"Analysis & Assessment of Working Capital Proposal"

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Abstract

Wheels of business cannot move without money. Availability of money is being limited and wants being unlimited. So procurement of fund is one of the important functions in commercial & non-commercial enterprises and its utilization for maximization of business profits.

Bank is one of the important sources of working capital requirement through various facilities to the borrowers. The main objective of the paper is to study various types of working capital finance provided by banks and to know the detailed procedure of assessment of working capital finance extended by banks.

The research method used in this study is descriptive. Primary data is collected through observation and discussion with the manager, the company profile and annual reports. Secondary data is extracted from old sanction proposals, RBI guidelines, reference books etc.

This paper covers almost important aspect relating to assessment & follow up of working capital finance. After discussing the procedure followed by bank, for assessing working capital requirement case studies have been used with necessary data in the prescribed forms to demonstrate the calculable done by bank to arrive at maximum permissible bank finance.

Key Words: Bank, working capital, lending, annual reports, proposal

Introduction

In accounting," Working capital is the difference between the inflow and outflow of funds. In other words, it is the net cash inflow. It is defined as the excess of current assets over current liabilities and provisions. In other words, it is net current assets or net working capital.

A study of working capital is of major importance to internal and external analysis because of its close relationship with the day-to-day operations of a business. Working Capital is the portion of the assets of a business which are used on or related to current operations, and represented at any one time by the operating cycle of such items as against receivables, inventories of raw materials, stores, work in process and finished goods, merchandise, notes or bill receivables and cash.

Working capital comprises current assets which are distinct from other assets. In the first instance, current assets consist of these assets which are of short duration. Working capital may be regarded as the life blood of a business. Its effective provision can do much to ensure the success of a business while its inefficient management can lead not only to loss of profits but also to the ultimate downfall of what otherwise might be considered as a promising concern.

The funds required and acquired by a business may be invested to two types of assets:

1. Fixed Assets
2. Current Assets

Objectives

- To know the various types of working capital finance provided by banks
- To analyze in detail the procedure of assessment of working capital finance extended by bank
- To apply these procedures at a practical level with the help of case studies

Literature review:

Eljelly (2004), "Liquidity-Profitability tradeoff: An empirical investigation in an emerging market" identified the relation between profitability and liquidity who was examined, as measured by current ratio and cash gap (cash conversion cycle) on a sample of joint stock firms in Saudi Arabia. The study found that the cash conversion cycle was of more importance as a measure of liquidity than the current ratio that affects profitability. The size variable was found to have significant effect on profitability at the industry level. The results were stable and had important implications for liquidity management in various Saudi firms. First, it was clear that there was negative relationship between profitability and liquidity indicators such as current ratio and cash gap in the Saudi sample examined. Second, the study also revealed that there was great variation among industries with respect to the significant measure of liquidity.

Saswata Chatterjee (2010), "The impact of working capital management on the profitability of the listed companies in the London stock exchange" Focused on the importance of the fixed and current assets in the successful running of any organization. It poses direct impacts on the profitability liquidity. There have been a phenomenon observed in the business that most of the companies increase the margin for the profits and losses because this act shrinks the size of working capital relative to sales. But if the companies want to increase or improve its liquidity, then it has to increase its working capital. In the response of this policy the organization has to lower down its sales and hence the profitability will be affected due to this action. For this purpose 30 United Kingdom based companies were selected which were listed in the London Stock exchange. The data were taken of three years 2006-2008. It analyzed the impact of the working capital on the profitability. The dimensions of working capital management included in this research which is quick ratios, current ratios C.C.C, average days of payment, Inventory turnover, and A.C.P (average collection period. on the net operating profitability of the UK companies.

Richard Pike and Bill Neale (2003), "Corporate finance & investment: Decisions & strategies" stated that "working capital refers to current assets less current liabilities - hence its alternative name of net current asset. Current assets include cash, marketable securities, debtors, and stocks. Current liabilities are obligations that are expected to be repaid within the year". Long term investment and financing decisions give rise to future cash flows which, when discounted by an appropriate cost of capital, determine the market value of a company. However, such long-term decision will only result in the expected benefits for a company if attention is also paid to short term decision regarding current assets and liabilities. Current assets and liabilities, that are assets and liabilities with maturities of less than one year, need to be carefully managed. Net working capital is the term given to the difference between current assets and current liabilities.

Watson D and Head A (2007), "Corporate finance: Principles & practices" argued that "maintaining adequate working capital is not just important in the short term. Adequate liquidity is needed to ensure the survival of the business in the long term". Even a profitable company may fail without adequate cash flow to meet its liabilities. It can be argue as according to ACCA paper 2.4, 2005, "an excessively conservative approach to working capital management resulting in high-level of cash holdings will harm profits because the opportunity make a return on the assets tied up as cash will have been missed".

Therefore, in short, working capital is money used to pay short-term obligations such as creditors, to purchase stock, for paying wages etc. - costs that are used to make and sell your product or deliver your service and will ultimately be recovered from sales. Basically working capital represents the funds that are required to operate a business on a day to day basis.

REGULATION OF BANK FINANCE

Introduction:

Bank follows certain norms in granting working capital finance to companies.

These norms have been greatly influenced by the reconditions of various committees appointed by the RBI from time to time. The norms of working capital finance followed by banks are mainly based on the recommendation of **Tandon committee and chore committee.**

TANDON COMMITTEE:

The Tandon committee was appointed by the RBI in July 1974 and headed by Shri. Prakash L. Tandon, the chairman of the Punjab national bank, to suggest guidelines for rational allocation and optimum use of bank credit taking into consideration the weakness of the leading system. Bank credit, which had become a scare commodity, strictly rationed to meet the credit requirement of all the sectors. The larger sector of the industry needed strict rationing becomes

Its report laid down as to how the credit ratio of individual borrowers could be fixed at imposed certain obligation on them for the efficient use of the credit made available.

CHORE COMMITTEE:

In April 1979, the RBI constituted a working group to review the system of cash credit under the chairmanship of Mr. K. B. Chore, Chief Officer, DBCOD, RBI. The main terms of reference for the group were to review the cash credit discipline and relate credit limit to production.

Research Methodology:

This is analytical research area where the information is analyse with cause and its effects relationship. This analysis leads to the simple conclusions of whether to lend money to the institution for business.

Research Type	Analytical
Source of Data	Primary and Secondary
Sample Unit	Industries applying for loan
Sample	Case studies
Sample Technique	Allocation of Case
Analysis Tool used	Ratios, Charts

Primary Data:

- Observation, Discussion with the manager.
- The company profile, annual reports have been obtained from HDFC LTD.

