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CFO survey 2021

A resilient India poised to thrive in the new normal

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Foreword

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Welcome to the CFO survey 2021!

The objective of this survey was to understand the perspectives of India-based companies on how they faced the challenges arising out of the pandemic and how they converted these challenges into opportunities.

In the past, we have discussed the changing role of CFOs – from being an operator and a steward to being a catalyst and a strategist. However, the events of 2020-21 have accelerated this change. Every function in the organisation has gone through a multitude of changes during this time, but the finance function remained at the core of managing uncertainty.

Even with the uncertainty in the environment and global economies, more than 50 percent CFOs are optimistic about the revenue growth, and increasing business activity, including Mergers and Acquisitions (M&A).

Overall, the CFOs surveyed have shown fair optimism about the economic recovery and their organisations' growth.

We hope you will find our survey results insightful.

Happy reading!

Executive summary

With the economy gradually reopening, CFOs' perception of uncertainty associated with the pandemic is reducing. Our annual CFO survey shows that a majority of the CFOs are optimistic about growth in FY22. There is willingness to invest, with many CFOs focusing on the post-pandemic opportunities and challenges.

Uncertainty associated with changes in policies and regulations, supply chain and technology disruptions, and capital shortage were identified by the CFOs surveyed as key concerns to business.

The survey findings also highlight the divergence in the mood of CFOs. Not all industries are experiencing benefits of the economic recovery, and strong growth is from a very low baseline. Although CFOs from the Life Sciences and Health Care (LSHC) and technology sectors have a positive outlook, those from beleaguered sectors, such as telecommunication and automobiles, are relatively pessimistic. Challenges related to adjusted gross revenue claims in the telecommunication sector and chip shortages in the automobile sector weigh on business sentiments. These CFOs are also concerned about the increasing working capital requirements to meet short-term liquidity constraints and rising input costs.

CFOs are concerned about the risks that have changed considerably over the past one and a half years. The pandemic has led to cautious consumer spending. Rapidly changing consumer sentiments and preferences, and rising competition from new entrants have made pricing a critical factor affecting demand and growth.

While a majority of the CFOs expect an increase in their top line, they remain relatively uncertain about their operating margins because of rising costs. Increasing supply chain costs, wages, and raw material prices are concerns for them. The global economic rebound has led to a sharp increase in commodity prices and supply bottlenecks, pushing inflation higher. Rising production costs and disruptions to the supply chain are putting pressure on the profitability of manufacturing companies. Besides, sustained higher inflation could put pressure on the RBI to raise interest rates, making credit costlier. However, the majority of the respondent CFOs, who may be hoping for extended monetary policy support, do not expect the cost of debt to increase significantly in FY22.

On the contrary, higher wages could boost consumption in the near-term and help create demand in the economy. Rising raw material prices could also attract higher investments in industries such as energy and natural resources. About 65 percent CFOs from the energy, natural resources, manufacturing, and Financial Services (FS) sectors believe that capex would increase in FY22. This is a welcome news for the government and policymakers who are looking to attract a higher capex into the economy.

In terms of the M&A strategy for FY22, more than half of the CFOs are likely to pursue offensive strategies. CFOs from sectors such as automobile and life sciences expect to remain defensive in their M&A goals by focusing largely on the acquisition of assets to fill gaps in core portfolios. In contrast, most CFOs from the FS, consumer, and natural resources sectors are likely to be aggressive in their M&A strategies. These strategies will be targeted towards the acquisition of disruptive innovation assets (to enter new-growth segments), consolidation, and digital transformation.

The CFO survey reflects the optimism as well as the uncertainty across various industries. The results offer great insights to policymakers as they must pay higher attention to sectors that have suffered heavily due to the pandemic. Overall, the responses suggest that the industry is cautiously optimistic in FY22.

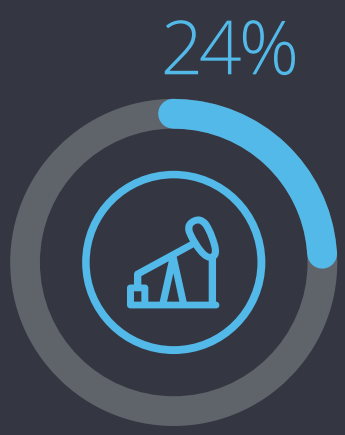
Survey overview

There are some grave questions that keep CFOs up at night. What will the post-COVID economy bring for the Indian industry? What would be the impact of mounting business expenses and tightening operating budget on organisations' bottom line and growth plans? How would shifting business priorities and soaring costs impact inflation and reset organisations' financial priorities and expectations? Will accelerating digital transformation salvage the situation for the Indian industry in a post-COVID business landscape?

The CFO survey 2021 attempts to answer these questions. It captures the pulse of leading Indian CFOs, revealing their views on various aspects of the Indian economy, business priorities, finance functions, M&A strategies, and digital transformation.

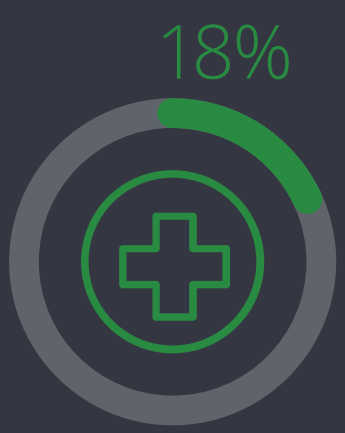
The survey saw participation from more than 100 CFOs across different industries. Respondents included both listed and unlisted companies that are either Indian companies or multinational corporations headquartered in India.

