

'Domestic Coal's Cheaper, But Supply Hasn't Improved'

Tata Power is scouting for coal assets as a substitute for imported coal from Indonesia even as the firm faces delay in closing a deal to sell stake in an Indonesian asset, company CEO **Anil Sardana** told **Team ET**. He also talked about why India's renewable energy target is not realistic. Edited Excerpts:

Coal prices are declining, this must have helped you at Mundra UMPP?

Our losses at Mundra have reduced due to lower cost of coal. But the change of laws in Indonesia has made things worse for us. (The company owns 30% stake in two operational coal mines in Indonesia.) With coal price at \$57 per tonne, if we pay income tax, withholding tax, royalty and dividend tax, all aggregating to 89%, we have nothing left to cross-subsidise Mundra losses. Earlier, when the coal prices were higher, we at least had something left to cross-subsidise due to higher margins between sale price of coal and cost of mining.

So, if you reduce coal imports from Indonesia, what is the alternative arrangement for Mundra?

The alternative is to get coal from some other source where we can be allowed to manage the cost, duly keeping transfer pricing in view. But today, three main thermal coal exporting countries that are producing 98% have same prices. If you move on to tie up coal from one of the other countries accounting for the balance 2% thermal coal exports, they too could change the rules and charge a higher price later.

Imported coal versus domestic coal, does the latter look better now?

Domestic coal was always cheaper. But availability-wise, there is no change, because, for seven years, Coal India's output has almost been similar. This year, they have shown an 8% increase in production, but that's benefiting those who are in the neighbourhood and can pick up the coal. The railways are still not able to carry incremental coal.

It's been over a year since you signed the deal to sell stake in Arutmin coal mine in Indonesia.



ON FUEL SUPPLY

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Have you closed the deal yet?

No, we haven't. The lenders are not giving their permission for the stake change. The bankers are asking for guarantees and collaterals. The bankers are being difficult as the coal prices have fallen. The deal is taking longer than we had envisaged.

Are the buyers of the mine asking for renegotiating the price as the valuation has fallen?

No.

Does it still make sense to hold assets in Indonesia?

Securitisation is important. When we are running 4,000 MW of power project, we need absolute surety of fuel supply. Unless we get an alternate source, we have to hold Indonesian asset. We are constantly looking for an alternate source. We are looking at countries other than Indonesia, Australia and South Africa. Valuations of assets have come down, but we need surety that such countries should also not artificially increase the price or change structure of investments or returns, etc.

Are India's renewable energy targets realistic?

Wind and solar energy are primarily land bank-dependent businesses. It is certainly dependent on nature and, therefore, electricity generation is unsteady and seasonal. So, if we want 30% of our power generation coming from renewable energy by 2022, we would need gas-based power or storage hydropower as back up. Unfortunately, we don't have either of these two capacities in India. Then, there is the problem of transmission line. We have announced 100,000 MW of solar power capacity, which would require four acres for every MW. Where is the identified 400,000 acres of land?

Where will Tata Power get its growth from?

I am clear that renewable has to be a cautious game. Here, everyone is just a financial investor and is getting everything done by the suppliers, including O&M. And if the supplier winds up, since his business model is akin to winding up in 6-7 years, all developers would have challenge managing availability of their assets. Almost all renewable solution suppliers have played the land game. We are not very sanguine about the fact that we have to get large wind manufacturers such as GE, Siemens, Nordex and Alstoms of the world. Now, we have created an engineering cell that is pursuing reverse engineering for key parts so that gradually we can become self-reliant.

What's the portfolio you are targeting?

More than 50% of our renewable portfolio is outside India. Our suppliers there are big international players. Also, revenues are backed by guarantees, reverse engineering clauses, etc. so that we have clear line of visibility of what we can fall back on. In India, too, we have started talking to suppliers like GE and others. As regards investment in India, going forward, we had two big projects and both the associated mines are cancelled against these projects. So, we don't have any large ready greenfield project in India to invest in, whereas we have five projects overseas.