

Transaction considerations arising due to Covid-19

July 2020

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The EY logo, consisting of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y'.

Building a better
working world

A man in a dark suit and tie is shown from the chest up, holding a glowing, wireframe brain graphic in his hands. The background is a dark blue grid with light blue lines and dots, suggesting a digital or network environment.

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Executive summary

COVID-19: Key investment considerations in responding to evolving *transactions landscape*

The spread and impact of COVID-19 is an unprecedented event in modern history, the full ramifications of which are still unknown and new implications being discovered everyday. The dynamic situation along with its simultaneous impact on demand and supply, is affecting all industry ecosystems and consumer behaviours at many different levels.

Markets have been disrupted in the short term and this impact will continue over the medium and longer term as well. This has led to a significant impact on the transactions landscape, though, the impact has varied by sector. As in previous crisis cycles, investors who have the right focus and risk management framework for deal evaluations, have the opportunity to make significant returns and build large and impactful businesses.

As many sectors and industries are being disrupted by COVID-19, investors and board members need to ask a new set of questions before approving the next investment, merger, acquisition or divestiture.

The traditional deal evaluation and diligence methodologies require a rethink in this new normal as the economic environment, geographic risk, market and competition risk are being reset everyday. This document aims to address some of the key emerging themes and the consequent investment considerations that need to be evaluated in this rapidly evolving transaction landscape.



Covid-19 will have significant implications on the economy

Macroeconomic impact



Significant dip in GDP growth while India continues to be among the fastest growing economies globally



Adverse impact on fiscal deficit due to dual impact of fiscal stimulus and lower revenue collections



Substantial erosion of investor wealth due to flight of foreign capital



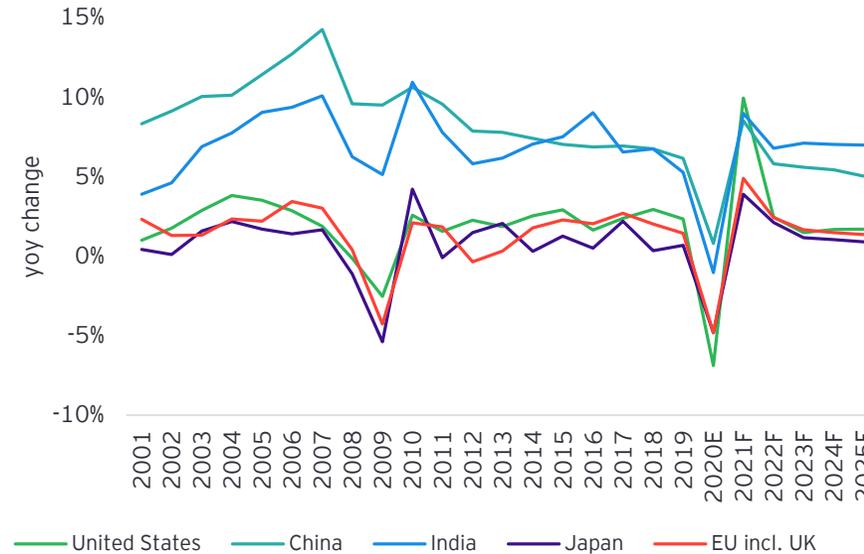
India's response - economic recovery to commence with graded relaxation of lockdown from May

Stringent national lockdown
Stringency Index (100=strictest)



100 95.2 90.5 71.4 66.7

GDP (PPP exchange rate, real, US\$)



Current sectoral impact

High

- Travel and tourism
- Trading and logistics
- Automotive
- Construction and Real estate
- Energy

Severity of Impact

- Retail
- Education
- Financial Services
- Healthcare

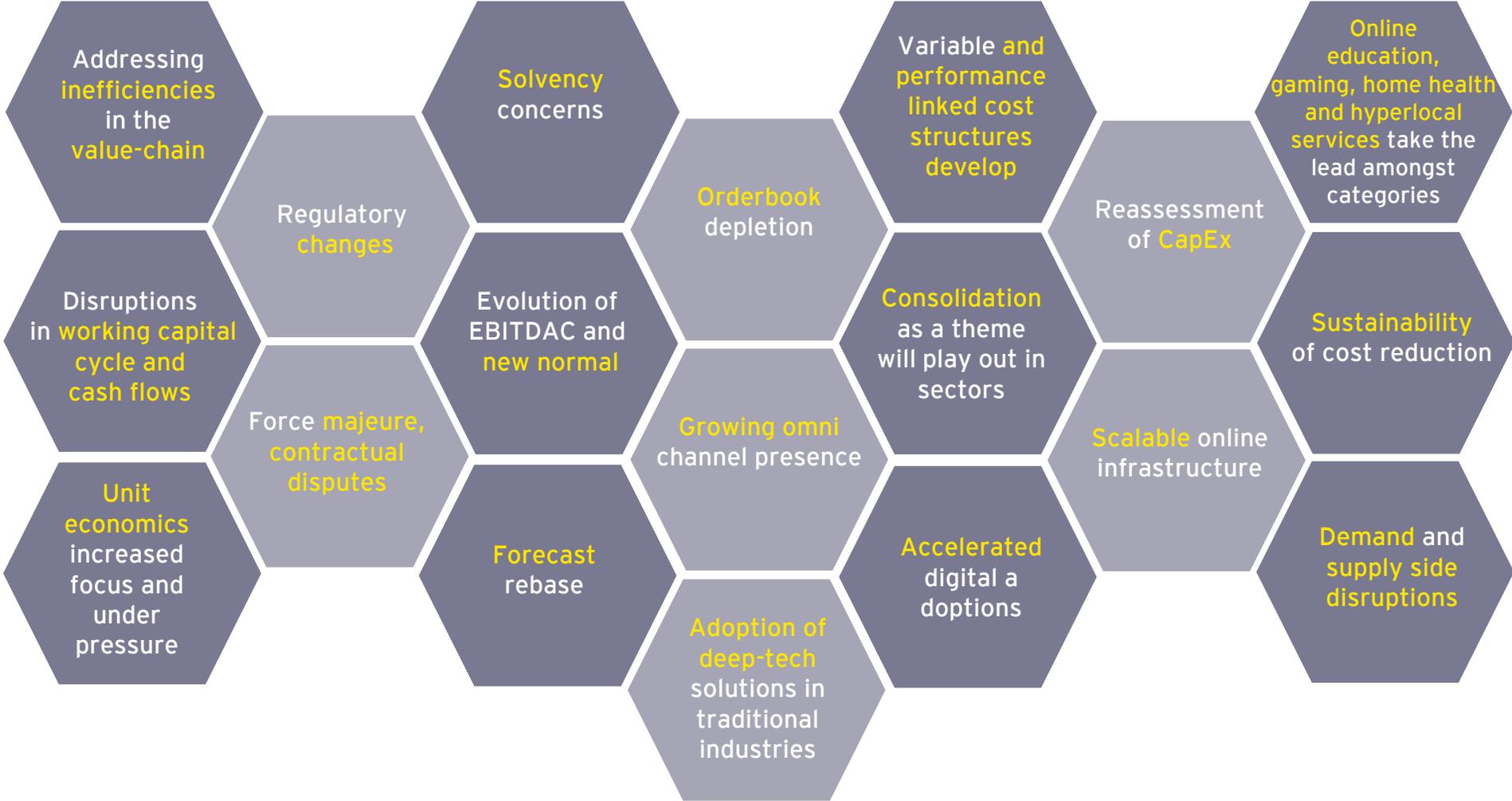
Low

- Non-essential FMCG
- IT services
- Data centers
- Pharmaceuticals
- Essential FMCG
- Consumer internet
- Telecom

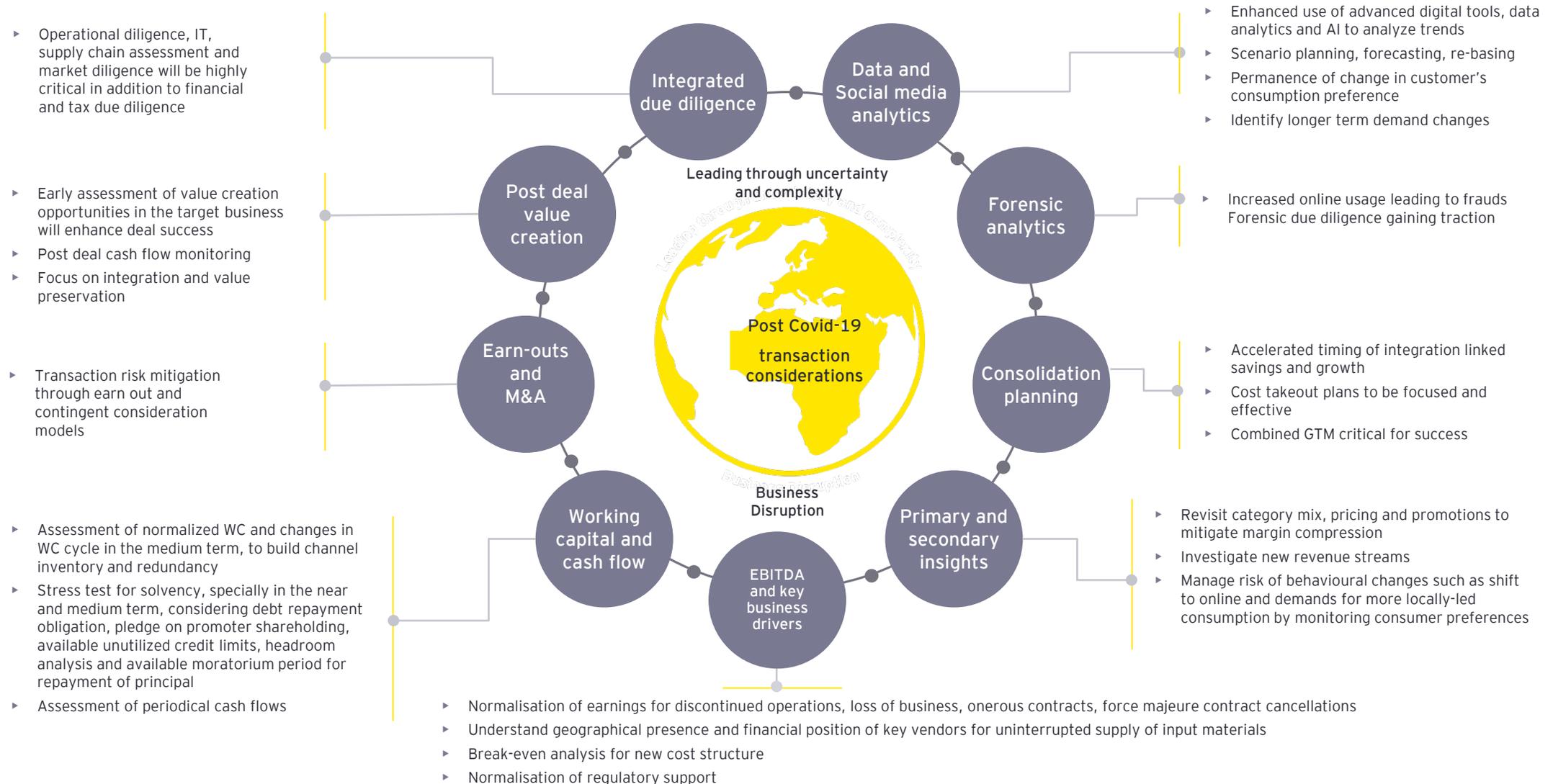
Multiple sources: Source: Oxford Economics accessed April 28th, 2020, Oxford, Bloomberg, Reuters & RBI.



