

# Supply Chain Finance Program for Al Futtaim Group

## Frequently asked questions



## Program Highlights

**As an initiative from the Vice Chairman / Group Finance, Al Futtaim Group is revising its standard payment credit terms to 90 days & end of month payment cycle for all suppliers**

To support and facilitate this change, AFG has introduced the Supply Chain Financing (SCF) program in partnership with two leading multinational banks (SCB & HSBC). Through this program a supplier has an option to obtain an early payment at a competitive cost of funds offered by two banks.

Benefits of enrolling in the SCF program are:

1. Greater control on the receivables and an improved working capital.
2. A simple, fast, and effective way to access funds with the ability to request early payments shortly after approval of the outstanding invoice(s) by Al Futtaim.
3. Early payments will reduce the need for borrowing.
4. Reduced finance costs since charges through SCF are typically lower than traditional cash flow financing.
5. Improved risk management.
6. Reduction in collection costs.

## Frequently Asked Questions

### 1) What is supply chain finance

- Supply chain finance (SCF), is a set of solutions that improves cash flow by allowing businesses to optimize supplier payment terms. Simultaneously, it provides the option for suppliers to receive early payment as soon as invoices are approved in return for a nominal finance charge. This frees up cash that would otherwise be trapped in a supply chain, enabling both buyers and suppliers to cash improvement.
- In addition to receiving early payment, suppliers will have improved cash flow forecasting
- All of this occurs without negatively impacting AFG or its suppliers' balance sheets.
- In summary, SCF is financing solution to support suppliers to offset the impact of longer payment period by facilitating early payments of approved invoices at a very competitive financing cost & with no recourse financing.

### 2) How does it work

- AFG has worked with two banks to provide a platform that creates a solution between AFG division buyers, suppliers and funders. It facilitates the exchange of payable information and the flow of funding using our existing SAP system with a few enhancements

### 3) What are the mechanics of how invoice and payments flow

- Supplier sends their invoice to the division following normal protocol
- Divisions approve the supplier's invoice and invoices are uploaded / shared with FSSC I2P as per normal protocol
- Once a supplier chooses whether to proceed with SCF, all invoices will form part for an early payment. This can be paid immediately after the invoice has been approved or any day leading up to maturity as agreed with the bank.
- When a Supply chain finance invoice is processed by FSSC I2P, through a system automation, the bank receives and processes the payment request for each invoice, then pays the supplier based on the agreed discount rate. The funds are transmitted directly to the supplier's bank account, by the bank on the agreed business day.
- For SCF suppliers, at invoice maturity i.e., the 90-day end of month agreed payment term, AFG will remit the related SCF partner banks for invoices paid on AFG's behalf.
- If the supplier has chosen not to opt for SCF invoice, AFG will facilitate payment as per normal process with the revised payment terms.

## 4) What are the accounting implications

- When executed properly, supply chain finance entries does not trigger any additional entries for AFG or the supplier. There is no proposed change to trade payables accounting

## 5) How often do suppliers participate in a supply chain finance program

- When properly communicated, suppliers should understand the importance of supporting AFG's drive to optimize its working capital position. Suppliers also value how supply chain finance offers visibility and the opportunity to improve their own working capital position by taking advantage of early payments offered at a favorable rate.

## 6) Who is responsible for supply chain finance customer service and support

- Both banks provides ongoing customer service and support for the program
- For onboarding Group Procurement will control the overall communication and relationship with the bank
- For operational invoice processing and sharing of payment files to banks, FSSC I2P will manage this process after intimation from GPD

## 7) How long does it take to get a vendor onboarded to a supply chain finance program

- From the day the supplier confirms participation on SCF program, on an average it will take 2 weeks for the banks to onboard the supplier on SCF. However, this might vary depending on the alignment and resources of the supplier and bank onboarding the program. Both bank have provided AFG with a detailed onboarding plan that clearly outlines tasks, timeframes, team members, milestones and critical success factors.

## 8) How will SCB and HSBC help us get started?

Both bank partners have experience in supply chain finance and will facilitate to streamline and simplify the process. They will identify and communicate directly with vendors while keeping internal stakeholders aligned and help clearly articulate the mutual benefit with suppliers.

