



## **CFO Perspectives**

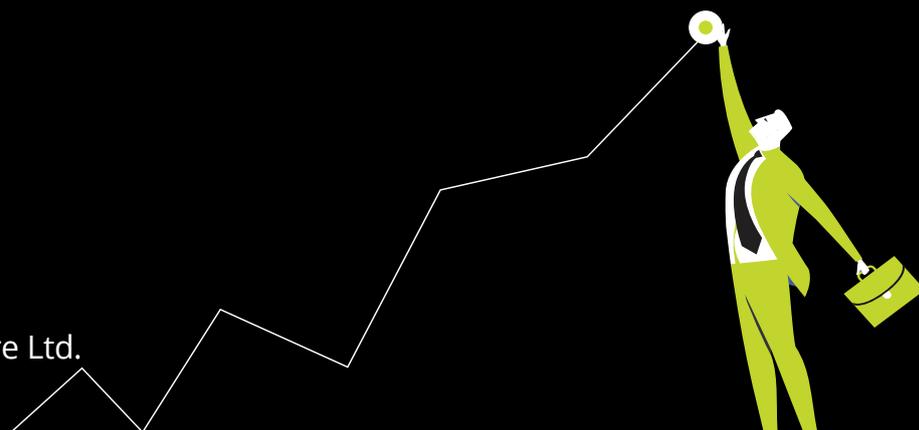
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# CFO Speaks



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**1. As COVID-19 struck India, a lockdown was imposed quickly with organisations having very little time to prepare themselves to adapt to new norms. As a CFO, what are some of the key challenges you faced during the crisis, especially in connection with your talent, finance function, and the year-end closing of the books of accounts?**

When COVID-19 was spreading in US and China, we anticipated that it will hit India too. Thus, we started preparing for the pandemic before it actually hit us. We made our business continuity plans in advance and when the lock down was imposed, we just had to bring those plans into action. We coordinated well with our IT support teams and leveraged our IT platforms and worked efficiently from home without facing business disruptions right from the beginning of the lockdown. Since our industry is under essential services, we could keep the plant and operations running and thus, our first priority was to secure safety of the people, which includes both visitors and our staff. We gave enough comfort and confidence to employees at work. Top leadership, like President of Manufacturing Operations and President of Quality Systems, were always at plant and moved to different locations on a regular basis, giving confidence to the employees that we are all in together through these challenging times. Further, to keep our staff motivated, we also made videos of team members sharing inspirational stories with other colleagues. For example, one of our marketing team managers travelled 50 kilometers to deliver medicines to a professor who was not able to source the medicines

locally. There were many such stories, which we shared with employees to keep them motivated at work. In addition, we also created facilities for our staff to stay on premises if they were travelling from distant locations and were facing transportation challenges. We took adequate measures for safety and well-being of our people working at the plants, and ensured smooth IT support for people working from home.

In relation to finance and business, we had three critical challenges to address:

**a) Ensuring liquidity** to manage our business efficiently was the most critical challenge and in order to tackle it, we established a liquidity management office. The committee comprised of CFO, CSO, business finance leaders and other senior members from operations team. We developed a matrix to manage liquidity challenges and kept a track on 4 parameters daily, and collated information across the geographies for – collection versus sales, sales versus production, production versus purchases, and purchases versus payments. This helped us in maintaining optimal working capital. Although some of the geographies were not on SAP, but we managed to collate information daily. We have developed this as a regular practice and till date, we generate “Daily cash position report” to share with management. It gives us visibility to our cash position, credit terms and provides management with other strategic insights related to business and finance. In addition, we also worked on

strategies to improve liquidity - for example, giving cash discounts to vendors who were in position to pay us earlier or on time. We offered extension of credit period for some customers. Further, we encouraged digital payments and gave discounts to buyers for using NEFT/ RTGS transfers. It helped us in receiving quick payments and reduced the need to visit bank premises physically.