Secondary Data:

Secondary data relating to the procedure of assessment of working capital finance, old sanction proposals, RBI guidelines etc. have been sourced from reference books.

Data Analysis & Interpretation

This part of the study is divided into three sections. Each of them is catering to three objectives respectively.

<u>SECTION I: Working capital finance</u>

A manufacturing concern needs finance not only for acquisition of fixed assets but also for its day-to-day operations. It has to obtain raw materials for processing, pay wage bills & other manufacturing expenses, store finished goods for marketing & grant credit to the customers. It may have to pass through the following stages to complete its operating cycle

Conversion of cash into raw materials – raw material procured on credit, cash may have to be paid after a certain period.

i. Conversion of raw materials into stock in process.
ii. Conversion of stock in process into finished goods.
iii. Conversion of finished goods into receivables/debtors or cash.
iv. Conversion of receivables/debtors into cash.

A non-manufacturing trading concern may not require raw material for their processing, but it also needs finance for storing goods & providing credit to its customers. Similarly a concern engaged in providing services, it may not have to keep inventories but it may have to provide credit facility to its customers. Thus all enterprises engaged in manufacturing or trading or providing services require finance for their day-to-day operations, the amount required to finance day-to-day operation is called working capital & the assets & liabilities are created during the operating cycle are called current assets & current liabilities. The total of all the current assets is called gross working capital & the excess of current assets over current liabilities is called net working capital.

When entrepreneurs for financing working capital requirements approach the banks, the bank has to examine the viability of the project before agreeing to provide working capital for it. Financial institutions & bank while providing term loan finance to unit for acquisition of fixed assets does a detailed viability study. They have to ensure that the project will generate sufficient return on the resources invested in it. The viability of a project depends on technical feasibility, marketability of the products, at a profitable price, availability of financial resources in time & proper management of the unit. In brief the project should satisfy the tests of technical, commercial, financial & managerial feasibility.

Proper co-ordination amongst banks & financial institution is necessary to judge the viability of a project & to provide working capital at appropriate time without any delay. If a unit approaches banks only for working capital requirement & no viability study has been done earlier which is done at the time of providing term loans, a detailed viability study is necessary before agreeing to provide working capital finance.

In the view of scarcity of bank credit, its increasing demand from various sectors of economy & its importance in the development of economy, bank should provide working capital finance according to production requirements. Therefore it is necessary to make a proper assessment of total requirement of the working capital, which depends on the nature of the activities of an enterprise & the duration of its operating cycle. It has to be ensured that the unit will have regular supply of raw material to facilitate uninterrupted production. The unit should be able to maintain adequate stock of finished goods for smooth sales operation. The requirement of trade credit, facilities to be given by the unit to its customers should also be assessed on the basis of practice prevailing in the particular industry/trade which assessing above requirements, it should also be ensured that carrying cost of inventories & duration of credit to customers are minimized. After assessing the total requirement of working capital, a part of working capital requirement should be financed for the long term & partly by determining maximum permissible bank finance.

Assessment of working capital:

A unit needs working capital funds mainly to carry current assets required for its operations. Proper assessment of funds required for working capital is essential not only in the interest of the concerned unit but also in the national interest to use the scare credit according to production requirements. Inadequate levels of working capital may result in under-utilization of capacity and serious financial difficulties. Similarly excessive levels may lead to unproductive use of credit and unnecessary interest Burdon on the unit. Proper assessment of working capital requirement may be done as under

I. Norms for inventory and receivables:

If the bank credit is to be linked with production requirements, it is necessary to assess the requirements on the basis of certain norms. The 'study group to frame guidelines to follow-up of bank credit' (Tandon Study Group) appointed by Reserve Bank of India had suggested the norms for inventory and receivables regarding 1: major industries on the basis of company finance studies made by Reserve Bank process periods in the different industries, discussions with the industry experts and feed-back received on the interim report. The norms suggested by Tandon Study Group are being reviewed from time to time by the Committee of Direction constituted by the Reserve Bank to keep a constant view on working capital requirements. The committee has representatives from a few banks and it generally once in a quarter. It also consults the representatives from industry and trade. It keeps a watch on the various issues relating to working capital requirements and gives various suggestions to suit the changing requirements of the industry and trade.

Banks make their own assessment of credit requirements of borrowers based on a total study of borrowers' business operations and they can also decide the levels of holding each item of inventory as also of receivables which in their view would represent a reasonable built up of current assets for being supported by banks' finance. Banks may also consider suitable internal guidelines for accepting the projections made by the borrowers regarding sundry creditors as sundry creditors are taken as a source of financing current assets (inventories, receivables, etc.), it is necessary to project them correctly while calculating need of bank finance for working capital requirements.

II. Computation of Maximum Permissible Bank Finance (MPBF):

The Tandon Study group had suggested the following alternatives for working out the maximum permissible bank finance:-

a. Bank can work out the working capital gap. i. e. total current assets less current liabilities other than bank borrowings and finance a maximum of 75 per cent of the gap; the balance to come out of long-term funds, i.e. owned funds and term borrowings
b. Borrower should provide for a minimum of 25 per cent of total current assets out of long-term funds, i.e. owned funds and long term borrowings. A certain level of credit for purchases and other current liabilities inclusive of bank borrowings will not exceed 75 per cent of current assets.

It may be observed from the above that borrower's contribution from long term funds would be 25 per cent of the working capital gap under the first method of lending and 25 per cent of total current assets under the second method of lending. The above minimum contribution of long-term funds is called minimum stipulated Net Working Capital (NWC) which comes from owned funds and term borrowings.

III. Information/Data required for assessment of working capital:

In order to assess the requirements of working capital on the basis of production needs, it is necessary to get the data from the borrowers regarding their past/projected production, sales, cost of production, cost of sales, operating profit, etc. in order to ascertain the financial position of the borrowers & the amount of working capital needs to be financed by banks, it is necessary to call for the data from the borrowers regarding their net worth, long term liabilities, current liabilities, fixed assets, current assets, etc. the Reserve Bank prescribed the forms in 1975 to submit the necessary details regarding the assessment of working capital under its credit authorization scheme. The scheme of credit authorization was changed into credit monitoring arrangement in 1988. The forms used under the credit authorization scheme for submitting necessary information have also been simplified in 1991 for reporting the credit sanctioned by banks above the cut-off point to reserve bank under its scheme of credit monitoring arrangement.

