



COVID-19

Tackling the challenges and
planning the future

MAY-2020

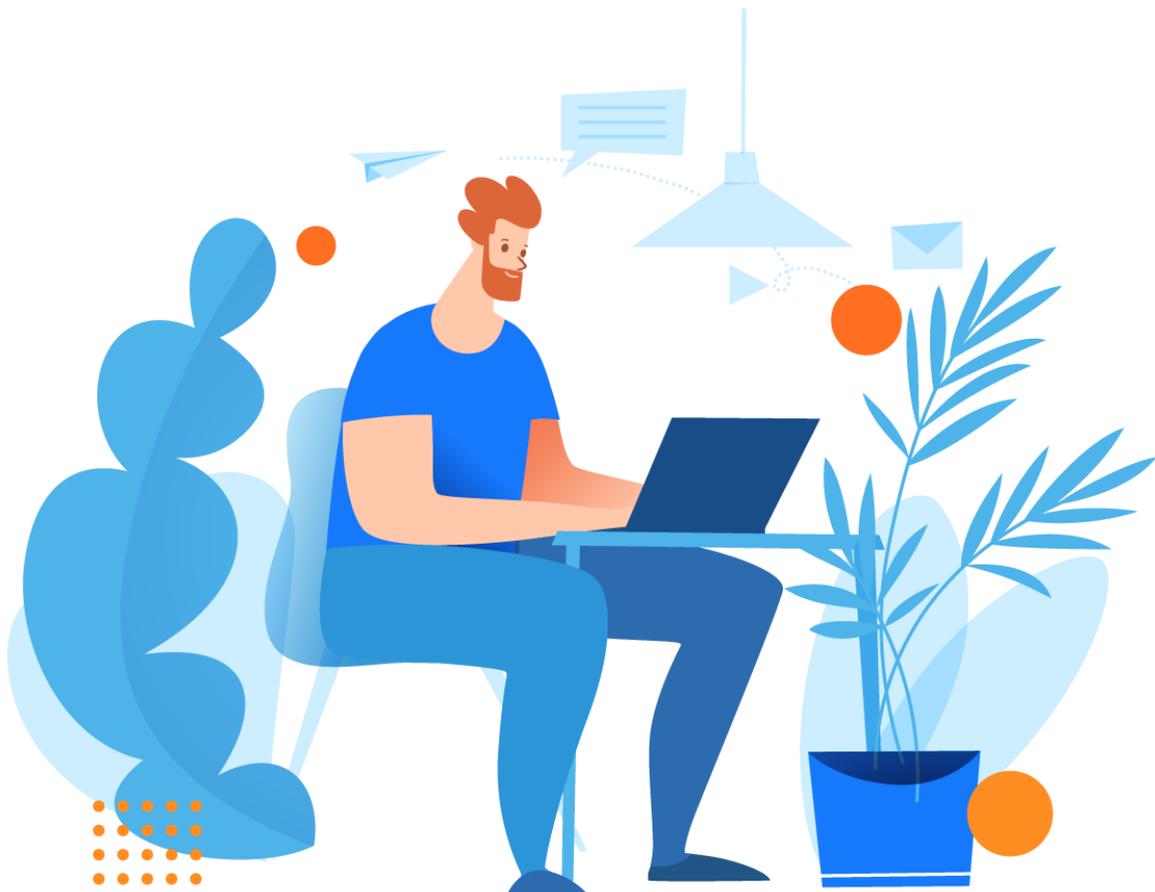


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Executive Summary

The spread of COVID-19 has created uncertain times and disrupted regular trade and commerce. The Indian government imposed a nationwide lockdown to protect its citizens. Businesses need to adjust to a new normal with social distancing, ensure safety, calibrate their working capital and business models.

With lockdown and social distancing norms, there is an increased focus on cash management. A business needs to expedite receivables, reassess demand situations, manage payables and inventories. Enterprises should take the benefit of relief measures announced by the government such as deferring social security payments, tax compliances and availing low-interest loan and credit facilities.

Business or professions alike can seek to partner with digital platforms to offer your goods and services and keep the business running safely and securely.

I. Background and Voice of Businesses

The pandemic COVID-19 spread globally disrupting trade, creating fear and uncertainty.

Governments across the world scrambled to provide medical care and protect their citizens. The Indian government imposed a nationwide lockdown on 24 March to protect its people from the spread of COVID-19. The pandemic gives rise to a new normal across geographies and economies. Businesses need to restart, keep themselves running and safe and protect their employees. There is a need to revive production, supply chains and manage liquidity.

