







CFO Survey 2018
A detailed overview

June 2018 | For private circulation only





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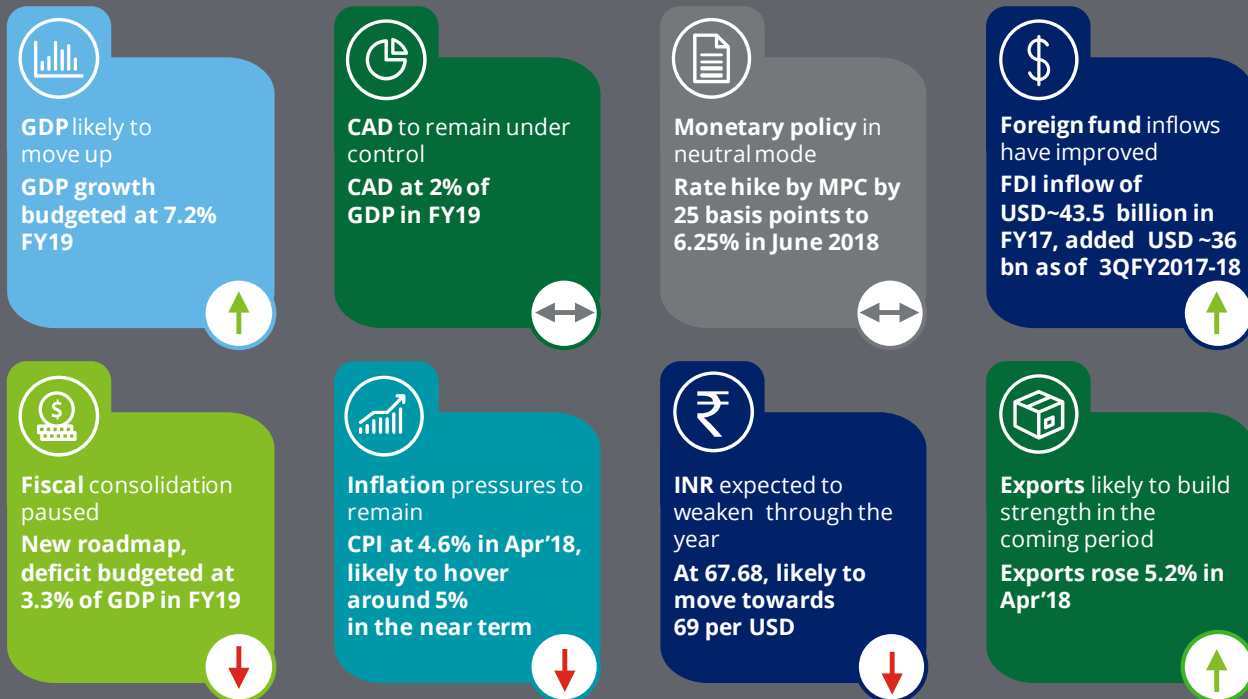
Executive summary

The Global Economy: Finally, some signs of recovery

The global economic recovery has shown resilience over the last 2 years and had picked up pace since 2017. The global real GDP has been estimated to have grown by 3.7 % in 2017¹, the fastest pace in six years and is expected to build further momentum in the coming period. The current year looks promising on the back of strong trade, low inflation and easy monetary policies in advanced nations, and strengthening labor market around the world. The International Monetary Fund (IMF) expects advanced economies as a group to continue to grow at a stronger pace of 3.9% in 2018 and 2019 before decelerating, while growth in emerging economies is expected to rise before leveling off.¹

Strong global growth also reveals a high degree of resilience in international trade despite some uncertainty about trade and investment relations. Greater optimism is also evident in financial markets with key equity markets having either started the new year with a new peak (United States, Germany) or are finding their way there (Japan, Hong Kong). Currently, US seems to be on a healthy footing with expectations of corporate tax reductions to further boost consumer spending and the recent strengthening in dollar to bring hefty investment prospects. However, risks are building in the global and emerging markets alike, especially as geopolitical tensions have increased while normalization in the US may see an outflow to advanced economies. With growth expected to cool somewhat in the current year, a greater challenge will be in terms of determining thriving markets. However, in the medium term, risks to this positive momentum remain to the downside. High household debt, increasing uncertainties due to geopolitical events, sharp tightening of financial conditions, and a move away from a multilateral trading order could derail global growth in the medium term.² Weak growth in the workforce and productivity in advanced economies might impact their economic fundamentals, while capital outflows in response to tightening monetary policy in advanced nations pose a threat to destabilize emerging economies.³

Economy snapshot



- Indian economy seems to be on the path to recovery and the downsizing that occurred on account of demonetization and uncertainty around the implementation of a unified tax regime seems to have bottomed out. Green shoots across key macro-economic indicators have become visible and international organizations have acknowledged the policy progress that is underway.
- Economy has started to show signs of growth, rising 6.7% in 3QFY18 compared to growth of 6.2% in 2QFY18. This was driven by a swift rise in industry, especially manufacturing and construction and was further supported by services growth.
- Consumer price inflation seems to be on an upswing and increased to 4.6% in Apr'18. The hike was largely driven by an upswing in core inflation, especially with a broad based increase in services segment while marginal upside movements were seen in clothing and housing segments as well. Food prices remained largely flat with some increase in fruit prices and if monsoons



plays out as expected, then the upside risks are likely to remain limited. That said, rising crude price is likely to maintain inflationary pressures in the period ahead.

- After months of easing on the inflation front, price pressures have started to build momentum. During its June-2018 monetary policy meet, the Monetary Policy Committee (MPC) while presenting a balanced view of the domestic economy, alerted on the rising risks from crude prices and the increasing financial market volatility. Owing to rising inflationary pressures and external risks, the committee hiked the key interest rate by 25 basis point to 6.25%, after a four year gap in June-

2018. We expect inflation to maintain a northward momentum, especially if oil prices and rupee valuation do not stabilize in a scenario of hardening of domestic consumption.

- The trade deficit has been climbing steadily with no cushion from exports to offset the impact of rising imports, resulting in a wider trade balance. India's trade deficit in January 2018 surged to a five-year high of US\$16.3 billion. While rising oil prices contributed significantly to increased imports, a large part of the deficit was due to increasing non-oil non-gold imports owing to firming growth and GST-attributed supply-chain disruptions.
- Benchmark bond yield has remained on the upside on the back of weakening sentiments among market participants. One of the key reasons for the up move has come on the back of hardening US bond yields, making that avenue more appealing. In the period ahead, expectations of a rise in inflation and fiscal stretch in the budget may push long term yield higher.

