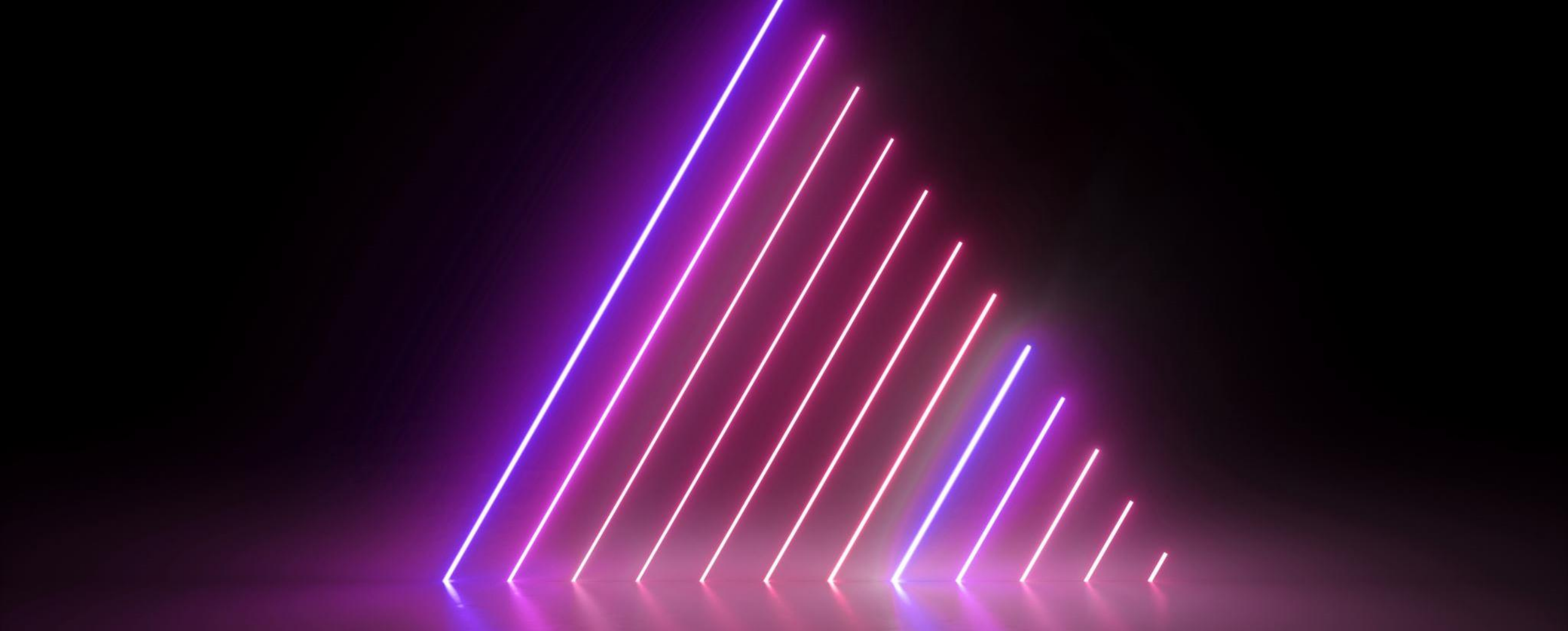




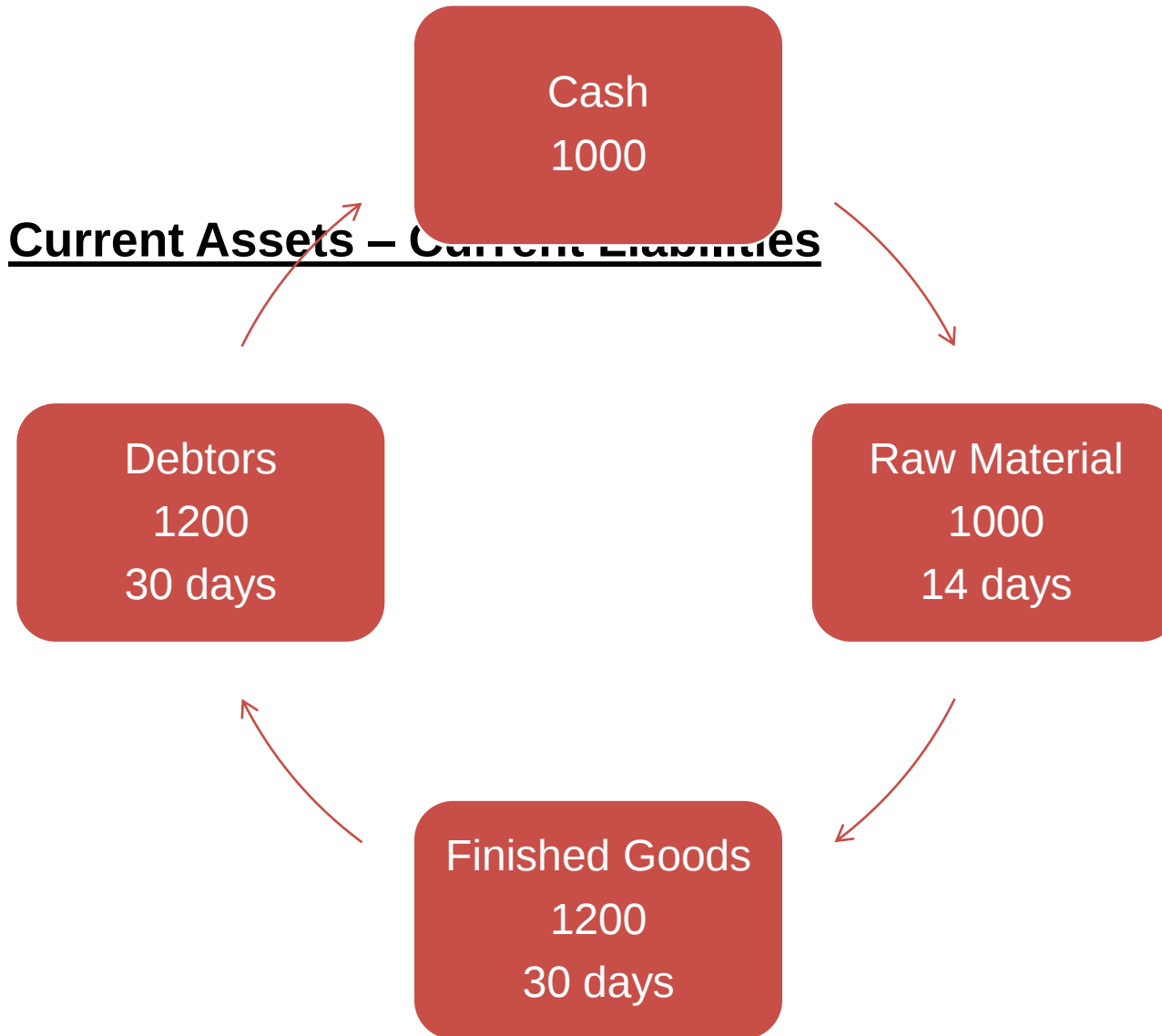
Working Capital Management

16th November 2023

Themes for the Session

- Key Terms
- Concept of Working Capital Management
- Working Capital Policies & Strategies
- Impact of Working Capital on Profitability & Liquidity
- Key Ratios for Understanding Working Capital Situation
- Approaches to Working Capital Assessment
- Approaches to Working Capital Financing
- Managing Short-Term assets & Short-Term Liabilities

