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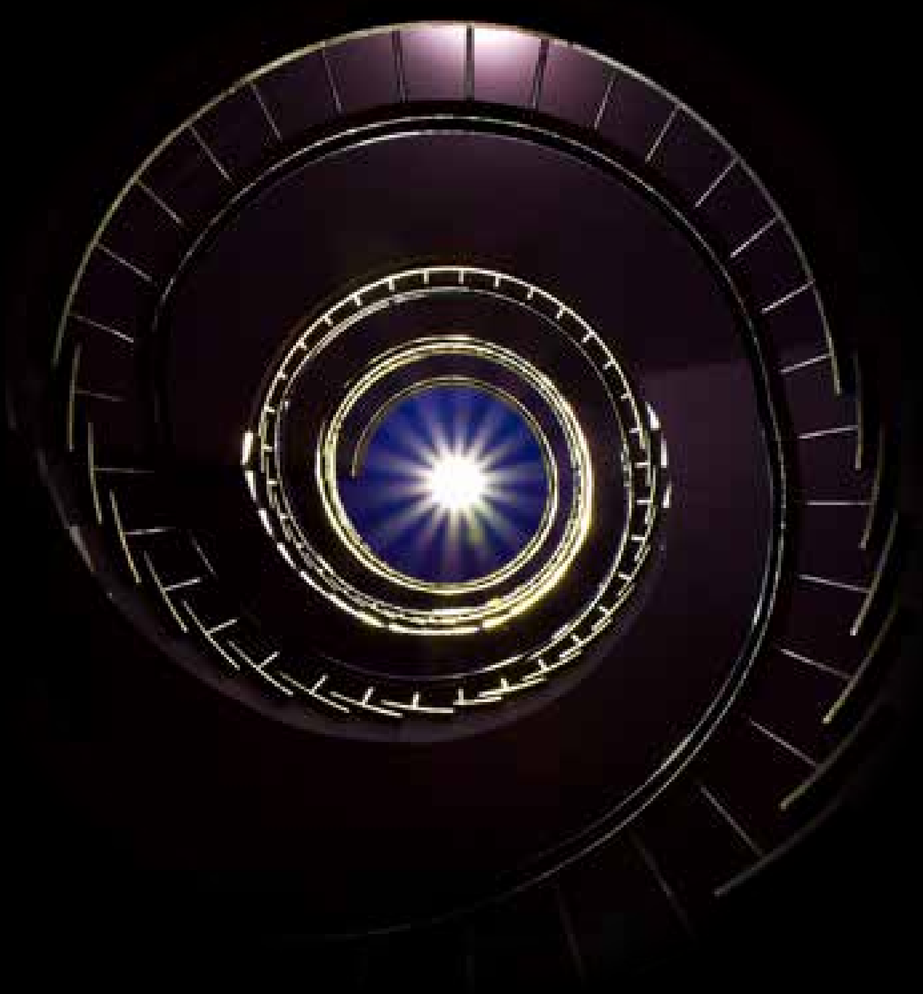
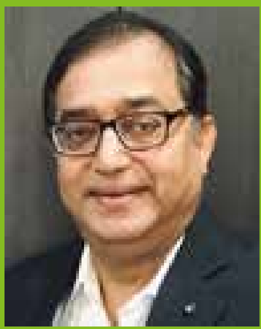
The CFO Program



CFO Perspectives

India | CFO Newsletter | September 2019

CFO Speaks



Mr. Prashant Pai
Director – Finance
Kansai Nerolac Paints Ltd.

01. How have the growing regulatory challenges such as GST impacted your business operations?

GST is been one of the biggest changes that has happened in regulations and any regulatory change brings some level of disruption for the business. How one prepares themselves for these changes makes a huge difference and helps determines the business opportunities and challenges. As an organisation, we started our work on GST changes 2-3 years in advance. We did the impact study and identified the areas of focus for our system and process changes and cleared all our system requirements related to GST a year before the law came into effect. Based on our experience of GST, we realise there are 3 key success factors for any organisation to deal with changes like GST:

- **Planning:** We identified the concerns and, process gaps well in advance and planned for the changes to avoid any last minute glitches.
- **Implementation:** We completed our impact study and created a detailed implementation plan along with the consent of various stakeholders. The systems and processes were modified based on the requirements we identified.
- **Communication:** With our wide structure of 6 factories, over 100 depots, and over 24,000 dealers, it was very important to inform and educate all for the process to run smoothly. To ensure that, we held a lot of seminars and information sessions were conducted at various locations to bring everyone on board. Quick and frequent communication helped us to implement the changes effectively.

