

THE STRATEGIC POWER OF BILL DISCOUNTING IN MANAGING CASH FLOW – FROM A CFO'S PROSPECTIVE



SYNOPSIS

In manufacturing, profitability on paper does not necessarily mean comfort in cash. Money can remain locked in receivables for months while the business continues to buy raw materials, pay wages and meet other operating commitments. Traditional working-capital facilities remain essential, but they are not always sufficient—or flexible enough—to respond to changing business cycles. In my experience, this is where structured Sales Invoice Discounting (SID) and Purchase Invoice Discounting (PID) can play a useful complementary role.

When properly structured, these facilities can bring cash forward from receivables, extend the payment window for purchases and make better use of the strength of underlying trade transactions. The objective is not simply to borrow more. It is to manage liquidity more intelligently.

1. THE WORKING CAPITAL DILEMMA

For a manufacturing company, cash does not move through the business in a straight line. It first goes into raw materials, then inventory, processing and finished goods. The company may subsequently give customers a credit period of 30, 60, 90 days—or even longer. During this entire cycle, the business still has to meet its own payment obligations.

This is why working capital remains one of the most important areas of attention for a CFO.

Cash Credit (CC) and Working Capital Demand Loans (WCDL) continue to be the backbone of working-capital financing. They are familiar, established and important. But they also have practical limitations. Drawing power, collateral availability, banking limits and leverage considerations can sometimes become constraints precisely when the business is growing or when the working-capital cycle changes.

There is, therefore, merit in looking beyond the traditional borrowing framework.

Structured trade finance can provide that additional layer. Unsecured Purchase Invoice Discounting (PID) and Sales Invoice Discounting (SID), when designed around genuine underlying transactions, can supplement regular working-capital facilities and bring financing closer to the actual movement of goods and receivables.

2. HOW SID AND PID WORK

SALES INVOICE DISCOUNTING (SID)

- Manufacturer supplies goods and raises an invoice.
- Eligible invoice is assigned to the financier.
- Financier advances a portion say 80–90% of the invoice value.
- Buyer pays the financier on maturity.
- The balance, after applicable charges, is settled to the manufacturer.

PURCHASE INVOICE DISCOUNTING (PID)

- Supplier ships raw material and raises an invoice.
- Manufacturer accepts the bill.
- Financier pays the supplier.
- Manufacturer receives an extended credit window.
- Manufacturer repays the financier at maturity.

The underlying principle is quite straightforward. Sales Invoice Discounting accelerates cash coming into the business. Purchase Invoice Discounting, on the other hand, helps manage the timing of cash going out.

Depending on the financier, transaction and eligibility criteria, Sales Invoice Discounting may provide an advance of around 80%–90% against eligible invoices. Purchase Invoice Discounting can similarly help finance raw-material purchases and defer the manufacturer's immediate cash outflow. For a CFO, the attraction is not the product itself. It is the ability to manage the timing of cash more effectively.

THE ARCHITECTURE OF 'OFF-BALANCE-SHEET' STRUCTURING



The term “off-balance-sheet” needs to be used carefully.

A structure does not become off-balance-sheet merely because a financier calls it invoice discounting. The real question is whether the relevant risks and rewards, or control, have actually been transferred and whether the transaction meets the requirements of the applicable accounting framework.

In a conventional With-recourse arrangement, the manufacturer ultimately retains exposure if the underlying customer fails to pay.

In a genuine non-recourse arrangement, the financier assumes the specified commercial credit risk, subject to the precise legal, contractual and accounting terms.

“Off-balance-sheet” is a structuring and accounting outcome—not simply a product label.

The legal documentation, transfer of risk, contractual obligations and applicable accounting framework must all be examined before concluding on the accounting treatment.

This distinction is particularly important for a CFO. A funding arrangement may look attractive from a liquidity perspective, but its accounting and balance-sheet implications must be understood before it is adopted.

WHERE THE STRATEGY CREATES VALUE

MONETISING BLUE-CHIP ACCOUNTS

A company may have a strong receivables book but still face a temporary cash-flow gap because customers take time to pay.

