# OPG Power Ventures looking to meet Indian energy challenge

**Website:** www.opgpower.com

Listed on AIM **OPG Power Ventures (OPG:AIM)** has a market capitalisation of approximately £90m at the current share price of around 23p per share.

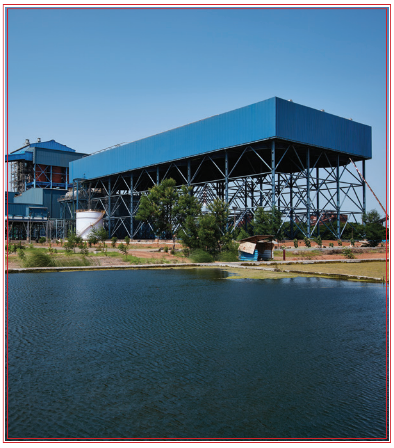
The company's IPO and admission to AIM took place in 2008, when its generating capacity was just 20MW. This has grown significantly to 476 MW currently.

OPG offers exposure to the fast-growing Indian power sector, with London levels of corporate governance and a growth profile with potentially significant upside.

Operating risks are well managed and the reduction in coal price creates a strong catalyst for revenue and profits growth.

The company is the developer and operator of 414 MW of thermal power at its site in Chennai, which has been operating consistently at industry leading plant load factors. The company's second operation, is situated north of Bengaluru, Karnataka and comprises a solar power project generating 62 MW of power.

In 2018, OPG decided to concentrate on the existing high quality, profitable 414 MW plant in Chennai and deconsolidated its 300 MW Gujarat plant. This was due to the trading difficulties experienced by the Gujarat plant which were almost entirely outside the control of operational management.



**INTRODUCING... OPG**

**A DEVELOPER AND OPERATOR OF THERMAL COAL AND SOLAR POWER GENERATION PLANTS IN INDIA**

RECOVERY STORY

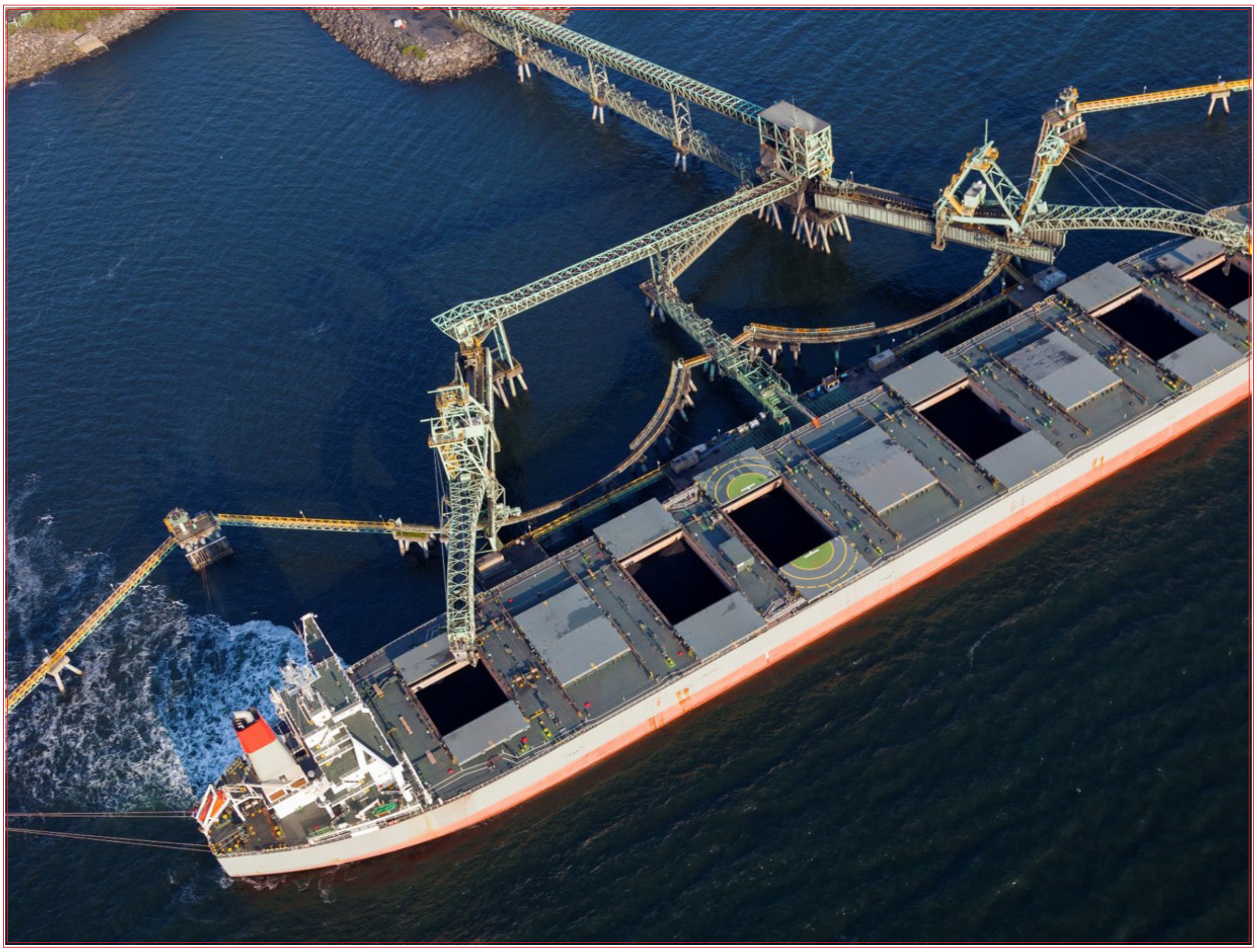
The strong performance seen in the first half of the company's FY19 (six months ended 30 September 2018) is expected to continue with all term debt associated with the four Chennai units scheduled to be repaid within five years.