Themes emerging from COVID 19



Key emerging themes require consideration for *deeper due diligence*

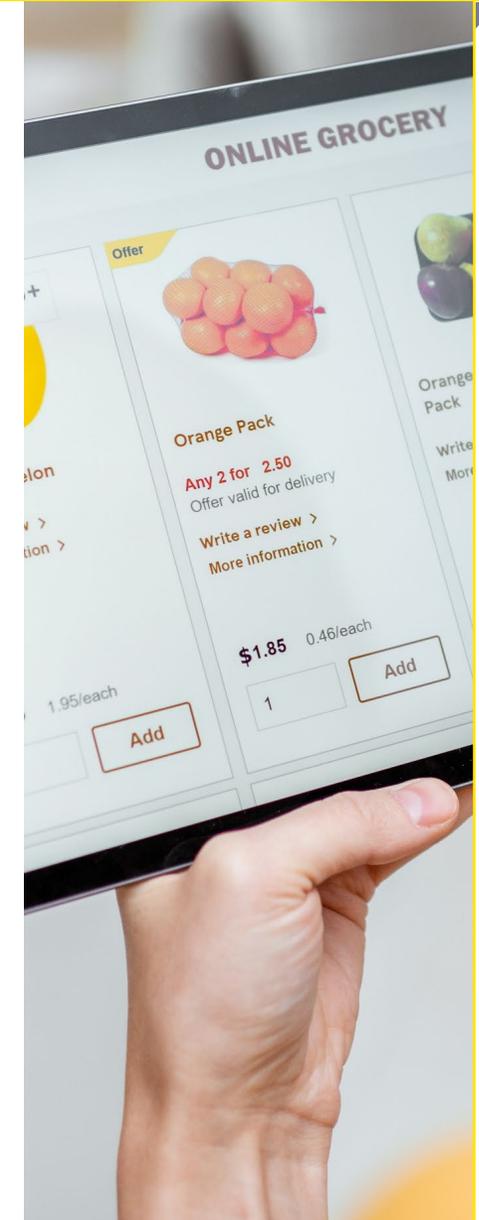


Sectoral considerations





e-Commerce and consumer internet

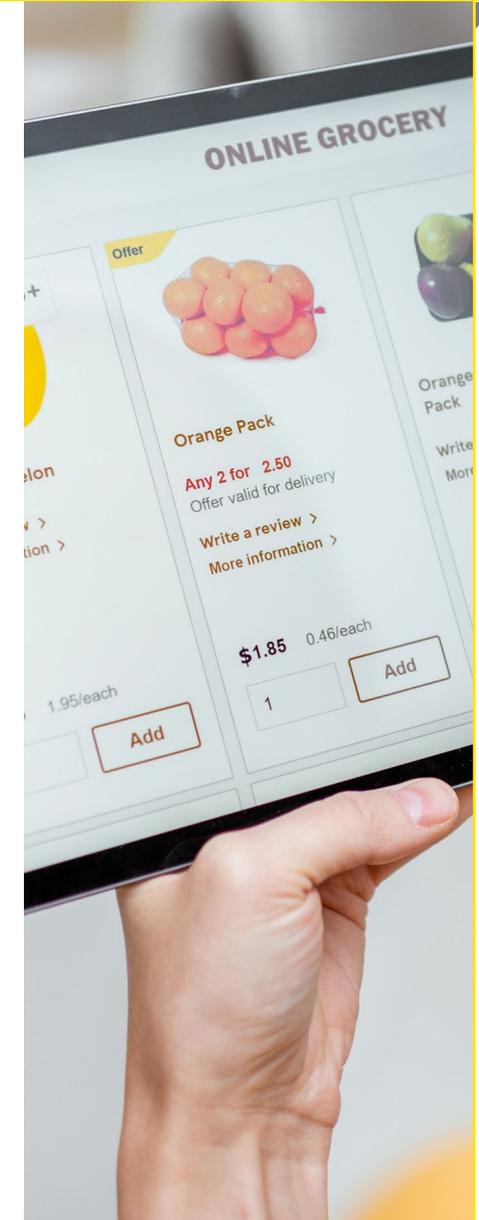


Area	Key impact	Investment considerations
Changing business models and evolving product portfolios	<ul style="list-style-type: none"> ▶ Decline in demand with exception of essential, healthcare, education/upskilling, digital payments and online entertainment sectors; slower recovery is expected for other sub-sectors ▶ Restrictions on non-essential items necessitated for businesses to pivot to essential items ▶ Online businesses and kirana /retail stores to see close collaboration ▶ Offline businesses will adopt omni channel models ▶ Increase in digitization across all key segments 	<ul style="list-style-type: none"> ▶ From a sustainability perspective: <ul style="list-style-type: none"> ▶ Fluctuations in demand (including upswing) across sector in medium to long- term ▶ Evolving product portfolio mix due to (i) restriction on non-essential products and movement (ii) increased demand for health products (sanitizers, masks, etc), (iii) shift from sachets to bulk pack sizes ▶ Change in revenue/business model and retention of gains in wallet share achieved during lockdown ▶ Customer behaviour on operational metrics including user engagement (DAU, MAU, No of sessions, order velocity, etc.) on platform post COVID is key ▶ Omni-channel strategy adopted including approach and partnerships with digital eco-system players; likely to face competition which requires greater evaluation
New streams of revenue	<ul style="list-style-type: none"> ▶ New partnerships between different online businesses (hyperlocal and B2C players) ▶ Companies may explore new revenue streams to offset decline in traditional sources of revenue 	<ul style="list-style-type: none"> ▶ Management's strategy to obtain actionable insights from user data to improve current supply chain framework and also its strategy to monetise the same as a way to counter decline in revenue ▶ Ability to monetise platform via advertising, platform as a service (PaaS) and other similar models; achievability and sustainability of such models will be critical ▶ Alliances formed, if any, with other players like pooling of resources for last mile connectivity; assessment of impact of increase in scale on such alliances will be key ▶ Ability to recover cost of niche services like contactless delivery, special hygienic packaging, same day delivery, preferred delivery option, etc.
Supply chain related matters	<ul style="list-style-type: none"> ▶ Both domestic and international supply chain networks are disrupted due to various measures taken by governments/local authorities which will result in increase in lead time for goods, particularly, for goods imported from China ▶ Unavailability of manpower ▶ Vendor base disruption due to lockdown/erosion of financial strength 	<ul style="list-style-type: none"> ▶ Impact of disruption in supply chain will have to be factored in models ▶ Impact of lower demand density on unit economics ▶ Ability to establish distributed vendor base; essential to efficiently serve larger geography ▶ Management's plans for hiring at scale given lack of availability of manpower; skilling alliances, technology for health management and demand-supply clustering ▶ Employment models (on-rolls vs. contractual) and variable pay structures





e-Commerce and consumer internet

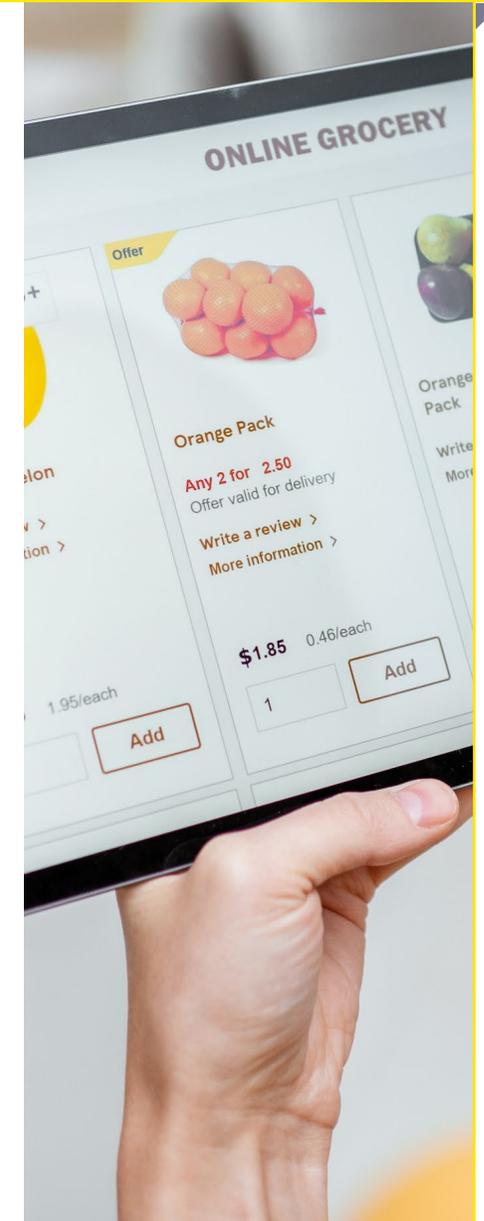


Area	Key impact	Investment considerations
User acquisition and retention : <ul style="list-style-type: none"> ▶ Life time value (LTV) ▶ Cost of acquisition of users (CAC) 	<ul style="list-style-type: none"> ▶ Change in consumer behaviour with increase in online shopping ▶ Increase in customer addition without increase in discounts/offers/marketing spends ▶ On-boarding of sellers of essential items/partner stores was accelerated on digital platforms ▶ Decline in promotional offers, cashbacks, or other forms of discounts ▶ For non-essential items, marketing spend likely to increase in post lockdown period ▶ LTV will be impacted due to various factors including changes noted in product mix, AOVs, user retention rates, adoption of digital payments/prepaid orders, etc. 	<ul style="list-style-type: none"> ▶ Sustainability of organic growth vs in-organic growth in users and related impact on CAC, retention and LTV ▶ Trends in user base (both active and transacting) and user engagement levels during and post lockdown period ▶ For online players focussing only on non-essential items/services, impact on marketing spend post COVID as businesses lure customers back to their platforms ▶ While discretionary discounts are likely to go down in near future; sustainability and implications on growth will have to be factored in models ▶ Marketing strategy for retention of partners acquired during lockdown will be critical ▶ ROI on marketing channels and management's strategy to optimise marketing costs is essential ▶ Assessment of LTV (in medium and long term) post COVID is important from sustainability perspective ▶ LTV at user cohort level is critical for businesses to demonstrate quality of users and unit economics
Sustainability of unit economics	<ul style="list-style-type: none"> ▶ Impact on realizations, AOVs, take-rates, logistics costs, surge in number of orders ▶ Increase in the near-term operational cost on account of logistics and supply constraints, along with additional costs pertaining to hygiene and safety measures ▶ Decrease in cash collection charges due to decline in COD orders ▶ Headcount reduction and pay-cuts ▶ Reduction in fixed overheads ▶ Companies to re-visit continuance of non-performing SKUs or services as focus will shift from GMV growth to positive unit economics and profitability 	<ul style="list-style-type: none"> ▶ Pivot towards marketplace/hybrid models or increase focus on SOR arrangements will require evaluation for impact on take rates, first mile costs, inventory levels, associated warehousing costs and turnaround time (TAT) ▶ Different components of unit economics/contribution margin (CM1 to CM3) at product category level need to be assessed post COVID from sustainability perspective for various matters including below: <ul style="list-style-type: none"> ▶ Change in realisations due to change in product mix, AOVs, decline in discounts/offers ▶ Take-rates for digital marketplace models as offline businesses are on-boarded onto digital eco-system ▶ Costs of delivery partners due to labor shortages, restriction on movement, temporary surge in orders during days immediately following lockdown ▶ RTOs and cash collection charges due to increased adoption of prepayments/digital payments. ▶ Costs of new safety measures introduced by the companies ▶ Current level of headcount/employee cost and any other cost reductions/optimization achieved during lockdown ▶ Rationalization of physical footprint of offline and omni-channel businesses ▶ Capacity utilization (for warehouse, fleet, employees, etc).





e-Commerce and consumer internet



Area	Key impact	Investment considerations
Strategic acquisition and consolidation across segments	<ul style="list-style-type: none"> ▶ Start-ups and loss making enterprises would see challenges in cash flow, in the absence of easy financing avenues; founders/existing investors of cash starved companies may choose to consolidate operations with a larger player having access to financing or larger investor base ▶ Acquisitions for scale and category expansion will likely take place ▶ Offline businesses may look for strategic investment in digital players 	<ul style="list-style-type: none"> ▶ Acquisition strategy for new products and adjacent areas, roll-up strategy for scaling and acquisition for technology needs to be relevant to overall strategic vision and direction; value accretion will require deeper understanding as well as integration planning ▶ Acquisitions/alliance model for players moving into digital ecosystem will require greater stress testing in light of various available opportunities ▶ Regulatory implications on cap table through non-cash consolidation with respect to direct/indirect FDI inter-alia from China
Working capital and cash flow	<ul style="list-style-type: none"> ▶ Inventory build-up of non essential commodities and stockout situation of essential items ▶ Potential risk of non-collection/delay in collection of dues and advances ▶ New CapEx deferment 	<ul style="list-style-type: none"> ▶ Working capital days due to delay in collection of receivables, inventory build-up of non-essential items and delay in recovery of advances from business partners ▶ Impairment of inventory including provision and write off of obsolete inventory or goods nearing expiry or out of season stocks ▶ Loss on liquidation of old stock particularly of non-essential items (specially apparels and consumer durables) ▶ Monthly cash-burn and near-term funding requirement of business ▶ EMI burden for owned assets including management's plan for servicing of accumulated principal and interest after moratorium period ▶ Hold back of discretionary spending on CapEx; sustainability of such management's plans
Technology	<ul style="list-style-type: none"> ▶ Deployment of technologies to drive efficiencies in fulfilment and demand forecasting 	<ul style="list-style-type: none"> ▶ Investment in technology required for increased digital adoption such as automation, IoT and AI to build efficiencies in supply management and customer user interface ▶ Investment required in current infrastructure to manage cyber security and data privacy concerns
Regulatory and contractual obligations	<ul style="list-style-type: none"> ▶ Non-adherence to contractual commitments with business partner/customers ▶ Regulatory changes 	<ul style="list-style-type: none"> ▶ Existence of claims/liabilities with respect to non-fulfilment of minimum commitment (specially in sectors such as co-living, co-working, LogiTech, etc.), TAT and impact of invocation of force majeure clause ▶ Recent changes to regulatory framework like equalisation levy, FDI, change to definition of MSME, stimulus package, etc.





Domestic pharmaceuticals



Area	Key impact	Investment considerations
Business performance	<ul style="list-style-type: none"> Absence of OPD and doctor clinics, supply chain disruptions, decline in medical needs and hospital demand due to lockdown would impact revenues for most pharma companies in the short to medium term Acute and discretionary (derma, dentistry) therapy demand more adversely affected relative to chronic 	<ul style="list-style-type: none"> Trends in order inflows from stockists on a monthly basis By SKU monthly run rate of primary and secondary sales trend - assess if the volume show any signs of revival post resumption of activities Change in mix in chronic vs. acute products - risk assessment around permanent loss of sales in acute category (e.g., seasonal infections, gastro, dental, derma) and lumpiness in chronic segment Additional channel margins/free goods to push sales Scenario analysis on varying growth rates and assumptions for top products
Operating model	<ul style="list-style-type: none"> Existing operating model of doctor engagement would change significantly Cost reduction strategies put in place to conserve cash in medium term 	<ul style="list-style-type: none"> Whether the company has made investment in digital framework to reach doctors as well as other IT tools; and differentiated methods adopted Traditional metrics of performance evaluation and productivity of sales force may not be relevant going ahead. Has the company initiated any new ways and means of monitoring of MR performance/productivity and doctor engagement outcomes through effective digital/IT framework Significant change in cost structures - for instance, sales related costs including promotional costs may reduce on one hand but could give rise to higher IT costs and channel rebates in various forms Certain cost reduction strategies (on discretionary spend) adopted may be temporary. Assessment of sustainability of lower spends for each category of spend (e.g., management salary, incentives, sales and promotion spend)
Working capital and cash flow	<ul style="list-style-type: none"> Quality of net working capital (NWC) may deteriorate and may not be comparable with previous periods Enhanced leverage to bridge the cash flow issues 	<ul style="list-style-type: none"> Stretch in NWC with prolonging receivables days and prioritised payments to vendors. Analysis of monthly trends in NWC balances and detailed discussion with management necessary to understand the reset NWC levels Ability to manage working capital spikes through additional funding (borrowed/existing reserves/equity infusion) Expiry/Ageing profile of inventory assumes increased risk Deferral of CapEx plans, suspension of ongoing CapEx





Domestic pharmaceuticals

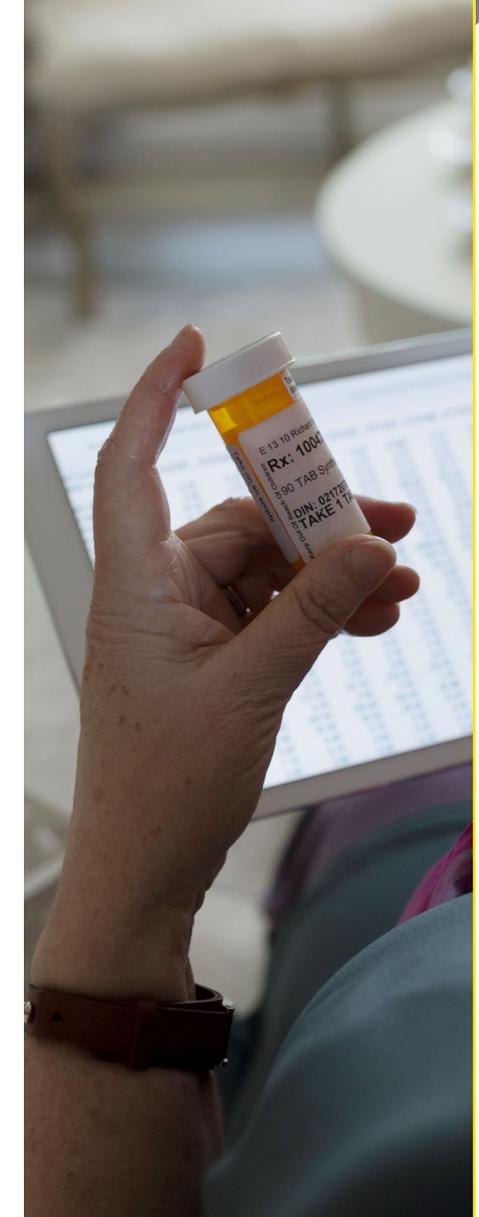


Area	Key impact	Investment considerations
Supply chain and operating margins	<ul style="list-style-type: none">▶ Sourcing challenges, both availability and pricing issues▶ Gross margins could be impacted due to decline in ASPs on one hand and increase in input prices on the other▶ Unabsorbed overheads due to lower capacity utilization▶ Increase in non-saleable returns/expiry damages▶ Additional costs to meet regulatory requirements and safety norms	<ul style="list-style-type: none">▶ Accruals for sales returns and expiry/damaged goods▶ Identification and continuity for sourcing of raw material/packing material. Efforts undertaken to develop alternative vendors would be relevant. Shifts in source of country for certain raw material items could impact procurement prices permanently▶ Increased transportation costs and continuity of such higher costs▶ Ability to pass on increase in API costs post COVID-19▶ Factoring in additional costs incurred at facilities to take preventive care on COVID-19 or comply with the local regulations like social distancing, consumable items needed for protection against COVID-19, additional accommodation to employees, assistance to migrant labors, etc.▶ Unabsorbed overheads due to lower capacity utilization (pursuant to restriction on movement of personnel, un-availability of labor, absence of key raw materials, etc.) - impact of these on inventory valuation and profitability





