

Deloitte.

2015 India Corporate Treasury Survey

Excellence in Corporate Treasury Management

June 2015





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Federal Reserve Bank of the United States

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SERIAL NO
2500 A



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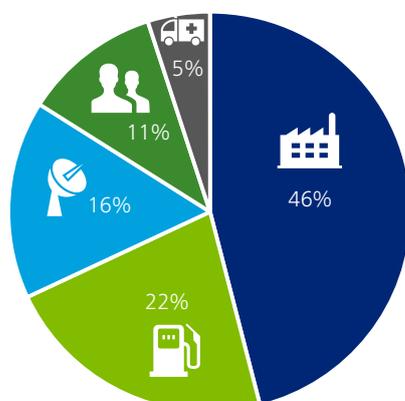
Executive summary

Corporate treasury has evolved into a truly strategic function for most organizations. From being a manager of liquidity and financial risk, corporate treasury has evolved into a strategic business partner. As this transition of corporate treasury into a strategic function continues, different organizations are at varying stages of evolution. Organizations are also seeking to establish the right construct of the treasury function to enable them to meet the heightened expectations. Deloitte Touche Tohmatsu India Private Limited ('DTTIPL') conducted a survey amongst 63 Indian corporate treasurers to seek views on the following aspects:

- The role envisaged for the treasury function and addressing challenges in meeting expectations
- How treasuries are gearing up to support long-term enterprise growth
- Changing landscape of financial risk management
- Managing the global nature of cash flows and role of treasury in supporting these flows
- Addressing business surpluses and their impact on return on equity

Survey demographics:

63 companies in India responded to the Corporate Treasury Survey. The respondent profile covered Chief Financial Officers and Corporate Treasurers. The survey covered a wide array of industries excluding financial services. The industry-wise classification of respondents is given below:



- Manufacturing
- Energy and Resources
- Technology, Media and Telecommunications
- Consumer Business
- Life Sciences and Health Care

Emerging role of the corporate treasury function:

Managing cash flow risk and P/L volatility has traditionally been the focus area of the corporate treasury function. **More than 86%** of the respondents confirmed that their treasury function has currently been tasked with this aspect. 78% of the respondents believe that managing financial risk will continue to be among their Top 3 priorities. **The role of treasury as a financial risk manager appears cemented and is unlikely to change in the near future.**

More than 70% of the respondents considered funding long-term growth, financing working capital and optimizing return of surplus as core to their treasury function. However, a number of respondents perceive that the role of corporate treasury will expand into **new areas including acting as an advisor to business units and managing credit relations**. There is a strong belief that **earning revenue should not be a treasury focus area** with only 11% of the respondents placing it as a top 3 priority.

As corporate treasurers gear towards meeting the heightened expectations, there are certain internal and external challenges that still persist. Corporate treasurers generally attribute their internal challenges in treasury management to the lack of clear view on exposures and inadequate control over working capital utilization. **More than 48% of the respondents considered the lack of clear view on exposures as the single largest internal challenge**. In terms of external challenges, treasurers rated **lack of quality talent in the marketplace and laws affecting cash pooling as the largest deterrents**.

In terms of the role of the regulator, nearly 57% of the respondents believed that the Reserve Bank of India regulations are either optimal or constraining but necessary in the given environment. Further, **more than half of the respondents continued to rank unmanageable volatility in financial markets as their biggest concern**.



Most corporate treasurers believe that investment in processes and robust treasury frameworks are critical for meeting heightened expectations. In this regard, corporate treasurers believe that the most critical enablers will be **automation of treasury processes and implementation of treasury performance management systems**. Corporate treasurers also believe that their largest near-term investment in strengthening the treasury function will be in the areas of **automation of treasury and trade finance operations and development of decision support tools and risk models**.

Gearing towards supporting long-term enterprise growth:

Corporate treasuries have traditionally focused on raising long-term funds for financing projects. However, as businesses evolve, treasurers see an increasing role in **optimizing leverage thereby enhancing return on equity, managing investor relations, and raising equity capital**. While **more than 67% of treasurers** continue to believe that **aligning business cash flows with debt servicing obligations** is critical for supporting long-term growth, 65% also believe that optimizing leverage and enhancing return on equity is critical for supporting long-term growth. **External commercial borrowings continue to be the instrument of choice for funding long-term growth.**

Changing landscape of financial risk management:

The role of Board and senior management in overseeing hedging programs has increased. More than **56% of the respondents operated on a mandate-based hedging program with specific instructions from the Risk Committee or Board**. Only 6% of the respondents had an opportunistic program based on market movements. The need for a structured hedging program was clear among respondents with only **11% indicating that they had no hedging program in place**.

In terms of financial risk management initiatives, corporate treasurers rated the following as important:

- Engaging with business to provide risk management solutions
- Optimizing cost of hedging
- Effective netting of forex flows
- Accounting for hedging transactions

The role of corporate treasury is becoming increasingly strategic to dual organizational objectives of managing risk and funding long-term growth

Corporate treasurers believe that investments in automation, decision support and performance management will help them navigate through key internal challenges in meeting the heightened expectations from the treasury function

Given the degree of leverage of corporate balance sheets, the focus of treasurers is on optimizing borrowing cost and managing return on equity through optimal leveraging. However, **corporate treasurers are increasingly becoming conscious of the role of investor and credit relationship management in supporting long-term growth.**

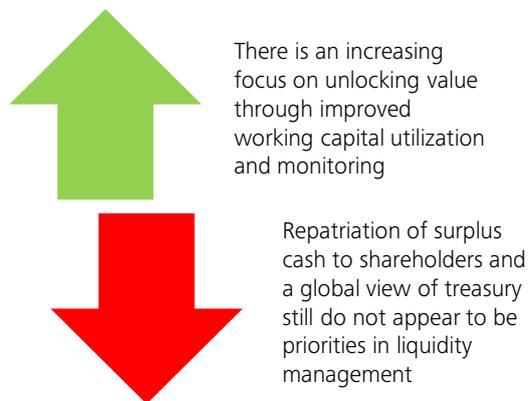
The role of the Board in overseeing and **reviewing the financial risk management program is more pronounced than before**. Most of the focus of treasurers is on **optimizing existing hedging programs and partnering more closely with business on exposure identification**.



