

THE RISE OF LANCO P.26 THE NEW SCOOTER RAGE P.40

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The Silent Climb To The Top

Lanco Infratech is among the top few private power players in India, and has big plans to maintain that position **by Anup Jayaram**

THE control room of the 600-MW Udipi Power Corporation in south Karnataka has a staff of just 20. With the monsoon hitting the Konkan coast, demand for power in the region has fallen sharply. The imported coal-based plant of power and engineering, procurement and construction (EPC) major Lanco Infratech is generating only a little over 400 MW. It has also synchronised its second 600-MW unit, which is expected to start commercial operations once the transmission link is ready by end-2011.

The fifth floor of Lanco House in Gurgaon is also sparsely populated. The floor that houses the board room and offices of the top management of the company, is lined with waist-high green granite. The off-white walls are peppered with dozens of paintings including M.F.

Husain's and Souza's. In 2009, Lanco Infratech did a King George V when it moved its corporate office from Hyderabad to Gurgaon. It shifted 700 employees to the Millennium City. Two years later, almost a quarter of Lanco Infratech's 7,000 employees are based in Gurgaon. Being close to the power centre is quite important, even if you are a power utility.

The Rs 8,000 crore-Lanco is among a clutch of companies that are investing in expanding India's power generation capacity. It has an installed capacity of 3,300 MW and will add another 6,000 MW in the next few years. By 2015, it will invest Rs 35,000 crore to add another 6,000 MW, raising the total capacity to 15,000 MW. By then, Lanco will be present across 20 states and is slated to have 20,000 employees.

In contrast, in 2005-06, it was a Rs 152-crore

construction company with profits of less than Rs 10 crore. In 2010-11, profits are Rs 446 crore.

Today, Lanco is among the biggest private power companies in India. Rivals include Tata Power (generation capacity 3,120 MW), Reliance Power (1,033 MW), Adani Power (1,980 MW) and Jindal Power (1,000 MW). State-owned NTPC leads with close to 35,000 MW capacity. Lanco, however, believes that for its private sector rivals, power is just another business, while it is focused on the entire power value-chain.

Can Lanco pull it off over the next four years? It has incurred a net debt of Rs 23,733 crore. Around 85 per cent of the debt is long-term and repayable over 15 years. It is currently setting up eight power plants including at Amarkantak, Anpara, Kondapalli expansion and Vidarbha.

Barring power, EPC and infrastructure, Lanco has identified two new verticals — solar power and natural resources. Infrastructure includes roads, metro rail and port projects. It also plans to enter power equipment manufacturing to counter the restrictions on import of power equipment, and is identifying an international partner for the venture, as have many others.

Lanco also plans to enter Bangladesh, Indonesia and West Asia. It has just bagged an EPC order for an Iraqi power plant. It is also looking at projects in Nigeria, Ghana, the Philippines and South Africa.

IT COUNTS: Lanco Infratech's power plant at Udipi has a capacity of 600 MW

Gaining Power

Lanco is in a sector where demand will continue to rise for many years. In the 11th Plan period (2007-12), India will add around 55,000 MW capacity. That is more than double the 21,000 MW added in the 10th Plan. At 174 gigawatts (174,631 MW), India has the fifth largest power generation capacity globally — after the US, China, Japan and Russia. This should reach 300 GW by 2017, making it the third-largest power generator globally. The private sector is

THE LANCO GAME PLAN

- Join hands with a global company for power equipment manufacture in India
- Setting up solar photovoltaic equipment manufacturing plant in Chhattisgarh with an investment of Rs 1,370 crore
- Establish power plants in emerging markets
- Acquired Griffin Coal in Australia to ensure fuel security
- Wants to establish solar power ventures in Europe
- Setting up Lanco Academy to train key employees



DAYANAND KURKALE

slated to add 100,000 MW in the 11th and the 12th Plan periods.

"We are bullish on power," says Lanco Infratech chairman Madhusudan Rao. He agrees that there will be ups and downs, but a country that is growing at 8 per cent needs a sustained increase in its power generation. Despite increase in capacity, India is way behind China that already has 900 GW capacity. In the past six years alone, China added 400 gigawatts.