The company crossed a significant milestone when the term loans relating to unit one of the Chennai plant were fully repaid in December 2018.

OPG paid a cash dividend in FY17 and a scrip dividend in FY18.

OPG recently delivered a strong H1/19 performance, which has built momentum into H2/19E and FY20. Revenue increased 17.2% from H1/18 to £77.7m, driven by higher power sales, plant load factors and tariffs.

Following a period of higher than expected coal prices, prices have now reduced since the end of September 2018 which should aid FY20 profitability materially. For the first half of FY19, the high



coal prices were managed effectively with gross margins only contracting 230bps year-on-year to 30.2%.

Profit before tax grew 74.7% year-on-year to £7.3m, benefitting from lower net finance costs. Gross debt at the half year end stood at £85.9m after a £10.3 million term debt principal repayment during the first half of FY19.

## THE INDIAN POWER OPPORTUNITY

As a result of existing and forecast power shortages, India's Electricity Act 2003 introduced structural changes to the power industry, permitting private investment for the first time since 1948 under both regulated and non-regulated regimes.

Demand for power generation is closely correlated with GDP. GDP in India is forecast to double in the next decade, growing at an annual rate of 7% and will lead to increased electricity demand which is also forecast to double during this period.

India remains a power deficit nation although primary energy consumption in India in 2018 was the third highest in the world after China and the USA with India accounting for 5.3% of global consumption.

Despite being among the top three power consumers in the world, per-capita electricity consumption in India was only 1,112 kWh in 2018 which is significantly lower than the world average and the lowest among BRICS nations. India's rapid economic growth and low levels of per capita consumption of electricity creates the potential for large scale growth in the power sector.

In addition to this increase there are still some 300m people with no access to electricity at all. The Indian Government has announced a range of intiatives to bring power to all and this, together with GDP growth, underpins the forecast 6.75% compound annual growth rate in electricity demand between 2017 and 2022.

Steady economic growth of the country, coupled with population growth and rapid urbanisation are expected to propel energy demand in India.

## OPG'S DISTINCTIVE BUSINESS MODEL

Founded by executive chairman Arvind Gupta, the pioneer of the 'group captive' model in India, OPG's business model and strategy has been designed to capitalise on the deregulated sector of the Indian power industry by developing and then operating a fast growing portfolio of power plants, in India, a country with a continued power deficit.

OPG operates three out of the four units at the 414 MW Chennai coal-fired power plants under an unregulated tariff regime and revenue model which allows it to sell power directly to industrial consumers and traders through short to medium term bilateral agreements at attractive tariffs.

One unit at the 414 MW Chennai site operates under the Long Term Variable Tariff Agreement with Tamil Nadu Generation and Distribution Corporation (TANGEDCO) and is entitled to a fixed capacity charge. In line with India's energy mix, OPG diversified into renewable power generation with the commissioning of the 62 MW solar plant in Karnataka in 2017-18.

In order to manage the risks associated with the supply of Indian coal to its plants, OPG has sited its core project in Chennai close to ports and has specified and fitted boilers that can burn a wide variety of Indian or imported coal (including cheaper, lower calorific value imported feedstock) without compromising output or load factors.

## CORPORATE SOCIAL RESPONSIBILITY

OPG, believes in efficient, sustainable, responsible and inclusive growth. The company ensures that the health and safety of all employees and workers remain a top priority; environmental compliance and conserving resource remains an integral part of the organisational culture and OPG continues to proactively engage with communities near their operations; the company is working on intensifying engagement with these communities in the coming years to have a measurable positive impact on them.

## WHAT'S NEXT

Maximising cash flows from existing and proven assets through maintaining strong operational performance, benefitting from a reduction in coal prices and increases in tariffs from the commercial customers.

The cash flows accruing to OPG will enable it to fully repay term loans by Q3 2023. The company expects that going forward it will maintain its long-term profitability and sustainable value accretive business model for its shaeholders.