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## Working Capital Loans (CCLs)– Optimisation and Calculations

Working capital loans are taken to meet the day to day “operating expenses” of the FPO. We have discussed at length on what and how of it. Before we talk about the other type of loans namely the Term Loans, we will add some more important aspects of Working Capital loans. These Working Capital Loans are usually taken in the form of Cash Credit Limits (CCLs) from Banks.

Let us take an example to illustrate some aspects...

The Vegetable Growers federation of Chittoor district decided to manufacture quality Coco peat by using IIHR technology - Arka Fermented Cocopeat Model, package it and supply it to the nurseries in nearby area. Chittoor division has approximately 300 vegetable nurseries and each one requires around 20-100 tonnes of coco peat annually for the raising of vegetable seedlings.

The federation prepared a business plan for coco peat for 5 years. The business plan was prepared considering the member contribution as well as grant for the coco peat business. The details are summarized below.



	Particular	Detail
1	Total Members	8,365
2	Share Capital	Rs. 9,00,000
3	Member contribution in buying tractor	Rs. 2,00,000
4	Grant for tractor	Rs. 2,00,000

The business plan indicated that the federation would require funds for coco peat business for the following activities. These funds are required for running the business, again and again for the same activities for each cycle every year

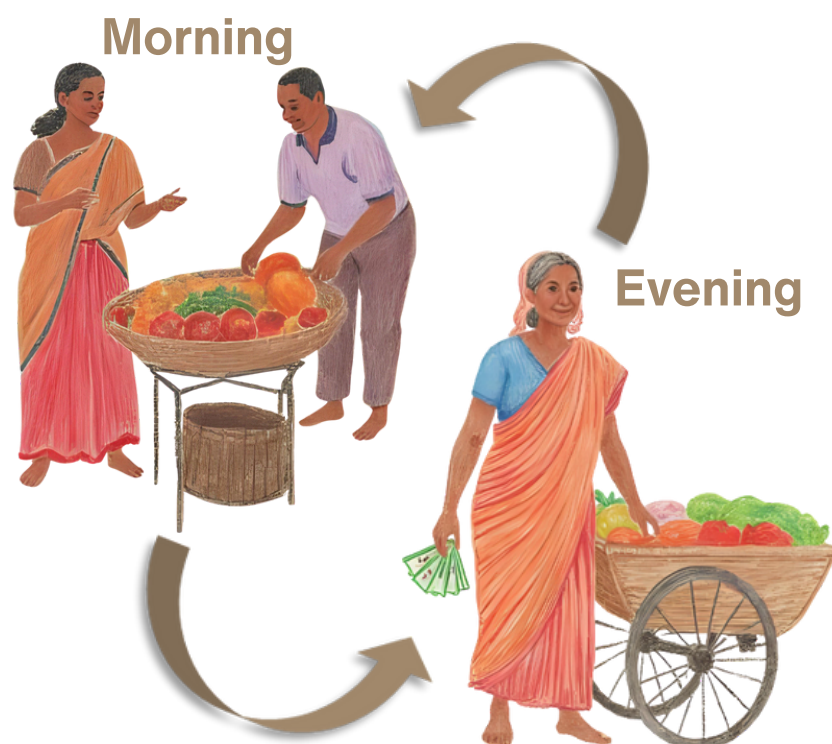
(Amount Rs. in lakhs)

	Activities	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
1	Cost of Coconut Fiber including transportation from TN and Karnataka	30.55	38.85	50.8	65.75	84.5
2	Labour charges for processing	0.7	0.85	1.15	1.5	1.85
3	Cost of Urea, required for Arka Microbial Consortium Decomposer	3.7	4.7	6.1	7.9	10.15
4	Cost of N P and Zn required for Arka Microbial Consortium decomposer	1.5	1.9	2.5	3.25	4.15
5	Cost of packing material for coco peat	5	6.35	8.32	10.8	13.8
6	Rent of land	0.25	0.27	0.35	0.4	0.45
7	Electricity	0.2	0.3	0.3	0.3	0.4
8	Staff Salary	2.4	2.64	2.9	3.2	3.5
9	Watchman Salary	1.44	1.6	1.75	2	2.15
10	Inward Outward Shipping (1% of Cost of Production)	0.46	0.57	0.74	0.95	1.21
11	Insurance (.5% of Cost of Production)	0.23	0.29	0.37	0.48	0.61
12	Legal Compliances	0.1	0.11	0.12	0.13	0.15
	<b>Total</b>	<b>46.53</b>	<b>58.43</b>	<b>75.4</b>	<b>96.66</b>	<b>122.92</b>

