Overview

Economic activity in India has slowed down as its billion-plus population practices social distancing during the third phase of the national lockdown to stem the spread of COVID-19. As a result, companies are either currently experiencing or anticipating significant constraints on cash and working capital, including potential liquidity challenges.

Whilst the government and the Reserve Bank of India (RBI) have taken various initiatives to pump liquidity into the system most economists still see an economic contraction in FY ‘21. Cash flow management will be crucial in the days and months ahead, as will the speed at which the INR 20 trillion ($ 265 b) stimulus package from the Indian government that was passed on May 12 starts to flow through the economy. Responsibility of managing cash flows often falls directly on finance and treasury departments during a crisis and it is important that they are equipped with real-time information through digital tools to take decisions in a proactive manner. Depending on the industry, many companies will see lower revenue resulting in less cash flow, along with delayed receivables collection, as needs grow to step up funding to key suppliers to support the ecosystem. Companies should expect to become much nimbler in managing inventory given the uncertainty in the supply chain. It will, in turn, place demands on working capital.

This publication aims to capture some of the pressing issues faced by corporate treasury and provides our perspectives on how best to address these challenges.
What firms are expected to do now?

Now is the time for firms to test their incoming and outgoing cash flows by bucketing them across maturity cycles ranging from 30 days all the way to 120 days – similar to how banks and NBFCs normally do to monitor their short-term liquidity coverage ratio (LCR).

Firms will be expected to model worst-case scenarios and downsides, including the impact of foreign exchange (FX) and interest rate movements on the cash position – so that they can act in a measured way. It is equally critical to know the status of their cash and liquidity runway today, and what they anticipate it will be during the next 90 to 120 days?
Establish a robust short-term cash flow forecast and run multiple scenarios.

Model your cash needs for the next 3 to 6 months at least. A robust forecast identifies contraction trigger events and quantifies the impacts. Triggering events may include borrowing-base deterioration or a breach of loan covenants. As a part of this exercise, determine whether your existing processes and tools can handle the demands to quickly quantify the impacts. If not, this is the time to make process improvements and look for opportunities to deploy digital solutions.

At the same time, explore different scenarios and what-if analyses, such as a drop in sales or a reduction in cash collected, and be prepared to revise them often. If you wait for the complete picture, you will be too late to take any corrective actions. Scenario planning gives management the confidence to make needed decisions and to shape communications about their response strategy.

Understand minimum cash requirements.

An assessment of available cash and liquidity headroom is important. Identify how much cash you have pan India or globally and where it is located. Assess if it is restricted or readily available for use and identify the costs associated with movement of cash (such as, dividend taxes, transfer pricing etc.). Identify the key cash flows that may be exposed. Awareness of cash reserves or shortages, along with the liquidity position, will be a starting point for identifying opportunities to protect and improve your cash position.

Take appropriate actions to protect your financial position.

Once companies understand their financial position, it is time to take action so they can (at a minimum) address liquidity and working capital requirements. This will typically involve assessing opportunities to identify the financial and operational levers that can be pulled to conserve and generate cash and potentially increase access to funding.

Inflows: enhance efficiencies in cash collection process.

- Use analytics to target and prioritize working capital levers, such as offering incentives for earlier payment terms or reprioritizing customer cash collections.
- Mine existing processes to assess customer credit risk (Expected credit loss - ECL) in the current environment and determine any required actions.

Outflows: control the flow of outgoing payments.

- Consider ways to minimize non-essential outflows, such as discretionary spending, and defer capital expenditures.
- Reassess payment priorities by reviewing vendor relationships to consider opportunities to hold or defer outflows.
- Implement proactive and accelerated cost reduction initiatives that will have a cash impact, such as reducing operating expenditure including fixed and variable overheads and employee remuneration.
Re-engineer the inventory to sales (cash cycle).

- Assess critical raw material needs and risks to manage supply options.
- Recalibrate forecasts, replenishment triggers and targets to control production.
- Critically evaluate new orders, adjust, cancel, or redeploy where possible.

Deploy financial tools and enablers.

- Ensure optimum cash principles are in place and accelerate repatriation of funds to reduce cash being locked up in foreign subsidiaries or operations due to local regulatory restrictions.
- Use available credit facilities efficiently.
- Enable financing tactics and further leverage the balance sheet, such as supply chain financing solutions.

Establish a central point of control, visibility and communications.

Companies can consider setting up a central program management office (PMO) to help ensure consistency in managing the impact of COVID-19 and to rapidly respond to the range of operational and financial issues as they arise. Recognize that any crisis will disrupt the ways that cash moves across the enterprise and then prepare for it. In some cases, this may warrant a cash conservation office that controls expenditures.

Develop back-up plans for accounting and related back office operations workforce.

Accounting services need special consideration in an overall workforce action plan for COVID-19. It is crucial to maintain the ability to collect and pay invoices during a crisis. Some companies may prefer to outsource these activities. Other companies manage accounting in-house locally or through a shared services model. If the severity of COVID-19 continues, firms will need to consider contingency plan to perform their back-office operations remote.

