Tata Power Renewables to grow five-fold in 5 years: Ashish Khanna

Ashish Khanna doesn't think that conglomerates will call the shots – this is a decade for renewables and there is enough for everyone.

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Ashish Khanna, president - renewables, Tata Power

Tata Power Renewables, the green energy arm of Tata Power, aims to grow five-fold in five years across businesses, president Ashish Khanna said. The parent company is keen to unlock value in the green energy business and Khanna said the company is confident that growth capital will become available to scale up capacity to 15 GW by 2025 from about 3 GW now.

In an interview with *Moneycontrol*, Khanna said while policy initiatives and investments by conglomerates will boost manufacturing in the green energy supply chain, the demand-supply mismatch may continue for a few more years. Edited excerpts:

Tata Power Renewables has developed a portfolio of products, services, and projects. What is the strategy going ahead?

We have not changed a lot of portfolios; we have just been going on with aggressive growth in the segment we were serving in the past. In manufacturing, we were the first company to export more than 1 gigawatt (GW) and as we speak, 1.1 GW of both cells and modules.

In the past, most of our products used to be exported, but now we have enough options within the country too. As an engineering, procurement and construction (EPC) company, our utility-scale order book is at around 4.4 GW, with an approximate value of Rs 9,000 crore as on December 1.

In the rooftop solar power EPC business, this is our seventh year consecutively where we have been declared as the No. 1 player. In the solar pump business, we are No. 1 in the market and we have seen a gradual and steep increase in this business in the last few years with big-ticket orders. We are also into electric vehicle charging solutions and home automation.

In our project development business, we have around 3 GW of our own operating assets, which includes close to 1 GW of wind and 2GW of solar. We have a pipeline of another 1.5 GW. By next year, we should be close to 5 GW of our own operating assets. Our endeavour is to be 15 GW by 2025 through our own investments.

What is the next growth driver for Tata Power in the renewable business?

We are fully integrated and we are doing reasonably well. If the opportunities are growing multi-fold, our growth will be multi-fold, too. We are well-placed because of our investments and experience in hybrid solutions, cost-optimal solutions for floating solar, storage and round-the-clock power. We are not just a renewable energy company but also a distribution company.

We are going to grow at least 2 GW per year in our own investments, we will retain our leadership position in our EPC businesses. We will have multiple times growth in each of the businesses, some will be 5x some will be 10x in the next five to six years. Overall, we will multiply five times in five years, if not more.

What is the capacity expansion plan for solar cells and modules?

In the modules and cells business, there have been some setbacks in the last one or two years with respect to the pricing of modules. Chinese suppliers going back on their contracts, shipping costs, and more importantly, the availability of containers and ships have been a constraint.

Last one year has been difficult for us, like for everyone else. We have been importing and have our own capacities of 1.1 GW for cells and modules. We generally import modules for projects where it is allowed to import. We are evaluating the options of enhancing our manufacturing many times, both in cells and modules, from the current level and work towards upstream integration.

We have decided on the capacities, the investment and are currently looking at the locations. We are going to approach our board for approvals.

In the last year or so, conglomerates like Reliance Industries and Adani Group have announced big investments across the renewable energy supply chain. Is the industry moving towards being self-sufficient?

New tariff barriers (on solar modules and cells) are going to be imposed from April 1. The 40 percent tariff on panels is a huge component and with this, the difference between an Indian product and foreign products will be reduced. If this is maintained, we have all the reasons to believe that manufacturing will be coming to India.

The government has also announced a production-linked incentive. The challenge in manufacturing is that it has to be taken into consideration on a long-term basis, you need deep pockets because the technology needs to be further improved and we need to set up plants that can compete with imported products.

There is a huge infrastructure which is available abroad. We have taken the right steps in ringfencing the country. But to expect that it will happen in a year or two and with one or two announcements is not the right thing to do.

If you look at the total 500 GW of capacity target in the next 10 years, we are definitely aiming to add 35 to 40 GW of renewable installation every year. If the majority of this is coming from solar, that means we will be adding 20-25 GW of capacity that would need an equal amount of manufacturing capacity for modules and cells. For cells, we will need the same capacity or more or wafer manufacturing.

While there have been announcements, no one has attempted it in this country. Unless there is a fully integrated upstream and downstream supply chain, it will be difficult to make a most cost-effective and quality product. So, the industry is moving in the right direction, but there will always be a mismatch between what capacity is coming up and how soon it is required.

What is the biggest challenge in converting the announcements into reality?

The first and foremost thing is sustainability of policy, which the government has reflected through their intent and content. Secondly, no industry can work on subsidies or tariffs – it has to be self-sustainable on a long-term basis.

The challenge in this particular industry is that, unlike many other manufacturing industries, the technology needs to improve on a quarter-on-quarter basis, not on a decade-to-decade basis.

Tata Power has been in this industry for the last 30 years and could have built capacities and upgraded – we don't have those constraints. But that needs a stable market and there is a need to develop manufacturing of input elements and research and development. All of us are more confident that the products will have a market, but we cannot take our eyes away from the peculiarities of this industry.

So is the industry moving towards a situation where the big boys, the conglomerates, will call the shots?

I don't think that will happen. But there are certain fundamentals that require deep pockets. The margins are very low and the industry is highly competitive. There are low entry barriers and there are new entrants with Fedayeen tendency that can destroy the market.

Weak players can't survive. Also, when we are aiming for growth, optimisation of cost is important and that comes from scale. In some segments, you will make profit and somewhere else you will make less than predictable profit; if you have a larger portfolio then you can absorb it. You need a large portfolio to absorb the vagaries of commodity price cycles. I think there is enough for everyone. I think this is a decade for renewables. Everyone should play at their own pace for their own strengths.

Has the industry matured or will aggressive bidding for solar projects continue?

We are still at a very nascent stage as an industry. We have had a multi-fold expansion in the last five years but we are still too small and it is too much, too soon. We are still less than 10 GW and unless we come to the level of 20-25 GW, where everyone understands that there are some rules and there is a business for everyone, we will not have maturity.

When bids come, people become very hungry and there is still a lot of immaturity. If we look at the small window of last year, there is some maturity coming in but it is still very aggressive and highly competitive. The challenge with being very aggressive is that there is no variable cost which can change if the assumptions your bids are based on change.

What will help is if there is a sense of visibility of project pipeline and predictability of the timelines – from the time the bid winner is declared to the time of signing power purchase agreements.

The group has considered value unlocking through InvIT, which did not work out, and is now considering a listing for the renewable energy business. What's the status of that and where is growth capital coming from?

The Tatas are very well-placed and our performance has been well-recognised. Our growth aspirations are also very well-calibrated. The team has done a wonderful job in the process regarding investors and investments. It's a continuous process where an organisation keeps on looking at various options which are available to enhance its base and to get the funds for it.

The evaluation of options is on, it is difficult to predict a timeline. We have a timeline and clarity on our growth plans. We are very confident of materialising those plans. Whatever is required from the investment standpoint for our growth will be available with us.

Are there any gaps you need to fill in your portfolio, like for new technologies like green hydrogen? Are you open to mergers and acquisitions for scale or for technology?

We keep looking at them. We are not closed to it, but we are not dependent on it for growth. We are looking at new technologies – it could be either through acquisition of technology or tie-ups with partners where both of us can play with our strengths.

Any expectations for the budget?

Electricity has no GST, so the entire burden of GST lies on the developer. The government has done a great job. What we are looking forward to is continuity in the same policy structures. Some changes are required, but we should move in the same direction. More incentives should be given to the industry if we want to further promote manufacturing.