

Coping with COVID-19

The Street View

Actis Macro Forum

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# Coping with COVID-19

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**These pages are usually a mix of observations from Actis colleagues around the world. To get the street level view this time we have turned the pen over almost entirely to our management teams on the ground and our operations teams. COVID-19 is an all-consuming issue – so we do want to get behind the headlines and hear from a cross section of our 100+ portfolio companies around the world about their day-to-day response. We are grateful to the three executives – Sriram Mahadevan (Joyville, India), Gaurav Sood (Sprng Energy, India) and Mervyn Naidoo (Actom, South Africa) – who have shared their first-hand experience of life under COVID-19.**

We asked these contributors to focus on the human dimension of COVID-19 and how they and their companies have fared. The powerful messages remind us of the importance of preparedness, the ability to triage priorities and the value of ongoing community engagement. The stories here only cover a fraction of the world of Actis: there are many more which we will be sharing in future months.

In this edition, we also asked our Actis operational colleagues in Energy Infrastructure, Private Equity and Real Estate to share their experiences of recent months. These articles from Barry Lynch, Ed Williams, Hugo Lee and Mukesh Tiwari convey the close partnerships and shared priorities that we enjoy as Actis.

Again the value of community engagement in addition to systematically integrating operational resilience are the keys to effective asset management. We have been leveraging the Actis platform to bring best practice in business continuity and disaster recovery to management teams, and we have set up multiple forums for direct knowledge exchange between

our companies. We continue to apply these principles across the board now more than ever before.

These last few months have highlighted Actis' commitment and ability to support the management of our companies on the number one priority: health and safety. Across the Actis platform, we support 129,000 direct jobs, but our duty of care extends beyond employees, to include sub-contractors, customers and the wider community.

In our Real Estate portfolio in India, strict lockdown regimes halted construction, leaving our companies responsible for some three thousand construction workers who were unable to leave. Our duty was not only to safeguard health but also to accommodate broader wellbeing needs.

Through our businesses, Actis continues to provide essential public services – we must ensure that they continue to operate, as their efforts are crucial to fighting the pandemic. Across our Energy Infrastructure business, we are currently responsible for the generation of over 7,000MW of electricity from our operational projects and we have been able to maintain electricity production from all our assets throughout this period.

A common thread across all our work is our relationship with local communities. We have a deep-rooted responsibility to our communities and focus on how we can support them through the phases of "Readiness, Response, Recovery and Resilience". As our workforce is so often part of the local community, this means our efforts help quell local infection rates and improve the resilience of the community.

Our strong ties and communication channels with local stakeholders have enabled us to mobilise support swiftly, to target areas of greatest need such as food, PPE, medical equipment, cleaning products and to reach the most vulnerable. Our companies are working with local authorities to ensure efforts are coordinated and not duplicative. Most of our companies have re-oriented their social investment plans to tackle COVID-19.



*Actom, partnering with the Red Cross to distribute food parcels to the most vulnerable people in its local communities.*



As we write in midsummer 2020, the pandemic is still accelerating. We are optimists but we also know that this is a long haul. Looking ahead, we will continue to support our companies and our communities as they plan for recovery and resilience in a post-pandemic world. We firmly believe effective and shared values will continue to help all concerned to weather this unprecedented storm. One phrase sums it up: “**Values drive value**”.



# The corporate view

## COVID-19: Sprng Energy, Energy

**Gaurav Sood**

CEO,  
Sprng Energy

India



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**Sprng Energy, the renewable platform of Actis Fund 4 Energy in India, currently has a 1.75GW portfolio with 650 MW operational solar and wind assets spread across four states, with 550MW of power under construction and another 550MW as contracted pipeline.**

The COVID-19 pandemic in India caused disruption of construction activities at our assets for around three months. With the lockdown lifting in phases, it continues to pose challenges for Sprng such as travel restrictions; labour movement from other states and different districts; night time work restrictions; quarantine requirements; community concerns about construction work resuming outside labour and raw material cost escalation (on account of industries being closed).

For the operational assets of Sprng, it was important that the operations and maintenance teams of the plants stayed in accommodation within or near to the premises to minimise exposure to the outside environment. This was to ensure that we operated to the highest health and safety protocols towards our staff, whilst continuing to generate power for the country. We are forced to look at activities which could be automated such as module cleaning to reduce labor dependence.

We take a very hands-on approach in working with our stakeholders, be it our employees, EPC and OEM contractors and sub-contractors or the community members. As the pandemic continues its spread across the country, we continue to ensure not only the continuity of the business but also the health and wellbeing of our employees by bringing in best practices.

Sprng started this work with the formation of a COVID-19 Crisis Management Team (CCMT). The

CCMT was designed to have a dedicated focus on Sprng's operations and construction sites as well as the Head Office; taking appropriate decisions and necessary measures. The CCMT proved as a great engagement exercise whereby the selected group of employees worked in a very coherent manner. Detailed Standard Operating Procedures (SOPs) were released and each issue was taken up by the team members with the necessary protocols, instructions and guidelines produced.

We enabled our non-plant based operational and construction teams to work from home (WFH) from mid-March and this continues today. This was seamlessly implemented by the team, through our Business Continuity Plan. Test trials were done prior to triggering WFH and all travel was stopped unless critical to operations. HR also runs surveys to assess the wellbeing of employees on regular basis.

