



When Ben Bernanke meets Ben Franklin...

How are CFO's responding to cash-flow problems?

We talk to 2 CFOs who have been faced with cash-flow and funding challenges as a result of external challenges, and have found ways to manage effectively,

Estella Ng, CFO of Country Garden Holdings, which operates residential property development and hotels in China, found that new government restrictions on mortgage funding has a sudden and dramatic impact on sales:

"Mid-April admin measures, which restricted bank lending on 2nd properties to 40%, has caused have caused a substantial slowdown. We were fortunate that we had issued 2 US-dollar bonds just before the measures. (Standard & Poor's assigned its 'BB' issue rating to the U.S.-dollar denominated unsecured US\$600 million 2.5% convertible bond in Aug. 2009) Yes, we had a BB rating but we bought out our existing debt and raised a big chunk of additional capital at a good rate of interest - 2.5% - and had no problem raising the cash so the market saw things differently from the ratings agencies!

Of course to be able to do this we had had to track the market carefully, were ready to act promptly when the opportunity presents itself, and quickly tapped the markets for cash when we could. A good maxim is to maintain a good relationship with banks in case you need it, and track the economic trends!"

Dominic Waring, Singapore-based CFO of \$300m Prysmian Cables ASEAN,

“we found ourselves locked into raw materials purchases

(formerly part of Pirelli) is quietly confident: “Basically, we think we have weathered the storm. The 2008-9 crisis led to a slow-down in orders. Not only did revenue fall, but we found ourselves locked into raw materials purchases made earlier at higher prices: when these became due there was fairly rapid pressure on cash-flow!

Of course we started to manage receivables more aggressively - that is a no-brainer. But in addition we started to influence our sales mix towards early payers and away from late payers. We had already made an effort to balance payables with receivables so as to achieve a neutral or positive balance - once you have a neutral balance all margin goes directly to incremental cash-flow. Finally we squeezed down inventories and arranged revolving bank facilities to address the difference. We got this right and we have continued to pay dividends throughout.”

Simon Littlewood, President of Consulting Group Asia Now which specializes in balance sheet and working capital issues in Asia, says:

“These two examples show that in Asia, as everywhere else in the world, no one is immune from market fluctuation, and balance sheets can come under sudden pressure as a result either of changes in demand or (in the case of Country Garden) of government intervention. In both cases the response was a combination of actions to optimize internal cash-flow from operations linked to rapid steps to safeguard existing funding or secure new capital.

Our advice to clients is to tighten working capital today, before customers come under pressure to hold payments longer or sales drop. In addition, maintain intimacy with large accounts so you can significantly reduce the risk that you will be the one they short make sure you are the first to know when they have problems and can act accordingly.

A lesson many CFOs learned the hard way last year is that it is tough to raise cash when you need it - unless you already have the right relationships in place. An attempt to make significant changes to a funding relationship which does not have the right foundation will look to a prospective lender like poor and reactive management and will tend to scare them off!”