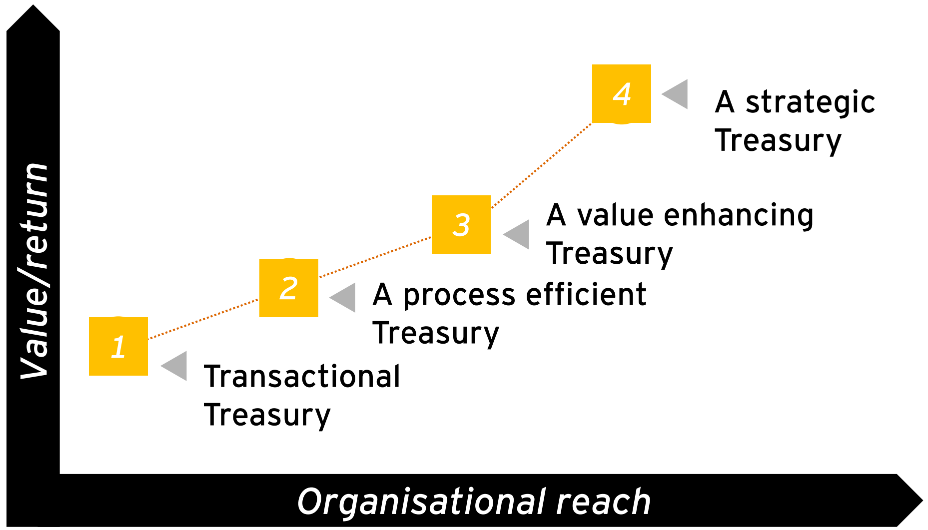
Cash flow and Treasury – Driving to Positive Cash

December 2015

Agenda

Changing role of Treasury



Please note: The curve's gradient is dependent upon your organisation's specific circumstances.

01 *Transactional Treasury*

What it delivers

A Treasury that plays a focused execution role, enabling the business to carry out necessary transactions; primarily impacting financial functions.

What you get

- Increased control
- Improved compliance
- Visibility of risk and funding
- Centralized expertise

02 *A process efficient Treasury*

What it delivers

A Treasury that provides excellence in execution, ensuring optimal use of cash via integration with underlying finance processes and banking service providers.

What you get

- Visibility and control of group-wide cash
- Improved management of liquidity
- Lower treasury operating costs
- Straight-through processing

03 *A value enhancing Treasury*

What it delivers

A Treasury that delivers quantifiable value for the whole business, optimizing financial flexibility and efficiency, and acting as an enabler to the business to achieve its strategic goals.

What you get

- Lower cost of funding
- Lower business operating costs
- Stronger credit rating
- Lower earnings and cash flow variability
- Effective financial reach in new markets

