



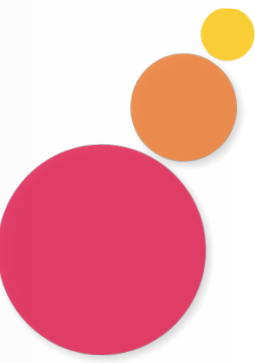
CASHFLOW

THE LIFELINE OF EVERY SME

**Profit is an accounting result.
Cashflow is economic reality.**

SMEs generally fail not because they lack revenue, but because they fail as they may have mismanaged liquidity, solvency, and working capital cycles.





1. PROFIT VS CASHFLOW

A CFO-LEVEL DISTINCTION

Profitability (Accrual-based)

Revenue – Expenses

(incl. non-cash charges like depreciation, amortization, provisions).

VS

Cashflow (Liquidity-based)

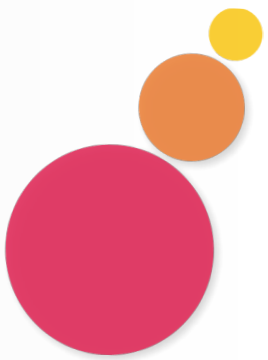
Net movement of cash & equivalents across:

- Operating Activities (OCF)
- Investing Activities (ICF)
- Financing Activities (FCF) (As per IAS 7 Cash Flow Statements)

Example:

An SME shows positive EBITDA but collapses if $DSO > DPO + \text{Inventory Days}$.





2. THE LIQUIDITY GAP IN SMES



Gaps:



SMEs often run negative Net Working Capital (NWC):

$NWC = \text{Current Assets} - \text{Current Liabilities}$

Healthy corporates aim for **NWC ratio 15–25% of sales**; *SMEs average <10%*.

SMEs typically maintain cash buffer < 30 days: **best practice = 90–120 days**.



In GCC markets:



DSO (Days Sales Outstanding): 90–120 days.

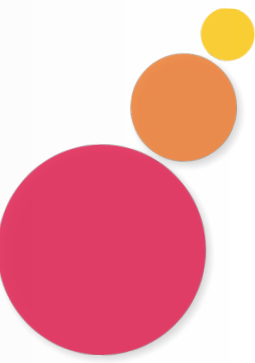
DPO (Days Payable Outstanding): 30–45 days.

Inventory Holding Period: 45–60 days.

Cash Conversion Cycle (CCC) = DSO + DIO – DPO

Longer CCC = higher liquidity stress.





3. TECHNICAL RED FLAGS OF CASHFLOW STRESS

 **OCF < EBITDA consistently** → indicates working capital leakages.

 **Interest Coverage Ratio (EBITDA ÷ Interest Expense) < 2.0** → insolvency risk.

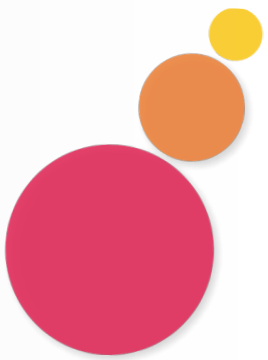
 **Current Ratio < 1.0** → short-term obligations exceed assets.

 **Cash EBITDA vs Reported EBITDA variance > 20%** → accrual distortions.

 **Repeated delays in bank-to-book reconciliation.**

These are CFO-level warning indicators of impending cash crunch.





4. THE STRATEGIC COST OF WEAK LIQUIDITY



- **Creditworthiness:** Banks tighten covenants, demand collateral.



- **WACC Impact:** Cost of capital rises due to higher credit spreads.



- **Working Capital Erosion:** Shorter supplier terms, worsening CCC.



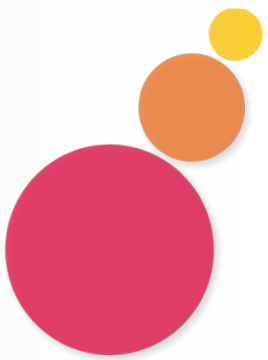
- **Growth Optionality Lost:** CAPEX, R&D, M&A blocked by funding gaps.



- **Compliance Penalties:** Missed VAT/Corporate Tax deadlines increase exposure.