ClearTax team called out businesses around the nation to share their experiences of how the COVID-19 pandemic is affecting them. In the month of May 2020, we asked over 800 business owners and tax experts about a. how the pandemic is impacting their business, and b. what sort of relief are they expecting the state and central governments to deliver. The mix of the respondents is shown in Fig 1.

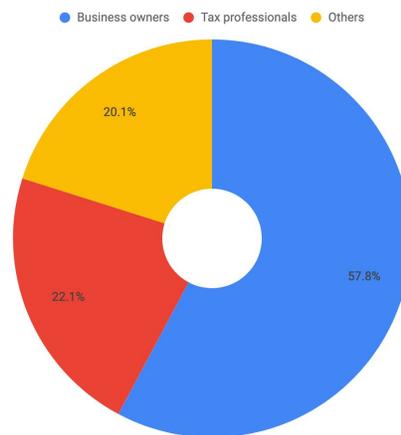


Fig 1: Split of respondents of the ClearTax COVID-19 business impact survey

In our survey on the impact of the COVID-19 shows the businesses are majorly concerned about their demand for goods and services going down and uncertainty around its recovery

after a few months (>50%). Secondly, the demand was also affected due to export orders being severely hit due to the lockdown measure taken by the government. Businesses are critically thinking on how to make payments to employees, workers, suppliers, EPF contributions and interests on delayed loan payments. They are also trying to figure out how to protect businesses losses in lockdowns that are impacting cash collections and reduce heavy discounting for liquidation of piled up inventory. Please refer to Fig 2 for more details.

