PROJECT ON WORKING CAPITAL MANAGEMENT IN BANKS pdf

1: Corporate finance - Wikipedia

1. HO: Working capital management in united bank for Africa Plc affects the liquidity of the bank. Hi: Working capital management in united Bank for Africa does not affect the liquidity of the bank. 2. HO: The efficient management of the working capital in the bank is enough. 3.

So, whereas in a DCF valuation the most likely or average or scenario specific cash flows are discounted, here the "flexible and staged nature" of the investment is modelled , and hence "all" potential payoffs are considered. See further under Real options valuation. The difference between the two valuations is the "value of flexibility" inherent in the project. DTA values flexibility by incorporating possible events or states and consequent management decisions. For example, a company would build a factory given that demand for its product exceeded a certain level during the pilot-phase, and outsource production otherwise. In turn, given further demand, it would similarly expand the factory, and maintain it otherwise. In a DCF model, by contrast, there is no "branching" â€" each scenario must be modelled separately. In the decision tree , each management decision in response to an "event" generates a "branch" or "path" which the company could follow; the probabilities of each event are determined or specified by management. Once the tree is constructed: See Decision theory Choice under uncertainty. ROV is usually used when the value of a project is contingent on the value of some other asset or underlying variable. For example, the viability of a mining project is contingent on the price of gold ; if the price is too low, management will abandon the mining rights , if sufficiently high, management will develop the ore body. Again, a DCF valuation would capture only one of these outcomes. Real options in corporate finance were first discussed by Stewart Myers in ; viewing corporate strategy as a series of options was originally per Timothy Luehrman , in the late s. See also Option pricing approaches under Business valuation. Sensitivity analysis , Scenario planning , and Monte Carlo methods in finance Given the uncertainty inherent in project forecasting and valuation, [37] [39] analysts will wish to assess the sensitivity of project NPV to the various inputs i. In a typical sensitivity analysis the analyst will vary one key factor while holding all other inputs constant, ceteris paribus. The sensitivity of NPV to a change in that factor is then observed, and is calculated as a "slope": For example, the analyst will determine NPV at various growth rates in annual revenue as specified usually at set increments, e. Often, several variables may be of interest, and their various combinations produce a "value- surface ", [40] or even a "value-space ", where NPV is then a function of several variables. See also Stress testing. Using a related technique, analysts also run scenario based forecasts of NPV. Here, a scenario comprises a particular outcome for economy-wide, "global" factors demand for the product , exchange rates , commodity prices , etc As an example, the analyst may specify various revenue growth scenarios e. Note that for scenario based analysis, the various combinations of inputs must be internally consistent see discussion at Financial modeling , whereas for the sensitivity approach these need not be so. An application of this methodology is to determine an " unbiased " NPV, where management determines a subjective probability for each scenario â€" the NPV for the project is then the probability-weighted average of the various scenarios; see First Chicago Method. See also rNPV , where cash flows, as opposed to scenarios, are probability-weighted. A further advancement which "overcomes the limitations of sensitivity and scenario analyses by examining the effects of all possible combinations of variables and their realizations" [41] is to construct stochastic [42] or probabilistic financial models â€" as opposed to the traditional static and deterministic models as above. This method was introduced to finance by David B. Hertz in , although it has only recently become common: Here, the cash flow components that are heavily impacted by uncertainty are simulated, mathematically reflecting their "random characteristics". In contrast to the scenario approach above, the simulation produces several thousand random but possible outcomes, or trials, "covering all conceivable real world contingencies in proportion to their likelihood;" [43] see Monte Carlo Simulation versus "What If" Scenarios. The output is then a histogram of project NPV, and the average NPV of the potential investment â€" as well as its volatility and other sensitivities â€" is then observed. This histogram provides information not visible from the static DCF: Continuing the above example: These distributions would then be "sampled" repeatedly â€" incorporating this

