



to me

Sir/ Madam

As per our Loans & Advances Circular No.227/2020, method of lending under Cash Budget System

- While adopting cash budget method, it shall be ensured that the borrower has necessary infrastructure to submit the required information periodically in time. The scope of internal MIS shall be commensurate with the level of operations. The borrower must have finance professional environment.
- Cash Flow lending is more customer friendly and suited to units dealing in seasonal production activities. The sanctioning authority based on nature of activity of the borrower, wherever different from the cash budget system where they feel this system is more appropriate as in case of construction, Sugar, IT software, BPO, service sector etc. Cash Flow based lending is popular in developed countries.
- Under this method, the peak level deficit will be the level of total working capital finance required by the borrower by the bank. The peak level cash deficit will be ascertained from the Project Cash Flow statement submitted by the borrower. Deficit is worked out and financed subject to availability of chargeable assets.
- The required contribution (NWC), which should be at least 25% of peak deficit, is also worked out from current assets and liabilities as at the peak period. Drawings are allowed to the extent of working capital gap from business operations is to be made good by Bank finance.

This is for your information and records.

Regards

Jetan

MCC Dharamshala