

## **FINANCIAL PLAN**

### **Financial Position**

From a level of Turn Over and Profit After Tax of Rs. 2289 Crores and Rs. 192 Crores respectively five years back in 2001-02, the Corporation had attained a level of Rs. 4676 Crores and Rs. 1066 Crores respectively during the last Financial Year i.e. 2005-06.

The Corporation had undergone a series of Financial Restructuring measures over the last five years by way of Repayment/Restructuring of High Interest Bearing Loan, Capital Restructuring by way of transfer of accumulated Net Power Surplus after adjustment of Dues to the respective Owner Government's Capital Account, Securitisation of large Accumulated Dues of State Electricity Boards by receipt of Bonds as well as one-time settlement of large Accumulated Arrear Dues from Bokaro Steel, Durgapur Steel and IISCO and also Accumulated Dues payable by DVC to NTPC. Unlike past years, both the SEB Consumers of DVC (JSEB and WBSEB) have operationalised payment mode through Letter of Credit.

The Corporation Balance-sheet had a consistently Asset-Liability mismatch due to consideration of Pension and Gratuity Liability as well as Leave Salary on "Pay As You Go" basis both in respect of existing Employees (11000 nos. approx.) as well as Pensioners (12000 nos. approx.). During the last two years since receipt of Bonds worth Rs. 1617 Crores from the SEB-s with accrued Interest against Securitisation of Dues, the Corporation has started creation of the Pension and the Gratuity Fund of more than Rs.2100 cr. both for its existing Employees as well as Pensioners in 4 to 5 annual instalments for correction of the Asset-Liability mismatch, which is within the provisions of the Tariff Policy also.

DVC is presently a Cash Surplus Organisation with tremendous growth potential. With Professional Management, Treasury Section has emerged as a Profit Centre by way of leveraging the Lowest Cost Fund available from Banks towards Working Capital against the Surplus Fund which is yielding higher returns. DVC has earned Rs. 28 Crores, Rs. 19 Crores and Rs. 38 Crores during the last three years from 2003-04 to 2005-06 as Interest income on deposits. In addition, with introduction of Centralised Banking System, the Overdraft Drawals within sanctioned limits at various Stations are pooled together at the end of each day and off-set against Surplus Fund at Headquarter, thereby yielding savings in Interest Cost.

DVC has also been able to gradually phase out payment in cash and payment by cheques by induction of Direct Payment through Bank to Employees' Accounts as well as Creditors'/Contractors' Accounts mainly through RTGS Mode as implemented by the Reserve Bank of India (RBI) since April, 2005. With procedural reforms, the Credit Period to the Suppliers/Contractors for procurement as well as execution of works have

also been reduced to a fortnight to make it vendor friendly and to ensure broad-basing of the Vendors'/Contractors' participation in Tenders. DVC has also inducted IDBI Bank in the Public Sector and ICICI Bank in the Private Sector (both being Bankers of Govt. of India also) in addition to State Bank of India, United Bank of India and Punjab National Bank for induction of "Internet Banking" and "Anywhere Banking" in phases all over the DVC Valley.

To ensure Decentralization of Administrative and Financial Powers at various Field Stations of DVC matching with the on-going growth Phase, the process of Settlement of Retirement Benefits to DVC retirees has also been decentralized from the year 2004-05, which has yielded remarkable improvement in timely settlement of retirement Dues to all categories of Employees.

DVC has initiated various measures for restructuring its Budgetary process which has already been decentralized from the last year i.e. 2005-06. Simultaneously DVC has also initiated measures for restructuring its Accounting Systems and Methods in consultation with M/s. A.F. Ferguson, whose recommendations have already been submitted to the Comptroller & Auditor General of India for approval before implementation.

DVC from the last year i.e. 2005-06 has implemented Profit Centre-wise Accounting system each month at the four major Thermal Stations. Monthly Financial Reports are also being compiled by each of the four Thermal Stations and consolidated at Maithon Central Accounts Office which is further fine-tuned at Headquarter before submission of the same to the Corporation. **All these initiatives of the Finance & Accounts Department of DVC have strengthened the timely decision-making process across the Organisation. Steps have also been taken to make the entire Budgetary, Accounting & MIS System fully IT-enabled within 2007-08.**

The vintage Plants of DVC have strong turn around prospects with some major repair works. A Repair Package of Rs.655 cr. has accordingly been firmed up for revamping DTSP Unit Nos.3&4 CTSP Unit Nos. 1,2 & 3 and BTSP 'B' Unit Nos.1,2 & 3. These major repair works have been initiated during the current year i.e. 2006-07 which will enable DVC to achieve the Operational Performance Targets from 2007-08 as fixed by the Hon'ble Commission.

Appendix – I shows the last five years' trend in various Financial Performance Parameters of the Corporation.

The Capital Account of the Central Government is Rs. 693.88 Crores (Original Contribution – Rs. 56.08 Crores), Bihar Government is Rs. 669.78 Crores (Original Contribution – Rs. 49.36 Crores) and West Bengal Government is Rs. 673.02 Crores (Original Contribution – Rs. 109.26 Crores). The Net Worth of the Corporation (including direct Capital Contribution of the Owner Governments, Profit ploughed back as well as Reserves & Surplus) is Rs. 5403 Crores as on 31st March, 2006. Appendix-II

shows the source and utilization of the Long Term Fund of the Corporation. As against this, the outstanding loan is only Rs. 576 Crores as on 31st March, 2006. Appendix -III shows the details of existing outstanding Loan. The debt equity ratio works out to 0.11:1 as on 31.3.06.

