STRATEGIC CORPORATE TREASURY MANAGEMENT

Abstract

In today's dynamic business environment, where the cost of capital significantly influences financial performance, an effective treasury management system plays a vital role in optimising the debt-mix, reducing borrowing costs, improving liquidity and ensuring the efficient deployment of funds. These measures ultimately contribute strengthening the organisation's profitability and enhancing its bottom line.

Furthermore, in an increasingly technology-driven business environment, finance professionals, in addition to their domain knowledge, must possess technical and analytical capabilities to adapt to emerging technologies such as Artificial Intelligence, data analytics, automation and digital financial systems which would help to improve operational efficiency and meet organisation's strategic objectives.



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In modern business, whenever we talk about **Finance**, it is often perceived as being synonymous with **Accounts**. However, finance has evolved far beyond the traditional function of maintaining books of accounts. Accounting primarily involves recording and reporting financial transactions in a systematic manner in accordance with applicable laws, standards and prescribed procedures. **Finance, on the other hand, is dynamic and forward-looking**, dealing with planning, decision-making, allocation and optimum utilisation of financial resources.

The business environment is never static. Factors such as competition, interest rates, foreign exchange movements, import and export policies, customer preferences, technological changes, geopolitical developments and the overall economic environment continuously influence business decisions. Many of these factors are difficult to predict with certainty. In such an environment, the importance of **fund management and financial planning** becomes critical. It requires not only knowledge of financial principles but also a sound understanding of the business, its operating environment and the dynamics that may influence it.

Finance professionals are required to move beyond the traditional approaches of treasury management. They must possess a thorough understanding of various short-term and long-term sources of finance in order to reduce financing cost and meeting the fund requirements. At the same time leveraging emerging technologies and automation is essential to enhance the speed, accuracy and efficiency to meet the industry expectations.

Treasury Management (Kosha) – An Age-Old Concept in India

Kautilya's Saptanga Theory advocates the **seven distinct facets** or units for the appropriate functioning of a state. One is Kosha, which literally translates to "treasury" or "financial resources" of a state. Kautilya believes that the main requisite for a strong and stable state is an efficient and well-administered treasury. Kosha is concerned with the collection and effective management of state riches that are used to

finance the military administration, public welfare, infrastructure, and other governmental activities.

Kautilya stressed the necessity of having a well-structured fiscal system, such as taxation, trade, and revenue collection. He suggested a strict audit in order to avoid any disfigurements of the treasury. He also stated that the state could only prosper if the state had proper management skills through which it could efficiently generate income from its resources. A poorer treasury also gives threats to both external and internal sources. Thus, the Kosha element is integral in ensuring the economic ability and political strength of the state.

Growing Importance of Treasury Management

The importance of **Treasury Management** has increased significantly in the present business environment. Rapid technological advancement, intense competition, wider availability of information, the influence of social media, financial and operational risks, regulatory requirements and increasing compliance expectations have fundamentally changed the way businesses manage their funds.

Treasury management essentially focuses on ensuring that the organisation has **the right amount of funds, at the right time, in the right place and at the right cost**. It covers areas such as **cash and liquidity management,** investment of surplus funds, working capital management, financing, banking relationships, foreign exchange management, interest-rate risk and financial risk management.

In today's environment, treasury decisions often need to be taken in real time. A delay in receiving customer payments, an unexpected increase in interest rates, foreign exchange volatility, changes in commodity prices or a sudden disruption in the supply chain can have a direct impact on liquidity and profitability.

Technology has further transformed treasury operations. Digital banking, automation, real-time information, data analytics, **artificial intelligence and machine learning** are increasingly enabling organisations to forecast cash flows, monitor exposures, optimise liquidity and strengthen controls.

Therefore, **modern treasury management is no longer simply about managing cash balances**. It is about anticipating financial requirements, managing risks, optimising the cost of funds and ensuring that financial resources are aligned with the strategic objectives of the organisation.

Money – The Lifeblood of Business

Money is the lifeblood of every business. Funds are required at every stage—whether for establishing a new business, expanding an existing operation, modernising facilities, entering a new segment or meeting day-to-day operational requirements.

The funding requirements can broadly be classified into two categories:

1. Long-term capital requirements: This is required mainly for long term investments like:

- Acquiring fixed assets, including land, buildings, plant and machinery.
- Business expansion, capacity enhancement etc.
- Strategic investments and acquisitions.

2. Short-term working capital requirements: This is required mainly for day-to-day operational requirements such as:

- Procurement of raw materials.
- Payment of salaries, wages and other operating expenses.
- Maintenance of inventory.
- Other short term operational requirements

At the initial stage of a business, before adequate internal accruals are generated, the organisation generally depends upon promoters' contributions, loans and other sources of external finance. At this stage, the **value and availability of money assume greater significance**, as financial resources are limited and the business is yet to establish a stable cash-generating capacity.

