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The CFO Program

CFO Perspectives

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CFO Speaks

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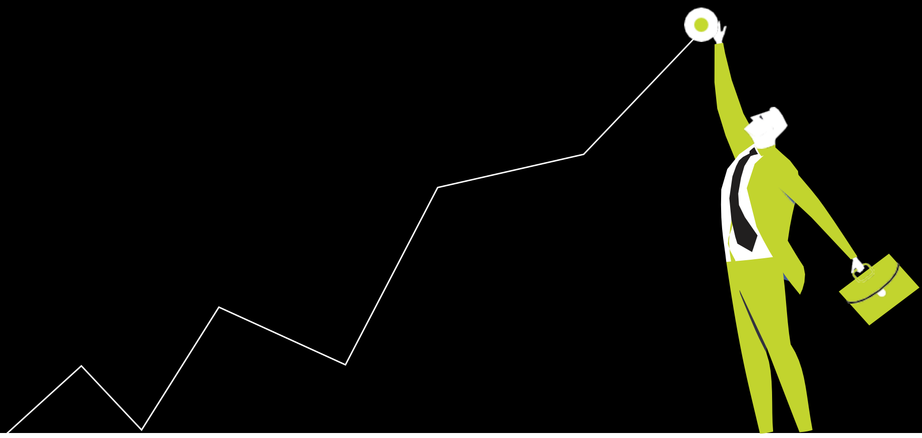


1. **Given that the last year was a difficult year for every business, what were some of the challenges you faced as an organisation and the changes you had to make in your strategy to address these challenges?**
The last year posed challenges to every business. The speed with which organisations across the world were plunged into the crisis mode was matched only by the rapid acceleration of the pandemic.

As a beverage company, we saw the effects of the pandemic disrupt our season plans substantially. It was time for us to begin, plan, and expand but we had to strategise our next steps based on the newly evolved situation.

We put in place a COVID-19 crisis response team whose goal was to limit distractions and let the leadership team focus on the priority areas of the business. We set up small groups focused on targeted requirements, which helped us navigate faster and better.

Two major challenges that made us look at the planning differently were cost management and supply chain. Rather than tackling cost in silos, we ramped up sales and operations planning, and cost management into a control centre that provided a single source of truth. While our dependency on imports is limited, raw material sourcing became difficult because of connectivity issues and lack of availability of labour during the fruit ripening season. We evolved our supply chain programmes, found and developed alternates, and thus sustained the supply chain.

Overall, it has been a tremendous learning experience and has taught us to get along as a team.

2. **Over the last year, how has your revenue changed with the changing consumer preferences and growing importance of e-commerce platforms? In the future, what are some of the ways you plan to increase revenue or improve margins?**
Over the last year, we had a positive impact on our revenues. While at-home consumption has increased, but out-of-home consumption came to nearly a standstill during the lockdown. There may be long-term changes in consumer behaviour and demand, as the preferences change to healthier and hygienic alternatives and evolving e-commerce use.

We are also using analytics to understand demand by regional preferences and evaluating our new products accordingly. Recently, we have launched Kanji, a tangy probiotic drink popular in Punjab and Uttar Pradesh. India and its people are known for their love of street food. We launched the "Meetha and Teekha Golgappa pani" during the lockdown for consumers looking for a hygienic yet authentic taste for their "pani puris".

The industry is headed for a transformation with digitisation at its core. Products and services will become more consumer-centric, with more creative product offerings in the fore.

3. **When do you think things will be back to normal? What are your priorities in the future?**

I think things are getting back to normal. However, when we speak about normal, it is a new normal. The course to a new normal will vary significantly between channels we operate in and our route to market. Therefore, laying down ramp up/down scenarios is critical. Priority areas include driving a radical improvement in the understanding of supply change risks, appreciating the importance of building in future resilience and agility, and responding quickly to new opportunities in the rapidly evolving ecosystems around us.

4. **With a constant endeavour to gain market share, how can CFOs and their finance function support sales and marketing function, keeping in mind budget constraints?**

The balancing act of business growth with budget constraints has always been a big question mark. Marketing is in the midst of an ROI revolution. The arrival of advanced analytics and plentiful data have allowed marketers to demonstrate ROI with a degree of precision that has never been possible before. However, the reality of marketing analytics has fallen short of the promise. Marketing often focuses on brand awareness, ad impressions, or share of voice in the market. It is not easily translatable into financial impact. CFOs are more interested in trade-offs of any investment decision.

To bridge the gap, using consistent language across departments to underline where and how value is being created or lost, is important. This makes budgeting discussions much more productive. CFOs often feel like they are under pressure to focus only on short-term metrics. However, value creation for shareholders is driven by generating superior growth and return on invested capital over the long term. This is where a focus on the metrics plays a key role; separating short-term effects from long-term benefits can help identify marketing activities that truly build brand equity and salience.

5. **You worked at a leading established company and now, you are a part of a niche business. How has your journey been? How does the role of a CFO differ between the two organisations?**

The role of CFOs goes well beyond managing the company's finances. CFOs across the board are driving operational gains and steering their companies' growth strategies. In a start-up, one has to establish a set of baseline capabilities that must be well developed to support growth. This will eventually put stress on the model, and vitiate the ability of finance to deliver as a partner in the areas of operational excellence, specialty knowledge, and customer intimacy. Start-up CFOs have a wider role in developing the strategy and leading execution.