As the traders and merchant exporters who do not have manufacturing activities are not required to submit the data regarding raw materials, consumable stores, goodsin-process, power and fuel, etc., a separate set of forms has been designed for traders and merchant exporters. In view of the peculiar nature of leasing and the hire purchase concerns, a separate set of forms has also designed for them.

In addition to the information/data in the prescribed forms, bank may also call for additional information required by them depending on the nature of the borrowers' activities & their financial position.

SECTION II: Procedure for working capital finance

Credit sanction process:

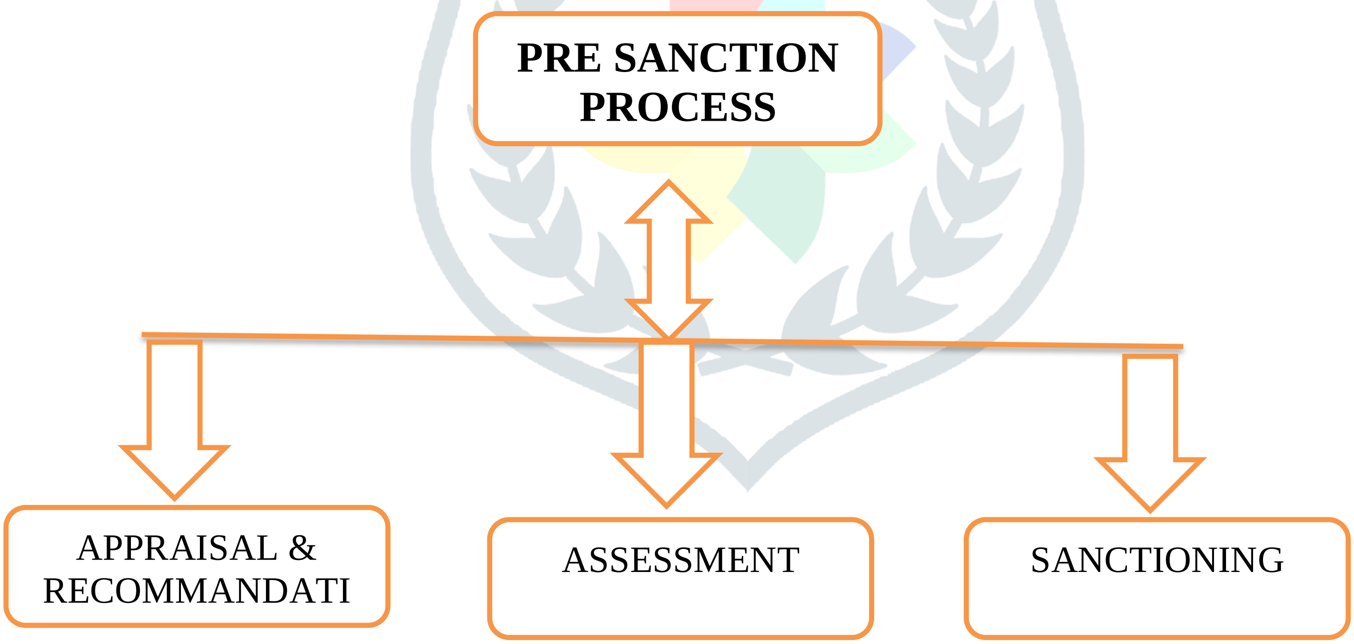
The revised credit process is introduced with a view of reducing the time lag in the sanction of credit besides clearly delineating the areas of responsibilities of various functionaries. As per this the revised process is divide into two components that is Pre sanctioning and Post sanctioning.

In the pre sanctioning it is the only time that the bank can take due assessment and precautions to make sure that the investments are done for the benefit of the bank. The post sanctioning is the follow of the payment. Incase the payment defaults then the account will go into NPA in stages and the bank is then said to scrutinize the said account.

PRE SANCTION PROCESS:

Obtain loan application

When a customer required loan he is required to complete application form and submit the same to the bank also the borrower has to be submit the required information along with the application form.



The information, which is generally required to be submitted by the borrower along with the loan application, is under: -

- Audited balance sheets and profit and loss accounts for the previous three year(in case borrower already in the business)
- Estimated balance sheet for current year.
- Projected balance sheet for next year.

• Profile for promoters/directors, senior management personnel of the company.

• In case the amount of loan required by borrower is 50 lacs and above he should be submit the **CMA** Report.

- ✓ Examine for preliminary appraisal
- ✓ RBI guidelines.
- ✓ Policies Prudential exposure norms and bank lending policy
- ✓ Industry exposure restriction and related risk factors.
- ✓ Compliance regarding transfer of borrowers accounts from one bank to another bank
- ✓ Government regulation / legislation impact on the industry
- ✓ Acceptability of the promoter and applicant status with regards to other unit to industries.
- ✓ Arrive at the preliminary decision.
- ✓ Examine/analysis /assessment
- ✓ Financial statement (in the prescribed forms) refers figure WC cycle & BS assessment thumb rules.
- ✓ Financial ratio & Dividend policy.
- ✓ Depreciation method Revaluation of fixed assets.
- ✓ Records of defaults (Tax, dues etc.)
- ✓ Pending suits having financial implication (Customs, excise etc.)
- ✓ Qualifications to balance sheet auditors remarks etc.
- ✓ Trend in sales and profitability and estimates /projection of sales.
- ✓ Production capacities and utilization: past & projected production efficiency and cost.
- ✓ Estimated working capital gap W.R.T acceptable buildup of inventory/receivables/other current assets and bank borrowing patterns.
- ✓ Assess MPBF –determine facilities required
- ✓ Assess requirement of off balance sheet facilities viz.L/cs,B/gs etc.
- ✓ Management quality, competence, track records
- ✓ Company’s structure and system
- ✓ Market shares of the units under comparison.
- ✓ Unique feature
- ✓ Profitability factors
- ✓ Inventory/Receivable level
- ✓ Capacity utilization
- ✓ Capital market perception.

