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A MOODY'S INVESTORS SERVICE COMPANY

INDIAN RENEWABLE ENERGY SECTOR

Large project pipeline, demand recovery and competitive tariffs remain tailwinds for renewable energy sector; domestic solar OEM segment to witness large investments

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OUTLOOK - STABLE

ICRA's outlook for the renewable energy (RE) sector is Stable because of factors such as strong policy support, large untapped potential, presence of creditworthy central nodal agencies as intermediary procurers and high tariff competitiveness

Central nodal agencies have made progress in signing of PPAs and PSAs for the projects awarded improving the capacity addition prospects

Large capacity addition plans announced by domestic solar OEMs to meet the growing demand for modules

Outlook for the Renewable Energy (RE) sector - Stable

ICRA maintains the outlook for the RE sector at Stable, driven by factors such as continued policy support from the Government of India amid the need to reduce the dependence on fossil fuels, large untapped potential, the presence of creditworthy central nodal agencies as intermediary procurers and high tariff competitiveness. These factors would continue to drive strong investment prospects in the RE sector. Thus, ICRA estimates an improvement in the capacity addition to ~11 GW in FY2022 from the level of 7.4 GW achieved in FY2021, backed by a healthy project pipeline of ~40 GW (excluding the manufacture-linked solar IPP tender of 12 GW). There is a potential for an upside in the capacity addition considering the imposition of basic customs duty (BCD) on imported modules w.e.f April 2022 and developers may look to prepone the project execution to take advantage of the duty-free window. The credit profile of ICRA-rated RE IPPs is supported by the presence of long-term power purchase agreements (PPAs), satisfactory generation performance, must-run status, liquidity buffer in the form of DSRA or working capital and relatively strong sponsor profile.

RE capacity addition rebounded in 5M FY2022; progress seen in signing of PPAs/PSAs – The RE capacity addition improved to 4.9 GW in 5M FY2022 from 1.8 GW added in 5M FY2021 led by the easing of execution challenges as seen in the corresponding period of previous year due to the nationwide lockdown. The capacity addition is led by the solar power segment, which added 4.4 GW in 5M FY2022. Moreover, the Solar Energy Corporation of India Limited's (SECI) progress in signing of power sale agreements (PSAs) for some of the tenders, including the 400 MW RTC supply tender, has helped reduce the capacity awaiting signing of PSAs to ~15 GW (excluding the recently awarded projects) from more than 20 GW over the past six months. More importantly, the manufacture-linked tender of 12-GW is expected to witness progress in signing of PSAs/PPAs with industry sources indicating that the winning developers are likely to reduce the quoted tariff to the levels acceptable to the discoms. Moreover, with the solar power tariffs remaining highly competitive at less than Rs. 2.5 per unit, despite the impact of rise in module prices and BCD on imported solar PV cells and modules, and the recovery in electricity demand growth, the signing of PPA/PSAs is likely to pick up pace.

While payments remain timely from NTPC/SECI/Gujarat utilities, mixed payment pattern from discoms in other key states – While the payments continue to remain timely from NTPC, SECI and discoms in Gujarat, the payment pattern from discoms remain mixed. There are significant delays in realising payments from discoms in Andhra Pradesh, Maharashtra (mainly for wind), Madhya Pradesh (mainly for wind), Telangana and Tamil Nadu. The overall dues from discoms to RE IPPs increased to Rs. 135.9 billion as of July 2021 from Rs. 118.4 billion as of April 2021, as per the data from the PRAAPTI portal. This is despite the release of payments under the liquidity support scheme approved by the Government of India for the state discoms. A sustainable improvement in discom finances remains important to ensure timely payments to the RE IPPs and to enable timely signing of PPAs for the projects bid out under various schemes.

Domestic solar OEM segment witnesses large capacity addition announcements and entry of a major player - The demand outlook for the domestic solar OEMs remains strong over the medium term, given the greater policy thrust towards domestic manufacturing with imposition of BCD on imported cells and modules, the notification of the production linked incentive (PLI) scheme to improve the cost competitiveness of domestic manufacturers and the notification of the Approved List of Models and Manufacturers (ALMM) comprising only domestic manufacturers. The domestic manufacturers are poised to improve the capacity utilisation of existing facilities and add incremental capacity to meet the demand requirements. The domestic OEMs have announced expansion plans to augment the cell and module manufacturing capacity by 10.0 GW and 18.0 GW respectively, entailing investments of close to Rs. 100 billion. Further, bids aggregating to more than 50 GW have been received for setting up integrated solar module manufacturing capacities under the production linked incentive (PLI) scheme. Moreover, Reliance Industries Limited (RIL) has announced its entry in the RE sector with large capital commitments including setting up an integrated solar photovoltaic module factory. The entry of RIL into solar module manufacturing is likely to create a favourable ecosystem for the solar equipment manufacturing in the country.

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ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India 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.

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The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

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- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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