PRESS RELEASE
June 30, 2022

Elevated PV cell & module prices and hardening interest rates pose cost pressures for solar power developers in the near term: ICRA

- ***Solar PV module & cell prices have increased by over 40% over the past 18 months driven by an increase in polysilicon prices***
- ***Cost pressure is significant for projects aggregating to 4.4 GW (~12% of projects under implementation) awarded over the past 18 months, wherein the tariffs are below Rs. 2.2 per unit***
- ***Rise in interest rates is another key cost headwind for the solar IPPs; as per ICRA's estimate, 150 bps increase in interest rates is estimated to lead to an increase of upto ~20-paise increase in the bid tariff***

The cost of solar PV modules (Mono PERC) has climbed-up by over 40% to 27-28 US$ cents per watt in the past 18 months. This was mainly driven by the disruption in operations across the value chain of the solar PV module manufacturing in China and the spike in the cost of polysilicon, a key input for module producers. According to a recently released ICRA note, the elevated cell & module prices are contributing to the cost constraints facing the solar power developers, even as the supply chain issues are beginning to ease.

Giving further insights on the impact and as per a recent report released by ICRA, **Mr. Girishkumar Kadam, Senior Vice President & Co-Group Head - Corporate ratings, ICRA,** said, "*The increase in solar PV cell & module prices along with the imposition of basic customs duty (BCD) on imported cells & modules is leading to cost pressure for solar power projects awarded over the last 12-18 months. While the bid tariffs have increased from the lows of Rs. 1.99 per unit in Dec'20 to Rs. 2.2-2.5 per unit, the extent of the increase in bid tariffs remained lower than what ICRA estimates is necessary to mitigate the increase in module prices. The risk of moderation in returns is significant for projects aggregating to 4.4 GW awarded over the past 18 months, wherein the tariffs are below Rs. 2.2 per unit."*

As modules are required to be sourced from domestic OEMs under the ALMM notification for projects awarded post-Apr '21 and as majority of the domestic OEMs do not have backward integration beyond cells, the dependence on wafer/cell imports is likely to continue over the medium term. As a result, the pricing trend for polysilicon and wafers/cells internationally would remain a key monitorable for solar power developers in India. Considering procurement of modules from domestic manufacturers as required under ALMM notification and use of imported cells by such manufacturers, an increase of 1 cent in cell prices would require a 5-6 paise per unit increase in bid tariffs in order to maintain the same level of returns.

Commenting on the interest rate risk and tariff competitiveness**, Mr. Vikram V, Vice President & Sector Head – Corporate ratings, ICRA, said,** "*Given the fixed and single part tariff under the PPAs for solar power projects, the uptrend in interest rates remains a challenge for the developers and would put upward pressure on the bid tariffs. An increase of 150 bps in the interest rate scenario is estimated to lead to an increase of upto ~20-paise increase in the bid tariff, assuming the other factors remain the same. Nonetheless, despite the cost headwinds, the tariff rates for solar power projects are likely to remain highly competitive from the perspective of the state distribution utilities in relation to the marginal cost of procurement from thermal stations that are at the bottom 25% of the merit order dispatch, wherein the variable cost of procurement is more than Rs. 3.0 per unit across key states."*

Notwithstanding the near-term headwind related to cell & module prices and interest rates, ICRA's outlook for the renewable energy sector remains Stable driven by favourable policy support, superior tariff competitiveness, large untapped potential and the presence of strong intermediate procurers like SECI. One such policy measure is the Green Open Access Rules notified by the Ministry of Power recently to promote the adoption of renewable power by commercial & industrial (C&I) consumers. These rules include measures such as a reduction in sanctioned load to 100 kW from 1 MW earlier for open access, the cap on cross-subsidy surcharge, exemption from the additional surcharge, banking provision and a single-window clearance through a central nodal agency. However, the timely implementation of these rules by the state commissions remains to be seen. This apart, the sector continues to face challenges on the execution front, inadequacy of transmission infrastructure and distribution utility finances.

For further information, please contact:

Media Contacts:			
Naznin Prodhani Head Media & Communications ICRA Ltd Tel: + (91 124) 4545300, Dir - 4545860 Email: naznin.prodhani@icraindia.com	**Shreya Bothra** Manager - Media & Communications ICRA Ltd Mob: +91- 9810934940 Email: shreya.bothra@icraindia.com	**Saheb Singh Chadda** Deputy Manager - Media & Communications ICRA Ltd Mob: +91- 9833669052 Email: saheb.chadda@icraindia.com	**Shivendra Singh** Deputy Manager - Media & Communications ICRA Ltd Tel: +91- 9892875193 Email: shivendra.singh@icraindia.com

Jharna Mazumdar
Fortuna PR
Mob: +91 - 9820385399,
Email: jharna@fortunapr.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

Click on the icon to visit our social media profiles.