Healthcare



Area	Key impact	Investment considerations
Business performance	<ul style="list-style-type: none"> ▶ Reduction in overall occupancy on account of delay in electives ▶ International and upcountry business impacted ▶ OPDs have dwindled 	<ul style="list-style-type: none"> ▶ Carve out of COVID-19 linked operations to understand the performance of normal operations ▶ Fortnightly/Weekly performance in terms of occupancy, average revenue per patient (ARPP) and average revenue per bed (ARPOBs) by unit split by Speciality ▶ Dependence on sourcing patients from doctor network with reduced sales force and lesser outreach programs ▶ Ability and willingness to have partnerships/make acquisitions and O&M arrangements with smaller units in upcountry pockets ▶ Footfalls in OPD avoided or postponed - how fast has the ramp up been post resumption? ▶ Processes and systems established around potential revenue leakage around online consultations ▶ Revisions made in tariff especially for procedures and surgeries ▶ Impact on ARPOBs due to a faster shift in patient mix towards TPA vs Cash ▶ New stream of revenues like homecare, e-pharmacy, telehealth, etc.
Operating costs and fixed overheads	<ul style="list-style-type: none"> ▶ Cash burn due to high fixed costs ▶ Efflux of migrant labor especially nurses 	<ul style="list-style-type: none"> ▶ Increase in cost of healthcare delivery (material usage, safety protocols, etc) and ability to recover these costs, mainly for government schemes ▶ Temporary and permanent renegotiations made with doctors - shift from minimum guarantee (MG) to fee for service (FFS), reduction in MG levels, linkage to customer recoveries ▶ Increase in employee welfare costs with better hygiene and safety norms around transport and accommodation ▶ Impact of relaxation of labor laws on the overall labor costs ▶ Infrastructure costs post renegotiations including AMC, CMC, rental costs, etc. Some of these may be temporary
Working capital and cash flow	<ul style="list-style-type: none"> ▶ Delay in receipt from TPA and PSUs/corporates 	<ul style="list-style-type: none"> ▶ Receivables to be discerned to identify higher disallowances and deductions due to malpractices or lack of clarity on certain recoveries ▶ Current level of receivables and working capital may not be normal due to expedited recovery of Government dues as part of stimulus; provisioning policy to be reassessed ▶ Deferment in payables (elective procedure linked) to few vendors/renegotiations ▶ Ability to manage working capital levels given delay in recovery of government scheme payments - external borrowings, internal reserves, equity funding

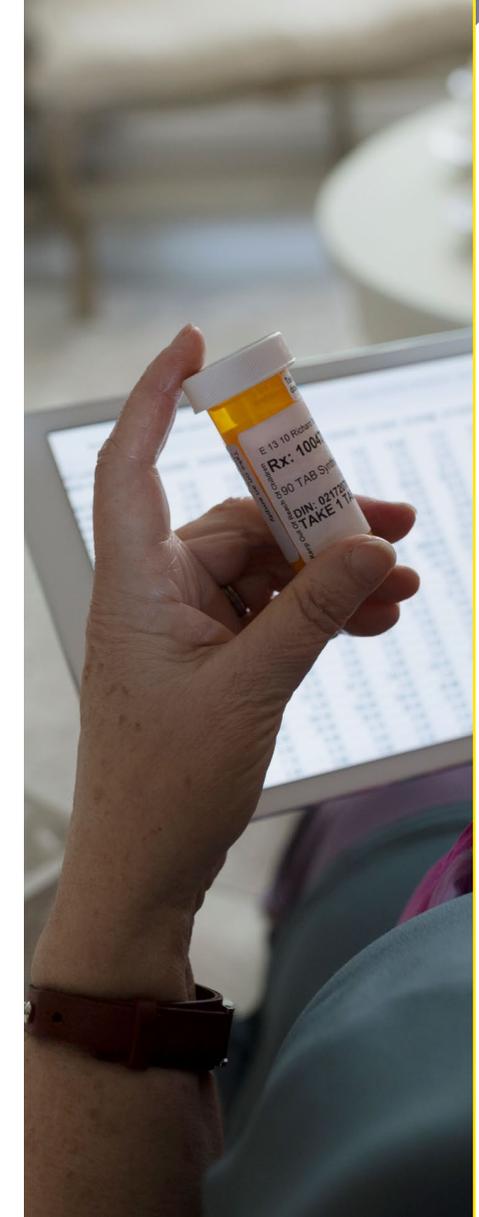




Healthcare



Area	Key impact	Investment considerations
CapEx	<ul style="list-style-type: none">▶ Minimal budget available for CapEx▶ Possible new regulations/protocols for infrastructure	<ul style="list-style-type: none">▶ Assess quantum and nature of deferred CapEx and cash outflow required for the same - especially critical CapEx backlog▶ Assess CapEx requirement for: a) enhancing the capacity and b) adherence to any new protocols from government▶ Change in census capacity with space optimisation between IPD and OPD





Technology (IT/ITES)

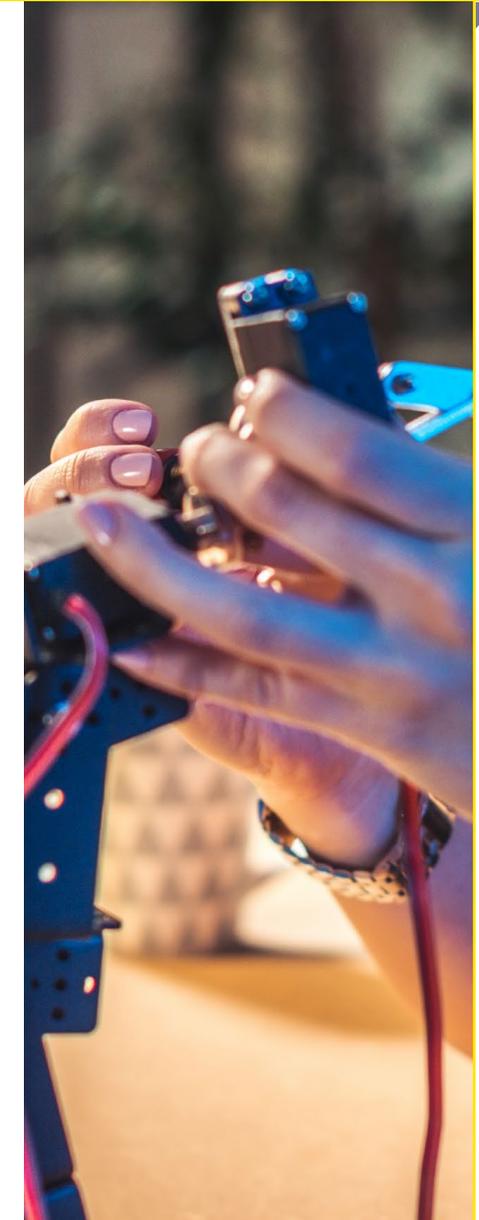


Area	Key impact	Investment considerations
Business performance	<ul style="list-style-type: none"> ▶ Overall decline in IT spending (esp. discretionary spending) with pockets of growth opportunities: <ul style="list-style-type: none"> ▶ Opportunities for cloud service providers as well as businesses that are working with emerging technologies like AI, analytics, and robotics ▶ Digital-at-scale modernization trend will continue ▶ The BPO work that is most impacted is voice-based, with transaction and platform processes less affected ▶ Vertical mix will have varying impact on technology providers <ul style="list-style-type: none"> ▶ Hardest hit industries include entertainment, air transport and heavy industry, taking over three years to come back to 2019 IT spending levels ▶ Pandemic has forced some of the IT services clients to invoke force majeure clauses while a few others terminated or suspended some of the ongoing projects ▶ Vendor consolidation by large consumers of IT services ▶ Pricing pressure on traditional IT and BPM services ▶ Demand driven or outcome /output based pricing is expected to increase ▶ Divestiture/Carve outs of GCCs to third parties ▶ Impact of travel restrictions on sales engine 	<ul style="list-style-type: none"> ▶ Service mix from: <ul style="list-style-type: none"> ▶ Technologies that help businesses in cutting down costs, workplace automation, reducing CapEx and upgrading to advanced technologies ▶ Digital transformation capabilities, client experience, data and insights ▶ In BPO: Voice-based vs. transaction and platform ▶ Customer mix as different sectors and geographies expected to experience differential impact, important to refocus exposure to most affected sectors ▶ Contract clauses relating to customer rights under force measure and legal implications of delivery disruptions caused by the pandemic ▶ Wallet share in customer spending, criticality of the services for the customer operations and upcoming renewals/RFP milestones ▶ Mix of input vs output vs outcome based pricing models focused on traditional IT services and potential impact of revised pricing on gross margins ▶ Growth opportunities in terms of available GCC portfolio where existing technology providers can add value ▶ Existing sales model and pipeline built up during pandemic. Adoption of online measures for business development over traditional travelling model. Reshaping of sales teams across geographies





Technology (IT/ITES)

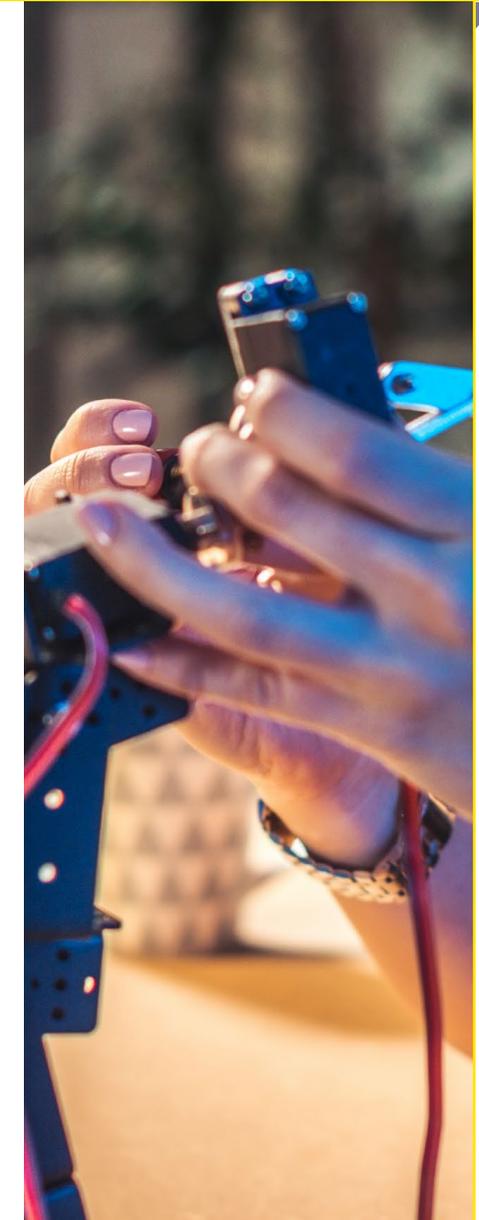


Area	Key impact	Investment considerations
Changes in the cost structure	<ul style="list-style-type: none"> ▶ Focus on optimizing delivery structure (i.e., higher span of control for team leaders/managers) to reduce costs ▶ Sudden change in demand may impact utilization in (the) short term thereby impacting margins ▶ Companies forced to eliminate wasteful expenditure and formalize cost savings plan <ul style="list-style-type: none"> ▶ Severances and pay cuts - one time vs. run rate impact ▶ Temporary vs. run rate changes in office overheads and lease rentals ▶ Adequacy of cyber security framework keeping in view the WFH targets ▶ Impact of FX movement and one time hedging gains/losses on near term profitability ▶ Tax and regulatory compliances under the new norms including health and safety 	<ul style="list-style-type: none"> ▶ Opportunities identified or implemented by the companies to take advantage of increasing span of control due to WFH shift and pricing pressures ▶ Impact of utilization on margins and recent trending in stabilised utilization in comparison to pre-COVID levels ▶ Impact of pay cuts or changes in pay structures on the people run rate cost eliminating the impact of temporary cost saving measures ▶ Run rate impact on the office overheads due to employee WFH shift and lease rental renegotiations or surrender of vacated capacity ▶ Adequacy of cyber security infrastructure and measures in place along with robust disaster recovery plan (DRP) and business continuity plan (BCP) ▶ Impact of sudden currency fluctuations (e.g., gains due to currency devaluation), changes in the hedging policies and long term changes compared with the contractual terms relating to currency driven pricing adjustments ▶ Adequacy of measures in place to enhance employee trust and comply with government policies specific to dealing with pandemic situation including social distancing and employee safety norms.
Work from home	<ul style="list-style-type: none"> ▶ Customer acceptances for moving delivery from home may vary across companies ▶ Impact of decrease in employee productivity and resulting changes in the pyramid ▶ Extent of variable structure of the employee costs and incentives ▶ Talent acquisition from tier II and III cities for traditional IT and BPM services ▶ Companies face challenges in organizing thousands of computers and internet connections to employees at short notice, impacting work 	<ul style="list-style-type: none"> ▶ Contractual positions where customer approvals are necessitated as well as extent of sensitive customer data handled by the employees ▶ Revised productivity levels taking into account (i) time saved from travel, (ii) time lost due to lack of physical proximity, (iii) time necessitated by new procedures for effective collaboration as well as innovative workflows to ensure quality delivery ▶ Changes in the pyramid and span of control due to WFH environment ▶ Access to larger talent pools and corresponding impact on salary costs ▶ Extent of WFH equipment fulfilment pre and post-COVID and corresponding impact on revenue generating work





Technology (IT/ITES)