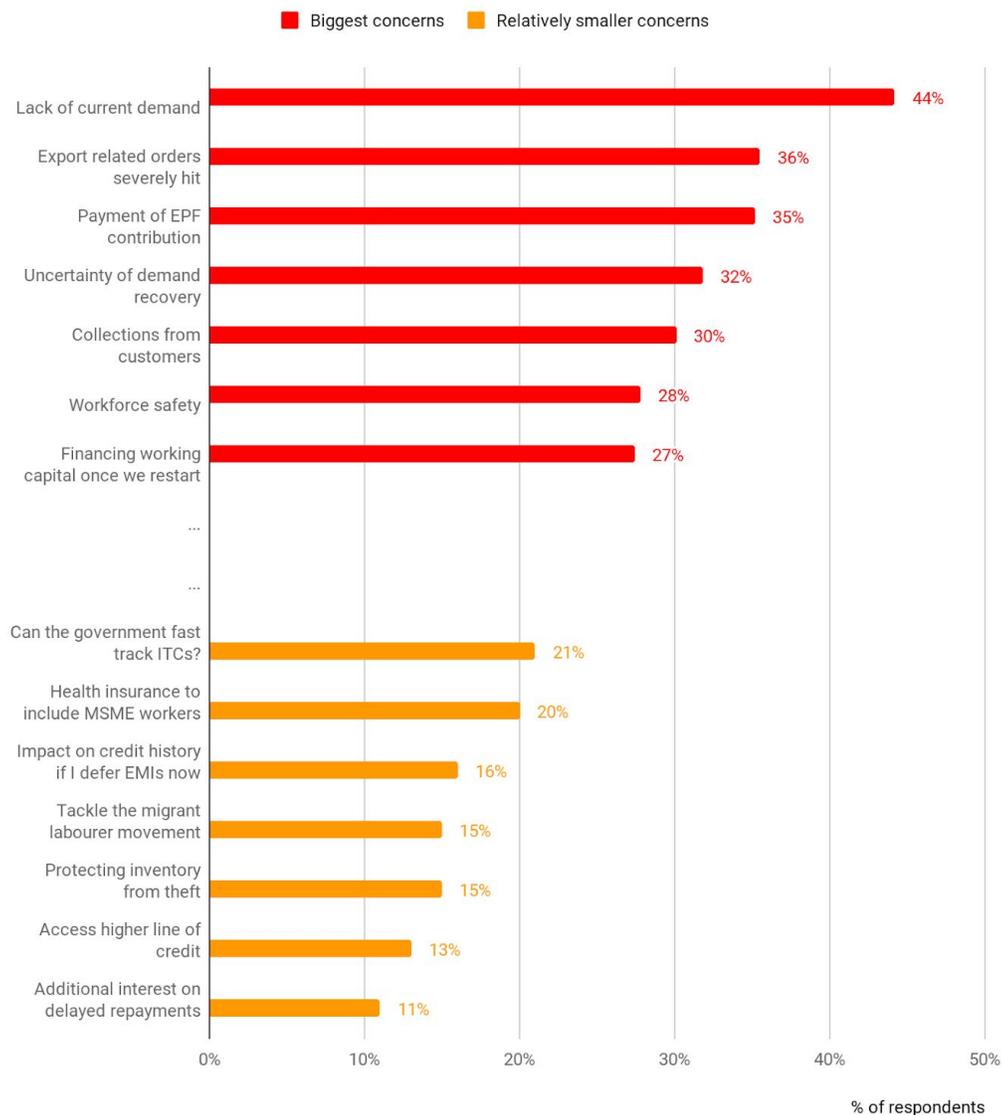


Fig 2: Foremost concerns of business owners on the impact of COVID-19

But even in the midst of this negativity, there is hope that small businesses will get the help they need to outlive this crisis. Small businesses are looking for relief from govt. in the form of Direct cash payments (60%), Migrant labour movement (~53%), Mandate interest rate cuts instead of just repo rate cuts (47%), Health insurance coverage of MSME workers (~45%) and Moratorium on payment of Taxes(~40%). Please refer to Fig 3 for more details.

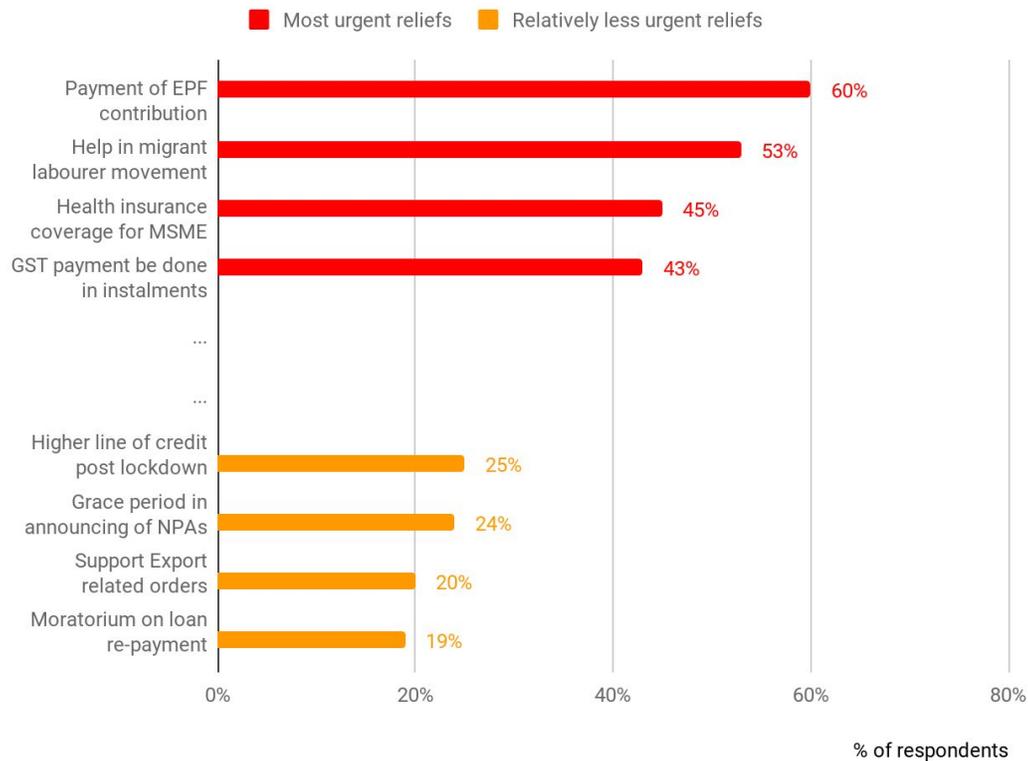


Fig 3: Most urgent areas of relief as expected by businesses from government

Communities are affected by the pandemic and one is unable to assess the full impact of the pandemic. Businesses need to understand the new normal and function by recalibrating their working capital plans and business models. We suggest methods and techniques you could adopt to sustain your business amidst COVID-19 in this white paper.

II. Working capital management

An established organisation with good reserves can sustain the impact on its cash flows. However, many enterprises who have low cash reserves or whose businesses are seasonal are likely to find it difficult to meet their monthly expenses.

With a restart of business, enterprises must prepare a working capital management plan. In the current business scenario posing challenges to working capital, the plan must essentially focus on cash management.

