



# **Inversion Management Services Private Limited**

**Case Study - Turnaround Management of a Thermal Power Generation Company**



### BACKGROUND

- In January 2020, a coal based thermal power generation company located in one of the eastern states of India engaged the specialist services of IMS with the objective of turning the performance of the Company around
- While the Company generated annual revenues in excess of USD 130 million (INR 1,000 crores), it faced several operational, financial and organizational roadblocks

#### ORGANIZATIONAL

- Diffused Organizational Structure with no defined accountability parameters
- Acute need of a competent, professional MD & CEO
- Weak Corporate Governance
- Inadequately defined compensation structures

#### OPERATIONAL

- Ad-hoc processes
- Lack of focused monitoring and reporting
- Commercial issues such as inefficient coal transportation logistics & fly ash disposal

#### FINANCIAL

- Excessive balance sheet leverage
- Collection of long pending accounts receivables



### SCOPE OF WORK

IMS's Scope of Work, under authority of the Company's Board of Directors, focused on 4 key elements

#### SUPERVISORY

- Deputing a full-time senior resource on-site to advise and assist the Company's management on strategy, operations and day to day management
- Supervising the management of the company, including suggesting an appropriate MD-CEO and other key personnel of the Company as per the extant Delegation of Power of the Company, if required

#### REVIEW & ANALYSIS

- Generating daily, monthly and quarterly MIS from reliable sources
- Reviewing the MIS in a pre-agreed format and regular discussions with management on observations and clarifications
- Participating in quarterly management reviews alongside the MD-CEO
- Participating in the Company's annual and long term budgeting exercise
- Participating as observers at Board Meetings & other committee meetings

#### ADVISORY & EXECUTION

- Establishing best practices relating to Corporate Governance, External Reporting, Investor Relations, Internal Controls, HR, Finance, IT and Legal
- Liaising with external stakeholders, including banks and financial institutions, in protecting and enhancing the Company's business and commercial interests
- Assisting and guiding the board in developing its Annual Operating Plan, budgeting, resource planning etc.

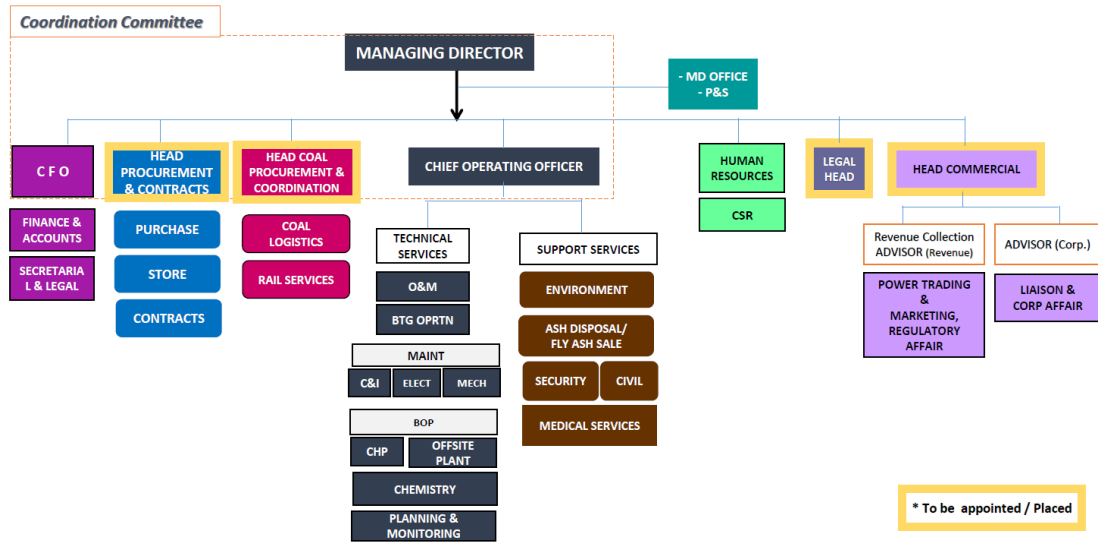
#### REPORTING

- Reporting formally to the Board of Directors every quarter on the financial performance of the company, and presenting observations on facts, trends and strategic issues
- Setting up quarterly meetings to discuss strategic initiatives and actions suggested to the Company and seeking support to ensure implementation and compliance