1. World Economic Outlook; Cyclical Upswing, Structural Change; April 2018, <http://www.imf.org/en/Publications/WEO/Issues/2018/03/20/world-economic-outlook-april-2018>

2. Rumki Majumdar and Akur Barua, The global economy: Set to hit the gas, yet wary of roadblocks, Deloitte Insights, <https://www2.deloitte.com/insights/us/en/economy/state-of-global-economy-2018-outlook.html>.

3. Rumki Majumdar and Akur Barua, Are emerging economies prepared as the global liquidity tap turns off?, Deloitte Insights, <https://www2.deloitte.com/insights/us/en/economy/financial-liquidity-impact-on-emerging-economies.html>

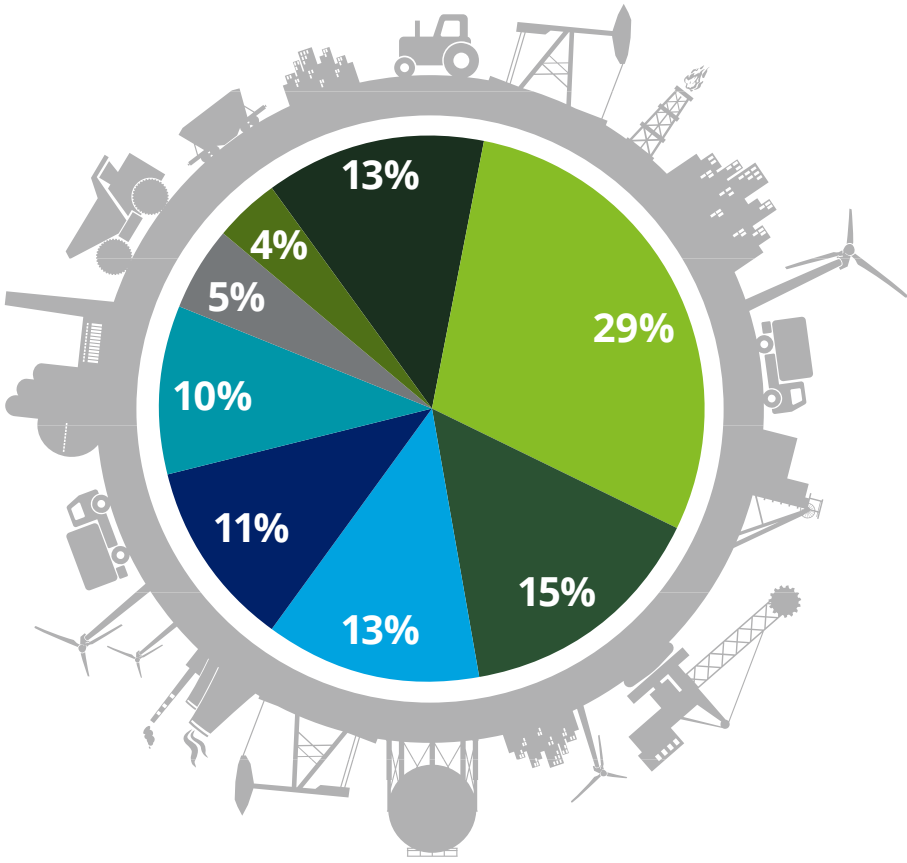


Survey demographics

The Deloitte India CFO Survey 2018 highlights the stance of CFOs in India on various facets of Indian economy, investment climate, industry expectations, and CFOs' role and readiness. The report is based on responses from over 250 CFOs with revenues spanning from less than INR 500 crores to more than INR 10,000 crores.

The respondents include listed and unlisted companies, from both private sector and PSUs, Indian companies, MNCs headquartered in India as well as overseas.

It also encompasses industries across sectors, including consumer business, energy and resources, financial services, life sciences and healthcare, manufacturing, technology, media, telecommunications and transportation.



Industry

- Manufacturing
- Technology, Media and Telecommunications
- Consumer Business
- Life Sciences and Health Care
- Financial Services
- Transportation (logistics, cargo)
- Energy and Resources
- Others





Macro economy

Economic outlook

India's short and medium term economic outlook remains optimistic. While two-third of the respondents are positive about economic prospects in the near term, the percentage jumps to 94% over the next 2-3 years.

It appears that investors are willing to shrug off the teething troubles of the GST implementation and the temporary impact of demonetization. It is probably because of the government's resolve to improve the environment for doing business that has helped the economy to stay on the path of sustained growth.

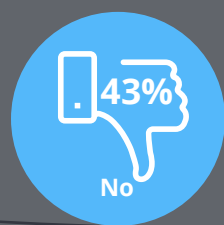
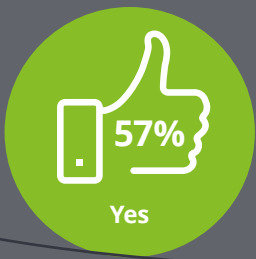
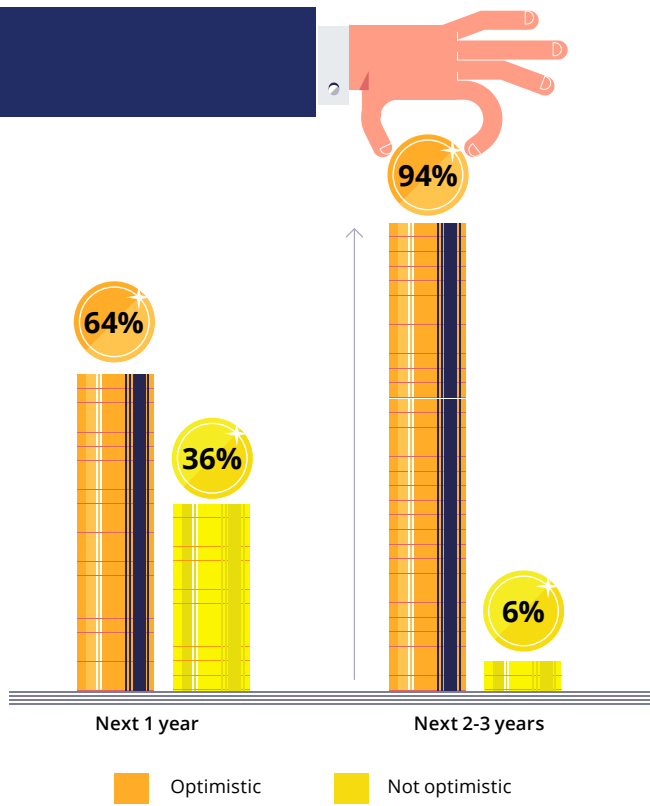
Government measures to boost infrastructure, agriculture, health care, education, jobs, and small and medium enterprises, in addition to recent reforms have bolstered investors' confidence. The government's continued efforts to further enhance the Digital India initiative, a substantial allocation to improve digital communication in rural areas, and promoting research in the field of artificial intelligence could be game changers for the economy.

