With leaner books, Tata Power can make it big in renewables. But don't miss RIL, Adani's war chest.

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Synopsis

The country's largest vertically integrated power company wants clean energy to account for 60% of its portfolio by 2025 from the present 30%. It wants to reach carbon neutrality by 2050. Tata Power has significantly reduced its net debt and looks set for a complete switch to clean energy resources – not without some ifs and buts.

Green is Praveer Sinha's favourite colour nowadays – one can safely say that. For, the CEO and managing director of Tata Power has sharpened his focus on renewable-energy resources such as solar and wind to move away from highly polluting coal-fired electricity generation. He has unveiled ambitious plans to transform the company's generation portfolio toward "clean and green" power and reach carbon neutrality by 2050.

By 2025, the country's largest vertically integrated power company wants clean energy to account for 60% of its portfolio from the present 30%. The company has announced that it will add 15 gigawatts (GW) renewable energy capacity by 2025. It is also betting on

three other growth drivers for its clean-energy business — solar rooftop, solar pumps, and electric-vehicle charging stations. It has projected a market size of INR19,500 crore in the solar-pump business by FY26.

Tata Power's current generation portfolio mix is dominated by coal-based thermal-power capacity, even as it makes impressive gains in expanding its renewables assets. As of March 31, 2021, it had a total power generation capacity of 12,808MW. Thermal accounted for 69% at 8,859MW, followed by 1,762MW of solar, 932MW of wind, 880MW of hydro, and 375MW of blast-furnace gas waste-heat recovery capacity.

To switch to clean energy, the company will avoid developing new coal-based capacity and won't acquire coal-based stressed assets. Its existing thermal fleet will be retired upon the end of plant life or the expiry of power-purchase agreements.

"A leaner balance sheet will give us the financial flexibility to pursue growth in strategic areas."

— Praveer Sinha, CEO and managing director, Tata Power

Solar is shining

The consolidated operating revenue of Tata Power for FY2020-21 is INR2,176 crore, against INR2,045 crore in FY2019-20, and consolidated profit after tax (PAT) is INR157 crore, against INR328.45 crore during the previous year.

"We are the prime choice as the EPC (engineering, procurement and construction) contractor for large developers. The growth has largely been driven by the performance in our focused areas in solar businesses, namely solar EPC, rooftops and pumps despite a part of the year is lost to Covid-19. We clocked 2.4 times growth in Tata Power Solar's annual revenue to INR5,119 crore this year from INR2,141 crore last year," says Sinha.

The confidence in his voice stems from the fact that the company continues to have huge order flows from the solar space. The solar EPC witnessed orders worth INR2,294 crore in the fourth quarter of FY21, taking the total order book to INR8,742 crore as on March 31, 2021. Amongst various projects, the company won 320MW solar projects from NTPC valued at INR1,200 crore, and a 55MW solar project from GSECL valued at INR230 crore.

The growth in the solar rooftop business is supported by some favourable policies (there are policy pain points, too) such as open access and mandatory provision for solar power in the model building bylaws. The company has witnessed major uptick in orders and execution in its rooftop business. The order book stands at over INR600 crore as on March 31, 2021. The total installations for FY20 was 175MW.

This growth narrative is also present in the solar-pump segment. The company sold 6,500 solar pumps in the fourth quarter of FY21, clocking its largest quarterly revenue. For the full fiscal, it achieved total sales of around 13,000 pumps.

“The doubling of capacity in the cell- and module-manufacturing plant at Bengaluru will make our domestic content projects much more competitive and thereby allow us to grow the business further,” Sinha says.

While Tata Power is trying to make it big in the renewables space, its peers too are continuously making fast transitions to green energy.

NTPC, the country’s largest power producer, has indicated that it would completely halt any coal-fired capacity expansion and announced its ambition to add 10GW of solar energy by 2023.

Adani Power, India’s largest private-sector power producer, is following NTPC’s footsteps. Recently, in one of the largest acquisitions in the renewable-energy sector in the country, Adani Green Energy acquired 100% interest in SB Energy India. With this acquisition, Adani achieved a total renewable capacity of 24.3GW and a renewable operating capacity of .9 GW.