04 *A strategic Treasury*

What it delivers

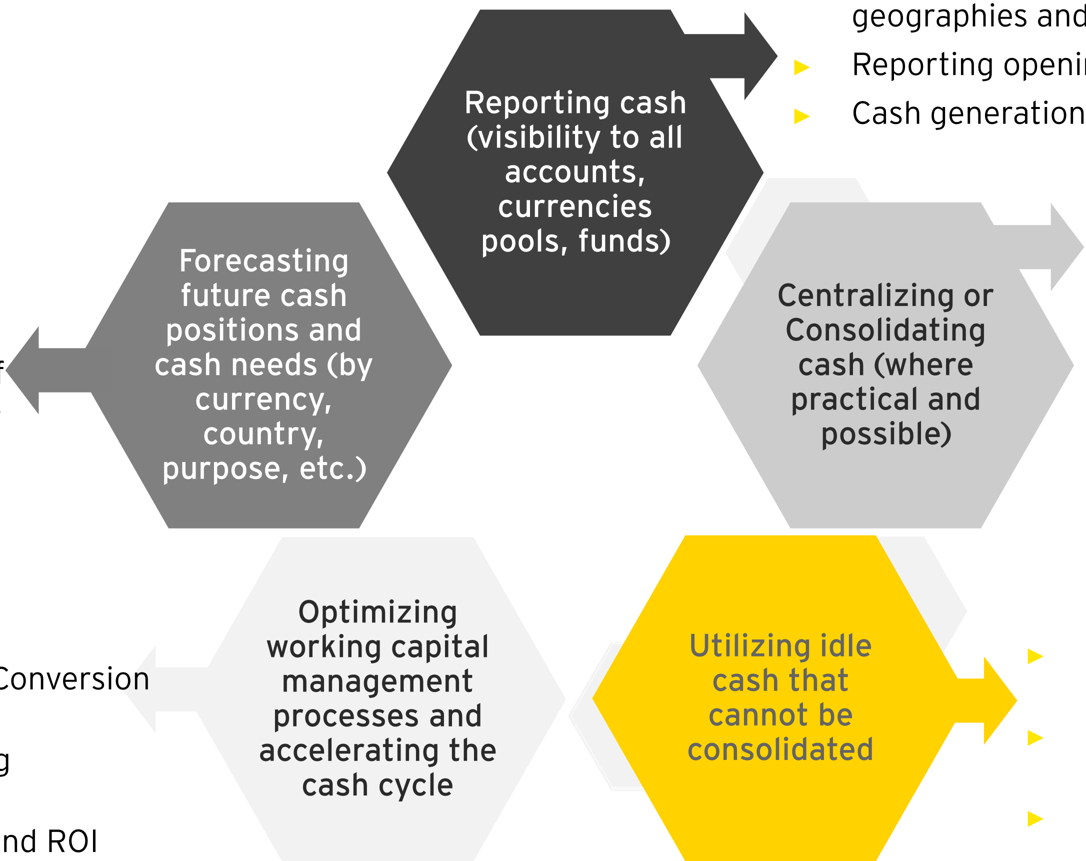
A Treasury that actively contributes to the strategic decisions of the whole business and provides financial leadership.

What you get

- Increased operating revenue
- Improved competitive positioning
- Improved customer and supplier relationships
- Balance sheet aligned with business dynamics
- Improve business unit cash flow
- Deploy finance expertise to business units

1: Cash flow projection/forecasting

Organizations today are much more focused on cash and liquidity and on ensuring they report it, consolidate it and plan for it. There is a renewed interest in the fundamentals of cash management, which entails the following processes:



- Reporting consolidated cash balances across geographies and at a Group level
- Reporting opening bank balances currency wise
- Cash generation targets across geographies

- Forecasting free cash flows and liquidity profile by currency, geographies etc.
- Variance analysis of forecasts vs actuals
- Liquidity gap analysis
- Funding Plans

- Centralizing cash management activities at group treasury level
- Implementing cash pooling (notional/physical) arrangements, where possible
- Repatriation surplus from overseas businesses

- Improved Cash Conversion Cycle
- Reduced funding requirement
- Improved ROA and ROI

