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Financing for a Combined Heat and Power (CHP) System - An Alternative Energy Project

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Synopsis

Ajay Radhe, a second-generation promoter at Cignum Industries Limited, a listed textile processing company in India, was in a dilemma while exploring the option of switching from conventional power purchase to an alternate power generation system. The extant Government's policy push toward zero-emission targets through low-carbon energy models prompted Radhe to think about setting up a Combined Heat and Power (CHP) system that replaces external power purchase with captive consumption.

Being the Managing Director and Chief Executive Officer of Cignum, Radhe had to anticipate the costs and benefits associated with a change in the status quo. If Cignum switched to the captive power model, then he had to ensure the best combination of financing for the new system. Moreover, he wanted to ensure the budgets as well as align with the shareholder aspirations. The case discusses the options available to Cignum for the CHP project financing complemented by a careful cost-benefit analysis using various capital budgeting tools.

RELATED PRODUCTS

- (1) *Teaching Note*: Product Number- CHIRP-76060-TN
- (2) *Exercise Spreadsheet*: Product Number- CHIRP-76060-SM1

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