Overall Winner

Best Working Capital Management Solution

Unilever

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Unique structured sales financing solution keeping Unilever's Middle East growth on track

The challenge

In order to grow its sales and market share, Unilever was seeking an intermediary who would be able to help mitigate counterparty and cross border risk while providing financing at competitive rates under extended payment terms requested by its new distributors.

Working with Citi, a receivables finance solution was sought that would help Unilever manage its sales more efficiently while enabling it to grow its distributors base by accessing new buyers in geographies considered higher risk.

As well as accessing low-cost financing, achieving off balance sheet treatment, and improving KPIs, Unilever also sought improvements in its own and its distributors' cash flow and working capital cycle. Further, Unilever wanted to ensure the receipt of timely payments, but at the same time extend payment terms for its key distributors.

The solution

In July 2019, Unilever and Citi launched a trade receivables finance programme secured by Standby Letters of Credit (SbLC) issued by Citi's partner banks that have relationships with Unilever distributors locally. Receivables sales are achieved by combining two existing products: SbLC and receivables discounting. Through this solution, the distributors' corporate risk appetite is replaced with existing FI appetite under the SbLC, whilst keeping the structure intact with non-recourse to Unilever.

The structure reduces risks related to key cross-border distributors, enabling Unilever to sell its receivables to Citi. Under a receivables sale, Unilever also transfers the SbLC rights to Citi. SbLCs act as an unconditional and independent guarantee that can be drawn in case of non-payment. To do this, Citi leverages its local partner bank relationships, with the issuing of SbLCs effectively allowing the substitution of corporate recourse for that of the partner bank. Unilever gains an enlarged corporate relationship base, where the provision by Citi of financing to non-clients in high risk markets makes traditional receivables discounting unfeasible.

A facility amount of US$50m forms the structured account receivables financing offer, up to 90 days tenor, on the back of SbLCs issued in favour of Unilever across Levant region, mainly Jordan, Iraq and Palestine (the next phase will include Saudi Arabia and Egypt).

Best practice and innovation

The solution is a working capital optimisation and risk mitigation tool that also serves to drive sales growth. It's core element, discounting SbLCs, is shown to be a powerful financing tool offering a number of tangible benefits, to both sellers and buyers, including liquidity, risk mitigation, balance sheet management and improvements to the cash conversion cycle.

Deal replication is applicable across all geographies and sectors, specifically in countries where the primary bank has a limited corporate client base but ample FI credit appetite. This solution could be of particular interest to corporates looking to improve their working capital metrics within their organisation where a concentration of sales is made via multiple distributors/partners.

Key benefits

- Drives sales growth, with Unilever able to access new markets and grow its distributor's base.
- Assuming full utilisation, the facility is expected to generate an additional US$200m spend for Unilever Middle East annually.
- Financing is off balance-sheet.
- Buyers enjoy extended payment terms and access to lower cost of financing which stays reflected as a payable versus debt.
- Solution structure is compliant with both US GAAP and IFRS requirements for asset de-recognition/off-balance sheet treatment.

Unilever wanted to grow sales and increase market share in a high-risk environment without putting pressure on working capital. We leveraged a procurement standby letter of credit which gives Unilever access to low cost financing and achieves off balance sheet treatment. This solution provides tangible benefits to both buyer and seller in terms of liquidity, risk mitigation, balance sheet optimisation, improved cash conversion cycle and payment efficiencies. The solution is applicable across all geographies and sectors especially where the bank has limited corporate credit appetite.

Rolla Geha, Corporate Trade Sales - Middle East, North Africa & Pakistan, Treasury and Trade Solutions, Citi

in partnership with citi

Unilever

Unilever is a leading global supplier of consumer goods across a wide range of home and personal care products and food categories, with a geographical presence in more than 190 countries. Unilever Middle East supplies to various distributors and retailers across the region, particularly in Levant and Saudi Arabia.