Participant profiling by industry

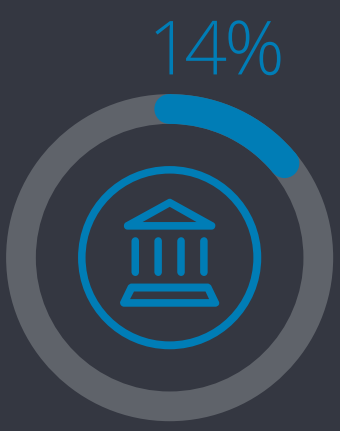


Manufacturing and Energy & Natural Resources (MNF, ENR)

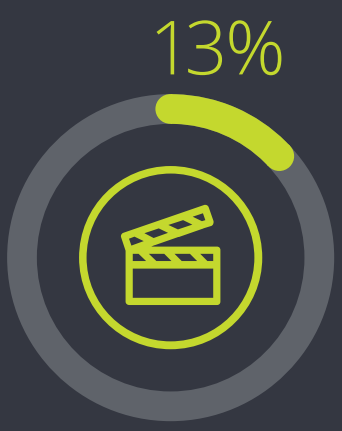
Consumer - Retail, Consumer, Travel, Hospitality, and Services



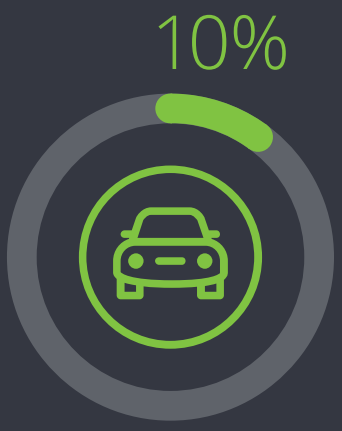
Life Science and Healthcare (LSHC)



Financial Services - Banking, Insurance, NBFCs, Real Estate (FS)



Technology, Media, and Telecommunication (TMT)



Automotive (Auto)

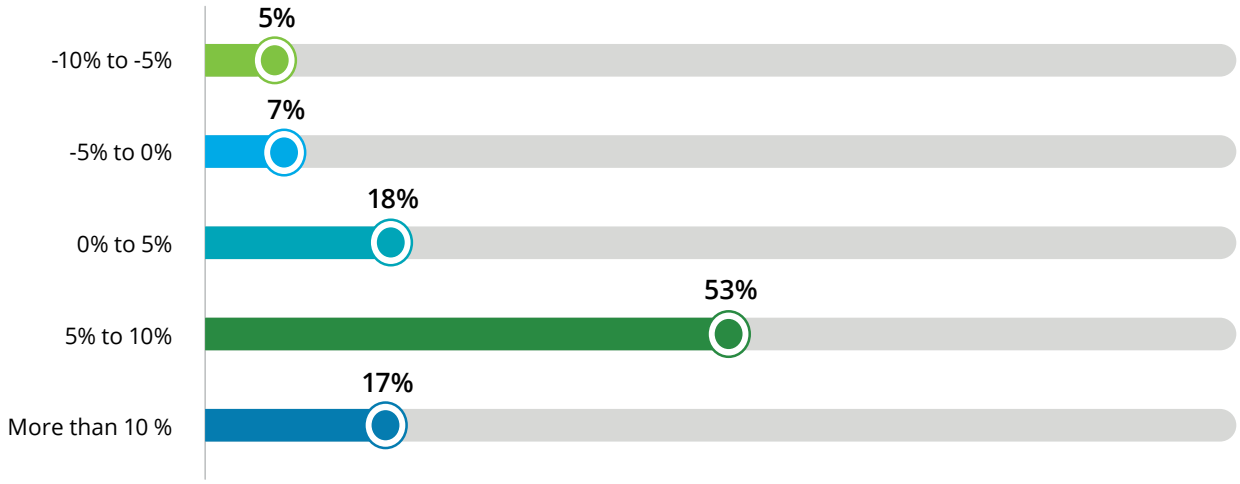
Six key insights

1. Economic outlook for FY22 looks promising

A majority of the CFOs are upbeat about the economic growth, with 70 percent of CFOs expecting economic growth of 5 to 10 percent or more.

CFOs are rising up to the challenges thrown by the global pandemic. An overwhelming majority (about 70 percent) expect the economy to clock more than 5 percent growth in FY22. Nearly 17 percent anticipate a better-than-expected rebound in the post-COVID economy, with a double-digit growth (10 percent) rate. However, 28 percent CFOs from the TMT sector and 18 percent from automotive companies hold a pessimistic view and anticipate negative economic growth. The auto industry, which was severely affected by the pandemic, is skeptical about the overall growth in the economy as well as its own growth prospects.

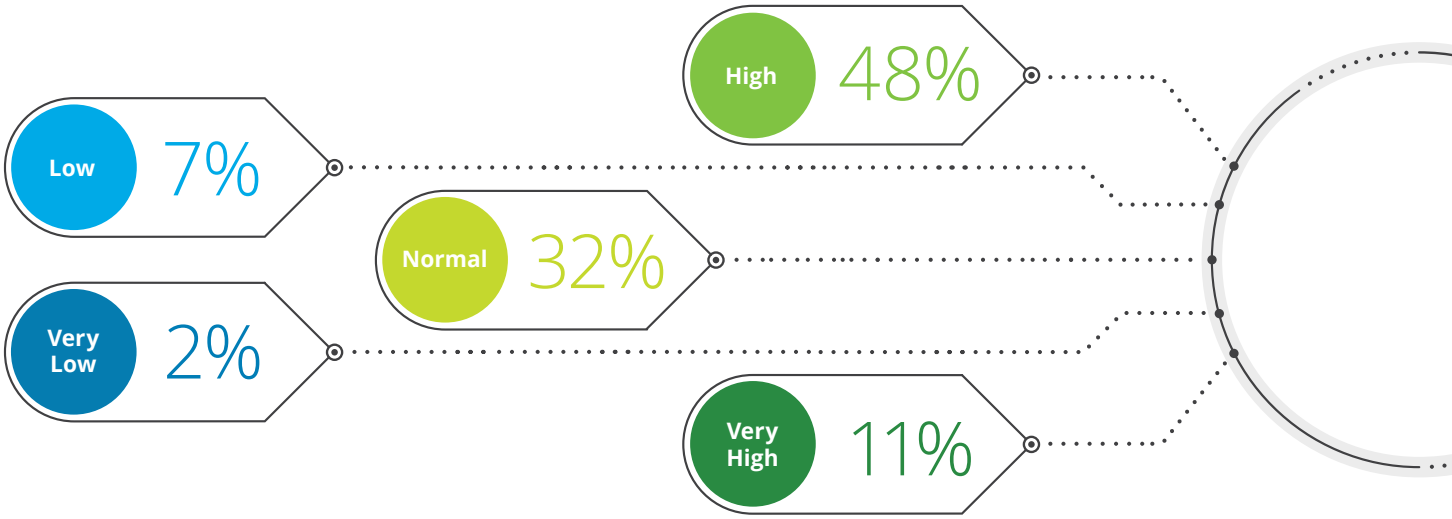
Expected economic growth in FY22



One industry that flourished throughout the pandemic period is the LSHC industry. It has maintained its trust in the Indian economy, eyeing an ambitious 15 percent growth. Similar positive sentiments have also been expressed by the FS, manufacturing, and energy and natural resources industries.

