A SUNNY PICTURE, WITH SOME SHADOWS

India's solar sector has just crossed a milestone — 25 GW of installed capacity. But there are some issues of concern too, says **M Ramesh**

Something attempted, something done — as the poet H W Longfellow said — is what one feels, looking at India's solar sector. Whatever the tribulations an Indian might feel at the country's other failings, 'solar' offers scope for satisfaction, for just recently, the sector crossed a psychologically-boosting milestone — 25 GW of installed capacity. Remember, when the National Solar Mission started in 2010, the country's solar capacity was negligible. Congratulations, India.

Karnataka shines

And by the looks of it, there is a good deal more to come. At the beginning of August, 9.98 GW of capacity had been awarded, which means those who won the projects through auctions have been invited to come for signing power purchase agreements. And, tenders have been issued for another 24.4 GW of capacity. On these two counts alone, therefore, the ground has been laid for doubling of capacity in about two years.

Since there will be a lot of tendering activity in the coming months, the government's conviction that the 2022 target of 100 GW will be met is perhaps not unfounded.

The State deserving of the gold medal is Karnataka, which had (as of July end) 5,124 MW of installed capacity, with another 2,010 MW awarded. The twin 'Telugu' States of Telangana and Andhra Pradesh occupy the next two ranks, with capacities of 3,401 MW and 2,512 MW, followed by Rajasthan (2,360 MW) and Tamil Nadu (2,220 MW).

Jharkhand, which has 1,101 MW of capacity in between 'award' and 'PPA' stages, is set to join the elite club of eight States with capacities of at least 1 GW. So, the solar story has been rather secular in terms of its geographical sweep.

For sure, in terms of its contribution to the total electricity generation of the country, solar is still tiny. In 2017-18, when its generation almost doubled from the previous year to 25.8 billion units, its contribution to the kitty was 1.98 per cent; but look at the growth! An encore is in the offing — just in the first three months of the current financial year, solar produced 9.5 billion units, some 37 per cent of last year's achievement.

And the tariffs are settling down, nicely. In the most recent auctions in Gujarat, the lowest tariff was ₹2.44 a kWhr, exactly the same level seen in SECI (Solar Energy Corporation of India) tenders of 2,400 MW in July and 500 MW in May 2017. The industry (worldwide, indeed) has come a long way since December 2011, when a French company called SolaireDirect was pilloried for winning 5 MW of capacity, quoting a fatuously low price of ₹7.49 a kWhr. 'Sub-8 surprise', they called it then.

The other side of India's solar saga — manufacturing of solar modules, cells — lacks some pink. You hear, all the time, plangent complaints of being left out in the cold, pitiless arena of competition against the Chinese, but guess what, the Indian manufacturers are all expanding capacities, nevertheless.

Waaree Energies has just tripled its capacity to 1.5 GW and has said it will go to 2 GW soon. Swelect Energy Systems, Jakson, Vikram Solar, all intend to raise production capacity. The biggest of them all, Tata Power Solar, ended last year with a record turnover and net profit, of ₹2,749 crore and ₹100 crore, respectively. Thus, the manufacturing part of India's solar industry also seems to be chugging along nicely.

Pain points

Overall, the face of India's solar industry is sunny though marred by some shadows.

The Supreme Court recently lifted a stay by the Odisha High Court on the 25 per cent safeguard duty that the Centre had imposed on cells and modules imported from all developed countries and China and Malaysia. Incidentally, the Government of India brings Taiwan under 'developed countries', so all the three major suppliers of cells and modules to India have to scale the 25 per cent wall to get into India.

The levy is a pass-through, and those who are building projects can go to the respective state regulatory authority for compensation — the government has clarified that 'changes in taxes, duties and cess' come under the 'Change of Law' clause of the Guidelines for Tariff-based Competitive Bidding.

Nevertheless, the duty could increase the tariff by about 40 paise, to levels that might bring a frown on the faces of the electricity distribution companies. That could diminish the attraction of solar.

And, the Ministry of New and Renewable Energy, in its wisdom, has asked its renewable energy implementing company, SECI, to impose a cap on solar tariffs in future auctions, of ₹2.50 a kWhr (and 18 paise more if the safeguard duty is to be paid.) This is considered anachronistic and out of sync with the free market orientation of the economy.

The industry, obviously, doesn't like it. "This feels like the government is setting a feed-in tariff rather than conducting a reverse auction," says Raj Prabhu, CEO of Mercom Capital, a consultancy. While the Ministry's directive is only to SECI, Raj fears that the State governments will take a cue and set their own tariff limits.

"The tender and auction activity typically come to a halt after something like this is announced as agencies will now look to re-tender and re-auction projects," says Raj.

Yet another shadow, and a more serious one, is the depreciating rupee, which makes imported cells and modules costlier. The rupee's slide against the dollar, as in the case of currencies of many other emerging economies, is due to external factors — such as increase in crude prices, rising growth rates in the US which makes that market a favoured destination for funds, the US-China trade war spook and speculation.

The RBI has indicated by its actions its intent to leave the rupee to the market forces. "Solar industry is a net importer wherein 60 per cent of the project cost is linked to PV modules, so if the rupee depreciates by 10 per cent, it will increase the capex requirement by 5-6 per cent," observes Nikunj Ghodwat, CFO of CleanMax Solar, a leading solar energy company. "For utility-scale projects it is difficult to perfectly hedge this risk," he says.

However, though these are niggles and might fray the industry at the edges, they are not deal-breakers.

To sum up, we turn to the immortal H W Longfellow again: Toiling, rejoicing, sorrowing, onward through life he goes.

The solar story still looks fine.