TATA POWER

PLATFORM – AN EFFECTIVE INVESTMENT MECHANISM

IMPLEMENTED INNOVATIONS

Tata Power has brought together reputed global investors and created an innovative investment platform that will support inorganic growth through investments in power assets including distressed assets in India.

THE CONTEXT

The Indian power sector is throwing up several opportunities for acquisition and inorganic growth. The sector's woes can be traced to the implementation of the Electricity Act 2003, when a number of non-traditional players made large-scale investments without the understanding of micro and macro aspects of sector specific issues. Subsequent changes in market conditions and regulations such as coal block de-allocation, push for renewables, project time and cost overrun and insufficient power purchase agreements hit the thermal power sector hard. Rising levels of non-performing power assets has forced lenders to initiate corrective measures such as the 5/25 scheme, structural debt restructuring (SDR), and the scheme for sustainable structuring of stressed assets(S4A), to little avail.

With the implementation of the Insolvency and Bankruptcy Code 2016 (IBC) and relevant RBI circulars, the lenders have now initiated resolution processes in several distressed power assets. Such assets are available at a considerable discount to their original cost of completion considering the sustainability of debt levels the project revenue streams can support and that the lenders, having realized that the current debt levels are unsustainable, are willing to take haircuts on their outstanding loans to recover at least a part of their outstanding dues.

Meanwhile, Tata Power is looking at inorganic growth opportunities to achieve its strategic target of becoming an 18,000 MW power company by 2022. It is considering acquiring some of these distressed projects instead of going for organic growth, given its intent to address the risk of high debt and equity exposure, and limited cash reserves as well as the sector's intrinsic issues relating to land acquisition, government clearances and long gestation periods.

THE INNOVATION

In order to grab the opportunity presented by the sale of distressed power plants, Tata Power has come up with an innovative business model that limits its equity exposure to 26% in the target assets and yet gets full control of the distressed plant's operations and management. The business model helps Tata Power secure 3-4% additional return on equity over and above the base return on equity which is typically available to an equity investor. It has created an investment platform by bringing together a number of global investors. The partners include Tata Power (through its international arm, Tata Power International Pte Ltd, Singapore), ICICI Bank and global investors such as Kuwait Investment Authority and SGRF Oman. They have incorporated a joint venture in Singapore called Resurgent Power Ventures Pte Ltd, which is in the process of investing in power projects in India. Resurgent Power Ventures has executed a share purchase agreement to acquire 1,980 MW Prayagraj Power Generation Co. Ltd. from the lenders of the project, which is widely recognized as the first large initiative in Indian power sector to destress an asset.

KEY CHALLENGE

TO ATTRACT INVESTORS TO THE PLATFORM

The team made persistent efforts to reach out to various investors globally and pitched the Indian growth story, in particular the huge opportunities available in the Indian power sector. The platform's current investors are strongly aligned with Tata Power's vision and market view of the domestic power sector.

THE IMPACT

Tata Power has received over

$6.5 MN (₹40 CR)

from Resurgent as advisory fees in the last two years, and is expected to continue to receive around $2.5 million (about Rs. 17 crore) per annum, going forward.

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