correlation â€” so as to generate several thousand random but possible scenarios, with corresponding valuations, which are then used to generate the NPV histogram. These are often used as estimates of the underlying " spot price " and volatility for the real option valuation as above; see Real options valuation Valuation inputs. A more robust Monte Carlo model would include the possible occurrence of risk events e. Dividend policy Dividend policy is concerned with financial policies regarding the payment of a cash dividend in the present or paying an increased dividend at a later stage. If there are no NPV positive opportunities, i. This is the general case, however there are exceptions. For example, shareholders of a " growth stock ", expect that the company will, almost by definition, retain most of the excess cash surplus so as to fund future projects internally to help increase the value of the firm. Management must also choose the form of the dividend distribution, as stated, generally as cash dividends or via a share buyback. Various factors may be taken into consideration: Alternatively, some companies will pay "dividends" from stock rather than in cash; see Corporate action. Financial theory suggests that the dividend policy should be set based upon the type of company and what management determines is the best use of those dividend resources for the firm to its shareholders. A share buyback program may be accepted when the value of the stock is greater than the returns to be realized from the reinvestment of undistributed profits. In all instances, the appropriate dividend policy is usually directed by that which maximizes long-term shareholder value. Working capital management[edit] Main article: In general this is as follows: As above, the goal of Corporate Finance is the maximization of firm value. In the context of long term, capital budgeting, firm value is enhanced through appropriately selecting and funding NPV positive investments. These investments, in turn, have implications in terms of cash flow and cost of capital. The goal of Working Capital i. In so doing, firm value is enhanced when, and if, the return on capital exceeds the cost of capital; See Economic value added EVA. Managing short term finance and long term finance is one task of a modern CFO. Working capital[edit] Working capital is the amount of funds which are necessary to an organization to continue its ongoing business operations, until the firm is reimbursed through payments for the goods or services it has delivered to its customers. As a result, capital resource allocations relating to working capital are always current, i. In addition to time horizon , working capital management differs from capital budgeting in terms of discounting and profitability considerations; they are also "reversible" to some extent. Considerations as to Risk appetite and return targets remain identical, although some constraints â€” such as those imposed by loan covenants â€” may be more relevant here. The short term goals of working capital are therefore not approached on the same basis as long term profitability, and working capital management applies different criteria in allocating resources: The most widely used measure of cash flow is the net operating cycle, or cash conversion cycle. This represents the time difference between cash payment for raw materials and cash collection for sales. Another measure is gross operating cycle which is the same as net operating cycle except that it does not take into account the creditors deferral period. In this context, the most useful measure of profitability is Return on capital ROC. As above, firm value is enhanced when, and if, the return on capital exceeds the cost of capital. Management of working capital[edit] Guided by the above criteria, management will use a combination of policies and techniques for the management of working capital. Identify the cash balance which allows for the business to meet day to day expenses, but reduces cash holding costs. Identify the level of inventory which allows for uninterrupted production but reduces the investment in raw materials â€” and minimizes reordering costs â€” and hence increases cash flow. Note that "inventory" is usually the realm of operations management: There are two inter-related roles here: Identify the appropriate source of financing, given the cash conversion cycle: Relationship with other areas in finance[edit] Investment banking[edit] Use of the term "corporate finance" varies considerably across the world. In the United Kingdom and Commonwealth countries, the terms "corporate finance" and "corporate financier" tend to be associated with investment banking â€” i. Raising debt and restructuring debt, especially when linked to the types of transactions listed above Financial risk management[edit] See also: Credit risk , Default finance , Financial risk , Interest rate risk , Liquidity risk , Operational risk , Settlement risk , Value at Risk , Volatility risk , and Insurance Risk management [42] [51] is the process of measuring risk and then developing and implementing strategies to manage " hedge " that risk. Financial risk management , typically, is focused on the impact on corporate value due to adverse changes in

commodity prices , interest rates , foreign exchange rates and stock prices market risk. It will also play an important role in short term cash- and treasury management ; see above. It is common for large corporations to have risk management teams; often these overlap with the internal audit function. While it is impractical for small firms to have a formal risk management function, many still apply risk management informally. See also Enterprise risk management. The discipline typically focuses on risks that can be hedged using traded financial instruments , typically derivatives ; see Cash flow hedge , Foreign exchange hedge , Financial engineering. Because company specific, " over the counter " OTC contracts tend to be costly to create and monitor, derivatives that trade on well-established financial markets or exchanges are often preferred. These standard derivative instruments include options , futures contracts , forward contracts , and swaps ; the "second generation" exotic derivatives usually trade OTC. Note that hedging-related transactions will attract their own accounting treatment: This area is related to corporate finance in two ways. Firstly, firm exposure to business and market risk is a direct result of previous capital financial investments. Secondly, both disciplines share the goal of enhancing, or preserving, firm value. There is a fundamental debate [52] relating to "Risk Management" and shareholder value. Per the Modigliani and Miller framework , hedging is irrelevant since diversified shareholders are assumed to not care about firm-specific risks, whereas, on the other hand hedging is seen to create value in that it reduces the probability of financial distress. The debate links the value of risk management in a market to the cost of bankruptcy in that market.

2: Working Capital Management (MBA Project) | www.enganchecubano.com â€“ Projects Ideas and Down

Adequate amount of working capital is very much essential for the smooth running of the business. And the most important part is the efficient management of working capital in right time. The liquidity position of the firm is totally effected by the management of working capital.

