

Lecture Notes on:  
**Financing of Working Capital**

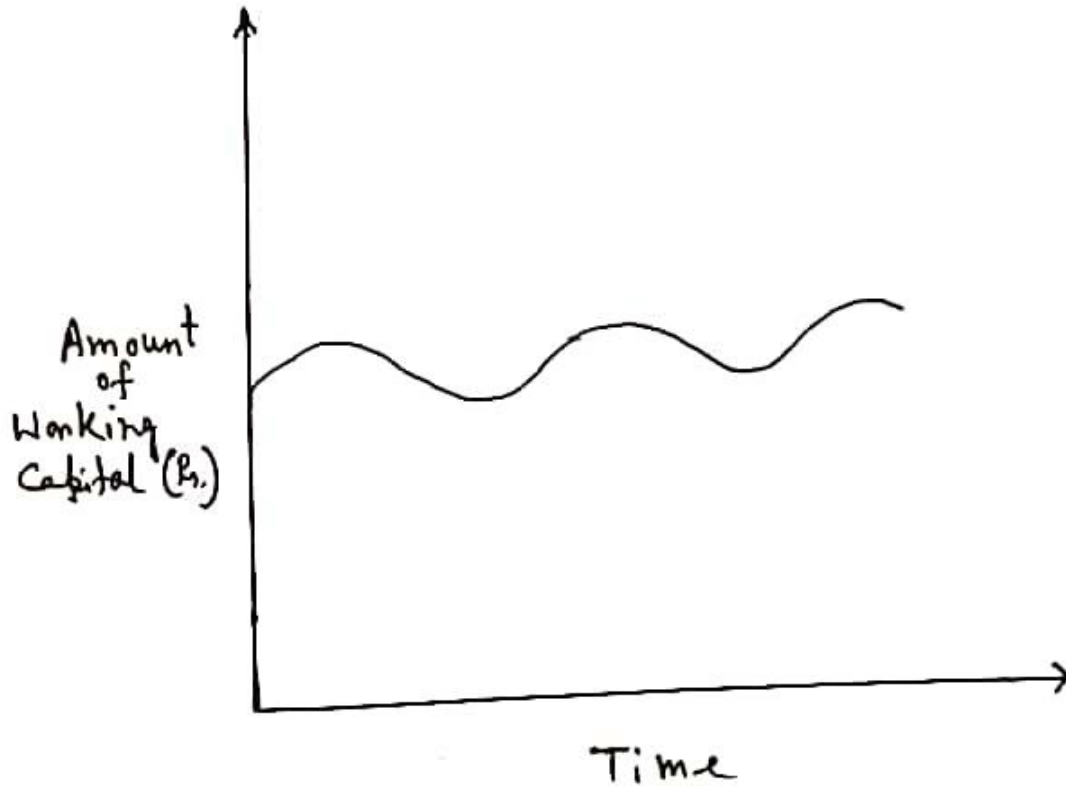
- Investment:
  - How much total amount is required as WC ?
  - How much amount is required in each component of WC in
- Financing:
  - Choice of source of finance

