



## **CFO Perspectives**

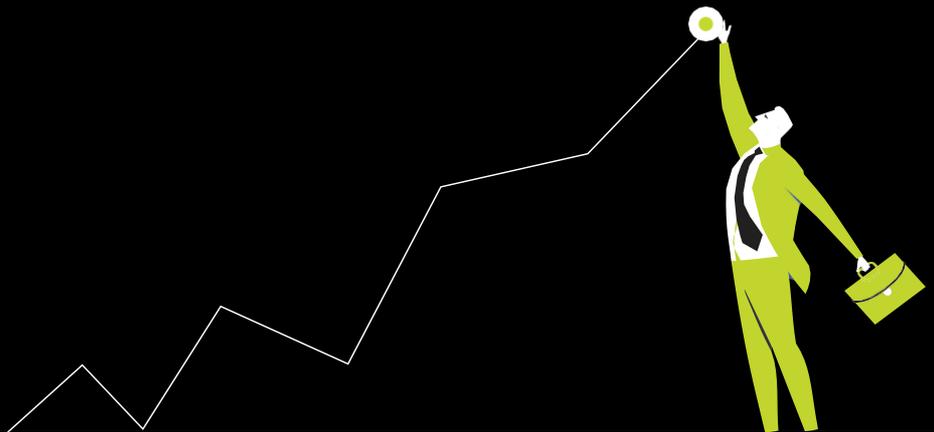
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# CFO Speaks



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**1. As the vaccination roll-out accelerates across the country and the world, how big an opportunity is this for you given your needle production? Will this continue for the next two years at least and what impact will it have on your business?**

We are the largest manufacturer (by volume) of surgical suture needles across the globe and the largest manufacturer of sutures in India (by volume). We have been maintaining our leadership in this segment for many years. The surgical suture needles that we manufacture are not hollow needles and hence, cannot be used for vaccination programmes. However, we have tried to play as much of a role as possible as providers of essential medical devices to support the government and our customers during this pandemic. We saw the need to serve the medical fraternity that needed products for emergency surgeries, childbirth, etc. We chose to keep our production and supply chain running throughout the pandemic. Our state of preparedness included the foresight to have more than four months of raw materials stock ready since the first news of infection from China emerged. We are stocking inventory at multiple storage points nationally in our warehouses and distribution centres for easy deliveries.

Business Continuity plan (BCP), however, was spent in strongly, outlining measures to ensure safety for our employees and the people working at our plants. While physical precautions, such as social distancing, thermal checks, on-site medical support, provision of masks, gloves, sanitisers, and logistics support on transport,

were being managed, we focused on our people's mental health and took possible measures to support them. We also worked in close solidarity with hospitals especially in small towns where it was more business as usual (BAU) and outpatient department (OPDs) and hospitals had close to regular footfalls, and tried to educate on safe surgeries, safe OPDs.

We believe that keeping our doors open and being available to serve our customers, employees, and the government through the course of the next two years will remain key as people in India receives vaccination.

**2. As a CFO of a medtech company, please share how things have shaped up in the past year both in terms of disruption and opportunities?**

Throughout the pandemic, disruptions were a weekly if not a daily phenomenon at Healthium. We also saw new heroes emerge from our teams to manage new challenges. In the form of plant workers' families who had genuine fear to send them to work, counselling for families, no salary cuts, no headcount reduction, and special incentives for workers were some initiatives that were undertaken to engage and acknowledge efforts. It was heartening to see that when nearby villagers protested against us for keeping plants open, plant workers themselves were reassuring villagers that they feel safer at the plant than at home with such strong safety measures in place.

In terms of supply chain disruptions, slowing of goods movement and restrictions on transport were the two major concerns. Our sales teams sometimes travelled long distances to hand-deliver stocks, when required, for emergency surgeries. This helped us serve our customers in their time of need and build strong loyalty with them.

To fulfill regulatory requirements for requisite permissions for movement of vehicles and people, our plant managers emerged as leaders taking full ownership. They liaised successfully with police and government authorities for timely permissions and ensuring smooth functioning for our company.

At the same time, we also saw opportunities emerge across different business units. Being a well-diversified company, both geographically and across product categories, we saw different business units rise to the occasion and steer the ship at different points of time, helping us deliver strong growth even amidst the pandemic.

Other important drivers for our business during the pandemic were our diversified portfolio and quality-driven products. First quarter after the pandemic did see some drop in revenues but a majority share of our portfolio includes gynae sutures where business continued as normal. Sales of our surgical gloves increased multiple times. Also, our large presence in tier II and III cities helped our revenues increase because of two factors – the pandemic's impact was much lower in those cities, and more surgeries started happening at local nursing homes and clinics rather than at hospitals in metro cities.

