Tata Power (TPC)

Challenges faced by the company

Tata Power was facing several challenges in 2012, however the overwhelming threat to its survival was the situation at CGPL, Mundra. CGPL had been set up to almost double the generation capacity of the Company, with a huge capital investment (~ $ 2.6 bn). The plan was to use Indonesian coal, and Tata Power had invested ~ $ 1.2 bn in coal assets, to securitise low cost supply. However, regulatory changes by the Indonesian government challenged the viability of the project. Tata Power has filed a petition in Central Electricity Regulatory Commission (CERC) and the matter is in the courts.

Strategic initiatives aimed at sustainable growth

1. **CGPL:** In additions to the negotiations on tariff, it was clear that urgent operational cost reductions had to be pursued aggressively. Several initiatives were undertaken by the management, such as minimizing fuel costs by blending low cost (low quality) coal, optimizing plant availability, improving financing costs and lowering logistic costs by restructuring shipping contracts.

   Profit after tax improved from a negative 2100 Cr in FY12 to a negative 306 Cr for FY16. The company is confident of securing the appropriate relief through the judicial process. This will further improve company financials.

2. **Mines:** As coal prices went down, the mines came under stress. Significant cost optimization efforts ensured that the KPC mines continued to be profitable. The Board also explored divestments of the other mines. As you are aware, the company recently announced the sale of its 30% stake in PT Arutmin for ~USD 246 million.

3. **Trombay:** A strong focus on operational improvement and cost-cutting programs, including lowering logistic costs by bringing on board the most cost efficient vendor through a transparent global tendering process, helped the company reduce its cost of generation.

   As you are aware; any cost improvement will benefit millions of customers through lower tariffs. The lower cost was a key factor in enabling the company renew its Transmission & Distribution License for the Mumbai Area for a period of 25 years (in Aug 2014 valid till 2039)

4. Over the last four years, the management placed a significant focus on improving both capacity and profits across generation, transmission and distribution in all of Tata Power.

   a. Generation capacity increased from 3 GW in 2010 to ~9 GW

   b. Sweating of assets and improvement in plant efficiency parameters (consolidated operating profit growth was 11% CAGR compared to FY11)

   c. CGPL achieved success in blending of multi specification coal for cost optimizations (mix of high and low grade) without incurring any capex

   d. Increased customer base in distribution from ~1.0 million to ~2.0 million

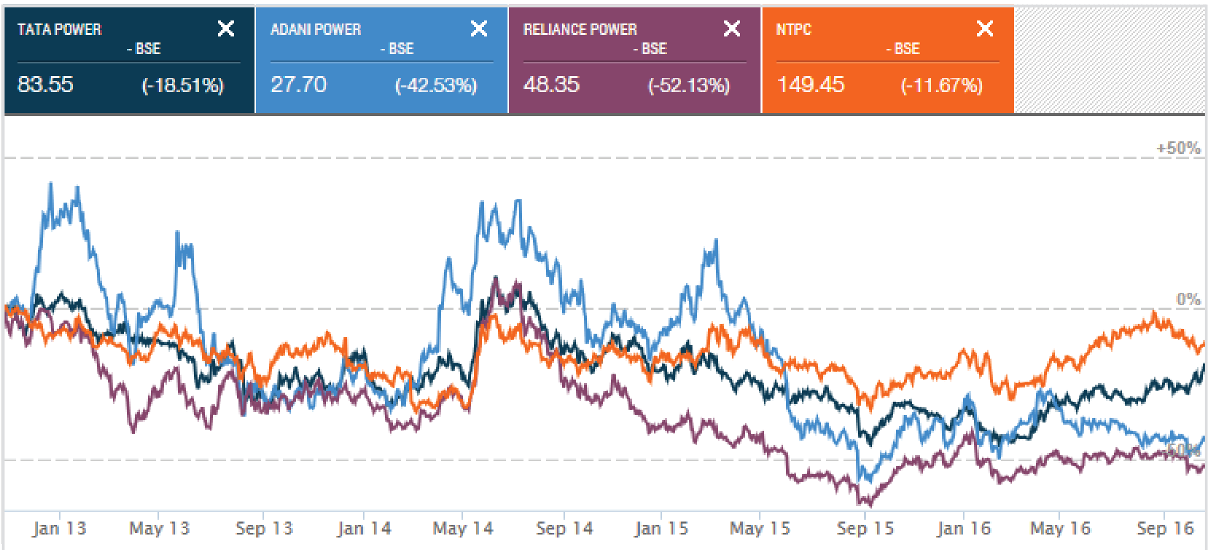
5. **Risk Management:** An area where the management of your company has achieved significant progress is in the area of risk management. Their journey in the last 4 years is something that other Tata group companies can emulate. The Company was also awarded the ISO 31000:2009 Statement of Compliance for Enterprise Risk Management System from British Standards Institute, making it the first company from the Tata Group to receive this recognition.

6. **Unlocking value for growth:** Tata Power has significant investments in group companies and unrelated businesses. Part of our strategy to unlock value has been to look to unravel these crossholdings and exit strategically from unrelated businesses, thereby generating funds to further our growth.

7. **Investing for the future:** It was also important to identify good projects for Tata Power which would earn better returns for shareholders. As part of its strategy, the management identified renewables as a key area to increase generation capacity, and the Board agreed. When the opportunity for acquiring Welspun Energy came up, the Board approved the project as a good fit for Tata Power.

   In addition, for future projects (particularly stranded coal assets), a platform funding structure has been put in place which will lower capital needs from Tata Power, while generating other income streams against the expertise it possesses.

   At a consolidated level for Tata Power, these efforts resulted in a marked improvement in EBITDA over the last three years. There has been a re-rating of the power sector in India over the last few years, and hence it would not be appropriate to compare its performance vis-à-vis the Sensex. However the company has fared better than most of its competitors during this time.


TATA POWER - BSE
83.55 (-18.51%)
ADANI POWER - BSE
27.70 (-42.53%)
RELIANCE POWER - BSE
48.35 (-52.13%)
NTPC - BSE
149.45 (-11.67%)
+50%
0%
-50%
Jan 13
May 13
Sep 13
Jan 14
May 14
Sep 14
Jan 15
May 15
Sep 15
Jan 16
May 16
Sep 16