Area	Key impact	Investment considerations
Projections	<ul style="list-style-type: none"> ▶ Impact of order cancellations and deferments on sales projections ▶ Impact of SLA amendments and higher liability clauses in customer contracts ▶ Reduced instances of price escalation and COLA (cost of living adjustment) clauses in future contracts ▶ Cash requirements on a weekly/monthly basis to support business plan ▶ Reset of volume incentives and productivity gain sharing ▶ Contracts turning into onerous obligations due to changes in the cost structure ▶ Impact of accounting policy changes (fair value measurements, revenue recognition criteria for collections, long term employee benefits, etc.) on financial results 	<ul style="list-style-type: none"> ▶ Rephasing of revenue waterfall against open backlog and order book taking into account the delays and change orders during pandemic period ▶ Impact of: <ul style="list-style-type: none"> ▶ SLA misses during pandemic disruptions and corresponding liabilities and how the same being negotiated with the customers ▶ Volume commitments, incentives and productivity gain sharing due to change in contract economics posed both by changes in the customer businesses and delivery metrics ▶ COLA and contractual escalations embedded in the margin profile ▶ Intramonth cash requirements and potential negative cash traps ▶ Extent of long term or government projects turning into onerous obligations due to limited flexibility of resetting the financial terms ▶ Level of judgement involved in accounting for revenue and cost and impact of any significant uncertainties leading to timing differences in revenue recognition
Working capital and cash flow	<ul style="list-style-type: none"> ▶ Longer working capital cycle driven by delays in customer collections ▶ Higher bad debts caused by customer incapacities and bankruptcies ▶ Cash flow pressures may lead to deferment of critical R&D spends ▶ Cash trapped in foreign jurisdictions ▶ One-time new CapEx for virtual shift and post lockdown restart ▶ Higher cash buffer needed to avoid cash out during uncertain situations 	<ul style="list-style-type: none"> ▶ Subsequent customer collections (separately for pre-COVID billings and billings raised during the pandemic) ▶ Collections cycle experienced by industry leaders/peers in determining the new collections cycle ▶ Customer profiling by industry clusters and customer size (MSME, SME, large, government, etc.) to assess the risk of bad debts. Extent of confirmations available with the company ▶ Cash spent towards R&D in pre and post-COVID to assess the cyclical impact on future roll outs and revenue replacement ▶ CapEx spent to meet immediate laptop and bandwidth requirements (OpEx vs. CapEx model), company's policy for supplementing demand for IT accessories and impact on IT repairs cost during WFH ▶ Amount of cash buffers needed to avoid cash out situations due to increased uncertainties





Financial services

Life insurance



Area	Key impact	Investment considerations
Premium	<ul style="list-style-type: none"> ▶ Slowdown in growth of the new business in ULIP and endowment ▶ Traction in term business is expected to improve post COVID-19 ▶ Increase in the premium rates ▶ Future growth could be impacted due to delay in expansion ▶ Decline in premium due to grace period of two months 	<ul style="list-style-type: none"> ▶ New business mix % could change in favour of Non-par policies vs. ULIP and Non-PAR. Lower growth in ULIP and non-PAR could be due to market conditions and higher premium rates in Non-PAR vs. PAR <ul style="list-style-type: none"> ▶ Build new channels, products (term plan, savings), etc. to garner new business post lockdown ▶ Improvement in renewals could be through higher correspondence with customers, change in incentives of renewal teams which could result in higher cost ▶ Traction in term and non-PAR insurance is expected to improve over the period. Companies will have to revisit business plans: <ul style="list-style-type: none"> ▶ New products/revamping previous products for term and endowment ▶ Grace period would have some impact on persistency - likely to be lower persistency ▶ Revision in commercials for channels and incentives of sales team ▶ COVID-19 could result in higher mortality rates. This will result in increase in premium rates for existing and new products ▶ Weak economy would have impact on savings and may impact new business growth in current and coming year ▶ Future growth in the business could be impacted as companies have delayed their expansion plans such as branches, hiring, etc. Business plan should factor in the delay in expansion ▶ Renewal premium would be lower in FY21 as IRDA has given grace period. This needs to be factored while projecting growth in the subsequent period ▶ Geographical shift in business as COVID has lower impact on non-metro cities vs. metro cities. Investment would be required to fuel the growth in non-metro cities
Claims	<ul style="list-style-type: none"> ▶ Higher death claims due to COVID-19 ▶ Lower performance could result in outflow in ULIP schemes 	<ul style="list-style-type: none"> ▶ COVID19 could result in higher mortality rates however actual increase may need to be seen as larger part of population are uninsured. This would result in higher death claims thus resulting in higher outflow vs. budgeted outflow. Revision in mortality rates could impact the actuarial provision on the existing policies ▶ Due to market condition, ULIP schemes could have lower return which would result in higher outflows in ULIP funds. Outflow would be higher in the seasoned policies as surrender charges are low post five years





Financial services

Life insurance



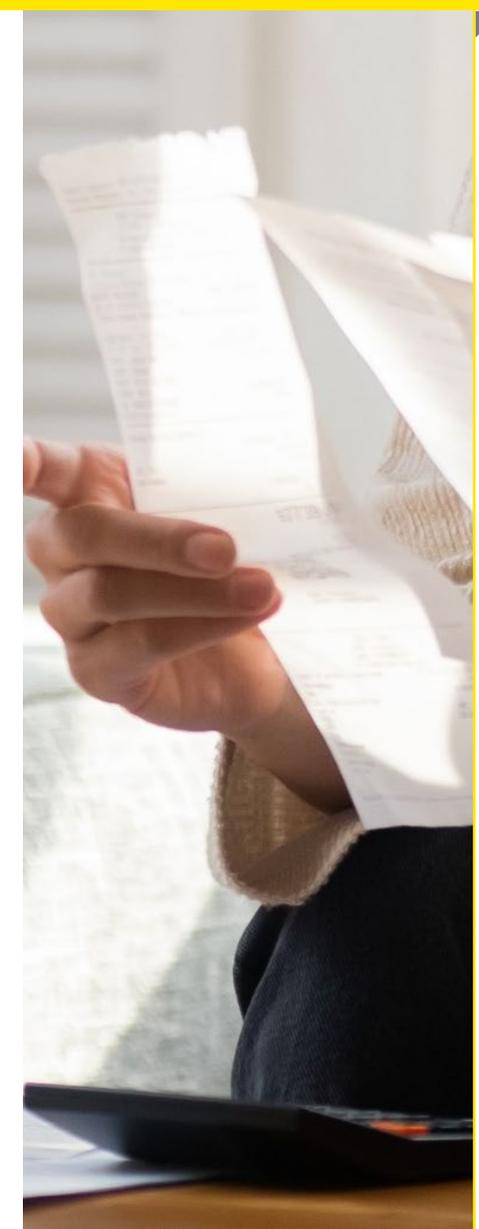
Area	Key impact	Investment considerations
Operating cost	<ul style="list-style-type: none"> ▶ Higher investment in CapEx for smooth functioning of business ▶ Operating cost could decline considering lower travels, lower utilization in office space, etc. ▶ Acquisition cost could increase due to stiff competition ▶ Lower cost due to re-negotiation of contract with third parties 	<ul style="list-style-type: none"> ▶ Revision in CapEx budget to improve the technology: <ul style="list-style-type: none"> ▶ Investment in technology such as portal for agency, Banca, etc for online policy issuance, Auto underwriting, portal for claim intimation and processing, etc. ▶ Investment in IT assets such as Tabs for agency, Banca, etc. to issue online policy, faster replacement of desktop to laptop, etc. ▶ Investment in enhancing own website to improve business traction ▶ Investment in technology to allow employees to work remotely ▶ OpEx ratio could improve as companies would rationalize cost which could be due to renegotiation/no escalation in rents, savings in travel cost, digital communication with customers resulting in lower communication expenses, etc. ▶ Acquisition cost could increase in future as lower business growth would compel companies to pay higher acquisition cost in order to source new business. Banks would be aggressively pushing for life insurance products in order to increase fee based income, higher commission percentage by any one player would compel other players to increase the commission percentage ▶ Insurance companies might re-negotiate contracts with third parties such as claims processing, data processing etc. as a part of their cost rationalization
Investments	<ul style="list-style-type: none"> ▶ Lower yields could impact profitability ▶ Higher credit cost in investments 	<ul style="list-style-type: none"> ▶ Profitability could be impacted due to lower investment yield as insurance companies have guaranteed products ▶ Lower investment yield would impact overall profitability of the PAR and non-PAR segment which will impact shareholders return ▶ Higher credit loss in the investments due to reduction in credit ratings of the corporates and stress in the economy
Others	<ul style="list-style-type: none"> ▶ Increase in solvency requirement due to disallowance of long aged receivables or non performing investments ▶ Higher reinsurance cost due to increase in reinsurance rates. 	<ul style="list-style-type: none"> ▶ Companies might need additional capital in case there is increase in stress investments and delay in receivables from co-insurer and re-insurers ▶ Reinsurers might increase the reinsurance premium rates due to change in mortality experience





Financial services

General insurance



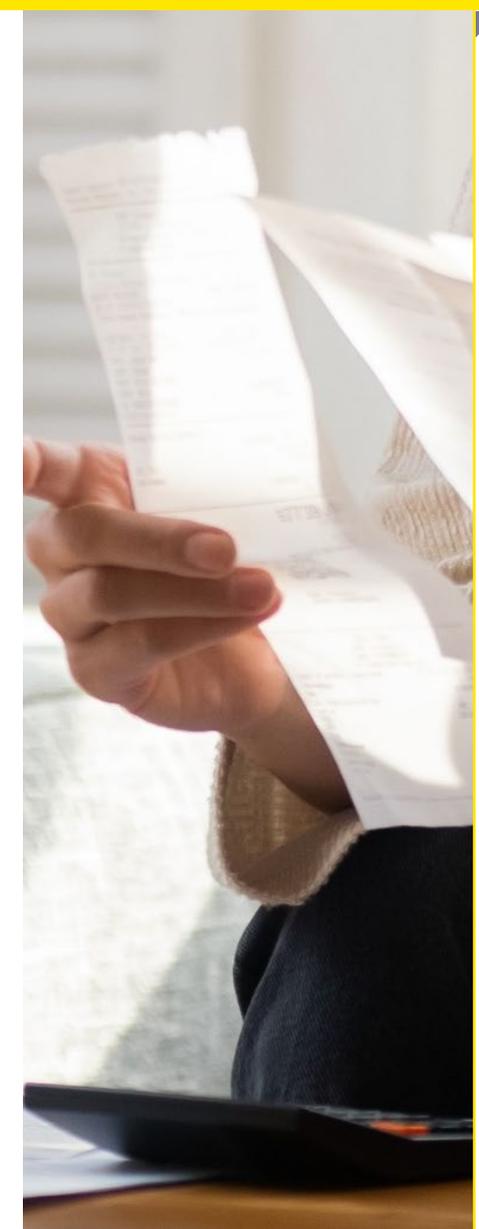
Area	Key impact	Investment considerations
Premium	<ul style="list-style-type: none"> ▶ Slowdown in growth of the new business in the retail segment, i.e., motor and PA segment ▶ Decline in premium due to grace period of two months ▶ Limited impact on health insurance new business and traction in Health business is expected to improve post COVID-19 ▶ Limited impact on B2B business like commercial property, liabilities, engineering, etc. except marine and marine cargo 	<ul style="list-style-type: none"> ▶ Motor insurance renewal is deferred due to lockdown and renewal premium is impacted. Further, new business also impacted due to reduced sales of motor. Mix percentage of new and renewal/rollover could see an impact as Companies would focus more on renewals and rollover/portable business: <ul style="list-style-type: none"> ▶ Management will have to invest in building channels to increase the rollover/portable business ▶ Improvement in renewals could be through higher correspondence with customers, change in incentives of renewal teams which could result in higher cost ▶ Build new channels, products, etc. to garner new business post lockdown ▶ New business in health insurance may witness increase in traction due to awareness: <ul style="list-style-type: none"> ▶ Revision in commercials of channels and incentives of sales team to shift existing policyholders from lower Sum Insured to higher Sum Insured ▶ Revision in pricing of Health products due to inclusion of COVID treatment ▶ New products such as Standalone COVID-19 product ▶ Renewal premium would be lower in FY21 as IRDA has given grace period. This needs to be factored while projecting growth in the subsequent period ▶ Geographical shift in business as COVID has lower impact on non-metro cities vs. metro cities. Investment would be required to fuel the growth in non-metro cities
Claims	<ul style="list-style-type: none"> ▶ Lower loss ratio in health and motor for short term ▶ Higher loss ratio in commercial lines could be due to loss of profit clause, cancellation of events, etc. ▶ Higher loss ratio in TP due to delay in proposed hike in TP prices ▶ Higher loss ratio in agricultural crops 	<ul style="list-style-type: none"> ▶ Lockdown has resulted in lower economic activities. This could lead to improvement in loss ratios in motor and Health in FY21. Companies will have to revisit ultimate loss ratio in motor TP and motor OD ▶ Part of the reduction in health is deferral to later period and Covid-19 claims may increase. Industry is unlikely to face any Business disruption/Event cancellation claims as pandemic are usually excluded ▶ Understand the impact due to revision in ULR in Motor TP and OD and this could be treated as one-off and needs to be appropriately factored in the business model ▶ Higher loss ratio in commercial line business due to loss of profit clause and cancellation of events which were insured. This could be partially offset by lower loss ratio due to lower economic activities ▶ Profitability and business could be impacted if proposed hike in motor TP prices are delayed or cancelled ▶ Higher loss ratio in crop due to non-availability of labors and other events such as cyclone, locust attack, etc.





