IRR @ 2.44

VALID

The technology chapter of solar energy is aerobicized, the growing efficiencies and advance solar cells is aggrandizing operation regardless of robust conditions. In the case of India, the valiant figures of solar integration are extolling and cementing new charts of growth. This unequivocally qualifies the international and national players to proliferate and also aggressively dive into to new benchmarks in the rampant low-solar power bids. As of 6 April 2017, the country's solar grid had a cumulative capacity of 12.28 GW. India quadrupled its solar-generation capacity from 2,650 MW on 26 May 2014 to 12,289 MW on 31 March 2017. Flushing the Internet in recent times, is the constructive stories and articles of the drastic falls of solar tariffs. With recent GST taxation provisions, scuttle-butting and weening on the dramatic low tariffs will be hankering for the Indian solar industry.

Cut-Throat Solar Bids, The Trend-Setter

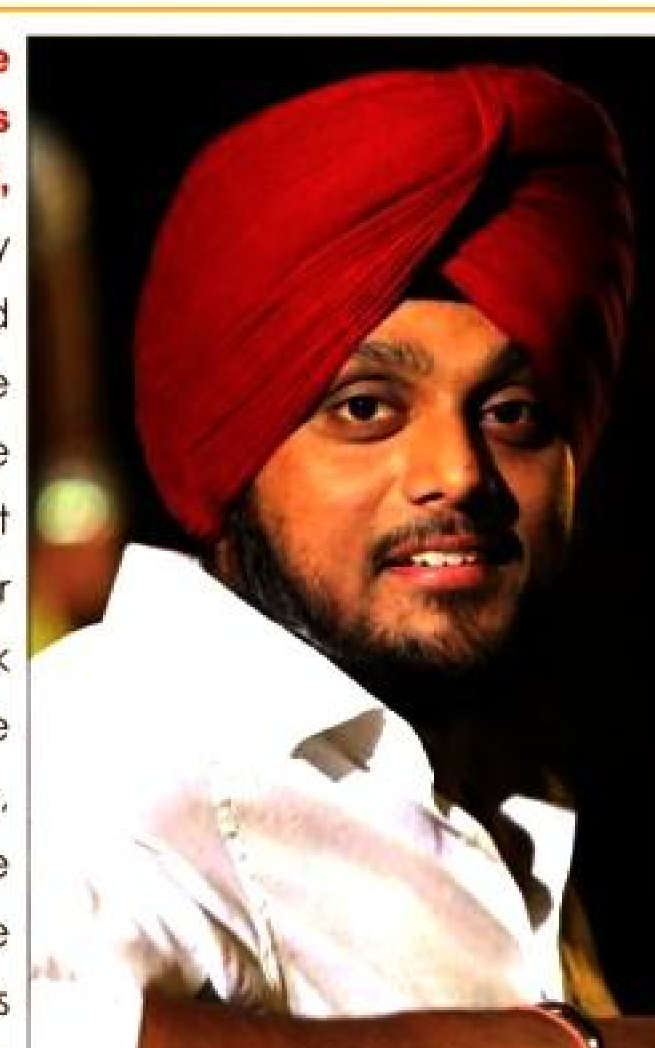
From July 2015 to December 2016, developers in India have snapped up contracts to set up 15.9 GW of solar projects. Of these, as much as 3.275 GW have been won by quoting tariffs below Rs 4 per unit of electricity. Noting to variable media-houses, experts say the downward slide of solar tariffs will have far reaching implications for electricity from other sources in India. In just a term of three months, the economics of falling bids have high-browed. Solar power developers bid went as low as Rs2.97 per kilowatt hour (kWh) for a 750-megawatt (MW) project at Rewa in Madhya Pradesh. The winning bid offered a so-called levelized tariff—the value financially equivalent to different annual tariffs over the period of the power purchase agreement (PPA)—of around Rs3.30 per unit. To break the plunging ice of lowest bids, Phelan Energy Group and Avaada Power Private Limited have bagged 100 MW and 50 MW solar power project respectively at Rs 2.62 per unit, and SBG Cleantech managed to obtain 100 MW at Rs 2.63 a unit for Bhadla Phase IV 250 MW solar project. Further, Rajasthan Bhadla Phase-III Solar Park went going lower witnessing tariff of Rs. 2.44 per unit discovered in the auction for 500 MW capacity.

Does 'Low' Solar Bids Equals 'Low' IRR?

Tariffs in the solar space have declined significantly over the years and have come down from levels in excess of Rs10 per kWh at the beginning of this decade to the present record lows, as capacity is being added at a record pace. Some speculations from the industry experts assert that these falling bid rates of solar power can hurt the IRR of solar power developers.

Alok Verma
AVP – Regulatory, Amplus Energy Solutions

In an extensive exchange of conversation through an e-interaction, Alok Verma, AVP – Regulatory, Amplus Energy Solutions, said, The impact on IRRs has to be understood contextually. Way back, when project were signed under the Gujarat policy, IRRs spiked due to steep reduction in capital costs. Last year, winners saw a bump due to another steep correction in module prices. With this background, developers may be in for tighter times since they seem to be baking in aggressive forecasts, mostly on module prices but on factors which were considered untouchable, eg. USD /INR exchange rates. The outcome, as we all know, is uncertain. It always is, but as we see more aggressive bidding, smaller events may have higher impacts. If I were to pick up two assumptions, I would pick up module prices and continued availability of funding. Say, China rolls out a new policy for ground mounts or US changes its mind. This would change the module prices and we may not see the declines that we are expecting. On financing, the moment a project goes belly up, we will see lenders moving out of the sector and as we have seen it in the past, be it biomass projects in 2003-04 or thermal plants more recently, sectors become pariah enmasse.



Simarpreet Singh
Head | Strategy | Hartek Group

While elaborating on the falling solar price bid rates, and developers stance on this competitive season, Simarpreet Singh, Head, Strategy, Hartek Group, said, with so many private players entering the solar sector and so much money chasing the industry, the competition is becoming more and more intense. So, developers have no choice but to pick up whatever project they can lay their hands on. A recent report by Deutsche Bank has pointed out that developers might have an issue servicing the debt at these rates, leave alone equity returns. Considering the huge capital available in the market for these projects, it is the cost of finance which holds the key. If developers can work out sustainable business models, it will be a win-win situation for all.