

M&A trends in energy, utilities and resources

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While countries across the world focus on bending the COVID-19 pandemic curve, there is an equally pressing global warming curve that needs to bend soon. COVID-19 has caused a hard reset in a number of industrial sectors and economies and in return, unboxed an opportunity to envision and implement a more sustainable future.

Energy sector comprises to be the largest source of the man-made global greenhouse gas emissions. Achieving a '[Net Zero Future](#)' in the short term may not be feasible since a large part of the world is still underprivileged and they require affordable energy generated through fossil fuels. However, rapidly declining renewable energy costs have a potential to accelerate realisation of energy transition to carbon neutrality.

The climate imperative

Policymakers, businesses, and investors across the world have put decarbonisation on top of their strategic agenda and boardrooms are quite focused on achieving carbon neutrality. More than 25 per cent of Fortune 500 companies have committed to achieving carbon neutrality by year 2030¹.

Assets under management of funds that abide by environmental, social and governance (ESG) principles have crossed USD1 Tn globally.²

Sustainability is increasingly permeating the consciousness of the energy user, and consequently, business strategies of energy companies are reflecting a clean energy future. Large energy majors are pivoting their businesses towards renewable energies and carbon reduction to be resilient during this climate imperative.

Energy Sector: M&A and the financing markets

Evaluating the M&A market in the energy sector categorically highlights a dominant theme that points towards renewable energy through the years 2016-2019; however, COVID-19 has catapulted renewable energy M&A

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to the next level. Renewable energy assets have been quite resilient to the impact of COVID-19 due to the policy support and declining cost curves, and thus, have delivered stable returns through this period.

- In 2020, India's renewable energy M&A increased by approximately 75 per cent over 2019 to surpass a cumulative USD2 Bn in value³
- Transaction sizes also amplified. In the last 12 months, three transactions have been seen valued at more than USD500 Mn each.⁴

India has been attracting a large chunk of global pension and superannuation capital, seeking stable returns from quality assets. While renewable energy has attracted a large part of this capital, electricity transmission and utility business that delivers inflation indexed, well predictable returns have also seen significant investments. InvIT i.e. Infrastructure Investment Trust vehicles have facilitated such investments by yield investors.

Oil prices have been subdued through the COVID-19 period leading to a lull in the mergers and acquisitions in the space. However, last-mile consumer-focused businesses, such as city gas distribution continue to be on the radar of strategic as well as financial investors.

Key expectations for the year 2021

India is expected to be one of the fastest growing large economies in the world and its energy demand is expected to keep pace. This demand accretion, coupled with decarbonisation, has triggered a multi-decade investment opportunity in this space.

- We expect energy transition to be a key theme that will drive even larger scale of global capital flows into India and consequently volume and ticket size of M&A transactions. Key imperative for policy makers would be to make continual efforts to improve creditworthiness of state counterparties and improve market access for renewable energy generators.
- Government of India has launched a large-scale divestment and asset monetisation programme and we expect energy sector to be at the core of it. Transaction for sale of a leading oil and gas has already been launched and we expect large volume monetisations in segments such as power transmission and electricity distribution.

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- A number of global and domestic energy majors have accelerated their migration towards cleaner energy and are focusing more on transactions in clean energy assets. Technology companies are expected to enable this transition.

¹ Deeds not words – The growth of climate action in the corporate world, Natural Capital Partners, September 2019

² Sustainable investment funds just surpassed \$1 trillion for the first time on record, CNBC, 11 August 2020

³ Historic rise in renewable energy M&A deals this year despite COVID-19, ET Energyworld, 19 November 2020

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