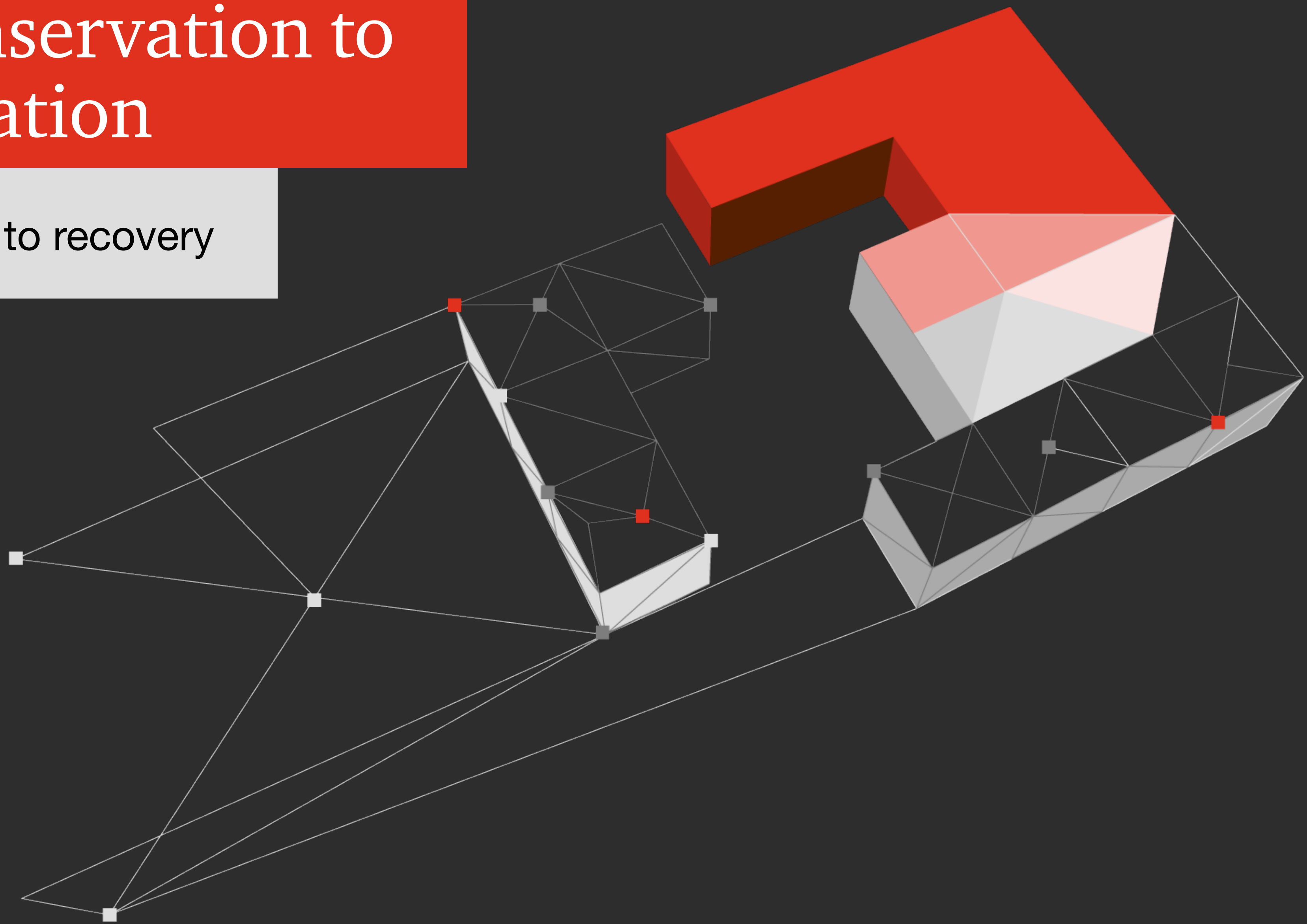
Value conservation to value creation

COVID-19: Path to recovery



Preface

COVID-19 has caused widespread disruption and its impact is being extensively researched and publicised. Despite the near-term challenges on both the demand and supply side, the good news from our survey is that India Inc. is optimistic about economic revival. Nearly 80% of the respondents of our survey expect their businesses to recover by June 2021, with early signs expected to be visible from September 2020. They attribute this resilience to operational flexibility, robust crisis management and process/product innovation. For many, this is a result of work done in the pre COVID-19 era.

