WORKING CAPITAL

Working Capital knowledge base : Everything you need to know before proceeding.

What is Working Capital Loan?

Every business entity requires funds to purchase Fixed assets like Plant and Machinery, Land, Building etc. and some finance to meet their day to day requirements like to purchase raw material, pay salaries, electricity bills etc. The finance required to meet daily requirements is called working capital. Nowadays, banks are very aggressively providing funds to business houses to meet their working capital requirement and daily operational expenditure.

Collateral accepted for Working Capital Loans include:

* Stock.
* Book Debts.
* Additionally, banks may ask for some property (residential, commercial, industrial etc.)

Eligibility Criteria

* Annual turnover should be above Rs.1 Crore per annum
* Must be Sole Proprietorship, Partnership Firm, Private Ltd or Public Ltd Co., LLP
* Should not be listed in RBI Defaulter's List, CIBIL database, CRIL-C
* Minimum 2 years in same Business with positive Tangible Net Worth (TNW) and Profits After Tax (PAT)
* Satisfactory conduct with the existing Banker

Features:

* Can be secured or unsecured
* usually for a short duration of about 12 months
* Rate of Interest ranges between 11%-16% depending
* Reviewed annually

Types of Working Capital Loans

1. Overdraft facility  
   Based on the financial credentials of an enterprise, an overdraft facility is provided by the bank. Under this facility, the interest is charged only on the amount utilized/withdrawn and that too for the number of days/moths the amount has been overdrawn.
2. Bank Guarantees  
   This is a non-fund based facility wherein the bank gives an assurance to an individual/entity on the basis of their client that the contract entered between them will be executed by their client. In case, the client fails to honour the agreement, then the bank will make payment/compensate the entity to whom the assurance has been given,

Bank charges commission from their clients for giving guarantee on their behalf.

1. Letters of Credit  
   This is also a non-fund as it does not involve the application of funds.

A letter of credit is a form of bank guarantees that the seller will receive the amount of goods supplied on a particular date if the goods are delivered as per the agreement between the seller and buyer.

* 1. Packing Credit (PC)  
     This facility is offered to exporters to purchase/import, processing and packing of raw material/goods meant for export.
  2. Post Shipment Finance  
     Post Shipment Credit is funding the export sales receivables, after the goods are shipped till the export payments are realized.
  3. Bill Discounting  
     Once the goods are sold on credit, the bank purchases the bill (i.e. Bill of Exchange or Promissory Note duly accepted by the buyer) before its expiry and provides funds to the seller after deducting some margin. Upon the receipt of full payment from the buyer (the one who has given the acceptance to the bill), the Bank remits the initially kept margin money after making necessary deductions for the applicable interest and bank charges to the seller of the goods.

7. Buyer’s Credit  
This is a very relevant mode of finance in International Trade. A loan facility is extended in foreign currency to an importer by a bank or financial institution to finance the import of Raw material / Finished Goods / capital goods or services.

Rate of interest is very low as LIBOR (London Inter-Bank Offer Rate) linked pricing is offered in Buyers ‘credit.

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|  | **Entity** | | |
|  | **Sole Proprietorship** | **Partnership** | **Private Limited Company** |
|  | **Proprietor** | **Partner** | **Director** |
| **Individual Related Documents** | | | |
| Age & ID proof (any of the below): of Proprietor/Partner/Director   * PAN Card * Passport * Drivers’ License * Aadhar Card | **Yes** | **Yes** | **Yes** |
| Residence Address Proof (any of the below): of Proprietor/Partner/Director   * Passport * LIC Premium * Latest Utility Bill * Latest Mobile Bill | **Yes** | **Yes** | **Yes** |
| Photograph of Proprietor/Partner/Director  with Signature | **Yes** | **Yes** | **Yes** |
| Sanction letter and schedules/Statement of loans in the name of individuals/partners/directors | **Yes** | **Yes** | **Yes** |
| Residence/Office Ownership (any of the below):   * Electricity Bill * Sales Deed Copy | **Yes** | **Yes** | **Yes** |
| Last 6 months bank statement of all operative accounts | **Yes** | **Yes** | **Yes** |
| In the case of transfer of a loan: Last 12 months of  loans statement  along with the Sanction Letter of your previous bank | **Yes** | **Yes** | **Yes** |
| **Company Related Documents** | | | |
| Business continuity proof - 3 years income tax return & income  statement | **Yes** | **Yes** | **Yes** |
| Last3year audit report and audited financials | **Yes** | **Yes** | **Yes** |
| Business incorporation date proof - PAN Card | **N.A.** | **Yes** | **Yes** |
| Office Address proof (any one of the flowing):   * Utility bill (Electricity) * VAT/Sales Tax/Service Tax Registration certificate | **Yes** | **Yes** | **Yes** |
| MOA(Memorandum of Association ) and AOA (Articles of Association) | **N.A.** | **Yes** | **Yes** |
| Latest share holding pattern on company letterhead | **N.A.** | **Yes** | **Yes** |
| List of current partners with share of profit on firm letterhead | **N.A.** | **Yes** | **N.A.** |
| Partnership Deed | **N.A.** | **Yes** | **N.A.** |
| Certificate of Registration | **N.A.** | **Yes** | **Yes** |
| List of Directors on company letterhead | **N.A.** | **N.A.** | **Yes** |
| Certificate of Incorporation | **N.A.** | **N.A.** | **Yes** |