The biggest independent power producer, Huaneng Power China, has a capacity of over 54,000 MW. It is one of six such companies in China. Huaneng develops, builds and operates power plants — a model that Lanco, too, has adopted. Unlike other power utilities, Lanco is present across the entire power value-chain — construction, EPC and operating power plants. Says Rao: "You cannot be successful in the in-

frastructure sector without having a strong construction base. Since we are an integrated company, we have the skills to successfully complete projects on time." It commissioned the Lanco Kondapalli project almost two years before the other companies that had got approvals at the same time.

But will such big plans of increasing capacity stretch the company? Says J. Suresh Kumar, the company's CFO: "We will fund all the projects from internal accruals. At an appropriate time, we will raise capital by listing the power business. But there is no hurry to do this." He adds that all projects have achieved financial closure and the debt sanctioned will be drawn.

A senior executive in a rival power company agrees with that logic but does not think Lanco will be able to meet its 15,000 MW target as it takes 3-4 years to commission a power project. Two other problems that could affect Lanco are getting linkages and ensuring fuel security. It has taken care of the latter to an extent by acquiring the Griffin coal mine in Australia.

New Ventures, Old Problems

In solar power, Lanco aims to be a global player. It already has a corporate office in London and is present in Germany, France, Italy, Canada, Spain and the US. The company's solar expansion plans fit in with the central government's National Solar Mission with a target of 20 GW of solar power generation by 2020. By 2013, India should have 1 GW of solar capacity. Says V. Saibaba, CEO of the solar division: "The future is solar. As solar volumes rise, costs will fall."

To meet the rising demand for solar power, it is setting up a solar PV cell manufacturing project in Chhattisgarh. The first phase will involve an investment of Rs 1,370 crore. Saibaba says during 2014-19, thermal and solar power production costs will merge. That could see the beginning of a surge in global solar power capacity addition.

Already, there is a case for solar power in the telecom tower business. The 360,000 telecom towers need 3,500 MW of power. While solar power can be provided at Rs 12/KW hour now, diesel costs Rs 13-15/KW hour. As diesel rates rise and solar power rates decline, the balance will shift. It is estimated that in the next few years, solar will be as big as information technology was a decade ago.

However, unlike IT, many projects in the power sector have failed to take off. That is attributed to high capital expenditure, long gestation period and complicated pricing models. Lanco regularly gets offers from companies looking to exit the business. But the valuation sought in most cases is too high. Naga Prasad

Kandimalla, CEO of business development at Lanco Infratech, says: "On an average, we get an opportunity to acquire a power utility every fortnight. But we have not acquired any project." While there are many power projects in the pipeline, Kandimalla foresees a shakeout after 2014. Says CFO Kumar: "Many bidders took a risk on power projects. They were assured that Coal India will meet all linkages. With that not happening, a shake-out is imminent."

Like most power companies, Lanco's focus is mostly on thermal power. But it has set its eyes on hydel power, too. Says S.K. Mittal, CEO of the company's hydro division: "Hydel power is a risky business. So, while companies have projects worth close to 30,000 MW on the books, work is happening only on 3,000 MW."

While power capacity can be set up, having the talent to manage it is critical. Though there are enough engineers graduating each year, their quality is questionable. To counter the manpower shortage, Lanco is setting up the Lanco Academy to train employees. It has also devised a formal training process — called LEO (leadership, entrepreneurship and ownership) — to build people capabilities.

While people issues can be sorted out at the company level, policy and regulatory issues — fuel supply, land acquisition, pollution control, water supply, evacuation of generated power and distribution — require the government's help.

Troubleshooting

The logistics of fuel supply is complicated. Coal in India has a high ash content. So, companies look to import coal, which raises costs. Lanco has recently acquired the Griffin coal mine in Australia, which produces 4 million tonnes annually. This can be ramped up to 15 million tonnes. Acquiring coal mines is critical as India is expected to import 200 million tonnes of coal annually by 2017.

While fuel can be imported, land and water supply is domestic. Land acquisition is a problem, although land costs form less than 5 per cent of the total cost of a thermal power project.

Moreover, once power is generated, it needs to be distributed. The poor financial state of the distribution companies in India is a big choke point. As many distributing companies are in the red, power companies are not able to raise tariffs. Second, political compulsions hinder

FAIR SHARE OF CONTROVERSIES

Lanco Infratech, which was under the radar for quite some time, has had its fair share of controversies. It came into prominence in 2006, all of a sudden, when it won the bid for the Sasan ultra mega power plant (UMPP) in Madhya Pradesh. The Lanco-Globeleq bid was for Rs 1.19 per unit, the lowest price ever quoted for a thermal power project in India. However, within months, Lanco Infrastructure and Jindal Steel & Power acquired the joint venture partner, Globeleq Singapore.

