

Headline – GOING LOCAL
Publication – POWER LINE
Edition – Online
Link – N/A
Date: FEBRUARY, 2015

FORUM

Going Local

Make in India creates positive sentiment for domestic manufacturing

Given the ambitious plans to enhance capacity addition and positive policy interventions like the Make in India initiative, equipment manufacturers are upbeat about their future prospects. Sector experts share their views on emerging opportunities in the domestic manufacturing market, and the policy measures required to sustain and propel growth...

What are the market opportunities for equipment providers and technology specialists in the power sector in the medium to long term?

Rahul Budhwar

There are various geographies across the world where a level playing field is available to domestic and international solar module manufacturers, including Indian manufacturers. These include the US, Europe, Canada and Australia. The Make in India programme is enabling India to also develop into a similar region. Depending on how the policy shapes up on the ground, international module manufacturers will set up their manufacturing units in the country. China and Taiwan, for instance, are looking for opportunities in India under the programme. A lot of expectations are building up with all these announcements. We would like to see this translate into on-the-ground demand fairly quickly. This will determine the success of the Make in India programme, at least for solar manufacturing.

R.D. Chandak

The upcoming market opportunities are enormous. Power capacity augmenta-

tion plans, coupled with growth from emerging and developed global markets, are expected to ensure a positive medium-term and long-term outlook for equipment manufacturers. The Ministry of Heavy Industries and Public Enterprises, in consultation with the industry and related bodies, has already launched a comprehensive Mission Plan 2012-2022, which will pave the way for development and enhance the global competitiveness of this sector. This will ensure the fulfilment of the vision to make India the country of choice for electrical equipment production and reach an output of \$100 billion by balancing exports and imports, by 2022.

The government's recent emphasis and approach to the development of power, railways and solar energy are expected to generate ample opportunities for equipment providers and technology specialists. Companies showcasing new equipment technologies that entail low maintenance costs, reduce land usage, have improved safety norms, and reduce losses will be better positioned to tap market opportunities as the demand for this kind of equipment is huge. In addition to the above, the proposed develop-

ment of smart cities, the revival of stalled projects and dedicated freight corridors, etc. will lead to an increased demand for equipment.

Prakash Chandraker

Power remains a key input for the economic and social development of any country. With the government clearly stating its agenda to promote smart solutions and renewable energy, equipment providers should focus on energy efficient solutions that fulfil these criteria. One such solution that has gained popularity in a number of sectors over the past few years is the concept of smart grids. Hence, market opportunities for equipment providers in the long term should revolve around smart solutions that ensure energy efficiency and also help in reducing capital costs.

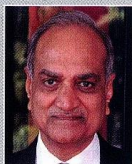
Sujoy Ghosh

The capacity addition plans for renewables have been significantly ramped up to 100 GW for solar photovoltaic (PV) and 60 GW for wind over the next five to seven years. Keeping this in mind, as well as the corresponding investment in high volt-



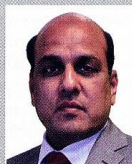
Rahul Budhwar

Vice-President,
Manufacturing and
Business Development,
Tata Power Solar



R.D. Chandak

Managing Director
and CEO,
KEC International
Limited



Prakash Chandraker

Vice-President, Energy
Business Unit,
Schneider Electric, India



Sujoy Ghosh

Country Head,
First Solar, India



Sivasubramanian Natarajan

Managing Director,
ThyssenKrupp Industries
India Private Limited

"A basic requirement for local manufacturers is a level playing field. This is partly being addressed by the domestic content requirement."

Rahul Budhwar

age evacuation infrastructure, the long-term demand for primary equipment like PV modules, wind turbine generators and high voltage electrical equipment is definitely robust. What we need to evaluate in the short to medium term is the sustainability of this demand, given that the generation capacity addition has to be complemented by reforms in the electricity distribution sector to improve the financial viability of the principal consumers. Regulatory reforms are also needed to enforce renewable purchase obligations. In the short term, on a global basis, we need to recognise certain market realities related to excess and idle manufacturing capacities elsewhere, as well as the availability of capital for creating incremental capacities in such a scenario.

Sivasubramanian Natarajan

We will witness the revival of the sector as the new government rolls out the expected and much-needed reforms. Due to a large gap between supply and demand in the power industry, there is an immediate need to augment the quality of power supply. This opens up a huge opportunity for the setting up of new power plants, as well as the modernisation of existing plants. The opportunity for manufacturers like us is in the area of ramping up power generation with domestically available fuel at the lowest capex and opex while ensuring minimum emissions and minimal usage of resources like water.

What are the policy measures that can give a fillip to local manufacturing in the sector?

Rahul Budhwar

A basic requirement for local manufac-

"Policy measures have to be largely centred on enhancing exports and curbing the rapid import growth, as well as ensuring the timely execution of projects."

R.D. Chandak

turers is a level playing field. This is partly being addressed through the domestic content requirement, which provides a stimulus to the demand for domestic modules. As a result, domestic manufacturers are able to expand their capacities and be more competitive. A further impetus to the domestic content requirement under the Jawaharlal Nehru National Solar Mission or any other state solar initiative will promote solar manufacturing in India.

There are other finer points, like the removal of the inverted duty structure, which will help us become more competitive and promote solar module manufacturing in India. At present, a certain amount of import duty is to be paid on raw materials for solar module manufacturing, while no import duty is levied on the purchase of fully built solar modules. We hope that the finance budget will remove this anomaly as it penalises domestic manufacturers.

