

SPECIFIC-CASE

WORKSHEET 7 OF 9

# Bank Cuts the Credit Line Mid-Year — Prepare Before the Meeting

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*Scenario: Your bank notifies you that your revolving KMK limit will be cut from \$180,000 to \$108,000 at the next renewal, citing tightened SME credit policy. The cut takes effect in 45 days. Your peak working capital month is in 10 weeks. You have not yet run a CCC optimization program. Fill this sheet before any meeting with the bank.*



*Working Capital Management*  
by Ibrahim Anwar

## What This Is For

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A credit line cut gives you 45 days to close a gap that the bank just created, in a business where the peak month is only 10 weeks away. The most common mistake at this moment is calling the bank to argue before calculating what can actually be achieved internally. Banks respond to data, not distress. A borrower who walks in with a current CCC, a 45-day improvement target with specific actions attached, and a revised peak NWC calculation is asking for a different conversation than one who arrives with a cash flow problem and no numbers.

This worksheet is the preparation document for that meeting. It forces the three calculations that matter: how much the cut actually shrinks available working capital relative to peak need, how much CCC optimization can recover in 45 days, and what residual gap — if any — still requires negotiation. The operator who fills this sheet before the bank meeting is the one who controls the conversation.

## Benefits

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What you get when you actually run this worksheet on a real situation:

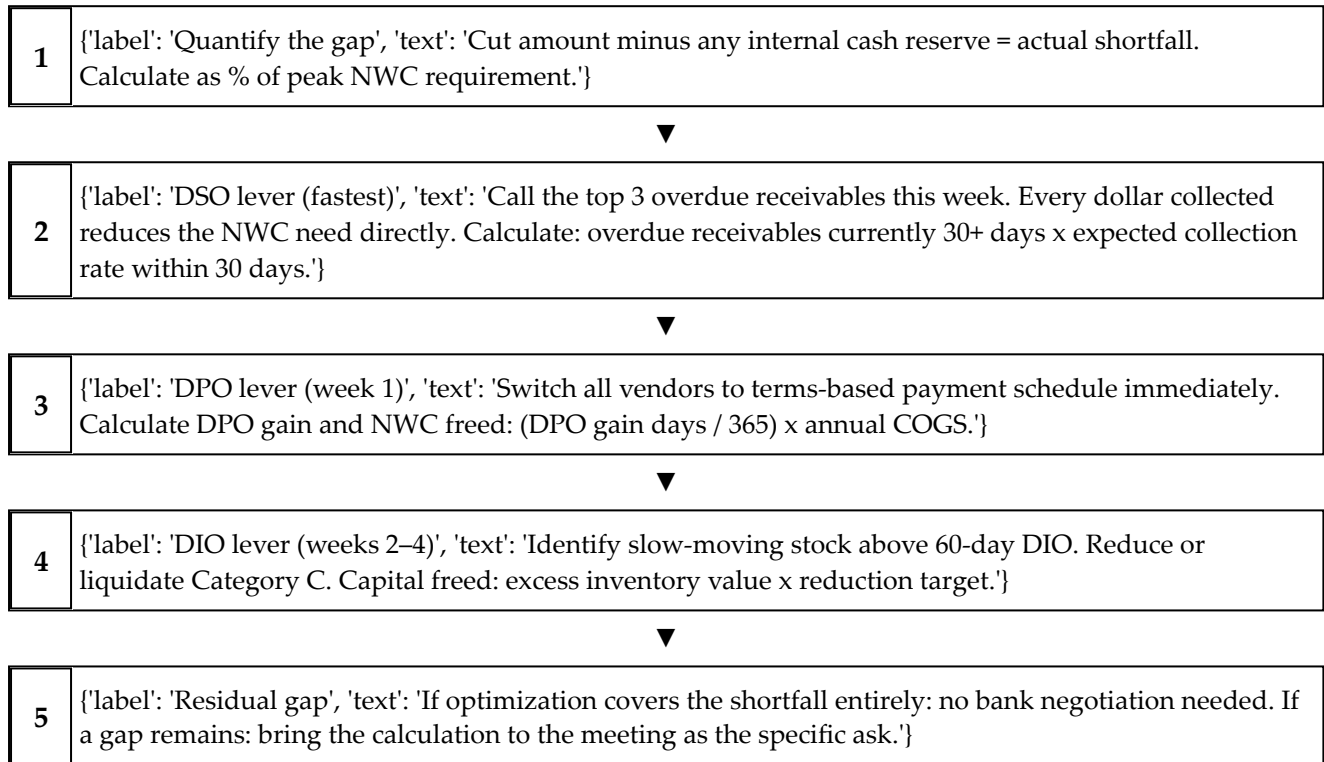
- Calculates exactly how much the credit line cut shrinks available working capital as a percentage of peak NWC requirement — translating the cut from an abstract limit reduction to a concrete operational shortfall.
- Identifies which CCC component can be moved fastest in 45 days and quantifies how much working capital each lever frees.
- Produces the three numbers banks actually respond to: current CCC, 45-day target CCC, and revised peak NWC at the improved CCC.
- Reveals whether the gap is closeable from optimization alone or requires negotiation for a staged drawdown schedule or a partial reinstatement.
- Creates a written record of the pre-meeting analysis that can be left with the bank relationship manager as a structured request.