Time to take greater business risk

Positivity among investors about the economic outlook over the medium term is reflected in the risk appetite of Indian businesses. 57% of CFOs are now willing to take greater business risks, as the next couple of years are expected to be the year of consolidating gains from recent reforms.

However, the proportion of respondents who are willing to take greater business risks is slightly lower this year than in 2017 (59%). This marginal decline probably reflects uncertainty around the challenges that the economy might face because of economic headwinds and political uncertainty that might arise due to the impending elections in 2019.

That said, India is likely to remain one of the fastest growing economies in the world.





Industry concerns and GST impact

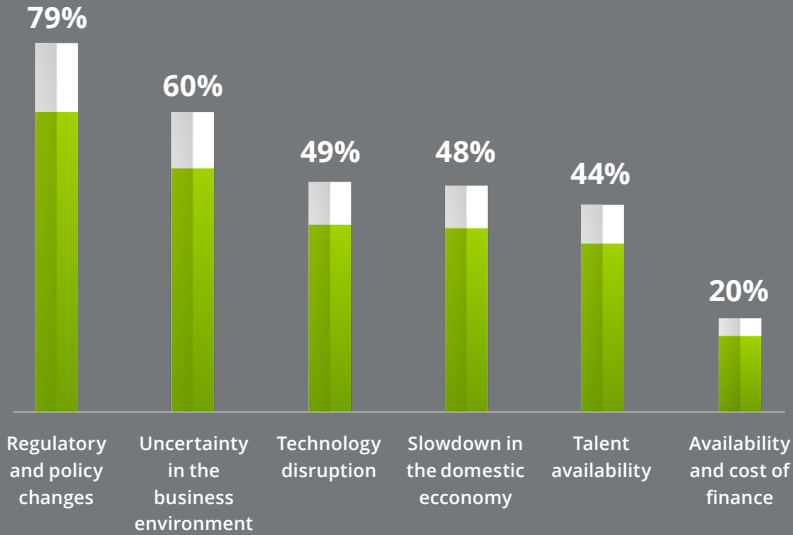
External risks*

The Indian industry is undergoing critical transformation with changes in the business environment, and posing external and internal risks for the CFOs. These risk factors are of concern to CFOs in their quest to achieve growth.

In terms of external environment, the survey reveals that regulatory and policy changes such as IndAS, Demonetization, or GST, are the biggest concerns for CFOs. Given this, CFOs believe that it has also raised uncertainty in the business environment, and this seems to be a challenge for 60% of CFOs surveyed.

Technology disruption is the third important concern, as revealed in the CFO survey. In a volatile economic scenario where the pace of technological advances are continuously accelerating, CFOs will certainly need to start adapting to these changes and implement them into their day-to-day work in order to optimize their growth through technology. The companies have seen numerous technological disruptions and will continue to encounter the same in coming years.





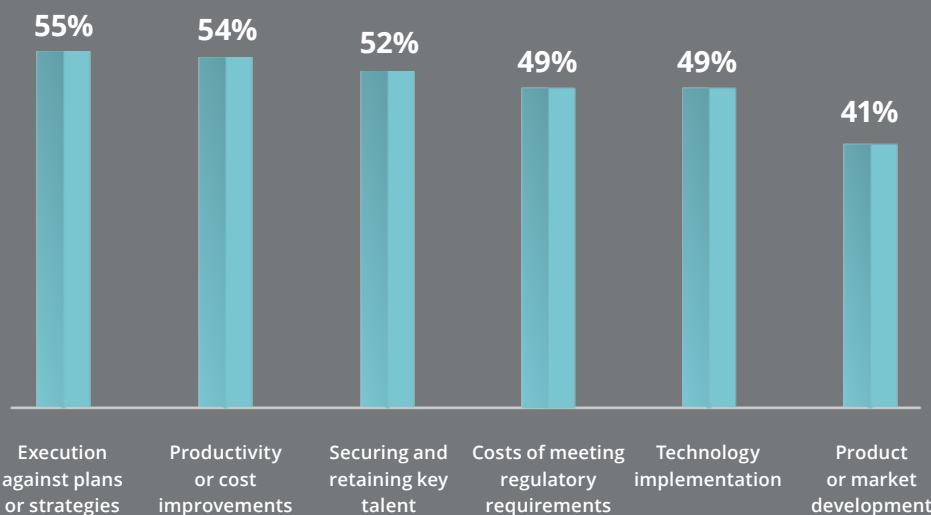
Internal risks*

Pace of change in the business environment is making it inevitable for businesses to keep changing their goal post and, thus, 55% CFOs believe that it is a challenge to execute against their plans or strategies. Almost similar number of CFOs are concerned about their productivity and cost improvements.

Developing and managing talent has also become a big challenge for organizations,

particularly the Finance teams, wherein robots are replacing humans. As a result, 52% CFOs state that securing and retaining key talent is of great concern, and at the same time 44% CFOs state that availability of talent is itself a challenge (refer to previous chart). With the disruption in technology and changing work environment, there is a need for altering the mindset and reskilling the company resources.

In the recent past, we have seen changes in the regulatory environment and this adds to the cost of compliance; thus 49% CFOs witness a challenge in terms of increased costs of meeting regulatory requirements.



