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The Economic Times Financial Management Summit 2012

Managing Uncertainties, Leveraging Opportunities

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The Economic Times
FINANCIAL MANAGEMENT SUMMIT 2012

Foreword

When biscuits start biting, it can be argued that an economy is in trouble. Leading biscuit makers in India have recently reported an alarming slump in demand and de-acceleration of growth, especially in rural India. While several analysts have talked up the structural strength of rural India and growing demand of aspirational products, and perhaps rightly so, the fact that people are cutting down spends on humble biscuits does not bode well for the economy and the industry.

And that has been more or less the growth story of India, as it tries to shake off global undercurrents and domestic political stand-offs in its attempt to lunge forward. Once hailed a giant that should take its legitimate place in the leadership pantheon at the global stakes table, India today is often threatened by rating agencies with downgrades to junk status. Lack of proactive growth-focused measures mean several non-cyclical trends and non-business events have been setting the agenda for India Inc. Perhaps, these are oft-repeated facts but the lack of pace in reforms and decision making, political instability, inflation, high interest rates and depreciating rupee have all combined to drive over 7% GDP growth July last year into ground at 5.5% in the corresponding quarter this year.

As versatile people who need to adapt to situations as they change, CFOs today are expected to watch the cash flows, costs, risk, reward increasingly impatient investors and drive growth that is profitable. For that, they need to have their fingers on pulse of the business at all times.

Good news is, the several CFOs we met and surveyed are already on the job. Whether it is cutting costs, chasing M&A only for profitable growth, implementing strong risk management systems and assuming the role of public face of the company for investors and regulators, they are busy preparing their respective companies to conserve during slowdown and poised to leverage opportunities after turnaround.

After the ‘Draghi put’ where ECB’s Chairman Mario Draghi assured the Eurozone of doing “whatever it takes”, and US Federal Chairman Ben Bernanke’s allusion to QE 3, the global sentiment may have improved a bit. In India too, the new Finance Minister has already set in motion several activities that could lead to cautious reforms but with urgency.

“The first responsibility of a leader is to define reality,” wrote Max DePree in his seminal book *The Art of Leadership*. Leaders around the world are defining and recognizing the realities as the new normal. Time will tell how these efforts will pan out. For us, one key lead indicator in India would be how many biscuits this nation munches, going forward.

We thank all the CFOs who took time from their busy schedules to respond to the Economic Times-Aranca India CFO survey. Special mention must be made of the CFOs, who were gracious enough to accommodate our requests for in-depth interviews. This report is an outcome of all these concerted efforts.

Srinivas Macha
Senior Vice President, Aranca

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Aranca Research Team | Srinivas Macha, Ati Ranjan, Nilesh Sharma, Shrinivas Komar, Amresh Prasad, Pallavi Rao

About This Report

As Knowledge Partner for The Economic Times Financial Management Summit 2012, Aranca has prepared this report centered on the theme of the event, "Managing Uncertainties, Leveraging Opportunities". The report explores how emerging challenges are changing the role of financial management in organizations and offers insights on how CFOs manage and sustain growth in the changing global economic landscape.

This report is partially based on The Economic Times-Aranca 'India CFO Survey' 2012 conducted across the prestigious ET 500 list of companies, where CFOs of these companies participated and shared their views on some of the most pressing challenges facing corporate India today. Among the key questions we posed included:

- What is the single most pressing challenge facing the Indian economy, according to you, and what changes can alter that significantly?
- What, according to you, are the most critical challenges faced by CFOs in India today?
- What cash deployment strategy should corporate India adopt to manage growth and risk in the current economic scenario?
- Given the relatively more attractive valuations, do you think this is a good opportunity for M&A led growth?
- Given the surge in rupee volatility over the past few months, what steps should a CFO take to mitigate the risks?
- When credit availability is challenging, what, according to you, are appropriate alternative financing sources?

Aranca also conducted several in-depth personal interviews with CFOs from select organizations across sectors. Besides capturing their views on some macro level issues facing finance managers and CFOs, we also asked them for their opinions on specific challenges and opportunities for the sectors they operate in. These findings, together with insights from research, are presented in this report.

Overall, we interacted with more than 60 CFOs and senior finance professionals from the ET 500 list as part of the survey and the interviews. Most of the respondents have decades of experience in managing diverse set of organizations through challenging times.

Participating companies by rank in 2011 ET 500 list

ET 500 Rank	% of respondents
1-100	22.0
101-200	15.3
201-300	25.4
301-400	18.7
401-500	18.6

Participating companies by revenues

Annual Revenue/INR Cr	% of respondents
250-1000	8.5
1001-2000	35.6
2001-5000	25.4
5001-10000	16.9
> 10000	13.6

Participating companies by market cap

Market Cap/INR Cr	% of respondents
50-1000	8.5
1001-5000	35.6
5001-10000	25.4
10001-20000	16.9
20001-30000	13.6
>30,000	3.4

Cumulatively, these organizations have a market capitalization of over INR599,143.6 crore and revenues of over INR367,000.4 crore. The CFOs surveyed represent diverse sectors including engineering, infrastructure, cement, steel, banking, software, FMCG, pharmaceuticals, chemicals, consumer goods, logistics, packaging, automotive as well as diversified firms, to name a few.

Swirling in the Headwinds

Global Economy: One Step Forward, Two Sideways

European debt crisis a big threat to world growth prospects

To say that the sentiment surrounding the global economy is cautious is akin to stating the obvious. The seemingly unending sovereign debt woes of Eurozone countries, slowing of growth in China and India, the US's own troubles, and fiscal concerns in most parts of the developing world have severely crimped global economic output. In 2011, global growth contracted to 3.8%, and in 2012, the situation looks anything but different. Eurozone leaders have increasingly displayed the political will needed to arrest the decline and turn around their economies, but only time will decide the timeliness of these efforts. Meanwhile, speculations of dire outcomes, including the collapse of single currency union, sovereign defaults and mass political upheavals, continue to swirl.