Financial services

General insurance

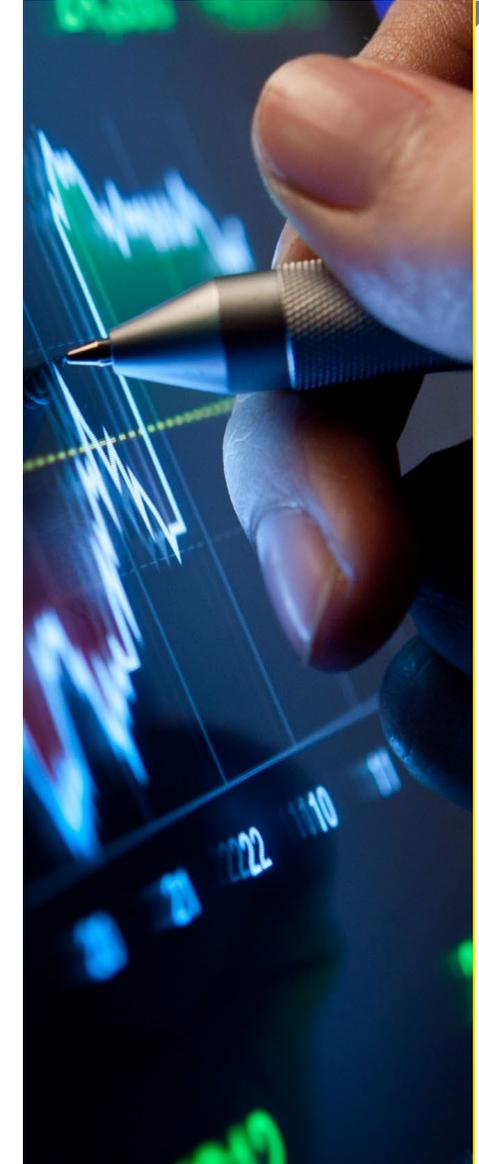


Area	Key impact	Investment considerations
Operating cost	<ul style="list-style-type: none"> ▶ Higher investment in CapEx for smooth functioning of business ▶ Operating cost could decline considering lower travels, lower utilization in office space, etc. ▶ Acquisition cost could increase due to stiff competition ▶ Lower cost due to re-negotiation of contract with third parties 	<ul style="list-style-type: none"> ▶ Revision in CapEx budget to improve the technology : <ul style="list-style-type: none"> ▶ Investment in technology such as portal for agency channel for online policy issuance, portal for claim intimation and processing, etc. ▶ Investment in IT assets such as Tabs for agency channel to issue online policy, faster replacement of desktop to laptop, etc. ▶ Investment in enhancing own website to improve business traction ▶ Investment in technology to allow employees to work remotely ▶ OpEx ratio could improve as companies would rationalize cost which could be due to renegotiation/no escalation in rents, savings in travel cost, digital communication with customers resulting in lower communication expenses, etc. ▶ Acquisition cost could increase in future as lower business growth would compel companies to pay higher acquisition cost in order to source new business ▶ Insurance Companies might re-negotiate contract with third parties such as claims processing, data processing etc. as a part of their cost rationalization
Investments	<ul style="list-style-type: none"> ▶ Higher credit cost and lower yields on investment ▶ Increase in gain from investment portfolio due to reduction in yields 	<ul style="list-style-type: none"> ▶ Lower investment income in subsequent period due to softening of yields on investment. Lower yield is primarily due to reduction in Repo rates by RBI ▶ Higher credit loss in the investments due to reduction in credit ratings of the corporates and stress in the economy ▶ Investment gain could increase in the short term period due to churn in the portfolio led by decline in yields
Others	<ul style="list-style-type: none"> ▶ Increase in solvency requirement due to disallowance of long aged receivables or Non performing investments ▶ Higher reinsurance cost due to increase in reinsurance rates 	<ul style="list-style-type: none"> ▶ Companies might need additional capital in case there is increase in stress investments and delay in receivables from co-insurer and re-insurers ▶ Reinsurers might increase the reinsurance premium on non-proportional treaties due to events such as COVID19, cyclone, etc.





Financial services Lending business (NBFC and HFC)

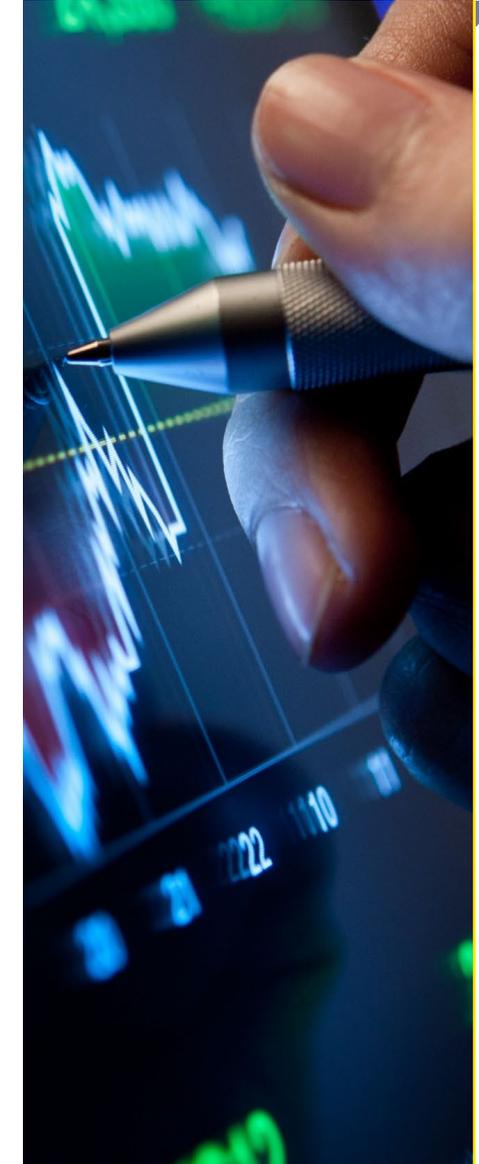


Area	Key impact	Investment considerations
Distribution network and field operations	<ul style="list-style-type: none"> ▶ Field activity was halted completely in the lockdown affecting the business sourcing and also collections to some extent ▶ NBFCs with strong operations and higher customer interactions (weekly/fortnightly model) will be able to manage operations better than its peers 	<ul style="list-style-type: none"> ▶ Focus on field operations and strategy as to how operations will resume: <ul style="list-style-type: none"> ▶ Connecting with the borrowers over the call during the lockdown phase and understanding the business impact ▶ Collection efficiency during the lockdown ▶ Strong existing franchises and vintage of its relationship with the borrowers will enable the company to be better placed in terms of maintaining repayment discipline ▶ Digitalisation of entire branch network from KYC, onboarding, non cash disbursements, ECS collection for small to mid size NBFCs to improve efficiency ▶ Use of digital platforms for collection. Agile collection models with flexible payment option for borrowers ▶ Dependence on DSAs network and the digital capacity of the DSAs to source business going forward
Portfolio quality and Disbursement growth	<ul style="list-style-type: none"> ▶ Slowdown in the growth across all loan products in short term due to weak economic cycle and cautious approach by the lenders ▶ Most NBFCs serves the business segments which have been filtered out by banking system as they are considered more riskier and the risk will further increase due to COVID-19 crisis ▶ Moratorium relief will be applicable to NBFCs as well, however on account of ECL applicability to most of the NBFC, the impact of increased credit cost will start reflecting in the Q1'21 itself 	<ul style="list-style-type: none"> ▶ Splitting the geographies into green, red and amber zones and strategy needs to be differentiated by zones where incremental disbursements can be commenced in green zones and focus on collections in the red zones in the short term ▶ Proportion of borrowers who have availed moratorium. Higher mix of borrower under moratorium will impact the cash flow as well as stress in the portfolio after the end of moratorium period. Moratorium availed by already delinquent borrowers before COVID-19 will create further stress ▶ NBFCs with certain customer profile will be more impacted: <ul style="list-style-type: none"> ▶ Lower income and mid income group ▶ Unsecured portfolio v/s secured portfolio ▶ Non salaried customers v/s secured customers ▶ Business loans to MSME ▶ Exposure to hospitality, entertainment, aviation, real estate, gems & jewellery and services industry ▶ In the short term, NBFCs would witness compression in yields due to increase in NPA and reversal of interest income ▶ Expected Credit loss model - Rationale for probability of default and loss rate estimates for the next two quarters. Proportion of stage 2 and stage 3 assets will increase on account of moratorium granted to the borrowers which will increase the provisioning requirement as per ECL for the next two quarters





Financial services Lending business (NBFC and HFC)



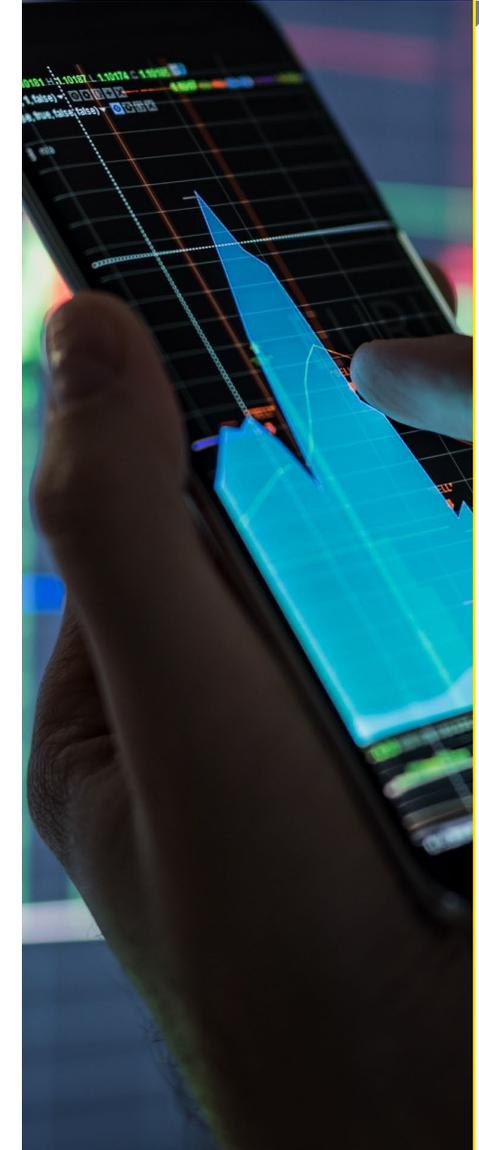
Area	Key impact	Investment considerations
OpEx	<ul style="list-style-type: none"> ▶ Branch and HO cost rationalization such as rent, payroll cost, distribution cost and other OpEx ▶ Increase in investment in digital infrastructure 	<ul style="list-style-type: none"> ▶ Strategy for next 12 months in terms of OpEx management w.r.t salary and bonus payouts, focus on increase in field officers productivity, HO and branch Rent restructuring, branch rationalization, converting fixed cost expenses into variable cost ▶ Investment in terms of technology expenses and focus on automating certain operations for increased efficiency
Funding	<ul style="list-style-type: none"> ▶ Banks will take a cautious approach in lending to NBFCs especially low rated and high risk borrower profile ▶ Capital market borrowings will dry out in short term for small and mid size NBFCs ▶ ALM mismatch due to slowdown in collections and limited fund raising capacity ▶ Impact on capital adequacy due to higher provisioning requirement 	<ul style="list-style-type: none"> ▶ Proportion of borrowings where banks have granted moratorium as per the recent announcement by RBI so as to prevent ALM mismatch. ALM management will be key given the bleak near term visibility on account of COVID-19 in terms of funding ▶ Extent of liquid investments with the company to ensure debt repayment and meeting the fixed cost ▶ Extent of undisbursed line available with the company and the extent to which it can be utilized and strategy to raise fresh funding from the banks ▶ Liquidity for repayment of capital market instrument is due for maturity in the near future ▶ FLDG invocation by banks for its off books portfolio will also contribute to ALM mismatch ▶ RBI had announced targeted long term repo operations (TLTRO) program to support the NBFC sector, but banks have taken a discretionary approach and have primarily funded to large and strong NBFCs and hence the sector will witness concentrated credit flow in near term ▶ Mutual funds have also taken a cautious approach and further have experienced accentuated redemptions in the recent past which have further impacted its ability to fund ▶ NBFC rating downgrade on account of increased risk, especially in exposure to certain sectors and borrower profile can further impact its ability to raise funds ▶ Increase in equity capital requirement given funding constraints from banks and capital markets ▶ Cost of funds may decrease for large NBFCs on account of decrease in repo rate by RBI. However, due to increase risk perceived in the sector, the CoF may increase for some of the small and mid size NBFCs ▶ Impact on capital adequacy would be witnessed due to higher provisioning requirement. Further in case of HFC, due to expected fall in real estate prices, the revaluation exercise for the collateral may have to be carried out which will further impact the capital adequacy





Financial services

Micro finance institution

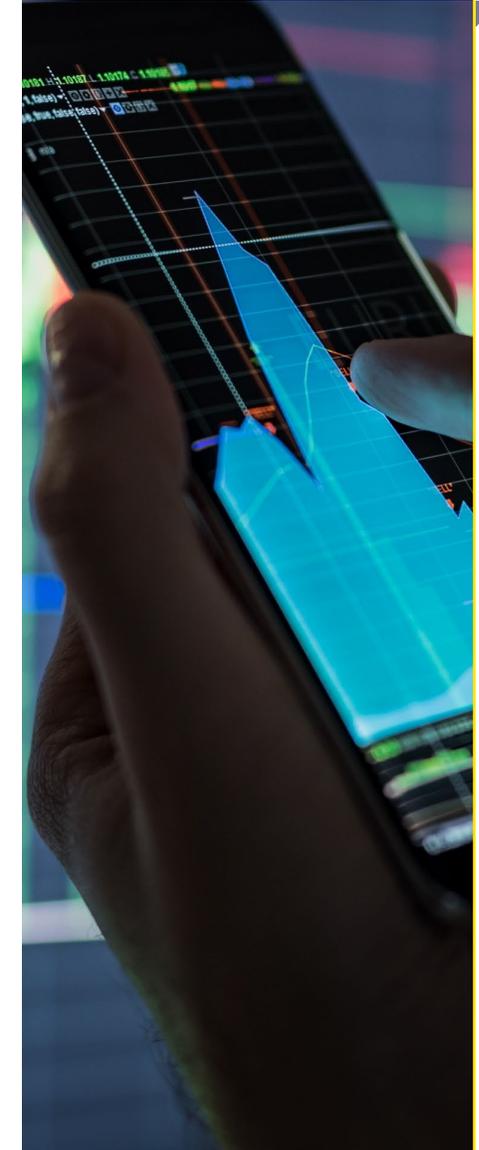


Area	Key impact	Investment considerations
Field operations	<ul style="list-style-type: none"> ▶ Field activity was halted completely in the lockdown affecting collections since MFIs business is largely based on touchpoint with borrowers ▶ In case the center discipline is affected, historically it has been difficult to collect multiple EMIs as loan EMI for these borrowers is more in the nature of their monthly budget ▶ MFIs with strong operations and higher customer interactions (weekly/fortnightly model) will be able to manage collection better than its peers 	<ul style="list-style-type: none"> ▶ Focus on field operations and strategy as to how operations will resume: <ul style="list-style-type: none"> ▶ Connecting with the borrowers over the call during the lockdown phase and understanding the business impact ▶ The collection efficiency post Apr20 till date is expected to be low ▶ Industry is expecting the collections efficiency to improve in the next two months and is expected to normalize by September ▶ Interim relief measures to correct the portfolio and bring them back to normalcy in the form of top loans or restructuring ▶ Vintage of its relationship with the borrowers will enable the company to be better placed in terms of educating the borrowers and thereby maintaining the center meeting discipline ▶ Collection strategy may have to be tweaked from large centers into smaller groups in the short term ▶ Digitalisation of entire branch network from KYC, onboarding, non cash disbursements, etc. for small to mid size MFIs to improve efficiency
Portfolio quality	<ul style="list-style-type: none"> ▶ Post lockdown there will be continuing pressure on asset quality due to unsecured nature of loans, weaker profiles of borrowers and expectation of only a gradual economic recovery ▶ Moratorium relief will be applicable to NBFC - MFI as well, however on account of ECL applicability to most of the large MFIs, the impact of increased credit cost will start reflecting in the Q1'21 itself 	<ul style="list-style-type: none"> ▶ Splitting the geographies into green, red and amber zones and strategy needs to be differentiated by zones where incremental disbursements can be commenced in green zones and focus on collections in the red zones in the short term. ▶ Borrowers involved in non-discretionary business (such as services, handlooms, artefacts, etc.) will be more vulnerable. Further, semi-urban/urban portfolio will be more severely impacted on account of greater involvement in non discretionary businesses and also due to reverse migration ▶ Current portfolio mix by state will be critical as potential political triggers in few states as also observed in past crisis may elevate the delinquency levels. Further MFIs with presence in states where borrowers were already highly leveraged will be more severely impacted as the Covid-19 crisis will elevate the problems ▶ Expected credit loss model - the rationale for probability of default rates estimates for the next two quarters. Proportion of stage 2 and stage 3 assets will increase on account of moratorium granted to the borrowers which will increase the provisioning requirement as per ECL for the next two quarters





