

## New BCD to increase solar tariffs by about 20%

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The tariffs for solar power are expected to increase, by approximately 25 to 30 paisa/kWh in case only cells are imported whereas the tariffs are expected to increase by around 40 to 45 paisa/kWh in case modules are directly imported, with the new BCD regime vis-à-vis no duty structure. As a result, capacity utilisation of existing domestic manufacturers is expected get a fillip.

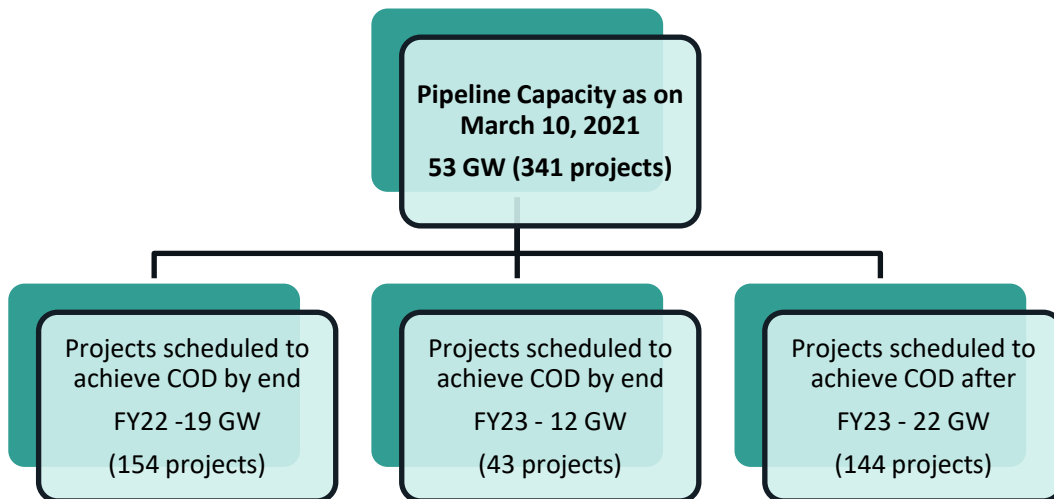
To promote domestic solar cell & module manufacturing in India and reduce dependence on imports, Ministry of New & Renewable Energy (MNRE) vide its Office Memorandum (OM) dated March 09, 2021, proposed (and agreed upon by Ministry of Finance) the following Basic Customs Duty (BCD) structure (without grandfathering of bid out projects).

Items	w.e.f. April 01, 2022
Solar Module	40%
Solar Cell	25%

India has set an ambitious target of achieving 175 GW of installed renewable energy capacity, including 100 GW of solar power by 2022. The long-term renewable energy capacity target stood at 450 GW by 2030, wherein solar power capacity shall have a major share. Presently, the solar power sector in India is heavily dependent on imported solar cells and modules. India imports 80 to 90% of solar equipment from China, Malaysia, Vietnam, and Thailand etc

An analysis about the implications of this proposed BCD on the key stakeholders is as follows:

- As on March 10, 2021, the solar projects pipeline was around 53 GW as under:



[Source: Bridge to India]

India witnessed highest ever solar power capacity addition of 9.4 GW in FY2018, and further capacity additions were subdued at around 6.5 GW p.a. in the last two years i.e., FY2019 and FY2020. During 11MFY2021, capacity additions (~4.5 GW) were impacted due to Covid-19 pandemic supply disruptions and safeguard duty on solar cells and modules which led to postponement of solar module imports until expiry of safeguard duty. In view of healthy solar projects pipeline of around 53 GW, large solar capacity addition is scheduled to happen in FY2022 and FY2023.

- Currently, on import of solar cells and modules from China, Thailand, and Vietnam, there is 14.50% safeguard duty applicable valid till July 2021. As per the extant notification, BCD would be applicable w.e.f. April 01, 2022. Accordingly, there is lack of clarity for solar power project developers about the applicable duty during the period August 2021 to March 2022.

- MNRE gave clarity about the duty structure almost a year in advance which is a welcome step. However, as the effective levy will increase from April 2022, majority developers would try and push their project completion timelines before end of March 2022. The sudden surge in the demand for imported cells and modules could result in increase in their prices in case there are insufficient supplies. Also, there is a slight possibility that exporters could try and dump maximum solar cells and modules in India before March 31, 2022, which may prevent steep increase in module prices. Any unforeseen rise in solar cell and module prices would be challenging for the developers as the bid-out tariffs are highly competitive.
- According to MNRE, India has a limited domestic solar manufacturing capacity of about 3 GW for solar cells and 15 GW for solar modules. However, the capacity utilisation of domestic manufacturers is about 40 to 45%. For a long time, domestic solar cell and module manufacturing industry has been seeking a clear BCD structure for a period of seven or more years which is still not fulfilled, as there is no clarity on the period for which the BCD will be applicable.
- Earlier there was an expectation that BCD structure would have a clause for grandfathering of the bid-out projects. However, the proposed BCD structure would be applicable without grandfathering of bid out projects, and accordingly, projects which are scheduled to achieve Commercial Operation Date (COD) up to March 31, 2022, but do not achieve the same for any reason, would not be entitled to change in law compensation and it would have a direct impact on the returns and debt servicing capability of those projects.
- The projects which are already bid out and scheduled to achieve their COD after April 01, 2022, should be eligible for change in law compensation but it has always been a lengthy process to get the change in law compensation. Also, it would increase the power cost for the off-takers in turn.

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