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"BLOOMING GREEN ENERGY PROJECTS AND POLLINATING PRIVATE EQUITY FIRMS" – AN INDIAN INVESTIGATION

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ABSTRACT
The Private Equity (PE) firms are those investor firms which seek to invest funds in companies or projects which are not listed in any public stock exchanges. As an alternative source of finance they become premier fund providers for sun raise business models like Green Energy Projects. The Green Energy Projects are the projects which uses non- fossil fuel based resources to generate power. So, the emergence of private equity and green energy projects has been calling for attention in the Indian industrial environment. In this paper an attempt has been made to gauge the present status of PE firms in the Indian green energy projects.

***Key words : Private Equity, Green Energy Projects, Independent Power Producers, Carbon Trading, Carbon Emission Reduction Certificates*.**

INTRODUCTION
The genesis of Private Equity (PE) firms can be traced back to 1934 in Europe. The Charter House Development Capital established in 1934 was the first PE firm in Europe. The American Research and Development Corporation was a Pioneer PE firm of United States of America established in 1946. The transformation of PE firms in these two destinations is attributable to two developments. The first one was the desire of banks and pension funds to find new avenues for investment for their burgeoning resources. For example, in US alone, the assets of autonomous pension funds rose from $ 786 billion in 1980 to $ 7.4 trillion in 2000. The second significant development was the relaxation of draconian rules relating to investments that could be undertaken by institutional investors like banks and pension funds.

The surplus funds of institutional investors backed by the sedation in the stringent rules and regulations have satisfied the input needs of the PE firms. On the next side, the awesome entrepreneurial developments all over the world and mega mergers and astonishing acquisitions practices of MNCs to attain new heights in the corporate environment have encouraged the supply of scarce money from new sources like PEs. So, these inward as well as outward forces collectively contributed the present growth in the PE industry. In India, the presence of PE firms was witnessed in the year 1997 and it scaled new heights during 2000.

'Private Equity', in the contest, is securities which are not listed on a Public Exchange. In general, these PE firms are parking their funds in those companies whose securities are not listed on the stock exchanges. Due to this fact, these firms are called as Private Equity Firms.

AN OPERATIONAL OUTLINE ON THE PRIVATE EQUITY FIRMS
The modus operandi of PE firm is plain and simple. It pools fund from the public by any legitimate means and with the help of this money, a PE firm picks up a minority stake in a target company which is not listed in any stock exchange and sells out after some years. Of the profit acquired, the fund managers will get 20% as their share. The rest of the investors will take a large proportion of profit plus the principal amount they had invested. A small portion of the profit is allocated towards reserve to face contingencies. Usually, the PEs is expecting an average rate of return of 30% to 40% from their investments. In a nut-shell, PE firms select, presently under valued companies and projects like green energy projects for investment; over the years (usually between 4 to 5

years) add value to them by lending their expertise and off load the stake for a resplendent return. This the golden rule of most of the PEs.

GREEN ENERGY PROJECTS AND PE FIRMS

Global warming is venom which has diabolical powers to demolish our earth. Green House Gases like carbon dioxide are the creators of this problematic phenomenon. The process of industrialization backed by increase in purchasing power induces the emission of more and more Green House Gases. Without lowering the emission of carbon in the environment there is a greater consensus among the scientists and researchers that the adverse climate change will become imminent .It has become therefore clear that green technologies using renewable resources and lower carbon footprints are adopted to continue economic development without impacting the environment negatively. In the Indian context which is the focus of this article deployment of green tech projects is of prime importance to address India's current energy supply and security issues. Green energy projects are those projects which use wind, bio fuels, biomass waste, solar and geothermal sources to generate power. These projects are very capital intensive; tend to be small in operation and tapping the public equity markets need more scale. Hence private equity plays a vital role in financing the initial and seed capital for developing the clean technology projects in India. The table -A has been portraying the present pattern of PE investment in green energy projects. It is evident from the table- A that the PE investment in these environment friendly projects showed a notable increase from the year 2007 to 2011.