# Framework To Use

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## — 45-Day Gap-Close Sequence

*The constraint is time: 45 days before the cut, 10 weeks to the peak. Actions must be ranked by speed of impact, not by theoretical magnitude.*



## How To Use

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Follow these steps in order. Each one builds on the previous.

- 1 Step 1: Write the current KMK limit, the post-cut limit, and the difference at the top of the sheet. Convert the difference to a percentage of your peak NWC requirement.
- 2 Step 2: Calculate current CCC from last month's data:  $DSO + DIO - DPO$ . Record this as the pre-optimization baseline.
- 3 Step 3: For the DSO lever: list the top three overdue receivables currently 30+ days past due. Estimate how much can be realistically collected within 30 days with focused effort. Convert to NWC freed: collection amount reduces receivables outstanding directly.
- 4 Step 4: For the DPO lever: identify the largest three vendors where actual payment day is earlier than contractual due date. Calculate days of early payment and capital freed:  $(\text{Gap days} / 365) \times \text{annual COGS}$  from those vendors. Implementation: build the vendor payment schedule this week.
- 5 Step 5: For the DIO lever: identify inventory in Categories B and C with DIO above 60 days. Estimate the reduction achievable in 30 days through discounting or returns. Capital freed = reduction in inventory value.
- 6 Step 6: Sum the three levers. Subtract from the credit line cut amount. The remainder is the residual gap that requires bank negotiation or a deferral of purchases.
- 7 Step 7: Calculate the revised peak NWC using the target CCC after optimization. This is the number to present at the bank meeting.
- 8 Step 8: Prepare the three-number bank brief: current CCC in days, 45-day target CCC with specific actions named, revised peak NWC at target CCC.

## Example Use

*A distributor receives notice that their KMK limit drops from \$180,000 to \$108,000 in 45 days. Peak NWC is in 10 weeks and was budgeted at \$165,000. Annual COGS is \$2,400,000. Current CCC is 67 days.*

Credit line cut: \$72,000 reduction. Peak NWC requirement: \$165,000. Available post-cut: \$108,000 KMK + own working capital of \$48,000 = \$156,000. Shortfall vs. peak requirement: \$165,000 – \$156,000 = \$9,000.

DSO lever: three overdue receivables totaling \$38,000, all 32–48 days past due. Conservative estimate: 65% collected within 30 days = \$24,700 in cash inflows. DSO drops from 44 to approximately 36 days. NWC freed from DSO improvement:  $(8 \text{ days} / 365) \times \$2,400,000 = \$52,603$  — but this is a stock number, not additional cash beyond what's collected. Cash collected directly reduces the receivables balance and the NWC needed.

DPO lever: three vendors paid on average 18 days early against 38-day terms. Gap: 20 days. NWC freed:  $(20/365) \times \$900,000$  (COGS from those three vendors) = \$49,315. This takes effect in the next billing cycle.

The \$9,000 shortfall at peak is eliminated by the DPO lever alone — it frees \$49,315 in week one. The DSO collection effort is additive.

Bank meeting: operator presents current CCC 67 days, 45-day target CCC 49 days (DSO –8, DPO +20), revised peak NWC at 49 days =  $(49/365) \times \$2,400,000 = \$321,644$ . At that CCC, the \$108,000 facility plus \$48,000 own capital covers the peak. No gap remains. The request to the bank is not for a higher limit — it is a preview of what the CCC program will produce, delivered before the bank asks for it.

# The Worksheet

Tear this out, copy it onto a fresh sheet, or fill it in directly.

## Bank Cuts the Credit Line Mid-Year — Prepare Before the Meeting

Scenario: Your bank notifies you that your revolving KMK limit will be cut from \$180,000 to \$108,000 at the next renewal, citing tightened SME credit policy. The cut takes effect in 45 days. Your peak working capital month is in 10 weeks. You have not yet run a CCC optimization program. Fill this sheet before any meeting with the bank.