Thus, the working capital requirement of the federation for the coco peat business would be Rs.46.53 lakhs during 2025-26 going up to Rs.122.92 lakhs in the year 2029-30.

We know that the Working Capital depends on the WC Cycle or Business Cycle and needs to be optimized according to the cycle and fund utilization.

Let us first understand business cycle. In case of a vegetable vendor, she purchases vegetables from farmers and sells in the market. She spends money in the morning for buying vegetables and gets the money back by the evening. So, business cycle for any vegetable vendor is 1 day, in this type of a model.



**Learning Alert :** The Working Capital requirement of any FPO will depend on its Business cycle, that will vary from FPO to FPO depending on the business being carried out !

Now, let us look at the example of coco peat and learn to optimize the working capital requirement. Usually decomposing of coco pith in to coco peat takes 3-6 months. Here the FPO is using IIHR technology - Arka fermented Coco peat model that can process the coco pith in one month. Once decomposed, the coco peat is sieved, packed, and dispatched to the nurseries. This process takes around 10-15 days and nurseries take around 15-20 days to get the payment from the buyers. Thus, the business cycle is around 60 days.

The monthly working capital requirement of the FPO for this business can be as below:

#	Particular	M 1	M 2	M 3	....	M12
1	Cost of Coconut Fiber including transportation from TN and Karnataka	2.55	2.55	2.55	2.55	2.55
2	Labour charges for processing	0.06	0.06	0.06	0.06	0.06
3	Cost of Urea, Arka Microbial Consortium Decomposer required	0.31	0.31	0.31	0.31	0.31
4	Cost of Arka Microbial Consortium - N, P & Zn required	0.13	0.13	0.13	0.13	0.13
5	Cost of packing material for coco peat	0.42	0.42	0.42	0.42	0.42
6	Rent of land	0.02	0.02	0.02	0.02	0.02
7	Electricity	0.02	0.02	0.02	0.02	0.02
8	Staff Salary	0.2	0.2	0.2	0.2	0.2
9	Watchman Salary	0.12	0.12	0.12	0.12	0.12
10	Inward Outward Shipping (1% of Cost of Production)	0.04	0.04	0.04	0.04	0.04
11	Insurance (.5% of Cost of Production)	0.02	0.02	0.02	0.02	0.02
12	Legal Compliances	0.01	0.01	0.01	0.01	0.01
	<b>Total</b>	<b>3.88</b>	<b>3.88</b>	<b>3.88</b>	<b>3.88</b>	<b>3.88</b>

M1 is the first month of the project and so on....

The federation needs money to meet the expenses of first two months. After that, it will start receiving the payment (since the business cycle is 60 days, as stated above) and can rotate that to meet the expenses. Therefore, the actual working capital requirement of the federation will be

**Learning Alert :** The Working Capital requirements are optimized based on a projected monthly requirement of the business cycle.



Working Capital Requirement	Amount
Expenses of the Month 1	3.88
Expenses of the Month 2	3.88
<b>Total WC Need/ Gap</b>	<b>7.76</b>

Normally Banks / FIs keep some Margin on total requirement so we can calculate the WC in the present case as

WC Need/ Gap	Rs. 7.76 lakhs
Margin (15%)	Rs. 1.16 lakhs
Net WC or eligible WC	Rs. 6.60 lakhs

FPOs can, by reducing its business cycle through latest technology, calculating the monthly fund requirement, and using part of its share capital, optimize their working capital loan requirement.

