

Liquidity and cash management

Addressing the new 'normal' amidst the COVID-19 crisis

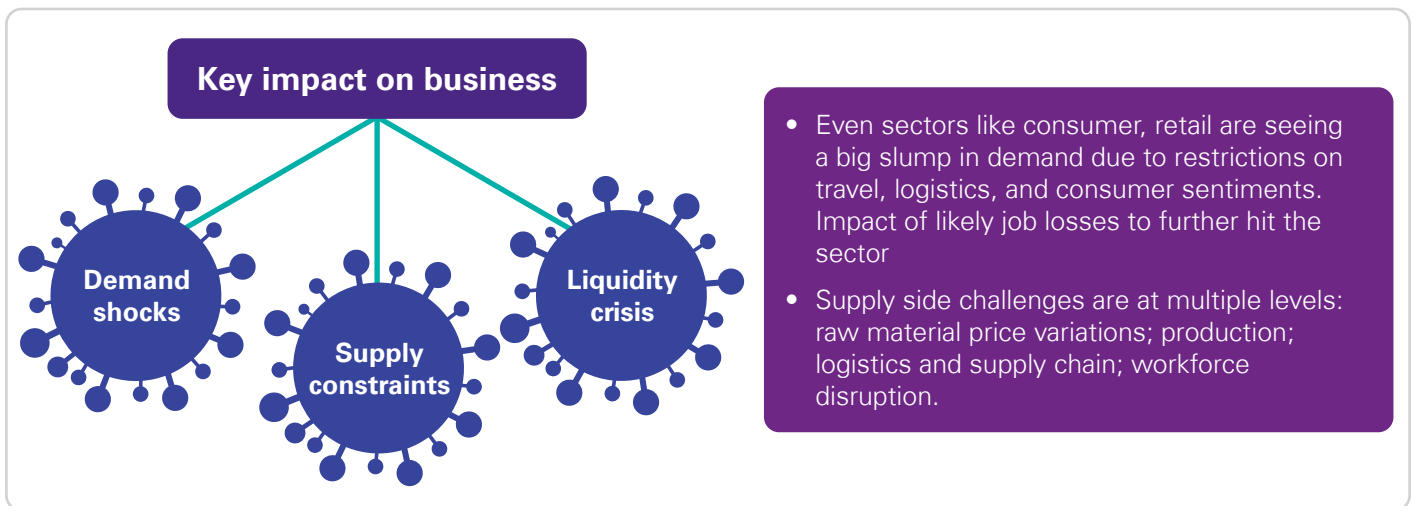


The outbreak of Covid-19 and the subsequent lockdown has put previously unimagined pressures on the business environment.

With most state governments seeking an extension of the lockdown, business sentiments are low. The Ministry

of Finance (MoF) and the Reserve Bank of India (RBI) have initiated measures to alleviate the immediate pain felt by businesses.

The challenge, beyond the immediate, remains in spurring up real demand in the overall economy.



RBI and MoF initiatives

RBI	MoF	Potential implication
<ul style="list-style-type: none"> • Rate cuts: repo, reverse repo, CRR • Targeted long-term repo • Moratorium on term loans and deferment of interest on working capital facilities • Marginal standing facility limits extended for banks • Banks allowed to participate in offshore non-derivative Rupee derivatives. 	<ul style="list-style-type: none"> • <i>Vivad se Vishwas</i> scheme – no additional 10% to be paid by 30 June 2020 • For delayed payment of taxes, interest rate reduced to 9%. No late fee for payment up to 30 June 2020 • <i>Sab ka Vikas</i> scheme – payment date extended to 30 June 2020 • Due date for deposit reserve creation (20% of deposits maturing during FY21) extended from 30 April 2020 to 30 June 2020. Same for 15% of debenture maturity. 	<ul style="list-style-type: none"> • Reduced interest rates for debt refinancing options • Commercial paper/bonds become attractive (with the right business plans) • Additional liquidity of Rs 3.74 lakh crores being infused.

Essential two steps before approaching banks

1 Stress test financial forecasts

- Cash - uncover cash deficit levels; establish tactical measures for cash conservation
- Cost - multiple scenarios to forecast revenue and costs; discretionary spends
- Customer - revenue analytics backed by primary research; analytics around collection
- Capital - revisit capex plan in view of contracted demand; potential deferrals of on-going engagement milestones.

2 Self help

- **Good business practices**
 - Covenant reviews
 - Contingency funding plan
 - Maximise benefits from supplier contract terms including reverse factoring
 - Capex to opex model
 - Tax efficiencies – pursue potential refunds aggressively
 - Headroom in current banking arrangements using cash pooling
 - Timely, accurate billing
 - Higher discounts for early/upfront payments.
- **Business plan recast**
 - Multiple scenarios
 - More frequent stress testing
 - Risk and opportunities with KPIs tracked in MIS
 - Zero-based budgeting.
- **Goals re-alignment**
 - Senior management goals linked to cash flows
 - Weekly cash flow variance report discussion with senior management.

Key considerations for the board of directors

- Return of capital versus return on capital
- Long term funding through convertible instruments; re-think share buy backs
- Risk management using derivatives (forex/interest rate/commodity price) versus running open positions
- Relook at liquidity risk management policies and practices
- Digitally enabled and data-driven decision making in cash; and for business in general
- Strategic review of businesses, customers, channels to operate in.

How we can help

We will be sharing first notes on updates impacting the finance function 'as they evolve'; these can be accessed on: [Click here](#)

Webinars are also being organised to go over each area of impact so that we can ideate together on the most effective and efficient way forward.

Do stay tuned and please write to priyankaca@kpmg.com for any feedback (especially on topics you would like us to cover in the webinar) and/or queries that you may have.

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