Deloitte.

The CFO Program

CFO Perspectives

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CFO Speaks

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01. Government has been making lot of efforts to improve upon ease of doing business. What are your views as a CFO and do you feel that the things have changed?

The intent is clearly evident-the question lies between intent versus reality. We are hearing the appropriate intent and clearly it has become easier to deal with the government. However the efforts are concentrated in pockets and need to cascade. The major problem today is for the new entrants, where we have myriad laws, legislations and approvals to go through for a new set-up. There is need for a proactive plan, like single-window clearance to deal with all approvals, else it could be a drag on our country's investments and growth.

On the other hand, transfer pricing litigations and back-log of appeals continue to derail the business sentiments. A lot of valuable time is wasted by judiciary in discussing public interest litigations ("PILs") and interfering in day-to-day affairs. The role of judiciary needs to be defined clearly; whether they are to work as an executive or to interpret laws?

Certainly we have seen an improvement in ease of doing business especially for industries like infrastructure, railways, defense and roads – where the projects are getting back on track and business is gaining traction. However, we still need to do significant work for the other industries to fuel our economy. India ranks 130 in the list of 189 countries in ease of doing business and thus has a long way to go.

02. With GST not being too far away, how well you think industry is prepared? Further, as a CFO what are the benefits you foresee for the Indian economy?

A formal notification for GST is yet awaited. It will be in place in few months' time and industry is looking seriously towards it. Its impact is going to be positive and will help in uninterrupted flow of goods, which should increase the utilization of commercial vehicles by 30%. It will help reduce barriers and permits which would also lead towards ease of doing business.

As an industry, we also need to do our planning correctly basis the legislation. Going forward, we may not need to have warehouses for commercial considerations and will keep them only when needed. **GST will be a reform leading towards modification of supply chain and the way we do business.** We also need to gear-up our IT systems and business processes.

Benefit of GST will trickle down only with time to boost the economy. It will influence the numbers, but whether the percentage of GDP will increase remains to be seen, although 1% or 1.5% increase is being much talked about. It will have a cascading impact on most of the sectors, but time will tell how much of it will be passed on to the market after the pricing strategies are re-looked. However, with advent of GST, compliance will increase and tax base for the government should also increase.

03. Regulatory compliance has always been challenging for the finance functions. How do you ensure that these compliances are effectively managed?

We have to be compliant with all laws, it is a non-negotiable position for us. Thus, these transitions have not made much difference, but now we have to see the implementation more carefully than in the past. Internal Financial Controls (IFC) is also not a major challenge as we were complying with SEC regulations, though some modifications have been made. Going forward, we foresee board meetings gaining more attention and time, and may be a 2 day affair instead of a 4 hours meeting.

However, it has impacted most of the corporate India and there are companies which have been significantly impacted and have deployed additional resources to meet the compliance norms. But yes, this is the right thing to do and good compliance is more important from

a global standpoint as well. I don't feel that we are over-regulated. GST will also transform the compliance structure in next 24 months, for which IT systems of the government and the industry has to be well prepared and effective for the credit transactions. Diligence will also have to increase from both the ends.

04. What are the challenges associated with your export business; and as a CFO how do you tackle the fluctuations in revenue?

Export volumes are lot more dynamic now, than it used to be in earlier days. Three years before we used to be able to predict for 180 days, however, in current scenario we can't even predict 45 days from now. We also need to manage our long import pipelines. Boom in export demand is not always good for production, inventory and cost. Our end markets have fallen, whether it be Africa, Middle East or Russia. EU is also unstable and trying to wake up from the negative GDP, whereas the US has shown some revival but future is not certain. Currency doesn't make it easy either with fluctuations being so unpredictable. We have seen USD rising from INR 48 to 67 in 24 months. All these need to be managed in parallel to reduce the risk in foreign currency borrowing. It does take significant time of the management to take quick actions and to see that we are not compromised. Thus, we need to manage exposure and see to it that we are not over exposed.

05. As a CFO, you are expected to play the role of both strategist and the business lead. How do you balance between company's financial goals vis-à-vis company's growth ambitions?

We have doubled our growth in last 5 years by investing in growth areas and gearing-up the related activities. On the other hand, we are also identifying the areas for not investing wherein the growth opportunities are minimal. We also understand that some parts of businesses require long-term investment due to their persistent gestation period and thus, we cannot cut the R&D spends in bad times.