**b) Managing profitability** was a big challenge, amidst potential sales decline, especially in India as many Out Patient Departments (OPDs) were shut and most of the clinics closed. This led to sales de-growth in comparison to previous quarters. As part of our process during lockdown, we got different scenarios of three months rolling forecast of revenues, costs, profits and cash flows for India, US, Europe and other markets. The impact was different for each of these geographies as the depth and duration of Covid19 impact was different, and we revisited the forecasts every month as per the new updates and changing market scenario in respective geographies. Overall, the generics business was normal; certain products including Hydroxychloroquine (HCQ) were giving us additional business and this particularly led to better than expected business from US markets but India's sales were most affected as we have prescription-based sales, which was reduced due to lesser OPDs in operation. However, from holistic view, our business profitability did well. We also diversified and ramped up our capacities to produce sanitisers and additional volumes of HCQ, which helped our business. Further, we also issued internal guidelines on business related requirements, high priority payment areas (related to employees, statutory payments, bank payments, MSME payments, essential suppliers for business continuity), and developed discretionary spending authority matrix to conserve cash. We continued strong monitoring to cut discretionary expenses and identified various heads to cap maximum expenses for that particular vertical, and business heads were given authority to decide on how to spend within that capped limit.

**c) Running operations smoothly** was another challenge. We come under essential services and thus, we were allowed to operate our plants and run the business. However, initially we had issues in the supply chain with business restrictions coming into effect. Our operations team was in constant touch with suppliers and identified priority based suppliers to ensure minimum business disruption. On buyer side, we had initial challenges in sending products as logistics companies were

not functioning; thereafter we worked with local authorities to get necessary approvals to ship our products to respective locations.

Lastly, with regards to annual closing, we worked with auditors and utilised technology to ensure timely completion of our audit. We provided auditors with access to SAP and shared scanned documents wherever required. In addition, management certified that the scanned copies were authentic and genuine. Our inventory verification was somewhat delayed and happened through audio-video calls, where we showed the inventory samples to the auditors as per their direction over video call. We also carried out a roll back procedure as required by accounting standards and guidelines. It was overall a satisfying and good learning experience. In fact, the board and audit committee meetings for the quarter and annual results were held through MS team medium.

## 2. COVID-19 has significantly disrupted the economy and business. As the lockdown measures are gradually relaxed and businesses aspire to return to normal,

### i) What are your views on the Indian economy revival in next 6-12 months?

I think the revival of the economy depends on the way we control the spread of pandemic. Industries such as real estate, travel and hospitality will be most affected and their revival depends on overall GDP growth. As per my understanding, business will start returning to normal once we have treatment and vaccine in the market and this would give enough confidence to people to return to normal life. However, this will only be possible by end of FY 2020-21; until then the business will take a hit, and we would not see growth in this financial year for most organisations. Having said that, next financial year (2021-22) should witness 8-10% GDP growth on a lower base of current financial year. I also believe that instead of V shaped or U shaped the recovery may be bathtub shape.

### ii) What is your outlook on the pharmaceutical industry in particular?

Pharmaceutical industry in India mostly comprise of branded formulations, which depends on doctor's prescriptions, and during lockdown, we are not witnessing enrollments for new patients. This is now getting improved as lockdown restrictions are lifted. We saw growth in the quarter of January-March 2020, i.e. prior to lockdown, but we will see de-growth in April-June 2020 quarter on YoY basis. However, we expect to witness growth of

around 12-14% in next fiscal year. Domestic pharma formulation market is worth Rs. 1.42 lakh crores and is expected to grow by 12-14% on a sustainable basis for near term. Overall, pharmaceutical industry of India is expected to reach size of USD 110-120 billion by 2030, registering CAGR of 11-12%. Thus, I am very optimistic about the growth prospects of the industry.