We actively engaged with all of our construction contractors as well as operational sites to have a direct exchange of knowledge and understanding on the protocols and guidelines to be implemented, ensuring strict adherence. All necessary precautions were implemented to ensure the healthy working environment at the Sprng sites. This included sanitisation of site office premises; maintaining dedicated quarantine rooms; raising awareness about the nearest COVID-19 health centers; adhering to the travel advisory; ensuring enough food stocks in site guesthouses; medical checkups; body temperature monitoring, maintaining self-distancing; daily checklist and developing foot operated sanitiser system from scarp material.

Sprng provides the essential service of delivering power to the national grid and this electricity is supplied for various economic activities. It is critical that these power-generating projects continue to operate uninterrupted.

Sprng power generation sites are located in remote rural areas. It was important to understand that the communities in proximity to our projects are Sprng's major stakeholders. It is of the utmost importance for us to understand the impacts of the pandemic on their lives and livelihoods and support them in all possible manners.

In addition to this, a vast majority of our workforce such as workers, security guards and module-cleaning teams for project activities belong to these nearby communities. Therefore, it was critical to understand their immediate needs arising out of this pandemic to keep them and their families healthy and thereby ensuring the sites' uninterrupted operations.

In these unprecedented times, Sprng has stepped up its efforts to help local communities deal with basic health challenges. For example, we have focused our ongoing community engagement efforts towards raising community awareness on preventive measures for COVID-19 and on supplying communities with necessary PPEs like masks, soaps hand sanitisers to ensure self-hygiene at the local level.

Sprng also made provisions of staple foods and nonperishable items such as lentils, rice, wheat flour, sugar and spices to support food parcel deliveries to the most vulnerable segment of these communities in and around our project sites. The communities were sensitised towards the importance of self-hygiene e.g. hand washing techniques, wearing masks, use of soap/sanitisers and maintaining social distancing. Our ESG managers at the sites prepared simple and high impact videos to impart knowledge about general precautions and self-hygiene to the site workers.

In another intervention, Sprng is supporting women run self-help groups (SHGs) in manufacturing protective masks and distributing them to needy people in their localities. These SHGs worked in tandem with our team in spreading



awareness on the use of vital protective equipment under the guidance of our NGO partner and village heads (Sarpanch).

An important aspect of Sprng's initiatives has been supporting local authorities who face resource limitations. Sprng has provided financial help to augment the ongoing efforts of the local government authorities to support the most acute needs in the community.

In the post-pandemic scenario, we will tread cautiously, ensuring the safety and wellbeing of all our stakeholders. A return to work programme has been detailed to address various issues such as frequent sanitisations, distancing in office seating and PPE enforcement. We are planning to utilise a portion of our community investment plan for livelihood enhancement and upskilling the most deprived segment of the community, especially women, beyond the business continuity objectives alone.

This is certainly a moment for Sprng to demonstrate the true spirit of our social responsibility, and in doing so; we hope our endeavors will lead to enhanced relationships with our employees, local communities, government authorities and regulators in a post-pandemic world.

**The Actis Energy team has been incredibly supportive throughout this period. They have provided a range of support from creating opportunities for direct exchange of experiences including learnings and challenges faced through interactive sessions between Sprng and other energy platforms; sharing valuable insights, lessons and guidance to our COVID-19 related planning and SOPs for our office and project sites.**



*Food packet distribution*



*Masks manufactured by Self Help Group*

# The corporate view

## COVID-19: Actom, Private Equity

**Mervyn Naidoo**

CEO,  
Actom

South Africa



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at [www.act.is](http://www.act.is)

**Actom is Africa's largest manufacturer and aftermarket solutions provider of power generation, transmission and distribution equipment and services. The group, based in Johannesburg, had sales of nearly US\$500m in 2019 and >6,000 employees.**

Most of our sales are to South African customers. Exports (mainly to neighboring countries) account for about 15% of sales.

Like many, we first learned about COVID-19 in late-2019 but never thought it would spread to South Africa.

Then, on 16 March 2020, exactly one week before lockdown was announced in South Africa, Actis invited us to a "Crisis Management" video call with their Heads of Value Creation and Responsible Investment, Ed Williams and Shami Nissan.

Ed and Shami, with their homes in the background as we still sat in our Boardroom, shared insights and responses from other businesses Actis owns around the world, including a handful in China (one in Wuhan). They told us about the Actis response, including their Coronavirus Committee, which they both sat on. We heard about governments around the world gradually enforcing closures of hospitality outlets and manufacturing plants as the virus spread outside China and how Actis was working with management teams to "plan for the worst but hope for the best".

I must say, this jolted us into action. Straight after the call, we took the decision to set up our own Coronavirus Committee (using the agenda and minutes from the most recent Actis meeting as a framework) and began making our own plans.

Our main concern was of course how to protect the health and safety of our employees. In our market, this can be particularly challenging given the high incidences of immunosuppressive conditions such as HIV and AIDS, as well as the use of busy public transport for commuting, leaving many of our employees particularly vulnerable. Actis pointed us to useful guidance from trusted sources and was able to share some best practice examples from other businesses who had already implemented new measures and policies.

Inevitably, we were also worried about the economic and financial impact of the virus on our business, customers and staff – and this is where some of our most challenging decision-making was put to the test.

We were advised to run a range of cash flow scenarios to understand how broad and deep we would need to go. Within days, we sat as an Executive team to approve a number of cash preservation initiatives. In a difficult 3-hour session, a series of tough decisions were voted through. We didn't have time to be diplomatic, we needed to take extreme action.

