Tata Power is completely geared up to roll out GST from 1 July: Anil Sardana

INTERVIEW

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Tata Power Ltd reported a consolidated net loss of Rs246.9 crore for the quarter ended 31 March, hurt by an "exceptional item" under a contractual obligation. In an interview, Anil Sardana, managing director of Tata Power, spoke about the company's performance and strategy. About the new tax regime, Sardana said at a GST rate of 5%, coal costs will be a pass through for most power companies but solar power will become expensive due to the GST rate of 18%. However, as most of Tata Power's solar projects concluded before 31 March, he said, the company sees no impact of the new GST rate on its tariffs. Tariff benefits for customers will only be seen by mid-2018, he added. Edited excerpts:

Before I go into the details and nitty gritty and what lies ahead, the goods and services tax (GST) is the hot subject. There is going to be a positive impact for power companies like yourself. Coal will attract a 5% GST rate. Have you been able to estimate the kind of impact and the cost saving that will come in as a result of this?

For most of the power companies, coal typically is a pass-through. So, if at all, it is going to be an advantage to the customers. So, for us the advantage will be that we are a distribution company too and therefore, we look forward to our tariffs becoming better over a period of time because now it is down from 11% to 5%.

But at the same time, while the GST for most of the power items has improved, what has surprised us the solar GST. That has moved to 18%. That used to be zero. So that is a change that perhaps will make solar more expensive. And the worry is that right now, the projects which are in execution stage, they will have to bear this brunt because the change of law will take a long time for them to resolve. We are fortunate that most of our projects got concluded before 31 March.

So, there will not be that much of an impact.

So, for us, as Tata power, there will not be an impact, but for big projects which are not executed, the number is as large as almost 10,000 megawatts (MW).

Tata Power MD Anil Sardana. MINT

10,000 MW worth of projects being impacted across the power sector, not for Tata Power?

That is right.

Is there a portion of this that Tata Power will get impacted by?

No, Tata Power will not get impacted because most of our projects are concluded before 31 March.

So, you indicated that there would be a benefit for customers, for your customers specifically. My first question, are you ready for the July 1 rollout? And secondly, the revenue secretary was at CNBC yesterday. He had requested that the corporates must wait till the 1 July turnaround to pass on any effect, negative or positive to the customers. So, what would the timeline be? By when would customers see that benefit of tariffs?

First and foremost, we as a company are completely geared up to roll out GST from 1 July. So, we had advisors on board, we have done our changes in the enterprise and resource planning software. So, we are all set for 1 July.

Second part that you asked was that when do customers truly see the advantage. That will not be until we go to the regulator the next time because as you know, the tariffs and distributions are all determined by the regulator. Therefore, this cycle will virtually be a cycle that will end up towards the end of this financial year. And then you go to the regulator and then you get to see the changes.

So, by when would you go to the regulator?

Not until 2018, middle.

So, by mid-2018, there would be a tariff impact? How much would that be?

There will be a tariff improvement and if you assume for coal it is going to be down from 11 percent to 5 percent, in some of the projects the cost could certainly come down by Rs0.10-0.15.

By mid-2018?

That is right.

Could that further keep coming down over a period of time, after it is executed? Is there a window for that?

No, because if the coal prices increase, yes then relative difference of the GST would certainly be an advantage. One has to wait and see as to how other aspects, other components of what forms the variable price, in terms of not just the coal, but also the ferrying of coal, by trucks or by rail system, how would that get impacted because one has to see on a holistic basis. If that also goes down, then customer will see bigger advantages.

Is there any more clarity that you need while you are getting ready for implementing GST? Is there more clarity that is required, specifically from a thermal electricity perspective?

Not from the components that become part of the entire generation or distribution, but yes, as things stand today, they are declaring the rates for many services. The goods part are becoming more clearer, the services part, one has to wait and see what will be the GST rates for some of those services. And once that all rolls out, then one will have an aggregate clarity in terms of what will be the final impact, negative or positive on customers.

Let us talk about the earnings. You have had a good year. If I had to single out this quarter's performance, there has been a net loss of Rs247 crore, but that is largely because of an exception. Barring that, a Rs389 crore of profit that you have seen. So, firstly, is there an exceptional item likely? Is there more payout that you have to make in lieu of Tata Docomo in the next few quarters? If yes, have you factored that in already?

First and foremost, as you rightly said, one is that this is Q4, but the other important part is this is also full year. So when we look at the power sector, we do not look at every quarter because this is long-term business. So, from an annual statement point of view, while we have provided Rs 650 crore for Docomo that is likely to be a payout, what we have done, we have done two aspects. One is that based on the high court order, we realised very clearly that the Docomo payout will happen soon. So, that is one part that we have provided for.

So, that is done now?

That is done now. There is no need for more provision. The second part that we did was that the Docomo impairment, that shares that we will acquire from Docomo will get impaired because the pricing is not going to be at the price at which we transact with Docomo. So, therefore, we have even provided for that because just for the viewers, we are buying these shares as per the agreement that Tata Sons had, at about Rs 58 which is 50% of the price at which these shares were originally bought by Docomo.

But now, we have provided in the books at Rs11.70. So, we have even impaired the gap between them. So, we have completely provided for that so that that entire thing is taken care of. So, the yearly performance, if I do not consider Docomo, has been Rs1,400 crore profit on the consolidated basis which is a very good performance considering the fact that we had high coal prices and we had more pain at Mundra.