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GMR Intergen - the lowest bid wins

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When AIG Highstar decided to sell its 50 per cent stake in global IPP Intergen, it was widely expected that international power players such as Marubeni and Suez would be among the most attractive suitors.

In January 2008, few would have bet that an Indian firm with 800MW of total operating capacity (and 3,280MW in development) - all in its home country - would see off competition from the world's biggest companies. Even fewer would have bet that in this auction for joint ownership of one of the most attractive power portfolios likely to come to market, the lowest bid would win.

Come June, and India's GMR had won the auction, announcing the entrance of India's power developers on the world stage. Come financial close in October, and GMR had negotiated the collapsing bank market by cutting its offer to the lowest on the table. **Chaminda Jayanetti** looks at how GMR pulled it off.

Sale process

When the sale of AIG's stake in Intergen formally launched at the start of 2008, GMR had only just established its London-based global operation, called GMR International, which would handle the company's non-Indian interests as it looked to build a global presence across the infrastructure sector.

GMR International was still pulling its team together when the assets came up, meaning it was not fully equipped for the bidding war that was about to unfold for what was a rare opportunity to take a significant stake in a truly global portfolio.

Intergen was power prime real estate. The company, established by Bechtel and PG&E in 1995, owned ten power plants in five countries - Australia, Mexico, the Netherlands, the UK and the Philippines - and was about to acquire two extra Mexican facilities from TransAlta. Overall, Intergen operated more than 8,000MW of capacity, with another 4,700MW under development.

Ranjit Murugason, CEO of the new GMR International team, knew the company did not have the same depth of experience as Suez and International Power, but the company reviewed the assets quickly and pulled together the first global M&A bid ever attempted by the GMR corporation by the March 24th deadline for indicative offers.

It was at this early stage that GMR decided that the already weakened western banking market would take time to get comfortable with a new Indian force. Even as early as March, US funds that were preparing bids were struggling to secure US bank financing - leading GMR to conclude that if stricken US banks were not willing to finance bids by US funds, they certainly would not be prepared to lend to an Indian firm making its first moves on the global stage.

Further, in order to submit a rock solid bid that would hold up against the growing economic turbulence, GMR decided it had to secure a bank syndicate that wouldn't budge.

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GMR International instead decided to try and tie up dollar financing from Indian banks, even though it could cost 100bp more than dollar lending from western banks. It was an acceptable cost for having a locked-down Indian syndicate rather than troubled western banks causing problems as their balance sheets shrank.

Murugason's team also took the view that the value of the bid would not be the main determining factor in who would win. Instead, GMR International felt that the bidder that could show familiarity with Intergen's assets, business, and the associated risks, would trump rivals that simply put the most cash on the table.

Winning bidder

When GMR was announced as the winner of the auction with a US$1.116 billion offer, heads turned at the sight of India's power sector making its long-awaited first foray onto the international stage.

But it was GMR's long-term commitment to investing in the assets and the business that sat well with Ontario Teachers' Pension Plan, which was holding onto the remaining 50 per cent Intergen stake. Whereas private equity investors might look to make a quick profit from their investment, GMR saw itself as a conservative investor that would take a long-term view of the business even if the economic climate got tough - which it increasingly clearly would.

GMR won with a lower bid than many of its rivals because it was willing to come to a more commercial sale and purchase agreement. The deal was agreed subject to standard regulatory approvals - during which time the bank market went into meltdown.

However, while many banks ran away from deals, state-owned Indian banks proved far more solid due to their more conservative approach to lending over the previous economic period. As GMR's chairman was a former chief of a private Indian bank, he had great personal standing among Indian banks.

But the bid's Indian bank supporters pointed out that no UK banks would be willing to back GMR, leading the company to go back to AIG prior to closing looking for sweeteners. AIG agreed to lower the bid price from US$1.116 billion to US$954 million - lower than the lowest bidder in the original auction.

The US$964 million final bid was funded through debt and equity, with a 90:10 debt-equity ratio unlikely to be seen for a long time to come.

Axis Bank underwrote 80 per cent of the debt on a short-term tenor with an intention to refinance down the line. Axis held onto some debt, and syndicated the rest to four banks:

- Bank of Baroda
- Bank of India
- Canara Bank
- Indian Bank

The remaining 20 per cent of debt finance was provided by ICICI Bank on a take-and-hold basis, with a long-term tenor.

Advisers on the deal were:

- White & Case - legal adviser to GMR
- NM Rothschild - financial adviser to GMR
- PwC - accounting adviser to GMR
- Stone & Webster - technical adviser to GMR
- Allen & Overy - legal adviser to Axis Bank
- Norton Rose - legal adviser to ICICI Bank
- Lehman Brothers - financial adviser to AIG
- Sidley Austin - legal adviser to AIG
- Paul Hastings - legal adviser to Intergen

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The way ahead

The deal took GMR from a promising Indian player into one of the top IPP players in the world, with an average age of fleet of a little over five years and plants located in a mix of OECD countries and emerging markets.

Under new ownership, Intergen will focus its portfolio development on its existing locations, rather than planting solitary flags in myriad locations - a criticism levelled at other global IPPs. Intergen is looking at developing its presence in the Netherlands - where it currently owns Rijnmond I and II - and the UK.

In the UK, Intergen is looking to bring online 1,600MW of new capacity by 2014, through expansion projects at its existing Spalding and Coryton CCGT facilities. The company wants to double the capacity of the 860MW Spalding plant, with financial close targeted for Q1 2011. It also wants to add 860MW to the 777MW Coryton facility, with FC targeted in Q4 2011.

Intergen will also eye distressed assets in Australia, provided they make economic sense for the company. In the coming economic period, Intergen will adopt a conservative offtake strategy based on PPAs rather than merchant deals in order to improve the bankability of new projects.

Outside of Intergen, GMR International will oversee GMR's expansion in new locations. Turkey is already a focus - the company is participating in acquiring greenfield licenses, as well as the country's privatisation process and portfolio asset sales and partnerships. GMR is also a pre-qualifier in South Africa's baseload IPP tender.

However, despite its rapid expansion into global power major, GMR will take things one step at a time, and is unlikely to dive into the big-ticket Middle East power sector before it is ready. Instead, its incremental growth - aided by a shrewd capitalisation on the growth opportunity thrown up by the Intergen auction - could set a path for other Indian giants such as Tata and Reliance to take their place on the world stage.

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