In addition, they provide:

- Collaborative training of procurement teams to develop a joint go-to market strategy complete with customized supplier messaging.
- Digital on-boarding process for suppliers by using AFG vendor master data
- Global support across geographies and time zones that extends to funding capabilities
- The ability to sustain a program beyond just the largest suppliers to standardize terms and cash flow gains across the entire supply chain.

## 9) How does this impact our IT infrastructure

- There is very little impact on your IT infrastructure or team. EIT has facilitated all integration easily with our existing ERP system.
- PRD has not been considered for the migration

## 10) Who in our organization will need to be involved and trained

- Procurement team has aligned and will lead the goals of the program. The treasury, finance and procurement teams have agreed-upon objectives prior to execution. Part of this alignment involves assuring the respective team is properly trained and equipped to be successful. There has been an extensive session and support program during the first 9 months to assure success of this project.

## 11) Who benefits from supply chain finance?

All parties involved i.e., Al Futtaim, Banks & participating suppliers get benefitted from the SCF program.

- Group can extend credit terms days to maximize commercial value & cash flow for the group at zero cost to the group while enhancing supplier relationship and loyalty.
- Suppliers offset the impact of longer payment period by getting early paid for approved invoices at a very competitive financing cost & with no recourse financing.
- Banks will be benefitted on the interest rates they charged on invoices they finance for suppliers on behalf of the Al Futtaim group.

## 10) How much does supply chain finance cost for suppliers?

Al Futtaim group will not charge the suppliers for the invoices financed through partner banks. However, banks will deduct a small percentage from the invoices they finance for suppliers. Below is an **indicative** working for the charges the suppliers can expect for invoices paid through SCF program:

Discounting charge calculation = (Benchmark rate + margin) \* (tenor / days of year) \* invoice value

Invoice value is AED100,000

Margin Pricing: 0.7% PA

3 months EIBOR (Emirates Interbank Offered Rate) (approx.) 2.4 % pa (**fluctuating rate**). (3 months EIBOR can be checked on the internet for current rates)

Discount interest: 2.4 4.85% + 0.7% (**fixed rate charged by partner bank**) = 3.10 5.55 % PA

Payment Tenor is 90 days

No of days in a year: 365

Discount charge:  $(3.10\% * 100,000 * 90) / 365 = \text{AED } 764.38$

Payment amount: AED 100,000 – AED 764.38 = **AED 99,236**

## **13) How can a vendor apply for a supply chain finance program?**

All nominations must be submitted to Group Procurement Department on the dedicated email ID [SCF.Suppliers@alfuttaim.com](mailto:SCF.Suppliers@alfuttaim.com) created for enrolment on the SCF program. GPD will validate the request & send the nomination to Vendor management team in APSSC who in turn will send the nomination to the respective bank partner.

Bank will onboard the supplier on SCF platform & confirm the same to Al Futtaim group, post which all invoices for the supplier will be processed through the partner bank.

## **14) How can I get an exempt from the revised payment terms of 90 days end of month?**

This is Group's decision to uniform the payment terms to 90 Days (end of Month) for all the suppliers and any exception to this need to be approved by the Group Chief Finance Officer (CFO) & CPO (Chief Procurement Office)

## **15) What happens to the T&C's in my existing contract?**

Business need to handle this and if required an addendum to an existing contract may be created with updated credit terms.

## **16) What if I have already taken an exception between 2020-2022?**

Such suppliers were excluded from this exercise, however if they were included then previously approved exception holds good and they can be excluded.

## **16) Does a supplier have option to not participate on the SCF program?**

Yes, enrollment to the SCF program is completely voluntary for suppliers as it is offered to them as an assistance to manage their cash flow and avoid the impact of longer payment period.

## **13) Will suppliers be able to pick & choose invoices they wish to be financed?**

No, the program is non-elective meaning if supplier opts for the SCF program, then invoices for that suppliers will be processed early through the partner banks.

## **18) How often will the vendor get paid?**

Once opted for SCF program, vendor will get paid immediately after the invoices are approved from Al Futtaim & sent to the bank partner as against the current end of month payment cycle