Temporary investment of surplus funds. In a narrow sense, the term working capital refers to the net working. Net working capital is the excess of current assets over current liability, or, say: Net working capital can be positive or negative. When the current assets exceeds the current liabilities are more than the current assets. Current liabilities are those liabilities, which are intended to be paid in the ordinary course of business within a short period of normally one accounting year out of the current assts or the income business. Accrued or outstanding expenses. Short term loans, advances and deposits. Provision for taxation , if it does not amt. The gross working capital concept is financial or going concern concept whereas net working capital is an accounting concept of working capital. Both the concepts have their own merits. The gross concept is sometimes preferred to the concept of working capital for the following reasons: It enables the enterprise to provide correct amount of working capital at correct time. Every management is more interested in total current assets with which it has to operate then the source from where it is made available. It take into consideration of the fact every increase in the funds of the enterprise would increase its working capital. This concept is also useful in determining the rate of return on investments in working capital. The net working capital concept, however, is also important for following reasons: IT indicates the margin of protection available to the short term creditors. It is an indicator of the financial soundness of enterprises. It suggests the need of financing a part of working capital requirement out of the permanent sources of funds. Working capital may be classified in to ways: On the basis of concept. On the basis of time. On the basis of concept working capital can be classified as gross working capital and net working capital. On the basis of time, working capital may be classified as: Permanent or fixed working capital. Every firm has to maintain a minimum level of raw material, work- in-process, finished goods and cash balance. This minimum level of current assts is called permanent or fixed working capital as this part of working is permanently blocked in current assets. As the business grow the requirements of working capital also increases due to increase in current assets. Variable working capital can further be classified as seasonal working capital and special working capital. The capital required to meet the seasonal need of the enterprise is called seasonal working capital. Special working capital is that part of working capital which is required to meet special exigencies such as launching of extensive marketing for conducting research, etc. Temporary working capital differs from permanent working capital in the sense that is required for short periods and cannot be permanently employed gainfully in the business. And some special al is the amount of working capital which is required to meet the seasonal sets. Adequate working capital helps in maintaining the solvency of the business by providing uninterrupted of production. Sufficient amount of working capital enables a firm to make prompt payments and makes and maintain the goodwill. Adequate working capital leads to high solvency and credit standing can arrange loans from banks and other on easy and favorable terms. Adequate working capital also enables a concern to avail cash discounts on the purchases and hence reduces cost. Regular Supply of Raw Material: Sufficient working capital ensures regular supply of raw material and continuous production. It leads to the satisfaction of the employees and raises the morale of its employees, increases their efficiency, reduces wastage and costs and enhances production and profits. Exploitation Of Favorable Market?? If a firm is having adequate working capital then it can exploit the favorable market conditions such as purchasing its requirements in bulk when the prices are lower and holdings its inventories for higher prices. Ability To Face Crises: A concern can face the situation during the depression. Sufficient working capital enables a concern to pay quick and regular of dividends to its investors and gains confidence of the investors and can raise more funds in future. Adequate working capital brings an environment of securities, confidence, high morale which results in overall efficiency in a business. It should have neither redundant or excess working capital nor inadequate nor shortages of working capital. Both excess as well as short working capital positions are bad for

any business. However, it is the inadequate working capital which is more dangerous from the point of view of the firm. Excessive working capital means ideal funds which earn no profit for the firm and business cannot earn the required rate of return on its investments. Redundant working capital leads to unnecessary purchasing and accumulation of inventories. Excessive working capital implies excessive debtors and defective credit policy which causes higher incidence of bad debts. It may reduce the overall efficiency of the business. If a firm is having excessive working capital then the relations with banks and other financial institution may not be maintained. Due to lower rate of return n investments, the values of shares may also fall. The need for working capital arises due to the time gap between production and realization of cash from sales. There is an operating cycle involved in sales and realization of cash. There are time gaps in purchase of raw material and production; production and sales; and realization of cash. Thus working capital is needed for the following purposes: For the purpose of raw material, components and spares. To incur day-to-day expenses and overload costs such as office expenses. To meet the selling costs as packing, advertising, etc. To provide credit facilities to the customer. To maintain the inventories of the raw material, work-in-progress, stores and spares and finished stock. For studying the need of working capital in a business, one has to study the business under varying circumstances such as a new concern requires a lot of funds to meet its initial requirements such as promotion and formation etc. These expenses are called preliminary expenses and are capitalized. The amount needed for working capital depends upon the size of the company and ambitions of its promoters. Greater the size of the business unit, generally larger will be the requirements of the working capital. The requirement of the working capital goes on increasing with the growth and expensing of the business till it gains maturity. At maturity the amount of working capital required is called normal working capital. There are others factors also influence the need of working capital in a business. The requirements of working is very limited in public utility undertakings such as electricity, water supply and railways because they offer cash sale only and supply services not products, and no funds are tied up in inventories and receivables. On the other hand the trading and financial firms requires less investment in fixed assets but have to invest large amt. Greater the size of the business, greater is the requirement of working capital. If the policy is to keep production steady by accumulating inventories it will require higher working capital. The longer the manufacturing time the raw material and other supplies have to be carried for a longer in the process with progressive increment of labor and service costs before the final product is obtained. So working capital is directly proportional to the length of the manufacturing process. Generally, during the busy season, a firm requires larger working capital than in slack season. The speed with which the working cycle completes one cycle determines the requirements of working capital. Longer the cycle larger is the requirement of working capital.

