

Work is afoot to cut debt: Tata Power

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Ahead of the Supreme Court hearing on the Mundra Compensatory Tariff case in March, Anil Sardana, managing director and chief executive of Tata Power, said he expects an expeditious hearing and verdict. Sardana also said he expects compensatory tariff to cover a major part of under recoveries. The real kicker, according to Sardana, is that regulatory commissions are now fully empowered to look at the bid tariff. In an interview, Sardana said Tata Power is looking to pare down debt by selling off non-core assets. Edited excerpts:

First on the big news on the Mundra plant. By when are we likely to get the final verdict for compensatory tariff?

The Mundra issue has now gone to the Supreme Court, having won at the CERC level and then the APTEL (Appellate Tribunal for Electricity) level. We have to now wait for the Supreme Court order. A part of that you saw in one of the other orders for UMPP, the court very clearly adjudicated there that regulatory commission has all the powers to decide, even Section 63 bid tariffs. So, that is a positive sign. We are hopeful that once they start hearing it in March we should have expeditious hearing and early settlement.

Does it look like the compensatory tariff will be lower than your under recovery?

That's not true. What had happened is that when first the CERC order came in, it was with respect to our bid price of the coal and the subsequent one when the force majeure part was adjudicated by APTEL, there it was with respect to the fuel supply agreement which was at about \$34. But it will cover majority part of our under-recovery portion.

What is the current under-recovery at Mundra and what is the expectation as far as the tariff is concerned?

The under-recovery part keeps changing due to fuel prices. As you know that last



Tata Power CEO and MD Anil Sardana. S KUMAR/ MINT

quarter the fuel prices firmed up a bit, and so the under-recovery rose to a higher number. But if we go by the normative level of FOB price at about \$70-75, then the under recovery will be anywhere close to about 42-45 paise.

You said the case is with the Supreme Court, when is the next hearing? Do we have any timetable in place? What is the best case scenario from your point of view?

Next date of hearing is now mentioned to in March and it has been stated that after that there will be expeditious hearing in this subject. So, we are hopeful that the resolution should come by early. More bullish on the fact that the content, the Supreme Court

mentioned about the fact that regulatory commissions are fully empowered to look at the bid tariff which is what is important and I guess we are going to use that clause which was mentioned in the other case and try and see that if we can get back to the original CERC adjudication which was the compensatory tariff was a complete pass through in terms of under recovery.

The important point to be mentioned here is that even after the compensatory tariff, Mundra will be one of the lowest cost options for this country and that too with benign coal and with proper pricing regime that is expected in the years ahead.

Just two things both on the Mundra part and the coal part is what we want clarity on. Why was the EBITDA so low in Mundra this time around; I believe it was about Rs30 crore, sharply lower than the year-ago level

and what are the plant load factor levels there?

Due to the fuel price changes and the fact that the availability in this particular quarter was lower than 80 percent. Therefore we could not even account for full fixed cost recovery. As you all know, we try and maintain the availability factor to 80% by the end of the year which is what we will achieve at the end of March and because of that the under-recovery happens even on the fixed cost during the quarter. So, this quarter we could not get the full fixed cost recovery and that is the reason why you see low EBITDA. While the EBITDA for Mundra was Rs30 crore, the EBITDA for the mines was Rs330 crore. So, therefore what matters is there is an absolute strong hedge between the mines and Mundra and that is the reason why we had acquired those mines.

Will you challenge this sub 10 paise compensatory tariff if it comes through because it is much lower than your current under-recoveries of around 42-45 paise as you mentioned?

If you are referring to the table—they had done some calculations in the CERC last order, there were errors on record and that is the reason why we have gone already to APTEL to clarify that part. So, don't go by that table because what they have actually used in the calculation are wrong figures. The under-recovery is almost compensated by the present formulation that they have prescribed.

The outlook for coal business where we have seen quite a bit of improvement?

Since the coal prices firmed up, all the mines which we have were positive and we generated very good profitability at the KPC mines and also the other smaller mines did very well.

So, if the prices remain around \$80, which is what the present prices are, then one can clearly look forward to good profitability from all those points.

What about the Arutmin mine, the sale in Indonesia.. the deal has been going on for a bit now,

can you give us a timeline on that one?

Our mines which have been sold were to be adjusted for the infrastructure as also some of the court cases which were filed by Thiess in Australia. That settlement has happened and we have settled those amounts and signed the revised deal and now it is expected that within the next quarter or so we will start moving on with the settlement that has been already defined. However, the entire process will take about two years as you clearly know that Bumi, which has acquired Arutmin mine from us, has very poor financials and so the schedule that they have tied up in the revised adjustment is about two years and the entire settlement will take that long but it will start setting in the next one quarter.

Can you just give us an update on the Welspun acquisition as well? What is the latest as far as the earnings are concerned, the performance and what can we expect going ahead?

Welspun assets have already been integrated into Tata Power now and the portfolio has started to yield and we announced that this quarter we had a Rs255 crore EBITDA contribution from Welspun asset, so, it is tracking, in fact it is more than what we had envisaged. So, we are hopeful that coming next year we will have good EBITDA contribution from Welspun assets and all of them have now started to be on full yield.

I was just worrying about your debt, Rs45,000 crore debt, that is still 2.5 times your equity, any plans to pare it down?

First and foremost, yes, we are concerned about our EBITDA but you need to know that in our sector the normative debt itself is 2.33 and our objective will be to get it somewhere close to 2 and therefore we are making all plans to make sure that the non-core assets are sold off and as also the last part of debt that was acquired to takeover Welspun asset is swapped with equity option.

So, therefore that work is afoot and you would see us in action in the next six months to three quarters.

INTERVIEW