VERITA
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Cash Flow Risk Management Practices Corporate Survey Report (Mumbai Region)

Research Initiative by
Verita Management Advisors Pvt Ltd

October 2016

Cashflow Risk Management survey report

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FOREWORD

Organisations are obsessed with 'Top lines and Bottom lines" because stakeholders put great emphasis and assess the performance of any company on these parameters. However the true success and destiny of any organisation is finally dependent on its liquidity and cash flows which speaks the harsh truth about the health of an organisation. Strangely other than finance personnel few organisations make an effort to make the non-finance understand the importance of cash flow management and the impact that it has on the survival, sustainability and growth of the organisation. Internationally leadership teams are now deeply engaged in decision making processes based on a sound understanding of the financial implications and impact of cash flows of that decision on the organisation. They have understood that good cash flow management is not only about raising funds but effectively achieving "more with less" such as achieving higher the working capital turnover cycles and assessing earlier Returns on Investments on their capital expenditures by benchmarking with the best in industry.

Our survey attempts to understand and research the level of the depth and width of the concepts of cash flow risk management understood and effectively used in organization by the entire leadership groups that are responsible for both operational and financial performance.

Best wishes

Anil Kamath
Chairman
Verita Management Advisors Pvt Ltd

October 2016
Mumbai

INTRODUCTION

Fear of the unknown is triggered from uncertainty and volatility in the current economic environment. Such situations lead to crisis of confidence and the sole tangible hedge is a pile of cash that comes to the rescue of Corporates. Irrespective of soaring profits, high margins, steady corporate performances and other economic growth indicators – Cash in hand provides the necessary confidence to invest in growth initiatives.

Successful organisations have demonstrated an insatiable hunger for cash aggregation that is reflected in the cash balances of the top Fortune 500 companies over the years.

Team Verita in consultation with C suites of leading companies, emerging businesses, start-ups, VCFs, PEs discusses the approaches used to overcome the challenges of liquidity traps by treasuries/ CFOs emanating from the uncertain and volatile business environment.

This research paper highlights some key risks and solutions C suites address in dealing with cash-flow management. This paper aims at capturing and consolidating the emerging point of view of the C level executives who are play a pivotal role in shaping the corporate growth story of India.

EXPERT SPEAK

It is correctly said "You can lose money for some time, but you can only run out of cash once."

Companies with effective cash flow management are less dependent on external financing and are more flexible to take advantage of opportunity no sooner they come. Enhancing cash flow and working capital capabilities will remain among the leading priorities for Senior Finance Executives.

Satish Shenoy

Head - Corporate Audit Services
Larsen & Toubro Limited

"There is the risk you can afford to take, and there is the risk you cannot afford not to take"
- Peter Drucker

"Risk comes from not knowing what you are doing"
- Warren Buffett

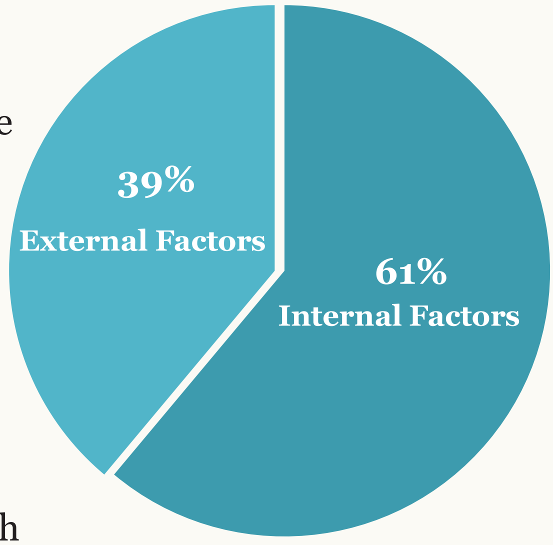
A TOP CASHFLOW RISK INDICATORS SURVEYED

SURVEY FINDINGS-

The first section of the survey focused on 23 cashflow risk indicators that could significantly impact the liquidity position of the company. The nature of risk indicators included external and Internal factors. The full library of risk indicators is illustrated under Exibit I

