

CHAPTER 17

APPENDIX 17-A

Proposal Form for Obtaining Working Capital Loan

Whether fresh/ renewal/ enhancement :
 Asset classification :
 Credit rating by bank :
 Consortium/Multiple bank :
 Whether CMA (Credit Monitoring Arrangement) :
 Lead Bank :
 Share (%) :
 Whether SSI (Small Scale Industry)/Priority sector :
 Whether export oriented :
 Date of last sanction and authority :

GIST OF THE PROPOSAL

1. (A) Name of the borrower :
 (B) Address :
 Location of factory :
 (C) Dealing with since :
 (D) Business/ activity product and
 installed capacity :
2. Branch Office/ Region/ Zone :
3. (A) Directors/ partners/ proprietor (S/SH)
 (B) If any of them, in RBI's defaulters' list
 :
 (C) If any of them, related to directors/
 senior officers of bank :
4. (A) Facilities recommended (*Rs in lakh*) :

| Nature of Facility | Existing Limit | Proposed Limits |
|---|----------------|-----------------|
| (I) Fund-based | | |
| Total (I) | | |
| (II) Non-fund based | | |
| Letter of credit (Inland/ Foreign-DA/DP) | | |
| Bank guarantee | | |
| Total (II) | | |
| (III) Other facilities | | |
| Term loan | | |
| DPG | | |
| Specific LC/LG etc. | | |
| Total (III) | | |
| Grand Total | | |

(B) Our commitment and maximum permissible exposure norms: (*Rs in lakh*)

Total

(a) Fund-based working capital limits

- (b) Term loan O/S /DPG O/ S
(c) Investments in shares, debentures etc.
(d) Total of (a), (b) and (c)
(e) Non-fund based (50% of sanctioned limits or 50% of outstanding, whichever is higher)
(f) Total of all exposure i.e. total of (d) & (e).
(g) Bank's permissible exposure level in terms of our latest audited balance sheet.

5. (A) Facilities from Subsidiaries/ Exposure by Way of Equity/Debt, etc. (Rs in lakh)

| <i>Name of the Institute</i> | <i>Facilities sanctioned/ disbursed</i> | <i>Security</i> | <i>Outstanding as on</i> | <i>Purpose</i> | <i>Overdues, if any</i> |
|------------------------------|---|-----------------|--------------------------|----------------|-------------------------|
|------------------------------|---|-----------------|--------------------------|----------------|-------------------------|

- (a) PNB Caps
(b) PNB Hsg
(B) Facilities from other banks/financial institutions/other institutions – Rs lakh) (including lease, ICDs, corporate loans, debentures etc.)

| <i>Name of the Institute</i> | <i>Facilities sanctioned/ disbursed</i> | <i>Security</i> | <i>Outstanding as on</i> | <i>Purpose</i> | <i>Overdues, if any</i> |
|------------------------------|---|-----------------|--------------------------|----------------|-------------------------|
|------------------------------|---|-----------------|--------------------------|----------------|-------------------------|

(C) Details of limits from the consortium/multiple banking working capital (Rs in lakh)

| <i>Name of the bank</i> | <i>Existing FB</i> | <i>Share (%) NFB FB</i> | <i>Proposed NFB FB</i> | <i>Share (%) NFB</i> |
|-------------------------|--------------------|-------------------------|------------------------|----------------------|
|-------------------------|--------------------|-------------------------|------------------------|----------------------|

Total

- 6. (A) Details of group companies/associate firms and the facilities sanctioned to them**
Name of the Company/ firm Fund-Based Non-fund based Name of dealing bank
(B) Comments on conduct of these accounts with our/their banks:

7. (A) (i) Financial Position of the borrowing unit (Rs in lakh)

| | <i>31.03. 2007 Audited</i> | <i>31.03.2008 Provisional</i> |
|--|----------------------------|-------------------------------|
|--|----------------------------|-------------------------------|

1. Gross sales
 - Domestic
 - Export
2. Other income
3. Operating profit
4. Profits before tax
5. Profits after tax
6. Cash profit
7. Paid up capital
8. Reserves & surplus (excluding revaluation reserves)
9. Miscellaneous expenses not written off
10. Accumulated losses
11. Tangible net worth
12. Current ratio
13. Net working capital
14. Debt equity ratio
15. Operating profit/sales (%)
16. Capacity utilisation (%)