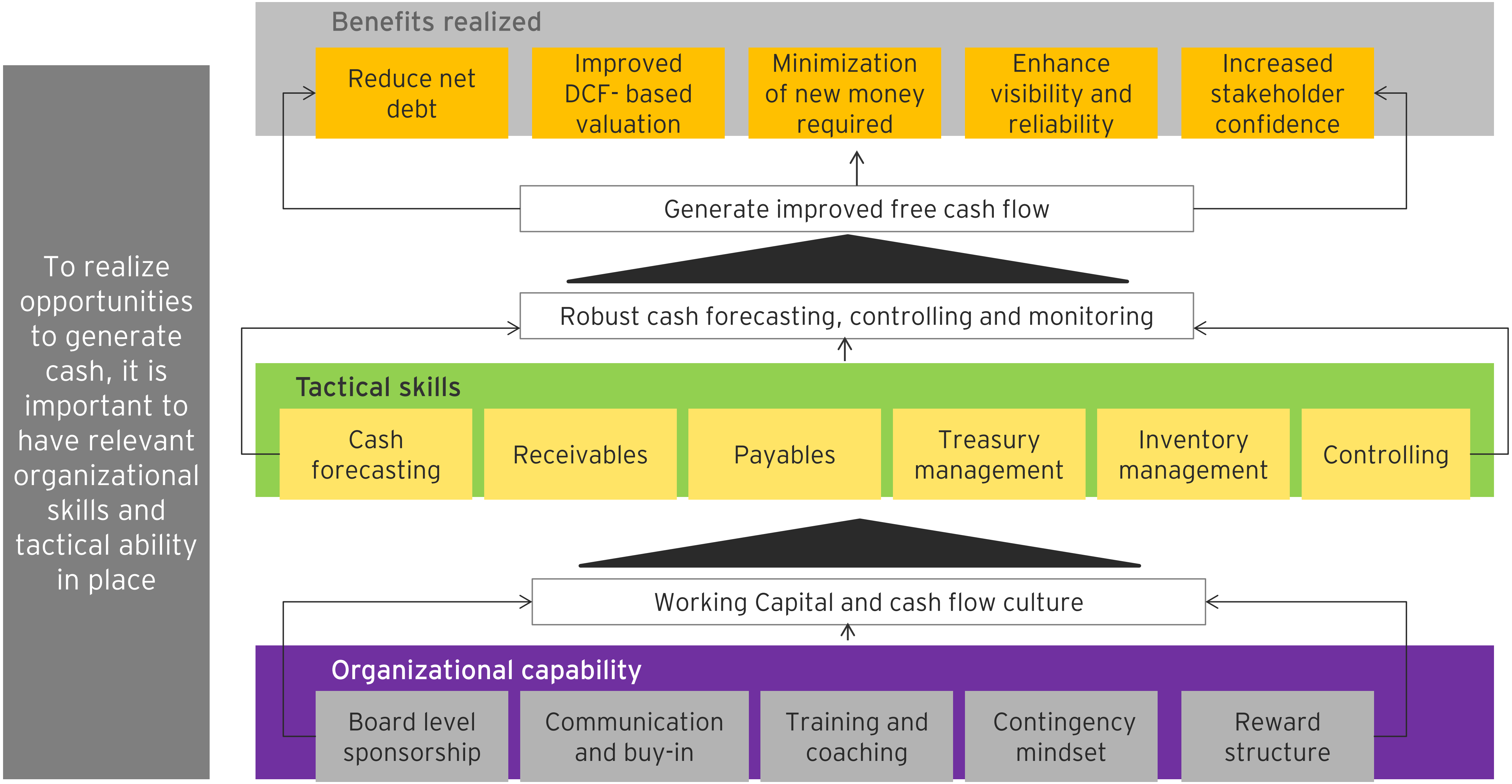
- Geography wise surplus cash investment strategy
- Deployment in investment instruments based on risk appetite
- Managing arbitrage between weighted average cost of borrowings and yield on investments

1.a: Why is Cash forecasting important?