POST SANCTION PROCESS

Supervision and follow up:

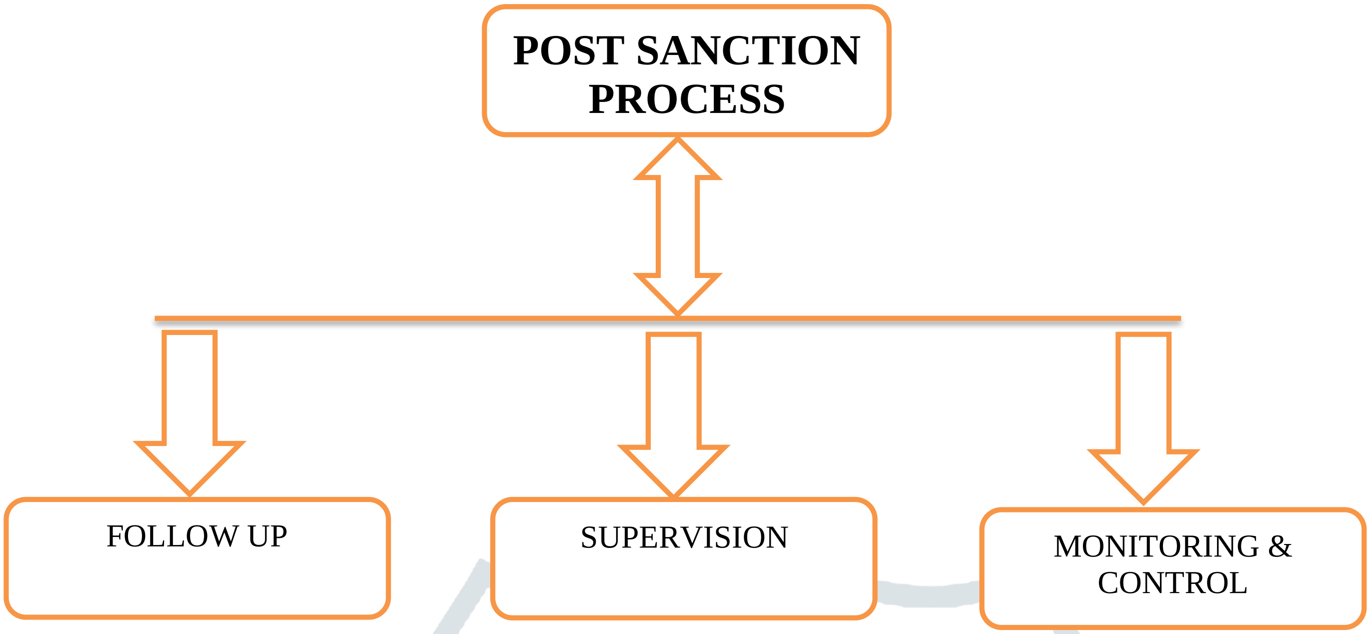
Sanction credit limit of working capital requirement after proper assessment of proposal is alone not sufficient. Close supervision and follow up are equally essential for safety of bank credit and to ensure utilization of fund lend. A timely action is possible only close supervision and followed up by using following techniques.

o Monthly stock statement o Inspection of stock

o Scrutiny of operation in the account

o Quarterly/half quarterly statements.

o Under information system o Annual audited report



CREDIT GEMENT

Consequent upon the withdrawal of requirement of prior authorization under the erstwhile credit authorization scheme (CAS) and introduction of a system of post sanction scrutiny under credit monitoring arrangement (CMA) the database forms have been recognized as CMA database. The revised forms for CMA database as drawn up by the sub-committee of committee of directions have come into use from 1st April 1991.

The existing forms prescribed for specified industries continue to remain in force. With a view to imparting uniformity to the appraisal system, database from all borrowers including SSI units enjoying working capital limits of Rs.50 lacs and more from the banking system should be obtained.

The revised sets of forms have been separately prescribed for industrial borrowers and traders/merchant exporters. The details of forms are as under: -

Form 1: - particulars of the **existing/proposed limit from the banking system.**

Form 2: -**Operating statement.**

It contains data relating to gross sales, net sales, cost of raw material, power and fuel, etc.

It gives the operating profit and the net profit figures.

Form 3: - **Analysis of balance sheet.**

It is complete analysis of various items of last years balance sheet; current years estimate and following years projection are given in this form.

Form 4: - **Comparative statement of current asset and liabilities.**

Details of various items of current asset and current liabilities are given.

The figures in this form must tally with those in form III.

Form 5: - **Computation of maximum permissible bank finance for working capital.**

The calculation of MPBF is done in this form to obtain the fund based credit limits to be granted to the borrower.

Form 6: - **Fund flow statement**

It provides the details of fund flow from long term sources and uses to indicate whether they are sufficient to meet the borrower's long term requirements.

CREDIT RATING MODEL

The various risk faced by any company may be broadly classified as follows:

Industry Risk: It covers the industry characteristic, compensation, financial data etc.

Company/ business risk: It considers the market position, operating efficiency of the company etc.

Project risk: It includes the project cost, project implementation risk, post project implementation etc.

Management risk: It covers the track record of the company, their attitude towards risk, propensity for group transaction, corporate governance etc.

Financial risk: financial risk includes the quality of financial statements, ability of the company to raise capital, cash flow adequacy etc.

DRAWING POWER OF THE BORROWER

The drawing power that a borrower enjoys at any one point depends on each components of working capital. The bank for each component, which the borrower must hold as his contribution to finance working capital, prescribes margins. The drawing power of the borrower can be best explained with the following illustration

BANKING ARRANGEMENTS

Working capital is made available to the borrower under the following arrangements;

CONSORTIUM BANKING ARRANGEMENT:

RBI till 1997 made it obligatory for availing working capital facilities beyond a limit (Rs 500 million in 1997), through the consortium arrangement. The objective of the arrangement was to jointly meet the financial requirement of big projects by banks and also share the risks involved in it.

While it consortium arrangement is no longer obligatory, some borrowers continue to avail working capital finance under this arrangement. The main features of this arrangement are as follows;

Bank with maximum share of the working capital limits usually takes the role of 'lead bank'.

Lead bank, independently or in consultation with other banks, appraise the working capital requirements of the company.

Banks at the consortium meeting agree on the ratio of sharing the assessed limits.

Lead bank undertakes the joint documentation on behalf of all member banks.

Lead bank organizes collection and dissemination of information regarding conduct of account by borrower.

MULTIPLE BANKING ARRANGEMENT

Multiple banking is an open arrangement in which no banks will take the lead role.

Most borrowers are shifting their banking arrangement to multiple banking arrangements.

The major features are –

- Borrower needs to approach multiple banks to tie up entire requirement of working capital.
- Banks independently assessed the working capital requirements of the borrower.
- Banks, independent of each other, do documentation, monitoring and conduct of the account.
- Borrowers deals with all financing banks individually.

