

# COST MANAGEMENT

*AS AN EFFECTIVE TOOL FOR  
BETTER MANAGEMENT*

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# WHY COST MANAGEMENT ?



# Its evolving.....



# License Raj.....cost did not matter

- ▶ Customers had no choice on price...hidden costs/ inefficiencies also paid for....
- ▶ Long waiting period for deliveries...
- ▶ Limited choice...



# Competition.....cost matters

- ▶ Global Competition
- ▶ More players
- ▶ Increased customer expectations



# From cost management to cost leadership.....

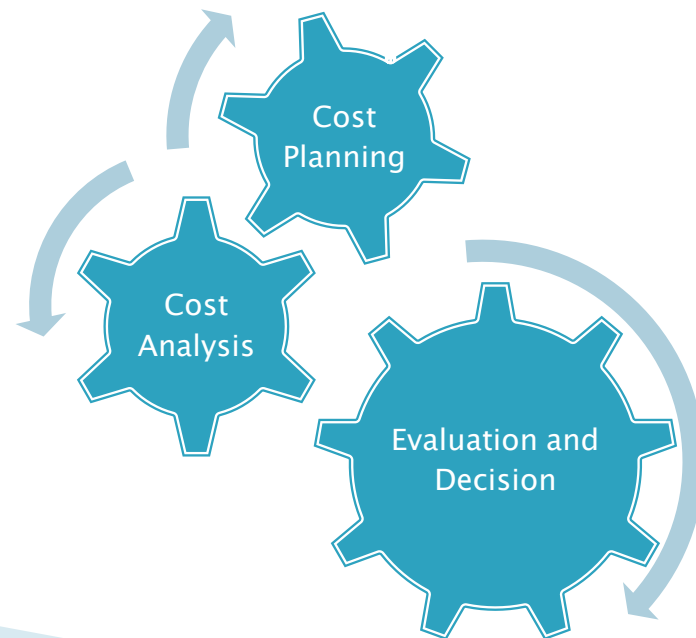
- ▶ Management alone may not help
- ▶ Innovation is the key
- ▶ One needs to be cost leader to take an early advantage in market



# What is cost management ?

## ▶ Traditional definition-

“The processes involved in planning, estimating, budgeting, and controlling costs so that the task/project can be completed within the approved budget”



# Why cost management ?



- ▶ Ensure profitability
- ▶ Statutory requirements on record keeping
  - Regulated sectors
  - Non-regulated sectors
- ▶ CAS-4 valuations for related party transactions
- ▶ Inventory valuations
  - Erroneous valuations
  - Erroneous reporting