But the timing was terrible. Days earlier, annual salary increases and incentives had been announced. And yet now, on 24 March, with less than a week to go before these were due to come into effect, we had to communicate a pause in pay rises, a pause in pension fund contributions (requiring us to change the fund rules), cancellation of annual incentive payments and, as if that wasn't bad news enough, scaled pay cuts amounting to as much as 50% across the board. We are all in this together and I was determined to treat everyone equally and fairly. One of my top performers threatened to resign, so I took the decision to let him resign rather than open the door to inconsistency. It's at times like these that you see people's true colors – who is committed to the business and who isn't, who shares your values and who doesn't.

On the very same evening as we announced these draconian measures, the Minister of Labour called on employers to continue to pay staff as normal and consult broadly. Understandably, our people felt wronged. Some even felt we were acting illegally. But as a management team, we believed we were on the right path.

In hindsight, we made absolutely the right call. Two days later the government changed their tune; and three weeks later, people saw others not getting paid at all and were grateful. One of our biggest customers paid full salaries in April and May; by June, they had run out of cash.

By our estimates, acting when we did (thanks in no small part to the early warning and follow-up advice received from Actis) has avoided some \$4.5m of losses and mass retrenchments.

At times like this you can't take the capitalist approach to life. We live in a nation where many live hand-to-mouth every day, with no savings. The official unemployment rate before COVID-19 was 30% (36-38% unofficially). This is estimated to rise to as much as 50%. The risk of social unrest is high and increasing.

Our Head Office and main manufacturing facility is surrounded by informal settlements (or "squatter camps") with 120,000 living in sheet-metal shacks. Some of our employees come from these same areas. In our industry, we use a lot of copper cable and other valuable metals. When lockdown started and commuter trains stopped running, people ran on to the tracks and started stealing the power cables from the electrified network.

In addition to putting in place a basic living allowance and sustaining medical aid contributions for our staff, one of the Corporate Social Responsibility (CSR) measures we worked on was with the Red Cross to deliver 1,000 food parcels to those most in need in our local community. We could have done it ourselves but



that leads to chaos in a community that is (literally) starving. The Red Cross has experience of identifying who is most vulnerable and how to approach it in a structured way.

Given the likely rise in unemployment following COVID-19, we are now looking at how we can engage with the Red Cross to help offer basic skills training to the informal sector (such as welding or fixing a plug) so that at the very least they can earn a living. This is good for our community and at the same time helps to protect our business. It also continues our long-running CSR theme of supporting schools and universities to educate people to be self-sustaining.

Unfortunately, this isn't over. As restrictions start to lift, you would expect the infection rate to have declined, but here it's growing. So we need to find a way of protecting lives while protecting livelihoods. We've now put in place a factory map with multiple cells – if there's an infection, we can isolate a cell without having to shut down an entire plant, which would be catastrophic.

So as we look forward to a new normal, I can reflect on some lessons learned during this pandemic which forced us to navigate our business and stakeholders through this unprecedented crisis.

First, people: I have been humbled at how my team has remained so committed despite working longer hours for half their salaries. A crisis brings out people's true qualities. This is particularly true of the HR and Health & Safety (H&S) community who have been at the front line in bringing about unprecedented changes to people's livelihoods and ways of working. As I write this article, one of our Senior H&S Managers, who has been at the front line developing and executing policy and protocols, lies in an Intensive Care Unit at a hospital on a ventilator, after being infected by COVID-19.

Second, leadership: you need strong leadership in times of crisis. Clear, tough, timely decisions have got us through this crisis. We acted early

and we didn't blink: with our own people plans, issuing force majeure notices to customers, engaging with our lenders, pushing back hard where we felt we had to. For example, our lenders wanted reforecast after reforecast, which I completely understand – but in the end I had to ask them, "Do you want me to focus on running the company practically or developing academic models, which we both know won't be right?". They backed down.

Third, preparedness: always have a contingency plan and always save for a rainy day!

And finally, move with the times: COVID-19 has changed our outlook on life and revolutionised

our operations. It has fast tracked elements of The 4th Industrial Revolution (4IR) in our markets with factory acceptance tests and inspections even done on-line. Entire governments and companies have been run remotely when they never thought this possible. Working from home has not only proved to be possible, but appreciated, with potential cost savings to boot.

**Whilst COVID-19 has wreaked havoc in economies and resulted in a global humanitarian crisis, it has forced us as humanity to stand together in unity and support one another, in a world which has traditionally been dominated by capitalism and selfishness.**



*Actom, working with the Red Cross, providing food parcels to support 1000 families from neighbouring informal settlements.*

# The corporate view

## COVID-19: Joyville, Real Estate

**Sriram Mahadevan**

CEO, Joyville

India



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**Sometimes life presents unprecedented situations - so called black swans. No business model would have allowed for disruptions caused by COVID-19. Certainly, in my professional career spanning 25+ years, I have never experienced this kind of uncertainty.**

**One thing is certain, our actions and/or inactions to manage the crisis will define us in future, and make us stronger both personally and professionally.**

Joyville Shapoorji Housing Private Limited provides housing to the mid-income housing segment in India, the sweet spot in the Indian real estate industry. It is a partnership between Actis and Shapoorji Pallonji & Company Limited, which has a 150 year legacy of playing a crucial development role in India.

India, with the second largest population coupled with its nascent healthcare system certainly was and is staring at an unparalleled crisis to tackle as a nation. To break the chain, a complete lockdown was enforced from 25 March 2020 and with it the economy came to a grinding halt. We at Joyville had two options – (1) quickly accept the new normal and adopt; (2) wait for the situation to play out for a few weeks and then make our move.

