COVID-19 Impact: Indian Renewable Sector

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The global economy has been hit hard by the unexpected outbreak of COVID-19, which has now posed fresh challenges across all geographies and sectors. The renewable energy sector which was already grappling with multiple issues will have to face a new problem of COVID-19. Nevertheless, given government impetus on renewable sector in the past and continued focus during current uncertain times through necessary regulatory support mechanism, the sector is expected to wither the crisis to a large extent. However, the journey towards normalcy is expected to be tough given the uncertainty around payment patterns of various state discoms and central nodal agencies as the said outbreak is expected to negatively impact the credit profile of all the discoms. The impact of COVID-19, the mitigants to counter the damage and the possible impact on the credit rating and outlook is presented below.

1. Impact of COVID-19

Under-implementation projects: Under-implementation solar projects have a greater impact of Covid-19 as solar cells and modules are largely imported from China wherein there was lockdown since December 2019. Also, the outbreak of Covid-19 has coincided with the actual solar project execution schedule as maximum execution happens in last quarter of the fiscal year in India. Subsequently, as the situation improves in China, India has started facing the problem of nation-wide lockdown. Accordingly, the implementation of new solar projects are likely to get delayed which could cause developers to miss the completion deadlines. Further, the prices of modules are also expected to rise in short term due to depreciation in the Indian currency which could be slightly offset by excess supply from China due to lower demand. All these are likely to affect the installations in the first half of FY21 and likely to start recovering in the latter part of the year. It is also expected to further impact the future bids till the time situation goes back to normal and power demand improves.

Unlike solar sector, wind turbines are manufactured in India and accordingly, till the time India announced lockdown, executions were not greatly impacted. However, wind turbine manufacturers have temporarily suspended the production due to the lockdown prevailing in India. Supply and labour disruptions from the current lockdown could delay the project execution in FY21 till the time migrant labours resume work.

Operational projects: Covid-19 has a limited impact on the operational wind and solar power projects as it depends on natural resources, i.e. wind and sun light which has not been disrupted. The spread of coronavirus has although impacted the availability of workforce; limited O&M staff is allowed to work on specific permissions. Also, some developers are facing issues with respect to raising timely monthly invoices for sale of power. Nonetheless, major issue with operational projects is that due to lower power demand and discoms are attempting to resort to RE curtailment.

Additionally, to reduce pressure on various state discoms, Central Electricity of Regulatory Commission (CERC) reduced the rate for late payment surcharge payable by discoms to power generators from existing 18% p.a. to 12% if the due date falls between March 24, 2020 and June 30, 2020. Also, the said late payment surcharges shall be applicable if there is any delay in the payments beyond 45 days from the date of presentation of bills. Given the current scenario, discoms may start delaying payments to RE projects as most of the high paying customers facilities (manufacturing units, malls, railways, metro rail, corporate offices etc.) have been completely shut down impacting the cash flow position of all the state discoms. Also, timely collection of bills has also become a critical issue for discoms as physical remittance of payment has been impacted given the current lock-down situation.

Rooftop solar projects: Rooftop solar projects are the most adversely affected in the renewable sector as most of them are small sized companies. Smaller rooftop companies may lack the financial firepower to absorb any loss or meet extra working capital requirements. The movement is restricted and people will not allow anyone to enter their houses or enter factories which are closed. Rooftop solar will be impacted more than grid-connected, which is under essential services. Post lockdown, the industry will have to deal with the aftermath as new rooftop solar is not a necessity for consumers. With users dealing with several financial problems, rooftop solar will be a least priority on their list leading to a delay in the decisions regarding installation of rooftop solar.

2. Possible mitigants to counter the damage

Under construction projects: Ministry of New and Renewable Energy (MNRE) has already announced that the disruption of supply chain due to the spread of Covid-19 should be considered as a case of natural calamity and Force Majeure Clause may be invoked, wherever considered appropriate and completion timelines may be relaxed. Such extension will provide a great relief to the developers and will shield them from missing the deadlines, risk of penalties and encashment of bank guarantees.

Operational projects: MNRE has already clarified that the 'Must Run' status for RE projects remain unchanged during Covid-19 lockdown period and that RE should not be curtailed but for grid security reasons. Any such other curtailment would amount to deemed generation. Also, MNRE has clarified that the moratorium period provided to the DISCOMs for not making payment to power generators does not apply in making payment to the RE projects as they form a minor portion of electricity generation in the country, the payments to RE generators be done on regular basis as was being done prior to lockdown.

Additionally, MNRE has also addressed issues faced by RE developers in raising invoices by doing the same through e-mails with due dates to be calculated as per the terms of signed Power Purchase Agreements (PPAs) between the involved parties and waived off hard copy submissions.

Apart from above-said reliefs from MNRE, renewable projects in majority cases have in-built liquidity buffers in the form of funded Debt Service Reserve Account (DSRA) for one to two quarter's debt servicing obligation providing some cushion in the current situation along with presence of working capital facilities in some of the projects providing additional liquidity buffers. Further, in-spite of having adequate liquidity, some RE developers have resorted to the 3 months' loan moratorium offered by RBI to conserve their cash on the back of lack of clarity about when the situation will go back to normal. Also, RE developers who currently have not availed moratoriums are evaluating the situation and may decide to avail the same depending upon how various state discoms behave in the months of April and May 2020.

3. Impact on credit ratings /outlook

The renewable energy sector which was already grappling with multiple issues will have to face a new problem of Covid-19. Project execution schedules would be disturbed, lot of regulatory dependence would be observed and developers opting for loan moratorium will have to face higher burden of finance cost.

In light of above, payment from discoms are likely to be significantly delayed leading to liquidity stress on the projects. Ability of the central nodal agencies (Solar Energy Corporation of India (SECI), NTPC Limited, NTPC Vidyut Vyapar Limited (NVVN) and PTC India Limited) to continue making timely payments to the project developers would be tested given all these entities have back-to-back arrangements with various state discoms. So far, as per the arrangements agreed between central modal agencies and state discoms, the payment risk largely falls on nodal agencies.

Also, stance of states for RE curtailment after MNRE directions would also be one of the key monitorables. Projects with strong & resourceful sponsors and adequate liquidity will be able to withstand their ratings whereas others might face pressure on their ratings.

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