Deloitte.

The CFO Program

CFO Perspectives

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CFO Speaks

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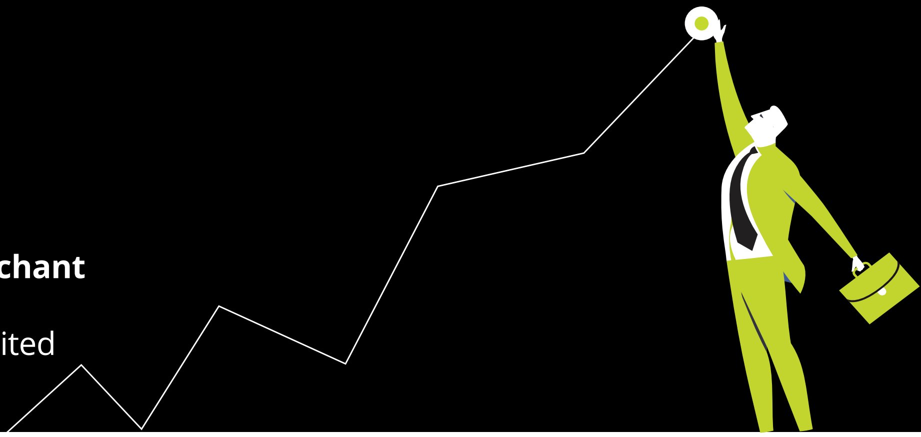

1. **How have the growing regulatory challenges affected your business operations? As you operate in diverse geographies, is your cost of compliance rising?**

   The single largest regulatory change which impacted business operations in the recent past was Goods and Services Tax (GST). The trade had a lot of apprehensions, and were generally going slow and avoiding large purchases. We have more than 50000 'mom and pop' stores who constitute over 90% of our turnover. For them GST was 'unknown!' and many were not computer savvy.

   It was extremely important for us to make these customers comfortable with GST. For us to quickly recover from the initial slump due to GST introduction, they had to come on board immediately. We took pro-active steps to reach out, and hold workshops to increase the awareness of our customers and vendors and addressed their concerns. We realized that as an organisation it is not enough for us to be ready to meet the regulatory changes, but it is essential to pull the entire eco system along and being industry leaders, it becomes important that we take the first steps. We educated them on what steps to take, pitfalls to avoid and gave them assurance of our continued support.

   Subsequent challenges with registrations, invoice generations, returns, and availing credits further extended the period of tentativeness in business. It took almost six months for business to get accustomed to the new regime and start business as usual.

   There is active deployment of technology by the authorities to gather information, share between departments and co-relate varied data points while looking at compliance of industries. The move towards digitization is another significant step, which we will have to grapple with going forward. Some of these data / information points are provided by our business partners, and towards that ensuring prompt reconciliations and engagement with the business partners is that much more important today.

   We are also seeing new legislations emerging where the courts/ authorities are likely to go beyond the form of the transaction to see whether they are fair, and in the interest of the consumer/ individuals. E.g. RERA, Competition Act, Anti profiteering, Privacy act, etc. These are new legislations, and one will have better clarity once disputes reach the judiciary and decisions on interpretations come out. All these are opportunities to leverage the positive image of the company, and build on it and at the same time we need to be extremely cautious in the way the organisation communicates with its stakeholders.

   We have always believed in being prepared for newer regulations, and ensure that we comply with existing legislations in all the geographies we operate. Some of these geographies are seeing newer legislations like VAT in the middle east. We take steps to ensure compliance and work with all the stakeholders.

The cost of compliance is expected to increase in the short term largely on the following grounds:

i. The move towards digitization also means greater investment in IT systems, and to ensure that they work fine and are flexible enough to meet evolving requirements. This also puts challenges for the teams responsible for compliance to be up to speed with IT systems and being able to verify/ audit these on an ongoing basis.

ii. Keeping the teams up to date on new legislations as well as amendments to existing legislations is going to be key, and that will mean unlearning and relearning for the expertise functions and also for people in business roles.

iii. Penalties and reputational risks associated with non-compliance is very high and organizations cannot afford to drop their focus on compliance, and will have to put in checks and balances to ensure 100% compliance.

2. With your operations in 16 countries and catering to consumers in over 60 countries, you have significant exposure to currency fluctuations and cross border regulations. How do you manage the risks of doing cross-border business?

The company has in its annual report called out this risk specifically in the last couple of years. We operate out of certain geographies, which have in the recent past seen a run on their currency for various reasons. This has impacted business operations in those geographies. However, we are in those markets for the long run, and we believe these would iron out as we see political will in these countries to work in the long-term interest of those countries. We calibrate our investments in these geographies and focus in building long-term strengths. There are certain steps that we take with respect to hedging currencies and wherever possible look at exports or work with countries with better trade terms. However, these do not mitigate all the currency risk in some of these geographies.