# Factors to be considered for determining Working Capital

# Types of Working Capital Financing

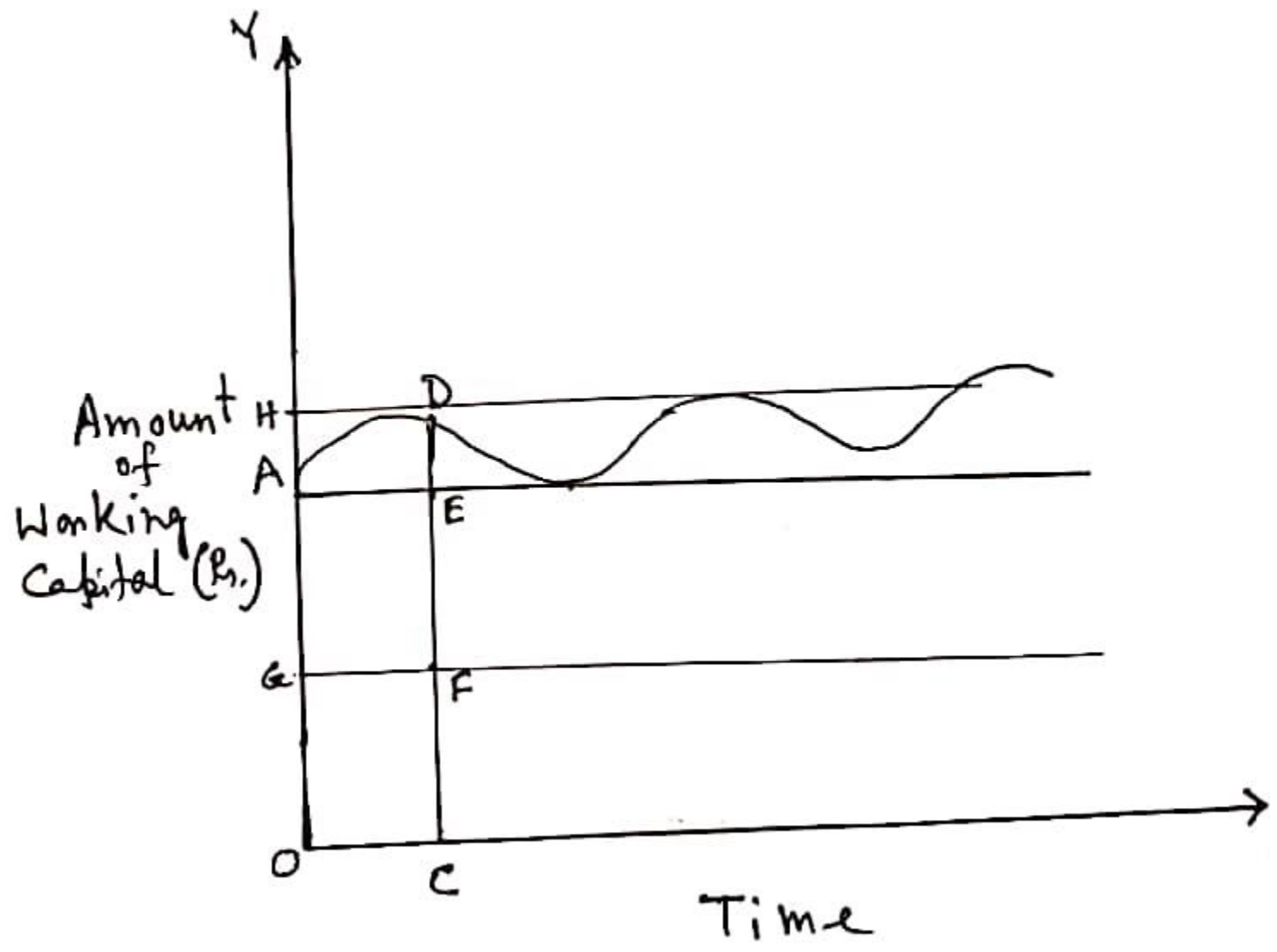
- Trade Credit: From Creditors
- Bank overdraft/ Cash credit: From Banks: As and when required within approved limit
- Working Capital Loan: from Banks or Financial Institution: Long term or medium term loan
- Bank Guarantee: Bank assures supplier to pay in case of non-payment by business concern
- Letter of credit: Pays on behalf of business concern
- Factoring: Selling of debtors to unblock fund tied in debtors: Factors

