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India courts solar investors with dollar contracts plan

Victor Mallet in New Delhi - June 17, 2015 1:36 am



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The baking days before the arrival of the monsoon, when much of south Asia swelters in daytime temperatures above 45C, may not sound the best time to boast the merits of the [Indian sun](#). Last month 2,500 people are reported to have died during a heatwave. Even [solar](#) electricity stations are suffering from the reduced efficiency of their overheated photovoltaic cells.

But the government of [Narendra Modi](#) is accelerating its efforts to generate a substantial share of electricity from the sun, setting aside land, building transmission lines and this month floating a plan to attract foreign investors with supply contracts denominated in dollars rather than rupees.

[Solar developers](#) say the introduction of such contracts, which would protect investors from the expected depreciation of the rupee over the next 25 years, would overcome one of the last remaining obstacles to new investments and cement India's position as the next big destination for renewable energy groups.

"The scale-up will happen extremely rapidly," says Tejpreet Chopra, chief executive of Bharat Light & Power, which plans to quintuple its wind and solar output in India to 1,000 megawatts (1GW) in the next few years. "The good news is that at least the government is showing intent. In order to do this scale of projects, we're going to need foreign capital."

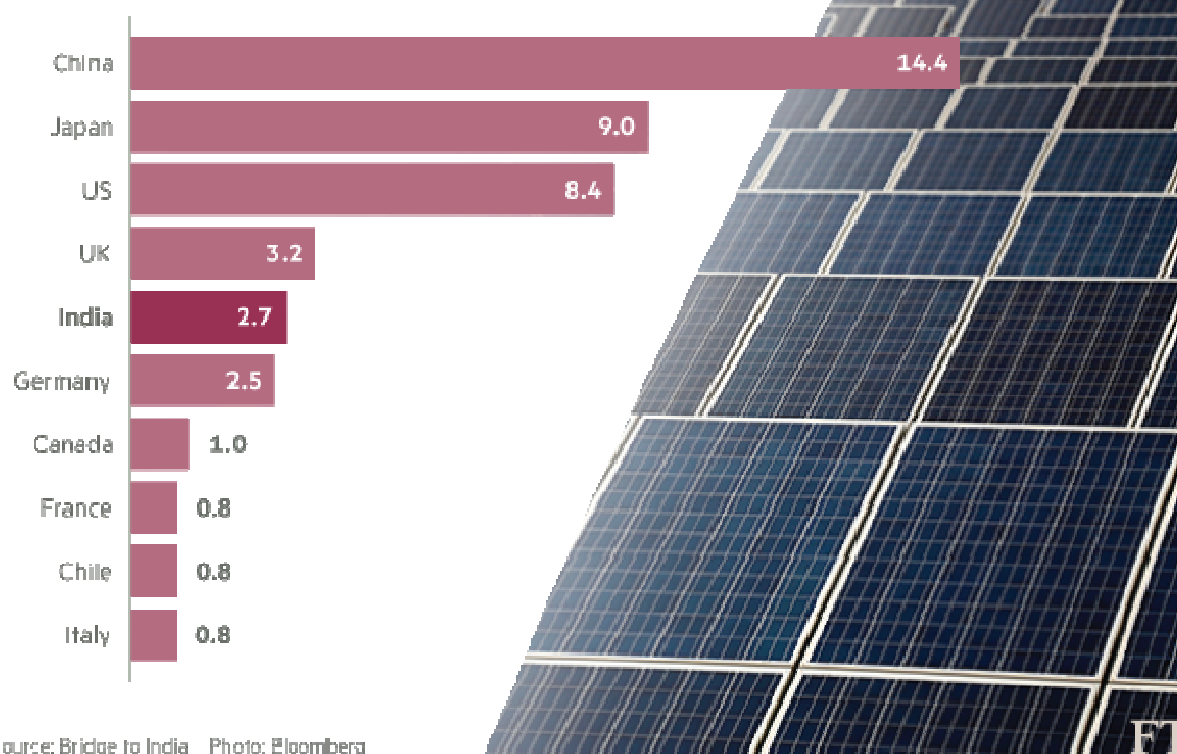
Piyush Goyal, the minister responsible for power and renewable energy, launched bold plans a year ago to provide electricity 24 hours a day for all Indians by 2019,

partly from ever cheaper green power: the plan for the solar sector is to spend \$100bn to raise capacity from just under 4GW today to 100GW by 2022. An estimated 400m Indians lack basic access to electricity. Coal remains India's most important energy source, supplying more than half of all power stations.