Managing the global nature of cash flows:

With increasing global presence, the role of corporate treasury in cross-border activities has increased. However, less than 11% expressed their desire to set up a global treasury outside India. Treasurers reported that the **lack of adequate information from business units** continued to be their biggest challenge in managing global cash flows. They also blamed **forex and commodity price variability** as reasons for difficulties in cash flow management.

Nearly 70% of the respondents believed that reducing working capital utilization through stronger monitoring is one of their Top two priorities. More than **83% of the respondents believe that investment in technology and reporting systems** will prove to be a key differentiator in effective working capital utilization and monitoring.



Addressing business surpluses and their impact on return on equity:

Treasurers responded that improving monitoring over idle cash and pooling cash across entities are their most important priorities for enhancing returns of surpluses. 73% of the treasurers responded that tax planning was an integral part of their cash pooling and deployment strategy. **Treasurers were divided on whether dividend payment and share buyback are in integral part of the decision on cash deployment horizon.**

We would like to thank all the participants who have contributed their inputs for the survey. We hope that the insights provided through this report will help your strengthen your corporate treasury function. Please feel free to contact us in case you have any questions with respect to the survey.

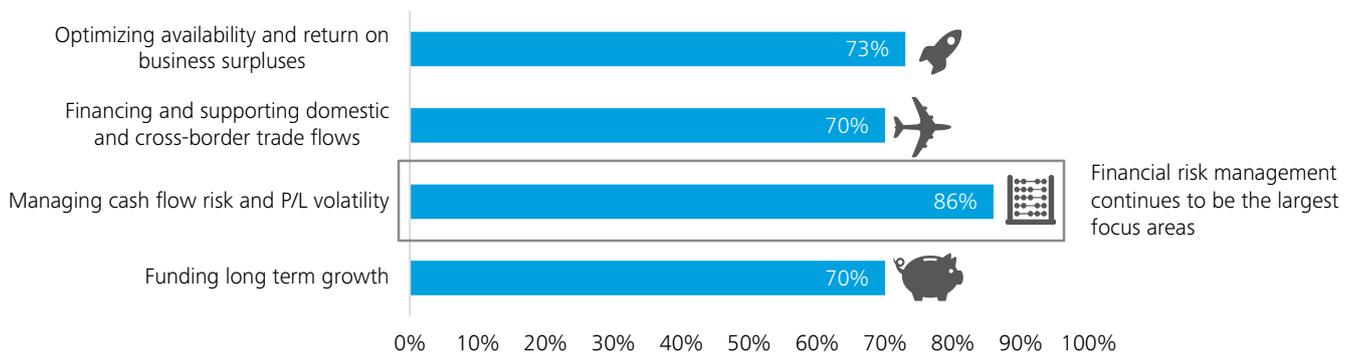


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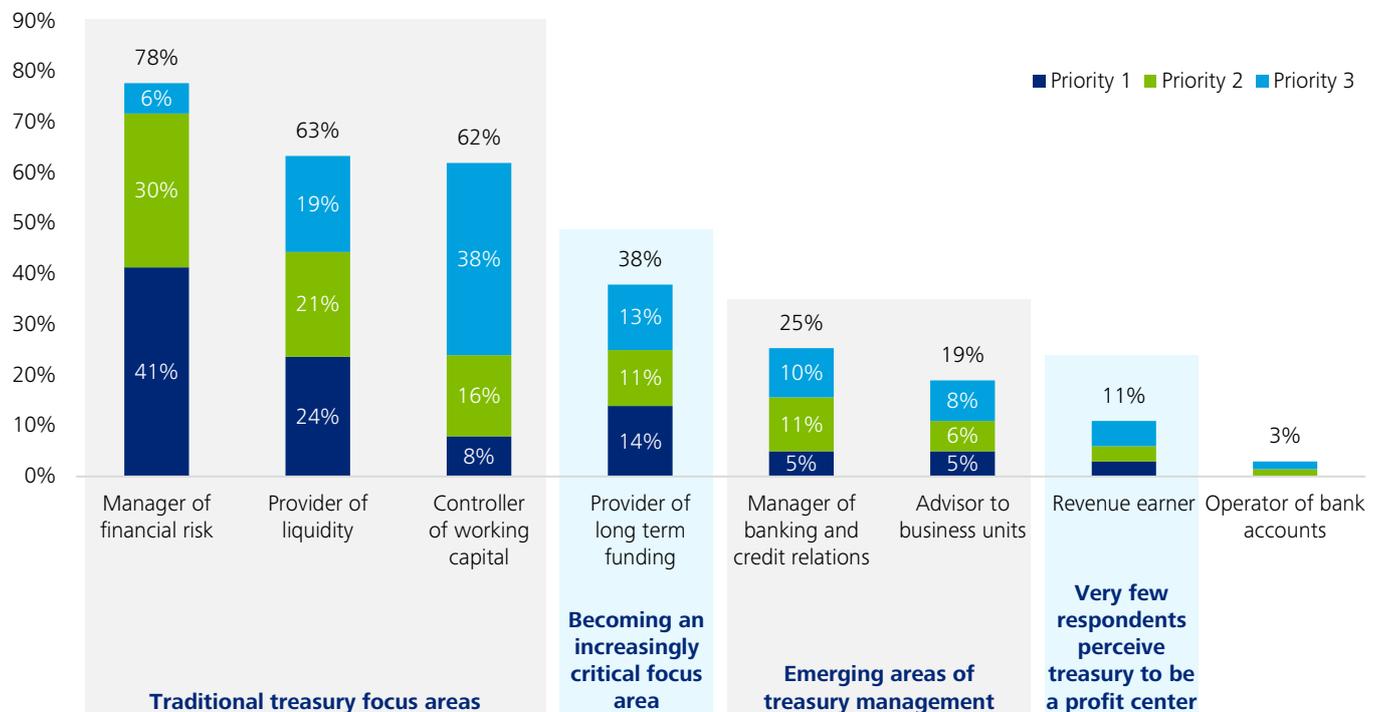
Emerging role of the corporate treasury function

Corporate treasuries are evolving into holistic risk, liquidity and capital management functions

