

# 'Welspun Renewables deal is squeaky clean'

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**N**ews reports about Tata Sons Ltd planning to order a forensic audit of Tata Power Ltd's 2016 purchase of Welspun Renewables Energy Pvt. Ltd are speculative, Anil Sardana, managing director and chief executive officer, Tata Power said. In an interview, Sardana said the company is looking at all possible options to reduce losses at its Mundra ultra-mega power project. Edited excerpts:

**Before we talk about some other important issues, I just wanted to clarify on this Welspun deal because we believe that this could be under the scanner. Is that right?**

I would only add to say that it is a very highly speculative news. Tata Sons is just one floor away. We have not heard anything from them and I don't see there is anything of this nature being talked about. It will be better for you to check base with Tata Sons.

I would only add just for the benefit of our stakeholders that our spokesman has already clarified that this deal is very value accretive and that absolutely squeaky clean transaction that we have seen, like the way we always do in Tatas, and we have been now operating these assets for nine months.

As regards the valuations, it

is very clear that all the deals that have happened in those times as also subsequently, in fact there was a very large deal that has happened just about few weeks before and all of them are much higher in valuation compared to what our deal was. Therefore, we are very happy with the transaction and I guess as regards your enquiry on the news, it will be better to ask others.

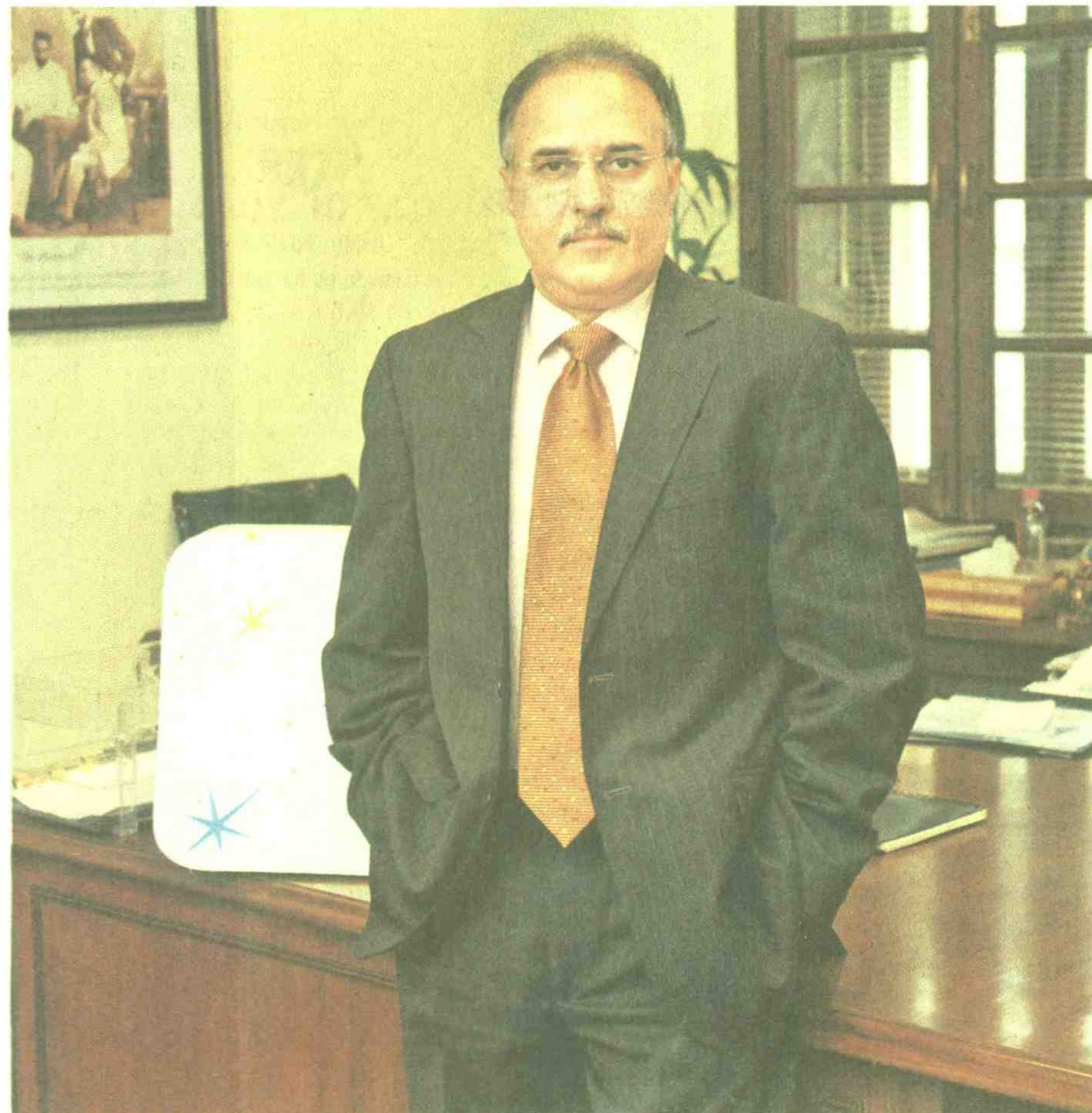
**Just to take the point on renewable power and the recent deals you are referring to, the power purchase agreements (PPAs) are getting struck at lower and lower levels, Rs2.40, Rs2.50 per unit. At these levels, will legacy plants such as yours have a problem, will new PPAs have to be struck at lower levels?**

As regards the PPAs, it has been now clarified over and over again that these were all stuck at a point where the capital cost of executing those projects was high and therefore PPAs are contract and in fact that same thing applied to our Mundra case and therefore it will apply to renewables that

the PPAs as were stuck earlier will have to stay course because they were all executed at higher capital cost. Today, when the cost of funding at the capital cost have lowered down, there are bidders who are quoting at good prices which is good for discoms and good for consumers.