Even before the COVID-19 pandemic hit us, boardrooms were grappling with the disruption caused by technological developments, climate change and the growing asymmetry in a world facing pressures from rising nationalism, polarisation and declining confidence in global multilateral institutions. While it is encouraging that a very large percentage of the respondents expect to recover over the next 9–12 months, as per International Monetary Fund (IMF) estimates,[1] COVID-19 is likely to shrink the global and Indian economies by 4.9% and 4.5% respectively in 2020. The anticipated de-growth in the Indian economy could be attributed to the sluggishness of the past and further delay in the revival of the capital investment cycle. This is further illustrated by the survey findings: 95% of businesses in the capital goods sector expect a decline in their FY21 revenues, with over 70% expecting the decline to be greater than 10%.

Corporate India is adapting to this challenging environment. Despite facing an unknown adversary, business leaders have altered their priorities and are adapting their business models according to the evolving situation – from 'lockdown' to 'unlock' to several localised lockdowns. While near-term issues such as demand weakness, liquidity, disrupted supply chains, and workforce well-being continue to be key concerns, our survey respondents are also thinking longer term on how to reconfigure their businesses and make them resilient to future crises.

We have broken down the measures being taken by corporate India into three phases – 'repair', 'rethink' and 'reconfigure'. While the first two phases will hopefully help in recovering some or most of the lost value, the reconfigure phase will help create value.

Interestingly, some of these 'repair' and 'rethink' phase challenges are making the expectations of lower growth self-fulfilling. For instance, the demand collapse has led companies to cut costs which has put pressure on suppliers and employees, resulting in lower spending and investment, thereby further accentuating the original problem of demand. The increase in costs owing to disrupted supply chains, unavailability of manpower due to reverse migration and social distancing regulations has put added pressure on companies, thereby feeding into this circularity.

The 'reconfigure' phase is likely to include strategic initiatives such as alliances and partnerships to augment capabilities, optimise operations and supply chains, reconfigure distribution, and manpower skilling. These initiatives will be underpinned by rapid digital enablement with a focus on online commerce, automation and data analytics to get insights into customer preferences, logistics and cost optimisation.

Further, companies will look to evaluate the possibility of bringing supply chains and manufacturing closer to home, aided by the huge push and support from the Government. This may result in new production facilities in semi-urban and rural clusters, which in turn will require higher infrastructure spending by the Government.

Encouragingly, for 45% of the respondents, this crisis presents opportunities to consolidate. These opportunities may not be sector specific, as consolidation has been a buzzword over the last few years, driven by favourable policy actions such as the Insolvency Code. It is quite likely that each sector will witness the emergence of a few large players who have the wherewithal and foresight to deal with a dynamic, volatile and uncertain business environment. Going forward, the role of PEs, SWFs and pension funds as providers of capital will be pivotal as the Indian banking system restores its balance sheets.

The survey indicates that the 'repair' and 'rethink' phases can be expected to last until mid-2021, post which the 'reconfigure' phase is likely to commence. Respondents unequivocally expressed their desire to emerge more resilient from this crisis. We expect boards to weigh each decision from a risk mitigation and resilience point of view in the foreseeable future.

My sincere thanks to the respondents who took time out to share their thinking with us. Their active and candid participation was key to our being able to put together this survey report.

Sanjeev Krishan
Partner and Leader, Deals
PwC India

1. Sources: IMF. (June 2020). World Economic Outlook Update

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Methodology

PwC's 'Value conservation to value creation' survey explores corporate India's journey through the COVID-19 crisis. It covers the impact of the crisis, steps that were taken, evolution of priorities, the emerging new paradigm and, most importantly, the key interventions for near-term value conservation and long-term value creation.

PwC conducted an anonymous online survey between 17 June 2020 and 10 July 2020. The survey respondents were a mix of CXOs and senior management from various industries in India.

We received
225
responses, and this report is based on an analysis of these responses.

Industries

25%	Industrials
18%	Retail and consumer
12%	ITeS
12%	Infrastructure and real estate
10%	Healthcare and pharma
9%	Logistics and services
8%	Media and entertainment
6%	Others

Revenue size

48%	Less than INR 500 crore
36%	INR 501–5,000 crore
16%	More than INR 5,000 crore