Current role of the treasury function



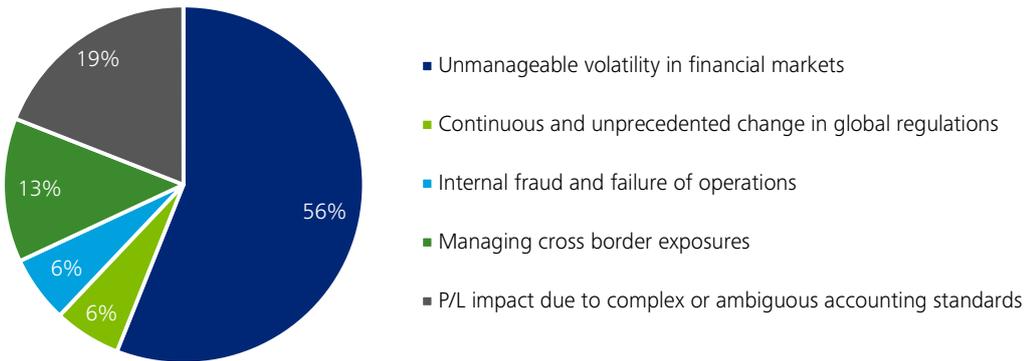
Perceived role of treasury function in the future rated by Top 3 priorities



The role of corporate treasury is becoming increasingly strategic to the organization. While corporate treasuries are expected to take on more value-adding roles, converting treasury into a profit center is seen as a low priority. Corporate treasurers are increasingly moving away from low-value-adding functions like bank account operations.

Market volatility continues to be the major concern for the corporate treasurer

Biggest concern area for corporate treasurers

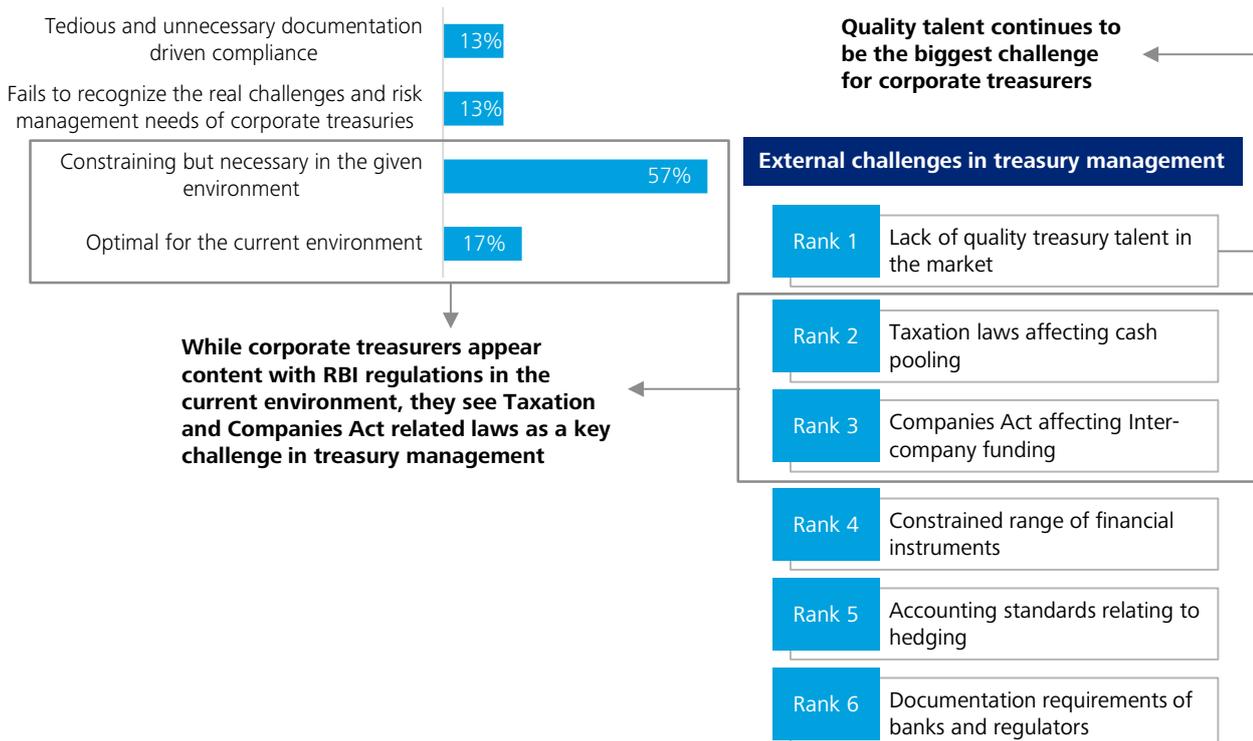


- Volatility in financial markets is the major concern area for treasurers across industry sectors. The concern is higher in the consumer business and the energy and resources sector.
- P/L impact due to complex or ambiguous accounting standards was the second largest area of concern.

Corporate treasurers appear at ease with RBI regulations but find laws affecting cash pooling a key business challenge



Opinion on the Reserve Bank of India ('RBI') regulations for Corporate Treasuries