No business was immune to COVID-19's impact and the pandemic has changed our collective understanding of uncertainty. There is no case in point that matches the intensity, scale, reach, and impact of this global crisis. First, confronting uncertainty through and beyond the crisis and then embracing it as "new normal" helped businesses look for opportunities in this crisis. However, not every business was fortunate enough to successfully navigate through these uncertain times now known as "new normal".

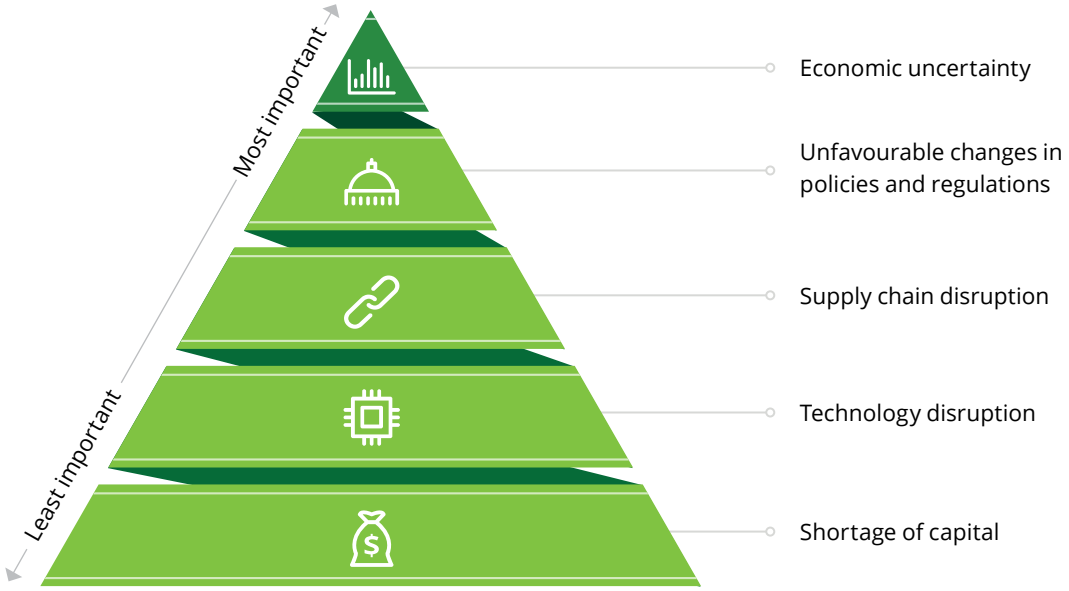
External financial and economic uncertainty being faced by business



Uncertainty in the business environment will persist, taking a toll on CFOs' optimism. A majority of financial leaders (59 percent) expect this uncertainty to only grow in the current financial year. On the other hand, 16 percent financial leaders in the manufacturing and energy and natural resources industries anticipate lower financial and economic uncertainty, compared with 9 percent for overall respondents. Financial and economic uncertainty seems to be highest amongst CFOs from the auto (82 percent), and consumer (53 percent) sectors. These sectors suffered the maximum because of the pandemic-led interruptions such as disruptions in supply chains, restrictions on movements, and concerns around safety and well-being. In the earlier phase of the pandemic, people postponed the purchase of big-ticket items and avoided travelling as much as possible.

CFOs have identified factors that could impact their organisations' growth prospects (shown in the figure below). The figure shows the challenges in the order of their importance.

Ranking of top factors posing a significant risk to business in next 12 months



The fear of economic uncertainty grips almost every industry as the pandemic is yet to reveal its full impact. Any unfavourable changes in policies and regulations, coupled with supply chain disruptions, also add fuel to the fire, intensifying industries' woes. Dearth of capital does not seem to be a significant challenge for most industries as leaders found a way around it (optimising the use of resources, cutting cost on real estate leases, rationalising office infrastructure, etc.).

CFOs from the manufacturing and ENR industries agree with the ranking of these risk factors for the overall industry, with only supply chain disruptions and changes in government policies swapping places.

The auto industry considers disruptions in the supply chain a huge risk to its bottom line. Failure to make timely deliveries will have a direct bearing on revenues. Financial leaders from the TMT industry rank these risks same as the overall outcome. Disruptions in supply chain and rise in commodity costs will impact growth plans of CFOs associated with the consumer sector.

CFOs in the LSHC industry acknowledge economic uncertainty and changes in government policies as equally important risks followed by supply chain disruptions. They consider capital shortage and technological disruptions as least significant risks.

2. Changes expected in key operating metrics in FY22

More than two-thirds of the CFOs (77 percent) foresee increase in revenue

Overall, the economy is expected to become healthier, in every aspect, after the mass vaccine drive. Key performance metrics of organisations will also undergo changes. The following points signal how CFOs expect operating parameters to shift in this fiscal year:

