

India RE Weekly

Safeguard duty recommendation has solar sector on tenterhooks

Last week, we wrote a special bulletin about [safeguard duty and its implications](#) for various ongoing and under tender projects. The Director General of Safeguards' recommendation for provisional duty of 70% has put the industry on tenterhooks. Investors, developers, contractors and manufacturers anxiously await final decision as they worry about navigating through an extended period of uncertainty.

The government has a difficult decision to make but the longer this investigation drags out, the more harmful it will be for the whole sector. We believe that the final duty decision will take about 8-10 months and activity is bound to slow down across the sector until then. Barring projects where modules have already been ordered/delivered, it will be natural for developers to slow work on their under-construction projects because of the severe impact on their financial viability. Meanwhile, [MNRE's new tender announcement plan](#) is also likely to be hit adversely as issuing new tenders does not make sense in these market circumstances. Already, 4.3 GW of project development tenders are awaiting final bid submission and allocation. But we don't expect these tenders to make meaningful progress until announcement of the final duty decision.

Even the proposed beneficiaries of duties, the domestic manufacturers would be unwilling to firm any investment plans until there is sufficient long-term clarity about government policy. That means completion of all ongoing investigations, announcement of a final duty regime as well as the [new manufacturing policy](#) for the sector. Unfortunately, that could easily take up to 12 months.

The government needs to move swiftly to mitigate adverse impact of the duty investigations. First, it should accelerate the investigation time-table and issue final decision as soon as possible. Second, it should provide clarity on applicability of duties to different projects, depending on their bid status, to ensure continued progress on the tender pipeline. MNRE has stated informally on various occasions that allocated projects would not be subjected to any duties, but this stance should be formalized with consent from the Ministry of Finance. Finally, if indeed a duty is to be imposed, the duty structure should be designed to minimize an immediate shock. Duties could be scaled up over time allowing both manufacturers and developers to prepare and adjust to the new regime.

Weak power demand growth to further dent RE prospects

Meanwhile, as per the latest numbers released by the Central Electricity Authority (CEA), total power generation (proxy for power demand) during April-December 2017 was up by a disappointing 3.8% over last year. That does not bode well for growth of the renewable sector when coal (capacity - 193 GW) and gas (25 GW) projects are struggling with average PLFs of about 60% and 21% respectively. The government initiatives [to improve operational performance of thermal projects](#) would have a further negative impact on RE growth prospects.