Place of operations

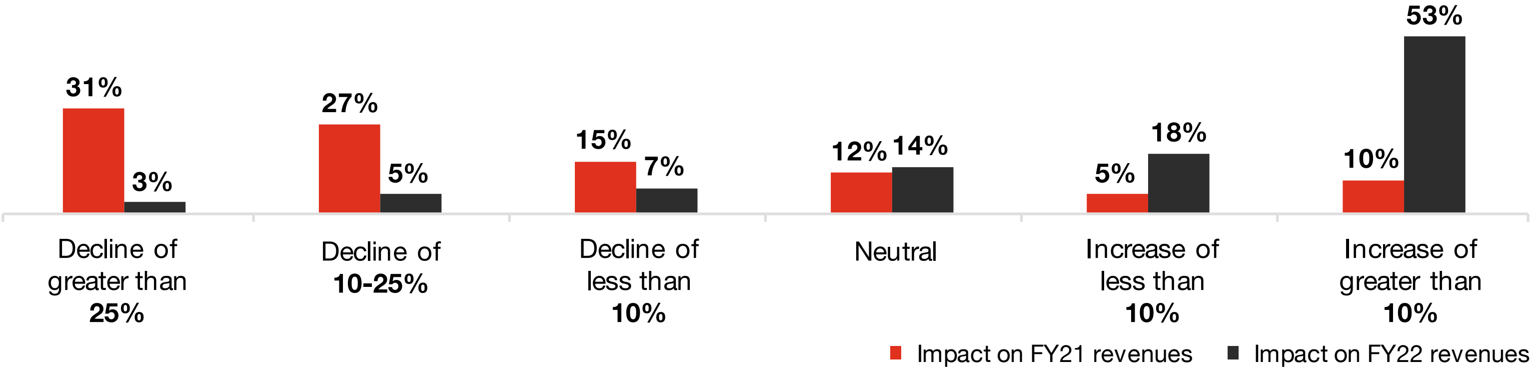
57%	India and abroad
43%	Only India

02

Covid-19: Impact and recovery

Interrupted, not derailed – 82% of organisations expect to recover within a year

Anticipated impact on revenue



- 73% expect a decline in revenues in FY21. However, only 15% see the decline extending to FY22.
- Collapse in demand, supply chain disruption and liquidity constraints are driving the revenue decline.
- The remaining 27% of organisations expect to see similar or higher revenues in FY21.
- Sector* tailwinds and quickly adapting to the changing market needs have helped these resilient organisations control/mitigate the negative impact.
- 59% of the resilient organisations attributed their success, in a large part, to robust crisis management. Interestingly, only 20% of the negatively impacted organisations saw lack of crisis management as a contributor to their decline.

Most resilient

- Pharma
- Consumer essentials
- ITeS
- Telecom and utilities

Most impacted

- Infrastructure and real estate
- Industrials
- Retail
- Hospitality
- Media and entertainment

