TEXHONG TEXTILE GROUP

World’s First Automated Cross-border Sweeping Structure from China

Global cotton textile producer Texhong’s growth was inhibited by the need to manage its Chinese liquidity separately from its overseas working capital requirements. To solve this, Citi established the world’s first automated cross-border sweeping structure from China. As a result, Texhong is now the only Chinese company with the ability to automatically mobilize cash generated in China to their global subsidiaries on a same-day basis – achieving a significant advantage over the competition.

The Challenge
Texhong Textile Group (Texhong) is one of the largest cotton textile producers and distributors of high quality core-spun yarn and fashion cotton textiles globally. A listed company, it is one of China’s top 10 enterprises in the cotton textile industry. Since the group was founded in 1997, it has grown rapidly with more than 1,600 customers internationally, and a sales network extending across China, Europe, South Korea, Hong Kong and Bangladesh.

Yet this growth created certain cash management barriers for Texhong. Similar to many Chinese companies, Texhong historically managed domestic liquidity and overseas working capital requirements separately, largely due to the restrictive regulatory regime governing cross-border flows of renminbi (RMB). Doing this, however, meant that it was unable to use excess cash from its domestic operations to fund the working capital requirements of its overseas subsidiaries – which was not only fragmented, but highly inefficient.

Unsustainable in the long-term, this operating model also exposed Texhong to significant risks, such as rising costs and increased interest rates. It was clear that the priority was to not only mitigate these risks, but also establish an efficient cash management solution that could keep pace with and aid Texhong’s ambition.
The Solution
The opportunity to improve cash management efficiency arrived in July 2013 with the onset of the People’s Bank of China’s (PBoC) cross-border RMB initiative, which, for the first time, allowed Chinese companies to lend RMB to overseas affiliates. Partnering with Texhong to improve liquidity efficiency, Citi leveraged this opportunity to implement a first-of-a-kind cash management solution, enabling Texhong to move RMB deposits across borders so that its successful domestic business could fund working capital requirements of business units overseas.

While the PBoC’s initiative allowed RMB cross-border lending, it was still on a manual basis and required administrative effort from Texhong. Citi, however, was able to explain the company’s challenges and assure PBoC that even with an automated structure in place, it would be able to provide Texhong with full visibility and control over transactions, and ensure that the movement of funds is compliant with regulations.

In November 2013, Texhong implemented Citi’s cross-border auto sweeping solution, the first-ever RMB automated sweeping structure implemented by a Chinese company (Citi had implemented the world’s first RMB automated sweeping structure for an international shipping company in October 2013). Citi helped Texhong integrate this solution with an RMB cash pool that it had already established.

The Results
Citi’s market-leading solution allows Texhong to combine its overseas and domestic structures – with significant benefits in terms of both cash management efficiency and reductions in external funding costs and exposure to interest rate-related risk. Texhong is now the only Chinese company with the ability to automatically mobilize cash generated in China to their global subsidiaries on a same-day basis – achieving a truly competitive advantage over other companies with the same trade flows. Specifically, the cross-border auto-sweeping solution has enabled the company to enhance their treasury operations in the following areas:

- **Reduce external funding costs:** With the ability to optimize liquidity on a daily basis, Texhong has eliminated the need to borrow externally to support day-to-day working capital needs.
- **Global optimization:** By integrating the domestic and the global liquidity structure, Texhong is now able to utilize excess cash positions in China to fund global expansion.
- **Operational efficiency:** Automation provides Texhong with operational efficiency. Enhanced liquidity reporting with balance information increases treasury visibility.

This is a milestone solution in the development of RMB internationalization. It increases the importance of RMB in global cash management for Chinese companies that are expanding globally, and will, in turn, facilitate the usage of RMB cross-border trade settlement internationally.

“We have a centralized treasury function in China responsible for global cash and treasury management. Since implementing a domestic RMB cash pooling structure five years ago, we have focused on improving treasury efficiency and optimizing working capital to facilitate the company’s growth strategy. As the business expands internationally, we were seeking to implement a global liquidity structure that would support our ongoing funding requirements both domestically and overseas. Citi offered us an automated cross-border sweeping structure, which is integrated with our domestic cash pool. This was a unique proposition which has allowed us to manage global working capital funding needs efficiency and significantly reduce our external funding costs overseas. In addition, we have gained better visibility and control over transactions and ensured regulatory compliance.”

Charles Hui, CFO, Texhong Textile Group