Fund infusion energizes Tata Power; focus now on Mundra renegotiation

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Shares of Tata Power Co. Ltd gained about 10% on Tuesday on news of a fund infusion of ₹2,600 crore by Tata Sons Ltd. With a debt of about ₹48,000 crore, which eats away half of a fiscal's operating profits as finance costs, the fund infusion can help lower interest costs.

But the savings on interest costs will be offset by a dilution in the equity base of 18%. "Since the proceeds would be largely utilized for deleveraging, interest savings worth ₹180 crore (post-tax) would expand FY21E profit after tax by 17%; hence, the infusion would be EPS-neutral," analysts at Edelweiss Securities Ltd said in a note.

The move is also a vote of confidence from the promoter group. "Does the 10% hike in promoter stake hint at better times ahead for Tata Power? We think so," Edelweiss's analysts added.

Broadly speaking, the fund infusion provides the requisite fillip to balance-sheet deleveraging, which has been slow.

Besides, the company said its board has given an in-principle approval to set up an infrastructure investment trust (InvIT) for the renewable energy business.

Acquisition of renewable energy projects and expansion added significant debt to Tata Power's balance sheet. An estimated ₹10,000 crore, or 20% of the consolidated debt, is attributed to the renewable energy business. So, an InvIT could lead to a notable reduction in debt.

"Separation of the renewable business will likely comfort investors who have been less enthused owing to large capex commitment with uncertain return profile for new projects, leveraged buyout of Welspun's renewable business, and receivable and contract sanctity with various state governments looking to renege contracts," analysts at Kotak Institutional Equities Research said in a note. Tata Power also said it completed the sale of three ships for $212.76 million. This is its second asset sale in recent months after the divestment of its stake in Cennergi in South Africa for around $110 million.

The stake sales, promoter fund infusion and InvIT plan underscore the company's efforts to ease the debt on its balance sheet.

But sizeable benefits—both in earnings and balance-sheet deleveraging—can accrue only when the company concludes major asset restructurings such as the InvIT or renegotiation of power-purchase contracts at its Mundra power plant.

Payment delays from discoms and the covid-19 uncertainty are major headwinds for the renewable energy business InvIT. Similarly, delays in tariff renegotiations are prolonging losses at the Mundra power plant.

Nevertheless, with discussions dragging on for some time now, many expect Tata Power to conclude the Mundra tariff renegotiations in the current fiscal (at least with a couple of states). That is one huge catalyst to watch for. "After the Maharashtra cabinet's approval of a tariff hike, the Mundra resolution is in sight; hence, losses are likely to be capped," add analysts at Edelweiss.

Debt mix

A renewable energy infrastructure investment trust can help Tata Power to off-load a fifth of its total debt.

Source: Company

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