

'There will always be a merchant power market'

Earlier this month, private equity major Blackstone took a 12.5 per cent stake in Monnet Power for Rs 275 crore. SANDEEP JAJODIA, executive vice-chairman and managing director of Monnet Ispat & Energy, is planning 3,000 Mw of power plants, consolidation of his steel business and also wants to get into coal in a big way. In an interview with Ranju Sarkar, he explains why he is bullish on the power and the coal business. Edited excerpts:

Q&A

SANDEEP JAJODIA

VC & MD,
Monnet Ispat and Energy

What does Blackstone bring to the table? How do you plan to leverage this?

Besides capital, a firm like Blackstone brings in knowledge and experience. They are well networked with technology suppliers and can be a great facilitator. For instance, we want to get into solar power. The cost of solar technology is changing on a monthly basis; the costs have come down from Rs 22 crore/Mw to Rs 15/Mw, which could go down further to Rs 10-12 crore/Mw. They can link us with technology suppliers.

How does a deal like this change life for the company?

What's the rationale in

It lends credibility and respect. Not that it was needed. But when a fund like Blackstone invests in your company, people start looking at us in a different manner, as their due-diligence process is so intense and detailed. In an interview, Blackstone India MD Akhil Gupta said 'I wish I could buy more of it,' which is very encouraging.

How will your expansion in steel impact your top line and bottom line?

We are an integrated player. We have power, coal, iron ore. The only thing missing is coking coal. We have been allocated a coal block and setting up a coke-oven battery. We are expanding steel-making capacity by 1.5 million tonnes, which would be ready by September 2012. This will increase our top line three times to Rs 5,500 crore in FY12, while net profits should cross Rs 1,000 crore, from Rs 280 crore today.

getting into the power business?

We created Monnet Power as we now have enough experience in power generation and handling power projects through the captive plants we have put up till now. There is not much difference between a large power plant and a smaller power plant in terms of the plant itself, the package, more or less, remains the same.

We have got a very good team in place who understand the power business well. I am told that almost 30 per cent of our villages are still not electrified, which means this country is going to need power generating units coming up for the next many, many years. Our first venture would be this 1,050 Mw we are putting up in Monnet Power. This project is going to be amongst the lowest cost generating stations.

What gives you the cost edge? What will be your per unit cost of coal?

We have a captive coal mine, where the mining cost is very

low (because of the nature of the mine)... Our fuel cost, which is the variable cost component, is extremely low, less than 30p. Add to this a fixed cost of Rs 1.20 and some small operational and maintenance costs.

The rate of return in power is better than most businesses, it's an annuity kind, spread over 30 years. It gives you an internal rate of return of about 23-25 per cent. We want to be 3,000 MW by 2014-15. In 1,050 Mw, we will have two units of 525 Mw each. The first one is scheduled for June 2012 and the second one in September 2012. We have a captive coal mine. The reserves are about 300 million tonnes. It has been given to us along with two other companies (Tata Power & Jindal Photo), one-third to each, about a 100 million tonnes each... the reserves will last us for 25 years.

What's the opportunity in merchant power? Will it remain attractive?

There will always be a merchant power market. Today, it goes up to Rs 7-8 and that is unsustainable. With so much supply coming in, that's going to get rationalised and will come down to a realistic level like Rs 3. Merchant power markets will never finish.

Does it take the charm out of the merchant power opportunity?

I don't believe in businesses which have such indecent profits; why should it be there? It should be respectable profits in the business. We would do about 40 per cent merchant and 60 per cent through long term the-ups.

'We want to do everything around coal so, in this country, if coal is mentioned, Monnet should be mentioned'

Are you planning to bring in other investors? When will 1,050Mw come up?

We don't need the cash right now, so we don't want to do any further private equity deals. We would require cash when we put the other 2,000 Mw. We would be short of equity then,

so we want to do an IPO around January 2012. As far as this 1,050 Mw project is concerned, it's a Rs 5,000 crore project and we stand fully funded. The first turbine will get commissioned in June 2012, the second in September 2012.

What's the opportunity in coal? Is that your next focus area?

Monnet is doing a lot around coal — mining coal, washing coal, started a consultancy division where we help others (say, a cement plant) make mining plans, do exploration. We are planning to put up more washeries. Coal India wants to build 18 washeries through private sectors; we will be bidding for all.

The consultancy division is not going to throw up some big numbers but going to give us a lot of respect in this area, plus a lot of intellectual capital. We will be able to hire geologists, engineers and build a more sound technical team. We want to do everything around coal so, in this country, if coal is mentioned, Monnet should be mentioned. We will also be bidding for coal-bed methane.

How much money do you



want to raise through the IPO and when?

We want to put this 2,000-Mw in a more definitive framework before we actually assess our fund needs. The 2,000-Mw would cost us around Rs 8,000-9,000 crore and 25 per cent of that would be the equity requirement. The equity required would be around Rs 2,000 crore. We can fund some it through cash generated in Monnet Ispat and Monnet Power and the rest would be through the IPO. It is going to be a Rs 1,000 crore-plus IPO but we don't know the exact figure. We plan to do the IPO around January 2012.