Therefore, the **cost of capital becomes particularly crucial during the project stage**. The manner in which a project is financed—through equity, debt or a suitable combination of different sources—can have a significant impact on the financial performance and profitability of the business over several years.

Financial Planning and Sensitivity Analysis

Effective financial planning is not merely about estimating expenditure and arranging funds. It

involves anticipating future requirements, assessing risks and evaluating alternative courses of action.

The experience and insight of finance managers play an important role in this process. A finance professional needs to understand not only the financial statements of the organisation but also the underlying business drivers and the challenges that may emerge in the future.

This is where **financial models and scenario analysis** become valuable tools for project evaluation. Financial models prepared at the beginning of a project or business cycle provide a framework for assessing expected revenues, costs, cash flows, funding requirements and returns. Subsequently, actual performance can be compared with the assumptions made in the model. **Variance analysis** helps management understand the reasons for deviations and determine whether corrective action is required.

Thus, finance is increasingly becoming a function that supports **business strategy and decision-making**, rather than merely recording what has already happened.

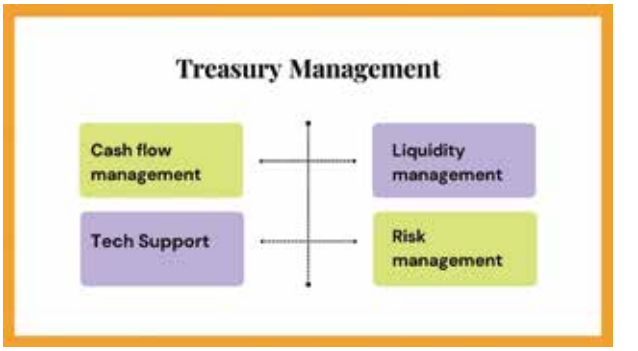
Objective of treasury management

The primary objective of treasury management is to enhance an organisation's financial health, liquidity and overall stability. These objectives may vary from one organisation to another, depending on the size, nature and complexity of its business operations. However, the key objectives generally include efficient cash and liquidity management, optimum utilisation of surplus funds, effective management of borrowings and financial risks, reduction of financing costs, optimisation of working capital, and ensuring timely availability of funds to meet operational and strategic requirements. Generally they include:

- **Optimizing cash flow**: Maintaining a healthy cash flow is essential for day-to-day operations, and treasury management ensures the organization has sufficient cash available.
- **Minimizing financial risk**: Identifying potential risks and implementing strategies to mitigate them, reducing exposure to market volatility and financial losses.
- **Maximizing returns on investments**: Safely invest surplus funds to earn returns through short-term instruments like money market funds or longer-term investments in bonds or equities.
- **Optimising debt**: When we look at long-term debt, whether in the form of banks loans, bonds, foreign currency loan or mix of all these, need to be efficiently managed to minimize borrowing costs and optimize the organization's capital structure.
- **Ensuring regulatory compliance**: Staying compliant with financial regulations and reporting requirements to avoid penalties and legal issues. For listed Companies, meeting the requirements of SEBI(LODR) is a must.
- **Supporting strategic decision making**: Providing timely financial data, analysis and insights to support strategic business decisions, including mergers and acquisitions, capital investments, business expansion and other long-term growth initiatives.

Key components

This section delves into the critical components of treasury management that underpin an organization's financial stability and success, to begin with an exploration of cash flow management, followed by liquidity management, technical support and compliance management and conclude with an examination of risk management.



Cash flow management

Cash flow is the lifeblood of any organization, its effective management is paramount. It involves tracking the movement of money and ensuring that there is enough cash on hand to meet day-to-day requirements. Companies may formulate their own policies for the investment of surplus funds, Central Public Sector Enterprises (CPSEs) are required to adhere to the guidelines issued by the Department of Investment and Public Asset Management (DIPAM)

governing the investment and management of surplus funds.

The importance of cash flow management can be summarized as below:

- **Solvency:** Adequate cash flow ensures the organization can meet its short-term financial commitments, preventing insolvency.
- **Operational stability**: Smooth cash flow keeps daily operations running smoothly, enabling the company to pay suppliers, employees, and other stakeholders promptly.
- **Strategic decision making**: Accurate cash flow forecasts enable better planning and informed decision-making regarding investments, expansions, and cost management.

Strategies for optimizing cash flow:

1. **Business cycle and receivables management**: Understanding the business cycle is very important in rotating the funds. Though accounting profit may be available but not the cash profit. Hence, timely invoicing and timely collection of receivables liquidating debtors is very important.
2. **Efficient payable management**: Having a strong supply value chain is important to get the raw materials etc. at a competitive rate. This helps to get timely supply with better rates with favourable payment conditions.
3. **Cash flow forecasting**: Cash forecasting is a dynamic area which regularly need to be updated to identify potential shortfalls and surpluses well within time for corrections.
4. **Working capital management**: Optimising the working capital helps to reduce the financing cost. The company needs to understand the whole ecosystem of the short term borrowings available and the company is eligible for the same. Banks generally provide Fund and Non-Fund based working capital facilities to corporates based on the net current assets. In addition, entities can also avail short term borrowings through commercial papers meeting the norms and credit rating.