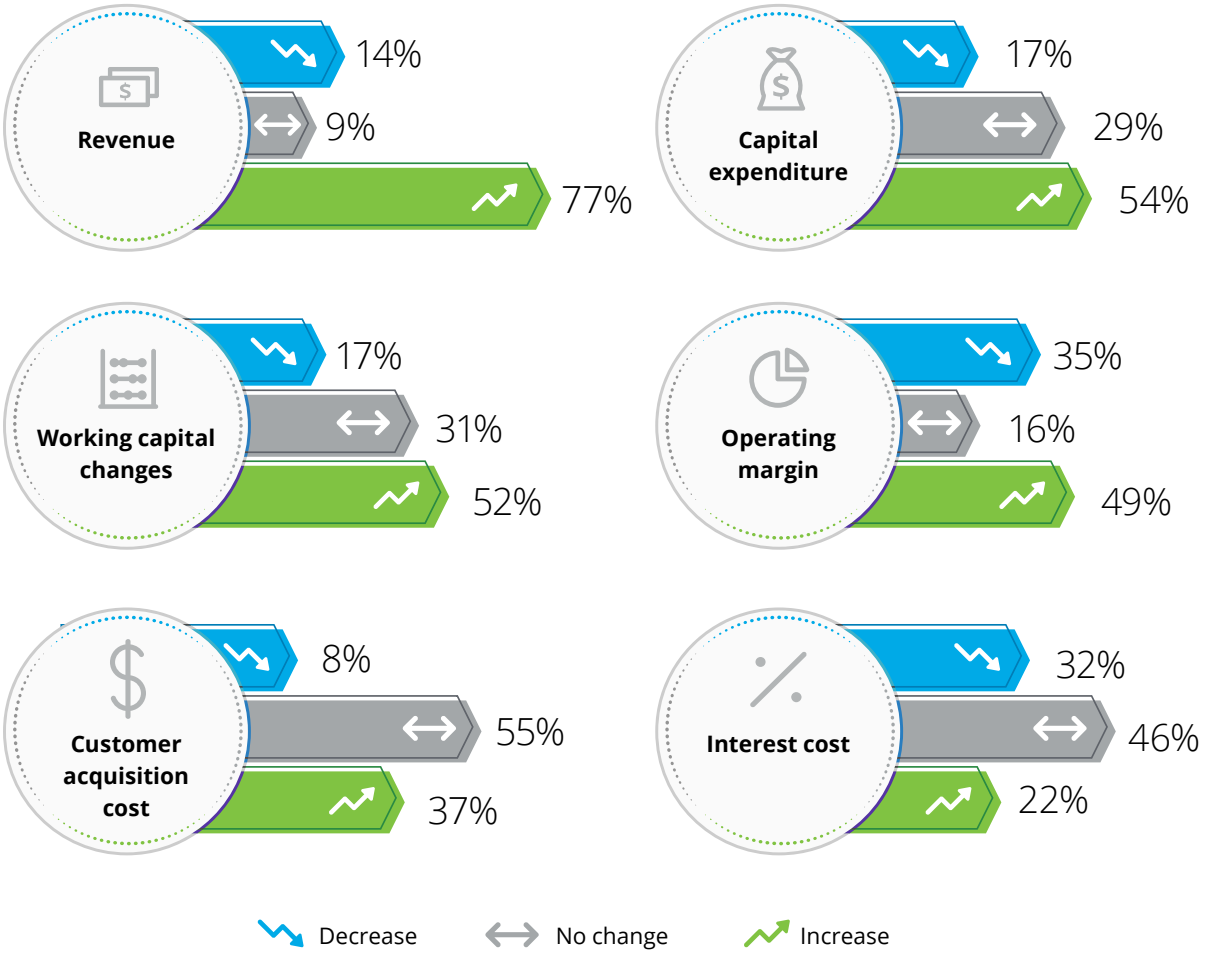
Revenue: About 77 percent CFOs expect an increase in revenue in FY22. Those from the LSHC industry are particularly optimistic as people are still observing caution and taking preventive medication. However, auto sector CFOs foresee a lukewarm growth in revenue, with only 36 percent expecting to record any revenue increase in the current financial year.

CAPEX and working capital: More than 50 percent CFOs stated that their CAPEX and working capital would increase in this fiscal year. Looking from an industry/ sector lens, about 65 percent CFOs from the financial services, manufacturing, and energy and natural resources industries believe their CAPEX would increase. On the other hand, more than 30 percent consumer sector CFOs and 25 percent LSHC CFOs expect a downward trend in CAPEX. Further, 64 percent CFOs from the auto sector and 75 percent from the TMT sector expect an increase in working capital. In the FS sector, 60 percent CFOs do not see a change in working capital.

Operating margin: Overall 49 percent CFOs feel that operating margin would increase in FY22. Although 70 percent CFOs in the LSHC sector hope for an improvement in operating margin, 64 percent from the auto sector anticipate a decrease.

Customer acquisition cost: More than half of the CFOs predict no change in this cost. CFOs in the auto (73 percent) and TMT (50 percent) sectors do not share this sentiment. They have braced themselves for a rise in customer acquisition cost.

