**An Industries Guide to Drawing Power**

If your business uses **working capital funding** from a bank, understanding **Drawing Power (DP)** is crucial. DP determines how much of your sanctioned loan limit you can actually use based on your business’s **current assets**, such as inventory and receivables. It’s a tool used by banks to ensure that funds are used for day-to-day operations and not for long-term or non-business purposes.

**DP is relevant only to** [**working capital**](https://bankkeeping.com/services/renewing-of-working-capital-limit) **limit facilities** like **Cash Credit (CC)**, not for term loans or overdraft limits.

**Why Banks Use** [**Drawing Power**](https://wp.me/pg4h8r-FW)

Banks don’t just release the full credit limit without conditions. They want to ensure that the business has:

* Genuine short-term funding needs
* Some stake (margin) in the operations
* Healthy receivables and inventory turnover

Drawing Power is the mechanism used to **monitor and control** how much financing a business really needs at any given time.

**How DP is Calculated**

To calculate Drawing Power, banks look at the business’s **paid inventory** and **eligible receivables**, after deducting **creditors** (trade payables). Here’s a fresh example:

| **Particulars** | **Amount (Rs.)** |
| --- | --- |
| Raw Material Inventory | 300 |
| Work-in-Progress (WIP) | 150 |
| Finished Goods Inventory | 250 |
| **Total Inventory** | 700 |
| Less: Creditors (Trade Payables) | 220 |
| **Net Inventory** | 480 |
| Add: Receivables | 180 |
| **Total Working Capital Assets** | **660** |

In this case, banks will only evaluate the **net Rs.660** for potential funding — not the gross asset value of Rs.880 — because the business has already received Rs.220 worth of credit from suppliers.

[**Promoter’s Margin**](https://bankkeeping.com/post/margin-money-for-working-capital-importance-calculation-and-benefits) **Requirement**

Banks expect the borrower to contribute a portion of the working capital — commonly referred to as the **promoter’s margin**. This reduces credit risk for the bank and ensures the business owner is invested.

Typical margin rates:

* **25% on inventory**
* **10%–40% on receivables**, depending on customer quality and aging

Let’s assume the following:

* Margin on inventory: 25%
* Margin on receivables: 30%

| **Component** | **Value (Rs.)** | **Margin %** | **Promoter’s Share** | **Bank Funding** |
| --- | --- | --- | --- | --- |
| Net Inventory | 480 | 25% | 120.00 | 360.00 |
| Receivables | 180 | 30% | 54.00 | 126.00 |
| **Total** | **660** |  | **174.00** | **486.00** |

So, even though the working capital need is Rs.660, the **maximum funding** from the bank will be **Rs.486**, and the **business owner must fund the remaining Rs.174**.

**Cover Period: Age of Receivables Matters**

Not all receivables are eligible. Banks generally apply a **cover period** — usually **90 days** — beyond which any outstanding invoice is excluded from DP.

If out of Rs.180 in receivables, only Rs.120 are within 90 days:

| **Component** | **Value (Rs.)** | **Margin %** | **Promoter’s Share** | **Bank Funding** |
| --- | --- | --- | --- | --- |
| Net Inventory | 480 | 25% | 120.00 | 360.00 |
| Eligible Receivables (≤90d) | 120 | 30% | 36.00 | 84.00 |
| **Total** | **600** |  | **156.00** | **444.00** |

Now, the **revised Drawing Power becomes Rs.444** — this is the **Maximum Permissible Bank Finance (MPBF)**.

**Drawing Power vs Sanctioned Limit**

Think of your [**sanctioned limit**](https://bankkeeping.com/post/what-to-look-for-in-a-banks-sanction-letter) as a credit ceiling, say Rs.600. But if your **DP based on asset assessment is only Rs.444**, you can **only use Rs.444**, even though the bank has technically approved more.

**You cannot draw more than your DP**, no matter what your sanctioned limit is.

**Monthly DP Statement Submission**

If you’ve availed a Cash Credit facility, your bank will require a **monthly DP (or Stock) Statement**, usually submitted within **7–15 days** of each month’s end.

