Working Capital & Treasury Management In COVID Times

By Sundeep Gupta

These turbulent times have brought to the fore the criticality of cash as the ultimate lever of liquidity. Managing liquidity became the single most significant aspect for businesses during the lockdown. And it will continue to be so till the supply chains resume normal activity. Managing working capital and treasury operations are the two tasks which CFOs are spending most time upon.

Working Capital (WC) Management

There are five aspects which must be taken into consideration for optimal management:

1. Faster churn: The WC cycle must be shortened; faster the churn, better would be the WC position.

2. Disruption risks: Building in the risks of disruption of supply chain due to liquidity or other difficulties of vendors and customers should not be ruled out. Adequate protection measures should be devised.

3. Additional costs: These will be necessary due to safety and sanitisation measures required to be put into place and must be budgeted for carefully.

4. Capacity utilisation: One needs to be careful here. While over-optimism will result in blocking WC, pessimism will result in lost opportunities. A fine balance will be required here.

5. Second wave: This should not be ruled out and planning for such an eventuality will be pragmatic.

While analysing the individual components of WC, we should look at:

1. Inventory: From raw materials to finished goods, inventory levels must be lowered. Idle inventory sell-offs to generate cash, procurements based on orders-in-hand and production lead time, import substitution for quicker turnaround of WC and focussing on fast-selling SKU's should be key factors.

2. Overhead costs: These need to be micro-analysed. Travel costs only where necessary, data analytics to cut down advertising and sales promotion costs in geographies having a smaller share of sales and margins will help. Relooking at all fixed costs and improving fixed cost recovery in times of disturbed markets will also assist liquidity.

3. Realisations: Incentivising customers for early payments, reworking credit terms and factoring solutions will raise the much-needed cash.

4. Vendor contracts: Renegotiating contracts in terms of cash efficient INCOTERMS, higher credit period with interest offset to vendors, optimising procurement batch sizes and reviewing all non-essential procurements will preserve cash.

5. People costs: While there may be little scope here, deferral of bonuses and increments may provide some options. Aggressive measures like pay cuts or layoffs must only be resorted to as a last recourse.

Treasury Management

What should be a single point focus for any treasurer is that liquidity crunch should not lead to bankruptcy. Cash flow planning will be of the essence. For this, we recommend building rolling cash flows for short term (15-30 days), medium-term (three to six months) and long term (one year). The rolling plan will provide for course correction on an immediate basis while making sure the businesses continue to be provided with the bloodline – cash. 'Sweating' all assets become the key as any idle asset will prove to be a drain. While debt-free business is always preferred, these times do call for conscious leverage, albeit carefully.

Providing funds for the 'cash burn' will be critical to keeping the candles burning. For this, a few strategies:

1. Sourcing funds: While existing lines of credit need to be enhanced, new lines should also be explored. Cash pooling within group entities, where permitted under law, should not be ignored. Innovative financial instruments for raising cash also should be worked out.

2. Capital expenditure (Capex): A scrutiny of existing and on-going projects must be carried out. Capex should be done only where the sales outlook is positive in the short to medium term. Monetising work-in-process of long gestation projects will need to be looked at.

3. Hedging: In times of volatility, currency fluctuations will need to be countered with a strong hedging policy. This can prevent a significant wipe-out of margins based on geographies with which business operations are carried out, both from sales as well as procurements front.

4. Government policies: Relief measures announced by the Government should be taken advantage of. Wherever possible, representations should be sent for any sector-specific relief that is required to tide over the crisis.

We should be ready for at least six months of cash flow management. Tough times, but creating a Cash Command Centre to strategise, monitor, re-strategize will go a long way. This year should be treated as a year of survival. Profits will surely follow for those that outlive this crisis. MT

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