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CFO Perspectives

CFO Speaks

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1. What is your overall view on the budget and more specifically how does it impact the infrastructure industry?

The budget announcements are to be viewed in the context of the situation that the country's economy is placed in. The government has done well to focus on spelling out programmes and reaching investments for the development of rural India. Although the allocation for investments, particularly infrastructure investment always appear lower than what is required on the ground, the industry and the government would do well to focus on the allocations provided and use the proceeds smartly. A combination of debottlenecking stalled projects and the development of new projects in the area of transportation infrastructure, mass & affordable housing, rural electrification & water supply and augmentation of energy reserves are steps in the right direction. The infrastructure industry will begin to experience the benefit of these programmes in about 6 to 9 months' time. Hopefully by then, the commercial banks would have improved their capital adequacy for supporting some of these programmes. Some of the better placed private sector sponsors and multilateral agencies could also complement the government funding of the infrastructure projects. If we can deal with the present well, the future is bright.

2. Expectations have been very high with the new government. However, we are yet to see economic and capex revival in full swing. When do you see a meaningful momentum happening?

The macros of the economy are positive. Industry is optimistic of the future growth. Low oil price, low commodity prices coupled with robust tax collections, favorable balance of payment [BoP] position and increased remittances are all positive factors for the growth of the economy. However, in terms of projects and capex revival, the capital commitments come with a lag. During times of slowdown the first impact is on the discretionary spending, then on the consumption, and finally on the investment. Presently there is underutilization of installed capacity in industries. As growth picks up, consumption will increase and the capacity will be better utilized by 2016-17. We should be seeing progressive ordering for new capacities in 2017-18 and 2018-19. That would mark the revival of capex and project spending.

3. The government has announced a number of economic programs like Digital India, Make in India, etc. Do you think these programs have created the intended impact? What is your view as a CFO, on how to make these programs successful?

While the initiatives are well intended and should bear fruit, all these programs are being launched together. Instead these would be better implemented if prioritized programs are picked one at a time and developed to reach a stage of maturity before the next one is picked. One could argue that, there has been some element of disconnect in policy making for these programs. Connect between the government and industry and connect between academia and the government needs substantial improvement. Some of these programs are grappling with bandwidth issues in terms of management at ground level. All these programmes require excellent all-round execution.

4. What do you think about the Public-Private partnership (PPP) model in infrastructure projects and how successful has the government been to implement PPPs till date?

PPP models require improved understanding, facilitation & implementation. There is an urgent need for better synchronization between multiple stakeholders like Government, Regulators, Sponsors, Bankers, Investors and Users. There is a need to understand in detail the success levers in a PPP structure and there has to be enough hand holding from the government to make these PPPs work. Under assessment of the risk by the sponsors during the initial stages and reluctance to pay for use by the users have resulted in over leveraged balance sheets. Risk vs reward dynamics have not been managed well, creating capital servicing mismatches. But from a potential point of view, we need to persist with the PPP model but improve the frame work. Dispute resolution formats need to evolve as well.

5. In your experience as a CFO, what are the key challenges you see in building and developing the right talent and where are the overall gaps?

The first challenge is in developing the right talent from an early stage - there is lack of adequate interaction between industry and the academic world in defining the right skill sets for various roles. We (industry and academicians) need to work together in defining the frame work for the courses. More feedback is required from the industry. The second challenge is increasing the talent retention at a macro level. We need to provide the right kind of opportunities for people to stay and grow here in India which will contribute to our economic growth.

6. What are the top 3-5 challenges faced by a CFO from the infrastructure industry in the current environment?

The first challenge is to ensure achievement of the targeted returns on the investment made in infrastructure assets. This would require market creation for the commissioned asset. Developing a healthy secondary investor appetite is very crucial in recycling the invested capital. The second challenge is to work with the government, both State & Central, and the Regulators in developing a more viable framework for infrastructure asset ownership. The third challenge is to price the risks that have played out in the infrastructure space over the past few years well in the future bids and yet remain cost competitive and relevant.

7. **The CFO is expected to play the role of both strategist and business lead, how do you balance growth expectations and stability of business?**

   At a fundamental level, business stability is a pre requisite for harboring growth aspirations. Businesses are supposed to grow. Shareholders invest their hard earned savings in organisations which have the potential to grow. In a sense, growth is a responsibility which requires efficient execution. When organisations are forced to face challenges and swim against the tide, conflicts between preservation and growth arises. As long as the end objective is clearly understood as shareholder value creation, organisations learn to survive through periods of instability, stability and growth. Prudent allocation of investment towards physical & financial resources, balancing the short term objectives and the long term goals, staying focused on the risk reward dynamics of the businesses and being alert to the developments around often helps the finance leadership to stay strategic while steering the challenging course.

Expert Views

BEPS: Gauging the impact on multinationals and business houses

For the past few years, governments, tax authorities and social organisations have expressed their concern that multinational enterprises [MNEs] are shifting profits to low tax jurisdictions having no or little value-creation, and are not paying their fair share of taxes. In order to address the concerns, the G20 group of nations (including countries like US, UK, France, Germany, China, India, etc.) took the support of the Organisation for Economic Cooperation and Development [OECD] to study the issues/make recommendations. Accordingly, the OECD formulated the Base Erosion and Profit Shifting [BEPS] project.

With the progress of the BEPS project, various steps have been taken by the participating nations for implementing the recommendations arising from BEPS project and several governments have undertaken unilateral actions, which has resulted in tax issues entering the board room agenda, in a manner that would not have been predicted earlier.

The BEPS project and its recommendations especially in respect of the action plans dealing with treaty abuse, permanent establishment, intangibles, digital economy, and transfer pricing [TP] documentation are expected to make significant impact from an Indian tax perspective. In the Finance Bill, 2016, the Indian government has already proposed certain provisions pursuant to the BEPS recommendations. The notable proposals are the introduction of three-tiered TP documentation structure including Country-by-Country [CbC] report, tax regime for income from patents and introduction of “equalisation levy” on digital transactions.

The three-tiered approach to TP documentation includes: a) a local file to provide an entity and transaction level transfer pricing analysis for each jurisdiction, b) a master file to provide a high-level view of a company’s business operations and global transfer pricing policies, and c) a country-by-country report to provide a global financial snapshot of the MNE. The proposed three-tiered structure approach provides significant and unprecedented information to the tax authorities and would require significant changes to the compliance and reporting mechanism for tax risk assessment and transfer pricing purposes. Also, stringent penalties have been proposed for default in compliance with said provisions, ranging up to INR 50,000 per day in certain circumstances.

An ’equalisation levy’ of 6% is proposed to be imposed on consideration for online advertisement, provision of digital advertising space, or any other facility or service for the purposes of online advertisement, which could result in additional cost for businesses depending on contractual arrangements. The government has retained the power to notify additional services that could be subjected to such equalisation levy.

On the positive side, the government is proposing a special regime for taxation of royalty income from patents – such income would be taxed at 10% (*plus* surcharge and cess) on a gross basis. This benefit would be available to an Indian resident who is a patentee, in respect of a patent developed and registered in India.

The implementation of proposed measures in BEPS and Budget 2016 are likely to throw considerable challenges before the MNEs and have the potential to have an overall impact on the financial health of MNEs. It is time multinational enterprises evaluate and understand the repercussions of such proposals, identify the probable risk areas, additional compliance requirements and undertake remedial measures.

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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