- (A) (ii) Comments on the financial indicators
- (B) Details of investments in shares, debentures, units or diversion of funds outside the business etc.
- (C) Details of liabilities not accounted for or contingent liabilities
- (D) Status/details of adverse comments by auditors of the borrowings unit
- (E) Position of assessment of income tax/sales Tax/wealth tax of the borrowing concern/ partners/ proprietor
- (F) Overall likely impact (in broad terms) of (7.B to 7.E) on the financial position of the borrowing unit:

8. (A) Collateral Security (Rs in lakh)

| <i>Guarantors (S/Sh.)</i> | | <i>Net means</i> | | <i>Immovable property</i> | | <i>CR Date</i> |
|---------------------------|----------------|------------------|----------------|---------------------------|----------------|----------------|
| <i>Previous</i> | <i>Present</i> | <i>Previous</i> | <i>Present</i> | <i>Present</i> | <i>Present</i> | |

(a) Reasons for change in net means/immovable property, if any:

(B) Collateral security by way of mortgage/ hypothecation

| <i>Property Details</i> | <i>Owned by</i> | <i>Value Indicated</i> | <i>Present book</i> | <i>Market value</i> |
|-------------------------|-----------------|-----------------------------|--------------------------|---------------------|
| | | <i>in the last sanction</i> | <i>value (31.3.2003)</i> | |

(B) (a) Basis for valuation of the IPs:

(B) (b) Change of IPs as security from last sanction, if any:

Not Applicable

(C) The value of second/ third charge on block assets (Rs in lakh)

| | |
|---|---|
| ΔValue of block assets as on (As per balance sheet) | : |
| ΔExtent of first & second chargeholders | : |
| ΔBalance (residual charge) | : |

(C) (a) Status of Creation of second/third charge:

9. Position of account as on (Rs in lakh)

| <i>Nature of limit sanctioned</i> | <i>Limit sanctioned</i> | <i>Value of security</i> | <i>Drawing power</i> | <i>Balance outstanding</i> | <i>Overdue/ irregularity</i> |
|-----------------------------------|-------------------------|--------------------------|----------------------|----------------------------|------------------------------|
| <i>Fund-based</i> | | | | | |

10. (A) Conduct of the account

- (a) Status of compliance of terms and conditions of last sanction
- (b) Status of availment of limits and overdrawings
- (c) Status of routing of proportionate business in consortium advances & relationship in sales and credit summations
- (d) Status of honoring of commitment in non-fund based credit facilities
- (e) Status of submission of stock reports, QIS and other financial information (including audited/ provisional balance sheet)
- (f) Reasons for delay in renewal/ review, if any
- (g) Details of other adverse features observed
- (h) Any other issues.

(B) Value of the account

(a) Income earned from the account

| <i>Year</i> | <i>Limits</i> | <i>Interest/ commission income</i> | <i>Yield % (interest/ discount/comm income as a percentage to limit sanctioned)</i> |
|-------------|---------------|------------------------------------|---|
|-------------|---------------|------------------------------------|---|

(i) Fund based

(ii) Non-Fund based

(b) Details of concessions extended, if any:

(C) Summary of serious irregularities pointed out by Bank's inspectors, concurrent auditors, RBI inspectors, statutory auditors (and status of rectification of these irregularities)

11. Brief History

- (A) General
 (B) Comments on industry scenario and industry outlook:
 (C) Borrower's diversification, expansion, modernization programme, if any:
 Existing business activity
 (a) Proposed change :
 (b) Cost of implementation of such change :
 (c) Means of financing and tie-up arrangement :
 (d) Likely benefits

12. (A) Present proposal
 Brief of the proposal
 Other issues
 (B) Justification for working capital sanction:

| <i>Last year</i> | <i>Estimates current year</i> | <i>Projections</i> |
|---|-------------------------------|--------------------|
| <i>31.3.2007</i> | <i>31.3.2008</i> | <i>31.3.2009</i> |
| Projected sales: | | |
| Δ domestic | | |
| Δ export | | |
| Sales achievement | | |
| Δ domestic | | |
| Δ export | | |
| % achievement | | |
| Δ domestic | | |
| Δ export | | |
| % growth | | |
| Δ over previous year | | |
| <i>(Contd.)</i> | | |
| Projected profits | | |
| Actual profits | | |
| Projected NWC | | |
| Actual NWC | | |
| Reasons for variance in any of the above: | | |
| Break-up of Current Assets (<i>Rs in lakhs</i>) | | |
| <i>March-2007</i> | <i>March-2008</i> | <i>March-2009</i> |
| <i>(Actuals)</i> | <i>(Actuals)</i> | <i>(Estimates)</i> |
| 1.Raw materials (month's consumption) | | |
| 2.Other consumable spares | | |
| 3.Stock in progress (month's cost of production) | | |
| 4.Finished goods/stocks (month's cost of sales) | | |
| 5.Domestic receivables (month's domestic gross sales) | | |
| 6.Export receivables (month's export sales) | | |
| 7.Advances to suppliers | | |
| 8.Other current assets | | |
| Comments on Break-up of Current Assets | | |
| 1.Raw material | | |
| 2.Other consumable spares | | |
| 3.Stock in process | | |
| 4.Finished goods | | |
| 5.Receivables | | |
| 6.Advances to suppliers | | |
| 7.Other current assets | | |

(Rs in lakh)

31.03.2007 31.03.2008

Export Incentives (duty drawback, DEPB, SIL premium)
CST refund
Prepaid expenses
Advance payment of taxes
Cash and bank balance
Other advances
Total

Break-up of Current Liabilities (*Rs in lakh*)

| <i>March-2007</i> <i>(Actuals)</i> | <i>March-2008</i> <i>(Actuals)</i> | <i>March-2009</i> <i>(Estimates)</i> |
|--|---------------------------------------|---|
| 1.Sundry creditors (Month's purchases) | | |
| 2.Advance from customers | | |
| 3.Other current liabilities | | |
| Sub-Total | | |

Comments on break-up of current liabilities

- 1.Sundry creditors
- 2.Advances from customers
- 3.Other current liabilities

Computation of Working Capital Requirements (*Rs in lakh*)

| <i>March-2007</i> <i>(Actuals)</i> | <i>March-2008</i> <i>(Actuals)</i> | <i>March-2009</i> <i>(Estimates)</i> |
|--|---------------------------------------|---|
| 1.Total current assets | | |
| 2.Less: Export receivables | | |
| 3.Current assets (net of export receivables) | | |
| 4.Current liabilities | | |
| 5.Working capital gap | | |
| 6.Minimum margin required | | |
| 7.Actual/projected NWC | | |
| 8.(Item 5 – Item 6) | | |
| 9.(Item 5 – Item 7) | | |
| 10.MPBF | | |
| 11.Excess borrowings | | |

Working capital limit:

As per extant guidelines, term loan instalments have been reduced from current liabilities for the purpose of working capital limits.

Bifurcation of export credit limits:

The export credit limits are proposed to be bifurcated as under:

Packing credit

FDBP/FUDBP under L/C

(C) Non-Fund Based Limits

Letter of credit

Guarantee

Sharing pattern

Nature of facility

WCDL/CC

Packing credit

FDBP/FUDBP under L/C

Letter of credit

Guarantee

Total

- (D) Justification for term loan/DPG:
- (a) Purpose
 - (b) Appraising agency
 - (c) Summary of cost of project and means of finance
 - (d) (i) Brief explanation for each major individual item of cost of project with present status.
(ii) Position of tie-up of various means in finance
 - (e) Comments on all major technical aspects.
 - (f) Comments on product marketing with particular reference to industry position.
 - (g) Summary of profitability, break-even, DSCR and IRR, with comments thereon:
 - (h) Status of various statutory approvals and clearances
 - (i) Implementation schedule
 - (j) Proposed repayment schedule

13. Rate of Interest

- (a) Rating parameters and scoring
- Current ratio
 - Debt equity ratio
 - Submission of QMS & other financial data (timely submission of data for review/renew (delay beyond 45 days)
 - Achievement of sales projections Achieved
 - Achievement of profit projections Achieved
 - Conduct of the account
 - Compliance of terms and conditions
 - Value of account
- Total
- Rate of interest as applicable to A category of borrower
- (b) Interest rate stipulated in the last sanction.
 - (c) Interest rate presently charged by Lead Bank.
 - (d) Interest rate proposed.
 - (e) The packing credit will be advanced at the rates applicable from time to time which presently is _____ for _____ days.