Weak cashflow destroys both operational resilience and enterprise valuation.





5. COMMON CASHFLOW MISTAKES BY SMES

1 Overestimating receivables (**ignoring IFRS 9 Expected Credit Loss provisions**).

2 **Lack of budgetary control** → variance between planned vs actual OPEX.

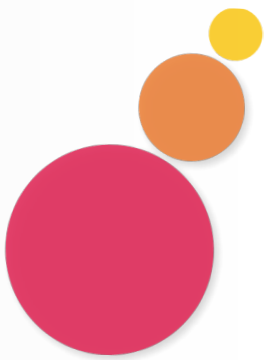
3 **No short-term liquidity forecast** (13-week rolling standard).

4 **Ignoring hedging strategies** against FX or interest rate risks.

5 Growth pursued without capital adequacy → **over-gearing balance sheet**.

SMEs treat cashflow as compliance — instead of as a strategic treasury function.





6. WHY CASHFLOW DISCIPLINE CREATES SHAREHOLDER VALUE

SMEs with cash discipline achieve:

3x Higher survival rates in downturns.

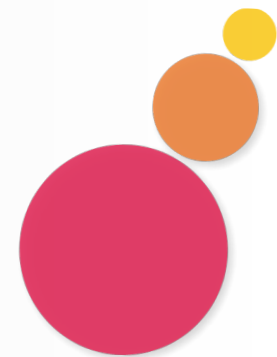
20-30% Lower interest spreads on loans (better risk ratings).

25-40% Faster CCC through receivable/payable optimization.

>1.5 Improved DSCR (Debt Service Coverage Ratio) > 1.5, boosting creditworthiness.

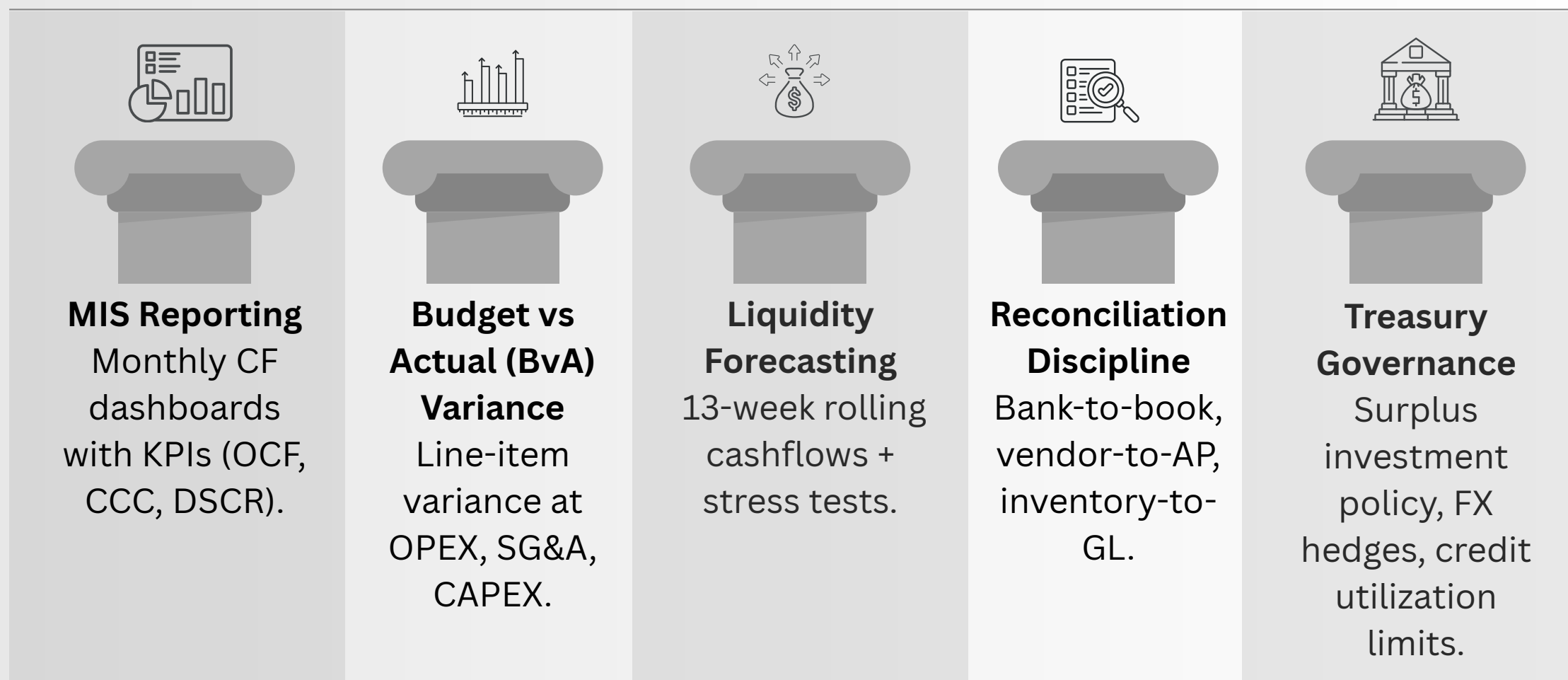
Predictable cashflow = stronger valuations, easier fundraising, higher exit multiples.