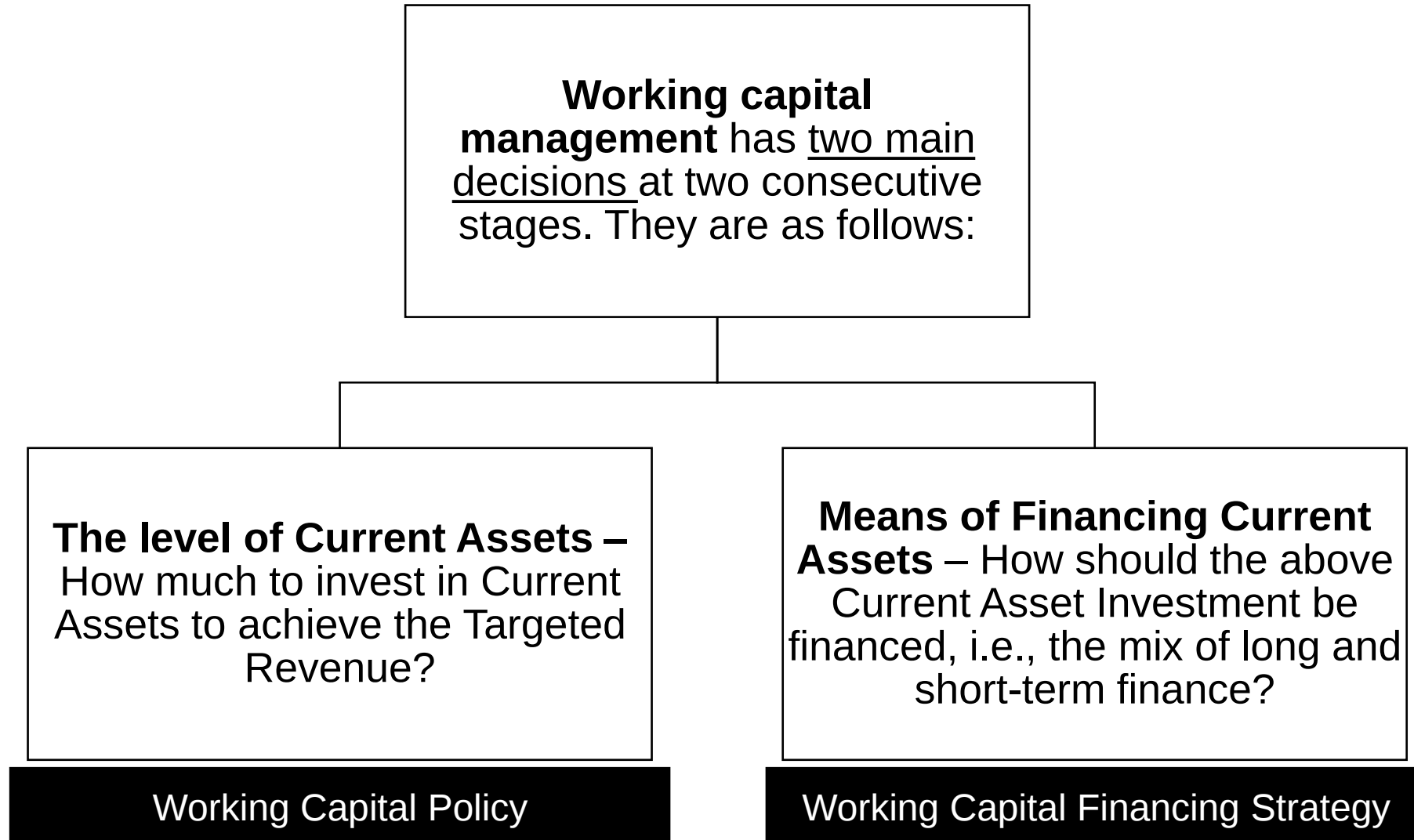
- Working Capital = Current Assets – Current Liabilities



Key Terms

- Meaning of Working Capital
- Current Assets
- Current Liabilities
- Net Current Assets
- Gross Working Capital (GWC)
- Net Working Capital (NWC)
- Permanent Working Capital Vs Temporary Working Capital