As a result, in July 2007, the Empowered Group of Ministers (EGoM) cancelled the Lanco bid as it was alleged to have violated norms by quoting the financial and technical strength of its foreign partner's parent company at the time of bidding. The Sasan UMPP was then allocated to Reliance Energy. It will initially supply power to seven states across north and west India.

Around the same time, Lanco's managing director, **G. Venkatesh Babu**, was allegedly apprehended at the Hyderabad airport with Rs 36 lakh in cash. Initially it was perceived that the money belonged to Lanco Infratech. The controversy died soon after Babu admitted that the cash was his own and not that of the company.

However, it does help when Lanco founder **L. Rajagopal** is a member of Parliament elected on the Congress ticket from Vijayawada.



TRIBHUVAN SHARMA

any hike in tariffs — many states, for example, provide free power to farmers. Says Kumar: "It is not as if there is a complete breakdown of the discoms."

There are enough state electricity boards (SEBs) willing to buy power at Rs 4-4.5 per unit." Three SEBs — Tamil Nadu, Rajasthan and Uttar Pradesh — account for 70 per cent of SEB losses. In Tamil Nadu, power tariffs have fallen over the past 3-4 years.

Also, at a macro level, while power is a state subject, regulation and policy are central subjects. Says G. Venkatesh Babu, managing director, Lanco Infratech: "While everyone agrees that power brings in development, there is a lot of activism in the sector. Just 10 people can bring a project to a halt." But can a company get into solar, thermal and hydro power together and not feel stretched? Yes, says Kumar, since there are independent management teams with CEOs for each business.

One thing is for sure. As the demand for power rises, Lanco will be among the few private companies in a position to fulfill the need. There is a powerful case ahead for Lanco.

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INDIA'S RISING PRIVATE POWER CAPACITY

Private power companies have set ambitious targets

Company	Current capacity*	Proposed capacity*	Target year	Revenue (Rs cr)	Profits (Rs cr)
Lanco Infratech	3,292	15,000	2015	8,004	446
Tata Power	3,120	6,650	2017	6,918	970.01
Adani Power	1,980	20,000	2020	2,106	523.75
Reliance Power	1,033	35,000	2020	36	274.55**
Jindal Power	1,000	5,000	2015	3,337	2,001
Total	10,425	81,650			

*in MW; **including other income

Source: Companies

THE LANCO NAME

LANCO

Lanco started off as a construction company in 1986. In the mid-1990s, as the government opened

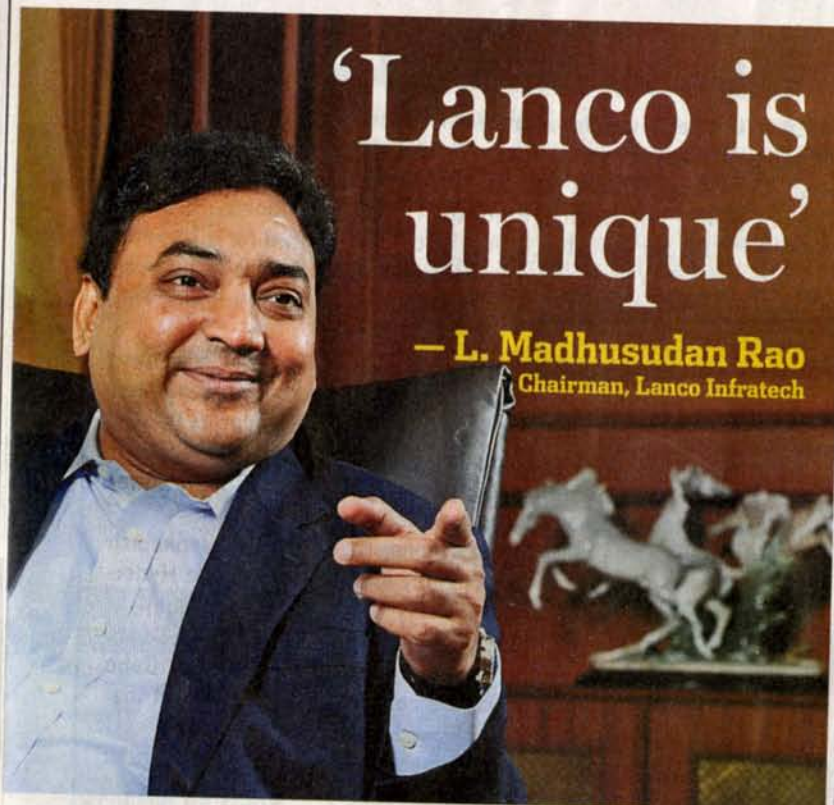
the power sector to private competition, it entered power.