The findings reveal that : -

Top Cashflow Risk Indicators



a) ***61%*** agreed that internal factors are top contributors to cashflow risk whereas ***39%*** believe that it is external factors that are more relevant cashflow risk indicators.

b) Under Internal factors the top Cashflow Risk Indicators were:

70% agreed that it is difficult to implement cash conservation strategies as a key risk indicator.
65% stated that business model requires high cash burns and there is lack of management supervision which would be significant cashflow risk indicators.

c) Under External factors the top Cashflow Risk Indicators were:

60% agreed that limitation of vendors/ business partners impacting cash management are the most significant cashflow risk indicator

55% agreed that there is tough market scenario as one of the other major cashflow risk indicator

Cashflow Risk Indicators listing and Survey Results - Exhibit I

Internal Factors

Sr. No.	Internal Cash-flow risk Indicators	Most Significant	Significant	In significant	Irrelevant
1	Lack of performance linkages to cash-flow management	25%	30%	40%	5%
2	In-accurate cash budgeting	50%	45%	5%	0%
3	In-accurate cash forecasting	45%	50%	5%	0%
4	Low investment in newer cash management technologies	5%	45%	45%	5%
5	Lack of clear and real time MIS on debtors and collections	30%	55%	10%	5%
6	Lack of cash-flow sensitivity amongst key employees	40%	55%	5%	0%
7	Lack of Collection follow up efforts	35%	50%	10%	5%
8	Inter-department issues that hinder cash collections	15%	45%	20%	20%
9	Lack of management supervision	30%	65%	5%	0%
10	Cash is not a priority in organisational business strategy	45%	35%	5%	15%
11	Poor internal controls over cash management	50%	40%	10%	0%
12	Business model requires high cash burn	10%	65%	15%	10%
13	Inability to raise working capital funding in set timelines	50%	25%	15%	10%
14	Difficult to implement Cash conservation strategies	15%	70%	10%	5%

External Factors

Sr. No.	External Cash-flow risk Indicators	Most Significant	Significant	Insignificant	Irrelevant
1	Unfavourable vendor contracts	10%	55%	25%	10%
2	Tough market scenario	30%	55%	10%	5%
3	Limitation of vendors/business partners impacting cash management	5%	60%	35%	0%
4	Inflation	0%	50%	45%	5%
5	Increasing costs of borrowings	20%	60%	20%	0%
6	Dealing with illiquid customers	20%	55%	20%	5%
7	Foreign exchange exposures	25%	40%	20%	15%
8	Liquidity mismatches on account of business uncertainties	15%	50%	35%	0%
9	Liquidity mismatches on account of market volatility	15%	50%	35%	0%

The above listing of CRI can be used by treasury teams to undertake regular risk assessment for evaluating cash flow risks and their performance.

B Top Liquidity Risk Mitigators

This section of the survey focused on various risk mitigators that assist organisations in effectively managing and improving their cashflow positions. Refer Exhibit II for top cashflow risk mitigators.

Survey findings

The findings reveal that : -

a) ***60%*** stated that following capital risk management strategies are most significant :-

- Business planning with in-built liquidity scenarios
- Access to crisis capital
- Developing and implementing a liquidity risk management strategies
- Cash budgeting and periodic checks
- Liquidity stress testing and liquidity buffering
- Establishing early warning indicators around collecting, debtors management, etc

b) ***55%*** stated that following cashflow risk management strategies are significant :-

- Access to working capital funding
- Independent review of composition of assets, liabilities and solvency position
- Defining and set limits on business activities
- Say NO to unplanned capital investments
- Aligning people to cash conservation