(* CFOs were asked to give their top 3 risks, thus the total % is 300%)



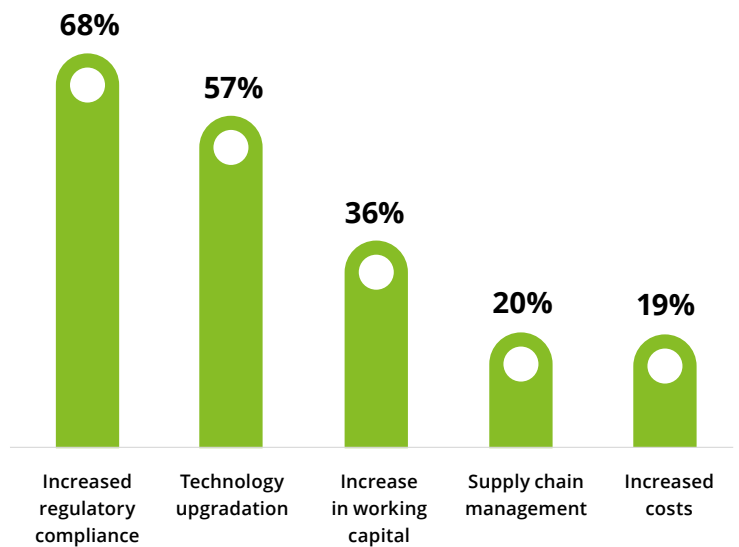
Industry concerns and GST impact



Challenges faced during implementation of GST*

GST in India came into effect on 1 July 2017. The implementation required the Government as well as the industry to be thoroughly prepared. GST being a major indirect tax reform, not only affected the tax function of the organization, but also the overall business functioning. Companies faced multiple challenges during the actual implementation process which was managed by CFOs in a phased manner. Thus, the survey questioned CFOs on the challenges they faced during the implementation of GST; wherein, the top three challenges for CFOs were increased regulatory compliance, technology upgradation, and increased working capital.

During the GST implementation process, the Finance function of an organization was required to keep an eagle eye on the pace of the transition. The introduction of GST necessitated a relook at the existing business models by finance professionals, especially CFOs. Apart from understanding the new regulatory compliance, GST impacted the existing IT infrastructure, finance and each aspect of business, whether it be supply chain, pricing, or costing. This compelled CFOs and functional teams to redesign their organization's business model.



(* CFOs were asked to give their top 2 challenges, thus the total is 200%)

Impact of GST

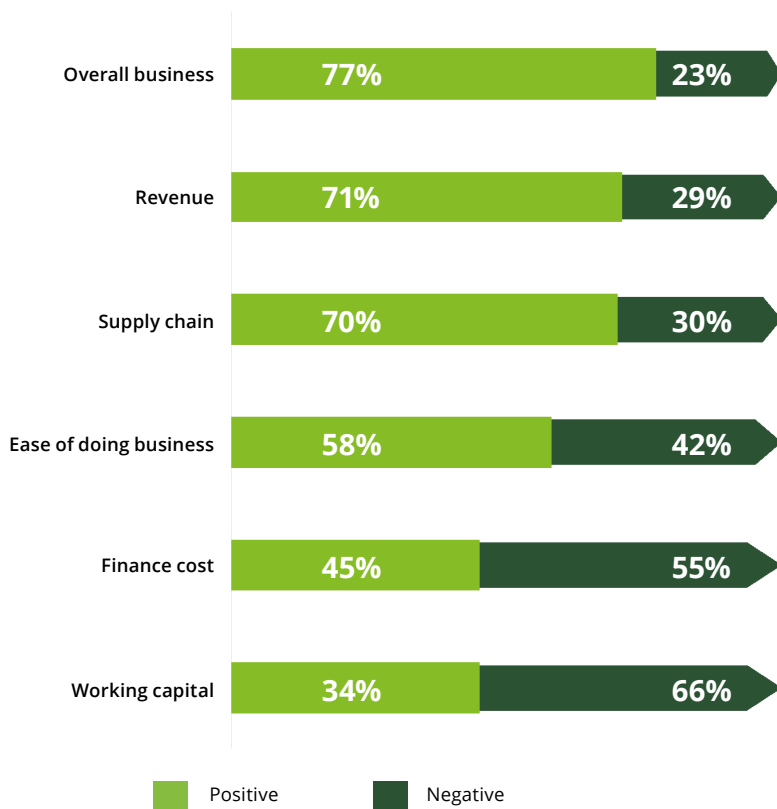
We will shortly complete one year after GST implementation and 77% CFOs believe that GST has a positive impact on the overall business. Certainly, GST has replaced the complex indirect tax laws that were prevalent and rooted in the Indian tax system since decades, and has brought in a whiff of fresh air for corporates. Under this new regime, central excise, service tax, central sales tax, value-added tax, entry tax, octroi and various other cesses levied

by centre and state are subsumed, making the overall tax filing process simpler for CFOs and thus, having a positive impact on the overall business.

Additionally, GST has a positive impact on the revenue and supply chain, and 58% CFOs also see an improvement in ease of doing business. On the other hand, industry is witnessing negative impact (as responded by 66% CFOs) on the working

capital post GST implementation.

GST had a far reaching impact on the business, forcing organizations to renegotiate terms with their customers/ vendors in order to safeguard any negative impacts on each component of their business. Overall, GST's value proposition has been appreciated by CFOs.



Company performance

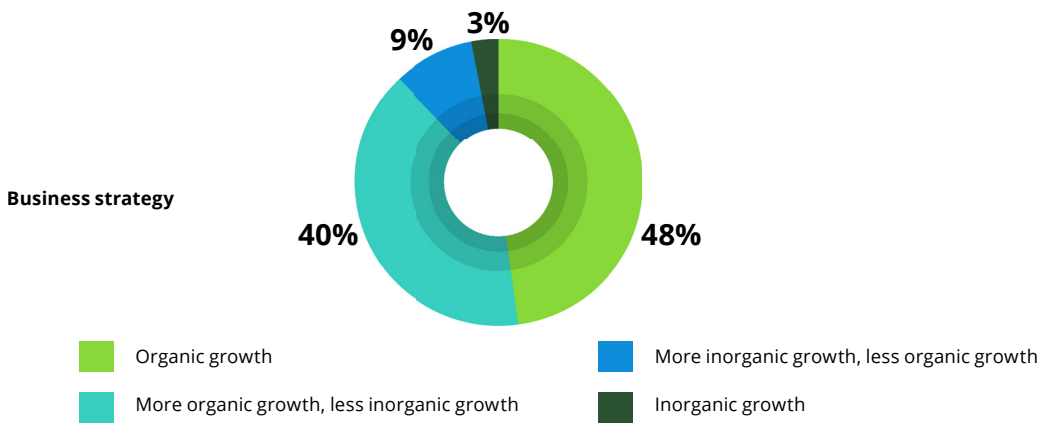
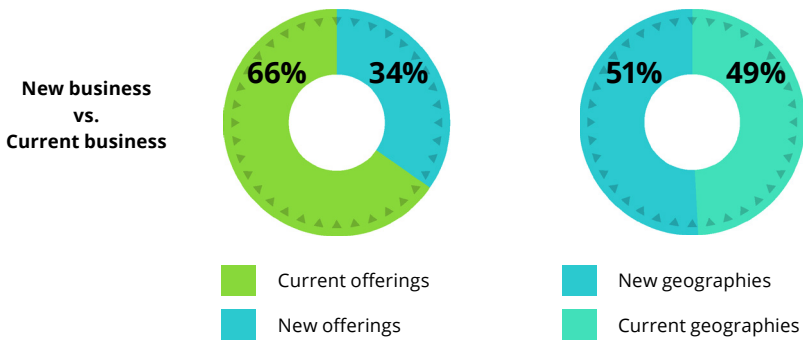
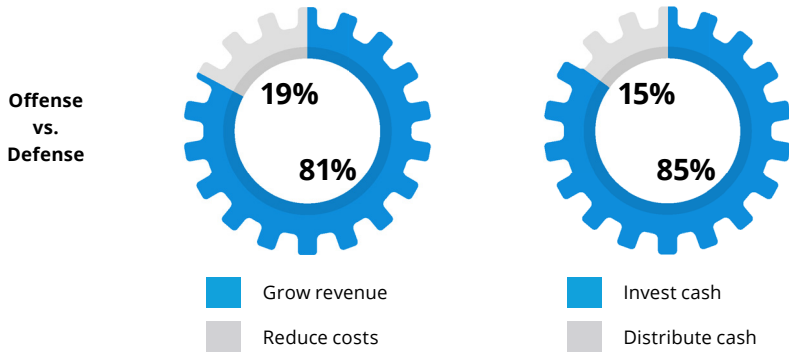
Business focus for the next year