In this example, the monthly money requirement was same. In some cases, it may vary from month to month. In that case, the maximum monthly requirement of money should be considered for calculating the working capital. For example –

	Particular	M 1	M 2	M 3	M 4	M 5	M 6	M 7	M 8	M 9	M 10	M 11	M 12
1	Fund needed *	3	3	2.5	5	3.5	3	2	2.5	3	2	2.5	3
2	Payment Received *			3	3	2.5	5	3.5	3	2	2.5	3	2

In this case, the business cycle is of three months as the payments are received at the end of third month. Therefore, FPO needs working capital to meet the expenses of three months.

	Business Cycle	Working Capital	Remarks
1	Money needed for M1, M2 & M3	8.5 Lakhs	
2	Money needed for M4, M5 & M6	11.5 Lakhs	Maximum
3	Money needed for M7, M8 & M9	7.5 Lakhs	
4	Money needed for M10, M11 & M12	7.5 Lakhs	

Since the maximum fund is required for meeting the expenses of month 4, 5 and 6, therefore, it should be kept in mind while arranging the working capital loan. If FPO does not have enough share capital or any other source, FPO should take working capital loan to cover the expenses of maximum working capital requirement for any of the business cycle.

If it has enough share capital or other sources to meet the additional working capital requirement, it should consider the average working capital requirement for its business cycle for arranging working capital loan and meet the additional requirement from its share capital or other sources.

**Learning Alert :** When there are irregular flows in the expenses and income Working capital is calculated based on the maximum requirement of funds during the business cycle !



Some points that FPOs need to keep in mind while availing WC finance from Banks.

1. The WC loans from Banks are what we call as “running credit.” This means that the FPO is sanctioned what we call as a LIMIT. This is the maximum amount that the FPO can take or “draw.” They can rotate this amount as many times as possible, depending on their “business cycle.”
2. Taking the example of the calculations presented earlier, let us say that the FPO has been sanctioned a LIMIT of Rs. 6.60 lakhs. As per the terms of sanction this LIMIT will have a TENABILITY of one year. ( Availability of one year) So, for one year the FPO can rotate this amount as many times as possible. If it follows the present business cycle of two months it can rotate it six times. However, if the FPO can optimise and take more rotations then, it can even draw the amount 10 to 12 times thus a Working Capital loan of Rs 6.60 lakhs can be used to a maximum benefit.

<b>Amount sanctioned/ Limit</b>			<b>6,60,000.00</b>
<b>Date</b>	<b>Amount Drawn / Taken out</b>	<b>Amount Paid back / Put In</b>	<b>Balance (Amount of loan actually taken)</b>
01.08.23	450000		450000
07.08.23	200000		650000
18.08.23		100000	550000
25.08.23	120000		670000
31.08.23		2000	668000
02.09.23		650000	18000
03.09.23		10000	8000
04.09.23	500000		508000
06.09.23	100000		608000
10.09.23	60000		668000
15.09.23		450000	218000
18.09.23	400000		618000
22.09.23		350000	268000
25.09.23	400000		668000
26.09.23		150000	518000
27.09.23	142000		660000
<b>Total Amount taken by FPO during August &amp;September</b>	<b>2,372,000.00</b>		

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So as against a sanctioned Limit of Rs. 6.60 lakhs the FPO has maximised its business cycle and within two months availed Rs. 23.72 lakhs from the Bank. Again, a point that needs to be noted is that it will not pay INTEREST ON THIS TOTAL AMOUNT for the two months but will be paying interest for the amounts that it has actually taken and only for that period of time.

For example, it will pay interest on Rs.4.50 it has taken on 1.08.23 for six days only and will pay interest on Rs.6.50 from 07.08.23 till 17.08.23 (11 days) and on Rs. 5.50 lakhs from 18.08.23 till 24.08.23 ( 7 days) and so on.

That is the advantage of a WC – CCL account from any commercial bank.

1. The FPO can, by judiciously using the funds rotate it many times over to improve their Turn Over.
2. Since the interest is applied on the amount taken and for the duration it is taken the funds become relatively cheaper.
3. By showing good turnover in the account, the FPO can always seek enhancement thus keep a good credit line open for improving business.

**Any queries or clarifications please do write to us....**