### 3. How do you see the regulatory landscape evolving in the next two-to-three years?

Globally, regulators are breaking down data silos to better unleash innovation in digital medicine and Artificial Intelligence (AI). The European Union (EU) is integrating data across member states to enable cross-border digital prescriptions and patient data exchange. The US has also passed rules to enable data to flow more seamlessly across the Medicare and Medicaid healthcare programmes. Thus, there is a greater focus on quality of products manufactured than there has ever been.

Specifically, closer to home, we hope and expect to see the landscape evolve in support of domestic manufacturers, given the government's focus and initiatives around *Atmanirbhar Bharat*. Recently, we saw the Department of Pharmaceuticals' (DoP) order on the public procurement (preference to Make in India), listing names of local manufacturers and suppliers of medical devices, who would be giving preference in tender procurements, with a view to enhance income and employment in the country and reduce import

dependency. Government incentives and favourable regulatory policies will help us serve the Indian healthcare sector better and enable us to be a formidable force in the global scenario.

### 4. Healthium has presence in multiple countries. In your experience, what are some lessons we can learn from other countries and what would be the key factors of success for the medical device industry?

There is a huge gap in the current demand and supply of medical devices in India. The medical devices industry is small (INR 75 thousand crore vs INR 305 thousand crore of pharma), with a disproportionate reliance on imports (86 percent) and a complex regulatory environment. A combination of several measures will certainly create a nurturing environment that can make "Atmanirbhar Bharat" a reality. It will need a conducive environment that supports additional investments into the sector, infrastructural support to spur R&D and innovation, and positive government policies to ensure that the quality of Indian devices matches global standards.

- **To support and promote a culture of innovation:** There is a need to develop incubation centres and medical device parks for start-ups and Micro, Small, and Medium Enterprises (MSMEs) manufacturing innovative devices. These should be developed near major medical device clusters to support a wide array of medical devices with common infrastructure, such as shared platforms for testing and supply of raw materials and even potential Go-To-Market (GTM) support to tap into international markets. This will lower operations cost for these new companies and improve competitiveness. Many foreign countries, such as China and Korea, have built medical device parks.
- **Culture and infrastructure that support manufacturing of devices adhering to highest safety and quality norms:** A far more stringent view while granting approvals and licences to manufacturing units by harmonising local regulations to well-established international standards/guidelines (such as the US FDA) will push up safety norms and stringent standards. This will make India a more reliable and quality-oriented maker of medical devices.
- **Favourable government policies supporting Indian exports:** The US is the biggest market and we are the only USFDA audited and approved manufacturing company for sutures in India. Some examples include import duty and special additional duty exemptions on raw materials, parts and accessories, single window clearances, Merchandise export from Indian scheme (MEIS), and export promotion councils that give an impetus to competitively priced Indian products in international markets.

**5. Digitisation and automation are becoming critical for businesses in the current times. How has the finance function evolved in your organisation with the increasing use of technology and digitisation?**

Transformation is the key to expand any business and a digital transformation has become especially critical given the recent impact of the pandemic. I believe that digital transformation not only improves efficiency and aids in cost management but also helps in creating the sustainable competitive advantage in the industry.

So, while donning the multiple hats of being the group CFO and the supply chain head, I have worked on digital transformation across multiple areas that add value to stakeholders.

Below are some select initiatives that we have taken at Healthium to be digitally equipped and “future-ready”.

**Supply chain transformation**

- eProcurement involved alternate vendor development, price discovery, and reverse auction of our non-specialised procurement needs
- Fleet management system (FMS) supported end-to-end freight management and visibility, availability of best quotes (in value and turn-around time), real-time tracking of shipments, maintaining proof of delivery (PODs), and meeting latest Goods and services tax (GST) requirements of e-waybill and e-invoicing
- Setting up of the sales and operations planning (S&OP) process and automating demand forecasting aided by predictive analysis helped cater to demand and optimise inventory

**Commercial team transformation:** Empowering our sales teams through various tools such as

- Concur for expense management
- C4C for key performance indicator (KPI) tracking and order management
- 2dot7 that uses artificial intelligence (AI) to help salesforce track customers' outstanding and days sales outstanding (DSO), sends automatic reminders to customers on overdue invoices, and improves overall credit management

**Treasury and working capital management**

- Integration of the ERP and bank servers to simplify collections and enable direct vendor payments
- Moving collections received from channels into the electronic mode using the virtual account facilitating auto posting of collections in customer account in our ERP in a seamless manner, improving efficiency and results; we have witnessed a significant improvement in cash-to-conversion cycle days.

These digital initiatives have transformed the organisation's DNA and empowered people with adequate data to make robust decisions and created transparency, which is key to an effectively governed organisation.