# Case Study

## Turnaround Management of a Thermal Power Generation Company (3/8)



AREAS OF IMPACT	PARAMETER	ROADBLOCKS FACED	WHAT WE DID
<p><b>Organizational</b></p>	<ul style="list-style-type: none"> <li>Organization Structure</li> </ul>	<ul style="list-style-type: none"> <li>The Company needed a competent, professional Managing Director and CEO</li> <li>The Company did not have a defined organizational structure prior to Inversion's engagement</li> <li>It did not have any Heads of Departments, nor did it have clearly defined roles and responsibilities for its key personnel</li> </ul>	<ul style="list-style-type: none"> <li><b>IMS introduced an ex-Executive Director of NTPC Ltd. for the candidature of Managing Director and CEO of the Company</b> <ul style="list-style-type: none"> <li>His appointment was approved by the Board of Directors</li> </ul> </li> <li>Additionally, IMS obtained approvals from the BoD for manning senior level positions, including separate heads of Legal, Commercial, Procurement, Contracts and Coal Management departments</li> <li>Defined KRAs and KPI for all personnel reporting to levels General Manager and above, up to the Managing Director level</li> </ul> <p><b>Current Organization Structure of the Company*</b></p>  <p>* - For representation purposes only</p>

### IMS IMPACT

IMS was successfully able to define a formal organizational structure for the Company, hire appropriate management personnel and establish key areas of responsibility and performance indicators for the Company's personnel at a middle and senior management level

# Case Study

## Turnaround Management of a Thermal Power Generation Company (4/8)



AREAS OF IMPACT	PARAMETERS	ROADBLOCKS FACED	WHAT WE DID
<p><b>Organizational</b></p>	<ul style="list-style-type: none"> <li>• Various smaller positive changes effected by Inversion across the Company's operations over the last 12 months</li> </ul>	<ul style="list-style-type: none"> <li>• N.A.</li> </ul>	<ul style="list-style-type: none"> <li>• <b><u>Operational Initiatives</u></b> <ul style="list-style-type: none"> <li>• Aligned purchase &amp; procurement SOPs to ensure a proper maker-checker mechanism to bring in transparency and effectiveness</li> <li>• Conducted frequent HOD meetings to ensure smooth cross functional operations</li> </ul> </li> <li>• <b><u>Structural Improvements at the Plant</u></b> <ul style="list-style-type: none"> <li>• Undertook repairs of chimney</li> <li>• Repaired and refurbished security barracks which houses the Company's security guards and the bachelor's hostel</li> </ul> </li> <li>• <b><u>Human Resources</u></b> <ul style="list-style-type: none"> <li>• Organised various employee-focused events to boost employee morale:                             <ul style="list-style-type: none"> <li>• Cricket tournaments</li> <li>• Plantation drives</li> <li>• Yoga classes</li> <li>• Refurbishing gym equipment</li> </ul> </li> </ul> </li> </ul>



AREAS OF IMPACT	PARAMETER	ROADBLOCKS FACED	WHAT WE DID
<p><b>Operational</b></p>	<ul style="list-style-type: none"> <li>Fly Ash Handling and Disposal</li> </ul>	<ul style="list-style-type: none"> <li>Prior to engaging IMS' services, the Company used to incur higher than average fly ash handling costs</li> <li>Additionally, the Company had signed a long-term contract with a cement manufacturer, which stipulated that it had to pay the latter a certain pre-determined amount for transportation of the fly ash it sold to said manufacturer</li> </ul>	<ul style="list-style-type: none"> <li>IMS was successfully able to reduce fly ash handling costs incurred by the Company from ~1.9% of Operating Revenues between April 2019 - February 2020 to ~0.2% of Operating Revenues between April 2020 - February 2021</li> <li>This expense would have been even lower, save for the fact that the Company incurred some costs for the internal movement of fly ash during the lockdown in 2020</li> <li>Upon careful review of the contract entered with the cement manufacturer, IMS found that while the Company was contractually obliged to pay the cement manufacturer a pre-determined amount for transporting the fly ash supplied to the latter, the contract had a provision for an annual renegotiation of this rate</li> <li>Consequently, IMS negotiated hard with the cement manufacturer on behalf of the Company and was successfully able to lower the transportation cost of fly ash to the latter to NIL</li> </ul>

### IMS IMPACT

IMS successfully helped the Company reduce its fly ash handling costs by ~90% in the period between April 2020 and February 2021, compared to the costs incurred by the company between April 2019 and February 2020



AREAS OF IMPACT	PARAMETER	ROADBLOCKS FACED	WHAT WE DID
Operational	<ul style="list-style-type: none"> <li>MIS Reporting</li> </ul>	<ul style="list-style-type: none"> <li>While the Company did have some systems in place for capturing and reporting data, these were unstructured and non-comprehensive in nature</li> </ul>	<ul style="list-style-type: none"> <li>IMS assisted the Company in generating, structuring and consolidating detailed financial and operational MIS reports from reliable sources on a daily, monthly and quarterly basis</li> <li>It also established a regular practice of reviewing the MIS generated with management and key Company personnel on a regular basis</li> </ul>
	<ul style="list-style-type: none"> <li>Unutilized/ Untied Plant Capacity Optimization</li> </ul>	<ul style="list-style-type: none"> <li>The Company had not signed any long or short-term Power Purchase Agreements with distribution companies</li> </ul>	<ul style="list-style-type: none"> <li>IMS assisted the Company in exploring the possibility of selling its units on the India Energy Exchange (“IEX”), India’s first and largest energy exchange that provides a nationwide automated trading platform for physical delivery of electricity</li> <li>In February 2021, the Company was able to sell ~INR 12.5 crores worth of units on the IEX, which further increased to ~INR 25 crores in March 2021</li> <li>As a result of the lower working capital cycle in sales on IEX, the Company was also able to free ~INR 30 – 40 crores of working capital due to this initiative</li> </ul>

