20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **The Nayak Committee turnover method sets bank finance at 20% of projected annual turnover.**
   This method assumes a working capital cycle of about three months and is used mainly for smaller SME borrowers.

2. **Under the turnover method, total working capital requirement is assumed to be 25% of projected annual turnover.**
   Of this 25%, the bank funds 20% and the borrower funds the remaining 5% as margin.

3. **In the turnover method, the borrower's own margin, called Net Working Capital, is 5% of projected turnover.**
   This margin represents the borrower's long-term contribution to the working capital cycle.

4. **MPBF, or Maximum Permissible Bank Finance, comes from the Tandon Committee's Second Method of Lending.**
   RBI institutionalised this as the standard approach for assessing working capital of larger borrowers.

5. **Under the Second Method of Lending, MPBF equals 75% of Total Current Assets minus Other Current Liabilities.**
   This leaves the borrower to fund the remaining 25% of the working capital gap from long-term sources.

6. **The Second Method of Lending requires the borrower to fund at least 25% of Total Current Assets as Net Working Capital.**
   If actual NWC falls short, the bank trims the MPBF to force the borrower to bring in more own funds.

7. **Other Current Liabilities, used in the MPBF formula, exclude bank borrowings and mainly comprise trade creditors.**
   Including bank borrowings in OCL by mistake is a common exam error that overstates MPBF.

8. **The Cash Budget method sets the working capital limit at the peak monthly cash deficit during the year.**
   Banks map actual monthly cash inflows and outflows instead of applying a flat percentage formula.

9. **The Cash Budget method suits seasonal businesses such as sugar mills, tea estates, and construction firms.**
   A flat turnover or balance-sheet formula would over-finance or under-finance such lumpy cash-flow businesses.

10 **The Projected Balance Sheet method caps finance so the current ratio stays at or above 1.33:1.**
This ratio corresponds to the 25% Net Working Capital margin used under the Tandon framework.

11 **The Projected Balance Sheet method is commonly applied to new projects and service-sector firms.**
It is often used alongside MPBF as a cross-check for large accounts to assess overall financial health.

12 **Cash Credit lets a borrower draw and repay repeatedly, with interest charged only on the amount actually drawn.**
It is the most widely used working capital product in Indian banking for continuous, fluctuating needs.

13 **Overdraft is usually secured against fixed deposits, property, or LIC policies.**
It differs from Cash Credit mainly in the nature of security and the typical borrower profile.

14 **RBI introduced the Working Capital Demand Loan component to improve credit discipline among large borrowers.**
A minimum share of the sanctioned CC or OD limit must be carved out as a fixed WCDL for eligible borrowers.

15 **A Working Capital Demand Loan is a fixed-tenor, fixed-rate loan rather than a flexible drawing facility.**
This distinguishes WCDL from the freely revolving nature of a Cash Credit account.

16 **Bills discounting finances a seller's trade invoices and is self-liquidating once the buyer pays.**
Tying lending to genuine trade transactions improves the quality of working capital finance.

17 **A Letter of Credit lets a buyer purchase goods on credit while the issuing bank guarantees payment to the seller.**
LCs and Bank Guarantees are non-fund-based instruments that still consume the borrower's overall credit limits.

18 **Drawing Power is the actual amount a borrower can draw against a sanctioned limit, based on the latest stock statement.**
It is recalculated periodically and is a key early-warning monitoring tool for banks.

19 **The Drawing Power formula is paid stock plus eligible receivables, minus creditors, minus margin.**
A falling DP or stale stock statements are classic signs of stress in a borrower's account.

20 **TReDS is a digital platform that eases receivable financing for MSMEs through trade bill discounting.**
Large companies are required to onboard TReDS, which plays a growing role in supply-chain finance.

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