Other incentives can be provided to local manufacturers, like the removal or rationalisation of the heavy duty on the import of capital goods (for instance, on the machinery used to manufacture solar modules). Ultimately, the country needs

"Policy initiatives need to clearly define full localisation in a time-bound manner and attract global players that have financial and technical capabilities."

Sujoy Ghosh

"Market opportunities for equipment providers in the long term should revolve around smart solutions that ensure energy efficiency and help reduce capital costs."

Prakash Chandraker

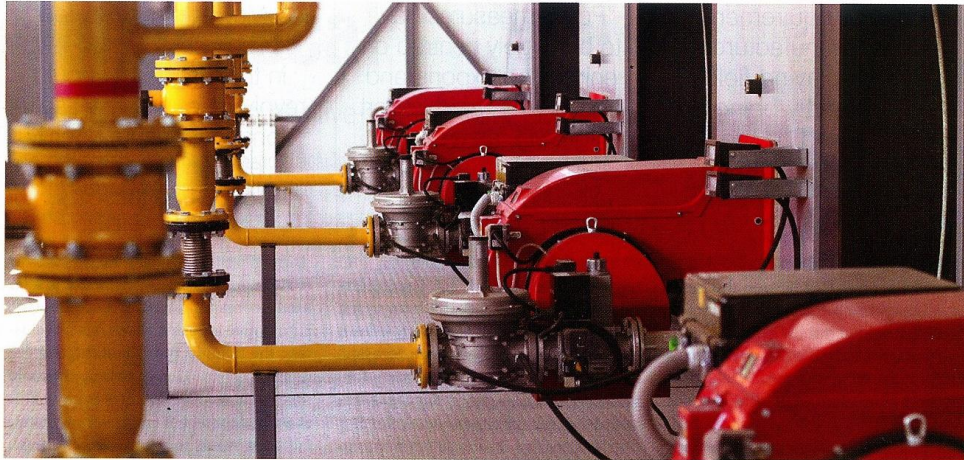
to develop an ecosystem for local solar module manufacturing. Consider the automotive industry, which has two clusters: the manufacturers and the component suppliers. The entire supply chain for the automotive industry is local. This is ultimately where Indian solar manufacturing needs to go, and we can reach there through a step-by-step promotion of the Make in India programme.

R.D. Chandak

Our electrical equipment manufacturing industry is very robust. For a long time, India has been the preferred manufacturing base for global players like ABB and Siemens that have set up plants in India. India's competitive advantage, along with a favourable policy regime and business environment, favour manufacturing. The government is also making rigorous efforts to enhance local manufacturing via the Make in India initiative.

Based on anticipated domestic growth, the Indian electrical equipment industry has already made investments for capacity enhancement. But due to demand and supply-side constraints, combined with international competition, the industry is operating at suboptimal capacity. Therefore, policy measures have to be largely centred on enhancing exports and curbing the rapid import growth, as well as the formulation of mechanisms to ensure the timely execution of projects. To elaborate, there have to be policies that facilitate quick coal linkages, expedite and ensure rural electrification and 24x7 power to all, enhance power quality, and also strengthen the transmission and distribution system in the country.

FORUM

**Prakash Chandraker**

The government has set the ball rolling with a plethora of announcements that are set to revive the power sector in 2015. However, it needs to maintain a policy-friendly environment in order to ensure that private players are attracted to the sector and play a key role in achieving the 24x7 electricity target across the country by 2019. Some positive reforms like demand-side management and permissions for renewable energy are eagerly awaited by players in the energy sector. The priority should be setting up new renewable energy projects. Greater stress should be laid on ensuring the rationalisation of power tariffs and the promotion of smart solutions to encourage energy efficiency. It is also important to implement the goods and services tax at the earliest, since this will bring cascading benefits for all industries in India.

Sujoy Ghosh

The overarching policy measure that is required is the implementation of reforms in the electricity distribution sector to improve the bankability of power offtake arrangements. Market-driven tariff mechanisms are also needed to incentivise participants across the entire value chain to be more efficient and infuse new technologies with the

aim of being more competitive. In terms of solar, the current policy qualifies a solar module as being fully made in India even if 40 per cent of the value of its input material is imported. This policy was appropriate when there was a robust export market in Europe and the differentiation was labour arbitrage. We believe this is an anomaly that needs correction.

Domestic manufacturing has to be vertically integrated across the entire value chain rather than being made up of the partial import of critical components and local assembly operations. Policy initiatives need to clearly define full localisation in a time-bound manner and attract global players that have the financial as well as technical capabilities in order to execute manufacturing on a scale that makes locally made modules competitive.

"The government must ensure stricter qualification requirements in selecting bidders so that only companies with a long-term interest are eligible."

Sivasubramanian Natarajan

Sivasubramanian Natarajan

Reliable power supply is critical for economic development and efficient manufacturing. The government's recent decision to e-auction coal mines has attracted investors and is expected to reduce fuel availability risks. This will support the growth of the coal mining industry and provide a fillip to the mechanisation of mines. The most critical requirement in the coal mining industry is to bring about an improvement in productivity, reduce environmental impacts, and substantially reduce the cost of mined coal at the power station.

The government has to provide security to investors in order to ensure that their investments are safe. It needs to be more transparent and implement long-term policies for land acquisition, faster environmental clearances, and allocate natural resources to augment infrastructure development.

The government must also ensure stricter qualification requirements in selecting bidders so that only companies with a long-term interest are eligible. The tax system must be made more transparent and not be subject to interpretation. A high quality road and rail infrastructure will also help ensure the minimisation of logistics costs. ■