I believe when challenges arise, it is better to take them on sooner than later. We moved towards making necessary changes in our route to market model within a week of lockdown to gain market share. Being a part of SP group with 150+ years of legacy and having marquee investors including Actis, every action must measure against creating positive impact for our stakeholders - our employees, site workers, vendors, customers and shareholders.

### Social Impact

When the lockdown started in India construction was in full swing in four of the sites at Joyville with over 2,000 labourers. While the health and safety of our workers is always of utmost importance, during crisis the responsibility multiplies. We had to ensure that we take care of all our labourers so that they keep well both physically as well as mentally.

Our site leaderships immediately set up wellbeing protocols as below:

- Daily food arrangements for every site worker
- Access to doctors for regular health check-ups
- Provision of quarantine facilities within the labour camp
- Ambulance facility (24X7) tie up
- Safety protocol guidelines for social distancing, disinfecting and timetable implementation
- Entertainment facilities during this highly stressful time to keep labourers anxiety levels at check

With the help of the above measures, we were able to generate positive goodwill for Joyville amongst not just the workmen but also the local administration who were very appreciative of the efforts undertaken. A case in point is when the health minister of one of the states where our project is located visited our site, he was pleasantly surprised about the arrangements undertaken, appreciated our efforts and informed our competitors about our social leadership at the time of distress. Similarly, the local police close to another of our projects informed labourers of how Joyville stands above its peers in taking care of social wellbeing.

### The show must go on - approach towards new sales during lockdown

Real estate by virtue of being capital intensive, invariably is the most important investment decision for a customer; and thus, without a physical site it is challenging to convert sales. We quickly realised that we had to change our strategy and switch to a completely digital one – to drive virtual meetings with prospective clients and for that to succeed it was imperative to first convince market participants to accept the new normal and work our way around it. It was very important to focus on the inputs during this period rather than outputs and celebrate each small wins enroute. Thus, started our daily routine of: -

- Virtual team meetings to decide daily operational targets with a review at the days end
- Virtual engagement with channel partners not only to motivate them but also to facilitate customer meetings
- Developing a complete in-house digital customer engagement tool "Virturo" which gives customers a virtual tour of the site, master layout, unit layout, availabilities, location dynamics, market perspective and interiors with an aim to make digital become real.
- Customising product offerings suitable to the customer needs
- Enhancing motivation to sales and customer engagement team to exceed outputs

These well synchronised efforts help us to continue business and boost the confidence of the entire team.

All in all the last 2.5 months have been very challenging and it continues to remain so with the number of cases scaling up as the major cities in India slowly start opening up, but at the same time this has been a learning of a lifetime for everyone at both a personal and professional level. As they say "Tough times don't last forever, but tough people do" and these trying times will surely result in:



- Gains in market shares for companies with strong transparency and high governance level
- Delivery of projects on time playing a key role even more going forward.
- Customers focus shifting to an integrated green building-based ecosystem
- Market dynamics transitioning to a more contactless mechanism
- Dynamic companies with an ability to adapt to such new reality leading.

#### Post lockdown focus

The key focus is to convert this crisis into an opportunity through taking measured calibrated steps and distinguishing ourselves from the competition. Steps include:

- Resuming construction activities and bringing it to pre-COVID-19 scale as soon as possible and delivering on time to secure goodwill
- Kick-starting the momentum through launching of new projects and handing over apartments, with proper planning and execution
- Renewed focus on cost optimisation and drive efficiencies across the value chain

**One needs a lot of grit and determination to tide over this phase and to stay focused and keep doing the right things. To achieve this, one should have proper value systems, high governance standards, a heart in the right place and a positive outlook towards life and livelihood. Needless to say, all the stakeholders of Joyville – Shapoorji Group, Actis, IFC & ADB are built on strong platforms and have imbibed Joyville with the right value constituents to help the management team move forward with more rigor and confidence.**



Food distribution on site



Social distancing training

# The Actis view

## COVID-19: Generating electricity through the pandemic

### Barry Lynch

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**Actis Energy Infrastructure focuses on the generation and distribution of low cost, reliable electricity across Latin America, Africa and South East Asia. We construct and operate large-scale power projects and electricity distribution networks to bring energy into the homes and businesses in countries where operating can be challenging. These are our “home markets”, from the windiest states in India to sun drenched land of the Atacama Desert in Chile we provide power that so many in the west take for granted.**

2020 was already going to be a busy year for the Actis Energy Infrastructure team with 60 projects in construction or operation, to deliver 10,000MW of installed capacity across India, Egypt, Senegal, Kenya, Nigeria, Cameroon, South Africa, Mexico, Chile, Brazil and Uruguay with 70% coming from large-scale wind and solar projects that utilise abundant natural resources.

As we monitored the potential impact of COVID-19 in early 2020 and discussed it with our colleagues in Private Equity and Real Estate who saw the early impact on their activities in China, we began preparing, along with the management teams in our 14 Energy Infrastructure platform companies, for the potential impact across our markets.

In line with the overriding principle of the importance of the health and safety of our staff, contractors and members of the public our focus was in three key areas: i) maintaining electricity production from all of our operational assets, ii) minimising the impact on our projects in construction, including supply chains and iii) maintaining our

strong relationships with the local communities in the vicinity of all our projects.

