

VIEW POINT:

## Stake Holding Capitalism To Reduce The Project Cost And One Full Project Equity To Execute Renewable Energy Projects In India

By Praveen Kumar Kulkarni



How to make good things happen in country like India where capital deployment, legal compliance, social responsibility, complex tax structure, tax (mis) administration, corrupt influence in project award, land acquisition with state or central organisation, payment receipt risks, bankruptcy of state government or its utilities, expensive energy buying with forceful RPO mechanism, billion of starving people can't afford expensive energy, despite these we can make good things happen by reducing the project costs:

- 1) Identify and acquire the land and create evacuation facilities- timely completion of this commitment from Center and State govt.
- 2) Identify world class proven technology and suppliers and EPC with maintenance team (5 to 15 of them). Let the local O & M Entrepreneurs join hands with them to ensure power generation, bill realization and the plant maintenance with good knowledge base till the plant life.
- 3) Let these EPC companies bring low cost debt funding agencies with them say at 4 or 5% rate of interest (max). Let government be the guarantor for the deduction of Debt repayment from monthly bill and give it back immediately to Debt funding agency with 10 / 12 year term period.
- 4) EPC Companies (with JV with local O & M Agency) shall develop the project and maintain for 25 years and realise the energy bill and ensure payment of debt and the

remaining cash shall go to the bank account of RETAIL DEVELOPER.

5) Government shall issue a PPA with same terms to 5 or 15 EPC companies to develop the project of each 50 / 100 to 200 MW with clearly defined terms and taxation with assured payment mechanism

6) Each EPC co can ask RETAIL EQUITY INVESTOR to deposit 30% of the Project cost / MW i.e. 0.5 MW to 15 MW per RETAIL INVESTOR.

7) From the common low cost debt fund pool, the EPC co shall arrange the debt based on EQUITY received from the RETAIL INVESTOR.

8) Keep developing projects till the maximum capacity / EPC co and keep allotting the project to RETAIL INVESTOR as per their equity money deposits.

9) Let Government keep giving tax holiday or such minimum FISCAL incentives to RETAIL INVESTOR (Project Developer) as he is owning the project by paying the equity and monitors EPCs progress as part of Progress Monitoring team with rights to check costs and quality at any stage of project with right to reject or make good clauses, so that Corruption in Private EPC co can be controlled.

10) Due to award of projects to 5 to 15 large EPC companies who can arrange low cost debt fund with world class proven technology with them, we can avoid the time and cost on dealing with Government approvals (including environment ministry, state government officials etc so NO BRIBE), Meeting Ministers or awarding to companies (FAKE developers who sell the stakes after PPA to real developers) without having experience in technology (but only have access to power corridor) and developing project with inferior technology or product etc

11) If the projects are developed in clusters, we can reduce the costs on evacuation and ensure good expertise to execute and maintain the project till the plant life.

12) By Making EPC co responsible for generation and Maintenance, we can avoid FLY BY NIGHT or MAKE SHIFT EPC co, thus, we can generate good quality National Assets / technology in INDIA be it solar PV or Solar Thermal.

13) Every state shall identify such cluster area with clearly acquired DRY land (without suppressing the poor farmers), thus, real estate mafia need not increase the land price near evacuation point as is happening apart from resistance to put up towers in few farmer's land, thus, the projects are getting delayed.... Local land mafia or such deterrents can be eliminated by this cluster

development.

14). Instead of signing 100s of PPAs, sign only 5 or 15 or can be 30 with EPC companies (with a good Pre-Qualification in Place) with a check on their project costs with quality by being equity holders, thus, even a small / RETAIL INVESTOR gets an access to low cost debt fund, (without collateral security, but with a right to deduct the interest and loan EMI with EPC co till the term loan) which is now only possible to Large Corporate cos. Thus we can attract new players to invest in this field with fiscal benefits.

15) The area shall be earmarked for each of the "Part Owners" who book the orders ranging from 0.5 MW to 15 MW per entity.

16). This ensures tax compliance, assured energy generation and payments from government assured debt repayment, assured project execution in TIME with land acquisition by making government to create the initial infrastructure with responsibility apart from making the EPC companies also responsible to generate power on long term basis with good maintenance to reduce the future maintenance costs with skilled labour generation at Clusters. Thus capacity building can be uniform with uniform products, less spares, less inventory, local manufacturing of key components, local sourcing of spares and services etc can be planned in a more organised way. Thus we avoid the whims of ministers / political parties or their government administrative machinery to resist the project development in the name of environment approvals, pollution control or such bla bla local approvals, which reduces corruption at all levels due to such transparent system of project development.

