Orient Green Power sells biomass units; sees the wind turning

Orient Green Power Co, the renewable arm of the Shriram Group, said it has sold much of it biomass power generation business to a unit of its promoter and that its wind power business is benefiting from higher offtake by the Tamil Nadu power distribution company.

The company had around 96 megawatts (MW) of biomass power generation capacity, out of which 30 MW was already sold, and another 68 MW is being sold to entities owned by its promoter Shriram Group.

“Divestment of the Biomass business has been substantially completed with the transfer of 8 biomass units on December 31, 2017. Sale of the remaining units, which is in progress, is expected to be concluded over the next 2 quarters following which OGPL will emerge as a pure wind energy company,” S. Venkatachalam, MD, Orient Green Power said.

OGPL will receive a consideration of Rs 80 crores, while Rs 193 crores of debt will be taken over by the buyer.

“Overall debts that will go out of the OGPL books will be around Rs.330 crores. Accumulated losses of the Biomass business will be written back enhancing its net worth,” the company said.

The company’s stock has gained around 50% in recent trading sessions due to comments made by the management on the sale.

WINDS OF CHANGE

The company plans to move to a wind-only player. It has 425 mega watts of wind power capacity, out of which 308 MW is located in Tamil Nadu..

“In Tamil Nadu, where 72% of OGPL capacity is located, initiatives by distribution company TANGEDCO to improve grid infrastructure have resulted in increased evacuation of power enabling the company to monetize over 95% of the wind power that it generates,” it said.

The MD said the ‘operating environment’ for wind power facilities has improved in Tamil Nadu, and the company’s wind power business is “now delivering EBITDA that is reflective of its potential”.

The company is trying to turn its business around after high finance costs and poor performance its biomass business dragged its performance in recent quarters.

For the first half of the current financial year, the company was able to improve its pretax profit to 16% of revenue from 5% in the previous year.

The sale of renewable energy certificates too has picked up pace, Venkatachalam added.

Renewable Energy Certificates (RECs) are proof that energy has been generated from renewable sources such as solar or wind power. Each REC represents the environmental benefits of 1MWh of renewable energy generation, and helps corporations meet their regulatory requirement.

The trading of Renewable Energy certificates has been marginally higher in H1 FY18 as compared to H1 FY17, Orient Green Power said.

“December 2017 had a record average trading of almost 50% compared to averages of 6-7% each month over the last few years. As a result, OGPL was able to liquidate in 9 months around 379,000 RECs fetching Rs.37 crore cash realization with Rs.18 crore retained by CERC pending court order,” the company said.

Orient Green Power now has an REC inventory of around 239,000 certificates.

Thanks to refinancing efforts, it was able to reduce interest costs from Rs 286 crore in FY15 to Rs. 267 crore in FY17.

“It is set to further reduce to Rs. 242 crore (annualised) in FY18,” the company said.

“The company is poised to achieve further reduction in finance costs by about Rs. 35-40 crore in FY19 on the back of transfer of 193 crore of biomass debt along with the assets on Dec 31, 2017; refinancing of one tranche of high cost debt of Rs. 100 crore in Oct, 2017 from 18% per year to 12.75% p.a. resulting in an annual saving of over Rs. 5 crore and healthy intent indicated by financial institutions to refinance the tranche of Rs. 765 crore of debt which was refinanced under the 5/25 scheme,” it added.