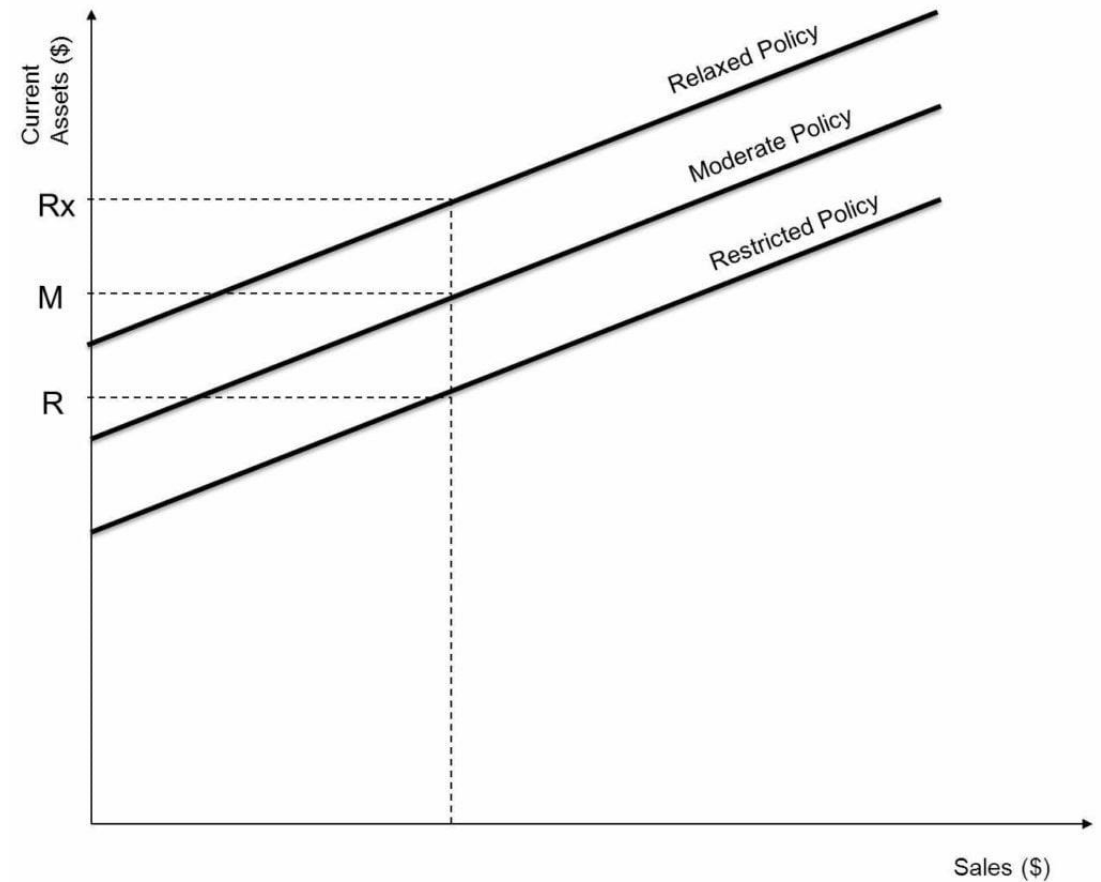
Working Capital Management Concept



Organizational Working Capital Policy

The '**Working Capital Policy**' of a company refers to the **level of investment in current assets** for attaining their targeted sales.

Based on the attitude of the finance manager towards risk, profitability, and liquidity.