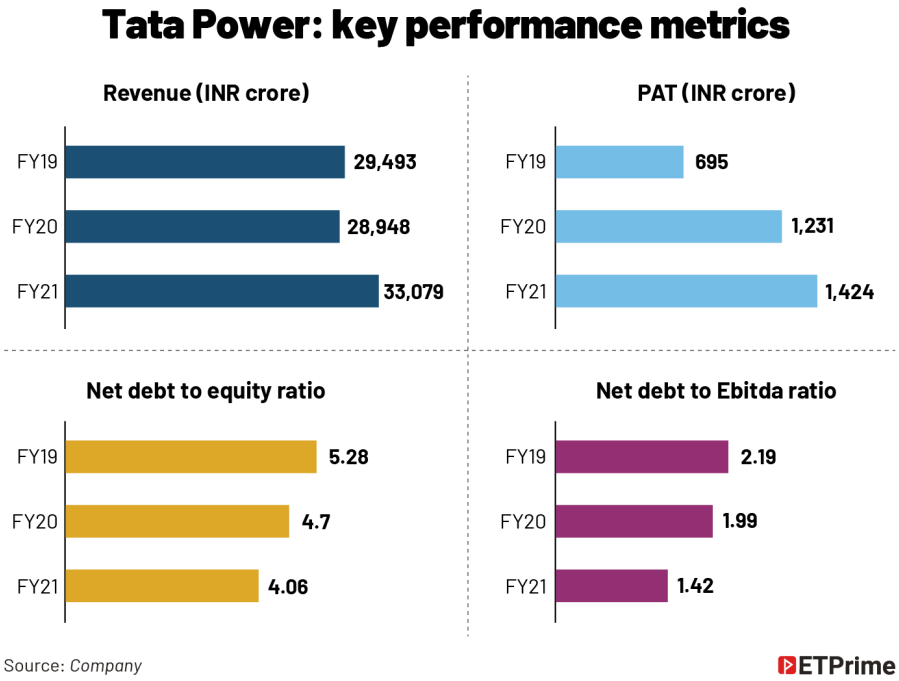
Reliance Industries, too, has thrown its hat in the ring. It has recently announced an investment of INR75,000 crore in clean energy.

“We don’t have any details of their (Reliance Industries) plans. But there is a huge opportunity with [the government targeting to set up] 450GW [of renewable energy] by 2030. You need large players who can provide good quality service on a sustainable basis. Going forward, we will see a lot of consolidation in this space as we have seen in other sectors as well,” Sinha says.

The challenges amid opportunities

Tata Power has significantly reduced its net debt by more than INR7,500 crore over the last one year through divestment of various assets and strategic fundraise from promoters.

“With refinancing of certain debt and the reduced interest-rate regime around the globe, our average interest cost has also reduced to around 7.4% compared with 8.3% last year. Our debt to equity has sharply been brought down to a level of 1.42 times from 2 times last year. Net debt to underlying Ebitda stood at 4.06 times. A leaner balance sheet will give us the financial flexibility to pursue growth in strategic areas,” Sinha elaborates.



But despite such a huge order book and capacity expansion lined up, the company is feeling the heat from rising prices of solar modules. Ramesh Subramanyam, chief financial officer of Tata Power, says, “We had some pressure on the module front, but this will ease off as we go. You know that module prices have tightened all over the world. The new orders will be factoring the new prices. So, that should take care of the margins. Some of the existing orders may face some headwinds until they are completed.”

There is one policy decision that could further add pressure to Indian solar-power companies.

India has decided to impose a 40% basic customs duty on solar modules and 25% on solar cells from April 1, 2022, a move aimed at making imports costlier and encouraging local manufacturing. Also, the Ministry of New & Renewable Energy has issued an order enforcing a list of approved solar photovoltaic or PV models and module manufacturers for government-supported schemes, including projects from where distribution companies procure electricity.