Where the firms financial accounting and reporting is performed in-house they may need to determine the extent of staffing required to perform such activities remotely. Some companies are currently testing whether they are able to close the books and process transactions remotely with staff working from home.
How can EY help?

We have included below some of the typical challenges a firm may face in the short term and have provided our perspectives on how to best support them:
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<th>Typical challenges</th>
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<th>Outputs</th>
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<tr>
<td><strong>A) Accounting</strong></td>
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| 1. | Absence of any risk management techniques (hedging including hedge accounting) being applied towards your import and export transactions and overseas borrowings. | ▶ We will review the terms of your imports, exports and overseas borrowings and suggest suitable hedging techniques including the required hedge accounting for IRS, CCS, and FRAs to mitigate the risk of severe volatilities in interest rates, Fx and commodity prices. | ▶ Documented hedge accounting policies.  
▶ Model journal entries with impact on financial statements.                                                                                                                                                                     |
| **B) Process**                                                                  |                                                                                                                                                |                                                                                                                                                                                                       |
| 2. | Lack of treasury governance framework including inadequate investment policies    | ▶ Based on our experience, we can leverage on best practices to establish a robust liquidity framework effectively marrying the expectations of the C- Suite and finance and treasury function as an integrated unit.  
▶ We will support you in documenting customized investment policies and strategy to facilitate efficient and consistent decision making in investment matters including measures to diversify concentration risk across banking deposits and other corporate investments. | ▶ Well defined treasury governance framework along with terms of reference of the finance and treasury committee  
▶ Documented investment policy that is in line with best practices.                                                                                                                                                      |
| 3. | Absence of an end to end view by the treasury function of all sources of cash flow originations from the business | ▶ We will review the firm’s business model to understand the sources of cash inflows and outflows including the extent of documentation and obtain an understanding of the roles and responsibilities of the treasurer and his interface with the CFO and the heads of businesses including the CEO. | ▶ End to end process maps along with key financial controls                                                                                                                                                                                                     |
| **C) Oversight**                                                                |                                                                                                                                                |                                                                                                                                                                                                       |
| 4. | Lack of working capital management                                                | ▶ Based on our understanding of the firms’ contractual pay-out obligations and receipts from customers, we will provide potential scenarios covering further stress and break-even that firms could consider including the impact of their decision on finance, people, operations and reputation of their business. | ▶ Detailed scenario analysis document covering stress tests on liquidity                                                                                                                                                                                                 |

COVID-19 impact on corporate treasury
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<td>5.</td>
<td>Lack of discipline in fully optimizing contractual terms with suppliers and customers in bolstering cash position</td>
<td>▶ We will review a sample contractual agreement that you commonly enter with your supplier and customer and suggest definitive plans to help bolster your cash position.</td>
<td>▶ Suggested course of actions you should take based on our recommendations</td>
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<td>6.</td>
<td>Absence of a smart invoicing system to expedite the invoicing cycle</td>
<td>▶ We will suggest suitable easy to implement technological solutions to expedite your invoicing life cycle from generation, delivery to payments</td>
<td>▶ We will understand your invoicing process and suggest changes to ensure invoices are generated quickly and more efficiently.</td>
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<td>7.</td>
<td>Absence of cash pooling approach within group companies to use the collective power and liquidity surplus of each of its subsidiaries.</td>
<td>▶ Based on our experience in cash pooling, we will provide you with suitable approaches and solutions to leverage subsidiaries with surplus cash to provide liquidity injections to cash starved entities on a near term basis. We will also support in leveraging the power of the group company to collectively negotiate on the liquidity lines from the banking network.</td>
<td>▶ A document outlining our approach to cash pooling for your group based on our understanding of the way cash is held across your group.</td>
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<td>8.</td>
<td>Lack of application of any data analytics into the transactional cash inflows and outflows that forms the core of treasury.</td>
<td>▶ As the owner of corporate treasury functions and with increased reporting obligations and oversight due to regulatory changes (CARO-2020) we will assess the quality/ availability of information and identify GAPS and propose technology-based solutions to address these GAPS. We will leverage our in-house treasury analytics capabilities that are developed keeping in mind the top KPIs for investments (tracking performance), debt (long term and short-term borrowings) and Liquidity (monitor cash balances, OD/CC and idle balances etc).</td>
<td>▶ Treasury analytics dashboards considering the top KPIs for investments, debt management, liquidity monitoring with respect to cash credits/OD and the specific requirements of CARO as outlined in the previous column.</td>
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<td>Our solutions can include</td>
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<td>a. Real time dashboard which provide visibility on borrowing limits/ exposure to various currieries/ borrowing costs and hedging costs</td>
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<td>b. Compliance with financial covenants, which can also monitor compliances across the world</td>
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<td>c. Automate submissions to bankers directly from the books of accounts</td>
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<td>d. On real time basis, analyze the bank book and provide fund flow analysis which can also be mapped to budgeted cashflows- stress tests can also be build.</td>
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