With 64% CFOs optimistic about the economy in the next year, the focus is clearly visible on growing revenues, investing in business, and promoting organic growth. 88% of CFOs feel that their business growth in the next one year will be more organic than inorganic which also accounts for more cash being invested in business than distribution as indicated by CFOs.

While 66% CFOs believe same product offerings would be key for growth, the number is split for new geographies vs current geographies. This result mostly speaks about exploring new markets with the same products to expand revenue base. Among other industries, 63% of CFOs for Energy & Resources and manufacturing CFOs would like to explore new geographies.

While a majority of the CFOs look to expand revenue through current offerings, 65% CFOs in Manufacturing and 77% of CFOs in TMT industry would like to explore new offerings to increase their topline.








Company performance

Key technological changes faced by the company*

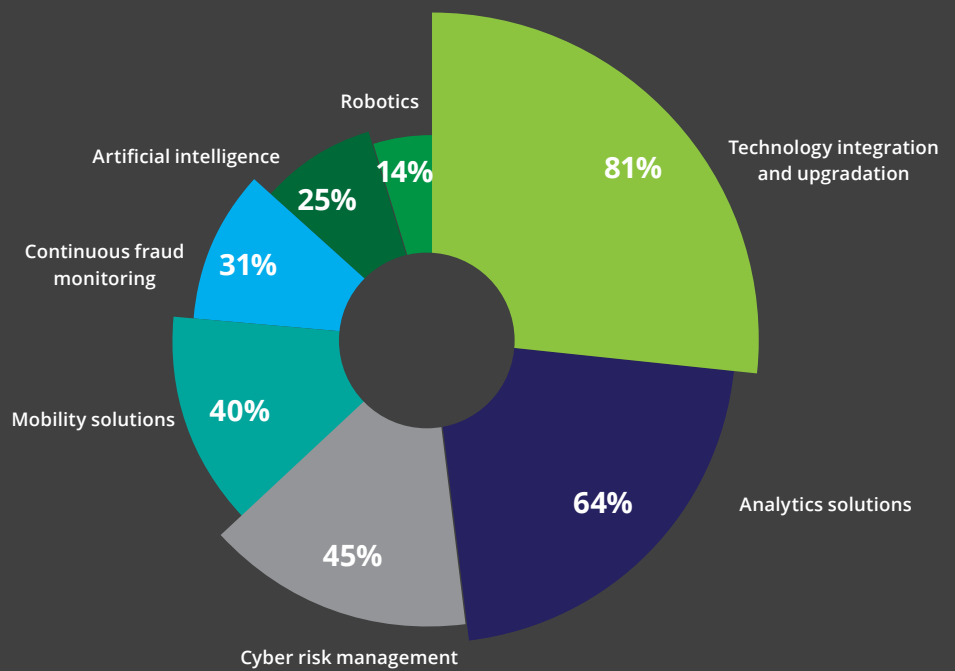
With growing changes in the technology and regulatory environment, CFOs are spending significant amount of time managing these firm wide level changes and preparing businesses/ functions against cyber threats.

As the role of finance changes from providing numbers to insights, technology and analytical solutions will be the key focus areas for CFOs.

CFOs need to provide forward looking, predictive insights that can help shape business strategy and improve day-to-day decision making in real time. Finance analytics arms CFOs with the tools to make sense of an increasingly complex environment. By combining internal financial information with external information such as social media, demographics and big data, finance analytics may address critical business questions with unprecedented ease, speed and accuracy.

Another focus area for CFOs would be cyber risk management. Cyber breaches are one of the biggest threats facing all companies at the moment, and the responsibility for ensuring that their data is protected is no longer just the IT department's. It is the duty of all C-Suite executives to play an important role in safeguarding their organization, its assets, and its customer's interests. And none more so than the CFO. The CFO is central to an organization's cyber defense strategy because they have the best view of the entire company's threat landscape, and can allocate funds to those areas that need the most protection.

Though there is an open question on who owns and manages the technology changes, there is a huge need of synergy between the CFOs and CIOs and other CXOs to tackle the changes and the threats changing technology brings to the fore.