02. Do you see an impact on your business, due to the current sluggish state of the real estate market?

The economic slowdown is clearly visible from the published data. The demand is also very sluggish. All the industries including ours are impacted. We cater to decorative as well as industrial paints. Decorative business is performing better compared to industrial and in industrial automotive industry is affected the most. Though real estate is very sluggish the impact on the decorative business is less as more than 80% demand comes from repainting. Further, with increasing urbanisation there would be more demand for decorative paints due to increase in the number of dwelling units. Thus on a long term basis we believe decorative business to grow at a decent rate.

The environment is uncertain so it is our adaptability and innovations in our products which helps us in sustaining revenue and growth. There is a shift in demand for various products- there is higher demand in the emulsion segment, which is rapidly growing segment. We are also constantly striving to innovate our products to cater to various new segments including industrial segments.

Around 50% of our business is in industrial segment which uses solvent based paints, and Raw material prices are directly dependent on the crude oil prices.

In my view, the key for sustainable growth is to identify new opportunities out of the uncertainties that environment brings in.

03. Your company has done acquisitions to expand its geographical presence as well as the product portfolio expansion. What was the thought process behind some of these acquisitions? As a CFO, what role did you play? What are the challenges in post-merger integration?

With each of the acquisitions, our focus was to expand into a new market with a strong local player. Having a local partner especially in foreign subsidiaries helps in managing the local requirements and making sure the risks and Compliance of that particular location are managed. That has been the key for our success in our acquisitions so far. The important things to look at during the acquisition process are – meeting the regulatory compliance, focus on bringing down the cost, and integrity of the partner.

The CFO has the responsibility of not just managing the deal's potential risks but paying attention to quality of earnings, liability and financial reporting risk that can impact the reported performance. Each of these factors are not only important to make the deal work but also to make sure that an organisation's assets are protected. As a CFO, my role entailed 3 different stages:

- **Identification:** Identification of appropriate lead as per the business requirements, evaluating the existing promoters / partners and getting the target at the right valuation.
- **Due Diligence and execution of the deal:** In diligence, it was important that I worked closely with the team to advise how various financial, tax and legal due diligence impact the company. I was deeply involved in diligence at all levels of work done, assumptions that were made in pro forma financial statements, and awareness of findings that we covered in the purchase agreement.
- **Integration and bringing synergies:** My focus also included identifying the synergies at each of these acquisitions, use our global procurement advantages to make the companies profitable and successful. We also made sure that we use our developed processes and systems at the acquired companies to bring in efficiencies.

The CFO is critical to a successful deal, from target evaluation to assessing the financial quality of earnings to identification of financial synergies to post-transaction integration.

04.Your company is using the SAP Leonardo platform and has integrated Robotic Process Automation (RPA) into its operations. What were your learnings and challenges in adopting these technologies and what efficiencies have you achieved at the overall organisation level?

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The technological changes have become imperative for the growth of business and bring in lot of efficiencies into the business and decision making. Our focus is to reduce costs and improve efficiency by using the latest technology.

We have implemented these technologies which have brought us closer to the customer by providing data on real time basis. The decision making has become faster and reliable. The information is provided to each of our salesmen on real time basis and help communicate effectively with their dealers and expedite the business decisions at the dealer level as well. Identification of business opportunities by location also helps our teams to reduce travel costs.

The use of technology has enabled our teams to have focused efforts not just in growing business but to ensure profitability. The automation of systems and real time information help us understand demand and thus focus our business initiatives accordingly.