### IMS IMPACT

As a result of IMS’ initiatives, the Company has been able to tap into an additional source of revenue generation and free up working capital. Further, the management is able to keep abreast of the Company’s performance in a timely and structured manner due to better MIS reporting practices instituted by IMS



AREAS OF IMPACT	PARAMETER	ROADBLOCKS FACED	WHAT WE DID
<p><b>Operational &amp; Financial</b></p>	<ul style="list-style-type: none"> <li>Coal Consumption, Costs and Transportation</li> </ul>	<ul style="list-style-type: none"> <li>Historically, the Company used a blend of both road and rail for transporting coal to its plant, with ~70% of the coal being transported by rail and the rest by road</li> <li>Consequently, in addition to bearing higher coal transportation costs, it frequently faced problems like pilferages and lack of timely availability of coal at the plant due to bad weather, unpredictable road conditions etc. during transportation</li> <li>Additionally, the Company used to raise disputes with transporters in case the quality of the coal supplied was lower than agreed upon levels, which led to delays in dispute resolution</li> </ul>	<ul style="list-style-type: none"> <li>Upon IMS' recommendations, the Company now transports 100% of its coal by rail. IMS' recommendations on building two additional rail sidings were also implemented by the company</li> <li>As a result, the Company has been able to substantially reduce the cost of transporting coal, from INR 1,500 / Tonne (as incurred during road transportation) to ~ INR 750 / Tonne by rail</li> <li>Upon IMS' recommendations, the Company also started the practice of blending tailings with coal procured from the mines. IMS negotiated the cost of these tailings on behalf of the Company as well</li> <li>These initiatives have collectively led to lowering the coal cost from INR 2.80/unit to INR 2.43/unit, improving the specific coal consumption, reducing pilferages and ensuring timely availability of coal at the plant</li> <li>IMS also established the practice of taking up disputes over coal quality directly with coal suppliers, which has led to more efficient dispute resolution</li> </ul>

### IMS IMPACT

IMS successfully assisted the Company in reducing its coal transportation costs by ~50%, reducing the overall cost of coal per unit by ~12%, improving specific coal consumption, reducing pilferages, ensuring timely availability of coal and streamlining dispute resolution practices over the quality of coal received



AREAS OF IMPACT	PARAMETER	ROADBLOCKS FACED	WHAT WE DID
Financial	<ul style="list-style-type: none"> <li>Insurance Costs</li> </ul>	<ul style="list-style-type: none"> <li>N.A.</li> </ul>	<ul style="list-style-type: none"> <li>IMS negotiated with the Company's general insurance service provider and was able to successfully renew some of the company's insurance policies at lower premiums, without any reduction in coverage</li> <li>This resulted in a ~44% reduction in Insurance charges for the period between April 2020 to February 2021, as compared to that incurred between April 2019 and February 2020</li> </ul>
	<ul style="list-style-type: none"> <li>UI Costs</li> </ul>	<ul style="list-style-type: none"> <li>The Company had earlier hired an external consultant to advise management on the quantum and timing of grid injections</li> </ul>	<ul style="list-style-type: none"> <li>IMS was able to successfully guide and train the Company's in-house team on grid injection management, and was thus able to save on costs incurred on external consultants</li> <li>This translated to a reduction in its UI costs by ~45% in the period between April 2020 and February 2021, as compared to charges incurred between April 2019 and February 2020</li> </ul>
	<ul style="list-style-type: none"> <li>Collections of Accounts Receivables</li> </ul>	<ul style="list-style-type: none"> <li>Collection of accounts receivables has been a key area of concern for the company</li> <li>As of H1 FY2021, Days Sales Outstanding stood at ~360 days, with ~INR 805 crores due from key large customers</li> </ul>	<ul style="list-style-type: none"> <li>By January 2021, IMS was successfully able to assist the management in streamlining processes, including presentation of data and details, for collections of over ~INR 450 crores from its legacy debtors and repaying its lenders ~INR 375 crores out of these collections</li> <li>Since the Company had not been able to pay its lenders in the past due to long standing collection related issues, Inversion's involvement added significant value to the Company and its lenders in this area</li> </ul>

### IMS IMPACT

In a relatively short period of time, IMS succeeded in substantially reducing certain key costs incurred by the Company. Further, it also enabled the Company to improve its liquidity and solvency position by ensuring collection of long pending receivables and repayments to the Company's lenders



**Thank You**