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Interview With Mr. Krish Krishnan

Mr. Krish Krishnan,
CEO, Green Venture Capital

Profile of Mr. Krish Krishnan

Mr. Krish Krishnan is a Chemical Engineer from IIT Chennai and has done his Masters in Environment Engineering from Cornell, US. Having spent 20 years in the US, he has started 4 different enterprises in the green space. Though largely US-centric, he has experience in the global market.

Profile of Green Venture Capital

Initiated in 2002, Green Venture Capital is an alternative investment fund. It is a series of funds that operates around concepts that are tried and tested around the world. Typically, Green Venture Funds are a dedicated family of funds that are focussed on the carbon commerce area. This holds true for this fund. In order to avail the tax benefits, the fund is based out of Grand Caymans and its investment manager is based out of New York. The fund represents money from North American and European investors. Apart from Mr. Krishnan, Green Ventures Fund has other founding partners based out of New York and London.

India Carbon Fund 1, with an initial capital allocation of Euro 200 million, is the first fund launched by Green Venture Capital. As the name suggests, India Carbon Fund 1 is a purely India-focussed fund that is expected to invest in clean energy projects yielding carbon credits. In a way, it is also considered as a commodity fund or carbon finance fund.

Why Carbon credits?

Different issues have been coming through in the environment space. Today, climate change and global warming are a concern, within the green space. These are directly related to CO_2 or carbon emissions and foot prints issues. Today, there is a consensus that the increasing CO_2 levels are leading to climate change and there is a need to address it. According to me, the most fascinating part of the carbon issue is that for the first time, it is polarising the green movement, as well as the financial movement. What is seen as a very broad consensus in order to make a good short-term impact and a good strategic long-term impact, is to deal with CO_2 emission level reductions, which is really a guiding force. However, there is clear recognition that regulation alone is not going to do the trick. It is going to need a lot of participation from other stakeholders and regulators, who write issues such as, complaints and so on. Furthermore, it is also going to be market participants such as, investors, local communities and NGOs that will create the impact. This is the first time that there is enthusiastic participation from all the various participants and that is what we refer to as carbon commerce.

What is your mission?

We call ourselves 'carbon commerce catalysts'. Looking at our fund and various other initiatives, we see ourselves playing a very critical role in serving as a catalyst or a facilitator in making things happen to the best of our ability. We can pick on this unique role of being carbon commerce catalysts and bring about changes, which make a positive impact on the regulators, the community, the investors, as well as the employees.

We have an incredible opportunity in front of us because it is not often that one has a chance to do well by doing good. There are a lot of ways such as, equities and derivatives to trade and make money, but here we have a chance to trade and do good. Moreover, that is what is exciting to all of us - be it in our Mumbai office or our associate offices in New York or London, this is our theme. Of course, we are a fund interested in investor relations. However, we are not purely concerned about money matters and are quite focussed in our chosen area of operations.

How do you identify companies for investments?

Our initial area of focus is renewable energy, small-scale hydro, mid-scale hydro and solar projects. Of late, we also invest in bio mass projects. We look to find these projects at an early stage or when they are just getting off the ground. We work very closely with project sponsors or developers and lend our environmental expertise. We do not work as services providers and consequently, do not charge for sharing our knowledge. We help our investee companies with the entire carbon credit identification process followed by a rigorous documentation procedure, as a part of our due diligence and support to a project. As a result, we are pro-active buyers. We develop projects from the design stage onwards and build relationships in mid-tier companies. We even identify projects that may be ignorant about carbon credits and we educate them about the concept. Ultimately, when the project yields carbon credits, we contractually buy them. Our's is a classic dis-intermediation strategy. We wanted to understand the market dynamics and identify areas where we can bring in efficiencies in such a young market. Sitting on the sidelines, we have spent about 2 years studying the Indian market and we have also done consequential market signification studies. As a result, we know exactly where to put our money.

What is the current carbon credit market like?

Considering the carbon credit market today, typically, a project sponsor will contract a consultant to find a buyer. The consultant will also charge fees to the project sponsor. However, today, most of the consultants have neither the credibility nor the network to find a buyer. As a result, they approach the next level of consultants, who have potential buyers. Consequently, there are many intermediaries involved, resulting in an increase in the final price of carbon credit. Today, we have approximately 3-5 layers of intermediaries to take care of the company's carbon reduction targets, which are according to the Kyoto Protocol and the EU's Emission Trading Scheme (ETS).

At Green Venture Capital, we try to bring in classic efficiencies through disintermediation and elimination of all the layers of intermediaries. We pay for and do it ourselves. As a result, we give a better price to both, the buyer as well as the seller. It is a simple model and we are able to apply it in India as the domestic carbon credit market is at an early stage. The 3-year old Indian carbon credit market is very fragmented. We are rigorous with our due diligence and risk management practices. That is our carbon credit strategy, which is the focus of the first fund out of the Green Ventures Fund family.