Cashflow Risk Mitigators listing and Survey Results
Exhibit II

Sr. No.	Cash-flow Risk Mitigants	Most Significant	Significant	Insignificant	Irrelevant
1	Business planning with in-built liquidity scenarios	30%	70%	0%	0%
2	Access to crisis capital	30%	60%	5%	5%
3	Access to working capital funding	40%	55%	5%	0%
4	Defining liquidity risk tolerance levels	40%	45%	15%	0%
5	Developing and implementing a liquidity risk management strategy	40%	60%	0%	0%
6	Cash budgeting and periodic checks	35%	60%	5%	0%
7	Liquidity stress testing and liquidity buffering	30%	60%	10%	0%
8	Independent review of composition of assets, liabilities and solvency position	15%	55%	25%	5%
9	Annual Review report to the Board on Off Balance Sheet items and related exposures	10%	45%	40%	5%
10	Diversifying funding channels	20%	50%	25%	5%
11	Define and set limits on business activity wise cash burns	35%	55%	10%	0%
12	Establishing early warning indicators around collections, debtors management, etc	60%	40%	0%	0%
13	Say NO to unplanned capital investments	10%	55%	25%	10%
14	Aligning people to cash conservation	25%	55%	20%	10%
15	Implementing KRAs linked to cash conservation and collections	30%	40%	25%	5%

The above listing of Cashflow Risk Mitigators can be used by treasury teams to undertake regular controls evaluations on Cashflow Risk Management

C TOP CASHFLOW RISK MANAGEMENT STRATEGIES

Survey Findings

We polled our participants on key cash flow risk management strategies. This section of the survey focused on various strategies like Cash budgeting, Employee performance linkages, Business planning and budgeting, Cash forecasting, Liquidity risk management and Maintaining solvency capital, etc

The findings reveals that

a) ***19%*** participants believe Business planning and budgeting and Cash forecasting are most effective cash flow risk management strategies

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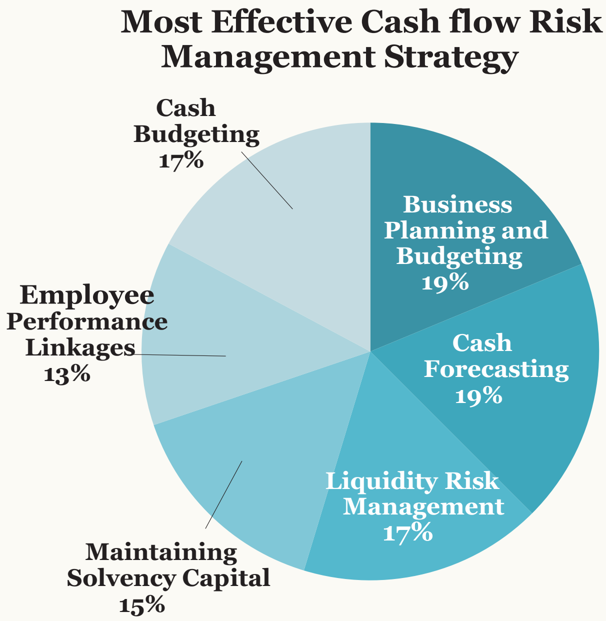
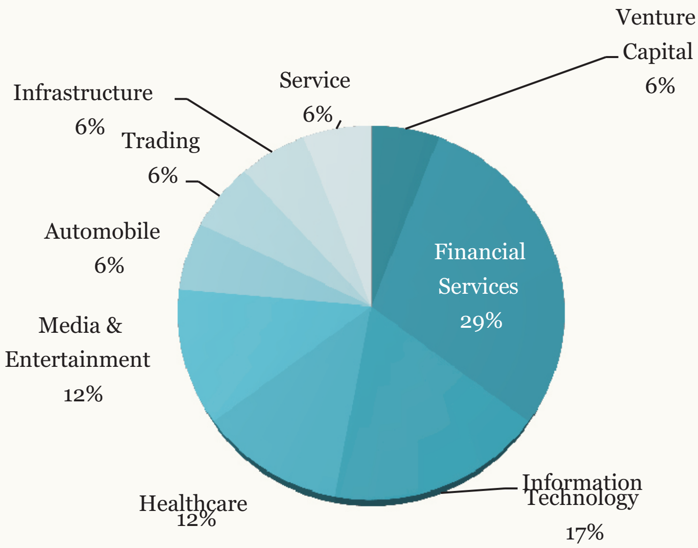
b) Whereas ***17%*** believe that cash budgeting as least effective.



Of the risk management approaches most cited by respondents, “board considers specific business risks or receives a regular update on key risks and risk management activities” is the most common, followed by board reviews and approves annually.” The primary use of these two approaches remains consistent by industry, revenue and region with just a few exceptions.

