How Sany is Managing Rapid International Growth

by Yaling Zhang, CFO, Sany International Development Limited

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Chinese multinational Sany International Development Limited is the world's sixth largest heavy machinery manufacturing company, headquartered in Changsha, Hunan Province. Sany was the first corporation in its industry to enter the FT Global 500 and Forbes 2000 rankings. The company has manufacturing locations across China as well as in Brazil, Germany, India, Indonesia and the United States, with around 38,000 employees worldwide. In this article Yaling Zhang, CFO, describes some of the initiatives that Sany's treasury function has implemented in recent years to manage the company's rapid international growth and support future success.

Optimising domestic and international liquidity

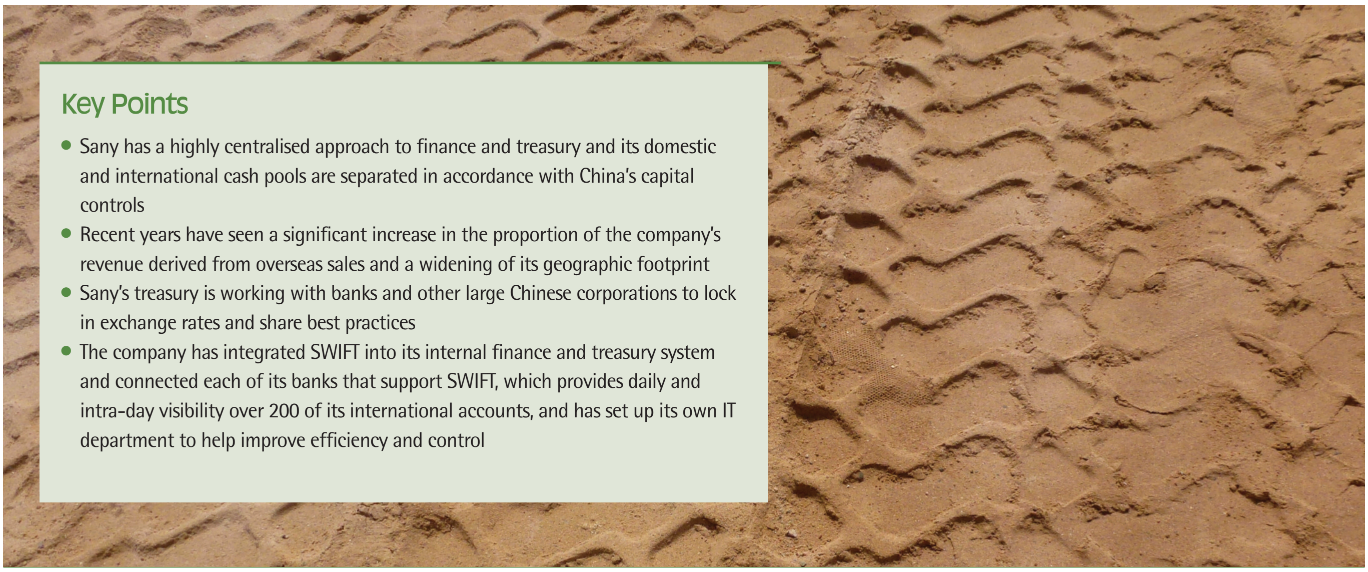
Sany has a highly centralised approach to finance and treasury. Cash management and financing takes place at our company headquarters on behalf of all business divisions and overseas subsidiaries, and allocates funds via group treasury which operates as an in-house bank. We operate cash pools both within and outside China, so when a business division receives funds, these are swept automatically to the header account held by group treasury. Conversely, if a business division needs to pay out funds, it submits an application to treasury, and on approval, the business unit pays the amount from their account creating an overdraft which is automatically funded from treasury. All payments are subject to monthly budget planning and management approval via a single system.

Given the capital controls that exist in China, we separate our domestic and international cash pools. Domestic cash is centralised in Changsha, while cash generated from countries outside China (that is not subject to foreign exchange (FX) controls) is centralised in Hong Kong. We also use intercompany trade to centralise cash that is subject to FX controls wherever possible. To connect our domestic and international cash pools, and therefore enable us to leverage liquidity more effectively across the group, we applied successfully to set up a cross-border foreign currency cash pool and an RMB cash pool. This allows funds to be transferred from Hong Kong to China, and vice versa, within the permitted quota.

Supporting international growth

One of the most important changes to our business over the past two to three years has been the shift in the proportion of our total revenue derived from overseas sales. In the past, only around 10% of sales were generated outside China, but over the last two to three years, this has increased to about one third. This is the result of our acquisition of Putzmeister three years ago, and year on year growth of around 30-40% since 2013, including both our domestic and international business.

It is not only the value of our international sales that has increased, but also our geographic footprint. Previously, our overseas trade was mostly concentrated in developed markets in the United States, Germany, Singapore etc. Today, with the demand for construction machinery increasing dramatically in emerging markets of Asia, Africa and Latin America, a rapidly growing proportion of our business is derived in markets that are beyond our traditional remit.