What are your future projects?

We are coming up with a series of Carbon Commerce Funds in different parts of the world, with India taking the lead. More importantly, I see our Indian office becoming larger considering the availability of the required talent. Moreover, this will enable us to position ourselves as an internal KPO for our family of funds. India is a KPO for other hedge funds and we see no reason why it cannot be so for carbon credit. That is a part of our larger mission. Yes, it is a fund but it is also little beyond that. That is a unique sort of design in terms of Green Ventures Fund.

Presently, we are in the process of teaming up with a Chinese equity fund to set up a Carbon Commerce Fund. This is because the Chinese carbon credit market is bigger than India. Furthermore, the Government of China often gets involved as a facilitator in bringing large projects off the ground, resulting in lower risks. This fund will purely focus on the carbon area. We will jointly manage it as co-investors. I hope that the fund will be set up by the end of the year and will be our next fund. In 2009, we are planning to set up a Shariat fund that is compatible with Islamic principles. It will be a family of hedge funds.

What are your plans apart from Carbon Credit Funds?

Apart from Carbon Credit Funds, we are interested in developing our own projects. Today, there are interesting clean technology opportunities in India that are relatively untapped. We have expertise in this area on account of our experience. We actually have an operating company under Green Venture - Green Ventures Renewable India, where we are in the process of developing our own series of renewable projects. Every renewable energy project, when commissioned, will earn carbon credits, which will go to our fund. In a way, it is synergistic. It is an extension of our broader carbon commerce approach, where we are not just carbon credit players, but also renewable energy players. Similarly, we are looking at opportunities to sponsor energy efficiency projects. We will be getting into other clean technology projects. We are getting into renewable energy projects either as investors or as developers, all under our operating company.

We have grand goals, but realised that we needed to learn the local market. It was a bit of a challenge, but we decided to study the market and build the network for some years before plunging into it.

MCX is trying to launch a carbon credit fund-trading platform. Will this affect you? How do you see it?

According to me, it could be an important and a positive move in the market. Considering the chaotic nature of the markets today, price discovery is an issue. How do you value a carbon credit? Sometimes, there are irrational expectations from sellers, mostly because of misguided information from various intermediaries. When you look at carbon asset classes, within carbon credit, we have the Certified Emissionaries (CERs), which are traded. We also have projects at the green field stage and there are credits evolving at various stages through the certification process. If you really were to consider a classic commodity fund, they all represent different asset class of investments. Today, there is confusion between CER and EUAs, which are the commodities traded in Europe. All of these have a different price point. From that standpoint, a major player such as, MCX can actually get involved and generate enough volumes to have a real market. This will result in good price discovery, as well as price setting mechanism. With the trading platform in place, there will not be crazy prices for immature asset classes or Indian asset classes, which are tradable. While today, expectations regarding a global price mechanism might not be true, eventually, all of that will be rationalised. We will see what happens. If it works out, it is going to be good. Be it disintermediation role or price discovery, I believe, all of these things will make the market more efficient.

How does valuation happen for Carbon credits?

In Europe, basically, there are two yardsticks - the EUA trading and the secondary CER trading. Though not very liquid, there is a carbon credits market in Europe.

From our perspective, there are projects at the idea stage such as, the classic green field stage projects, which have submitted documents for various stages of approvals. For us, each of these stages represents a certain type of discount from the price point perspective to the other two yardsticks. Another thing is the intrinsic project risk itself. For example, if you are investing in a biomass project, you need to look into the fundamentals such as, consistent supply, because carbon credits are multi commodities. If the supply dries up, the plant will shut down in 2 years and there will be no credits then. We look at those kinds of things. We have developed our own risk management methodology.

Fundamentally, there are two types of risks - one is the stage of maturity of the carbon credit as an asset class and second is in the intrinsic project risk.

SEBI wants to make the Indian hedge funds industry more regulated. Does Green Venture Capital come under the purview of this decision of SEBI?

At Green Venture Capital, we are playing our role as buyers of an export commodity, which is bringing in Foreign Exchange earnings. Today, several concerns are irrelevant to us, even the current regulatory guidelines. However, in the future, if there is enough activity in this space, where there is a different type of tax treatment and TDS is put in effect, we will have to look at another type of regulatory treatment.

What is the outlook of this sector?

We always look to find partners, whether it is financial partners, project sponsor partners or just entrepreneurs with great ideas, as we are focussed on developing a series of projects with specific relationships. We are not looking at a series of transactions in the market and that is why, we are not passive investors. We are more of carbon credit catalysts.