3: Project report on Analysis of Working Capital in Banking (J&K) | www.enganchecubano.com

This finance project report made on study of working capital of bank reference to J & K bank and based on the proecedure of "Analysis of workig Capital in Indian Banking" and detail exposure are given to Working capital of banks.

The small and medium scale businesses often face the requirements of credit for their business operations. The commercial banks offer special working capital financing services for the businesses. Many a times the small and medium scale businesses fail to get the traditional loan from the banks. The businesses then need to go for the working capital financing from the banks. There are various forms of financing available for the working capital financing loans. The major categories of working capital financing by commercial banks are short-term loans, short-term credits, treasury lines and overdrafts. The short term working capital financing are generally provided by the commercial banks over a short period of 3, 6, 9 or 12 months. The short term financing is addressed to deal with special purposes such as financing investments or financing the receivables. The commercial banks also offer short-term credit facilities that are generally used by the business on rotational basis in order to meet the general working capital financing requirement on a continuous basis. In case of the short-term credit facilities, the loans are generally offered for the term periods of 1 or 3 months. On the other hand, treasury lines are offered for non-standard tenors. The commercial banks offer working capital financing services that are designed to suit the specific requirements of the businesses. The banks are backed with employees having sound knowledge in finance who are experienced to understand the needs of the business. These professionals also determine the criterion of the businesses and decide on the working capital cycle for the business. Generally, the working capital limits are valid for a specific time period and the loan is repayable on the demand. With the working capital financing, the businesses can have loan against their income stream. This is considered to be the main facility of the working capital financing. The commercial banks can purchase the accounts receivables of the businesses and lend the credit on account of that. The commercial banks also offer working capital loans by acting as a lessee and holding the lease of business equipments. More Information Related to Corporate Finance.

4: project report on working capital management of hdfc bank

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Working capital is the fund invested in current assets. Working capital financing is a specialized area and is designed to meet the working requirements of a business. The main sources of working capital financing are trade credit, bank credit, factoring and commercial paper. Out of all these, this paper is related only to bank credit which represents the most important source for financing of current assets. The firms generally enjoy easy access to the bank finance for meeting their working capital needs. But from time to time, Reserve Bank of India has been issuing guidelines and directives to the banks to strengthen the procedures and norms for working capital financing. This paper attempts to analyse the role of bank credit in financing working capital needs of firms. Current assets represent Gross Working Capital. The excess of current assets over current liabilities is Net Working Capital. Current assets consists of all stocks including finished goods, work in progress, raw material, cash, marketable securities, accounts receivables, inventories, short term investments, etc. These assets can be converted into cash within an accounting year. Current liabilities represent the total amount of short term debt which must be settled within one year. They represent creditors, bills payable, bank overdraft, outstanding expenses, short term loans, etc. The working capital is the finance required to meet the costs involved during the operating cycle or business cycle. Operating cycle is the period involved from the time raw materials are purchased to the time they are converted into finished goods and the same are finally sold and realized. The need for current assets arises because of operating cycle. The opera1ting cycle is a continuous process and therefore the need for current assets is felt constantly. Each and every current asset is nothing but blockage of funds. Therefore, these current assets need to be financed which is done through Working Capital Financing. There is always a minimum level of current assets or working capital which is continuously required by the firm to carry on its business operations. This minimum level of current assets is known as permanent or fixed working capital. This portion of working capital has to be financed by permanent sources of funds such as; share capital, reserves, debentures and other forms of long term borrowings. The extra working capital needed to support the changing production and sales is called fluctuating or variable or temporary working capital. This has to be financed on short term basis. The main sources for financing this portion are trade credit, bank credit, factoring and commercial paper. They perform all types of functions like accepting deposits, advancing loans, credit creation and agency functions. Besides these usual functions, one of the most important functions of banks is to finance working capital requirement of firms. Working capital advances forms major part of advance portfolio of banks. In determining working capital requirements of a firm, the bank takes into account its sales and production plans and desirable level of current assets. Thus, it is maximum fund which a firm can obtain from the bank. These advances were usually given against the security of the current assets of the borrowing firm. Usually, the bank credit is available in the following forms: Cash Credit â€” Under this facility, the bank specifies a predetermined limit and the borrower is allowed to withdraw funds from the bank up to that sanctioned credit limit against a bond or other security. However, the borrower can not borrow the entire sanctioned credit in lump sum; he can draw it periodically to the extent of his requirements. Similarly, repayment can be made whenever desired during the period. There is no commitment charge involved and interest is payable on the amount actually utilized by the borrower and not on the sanctioned limit. Overdraft â€” Under this arrangement, the borrower is allowed to withdraw funds in excess of the actual credit balance in his current account up to a certain specified limit during a stipulated period against a security. Within the stipulated limits any number of withdrawals is permitted by the bank. Overdraft facility is generally available against the securities of life insurance policies, fixed deposits receipts, Government securities, shares and debentures, etc. Interest is charged on the amount actually withdrawn by the borrower, subject to some minimum commitment charges. Loans â€” Under this system, the total amount of borrowing is credited to the current account of the borrower or released to him in cash. The borrower has to