SYNDICATION

A syndicated credit is an agreement between two or more lenders to provide a borrower credit facility using common loan agreement. It is internationally practiced model for financing credit requirements, wherein banks are free to syndicate the credit limit irrespective of quantum involved. It is similar to a consortium arrangement in terms of dispersal of risk but consist of a fixed repayment period.

FINANCIAL RATIOS

CURRENT RATIO=CURRENT ASSET/ CURRENT LIABITIES

Help to measure liquidity and financial strength, indication of availability of current assets to pay current liabilities. The higher the ratio betters the liquidity position.

Generally it should be at least 1.33.

TOL/TNW=TOL/TANGIABLE NET WORTH

Indicate size of stakes, stability and degree of solvency. Indicates how high the stake of the creditors is. Indicate what proportion of the company finance is represented by the tangible net worth .The lower the ratio, greater the solvency. Anything over 5 should be viewed with concern.

The ratio should be studied at the peak level of operations.

OPERATING PROFIT RATIO=OPERATING PROFIT/NET SALES×100

This ratio indicates operating efficiency .Indication of net margin of profit available on Rs. 100 sales. Trend for company over a period should be encouraging.

DSCR (DEBT SERVICE COVERAGE RATIO)=DEPRICIATION+INTREST ON TERM LOAN/ INTREST ON TERM LOAN+INSTALLMENT OF TERM LOAN

It indicates the number of times total debt service obligation consisting of interest and repayment of the principal in installment is covered by the total fund available after taxes.

With the help of this ratio (popularly known as DSCR), we can find out whether the loan taken for acquisition of fixed assets can be rapid conveniently.

This ratio of 1.5 to 2 considered adequate.

We have already touched upon depreciation as non cash expenditure and since the funds are available with the enterprise to that extent. It is in order to ask for this sum in reduction of loan.

INTEREST COVERAGE RATIO=EARNINGS BEFORE TERM LOAN AND TAXATION / INTEREST ON TERM LOAN

The ratio indicates adequacy of profit to cover interest. Higher the ratio more is the security to the lender.

CASE – 1

History & Background

Its a partnership firm came into formation in the year 2002.Customer is in two businesses

1) Construction 2) Power Generation.

The Firm is registered with P.W.D. (Govt. Of Maharashtra) in class 1-A category.

The firm is also registered with

A) Maharashtra Krishna Valley Development Corporation, Pune.
B) Godavari Marathwada Irrigation Development Corporation, Aurangabad.
C) Tapti Irrigation Development Corporation, Jalgaon.
D) Vidharbha Irrigation Development Corporation, Nagpur.

The firm have experience in construction of various irrigation project like earthen dam, canals, barrage works. The firm has sufficient heavy earthmoving machinery with adequate technical & supervisory staff for carrying out work i.e. excavation. The firm has completed many irrigation projects likely earthen dam, canals by maintaining the quality of work.

Eligibility Criteria

- Should be Sole Proprietorship, HUF, Partnership Firm, Private Ltd or Public Ltd Co.
- Minimum 3 years in same Business & same location
- Minimum 6 months of assets / liability relationship with HDFC Bank
- Sanctioned credit facility with a bank (for exposures > Rs. 1 Cr)
- Not listed in RBI Defaulter's List, CIBIL database or in any negative database of HDFC Bank
- Satisfactory conduct with the existing Banker
- Group concerns not listed in RBI / CIBIL / Internal database of the Bank
- Positive TNW and PAT for 2 years

What are the features and benefits of Working Capital Finance to Contractors?

- Uses commercial/construction equipment as security collateral
- Attractive rate of interest
- Easy documentation through the different process
- Fast processing that helps at every level

- Benefits of at par cheque facility
- Convenient facilities like Internet Banking and Phone Banking facilities

What is the documentation required for Working Capital Finance to Contractors?

- KYC Documentation
- Bank Statements for the last 6 months for all primary accounts
- Brief history and profile of the company and its promoters
- Audited Financials for the last three financial years and projected financials for the current year
- Latest Stocks statement with ageing analysis
- Sanction Letter of an existing bank limit (if any)
- Work order details
- Any other documents as required by the bank

Choose among the various types of fund based and non-fund based facilities being offered to Construction/Infrastructure Contractors

