

Cash Credit Loan

Businesses need regular cash inflows to take care of their day-to-day operations. If the working capital requirements are not properly met for a business, it could severely affect its smooth business operations. Cash credit loans, or working capital loans, are developed to take care of these business requirements. The business may use these funds for any kind of operational expenses including raw material procurement, machinery purchase, overhead costs, debt settlement, inventory costs, etc.

Companies that take cash credit loans must provide collateral to the lender. Even assets like inventory, work-in-progress goods, etc., can be hypothecated in returns for a cash credit loan. Businesses typically have a running account with a particular lender for cash credit loan and use funds from the account whenever the need for working capital arises. Let's check out the different aspects of cash credit loans and the different lenders in the industry who offer these loans.

Features of Cash Credit Loan

- One can avail a cash credit loan to meet the working capital requirements of a business
- The borrower will have to provide collateral or security in order to avail a cash credit loan
- Interest is levied only on the loan amount availed by the borrower and not on the credit amount sanctioned
- Cash credit loan is a short-term loan whereas decided by the lender, the loan can be repaid on a monthly or on a quarterly basis
- The applicant has the option of withdrawing the required amount as sanctioned by the bank in order to meet their day-to-day needs
- A cheque book is issued by the bank in the name of the company, where the latter can withdraw the required amount as per its requirement
- The borrower will have the option of repaying the loan on either a daily or weekly basis, or as per the repayment structure designed by the lender.
- Cash credit is a short-term loan with a repayment period of 12 months
- Interest rate charged by the lender is on the money withdrawn and not on the total sanctioned.
- Money can be withdrawn any number of times from the sanctioned limit
- Cash credit is always offered against collateral or security
- Higher limits can be availed by businesses with good credit scores and repayment history
- Credit limit is sanctioned considering the company's turnover and volume
- Cash credit can be repaid in form of monthly, quarterly, or half-yearly repayments
- Individual borrowers can also avail cash credit against their Fixed Deposits
- Lender has an option of recalling sanctioned amount at short notice
- Interest rate paid on cash credit is tax-deductible

Benefits and key highlights

- This loan is available for SMEs, traders, manufacturers, and other business institutions.
- Borrowers can choose from a wide range of collateral options including residential properties, commercial properties, industries properties, stocks, book-debts, gold, etc.
- HDFC offers dedicated relationship management for business owners who take these loans.

Eligibility for cash credit loans

Some of the eligibility criteria outlined by lenders for cash credit loans are given as follows:

- Most lenders require a minimum age of at least 25 years for the business owner. However, this criterion is likely to vary among the lenders in the market. You may have to contact the company to know the age limit required for this loan.
- A business vintage of at least three years is good for securing this loan. Business vintage refers to the number of years the business has been in operation. This requirement is also likely to vary among lenders in the market. Some lenders provide loans for companies with a business vintage of just one year.
- Some lenders expect businesses to have filed IT returns for at least one year. This proof must be submitted to the lender while applying for a loan.
- Proprietorship firms, partnership firms, publicly traded companies, limited liability companies, etc., may apply for working capital loans. Some lenders have certain restrictions on the type of companies that can apply for working capital loans. You can contact the lender to know more details about this.
- The borrower must provide collateral to be eligible for a cash credit loan. Most companies accept real estate properties as collateral for working capital loans. Other assets like inventory, work-in-progress goods, raw materials, etc., can also be pledged as security to avail this loan.

Things To Consider Applying For Cash Credit

The borrower must consider the following things while applying for a cash credit loan:

- The interest rates for these loans are determined by the value of the collateral. If the value of the collateral is high, the applicant can negotiate a lower interest rate for working capital loans.
- There could be certain restrictions on the type of collateral accepted by lenders. Some lenders do not accept inventory or raw materials as collateral. You need to check with your lender to know more about this.
- Most lenders in the market offer running credit for working capital requirements. Here, businesses can withdraw from their accounts whenever the need arises.
- Since this facility is offered on the basis of running credit, a good track record of loan repayment is necessary to get further benefits. Lenders review it every year and change the terms and conditions of the account as per the loan repayment record.
- Lenders typically have some restrictions on how the loan amount can be spent. Businesses can use the money for any kind of working capital requirements. However, it cannot be used for other purposes like long-term investments, personal needs, etc.

Documents Requirements

- Financial statements certified by a CA
- Bank account statement for at least 6 months
- IT returns for at least a year
- Loan repayment record (if applicable)
- Proof of collateral
- Other relevant documents requested by the bank
- Business PAN card
- KYC documents: Applicant's Passport, Driving License, Voter's ID card, PAN card, Aadhar card, Utility Bills (Water/ Electricity Bills)
- Income Proof: Last 6 months' bank statement
- Business Incorporation Certificate
- Business address proof
- Ownership proof: Company's deed
- Details of collateral or security to be submitted
- Any other document required by the lender
- Last 2 years Audited Financial statements.
- Undertaking from Borrower regarding Laminated Documents (For Takeover Cases)
- Copy of the sanction letter of the existing bank (For Takeover Cases)
- Last three years balance sheet, copy of income tax return, copy of Partner's personal return , Memorandum and Article of Association in case of limited company, resolution for loan application.
- Tax bill of Property
- 3 Photographs of Applicant
- Applicant's Pan card / Partner's Pan Card / Limited Company's Pan card
- Bank account statement of last 2 years
- Stock statement of the business
- Last income tax return copy / Pay slip of last 3 Months.

Conditions

- ♣ Original documents of property to be submitted to the bank. Registered mortgage of property to be done in favour of bank. Bank charge will be noted in society's book.
- ♣ Valuation of the property will be required for old property. Bank will give loan of 60% of valuation amount. (for old property) and new property bank will give loan of 80%.
- ♣ Applicant will have to take insurance of the building in favour of bank.
- ♣ Applicant has to submit original share certificate of the Society/Association, Municipal Tax bill, Tax receipt, sales deed etc, for registered mortgage of the property.
- ♣ Title clearance and valuation report will be done by approved lawyer and valuer of the bank. Applicant has to pay their fees.
- ♣ Applicant has to take share @ 2.5% of the limit.

**** 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.**