Norms of Banks for Lending Working Capital Finance

Why Success of companies are important for Government?

- Revenue:
- Employment:
- Self-reliance:
- Foreign exchange through export:
- Economic development:

Government Role in Industrialisation

- To ensure environment for business
  - To ensure raw material
  - To develop market
  - To ensure man power
  - To ensure capital
    - For Permanent Capital
    - Working Capital

Role of RBI

- The role of government regariding corporate finance is done by RBI
- To facilitate bank finance for ensuring working capital finance for industrialisation
- Bank finance is not unlimited
- RBI has appointed different committees:
  - To suggest ways of assessing requirement of bank credit
  - To suggest means of proving bank credit as an effective instrument of industrialisation
  - Equitable distribution of bank loan

Different Committees by RBI

RBI has constituted various committees in different point of time to facilitate and rationalise working capital financing: Recommendations of different committees:

- Deheja Committee (1968): modalities of examining loan application to reduce excess credit
- Tandon Committee (1974): Lending Norms
- Chore Committee (1979): Increase owner's contribution
- Marathe Committee (1984): replacement of Credit Authorization Scheme with Credit Monitoring Arrangement
- Nayak Committee (1983): Special focus on working cap. Loan to SSI
- Kannan Committee: Uniform MPBF be waived off. Bank should have descretion under RBI guidelines

Recommendation of Tandon Committee

Maximum Permissible Bank Finance (MPBF)

Method1: MPBF = (Current Asset-Current Liability)*0.75

CA:CL=1:1

Method2: MPBF= Current Asset*0.75 -Current Liability

CA:CL=1.33:1

Method3: MPBF= (Current Asset -Core Current Asset)*0.75- Current Liability

A Sum: Find Out MPBF

Current Asset	Rs. (cr.)	Current Liability	Rs. (cr.)
Raw Material	200	Creditors	250
WIP	100	Other current liability	50
Finished Goods	240	Bank Borrowing	300
Receivables	300		
Cash & Bank	50	Core Current Asset: 300 cr.	

Solution

- Current Asset= Rs. 890 cr
- Current Liability= Rs. 300 cr. (Bank borrowing should not be considered while computing MPBF)

- Maximum Permissible Bank Finance under Method1= Rs.(890-300)*0.75 cr.= Rs.442.5 cr.

Solution (Contd.)

- Maximum Permissible Bank Finance under Method 2= (Current Asset)* 0.75-Current Liability = Rs.[890*0.75-300]cr. = Rs. 367.5 cr.

- Maximum Permissible Bank Finance under Method 3= (Current Asset-Core Current Asset)*0.75 - Current Liability = (890-300)*0.75- 300= Rs. 142.5 cr.

Thank You