

Interview



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MA *What have been the major innovative financial steps taken during your tenure with this organization to gain more competitive edge?*

To inculcate a visible and positive change in the financial health of our organization during my span, slightly over two years, a series of steps with the professional excellence of the different departments have been adopted. We are working as Team DVC and I am sure with this cohesive bonding we will go a long way. Considering the tight financial conditions and shortage of fund, we have successfully started doing flexible restructuring of project loans with longer repayment tenure, resulting in reduction of cash outflow by lowering the repayment of loan and thereby resultant improvement in cash position. By swapping of loan to a lower interest rate, we could reduce the annual interest burden vis-a-vis cost of generation. In our endeavor towards adopting a loss minimization strategy vis-a-vis maximization of the capacity utilization, DVC started selling short term unallocated power at a lower competitive rate by recovering a part of its fixed charges which were otherwise not recoverable.

We have conceived the idea of developing finance module in implementation of EBA (Enterprise Business Application) for better budgetary review, cost monitoring and control. It was our vision to introduce activity based planning and budgeting for a longer tenure perspective (initially for 3 years). We have approached the financial institutions to support DVC in improving our credit rating so as to achieve raising of funds at a lower interest rate. We have introduced implementation of Strategic Business Units and Profit Centers for generating units, transmission system and distribution network enabling better performance evaluation and strategic decisions. In the process DVC have decommissioned Durgapur TPS Unit # 3 and Chandrapura TPS Unit # 1 being uneconomical.

We are very much pro-active on improvement of timely collection of dues. In process DVC could realize the reconciled dues amounting to Rs. 4770 Crore on 31.03.2016 under UDAY Scheme. Also the flexible payment terms for defaulting HT Consumers to recover past dues with regular payment of present dues have been achieved. As fuel cost constitutes the main ingredient of overall expenditure for generation of electricity, a major reduction of cost through coal linkage rationalization, reduction of washing recovery charges, reduction in engine demurrage charges have been achieved with concerted efforts and consequently there was mentionable reduction in specific coal consumption.

MA *What are Damodar Valley Corporation's (DVC) priorities for this fiscal year to sustain growth in*

this industry?

DVC's first goal is to be and remain competitive in power market. Electricity is now a commodity and market demands cheap and reliable power. DVC undertook the following cost control measures to reduce the generation cost without compromising the quality.

- (a) DVC is able to reap the benefits of flushing of funds in the banks due to demonetization and to borrow funds at a cheaper interest rate.
- (b) By restoring improved O&M functioning through planned overhauling, inventory and spares management (common pool spare), implementation of technical audit, failure analysis recommendation, energy efficiency measures could reduce the O&M cost substantially and progressively.
- (c) DVC's another priority area is to improve the availability of coal stock and coal security for sustainability. DVC is working on development of coal blocks already allotted to DVC to become self-sufficient and thereby reduction in coal cost.
- (d) DVC adopted modern improved Transmission practice like construction of GI Substation where space is a constraint. DVC undertook renovation and augmentation/ up-gradation of age-old Transmission/ Distribution System/ network to improve the reliability in supply of power.
- (e) Another priority area is to apply more stress on recovery of power dues and actions for improved net cash inflow. In process DVC is constantly exploring the possibilities for reduction of interest liability. One of most important priority of DVC is to have a constant endeavor to reduce the unallocated surplus capacity by scaling up supply of power through short term sale and power exchanges and also to improve supply side management through cutting of power tariff achieved through lower generation cost to become more competitive for sustainable growth. DVC being an age old corporation also reworking on manpower rationalization in line with streamlined verticals.
- (f) DVC's goal is to achieve 100% dry fly utilization. It will generate income through selling of by-product (ash) and the fund will be utilized for better ash management and other pollution control measures.
- (g) Further DVC's aim is to reduce T&D Loss through setting progressive trajectory.
- (h) Closing of old & non viable units are also a part of consideration under strategic decisions. DVC has selected NLC India Limited (formerly Neyveli Lignite Corporation Limited) as its Joint Venture partner for Raghunathpur Thermal Power Station to reduce its debt burden and also to utilize unallocated power.

MA *Ten years down the line, what changes do you see in power generation and transmission*

in the country? What are the opportunities and challenges in this business today?

