

MANAGING WORKING CAPITAL

FAIR VALUE CONSULTING

Rajiv Singh

FCA, LIFA(USA), CISA(USA)

Email: rajivsinghfca@gmail.com

Dispelling Myths about WC Improvement*

- Investors don't care
- It hurts top line growth
- The impact on the bottom-line is limited
- It is not relevant for healthy companies with strong access to financing
- Working capital trends affect everyone equally within an industry, so there are few competitive benefits
- It hurts long-term relationships in the supply chain, with suppliers and customers or distributors
- It can be left to individual business units and does not need a centralized, senior focus

- * source Citi bank research

Dispelling Myths about WC Improvement

MYTH :Investors don't care

Top CCC shorteners have been rewarded to the tune of a 30% excess return. Companies with high liquidity and organic funding capacity relative to peers enjoy significant equity valuation premiums

Dispelling Myths about WC Improvement

MYTH :It hurts top line growth

Top CCC shorteners saw sales grow by 700bps more than top CCC lengtheners

Dispelling Myths about WC Improvement

MYTH : The impact on the bottom-line is limited

The typical company can improve ROIC by 84bps by improving working capital efficiency by a quartile relative to its industry

Dispelling Myths about WC Improvement

MYTH : The impact on the bottom-line is limited

The typical investment grade company stands to gain 78bps on ROIC by improving working capital efficiency by a quartile relative to its industry

Dispelling Myths about WC Improvement

MYTH : Working capital trends affect everyone equally within an industry, so there are few competitive benefits

There is a sizeable disparity in cash conversion cycles within each industry. The median difference across industries in cash cycle between the 1st and 3rd quartile is 62 days, with the most tightly distributed industry having a dispersion of 29 days. In fact, both the top CCC shorteners and lengtheners were evenly distributed across industries

Dispelling Myths about WC Improvement

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WORKING CAPITAL MANAGEMENT

F to F

(Forecast to Fulfill Process)

Demand Forecasting
& Management order for
Stock, Production,
Warehousing Logistics
to Supplier & Customer
Collaboration

P to P

(Purchase to Pay Process)

Supplier Rating Demand
Origination Purchasing
Payables Payment

C to C

(Customer to Cash)

Customer Contact
Credit risk assessment
order taking order
entry billing cash
collection dispute
Management

IMPROVING WCM

Holistic approaches across the firm towards

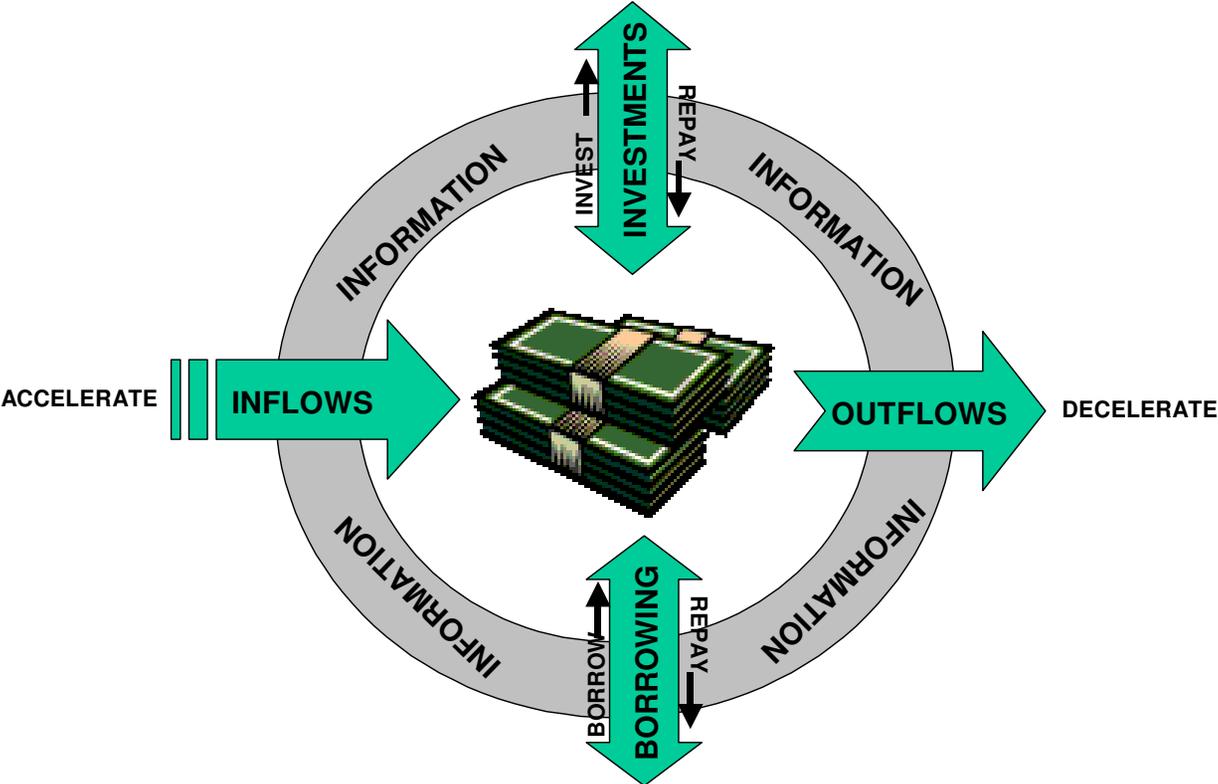
- streamlining cash processes
- rationalizing banking practices
- deploying supply chain financing programs