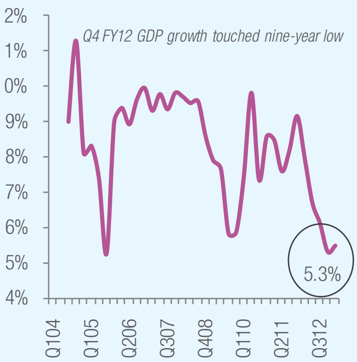
India, after being globally lauded during much of the crisis for logging a more than 6% growth rate and for its pragmatic foreign exchange management policies, appears to be facing several headwinds today. While the global economic context remains challenging, issues on the domestic front, some threatening to spiral out of control, seem to have foxed everyone.

A vacuum in the decision-making process, deceleration in the pace of reforms, political instability and inflation have collectively negated the strengths of the domestic consumption story, and impacted business and consumer sentiment alike. Several important reforms are in limbo, even as subsides, including populist doles, continue unaffected. In short, the government's spending is increasing at a faster pace than its earnings.

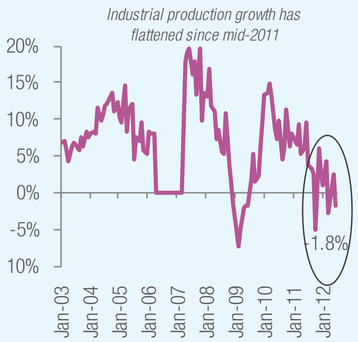
India's GDP growth has missed a beat, and if these trends persist, analysts fear that it could slip below 5% in the near term, triggering fears of the country returning to its pre-1981 Hindu growth rate. Stonewalling the demand for cutting the interest rates which it has put on hold since April this year, the Reserve Bank of India (RBI) has been hinting that the government needs to tame inflation by pushing through reforms.

India: Story of Missed Opportunities

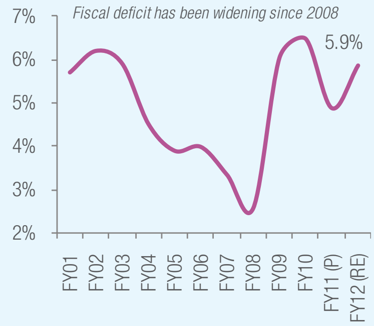
As the quarterly GDP growth plunges…



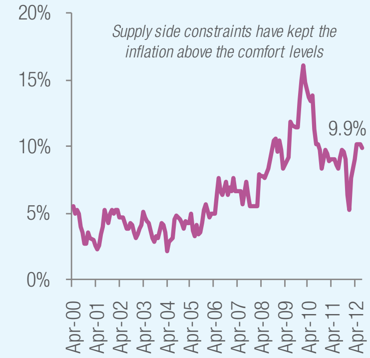
Industrial production growth plumbing the depths …



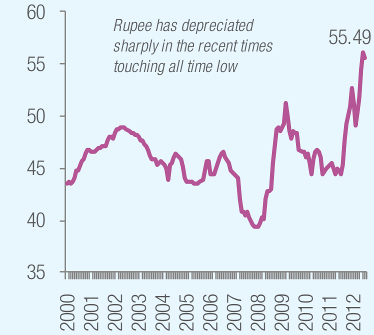
Fiscal deficit (% of GDP) shot up…



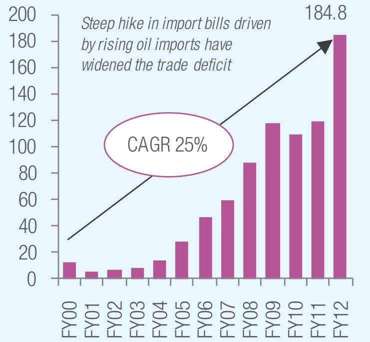
Aided in no small measure by Inflation (CPI) …



Or the Exchange rate: INR-USD vagaries…



Leading to a ballooning Trade deficit (USD bn)...



Source: Reserve Bank of India, Ministry of Statistics and Programme Implementation, Aranca Research.

Key Indicators Point Southwards

While the June quarter GDP growth of 5.5% was marginally better than the 5.3% recorded in Q4 FY12, it continues to languish near multi-year lows and at nearly half of the 9% plus growth posted during the pre-crisis period. Industrial production has also been steadily declining since mid-2010, and is closer to 2008 crisis levels. With headline inflation hovering in high single digits, benchmark interest rates remain stubbornly high. Further, a rapid depreciation of the Indian rupee, deterioration of structural indicators (fiscal and current account deficit), and global flight to safer assets (gold and US treasuries) are aggravating India's discomfort. Consequently, import costs have risen and so has the cost of servicing foreign currency denominated loans.

Stifled by such major macro headwinds, both domestic and foreign investments in India are on a downtrend. Little wonder then that the top 500 companies in India (BSE 500) were seen sitting on cash and cash equivalents of over INR9.3 lakh crore (USD166 billion) at the end of FY12.

The other part of the story is about those who got badly hit by the macro factors. Debt restructuring activity has reached an all-time high, with the amount of debt referred to restructuring more than doubling to INR2.7 lakh crore in FY12 from INR0.96 lakh crore in FY09. The extreme averseness to risk displayed by banks is fuelling a compositional shift in their asset portfolio towards safer assets – government securities. During the first five months of FY13 (April to August 2012), bank loans increased by a mere 0.6%, far below the central bank's forecast of about 17% for the financial year ending in March 2013.

