KSK Power Ventur PLC - KSK Business Update
Released 07:33 30-Jan-2018

RNS Number : 3020D
KSK Power Ventur PLC
30 January 2018

30th January 2018

KSK Power Ventur plc
("KSK" or the "Group")
Business Update

KSK Power Ventur plc (KSK.L), the power project company listed on the London Stock Exchange, with interests in multiple power plants across India hereby refers to the notification made by its subsidiary KSK Energy Ventures Limited, the equity shares of which are listed and traded on the National Stock Exchange of India Limited ("NSE") and the BSE Limited ("BSE").

COMPANY UPDATE

The Company, with business interest in multiple power plants across various states of India, over the last few years has been facing a number of significant challenges, such as securing suitable fuel supply availability at acceptable costs, continued failure of state agencies to meet their commitments and non-receipt of payments for power supplies within contractually stipulated timelines and non-receipt of refunds from statutory authorities / state agencies in spite of specific rulings in favour of the respective projects. While this has been in common with the wider structural and economic challenges being experienced by various power projects across the Indian Power sector landscape, the specific constraints being faced by the Company's various power plants in enforcing rights against state agencies and achieving sustainability thereto has been one of the main factors holding back the Company's anticipated operational performance.

The Company is pleased to report certain developments relating to the various group power plants as outlined below:

KSK Mahanadi Power (KMPCL)

1. KMPCL has now concluded the execution of necessary amendments to its power purchase agreements (PPA), aggregating over 2100 MW of gross capacity, with the Discoms in the respective procuring entities of the states of Andhra Pradesh, Tamil Nadu, Chhattisgarh and Uttar Pradesh, in line with the quoted discounts under the "SHAKTI" (Scheme for Harnessing and Allocating Koyala (Coal) Transparently in India) Coal Auction conducted by Coal India Limited (CIL).

2. Therefore over the next few weeks, it is anticipated that coal supplies under the SHAKTI Linkage auction could commence. Resultantly, aggregate coal supplies of 6.82 million tons per annum, of various grades of coal as provided for under the SHAKTI auction scheme, would be available addressing a significant part of the aggregate annual coal requirement at KMPCL. The balance of coal required would be met from open market and imported sources. KMPCL would shortly commence the procedural aspect of regulatory concurrence for these PPA amendments that intend to pass on the tariff discount benefits to the Procuring Discoms under the respective PPAs, and the necessary coal supply agreements would be concluded by KMPCL with respective subsidiaries of CIL.

3. The continuous run acceptance test for reliability at full load conditions with respect to the third 600 MW unit has also been concluded by the EPC contractor. It is anticipated that, subject to availability of requisite coal of appropriate quantity and quality, operations of the 1800 MW at a normal planned PLF of 85% will lead to approximately 3+billion kwhs of energy supplied, on a quarterly basis, to the various procuring Discoms by KMPCL. Further, it is estimated that, while the Central Electricity Regulatory Commission has been hearing the petitions concerning KMPCL's claim under change in law provisions under PPA as well as central Government directives on coal supplies, the delay being experienced in their realisation coupled with the challenges of providing extended credit to the Discoms for the power sales, has led to much higher working capital requirements. The Company is in discussion with the project lenders on appropriate mechanism to address this matter.

4. Further, with commissioning completion of the 1800 MW of the originally planned 3600 MW (50%), the extant regulatory mechanism of Reserve Bank of India entitles the project to Deemed Date of Commencement of Commercial operations (DDCCO) status and an additional one year to achieve progress and completion on the remaining units envisaged at the project location. The lenders, in discussion with the company, are also evaluating a number of potential alternative solutions to address the current situation at KMPCL.

5. While the above developments are definitively positive and provide greater certainty towards potential improvement in operating and financial performance at KMPCL. Further, the growth in conventional power generation in India along with contrasting fall in Plant Load Factors of Independent Power Producers from 83.9% to 55.7% between 2010 and 2017 only reflect the nature and depth of the inherent challenges and contradictions affecting various power projects including KMPCL and the path to recovery and timing will continue to be uncertain until all these wider issues are fully and finally addressed.

Sai Wardha Power (SWPGL)

SWPGL continues to pursue its challenge to the abuse of dominance by Coal India Limited (CIL) and Western Coal fields Limited (WCL) seeking appropriate judicial reliefs. While coal supplies of 3000 tons per day from the mines of UKNI and Bellora Naigaon are currently being made available by WCL, pursuant to the interim directions of Hon. Supreme Court of India, the appeal of CIL and WCL against the order of COMPAT is now listed for final disposal before Hon. Supreme Court during March 2018. In addition to the effort to pursue coal price reduction that is vital for operational profitability and full operations of the total 540 MW, effort to address PPA issues of the balance 270 MW at SWPGL also would be pursued. However, in accordance with the current regulatory measures to strengthen lenders ability to deal with stressed assets, the project lenders at SWPGL have earlier exercised decision to acquire equity interest in SWPGL resulting in reduced equity holding by KSK Group at SWPGL. Further, any potential collaboration with new investor(s) at SWPGL would need to address the project's immediate funding requirements before any long term solutions on fuel and PPA are in accordance with applicable regulations.