Expected key operating metrics to change in FY22

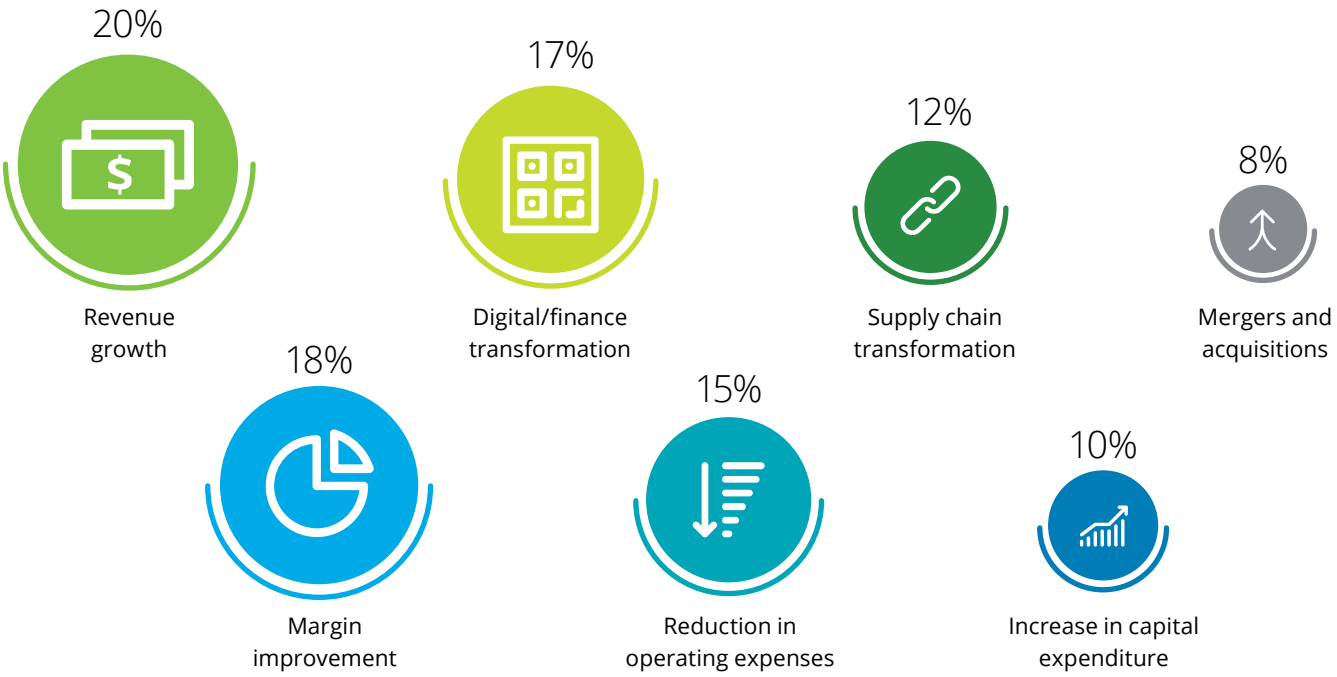


3. CFOs resetting their priorities to thrive in the post-COVID economy

Margin improvement and pricing are amongst the top CFO priorities in FY22

Amidst the competition between the vaccines and the virus, CFOs are placing their bets on the economic recovery. They are adjusting their priorities to create a conducive environment for growth.

Organisation's priorities between FY21-24



In the next three years, revenue growth is the most important priority for CFOs, followed by margin improvement and digital/finance transformation – both being equally important.

Auto, consumer, LSHC, and TMT industry/sector CFOs have similar top five priorities. FS industry CFOs have M&A as their fifth priority instead of supply chain transformation. In the manufacturing and ENR industry/sectors, CFOs believe an increase in CAPEX is the fourth most important priority alongside digital transformation.

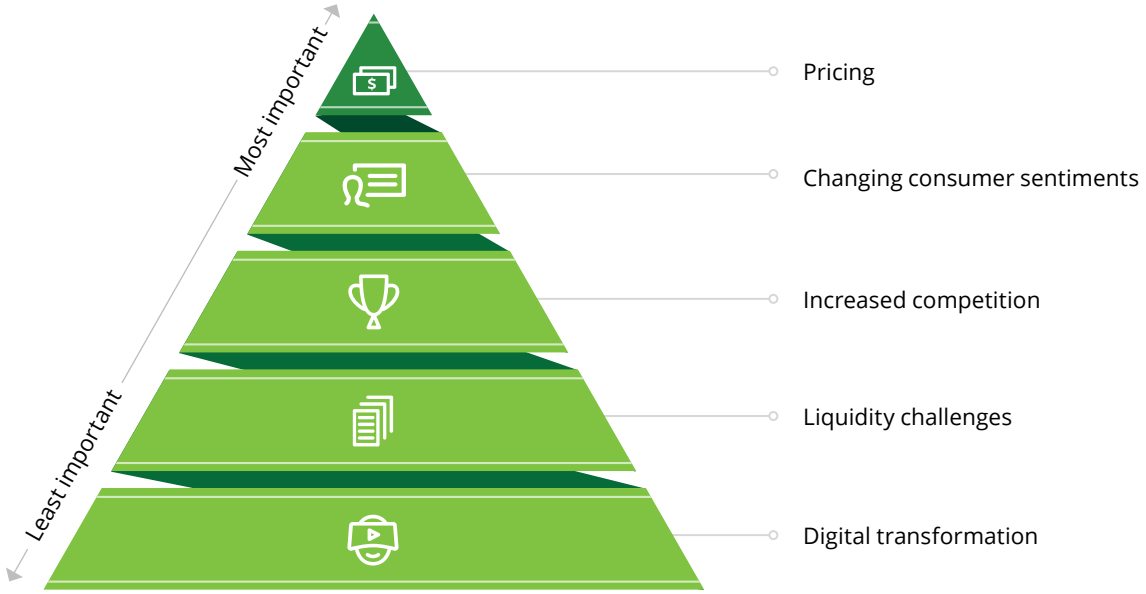
In our view, the following areas also demand CFOs' attention:

- Monitoring liquidity situation and forex
- Cyber security and data privacy while employees work from home
- Ensuring agile sourcing as well as addressing new supplier risk and financial impact of duties and tariffs
- Automating the process of drawing financial insights
- Protecting revenue and market share in a disruptive business environment

That said, resetting priorities would not be enough. The road to full recovery will be fraught with numerous obstacles. CFOs need to rise to those challenges and find a reason to rejoice during testing times.

The figure below shows the factors affecting organisations' growth.

Ranking of factors impacting revenue in next 12 months



Pricing tops the list of factors affecting revenue as overall demand dipped in the market because the pandemic had an impact on most people's earnings. People have tightened their purse strings and observed caution while spending. Pricing is followed by changing consumer sentiments throughout various phases of the pandemic. As the pandemic has brought about a new world order, consumers' preferences and needs have transformed. New competition is always lurking around the corner and businesses need to constantly prepare for it. After the second wave of the pandemic, liquidity is no more a significant challenge for CFOs as it was in the earlier days of the pandemic. Interestingly, digital transformation emerged as the least important factor amongst the choices given to respondents.

For the first time, the auto sector is not an outlier and in-line with the overall outcome. While consumer industry CFOs give utmost importance to changing consumer sentiments (followed by pricing), those from LSHC prioritise increased competition and digital transformation as the second and third important factors, respectively. Changing consumer sentiments do not have a huge impact on LSHC revenue.

For TMT CFOs, digital transformation is the most important factor, whereas increased competition is the least important factor.

