

22<sup>nd</sup> April 2014

Subject: Domestic Content Requirement (DCR) category projects under JNNSM Phase II, Batch I

It may be recalled that we as National Solar Energy Federation of India (NSEFI), an umbrella organization, consisting of solar manufacturers, solar developers both PV and thermal, EPC contractors, financial institutions, consultants and other stake holders such as power exchanges, solar appliance manufacturers, service providers and MNRE channel partners met you on 12th December, 2013 and appraised you about the activities and suggestions for the solar industry in India

Many of the developer members of the Federation participated actively in the recent 750 MW tender of JNNSM Phase II, Batch I conducted by Solar Energy Corporation of India (SECI). Companies have received allocation under the 'Open' and 'DCR' category both and have already started making good progress on open category projects.

However, developers are facing tremendous challenges in the DCR category for following reasons;

No Cell manufacturer is member in NSEFI, there are Developers, EPC Companies and Module makers who are developers.

**Actual domestic cell manufacturing capacity available for current batch of NSM projects is far less than the claims made by domestic cell manufacturers. The operational capacity is not more than 100-150 MW/annum against the boiler plate / installed capacity of 500-700 MW. Most of the non-operational plants have very limited potential due to vintage equipment and technology and most of the Operational Capacities have also been unused or lying idle for quite some time. This would mean that not more than 30-35% of the projects will be completed.**

1. The Indian Solar Manufacturer's Association (ISMA) would again like to re-iterate the fact that there is enough manufacturing capacity available in India to satisfactorily meet the demands of the developers provided firm orders are placed in April 2014. Delay of the ordering process by Developers would put the entire program in jeopardy.
2. The ISMA members are also offering attractive payment terms with very low upfront advance amounts to enable Developers to place orders.
3. The current cell manufacturing capacity in India is sufficient to meet the demands of the entire program well ahead of the schedule. We would not like to seek any extension of the deadline and would urge MNRE/SECI to ensure orders for cells and modules are placed latest by end of April.

Name Plate cell manufacturing capacity in India is approximately 1100 MW.

**Many domestic cell manufacturing companies do not provide comfort of continued operations due to corporate debt restructuring (CDR) and other bankruptcy proceedings.**

The National Solar Mission, Domestic Content Requirement has been created by Government of India to revive the PV manufacturing sector. All bankers clearly appreciate this life line.

**Most of the Cell Manufacturers have almost Zero Production currently and will take 2-3 months or more to start production and the consistency is not guaranteed with the current Financial state of the Cell Manufacturers.**

The cell and module manufacturers in India have been deeply impacted by the dumping of Chinese cells and modules in India and have been running at less than their optimum capacity. Some Indian cell manufacturers such as Tata Power Solar, Jupiter solar, Webel, etc, have been operating at part capacity and to start full production capacity we need only 15 days after receiving order confirmation and advance from customers. We have tied up all the raw material from various suppliers and optimized internal QC and our CTO's are capable and comfortable for consistently running of the production facilities.

**Lenders are quite reluctant to support DCR category projects due to perceived quality issues.**

We propose to meet the financing institutions raising such concerns and would like to allay their fears by showing our manufacturing lines and the capacity output that can be achieved through them.

**D&B India Comments:**

During the site visit, D&B India noted that all the utilities at site had been maintained in exceptionally good working condition. The entire utility area was very neat and clean and the utilities had been maintained like a new plant.

Plant Photographs / Video :



## Utilities (Basement)



**However, the most distressing and worrying feature is a supposed cartelization by some of the larger domestic cell manufacturers. Taking advantage of the procurement compulsions imposed by the Phase II conditions of domestic content, bidding having been completed and strict time limits having been imposed, the manufacturers have increased cell prices by a whopping 6-8 cents/Wp within few days of award announcement. This has made the Module Manufacturers increase the price per Wp by close to 15-16% than the initial quotes before bidding. This has made DCR projects economically unviable. With this attitude many of the developers are rethinking if they would like to do the projects under DCR category itself and debating if they should sign the PPA or not.**

1. The increased VGF in the DCR category of the solar mission allows developers to use India made cells and modules without compromising their returns. As long as the price of India made cells and modules are higher by the incremental VGF amount (\$.14/w), we do not see any threat to the solar mission. (refer B2I) also carried a similar analysis.
2. The prices of solar cells/modules from foreign countries is artificially low and we have seen instances of EU and US imposing anti-dumping duties to protect their domestic manufacturing industry. We would support a similar levy by the Govt of India on imported cells and modules.
3. We would also request Gol to eliminate the inverted duty structure in India, where in cells/modules can be imported duty free while a duty has to be paid on import of raw materials for manufacturing. This will enable manufacturers to pass on lower prices to buyers.
4. Given the strategic nature of this industry, Govt. of India / MNRE has set promotion of domestic manufacturing in the solar sector as one of the key objectives of the Jawaharlal Nehru National Solar Mission. If there is no support for domestic manufacturing in this critical sector, India risks being dependent on foreign countries for their entire solar energy needs, which is critical for the country.
5. On the contrary, there has been a recent spike in prices from global manufacturers which may threaten the National solar mission. Developers have made bids in open category based on certain assumptions and we have seen significant price increases in polysilicon and wafers in the last 3 months which will ultimately lead to higher modules prices.
6. Further, the corner cutting that is happening in China (usage of inferior equipment and materials) seriously undermines the long term viability of solar projects in NSM using imported modules.
7. Domestic manufacturers also provide certain stability with respect to foreign exchange volatility as a significant percentage of the value addition is done in India. By depending on foreign imports, any significant depreciation of the rupee (as seen in FY14) could seriously harm the interest of the Mission.
8. We have already issued a term sheets between December 2013 – March 2014 to all developers with detailed terms and conditions and offered best rates subject to market

