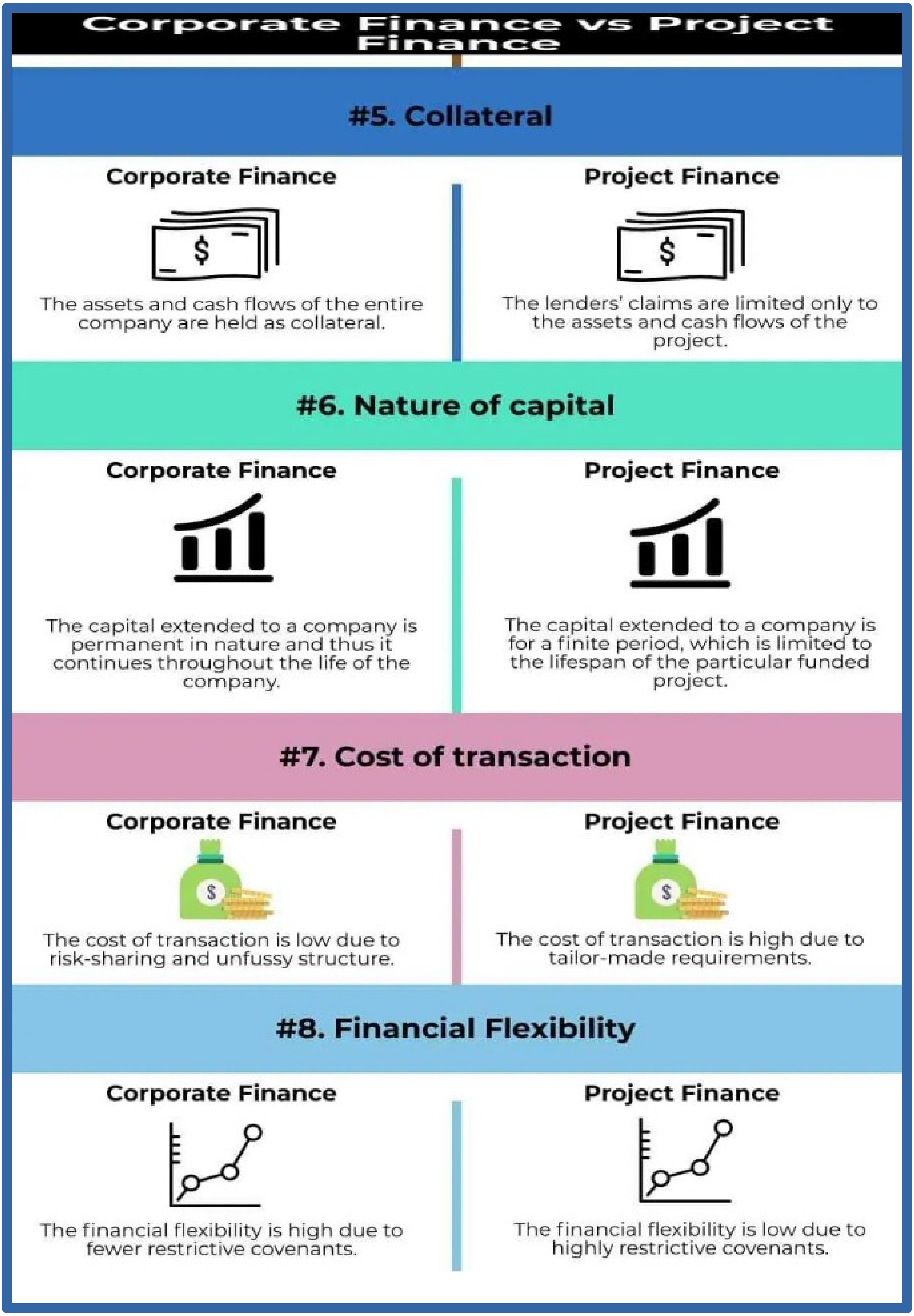
#4. Returns

Corporate Finance

The returns are mediocre as the risks and returns are consolidated.

Project Finance

Ring-fencing of the projects results in higher risks, which in turn leads to higher returns.



Corporate Finance vs Project Finance

#5. Collateral

Corporate Finance

The assets and cash flows of the entire company are held as collateral.

Project Finance

The lenders' claims are limited only to the assets and cash flows of the project.

#6. Nature of capital

Corporate Finance

The capital extended to a company is permanent in nature and thus it continues throughout the life of the company.

Project Finance

The capital extended to a company is for a finite period, which is limited to the lifespan of the particular funded project.

#7. Cost of transaction

Corporate Finance

The cost of transaction is low due to risk-sharing and unfussy structure.