**iii) What are your key priorities as India unlocks?**

As the lockdown restrictions are eased, our key priorities would be:

- Manage supply chain and business operations smoothly,
- Getting back to profitable business growth with zero-base budgeting,
- Reducing and controlling costs,
- Growing revenue by increasing productivity,
- Risk diversification, and
- Using digital/ virtual tools and methods on a continuous basis.

**3. COVID-19 pandemic has caused severe supply-side disruptions that affected the margins. As a CFO, how do you plan to tackle them to ensure smooth business functioning?**

We had more challenges during the initial phase of lockdown, since there was confusion on ground at certain locations about the supply chain and transport related restrictions even for essential services. There were gaps in the interpretation of lockdown orders by local authorities and hence, we were in constant touch with Government officials to get things resolved. It took us some time initially, but then we had proper approvals in place for transportation of goods to our customers. I must put on record and acknowledge that the government machinery acted very fast to understand our challenge and resolved them quickly causing minimal business disruption. Since, regular transport and courier services were not operational, we took necessary permits to transport our products as it came under essential items. We had challenges when we did not have full truckloads and non-essential items were not allowed to be aggregated with essential items in trucks. Initial hiccups were there, but were resolved to keep business running under the essential services category. In the past, we transported many of our medicines to select destinations through courier services in normal passenger flights, but with passenger flights halted, we had challenges in shipment. Thus, we used cargo shipment facilities, although it was not time efficient.

Another challenge came up with surge in global demand for HCQ. We had committed export orders that were ready to ship, but at the same time, India

banned exports of HCQ. We constantly engaged with the Government to convince them that we had enough HCQ stock required for Indian market. Thereafter, Government officials visited our plants to reconfirm stock position and our production capabilities, then the export ban was lifted and we supplied to the US. Not only did we start exporting, we also increased our production capacity and today in my opinion; Indian market does not have HCQ shortage. For some of our materials, import costs increased and getting raw materials was a challenge due to supply chain issues. However, as per our policy, we did not increase the price of our medicines and we supplied HCQ to the Indian government at a price lower than their capping.

In terms of employees, we had challenges of staff coming to work if they were from other district, as the movement of people was restricted during the lockdown. In some cases, the employee was staying just 10 kilometers away from the plant but due to change of district, the movement was restricted and we did face challenges initially for such staff movements. Later, we talked to the local authorities and got necessary passes for their smooth travel and wherever required, we created facilities at our plants for employees to stay.

**4. Your organisation caters to significant international markets, and thus, regulatory compliance would be a greater challenge. In this environment of volatility and uncertainty, how do you ensure regulatory compliances are effectively managed?**

Irrespective of the current environment, in our industry we have regular compliance requirements on quality, manufacturing, and SOPs to be followed. Each country has different compliance requirements, be it US or India, and we have to manage these compliances on a regular basis as per local country regulations. We use 'Legatrix' tool to manage country level compliance and it allows us to keep a documentary proof of meeting compliance at each level. It is an efficient system and helps us to stay compliant at all times in respective locations. This is centrally monitored to ensure compliance at all times. In addition, in every board and audit committee meetings, we present detailed compliance checklist along with information on any breaches, delays and reasoning for the same. We have been following this system for years now and thus things are in place; not creating much of a challenge on day-to-day basis.

**5. In the current COVID-19 scenario, do you think your consumers are focusing on certain products, and how would you compare the availability of these products prior to the pandemic?**

Apart from surge in demand for certain products including HCQs in March-May period, we did not have