pay interest on the total amount of loan, irrespective of how much he draws. Loans are payable either on demand or in periodical instalments. They can also be renewed from time to time. As a form of financing, loans imply a financial discipline on the part of the borrowers. Bills Financing â€” This facility enables a borrower to obtain credit from a bank against its bills. The bank purchases or discounts the bills of exchange and promissionary notes of the borrower and credits the amount in his account after deducting discount. Under this facility, the amount provided is covered by cash credit and overdraft limit. Before purchasing or discounting the bills, the bank satisfies itself about the creditworthiness of the drawer and genuineness of the bill. Letter of Credit â€” While the other forms of credit are direct forms of financing in which the banks provide funds as well as bears the risk, letter of credit is an indirect form of working capital financing in which banks assumes only the risk and the 2 supplier himself provide the funds. The bank opens letter of credit in favour of a customer to facilitate his purchase of goods. This arrangement passes the risk of the supplier to the bank. The customer pays bank charges for this facility to the bank. Working Capital Loan â€” Sometimes a borrower may require additional credit in excess of sanctioned credit limit to meet unforeseen contingencies. This arrangement is presently applicable to borrowers having working capital requirement of Rs. The minimum period of WCDL keeps on changing. WCDL is granted for a fixed term on maturity of which it has to be liquidated, renewed or rolled over. On such additional credit, the borrower has to pay a higher rate of interest more than the normal rate of interest. The nature and extent of security offered play an important role in influencing the decision of the bank to advance working capital finance. The bank provides credit on the basis of following modes of security: Hypothecation â€” Under this mode of security, the banks provide working capital finance to the borrower against the security of movable property, generally inventories. It is a charge against property for the amount of debt where neither ownership nor possession is passed to the creditor. In the case of default the bank has the legal right to sell the property to realise the amount of debt. Pledge â€” A pledge is bailment of goods as security for the repayment of a debt or fulfillment of a promise. Under this mode, the possession of goods offered as security passes into the hands of the bank. The bank can retain the possession of goods pledged with it till the debt principal amount together with interest and other expenses are repaid. In case of non-payment of loan the bank may either; Sue the borrower for the amount due;Sue for the sale of goods pledged; or After giving due notice, sell the goods. Lien â€” Lien means right of the lender to retain property belonging to the borrower until he repays the debt. It can be of two types: Particular lien is a right to retain property until the claim associated with the property is fully paid. On the other hand, General lien is applicable till all dues of the lender are paid. Banks usually enjoy general lien. Mortgage â€” Mortgage is the transfer of a legal or equitable interest in a specific immovable property for the payment of a debt. In case of mortgage, the possession of the property may remain with the borrower, while the lender enjoys the full legal title. The mortgage interest in the property is terminated as soon as the debt is paid. Mortgages are taken as an additional security for working capital credit by banks. Charge â€” Where immovable property of one person is made security for the payment of money to another and the transaction does not amount to mortgage, the latter person is said to have a charge on the property and all the provisions of simple mortgage will apply to such a charge. A charge may be created by the act of parties or by the operation of law. It is only security for payment. Further, the cash credit arrangement, the principal device through which such finance has been provided, is quite advantageous from the point of view of borrowers. Banks have not been concerning themselves about the soundness of the borrower or about the actual end use of the loan. Bank financing was mainly security oriented. This security oriented system tended to favour borrowers with strong financial resources irrespective of their economic function. This resulted in the concentration of economic power. Another problem was that the increase in the bank credit was not commensurate with the expansion in the level of inventory and production. This resulted in a number of distortions in financing of working capital by banks. Major Banks was nationalized in and with that, approach to lending also changed. Consequently, bank credit has been subjected to various rules, regulations and controls. The basic objective of regulation and control of bank credit is to ensure its equitable distribution to various sectors of the Indian economy. The RBI has been trying, particularly from the mid-sixties onwards, to bring a measure of discipline among industrial borrowers and to redirect credit to priority sectors of the

