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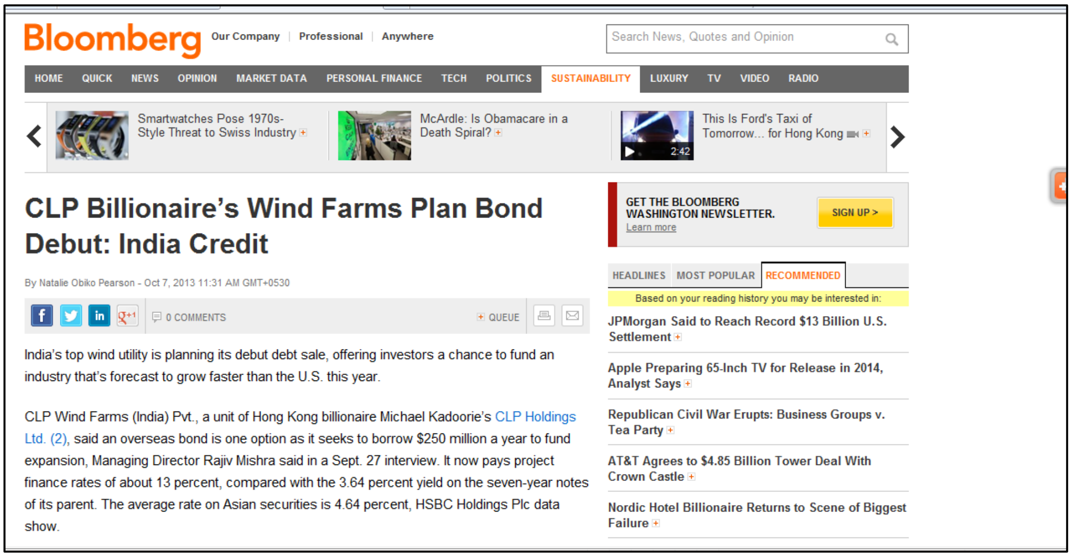
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CLP Billionaire's Wind Farms Plan Bond Debut: India Credit

By Natalie Obiko Pearson - Oct 7, 2013 11:31 AM GMT+0530

0 COMMENTS QUEUE

India's top wind utility is planning its debut debt sale, offering investors a chance to fund an industry that's forecast to grow faster than the U.S. this year.

CLP Wind Farms (India) Pvt., a unit of Hong Kong billionaire Michael Kadoorie's CLP Holdings Ltd. (2), said an overseas bond is one option as it seeks to borrow $250 million a year to fund expansion, Managing Director Rajiv Mishra said in a Sept. 27 interview. It now pays project finance rates of about 13 percent, compared with the 3.64 percent yield on the seven-year notes of its parent. The average rate on Asian securities is 4.64 percent, HSBC Holdings Plc data show.

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CLP's plan to back the proposed bond with earnings from multiple wind farms reduces risk and will attract investors, according to SJS Markets Ltd., even after turbine-maker Suzlon Energy Ltd. defaulted on debt payments last year. India will add 2,050 megawatts of wind power capacity in 2013, exceeding increases in the U.S. for the first time, according to a September forecast by Bloomberg New Energy Finance.

"The pooled wind farm assets will be a considerable safe investment, as the company would have enough cash flows to service the debt," Hemant Dharnidharka, Bangalore-based head of credit research at SJS Markets, said in an e-mailed response to questions on Oct. 3. "The credit rating for such a pool will be better than that which an individual project would attain."

Bond Advantage

CLP India may issue the bonds in about a year, helped by its agreement last month with its biggest creditors Standard Chartered Plc, IDBI Bank Ltd. and IDFC Ltd. to club its 1,050 megawatts of assets together to create a common revenue pool, said Mishra. That evens out risks from performance variations between individual farms and will allow the firm to earn the minimum B1+ rating required to sell a corporate bond, he said.

CLP India will save on interest costs by selling foreign-currency notes as rates remain relatively higher at home. Top-rated five-year rupee company bonds pay 9.52 percent, data compiled by Bloomberg show. The average yield on Indian dollar debt is 5.90 percent, according to JPMorgan Chase & Co. data.