Navigating the Uncertainty: The CFO Priorities

Given the depressed macroeconomic outlook and softening demand, several Indian businesses have gone into conserve mode. CFOs are increasingly under pressure to manage growth expectations, cut costs and raise capital, while maintaining profitability. We asked several of ET-500 CFOs about their reading of macroeconomic factors, perception of key challenges, steps taken to help their respective companies thrive in this environment and, most importantly, how they are helping position their companies to benefit when things turn around. The results make for interesting reading.

CFOs' Mandate

Growth in Tough Business Conditions

Globally, the aftermath of the 2008 financial crisis and the resulting uncertainty has forced companies to evaluate their business strategies, plans and execution capabilities. When the business environment turns dynamic, input costs soar, even as demand fluctuates, talent turns fickle and capital becomes hard to come by, several businesses, perhaps justifiably, switch to a preserve-and-wait mode. And the spotlight then is on their CFOs.

From managing cash, improving profitability and controlling expenses, the CFOs are now required to play crucial roles in delivering business performance improvements, assist the CEOs in betting on the right business growth strategies, overseeing risk management strategies, regulatory compliance and corporate governance. In other words, the onus is now on these CFOs to keep their companies afloat in an uncertain world.

And, the situation is no different in India.

However, the challenges faced by Indian CFOs are compounded by falling governance standards. The lack of clarity in policy making, a depreciating rupee, high inflation and expensive credit all contribute to diminishing that single most important factor required to run a business: confidence.

To get a first-hand view on these matters, Aranca conducted a detailed web survey among CFOs of companies that are part of the ET 500 group list in 2011. In addition, Aranca analysts interviewed select CFOs from various sectors to understand the difficulties faced, their reading of the current environment, and how they intend to manage these uncertainties and leverage opportunities.

Growth Pangs

The marked slowdown in economic growth has raised concerns among investors and policymakers alike over the "India growth story".

When we asked our respondents as to why this is happening, 56% of them cited the slowdown in policy reforms as the single biggest challenge facing the Indian economy. Key reasons included the political turmoil caused by coalition compulsions, given the narrow individual agendas of many regional parties. The monsoon session of Parliament being washed out without clearing more than four bills when over 30 were listed for debate, is an indication of the malaise and how deeply it is entrenched into the political system.

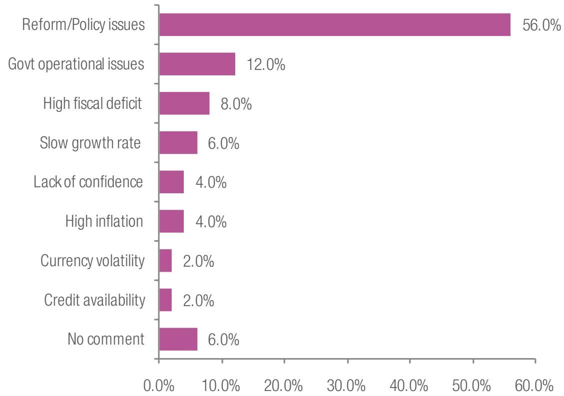
Mr. Adesh Gupta
Whole-time Director & CFO,
Grasim Industries

> “Despite the present political scenario, the government still can push reforms and more importantly decision making in critical areas for the improvement of the economy. I think given the election season 2014, they will surely do something about it. I am optimistic.

These logjams hitting business and investor sentiment hard aside, the biggest negative to emerge from the prevailing political uncertainty is the near-freeze on decision making. As a result, the gestation of clearances for several projects has increased substantially. Twelve percent of our survey respondents told us that this inactivity has hurt them.

CFOs of infrastructure companies cite operational issues/government mismanagement as their biggest challenge. Important reforms (such as GST, DTC, FDI in retail, aviation, pension and insurance) remain stuck. According to the Confederation of Indian Industry (CII), GST implementation alone can boost GDP growth by around 1–1.5%. Status quo on subsidy programmes (especially on oil products), together with drought relief funding (owing to a weaker monsoon) and planned poll freebies (such as free cell phones to rural citizens), is only likely to widen the fiscal deficit, even as the government aims to narrow the gap to 5.1% in FY13 under the Fiscal Responsibility and Budget Management Act. The overall view is that continued policy paralysis and government inaction have the potential to drag down India's economic growth to below 5% in 2012 and 2013.

What is the single most pressing challenge facing the Indian economy?



Multiple challenges on the domestic front, including persistently high inflation, as well as burgeoning deficits, continue to depress sentiment. Despite RBI's multiple rounds of monetary tightening, inflation remains at elevated levels. At 6.9% in July 2012, it is still above the central bank's tolerance level of 5.0%. No wonder, RBI pointed out that India has had 23 months of high inflation since January 2010, among the longest in history. Unplanned expenditure – the central and state budget deficit amounts to over 10% of GDP – has increased the cost of borrowings and crowded out private investments.

Mr. Akshaya Moondra
CFO,
IDEA Cellular

> “Economic cycles are bound to be there and as a CFO, if you have to navigate through economic cycles, that is fine, because that is part of the job. But if one has to keep struggling with artificial impediments created which make your whole process inefficient, that is where I think the challenge is.

However, some CFOs remain optimistic about the change. “Despite the present political scenario, the government still can push reforms and more importantly decision making in critical areas for the improvement of the economy. I think given the election season 2014, they will surely do something about it. I am optimistic,” says Adesh Gupta, Whole-time Director & CFO of Grasim Industries.