ITEM	CURRENT FIGURE (\$)	AFTER CREDIT LINE CUT (\$)	AFTER 45-DAY OPTIMIZATION (\$)	GAP TO CLOSE OR FREED

## Reflection Prompts

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*After filling in the worksheet on the previous page, work through these.*

1. Sum the three optimization levers: DSO collection improvement, DPO schedule shift, DIO reduction. Does the total close the gap created by the credit line cut, or is there a residual that needs bank negotiation? The answer determines whether the bank meeting is a preview or a request.
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2. What three numbers will you put in front of the bank relationship manager? Write them now: current CCC, 45-day target CCC with the specific actions that will achieve it, and revised peak NWC at target CCC. A meeting with these three numbers prepared is a different conversation from one without them.
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# Tips and Traps

## TIPS

- Focus the DSO lever on receivables already overdue, not on general credit policy tightening. Collecting \$24,000 from existing overdue accounts produces cash in 30 days. Tightening credit policy for new customers reduces DSO over 3–6 months. For a 45-day window, only the former matters.
- The DPO lever is the fastest to implement because it requires no customer or vendor cooperation — only an internal schedule change. Build the vendor payment schedule in the first week, not the last.
- Bring the completed worksheet to the bank meeting, not just the conclusions. A relationship manager who can see the calculation builds more confidence in the operator's capability than one who hears a verbal summary.

## TRAPS

- Assuming the credit line cut is the problem and CCC is irrelevant. The cut is the trigger. The structural issue — CCC that was already too long relative to peak NWC — is the problem the bank noticed before you did.
- Optimizing CCC after the peak month has passed and presenting the improvement at the next renewal as evidence of capability. The relevant evidence is what was done in the 45 days before the cut took effect.
- Requesting a full reinstatement of the old limit rather than presenting a revised need based on the optimized CCC. A smaller, well-justified request for the right amount is more credible than fighting for the original limit.

# Appendixes

## Appendix A – 45-Day Action Sequencing Template

Week 1 (days 1-7):

- Build vendor payment schedule – shift all vendors to contractual due dates
- List all receivables 30+ days overdue – assign collection calls by Friday
- Calculate current CCC from last month's data – record as baseline

Week 2 (days 8-14):

- Execute collection calls on top 3 overdue accounts
- Identify Category B/C inventory above 60-day DIO for liquidation consideration
- Confirm KMK draw timing for peak month based on revised NWC projection

Weeks 3-4 (days 15-30):

- Follow up on collection commitments from week 2 calls
- Initiate inventory discounting if DIO lever needed to close the gap
- Prepare three-number bank brief (CCC, target, revised peak NWC)

Days 31-45:

- Run updated CCC calculation from current period data
- Confirm gap is closed or quantify residual
- Bank meeting with completed worksheet and three-number brief

## Appendix B – Three-Number Bank Brief Format

Current CCC (dated baseline): \_\_\_\_\_ days (as of [date])

45-day target CCC: \_\_\_\_\_ days

Actions underway to achieve target:

DSO: \_\_\_\_\_ days reduction via [action] start date [date]

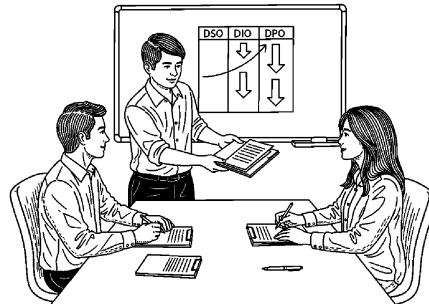
DIO: \_\_\_\_\_ days reduction via [action] start date [date]

DPO: \_\_\_\_\_ days increase via [action] start date [date]

Revised peak NWC at target CCC: \$ \_\_\_\_\_ (= (target CCC / 365) x annual COGS)

Facility needed at revised peak NWC: \$ \_\_\_\_\_ (= revised peak NWC - own working capital)

Present this document – not a narrative – at the bank meeting.



WHERE THIS WORKSHEET COMES FROM

# Working Capital Management

*Working Capital That Gets Stuck Is a Decision, Not Fate*

by Ibrahim Anwar

This worksheet is one of nine in the *Working Capital Management* companion worksheet pack. The full pack is grouped into three categories: high-volume worksheets you can run weekly, niche-search worksheets for rare but high-value situations, and specific-case worksheets that walk you through a single concrete scenario.

Every framework, decision filter, and figure used in these worksheets is drawn from the chapters of the source book. The book sets the diagnosis, the worksheets give you the form to act on it.

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