# How to manage cost ?



# Factors effecting cost management

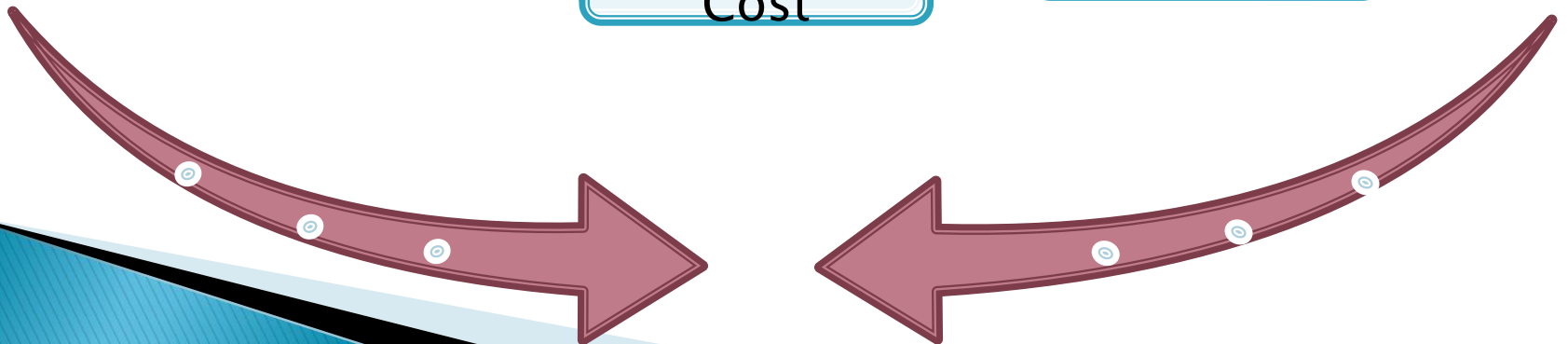
Complacency

Efficiency

Balancing quality & Cost

Customer expectations

Lack of resources



# Advantages of cost management



**Predict future expenses and cost**

**Control expenses**

**Ensure cost are approved before purchases are made**



# What is expected ??



# How cost management helps.....

	Case 1	Case 2	Case 3
Sales Units	1000	1000	1200
SP Unit rate	100	100	98
Revenue	100000	100000	117600
Variable unit cost	70	67	67
Variable total costs	70000	67000	80400
Fixed costs	20000	20000	19000
Profit	10000	13000	18200

# Process Flow at L&T Special Steels & Heavy Forgings Private Limited



**SCRAP / DRI**



**MELTING EAF**



**REFINING LF**



**VACUUM DEGASSING**



**FORGING**



**RE HEATING**



**INGOT STRIPPING**



**INGOT CASTING**



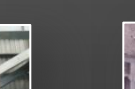
**HEAT TREATMENT**



**TESTING**



**MACHINING**



**FORGED COMPONENT**

**Scrap to Finished forging**

# Some of Cost Reductions measures

Reduction in  
Power  
consumption  
by 20 % &  
Natural gas by  
25% in SMS

- Use of oxygen to save energy
- Increase in flux addition
- Consecutive heat plans
- Use of low cost oxygen replacing natural gas in boilers
- Modification of ladle pre-heater & high speed burners
- Lower power consumption

SMS Yield  
improvement

- Replacement of DRI by better quality scrap
- Optimum Heat size plan
- Calibration of DRI system & load cell

Use of alternative refractory category in Ladle furnace reduced refractories cost

Consumption of NG in Re-Heat treatment furnace reduced by optimizing Furnace load & real-time consumption.

Setting up of small size furnaces to reduce energy consumption.

Shutdown of plant auxiliaries during idle time led to reduction in utility consumption.

Focus on forging tolerances has led to focus on optimum heat sizes and improved yields.



Installation of metering systems to the extent possible at all shops to monitor energy consumptions.

Continuous monitoring of yield from Liquid metal to Finished Sale forgings has led to cost reductions.

Reporting budget Vs. actuals – MIS on overheads to all cost centers resulting in awareness on need to evaluate costs....

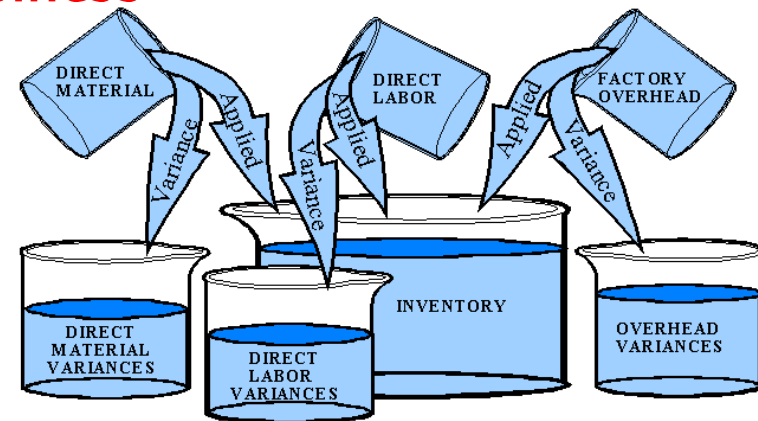
Better negotiations on gas supplies....

# Role of CMA....

- ▶ Understand the business set up
- ▶ Products being manufactured
- ▶ Manufacturing processes
- ▶ Key cost drivers
- ▶ Competition – bench marking
- ▶ Variance analysis
- ▶ Challenge the current methods of manufacturing....and also costing
- ▶ Load overheads based on logical thinking
- ▶ Aim for process improvements/cost reductions
- ▶ **Goal should be – how to get more business**



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Thank You