InDepth

Tata power spreading wings outside India

- **Tata Power's 70 percent project execution is out of India**
- **Plans $600-700 million investment in a Vietnam plant**

Infraline Bureau

Country's oldest private sector power producer Tata Power displays indomitable spirit to grow even as there are issues in the backyard. The power producer is busy building projects in geographies including Vietnam, South Africa, and Georgia, the former Soviet Republic, while it remains in a tariff dispute at its 4,000 megawatt (MW) Mundra power plant in Gujarat. Available data shows that 70 percent of Tata Power's project execution was outside India.

The company is executing several power plants in different geographies which include 1,200 MW power plant in Vietnam, 240 MW wind power project in South Africa, and 187 MW of new hydropower capacity in Georgia besides others. In terms of investments, Tata Power plans to invest $600-700 million in the proposed power plant in Vietnam. Besides, the company has six of its renewable energy projects registered under the Clean Development Mechanism (CDM) programme of the United Nations Framework

Convention on Climate Change.

For the Vietnam project, the company may seek a partner for the project, which will cost $2.5-3 billion, at a later stage, Ramesh N. Subramanyam, chief financial officer of Tata Power, said. Sharing details on other projects, Tata Power is working, he said, the first phase of its 240 MW wind power project will be commissioned in South Africa in 2016 and 187 MW of new hydropower capacity in Georgia, the former Soviet Republic, in early 2017.

When asked if the company was averse to doing projects in India, Subramanyam said, "Our balance sheet is stretched, we have to be careful, but that does not mean we are not looking around (in India)." India remains the natural choice and a preferred geography of the power company, which has consolidated debt of around ₹40,000 crore.

Executing the first of 16 'ultra mega power projects' (UMPP) planned by the Indian government, Mundra – an enormous 4,150MW coal-fired power station named after the coastal area that is its planned site – was touted as the most efficient power plant that would provide affordable electricity to five states. However, losses from the plant at have already eroded over ₹3,800 crore of Tata Power's net worth in the past three years.

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An analyst from a foreign securities house who tracks the company said, "In India, at present, it is very difficult to make money… These projects, the company says, have regulated returns."

Tata Power first needs to get the financials of its money-losing Mundra power in order at the earliest, the analyst said. "Losses at Mundra have already eroded ₹3,817 crore of Tata Power's net worth in the past three years," analysts Chirag Shah and Anuj Upadhyay wrote in a ICICI Securities Ltd's note. For the December quarter, the loss due to operations at Mundra was at ₹243 crore.

Though lower cost of coal have thinned the losses at Mundra, but the change of laws in Indonesia has made things worse for the company as it owns 30 percent stake in two operational coal mines in Indonesia. With coal price at $57 per tonne, the company has to pay income tax, withholding tax, royalty and dividend tax, which all aggregate to 89 percent, leaving virtually no margin to cross subsidise Mundra losses.

Tata Power first approached the Central Electricity Regulatory Commission (CERC) for a compensatory tariff in 2012. But the Supreme Court (on 14 August) stayed an order by the Appellate Tribunal for Electricity allowing Tata Power to charge higher prices for electricity produced from the plant in Mundra. The hike was sought to compensate for an increase in the price of coal imports that fuelled the Mundra plant. The apex court bench directed APTEL to dispose of the matter speedily.

"If the legal battle goes longer, the plug has to be pulled on the Mundra plant," said an analyst.

The company raised debt of ₹13,000 crore for the Mundra plant, of which only ₹2,500 crore has been

paid back. Following a drop in coal prices, any new compensatory tariff would be 35 paise per unit lower than the earlier expected 62 paise per unit, Subramanyam said.

Subramanyam said standard sponsor support is in place for the Mundra project, as required in any project finance debt. "We have asked banks to reduce interest rates for Mundra and banks are willing but want finality (on the compensatory tariff order) before taking to their board for approval," he said.

Once there is a final compensatory tariff order, Subramanyam said Tata Power could explore various options. The Reserve Bank of India's (RBI's) new 5/25 rule, which allows commercial banks to extend long-term loans of 20-25 years to match the cash flow of existing infrastructure projects while refinancing them every five or seven years, is one of the options.

Also, Tata Power has not yet decided whether to exercise its option to sell the 5 percent stake in KPC. "Will need coal from these mines for Trombay (power plant), Mundra (power plant) and for the new plants. Not exiting coal, right now nor looking to sell everything. We have an option of selling a small portion of KPC, not really decided on that," he said.

A company which is running 4,000 MW of power project, needs absolute surety of fuel supply. Unless the company gets an alternate source, it has to hold Indonesian asset. Tata Power is looking at countries other than Indonesia, Australia and South Africa. Though valuations of assets have come down, but a company need surety that such countries should also not artificially increase the price or change structure of investments or returns

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The pending order on the compensatory tariff plant has gone against the company as rating agency Standard & Poor's (S&P) revised down its rating outlook for Tata Power from positive to stable due to the delay in a final Aptel order on the compensatory tariff plant and pending the receipt of proceeds from the sale of a stake in its Indonesian coal mine.

"We could lower the rating if Tata Power faces difficulty in rolling over its debt maturities or we sense lenders' discomfort that could affect a meaningful part of the company's debt," S&P said in its report.

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