For power generation equipment, there have been significant changes from government on the emission cycles. Also the technology has changed the game in automotive sector and significant money is being spent to invest on change from BS IV to BS VI (Indian emission standards – Bharat Stage IV to Bharat Stage VI). We have done R&D and technology investments in a big way and that too with comparatively less shareholder borrowing. We will need time of 3 years to recover and manage shareholders expectations. At the end, we ensure a "balancing mix" to meet company's financial as well as growth ambitions.

06. In today's dynamic world of economic volatility, tax reforms and changing regulations, the scope of CFO's responsibilities has constantly evolved. How do you build the right tWalent for your team?

We do not have any significant recruitment from outside for our finance function. People are grown within the organization and finance programs are in place. In good years we take around 20 chartered accountants (CAs) from campuses and in bad year 10-12 CAs. We identify people and send them on overseas assignments. We have lot of institutional tie-ups too for further educational courses. Based on their ranking, best performers are sent to Kellogg and remaining are sent to Indian institutes like, SP Jain, IIM, etc. Thus, we invest both time and money to groom talent within the organization and we also have senior management assigned to them as mentors. Thereafter, we have talent pipeline review every 6 months with leadership to identify our future talent. Thus, except for special skill tasks like tax, we do not recruit laterally from outside.

We do have iterations on both sides; the ones who would have had brighter future with us and the others whom we want to leave. We try and retain the ones we want to stay with us. We give them mix of exposure from US to India and of various businesses.

07. According to you, what are the three traits that describe a top performing CFO?

i. CFOs can no longer work in isolation They need to understand and be close to the business in building responsible partnerships. It's important to wear hats of both finance and business, along with governance and be part of valuable decision making with a vested interest for business growth.
ii. Be authentic and honest, by investing in themselves to create value for company to grow, and motivate self and team for delivering high performance.
iii. Lastly, **a CFO needs to spot opportunities in advance and encash them ahead of the competition.**

Expert Views

CFOs – Driving industry performance

Today, CFOs are important catalysts of Indian corporates driving business expansion, revenues, jobs and more importantly creating wealth for the organizations. In the current environment, CFOs are not supposed to be just strategists, but pragmatic strategists. It therefore is important to understand the outlook of a CFO towards the economy and business; which in turn helps the finance function to set their priorities right and strategize better in the dynamic environment. Deloitte India conducted a CFO Survey* which highlights the viewpoint of over 300 CFOs across industry on the Indian economy, investment climate, industry expectations and CFO's role.

Macro economy

90 percent of the CFOs expressed confidence in the economy over the medium and long-term. #

Strong economic performance amid global challenges, ongoing economic reforms, fiscal discipline, and astute monetary policy have contributed in shaping the positive outlook for CFOs; while there still exist significant economic challenges.

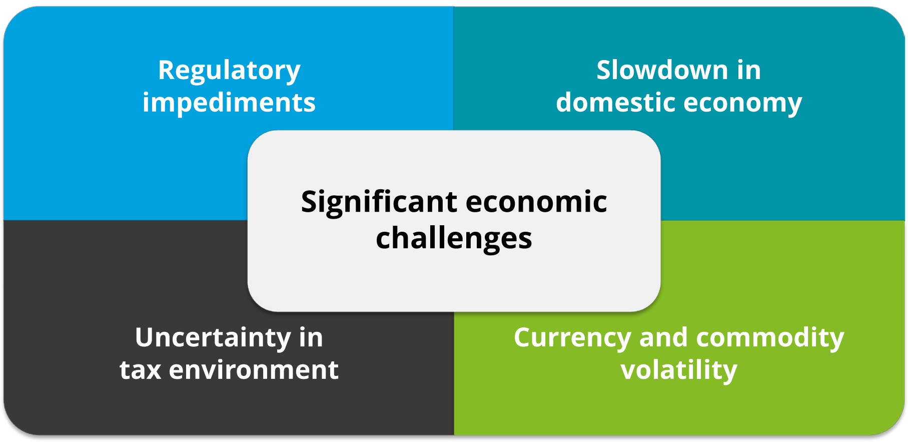


Fig.1 – Significant economic challenges faced by CFOs

The CFOs felt that a lot needs to be done to further improve the ease of doing business in India and the government also recognizes it as an area of further improvement. CFOs feel more confident about the government programmes and believe that rationalizing existing laws, encouraging FDIs, increasing governance efficiency and government's willingness to seek feedback from the industries have positively impacted the business environment. A large number of CFOs also seem to believe that the overall climate for investment has improved. However, they remain equally divided on whether it is the right time to take risks.