Key regulatory changes faced by the company*

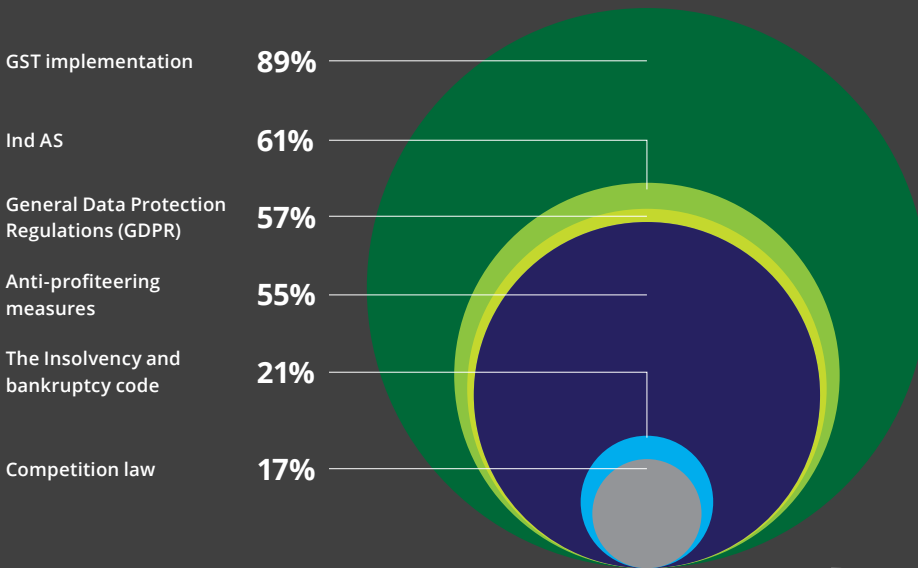
With growing business challenges, there are increasing regulatory pressures on the company with various changes introduced by government in last few years affecting the way business is being run and how the reported numbers are being interpreted. Increasingly, CFOs are made responsible not just for reported numbers but also for practices that are being used for running the business.

When asked about the key regulatory changes faced by the company, the answer was very clear with 89% of the CFOs highlighting GST as the top challenge. Rightly so, GST brought changes not just in technology, systems or reporting but it necessitated a relook into the existing business models impacting

each and every aspect of business. As discovered in a separate question, 77% of CFOs feel GST has impacted the overall business and more than 70% feel it has impacted revenue and supply chain specifically.

IndAS aligned with International Financial Reporting Standards has been introduced dealing mainly with revenue recognition. The new revenue standard brings in a comprehensive and robust framework (5 Step model) for recognition, measurement, and disclosure of revenue. This standard will change the manner in which companies will recognize and report revenues. Thus, CFOs see this as a top challenge currently.

Data management, internal as well as external customer related data, and governance are the two essential elements of the GDPR (General Data Protection Regulation) compliance program. The finance organization therefore has a crucial role to play – its compliance and risk teams, in particular – in collaborating closely with other stakeholders such as IT, security, internal audit, and legal departments. Achieving and sustaining governance excellence requires a robust, consistent, and holistic approach across the organization.



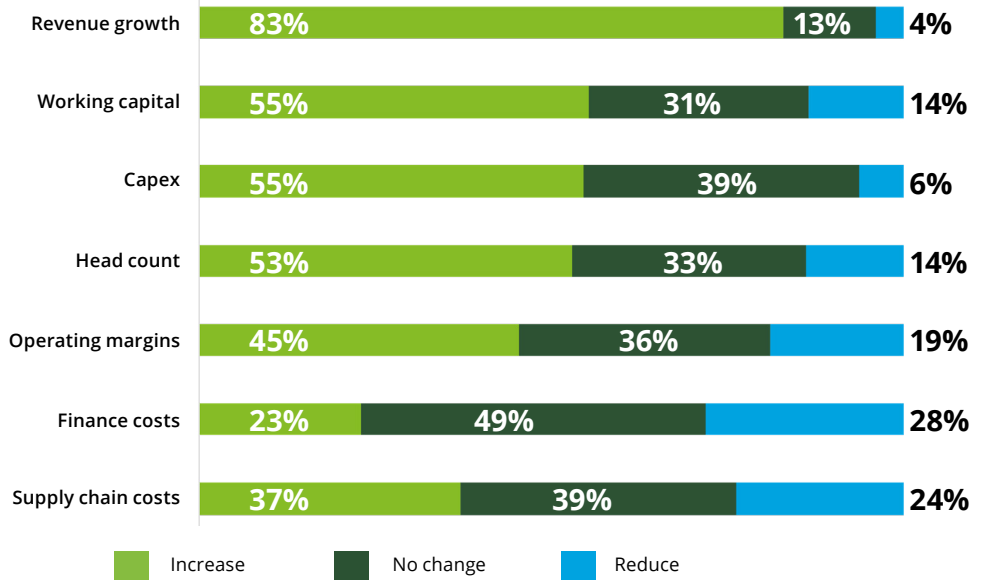
(* CFOs were asked to give their top 3 changes, thus the total is 300%)



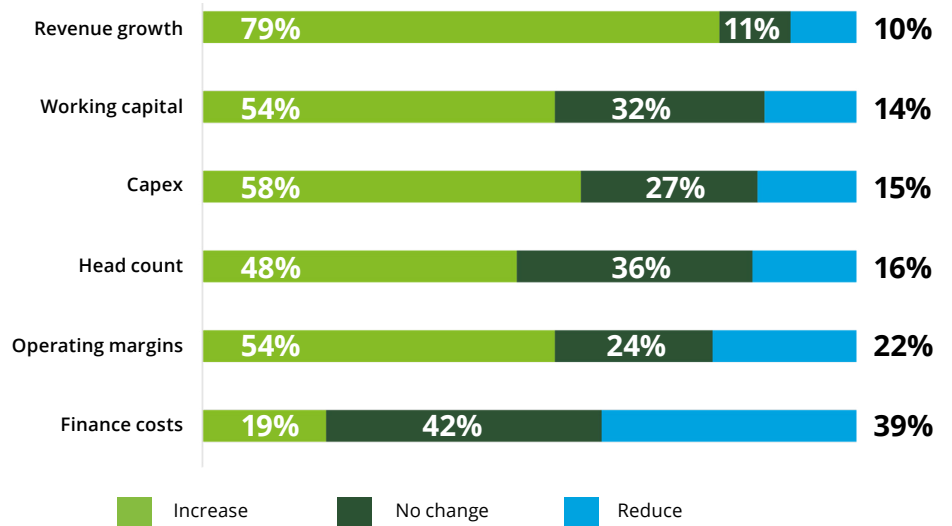


Company performance

2018



2017



Expected performance

Although 83% CFOs are optimistic about increase in revenue, only 45% are hopeful of an increase in operating margins. The trend continues from last year when 79% expected increase in revenue vs. only 54% believed in an increase in margins. Less faith in improving operating margins is driven by CFOs concerns over cost and productivity improvements and increasing costs with changing technology and regulatory requirements.

53% CFOs believe there will be increase in headcount while only 14% believe it will reduce over the next 12 months. While digitization may reduce manual intervention, the increase in headcount would possibly come from operations growth and requirement for new skill sets and geographical expansion.