We spent a lot of time with our management teams preparing for the potential impact of COVID-19 on our operational projects. The initial focus was on how we would ensure the safety of core operational staff, where possible reduce non-core or maintenance staff through any COVID-19 peaks and work closely with local stakeholders and governments to ensure that we had the necessary support for staff to travel to and from our plants safely. In certain areas we implemented a quarantined site strategy with a core group of staff living and working on location to ensure that we could generate through the peak of COVID-19 in any particular area. A great example of this was our 461MW gas fired Azura Edo power plant near Benin City in Nigeria. The core operational staff stayed on site for two months to minimise the risk of any COVID-19 infections spreading among the operation teams thus maintaining full plant output during the pandemic in a country that desperately needs reliable power.

Our wind and solar projects have comprehensive remote operational management systems in place that allowed us to maintain a high level of operational performance while reducing the need to put people at risk of travel to and from our project sites. We also worked closely with equipment suppliers to modify maintenance cycles to ensure that planned maintenance outages could be delayed to minimise the need for mobilising staff to project sites.

We are responsible for the generation of over 7,000MW of electricity from our operational projects and through the COVID-19 pandemic we were able to maintain electricity production from all our assets. Electricity projects are viewed by most governments as “must run” assets that are essential to the social and economic fabric of society and we take our responsibility to generate electricity very seriously.

We currently have 3,000MW of wind and solar projects in construction across 20 projects in 7 countries and each was impacted to some extent by COVID-19. In India we worked with local governments to demobilise from our construction sites, ensure that they were safe and secure and then reopen them in line with government guidelines. We worked closely with our contractors and suppliers to ensure that our supply chain and construction resources were managed in a way that minimised the impact on our projects. For example our supply of wind turbine blades for one of our Indian projects were coming from a manufacturing facility in India and we worked with the supplier to ensure that we had a steady flow of wind turbine blades once the sites reopened to minimise the construction schedule impact.

The supply chain for the wind turbine industry is truly global and we were able to work with our suppliers to re-orientate supply chains away from affected regions to ensure minimal impact to activities. In mid-June in North Eastern Brazil, our Echo Energia business maintained its construction progress on our Serra do Mel project and commissioned 273MW of wind turbines two months ahead of schedule. This was achieved by utilising the strong local supply chain in Brazil and enforcing COVID-19 prevention measures with our contractors. We also achieved 1.2m manhours without any safety incidents on site.

At the core of our approach is the sharing of lessons and experience across our Energy Infrastructure platform companies. In the early stages of COVID-19 we carried out a number of workshops with our management teams to share learning across key areas such as COVID-19 prevention measures, interaction with local communities, supply chain disruption and mitigating contractual issues due to COVID-19. This allowed our teams to share ideas and experiences as they navigated the COVID-19 impact in their own countries. We then carried out a further set of workshops during the



peak of COVID-19 to focus on what is working well and what improvements or changes teams have made to their policies and procedures. We also created a central intranet site and uploaded all COVID-19 related policies and procedures from all of our platform companies to ensure that each could learn and adopt best practice approaches from across the Actis family.

A key success factor in our projects is our relationship with our local communities. Each of our platform companies has a dedicated ESG team and an ESG sub-committee of the board. This ensures a strong dialogue with local communities and enabled assistance in areas such as education of the risk of

COVID-19, supply of protective and cleaning equipment and provision of food and support packs where required. We re-oriented many of our social investment plans to tackle or minimise the risk and impact of COVID-19 on our local communities and this was well received across our projects.

Our comprehensive approach to tackling the risk of COVID-19 in a pro-active way has resulted in us minimising the impact on our staff, communities and projects. Our operational projects generated electricity throughout the pandemic and while we had to stop some of our construction activities, the impact resulted in a stoppage of weeks as opposed to months.

**The performance of any organisation through a crisis or serious event is a direct correlation of how well that business was being managed prior to the incident and we believe that the way in which Actis and its Energy Infrastructure platform companies have weathered and continue to weather this particular storm is a great example of this. It also demonstrates the robust nature of investing in best in class power generation assets that have robust contractual frameworks and are designed to weather even the most difficult storm.**



*Echo Energia continuing to generate power for Brazilians throughout the crisis*

# The Actis view

## COVID-19: Operational challenges in Private Equity

### Ed Williams

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**The “Value Creation Group” is a function within Private Equity. Our role is to partner with our Deal Team, Responsible Investment colleagues and portfolio company management teams throughout the deal lifecycle to drive growth, manage risk and prepare for exit. Our “helicopter view” of the entire portfolio helps us spot trends and share best practice globally.**

The Actis Private Equity portfolio is large and diverse. We manage 67 investments for over 300 Limited Partners in 7 funds and 21 countries. We have majority and minority stakes in private and listed businesses, with and without leverage. Through these businesses, we are responsible for the health, safety and livelihoods of some 120,000 people and their families.

So how has the task of managing this portfolio been impacted by COVID-19? Here are my top-10 COVID-19 challenges:

#### 1. Preparedness

We had an early warning with four investments in China (one in Wuhan, the epicenter of the outbreak); many of our investee companies were initially less concerned, saying, “It’s a China problem” or “We have no Chinese suppliers” or “We only have a few infections in our country”. The severity of the situation only really started to hit home, if you’ll forgive the pun, when colleagues dialed in to video calls from their living rooms wearing masks.

The exponential rate of infection around the world took many by surprise, as did the shock as stock markets, currencies and revenues collapsed. And while this prompted action, many “downside cases” needed even further downward adjustment before we felt the liquidity risk was properly understood.

COVID-19 was going to put a big dent in cash flows – better to plan how to solve for big gaps than wish away the issues and fall short.