According to Bridge to India, a consultancy, India is on track to add more solar capacity than Germany this year and enter the top five solar markets globally. About half of installed projects already involve private equity groups and other foreign investors, a proportion that rises to three-quarters for projects under development. Tobias Engelmeier, the consultancy's managing director, doubts that Mr Goyal will reach his 100GW target on time but credits him for trying. "It's theoretically possible. There's no hard barrier. But is it going to happen? I don't think so... I think we're going to see 30 to 35GW by 2022. That would be a good achievement."

Projected solar capacity addition

2015 (GW)



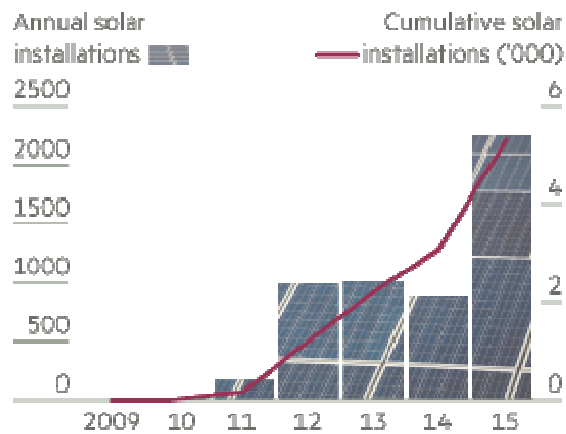
Source: Bridge to India Photo: Bloomberg

A bullish Mr Goyal, on the other hand, says he is confident there will be auctions of nearly 16GW of solar projects this year alone, and that the government is considering "dollar tariffs to encourage foreign investors to come in".

"We'll be creating a self-hedging mechanism to ensure that it does not cause any distress to the purchasing discoms [distribution companies]," he says.

According to a draft policy document seen by the Financial Times, the idea is to overcome the problem of high rupee-dollar hedging costs and its unavailability for longer tenures, while taking advantage of the low cost of US dollar debt (typically at 4-5 per cent interest rates, compared with 12-14 per cent for domestic rupee debt).

India solar installations (MW)



Source: Mercom Photo: Bloomberg

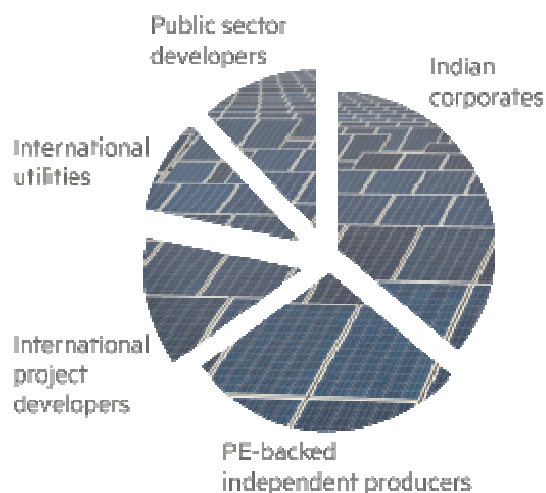
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The distribution company buying the electricity would contribute to a “hedging reserve”, which would be drawn down to meet the costs of any rupee depreciation. As with other solar power purchase agreements, the providers would probably be insulated from what one developer called the “financially horrible” state electricity boards by dealing through an intermediary such as the creditworthy state utility NTPC.

Pashupathy Gopalan, Asia-Pacific president of SunEdison of the US, is among those who welcome the dollar plan, noting that for a company counting on a 15 per cent return, “if the rupee depreciates by 15 per cent, you’re dead”.

Funding of commissioned large Indian solar projects (>10MW)

As of May 15 2015



Source: Bridge to India Photo: Bloomberg

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SunEdison alone plans to build 15.2GW of renewable energy capacity in India in the next seven years, of which 10GW would be solar. “It seems like India and China will be the world’s largest solar and renewable energy markets,” Mr Gopalan says.

In the near term, most of the panels will still be imported from China, the US and Europe.

But the rapid growth of the sector should foster innovation, whether in the form of solar water pumps for irrigation or the kind of data analysis for power plants done in Bangalore by Bharat Light & Power. That should nourish what Mr Gopalan calls an Indian “manufacturing ecosystem”, as well as producing more solar electricity.

Alan Rosling of Kiran Energy, which has solar power plants in western India, foresees further falls in the cost of equipment and predicts more big projects by developers in the sun-drenched states of Rajasthan, Gujarat, Maharashtra and Andhra Pradesh in particular. “India is a perfect place,” he says. “We have sunshine. We have land. And we have quite expensive power.”

