

Press release
May 20, 2021 | Mumbai

~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 GW¹ 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 modules². That means the tariff differential between projects sans PSAs but with tariffs below Rs 2.75³, 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 benign⁴.”

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

For further information contact

Media relations	Analytical contacts	Customer service helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 M: +91 95 940 60612 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 M: +91 90 040 84769 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p>	<p>Manish Gupta Senior Director CRISIL Ratings Limited B: +91 124 672 2000 manish.gupta@crisil.com</p> <p>Ankit Hakhu Director CRISIL Ratings Limited D: +91 124 672 2000 ankit.hakhu@crisil.com</p> <p>Hetal Gandhi Director - CRISIL Research CRISIL Limited B: +91 22 3342 3000 hetal.gandhi@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

About CRISIL Ratings Limited

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ("CRISIL Ratings") is a wholly-owned subsidiary of CRISIL Limited ("CRISIL"). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisil.com/ratings

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

CRISIL is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [LINKEDIN](#) | [TWITTER](#) | [YOUTUBE](#) | [FACEBOOK](#)

CRISIL PRIVACY

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This Press Release is transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The Press release may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings Limited (hereinafter referred to as "CRISIL Ratings"). However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its Press Releases for consideration or otherwise through any media including websites, portals etc.

CRISIL Ratings has taken due care and caution in preparing this Press Release. Information has been obtained by CRISIL Ratings from sources which it considers reliable. However, CRISIL Ratings does not guarantee the accuracy, adequacy or completeness of information on which this Press Release is based and is not responsible for any errors or omissions or for the results obtained from the use of this Press Release. CRISIL Ratings, especially states that it has no financial liability whatsoever to the subscribers/ users/ transmitters/ distributors of this Press Release. CRISIL Ratings or its associates may have other commercial transactions with the company/entity.

CRISIL Ratings Limited is a wholly owned subsidiary of CRISIL Limited.