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AMENDMENT TO WORKING CAPITAL GUIDELINE, 2079 (2022)

COMPARATIVE ANALYSIS OF AMENDMENT TO THE WORKING
CAPITAL GUIDELINE DATED 11 BHADRA 2080



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AMENDMENT TO WORKING CAPITAL GUIDELINE, 2079 (2022)

The Nepal Rastra Bank ("NRB") has issued an official notice directed at licenced 'A', 'B', and 'C' class banks, financial institutions, as well as Infrastructure Development Banks. The notice, dated **11 Bhadra 2080 BS (28 August 2023)**, underscores the paramount importance of working capital loans by introducing some significant modifications in the "**Working Capital Guidelines, 2079 (First Amendment) (2022)**". These changes have been detailed in the accompanying table. The listed amendments by NRB aim to enhance the accessibility and effectiveness of working capital loans, thereby promoting financial stability and fostering business growth.

AMENDED PROVISIONS

S.N.	PROVISIONS	EXISTING PROVISION	REVISED PROVISION
1	Para 3.1	Determination of Working Capital Loan limit up to NPR 1 Crore (a) When a borrower utilizes a total working capital loan of NPR 1 crore or less from the entire banking system, banks and financial institutions can determine the limit	Determination of Working Capital Loan limit up to NPR 1 Crore (up to NPR 3 Crores for manufacturing industries) This guideline will not apply to borrowers availing working capital loans totalling up to NPR 1 crore (up to

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		of working capital loans based on their own policies for working capital loans. However, the nature of loans provided for working capital purposes must adhere to this guidance.	NPR 3 crores for manufacturing industries) from the entire banking system. Banks and financial institutions are free to set the limit of working capital loans for such borrowers as per their own policies related to working capital loans. However, the nature of loans provided for working capital purposes must adhere to this guidance.
2	Para 3.2 (a)	Determination of Working Capital Loan limit up to NPR 2 Crores (a) While determining the working capital loan limit up to NPR 2 crores or less from one or more banks and financial institutions for a firm/institution/company, the cumulative working capital loan limit must be maintained up to 20 percent of the projected annual turnover/sales. This loan should	Determination of Working Capital Loan limit up to NPR 2 Crores (up to NPR 4 Crores for manufacturing industries) (a) While determining the working capital loan limit of up to NPR 2 crores (up to NPR 4 crores for manufacturing industries) from one or more banks and financial institutions for a firm/institution/company, the cumulative working capital loan limit must be

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		<p>have a duration of 1 year or less, with the option for renewal.</p> <p>However, if the licenced institution identifies a need of a special nature while analysing the operating cycle, cash conversion cycle, days sales outstanding, inventory conversion period, lead time, accounts payable period etc. of the business enterprise, the total working capital loan limit can be maintained up to a maximum of 40 percent of the estimated annual turnover/sales by mentioning those reasons in the loan file.</p>	<p>maintained up to 20 percent of the projected annual turnover/sales. This loan should have a duration of 1 year or less, with the option for renewal.</p> <p>However, if the licenced institution deems it reasonable while analysing the operating cycle, cash conversion cycle, days sales outstanding, inventory conversion period, lead time, accounts payable period, etc. of the business enterprise, the total working capital loan limit can be maintained up to a maximum of 50 percent of the estimated annual turnover/sales by mentioning those reasons in the loan file.</p>
3	Para 3.3 (a)	Determination of Working Capital Loan limit exceeding NPR 2 Crores	Determination of Working Capital Loan limit exceeding NPR 2 Crores (up to NPR 4 Crores for manufacturing industries)

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		(a) While determining the working capital loan limit exceeding NPR 2 crores from one or more banks and financial institutions for a firm/institution/company, the permanent working capital need and fluctuating working capital need must be identified.	(a) While determining the working capital loan limit exceeding NPR 2 crores (up to NPR 4 crores for manufacturing industries) from one or more banks and financial institutions for a firm/institution/company, the permanent working capital need and fluctuating working capital need must be identified.
4	Para 3.3 (b)	(b) The loan limit for fluctuating working capital need should be approved in a manner that does not surpass 25% of the estimated annual turnover/sales. The duration of this loan should be 1 year or less, with the option for renewal.	(b) The loan limit for fluctuating working capital need should be approved in a manner that does not surpass 25% of the estimated annual turnover/sales. However, if the licenced institution deems it reasonable while analysing the operating cycle, cash conversion cycle, days sales outstanding, inventory conversion period, lead time, accounts payable period etc. of the business enterprise, the working capital loan limit

