CEO LOUNGE

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The Anatomy of Rebuilding & Recovery

A CEO LOUNGE INITIATIVE

The King's Gambit

Cash may still reign, despite the rain

In conversation with

Anand Vora
Global CFO, UPL

Harshal Kamdar
CFO, Sequoia Capital

Kabir Ahmed Shakir
CFO, Tata Communications

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Sanjay Gupta
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The King's Gambit

The finance function of most organisations viewed cash and profit through the same lens until recent times. Managing liquidity was horse sense, and controlling credit was strategic. The pandemic set off dominos that are still falling — almost two years later. Companies have changed approaches, sat-up and tweaked operating cash flows by cutting capital expenditures, whittling down inventories and halting plans. If this is battle, the warriors who have held ground are the ones who have defended their cash positions, and used them to stay afloat, move forward and even emerge victorious. Some of the best finance wizards across industries come together to discuss the reign of cash, the king.

Words by **Divya Sista**

"One who wishes to fight must first count the cost"

- Sun Tzu, *The Art of War*

The first and second waves of Covid-19 affected the economy in different ways. Uncertainty, a stretch on both demand and supply, marred the economy during the first wave. The second wave, however, saw businesses adapt better, aided by technology interventions that eased a few challenges, and the government facilitating credit. The environment of financial demand, though, remained critical — working capital needed controls in varying degrees, and the cash line turned into a nerve centre. Both tact and strategy became important. Organisations developed a cash conservation culture, with most business decisions and operations centred on it. Organisations that were nimble and agile gained from this crisis opportunity. With spend control, prioritisation of payments, and optimising flows taking the front seat, cash preservation was possible without compromising on deliverables and quality. With no sight of the pre-pandemic times and a threat of a looming third wave, companies are adjusting to this dramatic yet real view of balance sheet austerity.

HOW CASH, THE KING, HELD THE FORT — LOOKING FOR A PELE[1]

No one messes with cash. It is important for businesses of all sizes across all industries. The size of the company — measured by the size of its cash box — mattered. It meant smaller companies had lesser time and margin to play through the frenzy. The cash cushion turned into a straw mat overnight.

"We have never witnessed a crisis of this magnitude. Most of the disruptions we have been through so far, be it the Asian currency crisis, the dotcom bubble burst or the financial meltdown, were restricted to a particular segment, industry or geography. But this one has hit us *all* and hit us hard — a few industries disproportionately so. From Olympics and Wimbledon being cancelled [last year] to schools shut down worldwide, and travel coming to a grinding halt, we entered the second decade of the new millennium in crisis mode. This is why, it is more important than ever to understand that if we are confused about the situation, we are on the right track. Every CXO today has to look beyond his territory, have long-term goals even if they seem unreasonable, and everyone must have a clear view of the balance sheet no matter their functionality. Put your foot down and refuse to be myopic," asserts Kabir Ahmed Shakir, Chief Financial Officer, Tata Communications.

Cash flow management, too, is vital. Historically, financial crises have

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demanded strong cash positions, and this starts with an intent to preserve cash.

"When things are moving at a sonic speed around us, with one change in a regulation having a butterfly effect across industries, everyone is impacted. Revenues are strapped, and globalisation has taught us that sticking to first principles always help. Preserving capital should come naturally to us — whether our approach to managing the cash flow is conservative or aggressive. The two key factors here are managing risk and protecting the brand image. They might seem contradictory, but actually, go hand in hand when managed judiciously. This is a great time to push our creative limits in finance. Given the nature of the function, there has been little room for rethinking the status quo. New ways of working, and with every team from logistics, to marketing, to operations looking at their work in a new light, not losing focus on finance is an innovation in itself," explains Anand Vora, Global CFO, UPL (formerly United Phosphorus Ltd).

Planning is always a Herculean task, especially for finance professionals used to playing with numbers and measurable metrics, where accuracy and precision matter. But with every business continuity plan hitting the rocks, planning cycles turned unpredictable.

