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BONDS CREATE CASH RESERVES AND HAVE STABLE INTEREST RATES

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Samir Ashta, CFO & Director-Finance, CLP India

What are the innovative financing structures available for thermal power plants in India?
If you look at CLP's Jhajjar thermal power plant, we started with raising debt in Rupee and subsequently raised foreign currency borrowing. As the operational performance of Jhajjar improved over a period of time, we looked at the debt capital markets. We found that the debt capital markets, reflect the changing interest rates in the country. We began with a short-term rating for the Jhajjar project and then long term rating. Our first bond with a BBB rating was difficult to sell, as bond holders ultimately make decisions based on the ratings of the company or the underlying asset in our case.

Given this scenario, our move - you can call it innovative - was to credit enhance the bond. CLP India, which holds 100 per cent stake in Jhajjar power plant, had received a AAA rating, so CLP India gave a guarantee up to 50% for credit enhancement for the Jhajjar plant, hence its rating improved from BBB to AA+. As a result of this improved credit rating, we were able to go

through with the process of bond issuance for Jhajjar plant smoothly and successfully. The CLP Group in India learned that the debt capital markets can bring in significant savings and saw its first bond issuance. We used the proceeds from the bond to pay off our debt which is around 13 per cent, giving us a straight saving of 3 per cent on our borrowing of Rs 476 crores.

That is the crux of what we have done for the last two years in order to undertake various ways of financing. Besides this, we have also issued bonds for our wind farm business, which was the first green bond in South-East Asia.

Kindly explain the Rs 220 crore debentures in detail. What was the purpose of this exercise?
As we progressed further with the Jhajjar plant, we saw that the market had the capability of absorbing the bond on a stand-alone basis because of the improved operational performance of the plant. JPL issued its second bond of Rs 220 crore on a stand-alone basis, at a better coupon rate than the credit enhanced earlier bond. So, it is not only the credit enhancement, but the operational performance that has had a positive impact on pricing of the bond issuance. Due credit must be given to the team which improved the operational performance of the plant. This enabled us to receive a better rating, due to which we could do a standalone bond, which in turn got us a better price.

What are the benefits of the financing structure you've adopted?
We keep looking at such financing structure options which make sense for our business, because ultimately the bonds bring in two things - firstly they create cash reserves. If you consider the fact that the principal amount in a loan must be repaid every quarter and for the bonds, the company can negotiate repayment schedule with the investors. In the second scenario, all the cash gets retained in the business for a period, for capex and other uses. The second benefit is that the interest rate for bonds remains the same, whereas in the case of the banks, the interest rate gets reset periodically. A tuned interest line helps us in matching our tuned PPA revenue.

How do you see the financial climate in India in terms of the power sector?
The power sector has its challenges. For Jhajjar, we've had challenges in terms of coal availability; today we're facing challenges in terms of the discoms being unable to buy power. Because discoms have struggled to pay on time, there is not much power off-take, which in turn restricts our output. But, these are not specific to us and are common across the sector. The financial aspect takes a hit as discoms have struggled to repay their debt obligations on time resulting in banks having a problem, and when banks have a problem they don't want to lend to that particular sector.

When will the company undertake its next bond issuance? What are your plans for the same?
We believe that the debt capital markets are a good way for power companies to manage their financing costs. However, everything boils down to improved operational performance of

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our asset and the second is the ability of the off-taker to pay and ensure sustained performance of the plant. We would surely like to issue bonds in the future, but at an opportune time and that will depend upon the business, as we don't issue bonds as a treasury function, but to bring down our operating cost.
We have a corporate finance structure in place where the inflow of cash from projects in other states is enough to take care of our finances. What we have seen is most states pay on time - with a few exceptions like Tamil Nadu and Rajasthan. The reason for inability of payment is more likely a systemic issue rather than an infrastructural problem. When the cost of buying power is more than the price of selling power, such imbalances are bound to occur - it is simple economics. If you look at the discoms' balance sheets, the average revenue is lower than the cost expended. No industry can sustain businesses in such conditions and it is a big challenge for the sector.

Would standalone bonds also work for discoms and PSUs?
Discoms today do receive credit enhancement from their state governments, so it's not like they are not present in the bond market. There have been many instances before us, where discoms have issued bonds on the basis of standalone performance or on the guarantee of their state government which credit enhanced their bonds.

How much of an impact would you say the opening up of the coal mines and the coal auction has had on the performance of the Jhajjar power plant?
If you look at our PPA, the fluctuation in coal prices really does not make much of a difference to us as fuel cost is a pass-through for us as per our PPA. What is important for us is our plant availability - which has gone up significantly. March 2016 was the first time where our plant availability went above 85 per cent, which is the benchmark where we started receiving an incentive. From April 2016 to August 2016 our plant availability has been around 91 per cent. So, we get a higher incentive, which is on a fiscal basis. So, if we sustain the same level till the end of March, we know what our incentive is going to be. Hence, availability of coal has significantly improved our plant availability. Some years back our plant availability was as low as 65 per cent, since then, we have improved our performance to around 91 per cent level about which we feel proud.

On the renewable side, investments in wind energy have seen a slowdown, why would you say this has happened?
First, we have to acknowledge that the present capacity is not fully generating, i.e. there is no full plant capacity utilisation. Above and beyond this, off-shore power generation is still very costly. But, in any case the issue is not off-shore or on-shore, the issue is the availability of power and the ability of the discoms to pay. Also, we have seen that there are transmission and evacuation constraints in parts of the country - particularly in Rajasthan and Tamil Nadu, and our sense is that grid constraints will go on for a period of time. These issues will first have to be sorted or at least eased before there is a surge in investment.

CLP has recently ventured into the solar sector. Kindly tell

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us about this.
It is a Joint Venture with Suzlon Group, for a 100 MW solar project at Veltoor in Telangana,. CLP India acquired a minority stake of 49 per cent in SE Solar, a special purpose vehicle (SPV) has been set-up - at the moment we have a minority stake of 49 per cent, but we have an option to move to a majority stake and utilise the option to acquire the balance 51 per cent in future. The project is expected to be commissioned by May 2017 and will be funded 80 per cent by debt and 20 per cent by equity. PPA has a fixed tariff for 25 years at Rs 5.59/kWh and the off-taker will be Telangana Southern Power Distribution Company Limited. The EPC aspect is being handled by Suzlon and CLP India will be responsible for the operational management.

JOCELYN FERNANDES