Anticipated recovery timeline (to pre-COVID revenue run rate)#

September ’20 18% | December ’20 42%^ | March ’21 67%^ | June ’21 82%^

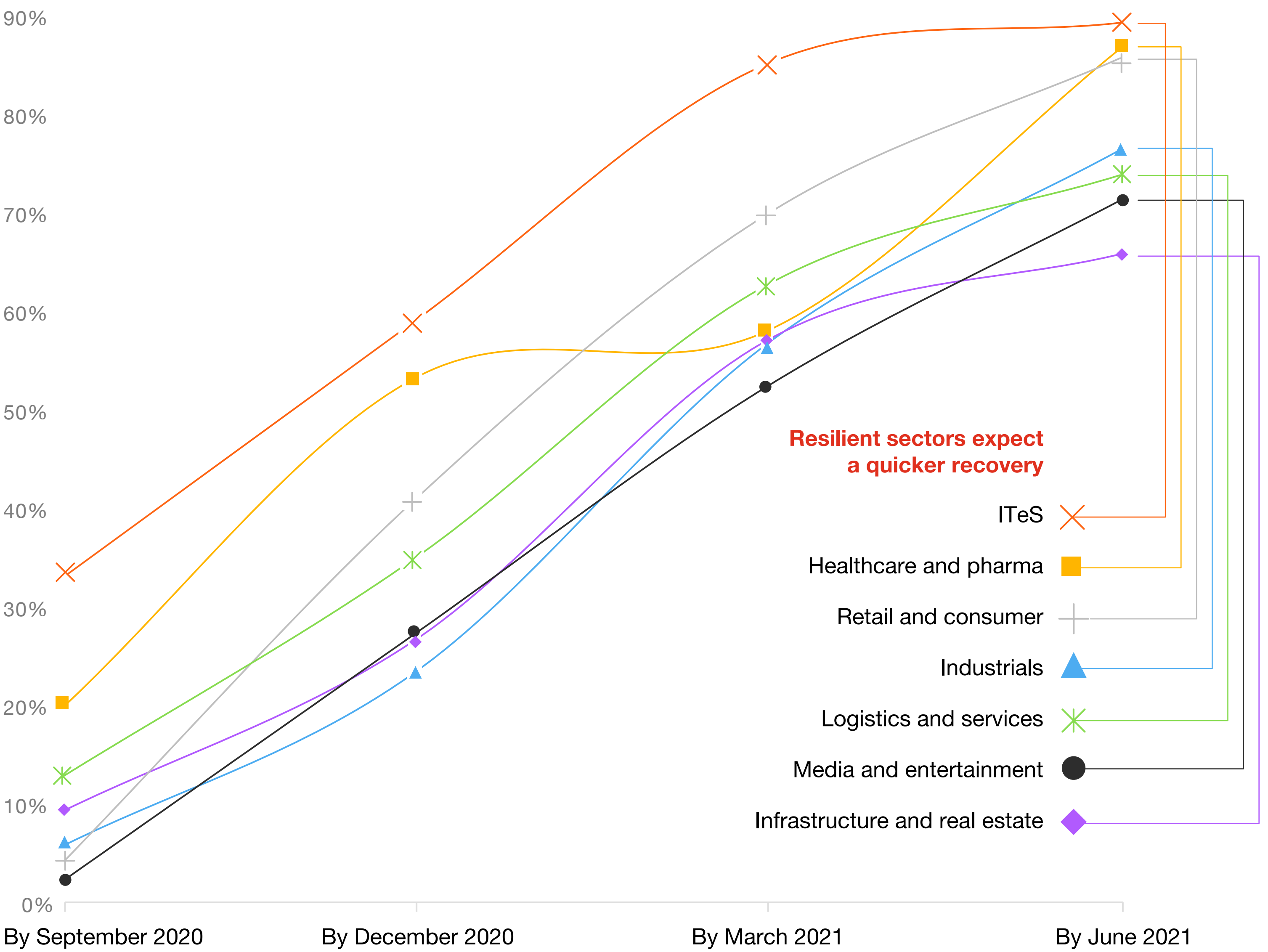
* Pharma, critical care medical devices and technology | # Monthly run rate | ^ Cumulative percentage of respondents expecting to recover by the defined periods

“Organisations are viewing this crisis as a temporary blip in India’s larger economic growth story, which remains intact. Corporate India, including major family businesses, will emerge stronger through learnings and interventions, including digital, during this period.

- N V Sivakumar
Partner and Leader, Private and Entrepreneurial Business
PwC India

Consumer-driven sectors witnessed a sharper decline but expect a faster rebound

Anticipated sector recovery to pre-COVID revenue run rate



- **The ITeS and Healthcare and pharma sectors are showing resilience and anticipate the fastest recovery, with nearly 90% of organisations expecting to achieve pre-COVID revenue run rates by June 2021.**
  - Within the ITeS segment, cyber security and automation solution providers are leading the recovery.
  - Pharma is expected to recover faster than healthcare.
- **The Retail and consumer sector is also expecting a quick recovery despite being one of the most impacted at the beginning of the crisis.**
  - Organisations expect essentials to recover faster than non-essentials.
- **Media and entertainment and B2B sectors such as Industrials, Logistics and Infrastructure and real estate are expecting a delayed recovery.**
  - These segments are expected to get a fillip with the revival of the capital cycle.

Priorities have evolved from repair to rethink and reconfigure

Priorities on Day 0*

86%	Employee well-being and availability
67%	Continuity of operations and supply chain
56%	Liquidity
47%	Customer service and continuity of distribution
25%	Demand generation

Challenges post unlock

79%	Demand rebound
73%	Cost optimisation
44%	Liquidity
42%	Continuity in supply chain
27%	Manpower availability

Repair → Rethink → Reconfigure

- During the lockdown, companies were focusing on essentials for survival like employee well-being and availability and continuity of operations and supply chains. The priorities have now evolved to recapturing demand and optimising costs.
- In line with these challenges, over 90% of organisations are planning interventions in the coming year across product innovation, reconfiguring distribution networks and/or cost optimisation.
- Debt repayment moratoriums have helped industries. However, liquidity continues to be a major concern for organisations.
- Supply chain continuity also remains a key challenge for over 40% of organisations, mainly importers of raw material in pharmaceuticals, chemicals, and consumer durables.
- Interestingly, although the pandemic induced reverse migration from urban to rural centres, organisations do not expect manpower availability to be one of their top challenges.