Financial services Micro finance institution



Area	Key impact	Investment considerations
OpEx	<ul style="list-style-type: none">▶ Branch and HO cost rationalization such as rent, payroll cost and travel	<ul style="list-style-type: none">▶ Strategy for next 12 months in terms of OpEx management w.r.t salary and bonus payouts, focus on increase in field officers productivity, HO and branch Rent restructuring, travel cost management▶ Further investment in terms of technology expense may increase due to focus on automated operations
Funding	<ul style="list-style-type: none">▶ Raising fund from banks might be a challenge as banks may take cautious approach in lending to NBFCs with unsecured borrower profile	<ul style="list-style-type: none">▶ Proportion of borrowings where banks have granted moratorium as per the recent announcement by RBI so as to prevent ALM mismatch. ALM management will be key given the bleak near term visibility on account of COVID-19 in terms of funding▶ Liquid investments with the company to ensure debt repayment and meeting the fixed cost▶ Extent of undisbursed line available with the company and the extent to which it can be utilized and strategy to raise fresh funding from the banks▶ If any capital market instrument is due for maturity in the near future▶ Any slowdown in off-books transactions with banks (assignment, securitization, business correspondent)▶ FLDG invocation by banks for its off-books portfolio will also contribute to ALM mismatch▶ Increase in equity capital requirement given funding constraints from banks





Consumer Products & Retail Consumer Products



Area	Key impact	Investment considerations
Business performance	<ul style="list-style-type: none"> ▶ Overall decline in volumes ▶ Customers downtrading to cheaper brands ▶ Restriction on operations of channel partner under lockdown ▶ Increase in channel inventory 	<ul style="list-style-type: none"> ▶ Phased ramp up in sales achieved through fortnightly timeline (COVID and post-COVID recovery) ▶ Change in product basket mix due to introduction of (i) temporary products (sanitizers, masks, etc.), (ii) elimination of non-contributing SKUs and (iii) small vs large pack sizes ▶ Shift in channel mix towards GT and Online vs MT (Supermarket vs Hypermarket) ▶ Shift in ASP due to product introductions at lower price point ▶ Quantum of direct sales to wholesaler/distributors and retailers with restricted operations of super stockists/distributors ▶ Increase in channel support costs - sales returns, additional/liquidation schemes and discounts
Supply chain related matters	<ul style="list-style-type: none"> ▶ Unavailability of certain raw materials and packing materials ▶ Inconsistency in quality of input materials ▶ Vendor base disruption due to lockdown/erosion of financial strength 	<ul style="list-style-type: none"> ▶ Impact on sourcing cost and vendor concentration due to changes made in the vendor base based on credit worthiness, geographical proximity and product quality ▶ Supply chain network redesign and increase in base of 3PL/2PL partners to ensure continuous supply - consequent impact on turnaround time, input and logistics costs ▶ Change in recipe/bill of material to substitute/replace input shortages and its impact on margins ▶ Change in packaging costs due to change in material handling norms
Operational matters	<ul style="list-style-type: none"> ▶ Unavailability of labor ▶ Production processes disrupted 	<ul style="list-style-type: none"> ▶ Ability to use local labor and re-engineer/automate process ▶ Impact of state level relaxations with respect to labor laws on labor costs ▶ Ability to move from a fixed cost to a variable cost model - by changing on-roll structure to off-roll/contractual ▶ Extent of increase in costs of employee welfare/accommodation ▶ Change in available capacity and its utilization through fortnightly timeline
Other business matters	<ul style="list-style-type: none"> ▶ Unavailability of sales force ▶ Inability of sales force to take orders ▶ Lack of budgets available for advertisement/marketing spend 	<ul style="list-style-type: none"> ▶ Ability to re-organise sales force through technology adoption and realignment of incentive structure ▶ Shift in advertisement/marketing spend towards digital as against news print/outdoor spends





Consumer Products & Retail Consumer Products



Area	Key impact	Investment considerations
Working capital and cash flow	<ul style="list-style-type: none">▶ Delay in conversion into cash due to stretch in collection cycle and increase in inventory carrying days▶ Worsened working capital position due to extended support to vendors	<ul style="list-style-type: none">▶ Impairment/write offs of receivable▶ Impairment of inventory including provision and write off of obsolete inventory or goods nearing expiry or out of season stocks▶ Ability to manage working capital spikes through additional funding (borrowed/existing reserves/equity infusion)





Consumer Products & Retail Retail

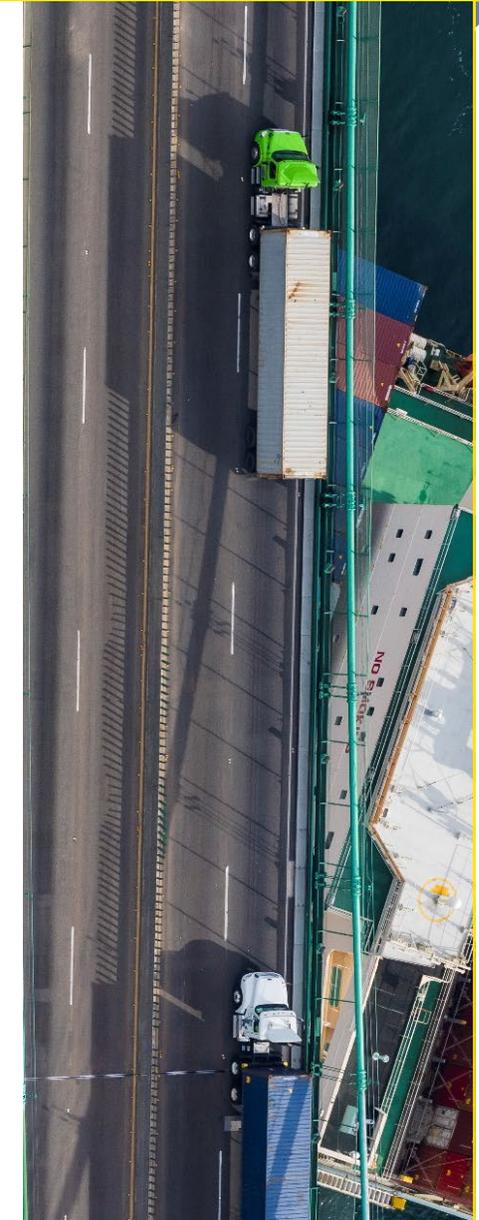


Area	Key impact	Investment considerations
Business Performance	<ul style="list-style-type: none"> ▶ Discretionary and high ticket segments to witness deferment of purchases ▶ Certain retailers (e.g. supermarkets/grocery) have witnessed positive impact due to lockdown restrictions ▶ Seasonal businesses (e.g. fashion, air conditioners) may witness inventory pile up for season lost ▶ Shortage of products given operational and supply chain disruptions faced by brands/OEMs ▶ Non-performing stores have been closed to reduce cash burn 	<ul style="list-style-type: none"> ▶ Normalisation of (i) higher retail sales in case of essentials, (ii) lower sales in case of discretionary or items that faced stock-out ▶ Evolution of product basket during and post covid given that revenues could be driven by essentials during COVID and near term post COVID, till demand for discretionary items normalizes ▶ Schemes and discounts levels for - (i) essentials and discretionary, (ii) End of Season period (EOSS) and Non-EOSS period, (iii) cash sales vs credit card or financing scheme sales ▶ Change in operational KPIs (temporary and permanent) including (i) average ticket size, (ii) same store growth per square feet, (iii) overall footfalls and conversion, and (iv) store payback and break even norms ▶ Discern performance by channel - (i) online vs offline vs home delivery given the reduced retail footfall, (iii) mall vs high street given that malls have been most impacted
Operational matters	<ul style="list-style-type: none"> ▶ Shortage of store and supply chain labor ▶ Store and warehouse stocking norms have been revisited given social distancing measures ▶ Rental costs and other store overheads may have been renegotiated 	<ul style="list-style-type: none"> ▶ Change in central and store inventory levels given change in stocking norms ▶ Change in vendors/channel partners given continuity/fulfilment matters ▶ Change in operating costs given the social distancing measures and ability of retailers to pass on the same on to customers/brands ▶ Change in labor costs due to efflux of migrant labor and change in employee to store ratios ▶ Change in operating costs from fixed to variable in nature - on-roll structure to off-roll/contractual ▶ Rent waiver during lockdown period and re-negotiation of rental contracts - MG vs revenue share ▶ Increase in overhead costs towards hygiene and cleanliness of stores and implementation of permanent health and safety changes, e.g. temperature sensors at stores, sanitisation dispensing machines, etc.
Working capital and cash flow	<ul style="list-style-type: none"> ▶ Risk of inventory obsolescence, expiry and increase in inventory holding ▶ Companies with debt could have significant interest obligations (barring the temporary moratorium relaxations) 	<ul style="list-style-type: none"> ▶ Change in terms with vendors/brands including credit, support cost, including contractual terms for levy of interest, etc. ▶ Impairment of inventory including provision & write off of obsolete inventory nearing expiry or out of season stocks ▶ Ability to manage working capital spikes through additional funding (borrowed/existing reserves/equity infusion)





Logistics and 3PL

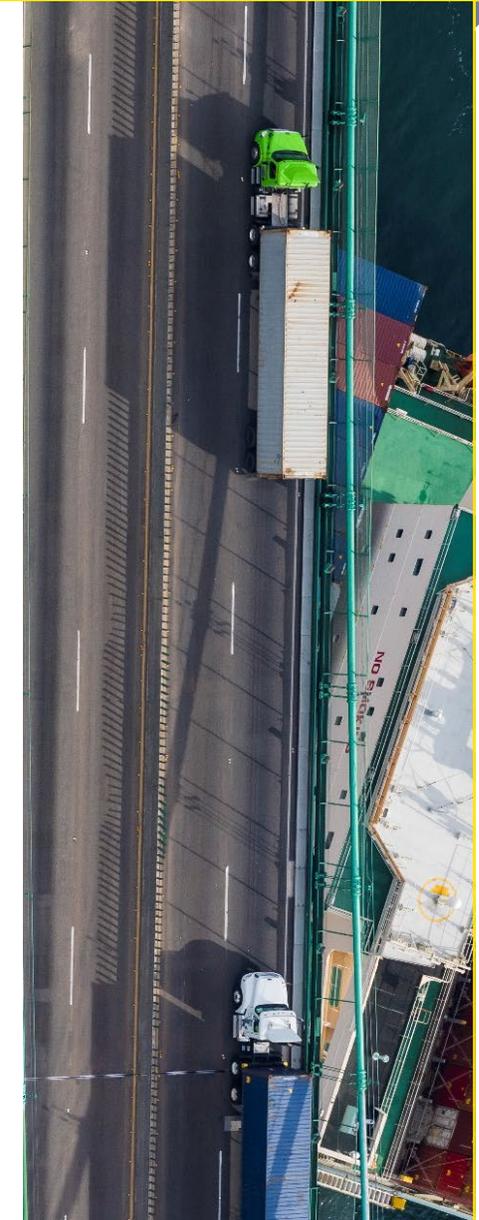


Area	Key impact	Investment considerations
Business Performance	<ul style="list-style-type: none"> ▶ Subdued demand across sectors ▶ Decline in Exim business as major ports volume declined ▶ Decline in asset utilization ▶ Negative impact on revenues ▶ Increase in unit pricing for large organized players 	<ul style="list-style-type: none"> ▶ Impact on reduction in cargo volumes and decreasing sales of dependent sectors (e.g., auto, consumer goods) ▶ Supply chain availability and utilization and its impact on vacancy levels at existing transport network and warehousing capacity ▶ Delays to upcoming and planned facilities caused by demand side contraction and funding concerns ▶ Current and long term business view driven by changes to (i) mix of import and export, (ii) mix of warehousing, express and 3pl/4pl, (iii) customer industry segment, (iv) mix of essential services (v) asset light vs asset heavy model (vi) exclusivity arrangements/minimum volume guarantee ▶ Impact and quality of the decline in revenue, if being driven by customer losses and churn, contractual changes, and any impact on company's relationship with anchor clientele ▶ Customer churn and loss due to (i) customer delinquency, (ii) serviceability issues or (iii) lack of technology and response during COVID ▶ Company's strategy impacting realizations - premium rates for fast and confirmed deliveries or reduction in realisations to achieve utilization, and its sustainability
Cost, margin and profitability	<ul style="list-style-type: none"> ▶ Short term impact on costs and profitability due to lockdown driven by unplanned and unforeseen spend ▶ EBITDA margins expected to be lower ▶ Cost of operating in new normal and impact on earnings ▶ Handling customer claims, deductions 	<ul style="list-style-type: none"> ▶ Ability of the company to manage fixed and committed transport network, warehouse and labor costs during lockdown and its impact on EBITDA margins ▶ Impact of additional costs driven by procedural delays in availability of transport network, increased float time, increase in average delivery period, increased pilferage/breakages and adversely impacted customer satisfaction which results in increase in customer claims ▶ Impact on operating costs driven by new normal during and post COVID period and its impact on profitability (instances like double operating shift in warehouses to maintain social distancing, additional sanitisation and packaging costs, etc.) ▶ Ability of companies to pass on increase in costs to customers, vendors and recovery from insurance companies
Structural shift in operating model	<ul style="list-style-type: none"> ▶ Modal shift from road to rail transportation; large quantum of commercial vehicles were not operational; Increasing share for rail with conversion of passenger trains ▶ COVID bottleneck resulting in additional cost burden 	<ul style="list-style-type: none"> ▶ Impact of repivoted supply chain strategies, shift in costs between modes of transport - road to rail /air/other long-haul medium, shift and collaboration in last mile delivery ▶ Impact on profitability and cashflow for operating in new normal: New business models and working styles require adequate training of staff and maintenance of cleanliness/hygiene and pacing up digital implementations for touch-less technologies ▶ Impact of high scale migration resulting in a gap in labor and driver supply





