

COVID INFLICTED CFO AND POSSIBLE CURES

- Sales Estimation
- Expense Management
- Treasury Management
- Technology & Predictive Tools
- Bull's Eye Approach



Even as you sat pondering about the economic woes, along came COVID-W19 (by the way, why 19 - is an improved version coming?) and put to quandary all the well thought plans. With commercial and personal life at a virtual standstill, predictive analysis may not work as regards sales estimates, inventory peaks, connected cash limits, hiring, etc. The usual rules of engagement have fallen apart. Recession is imminent, though it may be a touch and go for India. Possibly, international businesses seeking to hedge their risk from centralizing all operations in China may spread some to India. Our economic fundamentals and demand driven market is still attractive. Notwithstanding these possibilities, in the next few months, cash will rule. Our obsession with topline/bottomlines will need to take a back seat. Those with cash reserves sit in a delightful position i.e.– buy assets at attractive price, experiment with new ideas, R&D, etc. Most do not. Augmenting cash reserves will be order of the day.

The first port of call is sales estimation. This is crucial time to rein in the exuberance of your sales team. The sales estimates have to hover around realistic, for they have a roll down effect on your supply chains, inventory build-up and work force. Misadventures are not allowed here. Work, rework and repeat your sales estimation till it looks right. You can always exceed target and revisit your position. But if you over estimate and build high stocks, the market will not act kindly. There is no room for failure here. While at this, evaluate your supply chains too. Any risks in their ability to fulfill contracts, say they are from a jurisdiction under heavy artillery fire from COVID. Similarly, look at your buyers.

Then we must turn to **expense management.** First, revisit administration costs including rentals and vendors. Force Majeure is much flagged as a weapon to negotiate and would be useful to read your contracts and insurance policies again. However, post any harsh action, an understanding discussion to make a fair deal would win long term

benefits for both. Capital expenditure and hiring is best put on freeze for 6 months, no ifs and buts here. Use your red pen across travel, entertainment and year end parties. We need to control expectations as much as cost. At the same time, when office working begins, that would require safe distancing and other norms. All this means additional non-negotiable cost. Then comes the big daddy – salary bill! This must be approached cautiously, at the same time keeping in view the market action. Slashing more at the top layer and negligibly at the lowest strata seems the norm. Again, this needs to be carefully matched to sales estimation, for, if you could manage without salary cuts, that would get you the most dedicated future work force.

More than ever before, your **treasury management skills** will have to be at the fore. First and foremost, divide your cash flows needs into short and long term. Then begins your job. Extending term loan payouts and enhancing clean credit facilities is but a given. See if you can get further lines as shareholders funding. Relook at all ongoing litigation. See where amnesty schemes like VSVT be used, or should not be, given that it means instant cash outflow. Refunds from Government should be high focus. Hedge your risk by spreading your monies across banks. Equally, review your foreign exchange rates with the bank. You will be surprised at the variance in this across banks and possible savings here through upfront negotiations. While at it, examine ECB as an option too.

Finally, and importantly, should there be windfalls, don't let the jubilant MD blow it up for a show of bravado. Use that for cutting debts. Like we said, cash will be king.

One cannot enough stress the **importance of technology**, though which, depends on your industry. Efficiency is the key word here. **Predictive tools** using data would be a boon, besides various tools which can be deployed to automate processes. Do bear in mind that working from home and a technology environment is also open to cyber-attack. One must build a 2 year digital vision, encashing on some basic efficiency tools immediately. Any CFO without such a vision is staring at an abyss already.

Government policies will continuously fly in as they try to help you from sinking, or help themselves to increase tax collections. Either way, **keeping abreast** would be critical as would a smart mind to analyze and use such information. Since we are in an unpredictable zone, best to keep a look out but not take stress on this count.

The times will test your mettle. You will need to be agile, on the feet and mentally, as will your inner circle of team members and consultants. Choose this circle carefully. You can neither have egos nor over pessimism nor over optimism. You need balanced views and thoughts. All backed by clear communication that spreads across the organization. Being straightforward and honest, while keeping people informed, is the expected norm in the new work culture.

Ajay Sethi
Managing Partner

Sundeep Gupta
Partner
Accounting, Business
Support & Indirect Tax

ASA & Associates LLP
www.asa.in