In our view, CFOs across industries also need to tackle a few other challenges that are mentioned below:

- Ongoing global economic slowdown
- Dynamic and agile business planning to protect overall profitability
- Operational disruptions challenging financial forecasts' accuracy and reporting
- Increased trade risks from unfamiliar suppliers (due to alternate sourcing)
- Reliance on remote working systems requiring a high degree of security and availability

4. Costs expected to increase for corporate India in FY22

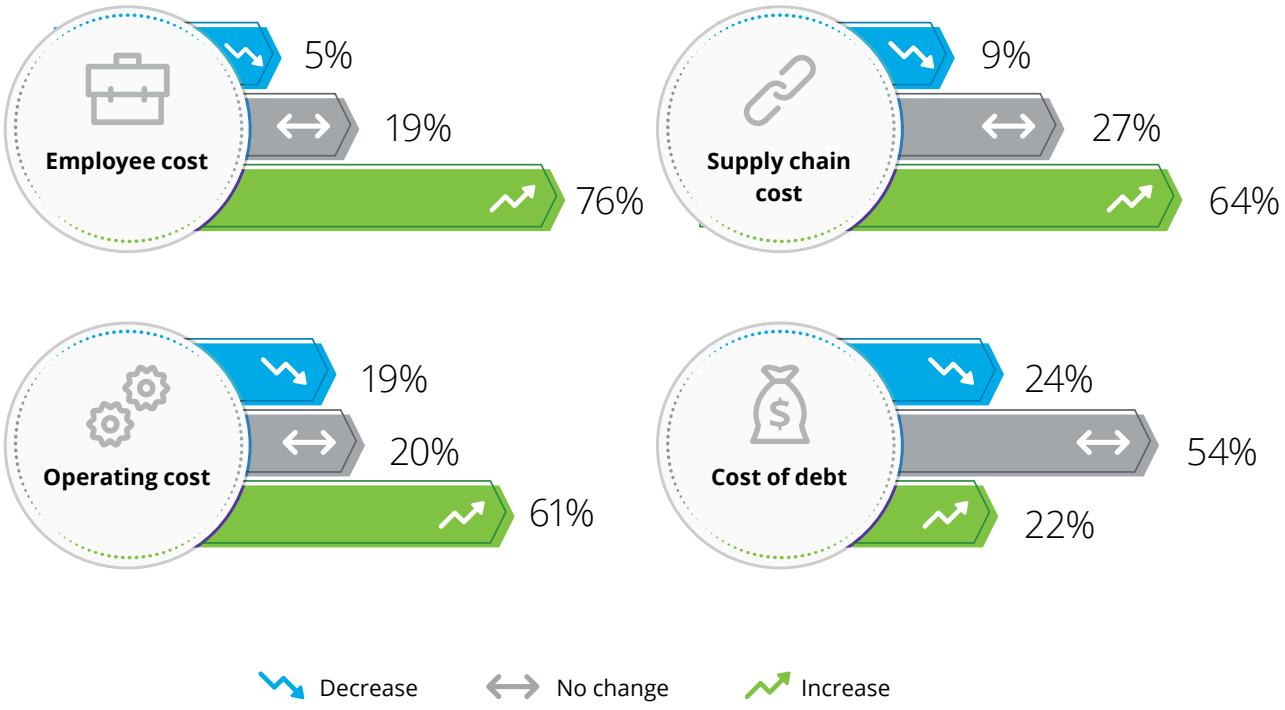
OPEX is more likely to increase, as employee costs go up

As the full impact of the COVID-19 crisis is still unfolding from the business perspective, CFOs are rethinking approaches for a successful rebound this year. Although they are relooking at their cost and expenditure, they need to prepare themselves to sign higher paychecks this year. Our survey highlights that overall, 76 percent CFOs will allocate a higher salary budget for FY22 to make employees feel valued and win their trust. They also need to make up for the previous year in which employees have seen zero appraisals, salaries cuts, long working hours, etc. This sentiment prevails across industry/sector CFOs.

As a result of disruptions triggered by the pandemic, 64 percent CFOs believe their supply chain cost will go up. This belief is stronger amongst auto sector CFOs (91 percent).

It is no surprise that more than half the CFOs surveyed (61 percent) across industries also foresee an upward movement in operating cost in FY22. In terms of sectors, 91 percent CFOs from the auto sector, and 76 percent from the manufacturing and energy and natural resources sectors expect their day-to-day expenses to go up on account of the post-COVID inflation. Only 22 percent CFOs across industries feel that their cost of debt will increase in FY22, against 47 percent in the FS sector.

Expected costs for company likely to change in FY22



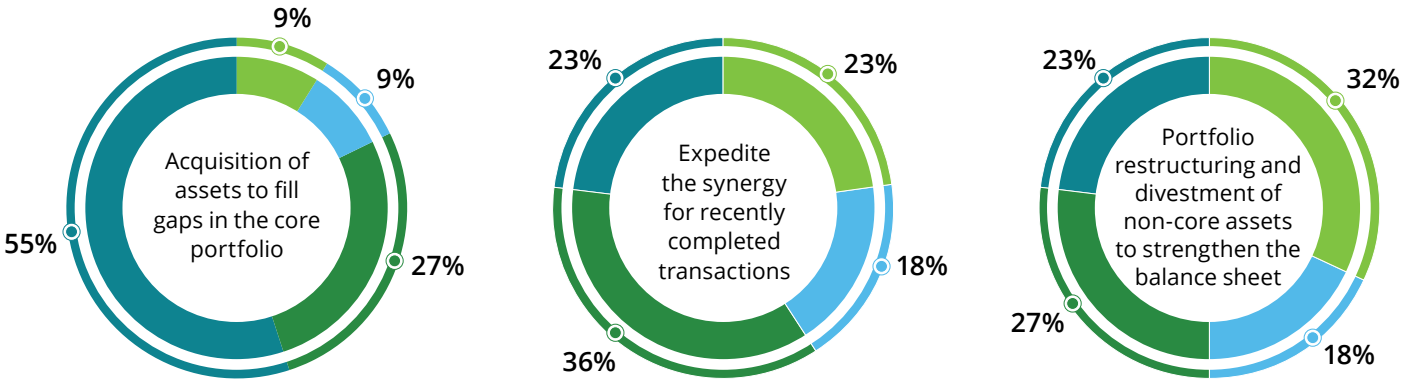
5. M&As to drive growth in FY22

About 88 percent of FS industry CFOs opt for offensive M&A strategy

M&A is a priority for 47 percent CFOs, and they have two strategies to choose from – defensive and offensive.