14. Other issues:

- 15.** (a) Summary of merits/justification for considering the proposal.
(b) Recommendations
In view of the foregoing following is recommended for sanction:

2. Annexures to the Proposal Form

- 1. Annual reports of the company for the last 3-4 years.
- 2. Comparative statement of the company's current assets and current liabilities.
- 3. Copies of income tax returns filed of the partners, major shareholders as applicable.
- 4. Fund flow statement.
- 5. Copies of sales tax and income tax returns.
- 6. Details of collateral securities with description and present market value.
- 7. Photo copies of the valuation report of the same by a government approved valuer got done by the bank (expenses paid by the applicant).
- 8. Details of the custodian bank keeping charges of the collateral securities.
- 9. Position of the company's accounts in other banks.
- 10. Photocopies of the lead banks appraisal note on assessment of the working capital facilities in the last year and the current year (if the applicant has a consortium of banks already providing any working capital loans).
- 11. Sharing pattern of the working capital finance between the consortium banks (if other banks are

- there), existing as well as that proposed by the company.
12. Photocopies of the CMA data.
 13. CRs on the company as well as the Guarantors.
 14. Soft copy of the proposal.
 15. Audited balance sheets of the last 3 years.
 16. Analysis of the balance sheet done by the bank.
 17. Operating analysis.
 18. Projection and assessment of working capital.
 - (a) Borrower's profit
 - (b) Shareholder pattern
 - (c) Consortium arrangement
 - (d) Security
 - (e) Financial analysis and working capital management details (in the past if any)
 - (f) Material risks involved
 - (g) Key features of the Industry
 - (h) Conclusions
 19. PIM proposal
 20. Details of the different properties provided as security against the loan
 - (a) Primary
 - (b) Collateral
 - (c) Guarantors

3. Overall Guidelines

1. The company to undertake business sales only through the Bank.
2. All credit facilities are to be collaterally secured by way of extending the existing equitable mortgage of IPs on *pari passu* basis with other consortium banks.
3. Minimum current ratio of 1.33 to be maintained in a going basis.
4. CMA/Financial information to be submitted by the company within 12 months so that limits can be renewed on due date.
5. Processing charges to be levied in case of under avilment of the limits as per bank guidelines.
6. Commitment charges to be levied in case of under avilment of limits as per bank guidelines.
7. CRs on group/associate company's/Firms to be obtained from their bankers before release of additional facilities should be satisfactory.
8. The company to submit QMS 1 and 2 within stipulated period and certificate to be kept on bank record.
9. Change to be registered suitably with ROC within stipulated period and certificate to be kept on bank record.
10. Penal interest as per bank guidelines to be charged for
 - Non/delayed submission as stock book debt statements/QMS statement
 - Non-compliance of any terms and conditions
 - Non/Delayed submission of financial information
 - Overdrawals in the account
11. All credit facilities sanctioned in favour of the company to be guaranteed by the company's directors
12. Company to furnish required financial information for quarterly review within ten days.
13. Processing fees, inspection charges, commitment charges and other charges to be recovered as per bank's schedule of charges.
14. The company shall not undertake expansion/diversification/modernisation without obtaining prior permission of the bank and without proper tie up of the funds. Similarly, no investments shall be made in associate/allied group concerns without prior bank permission.
15. Stocks/ receivables audit may be carried out on an annual basis at company's cost for which stock auditor is appointed by the bank.
16. During the period of the bank's credit the company will not without prior permission of the bank in writing:-

- (a) Affect any change in capital structure
 - (b) Formulate any scheme of amalgamation or reconstruction
 - (c) Undertake any new project, expansion, modernisation
 - (d) Enter into borrowing arrangement with any other bank
 - (e) Undertake guarantee obligation on behalf of any other borrower or organisation
 - (f) Declare dividends for any year if accounts of the company with the bank are irregular.
 - (g) Create any charge in undertaking or any part thereof in favour of any bank/borrower/financial institution/person.
 - (h) Sell, mortgage, assign, alienate or dispose of any asset of the company.
 - (i) Enter in any contractual obligation of long term nature affecting the company financially or otherwise.
 - (j) Undertake any activity other than those indicated in object clause of the memorandum of association of the company.
 - (k) Permit any transfer of the controlling interest or make any drastic change in the management set up.
17. The company to keep the bank informed of any event which has sustained effect on the operation/production, sales, products/disbursements etc such as defaults/overdues, labour problem, lockout, lay-offs, power cuts, etc and remedial steps proposed by the borrower.
18. Margin/rates of interest subject to change from time to time at bank's discretion.
19. An undertaking to be obtained from the promoted directors not to off load/disinvest/dilute their shareholding during currency of our facility.
20. Penal interest on any other eventuality decided by the bank.

