

Solar industry outlook for 2014

BY AJAY GOEL

It is a well-known fact that India is woefully lacking in all kinds of power resources except one – solar power. Rising fossil fuel prices and growing concern over increasing power deficit in India have been amongst the major driving factors of the country's solar market growth. There is also a dire need to improve the country's energy deficit hence renewed focus on solar power led by the Jawaharlal Nehru National Solar Mission (JNNSM) could not have come at a better time. The Indian government's concerted efforts towards building the solar momentum is also evident in World Bank's new report which predicts India as a rising global solar power, in the years to come.

While we have made significant strides in the development of solar power, India has a long way to go in terms of realizing its full solar potential. However, the sector continues to face several challenges including higher cost of solar power generation, bank funding and bottlenecks in the acquisition of land for solar power projects. The industry is also affected by the challenges faced by the Indian economy comprising of higher inflation rates, price hikes of modules and decreasing value of rupee which contribute to the overall project costs. The election season with elections in several states has stalled solar projects by a few months since non-agricultural land transactions cannot be approved by the government during this period.

Apart from this, solar solutions providers face barriers all along the business chain — from manufacturing to development and installation to financing of solar power projects. The phase II of JNNSM policy has not yet taken off and the plans announced by different state governments have not materialised to its full extent. The domestic solar manufacturing sector has been seriously impacted by imports from China and other countries. Chinese module manufacturers are selling their modules well below the manufacturing cost with the help of subsidies provided by their government which poses a problem for fair competition. Moreover, duties levied on import of raw materials required to manufacture have made domestic products (cells and modules) costlier than Chinese imports which are duty-free. Despite notifications to the effect that these are exempted, domestic manufacturers are unable to use it due to ambiguities.

Financing is another area of concern for the solar



industry. Installation or expansion financing in India is one of the most expensive in the world. The country suffers from high interest rates and most Indian banks are skeptical about the value of PV and solar PPA projects, often adding a risk premium for these projects. Availability of low cost funds for projects and attractive financing schemes would help boost the sector considerably.

In the face of these challenges, 2014 promises to be a year of recovery for the solar sector in India. Bulk of the projects under JNNSM Phase II policy will be constructed through next year and state-led projects are also expected to see some action in 2014. More number of programs will get funding while PV demand will also increase. The phase II of JNNSM now specifies that 50% of the projects (375MW) need to be built with domestically manufactured cells and modules. Similar provisions such as domestic content requirement (DCR) in state policies as well as future solar policies will tremendously boost local manufacturing as well as make solar business viable in the long term.

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