



Welcome to my dear
Rotarians
Wor(king) Capital

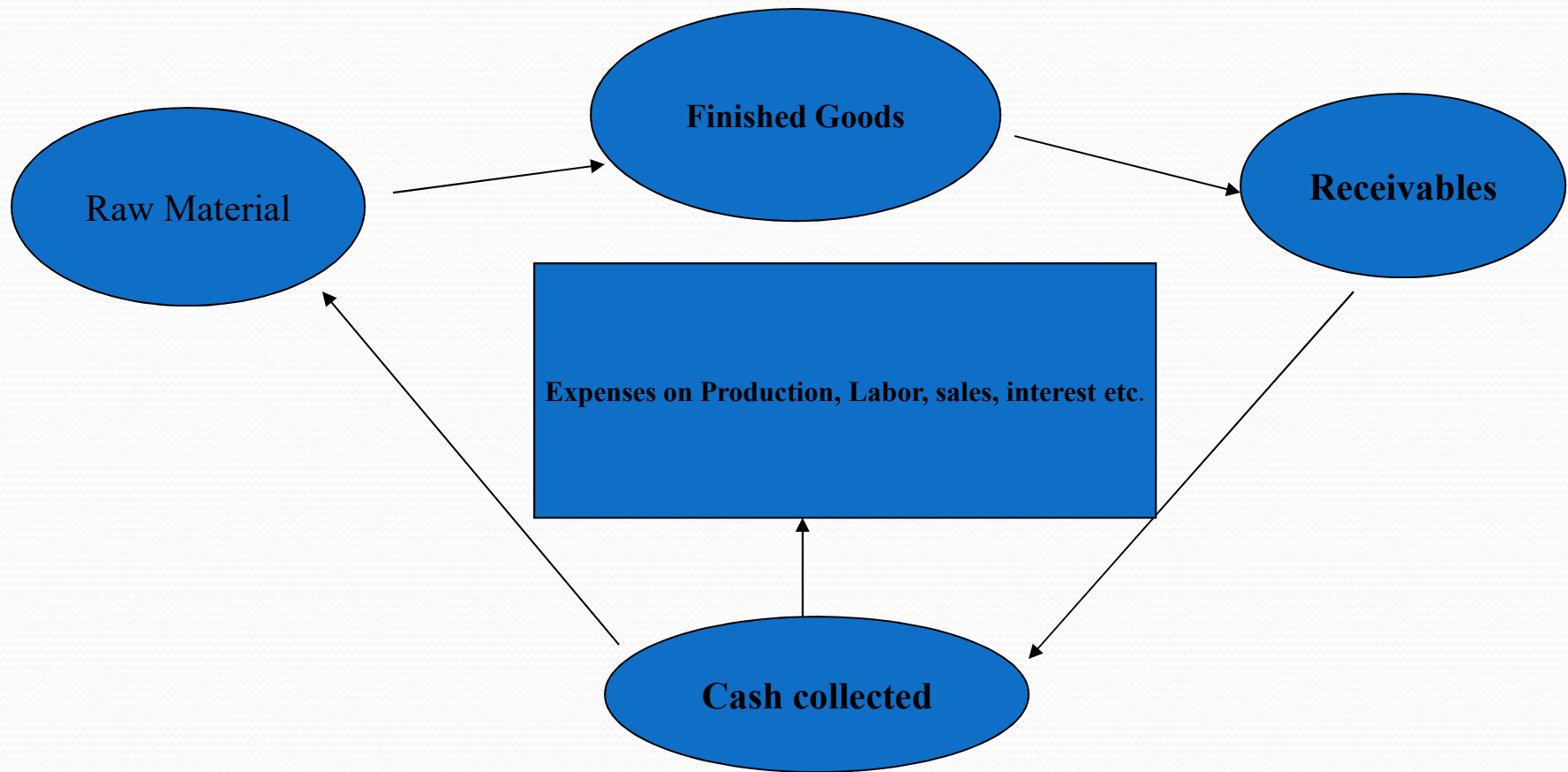
Introduction to the subject

- What is Working Capital?
- Why understanding this subject is essential for any business?
- Who should know about the subject?
- What is the benefit?

Objective of Effective Working Capital Management

- Maximize return on Investment
- ROI depends on Turnover and realization
- Managing the Gap
- How to monitor the Gap and lead time?
- How to understand the Cycle of Working Capital?

Cycle of Working capital



Different forms of Working Capital needs

- ✓ Needs of Manufacturer
- ✓ Needs of Wholesaler
- ✓ Needs of Retailer
- ✓ Needs of Service Provider
- ✓ Needs of Financier

Types of Working Capital

- Permanent Working Capital
- Temporary Working Capital
- Cyclic Working Capital
- Emergency Working Capital

Optimum Working Capital

- Should be neither Excessive nor inadequate
- Should not hamper production or sales
- Estimation should be need based and dynamic
- Source of funds should be clearly defined and structured

Estimation of Working Capital

oFactors to be considered are:

oNature of Business

oProduction Policy

oLength or lead time

oCredit Policy

oTurnover frequency

Estimation of Working Capital Contd..

- oEffect of seasonal fluctuations
- oAvailability of finance
- oStock requirements
- oProduction schedule
- oLabour availability
- oAllied factors affecting Production/ Sales

Components of working Capital

- ❖ Stock of raw material
- ❖ Work in Progress
- ❖ Finished Goods
- ❖ Stores and Spares
- ❖ Production facilitators

Components of working Capital contd..

- ❖ Receivables
- ❖ Cash and Bank Balances
- ❖ Creditors
- ❖ Bank finance
- ❖ Private funds
- ❖ Owner's funds

Balancing the Needs

- ❖ Dangers of Excessive Working Capital
- ❖ Inadequate Working Capital
- ❖ Utilization of Working funds for Long term needs
- ❖ Debt servicing
- ❖ Excessive borrowings
- ❖ Excessive credits

Ratios as a Tool for Working Capital management

- ✓ Profitability ratios
- ✓ Turn over ratio
- ✓ Debtors ratio
- ✓ Creditors ratio
- ✓ Collection lead time
- ✓ Liquidity ratio
- ✓ Current ratio

Financing for Working Capital

- Trade Creditors
- Bank Finance - Inland Banking
- ❖ Cash Credit/ Bill discounting/ Cheque purchase/ Over draft/ Supply Bills/ Bills purchase/ Inland Letter of Credit

Financing for Working Capital contd..

- Pre-shipment credit
- Packing credit- Clean, Hypothecation, Against Pledge of goods
- Post-shipment credit
- Usance bills discounting
- Advance against export bills

Cash Management

- ✓ To meet cash collection and disbursement
- ✓ Solving Problems of cash holding and fund flow
- ✓ Managing surplus and invest the funds