Mini Case

17.C.2 (Factoring) Avon Bijli Ltd deals in electronics goods. The company started business in 1992 as a small electronics sale and repair shop in Delhi with a capital contribution of Rs 5 lakh from its promoters. It recorded impressive growth over the years and is now a significant player with the current annual sales being Rs 200 crore. It currently manages its receivable in-house with the credit terms 3/10 net, 45. Past records have shown that 20 per cent of the customers avail of the discount and the remaining receivables are collected in 60 days. Bad debts amount to 4 per cent of sales. Avon Bijli finances its investments in receivables through a cash credit limit from Yes Bank at an effective rate of 11 per cent. The cost of own funds of the company average 14 per cent.

PNB Factor Ltd has approached Amit Goel, the CEO of Avon Bijli Ltd, with a proposal for factoring arrangement for a guaranteed payment within 45 days. They would make advance payment of upto 90 per cent and 85 per cent in case of non-recourse and recourse arrangement respectively. The commission charges payable upfront would be 1.5 per cent in case of recourse arrangement and 3 per cent in case of non-recourse factoring. The discount charge for advance payable upfront for recourse and non-recourse factoring by the factors are at 13 per cent and 14 per cent respectively.

Amit Goel seeks the opinion of Ashish Juneja, the CFO of the company, on the proposal. Ashish estimates that if the factoring arrangement is availed of, Avon can save Rs 30 lakh in overheads. He also estimates that with a shift in focus, sales can be expected to increase by 10 per cent. The gross margin on sales of Avon is 25 per cent.

Required Evaluate the proposal as the CFO of Avon and make your recommendations to the CEO.

Solution

Financial Analysis of Factoring Proposal (Rs crore)

| (A) In-house Management of Receivables: | |
|---|---------|
| 1 Cash discount (Rs 200 × 0.20 × 0.03) | Rs 1.20 |
| 2 Bad debts (Rs 200 × 0.04) | 8.0 |
| 3 Avoidable administrative costs | 0.30 |
| 4 Opportunity cost (lost sales) [200 × 0.10 × 0.21, net of bad debts] | 4.2 |
| 5 Cost of investment in debtors [®] | 3.05 |
| | 16.75 |

[®] Average collection period (10 days × 0.20) + (60 days × 0.80) = 50 days

Cost of investment = Rs 200 crore × 50/360 × 0.11 = Rs 3.05 crore

(B) Cost of Factoring Arrangement:

| | Recourse | Non-recourse |
|--|-------------|--------------|
| 1 Factoring commission (Rs 220 crore × 0.015) (220 × 0.03) | 3.3 | — |
| 2 Discount charge (Rs 184.2' crore × 0.13 × 45/360) (192.1 [£] × 0.14 × 45/360) | 2.99 | 6.6 |
| 3 Cost of extra debt financing [(Rs 220 crore – Rs 184.2 crore) × 0.14 × 45/360] [(Rs 220 – Rs 192.1) × 0.14 × 45/360] | — | 3.36 |
| | 0.63 | — |
| | — | 0.49 |
| Total cost | 6.92 | 10.45 |

[†]Amount of advance = 0.85 × (Rs 220 – Rs 3.3) = Rs 184.2

[£]Amount of advance = 0.90 × (Rs 220 – 6.6) = 192.1.

| Decision Analysis (Recourse Factoring) | Amount in Rs crore |
|--|--------------------|
| Benefits (Rs 16.75 – Rs 8.00 Bad debts to be borne by company) | Rs 8.75 |
| Costs of factoring | 6.92 |
| Net benefits | 1.83 |

| Decision Analysis (Non-Recourse Factoring) | Amount in Rs crore |
|--|--------------------|
| Benefits (Rs 16.75 + 0.8 Bad debts loss to be borne by factor) | Rs 17.55 |
| Costs of factoring | 10.45 |
| Net benefits | 7.10 |

Decision The net benefits in the case of non-recourse factoring are higher. I would advise the CEO to avail of the non-recourse financing proposal of PNB Factors Ltd.