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Asia-Pacific Merchant Power Deal of the Year 2011: GMR Energy

31/03/2012

The S$1.3 billion ($1.03 billion) financing for GMR Infrastructure's 800MW combined-cycle gas-fired project had a long road to financial close, though in its final iteration it took less than three months from mandate to signing. Like many Singaporean deals it is far advanced on what would be possible in neighbouring countries, and like most Singaporean deals it has few obvious follow-ups.

The financing, which first came to market in 2003, benefited from solid government support for both its offtake and gas supply arrangements. It was also revived after the unbundling of Singapores generation sector, which made the idea of a standalone greenfield merchant generator more practicable. In turn it may influence the long-term refinancings of the generation companies formed from the unbundling.

The deal also serves as proof of GMRs commitment to developing regional infrastructure assets. Only the Singapore plant remains of the slate it acquired with 50% of InterGen, a stake it subsequently sold to China Huaneng Group. But its ability to turn around a project that faced numerous obstacles and mobilise some Indian bank support for its financing suggests it may follow through with other prospects in Asia-Pacific.

GMR Energy (Singapore) is still known informally as Island Power, the name it had for seven of its eight years of development. InterGen conceived of the project in 2003 a joint venture with Sime Darby that would use ConocoPhillips as a gas supplier. It mandated banks in 2004, with Macquarie as financial adviser, but could not close a financing, with potential lenders focusing on the projects gas supply and construction arrangements.

AIG Highstar and Ontario Teachers bought InterGen from Shell and Bechtel in 2005, and were free to replace Bechtel as engineering, procurement and construction contractor with a Siemens/Samsung joint venture. The two new owners relaunched a financing for Island in 2006, but abandoned the effort in 2007, and Highstar sold its 50% stake to GMR in 2008.

GMR anticipated that InterGen would become the core of a global independent power business, but its development model was looking somewhat outdated by the end of the last decade and, recognising that the stake was more about ownership of existing assets, GMR sold the stake to China Huaneng Group in 2010. GMR retained Island, the most advanced of InterGens prospects, and the nearest to its Indian home market.

The biggest boost to the project came when the Singaporean government decided to build an import terminal for liquefied natural gas. The government decided in 2006 to build and own the 3 million tonnes-per-year terminal itself, but awarded BG the rights to market its capacity in 2008. LNG is not as cheap as piped gas, and making the project dependent on the success of the terminal added a host of additional external risks, but GMR grasped the opportunity gladly. BG and the Singaporean government, in turn, lined up a valuable anchor tenant.

Island had managed to keep hold of a ten-year vesting contract with SP Services, a subsidiary of state-controlled Singapore Power, despite the drawn-out development process, and even managed to get it tweaked to reflect the higher costs of the LNG. The vesting contract is a financial arrangement, similar to a contract for differences, which provides a generator with some revenue security.

This contract typically does not cover all of a generators capacity, only about 30% of revenues, and generators try to sign short- term (12-18 month contracts) with retail distributors (many of them sharing ownership with generators), and sell the rest on the spot market, which is bid a half hour in advance.

Islands vesting contract, the last of its kind to be awarded, provides some lender security, but lenders must also take a view of the market fundamentals of Singapore, a task that they started in earnest when they performed due diligence on the medium-term financings for the sales of generation assets that closed in 2008/9. Singapore, from the point of view of a merchant gas generator, is blessed with high levels of fuel oil generation and extremely limited interconnection with Malaysia, though there are plans to augment the existing frequency regulation connection with a larger 600MW link.

The relaunched Island benefited from a gas supply agreement with BG, but the BG contract required GMR to find a large working capital facility, which for relationship purposes it wanted to sign with domestic lenders. Given Indian banks comparatively low ratings, the $270 million working capital facility was documented with provisions that allowed for the monitoring of these lenders health and provisions for other lenders to step in and take over sickly banks commitments.

The sponsor signed a fresh mandate letter with Axis Bank, CIMB Bank, KfW IPEX-Bank, National Australia Bank, Standard Chartered Bank and WestLB in March 2011, after the projects latest financial adviser BTMU, could not gain credit approval, and signed the 17- year debt in July 2011. The group is a mixture of an Indian lender (Axis), regional lenders (NAB, CIMB), two international banks (Standard Chartered, WestLB) and an export-driven lender (KfW, on the back of Siemens turbine supply). Despite the presence of a Korean contractor, the length of the tenor and merchant profile made a speedy inclusion of Korean export credit debt unlikely.

The debt features cash sweeps, and pricing step-ups, designed to mitigate some of the effects of the vesting contract not being extended, but no forward-looking coverage tests. Pricing is believed to start at under 300bp over Sibor, and not go above 400bp. On top of the S$670 million in debt, and $270 million in equity, GMR Infrastructure, a Bombay-listed development vehicle, is contributing roughly $415 million equivalent in equity.

GMR Energy (Singapore)
STATUS: Signed 12 July 2011, closed 15 July
SIZE: S$1.3 billion
DESCRIPTION: 800MW greenfield combined- cycle merchant plant, located on Jurong Island, Singapore
SPONSOR: GMR Infrastructure
DEBT: S$670 million term loan, $270 million in working capital facilities
LEAD ARRANGERS: Axis Bank, CIMB Bank, KfW IPEX-Bank, National Australia Bank, Standard Chartered Bank, WestLB
BORROWER LEGAL ADVISERS: White & Case; Rajah & Tann (Singapore)
LENDER LEGAL ADVISERS: Norton Rose; Lee & Lee (Singapore)
ENGINEER AND ENVIRONMENTAL CONSULTANT: Mott MacDonald
MARKET CONSULTANT IPA INSURANCE ADVISER: Aon
EPC CONTRACTOR: Samsung/Siemens joint venture