With no changes in repo rates and bank rates expected, 49% of CFOs are expecting no change in their finance costs while 23% still feel that the finance costs will increase over the next 12 months.

55% CFOs believe that capital expenditure will increase over next 12 months, thus, giving credence to the fact that most CFOs believe in investing cash and growing revenues organically.

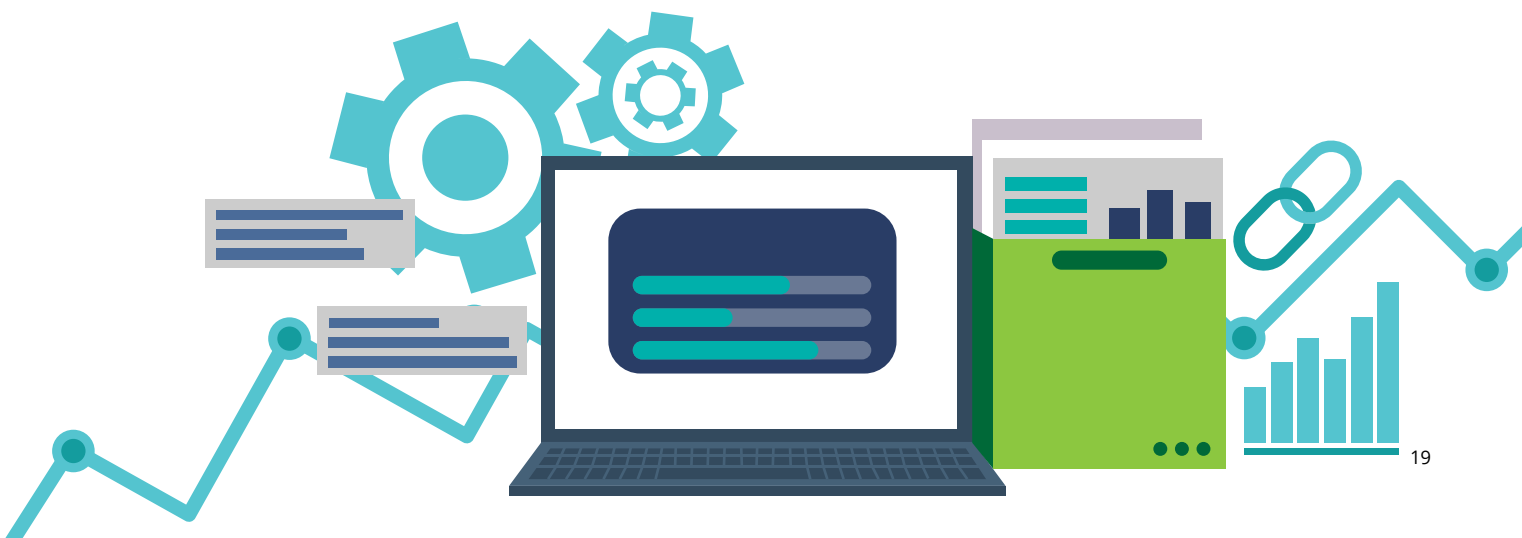
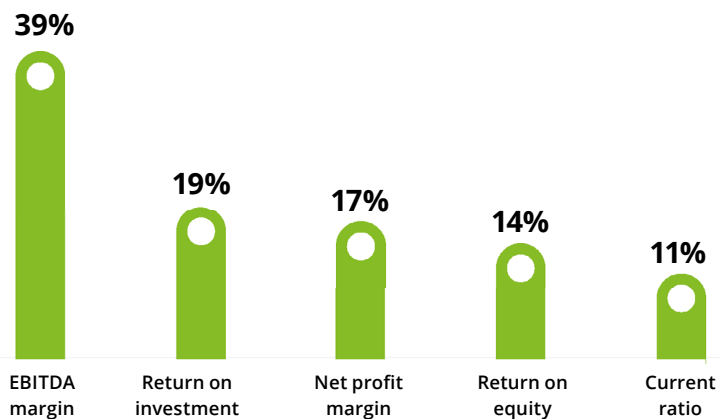
Key focus metrics for the current year

In our survey, CFOs indicated that EBITDA margin is the most important metric for the current year as EBITDA takes the enterprise perspective from the business operations side. Irrespective of company's capital structure, EBITDA helps in understanding the efficiencies or inefficiencies in the operating performance of the company.

An effective profitability analysis shouldn't just stop at the income statement—it should also be tied back into the underlying assets needed to support these profits and their development as profits rise or fall. Thus, other key metrics for CFO are return on investment and current ratio. It helps CFOs identify the investments which are not contributing sufficiently to revenue and thus make decisions accordingly.

Managing stakeholders expectations is a significant component of a CFOs role. CFOs also act as a guardian for investors' money and thus return on equity becomes the key measure to be tracked to understand how much profit the company has earned to the total shareholders equity.

17% CFOs believed net profit margin as the third key metrics. Net margin includes all the factors that influence profitability whether under management control or not. The higher the ratio, the more effective a company is at cost control. When compared with industry average, this ratio is important for investors as well in understanding how well the management and operations of a company are performing against its competitors.