**Three broad
policy types**

Restricted

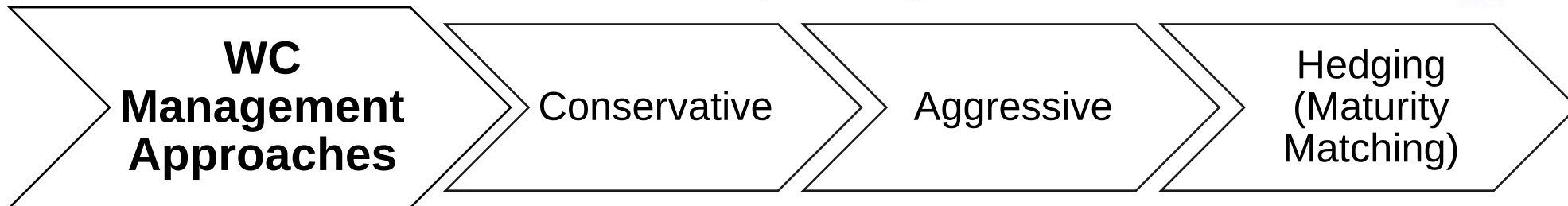
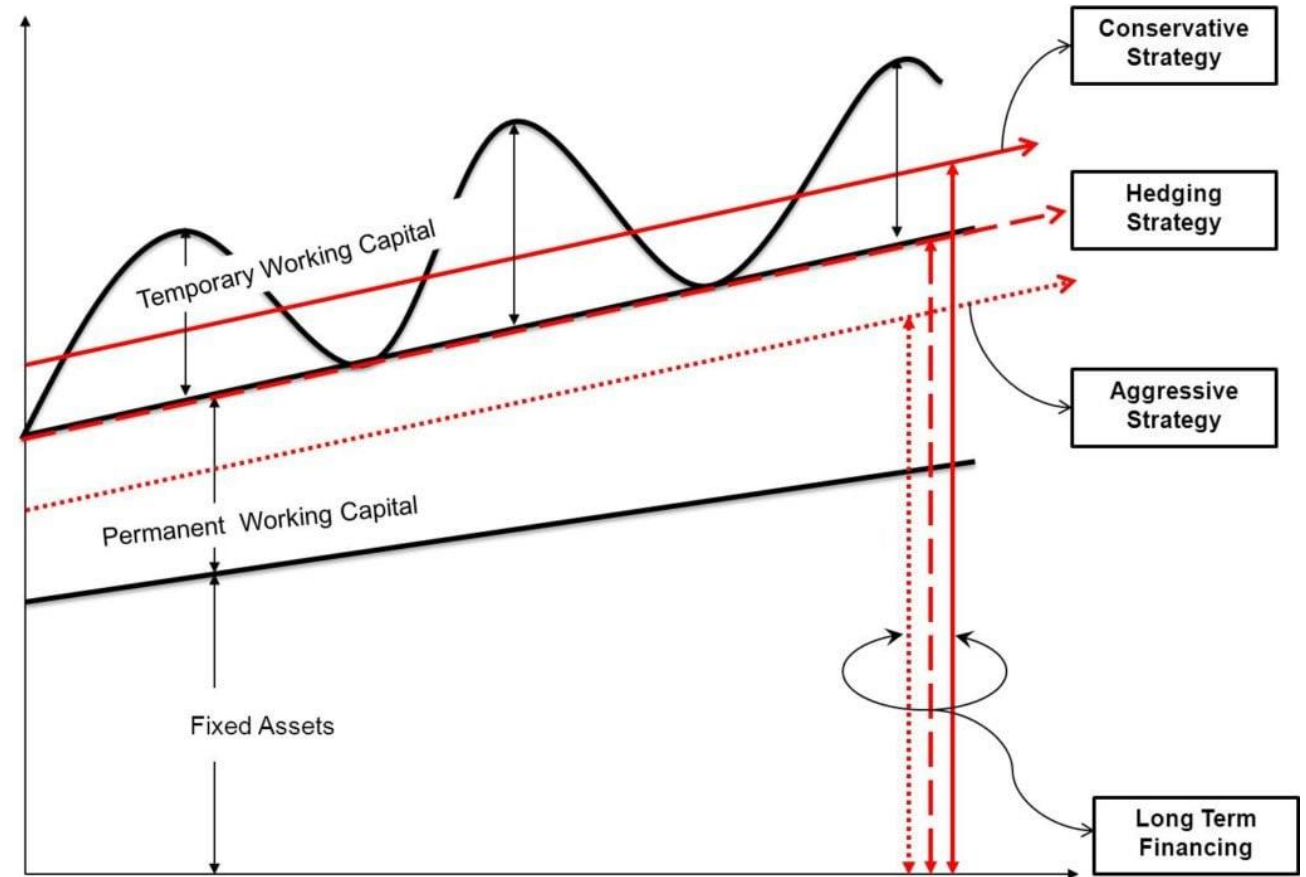
Relaxed