#### 2. Remote crisis management

War rooms and whiteboards are sorely missed. Getting used to working through screens hasn’t been easy. There are benefits though: for example, live polling allows you to garner opinions, even votes on controversial topics, anonymously and avoiding herd mentality. It also keeps participants engaged. We used this to great effect in a recent business planning workshop to get buy-in around the likely depth and duration of this crisis.

#### 3. Forecasting

Will we see a V-, U- or W-shaped recovery? How long will it take to get back to the pre-crisis peak? We’ve all heard the adage that, “the only thing certain about a forecast is that it will be wrong”. Never was this truer than now!

Our advice has therefore been to identify the main input variable (such as % of last year’s sales in a restaurant business) and plot closing cash under two or three different lockdown scenarios (length, severity). Then plan for the worst and hope for the best.

#### 4. Reliable sources of information

Conflicting advice and lack of or unreliable data have made decision-making especially hard. Part of the role of the Actis Coronavirus Committee, which I sit on representing Private Equity, has been to curate and disseminate trusted sources of information to simplify decision-making as best we could. As the virus spread outside China, we were able to share lessons and best practices learned in China with our portfolio companies around the world, which continues today as China comes out of (and in some cities re-enters) lockdown. In some cases, we have been able to share financial and operating KPIs from

either side of lockdown with similar businesses elsewhere to bring some science to the process.

#### 5. Leadership

COVID-19 has impacted every employee, family and community in our portfolio. Management have been in the trenches, developing plans, communicating tough decisions and rolling out widespread changes to working lives and livelihoods. Throughout this pandemic, their first priority has been the health and safety of anyone coming into contact with their organisation. This includes the mental wellbeing of a workforce under stress. The best leaders have shown decisiveness and pragmatism; they have over- rather than under-communicated; they have put people first, capitalism second. This more human approach extends to customer, supplier and other stakeholder relationships (e.g. lenders) – empathy, leniency and transparency have gone a long way in preserving goodwill and preparing for the recovery.

#### 6. LP communication

Understandably, our clients are anxious to understand what is happening across their portfolio investments. We have received record inbound enquiries, with valuation and liquidity the major topics.

We held special COVID-19 briefings with each of our funds to highlight issues and provide an early “street-view” guide on valuation before releasing formal valuations a few weeks later.

Across our entire portfolio (as at the end of March), our impact assessment showed that the single biggest factor was “Regulatory”, where authorities imposing closures effectively shut down operations at portfolio companies. This obviously correlated closely with red traffic lights on “Demand”, “EBITDA” and “Liquidity”. Our consumer-facing businesses (e.g. restaurants, coffee shops, retailers) were hardest hit as



were suppliers into consumer end-markets. Supply chains were, on the whole, only moderately impacted.

Through a combination of acting early and taking an extremely conservative approach to leverage, we are estimating a total potential cash requirement of just over \$20m across our 67 investments, with only \$2m of this having been required at the time of writing.

### 7. Exits

As the COVID-19 outbreak first started to make the news in the Far East, we took the decision to exit a significant portion of our remaining stake in Brazilian payments business, Stone (NASDAQ: STNE), returning over \$400m to LPs.

Of our other exits scheduled for this year, many processes have been paused until travel restrictions ease; however, a handful have continued throughout the crisis and we hope to be able to conclude them by year-end. In parallel, we are ramping up exit-readiness programs to win back as much time as possible.

### 8. Being on the ground

We have run virtual Board meetings, crisis management planning sessions, strategy workshops, recruitment processes and advisor beauty parades throughout lockdown, but some exercises require physical meetings and site visits before (and after) they begin.

Luckily this is not the case in FX hedging, where we have been able to put in place a number of Non-Deliverable Forward hedges to protect against potential currency devaluation. We have also been successful in recapitalising, amending or extending debt facilities wherever this has been necessary during the pandemic.

### 9. Origination and capital deployment

For the same reasons that exits have slowed, capital deployment timelines have been impacted even if origination efforts have

not. Helpfully, a pandemic like this underscores the importance of investing in sectors with strong underlying fundamentals and conservative capital structures. It has also accelerated a number of behavioral shifts that were happening anyway, such as online learning, online shopping, cashless payments and digitisation. Coming out of COVID-19, we are expecting to see a number of quality business requiring liquidity and representing attractive acquisition opportunities.

### 10. The new normal

As lockdown restrictions are slowly relaxed around the world, and oxygen slowly seeps back into the economy, we are entering what

will undoubtedly be a difficult and long period of rehabilitation for economies and businesses around the globe. Customers, suppliers, competitors, capital providers, buyers and sellers of businesses – all are starting to uncover new priorities and objectives as they adjust to this new era. As investors, we will need to be more agile than ever before. There will be long slow recoveries for some, bounce-backs for others and a whole new set of value creation and investment opportunities.

**As we emerge from the throes of this pandemic, there is one constant we are all reminded of – the importance of doing the right thing. As we say here at Actis, values drive value.**



# The Actis view

## COVID-19: Operational challenges in Real Estate, India

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**As we shuffle between “Zoom” and “Teams” moving from one virtual meeting to another; in response to the COVID-19 crisis, our early fears of working from home compromising collaboration and team work are now behind us. Instead, we are interacting with our colleagues, partners, CEOs, and advisors more than ever and often not restricted by the conventional boundaries set by time and day of the week!**

Between 24 March and 30 May 2020, India went through one of the longest and strictest lockdowns followed by phased relaxations from 1 June 2020. Government ordered non-essential services to close to control the pandemic, in an effort to delay community transmission while the Government worked to strengthen and expand health infrastructure to deal with the case load.