**6. What are your key priorities as a CFO in the next six months to one year?**

We live in a Volatility, uncertainty, complexity and ambiguity (VUCA) world that has been further affected by the pandemic. A CFO needs to do day-to-day firefighting to ensure the ship is steered in the right financial direction.

***The continued focus will remain towards driving growth, which is profitable, compliant, and competitive.***

My top three priorities would largely focus around the following:

**Exploring inorganic opportunities**

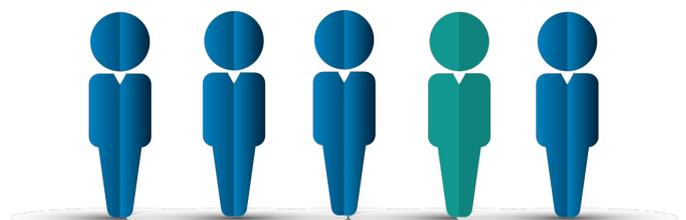
Being an Indian medtech player of scale, both domestically (less than 300 field force and reach to more than 18,000 hospitals) and internationally (exports to over 80 countries) give us a distinct advantage of acquiring and driving faster than the market growth. We will focus on consolidation of quality and R&D-driven medtech companies.

**Investing for the future**

Our decision to invest in the right technology has yielded the desired results, giving us the confidence to continue building solutions that support our employees and growth aspirations. The next wave of transformation will focus on automation in the financial domain, making a smarter field force and further streamlining existing processes.

**Compliance focus**

In our country, the compliance landscape is undergoing a transformation as we could witness frequent changes in direct and indirect taxes. These changes require companies to be more vigilant but also focus on automation. We have further strengthened our team through resources and technology in this aspect and believe that being ahead of the curve will give us an advantage. Better governed and compliant companies have the potential to scale and outlive their peers.



# Expert views

## Recovery amidst a rising state of dichotomy

After having battled one of the biggest recessions it faced in recent memory, economic growth turned positive—albeit marginal—in Q3 FY2021. The recent spike in infection and the imminent threat of variants cast a cloud of doubts. Mobility restrictions that hurt the economy the most, are being imposed back (although in a calibrated manner) by a few States and the Centre.

While it is easy to lose hope in tough times, similar experiences around the world provide some comfort. Much the same way, the United States posted a sharp increase in infection rates during the second wave (starting November) yet experienced a relatively less impact on the economy. We expect the economic and health impact of the subsequent waves in India to be contained to the current quarter and the next.

We are cautiously optimistic and expect growth to be 11.7 percent in FY 2022. Growth in FY 2022 will likely be a story of two halves, with economic activity picking up rapidly in the second half. As the pace of recovery gets pushed by a couple of quarters and flows into the next fiscal year, we project a robust growth of 6.9 percent in FY 2023. While we expect a strong revival in the years ahead, it might be naïve to not accept the scars the pandemic may leave behind on the economy.

One of the apparent aftermaths is the rise of a dichotomous world that we are currently witnessing. We tracked a few forward-looking indicators that threw up some surprising contrasts. A few of these will mitigate over time after the economy gains a steady momentum, while others may take more time.

For instance, the gap between consumer and business confidence has never been as wide as it is today. The

removal of mobility restrictions and reduced supply disruptions helped businesses to bounce back with greater confidence. However, a gradual job market revival, and health and financial concerns prevented consumers from spending, crushing their confidence in the economic revival. The widening gap of sector-wise credit lending in the economy is a concern for a nation that wants to grow as a global manufacturing hub. Falling credit growth to the industry can hamper the industry sector's ability to spend and expand at a time when India is looking to be self-reliant and build economies of scale.

Further, the MSMEs, which are the backbone of the manufacturing sector contributing 34 percent of the total manufacturing output, have been hit hard by the pandemic. MSMEs are struggling to stay afloat even after several months. Larger enterprises weathered the pandemic storm better because of stronger balance sheets, more cash holding, and business continuity strategies. Meanwhile, MSMEs were caught unprepared due to an acute shortage of working capital, cancelled orders, customer losses, and severe supply chain disruptions. Most of the MSME portfolios and NPAs for select banks remain elevated relative to previous years. The fact that a larger number of recipients from the MSME sector opted for the COVID-19 related moratorium in August 2020 compared with April 2020, while the trend was exactly the opposite for corporate and individual borrowers, clearly indicates the high stress level that MSMEs are facing.

Certainly, the economy is likely to witness stress even if we see a V-shaped recovery. Acknowledging the uneven path of recovery will help policymakers and businesses to reflect on the next steps, even if it means experimenting with approaches a bit.

To read the complete article, please [click here](#).



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