▲ 42.31 0.1%
▼ 10.90 0.1%
▲ 00.97 0.7%

▼ 65.45 0.3%

▼ 85.38 0.7%

▲ 45.58 0.1%

▲ 52.53 0.5%

▲ 75.98 0.6%

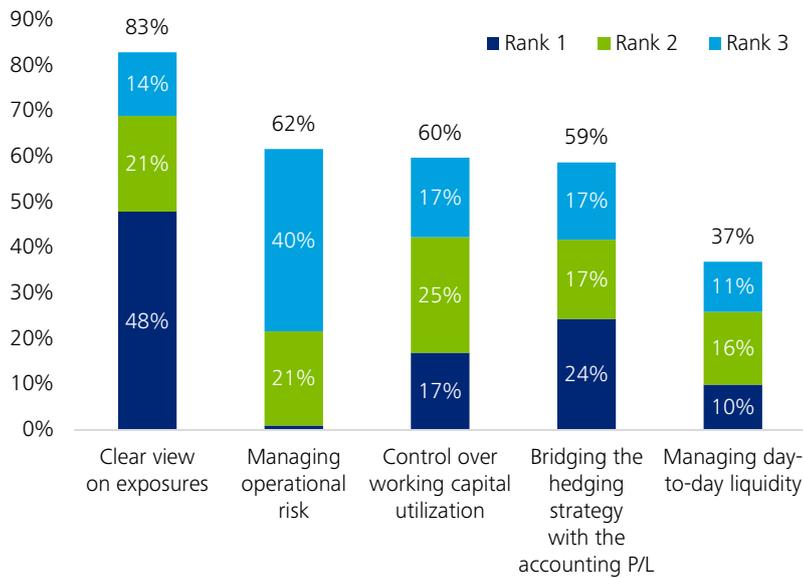
▼ 20.35 0.2%

▲ 54.35 0.6%

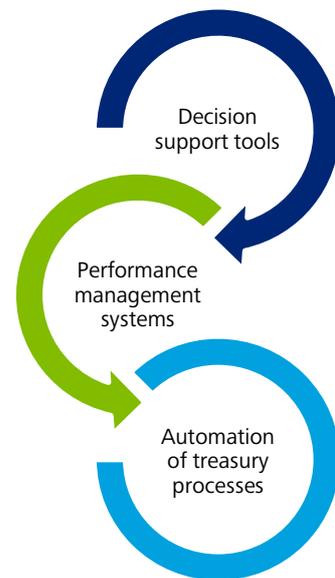
▲ 44.43 0.1%
▲ 12.88 0.1%

Enhancement of automation and decision support systems seen as key to surmounting internal challenges

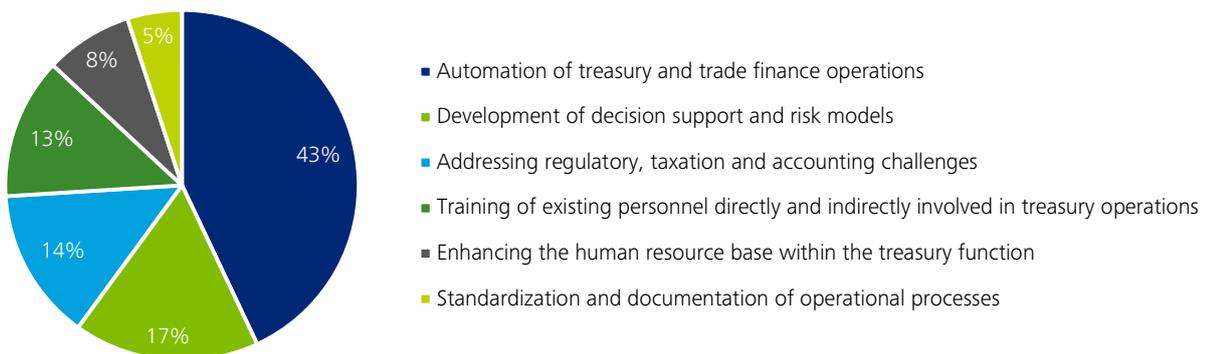
Internal challenges in treasury management



Critical enablers according to respondents



Largest near term investments expected by corporate treasurers



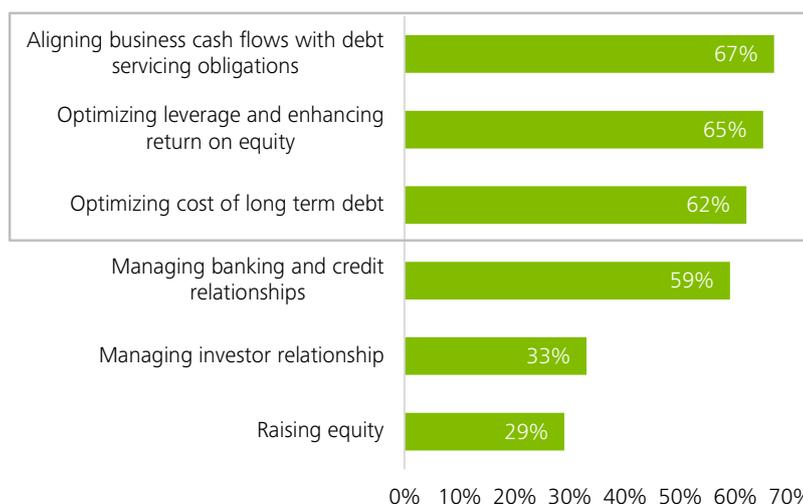
Corporate treasurers believe that the lack of clear view on exposures is one of the most challenging aspects of treasury management. Managing operational risk and control over working capital are seen as other key challenges.

Corporate treasurers believe that decision support systems and automation of treasury operations are critical success factors for managing internal challenges. Corporate treasurers are also likely to make large near term investments in automation of treasury and trade finance operations.

Gearing towards supporting long-term enterprise growth

Corporate treasuries are making the gradual shift from debt management to capital structure management

Perceived treasury objectives for funding long-term growth

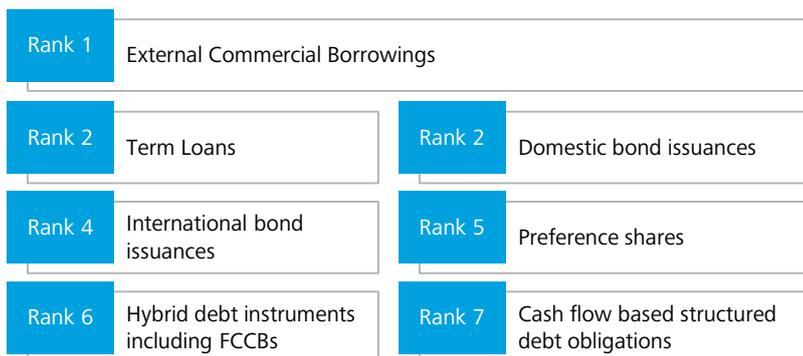


Focus continues to be on long-term funding and managing cost of debt. Managing leverage and return on equity has also taken precedence in recent times.

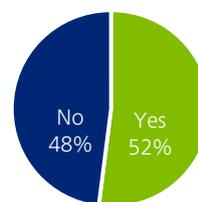
Traditionally, the role of the corporate treasurer was limited to raising long-term funds and managing the cost of debt. As balance sheets have become increasingly leveraged, corporate treasurers are also focused on optimizing leverage. However, corporate treasurers still do not perceive an important role in equity fund raising and investor relationship management.