The advantage of a bond over local-currency loans “is both the cost as well as the certainty,” CLP’s Mishra said. “Any potential lender sees a lot more certainty when it looks at the pooled cash flows than at any individual project.”

Billionaire’s Backing

CLP Holdings Chairman Kadoorie is the Asia-Pacific region’s 32nd richest person with a $7.7 billion fortune, according to the Bloomberg Billionaires Index. He has stakes in Hong Kong & Shanghai Hotels Ltd., which owns the Peninsula luxury hotel chain, and Hutchison Whampoa Ltd., Hong Kong billionaire Li Ka-shing’s biggest company.

CLP lost HK$212 million in India in the first half of 2013, more than 10 times the amount a year earlier, as its coal-fired power plant in the northern state of Haryana fell short of fuel supplies, according to its mid-year report.

CLP’s earnings before interest, taxes, depreciation and amortization, or Ebitda, is now 3.5 times its interest expenses, ranking it among the top 9 percent of the companies included in Hong Kong’s Hang Seng stock index, according to data compiled by Bloomberg. Moody’s Investors Service reaffirmed its A2 credit rating, the sixth-highest investment grade, on the company in March. CLP’s wind energy projects in India are performing as expected and it sees output rising to 1,000 megawatts by the end of 2014, according to its interim report.

Wind Power

Wind energy generation in India is set to recover this year, following a record 42 percent drop in installations in the 12 months through March, after the government reintroduced a cash incentive in August. Asia’s third-largest economy, which is fighting blackouts that hold back growth, is seeking to cut dependence on imported fossil fuels and double clean energy capacity to about 59 gigawatts by 2017. Wind capacity may increase to 2,300 megawatts in 2014, according to BNEF.

The country’s 10 largest wind-power developers, including Mytrah, Green Infra Ltd. and Goldman Sachs Group Inc.-backed ReNew Wind Power Pvt., have plans to put up 15,000 megawatts of capacity in the next 10 years. Goldman and Morgan Stanley (MS) have led about $1.1 billion of private-equity buyouts, project and company acquisitions in the industry since 2010 as the cost of generating electricity from windmills has become lower in some states than from new coal-based power plants.

The nation’s wind industry will require 1.4 trillion rupees ($23 billion) of investment by 2020 in order to meet its targets, Sanjay Chakrabarti, a Mumbai-based partner at Ernst & Young LLP, said in an Oct. 4 e-mail.

Going Mainstream

“We’re getting to the point where renewables are becoming mainstream in India,” Sumant Sinha, chief executive officer of ReNew Wind based in Gurgaon near New Delhi, said in a telephone interview on Sept. 19. “The advantage of renewables is that you know what the cost is going to be forever. Who knows what will happen to coal prices in 25 years?”

India’s cabinet in August approved the proposal to revive the generation-based incentive of 500 rupees a megawatt-hour and also agreed to raise the cap on the total subsidy a wind-based power producer can claim over 10 years by 61 percent to 10 million rupees. Farms built between 2012 and 2017 will be eligible for the subsidy, Ministry of New and Renewable Energy Joint Secretary Alok Srivastava said Aug. 13.

CLP’s bond-sale plan comes as the risk on Indian debt eases. Credit-default swaps insuring the bonds of State Bank of India, a proxy for the sovereign, against non-payment for five years have fallen 60 basis points from a 14-month high of 372 on Aug. 20, according to data provider CMA. The yield on the 7.16 percent government notes due 2023 fell one basis point, or 0.01 percentage point, today, while the rupee weakened 0.6 percent to 61.83 per dollar.

“Pool financing will help CLP raise funds more quickly and reduce borrowing costs,” Shantanu Jaiswal, a New Delhi-based wind energy analyst for BNEF, said in a Sept. 24 e-mail. “This would definitely be new in India. This is a signal of a maturing wind market that is adopting global best practices and innovating on existing financing structures.”