

Banks squeeze credit to solar module firms

Lenders worry overcapacity may spur bad loans, cut loan-to-cost ratios

Nehal Chaliawala & Shayan Ghosh

MUMBAI

India's solar module manufacturers are facing a credit squeeze, as banks turn increasingly cautious on fresh lending to the sector amid overcapacity risks, and reduce the loan-to-cost ratio for funding new projects in some cases.

The loan-to-cost ratio refers to the proportion of a project's total cost that is financed through loans. By trimming this ratio, lenders are effectively asking promoters to bring in a larger share of equity themselves.

This shift follows a letter from India's clean energy ministry in December urging banks and other lenders to be cautious on financing new solar photovoltaic module manufacturing capacity. Adding to the sector's woes is a preliminary 126% tariff recently imposed by the US, which threatens to choke off its primary export market and worsen an already growing domestic capacity glut.

"We are now quite cautious on lending to this industry. In fact, I would even go to the extent of saying that we might not finance any new solar module companies for the time being," a senior official at a non-bank lender said on the condition of anonymity.

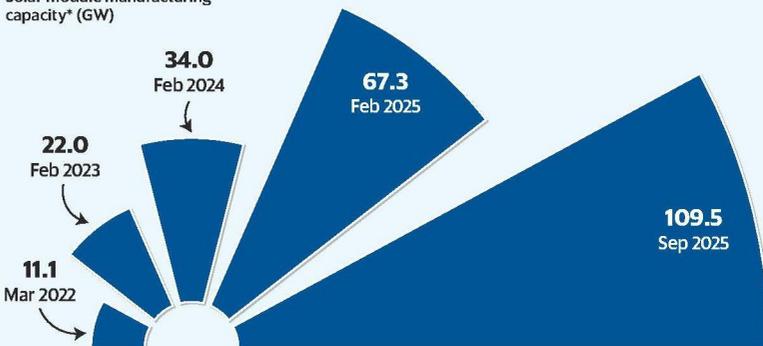
Lenders are intensifying due diligence to avoid a potential wave of bad loans. Bankers are now scrutinizing promoter track records and the specific "end use" of funds to ensure projects remain viable despite falling global prices and trade barriers.

A second banker made similar observations, highlighting the increased scrutiny his bank is undertaking when lending to new solar module plants.

SUN BURN

With technologies like solar modules, many firms enter the sector to capture initial euphoria. However, as the technology matures, only some remain.

Solar module manufacturing capacity* (GW)



*As per approved list of module manufacturers (ALMM) published by the Ministry of New and Renewable Energy.

Source: Icra

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SOLAR SNAG

LENDERS are effectively asking promoters to bring in a larger share of equity

CLEAN energy ministry had urged banks in Dec to be cautious on such firms

ADDING to the sector's woes is a preliminary 126% tariff imposed by the US

SATISH KUMAR/MINT

"Solar module manufacturers have mushroomed in India, while demand is much lower than supply. Banks are therefore looking much more closely at loan proposals and doing deeper due diligence," the banker said. "We are scrutinising all such projects to check viability, what the antecedents of the promoters are and what the end use of the funds will be for."

The ministry of new and renewable energy said on 7 December it had shared details of current installed domestic manufacturing capacity across various segments

of solar photovoltaic panel production with the Department of Financial Services under the finance ministry, as well as non-banking financial companies (NBFCs) such as Power Finance Corporation (PFC), REC Ltd and the Indian Renewable Energy Development Agency (Ireda), "so that financial institutions can adopt a calibrated and well-informed approach while evaluating proposals."

As seen in the past with new technolo-

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gies like electric vehicles and now with solar modules, a large number of firms enter a new sector to capture the initial euphoria. However, as the technology matures, the numerous players make way for a few survivors who successfully scale operations and consolidate the market.

“We saw this period when assembling solar modules was a very lucrative business; a lot of people got into it. Not everyone diversified into making cells,” Vinay Rustagi, chief business officer at Premier Energies Ltd, a large listed solar module maker, said. Today, India has more than 100 module manufacturers but fewer than 10 cell manufacturers, he estimated.

Solar cells are thin films of silicon that convert sunlight into electricity. A number of such cells are assembled into a panel to make up a solar module, which are then sold to renewable energy companies.

Manufacturing cells is much more technologically complex and capital-intensive than assembling the modules. The



Solar cells, films of silicon turn sunlight to electricity. BLOOMBERG

complexity keeps rising as companies further integrate backwards to make ingots and wafers that are used to manufacture the cells.

Polysilicon, which is made from sand and is used to make ingots and wafers, is the building block of the solar industry and is the most complex of all to manufacture.

Each stage requires a staggeringly larger scale to be economically viable, Rustagi said. In a module assembly business, a 1-gigawatt (GW) module manufacturing line could be viable. But in cell manufacturing, a

company would need over 5GW of capacity to be viable. Minimum viable capacity increases to 10GW at the ingot level and 20-30GW in the polysilicon business, he said.

The companies that do not get into backward integration to make own inputs remain exposed to imports, mainly from China, to make products.

“The government is encouraging us to basically integrate backwards so that we can again increase the value addition domestically and reduce dependence on imports,” Rustagi said. “Ultimately, given the fact that it is a highly capital-intensive business, where the pace of technology change is very, very high, we do see a scenario where maybe five to seven of the larger players will thrive and will continue to basically dominate the sector.”

Premier Energies has guided for investments of ₹12,000 crore, of which ₹10,000 crore will go into backward integration. It will be investing ₹5,900 crore to set up a 10-gigawatt ingot plant in Andhra Pradesh.

nehal.chaliawala@live-mint.com