Funding instruments mix is not likely to change significantly in the near future

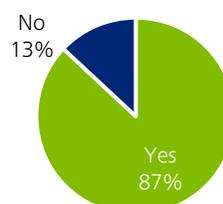
Instruments likely to be used for long-term funding



View on whether range of instruments and depth of debt markets in India is adequate



View on whether range of instruments and depth of debt markets in India is adequate

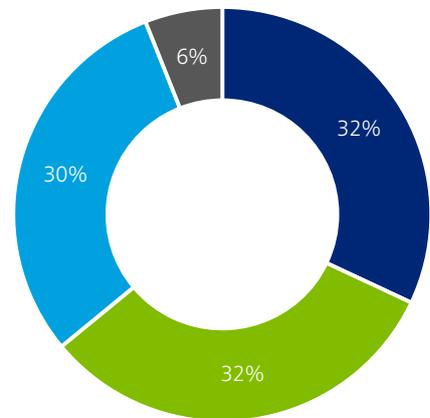


- The preferences of instruments for long-term fund raising does not appear to have change. **External Commercial borrowings continue to be the preferred instrument for long-term fund raising.**
- Corporate treasurers appear to be split on their view on the depth of debt markets and range of instruments available. However, there appeared to be **a resounding acceptance that credit enhancements will be important for long-term funding in the future.**



Operational monitoring challenges continue to consume bandwidth of the corporate treasurer

Top operational challenge in funding long-term growth



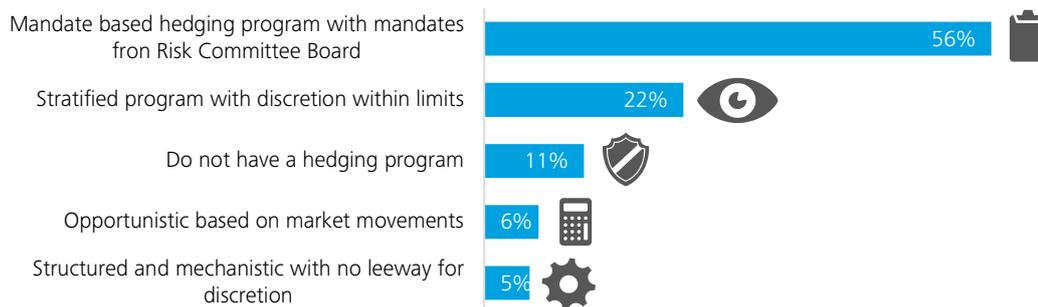
- Price discovery while negotiating for funding
- Covenant management and monitoring
- Accurately matching cash flows and servicing obligations
- Monitoring end-use of funds

While price discovery continues to be a key concern for corporate treasurers, a very large proportion also attributed covenant management and matching cash flows and servicing obligations as a key operational challenge. This indicates a need for significantly strengthening ground-level debt management processes.

Changing landscape of financial risk management

Increased oversight by the Board and Risk Committee

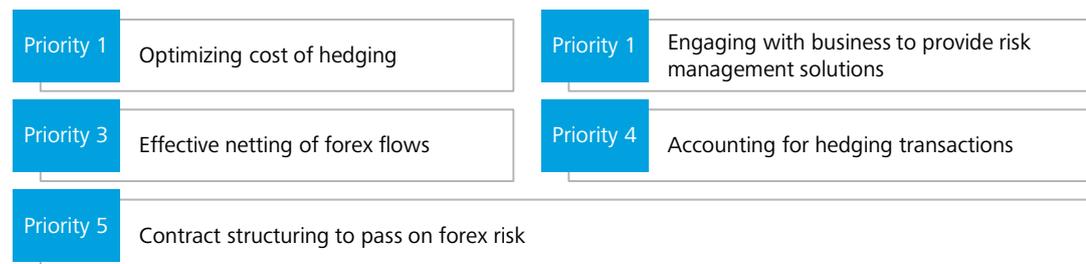
Nature of hedging programs



More than half the treasurers responded that their hedging programs were mandate based with direct oversight from the Board or the Risk Committee. In general, there appeared to be very little discretion in the hedging program for opportunistic or market-based decisions.

Focus of hedging programs shifting towards business centricity and internal optimization

Improvements focus areas for the corporate treasurer



- Optimizing cost of hedging continued to occupy a large part of the corporate treasurers' mind space.
- Corporate treasurers placed engaging with business to provide risk management solutions as the second most important internal focus area. This indicates a greater involvement of the treasury function in understanding inherent risks in the business model.

Most treasurers believe that the financial risk management instrument range is adequate

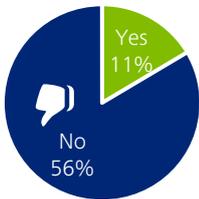
View on adequacy of instruments to manage forex and interest rate risk



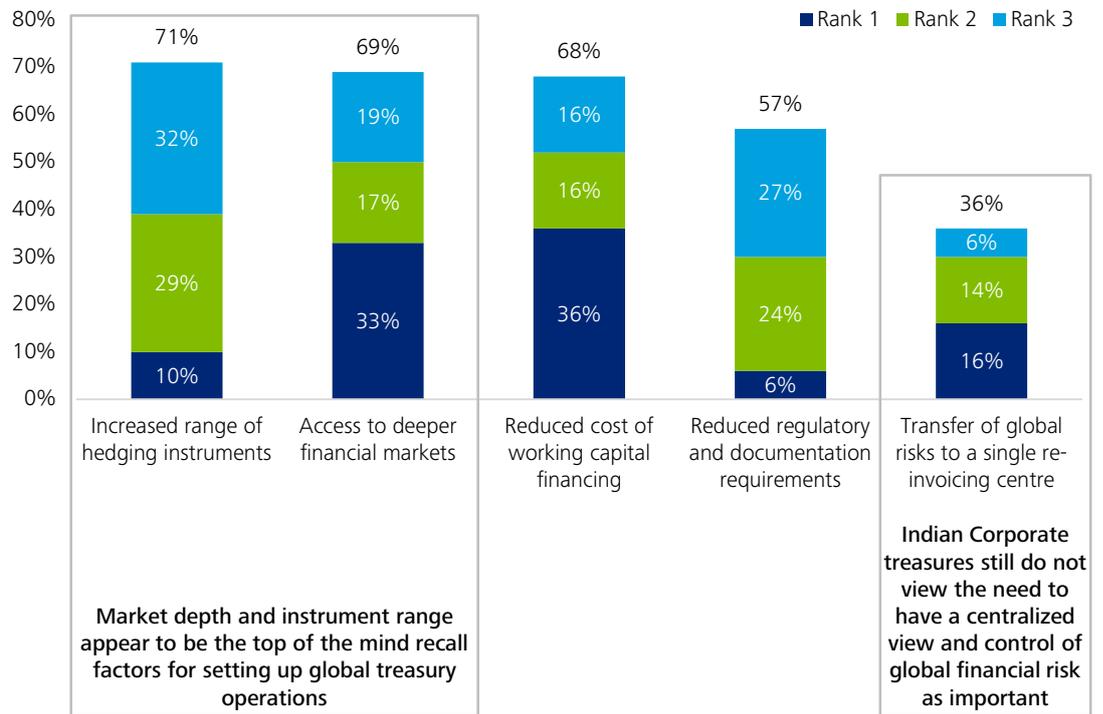
The range of hedging instruments has significantly reduced due to revised RBI guideline on derivatives. However, most corporate treasurers continue to be content with the existing instrument range.

