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Case study: How a co used extra cash for its employees

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3

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An [SME client](#) of [Tanwir Alam](#), founder & MD, [Fincart](#), wanted to start a new [employee benefit scheme](#) that was to cost the company Rs 6-8 lakh per annum. After going through the books of the company , it was seen that it often had extra cash of about Rs 2 crore in its bank account.

And almost surely this cash was available to the SME during the weekends. So Alam suggested the company deploy this extra cash in liquid funds during weekends and holidays for some higher returns.

According to Alam, each year, the company had Rs 2 crore freely available for 52 weekends, which could be put into liquid funds on a Friday and withdrawn on the following Monday -that is, for three days.



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"So the company deployed the cash in liquid funds for about 150 days a year. In addition to this, there were also holidays during the year when it could deploy the free cash in liquid funds," says Alam. So, in effect, the company put its available cash in liquid funds for about half a year, that included the weekends and the days around the holidays.

During the last one year, liquid funds gave a return of about 8% per annum on a pre-tax basis. So on a cash deployment of Rs 2 crore in liquid funds for six months, on a 4% pre-tax basis, the company earned about Rs 8 lakh in total. "This extra income was then used for the company's employee benefit scheme," says Alam. Since the income was expended for an employee benefit scheme, this Rs 8 lakh was not taxable to the company either. According to Alam, this company, without taking any extra financial burden, was able to give something to its employees just by using some smart cash management techniques.

Alam points out that companies should always look for such opportunities for better returns on their cash without taking much risk. One such opportunity will arise during the week beginning August 11.

Since August 15 is a holiday and August 16 and August 17 are Saturday and Sunday, a company with a free cash flow can deploy the same in liquid funds on August 14, which is a Thursday, and withdraw the same on August 18, which is a Monday.

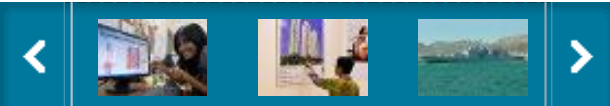
This way, companies can earn some extra money. However, if they keep this money in their current account in banks, they will not earn any income for these four days.

Large corporates have the financial muscle to have a dedicated treasury department that can take

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care of such opportunities. However, SMEs, being much smaller in size and not having enough financial strength to have a dedicated team to look after such strategies, require to think smartly or depend on fund houses for solutions.

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Normally when we sell a fund, it takes 3 working days to get back the fund, how did the company manage to buy on Friday and Sell on Monday. When you sell on Monday, the funding will be available only on Wednesday. PI clarify

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