

# Case 1A

## Type: Profitability



**ConQuest**

Consulting & Strategy Club of IIM Shillong



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# Problem Statement:

**Your client is a thermal power plant in India. It has been facing declining profits for some time now. They have asked you to identify the problem.**

SCRIPT KEY	
Interviewer	
Interviewee/Candidate	

Your client is a thermal power plant in India. It has been facing declining profits for some time now. They have asked you to identify the problem.

I would like to start with a few preliminary questions.

Sure! Go ahead.

Can you please tell me where the plant is located, and since when has it been facing these declining profits?

The plant is located in Rajasthan and their profits have been declining since last 3 months.

Since the profits have been declining, either the revenue has decreased or the cost has increased.

There has been no change in their revenue. The demand and their prices have been constant during this period. Why don't you look at the cost?

Alright! I'd like to analyze cost across the value chain. A typical power value chain has 4 parts: generation, transmission, distribution and sales. Is it fair to assume that our client, which is a thermal power plant would primarily be involved in generation and transmission?

Yes. They have been facing increased cost in generation.

Okay. Then I'd like to further break the generation process into 2 main buckets – Raw materials and the plant (which basically covers the actual process of generation of electricity). I'd like to analyze the raw materials first. Since it is a thermal power plant, the main raw material would be coal.

That's correct!

Has there been any change in the price, amount or quality of coal used by the client.

No, there has been no direct change, but yes, the problem seems to be in the raw material only. Can you identify it?

Alright then, I'd like to trace the journey of coal to identify the problem. Do we have any information on how and from where/ whom does the client procure coal?

The client gets it imported from Russia.

Coal is usually transported in ships, and sometimes through land. Has there been any change in the transportation process?

It has always been transported through ships. No change there.

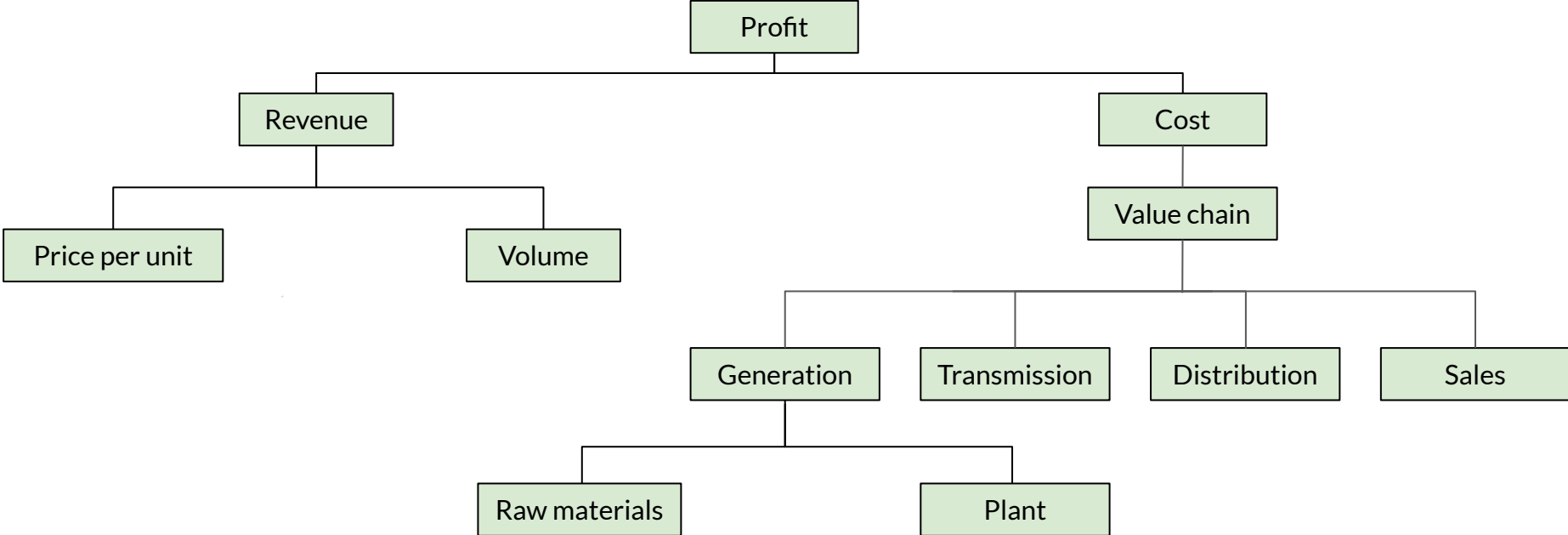
**So, the client has been importing coal from Russia, and there has been no change in the process or the prices directly. Has there been any change in the currency exchange rate?**

Yes, exactly! Russian ruble has been appreciating with respect to rupee for 3 months now, because of which the client's cost of importing raw material has increased.

**Okay! Should I look at other components of the value chain?**

No, that would be all.

# PROFITABILITY FRAMEWORK



## QUALITATIVE INFORMATION

### **Case Background:**

A thermal power plant in Rajasthan, India with coal as main raw material has been facing declining costs since 3 months now.

### **Case Facts:**

1. Thermal power plant located in Rajasthan, India
2. Problem since 3 months
3. No change in revenue
4. Value chain cost analysis
5. Increased cost in generation
6. Main raw material is coal
7. Coal imported from Russia through ships

## CLARIFYING ANSWERS TO BE PROVIDED ONLY WHEN ASKED BY THE INTERVIEWEE

Interviewee	Interviewer
Where is the plant located?	Rajasthan, India
Since when has it been facing these declining profits?	Since 3 months
Is it a cost side or revenue side issue?	There has been no change in the revenue. Look at the cost side.
What is the main raw material?	Coal is the main raw material.
Which is the main importer of coal?	Russia is the main importer.

**FOR THIS QUESTION:** To analyse the costs, we can explore the journey/value chain of power. The value chain of power can be divided into generation, transmission, distribution and sales. Further, an increase in generation cost has been observed, which is then divided into raw material and plant costs.

### **GLOSSARY**

**Value Chain Analysis (VCA):** It is a process where a firm identifies its primary and support activities that add value to its final product and then analyze these activities to reduce costs or increase differentiation.