Table- A, PE Investment in Green Energy Projects

YEAR	**2007**	**2008**	**2009**	**2010**	**2011**
Investment- Billion $	19	24	19.5	28	32

Source: *Ministry of New and Renewable Energy.*

The sector specific information on the penetration of PE firms in green energy projects has been depicted in the Table- B .During the period 2009-2011, the major players in the field of PE investment in India namely IDFC PE Fund and Morgan Stanly have collectively been contributed a sum of 200 million dollar in the solar energy based investee company Moser Bear Photo Voltaic. It is a top most deal for this period. The other major deals have also been highlighted in the same Table- B

TABLE – B, Top five PE investments in green energy projects [During 2009-2011]

Investee Company	**Energy Sector**	**PE Investor**	**Investment- Million $**
Moser Bear Photo Voltaic	Solar	IDFC PE &Morgan Stanly	200
Winwind	Wind turbine	Masdar	174
Seforge limited	Wind turbine	IDFC-PE	83
Vestas RRB India	Wind turbine	Merril lynch	55
Suzlon Energy limited	Wind turbine	Chrys capital	44

Source: IDFC PE Research, 2011

FOCUS OF PE IN INDEPENDENT POWER PRODUCERS [IIPs]

Independent Power Producers are those business models which generate power using renewable sources of energy and sell it to a variety of customers. They provide immense scope for PE investment. The IIP models follow both organic and inorganic routes to develop generation across verticals. Through the acquisition route they seek to acquire attractive operational assets to provide an immediate boost to their generation capacity. The PE firms take this investment opportunity to finance the inorganic routes .For the organic route the IIP models work with project advisors to identify and develop Greenfield project opportunities. The financial requirements of these green field projects have been extending scope for PE investment. The ramification of PE investment in IIPs has been presented in the Table –C.

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Table- C,Play of PE In Independent Power Producers

Investee Company - Set-up	Sector	PE Investor	Power Generation
Orient green power-2007	Bio mass & Wind	Olympus Capital& Shri ram EPC	175 MW
Green Infra Ltd.,-2009	Wind	IDFC PE	124 MW
Greenko-2006	Hydro & Biomass	Global Environment Fund & TPG Growth	120 MW
Auro Mira Enregy-2005	Bio mass	BARING PE	17.5 MW
Shallvahana Green Energy-1990	Bio mass	Axis PE & ILFS	35 MW

Source: www.indiaventurepe.com

CATCHING CARBON TRADING MARKET AND PEAKING PE INVESTMENT

The Carbon trading is a mechanism in which a carbon emitting company should buy Carbon Emission Reduction Certificates (CERs- one tone of carbon dioxide not emitted or avoided is equal to one CER) from another company which is adopting a non-greenhouse gas emitting manufacturing or business practices. Here green energy projects are eligible to generate volume of CERs in the near future. So this gives value addition to investment made by the PE firms and induces them to pay special attention towards these green energy projects .The Table-D has been portraying the projected market for carbon reduction certificates from2013 to 2017 in the international market.

Table – D, Projected Market for Carbon Reduction Certificates

YEAR	2013	2014	2015	2016	2017
DEMAND-TRILLION $	0.60	0.18	1.25	1.40	1.44

Source: *www.global carbon enablers.com*

The prospects for generating carbon reduction certificates are bright as only 14 percent of the overall renewable energy potential in our country has been taped so far. Taking cue from the Table –D the international demand for CERs in 2017 will reach 1.44 trillion land marks which mean the PE firms will consider it as a significant parameter to park their funds in the green energy projects.

CONCLUSION

With the intensive use of natural resources in general and fossil fuel in particular humanity is faced with its adverse impact on the environment. The green energy projects have been generating power without polluting the environment. As there is a limited scope for fundraising through stock exchanges they depend on the alternative sources of finance. Here the PE firms like IDFC PE, Morgan Stanly, Masda Etc., have been coming to the rescue of the these projects and they are making measurable investment to kindle the growth of clean energy projects. In the case of segment preference it is identified that most of the PE firms love to make investment in IIPs. The green energy projects are eligible suppliers of CERs. Apart from the lucrative return on investment, the increasing demand for CERs has been inducing the PE investors to place more money in the green energy projects. So the presence of PE investment in clean energy projects is nimble and it is creating a distinctive impact on the environment friendly industrial projects.

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