The existing high level of fixed expenditure in operation has resulted in a high degree of operating leverage which is sensitive to any tariff reduction, which makes earliest commissioning of new Projects indispensable.

### **Strategic Project Financing**

DVC's Capital Structure unlike Companies governed under Companies Act has only two sources viz. Net-worth Fund of the Member Governments including Capital amount and free Reserves and Market Borrowings. Since the year 1969-70, in absence of direct Capital Contribution from the Member Governments, Profit margin recovered through Tariff has emerged as the lone source of Owners' Fund for future growth. A part of the Profit from Sale of Power is transferred to Reserves and balance is ploughed back as Owner Governments' Capital. Financial Closure of any Project implies investment of margin money from Owners' Fund which is also remunerated with higher return (14% Post-tax) through Tariff and essential for future sustenance and growth.

For Thermal Project Expansion of 4500 MW during XIth Plan period, the total Project Cost, IR Requirement and Market Borrowing work out to Rs.18000 Crores, Rs.6000 Crores and Rs.12600 Crores respectively considering Debt Equity Norm of 70:30. As regards the XIth Plan Projects actions on Land Acquisition, MOEF Clearance, Water Clearance etc. are already in progress in respect of the Extension as well as Green Field Projects on which a substantial amount has already been invested by DVC. The Project-wise Status Report in respect of the XIth Plan Projects is given in Annexure-IV.

DVC has presently a built up fund of Rs. 3000 Crores as detailed in Appendix-IV which also gives a strong signal for earliest expansion to optimize the return on net-worth as available in CERC Norm ( i.e. 14% Post-Tax). This is over and above the Internal Resource element of about Rs. 1440 Crores on account of 10th Plan Thermal on-going Projects which have since been fully invested.

Appendix-V depicts the project investment proposal during the XIth Plan Period vis-à-vis Funding pattern thereof. Appendix-VI shows the details of internal resource assessment as may be available for funding the XIth Plan Projects and Appendix – VII shows the tentative Loan Repayment Schedule of the Corporation during the 11th Plan period.

## **Memorandum of Understanding (MOU) with Power Finance Corporation (PFC)/REC/SBICAP/IDBI as Lead Arrangers**

A Draft MOU for funding the XIth Plan Projects has already been mutually framed out and is likely to be executed in July, 2006 between DVC and PFC. PFC has accredited DVC under the category of highest “AAA” rated Central PSU Power Utilities for the purpose of lending fund at lowest Interest Rate. Moreover, PFC is one of the lending institutions through whom the benefit of Interest Rate Subsidy (presently 3%) is extended by the Government of India under Accelerated Generation and Supply Programme (AG&SP) Scheme. Ministry of Power, Govt. of India in the past sanctioned Interest Subsidy under AG&SP Scheme for the R&M Projects as well as Thermal Extension Projects of DVC during the Xth Plan period provided the latter are commissioned within the Xth Plan period. DVC intends to avail the same AG&SP Scheme benefits for XIth Plan R&M and Thermal Projects also, once Ministry of Power, Govt. of India extends the AG&SP Scheme during the XIth Plan period. Similarly AG&SP sanctioned loans are also available through REC. The Interest Rate on Loans extended by PFC/REC net of Interest Rate Subsidy is competitive both nationally and internationally. Moreover, the borrowing fund required by DVC for XIth Plan Projects is very large estimated at Rs. 18,600 Crores (in addition to about Rs.3000 Crores Loan for Xth Plan Projects) with its associated risks to the Lenders. It is therefore being planned to mobilize this large amount of borrowings with minimum time through four lead Arrangers viz. PFC, REC, SBICAP and IDBI to ensure full comfort of fund with minimum hassles of negotiation, complexities of Security Mechanism, Loan and interest Servicing over a long period with a large number of Banks and FI-s etc. This is more so required due to prudential limitation of a Single Lending Agency on the maximum exposure of borrowings to a single Organisation. The Consortium of Lead Arrangers will also ensure a portfolio of borrowings with minimum cost of fund, particularly in the event AG&SP Interest Subsidy is not available to the XIth Plan Projects. Sourcing decisions will also be finalised with reference to the tied up Financing Package as may be offered in the ICB Tenders from the Equipment Suppliers to the Projects also.

### **Future Financial Outlook**

Future financial stability of the Corporation will be largely dependent on the timely execution of both Thermal and T&D Projects, solvency of the Consumers, Payment Security Mechanism, availability of Power Evacuation Corridors, Consumer Tie-Ups for the new Projects, Diversified Fuel Balancing with expansion in the Hydel based, CBM based, Nuclear-based and Non-renewable based Projects in reasonable mix as also induction of State of the Art technology with super critical and ultra super critical steam conditions of the Boiler and optimum Plant Operation meeting the tariff norms. Diversified consumer mix including trading is also a critical factor for ensuring sound financial health of the Corporation.

The criticality of generating necessary Cash Flow for servicing huge amount of Project Loans of more than Rs.15000 Crores and interest thereon over a time-span of about 15-20 years with timely commissioning and operation of the Xth & XIth Plan Projects, need not be over-emphasised. It is pertinent to mention here that TISCO, Bokaro Steel, CESC & Railways were initially the cash life line consumers of DVC. Over the years, JSEB, WBSEB, SAIL Units viz. Bokaro Steel, Durgapur Steel, & IISCO and large group of small consumers in the domestic sector as well as scheduled & unscheduled export have become the cash life line of the Corporation. In future however, with setting up of large number of export oriented thermal units and open access regulation, there will be a further transformation in the cash life line of the Corporation with higher proportion of export to other States through bilateral agreement as well as on competitive basis where payment security is going to be a critical factor for ensuring financial stability of the Corporation in the long run.