Key Points

- Sany has a highly centralised approach to finance and treasury and its domestic and international cash pools are separated in accordance with China's capital controls
- Recent years have seen a significant increase in the proportion of the company's revenue derived from overseas sales and a widening of its geographic footprint
- Sany's treasury is working with banks and other large Chinese corporations to lock in exchange rates and share best practices
- The company has integrated SWIFT into its internal finance and treasury system and connected each of its banks that support SWIFT, which provides daily and intra-day visibility over 200 of its international accounts, and has set up its own IT department to help improve efficiency and control

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To support our sales activities in these regions, and anticipate further growth in emerging markets, we have established relationships with a number of local and international banks. This gives us access to in-country and cross-border cash management services, but has also allowed us to expand our funding base. There are various implications of this. One is that we need to support trade finance models in each country, which adds complexity to cross-border trade. Second, we need to expand our international cash pool in Hong Kong to reflect the increase in markets and banking relationships. Exchange controls are more likely to apply in these markets than our traditional international markets, which makes it more difficult to centralise liquidity and manage our FX risk, problems that will be familiar to many multinational corporations.

We are therefore working with our banks, and other large Chinese corporations, to explore our options and share best practices. For example, we are collaborating with banks and corporations to lock in exchange rates, setting FX quotas with our banks, and working with other Chinese corporations when entering new markets to collaborate in exchanging local currencies.

SWIFT connectivity for cash visibility and control

There are also risks associated with managing cash internationally. For example, there are credit risks, as well as FX risks, associated with holding cash in local bank accounts. At the same time, we need to balance risks with supporting business growth on the other. We work with our banks to achieve this balance, using trade finance tools, such as letters of credit and alternative financing techniques. Settlement risk for payments and collections also differ in each country, particularly where significant political, economic or social risks exist, and again, this is an issue on which we collaborate closely with our banks.

While working with different banks creates opportunities, there are also challenges. In particular, communicating with each bank using different systems and in different formats is labour-intensive and results in fragmented processes and controls. In addition, it is costly and time-consuming to integrate these disparate bank systems with our internal finance and treasury system, CBS, which is provided by China Merchants Bank. As a business, we are seeking to use information technology to streamline, automate and increase control over our processes wherever possible. We recognised that SWIFT supported this objective by offering us the opportunity to communicate with our banks through a single global platform using a set of uniform standards, both for retrieving bank statement information and transmitting transactions.

We therefore integrated SWIFT into our internal finance and treasury system and connected each of our banks that support SWIFT connectivity. As a result, we are now able to monitor over 200 of our international accounts on a daily and intra-day basis. While not all our banks are connected to SWIFT, this is a minority, so we have visibility over the vast majority of our cash balances. In addition to monitoring and managing liquidity more effectively, we can use this intelligence to analyse our payment activities and counterparties whilst also reducing labour and material costs.

Future plans

We will continue to find ways to optimise our international cash management in an environment of changing political, social and economic pressures, and support future growth. For example, as our operations in emerging markets in Asia, Africa and Latin America expand and mature, we are looking to improve our operational and financial efficiency in each market. We continue to collaborate and learn from other Chinese multinationals on the best way to achieve this. Secondly, we are seeking opportunities to expand our use of sophisticated technology for cash and treasury management, including process automation, analytics and risk management. As part of this, we need to integrate our cash and treasury management systems more closely with our business systems which will streamline our payments, collections and cash forecasting processes. For example, by integrating our treasury system with our expenses management system, we will be able to initiate payments automatically on approval of the expense claim or receipt.

Sharing experiences

Although we have built up significant experience of cash and treasury management in China, and rapidly developed our expertise in international cash management, it is always important to learn from other individuals and corporations. This is part of our group culture, and it is a very valuable way of understanding and sharing best practices. Partly due to this collaboration, we have been able to introduce industry-leading systems and processes for financial planning and cash management, and while there is always further room for improvement in cash forecasting, we are now outperforming most other companies both within and beyond our industry sector.

As optimising our use of technology is a priority, we decided to set up our own IT department, as opposed to relying solely on the company IT department. Previously, it was difficult to prioritise cash and treasury management technology, and find the necessary industry expertise, but now we can invest directly in the tools we need, and collaborate with banks, vendors and SWIFT to improve efficiency and control, and build greater reporting sophistication. In the past, we mostly relied on in-house development of proprietary applications but we are now making greater use of third party systems which we are integrating with in-house systems. In some respects, we have lost some time, as we would have made progress towards our operational and financial objectives had we implemented and integrated SWIFT earlier, but we are now positioned to enhance efficiency and control and build a cash and treasury management function to support future business success. □

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Yaling Zhang is CFO of Sany International Development Limited, based in Hong Kong. Yaling joined Sany in 2005 and held a number of key positions in the financial division, including financial marketing and funds centre management. She received her bachelor's degree from the Chinese University of Hong Kong and a master's degree from Shanghai National Accounting Institute.