KPMG

COVID-19: Financial Crisis Response and Contingency Planning

The outbreak of COVID-19 is placing unprecedented commercial and operational pressures on an array of business sectors in the Sri Lankan economy. Guidance recommending the restriction of movement and social gathering aimed at slowing the spread of the virus has also produced a very immediate 'cash shock' for some.

Whilst a package of support measures announced by the Sri Lankan Government has been broadly welcomed by the businesses, it is evident the cash flow benefit of certain schemes may not arrive quickly enough for some. Those facing a Cash Crisis need to act quickly on Contingency Planning options.

When to consider contingency planning

Cash generation/ preservation All available steps have been taken to preserve and/or generate cash, such as delaying payments or accelerating receipts, have been undertaken

Government support Where access to the government support scheme (e.g. the new working capital loans scheme) is timing beyond the immediate cash funding need

Limited refinancing options All conventional i.e. non-COVID related, refinancing options with lenders have been exhausted

Forecast cash crunch Short Term Cash Flow Forecast (STCFF) indicates an imminent cash shortage

Potential options

The level of disruption being experienced across the economy is limiting the effectiveness of certain typical crisis response options, e.g. an accelerated business sale process. However, the addition of certain Government support measures is raising the opportunity to explore low-cost options for businesses in financial distress to keep their liquidity and operations ongoing.

1 Limited trading in Administration

This may be appropriate for businesses where there continues to be partial ongoing trading.

Such examples might include retailers with an online revenue stream, delivery, as well as physical stores, whereby the ecommerce and delivery side continue to generate revenue for the wider business whilst under the unique protection of the Administration regime.

2 'Hibernation'

With support from the relevant stakeholders, it may be possible to place viable parts of the business into 'hibernation'.

This would involve closing all sites for a period of time, with an exit via an accelerated sale of business at a later point.

This is an unusual option and key considerations are overleaf.

3 Full shut down

If hibernation is not possible and solvent wind down not appropriate, then a full shutdown may be the most suitable option.

Depending on nature of the business, a range of insolvency regimes may be considered, including administration and liquidation.

Hibernation considerations

Hibernation is a highly unusual option but it may be suitable for certain businesses in the current circumstances. Key considerations of this approach would include:

Costs and liabilities

For the option to work effectively, it is essential that costs are kept as low as possible and liabilities are managed. Negotiations with key creditors will be key to this strategy e.g. landlords, utility providers, in order to help facilitate significant cost reduction.

Employees

How key staff can be retained supported by the working capital financing scheme under Government's COVID-19 relief measures, and the extent to which redundancies will be required. This will involve detailed scenario modelling to determine if planned retention levels are viable.

Stock and logistics

Strategy for stock held in warehouses, in upstream supply chain, retail stores etc.

Communication with warehouse or distribution providers to understand ownership, liens and costs of storage.

Exit Strategy & Communications/PR

Consideration of how the strategy would be communicated to key trading partners and stakeholders (internal and external) before and during hibernation would be key in managing the exit thereafter.

Directors' considerations

Legal advice Legal advice is crucial for Directors of any business in financial distress and guidance should be sought on 'reasonable and appropriate' conduct in particular circumstances. In the current COVID-19 environment, which is presenting unique and extraordinary circumstances, there is likely to be more complexity in the interpretation of such matters.

Health and Safety Employers have a duty to ensure the health and safety of their employees and customers so far as is reasonably practicable, including taking reasonable steps to control the spread of COVID-19 at premises under their control.

Director's duties Under the law, Directors are not required to file for insolvency proceedings in the event of financial distress or insolvency. However, there are personal liability and disqualification risks to consider if they incur liabilities past the point at which a 'reasonable prospect' of avoiding insolvent liquidation was clear.

How KPMG is helping

KPMG is actively engaging in dialogue with the Central Bank of Sri Lanka and other relevant Government authorities and lenders on the mechanisms required to support otherwise viable businesses deal with the existential economic challenges derived from the COVID-19 outbreak.

Key contacts

Priyanka Jayatileka
Partner – Head of Advisory
KPMG in Sri Lanka
T: +94 11 5426 401 **M**:+94 77 731 3390
E: priyankajayatilake@kpmg.com

Shiluka Goonewardene
Principal – Head of Deal Advisory
KPMG in Sri Lanka
T: +94 11 5426 271 **M**: +94 77 773 2778
E: sgoonewardene@kpmg.com

Ajantha Weerasekara
Director – Deal Advisory, Restructuring
KPMG in Sri Lanka
T: +94 11 5426 235 **M**: +94 77 003 1732
E: aweerasekara@kpmg.com