"Three months into the pandemic, most of the experts' view was that this was not a financial crisis, but a humanitarian-health crisis. The trickle-down effect was inevitable, and soon chaos struck everything in sight. Experts no longer knew how long it would last, or which part of the tunnel we were in with no light in sight. If one thing was clear, it was the fact that the way we operated today would determine how we exist tomorrow. Agility and responsiveness became beacons that moved us forward in everything — making sure liquidity was available, processes and compliance were working seamlessly in the background, and even raising capital. Command control and objectivity were replaced by value creation and a robust response line. The concept of fixed costs vs variable costs transformed into every cost being looked at from an objective value-addition angle," says Manas Datta, CFO, Wockhardt.

THE KING'S ARSENAL — BUILDING A CASEMATE[2]

With stock markets crashing, crypto markets plummeting, and oil burning, investors worldwide sought refuge in cash. Globally, money markets experienced higher cash inflows, indicating investors were shifting their reserves.[3] Organisations could not sit back and observe. In calculating numbers, there was also a need to cultivate a positive cash-centric culture, to which an underrated yet crucial factor was vital — communication.

"Communication is key. Finance folks have to maintain a clear communication protocol that is not harsh, but necessary. Depending on the industry, company goals and preferences, a holistic view of business capital, social capital and human capital must be taken into account. We cannot compromise on other fronts to just focus on business capital alone, simply because the other two have hard-hitting impacts on the cash flows as well. Chasing sales is great, but the top line must stay intact," says Vora.

The crisis quickly emerged to be one on multiple fronts because the economic wheel came to a halt, attacked both the health and wealth of individuals and organisations alike. A cash culture intrinsically promoted cash preservation, and like every crisis, it needed clear messaging — from ways to understanding cash behaviour, to arresting revenue leakages, to highlighting best practices in cash management.

"Unprecedented times call for unprecedented measures. Our finance tribe is known to be great with numbers, pointing out where the problem lies, but we lack the art of storytelling. We have the depth and a sense of objectivity which gives us an insight into everything in the organisation like no one else. If we could use this intelligence to capitalise on the softer aspects too — human

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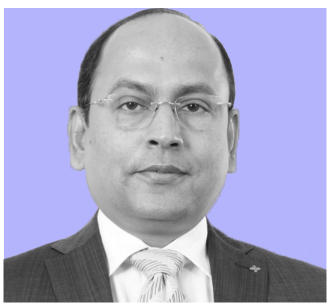

"If the balance sheet is skewed to being capital heavy, it affects agility. Maybe we should look at new metrics of staying nimble like the net working capital being tied to sales... We essentially need to look for sinkholes, where cash is stuck and address them"

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CFO, Wockhardt

capital and other intangibles — we have potential to catapult the organisation into the next orbit," says Harshal Kamdar, CFO, Sequoia Capital.

In the attempt to stay afloat, sometimes it is best to do nothing. Or do something with what is available.

"The concept of cross-functionality has never been better highlighted. Everyone pitched in their best to rise up and get cash. We got back to brass tacks and shifted focus from profitability to preservation. We also relooked existing metrics and interpreted the balance sheet differently. For instance, we made a movement from gross merchandise value to gross margin — two seemingly different metrics, but it helped us plan cash cycles better," adds Kamdar.

Despite first principles being similar across industries, the pandemic has hit some disproportionately. This has called for measures that required contrasting scenario planning and cash management. Unexplored avenues that held a possibility to unlock any semblance of value were desperately explored, accounting principles rechecked, and balance sheets were scrounged for anything that could be of help.

"We had a dedicated team for advocacy — working with the government at various levels, requesting guidance, negotiating and handling all the initial chaos and confusion. Some industries are inherently capital intensive, and these typically require handholding in asset management measures like — waivers, restructuring and liquidity support from the government to survive. We started with an inward-looking approach simultaneously — signing agreements with vendors, collaborating with stakeholders — looking for any direction that could lead us to conserve cash. Cash flows were examined — fresh capex was put on hold, AMCs were shifted, consultants and retainers were negotiated. We explored clauses in every single payment, small things that put us ahead of the curves," says Nitin Khanna, CFO, Inorbit Malls.

"We have adopted a structured vendor management where we prioritise payments on a need-based system — farmers, small suppliers and MSMEs with pressed cash cycles get paid first"

Sanjay Gupta
CFO, Mother Dairy

Small changes that seemed insignificant during normal times paid off.