This statement includes:

* Item-wise inventory details
* Age-wise breakup of receivables
* Details of creditors
* Supporting documents (invoices, ledger summaries, etc.)

If you delay submission or misreport data:

* The bank may **charge a penalty**
* Your **drawing limit may be reduced temporarily**
* You may be asked to **bring in funds** if you’ve overdrawn

**What About** [**Overdraft (OD) Limits**](https://bankkeeping.com/post/understanding-cash-credit-cc-overdraft-od-and-dropline-od-dod-for-fund-based-working-capital)**?**

For businesses with smaller or more predictable cash flow needs, an **Overdraft (OD)** limit may be preferable. OD facilities usually:

* Don’t require monthly DP statements
* Are based on the creditworthiness and balance sheet of the business
* Offer more flexibility but less borrowing capacity

**Key Takeaways**

* **Drawing Power (DP)** defines how much you can draw from your Cash Credit limit, based on your current business assets.
* Banks fund a portion of inventory and recent receivables, adjusted for creditors and promoter margin.
* A **cover period** applies to receivables — only recent invoices count.
* **Monthly DP submission is mandatory** for CC accounts.
* You can never exceed your DP, even if your sanctioned limit is higher.

[Plastic & Packaging](https://bankkeeping.com/drawing-power-dp-calculation-for-plastic-and-packaging-industry), [Iron & Steel](https://bankkeeping.com/drawing-power-dp-calculation-for-iron-and-steel-industry), [sugar](https://bankkeeping.com/drawing-power-dp-calculation-for-sugar-industry), [Coal](https://bankkeeping.com/drawing-power-dp-calculation-for-coal-industry), [Yarn & Textile](https://bankkeeping.com/drawing-power-dp-calculation-for-yarn-and-textile-industry), [Auto & Auto Part](https://bankkeeping.com/drawing-power-dp-calculation-for-automobile-and-auto-parts-industry), [Chemical Additives](https://bankkeeping.com/drawing-power-dp-calculation-for-chemicals-additives-and-speciality-industry), [Cement & Construction](https://bankkeeping.com/drawing-power-dp-calculation-for-chemicals-additives-and-speciality-industry), [Adhesives & Paint](https://bankkeeping.com/drawing-power-calculation-for-chemicals-adhesives-and-paint-coatings-industry), [Grain & Pulses](https://bankkeeping.com/drawing-power-calculation-for-grains-and-pulses-industry), [Oil](https://bankkeeping.com/drawing-power-calculation-for-edible-oil-industry), [Traders](https://bankkeeping.com/drawing-power-dp-calculation-for-commodity-and-wholesale-traders), [Agro & Fertilizer](https://bankkeeping.com/drawing-power-dp-calculation-for-agro-chemicals-and-fertiliser-industry), [HealthCare](https://bankkeeping.com/drawing-power-dp-calculation-for-healthcare-industry), [Manufacturer](https://bankkeeping.com/drawing-power-dp-calculation-for-msme-manufacturing-industry), [Gems & Jewellery](https://bankkeeping.com/drawing-power-dp-calculation-for-gems-and-jewellery-industry), [Heavy Machinery](https://bankkeeping.com/drawing-power-dp-calculation-for-heavy-machinery-and-equipment-industry), [Consumer Durable](https://bankkeeping.com/drawing-power-dp-calculation-for-electrical-equipment-and-consumer-durable-industry), [Export & Import](https://bankkeeping.com/drawing-power-dp-calculation-for-export-and-import-industry), [Food processing](https://bankkeeping.com/drawing-power-dp-calculation-for-food-processing-and-fmcg-industry), [Logistics](https://bankkeeping.com/drawing-power-dp-calculation-for-transport-and-logistics-industry), [Paper](https://bankkeeping.com/drawing-power-dp-calculation-for-paper-industry), [Base Metal](https://bankkeeping.com/drawing-power-dp-calculation-for-base-metals-aluminium-copper-and-zinc-industry), [Financial Services](https://bankkeeping.com/drawing-power-dp-calculation-for-financial-services-industry), [Pharma](https://bankkeeping.com/drawing-power-dp-calculation-for-pharmaceutical-industry)