



# SNS College of Technology

Coimbatore - 35



**19BAE711 – Working Capital Management**

**Unit I - Introduction to Working Capital**

**Presented by**

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# Guest the topic

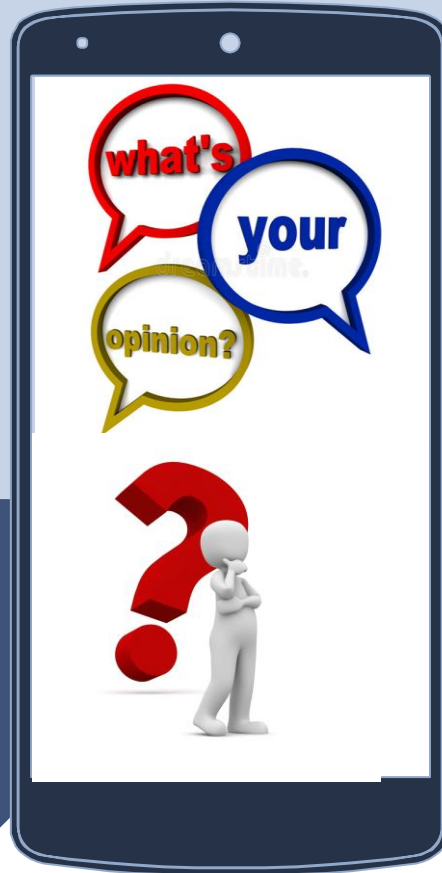




# Recall

- Optimal WC
- Risk – Return Trade of
- Advantages





# What is Policy / procedure...?



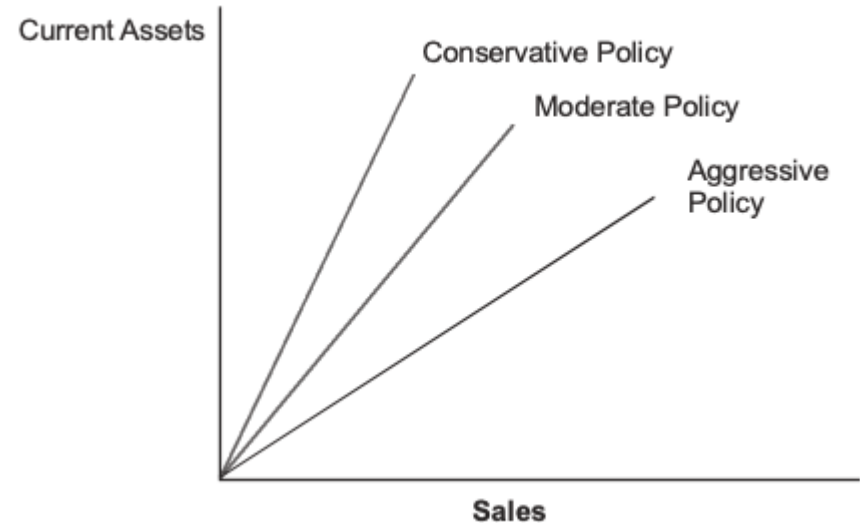
# WC Policy

- Refer to the guidelines and rules set by a company to manage it effectively.
- Usually focus on maintaining a balance between the company's short-term assets and liabilities to ensure operational efficiency and financial stability.
- The goal is to make sure the company has enough liquidity to meet its day-to-day operating expenses while minimizing the cost of holding much cash or other short-term assets.



# Types of Working Capital Policies

- Conservative Policy
- Aggressive Policy
- Moderate Policy





# Cont...

| Criteria             | Aggressive policy              | Conservative policy            | Matching policy                |
|----------------------|--------------------------------|--------------------------------|--------------------------------|
| Approach             | High short-term debt, low cash | Low short-term debt, high cash | Moderate short-term debt, cash |
| Risk Level           | High risk due to debt reliance | Low risk with ample liquidity  | Balanced risk-reward strategy  |
| Profitability        | Potential for higher returns   | Lower returns due to less debt | Moderate returns, lower risk   |
| Flexibility          | Limited due to high debt       | Enhanced due to cash reserves  | Moderate flexibility           |
| Interest costs       | Higher interest expenses       | Lower interest expenses        | Moderate interest expenses     |
| Liquidity management | Weak liquidity management      | Strong liquidity management    | Balanced liquidity approach    |
| Suitability          | Risk-tolerant, growth-oriented | Risk-averse, stable businesses | Balanced approach for most     |



# Components

- Inventory Policy
- Accounts Receivable Policy
- Accounts Payable Policy
- Cash Management Policy
- Short-Term Financing Policy







# Advantages

- Strategic Alignment
- Operational Efficiency
- Risk Management
- Accountability and Control
- Investor and Stakeholder Confidence





# Assessment

Risk level for aggressive policy is high

True / False

**Ans: True**





# Summary

- WC Policies
- Types of WC Policies
- Components of WC Policies
- Advantages

SUMMARY





# Reference

- <https://www.bajajfinserv.in/what-are-the-types-of-working-capital-policies#:~:text=Working%20capital%20financing%20policies%20are,with%20distinct%20characteristics%20and%20implications.>
- <https://www.kredx.com/blog/what-are-the-3-working-capital-financing-policies/>
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*Thank  
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