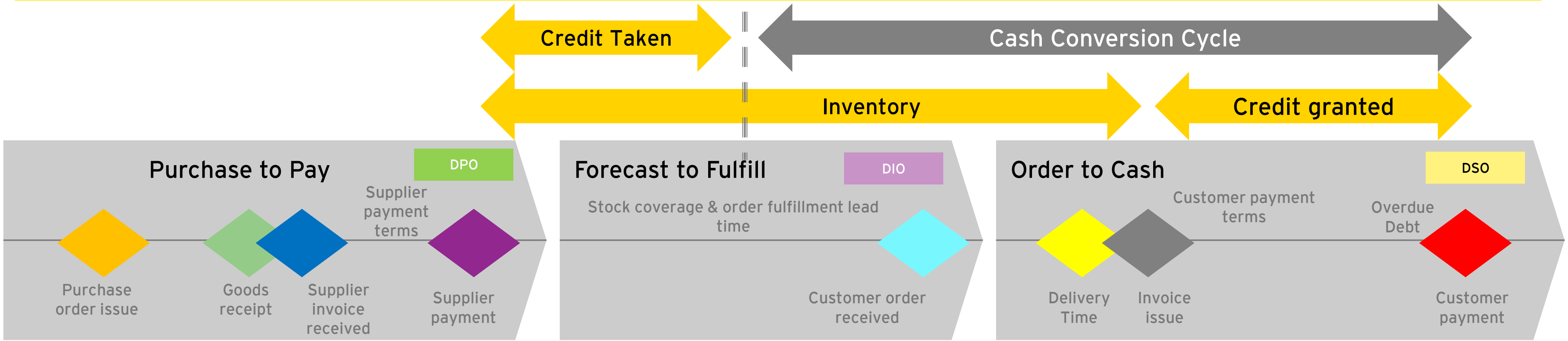
Objective	Critical for Treasury?	Critical for Management?
Capital/ long term investment	Yes	Yes
Company valuation/ credit rating	Yes	Yes
Debt covenant compliance	Yes	Yes
FX exposure management	Yes	Yes
Management performance reporting	Yes	Yes
Shareholder dividend planning		Yes
Short-term investment yield	Yes	
Short-term liquidity management	Yes	
Strategic investments planning	Yes	Yes
Subsidiary dividend repatriation	Yes	

1.b: The CFO Agenda- cash efficiency

Realization of cash generating opportunities requires a cash flow culture



2: Working capital optimization – increasing cash generation

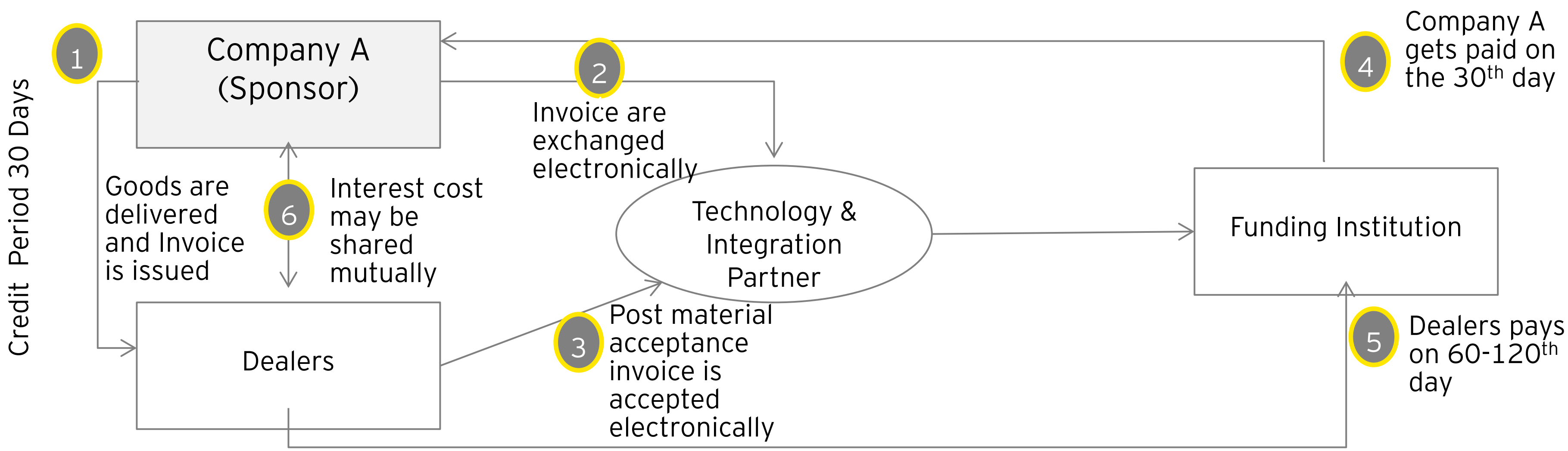


Problem	• Low DPO • Early Payments • Large spread of payments terms • Lack of visibility of spend	• High DIO/low stock turn • Considerable portion of inventory over 90 days old • Multiple product lines • High stock requirements	• High DSO • Weak financial health of channel • Credit risk on buyers • Overdue receivables considerable portion of total AR • Large spread of payment terms
Solution	• Buyer's Credit/WCDL • Vendor/Supplier financing • PCFC/PSFC/PCINR	• Inventory financing • Purchase order financing	• Dealer financing • Factoring of receivables • Invoice bill discounting • Forfeiting
Impact	• Early payment discounts • Increased DPO • Enhanced treasury income • Healthy supply chain • Improved financial ratios	• Access to capital at reduced rate • Improvement in cash conversion cycle	• Reduced DSO • Healthy supply chain • Improved top line • Reduced credit & currency risk • Improved financial ratios