Closing of offices brought about a new work order, forcing people to quickly adapt to new ways of working, leveraging technology and cross skilling within teams. Clarity and frequency in communication with all stakeholders has become more important than ever as we tackle anxiety of the uncertainty caused by the pandemic. This has re-oriented our approach towards more collaboration, and investment of more time in communicating. And all this, while juggling home responsibilities and work schedule together.

Our business is about regularly visiting property assets we are invested in, and engaging with our teams on the ground that deliver or operate these assets. In the new normal of the COVID-19 world, there are real limits to these activities. The pandemic has disrupted both demand and supply sides and certain fundamentals

earlier taken for granted have now become risk factors that need active management.

Creating and retaining resilience in our asset portfolio have been at the centre of our attention. Team engagement comes first. Our first and foremost priority has been to take care of our teams, build morale and confidence and in many cases help adapt to the new work needs. The second was to quickly test liquidity in each asset and ensure adequate financing to meet any potential unforeseen need for cash arising from slow monetisation of assets. Our next set of priorities has been to build additional resilience in each asset by a combination of cost rationalisation, sales migration to online, and removal of inefficiencies across value chain. For example, we accelerated our virtual sales process during the lockdown and have now fully migrated to a virtual product experience. Today, a prospective buyer in any of our portfolio companies can virtually conduct site visit, understand the location, inspect the product, check availability, peruse the floor plan, and reflect on various views created by the designers and architects.

COVID-19 is also creating attractive and compelling new investment opportunities. For instance, in India, COVID-19 has helped accelerate creation of a real estate credit opportunity. Secular trends of urbanisation, rapid population growth, and a rising middle class will continue to support traditional real estate asset classes such as urban mid-income housing and office development. The behavioural changes precipitated by COVID-19 are also accelerating the opportunity in logistics and data centres.

Leveraging technology to originate and source transactions and manage diligence is also part and parcel of the new normal. Where travel is not possible, we are reviewing sites and assets virtually, including at times through video calls with our advisors while they are visiting the site, to conduct preliminary underwriting.

COVID-19 is also acting as a catalyst to push companies to embrace more ESG practices. As social distancing, hygiene routines, safety and health of employees, tenants, and other customers become the “New Normal”, sustainable developments are finding preference among customers. We recognise that what we owe back to the society, and health and safety of customers, tenants, partners and construction workers is critical. For instance, ensuring the safety and well-being of construction workers has been of great importance to us during and after the lockdown as they are solely dependent on our portfolio companies for income and livelihood. During the lockdown, while the construction work stopped, our investee companies retained and took care of ~3,000 construction workers across portfolio companies by not only offering daily meals and accommodation, but through also ensuring adequate healthcare support; medical attention; regular check-ups; isolation and containment facilities; ambulance on demand, and tying up with hospitals to quickly attend to anyone infected at the site. While we did this because of our commitment to the cause of good social governance, our investee companies have also in the process become beneficiaries of stronger worker retention post relaxation in lockdown, and our sites have been quick to recommence work.

**As the distinction between ‘work space’ and ‘personal space’ becomes blurred, it is important to allocate time for mental and physical well-being as well. One can choose from a wide range of in-house activities to remain fit and focus on good hygiene. Regular virtual catch-ups with colleagues and teams help drive a culture of collaboration and real-time connectivity. It also allows time for more in depth thought aligning strategies for the future and spending quality time with the family.**





*Temperature testing on site*



*COVID-19 testing on site*



*Keeping workers safe*

# The Actis view

## COVID-19: Operational challenges in Real Estate, China

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**On 10 June 2020 Beijing marked 56 days without any new reported COVID-19 cases. Over the last two months since our previous Street View, China has been engaging in the arduous task of recovery. In early May, I made my first business trip in five months, from Shanghai to Beijing, for the site inspection of our data centre development project. The whole country had recovered to a stable level of economic vitality.**

However, on 11 June Beijing then reported a new confirmed case. From 11 to 22 June, more than 170 people tested positive for the virus. On 16 June, Beijing raised its public health emergency response level from three to two, the second-highest ranking. The fight continues...

In China, we have three logistics developments and one data centre under construction, all of which resumed site work by mid-April with at most 400 workers on a single site. We and our partners have implemented preventive measures including, among others, guides for the updated site protocol; daily body temperature checks on site entrance; compulsory face mask wearing and regular sanitation of the site office central air conditioning system. Further, every visitor to the site area must pass the health and high-risk area exposure screening before admission to site. This is done by adopting a smartphone with a countrywide "health QR code" system which tracks the cellphone owner's COVID-19 and high-risk areas exposure record in the last 14 days. See more in our podcast.

### Business goes on, but not as usual...

While construction work resumed in April, our other industry contacts had continued to work throughout the pandemic. In early May, we were invited by one of the big-four real estate firms to a Grade-A office building virtual asset tour, with real time streaming as an introduction to the asset. The live broadcast was held on DouYin. The Chinese twin app of TikTok has seen an increase in hits due to the mass lockdown of cinemas and is now spreading virally in India, South East Asia and Africa with DAU over 400 million.

Another software which is performing well throughout the pandemic is one all of us are familiar with, Zoom. Although we believe that existing relationships and face-to-face meetings are still pre-requisites for any deal to happen, we managed to proceed a pipeline deal without interruption. During the peak of the pandemic in March/April, we maintained momentum with several rounds of preliminary "Zoom" due diligence tours of the target asset.