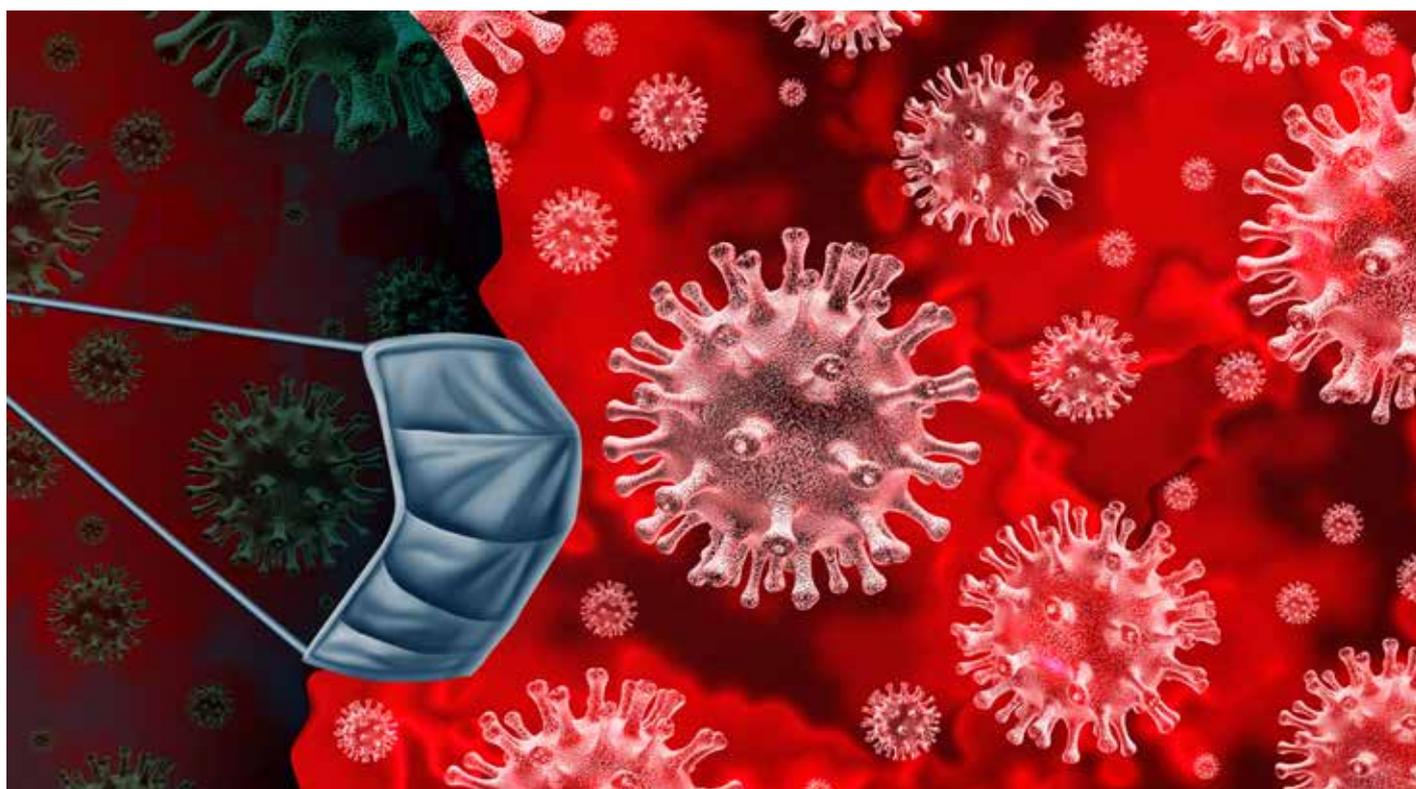
any other medicine seeing more than usual and our planned requirement. HCQ certainly was getting out of stock at that point of time, as media mentioned this to be effective for COVID-19 treatment and people did some anxiety buying and hoarding the medicine. However, we increased the production significantly and now things are back to normal. In addition, we also did demand mapping with our operation teams to see what the demand would look like in various geographies across the globe wherever we operate and designed ways to optimise our capabilities to manage demand efficiently. Additionally, hygiene and health products (E.g., sanitisers and hand washes; immunity boosting products like Vitamins and Chawanprash) witnessed increase in demand and this is an emerging trend, which will continue to stay in the market for long time. Our subsidiary company Zydus wellness also successfully launched sanitizers and we are evaluating other line extensions.