* When organisations recognised COVID-19 as a crisis

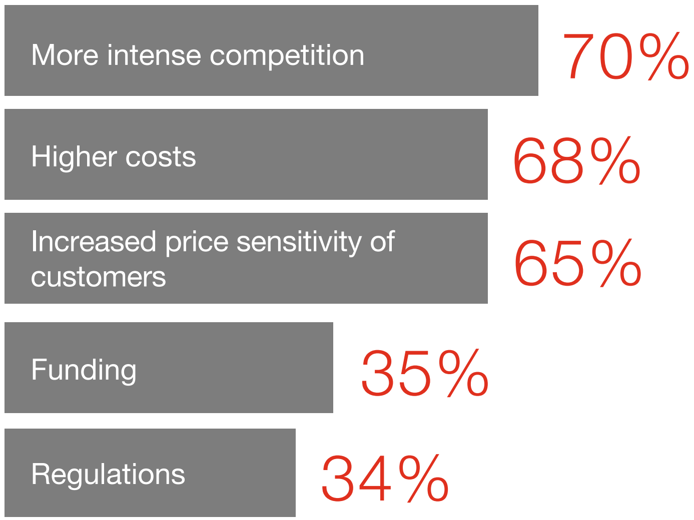
> The liquidity injected into the system by the RBI has brought temporary relief to many industries. With the moratorium period ending, many corporates would require restructuring with haircuts to make the businesses viable again.
>
> **- Dinesh Arora**
> Partner, Corporate Finance and Investment Banking
> PwC India

03

Emerging new paradigm

58% of organisations expect the business environment to be challenging

Top reasons for a tougher business environment



Competitive times ahead

- Organisations expect competition to intensify as demand has slowed and customers have become more value conscious. Even as demand rebounds, price points are expected to remain under pressure.
- Businesses are becoming more price sensitive, renegotiating contracts and focusing on optimising costs.

Cost pressures add to the challenges

- Commodity prices may have softened, but certain other costs have gone up due to social distancing norms, added safety measures and government regulations.
- A majority of the organisations do not believe that regulations are a cause for the tougher businesses environment. While liquidity has been identified as a concern, business operating aspects seem to be a top priority for them.

Percentage of companies expecting a tougher business environment

70%
Industrials

69%
Infrastructure and real estate

63%
Retail and consumer

63%
Media and entertainment

63%
Logistics and services

> Companies have to reconfigure their business model to maintain operational efficiency and compensate for pricing pressures. This will require them to make hard choices across the value chain.

- Kameswara Rao
Partner, Government Reforms and Infrastructure Development
PwC India

More than 3 out of 4 respondents expect technology adoption to accelerate

Key themes of the emerging new paradigm

77%

Accelerating digital enablement of business

Organisations see digital solutions as a key enabler. On the one hand, a leading ITeS company is exploring permanent remote working for a majority of its employees, and on the other, a leading oil and gas production company is using automation to maintain plant utilisation with less than one-third of its workforce.[2]

38%

Greater domestic manufacturing and sourcing

Disruption in supply chains and geopolitical risks have compelled organisations to consider diversifying their supplier base. Government incentives are driving organisations to evaluate domestic sourcing and manufacturing.

38%

New logistics and distribution models

Organisations are focusing on building resilience in the logistics network and using data analytics to improve visibility, planning and optimisation of logistics.

37%

Collaboration/partnership to augment capabilities

Businesses are looking at enhancing capabilities through collaborations and partnerships instead of building operational and supply chain networks. This not only saves time but also reduces cost due to higher utilisation, and reduces capital needs.

31%

New products and services

Organisations are looking to capitalise on emerging themes. A prime example is a liquor company manufacturing hand sanitisers.[3]

2,3. Sources: Invest India, Livemint, News18

77% 38% 38% 37% 31%

While priorities may vary, businesses recognise the need to accelerate digital enablement

Action areas for digital enablement

Remote working systems and processes

74%

Automation and robotics

51%

Vendor/partner relationship management

45% B2C **25%** B2B **55%**

Sales effectiveness

44%

Increasing online business

43% B2C **64%** B2B **30%**

Improve decision-making speed and accuracy

41%

- Changing workplace requirements are driving the digital mandate.
  - Organisations across sectors are looking to augment remote capabilities through IT systems and processes.
  - Sectors which have a higher dependency on people, such as Logistics, Infrastructure, and Healthcare and pharma, are looking to de-risk their operations through higher adoption of automation and robotics.
  - Consumer-driven sectors like Retail and consumer are looking to use technology platforms and tools to drive sales.
- While nearly two-thirds of consumer product/service businesses see online sales channels playing an increasingly important role in business growth, even B2B companies are embracing this channel, with 30% seeing it as a key technology intervention.
- Businesses are recognising the importance of robust management information systems and advanced analytics that can not only provide real-time information but also assist in predictive analytics to drive accuracy and speed of decisions.

