

# Wind power projects in India: an interesting investment opportunity for yield seeking investors (absolute return)

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When Warren Buffet is asked how he times the market so well, he once mentioned, "It's simple, I withdraw from the market when my liftman starts talking about tips on stocks". In the recent financial turmoil in the markets, even he was not spared. Berkshire Hathaway, Buffet's investment company suffered losses of more than \$1.5 Bn in the 1st Quarter of 2009 following losses in the earlier quarters as well. So how does one continue to make hay while the sun is no longer shining in the stock markets?

The slumping stock market, falling housing prices, falling commodity prices and weakening economies have serious repercussions for Yield Seeking Investors such as Pension Funds, Endowment funds, Insurance funds etc and consequently losing huge amounts of money for the retail investors, many of whom were banking on these instruments for retirement, Universities who were looking to fund education programs, etc.

What went wrong? What could have been done to prevent or insulate the long term funding from the vagaries of stock markets, commodity cycles and the like.

## Yield Funds Investment Philosophy

The absolute return or simply return is a measure of the gain or loss on an investment portfolio expressed as a percentage of invested capital. Absolute return strategies aim to produce a positive absolute return regardless of the directions of financial markets. They typically achieve this by investing the portfolio's assets in debt or other low volatility instruments, hedging long and short positions in portfolios of securities that when combined aim to reduce risk while increasing returns. The resulting portfolio should have low correlation with financial market performance.

Typically the yield seeking investor's investment strategy follows the absolute return approach. Hence by nature they aim to produce a consistently positive return regardless of the development of the markets. They seek a combination of capital preservation



and steady long-term growth, and aim to generate positive performance regardless of

market direction.

A quick look at returns (ROI, IRR) from investment made in last 10 years in select stock indices as illustrated below clearly highlights the need for alternative investment and also reflects the relative advantage that the "Wind Power Investment" carries over other investment avenues in it being investment with "Predictable Cash Flow", "Decent Returns" and the "Real Assets" the very essence of concept of Absolute Return on which Yield Seeking Investors dwell upon.

## Wind Power Investment in India

"Wind Power Investment in India" has emerged as one of the most attractive investment avenues for Yield Seeking Investors who are looking for reasonable long term return and sustainable cash flow and Investments backed by Real Assets. Wind Power Investment leverages the long term potential in the hi-growth energy sector where the supplies seemingly never catch-up with the demand. Moreover, it also enjoys a premium of being the 'clean, green renewable energy' that is most sought after in the wake of global warming & climate change concerns.

There are three key perspectives to investment in wind power. First and foremost is the investment economics. Characteristics like real assets, multiple revenue streams and predictable future cash flows over as long term as 20 years or more are simply unmatched by any other investment option, not even fixed deposits. The multiple revenue streams comprise of primary revenue

## Wind Energy in India - Investment Imperatives

- Long term, safe and profitable investment
- Stable and predictable cash flows over 20 years
- Decent returns with capital safety
- Multiple revenue streams
- Productive assets with attractive long term valuation
- No worries of managing the 3 Ms – Market, Material & Man-power

# Wind Energy in India - Market Imperatives

- **High growth potential**
  1. Fast growing, energy starved economy with more than 12% power deficit
  2. Wind power accounts for almost 71% of India's total renewable energy installed base
  3. Total estimated onshore wind power potential of more than 45GW, 80% of which is yet to be developed
- **Matured Market & Efficient Solutions**
  1. Globally 5th largest market by installed wind power projects
  2. Proven track record with installed base of more than 10 GW
  3. Easy access to proven technology & skilled manpower
  4. Faster project deliveries (e.g. 50 MW in 3-6 months)
  5. Efficient power evacuation infrastructure
  6. Hassle-free 'End to End' solutions
- **Progressive policy & regulatory support**
  1. Dedicated ministry (MNRE) & regulatory framework
  2. Preferential tariff & long term PPA
  3. Govt. incentives & regulatory obligations
  4. Imperatives on the Renewable Purchase Obligation, which is seen to boost the market. (Prime Minister's policy on Climate Change professes the increase in RPO limits to 10%-15% in each state, by 2020)

power generated for up to 20 years at a pre-determined rate. Add to it the unmatched guarantee of up to 95% equipment uptime from the End-to-End solutions provider, and it explains why you could count on this low risk high returns sector as your preferred investment option.

### Conclusion

Experience in recent past of investment in highly volatile investment avenues such as stock markets, commodity, and real estate markets has brought forward and revitalized the importance of concept of "Absolute Return" specifically for the "Yield Seeking Investors". Today wind power investments in India provides a unique opportunity for these long term funds to diversify their investment in avenues which are characterized by "Long Term Predictable Cash Flow" with Decent Returns and backed by "Real Assets", the very rationale of Yield Seeking Investors. Unique End to End model developed by Indian wind turbine generators offers interesting investment opportunity to such funds without worrying about the 3 M (Market, Material & Manpower) and thus helps diversifying their investments.

### Disclaimer:

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from sale of power generated and secondary revenue from carbon trading supported by infrastructure benefits provided by government.

Wind energy as an option for diversification has unique advantages. It lets you diversify in to a high growth sector without the hassles of managing the 3 Ms - manpower, material or market. Thanks to the innovative 'End-to-End' solutions business model

smartly engineered by the industry leader – Suzlon. Under this, a wind power project is literally served on a platter and you do not have to spend your time or engage your manpower at any phase of the project over its entire life cycle.

The project has designed life of at least 20 years. There is a long term power purchase agreement signed in the beginning itself which assures the take-off of the

### MAJOR RISKS PERCEIVED/ANALYZED:

Sr. No	Nature of Risk	Indicator	Perspective/Mitigation
1	Country Risk	↔	With 38th Rank in Protecting Investors, 28th Rank in Getting Credit, 122nd Rank in Ease of Doing Business, 89th Rank in Employing Workers gives India edge over many other geographies however 180th Rank in Enforcing Contract, 140th Rank in Closing Business are some areas of concern.
2	Currency Risk	↔	With Economy expected to grow by 6% in next decade and demographic dividend should augur well however Fiscal Imbalance though temporary global phenomena is worrying concern.
3	Policy/Regulatory Risk	↓	With emergence of Stable Government with majority and relentless thrust on Renewable Energy both at Central and State the risk associated is minimized to a great extent.
4	Construction/Project Risk	↓	The unique offering by all Major Wind Turbine Generators in India in terms of End to End Solution wherein the complete investment solution is provided under one umbrella nullifies the risk. Project Delivery schedules are typically 6 to 9 months in comparison with norm of 18-24 months in developed countries.
5	Off take Risk	↓	With Peak and Average Deficit of around 12% plus and economy expected to grow at around 6% in next 5 years marketability/off take of power generated is guaranteed. The long term PPA (Power Purchase Agreements) offered by various states provides greater degree of visibility to Project Cash Flows.

\* DB 2009 Doing Business Ranking 2009 World Bank Group