**6. As a CFO, what have been your challenges in working from home during the pandemic, both on professional and personal fronts?**

Till lockdown forced us to work from home, we were more comfortable with physical meetings in our day-to-day working, although we have done virtual meetings for some occasions in the past, but this was never a regular practice. With the support of IT team, the transition has been smooth and efficient. Apart

from using virtual tools for meetings, we have also started doing electronic signatures and electronic authentications for the documents, as and when it is required by the business. It is a good thing that paperwork has reduced and most of the approvals happen over emails and workflows. This should continue to stay in future making things simple and efficient. We have learnt a lot during the process of working virtually. For example, we divested from Windlas Healthcare in virtual mode and it was a great learning experience, given that in India we are used to physical paper work for such activities. It took a little time to get used to it, but now this is the new normal and we have quickly adapted to the situation. On the other hand, WFH required us to take higher level of security measures against any cyber-attacks, data theft, ransomware or financial frauds.

At personal level, working from home sometimes also led to extended office hours and drawing a line between work and family gets difficult as you are continuously on virtual meetings. But on the other side, I spent more time with family and kids, got to know of their interests better and learnt new board games – which was quite a satisfying experience. I also conducted some workshops with CA Institute in Ahmedabad on personal and professional experiences, educational topics, etc. and have been overall having good time working from home.



# Expert views

## Managing the risk of organisational fraud in the wake of COVID-19

As organisations operate on an unstable ground with changes in business modalities, relaxed controls, and new ways of working, they will also deal with new and increased vulnerabilities in certain avenues as a result of the new operating model and a stressed global economy. Organisations, and resultantly employees, are under pressure—the pressure of survival for businesses and performance for executives, financial pressure from accumulated debt and uncertain earning, anxiety and disgruntlement at possible pay cuts and job loss, and so on. Such pressure (a key element of the fraud triangle) may muddle one's perception of acceptable and unacceptable behaviour, manifesting in the actions of individuals within an organisation, as well as external parties such as vendors, partners, and customers. Such moments of vulnerability are also times when (unrelated) unscrupulous parties look to exploit unsuspecting organisations/individuals for personal benefit.

Historical data\* also indicates that an economic slowdown is often associated with a rise in fraud and other white collar crime. It is possible that the current economic climate may similarly spur an increase in discovery of fraudulent practices within organisations.

## Key fraud risks anticipated in the current crisis

### 1. Financial statement fraud

With financial pressure mounting on organisations, heightened by accumulated debt and reduced/uncertain earnings in the current situation, executives may feel the pressure to take desperate measures for averting corporate failure. The dependence of employees, vendors, and customers on the organisation may add to the rationalisation of such actions. Such pressure may percolate across levels and lead to fraud schemes resulting in financial misstatement. Instances include the following:

- Intentional delay/ non-recording of losses or overvalue of assets to facilitate insurance recoveries
- Inflation of orders/sales to reflect increased revenues for fund raising or better share price/valuations; understating expenses
- Override of existing internal controls, especially those critical to ICFR (Internal Control over Financial

Reporting), in light of possibly relaxed monitoring and distractions

- Favouritism of client or supplier, including collection or payment waivers or prioritisation.

### 2. Supply chain fraud

Due to supply-chain disruptions, there are bound to be increased dependencies on existing vendors (who are able to fulfil requirements) and cultivation of new vendors (for meeting urgent requirements that existing vendors are unable to fulfil). These circumstances may give rise to vulnerabilities on account of the following:

- Bad actors masquerading as potential vendors looking to defraud organisations
- Inadequate due diligence on new third parties
- Favours sought by vendors to expedite/resume operations/emergency procurement under restricted conditions.