Financial risk management continues to be largely India-centric

Plans for selling up a global treasury outside India



Top 3 considerations for setting up a global treasury outside India



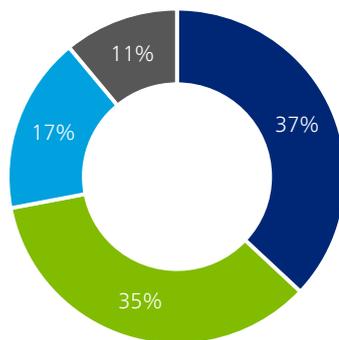
Most global organizations believe that their diverse risk exposures across geographies make it important to have a global treasury setup. This enables them to have a single window view of risk and enables them to effectively manage risk. Indian corporate treasurers appear to be more motivated by market depth and cost of working capital as their drivers for setting up global treasuries.

Managing the global nature of cash flows

Lack of information and financial risk make cash flow management challenging

Biggest challenge in working capital management and utilization

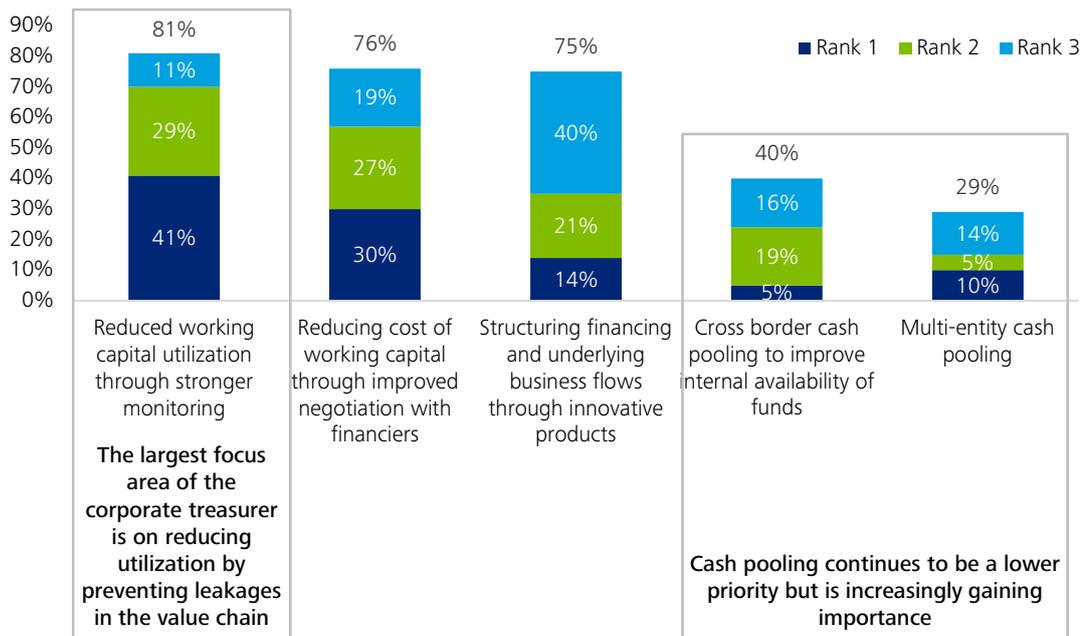
Working capital management continues to be a key challenge area for corporate treasurers. Treasurers attribute the lack of information from business units and market volatility as the top 2 challenges in working capital management. Sub-optimal utilization and existing ERP systems and lack of appropriate data management typically tend to contribute to challenges in working capital management.



- Lack of adequate information from business units
- Volatility in forex and commodity prices contributing to variability in cash flows
- Lack of adequate forecasting and monitoring tools
- Limited availability of cash flow backed working capital instruments'

While volatility makes forecasting and therefore management of working capital requirements difficult, the ability to evaluate the extent of impact from volatility on a continuous basis through use of forecasting and decision support tools is critical. Liquidity risk arising from market volatility is becoming an increasing focus area of the corporate treasurer.

Working capital management priorities



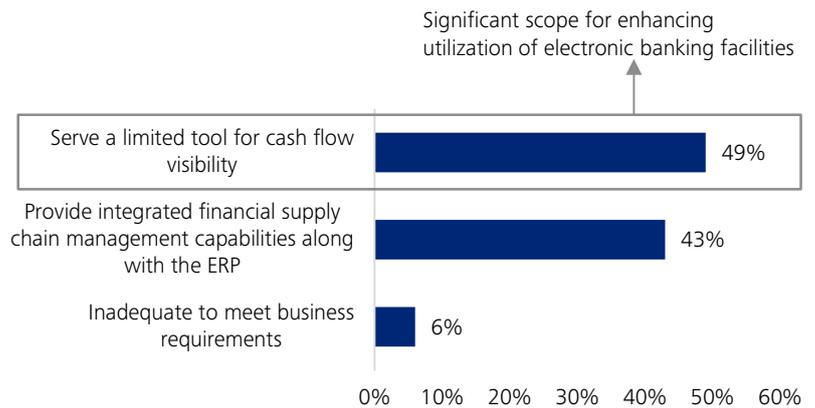
- Reducing working capital utilization will require the corporate treasurer to break-down the business value chain and identify areas of leakage
- It will also require the treasurer to have improved control of accounts payable and accounts receivable
- **Leveraging technology to identify and continuously monitor leakages of working capital in the business value chain will be critical to sustaining efficiency**