Optimizing working capital by bringing cash early in the system and delaying payments

2.a: Working capital optimization – Supply chain financing examples

Dealer Financing Program (Managing DSO)



Vendor Financing (Managing DPO)

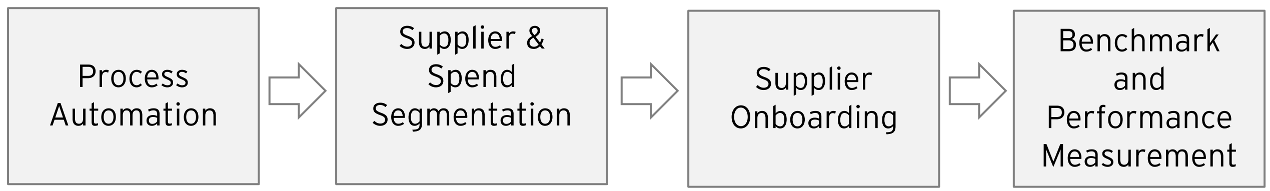


Illustration : Potential treasury return in case of early payment discounts		
	Float Model	**Early Payment Discount**
Invoice Value	100	100
Time to Process the Payment	45 Days	0 Day
Cost	Nil	10-12%
Discount		1.25%
Annualised Discount		15.20%
Savings		2.50-5%

2.b: Working capital scorecard

Original WCD (Basis Topline)

		Source Days						Use Days									
		Days of Trade Creditors	Other Creditors	Accrued expenses	DPO	DDRO	Customers	xx	xx	Other debtors	DSO	Prepaid Expenses	Advance to Suppliers	DPPEO	DIO	CWIP*	DWC
		Nov-14	Nov-14	Nov-14	Nov-14	Nov-14	Nov-14	Nov-14	Nov-14	Nov-14	Nov-14	Nov-14	Nov-14	Nov-14	Nov-14	Nov-14	Nov-14
Service Line 1	BU 1	13	-	60	73	24	9	8	1	2	19	12	2	15	3	21	(38)
	BU 2	41	-	64	105	19	44	4	1	25	74	21	6	27	4	36	16
	BU 3	18	-	61	79	18	23	4	1	10	38	13	3	17	3	35	(5)
Service Line 2	BU 1	62	45	44	151	50	38	-	4	35	76	44	5	49	5	16	(54)
	BU 2	23	55	39	117	38	4	-	1	9	14	25	2	26	0	-	(116)
	BU 3	21	-	53	74	9	9	27	4	10	50	12	0	12	2	16	(3)
Service Line 3	BU 1	63	-	68	131	9	27	26	6	24	83	29	5	34	5	45	27
	BU 2	15	-	58	73	22	22	20	2	7	50	6	25	32	1	18	7
	BU 3	9	26	16	51	13	5	-	2	(3)	5	30	-	30	0	17	(11)

Days of Trade Creditors	Days of Interconnect Creditors	Accrued Expenses	DPO	DDRO	Customers	Inter-connect receivables	Roaming receivables	Other debtors	DSO	Expenses	Advance to Suppliers	DPPEO	DIO	CWIP
100%	100%	100%	100%	133%	133%	133%	133%	133%	133%	100%	100%	100%	100%	100%

