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HALT - PLAN - REFRESH

COVID-19: Realigning your capital structure for recovery and growth

With the ongoing COVID-19 crisis, the Indian economy is grappling with a sharp reduction in economic activity. Businesses are expected to face considerable liquidity challenges amidst concerns of a weak demand over the next few quarters.

Leading global ratings agencies and economic experts estimate a de-growth of 5% in FY21 for India and an even more severe contraction in Q1 FY21. The government has announced multiple unprecedented economic and social measures to tackle the pandemic.

Here's how finance leaders should PLAN to create a suitable capital structure for their businesses as they initiate the road map for recovery

Phase 1
Diagnose economic health check

Conduct economic health check through financial MIS and sensitivity analysis

Phase 2
Assess growth opportunities

Identify growth opportunities and financial forecasts along with implementation plan

Phase 3
Raising new debt or realign debt obligations

Plan for debt raising or realignment

Phase 1: Diagnose economic health check

Business environment forecasting

- Assess the impact on business continuity, demand and growth opportunities, including time for recovery during and after the lockdown
- Understand impact of restrictions related to trade (domestic and overseas) on customers and suppliers
- List all vulnerabilities the business currently faces and how they may impact its continuity
- Evaluate competition's response once the pandemic moderates and how it could affect your market position
- Evaluate synergies of your business and how these could be used to mitigate the impact of a lost business – or leveraged for growth post-COVID-19

Sales forecasting

- Evaluate and decide sales strategy after the pandemic subsides. This includes shift in the market share, product portfolio, sales mix, geographical presence, contribution and margins
- Make a category- and product-wise monthly sales plan through the recovery period
- Communicate with customers to understand their issues and calculate potential impact on your business
- List down all key factors that are important to achieve revised sales, as well as key risks associated with it

Cost forecasting

- Reassess and reanalyse cost structure and identify areas for cost containment, including bifurcation of discretionary and non-discretionary expenses
- Revise production plan for capacity mix, machine usage, hours of operations and capacity utilisation, in line with the sales plan
- Evaluate disruption in supply chain and manufacturing, including lead time, raw material costs, inventory levels and production plan
- Reassess your hiring and manpower retention strategy
- Review annual salary increments and bonus pay-outs
- Prioritise all capex expenses and monitor business progress and assess use of proceeds for all capex investments in terms of priority

Cash flow management

- Develop a cash flow forecast (quarterly/monthly) on the basis of revenue and expense forecast
- Monitor all elements of accounts payable, accounts receivable and prepaid expenses
- Revaluate payment and collection cycle, inventory turnover, fixed and variable costs
- Define fixed costs and ensure enough cash is available to cover them
- Reassess details of bank obligations, specifically around negotiations with regard to debt covenants
- Review gaps between the current funding arrangements and bank facilities to evaluate the need for intervention

Regulatory

- Identify government reliefs such as subsidies, relief packages, deadline extensions and refunds
- Understand incentives announced to support businesses

Key financial ratios that need to be analysed

Ratio	Measure
Profitability ratios	EBITDA (INR crore)
	EBITDA %
	Cash profit (INR crore)
Leverage ratios	Debt-to-equity ratio
	TOL/TNW
Coverage ratios	Debt service
	Interest
Liquidity ratios	Current ratio
	Quick ratio
Asset coverage	Fixed asset coverage ratio
	Loan life coverage ratio

EBITDA: Earnings before interest, taxes, depreciation, and amortization
TOL/TNW: Total outside liability to tangible net worth

Output

Financial analysis and MIS with sensitivities to check where the business stands today with regard to the following:

- Cash/fund coverage
- Operations at different levels of production/demand
- Immediate cost optimisation opportunities
- Immediate revenue maximisation opportunities (top level)

Phase 2: Assess growth opportunities

In this phase, business leaders should identify any growth opportunity in medium-to-long term.

- Make certain adjustments to cost structures and product portfolio by analysing adjacent products and services that the company can potentially deliver
- Identify whitespaces that were not available in the past and now present a significant opportunity – these will help create an implementable road map to operate in the current environment, by leveraging existing synergies and resources

Output

- Immediate growth opportunities (products and markets)
- Financial projections
- High-level implementation plan

Phase 3: Raising new debt or realign debt obligations

Cash flow in the current scenario is amongst the most critical elements of the business. Phases 1 and 2 will enable you to estimate the cash flow. Businesses should also aim to understand what works for them - **raising new debt** or **realigning debt** in the current environment.

Based on the evaluation in Phase 1 and strategy decisions in Phase 2, an indicative road map can be as follows:

- Understand and avail relevant reliefs based on applicable schemes provided by the Reserve Bank of India
- Assess required amount of fund-based and non-fund-based limits along with any other fund-based facilities
- Identify the best option for financing short- and long-term needs through debt under the regulatory framework
- Prepare and submit proposed plan and finalise contours based on feedback from the lender
- Make presentations to lenders and at appropriate forums for approval of proposal

The above mentioned steps can help an organisation make informed and sustainable decisions.

How Grant Thornton can help

Grant Thornton's Recovery & Reorganisation team

can help corporates realign their borrowing requirements and navigate various liquidity challenges during the ongoing COVID-19 crisis.

Our distinct approach ensures complete ownership and close coordination with stakeholders to help create sustainable value and ultimately cement relationships.

Click here to access our recent report on Realigning your borrowing requirements

Click here to access our recent report on Deploying and managing working capital

To help us understand your borrowing requirements and how we can help, please **download and complete this brief form** and email it to Sanjay Mishra (sanjay.mishra@in.gt.com).

For further details, please contact

Ashish Chhawchharia
Partner and National Head,
Restructuring Services
E: Ashish.C@IN.GT.COM

Rahul Kapur
Partner, Growth Advisory
E: Rahul.Kapur@IN.GT.COM

Sanjay Mishra
Director, Restructuring Services
E: Sanjay.Mishra@IN.GT.com

Click here to download the recently released Grant Thornton Halt-Plan-Refresh Guide on revisiting business priorities and plans

For more insights on the COVID-19 crisis, scan this barcode to see continuous updates on our website