

Tata Power May Sell Shares in Clean-Energy Unit Next Year

Tata Power Co. (TPWR), the utility business of India's largest business group, is considering an initial public offering of its clean-energy unit next financial year.

The utility plans to increase wind and solar power capacity at Tata Power Renewable Energy Ltd. almost fivefold in the year to March 31 as the cost of renewable energy converges with fossil fuel-based grid power in India, Rahul Shah, chief of business development and renewables, said in an interview in Mumbai. Inducting an investor is also an option, he said.



A maintenance worker cleans solar panels manufactured by Tata Power Solar Systems Ltd. at North Delhi Power Ltd.'s (NDPL) Keshavpuram power station in New Delhi.



Cotton plants grow at a farm as wind turbines stand in the background in Wankaner, Gujarat. New investments in clean energy in India declined 45 percent to \$6.85 billion in 2012, causing the South Asian nation to slip from fifth to seventh place in global rankings, according to Ashish Sethia, head of India research for BNEF.

“We’re housing all of our new renewable assets in a separate company to allow us” to raise funds, Shah said. Tata Power, part of the Cyrus Mistry-led group that also owns Corus Group Plc and Jaguar Land Rover, expects the unit to attract interest once its total generation capacity reaches about 300 megawatts, “probably in the next financial year,” he said.

Renewables globally are set to benefit from a tripling of investment by 2030 as the cost of wind and solar plummet, according to Bloomberg New Energy Finance, which estimates 70 percent of power generation capacity being built will be clean utilities. Goldman Sachs

Group Inc., the top arranger for renewable-energy stock offerings last year, forecasts more than \$395 billion will be invested in renewable energy annually by 2020.

Shares of Mumbai-based Tata Power, which have fallen 15 percent this year, rose 0.2 percent to 94.20 as of 9:28 a.m. in Mumbai trading today. The benchmark Sensex index has advanced 4.3 percent in the period.

'Huge Interest'

Orient Green Power Co. (OGPL), India's first and only clean power IPO to date, has lost 69 percent since listing in October 2010 as its biomass projects were delayed and fuel costs increased. Tata Power has mostly focused on wind, which carries no fuel risk, said Abhishek Patel, a Mumbai-based analyst for ITI Securities Ltd.

"There will be huge interest, provided its priced in the right manner," said Patel. "Tata Power has a sizable portfolio, good-quality assets and the brand name."

The renewable unit currently has 46 megawatts of wind and solar capacity that will expand to 224 megawatts this year, Shah said. The company is also looking at ways in which the parent's 375 megawatts of clean power assets can be transferred to the unit. By 2022, India's second-largest generator plans to triple its total capacity to 26 gigawatts, a quarter of which will come from wind, solar and hydropower.

"There's still a lot of renewable energy to be harnessed in India," Tata Power's Shah said. "The returns here are comparable, if not better than other markets."

Pitfalls

Tata Power's plans could be hampered by issues in the power industry such as an aging grid, transmission losses and cash-strapped state distribution companies, said Sitaraman V. Iyer, a Mumbai-based analyst with MSFL Research

"The power sector itself is going through a tough time and renewable energy is facing an even bigger challenge," he said. "Raising funds won't be an issue but sustaining the business is different."

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Market sentiment may also play spoilsport. The value of IPOs in Asia's third-largest economy has dropped 67 percent to 7.86 billion rupees (\$144 million) since January, the lowest in four years, according to data compiled by Bloomberg. Companies including Scotts Garments Ltd. and Sai Silks Kalamandir Ltd. pulled their IPOs this year because of poor demand.

Solar Financing

Wind farms are already able to supply electricity at the same price as coal-based grid power in at least three Indian states, Shah said. Meanwhile, the government's plans to subsidize the solar industry with direct grants make "the cost of solar power more acceptable all around," he said.

The government plans to abandon a system where it paid solar plants above-market rates for power in favor of extending grants of as much as 18.75 billion rupees to cover 30 percent of upfront project costs, similar to the way it subsidizes port, railway and other infrastructure projects.

"The structure is well-known to lenders," Shah said "It won't bring down borrowing costs but it will make financing that much simpler."

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