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The auto component manufacturing industry provides ideal opportunities for Absa Working Capital Solutions to optimise the cashflow cycle of auto component manufacturers. Such solutions are critical in an industry where manufacturers are under pressure to compete against low-cost imports, and to comply with demands by Original Equipment Manufacturers and Tier 1 Supplier to reduce costs.

A tailored working capital solution encourages a manufacturer to streamline its internal operating processes. This will place it in a position to take advantage of early settlement discounts and identify cases where funds, which can be better used for investment or to fund growth, are idling in debtors or stock. Very often manufacturers resort to overdrafts or term loans to fund cash deficits and working capital, but while this may be convenient, it is neither cost-effective nor sustainable.

Traditional solutions offered by AWCS include invoice discounting, debtor factoring and loans against import/export orders. Depending on the strength of a client’s debtors, AWCS can immediately advance as much as 80% of the value of an invoice, once the work has been done and the goods have been delivered

International research shows there is an increasing reliance on funding secured by a debtors book. This is because the creditworthiness of a debtor’s book can be ascertained regularly and objectively, which reduces financing risks. In addition, this type of finance is self-liquidating and can fluctuate with business needs.

Auto components are generally manufactured on a just-in-time basis for orders secured by Original Equipment Manufacturers or Tier 1 suppliers. In addition, auto component suppliers generally have quality assurance systems in place and are often benchmarked on quality against their peers. These two factors enhance the attractiveness of the industry for AWCS as:

* A quality and reputable debtor base can be established
* The risk of the auto component manufacturer not performing to the debtor’s standard has been mitigated by quality assurance and the OEM selection process
* The facility offered to the auto component manufacturer is matched against an order received from a quality and reputable OEM or Tier 1 supplier.

For more information on our Working Capital Solutions, email us on workingcapital@absa.co.za or call 011 242 5656.