SID can allow eligible invoices raised on creditworthy institutional customers to be monetised earlier. In such cases, the strength of the counterparty can become an important part of the funding proposition.

The CFO is, in effect, converting the quality of the receivable into liquidity.

CAPTURING EARLY-PAYMENT DISCOUNTS

The other side of the equation is procurement.

If a supplier is paid promptly, there may be an opportunity to negotiate better commercial terms or an early-payment discount. PID can help the manufacturer make that payment without necessarily waiting for its own receivables to be collected.

The financing cost should, of course, be compared with the commercial benefit. But where the numbers work, this can turn financing into a business advantage rather than merely a funding expense.

NAVIGATING SEASONAL PEAKS

Manufacturing businesses are rarely uniform throughout the year.

There may be periods when inventory needs to be built ahead of a strong demand cycle, while customer collections come later. Bill discounting can provide additional liquidity during such periods without placing the entire burden on conventional overdraft or working-capital limits.

This can be particularly useful when the business opportunity is temporary but the need for cash is immediate.

MITIGATING BUYER-DEFAULT RISK

Where Sales Bill Discounting is genuinely structured on a non-recourse basis, specified buyer credit risk can be transferred to the financier.

That does not mean that every invoice or every risk disappears. The precise contractual terms remain critical. But where the structure is genuinely non-recourse, it can provide an additional layer of protection around the receivables’ portfolio.

5. WHY USE IT ALONGSIDE REGULAR WORKING CAPITAL?

Dimension	Traditional CC / OD	SID / PID Complement
 Collateral	Typically linked to stock, debtors and other security	Can be structured around eligible trade transactions and counterparty strength
 Scalability	May be constrained by drawing power and available collateral	Can increase with eligible underlying transactions
 Liquidity	Supports ongoing working-capital requirements	Can bring receivables forward or defer purchase-related outflows
 Growth	Additional growth may require higher borrowing capacity	Can supplement existing lines during growth or seasonal peaks

The point is not to declare one method better than the other. A sound working-capital strategy should use each source for the purpose for which it is best suited. Traditional banking lines provide the core funding base. Transaction-linked facilities can provide flexibility around that base. For a growing manufacturer, that distinction can be valuable.

6. THE CFO LENS: FROM BORROWING TO LIQUIDITY ARCHITECTURE

Over the years, I have found that the better question for a CFO is not simply:

“How much working capital can we borrow?”
The more useful question is:

“How should we structure our liquidity so that every rupee of available funding works efficiently?”
That changes the way working capital is viewed. Receivables, inventory, supplier credit, customer credit periods and banking facilities should not be considered as completely separate elements. They are parts of one cash-conversion cycle.

The CFO's role is to connect these pieces.

A combination of conventional working-capital facilities and transaction-linked financing can potentially deliver four important benefits:

- Preserve leverage and credit headroom
- Make better use of available collateral
- Scale liquidity with changes in business volumes
- Improve cash-flow metrics by converting eligible receivables into cash earlier

But there is an important discipline attached to this approach: financing should follow the economics of the business, not the other way around. A facility should solve a genuine cash-flow requirement. It should not be taken merely because additional liquidity is available.

CFO TAKEAWAY

THE SMARTER WORKING-CAPITAL STRATEGY IS NOT ALWAYS TO BORROW MORE.

IT IS TO MAKE THE EXISTING BALANCE SHEET WORK HARDER.

That, in my view, is the real strategic value of bill discounting.

Unsecured Purchase and Sales Bill Discounting, when properly structured and supported by genuine underlying transactions, can complement traditional banking lines. They can help shorten the cash-conversion cycle, align raw-material payments with operating cash flows, preserve the use of hard collateral and provide additional flexibility when the business is growing.

For a CFO, therefore, bill discounting should not be looked at merely as another financing product. It is better viewed as one component of a broader liquidity architecture—one that connects sales, procurement, receivables, supplier credit and banking lines into a more responsive cash-flow system.

Ultimately, good working-capital management is not about keeping the maximum amount of cash idle or borrowing the maximum amount available. It is about ensuring that cash reaches the right place, at the right time, at the right cost.



CMA Ashok Chawla

CFO, Avtar Steel Limited