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			<p>can be maintained up to a maximum of 40 percent of the estimated annual turnover/sales by mentioning those reasons in the loan file.</p> <p>The duration of this loan should be 1 year or less, with the option for renewal.</p>
5	Para 3.4	<p>While evaluating the need for a working capital loan, even in cases where borrowers utilize working capital loans below NPR 2 crores, if a permanent working capital need is identified, licenced institutions may provide loans of less than 1-year duration for fluctuating working capital need, and loans of 3 to 10 years for permanent working capital need, provided the total amount remains within the limit of NPR 2 crores.</p>	<p>While evaluating the need for a working capital loan, even in cases where borrowers utilize working capital loans up to NPR 2 crores (up to NPR 4 crores for manufacturing industries), if a permanent working capital need is identified, licenced institutions may provide loans of less than 1 year duration for fluctuating working capital need, and loans of 3 to 10 years for Permanent Working Capital Need, provided the total loan limit will be subjected to limitations outlined in Para 3.2 (a).</p>

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6	Para 3 Explanation		Explanation: A manufacturing industry is one that produces goods using raw materials or semi-finished goods, utilizing human labour and machinery with value addition.
7	Para 6.4(b)	For working capital loan exceeding NPR 5 crores, a half-yearly statement certified by the internal audit of the loanee organization is required.	In case of working capital loans exceeding NPR 5 crores, a half-yearly statement certified by the internal auditor or auditor of the loanee organization is required.
8	Para 7.5	While renewing the working capital loan of the borrower and reviewing the working capital loan for permanent need, the loan should be renewed and reviewed only after adjusting the loan limit based on the variance analysis made according to Para 7.4.	While renewing the working capital loan of the borrower and reviewing the working capital loan for permanent need, the loan should be renewed and reviewed only after adjusting the loan limit based on the variance analysis made according to Para 7.4. However, if the loanee requests time to submit the true and fair financial statement with reasonable grounds,

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			this provision shall not be an obstacle to the renewal/review of loans subject to the provision of Para 10.16.
9	Para 7.7	No Provision	<p>It is not mandatory to reduce the loan limit through variance analysis at the time of loan renewal and review during the project period to those loans granted for multi-year projects under the project agreement related to the construction project of government, semi-government and multinational organizations.</p> <p>However, banks and financial institutions have to ensure that the borrower's working capital loan arrears do not exceed a certain percentage of Net Trading Assets (NTA) as per their own working capital loan policy.</p>
10	Para 8.6	Based on the nature of the business enterprise, all renewable working	Among the various working capital loan accounts, the cash credit loan account

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		<p>capital loan accounts of a renewable nature must have zero arrears for at least 7 consecutive days at some point in a fiscal year. However, this arrangement can be implemented as follows from the effective date of the guidance to three fiscal years.</p> <p>(a) In the first year, borrowers can maintain arrears of less than 30 percent of the total credit limit for 7 consecutive days.</p> <p>(b) In the second year, borrowers can maintain arrears of less than 20 percent of the total loan limit for 7 consecutive days.</p> <p>(c) In the third year, borrowers can maintain arrears of less than 10 percent of the total credit limit for 7 consecutive days.</p>	<p>should have arrears of less than 10 percent of the credit limit for at least 7 consecutive days at some point in a fiscal year. However, this arrangement can be implemented as follows from the effective date of the guidance:</p> <p>(a) In the first year, borrowers can maintain arrears of less than 30 percent of the total credit limit for 7 consecutive days.</p> <p>(b) In the second year, borrowers can maintain arrears of less than 20 percent of the total loan limit for 7 consecutive days.</p> <p>(c) Starting from the third year, borrowers must maintain arrears of less than 10 percent of the total credit limit for 7 consecutive days.</p>

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11	Para 9 (b)	Subject relating to the repayment schedule and recovery procedures of working capital loans	Subject relating to the procedure/methodology of calculation of working capital loan (Permanent Working Capital and Fluctuating Working Capital), repayment schedule and recovery procedure
12	Para 10.3	It is not allowed to provide any type of loan or enhance the loan limit for the purpose of repaying any loan in the same institution or in another institution. However, if there is an unexpected need for financial resources for any purpose related to the borrower's business, there will be no hindrance in providing ad-hoc working capital loan by transferring the appropriate amount for the stated purpose. If it is found that such loans have been renewed or not used as intended, then the	It is not allowed to provide any type of loan or enhance the loan limit for the purpose of repaying any loan in the same institution or in another institution. However, if there is an unexpected need for financial resources for any purpose related to the borrower's business, there will be no hindrance in providing ad-hoc working capital loans by transferring the appropriate amount for the stated purpose. Loans of this nature can also be granted to seasonal businesses (for example: Purchase of chemical fertilizers or festival-related

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		loans should be classified as bad and a 100 percent loan loss provision should be maintained. If a borrower needs ad-hoc working capital loans more than once in a financial year, the board of directors of the respective banks and financial institutions may decide to provide such loans.	business etc.) subject to proper justification. If it is found that such loans have been renewed or not used as intended, then the loans should be classified as bad and a 100 percent loan loss provision should be maintained. If a borrower needs ad-hoc working capital loans more than twice in a fiscal year, the board of directors of the respective banks and financial institutions may decide to provide such loans.

KEY CONTACTS

If you have any questions or would like to know how this might affect your business, get in touch with these key contacts



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