Mint- October 01, 2013

CLP taps Rs.850 crore pool financing

Three lenders have given loan to CLP under the so-called pool financing model, to fund 250 MW of wind power projects. Three lenders—state-run IDBI Bank Ltd, Standard Chartered Plc. and IDFC Ltd—have loaned energy company CLP India Pvt. Ltd Rs. 850 crore under the so-called pool financing model, to fund 250MW of wind power projects.

Under the agreement, CLP—the only multinational firm in India's power generation sector—plans to raise up to Rs3,000 crore over the next three years from the three banks, which will enable the firm to undertake an additional 650 MW of wind projects, said Samir Ashta, chief financial officer of CLP India.

Relatively new in India, pool financing is an arrangement wherein banks lend money for different projects of a group. However, unlike traditional consortium financing, the security of each project is pledged to the respective lenders of that project but the cash generated by all the projects forms part of a common cash pool, and is available to repay the loans advanced by all the lenders.

"The risk element is less in this model as project-specific risks are reduced and cash-flows get evened out, thereby, making the wind projects more acceptable to the lenders," said B. K. Batra, deputy managing director, IDBI Bank.

Typically, under the consortium model, when the borrower company defaults on loan repayments, the account becomes a non-performing asset (NPA) for all the banks involved in the consortium. But chances for this happening is less in pool financing as cash flows from other projects are used to repay the loan obligations.

Even if a project fails to take off under the pool financing model, the lenders have a pari passu (equal right to all lenders for repayment) model, said Batra.

CLP India currently has 1,985 MW of traditional thermal projects based on gas and coal and 985 MW of wind power projects.

“Pool financing is (a) useful tool for companies engaged in the renewable (energy) space as the size of each project in the renewable energy sector can be small depending upon the potential of the site but the entire portfolio could be substantially large. And in such a scenario, raising funds for individual projects can raise the cost of transaction for the developer,” said Kameswara Rao, executive director (energy, utilities and mining) at consultancy firm PricewaterhouseCoopers.

He added that even if the cash flows from a particular project dry up due to issues like delays in payment from utilities, the financial institute concerned would not have to worry about servicing its debt as it has access to cash flows, not from just “one particular project but the from entire portfolio of the project”.