

# IN SEARCH OF A PRESENCE ABROAD

As Tata Power plans its next round of expansion, the company has invested in Georgia, Zambia and South Africa

“Once the Kalinganagar power plant and the Dugar hydroelectric project in Himachal Pradesh are complete, the remaining projects are coming up slowly so there isn't any real investment on ground.”

**ANIL SARDANA,**  
MD and CEO



## Pranav Nambiar & Pallavi Ail

**T**HE last several years have been a rough time for Tata Power. The sharp escalation in the prices of coal in Indonesia in September, 2009, following a change in regulation left the power producer in deep trouble since it was importing the fuel to feed its 4000 MW Mundra plant in Gujarat. In 2012, the company appealed for compensatory tariff but no decision has been forthcoming so far with the matter still in the courts. Fortunately, coal prices have collapsed to a third of where they were a year back and that has helped bring down fuel costs. However, it has stalled the sale of Tata Power's stake in Arutmin, a coal mine in Indonesia that would have fetched it a handy sum of \$510 million. That agreement was signed in November, 2013 with the Bakrie Group but still hasn't gone through.

As it plans its next round of expansion, the company is looking for a presence in countries overseas. Managing director and CEO, Anil Sardana, believes challenges in those countries are similar to those back home, and are not unfamiliar. "In India, things may not move unless the respective state government is in a real hurry to resolve issues whereas I find in many of these countries the issues get resolved," Sardana says.

So, it's going to be a quiet time at home. "Once the Kalinganagar power plant linked to Tata Steel's expansion and the Dugar hydroelectric project in Himachal Pradesh are complete, the remaining projects are coming up slowly so there isn't any real investment on ground," Sardana explains.

Which is why it makes sense to look outwards. Not that Tata Power is eyeing any developed markets; it is working in developing regions, economies like Georgia, Zambia and South Africa where progress has been more than satisfactory. Sardana told analysts at a recent conference the firm's focus,



## On foreign shores

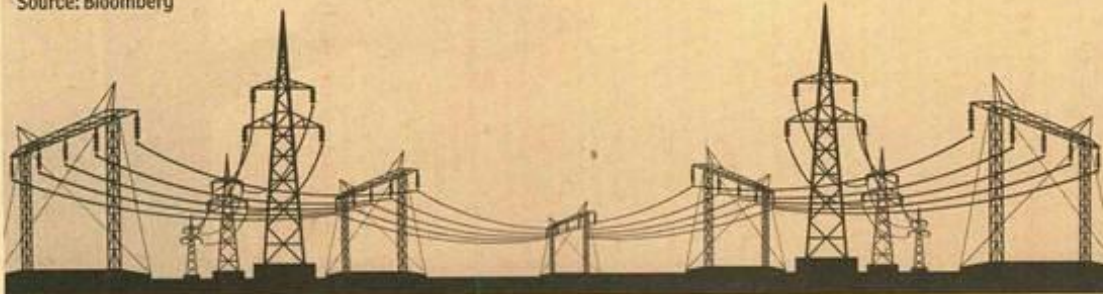
	Georgia Hydro	South Africa Wind	Dagacchu Hydro	Itezhi Tezhi Hydro
Capacity (MW)	185	229	126	120
Country	Georgia, Europe	South Africa	Bhutan	Zambia
JV partner(s)	Clean Energy (40%) + IFC (20%)	Exxaro (50%) - A SA based mining group	Druk Green Power Corporation (74%)	Zambian Utility ZESCO (50%)
Tata Power's stake (%)	40%	50%	26%	50%
Project cost	\$404 mn for the first phase	~ZAR6,800 (₹15.75bn) mn for entire 229 MW	\$200 mn	\$250 mn
Power off take	Primarily to Turkey on a merchant basis	PPA with Eskom for 20 years	PPA with TPTCL for 25 years	PPA with ZESCO for 25 years
Financial closure	Done for the project	Done for the project	Done for the project	Done for the project
Construction update	Civil works in progress	Civil works in progress	Commissioned	Civil works in progress
Commissioning	FY17	FY17	FY15	Dec 2015
Expansion potential	Phase II of 150 MW already has CDM approval	The JV (Cennergi) will continue to look for opportunities	-	-
% of project cost incurred	40	Little so far, bulk spread across FY16 & FY17	100	70

Source: JPMorgan estimates, Company data

## In recovery mode

(₹ crore)	FY15	FY14	Change (%)	FY13	Change (%)
Sales	34,185	35,649	-4%	33,025	4%
Ebitda	6,940	7,712	-10%	6,648	4%
Finance costs	3,699	3,141	18%	2,512	47%
Net profit (loss)	168	(260)	-	(85)	-
Net debt	35,099	38,288	-8%	35,425	-1%

Source: Bloomberg



for the present, is by and large is international rather than domestic.

Of the nine projects under development, seven are in India and two are capacity additions—Mundra in Gujarat and Maithon in Jharkand. However, all of these are in the early stages of execution, with the land acquisition process having started. Sardana believes that since issues surrounding fuel and land are still not resolved, renewables will take centre stage. Illustrating his

point, the CEO says the company has been unable to even lay the first brick for the hydro power project, despite it having been awarded on the same date as that in Georgia. Tata Power has made significant progress on the Georgian venture having completed close to 40% of the work. The 215 MW wind power project in South Africa is half done while its hydro-electric power project in Zambia is more than three-fourths complete. For some of its ven-

tures, Tata Power has teamed up with overseas utilities and it now has operating hydro capacity of 126MW while 534MW should be commissioned by FY17. In the overall scheme of things, the off-shore businesses will remain small; these projects are expected to contribute approximately 8% to Tata Power's EPS by FY18, according to analysts at JPMorgan.

Tata Power swung to a net profit of ₹167.8 crore for fiscal 2015 from a loss of ₹260 crore in the pre-

vious year although sales fell 4% year-on-year to ₹34,185 crore. In the three months to March, the losses at the Mundra UMPP came in at ₹76 crore sharp improvement over the losses of ₹300 crore in 4QFY14 and ₹280 crore in 3QFY15 thanks to the lower cost of generation and reduced depreciation charges. The company also managed to reduce its net debt by 8% to ₹35,099 crore at the end of FY15, data from Bloomberg showed.

In April last year, Standard & Poor's (S&P) revised downwards its rating outlook for Tata Power from positive to stable due to the delay in a decision on compensatory tariff and pending proceeds from the sale of a stake Arutmin. "We revised the outlook to reflect the likelihood that Tata Power's cash flows and liquidity will improve slower than we earlier expected," the ratings agency observed.

S&P warned it might lower the rating if Tata Power found it difficult to rollover its debt maturities or it sensed lenders' discomfort that could affect a meaningful part of the company's debt. In Q2FY15, Tata Power signed an 'option agreement' to sell 5% stake in coal miner PT Kaltim Prima Coal (KPC) to the Bakrie Group for \$250m; it also signed another option agreement to sell 30% stake in KPC-related power infrastructure companies, again to the Bakrie Group.

Earlier this month Tata Power said it was looking to refinance around ₹10,000 crore of loans relating to the Mundra UMPP under Reserve Bank of India's 5/25 scheme; that would help ease the stress brought on by a shorter repayment period for infrastructure projects. If lenders agree to refinance the exposure and extend the repayment period to 20 years, that would relieve the firm of a lot of strain. More than that, however, the company would be looking for a favourable decision from the courts on compensatory tariff; ₹1,780 crore may not seem like a large sum but it would boost the bottom line.