05. What are your core focus areas as a CFO? Where are you focused on driving value from?

As a CFO, my focus areas are strong governance, regulatory compliance, Focus on strategic partnership, digitalisation of operation and effective financial reporting. Further, my focus is on driving value from 3 extremely important areas:

- **Regulatory compliance-** This is one of the most important factors for a CFO. To ensure compliance, one needs to have appropriate processes, updated systems and transparency in reporting. Monitoring of compliance at each level is critical- internal or external. There is no exceptions for compliances as it entails to severe penalties along with loss of reputation and business.

- **Strategic partnership and operational focus-** The CFO of today must take ownership of the financial results of the organisation and work closely with the business to help organisations grow. The critical factor is to be strategic and also includes timely operational reviews and effective financial reporting. Implementation is key for any strategy to succeed and thus operational reviews are key for effective decision making.

- **Risk management –** One of an important responsibilities CFOs have is risk management, i.e. managing financial risk and business risk. From overall financial compliance to the business partnering, a CFO needs to be involved in establishing and maintaining adequate risk management and regular monitoring action taken for both preventive and protective risk for the organisations. The CFO is charged with understanding and mitigating the risks that the organisation faces and it is critical for a CFO to work with each of the functions to develop an understanding, identify risks, assess the impact and manage and integrate the same into the company's strategy.

Expert Views

Unlocking creativity:
How CFOs can help cultivate a creative mind-set

Messy. Chaotic. Nonlinear. Such words are typically not used to describe an effective CFO. But those traits, which are often associated with creativity, may be the ones finance leaders should consider nurturing throughout their organisations—all in the name of growth.

It is a concept not lost on their bosses. In fact, in a survey of CEOs across 33 industries and 60 countries, they identified creativity— above rigor, management discipline, or vision—as necessary for leaders to successfully navigate an increasingly complex business environment.

For their part, finance executives—who, for the record, typically tend to be disciplined, predictable, and analytical—play a vital role in fostering that needed creativity. While CFOs aren't expected to be the originators of breakthrough products or technologies, they can help build organizations where innovative ideas are identified, financed, and delivered. And in an environment where top-line growth is still paramount, those ideas— and the strategic investments needed to execute them—may just be the key to future competitive advantage.

Becoming mind-set readers

The need for creativity seems more apparent than ever. One symptom may be the current growth shortfalls at some companies. A recent analysis of Fortune 500 companies found that more than one-third (38%) experienced a decline of revenue between 2014 and 2016. Another driver may be the looming prospect of an economic downturn, which may force CFOs to look for original ways to boost efficiencies at their already-lean organizations.

However, a prospective downturn may also be an opportune time to invest in innovation, calculating trade-offs that need to be made to emerge from any decline—which 80% of CFOs expect to be mild, according to the Q2 2019 CFO Signals survey—with a competitive edge over their creativity-challenged peers. To position themselves that way, though, finance chiefs may have to become alert to organizational barriers that might be suppressing their company's creative impulses. Such mind-sets manifest in a variety of ways:

- Prediction mindset
- Benchmarking mindset
- Naysayer mindset
- Linear mindset
- Structural mindset
- Focus mindset

Fostering creative confidence

To facilitate creative thinking, CFOs don't need to abandon their roles as stewards in the organisation. The sense of discipline they can add to the creative process is critical. In fact, as the drive to innovate increasingly becomes a standard part of doing business, it's often up to the finance leader to weigh the overall impact of new ideas. They need to make sure that the organization's portfolio of creative risks remains balanced between short-term profits and long-term growth, for example.

By instilling the creative effort with clarity and accountability, CFOs can harness it to drive the company's growth—which is, after all, the goal. To start, however, they need to model creative thinking, both in how they perform their own jobs and how they support others.

