

Augmenting cash flow

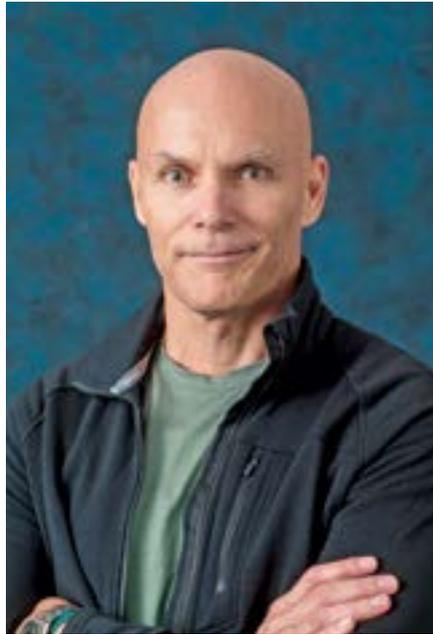
C2FO acquires India's largest early payment platform, Priority Vendor

In October 2019, Collaborative Cash Flow Optimization (C2FO), a global provider of working capital solutions, cemented its position in India by acquiring the country's largest early payment platform, Priority Vendor. With the amalgamation of C2FO and Priority Vendor Indian suppliers can now receive a continuous flow of capital at costs lower than traditional financing alternatives. This combined network of more than 200 corporate entities will now be able to enhance returns on liquidity and strengthen the supply chain system. More than 125,000 businesses in India utilise C2FO's working capital solutions to take control of their cash flow. Globally businesses receive over \$1 billion in funding every week from the C2FO market place.

"This is an important milestone in C2FO India's journey," explains Pradeep Gode, senior VP & country head, India, C2FO. "The acquisition of Priority Vendor enables us to strengthen our position in the working capital space and to offer our customers more flexible and convenient solutions than ever before. C2FO services and supplier-led pricing model fully complement Priority Vendor's unique digital financing solutions built exclusively for Indian businesses." Gode is also a founding member of C2FO in India and oversees business development, strategic partnerships and customer success in the region.

C2FO was founded by the US-based Sandy Kemper, who is also chairman, The Collectors Fund, a private equity fund, focussed on alternative asset classes. Prior to founding The Collectors Fund and C2FO, Kemper had founded Perfect Commerce (a.k.a. eScout.com) and served as the company's chairman & CEO during 2000-06. He was chairman & CEO, UMB Bank too, as also CEO, UMB Financial, a financial services company active in NASDAQ, with assets of more than \$12 billion.

In 2009, while the world was in the midst of a financial crisis, Kemper saw



Kemper: India's growth stands out

corporates facing a cash flow management issue and floated C2FO, a tech platform, which was designed to work towards a future, where every company in the world has the capital it needed to grow. "Through our online marketplace and our suite of innovative financial products, we connect businesses that want cash with sources of cash they need," observes Kemper. "Name your desired price of capital and the C2FO algorithms will match it with available funding sources. Cash flow comes through early payments of invoices from your customers, financing, and other data-driven funding options."

Tech solution

Kemper shipped the C2FO model to Europe in 2014 and then to India in 2016, giving a platform for large companies to upload accounts payables. "C2FO provides a technological solution that brings buyers and sellers to a common platform to release early payment on the pending invoice through a small percentage of the discount," explains Gode. "It uses our solutions

to improve their operating profit (EBIDTA) margins."

"India's rapid growth and scale are stand-outs in the world's economy," says Kemper. "The country's success story is extraordinary and ongoing. Capital, specifically working capital, is the fundamental enabler of this growth. Without the capital needed to finance inventory for the myriad growth needs of India's tens of millions of businesses, the country's growth rates will stall. C2FO's marketplace enables a future where every company in India, as also around the world, has risk-free access to the capital needed to grow their business."

"We have been using C2FO since December 2016," says T.P.K. Patro, vice-president, finance, CEAT Ltd. "It's been an excellent tool for us to automate our vendor early payment system with dynamic discount system to capture different level of discount for different categories. For instance, our transport vendors used to send requests for early payments, followed by negotiations on the rate of discount. It used to take an average of 10 days to accept a request and pay the vendor early. This entire process is now automated with no manual intervention and successful vendors are receiving money in their banks in 48 hours," Patro adds. C2FO has a capable team, with an excellent support system, he points out. "They helped CEAT set up an early vendor payment platform, with host-to-host connectivity with our ERP, for hassle-free, two-way information flow. It took a few months to sort out the transition issues but, post stabilisation, it has been working well, with significant improvement in feedback from CEAT's vendors."