Project Finance

The cost of transaction is high due to tailor-made requirements.

#8. Financial Flexibility

Corporate Finance

The financial flexibility is high due to fewer restrictive covenants.

Project Finance

The financial flexibility is low due to highly restrictive covenants.

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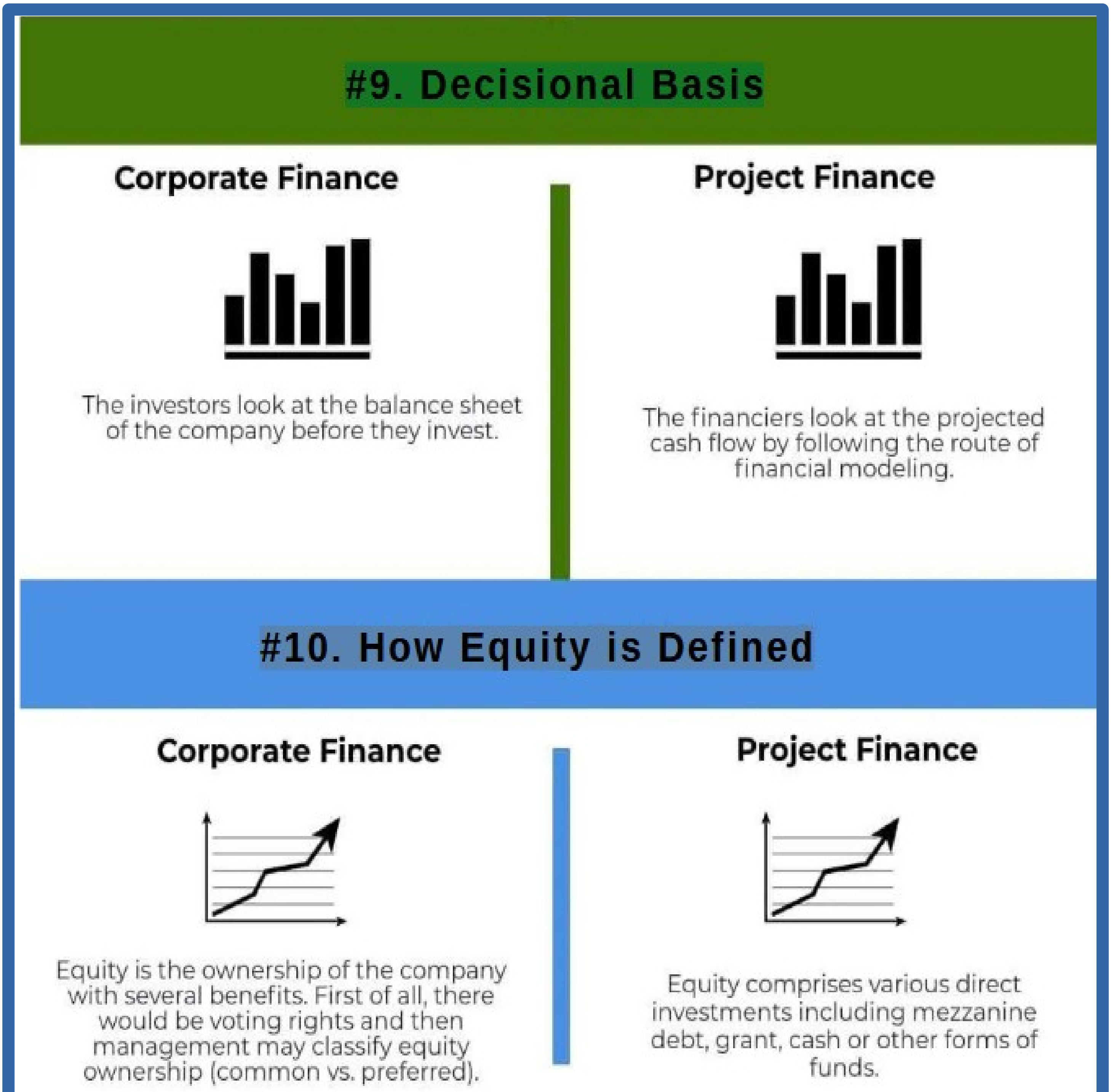

#9. Decisional Basis

Corporate Finance

The investors look at the balance sheet of the company before they invest.

Project Finance

The financiers look at the projected cash flow by following the route of financial modeling.

#10. How Equity is Defined

Corporate Finance

Equity is the ownership of the company with several benefits. First of all, there would be voting rights and then management may classify equity ownership (common vs. preferred).

Project Finance

Equity comprises various direct investments including mezzanine debt, grant, cash or other forms of funds.