economy. The RBI has been issuing guidelines and directives to the banking sectors towards this end. Important guidelines and directives have derived from the recommendations of certain specially constituted groups assigned with the task of examining various aspects of bank finance to industry. The recent changes made by RBI in the guidelines for bank credit for working capital finance are discussed below: This has given banks greater freedom and responsibility for assessing credit needs and credit worthiness. The salient features of new system are: Earlier RBI had prescribed consortium arrangements for financing working capital beyond Rs. Now it is not essential to have consortium arrangements. However, banks may themselves decide to form consortium so that the risks are spread. The disintegration of consortium system, the entry of term lending institutions into working capital finance and the emergence of money market borrowing options gives the best possible deal.

PROJECT ON WORKING CAPITAL MANAGEMENT IN BANKS pdf

5: Do banks have working capital? | Investopedia

project report on working capital management. This is a research report on PROJECT REPORT ON WORKING CAPITAL MANAGEMENT. uploaded by Vikram Lakhani in category: All DocumentsÂ» MarketingÂ» Business Marketing section of our research repository.

The arrangement of working capital financing forms a major part of the day to day activities of a finance manager. It is a very crucial activity and requires continuous attention because working capital is the money which keeps the day to day business operations smooth. Without appropriate and sufficient working capital financing, a firm may get into troubles. Insufficient working capital may result in nonpayment of certain dues on time. Inappropriate mode of financing would result in loss of interest which directly hits the profits of the firm. Trade credit is extended based on the creditworthiness of the firm which is reflected by its earning records, liquidity position, and records of payment. Just like other sources of working capital financing, trade credit also comes with a cost after the free credit period. Normally, it is a costly source as a means of financing business working capital. It is a facility offered by commercial banks whereby the borrower is sanctioned a particular amount which can be utilized for making his business payments. The borrower has to make sure that he does not cross the sanctioned limit. The best part is that the interest is charged to the extent the money is used and not on the sanctioned amount which motivates him to keep depositing the amount as soon as possible to save on interest cost. Without a doubt, this is a cost-effective working capital financing. Working Capital Loans Working capital loans are as good as term loan for a short period. These loans may be repaid in installments or a lump sum at the end. The borrower should take such loans for financing permanent working capital needs. The cost of interest would not allow using such loans for temporary working capital. Every firm generates bills in the normal course of business while selling goods to debtors. Ultimately, that bill acts as a document to receive payment from the debtor. The seller who requires money will approach the bank with that bill and bank will apply the discount on the total amount of the bill based on the prevailing interest rates and pay the remaining amount to the seller. On the date of maturity of that bill, the bank will approach the debtor and collect the money from him. Bank Guarantee It is primarily known as non-fund based working capital financing. Bank guarantee is acquired by a buyer or seller to reduce the risk of loss to the opposite party due to non-performance of the agreed task which may be repaying money or providing of some services etc. In essence, a bank guarantee is revoked by the holder only in case of non-performance by the other party. Bank charges some commission for same and may also ask for security. Letter of Credit It is also known as non-fund based working capital financing. Letter of credit and bank guarantee has a very thin line of difference. Bank guarantee is revoked and the bank makes payment to the holder in case of non-performance of the opposite party whereas, in the case of a letter of credit, the bank will pay the opposite party as soon as the party performs as per agreed terms. So, a buyer would buy a letter of credit and send it to the seller. Once the seller sends the goods as per the agreement, the bank would pay the seller and collects that money from the buyer. Factoring Factoring is an arrangement whereby a business sells all or selected accounts payables to a third party at a price lower than the realizable value of those accounts. The factor would not only provide financing by purchasing the accounts but also collects the amount from the debtors. Factoring is of two types â€" with recourse and without recourse. The credit risk of nonpayment by the debtor is borne by the business in case of with recourse and it is borne by the factor in the case of without recourse. Some other sources of working capital financing used are inter-corporate deposits, commercial paper, public deposits etc.

