

# Overall winner

## Power play



## Essar Energy

UNDERTAKEN IN DIFFICULT EQUITY MARKETS AT THE HEIGHT OF FEARS OVER GREECE'S CREDITWORTHINESS, THIS HUGE IPO MARRIED THE CAPITAL REQUIREMENTS OF ENERGY COMPANY ESSAR WITH INVESTOR DEMAND FOR A HIGH-GROWTH INDIA STORY IN A FTSE 100 FORMAT.

### PRINCIPAL TERMS

Essar Energy floated on the London Stock Exchange on 7 May 2010, raising \$1.95bn through a primary offering, with investors purchasing 23.28% of the group. It entered the FTSE 100 on 21 June. Bookrunners: Deutsche Bank and JP Morgan Cazenove.

The Essar Energy initial public offering (IPO) represents a landmark transaction that showcased the depth and international capabilities of the UK equity capital markets. Launched in May 2010, it was the second ever main-board IPO from India.

The offering, which gave an implied market value of £5.5bn, represented a successful debut for the Essar group in the international capital markets. The combination of the Essar Oil and Essar Power businesses in the newly created Essar Energy provided investors with a pure-play opportunity to gain FTSE 100 exposure to Indian economic growth within the well-regarded UK corporate governance regime.

The IPO generated \$2bn in proceeds to enable the company to build its nationally important 10GW power project to meet the growing domestic demand for power in India. It also allowed Essar Energy to supply the growing domestic demand for refined petroleum products.

Joe Seifert, executive director of investment banking at JP Morgan Cazenove, says: "Essar Energy was the largest IPO in the UK since 2007 and it delivered what the company and investors wanted – exemplary execution in volatile markets, a blue-chip investor base and strong share price performance. The deal married the capital requirements of a world-class Indian energy company with international investor demand for a high-growth India story in a FTSE 100 format.

"Behind the story is an Indian economic boom with enormous infrastructure requirements. The proceeds of the deal will help to build out generation capacity in the power sector – critical to over 400 million Indians who currently have no access to electricity."

The deal fulfilled institutions' desire for exposure to India while meeting the company's funding needs, which were not achievable in the domestic Indian market. The IPO saw high-quality demand, with two-thirds of the book allocated to the top 10 institutions.

The transaction was prudently executed in difficult equity markets during the height of the markets' fears over the possibility of a default on Greek sovereign debt and a wave of credit downgrades that rattled investor confidence and was exacerbated by the uncertainties following the inconclusive UK general election. And although the oil, gas and power company reduced its offer price to 420p per share, against an initial range of 450p to 550p, the shares rebounded strongly after an initial fall to trade at 580p at the time of writing, nearly 40% above the issue price.

This deal was well handled and the judges were impressed by the ability to get so large a deal away at such a time. The IPO is still a rare creature and this one was a particularly impressive example.

P Sampath, CFO of Essar Energy, says: "Essar Energy offers unique access to the economic development and rapidly growing energy needs of India through a company that owns assets across power generation, exploration and production and oil refining. A further key advantage is that we are backed by the Essar group, one of the largest family-owned business groups in India, who at the time of the IPO had already invested \$2.9bn of their own money into the business. Proceeds from the IPO will be used to achieve major growth across all three business areas, increasing power generation capacity from 1,220MW to 11,470MW by the end of 2014, developing our oil and gas portfolio in India and elsewhere, and increasing refinery capacity from 14 MMTPA [million metric tonnes per annum] to 36 MMTPA."