OGPL

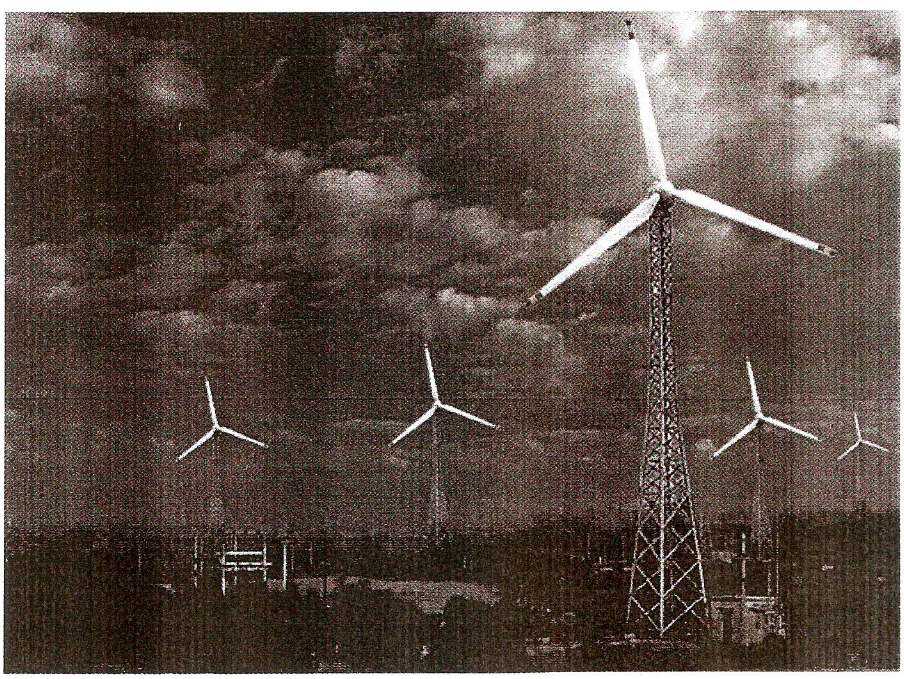
Optimising its portfolio to improve profitability

By Meera Bhalla

A joint venture between Shriram EPC Limited and Bessemer Venture Partners, Orient Green Power Company Limited (OGPL) entered the renewable energy market in 2006 by acquiring projects from companies whose core business was not renewable power generation and which had invested in these projects for tax benefits. As it gained experience in operating these assets and received financial support from investors like Olympus Capital, OGPL's strategy evolved to organically expand its presence in this market. The company commissioned its first self-developed biomass project in February 2010 and wind project in July 2011. Over the years, the company has grown to become one of the top five renewable independent power producers (IPPs) in the country. Its operational capacity, consisting of wind power and biomass projects, crossed the 500 MW mark in January 2014.

The latest additions to its installed base are three biomass projects, in Narsinghpur, Madhya Pradesh (10 MW), Kishanganj, Rajasthan (8 MW) and Marikal, Andhra Pradesh (7.5 MW), which were commissioned in 2013-14. With these, the company's biomass-based installed capacity has reached 86 MW across 11 projects. It has a larger presence in the wind power space, operating over 416 MW of capacity across 45 projects.

Despite a strong portfolio, the listed renewable energy IPP has been struggling to maintain its financial performance due to issues like an unstable grid, higher transmission charges, high cost of borrowing and unavailability of biomass fuel. The majority of its projects are located in Tamil Nadu – about 76 per cent of its installed wind power capacity and 38 per cent of the biomass capacity. Wind power generation was severely affected during 2013-14 due to rampant back down of the grid in Tamil Nadu. This has adversly impacted the company's financials.



For the nine-month period ended December 2013, OGPL reported total revenue of Rs 3.14 billion, about 12 per cent less than its earnings during the corresponding period in the previous year.

Notwithstanding the challenges company is positive about future growth in the wind and biomass segments with various initiatives being taken at the central and state levels. As per S. Venkatachalam, managing director and chief executive officer, OGPL, "Tamil Nadu's state utility is actively working towards addressing grid stability-related issues and it is expected that the evacuation issue would be solved before the coming wind season as various steps have been taken to address this. One of the 400 kV transmission line is also expected to be commissioned before the start of the next wind season which should improve evacuation. Further, the proposed Green Energy Corridors project will help in improving the situation in the long run."

In order to address the issue of growing finance costs, which is a result of increasing interest rates in the country, the company has been trying to rationalise its cost of debt by refinancing loans through other lenders as well as external commercial borrowings with a fully hegded structure. This strategy will help OGPL in reducing its exposure to exchange rate fluctuations.