While some early stage due diligence work can be done with Zoom, how about construction site visits? During the domestic travel restrictions in China, we arranged regular drone inspections of the construction sites allowing a tangible check in on progress.

Leasing activities also continued during the pandemic. We have three logistics sites located in different cities in China where most of our potential tenants were not able to visit. We provided a virtual tour the projects under construction, allowing the viewers virtual access to every corner of the asset.

*Please click on our podcast to see clips of the above mentioned video streaming, VR site tours and how TikTok works on the real estate investment side.*

### Digitalisation

The Government's commitment to "New Infrastructure", is driving further investment in digitalisation and technology advancements.

The Chinese Government's policy push in March 2020 for 'New Infrastructure' is expected to result in USD530 billion of new development, including digital infrastructure and data centers. The policy has given an additional boost to the sector already enjoying structural tailwinds. These include further promotion of e-commerce and industrial digitalisation, experience of deploying 5G and IoT, with cloud infrastructure as a big enabler, and Artificial Intelligence development drawing on more computing power. The COVID-19 fallout only accelerated the digitalisation trends.

### History repeats itself, habits strengthen and paradigm shifts

Alibaba was a B2B company before 2003, its B2C business started during the SARS period in 2003 when China was badly hit by the outbreak. Before that, people considered online shopping as just an option. But when traditional options are no longer available, people's habits strengthen and the paradigm shifts. As of 2019, TaoBao and TMall's (B2C platforms under Alibaba) annual GMV had grown to USD 947 billion.

**COVID-19 will continue to accelerate digitalisation trends and strengthened habits around the new way of living further reinforce our confidence in data centre and logistics investments across our markets**





Compulsory face mask protocol at IDC Tianjin site, China

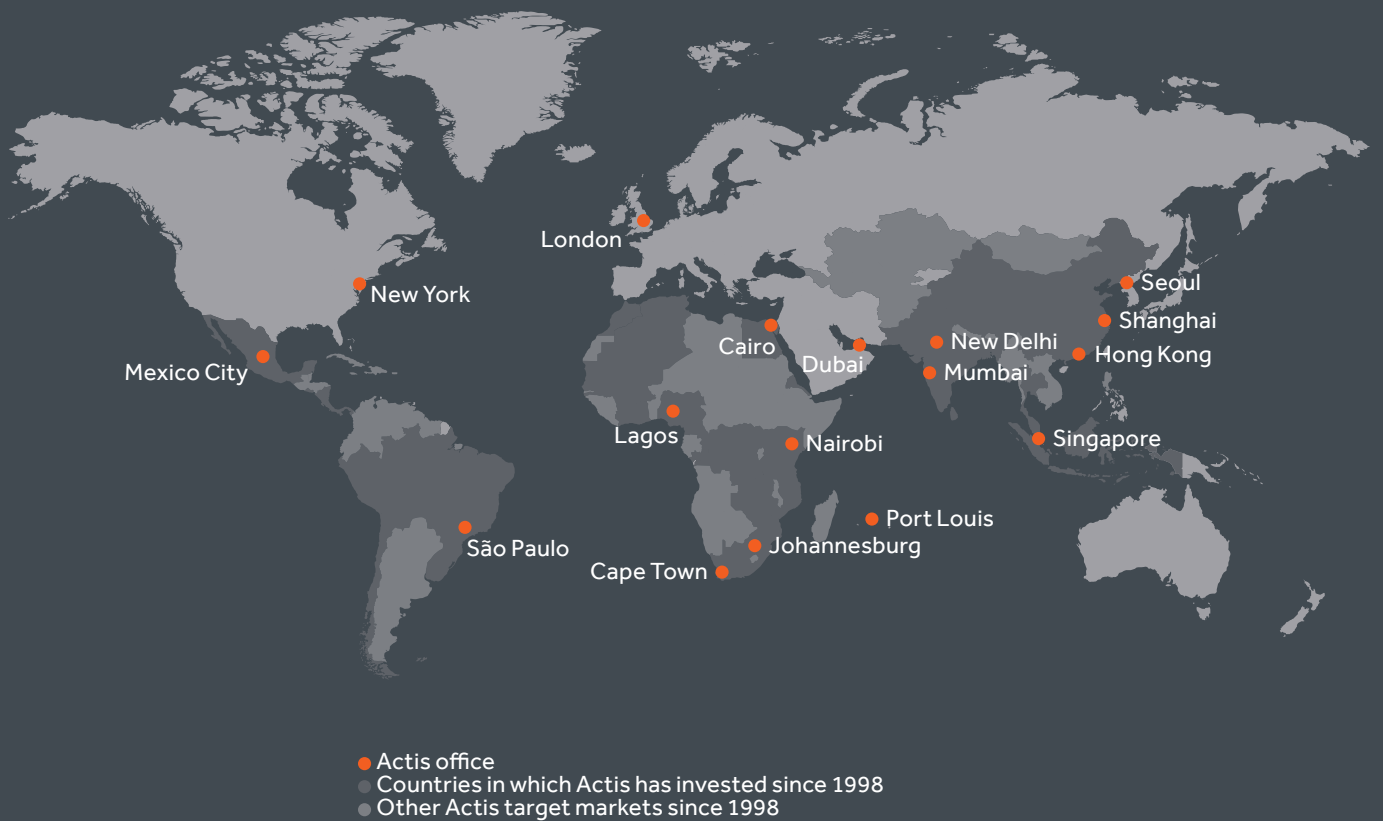


Keep safe.

Keep healthy.

Keep in contact.





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