

Introduction Of Working Capital Loan

The money that is used to conduct day-to-day operations of a business is known as working capital. Without a free flow of working capital, a company may find itself unable to function efficiently. Thus, to ensure a seamless operational performance of the business, you can opt for a Working Capital Loan. Through this article, we take you through the Working Capital Loan meaning and other aspects around it.

What is a Working Capital Loan?

A Working Capital Loan is one that is availed of to fund the day-to-day operations of a business, ranging from payment of employees' wages to covering accounts payable. Not all businesses see regular sales or revenue throughout the year, and sometimes the need for capital to keep the operations going may arise. This is usually the case with companies that have seasonal business cycles or cyclical sales, while some other may require such a loan during festive seasons or periods of reduced business activity. Such loans may be secured or unsecured, that is, you may or may not be required to pledge a collateral to avail of the loan, depending on the loan amount and the business' financial health. A company's working capital is also a reflection of its financial health and liquidity position.

A Working Capital Loan is not meant to fund your business expansion or asset purchase plans; it is a type of business loan that is used to meet your short-term financial obligations and operational requirements. The short-term liabilities could range from payment of monthly overheads to day-to-day expenses, purchase of raw materials, and inventory management. These are only a few examples of a business's short-term operational requisites. With the aid of a Working Capital Loan, your short-term necessities are taken care of, and you have more space to plan and focus on your long-term goals.

A Working Capital Loan is primarily applicable for small and medium enterprises, and usually come with a loan tenure ranging from anywhere between 6-48 months. However, this tenure varies from bank to bank. Similarly, the interest rate applicable on a Working Capital Loan is determined by individual banks. The loan amount offered varies from one bank to another, in line with the guidelines of the Reserve Bank of India (RBI); your business turnover is a criterion taken into consideration when finalizing the loan amount.

Since what a Working Capital Loan is has been explained in detail, let's take a look at the features of a Working Capital Loan:

- **Loan Amount:** The loan amount offered via a Working Capital Loan depends on the business requirements, business experience and tenure. It varies and is customized to meet the particular financial needs of the business.
- **Interest Rate:** The Working Capital Loan's interest rate varies from bank to bank and is curated as per the borrower's needs.
- **Collateral:** Working Capital Loans can be either secured or unsecured, i.e., you may or may not be required to pledge collateral to avail of the loan. The options of collateral range from property, securities, gold, investments or the business itself. The bank curates the Working Capital Loan as per the collateral capability of the borrower. While in case of unsecured Working Capital Loans, lenders take a look at your personal financial statements, credit score and tax returns, to determine your eligibility.
- **Repayment:** The loan repayment schedule is designed to match the business's cash flow.

- Age Criteria: Another factor is the age criteria to apply for a loan. The borrower should be above the age of 21 years and below the age of 65 years.
- Processing Fee: When applying for a Working Capital Loan, banks charge a processing fee. This fee amount differs with every bank.
- Loan Applicability: You can apply for a Working Capital Loan if you are an entrepreneur, private or public company, partnership firm, sole proprietor, MSME, self-employed professional or non-professional.
- Types of Working Capital Loan: Commonly, the banks offer similar types of Working Capital Loans. These are:

- o Overdraft Facility or Cash Credit
- o Term Loan
- o Bank Guarantee
- o Packing Credit
- o Letter of Credit
- o Accounts Receivable Loan
- o Post Shipment Finance

Working Capital Loan types

These are of two types: secured & unsecured. Secured loans require an asset as a collateral in lieu of the funds loaned to your business. However, unsecured loans rely on the financial health of your business for sanctioning the loan amount. Here's a list of six most common types of working capital loans for SMEs.

1. Bank Overdraft / Credit Line:

This is a pre-approved withdrawal limit which a bank or financial institution gives you on your current account. Prerequisites include a long working relationship, good credit score, and a reasonable loan amount. Interest is only paid on the amount withdrawn, even if the sanctioned limit is higher. However, interest rates are generally 1 to 2 percent higher than the prime rate of the lending institution.

2. Equity Funding

Equity funded working capital loans are acquired through personal resources or investors, such as investment from friends or family. These working capital loans are mostly taken by start-ups and businesses with a less than ideal credit score.