Technology seen as key for improving working capital management

View on investments in technology being a key differentiator in improving the financial supply chain



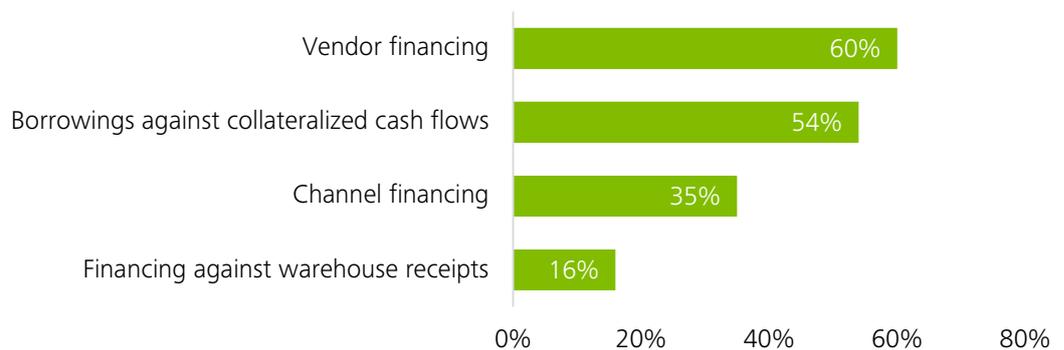
View on electronic banking facilities



- Corporate treasurers almost unanimously see technology as the key differentiator for improving financial supply chain management. There is significant scope for enhancing use of technology in financial supply chain management.
- While use of electronic banking has evolved quite a bit, there still appears to be a large scope for better leveraging information provided by electronic banking platforms.

Innovation in working capital financing instruments

Potential expanded use of working capital financing instruments by treasurers

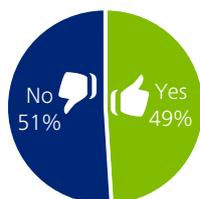


- Most corporate treasurers believe that there is a need for innovation in working capital financing instruments and a need for departure from traditional cash credit and overdraft facilities.
- Treasurers increasingly believe that their balance sheet strengths can be leveraged to provide vendor financing thereby improving efficiency and reducing cost of funding the supply chain.
- Treasurers are also increasingly seeking instruments funded against future cash flows or bills of exchange.

Addressing business surpluses and their impact on return on equity

Treasurers are divided on the consideration of dividend and share buyback programs on cash deployment horizons

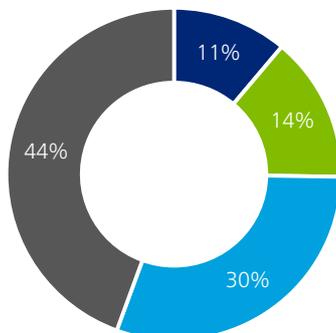
View on whether dividend payments and share buybacks are an important part of the cash deployment decision



Corporate treasurers need to increasingly focus on the shareholder value. This entails evaluating return on equity impact from deployment of surpluses and a more strategic view on managing dividend and share buyback programs based on cash flow generated.

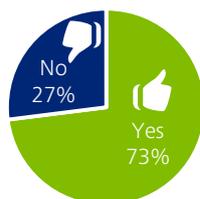
Cash pooling and reducing idle cash remains an important consideration

View on most important priority for improving return from and utilization of idle surpluses



- Pooling cash across geographies
- Diversification of current instrument mix
- Pooling cash across entities
- Improved monitoring over idle cash

Whether tax planning is an integral part of the cash pooling strategy

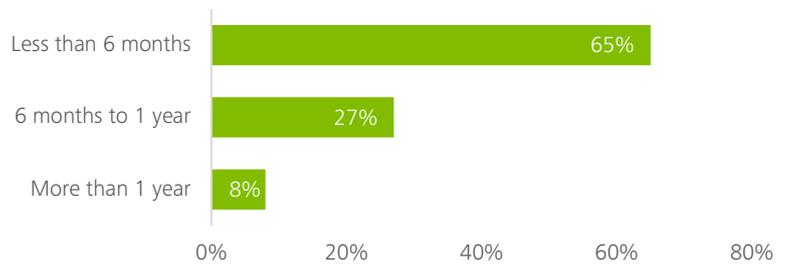


- Monitoring idle cash still features as the most important priority. Corporates are also starting to focus on pooling cash across entities.
- Pooling cash across geographies continues to be a low priority.
- Tax planning as becoming a more integral part of the cash pooling strategy

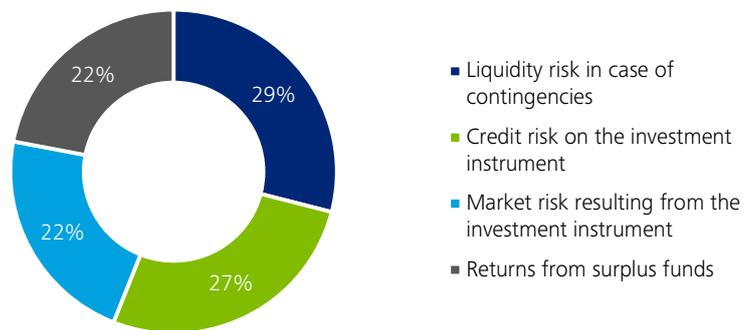


Shorter investment horizon coupled with liquidity considerations key to surplus deployment strategy

Cash deployment horizon



Most important consideration while deploying funds



- Most corporates continue to deploy surpluses for a period less than 6 months. Liquidity risk continues to be the key concern while deploying surpluses. This indicates a relatively low level of confidence on internal cash flow forecasting systems.
- Credit risk and market risk considerations also drive deployment decisions.
- The focus on return from idle surpluses is relatively low. Impact of surpluses on return on equity does not generally figure in deployment decisions.

