

Morgan Stanley-Led Consortium To Invest \$425M In Asian Genco

- VC Circle

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In the largest PE deal in almost two years and the largest in the power sector, Asian Genco Pte Ltd (AGPL), which has investments in Indian power generation assets and engineering services businesses, has raised commitments of over \$425 million from a consortium of investors. The investor group, led by Morgan Stanley Infrastructure Partners (MSIP), includes Norwest Venture Partners, General Atlantic LLC, Goldman Sachs Investment Management, Everstone Capital and others.

The last PE deal of a similar magnitude came when Providence Equity Partners invested \$428 million in Aditya Birla Telecom Ltd, a transaction that closed towards end of 2008. The largest investment in power sector so far was Indiabulls Power's \$395 million mop up from hedge fund Farallon Capital and steel tycoon Lakshmi Mittal's LNM India Ventures.

PTC India and its financial arm PTC India Financial Services, which have investments in various projects of AGPL, continue to remain investors in various portfolio projects along with other existing investors, according to a statement.

AGPL is currently developing a portfolio of 4,000 MW which involves a capital outlay of around \$4.5 billion. These include assets in areas like hydro, thermal and non-conventional generation which once commissioned will be one of the largest portfolio of investments in power assets in the country.

AGPL will use the proceeds, which are expected to flow over a period of time, to fund the development of its portfolio of power generation investments in India. Zeus Inframanagement was the sole advisor to AGPL on this transaction.

"With this transaction, we have secured full equity financing for all our current slate of projects. In addition, we believe our investors will add tremendous value and financial strength to AGPL as we grow our portfolio and expand our leadership position in the clean power sector," said Vijaykumar T V, Chairman of AGPL.

Differentiated Assets

AGPL's investments in power generation assets are differentiated and highly attractive, said Gautam Bhandari, head of Morgan Stanley Infrastructure in India. Currently AGPL has two assets under operation - a 16MW hydro project called Patikari in Himachal Pradesh and 17 MW thermal gas project called Srivathsa in Andhra Pradesh. A 100 MW hydro project called Malana - II (in pic) in Himachal is also expected to be commissioned soon.

"AGPL has a portfolio of unique assets. If you compare them to their peers, they have a differentiated portfolio," said Sohil Chand, managing director with Norwest Venture Partners.

AGPL's portfolio comprises the 1,200 MW Teesta III in Sikkim, the largest hydro project in the private sector in India, which is expected to be commissioned in 2012. The Teesta project is competitive from a cost perspective, is in an attractive region and produces peaking power.

"Teesta is a remarkable asset, which is a relatively compact project and because of its geography and hydrology of the area, is able to generate more power than a project of a similar size elsewhere," said Chand in an interview with VCCircle.

Another one of its mega projects is in the state of Andhra Pradesh in called East Coast Energy Pvt Ltd, being implemented in two phases, with each phase constituting 1,320 MW. This project is attractively located near the coal linkage near the coast, so access to imported coal is easy.

"They are located in the southern grid, where there is maximum energy shortage. So we think they will be able to command premium pricing," said Chand. This would be the first deal for Norwest in the Indian infrastructure space and the first from its new \$1.2 billion Norwest Venture Partners XI in the country. Its other recent investments include National Stock Exchange and Shriram City Union Finance.

"The management team is best in class team and as importantly they have an in house engineering services business, which has expertise in building the power projects," added Chand. AGPL has a team of over 250 specialised hydro and thermal engineers who have over 1,600 years of development experience.

Power Sector Attractive, But Dealmaking Not Easy

The Indian power sector continues to be an attractive bet for private equity investors in country where demand outstrips supply. Most Indian PE players have a macro thesis on the space and are eyeing deals in the space. Two power firms, the 3i Group-backed Adani Power and Indiabulls Power went for a listing last year.

But Chand says that investing in this sector can be a tough cookie to crack with issues in diligence, myriad licenses that are needed and regulatory conditions, among others.

"I think power is also a challenging sector to invest in. In a deal like this one, it has taken over a year of due diligence and huge efforts by all the consortium parties to close," said Chand.

The power sector has seen a rising interest and pick up of deal activity since last year. Hyderabad's Ind-Barath Power Infra Ltd has raised \$100 million in funding from Sequoia Capital India, Bessemer Venture Partners and returning investor Citi Venture Capital International (CVCI).

IDFC Project Equity has been a prolific dealmaker in the space by closing investments in Essar Power, Adhunik Power and Natural Resources and GMRs Kamalanga Energy SPV last year.

"It's very difficult to get a project to a stage where an external investor will invest in and there is a lack of funding," adds Chand.