Lunch with BS: Anil Sardana

Anil Sardana has been keeping his fingers crossed for months now - ever since the Indonesian government pegged its coal to global benchmark prices, which in combination with currency fluctuations resulted in Tata Power reporting its first annual loss for the year ended March 2012. His fingers don't seem to have changed their positions even two weeks after the apex power regulator ordered setting up a panel to work out a "compensatory tariff" for the 4,000 Mw Mundra power project, write *Shyamal Majumdar* and *Katya Naidu*.

"In India, you can never say something is done till it is actually done. It could still be a long way off," the 53-year-old Tata Power managing director says, as we sip watermelon juice. Though Sardana says he is never busy, he couldn't find time to follow the standard Lunch with BS format of choosing a restaurant for us to host him. Instead, he's invited us to the third-floor conference room of Bombay House, the Tata group headquarters.

He is upset with the Indian government for many reasons, one of them being its failure to "show its teeth" against Indonesia when it changed the coal price regulation with retrospective effect. Coal price in Indonesia, which was $42.13 a tonne in December 2006 when Tata Power won the contract to build the Mundra plant after bidding the lowest tariff of Rs 2.26 a kilowatt-hour, has since jumped 79 per cent, rendering the project unviable. Mundra has been 14 months into operation, and has already eroded half the company's net worth.

Sardana says though his expectations are usually realistic, the government's silence on the issue was a surprise. "We sent a letter to the power ministry and it got buried there," he says.

Other governments know how to do their homework and argue their case effectively, Sardana says. He then proceeds to give an example of his experience with the Indonesian government. While lobbying against the retrospective price increase, he sought a meeting with the president of Indonesia, but was asked to meet one of his senior advisors instead. The gentleman gave him a patient hearing and then asked: "Mr Sardana, your government has mandated 26 per cent profit-sharing on all captive coal mines, even those that were allotted 15 years ago. How come you didn't raise this issue with your own government?"

Sardana says he didn't have any answer to that "valid" question. "Our government had done it [on coal mine profit-sharing] and made it pass-through [in the tariff]. Then why is the government back-stabbing ultra mega power projects when they need help on raising tariff for a perfectly legitimate reason?" he asks.

The food, we are informed, is from the Taj Mahal hotel in nearby Colaba. It's not the regular lunch menu for him, but Taj was the only option, since all Mumbai restaurants were closed in protest against service tax. The steward walks in with three huge trays, though just one would have been enough for all of us, given the extra-generous quantity of pumpkin soup, bread, steamed rice, lentil dal, chicken, pasta and baked yogurt.

The break gives us an opportunity to ask the inevitable question: why should the government bail out private power producers who had bid to supply power at fixed rates only to discover they would lose money? After all, promoters had bid and got projects on terms as decided by them, and this must be honoured to stop making a mockery of the competitive bidding route. Sardana, however, says such arguments make no sense for the following reasons: first, energy resource assets are concentrated only in a few countries. In regions like China, Korea, Japan and Europe, the governments negotiate for the resources and then give them to private companies to develop. That's because individual players can never get what governments can. So the government has to play a role in removing the albatross around the neck of the companies concerned.

Second, when Tata Power won the Mundra bid, the company securitised itself with the investment in Indonesia. However, the change in the pricing formula was a shocker since it was also applied to old contracts. And it's not just a country-specific phenomenon and Sardana sees the changes as similar to what the Organisation of the Petroleum Exporting Countries is doing in the oil industry. Around the time Indonesia introduced a controlled price regime, Australia introduced a 30 per cent carbon tax. Similarly, South Africa introduced arm's length price norms. Combined, these countries provide 95 per cent of thermal coal exports to this part of the world, and it cannot be coincidental that prices increased at around the same time. These are issues that only the government can sort out, he says.

And, third, Sardana says Tata Power did not seek any help from the government on fixed costs or coal rates as some others may have done. "Our fixed costs still remain the cheapest. Besides, even after revision, the Mundra power tariff will be far lower than the existing rates," he says.

The strong argument may not have been enough to convince the government to intervene, but his track record of getting things done must have prompted the Tatas to make Sardana the first CEO of North Delhi Power (now Tata Power Delhi Distribution) in 2002. That's the kind of experience one gets once in a lifetime, Sardana says, as we order green tea (the food is half-eaten).

The culture shock for somebody coming from Mumbai was immense. "It seemed everybody was related to either the prime minister or somebody else who was no less powerful. A Bengali gentleman claimed he was related to a Sikh politician, and said 'if you mess around with my tampered meter, I will show you what I can do'. A deputy commissioner of police hooked on to the meter of the assistant commissioner and threatened him with disciplinary action if he complained. We would get threatening calls and had to seek police protection," Sardana reminisces, looking much more relaxed now.

Apart from tackling these "amusing" problems, Sardana says, his biggest challenge was to drill the "Tata culture" into the minds of the over 5,000 people from the erstwhile Delhi Vidyut Board. "I was told they are manipulators, shirkers and simply impossible to change," Sardana recalls. But the Delhi College of Engineering graduate and a gold medalist among trainees of his batch at the National Thermal Power Corporation knew better. He organised psychometric tests and delivered a masterstroke by working on the minds of the wives and children of employees through various classes. In between, subtle message were passed on to the wives that their husbands should mend their ways, otherwise jobs would be lost, making

life difficult for their children. That worked wonderfully, Sardana claims.

He headed Bombay Suburban Electric Supply (BSES) before taking up the Tata Power job. "In those days, it was a municipal department or even worse than that. Therefore, to turn it around was tough. Thankfully, we managed to do it and, perhaps, that prompted someone else to take it over," Sardana says, with a smile. What he leaves unsaid was that BSES was later acquired by Reliance Industries and is now under the Anil Ambani group's fold as Reliance Infrastructure.

We steer the conversation towards the Tata group. When he joined Tata Power in 2002, he was the youngest CEO in the group at age 42. But all that has changed now, he says, as the group chairman himself (Cyrus Mistry) is just 44. Sardana is also as enamoured with Ratan Tata for his age-defying spirit ("the man still drives around the city himself, and is renewing his helicopter flying licence").

His own hobbies, however, require much less adrenaline at least on his part. One of them is to watch the English Premier League (even if that means waking up at 1.30 at night). But his busy days over the past few months must have interfered with his hobby, we ask. But Sardana says he hasn't missed a single Chelsea match, however "gainfully occupied" he might may have been during the day. Chelsea would be proud of this Indian fan.