Our Survey Contributors

Survey Respondents by Industry



We received feedback from 20 participants in the survey out of which 90% agreed to disclose their information details in the research initiative

We warmly acknowledge the contribution of following participants/ experts who provided their valuable feedback

Name	Designation	Organisation
Abhishek Sharman	Founder and Managing Director	Carpediem Capital
Amit Chavan	Internal Audit – Chief Manager.	Reliance Capital Ltd.
Ankur Joshi	COO, Co-Founder	Ambab Infotech
Cassem Rajabali	Chief of Process Improvement & Information Technology	The Prince Aly Khan Hospital
Jinendra Gandhi	Vice President - Finance	Havas Worldwide India
Kaveri Mukhopadhyay	Assistant General Manager	L&T Finance Ltd
Pourusp Pavri	Head Operational Risk - India	Westpac Banking Corporation
Prabhakar Sonawane	AGM – Accounts & Finance	Sai Service Group
Priyesh Somaiya	Finance Head	Dixon Asia Pacific Private Limited
Satish Shenoy	Joint General Manager Corporate Audit Services	Larson and Tourbo Limited
Sharath Kumar	Head - Finance	Manipal Ankur Pvt Ltd
Venkat Balan	Chief Operations Officer	Cnergyis Infotech India Private Limited
Ashish Jain	Manager - Taxation	Pitney Bowes Software India Pvt Ltd
Dhruva Rajan	Founder and Technology Director	GeoSpoc
Prabuddha Dasgupta	Chief Financial Officer	Mukta Arts Ltd
Prakash Shirke	Partner	Auspiria Consulting LLP
Sonali Tipre	Director	Margin View
Venkatesh Iyer	Vice President - Internal Audit	L&T Finance Holdings

Conclusion

Top Cashflow Risk Indicators

Out of 23 Cashflow Risk Indicators, participants recommended the following as the most significant CRI:-

- Difficult to implement cash conservation strategies
- Lack of Management Supervisions
- Business Model required high cash burns
- Limitation of Vendors/ business partners impacting cash management
- Increasing cost of borrowings

Top Liquidity Risk Mitigators

Out of 15 Cashflow Risk Mitigators, participants recommended the following as the most significant CRM:-

- Business planning with in-built liquidity scenarios
- Access to crisis capita
- Developing and implementing a liquidity risk management strategies
- Cash budgeting and periodic checks
- Liquidity stress testing and liquidity

Top Cashflow Risk Management Strategies

Out of 6 Cashflow Risk Management strategies, participants recommended the following two as the most significant CRMS:-

- Business planning and budgeting
- Cash forecasting are most effective cash flow risk management strategies

Blind spots in Cashflow Risk Management

- Market Volality
- Business Uncertainity
- Global Events

Conclusion

Principles of sound liquidity Risk Management and Supervision

- Setting up an effective stress testing framework
- Formulating a financial stability policy
- Daily supervision on cashflow position

Leakages in Cashflow Risk Management

- Poor monitoring of cashflow position
- Poor automation in cash collection procedures
- Delays in cheque deposits
- Excess Surplus cash/bank balances lying idle
- Higher interest/bank charges, absence of review of direct credits in banks account by customers, unexplained credits in bank account and different charges by bank at different location of same company i.e. decentralised banking services.

Key Internal Control Measures

- Timely Reconcilliations
- Fund Forecasting
- Centralised departments to deal with banks to have better facilities at lower possible cos and to achieve economies of scale

Corporates in India are gradually adopting financial stability and capital adequacy norms to ensure that their businesses and liquidity positions remain stable and sustainable. Most participants shared this vision and financial stability and capital adequacy norms

ABOUT VERITA

Verita Management Advisors is a Private Limited Company incorporated in India. The company offers Governance, Risk, Compliance, Direct and Indirect Tax Advisory and Outsourcing Services. Head quartered in Mumbai with a network of like-minded, quality conscious network firms across the country. Outside India Verita has network offices at UAE and Oman. This publication has been prepared by the knowledge team of Verita Management Advisors Pvt. Ltd. The team has exercised due care while preparing this publication, however, it has been written in general terms and should be taken as a broad and indicative reference only. The knowledge team has placed reliance on various public sources on the internet and as such does not vouch for their accuracy.

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