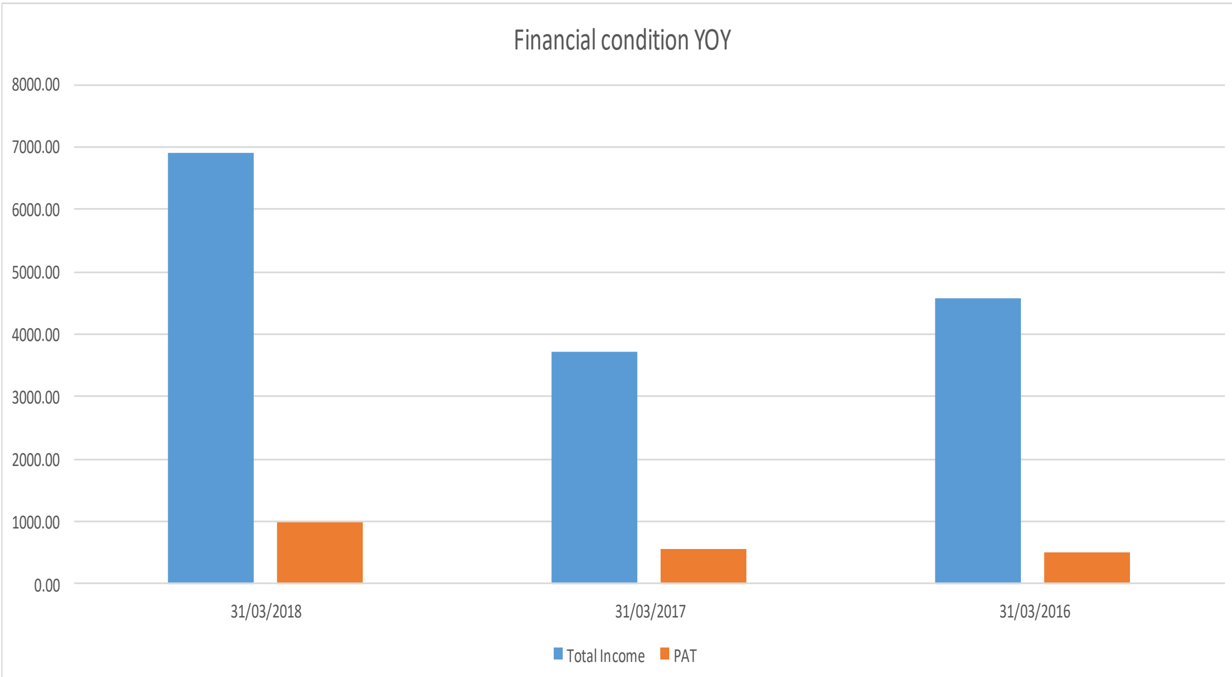
What are fees and charges

Processing Fees	Upto 1% of facility amount. Taxes as applicable
Renewal Fees	Upto 0.50% (plus taxes) of facility amount. Taxes as applicable
Commitment Charges	Average Utilization> 40% - Nil charges
	Average utilization < 40%- 0.50% p.a on the difference between the actual utilization and average quarterly utilization of 40%. Applicable only on CC/OD facility.
Pre-Payment Charges	2% after 6 month and 4% within 6 months of the total limits sanctioned. For Term Loans it would be charged on Principal Outstanding as on date .
Stamp Duty & other statutory charges	As per applicable laws of the state
Legal / Valuation	At actuals
Penal Interest	2% additional on existing ROI for non-submission of Insurance / Stock Statement for irregular period
ROC filling charges	Rs 3000/- per filing on availing bank empaneled vendor services.
Issuance of Solvency certificate	10000/- per solvency certification

Financial Details:

P&L Sheet (All figures in Rs. Lacs)	**31/03/2018**	**31/03/2017**	**31/03/2016**
Total Income	6921.90	3725.20	4569.00
PBDIT	2090.30	1551.80	1369.50
Interest	328.20	381.10	302.90
Depreciation	351.30	361.20	358.60
PBT	1410.80	809.50	708.00
Tax	427.00	245.00	214.50
PAT	983.80	564.50	493.50
Cash Profits	1335.10	925.70	852.10
Tangible Networth	5583.80	5672.80	5866.90
Short Term Debt	2104.10	1745.10	1786.70
Long Term Debt	1107.20	1610.50	1643.10
Unsecured Loans From Promoters	0.00	0.00	0.00
Total Debt	3211.30	3355.60	3429.90
Current Liabilities & Provisions	531.30	569.70	294.20
Total Liabilities	**9326.37**	**9598.15**	**9590.91**
Net Fixed Assets	4119.20	4418.00	4730.20
Investment	43.60	1.10	1.10
Loans & Advances	1159.50	852.30	654.70
Sundry Debtors	1336.10	1730.40	1601.70
Inventories	735.50	1132.00	1013.50
Other Current Assets	1932.40	1464.40	1589.60
Total Current Assets	5163.50	5179.10	4859.60
Total Assets	**9326.37**	**9598.15**	**9590.91**
Gross Margin (PBDIT/TI)	30.20	41.70	30.00
Net Margin (PAT/TI)	14.20	15.20	10.80
Current Ratio	1.96	2.24	2.34
Interest Coverage	6.37	4.07	4.52
DSCR	2.39	1.42	1.36
Debt/Equity Ratio	0.58	0.59	0.58
Leverage (TOL/Tangible Networth)	0.67	0.69	0.63
TOL (excl Unsecured Loans)	0.67	0.69	0.63
Current Assets / Sales	77.00	145.00	110.00

Debtor Days	73.00	177.00	132.00
Inventory Days Cost Of Sales	56.00	190.00	116.00
Creditors Days As Cost Of Sales	34.00	84.00	7.00
Latest Financial	Provisional	Audited	Audited



Financial Remarks:

Customer is in the business of power generation through Solar & Windmills and Construction of Govt projects which are Barrages, Canals, Dams.

Here 11.43% of consolidated revenues were from Power Generation and rest was from Construction.

There has been a positive surge in power but at the same time construction business was deteriorating, reason behind the same was clearance from Govt. for forest/vacant land.

Top line/ Revenue:

Turnover has increased from 3559.90 lacs (FY 16-17) to 6717.05 lacs (FY 17-18) I.e. 88% surge in topline. Reason behind drop fall in sales in year 2016-17 is due to the impact of demonetization, as realty business adversely get affected due to this reform.

Bottom line/ PAT:

Bottom line (PAT) has also surged from 564.5 lacs to 983.8 lacs which are approximately 14.20 % of the total revenues.

Gross Margin:

Gross Margins have meanwhile decreased from 41.70% to 30.20% but considering the volumes, said is a positive growth.

$$\text{Gross margin} = \frac{\text{PBDIT}}{\text{Total Income}} * 100$$

Current Ratio:

Current ratio has reduced from 2.24 times to 1.96 times but is standard from industry terms.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

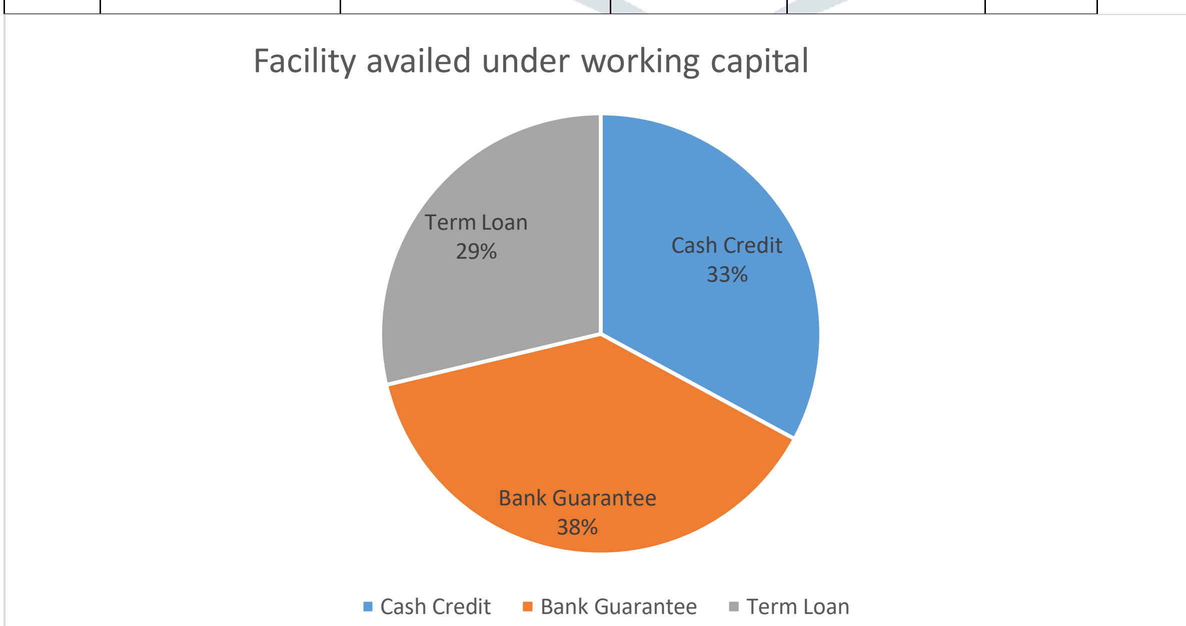
Interest Coverage Ratio & Leverage:

