TATA POWER SOLAR SYSTEM IS BANKING ON ITS EPC BUSINESS TO FUEL GROWTH
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Tata Power Solar Systems

Banking on its EPC business to fuel growth

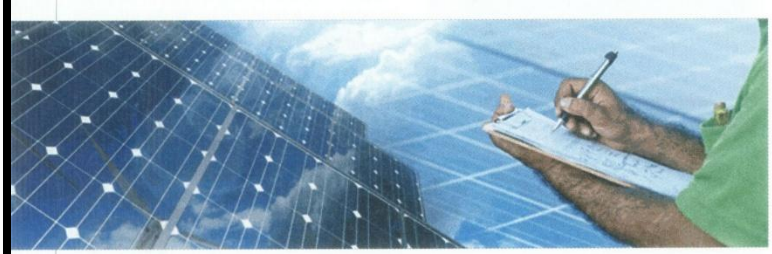
By Bhavya Laul

Like most other solar cell and module manufacturers in the country, Tata Power Solar Systems (TPSS) is also feeling the impact of a gloomy market scenario. Competitive pressures from foreign module manufacturers, particularly from China, and the glut in the global solar power equipment market have had a significant impact on the company's manufacturing business. With its module manufacturing unit running at suboptimal capacity, the company has shifted its focus from being a module manufacturer to being a solutions provider in the solar power segment.

The company felt the initial impact of the slowdown in the global solar equipment market when UK-based BP Solar, which had been associated with the company since its inception in 1989, decided to exit from the erstwhile Tata BP Solar. In June 2012, Tata Power bought the 51 per cent stake held by BP Solar in the joint venture and, subsequently, the company was renamed TPSS.

Talking about BP Solar's exit, Ajay Goel, chief executive officer, TPSS, notes, "The impact has been more liberating than constraining as it has given us greater flexibility in addressing the worldwide market and allowed us to focus on the downstream areas of the market, primarily on projects and systems. At the same time, being the sole owner of the company, underutilisation of our manufacturing capacity has a larger impact now."

As the Indian solar manufacturing space is currently going through a sluggish phase on account of growing competition from imported modules, the company is focusing on its engineering, procurement and construction (EPC) vertical for growth. Moreover, in order to maintain a competitive edge, the company has also started offering imported cells and modules, apart from those produced on its own, to large projects depending on their needs. This has allowed it to cater to individual requirements of module quality and cost.



Background

Established in 1989, TPSS is a fully integrated provider of solar equipment such as wafers, cells, modules and off-grid systems as well as services such as installation, commissioning, maintenance and training. It caters to both the grid-connected and off-grid market segments.

TPSS has 125 MW of module manufacturing capacity and 84 MW of cell manufacturing capacity. The company's Bengaluru facility is capable of manufacturing modules of 0.3-280 Wp.

In its 22 years of operations, TPSS has shipped over 500 MW of modules to Europe, Asia, Australia and the US. However, over the past two years, the company's focus has been primarily on the domestic market, which has witnessed tremendous growth since the launch of the Jawaharlal Nehru National Solar Mission (JNNSM).

The company has also been actively involved in providing EPC solutions to the grid-connected and off-grid market segments since the past 10 years. In India, projects commissioned by the company in the MW-scale EPC space include a 1 MW solar power plant for Tata Power Delhi Distribution Limited and a 3 MW solar power plant for Tata Power at Mulshi. TPSS is also providing services to a 17 MW solar power plant in Gujarat. Further, it has provided EPC solutions to overseas projects aggregating about 85 MW.

TPSS is also engaged in the manufacture of off-grid solar applications like solar lighting and thermal products (solar water heaters), and providing energy solutions to the telecom sector.