Waning Investments

Given the lack of clarity on the government's policy front, companies are adopting a wait-and-watch approach with respect to expansion and investment decisions. Companies say they are forced to balance between subdued demand and rising commodity prices and borrowing costs, leading to smaller margins.

Mr. Gauri Shankar
General Manager & CFO,
Bank of India

> "Credit is not increasing for the banking industry. New projects are not coming due to the prevailing negative sentiment. Running limits are increasing, but for capex, there is hardly any demand.

About 80% of the respondents believe that high interest rates are hurting the industry's competitiveness and growth. Companies in the infrastructure, steel and engineering sectors are being significantly impacted by high interest rates. Indeed, loan off-take is slowing. Gauri Shankar, General Manager & CFO, Bank of India corroborates this: "Credit is not increasing for the banking industry. New projects are not coming due to the prevailing negative sentiment. Running limits are increasing, but for capex, there is hardly any demand."

High Interest Rates

Ironically, a whopping 84% of the respondents see capital raising as a highly critical to somewhat critical challenge. Lack of credit is a major challenge for many corporates. However, there seems to be no unanimity on this point. Some bank CFOs that Aranca spoke with say that they are willing to lend, if the credit quality is good. CFOs of some large business houses agree with this view – they say funds are available though at slightly higher rates, as long as there is a strong business case. However, that is no consolation to interest rate sensitive sectors such as infrastructure. Praveen Sood, Group CFO, Hindustan Construction Company Ltd. says, "At interest rate of 12%, you have to aim for returns of 18%, which is something impossible in normal business today due to competition."

Mr. Milind Sarwate
Group CFO,
Marico Ltd.

> "High interest rates are indeed an impediment. In fact as the inflation comes under control, one would find that the real interest rates are much higher than warranted by the economic conditions.

He has a point. The infrastructure sector, which absorbs a large portion of bank lending, also has witnessed a drop, as net credit to the sector has been falling since June 2011; project sanctions by commercial banks to the infrastructure sector now stand at a six-year low. Consequently, net projects added during the one-year period ended June 2012 stood at INR8.9 lakh crore, down 55% from its peak in June 2010. In spite of the odds seemingly stacked against interest rate sensitive and long-gestation sectors, such as telecom and infrastructure, Sood remains optimistic. He says, "Infrastructure is a requirement for the country. We cannot do without it and so it needs to be funded and it needs to happen. Sooner or later the government will have to bring the focus back on infrastructure."

Mr. Praveen Sood
Group CFO,
Hindustan Construction Company Ltd.

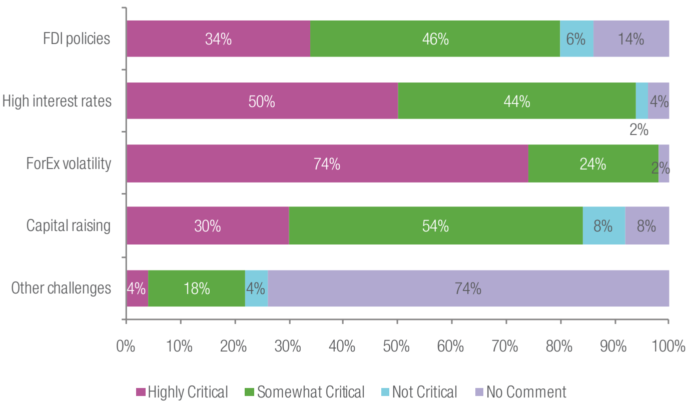
> "At interest rate of 12%, you have to aim for returns of 18%, which is something impossible in normal business today due to competition.

The story for the Micro, Small and Medium Enterprises (MSME) sector, however, is somewhat different. According to RBI Bulletin August 2012, the MSME sector in India contributed about 8.7% in 2008-09 to the GDP. It accounted for approximately 45% of the manufacturing output and 40% of the total exports of the country. In addition, an estimated 732 lakh people were employed by this sector in 2010-11. Yet, the MSME sector is saddled with high interest rates. Without proper collateral, they do not get funding even at high interest rates. However, as R K Bakshi, Executive Director, Bank of Baroda says, "You have to create a diversified set of lenders in the country, like NBFCs. For the small size of loans to SMEs, the operational cost becomes very high for a bank to service," an idea, shared by several bankers who spoke to us. Though a priority sector, it looks unlikely that the MSMEs will receive any favors in the short run.

Mr. Rajat Monga
Group President-Financial Markets & CFO,
Yes Bank

> "The perception of insufficient credit is a myth. There is enough and more credit available for a project that portrays the long-term confidence of payback. Resource is never a constraint; the price of course varies with the risks involved.

What, according to you, are the most critical challenges faced by CFOs in India today?



Yet, there are some who feel that the rate of interest is not much of an issue. "If you ask me today if the interest rates were to come down by one or two percent, would our investment levels change? The answer is probably no. Because right now, the main constraint is the environment, and not so much the availability of funding," avers Akshaya Moondra, CFO, IDEA Cellular. From bankers' perspective, credit availability is not the problem. "The perception of insufficient credit is a myth. There is enough and more credit available for a project that portrays the long-term confidence of payback. Resource is never a constraint; the price of course varies with the risks involved." says Rajat Monga, Group President- Financial Markets & CFO, Yes Bank.

Given the rising corporate debt burden and mounting NPAs, banks perhaps need to adopt a more prudent lending strategy. However, the feeling that banks can do more is a recurring theme among survey respondents. "I think banks need to be a little more flexible and extend support, even in the face of short-term issues," asserts Farid Kazani, Group CFO & Finance Director, Mastek Ltd.