TOP WC Financial STRATEGY

- Improve accuracy of operational budget
- Improve cash management
- Improve cash flow forecast
- Reduce DSOs
- Increase DPOs
- Study the impact of change on WC investment, EPS, Liquidity

WORKING CAPITAL

Managing Liquidity



WORKING CAPITAL MANAGEMENT

- WCM deals with the level and composition of CURRENT ASSETS & ways of Financing
- Working Capital GAP

CA

NWC	Debtors
WCG	Inventories
CL (excluding bank borrowing)	Portion of Loans & Advances
	Cash

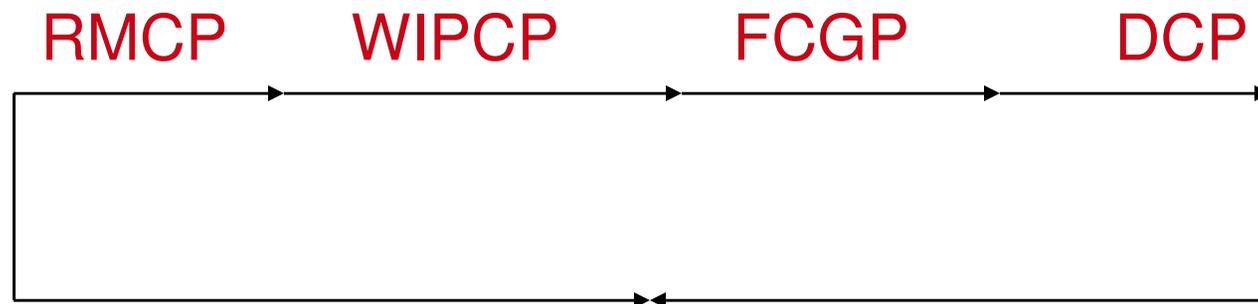
NWC: This is the Margin brought in by borrower from long term source

Operating Cycle (OC) Game

- What is Operating Cycle?

Time elapsed between payment of raw material and collection of cash from sale of products.

Traditional



CL Conversion Period

Cash Operating Period

Aggressive --- Negative OC

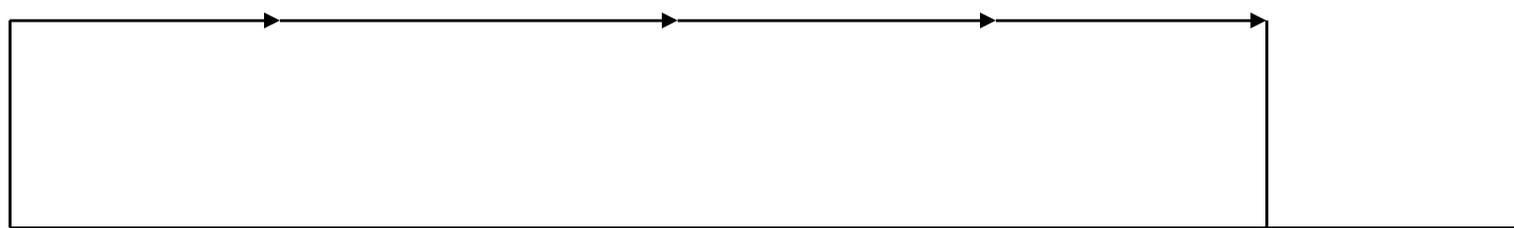
Case II

RMCP

WIPCP

FCGP

DCP



CL Conversion Period

Negative Working Capital --- Bad or Good?