Industry expectations

> 25 percent CFOs believe that innovation and technology will drive future investment trends while 24 percent believe need to increase the market share and customer base would determine investment trends. #

In current environment it is important for CFOs to gauge industry expectation, which is driven by factors like, investment trends, domestic/ cross-border challenges in M&A and changes in technology. Investment trend expectations reflect corporate India's changing needs amidst the existing economic and business environment, whereas the M&A space has a number of issues that need to be addressed by the government to create a more favourable environment for companies and CFOs to operate in.

At the same time, in a volatile economic scenario where the pace of technological advances are continuously accelerating, CFOs need to adapt to these changes and implement them in order to optimize growth through technology.

Investment trends	M&A challenges	Technological changes	Industry challenges
• Innovation and technology	• Complex/ multiple regulatory approvals	• Analytics solutions	• Market growth
• Market/ customer expansion	• Governance structures	• Enterprise mobility solution	• Industry regulation/ legislation
• New product launches	• Unrealistic valuations	• Cloud based solutions	• Talent availability

Fig.2 – Top three investment trends, M&A challenges, technological changes and industry challenges

Drivers of business performance

CFOs are optimistic about their company's performance with almost 74 percent responding that revenues would increase over next 12 months and 48 percent responding that operating margins would also increase. #

CFOs are optimistic about increase in revenues in the next one year, but feel that operating margins look uncertain. Further, CFOs believe their capital expenditure will increase over the next one year giving credence to the fact that there were some green shoots of recovery in the investment cycle. Lastly, both working capital requirements and cash are expected to increase for the companies over the next year, which probably implies that they expect a higher inflation in both goods and services.

Looking at the regulatory framework, there are major hindrances in the complex regulatory environment which need to be addressed. The consequences of the burdensome and volatile regulatory environment have a significant impact on business operations, and craft fundamental issues which CFOs are challenged with in today's business environment. The matters relating to tax laws and the impending GST reform have the biggest potential impact on operations. Further, even as the government has tried to get rid of a number of hurdles for faster growth, there is still some way to go.

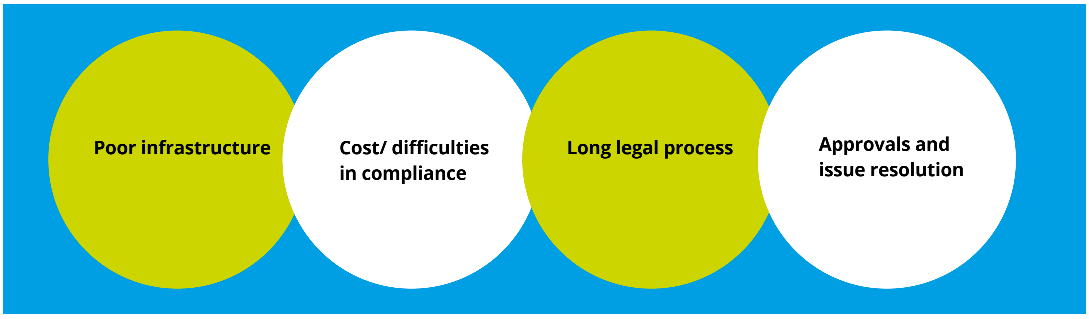
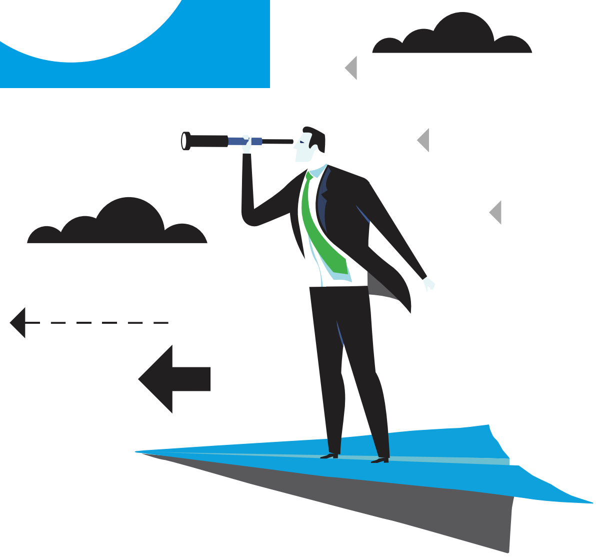


