



Restructuring solutions for crisis affected businesses

June 2020

KPMG in Sri Lanka



COVID-19 Crisis Timeline



27 January - First COVID-19 case reported in Sri Lanka, a Chinese tourist from Wuhan, China.



10 March – First Sri Lankan patient infected with COVID-19 identified, starting a wave.



16 March - Government declared a public holiday and closed all ports of entry for passengers after two days.



19 March - Government declared work from home for all public and private sector non essential services



20 March - A ban on import of non-essential goods imposed after soft-peg pressure.



24 March - The deadline for collection of income tax, value added tax, driving license fees, water bills and assessment tax extended till 30th April.



25 March - CBSL ordered financial institutions to provide debt moratorium* and working capital loans at 4% with a waive-off interest payment for at least 6 months for eligible businesses.



27 March - Export industrial zones closed due to spread of virus.



April 11 - Factories in low risk areas and export processing zones commenced operations.



May 11 - Governments allowed opening of public and private sector businesses under health guidelines while curfew is still in place.



October/November – End of debt moratorium on affected industries, where the full bank commitments will have to be met

Important Considerations

Will I have enough cash flow to meet my business expenses and service my borrowings? Is my Working Capital management robust enough?

What if there is a second wave or any other unforeseen shocks? Am I prepared for these?



Should I restructure my borrowings to suit the new business environment?

Is my business model and cost structure too high for the new normal? How can I be more lean and agile?

Should I improve my management and governance structures to run the company efficiently in difficult times?

Immediate Actions



Conducting a Quick Diagnostics and an Action plan

In a bid to preserve and protect value, optimize the workforce and manage stakeholders, KPMG can assist you to carry out a quick diagnostic exercise on the current status-quo of the company.

Prepare high level action plans for the entity based on the above understanding and it's cash flow position.



Understand the current positioning of the business and identify the extent of demand and supply shocks.

High-level cash flow forecasts to support the action plan.

Immediate Actions



Conducting a Detailed Independent Business Review (IBR)

A detailed IBR will be critical for a business who is determined to take decisive steps in its turnaround journey. KPMG can assist you in this process and can share our wealth of experience in providing these services specific to your industry. We will critically evaluate the following key areas in order to identify key issues in order to devise turnaround plans.



Review of current financial performance

- Provide an overview of the company's operations, corporate structure and capital structure.
- Comment on the company's recent trading performance and cash flows.
- Review and comment on the Company's current balance sheet including a summary of its net debt position.



Processes and business model

- Critically evaluate the business model and the operating structure to ascertain immediate sustainability given the current situation.
- Identify quick-wins in terms of process transformation which will translate into instant benefits.
- Review operating expenses and identify discretionary items for cost control/delay actions. Defer any non-committed capital expenditure.
- Assess the extent of the impact to the supply chain resulting from the lockdowns and border closure and formulate measures to reconfigure the supply chain in line with the new post-COVID normal.
- Review the existing organization structure and Identify the optimum cadre across all levels of the organization.
- Assist the management to formulate flexible labor models and identify possibilities of restructuring reward structures.
- Review and comment on management's strategy on relation to the market dynamics and competitive environment.



Immediate Actions



Conducting a Detailed Independent Business Review (IBR) Cont...



Forecasting financial performance and stress-testing

- Analyze the company's medium-term model and review principal assumptions.
- Comment on capex and other key assumptions underpinning the financial forecasts.
- Critically assess the cash flow situation of the company and identify potential risks and opportunities to forecasts prepared.
- Identify appropriate sensitivities to illustrate risks to the achievability of the forecast financials.
- Carry out stress-testing on key variables such as varying collection patterns, cash burn rates, effectiveness of cost cutting measures, level of cash reserves and available headroom on bank facilities.



Assessing turnaround options

- Identify short, medium and long-term turnaround options in relation to the company's operations.
- Perform an assessment of the debt capacity/affordability of the Group in relation to the Lenders' facilities and any additional funding need.
- Identify and appraise options available to Lenders to re-negotiate/improve their position.
- Provide recommendations to Lenders on options.
- Provide ad-hoc advice and negotiation support

Short-term Actions



Carrying out a Financial Restructuring and Operational Turnaround

Cash and working capital management

- Centralize cash management and cut down on discretionary expenditure of all kinds.
- Identify quick wins in relation to the cash flows and carry out weekly monitoring to keep track of cash movement.
- Existing weekly cash flow forecasts to be extended to the longer term, factoring in all long-term developments.
- Prioritize servicing high margin suppliers and place importance on customer orders with shortest collection terms to rationalize inventory usage during this period.



Dedicated full-time resources

Operational changes

- Assess the extent of the impact to the supply chain resulting from the lockdowns and border closure and formulate measures to reconfigure the supply chain in line with the new post-COVID normal.
- Assist the client to formulate Voluntary Retirement Schemes (VRS) and compute severance compensation.
- Review competency frameworks of the company and identify gaps, support the client in to enhance performance standards for a more resilient operation.



Multi-disciplinary teams (Supply chain, legal, HR advisory)

Funding

- Determine headroom on collateral values of pledged assets and formulate a plan to engage and negotiate with lenders to restructure existing facilities and/or obtain new ones.
- Tap into non-operating assets and other strategic funding sources.
- Engage and negotiate with creditors on payment deferral options.



Continuous lender and stakeholder engagement

Establishing a governance structure

- KPMG to advise the client to establish a sound governance and management framework to ensure accountability across all levels of the organization.
- Establishing key committees for cash handling, procurement and other key functions to systemize decision making.
- Engage sector specialists and other professionals as independent directors to provide oversight.



End-to-end implementation support

Long-term Action & Last Resorts



Closing Parts of the Business or Liquidation

We help assess a client's situation and advice in developing a roadmap to discontinue a part of the operations, dispose of assets and restructure a company's capital:

- Identifying and assessing the company's legal risks and the board of directors' and management's personal liability risks.
- Advising the board of directors and management on their legal duties and personal liability risks.
- Determining viable options to dissolve the business and liquidate the entity, including operational wind-down scenarios and assessment of potential results from asset disposals.

Analysis of the initial position

- Assessment of the financial position, legal agreements and risks and off-balance sheet commitments / liabilities
- Determination of viable options including operational wind-down scenarios



Planning and preparation

- Operational plan to wind down the company and reflection in a financial projection and cash flow plan, assessment of tax implications, as well as negotiations with debtors and stakeholders
- Preparation of legal documentation
- Execution of asset disposals and delisting

Key contacts



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