VS Lignite (VSLP)

VSLP initially operated as a captive power plant until March 2015, wherein under a specific direction by the Rajasthan Government, necessary amendments to the mining lease have been carried out in January 2015 incorporating the restrictive condition of sale of power to state Discoms / state designated agencies. However, pending execution of requisite long term PPA, the operating and financial performance of VSLP has since suffered due to transition challenges thereto as well as the litigations that VSLP has been subjected to by the earlier captive industrial customers. To address the situation in the interim, the project lenders at VSLP have initiated the process under the current regulatory measures available to project lenders to strengthen lenders ability to deal with stressed assets, while simultaneously seeking to address the immediate project funding requirements before any long term resolution on PPA could be achieved.

Sitapuram Power (SPL)

SPL operates the 43 MW power plant with captive power supplies to the cement units owned and operated by Zuari Cement Limited (ZCL), which also owns 51% of SPL. ZCL has now taken over the remaining 49% of SPL currently held by KSK Group, in line with the completion of initial term of 10 year under the PPA of this captive power plant.

Sai Lilagar Power (SLPL)

SLPL has concluded the execution of necessary amendments to power purchase agreements (PPA) with the Chhattisgarh State Power Trading Company Limited and upon necessary regulatory concurrence, coal supply agreements would be concluded with South Eastern Coal Fields Limited for an aggregate annual coal supply of 0.376 MTPA as provided for under the SHAKTI auction scheme. The path to recovery and timing of the 86 MW power plant continues to be uncertain until the fuel issue is fully addressed and necessary PPA continuity issues as required for continued supplies to Chhattisgarh are also ensured.

Sai Regency Power (SRPCPL)

SRPCPL operates the 58 MW natural gas fired power plant of the KSK Group with captive power supplies to various captive consumers in the state of Tamil Nadu. The PLF has stabilised around 81% for the last three quarters up to end December 2017 in line with the new gas supply position of predominant supplies by ONGC under the new auction mechanism and balance gas supplies from GAIL.

Sai Maithili Power (SMPCPL)

SMPCPL operates 10 MW PV solar power generation plant in the state of Rajasthan, operating under a long term PPA with NTPC Vidyut Vyapar Nigam Limited, the nodal agency for purchase and sale of grid connected solar PV power under the National Solar Mission of Government of India.

Business Strategy and Outlook

The Company's business strategy is to focus on consolidation of the operations of the power generation capacity while evaluating and concluding proposals for any further strategic funding and equity collaboration that could be achieved at the asset levels. Work continues on a number of major discussions in this regard and with appropriate equity collaboration. The focus of the Company has also been to reduce the debt leverage within the various asset holding companies of the Group, dependent upon any such potential realisations for equity stake divestment at project company level. However, actual achievement in these situations is contingent upon a number of factors, many of them outside the control of the Company.

For example, obtaining the right fuel at the right price and supplying power to customers at reasonable PPAs with timely payments by the government counter parties thereto continues to be the main challenge in the Indian power sector. But the majority of these are external issues and not directly within the Company's control to resolve. Further, the recent Government of India's initiative in the form of The Companies (Amendment) Act, 2017, enabling an additional provision of debt conversion into equity and issuance of shares at a discount to its creditors, pursuant to any guidelines or directions or regulations of the Reserve Bank of India, bring an additional dimension to the debt reorganisation plan by the project lenders at various project companies.

However, the Company estimates that demand for power generation in India is ultimately expected to grow over the next decade, albeit with sporadic surprises and uncertainties with Government counterparties. Therefore, against this current difficult Indian policy environment, the Company continues to work tirelessly with the Government, the authorities at all levels and other project stakeholders seeking their support to address these issues in the best manner possible. It is believed that these Industry wide issues which, once resolved, and could significantly improve the Company's financial performance over time. Therefore, a continued engagement with project stakeholders is envisaged to pursue all reasonable efforts to address the situation, with the ultimate objective to produce sustainable power generation on the best possible commercial terms.

Finally, this performance would not have been possible without the continued support of our shareholders, who have enabled us to pursue business opportunities against a background of challenging market conditions across the Indian power sector.

For further information, please contact:

KSK Power Ventur plc
Mr. S. Kishore, Executive Director, +91 40 23559922

Arden Partners plc
Steve Douglas / Paul Shackleton +44 (0)20 7614 5900

END

UPDDBLBXVFFXBBB

CLOSE

Business Update - RNS