



LIQUIDITY MANAGEMENT

Vitesco Technologies frees up CNY 2 billion with cash management solution in China



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Following a transformation to become an independent entity, Vitesco Technologies implemented an award-winning, comprehensive cash management solution with unique host-to-host connectivity to rebuild its infrastructure and facilitate seamless, paperless processing of bulk cross-border payments.

About

Headquartered in Regensburg, Germany, Vitesco Technologies is an automotive supplier of drivetrain and powertrain technologies. It was formerly known as Continental Powertrain, which was founded in 2019 as a spinoff company from German automotive-parts maker Continental. Vitesco Technologies has 40,000 employees and generated revenues of 8 billion euros in 2020.

China is a key market for Vitesco Technologies, which opened its regional headquarters in Shanghai in March 2021. It operates several production, research and development sites across the country with its latest R&D facility in Tianjin established in November 2021.

The challenge

After its spinoff from Continental Powertrain, Vitesco Technologies became a fully independent entity that had to rebuild its cash management infrastructure from scratch, and it needed to do this within a short period of time as per its transition agreement with Continental Powertrain. In addition, Vitesco had high levels of idle cash in China. Despite strong revenue in the market, China's strict regulatory requirements governing cross-border movement of funds prevented the organization from seamlessly transferring surplus funds back to its headquarters in Frankfurt. Hence, Vitesco desired a cash management solution that would enable the firm to facilitate the mobility of funds in and out of China seamlessly.



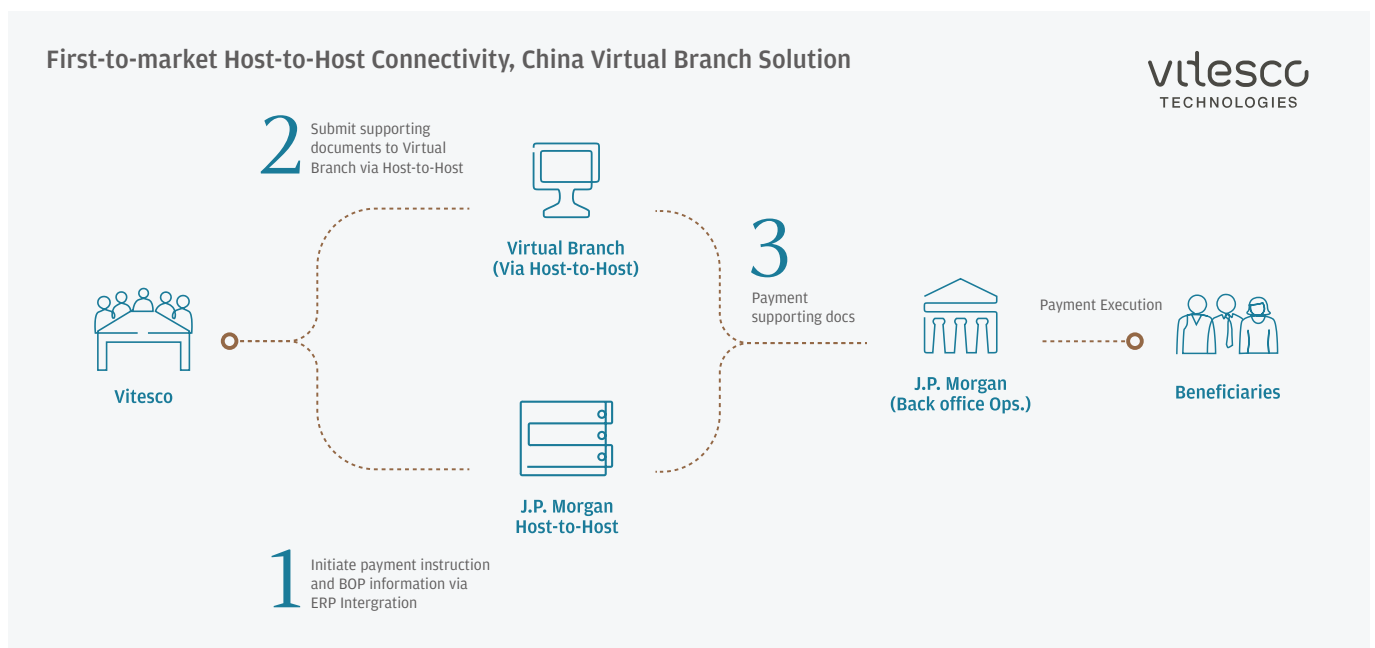
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The solution



- **Host-to-host connectivity mechanisms:** The solution boasts two host-to-host (H2H) connections between Vitesco Technologies' ERP and J.P. Morgan's Access banking platform. The first one enables the end-to-end automated delivery of payments instructions and reports through to the bank's Virtual Branch, while the second is a first-to-market H2H connectivity in China that enables the transmission in bulk of supporting documents, a regulatory requirement for all cross-border payments by corporates in China. The unique offering means the process for cross-border transactions is now completely paperless and the bulk process further enhances efficiencies.
- **Cross-border sweeping:** With the H2H connectivity - part of J.P. Morgan's proprietary model of using artificial intelligence (AI) to monitor cross-border transaction data - Vitesco Technologies is now well positioned to be eligible for the China's Cross-border Simplification Program, a new initiative by regulator State Administration of Foreign Exchange. Companies accepted under this program are no longer required to submit supporting documents to effect cross-border payments, so long as they have a banking partner with a demonstrated ability to properly govern these transactions and with the appropriate controls in place.
- **Cash pooling:** The structure involves a Renminbi (RMB) domestic cash pool to concentrate all the surplus cash of the four Vitesco Technologies entities in China, so their funding needs can be managed centrally. And to enable the seamless transfer of funds between the Chinese entities and Vitesco's headquarters in Frankfurt, a special account compliant with central bank regulations was set up in Shanghai, connecting the RMB domestic cash pool to the group treasury in Frankfurt via a cross-border sweeping facility. While the sweeping facility was being put in place, Vitesco Technologies managed to secure a special arrangement with J.P. Morgan to provide lending to its headquarters to cover any urgent cash needs until the sweeping capability was activated.



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“Through our banking relationship with J.P. Morgan, we have quickly set up a comprehensive and independent cash management infrastructure, which has allowed us to improve our operational efficiency and concentrate our domestic liquidity in China, allowing our HQ access to the cash for funding as required.”

-Jeremy Zhu, Head of Central Finance and Controlling, Vitesco Technologies China

The Results

With the solution, close to CNY 2 billion in trapped cash has been mobilized from China via cross-border sweeping since the solution went live in May 2021. Other benefits include:

- **Quick and seamless migration** after a spinoff to a full and complete cash management infrastructure covering payments, collections and liquidity management consisting of domestic and cross-border pooling structures
- **Flexible and multiple cross-border funding arrangements** available to support funding requirement of its headquarters
- **Improved visibility** with the ability to track cash balances and intercompany positions in real time
- **Enhanced efficiencies** due to fully digitized and streamlined payment processes, freeing up manhours and resulting in cost savings

“Corporate spinoffs can often be very challenging, but Vitesco Technologies demonstrated treasury excellence by putting in place an efficient cash management structure within an extremely short period of time to minimize business disruptions. With J.P. Morgan’s solution, Vitesco can seamlessly move funds between its domestic entities in China and to its group treasury in Frankfurt, while ensuring efficiencies in the cross-border payments documentation process.”

-Rani Gu, Head of Payments for Greater China, J.P. Morgan

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