6: Role Of Commercial Banks In Project Finance - Finance and Banking - United States

that working capital management is the administration of current assets in the name of cash, marketable securities, receivables, inventories and Block & Hirt () are of the view that, working capital management involves the financing and management of the current assets of the firm.

Connections at Firm Beyond their traditional role in project finance transactions, commercial banks are developing new roles in providing advisory services; construction financing; intermediation to permanent long-term fixed-rate financing; commodity, currency, and interest rate risk management; foreign tax absorption; and working capital financing for projects throughout the world. Looked at separately, the development of these roles is a response to increasing competition both among commercial banks and between commercial banks and other institutional lenders and intermediaries to meet an explosion of worldwide project finance needs. Commercial banks differ considerably in their ability to provide such services. Introduction Commercial banks have always had an active role in project finance transactions. In fact, project finance is generally thought to have begun in the s when a Dallas bank made a non-recourse loan to develop an oil and gas property. Project finance has been employed in almost all capital-intensive industries, particularly in transportation aircraft, rail, and shipping , in mineral and other natural resource exploration and development including oil and gas , and, most recently, in independent power projects. Project finance is also commonly used in countries whose domestic capital markets are small relative to their project development requirements e. Project finance allows project assets to be separated from the sponsor and to be financed on the basis of the cash flow from the project assets. It allows a sponsor to undertake a project with more risk than the sponsor is willing to underwrite independently. Traditional Role Commercial banks can provide project financing because they are able to evaluate complex project financing transactions and to assess and assume the construction and performance risks usually involved in such financings. Project sponsors frequently seek financing through a "request for proposal" or "RFP" process, and several commercial banks are likely to form separate syndicates or "clubs" to respond to an RFP. The division of work within a syndicate is often functional, and has become quite efficient, with individual banks designated as technical agent, documentation agent, syndication agent, and variations thereof 1. A typical commitment for construction financing is for two years and permanent financing is usually from ten to fifteen years, although in rare cases commercial banks have provided permanent financing commitments of twenty years or more. The successful commercial bank syndicate for a project financing usually seeks to "sell down" its underwritten commitments in a further coordinated syndication to a larger bank group. This subsequent syndication may occur before financial closing i. This refinancing is usually on terms that allow the project more operational flexibility, because construction risk has been eliminated from the project, and because obtaining waivers from public holders is quite difficult. This traditional model has proven very successful over a considerable period of time and in a wide variety of industries and specific applications. It has provided and will continue to provide substantial capital to qualifying projects throughout the world. Although primarily financed by governments to date, this level of government spending places an enormous burden on public finances. The scope of this projected infrastructure investment is challenging. For example, China wants to install 8 million telephone lines a year after This is in itself an impressive goal until one notes that in China had a total of only 18 million installed lines 4. All available evidence indicates that private infrastructure investment as opposed to public investment is growing rapidly throughout the world, but especially in the developing countries in Asia, Latin America, and the former Eastern bloc. According to one recent survey, private investment in infrastructure outside the United States doubled from to Obtaining long-term institutional debt and equity financing in sufficient amounts remains a challenge even for financially sound, well-structured projects. The survey also notes that the large construction companies increasingly dominate infrastructure development, but are funding this development through use of their own balance sheets. Constraining Factors Several factors have constrained the participation of commercial banks in the current project finance boom for international infrastructure projects: The aftermath of the international debt crisis, including losses sustained by commercial banks,