Building the corporate treasury of the future

The corporate treasury of the future is expected to have a more strategic role in an organization's growth story. While the corporate treasurer embraces the strategic role, managing financial risk and maintaining control over liquidity will continue to become important. Corporate treasuries will also see an increase in transaction volumes leading to strain on operational resources. The corporate treasury of the future will most likely operate in a three-tiered structure addressing different facets of shareholder and management expectations from the corporate treasurer. The architecture of the Indian corporate treasury of the future is depicted below:

Strategic role	Shareholder's treasury				
	Long-term funding and return on equity management	Investor relations	Credit and banking relations	Pensions and insurance management	Treasury and financial risk policies
Management role	Business treasury				
	Financial risk management		Financial supply chain management		
	Currency and interest risk management		Cash and liquidity management		
	Credit and counter-party risk management		Investment management		
	Commodity price risk management		Trade finance execution		
Operations role	Treasury shared services/Treasury operations				
	Payment processing and treasury settlements	AR and AP management	Treasury accounting	MIS reporting and decision support	Banking and trade documentation and covenant management

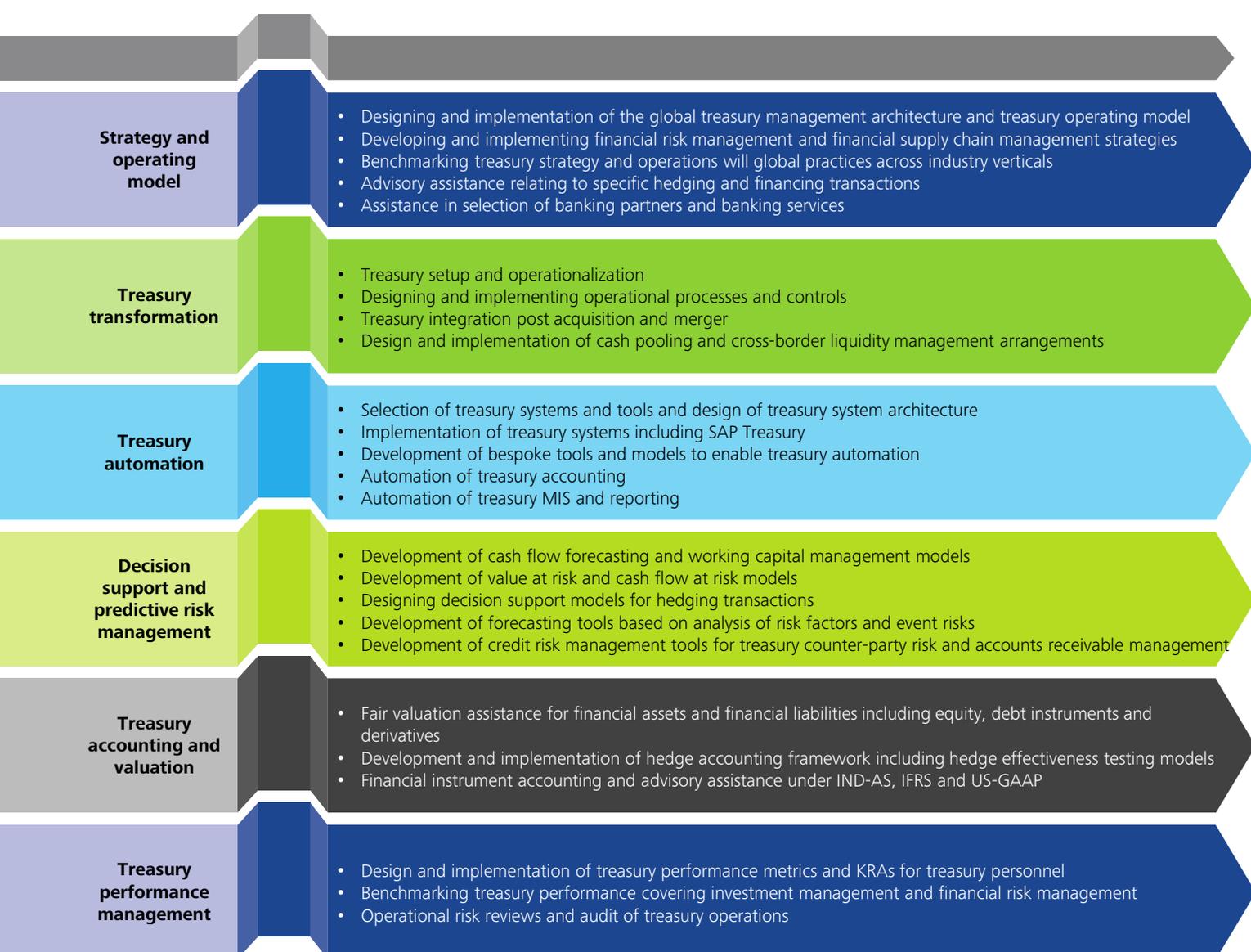
As a corporate treasurer takes on both a more strategic and expanded role, there are multiple challenges that need to be overcome. These include limited availability of quality talent; reliance on disparate and sometimes unavailable information for decision making and ensuring that operational risk is closely monitored and controlled. The corporate treasurer is also expected to become an advisor to business assisting them in structuring contracts to mitigate financial risk and advising them on potential economic risks that can impact the business value chain.

Given the heightened expectations from the corporate treasurer, certain aspects become critical in meeting and managing expectations:

- Leveraging technology to provide accurate and timely business information and for straight through processing of transactions
- Putting in place decision support and risk quantification tools
- Clear and measurable treasury performance metrics at each tier of the treasury structure and the ability to continuously monitor the metrics
- Mechanizing processes and operations and upskilling people to ensure that a higher proportion of bandwidth can be assigned to the shareholders' treasury

Deloitte Corporate Treasury service offerings

Deloitte Global Treasury Advisory Services team provides integrated treasury consulting covering treasury strategies, operating model, treasury transformation, performance management, automation, accounting and valuation. Our dedicated team of treasury professionals is based in 4 cities in India. Our team is supported by a network of member firms across the globe providing treasury advisory services to leading global organizations. Our service offerings include the following:



Want to engage

In case you would like to talk to us about any of the aspects covered in the survey or would like to understand how our service offerings can benefit your organization, please feel free to contact us. Our global and India contacts are contained in the subsequent page.

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