"In the disrupted world, the past may not necessarily be a good indicator of the future. Data-driven decision making will become increasingly important rather than decisions based on gut feelings or past experience. Therefore, as organisations plan for a rebound, they will need to invest in generating more mature insights from data.

- Sudipta Ghosh
Partner and Leader, Data and Analytics
PwC India

77% 38% 38% 37% 31%

Nearly 2 in 5 respondents will consider domestic sourcing and manufacturing

Top challenges in localising manufacturing, sourcing and supply chain

62% **Higher costs/lower efficiency**

55% **Availability of raw materials**

50% **Government regulations**

44% **Availability of infrastructure**

41% **Manpower/skills availability**

22% **Availability of funds**

- Increasing global trade barriers and recent geopolitical developments are driving organisations to rethink their dependence on imports.
- Most of the respondents have planned interventions for localising a part of manufacturing/procurement in the next 12 months despite the challenges foreseen.
- Companies in the Industrials and Pharma sectors are evaluating localisation options more aggressively.
- Organisations have cited certain structural challenges to localisation like higher costs, lower efficiency, availability of raw materials and manpower, regulations and infrastructure.
- Organisations will evaluate these challenges against the numerous advantages that India presents – low labour cost, large domestic market, Government incentives, etc.

Respondents considering localisation

60% Industrials

48% Healthcare and pharma

28% Others

"The Government recognises that further improvements and interventions are required to improve ease of doing business in India. Recent initiatives around production linked incentives are another step in the right direction.

- Mohammad Athar
Partner, India Economic Development and Infrastructure
PwC India

77% 38% 38% 37% 31%

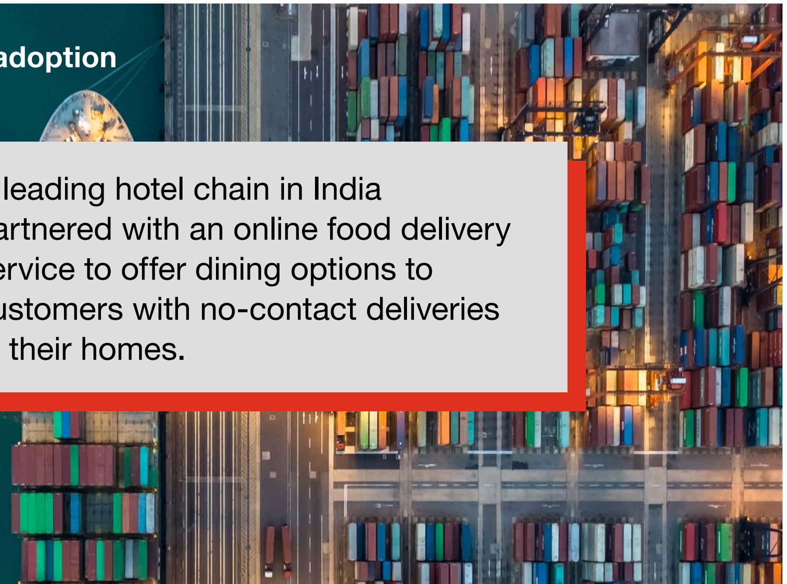
Nearly 2 in 5 organisations expect the emergence of new logistics and distribution models

Top features of new logistics and distribution models

94%	**Resilience, including redundancy and multimodal logistics**
82%	**Data analytics for logistics planning**
48%	**Direct to customer (D2C)**

- Most respondents would like to build redundancy and use multimodal logistics backed by data analytics.
- Respondents would like to improve logistics planning using advanced modelling and simulation-driven scenario planning. This will enable organisations to objectively determine parts that are vulnerable to disruptions and be agile in decision making.
- As the channel mix shifts towards online, organisations are also increasing their focus on the D2C model to optimise channel cost, better control the customer buying journey, and facilitate direct customer access and communication.

New distribution channels and faster pace of digital adoption have helped companies during the crisis[4]



A leading third-party logistics player launched an integrated online platform for quotation, booking and document accessibility for customers to manage their logistics anytime and anywhere.

A leading hotel chain in India partnered with an online food delivery service to offer dining options to customers with no-contact deliveries at their homes.

"We are seeing significant traction in disintermediation and e-commerce logistics – both on the B2B front, where there is direct servicing of stores, and in B2C direct customer deliveries.

