

Indian Renewable Energy
Sector

Superior tariff competitiveness and focus on sustainability drive capacity addition in C&I segment

**APRIL 2024** 

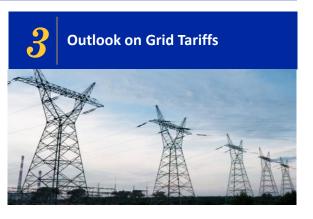


## Agenda

















Highlights

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RE capacity requirement from the C&I segment is estimated to be large at over 90 GW, considering 20% of the power demand is to be met through RE by 2030.

RE IPPs would be able to offer discount in the range of 28% to 40% against the grid tariffs in key states under the captive mode.



■ The demand prospects for renewable energy (RE) capacity in the commercial & industrial (C&I) segment remain strong, given the superior tariff competitiveness, growing sustainability initiatives by C&I players to meet their energy requirements through renewables, the relatively high grid tariffs and the Government's policy focus on moving towards net zero by 2070. Several large and prominent entities in the C&I segment have announced clean energy targets to reduce dependence on fossil fuels.



■ The C&I segment accounts for about 40-45% share in all-India energy demand. Even assuming 20% of this demand is to be met through renewables, the RE capacity requirement is estimated to remain significant at over 90 GW. While the discoms are offering green tariffs to the C&I customers, the tariffs remain higher than the regular grid tariff and uncompetitive against the tariffs offered by RE IPPs through open access.



The regulatory risk remains inherent for open access-based RE projects, due to dependency on open access approvals, charges and banking requirements. The open access and banking charges/norms vary widely across the states. The Ministry of Power notified the Green Open Access rules in June 2022 to bring a common methodology for open access charges and to set up a central nodal agency for a single window open access system. These norms are gradually being adopted by the state regulators.



■ The tariffs charged by discoms to industrial consumers vary between Rs. 6-8/unit across the states for FY2024. Considering the prevailing open access charges and these grid tariffs, the rates offered by RE IPPs through open access under the captive mode remain attractive for the C&I customers with discount against grid tariffs varying from 28% to 40%, considering the solar tariff of Rs. 3.5 per unit. This has enabled a significant scale-up in RE capacity in the C&I segment over the past few years.



ICRA's rated portfolio in the open access C&I segment constitutes aggregate generation capacity of 2.6 GW, with majority of the projects through the group captive mode. The credit profile of the IPPs in the C&I market is supported by a mix of strong promoter backing, availability of PPAs with creditworthy C&I customers, an established operational track record and adequate liquidity buffer. The credit ratio in this segment has seen a favourable trend, with minimal downgrades. Rating upgrades have been led by improved parent credit profile, demonstration of generation performance and favourable debt refinancing.



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