Business strategy and operational performance

As compared to other IPPs of the same scale, projects owned by OGPL are of smaller capacity and, therefore, larger in number. The company's largest project is a 43.2 MW wind power facility in Andhra Pradesh. It also operates a 40.8 MW wind project in Kazugumalai village and a 30.6

MW wind project at Eppodhum Vendran village in Tamil Nadu. These large projects have been developed by OGPL's subsidiary, Beta Wind Farm Private Limited.

As a risk mitigation strategy, OGPL has diversified its power sale options. While the majority of its projects sell power to the state discoms, the company has been increasingly selling power through private power purchase agreements (PPAs) as well. Further, a large share of its existing portfolio is based on the renewable energy certificate (REC) mechanism. As of December 2013, 15 wind energy projects totalling 133.30 MW and five biomass projects with a cumulative capacity of 42.5 MW were registered under this mechanism. However, poor renewable purchase obligation (RPO) compliance levels by the majority of obligated entities has led to low REC demand, impacting the financial viability of these projects. While OGPL's REC eligible projects have increased during the last couple of years, the company had an unsold inventory of 246,026 RECs as of December 2013, which will be cleared only when the REC demand picks up.

A positive development for OGPL during the past year has been the increase in wind power tariffs in Tamil Nadu, which allowed the company to raise tariffs for captive consumers in the state. OGPL's actual realisation from wind projects during the first three quarters of 2013-14 was Rs 5.59 per kWh as compared to Rs 5.03 per kWh during the corresponding period of the previous year.

Meanwhile, in the biomass business, the company is struggling to improve the profitability of its projects. The operational performance of the company's biomass projects was poor during April-December 2013 due to temporary suspension of two projects in Rajasthan owing to the very low tariff and high cost of fuel. The company has taken various initiatives to revive operations at one of its units in Rajasthan. Moreover, issues related to the availability of biomass fuel forced the company to drop its plans of developing power generation facilities in Amritsar, Patiala and Vellore. OGPL is awaiting the announcement of higher biomass tariffs by the Rajasthan Electricity Regulatory Commission to restart the Hanumangarh biomass project. During April-December 2013, the average plant load factor of OGPL's biomass projects reduced to 34 per cent from 47 per cent. As a result, its net power sales from biomass projects dropped from 55.96 MUs during the first three quarters of 2012-13 to 39.68 MUs during the corresponding period in 2013-14.

OGPL's capacity (MW)

Segment	Existing		Planned
	As of March 2011	As of February 8, 2014	As of March 2015
Wind	179.5	416.0	494.6
Biomass	40.5	86.0	106.0
Total	**220.0**	**502.0**	**600.6**

Source: OGPL

The way forward

OGPL plans to increase its operational capacity to 600 MW by end-2014. Due to infrastructural and regulatory issues in Tamil Nadu, the company is now focusing on expanding its project portfolio in other states including Andhra Pradesh and exploring options in Maharashtra and Madhya Pradesh. Currently, a 20 MW biomass project in Kolhapur, Maharashtra, 8.4 MW wind project in Gujarat and a 7.2 MW wind project in Andhra Pradesh are under construction. "We have achieved financial closure for all under-construction projects," says Venkatachalam. The company is planning to develop wind projects of 70 MW by March 2015. It will also add 20 MW of biomass capacity in 2014-15.

> The company is positive about future growth in the wind and biomass segments with various initiatives being taken at the central and state levels.

So far, the company's project portfolio has been dominated by wind projects. This trend is likely to continue in the future. However, OGPL is taking various initiatives to reduce the operational cost of biomass projects by controlling their fuel costs along with a significant focus on operational efficiencies. Measures taken by the company in this regard are adoption of contract farming and growing feedstock at wind farm sites to ensure timely availability of biomass fuel.

Due to the growing REC inventory, the company plans to take the preferential tariff route for future projects. This will provide a secure avenue for revenue generation for the company. However, the poor financial health of the majority of state discoms and delays in tariff revision for renewable energy projects according to the current market scenario affects the effectiveness of the preferential tariff route as well. Therefore, an optimum mix of various power sale options will help the company in ensuring effective returns. Along with developing new projects, the company plans to improve the efficiency of existing projects.

Net, net, OGPL's strategies to optimise its project mix, focus on operational efficiencies and undertake energy plantations are likely to help it address the challenges related to low uptake of RECs and lack of biomass fuel availability. However, as the biomass business continues to face operational challenges, expanding its footprint in this business may just add to the company's financial stress. ■