3. Do you see an impact on your business, due to the sluggish state of the real estate market currently?

In the past 3 to 4 years we have forayed beyond paint into modular kitchens, wardrobes, bath fittings and sanitary ware. So, our basket of products covers a wider range in India.

Architectural paints segment has a pretty large portion of repainting associated with festivals, happy events, shifting to a new house, etc. The real estate slowdown does not directly impact the architectural business in a big way. However, real estate is an industry, which also reflects the mood of the people and the propensity to spend/ upgrade/ state of the economy. It is one of the lead indicators for our business, and we shift focus to product categories and position products accordingly in our marketing campaigns. At the same time, boost to affordable housing is something that augurs well for us in the future. Our capacity expansions are going on as per plan.

The home improvement businesses saw good traction in terms of orders, as the sluggishness is largely with respect to launching of new projects. The existing projects were progressing by and large per schedule, largely thanks to the RERA.The liquidity cycle in the real estate has seen some tightness and that has led to some impact, but not very significant. The demand for new houses continues to be there, and as the economy and employment rises, this industry will see a turn and RERA is a positive move which benefits the

industry in the long term and that will help once it settles down.

4. **Your company has done both acquisitions and divestments in the last one year. What were the learnings and challenges, which you would like to share with the other CFOs?**

As a CFO one has to keep a close eye on ROI of any investment. ROI is not just a factor of the brands and the network that the potential acquisition has to offer, but also of the synergy that can be drawn by being part of the group. We have not looked at acquisitions as a passive investor but an active one. Therefore, knowing what the synergies are and what we as a potential acquirer will bring to the table and how we would make it happen with clear timelines are very key. We carry out a detailed risk assessment of these companies both before and after we have acquired to and try to proactively address these.

The CFO has to draw on his experience and insights into the company's strengths as well as the opportunities that these companies provide and challenge the management with respect to pitfalls and risks that he/she sees. The CFO plays a critical role in evaluating the targets, starting with due diligence of the books to uncover any possible window dressing or liabilities outside the books, doing the documentation, closely working with law firms for protecting the interests of all the stakeholders, and also subsequently in aligning accounting policies, controls etc. From my experience, being at the table when negotiations and interactions are happening provide a lot of insights which going through documents alone would not.

Regulatory challenges with respect to cross border investments as well as understanding the cultural differences are equally important. It is imperative that you partner with the right law firms and valuers who also understand the culture and style of the management while advising on deals and doing the documentation.

Divestments are always hard. But if the ROI and the future trajectory is not aligned with the Company strategy and aspirations then it is better to bite the bullet at the earliest. The role of the CFO is again key to ensure that potential buyers get to derive comfort through their due diligence, the documentation is fair and complete in all respects and the deal is done at the right price. Following consistent and prudent accounting policies, always makes it easy to close such deals as the books truly reflect the state of the business and that provides a sense of comfort to any potential acquirer.

5. **What are your 3 core focus areas as a CFO? Where are you focused on driving value from?**

The core focus areas are:

i. Ensuring funds are deployed/ costs are incurred in an optimum manner to meet the financial targets of the business, and very tightly aligned to the long-term strategy of the company.

ii. Keep a close watch on the environment, especially regulations impacting business, emerging risks for the business across geographies, newer financial products in the market place and the competitive landscape.

iii. Build the talent pipeline for the function.

There are a plethora of opportunities today and one needs to really dip into all of them. Digital and IT provides an opportunity to bring about disruptive increase in efficiency in back office and also in customer facing operations. Start-up ecosystem tells us how rapid scaling of profitable prototypes is possible. Similarly, new age shifts in "sharing vs owning", sustainability, greener products, etc., provide a lot of opportunity to be very lean and yet be cutting edge with respect to delivering value to consumers. Be alert to areas which are in-effect a drain and consciously withdraw from them – whether they are marketing initiatives, IT systems, product features, processes etc.

Last but not the least, India is a growth story and ensuring that the company stays ahead of the curve in understanding the needs of the consumer and finds, unique and extremely efficient ways to delight the consumer will be the key.

Expert Views

Paynext 2018

Digital payments in India have evolved into a multi-modal experience. In 2017, we had foreseen that there will be a shift of digital payments from physical cards and wallets to newer forms of payments such as Unified Payment Interface (UPI), Bharat QR, Aadhaar Enabled Payment System among others. Payments through cards saw significant growth post demonetization, but growth since then has sobered down. The new regulations for prepaid payment instruments pose serious questions around their future; data for last few months show consistent decline in their usage. UPI, on the other hand, has seen a dramatic rise as both new entrants (including technology giants) and incumbents alike have brought UPI offerings to the market. Trends notwithstanding, the current payment landscape is still evolving in the sense that there are multiple ways of payments, all seeking large-scale adoption.