3. Short-term Loans

These are one of the most popular sources of working capital finance for Indian SMEs. These are normal working capital loans, granted at a fixed interest rate with a short repayment period of up to one year. Generally, these are secured loans that may also have other policy requirement such as revenue/sales targets for you to follow.

4. Loan on Accounts Receivables

Granted against confirmed sales order value, this kind of debt is ideal for your business if you have a reliable customer base as there is always a risk of invoice defaults. In lieu, financial institutions are also hesitant to provide these working capital loans to new businesses.

5. Factoring / Advances

Like an accounts receivable loan, this loan is given against future credit card receipts instead of confirmed sales. However, this type of debt is only suitable for a business that accepts credit card payments.

6. Trade Creditor

A trade creditor working capital loan is provided by a current or new supplier. This facility is generally offered on placing bulk orders. However, trade creditors usually have strict policy parameters to be followed by the borrower.

Working Capital is the backbone of a business. A positive working capital ratio every year results in business growth. But any kind of mismanagement in the working capital leads to losses and business deterioration. It can be either due to lack of interest in the employees or scarcity of funds. Therefore, it can only be resolved by taking a working capital loan and meeting day to day expenses. But before choosing any financial institutions for loans. Check the documents required for Working Capital Loan.

Necessary Documents for Working Capital Loan

- PAN card of the individual Partnership Firm, Company.
- Documents for Identity Proof-Like Voter I.D Card, Passport, Driving License, Aadhaar Card.
- Address Proof of the Individual – Passport, Voter I.D, Electricity Bill, Telephone Bill, Aadhaar Card, Bank Statement.
- Ownership Proof of residential property and commercial property.
- Business Continuity Proof- 3 Years Documents of the bank statement, Income Tax Returns, Sales Tax Challans.
- Registration Proof- Partnership Deed, Certificate of Incorporation, Shop's Establishment Certificate.
- Loan Scheme Letter of the existing loan. (if any loan is pending)
- The applicant and the co-applicants photographs.

Documents for Self-Employed Individuals & Sole Proprietorship

- Income Tax Return Statement for at least 2 years.
- The last two year audited balance sheet and profit and loss statement by a certified chartered accountant.
- The last six months bank statement of the individual who is taking the loan.
- Bank statements for the last three months which are mentioned in the balance sheet of the business.

Documents for Partnership Firm and Pvt Ltd Companies

- Audited financial statement for the last two years of the company or a partnership firm by an authentic chartered accountant.
- Income Tax Return documents for the last two years.
- Bank statement for the last six months.
- Three months bank statement of the bank mentioned in the balance sheet.
- Partnership deed of the firm.

- Partnership authority letter of the firm.
- Memorandum of association of the Pvt Ltd Company.
- Articles of Association of the Pvt Ltd Company.
- Board Resolution of the company.
- Incorporation Certificate of the company.
- Shareholding Patterns of the company.

Documents for Non-Professionals Working Capital Loan

- Sole proprietorship business identity proof.
- Individual identity proof.
- Income Tax Documents for the last three years.
- Sales Tax Returns documents for the last three years.
- Last three month's periodic stock, debts, creditors statement.
- Last six months bank statement.

Eligibility Criteria

1. A business that has been in operation for more than 3 months.
2. A minimum turnover of ₹90,000 in the 3 months preceding your loan application.
3. The business should not fall under blacklisted / excluded list for SBA finance.
4. The physical location of your enterprise should not be in the negative location list.
5. Trusts, NGOs and Charitable institutions are not eligible for small business working capital loan.

Documents Required for a working capital loan	Proprietorship	Partnership	Pvt. Ltd. / LLP / One Person Company
Bank statement (12 months)	Y	Y	Y
Business registration proof	Y	Y	Y
Proprietor(s) PAN Card Copy	Y	Y	Y
Proprietor(s) Aadhar Card Copy	Y	Y	Y
Partnership Deed Copy	NA	Y	NA
Company PAN Card Copy	NA	NA	Y

DOCUMENTS REQUIRED FOR WORKING CAPITAL LOANS

1. Loan Application form

2. KYC (applicant & co-applicant) -

a) Individuals: latest passport size photograph of applicant & all co-applicant's duly signed.

