

SC Ruling Against Tribunal Order will Hit Imported Coal-based Power Gencos

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Kolkata: A recent Supreme Court ruling, setting aside an appellate tribunal order permitting Tata Power and Adani Power to raise electricity tariffs in tandem with increased input costs, will hit viability of all imported coal-based power generators, say experts.

Coastal Gujarat Power, a wholly owned subsidiary of Tata Power Company, will see continuous under-recoveries of fuel cost to the tune of ₹1,000 crore a year at current coal price even if its generation units run at a minimum load, ratings and research firm India Ratings said.

Angel Broking in a blog said, "Tata Power may have to look at foregoing its equity to the tune of ₹4,000 crore and then invite lenders to come and take over the Mundra plant."

According to analysts, over the last four years, Adani Power has already booked revenues of ₹8,800 crore as compensatory tariffs, which is actually 10% higher than the net worth of the company.

"In the light of the Supreme Court order, Adani will have to write off the entire ₹8,800 crore that it has taken credit for, mea-



PHOTO: AFP

ning that its entire net worth could be effectively wiped out. Its debt burden of ₹50,000 crore is another albatross around its neck," the Angel Broking blog said.

Sabyasachi Majumdar, senior vice-president at ICRA Ratings, said it's not just Tata and Adani that would be affected. "In addition to the under-recovery of energy charges as a result of the order, many recently commissioned and under-construction projects with competitively bid-based power purchase agreements remain exposed to the risk of un-

der-recovery of fixed charges because of the significant increase in capital costs following delays in execution, exchange rate volatility, and funding problems, coupled with non-escalating or limited escalating nature of the competitively bid-based tariffs," he said.

The issue started back in 2010 when Indonesia revised its export norms that led to a sharp rise in coal prices. Both Tata Power and Adani Power depend on coal imports from Indonesia and they had to shell out higher prices for the coal they imported. To pass the increased input costs to consumers they tried to invoke the force majeure clause in the power purchase agreements with clients.

Force Majeure pertains to developments beyond the control of both parties leading to agreements going haywire.

Both Tata Power and Adani Power approached the Appellate Tribunal for Electricity (APTEL), which ruled in their favour. However, the Supreme Court recently squashed this ruling.

Nevertheless, India Ratings believes that Tata Power at a consolidated level has a natural hedge to the increase in coal prices due to its 30% stake in an Indonesian coalmine.