linked prices of Wafer. No pre tie-ups were made in spite of sending offers by cell manufacturers.

9. We would request facts to be presented by NSEFI where any integrated cell & module manufacturer or a cell manufacturer has raised prices after the bids have been submitted. There may be instances where developers relied on quotes from EPC companies or standalone module manufacturers who did not have visibility of domestic cell+module prices.
10. The median VGF quoted by developers under DCR category is Rs. 2.2Cr/MW and is Rs. 1.1 Cr/MW under open category. The incremental VGF of ~Rs. 1.1 Cr/MW under DCR category is equivalent to approx. US\$0.14/watt after considering time value of money received.
11. Developers should be willing to pay this entire incremental VGF of \$0.14/w to the domestic manufacturers without impacting their return on investment.
12. Price rise of US\$ 0.60 – 0.80 per watt as stated seems to be wild exaggeration. We would request NSEFI to present data to support this claim.

**While India is defending the trade proceedings on DCR requirement in WTO, the supposed cartelization of domestic players is throwing the situation completely out of control and denting country's image severely.**

The release of this untrue and libelous letter is denting the country's image.

1. Indian Solar manufacturers have been severely impacted by the ridiculously low prices charged by some Chinese/Taiwanese manufacturers resulting in heavy losses in the local industry.
2. It has already been proven that the Chinese solar cells and module manufacturers receive undue support from their government to help them lower their prices. Major economies such as US and European Union have already implemented anti dumping / minimum import pricing measures for solar cells & modules imported from China.
3. By sending letters to media without facts, the NSEFI is severely denting the image of the country's solar sector.

**Developers are fully with the Ministry to support solar manufacturing in India, although they have argued for open competition to get the most efficient and cheaper cells and modules. Surely the Government did not visualize a situation where opportunities like this would be taken advantage of to extract higher prices. This is completely unethical and will completely erode trust with serious implications for the future. In view of the current cartelization behavior of domestic manufacturers, it has become impossible for developers to execute DCR projects. This is a serious threat to the Solar Mission. It will deter developers for future participation in DCR category. This will also be counterproductive from the perspective of antidumping duty proceedings. A quick resolution would be needed. One of the possible solutions could be if developers are allowed a time period of 24 months instead of current timeline of 13 months after PPA signing to execute DCR projects.**

1. It would be worthwhile to note that most of the Indian manufacturers have installed European/Japanese manufacturing equipments unlike some large scale Chinese cell and module manufacturers who use Chinese equipments without any proven history of performance.
2. We also propose to inspect our facilities and the Bill of Materials (BoM) used for the manufacturing of solar cells and modules. This would help us prove that our quality standards are at par or superior than most of our Chinese counterparts. We have been supplying our cells and modules to all major countries in Europe and Japan and have never been grappled by quality concern from our customers.

If it is impossible then why was Rs. 80 Crores Performance Guarantee given by the developers on the 28<sup>th</sup> March 2014 within 4 days after release of letter to MNRE dated 24<sup>th</sup> March 2014?

We believe this would be a win-win for both developers and manufacturers and help in following ways;

- The timeline would allow existing manufacturers to wriggle-out of current crisis and start production - **We are ready. No technical or financial issues**
- The extended timeline would also allow more number of projects to be supported by current manufacturing capacity and allow new manufacturing to be set-up
- Financial institutions would get adequate time to establish bankability of Indian cells And module and support DCR projects. This would improve overall confidence around the DCR and help in subsequent batches of NSM.

In view of the above we ate NSEFI request you to consider extending the implementation Timeline of DCR projects from 13 month to 24 month after PPA signing. We would be very Happy to provide you any further clarification needed from our side. We hope a situation would be avoided where projects are not implemented for this reason. We also request if Developers are allowed to withdraw from DCR category projects without forfeiture of EMD currently or future performance bank guarantees if situation remains unresolved.

1. It would not be prudent to grant extension based upon unfound facts and on biased claims made by NSEFI. Developers are seeking increased returns on the behest of solar manufacturers. Therefore, request MNRE/SECI not to grant any extension until there is a sufficient documentary proof to justify the claims made by the some of these developers.
2. If they do not place orders it will never be completed.
3. As mentioned earlier, we would request that MNRE/SECI mandate that orders for cells/modules are placed latest by April 2014.

Request swift action from your side, given the tight timeline of PPA signing and project Execution.