



GROWTH POTENTIAL

# PE players all powered up to plug into energy businesses

**PE, VC firms have put in \$890 mn in the sector this year; experts see extension into allied segments, clean energy**

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Private equity (PE) firms operating in India are plugging energy as the next sunshine industry for investors. And the number of investments made in the sector so far this year seems to bear them out.

In the last six months, private equity and venture capital firms have invested \$890 million, or Rs3,818 crore, in 14 big and small energy deals, compared with four transactions worth \$123 million a year earlier, according to local private equity tracker Venture Intelligence.

Reason? In a power-starved nation that is getting more prosperous, energy presents a business opportunity that can be readily scaled up. "PE players look out for scalable businesses and enormous growth prospects. The energy sector in India provides potential for both, as the supply and demand gap is huge," says Raja Kumar, founder, chief executive and managing director of UTI Ventures.

UTI Ventures has invested in half-a-dozen energy or related companies, including Ind-Barath Power Infra Pvt. Ltd and Pesco Beam Environmental Solutions Pvt. Ltd. Apart

from project-specific risks, experts say energy-business revenue, particularly in the power sector, can easily be predicted for as long as 10 years. Power requirements aren't prone to fundamental shifts, they reason.

In the five years to March 2012, India plans to add more than 50%, or about 78,577MW, to its power generation capacity of 143,006MW. This, at current estimates, will require some Rs10.31 trillion in investment. According to the Union power ministry, a Rs4.51 trillion state funding shortfall is foreseen in this target.

The other big opportunity in the sector is presented by the electricity transmission and distribution network. Inefficiencies in the network are estimated to lead to the loss of about 40% of the power generated in the country.

**Bhoruka Power Corp. Ltd**, a hydroelectric and renewable energy company that received Rs70 crore of funding from a Franklin Templeton PE arm, says private equity investors will become more dominant in the energy sector because its capital demands are huge and not many institutions offer that kind of money.

"As the investors receive tariff-based returns, their proceeds are almost assured," says S.N. Agarwal, Bhoruka's chairman.

In the quarters ahead, experts say such deals will go beyond electricity generation to transmission and distribution or alternative segments such as renewable sources of energy, biofuels and clean technol-

**BETTING ON ENERGY**

Top PE investments in the sector from January to June.

Company	Sector	Amount (\$ mn)	Investor(s)
Indiabulls Power Services	Power	395	Farallon Capital, LN Mittal, India Internet Ventures
Konaseema Gas Power	Gas	125	IDFC PE, Lehman
KSK Energy	Power projects	85	Lehman Brothers
KLG Power	Power	50	TPG Growth
Deepak Cables	Power cable manufacturing	49	UTI Ventures, others

Source: Venture Intelligence.

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ogies. Some of these deals will be secured by small- and mid-sized PE firms.

"Globally there is a trend towards clean energy. In India too, that trend is finding support with government mandating that 10% of all generation will be from clean sources. Over the next 10 years there is going to be a cost for using coal as the fuel source," says Karthik Ranganathan, head, investments, alternate energy and engineering service, Baring Private Equity Partners India, which plans to channel a significant amount of its \$1 billion fund in India into the energy businesses.

**2i Capital (India) Pvt. Ltd**, which invests in mid-stage companies, says power companies will get more market-oriented in future with trading exchanges coming up exclusively for energy. The country's first power exchange, Indian Energy Exchange, commenced operations late last month.

The fund says it is looking at investment opportunities in power equipment and suppli-

ers. "Investments in companies that supply to the power sector make a lot of sense to us. The risk is low and any supplier at a given time is catering to two-three companies," says Shailesh Vikram Singh, vice-president of investments at 2i Capital. Since 2003, the firm has invested \$200 million in 17 companies across sectors, with 27% in energy and infrastructure.

With access to capital, more small and medium power generation units co-owned by investors will emerge, says Narendra Taneja, an energy expert and South Asia bureau chief of *Upstream*, an oil and gas industry publication.

Small power plants with 50-60MW capacities are already operating in Himachal Pradesh and would be replicated elsewhere. Over the next decades, 50% of India's power will come from private producers, predicts Taneja, who says companies and investors need to look at more innovative technologies, such as generating power from human waste.