Many of India's structural strengths remain in place. "We have the demographic advantage, an entrepreneurial culture, an aspirational young population, a reasonably good institutional framework and regulatory bodies. You need to only create the facilitation. We are growing at 6%, but we can grow at 8%. We all know the benefit of compounding, that 2% is not 2% …it can make a huge difference in 20 years," says R K Bakshi of Bank of Baroda. But CFOs feel India is unable to cash in on these strengths. When it comes to investments, or portfolio allocation, India attracts far less capital than it should. An uncertain business environment is cited as the chief

Mr. Brijgopal Jaju
Director & CFO,
Welspun Corp. Ltd.

> "If an organization doesn't meet the basic norms of debt to equity, current ratio, or other metrics, then the cost of raising funds is going to be extremely high.

reason. According to Moondra of IDEA Cellular, "There is a certain amount of money which gets invested all over the world. While India may have a lot of inherent advantage, due to lack of policy clarity, a lot of that advantage is going away. The allocation which India will get will be much lesser than what its potential is. It will not become zero but foreign investors are getting jittery."

Mr. R K Bakshi
Executive Director,
Bank of Baroda

> "We have the demographic advantage, an entrepreneurial culture, an aspirational young population, a reasonably good institutional framework and regulatory bodies. You need to only create the facilitation. We are growing at 6%, but we can grow at 8%. We all know the benefit of compounding, that 2% is not 2% …it can make a huge difference in 20 years,

Considering that unavailability of credit is a big challenge for a significant number of companies, we quizzed them about the alternative means of financing available, if any. Around 16% of the respondents feel that ECB is an attractive alternative source of funding and an equal number of CFOs are of the opinion that maintaining sufficient liquidity or extra cushion is the best way out, when the external credit environment is challenging.

Sitting on Cash

The inability to raise capital at attractive terms is only one part of the story. According to a report published in The Economic Times on August 20, 2012, several top BSE 500 companies are sitting on enormous piles of cash and cash equivalents.

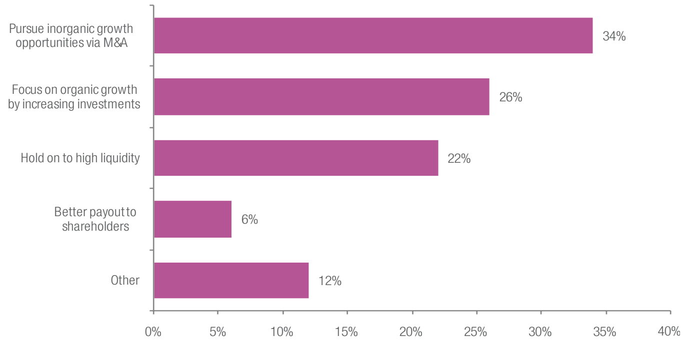
For three years ended March 31, 2012, the cash balance of BSE 500 grew by 26% to INR9.3 lakh crore. Investments into fixed assets by these companies that grew almost 50% in FY08 have turned negative in FY12. The good thing, though, is, about 26% feel that they are better off investing capital in their existing businesses. About 34% felt cash could be better deployed by pursing inorganic growth opportunities through M&As. So, why has deal-making taken a back seat?

Mr. Farid Kazani
Group CFO &
Finance Director,
Mastek Ltd.

> "Ten years ago, a lot of business acquisitions got done just to build top line. Today, I don't think any company wants to do that - everybody is looking at profitable growth and want a profitable acquisition which starts giving the same rate of return as their business.

Private equity (PE) investment is on a rapid decline. During the second quarter of 2012 (April-June), PE investments slumped 35% to USD1.6 billion compared to the same quarter, a year ago. The number of deals also fell to 97 in the period from 127. Brijgopal Jaju, Director & CFO, Welspun Corp. Ltd. proffers one reason: "In the short term, there are now very few low-hanging fruits which you can take."

What cash deployment strategy should corporate India adopt to manage growth and risk in the current economic scenario?



Sluggish demand has forced many companies to scale down their investment plans. New investments have slowed down, while existing projects, especially in the infrastructure space, are at risk, as the gestation period gets longer. Total fixed investment by large firms in new projects dropped 46% to INR2.1 lakh crore in 2011-12 from INR3.9 lakh crore in the previous year. Investments in infrastructure declined 52% to INR1 lakh crore from INR2.2 lakh crore, a year earlier, as investments in the power and telecom sectors dried up.

Companies across sectors have put their expansion plans on hold until there is more clarity and transparency on the policy front. Marico's Group CFO, Milind Sarwate, says "I believe the slowing down of growth is a major reason for Indian corporate sector to continue to sit on huge cash reserves. With the slow down or stagflation in sight, the proportion of risk goes up. That further curtails investments."

Several CFOs have different reasons to maintain cash. "Five years back, you could live with two months of cash, but today, you need six months of cash because you don't know what is going to happen to the economy," says Kazani of Mastek Ltd.

The slowing economy also has negatively impacted the financial markets with liquidity and sources of financing becoming scarce. The equity markets, which were a preferred source of financing, especially for large companies, have witnessed a significant decline in activity. Market correction has resulted in a significant fall in funds raised through new issues, institutional placements, as well as foreign currency convertible borrowings (FCCBs). According to Bloomberg, in the first half of 2012, only eight companies in India raised money from the equity markets, while the total amount raised fell nearly 62% over the same period in 2011. Further, financing through qualified institutional placements (QIPs), FCCBs and overseas bond sales declined 60% in the comparable period.