- Sankalpa Bhattacharjya
Partner and Leader, Deals Strategy and Operations
PwC India

4. Sources: Loadstar, Livemint

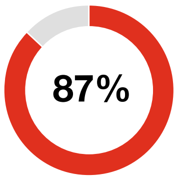
77% 38% 38% 37% 31%

37% of organisations recognise the need for collaborations to augment capabilities

COVID-19 is compelling organisations, both those adversely impacted and resilient, to pool resources to overcome challenges related to demand, operations, distribution and manpower. Utilising existing capabilities and infrastructure is a quick and cost-effective solution as opposed to building these capabilities in-house.

Key areas for collaboration/partnership

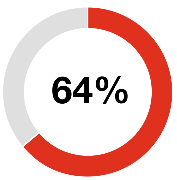
Supply chain, distribution and delivery



- Businesses are rethinking inward and last-mile logistics to serve the new customer patterns.

> A leading e-commerce company has partnered with a cab aggregator to keep supply chain and distribution chains running and address the growing needs of customers by moving essential supplies from suppliers to customers in the shortest possible span of time.[5]

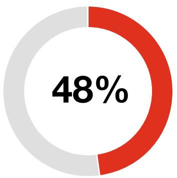
Operations



- Businesses are collaborating across sectors to leverage expertise and utilise production capacities.

> A leading car manufacturer partnered with a healthcare company to produce ventilators. While the healthcare company was responsible for the technology and performance of the ventilators, the car manufacturer assisted in local production. The partnership ensured 20 times higher production and went a long way in meeting the demand surge.[6]

Employee skills and welfare



- Organisations across sectors are partnering on a wide range of employee aspects, including upskilling and well-being.

> A large online travel aggregator has collaborated with an EdTech start-up to provide learning and skill development courses to employees of its corporate clients.[7]

5,6,7. Source: Economic Times

“

With the changed environment, the shape of the P&L is also changing, and organisations will have to repurpose investments behind the right capabilities in order to drive a share of the shrinking consumer wallet away from a broader set of competitors.

- Anurag Mathur
Partner and Leader, Retail and Consumer
PwC Strategy&

77% 38% 38% 37% **31%**

Nearly a third of the companies expect to develop new products

Top characteristics of new products and services

75% **Diversification into adjacent products/services**

62% **Capitalise on emerging themes**

54% **Affordability (low-cost/ basic versions)**

44% **Sustainability and environment friendliness**

28% **Higher degree of local content**

- The key consideration for the development of new products/services is to widen the offerings and thus diversify risk and ensure resilience.
- A significant majority of the respondents are focusing on incremental and not disruptive changes by offering adjacent products/services.
- As themes such as online spending, D2C delivery, work from home essentials, online fitness training and online education emerge, more B2C companies expect to develop solutions that capitalise on these themes.
- The increasing price sensitivity of customers is driving organisations to focus on affordability in their new product development.
- Interestingly, sustainability/environment friendliness is a key theme despite cost and pricing pressures.

Quick product development and launches have helped companies capitalise on emerging themes and new markets[8]

Three manufacturing companies have begun producing disposable biodegradable masks. The product is aimed at reducing waste while providing safety.

A leading FMCG player has expanded its body wash portfolio to introduce multiple home and personal care hygiene products. It has also introduced a range of INR 1 sanitiser sachets to tap the bottom of the pyramid market.

An auto manufacturer introduced fogging and spraying electric vehicles for disinfecting factories, malls and office premises.

“

A wave of agile innovation is being unleashed across sectors and categories – typically enabled by digitisation – in response to the need for contactless service and safe, hygienic and affordable products.

- Deepak Malkani
Partner and Leader,
Management Consulting
PwC India

8. Sources: PR Newswire, Times of India, Business Standard, Economic Times

04

Deal activity in the new paradigm

45% of organisations view the current situation as a good consolidation opportunity

Deals and funding in the new paradigm

Evaluating acquisitions

45%

Stressed assets (13%) | Strategic assets (32%)

Evaluating divestment of non-core business

20%

Fundraising

26%

- More than two-thirds of the potential acquirers are evaluating consolidation opportunities to strategically grow their businesses to fill gaps in products, delivery channels, etc.
- 39% of the potential acquirers are facing liquidity challenges and will have to raise funds or use stock as currency for acquisitions.
- Efficacy of capital employed is likely to be reviewed, leading to divestment of non-core or low ROCE businesses. One in five organisations is considering divestment to enhance ROCE.
- While 44% of respondents have liquidity constraints, only 26% are looking to raise funds.