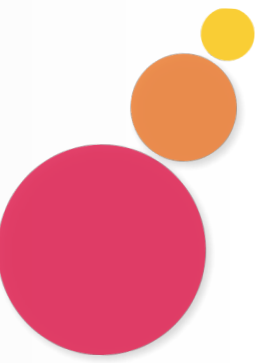
7. **PILLARS OF CASHFLOW**

RESILIENCE (TECHNICAL FRAMEWORK)



Resilient SMEs integrate treasury controls with board-level reporting.





8 ■ CASHFLOW AS A STRATEGIC LEVER



Expansion Strategy:

Adequacy of reserves for CAPEX & market entry.



Funding Strategy:

Adequacy of reserves for CAPEX & market entry.

Cashflow dictates



Risk Buffer:

Shock absorption for tax changes, interest hikes, demand dips.

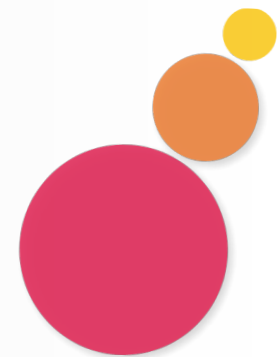


Dividend Policy:

Balancing shareholder payouts with reinvestment.

Liquidity determines whether profit translates into sustainable growth.





9. THE FUTURE OF SME LIQUIDITY MANAGEMENT



ERP Treasury Modules

Integrated AR/AP, bank feeds, auto-reconciliation.



Open Banking APIs

Real-time cash positions.



AI Forecasting

Predictive DSO, FX exposure, interest cost modelling.



Investor Demands

Cashflow visibility > EBITDA in DD processes.

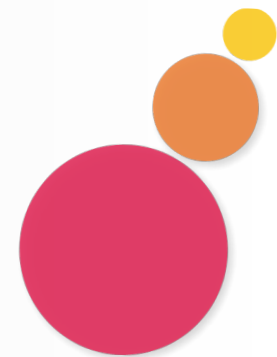


RegTech

Automated compliance with VAT/CT filing to prevent penalties.

