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~7 GW of unsigned PSAs pose risk to RE targets

Cancellations also hurting, but credit profiles to be largely stable

Delays in power supply agreements (PSAs) for ~7 GW[1] of the bid out renewable energy projects is one of the main reasons that may lead to 35% shortfall in 160 GW renewable energy capacity target set for calendar 2022-end. This delay may, however, not impact the credit profile of developers since implementation and debt drawdowns have not yet started and project viability remains largely intact, supported by benign module price trajectory over past 18 months.

These projects were auctioned by central counterparties – the Solar Energy Corporation of India and the National Thermal Power Corporation – and are awaiting PSAs with the ultimate counterparties, the state distribution companies (discoms).

Says Hetal Gandhi, Director, CRISIL Research, "The PSAs for the 7 GW of projects bid out at auctions prior to February 2020 are yet to be signed primarily because subsequent auctions saw tariffs plummeting and even falling below Rs 2 in December 2020. Of this, nearly 3 GW run the risk of re-auction or cancellation because their tariffs are comparatively higher at over Rs 2.75 per unit – a good 75 paise more than the recently discovered tariffs."

The remaining 4 GW may have some hope because CRISIL expects 25-50 paise increase in tariffs at the upcoming auctions because new projects will have to bear basic customs duty applicable on import of solar cells and solar modules[2]. That means the tariff differential between projects sans PSAs but with tariffs below Rs 2.75[3], and those to be auctioned next, will narrow. It would also be faster for discoms, already short on their renewable targets, to buy power from auctioned projects with unsigned PSAs compared to projects which are yet to be auctioned.

Says Ankit Hakhu, Director, CRISIL Ratings, "The delays in the signing of PSAs, however, are unlikely to have a major impact on the credit profiles of renewable energy developers. That's because financial closure and debt drawdowns in such projects happen only upon the receipt of the Letter of Award, which is typically issued only after the PSAs are signed. As for project cost, no impact is foreseen because the prices of solar modules, which account for over 50% of it, have been benign[4]."

Developers can also opt out of projects after 6 months (the typical bid validity period) in case of adverse changes in cost parameters. Such caveats reduce the risk stemming from delays in the signing of PSAs.

That said, a sharp build-up or sustained delays in clearing the existing PSAs may dampen investor confidence because returns typically start compressing when capital deployment is deferred.

[1] This excludes ~11.5 GW of recently allocated capacities where either PSAs would be unsigned or their construction timeline could go beyond fiscal 2023

[2] Given typical project implementation timelines, solar modules are imported 12-18 months from the date of auction. Hence, project auctioned now is expected to import solar modules post April 1, 2022

[3] Nearly 30% of capacities have tariffs in bracket of Rs 2.0–2.5 and another 30% within bracket of Rs 2.5–2.75

[4] Annual average spot prices of multi crystalline modules have fallen ~13% on-year in fiscal 2020 and ~10% in fiscal 21 to USD 0.18 per watt

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