Illustrative

2.c: Target benefits of working capital optimization

Typical Situation	Top Performing Company
▶ Lack of responsibility for WCM ▶ No internal or external benchmarks ▶ Low visibility on where excesses of working capital are to be found ▶ No understanding of the fundamental reasons for carrying excesses ▶ Tolerance for low performance ▶ Reactive approach to resolve earlier issues ▶ Significant fluctuations between forecast and actual cash levels	▶ Strategy focus on working capital by top management ▶ A clear picture of the drivers of working capital across the business and the potential improvements ▶ Clarity of roles and responsibilities enforced via an appropriate system of incentives ▶ Common, well understood targets and measure of performance ▶ Proactive approach to identify and resolve issues ▶ Continuous improvement of process, systems and skills

3: Strategic financing

Objectives	Role of Treasury
▶ Reducing risk of potential financial distress ▶ Increasing tenor of financing ▶ Reducing interest cost ▶ Managing assets and liabilities ▶ Diversifying out of bank led funding because of increased cost	▶ Maintaining optimal capital structure ▶ Asset-Liability management ▶ Maintaining sufficient lines of credit ▶ Tapping new capital & Increasing investor base ▶ Reducing weighted average cost of capital ▶ Extending average outstanding maturity

June 2015:"Bharti Airtel raises USD 1 billion in 10-year bond sale priced at 210 bps over 10-yr US treasury to investors across globe."

Source: Livemint

May 2015: "Reliance taps Taiwan to raise 1st Formosa bond of $200 million."
"Aug 2015: Reliance raises about Rs 1,468 crore through overseas bond issue"

Source: Economic Times

Dec 2015:" Sun Pharma arm Sun Laboratories to raise INR 1,000 crore to fund internal restructuring."

Source: Economic Times

Mar 2015:"Jaguar Land Rover raises $500 million by selling bonds to buyback more expensive securities issued in 2011."

Source: Livemint

Case Study 1: Treasury's contribution in turning around a leading agrochemicals manufacturer

The Company is one of India's leading agrochemical companies, with a comprehensive portfolio of crop protection chemicals, seed varieties and specialty plant nutrients

During the recent past, the Company had annual revenue of: Rs. 12,061.2 million. Net profit: Rs. 230.3 million. Declared a dividend of 50 per cent for the year.

With stiff competition in the marketplace and growth rates slowing dramatically, the Company began to feel the pressure on its bottom line.

Within 5 years Net sales declined to Rs. 8,851 million and Net loss rose to Rs. 773 million.

- Poor financial health due to:
- High interest outflow: Interest burden of Rs. 415 million. Effective rate of interest 17-18 per cent.
- Steps taken: High interest convertible debentures converted into preference shares. Better debt: Equity ratio
- Acquired letters of comfort from Tata companies (Tata Sons held 48 % stake) and replaced $750 million of expensive loans with long-term lower cost loans.

Financial restructuring	Limiting number of factories	Concentration on core business of agrochemicals
Implement ERP across business	Turnaround Story	Divestment of non-core businesses
Better working capital management	Develop Performance driven culture	Sale of non-performing assets

The result:

Within 1 year, Revenue was Rs. 4,892 million and Net profit was Rs. 255.5 million
Debt-equity ratio was down to 2.3 from 8.6 the previous year.

During next year, Revenue increased to Rs. 5,937.8 million while Net profit rose to Rs. 341.6 million.
The company declared a dividend of 10%. Debt-equity ratio fell below 1.0

