

# Better times ahead for wind power firms

## New auction system, Centre's backing lead to increased order flow

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With clarity on the wind energy auction pipeline and ratification of power purchase agreements (PPAs) helping improve their order book, renewable energy (RE) firms, especially wind power equipment makers, are attracting the attention of analysts and investors.

The domestic market is on a growth path in the competitive bidding regime and there is higher demand for clean energy, now considered reliable, affordable and a mainstream source.

Interestingly, even as the price is recovering, the internal rate of return (IRR) for RE producers is seeing downside pressure; yet, companies are positive. For instance, after seeing a decline, prices of wind power have started firming up since last month. While Adani Green Energy and KCT Renewable Energy have offered to supply electricity at ₹2.85 a unit in their bids for 75 Mw each, the rates are seen crossing ₹3-3.5 a unit in the coming months.

Wind power rates had fallen below ₹2.50 per kWh, with the lowest being ₹2.43 in a 500 Mw reverse auction conducted by

Gujarat Urja Vikas Nigam in December 2017. This February, the largest wind power auction of 2,000 Mw, conducted by Solar Energy Corporation of India, saw the winning rates at ₹2.44 and ₹2.45 a unit.

A senior official from an RE company says while the general perception is that prices have dropped, and the IRR is down to 12-14 per cent from 20 per cent, one should understand the background. Compared to three years ago, the average cost of a turbine has increased because of newer modules, which are bigger and more powerful. "Productivity has increased by 30-40 per cent. PLF (plant load factor) is as high as 45 per cent, as compared to 20-25 per cent earlier," he adds. Independent Power Producers (IPPs) don't mind a reduction in IRR since the risk is also lower.

For example, a PPA was earlier signed at the end of the project; in some cases, states cancelled the agreement after signing. In the new auction system, a PPA is signed in the initial stage. Evacuation during the FiT (Feed-in-Tariff) regime was done through the state grid is now done by the Centre through Power Grid Corporation of India, with nearly 99 per cent uptake. Earlier, state distribution com-



panies (electricity boards) were defaulting on payments; today payments come from the Centre.

The debt-equity ratio is up from 70:30 to 80:20 in some cases but interest rate is now around nine per cent, from 11-12 per cent earlier. And, the tenure of a term loan is up to 15-20 years, from 10 years.

### Outlook

Given the favourable changes, the order books of equipment makers are improving, with 12.5 Gw worth of tenders floated for wind energy till this month; these are expected to be completed in 18 months. Another 10 Gw each would come up for bidding from the central and state governments till 2020.

Tulsi Tanti, chairman of the



Indian wind energy turbine makers' body and also chairman of Suzlon Energy, said the sector saw a transition in 2017-18 from FiT to the competitive bidding regime. Hence, a temporary drop in volumes. The visibility of continuous volumes in the coming years signals gradual stabil-

isation of rates, to also depend on wind energy regimes in different states.

"We are seeing large-scale projects of 200-300 Mw capacity, which brings in advantages of scale at the project level, leading to cost optimisation, thereby benefiting the working capital of companies," he added.

Given the low level of commissioning in FY18, earnings growth is likely to be lacklustre for Suzlon and Inox Wind, with expectations that both would report losses. However, with the central government honouring some of the FiT regime projects, both companies have reported improvement. Suzlon booked additional orders and is likely to report record sales for the March quarter. Inox Wind has managed to reduce its receivables as its customers paid off projects, according to a HSBC Securities and Capital Markets report.

Puneet Gulati, analyst at HSBC Securities, said after a poor FY18, earnings are expected to be stronger in FY19, as volumes improve and in FY20 as margins improve. "We believe that given the trend and policy measures, there is strong potential for 8-12 G2 of wind power ordering from just the Centre and states," he adds. HSBC has

a 'buy' rating on both Suzlon and Inox Wind.

### Competition rising

A word of caution, though. While things are improving, the competitive landscape will be more difficult. As more players eye a bigger share in the growing pie, pricing and margins could come under pressure.

"This transition leads to a highly competitive market and is likely to drive a further consolidation in the industry," says Gautam Bafna, associate director at CARE Ratings. However, the transition to auctions-based project awards could ease working capital pressure as companies execute projects in a time-bound manner, he adds.

Analysts believe a better product (higher PLF) portfolio will help Suzlon. In the past nine months, it has also rationalised expenses amid increasing competition and rising pressure on wind energy equipment makers to reduce cost. Employee costs have reduced from ₹8 billion to ₹6 billion in nine months and other expenses are down 24 per cent.