Logistics and 3PL



Area	Key impact	Investment considerations
Shift toward value creation and enhancement	<ul style="list-style-type: none"> ▶ Investment in upgrading supply chain infrastructure to result in increased penetration and volumes and increase in long term efficiency 	<ul style="list-style-type: none"> ▶ Unit economics and long term synergies for new consolidation witnessed at regional/local network levels between different players and its sustainability in long run post COVID ▶ Company's ability to adopt to technological solutions like use of automation and robotics in warehousing and packaging segment, delivery/route optimization tools as well as its impact on profitability and cashflow
Short term cash-flow liquidity concerns	<ul style="list-style-type: none"> ▶ Increase in payment cycle days due to sluggish movement and lockdown ▶ Impact on committed payments to minimum guarantees, rentals and labor payments ▶ Potential dispute with customers and vendors on additional detention, SLA delays, shipment loss and damages and delayed deliveries 	<ul style="list-style-type: none"> ▶ Impact on working capital caused by (i) delays in customers picking up and accepting shipments, (ii) delays due to disputes in reconciliations, damages and shipment claims during lockdown phase, (iii) dispute on demurrage and overage and (iv) absence of online bill processing system ▶ Impact of vendor claims and liabilities with respect to increased detention charges, non-payment of minimum guarantees fees for vehicles and warehouses, unaccepted waivers and delayed salary disbursements
Debt payment defaults	<ul style="list-style-type: none"> ▶ Sluggish demand from auto and industrials resulting in excess market capacity and declining operating cashflows ▶ Inability to repay vehicle lease for most vehicle owners supporting 3PL logistics network 	<ul style="list-style-type: none"> ▶ Debt moratorium availed for lease payment of vehicles, warehouse construction and other network assets ▶ Additional liability towards interest servicing (moratorium period) in cash flow ▶ Availability of vehicles and drivers on account of general distress with vehicle owners
Impact on key contracts	<ul style="list-style-type: none"> ▶ Application of force majeure ▶ Ability to gain short term waivers 	<ul style="list-style-type: none"> ▶ Impact on key contracts including customers, vehicle hire, long haul network, warehouses, facilities, fleet and manpower supply contracts





Chemicals



Area	Key impact	Investment considerations
Business performance	<ul style="list-style-type: none"> ▶ Construction chemicals, paints and coatings, industrial chemicals and gases (catering to automobile parts, steel plants etc.), textile chemicals are most likely to be negatively impacted due to demand recoil ▶ Chemicals included in sanitation products or certain plastics used in medical devices/packaging industry are expected to benefit ▶ Exports to countries significantly impacted by COVID ▶ Decline in crude prices and decline in production of crude derivatives might lead to some short term margin fluctuations ▶ Significant depreciation of INR against US\$ may also impact profitability 	<ul style="list-style-type: none"> ▶ Management's strategy in the short to mid-term (12-18 months), specially with respect to expected demand revival in key end sectors, management's plan around new market penetration, new customer wins and new applications ▶ Revenue and margin trends by end sector as each sub-sector might be differently impacted by COVID ▶ Customer's rolling forecasts/order book, where available. Changes to pipeline of new products ▶ Weekly/monthly analysis of revenue and margins to understand the short term impact of COVID ▶ Contractual pricing formula and changes if any on account of COVID ▶ Contractual disputes with customers, including any force majeure implications ▶ Impact of RM price fluctuations and FX fluctuations on customers ▶ Impact of discontinuance of Merchandise Exports from India Scheme (MEIS)/Service Exports from India Scheme (SEIS) and impact of any new incentives
Procurement and production	<ul style="list-style-type: none"> ▶ Disrupted import procurement ▶ Capacity utilization and cost levels might have been impacted by non-availability of raw material and labor ▶ Raw material prices might have changed significantly during the recent period, some of the changes might hold for a longer term, example decline in crude prices might impact prices of crude derivatives, also decline in oil refining may impact availability and hence prices of petrochemical derivatives 	<ul style="list-style-type: none"> ▶ Vendor mix including dependences and disruptions if any in case of such vendors ▶ Management's plan/action on new vendor development/source of procurement along with incremental cost considerations ▶ Inventory lead time analysis for critical imported raw materials ▶ Inventory valuation methodologies (overhead absorption) due to lower capacity utilization ▶ Assessment of vendor contracts for pass through of reduction in raw material prices or open discussions for such price corrections





Chemicals

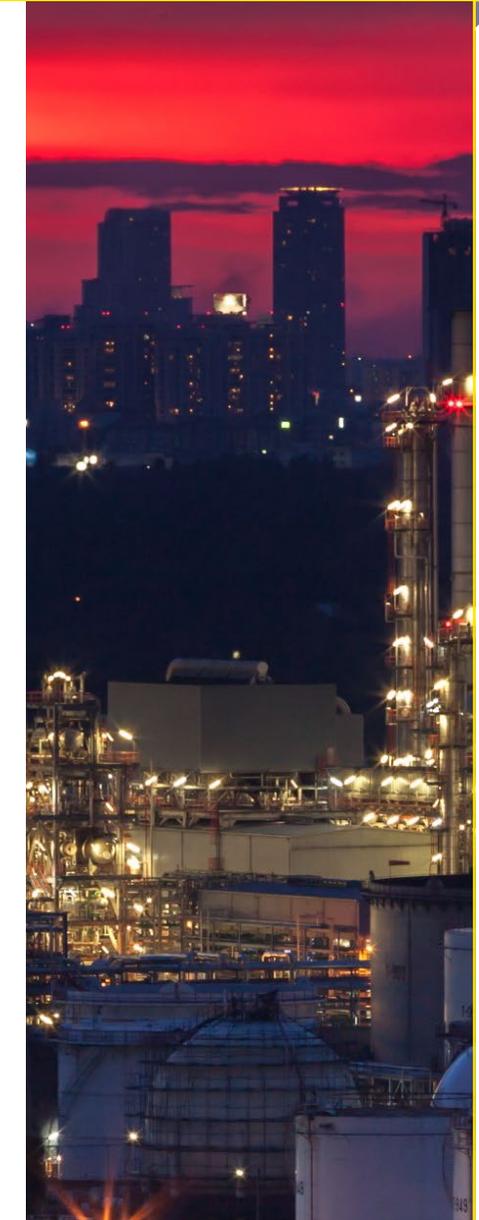


Area	Key impact	Investment considerations
Operating expenses	<ul style="list-style-type: none"> ▶ Hold back of salaries and wages including cancellation of increments/bonuses ▶ Repair and maintenance expense for fumigation/risk mitigations at offices/factory premises ▶ Employee/worker/transportation costs, lodging costs ▶ Insurance claim for loss of profit due to COVID lockdown, if any ▶ Deferred R&D spends including discretionary projects /CapEx 	<ul style="list-style-type: none"> ▶ Sustainability of various cost cutting measures implemented ▶ Sustainability of current level of employee cost and any other cost reductions negotiated during lockdown ▶ Recurring R&D and product development costs in the business ▶ Forex hedging cost
Working capital and cash flow	<ul style="list-style-type: none"> ▶ Financial stress on medium term solvency, debt repayment obligations. Short to medium term funding may have been availed to tide over immediate cash flow requirements ▶ Working capital levels might have fluctuated significantly during this period. Customer and vendor payment terms are stretched ▶ Increased CapEx requirement for automatization and modularization 	<ul style="list-style-type: none"> ▶ Weekly/monthly cash flows ▶ Deferred CapEx, if any including any spend required to commence operations ▶ Funding needed to bridge working capital shortfall ▶ Changes in the working capital cycle and normalized working capital





Real estate Residential

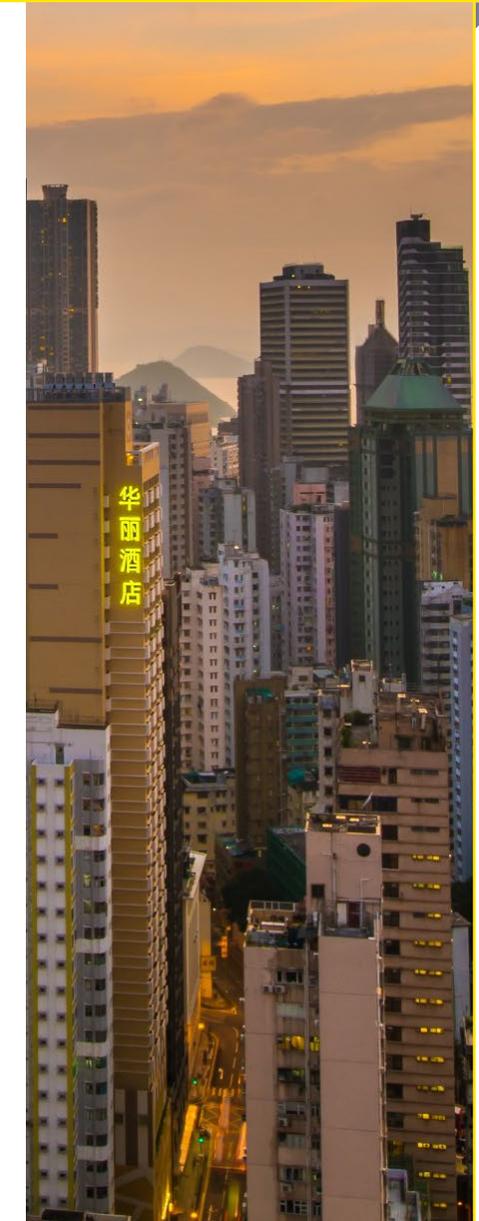


Area	Key impact	Investment considerations
Impact on sales velocity and realisation	<ul style="list-style-type: none"> ▶ Decline in customer demand and prices ▶ Elongated timeline for liquidation of unsold inventory ▶ Decline in collateral value for leverage ▶ Digitisation of sales process 	<ul style="list-style-type: none"> ▶ Projected cashflows from unsold inventory may be lower on account of following: <ul style="list-style-type: none"> ▶ Decline in monthly sales velocity during and post COVID lockdown ▶ Reduction in sales realization due to increase in unsold inventory without corresponding demand and discount schemes offered ▶ Additional investment required on account of any changes to sales process including digitization
Quality of sold receivables	<ul style="list-style-type: none"> ▶ Increase in customer cancellations ▶ Deferment in collections 	<ul style="list-style-type: none"> ▶ Decline in sold receivables due to increase in cancellation by customers on account of COVID - risk of such cancellations would be higher wherein customer equity is lower than decline in market value of the unit ▶ Analysis of customer profile (industry and new hire policies of companies) to understand risk of cancellations ▶ Contractual hold back right of developers under the agreements on cancellations ▶ Impact of deferment in cashflows from sold receivables due to delayed payment by customers ▶ Impact of any subsequent discounts offered to customers to prepone timeline of recovery of balance receivable or for customer retention
Working capital and cash flow	<ul style="list-style-type: none"> ▶ Mismatch in monthly inflows and outflows ▶ Increased subvention cost 	<ul style="list-style-type: none"> ▶ Funding gap by comparison of projected monthly cash inflows vs. outflows ▶ Potential increase in developers cash outflows under subvention scheme ▶ Potential impact of cross defaults in debt availed at project level and group level ▶ Management plan to service accumulated interest and principal repayment at the end of moratorium period - restrictions related to such moratorium including utilization of future cash flows
Claims from vendors and customers	<ul style="list-style-type: none"> ▶ Stretched vendor payments and claims ▶ Barter agreements ▶ Customer claims 	<ul style="list-style-type: none"> ▶ Ageing of vendor claims and liabilities and agreed contractual terms with respect to idle time claims ▶ Barter arrangement, if any with vendors for settlement of claims/liabilities by handover of units in the project ▶ Committed timelines, force majeure and customer right to interest claim under customer agreements - for delays in handover





Real estate Commercial



Area	Key impact	Investment considerations
Market assessment	<ul style="list-style-type: none"> ▶ Weaker outlook for rentals and leasing activity in general ▶ Long term space requirement by tenants ▶ Impact on mark-to-market premium ▶ Increase space requirement due to greater outsourcing by some captives 	<ul style="list-style-type: none"> ▶ Change in space requirements by key tenants - increased WFH, higher area per person due to social distancing, etc. - communication with tenants to assess long term plan ▶ Tenant profile - tenants in sectors adversely impacted by COVID-19 (aviation, tourism, travel, etc.) ▶ In-place rentals with market rentals and assess MTM potential on new leasing/releasing ▶ Industries that may shift to India to de-risk the supply chain and time frame for the shift to happen
Impact on revenue and Net Operating Income (NOI)	<ul style="list-style-type: none"> ▶ Rent deferrals and deferment in escalation ▶ Long term renegotiations on lease terms (escalations, lease term, options and Right Of First Refusal (ROFR), etc.) ▶ Changes in retail and restaurant rentals ▶ Termination of leases by certain start-up tenants ▶ Reduction in any visitor linked revenues such as use of parking, restaurants and shopping (if applicable) 	<ul style="list-style-type: none"> ▶ Tenants request for deferment/waiver during lock down period or any legal notices received (force majeure) ▶ Area with tenants outside lock-in, leases nearing expiry, depreciated fitouts or developer provided fitouts ▶ Impact on escalations due in near term - probability of deferral in escalations ▶ Probability of conversion of ROFR, hard options, LOIs basis recent tenants communications ▶ Financial health of start up tenants and risk of termination of leases from such tenants ▶ Sustainability of NOI - impact of onetime waivers and long term impact for change in lease term
Impact on Common Area Maintenance (CAM) profitability and other cost	<ul style="list-style-type: none"> ▶ One time CapEx/repair and maintenance expense to improve safety standards ▶ Increased CAM cost due to regular sanitation and monitoring procedures 	<ul style="list-style-type: none"> ▶ Capital expenditure for structure changes in complex such as separation of gates, implementation of technologies, etc. - factor estimated cost to be incurred ▶ Reduced capacity of common facilities such as cafeteria, impact on revenues if there is any revenue share arrangement ▶ Re-assess budgets for CAM considering higher expenditure on account of park maintenance, and increase in safety norms ▶ Additional costs due to sanitisation, changes in air filters, scanning of visitors and ability to pass these costs to tenants ▶ Assess tenants willingness to absorb increase in CAM cost post COVID-19 ▶ Understand CAM arrangements - "fixed" vs "cost plus basis" - impact on CAM margins in fixed CAM arrangements