"Each crisis teaches us something new. That is how we evolve. While this is both a business challenge and an accounting challenge, finance is the only function which has end-to-end visibility," explains Shakir.

"As the popular adage goes, sales is vanity, profit is sanity and cash is reality. This has underscored the importance of everyone in the organisation looking at the P&L and cash flow statement. In a crisis, it is not profitable but liquid companies that survive. This will lead to automatic changes at the granular level — asking a particular business function if they could replace payment with a guarantee or could defer a certain payment by a month," Shakir adds.

This has also been a time to seek opportunity in chaos for a few. Fresh launches that met the adaptive demand of the pandemic were a hit. While preservation could not be compromised with, products that were in line with the current consumer sentiment could not be put off either. This balancing act proved to be an extremely challenging one.

"Our industry despite being in the essential commodities segment had mixed impacts. While bulk sales declined by 10-12 per cent, household consumption increased. We focussed on a channel shift and launched products that fit in the health and wellness bandwagon and household convenience, like packaged foods. We also looked at this as an opportunity to explore digital marketing channels and focussed on subsidiaries that had potential to rake in more revenue," informs Sanjay Gupta, CFO, Mother Dairy.

BATTLE STRATEGIES AND WAR WINS — RAISING A PIQUET[4]

The second wave of Covid-19 has hit the country hard, but most organisations proved resilience on both, business and financial fronts. The IT industry has more or less settled into working remotely, and the service sector, which constitutes a huge chunk of the country's GDP, has coped up with innovative ways to deliver. However, there are questions with a sullied

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monsoon affecting agriculture, and increasing unemployment among other factors impacting consumption. If industry and workforce have to brace themselves for a probable third wave, they need to stay agile on their cash optimisation game.

"Sure, cash is king. But is it a regent, paranoid or the cautious kind? Earlier all capital expenditure was pumped into new businesses. But if the balance sheet is skewed to being capital heavy, it affects agility. Maybe we should look at new metrics of staying nimble like the net working capital being tied to sales, or new ways of raising capital through factoring, reverse factoring or defining inventory levels. We essentially need to look for sinkholes, where cash is stuck and address them," says Datta.

Organisations are also looking at new ways of vendor/supplier management, priority-based payment structures, and order management systems to manage cash. Intangibles like goodwill and reputation have also been capitalised by extending it to the larger ecosystem by providing access to funds to smaller vendors who otherwise lack institutional credit.

"We have adopted a structured vendor management where we prioritise payments on a need-based system — farmers, small suppliers and MSMEs with pressed cash cycles get paid first. We have also connected with dairy farmers and mobilised payment cycles for them by facilitating bank linkages since we have the capital and backing," says Gupta.

Optimising cash flows and new ways to prioritise expenditures have not been a deterrent on capex for larger organisations that help them with the need of the hour with promising returns, like technology or digital transformation. The trickle-down effect on the whole ecosystem might do everyone good.

"Many MSMEs are still not digitally-savvy because they get by with whatever they can do. They have adopted digital payments but to make the entire landscape digital, we need to evolve. Maybe we could look at every cost through a simple good-cost-bad-cost approach and sensitise vendors and all stakeholders about it to maintain a level playing field. We can start by replacing monotonous jobs with tech-based tools to simplify workflows. This is also a step that breaks away from a purely accounting mindset towards a stakeholder-partnership one," surmises Khanna.

While immediate liquidity needs have been addressed through various tools, a deeper understanding of cash flows will help the organisation develop resilience, strategise in line with goals that have been offset by the pandemic. This finance mindset will foster a new range of capabilities across the organisation.

TAKEAWAYS

1. **Train the entire organisation to think like a CFO.**
2. **Maintain healthy sources of financing, arrest slippages and micro-manage cash flows.**
3. **Revisit the balance sheet — variable costs, capital investment and expenditure.**
4. **Explore alternate methods of payables, receivables and financing.**

[1] Pele – noun – a faced outbuilding used as a beacon watchtower, born on the border of Scotland and England.
[2] Casemate – noun – a room in the wall of a fortress with embrasures for shooting guns and missiles at attacker.
[3] https://www.reuters.com/article/us-usa-markets-flows-graphic-idUSKBN2BI29J
[4] Picquet – noun – a group of sentries outside a garrison to prevent a surprise attack.

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