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The CFO Program

CFO Perspectives

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CFO Speaks

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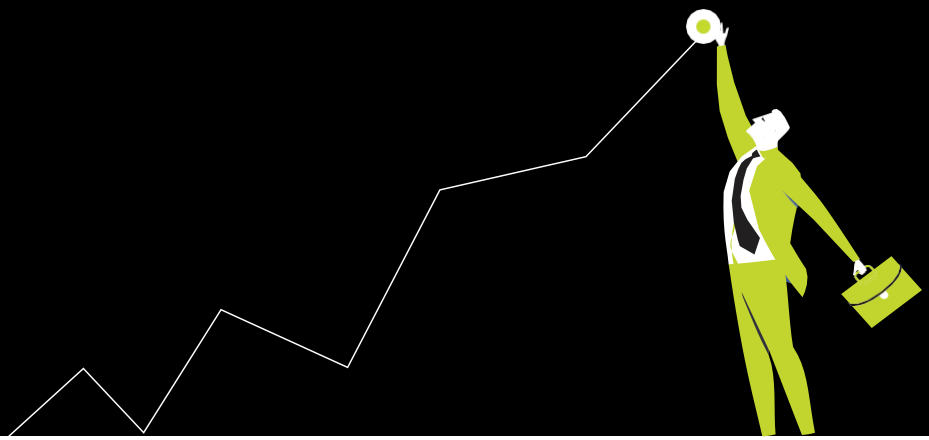

1 How do you see your business growing when compared to the pre-pandemic levels?

We are already above the pre-pandemic levels. For us, Q1 of FY22 was below the pre-pandemic levels, however, 9M FY22 is 15 percent ahead of the pre-pandemic revenues. In terms of revenues and PAT, Q3 FY22 has been our best-ever quarter. In fact, we have registered the four best quarterly results during the past five quarters and have seen a substantial growth.

We implemented business transformation processes even before the pandemic by continuously challenging the status quo to replicate and exceed the successes we had in the past decade. When the pandemic started, all parts of our business were prepared to face the challenges and scale up. Digital transformation also has been at the core of our business for the past three years. In effect, we had sown the seeds of transformation in the organisation and when the pandemic hit us, we were ready to challenge the processes and implement efficiencies once again.

We did have challenges in Q1 FY21 with zero sales, and collections being at an all-time low, apart from keeping employees secure with regular payment of salaries. We ran many business scenario simulations to navigate through this phase and started with the areas which were in our control. As an outcome, we collected the customer outstanding with rigour, implemented budget controls, focused on daily cash flow management system, etc. We realised that cash-flow is king! We remained committed to our value system of supporting all business partners, vendors, and employees, which ensured that everyone supported us and helped us navigate smoothly during the pandemic. For vendors, we set up financing of payments and gave them long-term visibility for six months in terms of the required raw materials and finished goods. The challenges were more in the first COVID-19 wave, but we stuck together on the right path to ensure that disruptions are minimised, employees are taken care of, and we grew together to achieve success.

The pandemic has helped us arrest inefficiencies and sharpen our responses for the future. As we embark on the growth journey, I believe that increased market penetration is important. Today, we have a presence of more than 1,10,000 retail outlets in India (as compared to 65,000 hardly two years ago) which has helped us reach out to more customers. Additionally, we have worked towards digitising our supply chain and automating replenishment systems, B2B e-commerce software implementation, product design system, etc. to ensure that we are ahead on the technology curve to bring efficiency to the overall supply chain and business processes.

2. Your organisation needs to comply with EHS (Environment, health, and safety) norms which are quite demanding for the textile sector. As a CFO, how do you measure ROI on EHS-related investments?

EHS has a great impact on the textile sector, but as we do not engage directly in fabric manufacturing, our direct

impact on the environment is minimal. But yes, in terms of the overall value chain, we do have an impact. We buy from reputed brands and vendors who have their EHS compliance in place and their parameters are strong. We have been able to limit our EHS exposure and manage it fairly well.

Our focus has increased on sustainability and EHS-related issues, wherein we have clear targets to invest INR 4 – 5 crore annually. We do not subscribe to measuring ROI on investments in sustainability, as we look at these as essential hygiene for a sustainable future.

We also perform annual risk assessment of our manufacturing units and warehouses for every location. Based on the results from our risk assessment, we implement improvements in the safety parameters at various locations. I would say, we are constantly monitoring and improving on this aspect.