Role of Finance

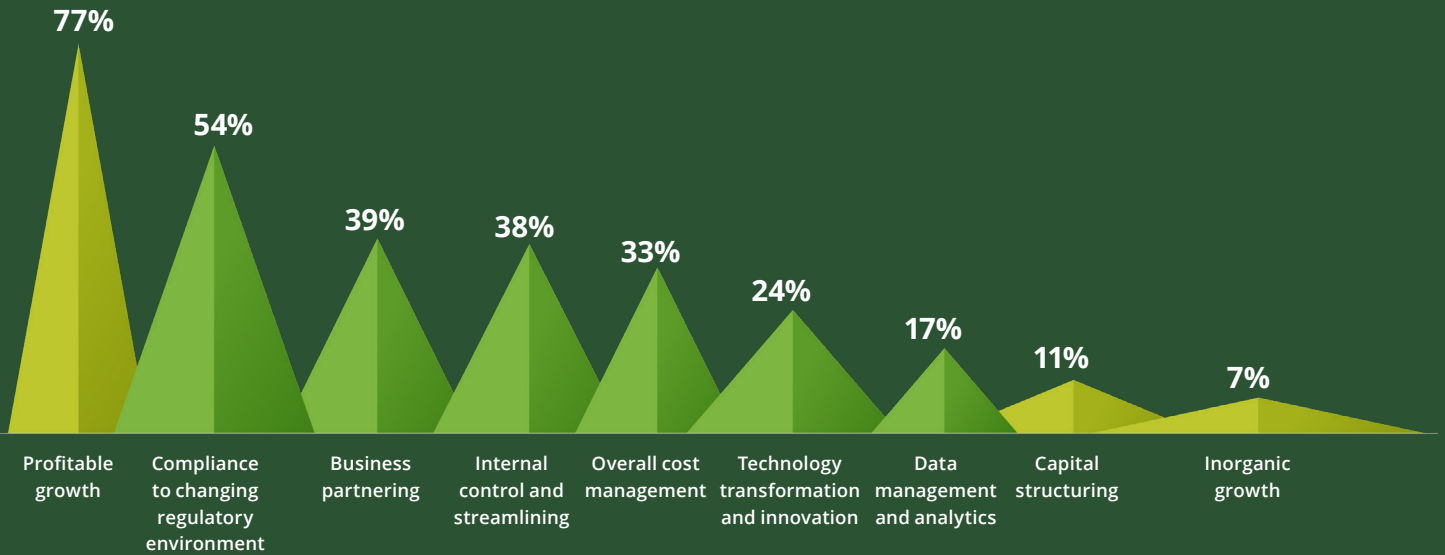
Top priorities of a CFO*

CFOs have always managed to ride their way through rough seas fairly well, even in the toughest of economic situations. The survey focuses on the top priorities of a CFO in the current business environment, to understand what is keeping them awake.

The survey reveals that profitable growth is the CFO's top-most priority. CFOs understand that profit and growth are the most important factors for a business to sustain, especially in the dynamic business environment. At the same time, compliance to changing regulatory environment remains important for 54% of CFOs. This response seems to be in-line with the advent of GST in last financial year, wherein compliance and internal controls have been the focus areas for CFOs. Thus, 38% CFOs also witness internal control and streamlining as their top priority.

Further, as the goal of many functions have become aligned, business partnering has become an important facet for 39% CFOs. It is becoming increasingly important for CFOs to collaborate closely and effectively with CXOs. Business partnering is very critical in the current situation, to ensure that operations are running efficiently and effectively, while helping the organization to shape the strategy for future growth and stability.





(* CFOs were asked to give their top 3 priorities, thus the total is 300%)

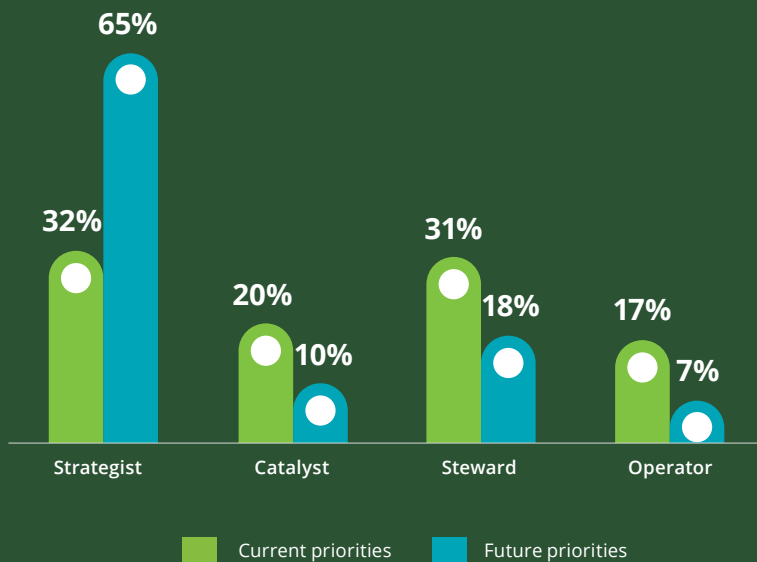
CFOs' changing priorities of roles – Current vs. Future

The CFO's role has evolved with time which highlights the growing importance of Finance for driving business decisions and preparing the organization for future growth. In the survey, we asked CFOs on their current and future priorities against the four roles of CFO, i.e., strategist, catalyst, steward, and operator.

As the waves of change continually hit businesses in the form of changing

regulations, new technologies and the evolving social environment, the role of CFO will change from that of an accounting professional to a business strategist. We clearly see this shift in CFOs responses as well, wherein 65% CFOs believe that strategist role will be their priority in future as compared to 32% now. Additionally, the CFOs priority for steward and operator roles is predicted to reduce by 13 and 10 percentage points in the future.

Nowadays, businesses are becoming more integrated and functional roles have overlapping responsibilities. CFOs cannot shy away from this as they have access to information from all aspects of business along with the analytical capabilities making them the central point for all key decisions. CFOs are adapting themselves to become strategists and partnering with CEOs in key business decisions.



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About Deloitte's CFO Program

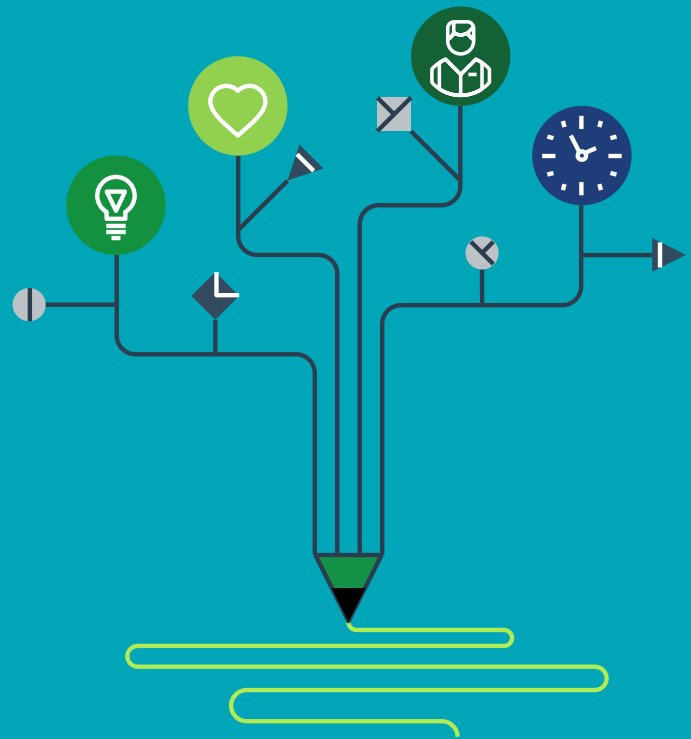
The CFO Program brings together a multidisciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The Program harnesses our organization's broad capabilities to deliver forward thinking and fresh insights for every stage 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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