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Tata Power Surges Ahead with Focus on Clean Energy, Defence

JWALIT VYAS
ET INTELLIGENCE GROUP

For Tata Power, the period of underperformance seems to have ended. The stock has returned 28% in the past three months, gaining at twice the speed of the Nifty 50. That comes after losing 10% in the previous five-year period when the NSE Nifty gained 75%.

With macro factors such as international coal price, currency movement and economic outlook becoming favourable as well as its aggressive plans on renewable energy and defence, the company is on its way out of trouble, believe experts. A positive outcome on the company's appeal for compensatory tariffs for its loss-making Mundra project to offset higher expenses could offer another positive trigger. Even after burning its fingers with thermal power generation because of various regulatory and policy issues, Tata Power did not slow down on capacity expansion. It continued to invest in clean energy and ventured into power projects overseas where the investment environment was better than at home.

It plans to become more aggressive on the renewable energy business, as there are minimum fuel risks. At the same time, it has given aggressive targets to its defence team—the company helps in the development and supply of defence systems—which will be another area of growth. “Clean energy, which includes hydro, solar and wind energy, will become 25% of our portfolio over the next couple of years and in the long term, the ratio will be even higher,” CMD Anil Sardana told ET.

Currently, clean energy is around 17% of the portfolio. “We have also become very aggressive on our defence business, which will grow multi-fold and contribute significantly to the bottomline”

While the company is paving its way for higher growth in different areas, factors such as coal prices, currency risks and power tariffs are gradually turning in its favour: “If the trend continues, the com-

Tata Power (Indexed to 100)



pensatory tariff needed by the company will be very less and this will help them at least break even in their Mundra project,” said Chirag Shah, senior power-industry analyst at ICICI Direct.

Tata Power is hoping for compensatory tariff which will make it profitable. The power sector regulator has approved compensatory tariff for the Mundra project, but state discoms have challenged it in the Appellate Tribunal for Electricity (APTEL). “We are hoping a positive outcome from APTEL after which the compensatory tariff will be applicable on a retrospective basis. The hearing can come any moment,” said Sardana.

While most of its other projects are profitable, the 4000-MW Mundra project was the biggest concern for the investors. Its cost overshoot the tariffs fixed under its long-term power-purchase agreements with state electricity boards after the Indonesian government unexpectedly increased tax on coal exported from that country. This made the Mundra project, which uses Indonesian coal, non-viable as it ran into total losses of ₹3,000 crore in FY13 and FY14.

Indonesian coal prices are 10% lower since the beginning of the year and 15% down year-over-year. “The relative compensatory tariff from Mundra will be lesser now since coal prices have come down. This tariff, when announced, was 52 paise and after adjustment it's now 42 paise and will go down further to 32 paise,” Sardana said.

jwailt.vyas@timesgroup.com