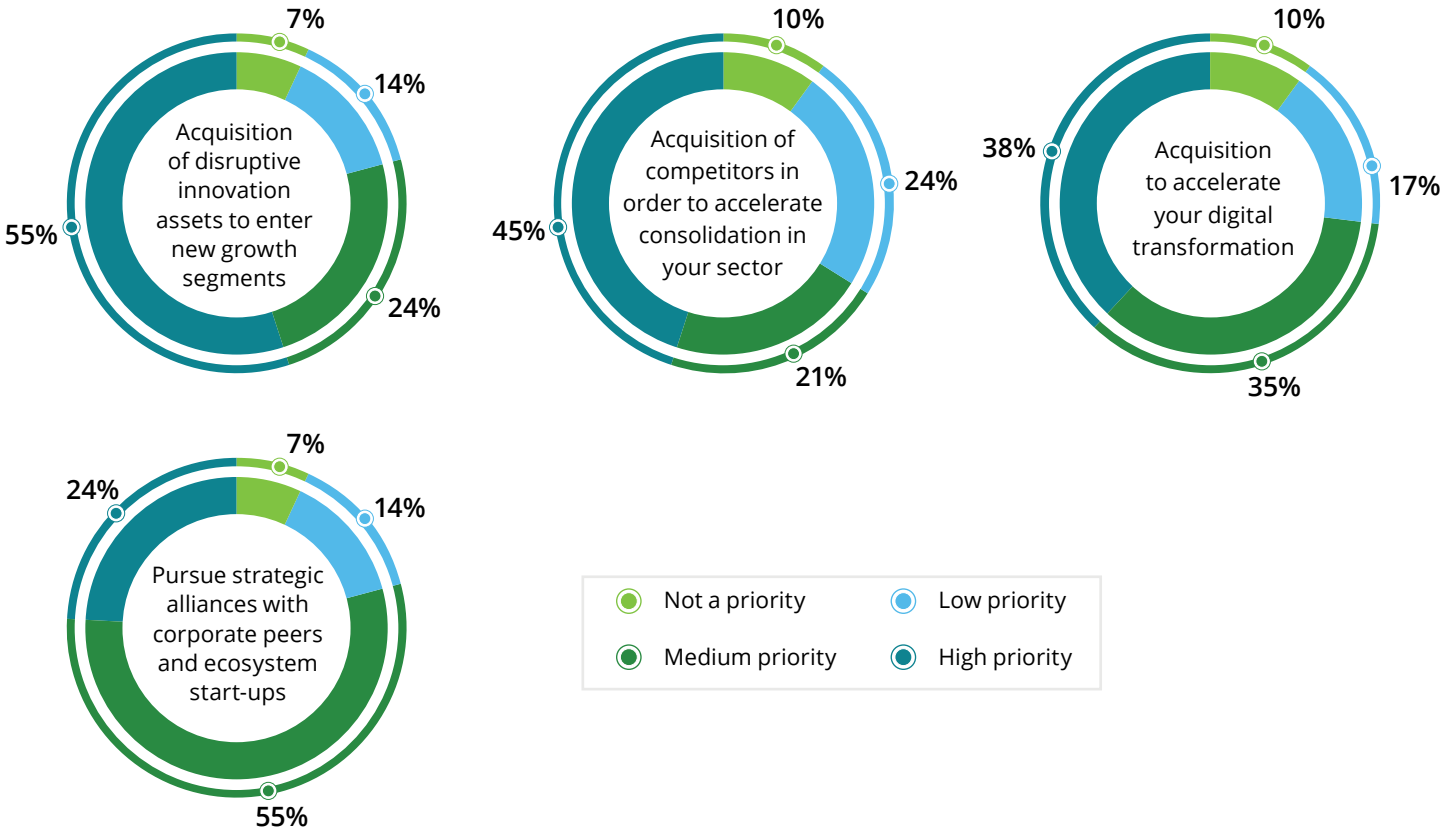
About 43 percent CFOs in favour of a defensive strategy are focused on acquiring assets, capturing synergy for completed transactions, and restoring "the balance" in the financial statements.

CFOs' priorities for defensive M&A strategy



CFOs going the offensive way (57%) look for acquiring innovative and disruptive assets as well as competitors; accelerating digital transformation; and collaborating with peers.

CFOs' priorities for offensive M&A strategy



Offensive strategy seems more popular than defensive strategy amongst CFOs across industries. Of the 47 percent organisations that focus on M&As to achieve growth, 43 percent follow a defensive strategy and the remaining 57 percent are happy with an offensive strategy. The followers of defensive strategy prioritise acquisition of assets to fill gaps in the core portfolio, while those embracing offensive strategy prefer acquisition of disruptive innovation assets to enter new growth segments. Amongst CFOs who prioritise M&A, 88 percent from the FS industry would focus on the offensive strategy, whereas 100 percent from the auto sector opted for the defensive strategy.

M&A by industry

Industry	M&A as a priority	Defensive strategy	Offensive strategy
TMT	57%	50%	50%
LSHC	55%	55%	45%
FS	53%	12%	88%
Consumer	52%	33%	67%
AUTO	36%	100%	0%
MNF, ENR	32%	37%	63%