EPC business

While its manufacturing business faces tough competition from cheap foreign modules, the company's EPC operations have been shaping up well. Being an end-to-end solutions provider, TPSS holds an advantage in this vertical. In 2011-12, it set up 70 MW of solar projects across the country. It currently has a project pipeline of about 500 MW in the EPC space. However, there are several factors impacting this segment as well. It is possible that part of the 500 MW project pipeline may not materialise on account of delays in the roll-out of JNNSM Phase II and the uncertainty surrounding the renewable energy certificate market. "The challenge with this project pipeline is that it involves a fairly high risk and is linked to the country's policy environment," says Goel.

Financial performance and the way forward

TPSS has come a long way, from a sales turnover of Rs 160 million in 1991-92 to over Rs 9.32 billion in 2011-2012. However, recently, due to the slowdown in the solar module manufacturing market, the company's EPC business has been its sole source of revenue. "Though the EPC business delivers a better top line, operating margins in this segment are very thin. The manufacturing segment on the other hand offers better margins, but has been significantly impacted by cheap imports from China and other Asian countries," says Goel. Going forward, the company plans to remain focused on its EPC business till the situation changes.

Although the demand for solar modules has increased over the past couple of years (mainly driven by the JNNSM and state-level solar policies), it has largely been fulfilled by low-cost imported modules. "The biggest challenge is the shortsightedness of policymakers and developers. The current decline in module prices (especially for imported modules) has been primarily driven by distress selling due to excess capacity. In addition, buyers fail to understand that paying slightly more for a better module today will result in savings in the long run," says Goel.

At a time when most of the module manufacturing units in the country are either operating at suboptimal capacity or facing closure, it is not surprising that TPSS is focusing on other business verticals in order to fuel growth. The company is, therefore, set to make a clear transition from being a manufacturer to an end-to-end solutions provider ■

Views of Ajay Goel

"We have been actively building our new product line"

In a recent interview with Renewable Watch, *Ajay Goel, chief executive officer, Tata Power Solar Systems (TPSS), talks about the key trends and challenges in the solar power equipment space. Excerpts...*

How do you view the growth of the Indian solar module manufacturing market in the past two to three years?

In the past two to three years, the Indian module manufacturing market has been through several ups and downs. A significant amount of module manufacturing capacity was established in view of the JNNSM. However, most of this capacity is lying underutilised due to policy loopholes, which have led to imported modules taking over the market. Though there has been an increase in the demand for modules, most of it is being served by imports.

While several large solar power projects were undertaken in 2011 and completed in 2012, few such projects were initiated in 2012, primarily due to a delay in the announcement of JNNSM Phase II. With the announcement of this phase expected in June 2013, demand will be higher in 2013 and 2014. This fluctuation in demand also impacts the manufacturing business. State-level programmes have been crucial in driving demand, but there are few such schemes at present. Moreover, projects installed under state programmes run into bankability issues, which is not the case with the JNNSM projects.

Has there been any impact of BP Solar's exit on the company's operations? Does TPSS continue to be associated with BP Solar?

The impact of BP Solar's exit has been more liberating than constraining in terms of the company's ability to address the global market. BP Solar's interest in the company was mainly as a manufacturer of modules and its exit has given us greater flexibility in exploring opportunities outside India. It has also allowed us to focus more on the downstream areas of the market, primarily on projects and systems. At the same time, being the sole owner of the company, underutilisation of manufacturing capacity now has a larger impact. Although we have some short-term technology licences developed and patented by BP Solar, which it continues to hold, these licences are not critical to our product portfolio. We have been actively building our new product line, independent of these licences.

What are your policy expectations from the government?

With regard to policy expectations, we have three main requests. The first relates to the removal of import duties on some components. The anomaly here is that even though there is no import duty on a fully built module, there are import duties on the components required to manufacture the module. The second is with regard to the implementation of the domestic content requirement as originally envisioned in the JNNSM. This has not been strictly enforced. We have been continuously lobbying for the Indian manufacturing sector as it has sufficient capacity as well as quality to support the JNNSM. The third request has been to expedite the anti-dumping investigation for imported modules. As regards EPC, our demands are concerned with funding mechanisms like viability gap funding. ■