Forced OC

Case III

RMCP

WIPCP

FCGP

DCP



Cash Operating Cycle

Conservative

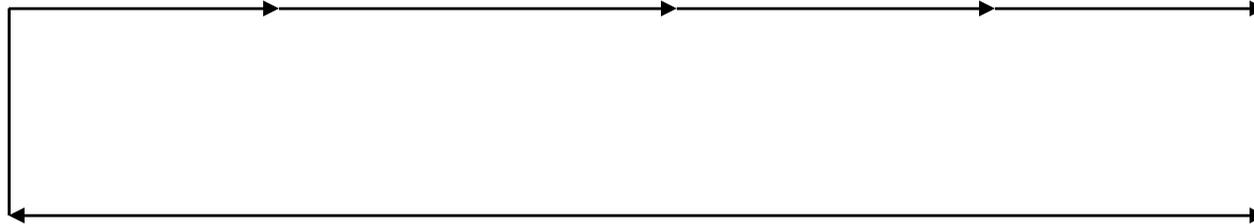
Case IV

RMCP

WIPCP

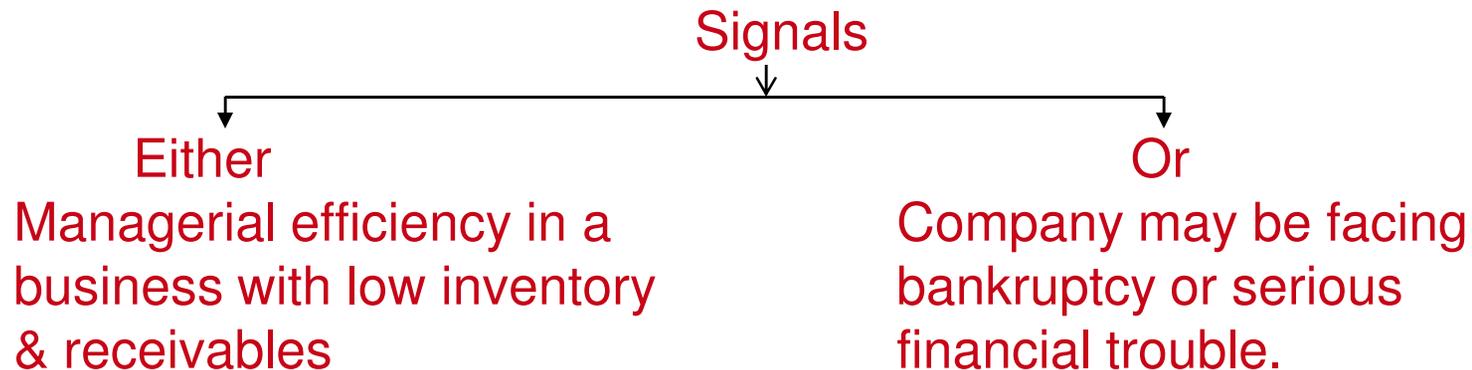
FCGP

DCP



Cash Operating Cycle

Zero or Negative Working



Practices adopted by: McDonald, Wal-Mart, Dell, etc.

- “Berkshire has access to two low-cost, non-perilous sources of leverage that allow us to safely own far more assets than own equity alone would permit: Deferred Taxes and Float.”

Warren Buffett

working capital finance Products

Fund based working capital

- Cash credit facility
- Working capital demand loan
- Export packing credit / Pre-shipment credit
- Packing credit & foreign currency
- Short term loan
- MIBOR linked loans
- Commercial paper
- Invoice bill discounting (Clean & LC backed)
- Foreign currency non resident (bank) loan
- Buyers & suppliers credit
- Over draft

Structured products-simple

- Vendor financing
- Channel financing

Structured products- Securitization

- Receivables (present and future)
- Off balance sheet funding

Thank You