Moderate

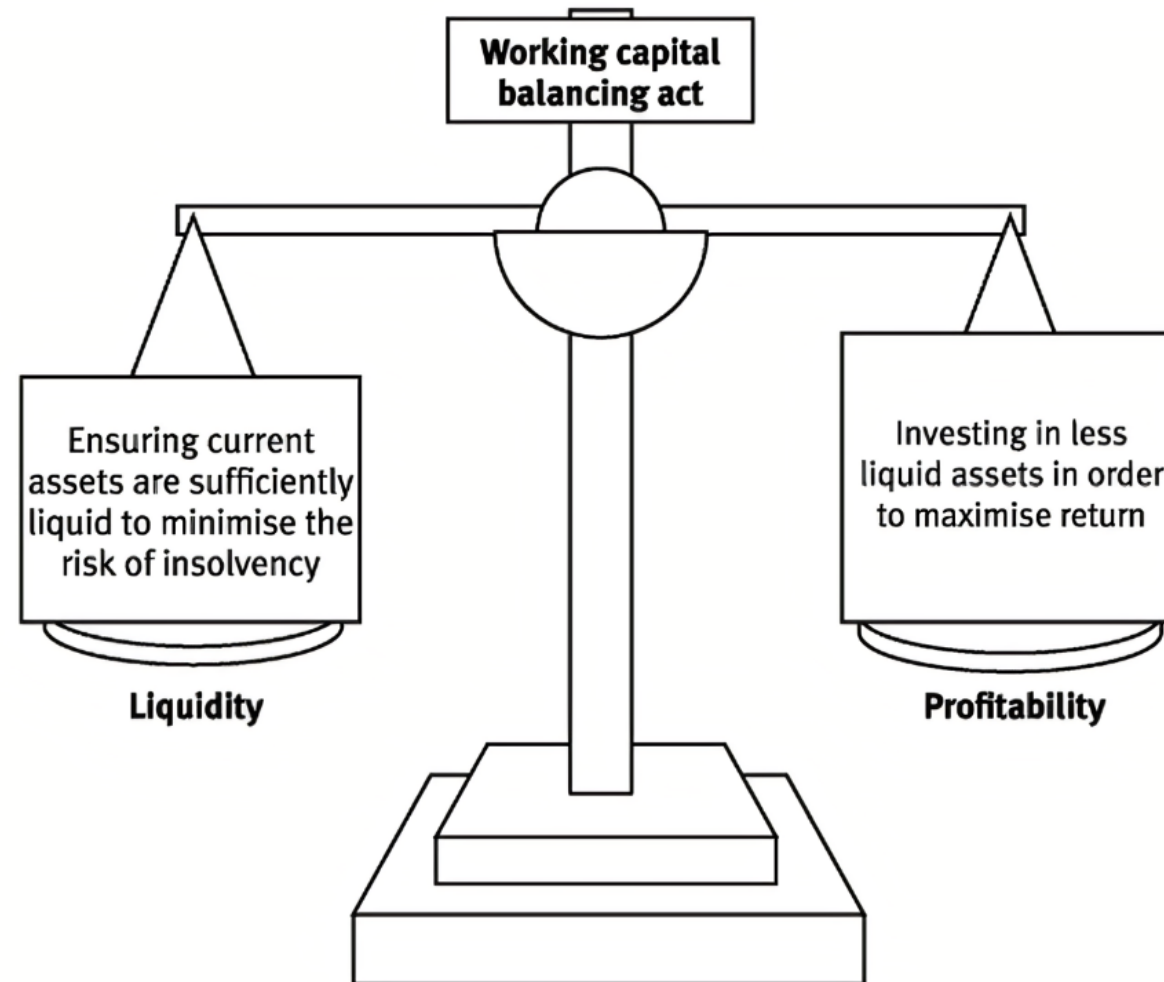
Working Capital Financing Strategies

Financing strategies with difference in the extent or proportion of long and short-term funds applied to finance the working capital.

