



# SNS College of Technology

Coimbatore - 35



**19BAE711 – Working Capital Management**

**Unit I - Introduction to Working Capital**

**Presented by**

**Dr.V.Prabakaran**  
*Design Thinker*





# Guest the topic

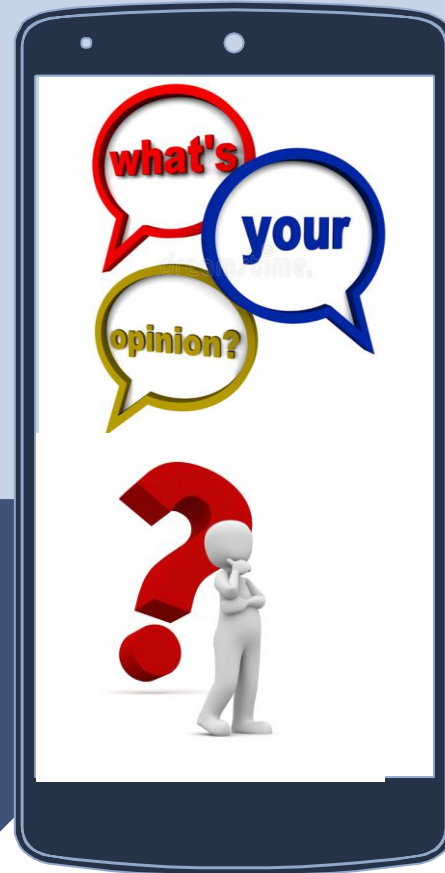




# Recall

- Determinants of WC





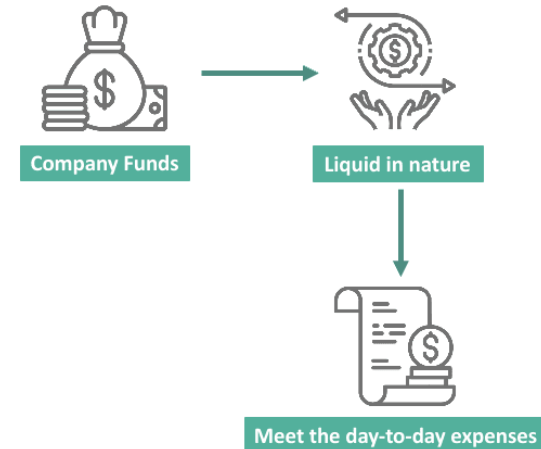
# What is Optimal Decision...?



# Optimal WC

- A firm has to maintain an adequate level of working capital to run its operations smoothly and effectively.
- It should be adequate in the sense that it shall not be more than the requirements nor it shall be less than the requirements.
- Both the excessive as well as inadequate working capital positions are dangerous from the firm's point view.

## Working Capital





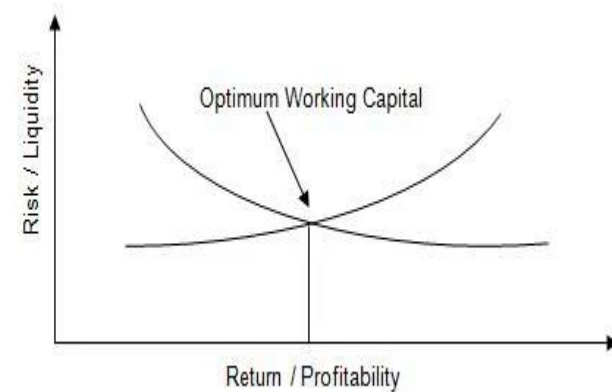
## Cont...

- There is no standard rule for an Optimum Working Capital.
- The WC requirements vary from industry to industry.
- Traditionally, Current Ratio (Current Assets: Current Liabilities) of 1.5 to 3 is considered to be comfortable liquidity position.
- However, it should be remembered that optimum working capital can be determine only with the reference to a particular circumstances.



# Nature of Risk-Return Trade-off

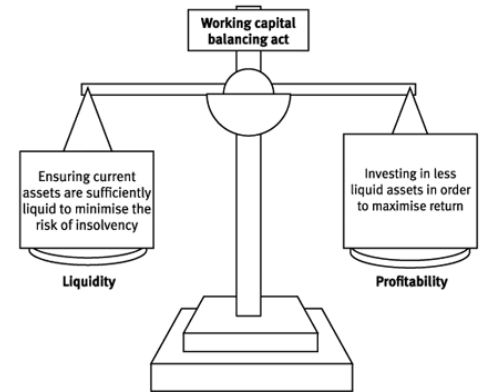
- If a firm wants to increase its profitability, it must be prepared to increase its risk of insolvency, as it would have to reduce its investment in current assets.
- However a smaller amount of liquidity increases risk of insolvency and, at the same time, it increases profitability also.





## Cont.....

- The firm should maintain its current assets at such a level that on the one hand its profitability increases and on the other hand its risk of insolvency decreases.
- There should be a balance between profitability and risk. The level, at which there is a trade-off between the risk and return, is the optimum level of working capital for a firm.







# Advantages



- Solvency of the company
- Reputation
- Unproblematic Loans
- Cash discounts
- Uninterrupted delivery of raw material
- Uninterrupted disbursement of salaries wages and other day-to-day obligations
- Utilization of positive market conditions
- Capability to face crisis
- Sky-scraping morale



# Assessment

Optimal WC is the balance between risk and return

True / False

Ans: True





# Summary

- Optimal WC
- Risk – Return Trade of
- Advantages

SUMMARY





# Reference

- [https://www.jiwaji.edu/pdf/ecourse/political\\_science/MBA\\_FA\\_IV\\_SEM\\_403\\_OPTIMUM\\_WORKING\\_CAPITAL\\_POLICY.pdf](https://www.jiwaji.edu/pdf/ecourse/political_science/MBA_FA_IV_SEM_403_OPTIMUM_WORKING_CAPITAL_POLICY.pdf)
- <https://www.mbaknol.com/financial-management/optimum-level-of-working-capital/>
- [https://static.careers360.mobi/media/uploads/froala\\_editor/files/Management-of-Working-Capital\\_-Unit-I\\_-Introduction-to-Working-Capital-Management\\_WDdB8ZC.pdf](https://static.careers360.mobi/media/uploads/froala_editor/files/Management-of-Working-Capital_-Unit-I_-Introduction-to-Working-Capital-Management_WDdB8ZC.pdf)



# Reach Us



**SNSINSTITUTIONS**



**SNSINSTITUTIONS**



**SNSINSTITUTIONS**



**SNSINSTITUTIONS**



**SNSINSTITUTIONS**

*Thank  
you*