Exchange Rate Volatility

Since the forced depreciation, following the balance of payments crisis in 1991-92 when the rupee fell 61% against the dollar, the Indian currency had never been so volatile. In the past three quarters, the rupee hit an all-time low of 57.92 against the dollar forcing the RBI to intervene. The rupee's falling value has exacerbated the troubles for an already distraught corporate sector.

This is especially true for companies in the energy and infrastructure sectors, where the input, or feedstock, is imported and reliance on foreign currency borrowings is significantly higher. The state-owned oil marketing companies (OMCs) that purchase crude oil in dollars, but price it in rupees, are heavily exposed to foreign exchange volatility. Indeed, these companies lose an annual INR8000 crore for every rupee of depreciation. Managing business amid a volatile exchange rate scenario seems to be a big challenge for many of the CFOs, especially those managing companies in the export/import business.

Mr. Akshaya Moondra
CFO,
IDEA Cellular

> “I don't think you can get away from volatility. You just have to model your business so you can hedge where required, and keep exposures open where it seems acceptable.

About 74% of all CFOs surveyed said it was a highly critical challenge among the various challenges faced. According to Moondra of IDEA Cellular, “I don't think you can get away from volatility. You just have to model your business so you can hedge where required, and keep exposures open where it seems acceptable.” In other words, forex volatility is here to stay.

But, should RBI intervene more aggressively? Several CFOs told us that a non-passive approach could have worked in the past, but given the dynamic nature of globalized business, companies and the economy would need support. Marico's Sarwate differs though. “The basic principle for avoiding both greed and fear will work best even in the foreign exchange area. If rupee were to be fully convertible, the volatility may perhaps have been much higher. Hence, I believe that we are just ok where we are.” Gauri Shankar of Bank of India concurs with Sarwate: “I feel that RBI has given us proper guidelines. It is one of the best regulators in the world. And that's why Indian banks have emerged largely unscathed from the recent global financial crises.”

Be that as it may, currency volatility has caught several CFOs napping and companies are finding it hard to come to terms with this new normal. The corporate sector, burdened with nearly USD100 billion worth of foreign-currency debt as of 2011-end, is under severe strain and facing a possible refinancing crunch.

Mr. Gauri Shankar
General Manager &
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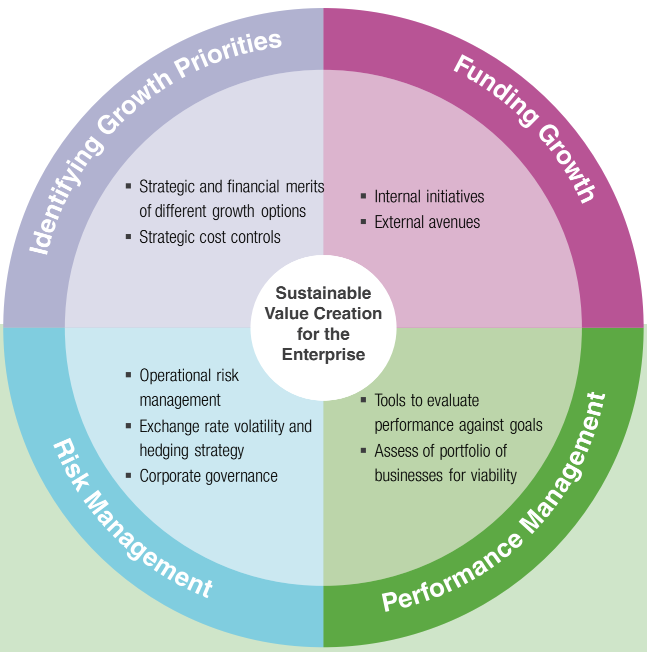
According to RBI, around 77% (or USD74 billion) of the private sector's foreign currency debt is denominated in dollars. Research indicates that only half of the foreign currency borrowings are hedged, suggesting that any additional slump in the rupee would significantly increase the mark-to-market losses for companies that have not hedged their exposure.

Interestingly, hedging was a sentiment that resonated across CFOs surveyed, regardless of sector. Hedge to manage risks only and avoid speculation, was the mantra. Many CFOs managing export-oriented businesses believe that natural hedging is the best way to manage foreign exchange volatility. Some CFOs also believe that hedging and localising the purchases is also a good way to manage exchange risk.

CFO Priorities

Leveraging Opportunities, Building Sustainable Businesses

While CFOs' roles and responsibilities continued to evolve over the past many years, the ongoing global economic crisis, coupled with a constrained economic policy environment in India, seems to have hastened the pace of transformation of the Indian CFO's role in corporate India.



While the external environment remains challenging, we are glad to report that some Indian CFOs are tackling issues head on. This means not only transforming the company that they are part of, but also transforming their roles within the C-Suite. One thing that stands out clearly is Indian CFOs need to focus beyond quarterly numbers and look at long-term value creation and sustainability of the organization, if this is not underway already.

Priorities for CFOs

From ensuring strong topline and bottomline quarter on quarter, the mandate for CFOs now is to build sustainable businesses. These priorities could help achieve that objective.

In this section, we present what some CFOs are doing to emerge as de-facto "man-in-charge' to navigate the company's performance. These insights are based on our survey of over 60 CFOs from the ET 500 list and one-on-one interviews with some 15 CFOs from across the sectors.