numerous reschedulings or plans for this debt, and related capital and administrative burdens. The disintermediation of the largest and most creditworthy commercial bank customers who can access the capital markets directly and are therefore less dependent on commercial bank financing. Increased competition for deposits from money market mutual funds money invested in money market mutual funds now exceeds commercial bank deposits and investment banks cash management accounts. Increased competition from investment banks in arranging and syndicating commercial loans 6. The imposition of minimum risk-based capital requirements which require that the activities of commercial banks be internally measured against return on risk-adjusted capital and which have driven commercial banks to maximize fee income opportunities. The general decline in commercial bank credit quality. New Roles As commercial banks look for fee income through "unbundling" their financial services, many have established project finance advisory groups, some with considerable success. Some commercial banks have used their project finance experience to market corporate trust services in international capital market financings for projects. They can sell the value to sponsors and investors of having an experienced trustee or fiscal agent involved in complex project financing transactions. Most of the larger commercial banks have accelerated the development of their syndication, private placement, and other similar debt distribution groups. This development has been limited in the U. Morgan recently was placed sixth in total equity and debt underwriting replacing Salomon Brothers 7. Several other commercial banks are close behind J. Morgan in such rankings. Commercial banks occupied seven of the top fifteen places in overall private placement activity in 8 and five of the top six places in traditional private placements in the first half of 9. IDD describes this performance as a "stunning development" and "almost complete dominance. More often, an insurance company and the commercial bank together provide commitments for both construction and permanent financing. Export-Import Bank, the Overseas Political Insurance Corporation, and other regional development banks and export credit agencies. These entities are critical participants in providing and arranging financing and political risk insurance cover for international infrastructure projects. The technical requirements of the international agencies and the terms of their financing and risk cover vary in important respects, so it is an advantage to have an advisor who is familiar with such requirements and terms to facilitate the analysis of their relative values. Several of these entities e. ExIm and OPIC have recently established or expanded their own project finance lending groups, however, and some have even established their own project advisory groups e. Commercial banks have been major participants in the creation and development of interest rate, currency exchange, and commodity risk management markets. In these generally mature and efficient markets, many commercial banks offer risk management services as separate financial products. Interest rate risk is present during the construction period of almost every project. Occasionally, it is present when the permanent financing or some portion of it bears interest at a floating rate. Currency exchange risks arise frequently in international projects, notably in infrastructure projects where the currency in which cash flow is generated is different from and at some point must be converted into the currency in which the project financing or some portion of it is denominated. Commodity risk also arises frequently in natural resource projects even when the financing currency and cash flow currency are the same. The creativity that commercial banks have developed in this area can be the difference between a successful or a failed project. The bank thus essentially takes the commodity risk from the project and "substitutes" its own credit under the swap. Several commercial banks or their affiliates have also provided development or mezzanine financing for projects. Some have even made equity investments in projects. Others have made equity commitments to, or equity investments in, pooled investment vehicles specifically targeted for project and other infrastructure investments. That is, the bank will not require a full gross-up for applicable withholding or similar deductions from interest payments under a project financing but will agree to absorb some portion of this tax burden. The bank can do this usually because its local activity does not generate taxable income, so tax losses are available from such activity to shelter some portion of this tax burden. If a commercial bank provides this service, it will agree to do so only for a limited period one or two years , and will probably limit the maximum amount of tax burden absorbed. Commercial banks that have local banking presence can also provide working capital financing for a project. Although such financings are usually small when compared with the size of the permanent financing, almost all projects require working

capital financing. Competition From Capital Markets Many of us have suggested that the international capital markets, especially the United States Rule A market, might provide an alternative source of project financing to commercial banks Economic events continue to demonstrate the volatility of the capital markets as a source of project finance. Such events adversely affect projects in emerging markets, and have even resulted in the abandonment of capital market financings for such projects at the eleventh hour In addition, the capital markets are not particularly receptive to project financing during construction of a project for three principal reasons: The investors cannot price the construction risk that they would assume. The project will incur negative arbitrage on funds raised in anticipation of construction costs not yet incurred. This can represent a substantial financial penalty, depending on the construction timetable, scheduled project draws, and the applicable spread between interest paid to investors and interest earned on funds invested. As a technical matter, it is difficult to write documentation particularly the construction draw provisions that provides appropriate investor protection during the construction period at the same time that it provides the project with necessary flexibility to deal with unexpected events. Nevertheless, for completed projects that have demonstrated satisfactory performance, the international capital markets are an attractive source of permanent long-term fixed-rate financing. While such a capital markets financing would refinance the commercial bank financing, it may or may not affect some of the other financial services that commercial banks provide for the project, such as commodity or currency exchange hedges. There are several reasons for this to be the case: The commercial bank, if it has previously provided financial services to the project, is already familiar with the project and risks to be identified and controlled for potential investors. Conclusion The "unbundling" of financial services by commercial banks in the area of project finance has provided and will continue to provide new opportunities for commercial banks and new competition in the explosion of worldwide project finance needs. It has also allowed banks to differentiate themselves in the provision of such services. Footnotes 1 Some cynical observers suggest that the division of project finance responsibilities has less to do with efficient teamwork than with agency "league tables" kept on commercial banks. If the swap or collar providers thus may become creditors of the project, project collateral will have to be shared with them. Bergman Fong, and J. Paul Forrester, The Financier, Vol. The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

7: Working Capital Management

I declare that the project titled A Study on Working Capital Management in SBI is an original project done by me under the guidance of Mr. Ramananda.A, Branch Manager, Kumaraswamy Layout Branch, State Bank of India, Bangalore.

8: working capital management by cooperative banks

Banks just intermediate securities between savers and investors (consumers) so, treasury in banks is a kind of specific subject that, in my vision, is not covered by working capital traditional.

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Controlling working capital requirement is done by the company by way of optimization of working capital cycle and maximizing credit to creditors and minimizing credit of customers by best utilization of resources and minimizing stock level as explained by theory.

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