Interest coverage has increased from 4.07X to 6.37X which is a positive sign and leverage is less than 1X which is another sign of positivity.

$$\text{ICRL} = \frac{\text{PBDIT}}{\text{Interest}}$$

Facility Required (Amount in lacs):

Sr. No.	Particulars	Proposed amount	Interest	Commission	Tenor
1	Cash Credit	1,200.00	9.70%	NA	12
2	Bank Guarantee	1,400.00	NA	1.80%	12
3	Term loan 1	285.44	9.70%	NA	17
4	Term loan 2	569.08	9.70%	NA	51
5	Term loan 3	60.03	9.70%	NA	65
6	Term loan 4	132.74	9.70%	NA	65
	TOTAL	**3647.29**			



Cash Credit:

Customer requires the CC limit of 1200 lacs for daily cash requirement & maintaining inventory.

Bank Guarantee:

1400 lacs bank guarantee limits are issued to the customer. Customer mostly issues performance BG to the government.

Term Loan:

Customer currently has 4 term loan facility for his solar & wind mill projects amounted 1047.29 lacs.

MPBF-II Method For Fund Based/ Working Capital/ OD Requirement (Amount in lacs)

Particulars	FY 2017	FY 2018
Net Sales	3559.90	6717.10
Total Current Assets (TCA)	5171.30	4793.50
Current Liabilities (other than bank borrowings) (CL)	1288.90	919.90
Working Capital Gap (2-3)	3882.40	3873.60
Min. Stipulated NWC (25% Of TCA Excluding Export)	1292.82	1198.38
Actual/Projected NWC	2137.56	1771.80
(4-5)	2589.58	2675.22
(4-6)	1744.84	2101.80
MPBF (Lower Of 7 Or 8)	1744.84	2101.80
Limits Availed From Other Banks	0.00	0.00
Limits That Can Be Considered	1744.84	2101.80
Limits Proposed	1200.00	1200.00

DSCR Details (Amount in lacs)	**2018**	**2019**	**2020**	**2021**	**2022**
Net Profit {A}	1034.80	1307.15	1305.96	1376.58	1400.25
Non-Cash Expenditure {B}	0.00	0.00	0.00	0.00	0.00
Depreciation {C}	353.50	344.57	335.45	327.85	321.47
Interest On All Working Capital {D}	150.00	150.00	150.00	150.00	150.00
Interest On Existing Term Loan {E}	81.32	76.88	57.24	38.67	20.61
Interest On Unsecured Loans {F}	0.00	0.00	0.00	0.00	0.00
Interest On proposed Term Loan {G}	0.00	0.00	0.00	0.00	0.00
Principal On Existing Term Loan {H}	112.69	316.00	244.29	172.47	19.05
Principal On Proposed Term Loan {I}	0.00	0.00	0.00	0.00	0.00

DSCR Calculation (Amount in Lacs):

SI No	Year	Total Of Cash Surplus (X=A+B+C+D+E+F+G)	Total Repayment Obligation (Y=D+E+F+G+H+I)	DSCR (X/Y)
1	2018	1619.62	344.01	4.708061
2	2019	1878.6	542.88	3.460433
3	2020	1848.65	451.53	4.094191
4	2021	1893.1	361.14	5.242011
5	2022	1892.33	189.66	9.977486

- DSCR is justified as per the projections.
- All term loans are existing, no new term loan is proposed.

CASE – 2

History & Background:

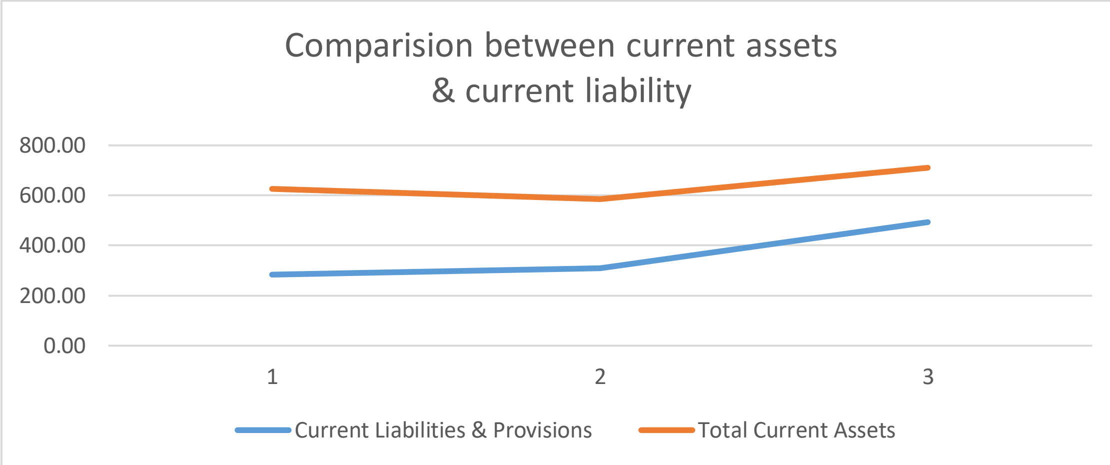
Established in 1979 for the purpose of manufacturing of diamond core drilling equipments for mineral explorations.

Company is one of the leading manufacturer in diamond core drilling accessories in India, employing about 80 people in three different loacation. Company have prestigious clients in India includes central government organisation like geological survey of India, mineral exploration corporation limited, central mine and design institute. Company also deals with lots of private sector mining infrastructure and construction companies.

