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Efficient Working Capital Management In Crisis Situations

In the current extraordinary situation of disruptions in the business operations and In view of uncertainty in market conditions and outlook on demand, a continuous calibration of working capital requirements is required to ensure liquidity for sustained smooth operations.

It is important to assess the short term business outlook with key clients and accordingly work out the Operating financial plan to determine the profitability, working capital and cash flow requirements commensurate with the revised sales plan and orders in hand.

The reduction in the cash conversion cycle (CCC), a critical and significant factor in managing liquidity will depend on the efficient interplay of Inventories, Receivables (AR) and Payables (AP). As Cash is king I these critical times, prioritizing the outflows will have to be carefully chalked out as well as downsizing the non-essential expenditure within the limited liquidity at disposal.

Given below are the various measures towards achieving optimum CCC and efficient management of liquid funds, some of these are those which will have to commence even before operations restart :

- Curtail all capital expenditure, unless unavoidable; finance significant Capex from long term funds, borrowings and not from current cash balance.
- Assess your inventory levels and procurement plans carefully, which is has a significant duration in the CCC cycle; Work out the procurement to match with your production and demand levels and minimize the inventory levels; Co-ordinate with your upstream supply chain vendors for just in time supply arrangements.
- ASAP organize for Bridge financing from your Bankers, Parent Company by way of Cash credit/overdraft facilities, bill discounting with at least a on e year tenure to ensure smooth sustained operations.
- While it will be difficult to negotiate favorable terms with the customers, seek a Time Plan for clearing of your invoices from your Customers, especially who don't have a structured clearing of AR. This will help in tailoring in timing of your cash outflows with the ARs inflows.
- Review and seek restructuring/moratorium of your long term borrowings viz ECBs, Term loans.
- Segregate your Operating Expenses into: Direct costs for revenue generation; Recurring G&A expenses Non-recurring/Discretionary G&A expenses. Conduct detailed analysis for each expense item for cost optimization, re-negotiation for better terms, reduction/ postponement/ avoidance, etc.
- Rationalize your Manpower reviewing each function, Headcount to realign with the new Operating levels pruning on need basis, freeze in hiring & increments, promotions,etc.
- Re-work your Free cash flows configuring the above factors on 'actioned upon' basis to determine how you fare; Re-calibrate your cash flows to consider Payroll deferment according to different levels, extend credit with vendors, downsize the non-discretionary expense, etc. to ensure that you are in the positive.

Hence, in order to navigate through these critical times, it is crucial for the management to assess their short term business operating levels, realign their cash flows accordingly and optimize their cash conversion cycle.