Further, there may be vulnerabilities on the distribution side, which could lead to issues including inappropriate payments to distributors, payoffs to government officials to prevent disruptions in the distribution cycle, selling of counterfeit/expired products.

### 3. Technology and data-related frauds

The sudden switch to a WFH model across businesses, especially with limited controls over network/data security, also poses a risk to organisations.

- Data theft, denial of services, or other forms of cyber attacks may occur due to perceived distractions in monitoring, limited controls around VPN due to remote access (WFH), and possible disgruntlement.
- Security threats owing to remote working environments.

### 4. Contract failure and disputes

- Vendor defaults – Failure/delay in fulfillment of contractual obligations, leading to disputes over payments. There may be instances of performance obligation defaults wrongfully attributed to COVID-19
- False claims or damage submissions by customers/vendors on account of business disruptions.

## Some of the best practices to be followed by organisations to eliminate these fraud risks

- 1. Organisational tone:** "Tone at the top" refers to the ethical atmosphere that is created in the workplace by an organisation's leadership

### What can senior leaders do?

- Reiterate the tone at the top that compliance is a priority through mailers and training programmes on code of conduct and anti-corruption.
- Address fraud considerations as a result of the current pandemic, such as fraud mitigation and preparedness for incident response.
- Realign policies to reflect temporary/long-term disruption in business, data integrity, and confidentiality considerations with people working from home and value chain.

### Checklist to look at fraud preparedness

Organisations need to relook at their fraud preparedness measures in light of the vulnerabilities posed to business.

- How are existing controls including those on financial reporting impacted by the changed business environment?
- Are new controls required?
- Does your organisation reward whistle-blowers in good faith?
- How will heightened corruption and fraud risks be addressed in third-party interactions/contracts?

- 2. Hotline and reporting mechanism:** Step up employee education and awareness regarding the hotline and matters that should be reported. Sensitise them to current pressures.

### What can senior leadership do?

- Coach employees on managing performance pressure, reinforce zero tolerance to unethical practices.
- Reiterate the importance and use of hotlines.
- Communicate the attributes of the whistleblowing channel including confidentiality to reduce the fear of retaliation.
- Track and analyse metrics associated with the use of the hotline.

### Checklist to look at fraud preparedness

- Are staff/third parties empowered to bring issues to the attention of the company?
- Does your organisation have a response plan in place for issues reported through the hotline?
- Do you have the necessary infrastructure and preparedness to conduct investigations remotely

(including discovery, gathering email data, device data, and logs)?

- 3. Technological preparedness:** Technological preparedness is imperative for organisations to face evolving cyber risks due to the impact of the pandemic and increased use of remote working and be prepared for remote investigations.

### What can senior leadership do?

- Assess infrastructure readiness to support remote access and download ERP data, enterprise data from server/cloud storage; check activation of relevant logs.
- Assess the enterprise collection capability for remote access to custodian devices.
- Set up secure data rooms for sharing confidential data.

### Checklist to look at fraud preparedness:

- Communicate best practices to employees such as using company-approved storage and expecting increase in phishing attempts with COVID-19 related topics.
- Step-up data/network security with remote employees' home networks with limited security.

- 4. Strengthen due diligence:** Conduct a comprehensive study of a business undertaken to establish its assets and liabilities and evaluate its commercial potential.

### What can you do?

- Assess third-party risks to business continuity.
- On-board new third parties subject to necessary declarations and approvals.
- Assess existing supplier contracts to determine risk exposures.
- Assess the impact of alternative supplier/distribution networks.

### Checklist to look at fraud preparedness

- Identify high-risk/critical third parties (dependency on business, geographical location).
- Recognise how equipped your organisation is in conducting remote due diligence as opposed to on-site diligence.
- Create a plan to fulfil obligations for due diligence for emergency procurements.

To read the full article please [click here](#)

\* <https://www.cio.com/article/2432203/lawsuit-increase-forecasted-due-to-economic-recession.html>

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