Financials:

P&L Sheet (All figures in Rs. Lacs)	31/03/2017	31/03/2016	31/03/2015
Total Income	1209.20	1039.00	1122.10
PBDIT	81.50	71.70	86.20
Interest	12.20	18.70	19.80
Depreciation	43.00	15.60	39.10
PBT	26.30	37.40	27.30
Tax	24.50	18.20	21.30
PAT	1.80	19.30	6.00
Cash Profits	44.80	34.80	45.10
Tabgible Networth	327.30	301.00	263.60
Short Term Debt	0.00	0.00	0.00
Long Term Debt	1.80	4.60	7.20

Unsecured Loans From Promoters	80.00	79.70	71.90
Total Debt	81.80	84.30	79.20
Current Liabilities & Provisions	284.30	308.80	492.40
Total Liabilities	**693.40**	**694.11**	**835.20**
Net Fixed Assets	21.80	64.10	78.70
Investment	45.60	45.60	45.60
Loans & Advances	62.50	44.30	91.50
Sundry Debtors	88.60	203.70	207.20
Inventories	20.70	30.60	11.50
Other Current Assets	454.20	305.90	400.80
Total Current Assets	626.00	584.50	710.90
Total Assets	**693.40**	**694.11**	**835.20**
Gross Margin (PBDIT/TI)	6.70	6.90	7.70
Net Margin (PAT/TI)	0.20	1.90	0.50
Current Ratio	2.20	1.89	1.44
Interest Coverage	6.70	3.83	4.35
DSCR	4.47	2.64	2.92
Debt/Equity Ratio	0.25	0.28	0.30
Leverage (TOL/Tangible Networth)	1.12	1.31	2.17
TOL (excl Unsec Loans)	0.70	0.82	1.49
Current Assets / Sales	53.00	58.00	64.00
Debtor Days	27.00	74.00	68.00
Inventory Days Cost Of Sales	7.00	12.00	4.00
Creditors Days As Cost Of Sales	89.00	116.00	173.00
Latest Financial	Audited	Audited	Audited



Financial Remark

Top line/ Revenue:

Turnover has decreased from 1039 lacs (FY 15-16) to 1209.20 lacs (FY 16-17) I.e. 116.38% surge in topline.

Bottom line/ PAT:

Bottom line (PAT) has droped from 19.30 lacs to 1.80 lacs reason for which is heavy depreciation charged in year FY 2016-17.

Gross Margin:

Gross Margins are steady somewhere i.e. 6.90% for FY 2015-16 & 6.74% for FY 2016-17.

Current Ratio:

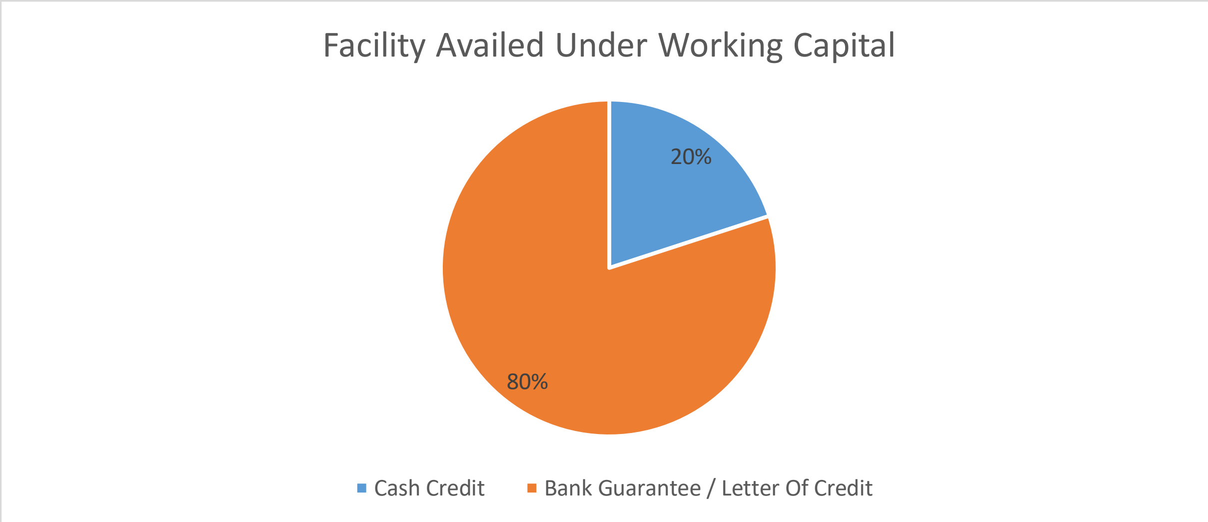
Current ratio has increased from 1.89 times to 2.20 times thats a favourable condition for the company.

Interest Coverage Ratio:

Interest coverage has increased from 3.83X to 6.70 X which is a positive sign.

Facility details:

Sr. No.	Facility Datails	Limit	Sub Limit	Interest	Comission	Tenor
1	Cash Credit	40.00		9.70%	NA	12
2	Bank Guarantee	160.00		NA	1.80%	12
3	Letter Of Credit		160.00	NA	1.80%	12
	TOTAL	**200.00**				



Conclusion

Cash credit, bank guarantee & letter of credit are the major instruments which are provided by the bank under working capital finance. Term loan is also carried out by the working capital team in HDFC bank but its not a working capital rather it's a long term requirement of a business.

For sanction of facilitie three year financials are analysed as shown under case studies. On various aspects like industry in which its working the sanction limit and criteria differ for each one of them. For facility sanction limit MPBF (Maximum permissible bank finance) method is used, which is shown under case study. Whether company is able to repay the loan amount in future or not DSCR (Debt service coverage ratio) is calculated to ensure the safety of the money.

Case studies data used as the base for the sanction of working capital finance for those particular companies. On these calculation it is decided whether to provide finance to that company or not & if yes than the maximum limit which can be sanctioned. On the factor of risk and industry along with few more criteria interest rate and commission calculation determined. Credit appraisal memo (CAM), DSCR ratio, MPBF method, RAM rating are the various techniques & procedures which must be followed during evaluation of the proposal.

Recommendation:

- As per the RBI notice company can not operate through other bank current account (OBCA), HDFC this recommendation but other banks are not strict on this condition as a result customer who want to change its bank for working capital finance not comfortable with HDFC bank because they operate through other bank current account and its not easy to change whole banking and depending on just bank. HDFC bank also must revise its policy for more customer attraction.

- Bank takes inventory and debtors as primary security and mortgadge as secondary security. It is recommended if company can offer small amount of working capital finance on just primary security than more number of customer can avail this facility.

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Abbreviations:

RBI : Reserve Bank of India

HDFC : Housing Development Finance Corporation

CC : Cash Credit

BG : Bank Guarantee

LC : Letter of Credit

MPBF : Maximum Permissible Bank Finance

MCLR : Marginal Cost of Lending Rate

PMB : Promoters Money in the Business

OBCA : Other Bank Current Account