3. **Did you witness a significant increase in e-commerce activities in your business during the pandemic, and will this sustain in the foreseeable future? Has this had an impact on your overall margins?**

I believe, e-commerce is here to stay along with the existing lines of business. We are present on B2B as well as B2C arrangements with branded e-commerce platforms, and we are one of the largest players in volumes across the product categories. In the pre-pandemic phase, three-four percent revenue came through online sales, which is now close to double digits in terms of revenue contribution, while the absolute overall revenue itself is well above the pre-pandemic levels. Thus, e-commerce sales have increased as consumer buying patterns have changed. People have got used to the comfort of shopping online and this will sustain in the foreseeable future. To meet the increased demand from e-commerce, we have outsourced our warehouse to DHL so that the throughput is good and the delivery model becomes increasingly efficient. We had invested in this earlier and this truly proved its worth during the first wave of the pandemic.

In e-commerce, we need to incur gateway charges, platform charges, and promotional expenses. Accordingly, as we need to reinvest in the business, the margins are not significantly higher. However, the online presence and social media advertisements help us to be in the minds of our customers consistently.

4. **Technology revolution is transforming the business and industry today. How important is the role of technology in finance and how are you planning to use technology as an enabler in the coming future?**

When I joined as a CFO, the business transformation process was already planned in our organisation. I was in the steering committee which was driving many initiatives related to implementing strategies for sales and operations. We also planned many digital initiatives such as e-commerce billing and reconciliation application, product management system for storing individual designs, supply chain transformation, back-end labelling tool for dispatch, master data management for B2C, garment cutting optimiser, etc. We have made a lot of investment on technology in the last few years. We are also implementing SAP S/4 Hana which was delayed due to the pandemic.

In the past too, I have done many implementations of ERP / SAP in India and abroad, and I'm a great believer in technology, having seen how it has improved the overall finance systems and processes – adding speed and efficiency to the overall business outcomes.

The world today is truly digital and different from the past. We were able to sustain work-from-home only because of technology, wherein all the purchase orders and invoices were getting processed without the need to have physical copies. I believe that this is an ongoing journey and that we need to constantly upgrade technology and enable seamless experiences for our business partners.

5. **As a CFO, what are the disruptions and opportunities you have seen in the past two years of the pandemic?**

In terms of disruption, we witnessed an increase in cotton price by 20 percent which affected the delivery of our inputs. With closed shops and restricted mobility, our supply chain was completely disrupted during the initial months of the pandemic. In addition, we had employees and business partners who were unwell and suffering with COVID-19. These were challenging times which taught us to be more empathetic towards others.

The pandemic gave us an opportunity to tackle low attention pockets of the business to bring in efficiency. Most of the channel partners have invested in brands that can deliver on time and with quality. We realised that it is important to keep the needle moving, which in turn improves the processes and systems, and ensures longevity of the brand.

6. **As the mobility restrictions ease and consumer spending increases, what are your priorities as a CFO?**

Jockey came to India in the year 1995 and the company rolled out its IPO in 2007. We have witnessed a strong growth journey so far and have never looked back. Even today, our demands exceed supply because of increased penetration of the brand to many new untapped markets. We have more than 100,000+ retail outlets across India. The market size of our premium apparel product segment is still untapped, and we have only penetrated 12 percent of our target customer segment. Given the huge market size, I would say, we are still growing. Thus, we need to continuously invest in capacity

building and expand our retail footprint. We believe, our journey is yet to begin and there is no complacency in the team. As a culture, we continuously benchmark our processes in Finance, IT, risk management, and other domains, and keep improving with time to achieve the desired growth.

Having said that, most of our growth will be organic, as inorganic growth will have limitations of brand licensing, product line, etc. As consumers move towards premium brands and India's per capita income rises, we will continue to grow by unlocking our supply chain and deliver to the increasing demand. Today, the Indian consumer wants quality product brands with reliability, and we offer that. Thus, we want to continue doing our business with clear principles and guidelines, while being aware of the social responsibility that comes with a business of this size.

Expert views

Has the pandemic created a backdoor to increased fraud risks?

The impact of COVID-19 has resulted in organisations and regulators across the globe operating in an entirely new environment. Whilst we adjust to the new normal, there will be those who will look to exploit gaps and weaknesses in the systems.

Financial crime across the globe is expected to rise in response to the uncertainty in the business landscape. For banks, the economic slowdown has only heightened the risk of fraud and money laundering. Banking sector regulators have been at the forefront of fraud mitigation strategies, prescribing frameworks that banks need to adopt to have a better view on fraud risks.

