

Indian Renewable Energy Sector

RE capacity addition estimated at 12.5 GW and 16.0 GW in FY22 & FY23; growth prospects robust with India's commitment to reducing emissions

DECEMBER 2021



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Capacity addition estimate for FY22 stands at 12.5 GW and for FY23 at ~16 GW

Cost pressure arising from increase in module prices, increase in GST rate, execution challenges and delays in payments from discoms remain as key headwinds



- The outlook for the capacity addition in the renewable energy (RE) sector remains strong with a large project pipeline of over 55 GW and highly competitive tariffs along with the commitment to climate change goals announced by the Prime Minister at the recent COP26 summit.
- The capacity addition witnessed a strong recovery with 8.2 GW added in 8M FY2022 against 7.4 GW in the full year FY2021, led by the solar power segment. The capacity addition estimate for FY22 stands at 12.5 GW and for FY23 at ~16 GW. The downside risks arise from the execution headwinds and supply chain challenges for procuring modules & wind turbine generators (WTGs).
- Notwithstanding the increase in module prices and the recent hike in GST rate for solar power equipment from 5% to 12%, the solar bid tariffs continue to remain highly competitive with the latest tender by SECI witnessing a tariff of Rs. 2.17 per unit in December 2021. The ability of the developers to secure modules at less than 25 cents/watt and cost of debt funding at less than 8.5% remains important to make these projects viable.
- The Solar Energy Corporation of India (SECI) has shown significant progress in signing of power sale agreements (PSAs) & power purchase agreements (PPAs), with the capacity pending for signing of PSA/PPAs coming down to 9.6 GW (excluding the recent 2.5 GW RTC tender by SECI) as of Dec'21 from 18.8 GW since Aug'21 led by the progress achieved by the SECI in signing of PSAs/ PPAs for the manufacture-linked tender.
- The funding requirement remains large at over US\$300 billion towards achieving the non-fossil capacity target of 500 GW by 2030, with another US\$150-200 billion towards the transmission and storage infrastructure. Hence, the availability of adequate funding avenues is important.
- The overall dues to RE IPPs from discoms in the eight key states have gone up by 43% between Jul'21 & Dec'21. This can be attributed to the liquidity issues faced by discoms in these states arising from inadequate tariffs & operating inefficiencies. Reforms key to improve discom finances.



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