The name Lanco is an abbreviated form of Lagadapati Amarappa Naidu and Company. Naidu was the paternal uncle of the Lanco Infratech's top management team. Lanco's running is controlled by three brothers — L. Rajagopal, L. Madhusudan Rao and L. Sridhar — and brother-in-law G. Bhaskara Rao. Though founded by L. Rajagopal, the company is now being run by Madhusudan Rao and G. Bhaskara Rao. Younger brother Sridhar is in the entertainment business, while Rajagopal quit the management when he became a politician in 2002. He is now a Congress MP from Vijayawada.

Lanco is moving towards being a professionally-run firm. Family members will exit when they turn 60. Already professionals head various divisions. When Bhaskar retires in four years, Madhusudan may be the only family member involved in Lanco's day-to-day operations.

'Lanco is unique'

— L. Madhusudan Rao
Chairman, Lanco Infratech



NEARLY 20 YEARS AFTER HE RETURNED FROM THE US, Lagadapati Madhusudan Rao heads India's largest private power-generating company, Lanco Infratech. He is a difficult man to meet since he is out of the country most of the time. Rao tells *BW's Anup Jayaram* that he is in the process of giving a professional touch to what has been a family-run business till now. Excerpts:

Q: What was the catalyst for Lanco to get into the power business?

A: The opportunities in India came only after liberalisation in 1991. We were a small construction company in the early 1990s. There was an opportunity and we said let's look into it. The first experience that we had as a group outside construction was in the steel industry. From 1980-89, we were in Visakhapatnam. At the same time, we were looking for opportunities in other sectors.

In 1993-94, seven power plants were given out through MoUs. In the second tranche, every state was motivated to develop independent power plants. We participated in the opportunity in Andhra Pradesh. Among the seven fast-track projects, two were from Andhra. Hundred letters of intent were given all over the country. Each state had given 6-7 letters of intent. Out of close to 100 MoUs signed in the late-1990s with independent

power producers (IPPs), Lanco Kondapalli is one of the few successful IPPs. We got the letter of intent in December 1997 and we were able to bring the project to financial closure in December 1998. Many projects failed in the power sector in that period. Very few people were able to successfully convert the opportunities into a project.

Q: Some of the marquee names of Indian industry are there in the power business. How do you compare to them?

A: We are benchmarking ourselves from where we stand in capability in the construction business. We do not have to worry that the brand Lanco is not up to the big names. What is more important is that we realise where we have to go. Focusing on the best practices in the industry and on human resources are the only answers to remain a winner in this game. That is where our focus is. We are very unique to what corporate India is doing.

There are a few things. Lanco is a family business. We — three brothers and a brother-in-law — decided that we needed to grow Lanco in a professional way. Most important is to separate ownership from management. In the past two years, the four of us went through multiple sessions along with the family business practice of PricewaterhouseCoopers Dubai to structure a constitution on how we need to position Lanco as a global operation.

Second, we are developing initiatives in terms of people capability. The question is: do we have the right person at the right place? We have a very structured formal concept called LEO — leadership, entrepreneurship and ownership.

As part of taking this forward, we are setting up the Lanco Academy. We have worked with Accenture to give shape to the Lanco Academy. A few years from now, 80-85 per cent of the senior leadership should be able to come from within Lanco itself.

Q: Do you see a shake-out in the power business? Are you looking to acquire new assets?

A: Yes, we do see a shake-out. I would say that there could be one around 2015-16. Over the past two years, lots of people have set up projects with the intention of selling them. I do not think we will buy out. There are at least 10 companies that are serious and are here for the long term. All these companies, including Lanco, have a good portfolio of assets at different stages of development. We may not acquire any new assets.

TRIBHUVAN SHARMA