

The order from CERC asking state-run discoms to make up for the higher cost of imported coal will still leave a gap of close to ₹500 crore in operating the Mundra plant, says Tata Power MD. But the relief will at least help the company run the plant, he adds

# 'Consumers to Lose if Tariff Order is Challenged'

There is a difference between gasping for breath and being completely out of breath, says Anil Sardana, managing director, Tata Power. It is Sardana's first interview after Central Electricity Regulatory Commission (CERC), in an order dated February 21, directed the state-run distribution companies to make up for the higher cost of coal imported from Indonesia for the year ended March 2013. Tata Power will receive ₹330 crore from state-run distribution companies and a compensatory tariff of ₹0.52 a unit for power generated from Mundra. It will still leave a gap of ₹500 crore, but Sardana told ET's Satish John that they can manage Mundra now. Edited excerpts:

## The Mundra power project has weighed down the whole company. With the CERC order, will the outlook change?

The company has been bleeding ever since the Indonesian government changed rules that priced coal much higher than the contracted price. It was important that it was resolved. We were finding it difficult to manage day-to-day operations at the Mundra plant because of the tremendous cash losses. It is not that with this (CERC) order, the Mundra asset becomes profitable. We still have to absorb the impact because of the forex variation on the capacity side; ₹50 crore has been shaved off because of the RoE (Return on Equity) because there was no RoE earlier... and some of the operational parameters they

have taken, like they reduced the coal specifications, but also reduced our auxiliary power consumption. So, we'll have about ₹250 crore odd loss on account of this. So, we will continue to bear close to ₹500 crore loss from operating Mundra.

## So, the challenge on the profitability front still remains?

But that is not as formidable as the ₹1,800 crore loss we suffered earlier. At least, we are able to breathe easily to run the asset. Our objective was to build a national asset. We built it and despite all odds, have been running it till now. This order enables us to at least run the unit. Otherwise, the consumer would have been distraught by the fact that the power generated and distributed for ₹3 a unit will not reach the customer. I would put this order as a win for consumers because they get competitive power.

## But the CERC order comes at a time when politicians are looking for soft targets and the power sector is easy meat... Do you think the state governments will let the CERC order pass?

This works in their favour as they (the state governments) are talking about competitive power. This power (from Mundra) is the most competitive that one can expect in the country today. A new asset is generating at ₹3 a unit and that too a sizeable quantity of 4000 MW. We contribute almost 2-3% of the national grid requirement. So this substantiates

what the politicians are saying today.

## So, you are saying that the price for Mundra power is much lower than what your peers are offering?

Oh yes. This is certainly one of the most competitive power even after the CERC order. You can see for yourself the five states that are buying power from the project, will still rank as the most competitive that states such as Gujarat, Maharashtra and Punjab among others would be buying today.

## But there is a feeling that states would be challenging the CERC order?

Then clearly, the consumer will lose.

## Why do you say that?

Because the consumer will be denied the power. We can't run (Mundra) with this kind of uncertainty for long. The fact is that if the company's net worth gets eroded, what is the alternative?

## The Mundra project has weighed heavily on Tata Power's financials. There has been some restructuring where you have sold assets in Indonesia. With this favourable order, how does it look?

The simple point is that the reason why we sold an asset in Indonesia was because our debt equity position was stretched. We have been raising funds to keep this plant running because of the losses. That reached a point where it would have been impossible to service that debt. To manage within our means we had to sell some assets and generate cash. The company can do only as much as it can stretch to keep our promise. We kept our promise for the national interest because we believe that the power is competitive and can stand on its own merit and now that an adjudicating body has judged that there is merit in

it... If people question the CERC order, then we cannot run the plant. It is not viable. We were generating cash by selling assets.

It is a 100 year old group. Whatever we could do, we have done in the hope that the other side will empathise that there is no fault of ours. We couldn't have predicted prices for 25 years. We went and did a contract in good faith and that contract would make us stand comfortably but the country (Indonesia) changed the rules. So, where will we have the resources to run? If they decide to question the order, then the customer will eventually be the loser.

## ON BRIDGING THE GAP

There is a difference between gasping and completely going out of breath

## Can we say that the CERC order can sort out a lot of the losses for Tata Power arising out of Mundra?

We'll still have a ₹500 crore gap. But compared to ₹1,800 crore, it is any day better.

## How do you bridge that gap?

We'll have to live with that. We'll be able to manage this because our operations are bigger. The good thing is that we'll not bleed to a point where we'll die. There's a difference between gasping and completely going out of breath. Our legacy projects will make up for the losses.

## How do you look at the political scenario? Politicians are doling out subsidies as if there is no tomorrow?

On the subsidies part, I can only say that the economy has to be understood by present day politicians. The short term gestures by



no progress on this front for the last 2 to 3 years. That's the reason why we have decided to look outside.

## As far as your Indonesian assets are concerned, is there any change in strategy now that you have divested one asset? Will there be more divestments?

We have said we are not going to do any more coal projects in Indonesia. Very clearly, it is now a controlled economy. We have four coal mines. We have proposed to sell one. We'll wait and see how it pans out.

## Are you considering to buy coal assets in Africa?

The problem there is of infrastructure. They have more thermal coal, which works for us. Geographically also it works for us as the African mines are situated on their eastern coast and our plants in India are located on the western coast. But the problem is the African countries lack infrastructure such as ports and railway links. So therefore to meet Mundra's needs is very difficult from Africa.

## Do you think the regulatory system needs to be overhauled?

We need to review the state regulatory system. There should be some mechanism that officials should come outside the state like it happens in high courts. Or there should be regional regulatory body which could have one nominee from the state and the chairman from outside the state. Some review is needed. Because the state regulators can come under the influence of state governments. We have invested abroad because of the uncertainties here. We need the new government to be decisive with a good majority. Otherwise we'll have a problem by 2017-18.

New projects will come up till 2017-18. However, beyond '17-18, we don't see any pipeline of projects.

them of doling out subsidies to large number of people is not a good strategy. The political economy must address subsidy to need based segments and therefore it is provided in the act. But knowing the health of the state electricity distribution companies and knowing that states today are finding it very hard to finance their budgetary requirements. They (the state government) will find it difficult to provide budget support for capital infusion of network expansion and for sourcing power. That's not a good sign. Maharashtra has already committed ₹7,500 crore to ₹8000 crore in subsidies and to that extent, the requirement of institutions such as Maha Genco will get impacted. Because they'll cut from the budgetary allocation of the state.

## What is the latest on coal linkages?

Everything is at a standstill. There has been

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