> While opportunities may arise for bargain M&A deals, we strongly feel that staying true to the strategic intent of an acquisition as well as smooth execution of a well-developed value creation plan is key.

- Yashasvi Sharma
Partner and Leader, Delivering Deal Value
PwC India

05

Effective response – repair, rethink and reconfigure

Emerging stronger from the crisis will require organisations to…

1. Repair

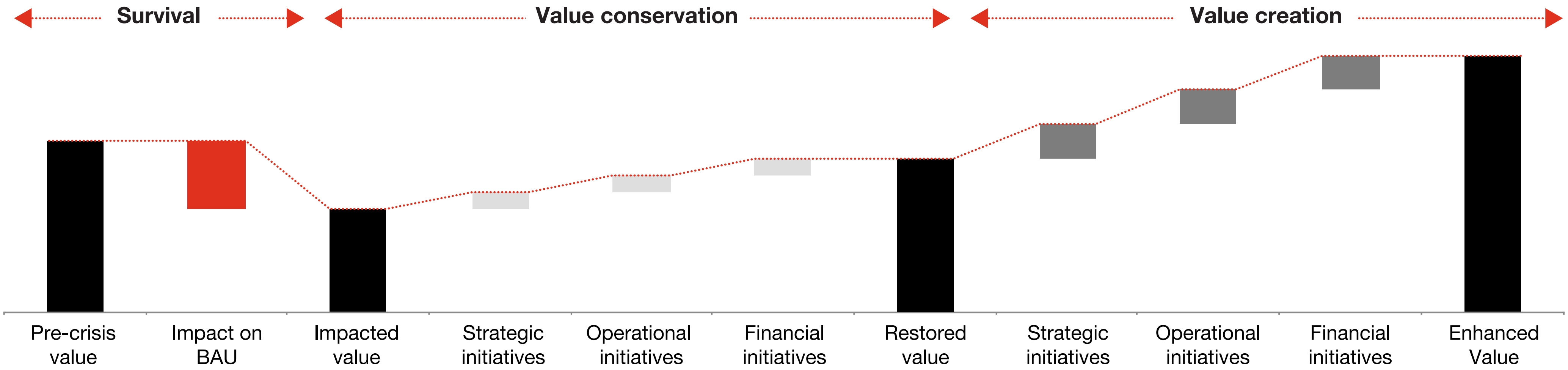
Focus on actions to minimise leakage

2. Rethink

Focus on initiatives to regain control and secure future financial and operational continuity

3. Reconfigure

Focus on strengthening market and competitive positioning for enhancing value



Operational
- Employee health and availability
- Operations and supply chain continuity

Financial
- Liquidity management

Strategic
- Product innovation for emerging themes and affordability
- Redundancy in logistics

Operational
- Remote working systems and processes
- Cross-skilling/upskilling
- Increased focus on online sales and multimodal logistics
- Effective reporting and decision-making collaborations

Financial
- Cash conservation
- Debt fundraising

Strategic
- Diversifying into new segments
- Automation and robotics
- Localising manufacturing/supply chain
- Restructuring and carveout
- Acquisitions
- Divesting non-core business

Operational
- Reconfiguring distribution/sales channel
- Optimising operations, supply chain and logistics
- Adopting technology for sales effectiveness

Financial
- Equity fundraising

Leading to...

34%
Making the organisation more resilient to shocks

19%
Gaining/ protecting market share

19%
Achieving break-even cash flows

12%
Gaining competitive advantage

8%
Maintaining/ enhancing reputation

6%
Minimising employee attrition or salary cuts

Others comprise 2%

To quote Winston Churchill,

“Never let a good crisis go to waste.”

This pandemic has made organisations realise the importance of resilience and crisis planning. Though growth will remain a priority, organisations are expected to strengthen their fundamentals to be better prepared for shocks. Enterprise risk management is going to play a key role and we expect boards to focus on it.

- Sanjeev Krishan
Partner and Leader, Deals
PwC India

Glossary

Term	Definition
B2B	Business to business
B2C	Business to consumer
COVID-19	Novel Coronavirus Disease
D2C	Direct to consumer
EdTech	Education technology
FMCG	Fast moving consumer goods
FY	Financial year
IMF	International Monetary Fund
ITeS	Information technology enabled services
M&A	Mergers and acquisitions
M&E	Media and entertainment
PE	Private equity
P&L	Profit and loss
R&C	Retail and consumer
RoCE	Return on capital employed
Run rate	Monthly revenue run rate
SWF	Sovereign wealth fund

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