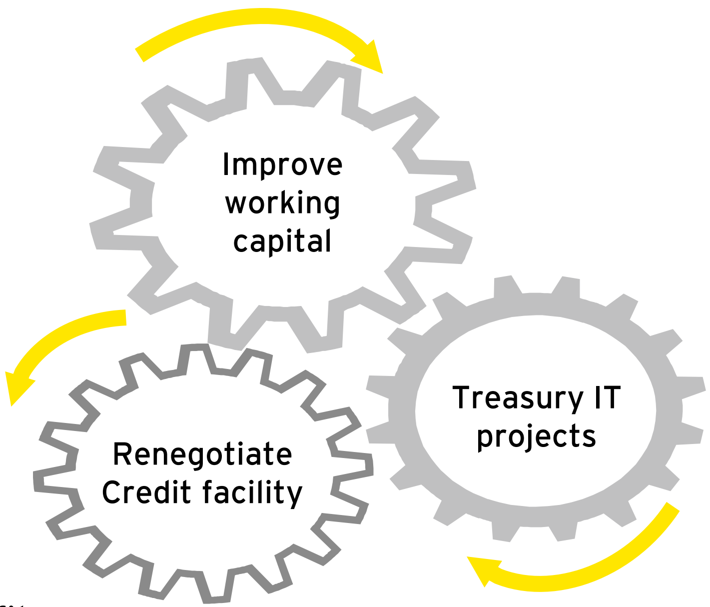
- Steps taken: In 1 year, Inventory brought down ~21% from Rs. 1,320 million to Rs. 1,040 million, debtors reduced ~29% from Rs. 2,430 million to Rs. 1,720 million. Effectively bringing down working capital by ~16% from Rs. 2,114 to Rs. 1,768 million.
- Reduced dealers from 4,000 to 1,500, which reduced inventory, made monitoring of stock movement easy, and positively impacted dealer morale and motivation.

Case Study 2: Treasury's proactive role in multinational defence technology Company

The company is a defence technology company in UK with a revenue of £1,191.4 million and a 9,000 employee strength

With global economic downturn post 2008 crisis and reduced defence spending. QinetiQ's financial performance weakened and it was uncomfortably close to breaching its covenants in late 2010

The treasury team took number of steps to improve the company's financial position, resulting in health balance sheet a year later



Improve Working Capital	▪ Operating cash conversion jumped to 150-200% of profits due to increased focus on customer collections ▪ QinetiQ had historically structured payments to occur only a few times a year. The company implemented frequent payment milestones, releasing over £100m.
Treasury IT Project	▪ The treasury team worked on three IT projects to enhance its productivity, improve transparency and cut costs. • Online trading platform for processing high volume FX trades. • Better use of existing ERP and move away from Excel sheets • Straight-through processing (STP) platform for matching all trades between treasury and banks .
Renegotiate Credit Facility	▪ **The Company did** not immediately need to be refinance its revolving credit facility. But with banking conditions improving in 2010, treasury team took the opportunity to discuss the matter in advance with its key relationship banks. ▪ **A detailed pitch book was prepared which** laid the foundation for a strong credit story and attracted new banks

Benefits:

1. Working capital revived: Debt has fallen by close to £400m, while the banking covenant level has fallen from 3.0 times to less than 1.0 times in just 18 months.

2. Better credit facility: In February 2011, a new banking group was established to provide a revolving credit facility of £275m. It was offered at investment-grade terms

3. Negotiating existing credit facility: It redefined its banking and introduced new players. Company introduced new banking providers in each of its major trading regions. This allowed the firm to implement the latest cash management systems and multi-currency pooling solutions.

4. Efficiency benefits from IT Automation: The changes made by the treasury team to its IT and procedures have delivered higher levels of automation and saved time, especially at reporting dates.

Key takeaways

1

Changing role of Treasury

- Treasuries are increasingly focusing on aligning their activities with business dynamics
- Value enhancing treasuries focus on lowering earnings, cash flow variability and cost of funding
- Strategic treasuries focus on aligning balance sheet with business strategy, improving business cash flows and operating margins

2

Cash flow forecasting

- Treasuries should focus on having visibility of cash across geographies, currencies and bank accounts
- Cash pooling arrangements should be implemented, where possible
- Forecasting of free cash flows and investments of surplus funds should be one of the key focus areas of a treasury

3

Working capital optimization

- Treasuries should look beyond traditional sources of financing to fund the working capital requirements
- Supply chain financing solutions offer advantages in terms of increased DPOs/reduced DSOs and reduction in interest costs

4

Strategic finance

- Focus on asset liability management has been increasing to avoid risk of potential financial distress
- Market leaders have been diversifying out of bank led funding and increasingly tapping domestic and global capital markets to raise funds

Thank You