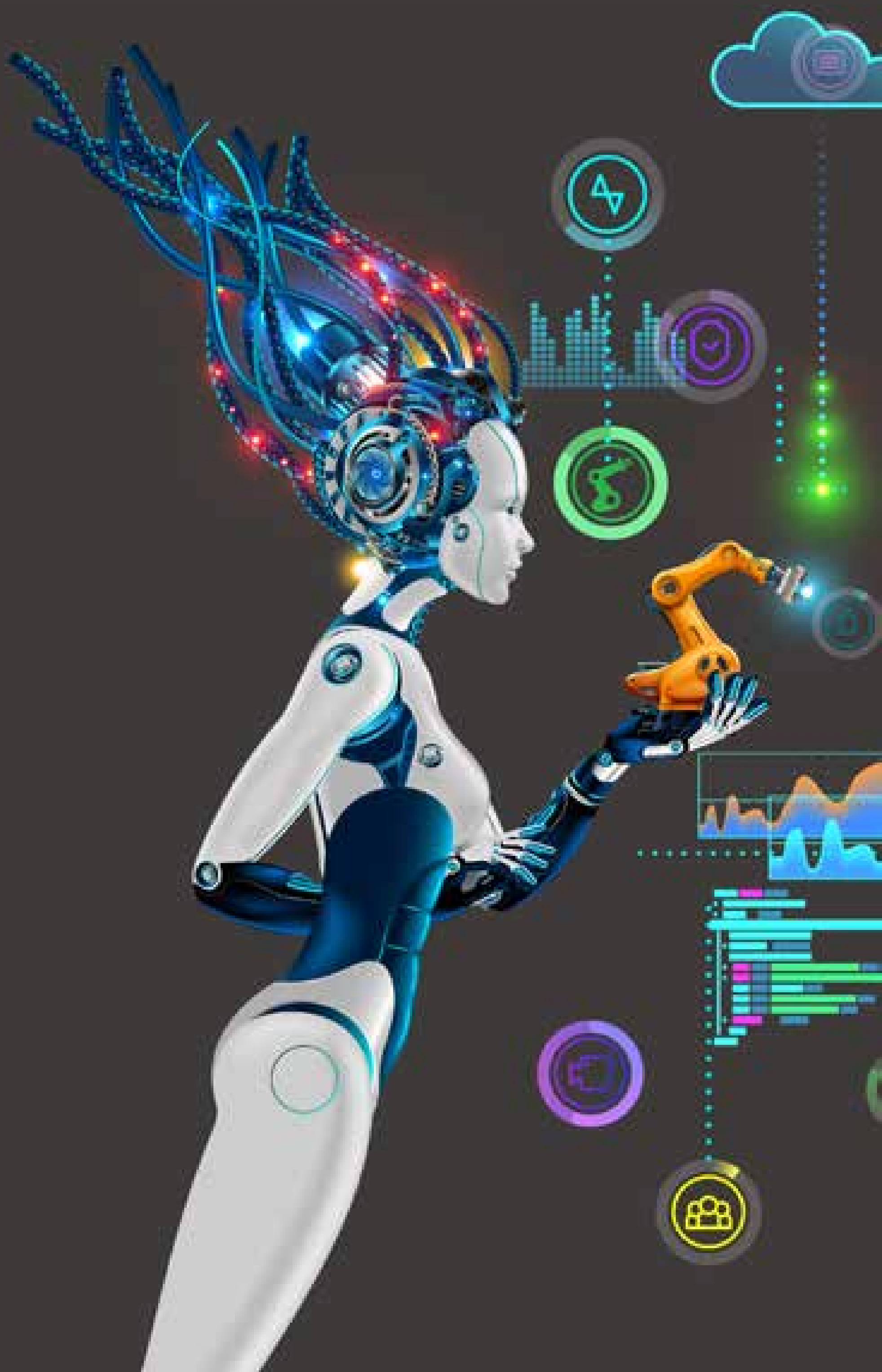
Some effective ways can include the following:

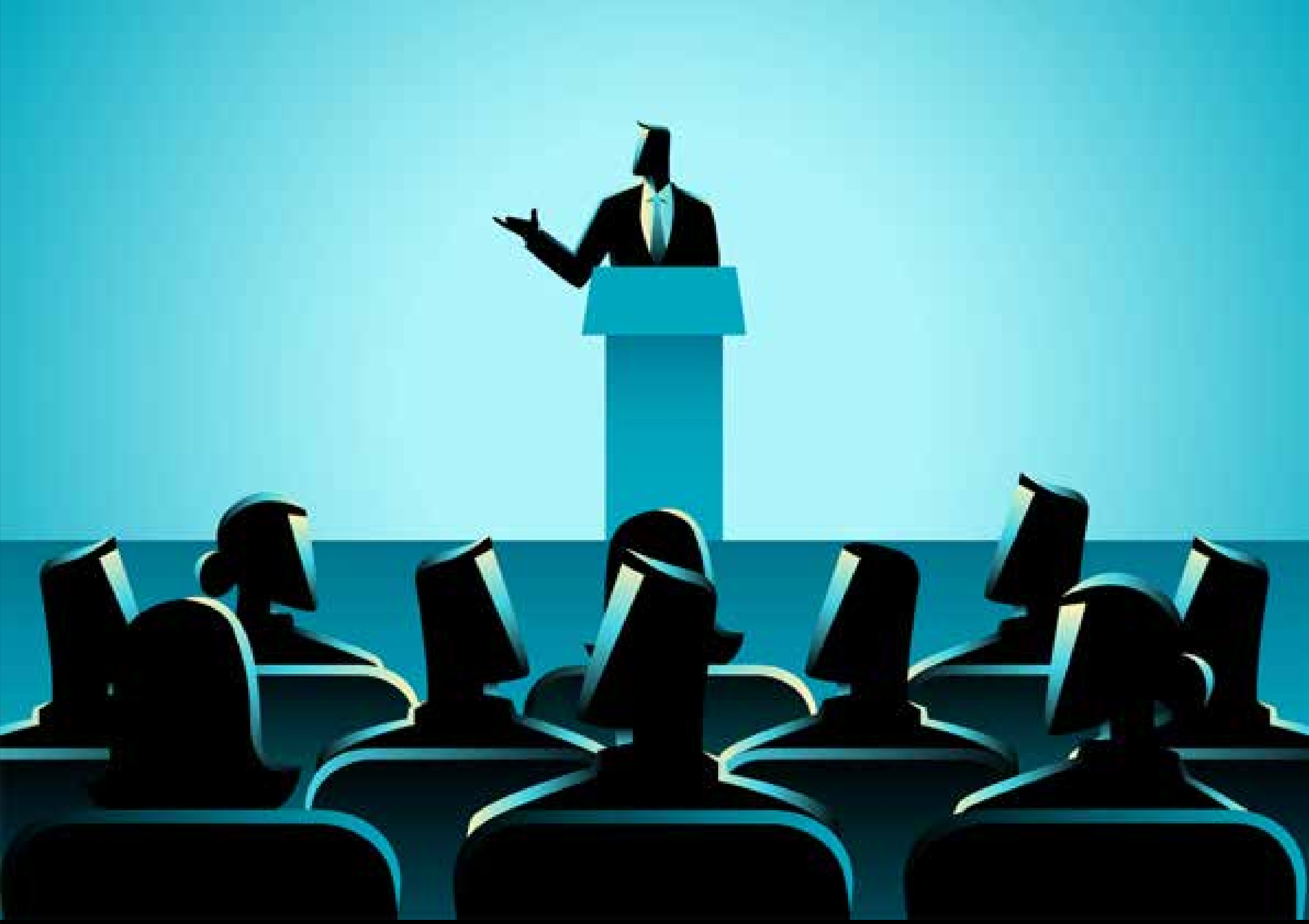
- Reframe questions
- Encourage low cost experimentation
- Practice operational flexibility
- Develop fitting metrics

Transformation through innovation

By finding ways to assess creative ideas, CFOs can help guide their businesses toward taking the right risks. After all, in the face of so many challenges—an accelerating pace of change, an increasing influx of competitors, the growing fussiness of customers—sustaining profitable growth requires a bigger effort than, say, expanding distribution. To do so, however, demands both curiosity and courage—traits that many CFOs have honed over years of experience. And having their hands in the process can help move everyday innovation (i.e., incrementally adding new features) into transformational creativity that establishes new platforms for future growth.

There is more to this article. If you wish to read the full article please click here.





About Deloitte's CFO Program

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

For more information feedback or suggestions, please write to us at: incfo@deloitte.com

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