Ibrahim Lodhger, head, treasury, Tata Global Beverages, concurs. "Yes, we are using the C2FO platform for the early discounting," says he. "Though we are just into the third month of operations, the platform has demonstrated a significant potential in unlocking value proposition both for the Tata Global Beverages and its supplier partners. C2FO platform provides a seamless offering, helping the supplier partners to meet their working capital requirements, unlocking cash for them in a most easy and convenient manner and helping TGBL build a long-term sustainable relationship with its

business partners. It also provides an opportunity for alternate deployment of cash effectively within the business, having the potential to optimise TGBL's treasury returns. The USP of this C2FO programme has been the simple data interface and seamless approach it offers, which integrates with the company ERP system so well. It also helps in improving the existing process automation and reducing the turnaround time (TAT)."

"We are a cash-rich company and invest our surplus funds in debt funds, which yield returns of 7-8 per cent," informs Sandeep Batra, CFO, Crompton Greaves Electricals. "We had been exploring how we could get better returns on the surplus cash and paying our vendors in advance to avail cash discount from them was one such avenue. However, we did not have any platform through which we could scale this up. C2FO has provided us this platform, where we can get the best returns on our cash, by making an early payment option available to a large number of vendors. The C2FO team has done a wonderful job of onboarding a large number of vendors and explaining to them the benefits of this solution," adds Batra.

"This has created a win-win solution, where small vendors can avail early payment at affordable cash discount, without the hassles of seeking finance from any other financial institution," he explains. "There is no paperwork involved and, at the click of a button, they select the invoices they want to discount and agree the discount. The money is transferred to them immediately". Batra feels there may be vendors who have short-term mismatches – say, around salary payment dates. Still they can avail of payment from Crompton without any paperwork and meet their obligations. "The kind of benefits SME vendors have got is immense and we remain committed to further add vendors to the programme and scale up the same."

"C2FO payments help our company to balance the working capital since our TOT is early," contends S. Raja Kathiravan, MD, Zigma Technologies India. "In the case of PMPS payments, it reduces the dependency on other receivables, with the C2FO early payments helping in these cases. Since we



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Gode: important milestone

are mainly working for government departments and PSUs, C2FO has been immensely helpful."

Advantage for buyers

"India has emerged as the fastest-growing market for the C2FO online marketplace, one of the most convenient and lowest-cost sources of working capital in the world," observes Gode. "C2FO has grown to match over \$1.2 trillion (₹84 lakh crore) of accounts receivable and accounts payable globally. In the last four years, C2FO has experienced 300 per cent year-over-year adoption rates from businesses in India and we expect this growth rate to continue in the next five years." He lists a host of advantages for the buyers: there has been improvement in the asset-liability mismatch in their balance sheet by managing account payable; the discounts earned through early payment work as a profit gained, which is a better option than investing in short-term & high-risk instruments; investors and shareholders are impressed with reduced liability and better return on short-term cash, without any risky investments, etc.

How does it help the sellers? One way is: instead of approaching a financial institution to borrow money for working capital, the sellers get their own money with some discount. For instance, instead of paying 12 per cent per annum to banks as finance

charges, the supplier can provide a discount of 10 per cent per annum on their pending invoices to their buyers and receive early payment of receivables. This saves the extra cost of interest, as also the hassle of processing in the banks. It also provides the flexibility of discount rates and avoids follow-ups with customers on call. All one has to do is to just select the invoice to be released early with a discount offer.

In essence, a mechanism like this works well in the current scenario, where working capital norms have become stricter since April 2019, as the NBFC crisis has led to restriction in money lending. An alternative financing solution like C2FO is also helping the economic ecosystem to sustain for the larger segment of business in India and helping them grow.

On any given day, vendors from around the world have \$43 trillion tied up in accounts receivable. They wait an average of 60 days to be paid and have limited, inefficient financing options. Meanwhile, enterprises are maintaining record levels of cash on their balance sheets – cash that just sits there, earning record low returns. Using this technology to build a brighter future where enterprise cash works harder – for the enterprise, its vendors, and the world's economy.

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