- Id proof - Aadhar card (UID), clear copy of pan card/passport/driving licence. (Pancard must or Pancard issuing letter)

- Signature proof – clear copy of pan card/bankers verification/passport/driving licence.

- Address proof - Aadhar card (UID), latest post paid telephone bill and electricity bill/ valid rent agreement.

b) Partnership firm

- ID proof of firm - firm pan card (clear copy of pan card or pan card issuing letter)

- Office address proof - latest post paid telephone bill (must) and electricity bill valid rent agreement.

- Partnership deed and partnership registration certificate.

c) Pvt.Ltd & Public Ltd Companies.

- Company id proof – clear copy of company's pan card must required.

- Address proof latest post paid telephone bill and electricity bill valid rent agreement.

- Business proof – (a) MOA & AOA (b) incorporation certificate (c) business commencement certificate (for Ltd. Company) (d) board resolution (e) share holding pattern (C.A/C.S certified) (f) ROC annual return (g) form no. 32. (if director change) (h) DIN no. Certificate (i) list of directors on company letter head

Note- GST/ trade licence/sales tax no./vat tax no./service tax no./excise no. Etc. (any one)

3. Income Documents-

a) Proprietorship firm & Partnership firm

- CMA DATA & project report (if any)
- Debtors & creditors certificate
- Turnover C.A certified certificate /GST return (YTD)
- Latest 3 years ITR acknowledgement copy of applicant & all co-applicant
- Computation of income, trading & profit & loss a/c, & balance sheet with all annexures (for non-audited- C.A certified with membership no.)
- Annual audit report & tax audit report in case of audited firm.
- Form 16 a (TDS certificate), if applicable.
- Net worth Certificates of proprietor, all partners, guarantors.

b) Pvt. Ltd. & Public Ltd Companies

- CMA DATA & Project Report (if Any)
- Latest 3 years ITR acknowledgement copy of companies & all the directors
- Latest 3 years annual audit report & tax audit report with articles 3cb & 2d, 3cd must be required.
- Form 16 a (TDS certificate), if applicable.
- Net Worth Certificates of Guarantors.

4. Banking

a) Individual:

- latest 180 days major current A/c , Cash Credit a/c , OD A/c statement (in case of switching over bank) (applicant & all co-applicants)
- Loan statement & NOC documents – all running loan statement starting to till date & latest closed loan NOC

b) Partnership firm

- Primary banking - latest 365 days major account, Current a/c, CC a/c, OD a/c statement.
- Secondary banking - latest 180 days major Saving a/c (Applicant & all Co-applicant)
- Loan statement & NOC documents - all running loan statement starting to till date & latest closed loan NOC

c) Pvt. Ltd & Ltd Companies

- Primary banking - latest 365 days major A/c , CC A/c , OD A/c statement.
- Secondary banking - latest 180 days major saving a/c applicant & all directors saving A/c statement)
- Loan statement & NOC - all running loan statement starting to till date & latest closed loan NOC.

5. Property documents for security purpose -

- Previous & current sales deed
- Plant & machinery list
- Plant & machinery current valuation report
- Margin money
- Property photographs
- Previous property search & valuation report

6. Other business relevant documents -

- Business profile of firm / company
- Profile of promoters/ guarantors
- Corporate brochure
- Business experience supporting documents
- Business references

**** Important Points To For All Applicants****

- 1. Please Note, If There Are Existing Loans, Submit Payment Track Record And Sanction Letter To Respective Loan Provider For Finalizing Loan Amount Eligibility.**
- 2. Credit Score Plays An Important Role In Finalizing Loan Amount & ROI****
- 3. Timely Payment Of EMI Helps In Maintaining A Good & Healthy Credit Score.**
- 4. Please Keep Sufficient Amount In Account Before ECS Hitting Date.**
- 5. Wisely Usage Of Money Is Highly Required For Financial Planning.**
- 6. Don't Miss To Pay Any EMI Amount , Neither Get Delayed On Due Dates.**
- 7. There Can We Change In Loan Documentation Requirements From Time To Time And My Vary In Banks, NBFC & Private Lenders. Will Update , If There Will Be Some Changes In Documentations.**