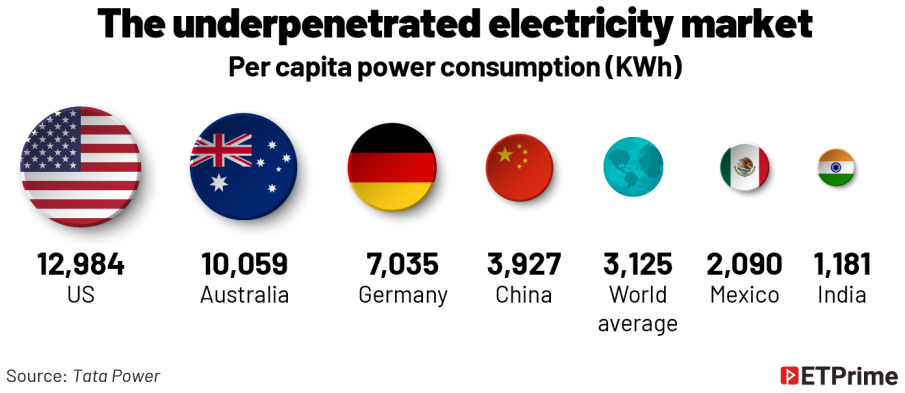
“Solar modules form over 50% of the total project cost and a bulk of them are imported. Thus, material variations in their price and exchange rates from expectations at the time of bidding can pose viability risks on the projects. Developers typically buy the modules 9-12 months after they win the auction. This wide gap exposes projects to the risk of fluctuations in solar panel prices and currency exchange rates. More so because these variables remain unhedged and are also not a pass-through as per agreements,” rating agency Crisil said in a note.

To be sure, China’s solar PV device manufacturing accounts for around 71% of the world’s total capacity: It grew to 106GW in 2019 from 10GW in 2010. The country is also a leading producer of silicon wafers with a 97% share in the global market. It dominates 79% of PV cells and 67% of polysilicon markets globally.

“The high solar module price of 25 cents per kWh may not only lower returns on bid-out projects by 200 basis points but may also increase solar power tariffs by 10-15 paise per unit in future bids,” the Crisil note mentioned above highlighted.

Even as the renewable-energy space is generating a lot of interest across boardrooms, challenges relating to availability of funds, lower tariffs and arbitrary decisions to cancel winning bids by some state governments will continue to pinch players in this sector. Solar power tariffs hit a record low of INR1.99 per unit in December 2020 in auctions held by Solar Energy Corporation of India in Gujarat. Smaller developers don’t have access to low-cost finance required for quoting low tariffs to win solar auctions. A combination of declining tariffs, wafer-thin margins, heavy debt, high capital cost, and a hazy policy framework is taking the sunshine away from smaller renewable companies.

In any case, electricity as a business position is yet to reach its full potential globally.



The road ahead

As economic activities gradually try to crawl back to normalcy, Tata Power is weighing options to raise money by taking its solar business to the public market.

“Last year, we planned to examine the InvIT [route] and see what kind of solution we can bring to the market. We have deeply analysed it and found that Tata Power is in a whole range of renewables, unlike many others who are just running the utility renewables and have a play in it. I expect that renewables will play a major role in the power sector. So, whatever decision we have to take will be done carefully and in the right way so that it is sustainable for 40-50 years and brings value to our shareholders,” Sinha tells ET Prime.

According to him, a lot of discussions are happening on it and the company is taking advice from consultants and advisors as well as the market players to bring a solution that is beneficial for everyone.

Tata Power, after completing the takeover of its fourth distribution licence in Odisha, the Northern Distribution Company effective April 1, 2021, is focusing to grow its customer-experience business. It has also managed to reduce the dues of the distribution companies even in a year when there was liquidity stress due to the pandemic.

In the last few years, the company has focused on consolidation and setting up asset-light business models for growth which allows significant high returns and enables recycling of capital for future growth. These models will help Tata Power grow without over-leveraging its balance sheet.

Microgrids are also an important part of the strategy, with Tata Power having commissioned 161 of them till date. Sinha says, “With another 40 under installation covering a total 200 villages and nearly 4,000 customers, this venture is improving the lifestyle and promoting small-scale industries in rural communities which will be a big catalyst to the rural economy.”

The stock of Tata Power was in a downtrend since 2014. It made a low of INR27 in May 2020. It has now broken the downward spiral and has resumed an uptrend. At present, at INR130 levels the stock is testing its 2012 highs. If the stock continues to trade above INR100, it has the potential to reach the INR195-INR200 range in the weeks to come.

(*Graphics by Mohammad Arshad*)

BY

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