6. Role of digital transformation in growth

CFOs see maximum return from advanced data analytics

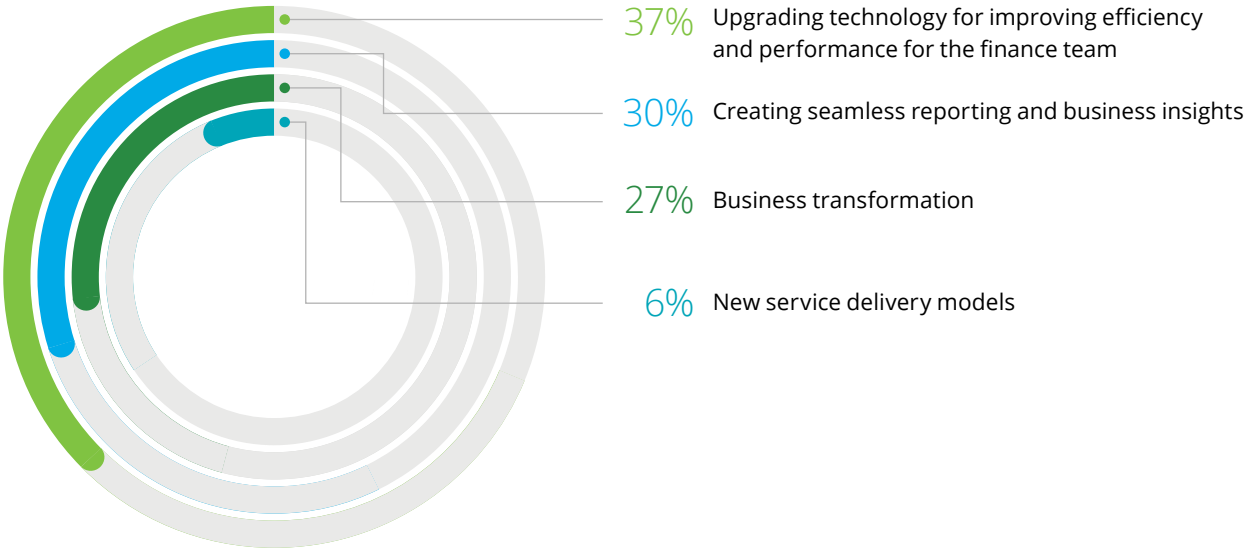
It will not be prudent to overlook the game-changing role of digital technologies in bringing the economy on track in the post COVID-19 environment. Over the past few years, CFOs showed a keen interest in adopting digital ways of working. This interest turned into a necessity when the pandemic-led disruptions made remote working inevitable and altered market dynamics. During the pandemic, the use of digital technologies dramatically increased as a significant number of consumers have moved to digital channels.

Our survey indicated that the primary objective for adopting digital in finance was to bring in efficiency in financial processes and significantly enhance the role of finance as business partners. The maximum return on investment came from advanced data analytics.

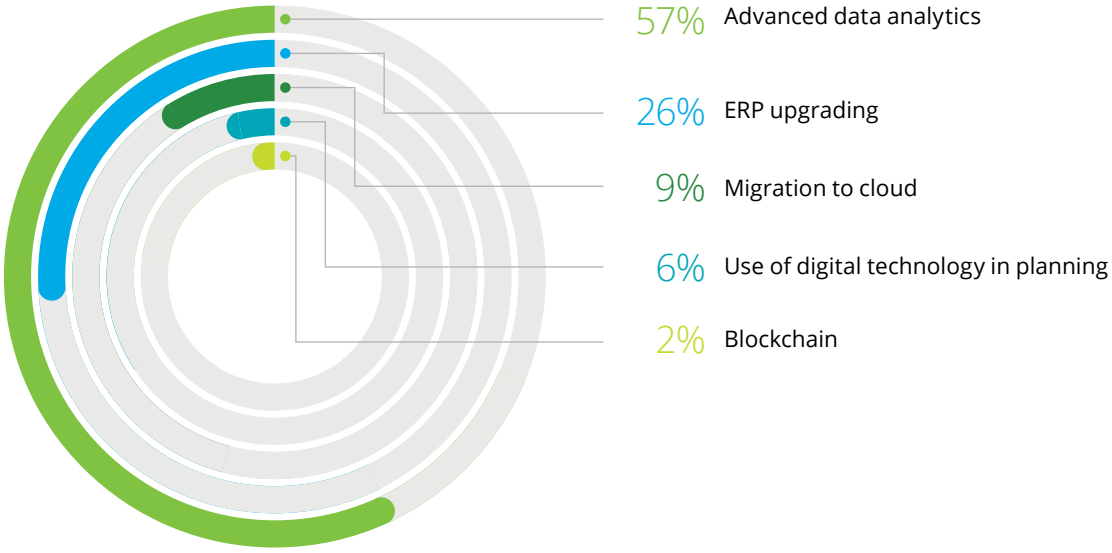
The bedrock for drawing in-depth insights from analytics is availability of high-quality data that resides within the organisation. Finance systems contain a large volume of this data. Using a combination of exponential technologies (such as cognitive, artificial intelligence, and blockchain for end-to-end process automation) enables organisations to bring in efficiency as well as helps in the cause of clean data.

Our survey showed that investments were also being made in areas such as ERP upgrading, migration to cloud, and adoption of technologies in business operations and financial planning. Ensuring that organisations get the desired ROI on these investments, challenge the status quo, and think of newer and agile ways of working, is important. Redesigning operating models, frameworks, and processes to derive the outcomes targeted from these investments, is also crucial.

Objectives for digital transformation



The following figure shows the returns on digital investments.



Data and data-driven insights (through advanced data analytics, ERP upgrading, and migration to cloud) leading to business transformation and seamless reporting are the biggest levers in terms of objective and ROI from the digital journey. New-age ERP solutions built on cloud are designed to drive seamless reporting and efficiency in terms of allowing the office of finance to work on drawing insights from data rather than gathering data. CFOs surveyed were of the view that digital technology in planning and blockchain offers the lowest return on digital investments.

Technological advancements would enable organisations to use digital technology for better planning and devising new ways of conducting business. The new normal of conducting business remotely in the recent times has also pushed organisations to up their digital game. Technology upgrading for improving efficiency and performance for the finance team is the most important objective of digital transformation, stated 37 percent CFOs. In the auto sector, 55 percent CFOs said that creating seamless reporting and business insights is the main objective of digital transformation. In the TMT industry, business transformation is the key reason for going digital, said 43 percent CFOs.

The table below details the objectives of digital transformation by industry.

Industry	Digital transformation objective
Auto	• Creating seamless reporting and business insights (55%)
Consumer	• Business transformation • Creating seamless reporting and business insights • Upgrading technology for improving efficiency and performance for the finance team (30% each)
FS	• Upgrading technology for improving efficiency and performance of the finance team (47%)
LSHC	• Business transformation • Upgrading technology for improving efficiency and performance of the finance team (35% each)
MNF, ENR	• Upgrading technology for improving efficiency and performance of the finance team (44%)
TMT	• Business transformation (43%)

That said, CFOs understand that acknowledging the importance of digital in organisations' growth is easy but charting out a successful and effective strategy to fully capture its value is no mean feat.

About CFO program

The CFO program brings together a multidisciplinary team of 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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