As with internet and commerce, India is 'mobile-first' when it comes to payments, and we believe mobile as a form factor will play a significant role in payments going forward – both on issuance side and acceptance side. Innovation in use cases on mobile is likely to help India leapfrog other standard means of payments. India has been at the forefront of introducing novel payment modes, but players would have to innovate further to drive simplicity, convenience and mass adoption in order to penetrate the last mile. For instance, two key opportunities are finding solutions that can truly compete with the speed of cash in micro-payment situations (particularly in queuing situations), and developing voice-driven mobile apps that can bring in the next wave in adoption.

In all this effort, payments businesses also have to find a path to viability. For this, they could possibly look at more collaboration; to provide value added services, to have a holistic bouquet of financial offerings, and to unlock monetization opportunities. Such collaboration may need to look beyond financial services as well. To enable such collaboration with rapid velocity, payments businesses could consider implementing application programming interface (API) based architectures and possibly even micro-services architectures.

As the new paradigm takes shape, it would be crucial to test the scalability of solutions for mass adoption in a country as diverse as India. Financial inclusion, and digital payments (and even other non-financial services) will need to go hand in hand to transform lives, and lift households across country into economic well-being.

Emerging Payment Technologies - Going beyond smartphones and cards

In this era of 'Digital Darwinism', an era where technology and society are evolving faster than businesses can naturally adapt, India has displayed a significant growth in adoption of digital payments. India now represents one of the largest market opportunities for payments for global technology companies and home grown Fintechs alike. Further, the emergence of the digital five forces – Social, Mobile, Analytics, Cloud (SMAC) and Internet of Things (IoT) – is helping these technology companies to reimagine the customer, and come up with innovative and easy-to-use payments products. There could be 5 key potential areas of emerging payment technologies worth assessing for future adoption – invisible / contactless payments, voice-based payments, social media payments, biometric payments, and audio QR / sound based payments.

Driving digital payments among rural customers

Traditionally, almost all the initiatives taken by banks to provide banking services, and innovative products have followed the "urban-first" approach wherein, the intensity of investments is focused on urban areas and introduction of these innovations in rural customers is majorly an afterthought rather than being a primary objective. The same is confirmed by the low level of penetration of banking infrastructure in rural areas. In order to ensure that digital payments see adoption amongst the rural masses too, the following steps could help – raise awareness among rural banking staff, provide vernacular language support in all products, develop easy to use interfaces (not just visual, but also audio / voice based).

Market entry by global technology giants

The burgeoning payments market in the country has seen increased participation from global technology giants. Entry of such players is likely to affect the emerging payments landscape in India due to their significant capabilities, platform play and existing user base. While the foreign players have advantages, there is significant headroom for the fintech ecosystem in India to grow in multiple areas and provide growth for all players. It would require early opportunity identification, and accelerated execution.

Local players may need to consider carving out niches for themselves or even play at scale.

Increasing Merchant Payments Acceptance – the Journey from 3 Million to 30 Million

The launch of alternative digital payments underpinned by the mobile represents the single biggest opportunity in recent times to digitize India's vast merchant landscape. While newly launched payment innovations such as the UPI, Aadhaar Pay and integrated QR codes show much promise, it would still be fair to remember that the battle against cash will take many more measures than just innovating on low and asset-light cost merchant acceptance solutions. It requires a concentrated and coordinated action by all stakeholders in the digital ecosystem. A lot is happening in UPI space, but now the focus needs to shift on how to catalyze the offline merchant payments adoption. It is imperative that fintechs focus their attention to innovate and build new and multiple use-cases for proximity offline payments. The interoperable QR code (Bharat QR+ UPI) seems to be a step in the right direction. Going forward, fintechs need to innovate on bigger value propositions for merchants like loyalty, post-sale analytics, and merchant ratings, on top of the UPI platform.

Moving beyond: Capturing value from payments data

We live in a data-led economy, and the business of data monetization is set to grow with far reaching implications for the industry. How much value an organization is able to generate out of this would define the long-term success or failure of that organization. The key to unlock and monetize the payments data would depend on how an organization uses transaction-level data in conjunction with other external data, converting raw data into composite and transformed data, coupled with right granularity and dimensions. This would require companies to either develop strong analytical capabilities in-house, or build strategic partnerships.

For more details on this report, please click here.

About Deloitte's CFO Program

The CFO Program brings together a multidisciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The Program harnesses our organization'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 company's most compelling challenges, and adapt to strategic shifts in the market.

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