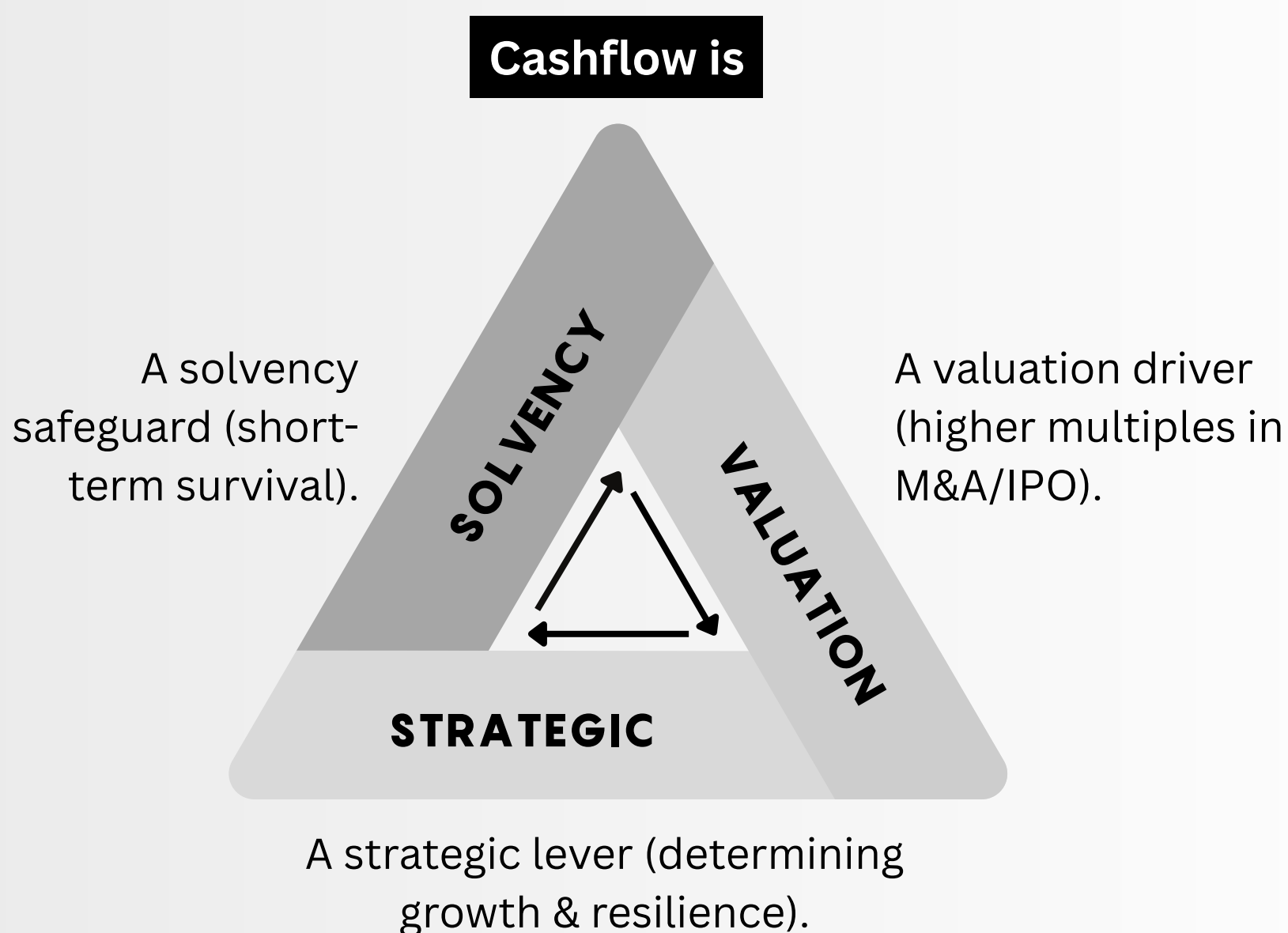
SMEs adopting digital treasury early will command investor trust & better capital access.





10.

CLOSING INSIGHT

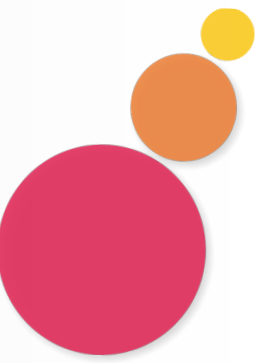


For SMEs, the equation is simple:

Profit without Cash
=
Insolvency Risk

Cash with Discipline
=
Sustainable Growth





11. THE MCA ADVANTAGE

With 16+ years of GCC finance advisory experience, MCA ensures that financial systems don't just meet compliance—but enable growth.



Our Expertise:

- Fractional CFO Services
- Cashflow Modelling & Forecasting
- Treasury & Liquidity Governance
- ERP / MIS Automation
- Compliance Health Checks



Our Edge:

- Proven track record across UAE, KSA, Oman, Qatar, Bahrain.
- Practical, hands-on approach—not just advisory, but execution.
- Trusted by CFOs, boards, and investors for structured financial clarity



LET'S TALK ABOUT YOUR

CASHFLOW STRATEGY



Empowering SMEs with Fractional CFO & Treasury Solutions.



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