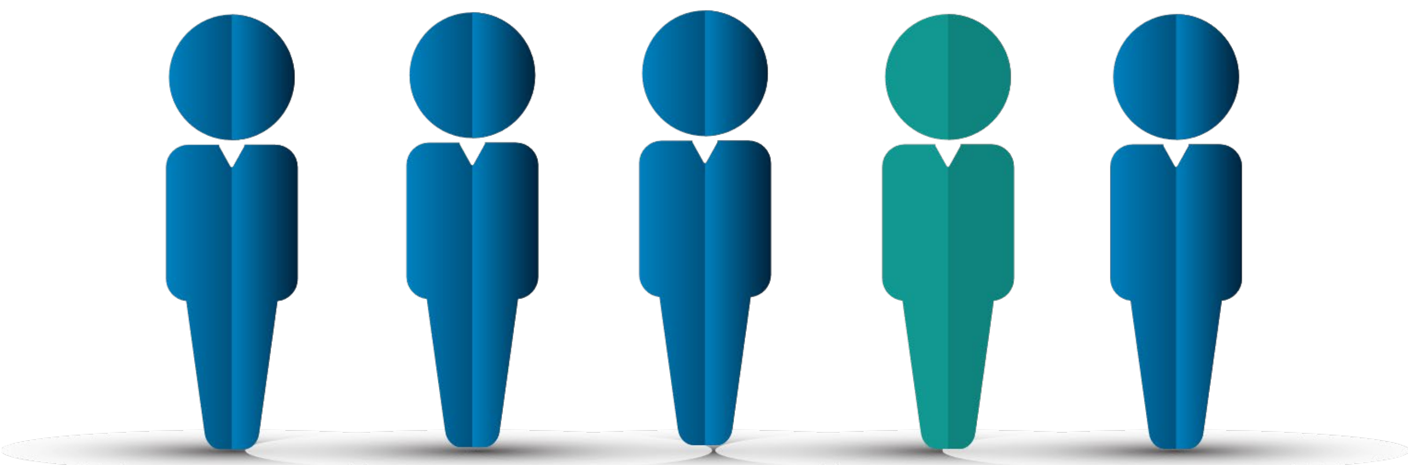
Another important difference is that maturity and quality of data to supplement decision-making evolves with time. It is important to have good instincts and a strong judgement. At the same time, I consider it is equally important to be flexible to seek diverse perspectives and be willing to disconfirm preconceived beliefs.

6. **As a CFO, what challenges did you face during the pandemic-induced lockdown and what are some of your key learnings?**

The effects of the global pandemic have been disruptive on many fronts and have forced companies to function in a new remote reality.

To quote Doris Lessing, "Whatever you're meant to do, do it now. Conditions are always impossible".

As a CFO, it meant having a hands-on approach to steady business operations in the near term, and create conditions for the company's value-creation efforts in the next normal. In the end, it was really about identifying the limited things one can control – being part of a calm and steady leadership team during a crisis, being transparent with employees about the state of the business, and keeping a sense of humour.



Expert views

Post-pandemic pill – No tax depreciation on goodwill

As quoted by Rabindranath Tagore, '*Faith is the bird that feels the light and sings when the dawn is still dark*'. With this spirit, the government endeavours to set momentum for *'Atmanirbhar Bharat'* after the darkness of the pandemic.

In Budget 2021, the government made macro-level policy changes and laid out proposals on infrastructure, healthcare, and disinvestment in public-sector banks and general insurance company. It has also tried to plug tax anomalies, including claim of tax depreciation on goodwill.

Current position on goodwill

In its ruling on Smiffs Securities Ltd., the Supreme Court had held that goodwill is an intangible asset eligible for tax depreciation. Although self-generated goodwill was never eligible for tax depreciation, the aforesaid ruling had held that goodwill was eligible for tax depreciation. However, many tax authorities took different views and raised concerns on claim of tax depreciation of goodwill.

Proposed amendment

The budget did not propose tax depreciation on goodwill from 1 April 2020, by amending definition of intangible assets to remove goodwill from a depreciable block of assets and treating it as a capital asset (such as land) that is not depreciable.

This amendment will have a far-reaching impact on corporates that have already undertaken M&A transactions/amalgamations considering availability of tax depreciation on goodwill and in the future. The key areas of financial and tax impact are worth noting:

Valuation impact on deals: This will directly affect the Internal Rate of Return ("IRR") on concluded deals where saving in cash tax outflow was considered on account of tax depreciation on goodwill. In addition, this will now have to be factored in new deals too.

Increase in cash outflow in the current year: India Inc will also have to deal with a higher cash outflow due to increased tax liability, including interest for a shortfall in advance tax instalments in the current year.

Impact on financial statements: These would also have financial bearing on companies' balance sheets on account of reversal of deferred tax asset/liability. Whilst accounting standard will continue to recognise goodwill in books, tax depreciation on goodwill would not be available. Instead, amount paid towards goodwill will be considered as cost of acquisition at the time of sale of business.

Lower Earnings Per Share ("EPS"): Higher tax outflow on depreciation on goodwill will result in lower EPS, for the current year and its impact on financial ratios and market price.

Impact on IRR: The non-availability of tax depreciation claim on goodwill will lower entities' overall IRR that would have to be factored in the overall deal value in the future.

Uncertainties and some of the open issues:

While the amendment sought to rest controversies, it has also given rise to uncertainties briefly mentioned below:

- Grandfathering of existing litigations
- Definition of goodwill per Indian tax laws
- Manner of computing unabsorbed depreciation, as on 31 March 2020, comprising depreciation on goodwill
- Ascertaining opening value of goodwill in an existing block of intangibles
- Arriving at capital gains/loss on transfer of business that has an existing block of intangibles, including goodwill especially when a part of the business is contemplated to be sold

On an overall perspective, whist the budget has created the positive buzz, this one amendment (especially extending to the case of goodwill acquired as part of business) would make it more costly to do deals in India.

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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