Real estate Commercial

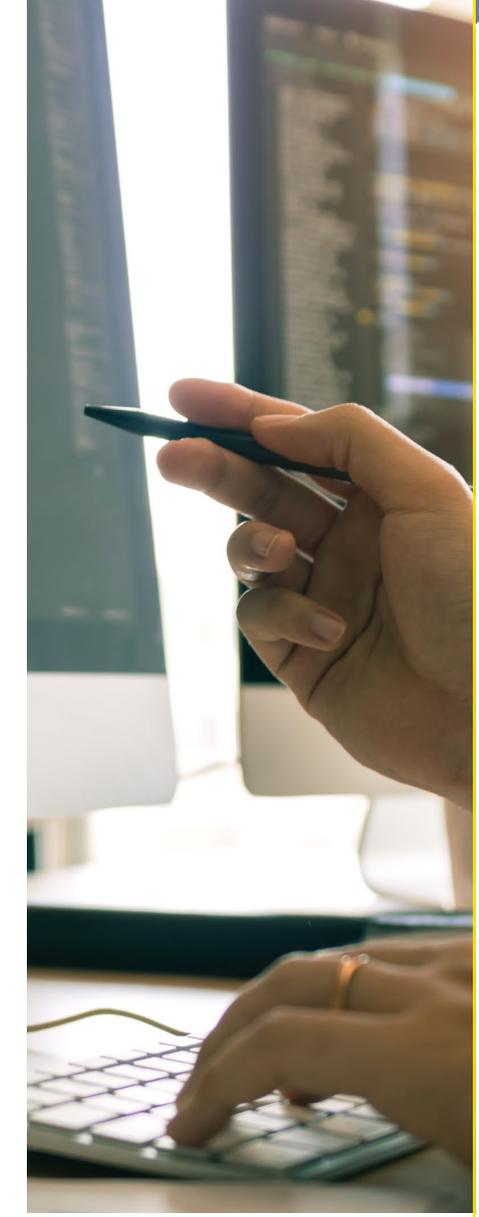


Area	Key impact	Investment considerations
Debt and management assumptions under IND AS	<ul style="list-style-type: none"> ▶ Funding gap in debt repayment obligations 	<ul style="list-style-type: none"> ▶ Break-even levels and ability to meet debt servicing covenants; minimum rental and pricing strategy to ensure occupancy ▶ Projected monthly inflows from rentals vs. outflows on account of debt repayments to understand any funding gaps. ▶ Restrictions related to moratorium including utilization of future cash flows ▶ Impact on cost of capital and other management assumptions under Ind AS
Impact on revenue	<ul style="list-style-type: none"> ▶ Change in rental model ▶ Tenant churn on account of change in business model ▶ Long term space requirement by tenants ▶ Reduction in foot fall 	<ul style="list-style-type: none"> ▶ Tenants requests for reduction in MG level or moving to only revenue share model - decline in variable rentals owing to decline in tenant's revenue post lockdown ▶ Change in Brand's focus markets and mode of sales - Tier 1 vs. Tier 2/3, e-commerce vs. own store vs. franchisee model and retail mall vs. individual shops ▶ Assess viability of continuing leases by tenants - Understand rental cost as percentage of revenue for tenants ▶ Evaluate change in space requirements for tenants due to changing store configurations - higher walking area due to social distancing, etc. ▶ Assess footfalls post lockdown - lower attractiveness of super markets and movie screens, change in spending habits and migration of spending to e-commerce may have higher adverse impact on certain industries





Data centers

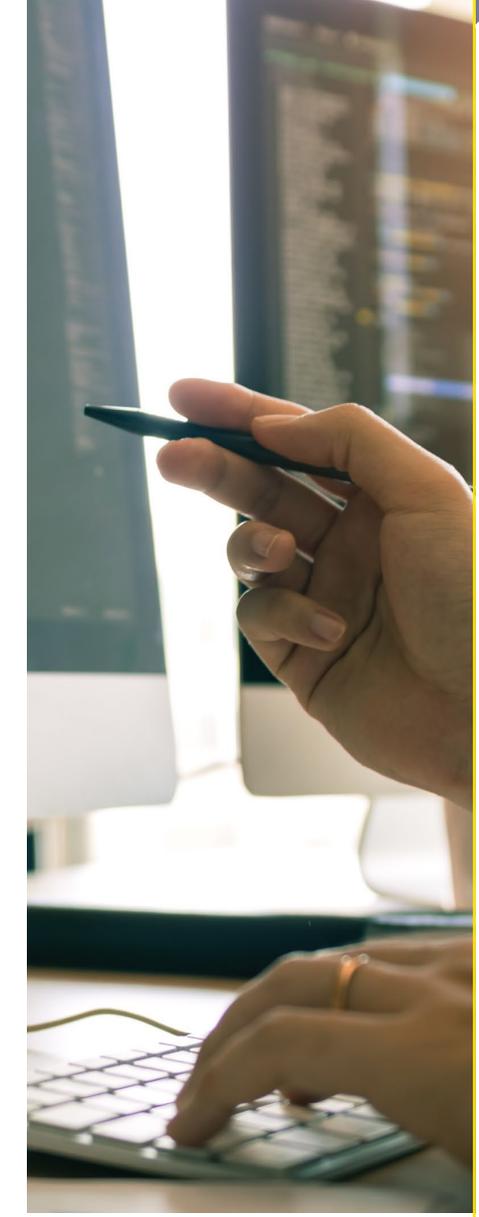


Area	Key impact	Investment considerations
Business performance	<ul style="list-style-type: none"> ▶ Shift in data consumption due to remote working and due to increased traffic from sectors such as OTT streaming and mobile gaming ▶ Need for a cost efficient alternative to setting up on-premise data center ▶ Real-time uptick in demand for connectivity-related offerings and remote monitoring tech such as bandwidth, cross-connects, ports, cloud on-ramps and remote-hands services especially due to constraints on labor mobility 	<ul style="list-style-type: none"> ▶ Impact on revenue realisation and cash flows due to exposure to sensitive sectors in customer mix ▶ Capacity utilization levels and preparedness to deal with changing demand patterns ▶ Growth opportunities in terms of available portfolio for additional value add services ▶ Potential impact of pricing negotiations due to demand-supply dynamics and the impact on margins
Supply chain shortages and construction delays in medium term	<ul style="list-style-type: none"> ▶ Disruption in supply chain due to delays in shipment of critical construction material, spares and consumables ▶ Slowdown in the pipeline of new data centers in medium term due to supply chain delays, staffing shortages, inter-country travel and site-access restrictions 	<ul style="list-style-type: none"> ▶ Supply chain diversification in terms of ability to procure from multiple geographies ▶ Diversification of customer segment mix and customer concentration to minimise exposure to sensitive discretionary sectors ▶ Sales model to deal with delayed sales cycles and reshaping sales teams ▶ Impact of SLA misses including committed delivery dates to customers
Projections for the future	<ul style="list-style-type: none"> ▶ Long term tailwinds for the sector as traditional enterprises realise the importance of digital transformation and cloud services ▶ Other drivers of growth are low DC capacity per MBB connection, rollout of 5G, greater IoT and hyperconverged infrastructure adoption 	<ul style="list-style-type: none"> ▶ Investments in opportunistic tailwinds of the pandemic such as key cloud partnerships, investments in managed services to cater to incremental demand ▶ Preparedness to deal with external disruptions in the future such as extent of investment in advanced technology (e.g.data center automation tools) ▶ Preparedness to help enterprise customers manage a hybrid environment and migrate workloads across different environments





Data centers



Area	Key impact	Investment considerations
Working capital and cash flow	<ul style="list-style-type: none">▶ Longer working capital cycle driven by delays in customer collections. However, the impact will vary depending upon the customer sector mix (i.e., Hyperscaler, Telcos, IT, BFSI, government, etc.)▶ Segregating temporary and run rate changes to identify the new normalized working capital over short and medium term▶ Higher bad debts caused by customer incapacities and bankruptcies▶ Higher cash buffer needed to avoid cash out during uncertain situations	<ul style="list-style-type: none">▶ Subsequent customer collections (separately for pre COVID billings and billings during pandemic).▶ Customer profiling by clusters (i.e., Hyperscaler, Telcos, IT, BFSI, government, etc.) and size (MSME, SME, Large, government, etc.) to assess risk▶ Amount of cash buffers needed to avoid cash out situations due to increased uncertainties





Infrastructure Renewable energy



Area	Key impact	Investment considerations
Electricity demand	<ul style="list-style-type: none"> ▶ Power demand has declined during lockdown ▶ Lack of demand from industrial and commercial consumers, who pay ~1.5x higher tariff than residential consumers and have ~50% share in overall energy consumption ▶ DISCOMs would be reluctant to sign new PPAs if weakness in demand from subsidizing customers persists for longer period ▶ Potential risk of PPA execution in 4,000 MW manufacturing-linked tender, 1,200 MW peak power tender and 400 MW round-the-clock power tender 	<ul style="list-style-type: none"> ▶ Impact on off-take due to lower demand. While renewables have must run status, utilities may resort to backdown measures ▶ Pipeline of projects proposed to be commissioned over next 2 years in business plan base case ▶ Status of regulatory approval and execution of PPAs for recently completed auctions
RE capacity addition	<ul style="list-style-type: none"> ▶ The demand decline and execution headwinds caused by current lockdown are expected to result in lower levels of capacity additions: <ul style="list-style-type: none"> ▶ States are extending deadlines for renewable tenders ▶ PGCIL has also extended timelines for transmission projects dedicated for renewable evacuation 	<ul style="list-style-type: none"> ▶ Pipeline of projects in business plan base case as RE capacity additions are likely to be lower due to lower electricity demand ▶ Evacuation constraints of under-construction projects considering likely delay in transmission schemes for renewable evacuation
Under construction project and cost to complete	<ul style="list-style-type: none"> ▶ Labor availability is going to be a challenge with uncertainty over return of migrant labor ▶ Increase in pre-operative expenses and overall project cost due to delays in delivery of PV modules imported from China, rupee depreciation, disruption in the supply chain and labor availability, partially offset by lower cost of PV module 	<ul style="list-style-type: none"> ▶ Impact on cost to complete driven by increased labor costs, change in construction norms (social distancing, sanitisation of sites, etc.) and reduction in cost of PV module ▶ Ability to manage the adverse impact on cost to complete and control the potential cost overruns ▶ Revised capital cost, penalties and force majeure clauses for under-construction projects and understand their impact on revised base case business plan, including sources of funds for overruns





Infrastructure Renewable energy



Area	Key impact	Investment considerations
Working capital and cash flow	<ul style="list-style-type: none"> ▶ Lower offtake/curtailment: States like UP, Haryana, Rajasthan, TN attempted to exercise force majeure clauses in PPA to curtail renewable generation ▶ Deferred payment cycle: Discom payments are expected to be deferred due to delay in bill payments from commercial and industrial customers 	<ul style="list-style-type: none"> ▶ Impact of curtailment, if any, on revenue, billing and cash flows of generator to be evaluated ▶ Working capital days in business plan as DISCOM payments are expected to be delayed ▶ Impact of curtailment and higher working capital days on debt servicing ability of a generator to be evaluated
Impact on C&I segment (rooftop, open access and group captive)	<ul style="list-style-type: none"> ▶ Constraints in liquidity, low electricity demand and reduced CapEx investments likely to impact growth in the short and medium term ▶ Lockdown has adversely impacted the business development activities resulting in reduced order book ▶ Lower demand from C&I customer has resulted in banking of excess energy (to the extent permissible by applicable regulations) ▶ Delay in issuance of settlement statements by DISCOMs ▶ Lockdown has impacted power demand by C&I customer and potentially impact Tariff. C&I customer might re-negotiate short term or medium term tariff 	<ul style="list-style-type: none"> ▶ Revised business plan base case with updated pipeline and order book ▶ Impact of lower offtake, energy banked and potential decline in Tariff (due to renegotiation) on revenue, margin and working capital cycle ▶ Impact of delayed issuance of settlement statement on working capital cycle ▶ Impact of lower revenues and higher working capital on debt servicing ability of a generator
Operation and maintenance of projects	<ul style="list-style-type: none"> ▶ Higher O&M as well as lower generation (example: planned maintenance prior to upcoming high wind season) ▶ Availability of spares and manpower for maintenance 	<ul style="list-style-type: none"> ▶ Potential increase in labor cost due to limited supply of manpower





Infrastructure Road



Area	Key impact	Investment considerations
Relief measures proposed by NHA for contractors/Concessionaires	<ul style="list-style-type: none"> ▶ BOT/HAM: Pro-rata release of PBG, enabling release of working capital ▶ Release of 75% of arbitral awards to concessionaires ▶ EOT for 3-6 months based on site condition ▶ Hybrid Annuity Model (HAM): Relaxation to provide monthly payment 	<ul style="list-style-type: none"> ▶ Impact of release of performance bank guarantee for the project on the cash flows ▶ Ability of the concessionaire to realise the claims recorded by them and status of their arbitration ▶ Considering extension of time for concessionaire in the business plan basis status of the approval ▶ HAM: Impact on cash flow due to relaxation of payment and its consideration in business plan
Cost to complete	<ul style="list-style-type: none"> ▶ Labor availability is going to be a challenge with uncertainty over return of migrant labor ▶ Increase in cost to complete due to reduced availability of raw materials and labor 	<ul style="list-style-type: none"> ▶ Impact on cost to complete driven by increased labor costs, change in construction norms (social distancing, sanitisation of sites, etc.) and prices of bitumen, steel, cement, etc. ▶ Ability to manage the adverse impact on cost to complete and control the potential cost overruns. Consideration of increased cost in business plan and source of funding the cost increase
Concession period	<ul style="list-style-type: none"> ▶ Decline in toll revenues is expected ▶ Suspension in toll collections (concession period shall be extended for above 25 days of lockdown and re-imburement of interest and O&M cost) ▶ In case of partial collection of fee: If daily fee collection is less than 90% of the average daily fee, the concession period shall be extended in proportion to the loss of fee on a daily basis 	<ul style="list-style-type: none"> ▶ In case of BOT (Toll) Projects: Impact of extension of concession period and status of recoverability of re-imburement of interest and O&M expenses for period of suspension of toll collections to be evaluated ▶ In case of HAM Projects - During the operations period, NHA pays interest to concessionaire at bank rates + c.3%. Given the reduction in bank rates, its impact on Concessionaire will have to be assessed
Premium payable to NHA	<ul style="list-style-type: none"> ▶ Exemption and deferment of payment of premium 	<ul style="list-style-type: none"> ▶ Business plan consideration towards rescheduling of premium payable by concessionaire ▶ Cash flow consideration towards liability for premium during the period of partial toll collections ▶ Interest obligations in case of late payments





Infrastructure Road



Area	Key impact	Investment considerations
Claims from vendors	<ul style="list-style-type: none">▶ Stretched vendor and contractor payments and claims for idle time due to delay in project	<ul style="list-style-type: none">▶ Impact of claims and liabilities basis contracts terms and basis of idle time and other claims
Understanding revised traffic	<ul style="list-style-type: none">▶ Gradual recovery in traffic makes difficult for investors to estimate traffic	<ul style="list-style-type: none">▶ Revised base case business plan with updated traffic projections and toll collections▶ Impact on toll rates due to Covid-19 as toll rates are linked to WPI▶ Impact on debt servicing ability w.r.t to the revised base case plan
Debt	<ul style="list-style-type: none">▶ EBITDA for developers is expected to decline; drop in revenue /margins to put pressure on debt repayment	<ul style="list-style-type: none">▶ Debt moratorium availed▶ Additional liability towards interest servicing (moratorium period) in cash flow



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