Liquidity management

Liquidity management involves maintaining an appropriate level of readily accessible assets to meet financial obligations. Liquidity is crucial for several reasons:

- **Risk mitigation**: Liquidity is a buffer against unexpected expenses, economic downturns or disruptions in cash flow.
- **Investment opportunities**: Having liquid assets allows organizations to capitalize on investment opportunities, such as acquiring assets or expanding operations.
- **Operational flexibility**: Liquidity provides the flexibility to take advantage of discounts, negotiate favourable terms, or fund strategic initiatives.

Risk management

Treasury management is pivotal in identifying, assessing, and mitigating financial risks. These risks may include:

- **Market risk**: Exposure to fluctuations in interest rates, exchange rates, and commodity prices.
- **Credit risk**: The risk of counterparties failing to meet their financial obligations.
- **Operational risk**: Risks associated with internal processes, systems or human error.
- **Liquidity risk**: The risk of being unable to meet short-term financial obligations.

Mitigation of Risk :

*Every company with exposure to borrowings need to have **Risk Management Policy which should be robust, dynamic and forward-looking**, enabling the organisation not only to mitigate short-term challenges but also to anticipate and address emerging risks in the future. In this context, a continuous assessment of both **internal and external risk factors** is essential. These include the changing business environment, pricing policies, supply and value-chain vulnerabilities, technological developments, regulatory changes, market conditions and geopolitical developments.*

The entities can opt for hedging in order to protect from exchange fluctuation of reporting currency. The most common method is natural hedging in which loss of one investment due to changes in exchange rates is adjusted against gain of another investment, thereby compensating the loss. Similarly, the entity can also opt for fixed or floating rates to lock foreign currency future rates to absorb the losses based

business and currency fluctuation trends and risk appetite. Like hedging, other methods to mitigate risks are credit assessment, contingency plan etc. depending upon the exposure to reduce the risk. Such risks need to be ***periodically reviewed, assessed and monitored*** *so that timely corrective and preventive measures can be taken to ensure business continuity, financial stability and sustainable growth.*

Technology support & Compliances

There has been a **paradigm shift in the treasury function**, with the need for specific and accurate data within a much shorter time span significantly increasing the dependence on technology. Consequently, entities have increasingly adopted **IT-enabled Treasury functions**, either by developing in-house technology capabilities or by outsourcing the technology component to specialised service providers.

This transformation has also changed the expectations from **Finance Professionals**. Hands-on knowledge and practical understanding of IT and digital technologies have gradually become **almost mandatory rather than an option**. Finance professionals who possess **expertise in both finance and technology are clearly better positioned** to manage the complexities of modern treasury operations and have an edge over those with only conventional finance expertise.

The challenges are not limited to technology. From the perspective of **legal and regulatory compliance**, entities particularly listed large corporate (LC) borrowers as defined under 50B of SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021, as amended from time to time, are required to comply with the requirements of raising at least 25% of its qualified borrowings through the issuance of debt securities in the financial years following the year in which it is identified as an LC. Further, from financial year 2025 onwards, the requirement of mandatory qualified borrowing by an LC in a financial year must be met over a contiguous block of three years.

Further, where bank borrowings form part of the balance sheet, compliance with applicable **RBI Regulations and banking requirements** for listed and large corporate borrowers are becoming an important aspect of treasury management.

To effectively address these challenges, companies are increasingly adopting **comprehensive Treasury Management and IT solutions** that provide an integrated view of their borrowing and funding arrangements. Such systems enable management to retrieve critical information almost instantaneously, including details of **loans and borrowings, interest rates, repayment schedules, hedging arrangements, maturity profiles, and other financing-related commitments**. They can also facilitate analytical tools such as the computation and monitoring of the **Weighted Average Cost of Capital (WACC)**.

Thus, technology is no longer merely a support function for Treasury Management; it has become an **integral part of financial decision-making, risk management, compliance and strategic fund management**. The ability to integrate financial data with technology-driven analytics enables Finance Professionals to make faster, better-informed and more forward-looking decisions.

Conclusion

In an increasingly uncertain and interconnected business environment, the finance function has to evolve from a predominantly transactional role to a **strategic, analytical and technology-enabled function**.

The finance professional of today must therefore be a **combination of an accountant, financial analyst, risk manager, business partner and strategic thinker.** The ability to understand business dynamics, anticipate challenges, skills to evaluate alternatives and take timely financial decisions will increasingly determine the effectiveness of the finance function. Further, maintaining higher corporate credit rating gives an edge for raising funds at competitive rates.

Ultimately, treasury management is not merely about managing money; it is about ensuring that every unit of capital is deployed efficiently, financial risks are appropriately managed, and available resources contribute meaningfully to the organisation's long-term financial stability, profitability and sustainable growth. MA

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