# Approaches of Financing Working Capital



# Types of working capital

- Permanent Working Capital
- Temporary Working Capital



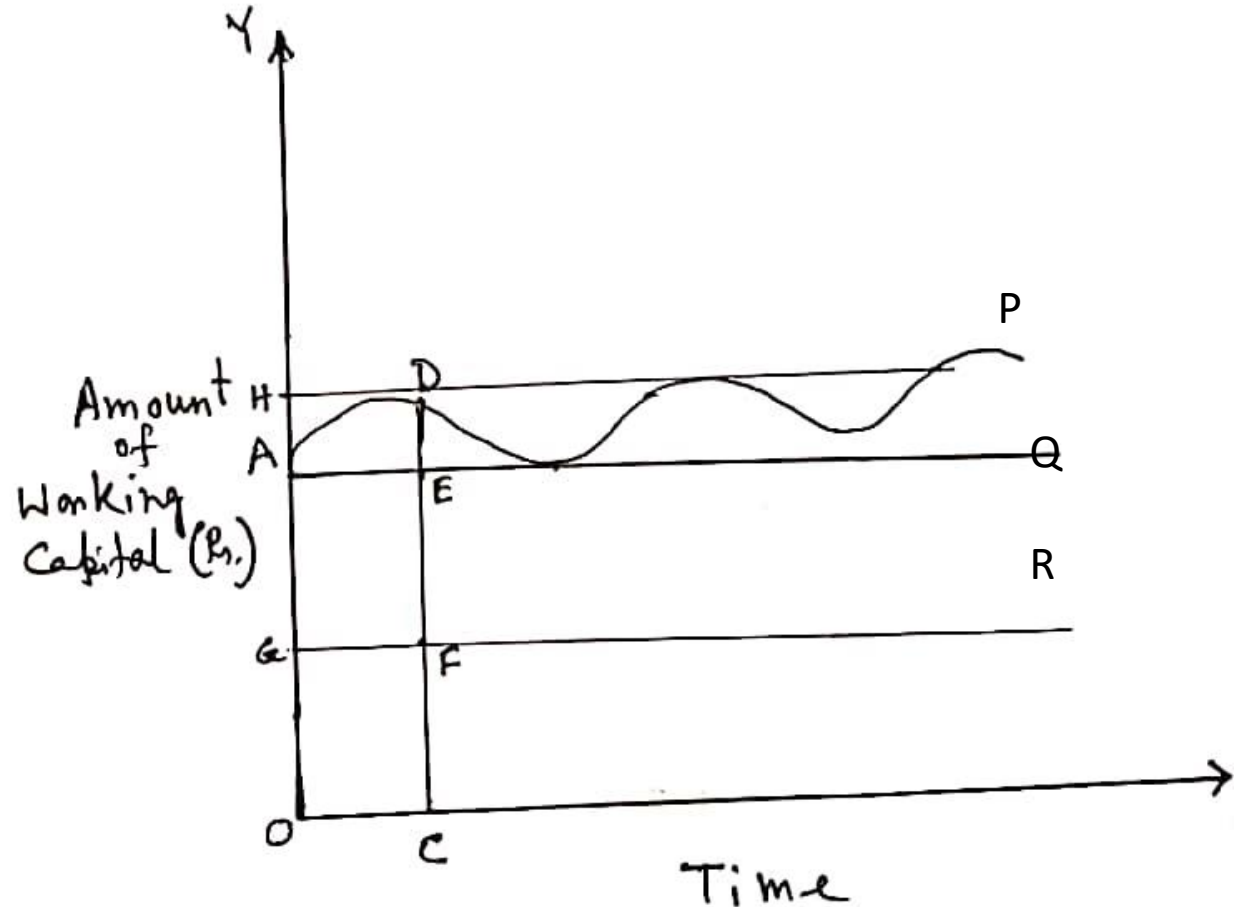
## Approaches of Financing Working Capital

Max. requirement of WC = OH

Permanent WC = OA

Temp. WC = at time C, ED

A part of permanent WC = OG





# Approaches of Financing Working Capital

- Hybrid approach/Matching approach
- Conservative approach: Total Working Capital (Permanent+ Temporary) is financed by long term loan
- Aggressive approach: A part of permanent capital is financed by long-term

# Comparative Analysis of Financing Approaches

Parameters/ Approaches	Conservative	Aggressive	Hybrid
Amount of Working Capital	High	Low	Moderate
Idle Working Capital	Sometimes	Never	May not be
Cost of Working Capital	High	Low	Moderate
Liquidity	High	Low	Moderate
Risk	Low	High	Moderate
Profitability	Low	High	Moderate

# Questions for Preparation

1. What are the aspects of working capital management?
2. What are the different sources of working capital financing? Briefly discuss each of those source.
3. What are the different approaches of working capital financing? Discuss the comparative advantages and disadvantages of all the approaches of financing working capital.