To get the award of Project, the EPC companies need not pay any BRIBE as they have to remain responsible for the debt repayment, energy generation with proper maintenance. Thus, it allows only serious EPC players to be in the race. Reverse bidding and crazy tariff discovery, accelerated depreciation to avoid TAX PAYMENT, etc. will go away and real project development with real costs will evolve, which will be a good sign. Thus, the distribution of wealth to many investors / many entrepreneurs with a good project development and employment generation strategy, which in turn reduce the importance of a large industry owner or his house to influence the policy making for their benefits, thus, the COUNTRY FIRST concept, can be assured.

Irrespective of which Political party rules, the mechanism in INDIA as proposed in this article will be a game changer, if implemented in its spirit due to a simple fact that:

1) Project developer is a group of

- Government (facilitator, land acquirer, evacuator, Law and order maintaining agency, insurer to have payment security,

part guarantor for pledging the assets of EPC with regulation so that low cost debt funding can have in built security)

- EPC company (Knows the good technology, responsibly maintains the plant till plant life with less costs by employing the trained mind set, assures power generation, recovers debt, recovers energy bills, replaces panels or Inverter if faulty with a firm commercial contract with suppliers, less down time in case of repairs, easy legal compliances on behalf of investors or part project owners, respect law of land and environment)

- Small Investors (Feel proud for National growth due inclusive participation, Project developers to pump equity money in small ticket size, access to low DEBT cost fund(@5% interest rate), no need to hire qualified Finance or Technilcal professionals for small size projects say 0.5MW, no worries of employee retention, no worry to run to 15 departments for project approval for a small project, no need to grease hands of bill paying authority or approval authority, no need to worry about suppliers turning back and more plant down time)

- Other advantages (Government need not waste money in evacuation of infirm energy if the plant size is too small, 100s of small PPAs need not be signed or followed, No need to involve middle men to arrange finance from FIs and hence reduction of 2 or 3% commission or project cost, No worry of unnecessarily booking the project and then selling to others at premium thus delaying the project development)

- Large infrastructure (Power generation, allied supply chain and service industries) creation at low cost PROJECTS (~20% cost reduction due to above-mentioned facts) with quick finance close, Employment generation and its retention with good training, less evacuation costs.

- Low tariff due lower project costs, less burden on citizen

- No worry about change of government, transfer of officials who pays money at DISCOM (with soft understanding or meter manipulation), so stable policy and stable revenue and stable debt repayment

Hope we (Small Investors, EPC Co, Government agencies, FIs) can monitor to achieve these objectives by reducing the INFLUENCE of Politicians / RED TAPISM in the growth of INDIAN INFRASTRUCTURE without policy paralysis and less corruption with great degree of transparency!

Let us try new / innovative way of achieving ends with good purpose by a different means without destabilizing the Indian Democracy / Constitution while making the corporate companies responsible for Socio Economic development with high degree of transparency too:

1) Having Retail equity holders under "Stake Holding Capitalism" principle, gives an opportunity to keep a check on the large listed corporate team work's efficiency, loyalty of large Public Listed company, which otherwise is very difficult to check the corrupt thoughts / procedure / people already hired. A cleansing mechanism cum inviting new ideas and pressure to perform. Selection of equity holders (educated with little knowledge on Solar Industry).

2) In order to find sustainable solutions, it always better to remain and perform to ensure our RESULTS to speak rather than creating some base (till IPO or listing) and then exiting the business or RAISING HANDS without finding sustainable solutions, which will be detrimental for India's capacity to find sustainable solutions with a good organisation with good people. Thus our proposal / suggestion for a large listed corporate company to be EPC and maintenance organisation is mainly to ensure sustainability from the day of first planning.