1. Receivables management

The focus of business shifts from growing revenues to expediting receivables. In a normal business scenario where there is room for revenue growth and enough liquidity in the market, cash flow is not a concern. However, with a stoppage in regular business activities, the focus shifts to generating regular cash flows. The spread of COVID-19 has dipped demand in many sectors such as hospitality, retail, tourism indicating a dip in revenues and consequent liquidity crunch. Some strategies to manage your receivables during COVID-19:

- a) Engage with your distributors, partners and customers, discuss the demand scenario to know the reduction or change in customer's preferences/requirements.
- b) Review your policy on receivables management for any gaps in the process of raising an invoice to the ultimate collection of receivables.
- c) Ensure you raise accurate invoices and in a timely manner. Errors in invoicing can cost you the timely availability of funds.
- d) Offer a short credit period to customers in place of discounts for early payment.
- e) Review the payment pattern of customers including any change in the patterns due to COVID-19. Your customers or distributors may be facing a cash crunch. You may review distributor agreements for change in term and conditions.

- f) Identify credit risks from customers where there are repeated follow-ups and undue delays in payments. You may need to revisit your relationship with the customer.
- g) Train your staff to manage customer receivables and customer relations, and follow through the collection of your receivables.

For example, in the case of your regular customers who delay payments beyond the credit period, offer them a discount for early payment.

2. Inventory management

You may have an unsold inventory of finished goods or trading goods you want to sell. On the other hand, you may need to stock up raw materials due to supply disruptions. Inventory management is critical to managing working capital for your business.

- a) Offer discounts to reduce the inventory of finished goods, especially slow-moving and obsolete stocks. It is critical to clear the stock of perishable goods and avoid losses.
- b) Make an assessment of the demand for your products and services.
- c) Make improvements to manage inventory in your supply chain. Manage and control stock purchases and maintain stock for the next production cycle or for the next season, to avoid blocking of capital.
- d) Reduce the batch size, order quantity and increase the frequency of production
- e) Review your safety stock policies as per the market demand.

For example, in the case of inventory which is high value which is non-moving, offer discounts to clear the inventory. In the case of inventory which is perishable in nature, offer incentives such as two packets at the price of one. The discounts or incentives will help ease liquidity and avoid loss of money on inventory.

3. Payables management

Managing payables to your suppliers also form a critical portion to your working capital cycle. You may be unable to pay your suppliers on time due to a liquidity crunch. It calls for maintaining liquidity while you also maintain your supplier-relationship and ensure timely delivery of inventories.

- a) Make use of the credit period for settling payments to your suppliers. The credit period is interest-free and enables you to optimise your working capital cycle.
- b) In case you ask for an extension of the credit period, do note that it may impact your future supplies.
- c) Review your supply agreements to amend the terms and conditions of payment suitable to yourself and your supplier.
- d) Calculate payment due date from the date of receipt of invoice rather than the invoice date.
- e) You may prepay your supplier in case of liquidity issues at their end. The situation could be fact-specific and you need to decide based on your business needs.
- f) Explore the opportunity for discounting while making early payments.

For example, if your supplier demands an early payment before the expiry of the credit period, ask for discounts to reduce your costs.

4. Cash management

In the time of a crisis, imbibe a cash-centric culture in your organisation. You may want to realise your receivables to generate liquidity for business expenses. You may avail of credit lines such as overdraft facilities from your bank to manage your cash flows.

- a) Make 13-week cash flow forecasts which will help you in forecasting cash requirements for

a quarter. The 13-week cash flow forecast can be broken down into weekly forecasts.

- b) You may go for factoring your receivables or bill discounting to obtain early cash flows. This enables you to realise your payments early after deduction of a discount.
- c) You can offer discounts to your customers who can pay you early. The arrangement is akin to short-term financing from your customers.
- d) You can revisit distributor agreements to alter the terms and conditions for payment, including discounts, staggered payments amongst others.
- e) Avail the benefits of deferment of tax payments, loan repayments and social security payments such as PF and ESI dues. Claim tax refunds due from the government.
- f) Avail low-interest loans from banks and other low-interest credit facilities.
- g) Claim tax deductions, tax credits and loss entitlements to minimise tax outflow.

For example, you can buy goods and other inputs on credit and sell them in cash/without credit.

5. Checks and balances on your payments and receipts

- a) Make sure you are not paying more for your goods or services. Try to get the best price for your purchases, inputs and other resources.
- b) Check for any unwarranted discounts or benefits passed to your debtors.
- c) Explore new options for conversion of your receivables, credit facilities for obtaining liquidity and deferred settlement of payables.

6. Overall risk assessment of your supply chain

- a) Check for any bottlenecks in your supply chain such as non-availability of raw materials or

high-cost credit facilities.

- b) Address the supply chain issues to ensure a smooth flow of raw materials, minimise the cost of capital and blocked working capital.
- c) Do not hesitate to look for alternate suppliers or a need to financially support a critical supplier.