As new risks begin to emerge, banks need to remain vigilant to ensure they continue to effectively mitigate them. Banks that can utilise technology to enhance their operations can stay on top of preventive, detective, and enforcement measures, thereby effectively guarding themselves against increasingly complex financial crimes.

Per Deloitte's India Banking Fraud Survey, Edition IV, 78 percent respondents believe that frauds will rise in the banking sector over the next two years. This means, while banks are yet to fully understand the implications and impact of the current environment on fraud-related matters, banks seem to accept that the pandemic may possibly lead to a rise in frauds.

The recent changes or technological advancements brought about by the pandemic will have a lasting impact on the banking industry. It is highly likely that further changes may be warranted in the future in the way the banking industry operates.

In line with these trends, data theft, cybercrime, third-party induced fraud, bribery and corruption, and fraudulent documentation have been identified as the top five concerns, with over 42 percent of respondents (cumulative) reporting to be victims of these, per the survey.

Stressed assets continue to be an area of concern for banks, with the pandemic adversely impacting specific industries. Respondents have cited limited asset monitoring after disbursement (38 percent), the economic slowdown (24 percent), and insufficient due diligence prior to disbursement (21 percent) as the top three factors leading to higher stressed assets. This suggests that banks may need to overhaul their due-diligence and monitoring frameworks.

In line with the survey results, the main question that arises is whether the current safeguards in banks are adequate to prevent and detect fraud. Have the core issues/loopholes been identified which can lead to possible frauds in future?

For an effective fraud risk management (FRM) function, a bank should have a dedicated and independent team with a strong compliance culture. The FRM department should look at managing its three pillars viz., governance, prevention/ detection/ investigation, and reporting. This includes having a fraud monitoring system that obtains inputs from various teams such as inspection, credit monitoring, business, etc., and having a skilled pool of fraud risk management officers, timely reporting of frauds and enhancing policies, procedures, and risk registers to avoid reoccurrence.

While banks are making continuous efforts and investments to minimise fraud incidents, there is a need for banks to regularly conduct fraud risk assessments (FRAs). 50 percent respondents indicated that they conduct FRA once a year and close to 45 percent indicated once in two/three years. Given the dynamic nature of the banking environment and with the introduction of new, technology-enabled products and digital payment channels, conducting fraud risk assessments with greater frequency is an absolute necessity.

A strong fraud risk management/fraud monitoring function can help banks minimise the impact of fraud, thereby reducing losses and safeguarding their reputation. It should be able to prevent/ detect/ investigate multiple types of fraud risks, while having the ability to prepare for new regulations as well as tackle emerging fraud risks.

The increase in the use of digital channels for transactions has contributed to the ease and speed of transactions, however, with the evolving and complex business models and increased use of technology, fraud risk management frameworks have been exposed to newer and more complex challenges.

This means that human decision-making and traditional transaction alert systems are no longer effective in the timely detection of frauds. Artificial intelligence techniques along with machine learning tools can be used to counter the latest fraud schemes and can also help in detecting future frauds. They can help reshape the way banks conduct fraud tests and monitor their operations with higher accuracy.

An intelligent data analytics tool can mine through vast volumes of data, gather and analyse intelligence from external sources, and identify hidden relationships and red flags. This will enable banks to proactively identify potential fraudulent transactions before they manifest themselves. Through human decision-making, along with machine learning algorithms (that can learn from these datasets), fraud risk identification and detection can be much faster and more efficient.

Survey findings reveal that most of the investments in fraud mitigation measures have been made to optimise existing EWS and fraud monitoring systems using AI/ML (22 percent), enhancing case management solutions to better respond to frauds (17 percent), and providing training/workshops to upskill team members as part of the FRM function (17 percent). While banks continue to invest in enhancing their fraud risk management frameworks and monitoring systems, it appears that these efforts have not been sufficient. There is an immediate need for banks to implement robust, effective, and efficient control frameworks.

To obtain better results, AI techniques can be used—this will reduce false positives, spot true positives, and detect new patterns. Anomaly detection algorithms are tailor-made to detect fraudulent transactions by isolating exceptional items based on variables known to the model. The input from risk, compliance, and business teams, complemented with intelligence gathered through external sources, are essential to implement the use case. Banks can use data segmentation, coupled with statistical analyses, to identify characteristics specific to each peer group and create custom thresholds.

The way banks choose to respond to challenges will continue to be the focus of the public, regulators, and investors, and will position them well to cope with any future crises that comes their way.

To read or download the complete report, click here.

About Deloitte's CFO Programme

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 companies' most compelling challenges, and adapt to strategic shifts in the market.

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