3) India is un-necessarily spending 20% or more on development of Solar or Hydro Power Project with the same technology of Europe / USA with following break up, which we must stop otherwise, there won't be the existence of Country (Forget public sector or private sector or Ministry or capitalists, etc. when we do not have independence / country, then, what is the use / meaning of being rich (like Gadaffis or Saddams, etc.) or Poor...)...let us not be hypocrites in accepting these realities and the system is correcting and will correct for sure for self sustainability:

? Expenses on Commissions / Liaison to lobby (2%),

? Project award soft costs (or a rude comment in practice called bribe) (5% to 10%), banks or finance Agent's commission (read FIs /CAs) (1.5 to 3%),

? High debt interest rate (14%, whereas in the west it is only 1.5 to 3%),

? Various Approval expenses (2%),

? Land cost increase and such sundries (1%),

? Private EPC companies Siphon to their Parent company abroad in the name of royalty fee, etc. or the possible corruption in Private listed company's purchase dept (3 to 5%),

? Energy bill realization cuts / expenses or collection from Government depts. Or Utilities (1 to 2%)...thus, without any technological innovation, the system itself becomes cheaper by 20% to 25%, which is nearly the equity contribution (20% equity: 80% debt for any power project as per EXIM Bank Criteria) !!!!

4) Thus, we create a business plan to involve small / retail investors (as monitors or corruption check agents and also to distribute the wealth to many people with hard work to create good quality national assets with inclusive growth by involving these retail investors) + Government + Reasonable Good standing Private listed EPC company + Reasonably Good Financial Institutions. However, by being large listed private company, ONE can easily launch this innovative business principle (Stake Holder Capitalism) to make all stake holders responsible including the Government, which shall make India and the technology sustainable.

5). There are few companies who have developed a

design which consumes half of the land / MW vis-a-vis existing solutions with RIGHT TO CULTIVATE below the panels for future generation's food security. So, we, Indians, can implement INDIA SPECIFIC solutions too with necessary PILOT testing.

6). Though few manufacturing units and projects are supported by the investment (supported by retail investors / depositors) from Mutual Fund houses or such PE or FIs or Fund raisers etc, but, such money is accessible to large corporate companies, which have gone bust ! Thus, raising a big question mark on the capability, accountability, corporate governance, nepotism and integrity of investment decision of these fund houses / FIs of using gullible small investors (some Mutual Funds are in deep red and no hopes of even getting to invested amount) without any stake holding or an assured return on their investment. Thus, our article is trying to address the "Stake Holding Capitalism" to ensure the returns with prior agreed terms and conditions.

Thus, the new / First Generation entrepreneurs can be supported by large companies to ensure a sustainability factor to assure the return on investment to small investors and to maintain a good eco system at village level to ensure low cost of power generation for the people of INDIA.



The author is a Gold Medalist from SLN College of Engineering, Gulbarga University, Karnataka, INDIA. Industrial work experience over 23 years with PSU, MNCs. He had worked for: Tungbharda Steel Products Ltd, Hospet from 1988 to 1995. Executed engineering of 21 Hydro Mechanical Equipment projects. Deputed to Japan for 5 months as part of UNIDO program to become JICA participant-1994. He introduced CAD in TSPL with software programs for design of Gates, Hoists and Cranes. He was deputed to TSPL Hyderabad branch to assist business development of Steel Plant Equipments.

With SMS Demag India Ltd, German MNC), he engineered Steel Melt Shop equipments of Jindal Vijay Nagar Steel Plant. Apart from being the Head of Secondary refining equipments viz. VD, VOD, RH, RHOB, SMS equipments, he supported the pre-bid and business development activities thru ICB of SMS Demag Secondary refining equipments. Visited SMS Demag, Duisburg on company assignments.

ALSTOM Portugal / India (French MNC) hired him as a Consultant and Part of Management team to launch Hydro Mechanical Equipment in India in their Baroda factory. Prepared Business plans, Export support (1ME, Owenfalls, Uganda), tendering support to realize and launch Omkareshwar Project. Visited ALSTOM Lisbon, France, Grenoble on assignments and important missions. He was a Project Manager of Omkareshwar HME (24 ME) and as Implementation Manager to rebuild (15ME) Alstom Baroda factory to manufacture Hydro turbines, Generators and HME to cater to their Indian and Export Markets. He visited USA, Russia for special equipment evaluations, purchase and installations. He was the Project Director of Nam Ngum, Laos HME project (10ME).

Established KK NESAR PROJECT PRIVATE LIMITED to execute renewable energy projects on EPC basis with a collaborative business approach with Indian specific needs. His contact email: [praveenkulkarni@kknesar.com](mailto:praveenkulkarni@kknesar.com)