I could foresee that gradually generation of power by the use of different fossil fuels will be replaced by use of renewable energy. Ultimately in due course the renewable energy shall become largest power generating capacity. Besides other green sources like wind, biomass, small hydro etc. solar power shall dominate its share in the total capacity. DVC has geographical advantage for setting up solar plants due to longer summer months particularly in West Bengal and Jharkhand. Since Thermal generation will gradually lose its share in the total generation capacity throughout the country, DVC has to gradually shift its focus in capacity building through renewable energy like Pump Hydro Storage Units (to meet the peak demand) and mainly to set up solar projects. DVC already setup roof top solar plant in DVC Towers to meet the electricity requirement of its head office building. Old plants which are not economically viable shall be retired in due course.

Another greatest potential area of off-grid relates to solar technologies. These include solar water heating system, home and street lighting which includes solar lanterns, solar cooking system, solar pumps and small power generating system. Off-grid component will immensely help remote village electrification programme. The greatest challenge is to sustain in the stiff competitive power market. Finally, DVC consider to diversify in allied areas like O&M consultancy, Training in Management Development Programme, Testing Laboratory, etc.

The biggest challenge today is introducing the system of flexibility in utilization of domestic coal allotted to states by independent power producers (IPPs) as per policy decision of Government of India, Ministry of Power. It means IPPs can bid for coal allotted to state utilities, a move which GoI feels, will lead to more efficient fuel usage, reduce cost of generation by 40-50 paisa/kWh and which in turn will result in huge savings in fuel cost and supply of cheaper power to the consumers. The mechanism will operate through clubbing together all coal linkages of individual power plants of central generating utilities and putting this clubbed quantity under the charge of a 'Nominated Authority' who will allocate coal to IPPs whose landed cost of coal at a particular central generating station periphery is less than the variable cost of generation of that particular central sector generating station. As a result of it DVC along with other relatively old generating stations will face an existential challenge principally because the variable cost element of DVC power is very high. If this situation is not immediately addressed, this will mean that once the 'Nominated Authority' as planned by GoI, becomes a reality, DVC will have to buy power from IPPs closing

its own generating units. We have already instituted various steps to bring down the 'variable cost' element of DVC power. To sustain the competition, DVC generating stations are to be able to supply power to our consumers at a price comparable to the price of power supplied by the most efficient IPPs.

MA *Who are your strong competitors in this business? What are your future projections to attain market share against your competitors?*

The main disadvantage of DVC is that it does not have any super critical/ ultra-super critical Thermal Power Stations. The competitors having such modern super critical plants have an edge over DVC in terms of low cost of generation and low carbon emission. We have to compete with them to survive which itself is a big challenge for DVC.

DVC at present is not considering for any expansion in thermal sector and shall explore into mainly in solar, pumped storage hydro (to meet the peak demand) or other form of renewable energy in due course of time which will be altogether a different ball game for us. However, DVC has geographical advantage of enough solar potential which will give a definite edge over its competitors.

We apprehend in the short run many households will change their sources of power from DVC supply to their own roof top solar energy. Street lighting and Park lighting also be sourced through solar power. This is on one side is a threat to DVC. But their lies an opportunity as well. Many of households and other may not have sufficient storing capacity and they may like to inject their excess generation of solar power to DVC grid. DVC may utilize the power for building reserve in the pump storage mode and may cater to the need of those households and other local bodies. In this process we will be able to meet the demand at evening peak. This shall become a win-win situation for both to consumers and DVC.

MA *Do you see foreign companies as a threat to the power sector in India?*

In general in the generation sector, I feel that the impact of foreign investment is not a bigger threat in view of huge capacity addition programme. But the equipment manufacturing sector have badly been affected by the foreign equipment manufacturer. The indigenous equipment manufacturer are facing difficulty in retaining their market share. Finally, foreign investments are coming in a bigger way in the renewable energy sector mainly at wind and solar which is a future trend in the power sector. Indian companies now in thermal generation are to shift their focus

to solar and other renewable energy sources to survive in the competition by producing electricity at a very competitive cost.

MA *What are the major strategies undertaken by your company to bring in cost competitiveness?*

DVC have taken up lot of actions to become more competitive. DVC has taken several cost control measures in recent times to bring down the Power Tariff which have two components namely Energy Charges and Fixed Charges. DVC acted on both the front.