Identifying Growth Priorities

While the traditional role demanded CFOs to focus on operational efficiencies through cost controls, in the many emerging scenarios, CFOs are increasingly participating in the key decision-making process that revolves around the strategic and financial merits of different growth options. Accordingly, the key roles that we have witnessed in some of the companies include:

Growth opportunities

- *Inorganic growth options:* While M&As, both at home and abroad, look like an attractive proposition for some best run companies in India, the pace is slow and we are not surprised by the prudent policies adopted by companies. What is holding back some companies in pursuing this strategy is too much uncertainty surrounding the global and domestic economies. While global M&A opportunities are also limited by the problem of rupee depreciation, valuation for good companies with growth potentials are not relatively cheap. Some companies are focused on comprehensive evaluation of their access to funds and surplus cash availability on the one hand, and viability of the potential target and strategic fit on the other, before deciding on launching an M&A move. This is in contrast to the earlier stance when top line and attractive valuation alone tilted the balance in favor of pursuing M&A-led growth. We find this approach of some CFOs to build long-term competitive capabilities through M&A good for their companies' long-term growth.

- *Organic growth options:* While the general stance is that of pessimism with companies holding off investments, we were positively surprised by some companies' effort to use this lean time to create scale and efficiency. One important criterion for all these investments is more stress on a project's viability on a sustainable basis rather than focus on adding numbers to the top line. Given India's domestic consumption and export potential, companies need to start taking steps to implement viable projects. One CFO puts it, "Two years down the line things will look absolutely different. We have everything going for us: population, demographics, natural resources... Today it is a crisis of confidence. The day both (government and industry) start working as one, the country can do wonders." We agree.

Strategic cost control

One aspect where Indian CFOs differ from their global counterparts is in not trying to cut costs hastily. While cost rationalization has its advantages and disadvantages, we are pleased to see that some of these CFOs are bringing cost control measures as a long-term value creation tool. One respondent told us that he sees these challenging times as opportunity. He uses these measures to understand how best the cost in process can be variabilized to create sustainable value.

Mr. R K Bakshi
Executive Director,
Bank of Baroda

"Hedging can also be speculated. Are you aiming for supernormal profits even at the cost of risking your capital or are you happy with the reasonable business profits? There are no free lunches in the market. You cannot have an exotic hedging product which can only give you gains.

While we have not witnessed cost cutting through workforce reduction in India, the key priorities seem to be bringing efficiency and improving productivity. Yet, Indian CFOs need to take tough decisions and continue with any line of business only on the basis of its long-term prospects, viability and value creation. If a line of business fails to meet this criterion, they should boldly discontinue it without hesitation or procrastination. The resources thus freed up can be used to pursue other value accretive opportunities.

Funding Growth

Cash is King – this maxim will never be out of fashion and, hence, maximising cash flow and liquidity remains one of the main aims of any CFO's role. While a company's cash requirements revolve around two key areas: a) working capital requirements, and b) capital expenditure, we believe companies still have some avenues to mobilize the cash required for meeting their growth priorities. We present a three-pronged strategy to achieve this goal:

Mr. Farid Kazani
Group CFO &
Finance Director,
Mastek Ltd.

> "It is very important for a CFO to make certain choices because you work with limited resources in terms of money and people. Rationalization or strategising the business model is a very important part of CFO's role.

Operational efficiencies

Some companies are focused on operational efficiencies to bring down their working capital requirements through better management of inventories and accounts receivables and payables. A company's corporate finance department can be of immense help here by taking the following steps:

- *Inventory planning:* through improved demand forecasting
- *Strategic vendor relations:* to better manage accounts payable and inventories across the supply chain

These steps need to be part of a long-term strategic initiative, rather than a way of riding the rough economy.

Focus on balance sheet

As stressed upon by some bankers, fund availability is still not a problem for companies with good balance sheets and viable projects. Hence, we see improving the health of balance sheets as a way of not only being solvent during tough times, but also a great tool to finance growth itself.

Financing sources

While the equity market may be out of favor in current times, companies can seek alternative sources like:

- *Private Equities:* With most PEs sitting on huge piles of cash and awaiting good projects, some Indian companies with viable projects are mobilizing funds using this channel.

- *Raising ECBs:* This is particularly helpful for companies that generate a large portion of their revenues in USD and/or acquire companies in the Western markets as interest rates in these markets are very low. However, companies earning most of their revenues in Indian rupees will expose themselves to exchange rate volatility and, hence, should avoid this option.

- *Corporate Debt Capital Market:* Companies with good balance sheet strength can leverage the debt market.

- *Hive off Non-core Assets:* Assets that perform sub-optimally still consume resources and management bandwidth. Companies would do well to focus on their core competence and stay away from non-core diversifications. Case in point being the infrastructure sector in India, which, in the past 10 years, saw a huge influx of players with zero understanding of the sector's dynamics of long gestation, regulatory clearances and its capital-intensive nature. According to industry insiders, several players are actively looking to sell such assets. The story is no different in sectors such as power and telecom.

Performance Management

While corporate finance teams were traditionally focused on financial numbers, their role is evolving as they are now focusing on providing company-wide information on key value levers for existing and potential businesses. This team's key responsibilities now include:

Performance benchmarking and information integration

- *Internal:* Corporate finance team has to work with different divisions closely to measure and monitor business performance.

- *External:* Corporate finance team works with the strategy team closely on monitoring performance of peers in the domestic/global market place and on setting internal benchmarks.

These steps not only provide insights into the trapped value within an organization, but also help the strategy team in identifying and pursuing new opportunities.

Portfolio businesses

The corporate finance division needs to carry out an objective assessment of different business portfolios at regular intervals, in consultation with the strategy team, to evaluate long-term value potential and take corrective actions or divest the business, if needed. The CFO has to be closely involved in the planning and forecasting of different scenarios to stress test a business unit's viability. These steps are helping some Indian companies to emerge as the most competitive ones in their sectors globally.