7. Managing Costs

- a) Identify fixed costs and opportunities to swap fixed costs with variable costs. Depending on your business, you can sell a fixed asset to raise immediate funds. You can lease back the asset. Thus the cost varies with your business needs.
- b) You can explore contract manufacturing to recover the fixed costs of your facilities.
- c) You can lease out your warehouse and recover costs in the short-term.
- d) You can look for avenues to avoid variable costs. For example, you can freeze discretionary spending on training or other recreational activities. This can help you conserve cash and retain your employees.
- e) In the case of factory set-up or manufacturing with low or nil demand, employees can be offered leave without pay or encouraged to use their leave balances. This too helps retain employees in the long-term.

8. Avail the benefits of COVID-19 relief measures

- a) [Track](#) relief measure announcements made by the government such as GST, income-tax and direct benefit transfer.
- b) Your relief measure may be from the Central Government or the State Government.
- c) Check your eligibility for the relief and procedure to claim the relief.

- d) Calculate your relief entitlement and its impact on your business cash flows.
- e) Apply for the relief, follow through the formalities until you receive a credit of the amount.
Track your relief measures [here](#).

9. Audits and Tax compliances

- a) Ensure [tax](#) filings and tax payments on time such as monthly filing of [GST](#), payment of [TDS](#) and quarterly filings.
- b) Maintain documentation in respect of tax reliefs you wish to claim. Also, maintain data and documents for tax deductions or loss claims.
- c) Non-compliance may cost you interest and penalty which is unwise in a tight liquidity scenario.
- d) Ensure statutory audits and tax audits are on time and timely regulatory filings with the Ministry of Company Affairs.
- e) Stay informed on the deferment of due dates for tax filings, GST filings, labour filings and other legal filings.
- f) Also, keep a note of the relaxations given under corporate laws for holding meetings, corporate filings and so on. Understand your tax compliances [here](#).

10. Revisiting capital investment plans

In the short-term to medium-term, you need to focus on managing cash flows. You could defer capital investment plans until the economy and demand outlook gets back to normal. However, if you need to use opportunities amidst the crisis, you should make the capital investment that has long-term benefits.

11. Insurance recoveries

In case you have an insurance cover for losses arising from business disruptions, make a claim to avail of the cash flows. The insurance may allow you to claim losses arising from supply chain disruptions or disruptions in market segments. However, check the terms and conditions of the insurance policy before as certain insurers exclude losses arising from pandemics and epidemics.

III. Business modelling:

A. General

1. Pricing and discounting

- a) The demand for your product may not be the same as last year, on a year-on-year basis. Or the demand for your product may get deferred.
- b) Make a financial forecast for the FY 2020-21 by understanding the demand scenario. Forecasts are critical to decision making and making optimum use of your resources.
- c) Identify products whose sales will not suffer and where you can increase the price.
- d) You may offer discounts on products which are viewed as expensive by customers.
- e) In the case of a seasonal business, offer early-bird discounts to entice customers and clear your inventory to recover your costs.

2. Repurposing manufacturing/ alternate products

Your product or service could have less demand or nil demand due to the spread of COVID-19 or social distancing norms. You may need to use your capacities or resources to make alternate products which have demand. For example, textile companies making PPE kits and masks, to use as protection from COVID-19. Alternate production can make use of idle capacities, recover fixed costs and ease pressure on your yearly revenue targets.

3. New customers

In a crisis situation, one may still get opportunities for new customers. You should compare your product or service offerings with your competitors, and identify the potential for new customers. For example, in a COVID-19 crisis, people will prefer to maintain social distancing. The situation presents demand opportunity in the telecom segment with incremental use of data.

B. Partnerships

Many businesses partner with other small businesses or professionals, collaborate and offer products and services. An example of this is Amazon which partners with many small wholesalers and retailers and delivers goods to end customers.

In a crisis, an organisation should seek to maintain customer and supplier relationships, employee relationships. These are intangible assets which yield benefits in the long run. You should explore opportunities to serve your customers with a better platform, easy accessibility and keep the revenues flowing. Partnering provides you with a platform to offer products and services. In a services industry, partnering with independent well-known professionals provides you with customers for services you did not offer before. You should explore opportunities across verticals.

C. Digital operations

The situation emerging from COVID-19 presents opportunities for seeking the benefit of partnering with an e-commerce company or a fintech company to keep the revenue and cash flows ticking. The social distancing measures and contagious nature of COVID-19 present opportunities in the digital space. You can explore revenue sharing opportunities with digital partners for your business. Digitisation ensures ease of use, availability and wide reach.

You can explore digital platforms by partnering with existing digital players in the market. This provides additional sources of revenue which could also become permanent for you.

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