20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **The Simplified Turnover Method assesses working capital at 25% of a unit's projected annual turnover.**
   This single percentage rule replaces detailed financial projections for smaller borrowers.

2. **Under the Simplified Turnover Method, the borrower contributes 5% of turnover as margin, called net working capital (NWC).**
   This 5% margin is the borrower's own stake in funding the working capital gap.

3. **The bank provides a minimum of 20% of projected turnover as working capital finance under this method.**
   Bank finance and borrower margin together make up the full 25% working capital gap.

4. **The Simplified Turnover Method was proposed by the P.J. Nayak Committee.**
   The committee's recommendation aimed to simplify working capital assessment for small units.

5. **The Nayak Committee's method was originally designed for Small Scale Industries (SSI) needing bank working capital finance.**
   It targeted small units that needed fast, low-documentation credit assessment.

6 **The core rule of the method is remembered as 25% total gap equals 5% borrower margin plus 20% bank finance.**

Memorising this trio lets a candidate rebuild any numerical from scratch.

7 **Working capital refers to funds a business needs for day-to-day operations like salaries and raw materials.**

These recurring costs cannot wait until sales are actually realised in cash.

8 **The operating cycle moves through raw material, work-in-process, finished goods, and receivables stages.**

Cash gets locked into each stage before it finally returns as collected payment.

9 **A longer operating cycle generally means a business needs more working capital.**

More time locked in inventory or receivables means more funds tied up before cash returns.

10 **The Simplified Turnover Method bases its assessment purely on projected sales turnover, not on profit or capital.**

Using profit or capital as the base is a common exam mistake to avoid.

11 **The MPBF or Tandon method is generally more complex than the Simplified Turnover Method.**
It is better suited to medium and large borrowers with detailed financial data.

12 **The Cash Budget Method, used for seasonal or project finance, is the most complex of the common approaches.**
It requires detailed cash-flow projections rather than a single turnover-based ratio.

13 **The Simplified Turnover Method is meant for smaller credit limits where detailed assessment is not cost-effective.**
It is traditionally applied to MSME and SSI units up to a specified ceiling.

14 **The 20% bank finance figure under this method is a minimum, not a fixed cap.**
Actual bank finance can exceed 20% if the borrower brings in a lower margin.

15 **For a projected turnover of Rs 1,00,000, the working capital gap works out to Rs 25,000.**
This is 25% of the projected turnover, split between bank and borrower.

16 **For a projected turnover of Rs 1,00,000, minimum bank finance under the method works out to Rs 20,000.**
This is the 20% portion of turnover that the bank is expected to fund.

17 **For a projected turnover of Rs 1,00,000, the borrower's margin works out to Rs 5,000.**
This is the 5% net working capital the borrower must contribute.

18 **Scaling up, a turnover of Rs 40,00,000 gives a working capital gap of Rs 10,00,000 under the method.**
The same 25-5-20 percentages apply regardless of the size of the turnover figure.

19 **Exact rupee ceilings for applying the Simplified Turnover Method have changed over time and need checking against current IIBF or RBI guidance.**
Candidates should always verify current limits rather than quoting an outdated figure.

20 **The Simplified Turnover Method's main advantages are simplicity, speed, and reduced documentation for small-ticket lending.**
These benefits are why banks were advised to adopt it uniformly for eligible small units.