Risk Management

As the Indian economy increasingly integrates with the global economy, a CFO's role in risk management is expanding, too. Today, a CFO is expected to have a system in place that identifies and controls risks across the company. While at an operational level this includes production schedule and forecasting, supply-chain, receivables and so on, at an enterprise level it involves monitoring key economic variables, as well as corporate governance practices.

Some of the key risk management initiatives that Indian CFOs are pursuing include:

Operational risk management

Companies need to carefully evaluate the risks involved, right from planning to accounts receivables. Failure to upend these risks in a timely fashion force time and cost overruns. Companies that run tight ship on both expenses and income, have a better handle visibility.

Many progressive companies have implemented specific technology solutions to manage operational risk. In addition to collecting disparate data, these systems provide predictive analytics and a framework for compliance management. Using technology, companies can avert risks or minimize their impact on the business.

Forex volatility

While hedging tools are in place, a sentiment that resonated across CFOs we surveyed, regardless of sector, was – companies need to hedge to manage risks only and not to benefit from speculative activities.

Corporate governance

A company's corporate governance practices are not only being increasingly scrutinized by regulators, but also by investors and stakeholders. Some Indian companies that have been adopting the best global practices are not finding it that tough to mobilize funds to pursue growth opportunities.

Mr. Brijgopal Jaju
Director & CFO,
Welspun Corp. Ltd.

> "As a CFO, you need to avoid working in a silo. Be a live wire, work closely with business heads to ensure positive business contribution for every product, every line of business.

In addition to these responsibilities, CFOs are also now the public face of their companies, as they have to regularly deal with regulators, investors, analysts, bankers and other interested parties. If they can help realise the CEO's vision by running it through paces for viability, sustainability and long-term value creation through some hard-nosed evaluation, then they are less likely to have a torrid time with the external audience.

Otherwise, in a dynamically competitive world, the writing is on the wall.

“They said it...

Policy Implementation and Regulatory Challenges

- The retrospective changes to taxation are also severely affecting the industry.
- Reform process could be accelerated which may lead to restoration of confidence of global players and help in bringing in investments and fund commitment from abroad.
- Various permissions sought by entrepreneurs and businesses, need to be cleared on a war footing. Single window clearance concept needs to be introduced. Transparency and speed is now required.
- Government and policy planners to earnestly work to bridge the gap between intention and action in every aspect of economic importance to the country – whether it be investment, fiscal management, inflation management, currency management and many other areas.
- The government needs to significantly shift gears on the next wave of liberalization and take a series of pro-investment and pro-industry steps. This will change the whole sentiment.
- The current challenge before the Indian economy is to overcome the policy and execution paralysis. This may be a short-term phenomenon and may in fact cloud the basic issues of infrastructural bottlenecks that were the earlier threat to growth.

M&A: Opportunities and Risks

- Pursue inorganic growth opportunities via M&A more aggressively and better payout to shareholders via increased dividends and share repurchases.
- It is a good opportunity now for companies having surplus funds and willing to invest as things will ONLY IMPROVE from now onwards and low/attractive valuations will disappear in a year’s time with economy bouncing back; which it will without doubt.
- Valuations are not attractive for good companies with growth potential. Here the valuations have not reduced.
- M&A cannot be pursued because of a perceived opportunity but through a thorough analysis of its strategic fit with the existing business and the impact of the opportunity into the larger business vision that will include pursuit of growth with profit.

Managing Currency Volatility

- A detailed hedging policy supported by well-defined stop loss strategies is essential.
- Industry should use hedging as a tool of insuring against volatility in exchange rates but not as a means of making gains.
- Volatility is manifest in several areas – foreign exchange, interest rates, commodity prices and even government policies. Management of risk is expected to be even more crucial as we enter the stagflation period.

Interest Rates are Hindering Growth

- We need fiscal and other reforms (land acquisition, environment, red-tape) directed towards reviving the investment climate. Loosen supply side constraints. Otherwise, I think there is very little room for RBI to just simply bring down interest rates.
- High interest rates are hurting the economy and industry’s competitiveness. Capex decisions are being postponed, as a result of which expansion and automation is being impacted. This has a direct impact on competitiveness.

About Times Grey Cell

Times Grey Cell (TGC) was founded as an exclusive platform for the next-generation knowledge masters to come together and talk about new-age trends, technologies, initiatives, practices, and outlooks, with an aim to help decision makers understand the shape of things to come as well as define the way forward for their businesses.

Bringing forth this vision, the TGC creative team identifies the prime sectors driving the economy, such as IT, BFSI, Healthcare, Education to name a few. The team also focuses on key subjects and issues within the sectors, and builds platforms in the form of conferences, seminars, symposiums, round-tables, and conclaves. Times Grey Cell distinguishes itself through its two pillars: strong subject platforms and right audiences. The appropriateness of our initiatives subjects and topics , as well as the depth of the relationship we enjoy with major industry bodies have earned us great respect and accolades from key corporate audiences. Moreover, our easy access to the gamut of established media resources of the Times Group has enabled us to use the right media mix, to reach out to an audience that will benefit most from the Next Generation of Knowledge.

Times Grey Cell programs receive participation from leading business executives and personalities and, more importantly, are chaired by renowned business executives, experts, and visionaries. TGC forums have so far been graced by eminent personalities like Naina Lal Kidwai (Group General Manager and Country Head India, HSBC), Arun Maira (Member, Planning Commission), and Chanda Kochhar (Managing Director & CEO, ICICI Bank), among others. The programs have received support and sponsorships from corporates such as HP, KPMG, ICICI Bank, SAP, Dell, Infosys, Google, IDBI, LIC and Canara Bank to name a few, as well as from Trade commissions from South Africa and Korea.

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About Aranca

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