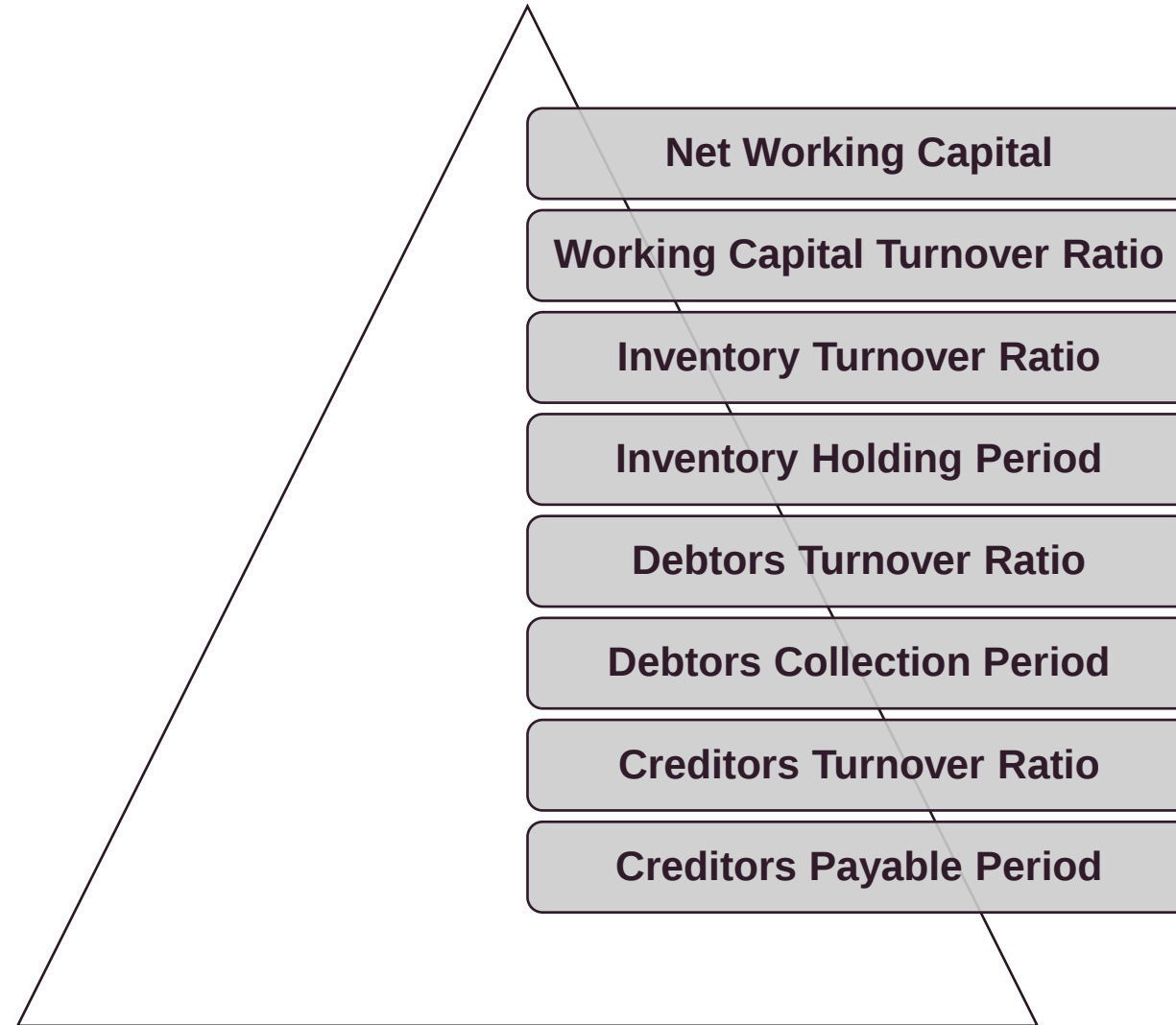
Strategies primarily different because of their different trade-off between risk and profitability.



Liquidity Vs Profitability

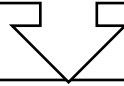


Key Ratios for Understanding Working Capital Situation

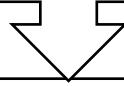


Approaches to Working Capital Assessment

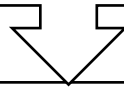
Percentage of Sales Method: based on the assumption that the working capital varies with the sales volume.



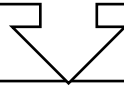
Regression Analysis Method: based on the statistical relationship between the working capital and the sales or other variables.



Cash Forecasting Method: based on the projected cash inflows and outflows for a given period.



Operating Cycle Method: based on the duration of the operating cycle and the current assets and liabilities involved.



Projected Balance Sheet Method: based on the projected balance sheet at the end of the period.

Approaches to Working Capital Assessment

Fund Based

- Line of credit
- Bank Overdraft
- Working Capital Loan
- Revenue-based financing
- Receivables financing
- Inventory financing

Non-Fund Based

- Letter of Credit
- Bank Guarantee

Spontaneous Finance

- Trade Credit
- Advances