**The Welspun renewables projects, your PPAs are for how long?**

All PPAs are for 25 years out of which close to two to three years would have lapsed and



Tata Power managing director and chief executive officer Anil Sardana.

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therefore we still have about 20-22 years in different locations. The later PPAs are at lower prices and the PPAs that we did at the earlier times, including Tata Power, the renewables that we executed in Gujarat, Karnataka, or in Tamil Nadu, they were all at higher prices because at that time, the capital cost were higher and they will have to go through their life term.

**I wanted to talk a little bit more about Mundra. With the Supreme Court**

**disallowing the compensatory tariff for that fuel cost under-recoveries, how will you now look to improve the operating efficiency at Mundra in order to contain the losses, what would the options be?**

The losses that we have in Mundra is on account of under-recovery of fuel and it is for that reason that we are attempting to find answers to that fuel, though of course if you recall, when we had done

this bidding, at that time Tata Power also acquired the mines in Indonesia. So, when you look at the hedged concept that we had with Mundra and the KPC mine, the two put together today don't suffer as much loss as is being talked about.

However, when it comes to Mundra, we are trying to stimulate a situation by virtue of which we are able to get coal so that we don't see much under-recovery. As also we are exploring still the legal options

because as you know, Supreme Court gave a very good levy in terms of powers of the regulator under section 79 and we are trying to therefore explore whether we can go back to Central Electricity Regulatory Commission (CERC).

The reason why the previous CERC order which was favourable could not be applied is because Aptel had set aside that order and there is therefore an opinion that we can go back to CERC and once again seek a similar order under section 79.

**What would the range of options be as far as sourcing of coal is concerned and would you also be looking at blending of coal to optimise cost?**

That exercise has already started. In fact between the time the Supreme Court order came and today, we have already sourced distressed assets, we have signed up contracts which are at lower prices than the price that is prevailing in the open market. We are therefore looking at all options and that process has already set in.

We will use blended options, we will use options of getting distressed cargo from areas where perhaps the Europeans and many others are not lifting the coal and therefore that will be at a cheaper price. We will try and make sure that we minimise the under-recovery that happens on account of fuel.

**Do you see that plant becoming profitable at a net level sometime soon because of all the steps you are taking and separately another company**

**that went in for these ultra mega power projects (UMPP), Adani Power is actually looking to sell its plant and we believe that they have approached Gujarat Urja Vikas Nigam Limited (GUVNL) for it. Would you ever think of that kind of an option?**

All options are being pursued, all options are open to us. We very clearly would look at the possibility of making sure that we don't have sustained losses on account of Mundra UMPP alone, though on hedged basis it will still work well. Also make sure that we have a sustainable operations from this plant because this is one of the most competitive plants in the globe. Therefore the consumer must continue to have the benefit, we must continue to provide power.

We will therefore even look at the options if the procurers were willing to buy and compensate us for the under-recovery in which case they will have the benefit as promoters to increase value of the plant, as also pursue the plant after 20 years of the remaining life of PPA because after 20 years they will still get the cheapest power. Otherwise they will have to pay the market price at that time.

**That means both for you and for Adani, the potential acquirer has to be GUVNL. Are they showing that interest?**

In our case, it is five procurers, so, GUVNL is not the lone procurer. In our case, it is also Maharashtra, it is also Punjab, Haryana, and Rajasthan and five procurers between themselves will have to therefore in

proportion of their offtake become 51% promoters.

**Can you update us some progress has been made in these conversations?**

At this stage, these are all parlance that are happening and so is also the option to go back to CERC is being considered. So, at this stage, we are more in sort of exploratory mode and the convergence would happen over a period of perhaps next six months to a year.

**What about the discom business, power distribution business is what I meant, both you—if I remember right, reading one of your comments and CESC are now showing a lot of interest in distribution. Is that becoming profitable?**

The fact is that we made the distribution business in Delhi profitable and on sustained basis. Going by our experience in Mumbai and Delhi, and also the consulting work that we did with lots of discoms in Nigeria and other locations, we have clearly shown that we can use technology and IT intervention to actually turn-around distribution companies.

Therefore, we have recently acquired the franchise rights at Ajmer. We are very keen to add more distribution opportunities to our fold, for the simple reason that considering Tata values, we are able to connect up with customers in much better way than perhaps many others can do.

Therefore, it is our area of interest. We will certainly be keen to explore as many distribution opportunities as we can.