- (i) In order to ensure cheaper power, DVC have initiated measures for reduction of fuel costs and consumption viz. coal linkage rationalization, improvement in coal quality through engagement of reputed Government agency for coal sampling to arrest the grade slippage. Also actions have been taken to reduce the transit loss, grade slippage, demurrage etc. Coal sources have been identified for cheaper supply. By bringing down washing recovery charges generation cost has been reduced. As a system improvement DVC has incorporated GPS/ RIFD in all its coal and transportation contract.
- (ii) DVC has already launched PRAGATI to identify the process gaps, implementation of systems and standardization of process through adoption of improved O&M practices to ensure reliability and sustainability.
- (iii) DVC has started reverse bidding in all of its procurement and service contracts. This has resulted into substantial cost savings.
- (iv) Besides above, the initiatives have been taken for reducing interest cost of working capital. Timely completion of existing projects to avoid/reduce Interest During Construction (IDC), efficient & effective O&M practices, organization restructuring & automation, manpower rationalization in line with restructured verticals, retiring of old uneconomical units, augmentation/upgrading age old transmission system/network to improve reliability.
- (v) Finally, DVC is putting efforts for accounting System up-gradation by implementation of EBA. Also monthly review and monitoring of cost through budgetary control and activity based planning and budgeting for a longer tenure perspective are amongst the major strategies undertaken by DVC to become more cost effective.

MA *How do you ensure eco-friendly activities of the company?*

DVC Act, 1948 mandates several ecofriendly activities like afforestation & soil conservation, flood control, irrigation and waters supply management in the command area. Since its inception DVC is carrying out such activities. Also DVC has

established Environment Management & Pollution Control (EM&PC) cell at Head Quarter and field level for monitoring environmental parameters laid down by Ministry of Environment and Forest (MoEF)/ Central Pollution Control Board (CPCB). Stack Emission Control, Effluent Discharge Control, Ambient Air Quality, Solid Waste Management, Hazardous Waste and e-waste management. DVC also undertook afforestation/green belt programme at lower valley. DVC has also implemented afforestation work in its own area on degraded forest land.

MA *What kind of cost control measures have you taken to ward off the threat from the sudden and swift economic slump?*

Slower economic growth will affect the growth for demand for power and thereby result in more surplus capacity. DVC has already adopted aggressive approach to reduce the surplus capacity by arranging adequate power purchase agreements, scale up supply of power through short term sale and power exchanges and improve supply side management through cutting of power tariff achieved through lower generation cost to become more competitive in the market. This will help to combat the challenges facing the organization in a highly competitive power market. With the flushing of funds in the banks due to demonetization, we will certainly explore further reduction of interest rate.

MA *How could proper Cost Management system play an important role in the overall growth of this sector in India?*

Cost is one of the most important factor plays a vital role in the existence of the organization in a buyers' driven market. When a proper Cost Management System is integrated in the system, the decision making process becomes most objective. DVC operates in a most competitive environment in Power Sector. Proper cost control and cost management gives the needed edge in the competition. Cost management measures directly impacts on power tariff and since consumers have choice to select its source through open access, the full capacity utilization can be achieved through apt strategic decisions. DVC has plan to gainfully use the expertise of The Institute of Cost Accountants of India for their functioning.

MA *What roles could professionals like Cost and Management Accountants play to assist your organization in enhancing performance and competitiveness?*

The Institute of Cost Accountants of India is the only recognised statutory professional organisation and licensing

body in India specialising exclusively in Cost and Management Accountancy. Cost and Management Accountants' core competence is in Strategic cost management which is an approach to management accounting that explicitly highlights strategic issues and concerns. It sets cost analysis in a broader context in which cost information is used to develop superior strategies. A sophisticated understanding of the firm's cost structure can go a long way in the search for sustainable competitive advantage. The expertise of The Institute of Cost Accountants of India and power sector professionals of DVC can be brought into one platform by organising seminars/ workshops and thereby roadmap can be chalked out jointly for better performance and to remain competitive.

MA *What are the various ways your organization can integrate with the Institute for the diverse avenues in professional development matters?*

There are many ways DVC can integrate with the Institute of Cost Accountants of India for the diverse avenues in professional development matters. The lists are illustrative but not exhaustive. The most important is sharing of experiences through seminar/ workshops on issues pertaining to power sector. Arranging training programme on relevant topics like GST in power sector, Strategic cost management, Fuel cost analysis, Cost rules in electricity sector etc. may immensely help DVC executives to perform better. Case study in electricity sector is another area to share the problem and solutions. Writing articles in the Management Accountant Journal is also a constructive way to share experience. Attending workshops on MDP organized by MARF by specialized trainer also give a chance for personal interaction with experts on different topics. Finally the institute may be engaged to study the present costing system in vogue in DVC and suggest improvement in a time bound manner.

MA *As a token of advice to our young CMA achievers, kindly mention at least 3 qualities that they must possess to excel in their career.*

My advice that every young CMA achievers should possess these three qualities to excel in their career:

- ➡ You should have a clear vision with a definite roadmap.
- ➡ You are to be innovative and positive to achieve your goal.
- ➡ You should maximize your efficiency through team work.