Fig.3 – Key business challenges of CFOs



In addition, frauds could be detrimental to the business performance and thus it is necessary for the CFOs to have stringent measure in place to avoid any such incidents. In our experience, incidents of frauds are rising; but only a few CFOs feel that their company is susceptible to fraud from third party elements. In order to efficiently tackle the risk of fraud, it is important to understand the types of fraud an organization could be vulnerable to. The contributors of fraud could be many, ranging from the lack of an efficient internal control/ compliance system, diminishing ethical values, inadequate due diligence on employees/ third party associates, unrealistic targets/ goals linked to monetary compensations; to name a few.

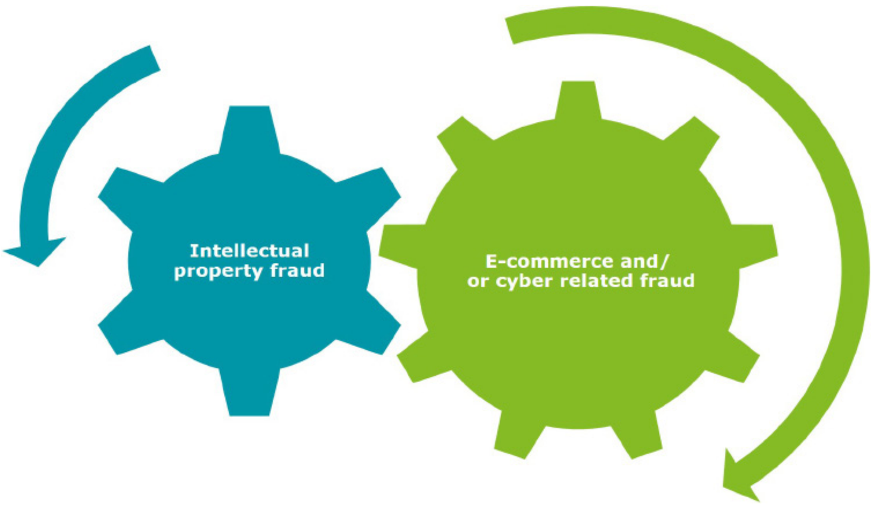


Fig.4 – Leading susceptible frauds perceived by the CFOs

Role of a CFO

Over 60 percent of CFOs surveyed believe regulatory compliance and streamlining of internal controls would be the key priorities for them in the near-term. #

It is evident that the CFOs are more focused towards technology and innovation, as it has become almost imperative to innovate in today's markets. The last few years has seen the emergence of big data analytics and a move to cloud based infrastructure bringing in more certainty and flexibility in businesses. Companies have to invest in all kinds of technologies to grow the business, identify trends, create efficiency and bring their businesses closer to the end consumer.

While the role of a CFO is changing and more is being demanded from them, the traditional roles remain as important as ever in the near-term. Today's CFOs are not only performing their traditional role of preserving the assets of the organization and running a tight and effective finance operation but also performing the role of strategists and contributing towards deciding on the direction of the business. In fact, the finance function itself is being considered by some as a strategic business partner.

We now operate in a very dynamic world wherein monetary and financing conditions have become interconnected and volatile. As the CFO role continues to evolve, it is imperative that finance executives up their game strategically. That doesn't mean simply knowing the latest strategy theory or fad. It means being able to advance your organization's growth or improve its competitive position by identifying the key constraints holding it back, and then using finance to free it from those constraints.

*** #** Deloitte India CFO Survey 2016, released in August 2016. For complete survey report refer to the link: https://www2.deloitte.com/content/dam/Deloitte/in/Documents/tax/in-tax-cfo-survey-2016-noexp.pdf

About Deloitte's CFO Program

The CFO Program brings together a multidisciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The Program harnesses our organization's broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO's career – helping CFOs manage the complexities of their roles, tackle their company's most compelling challenges, and adapt to strategic shifts in the market.

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