India speeds up - Günter Maier spoke at the Renewable Energy India Expo, 7-9 September 2016, Greater Noida, New Delhi, India.

India has set its goals to achieve a renewable power capacity of 175 Gigawatt by 2022, which is more than four times the current capacity of 40 GW. As the home of 18% of the global population, India only uses 6% of the world's primary energy and although the country's energy consumption has almost doubled since the year 2000, the potential for further growth is enormous.

The following captures part of the panel discussion "Finance Roundtable" at the Renewable Energy India Expo 2016, moderated by Mr. Shantanu Jaiswal, Bloomberg New Energy Finance, which tool place on 8th September. It focuses on the panel interview with Mr. Günter Maier, discussing India as a market from abroad, issues concerning the market, and the future of the countries solar energy market.

Shantanu Jaiswal: For someone who is looking at the Indian market from abroad, what is that makes India attractive for foreign investors? Has the perception of India changed in the past couple of years?

Günter Maier: For Europeans and European investors, India still has a certain exotic touch. While European investors and companies are increasingly interested in India, they still hesitate to start business and make their first investment, as they do not precisely understand the market and access the often unknown risks still higher than the opportunities. That applies for investments in Indian infrastructure in general, not only for renewable energy.

However, the maturation of energy and renewable energy markets and the expiry of feed-in tariffs and incentives in Europe shift the focus to countries where renewable energy resources like high solar radiation and growth in electivity demand allows grid parity without dependency on high incentives or subsidies.

Additionally, the Indian government has obviously made a good job in the last years as the level of 10 years government bonds, usually an indicator of the risk perception of foreign investors in a country, decreased from nine to seven between 2014 to 2016. Based on a study, MG Energy+ conducted some years ago on the correlation between 10 years government bond levels and return expectations in the energy infrastructure sector, we assume that the Project IRR expectations of foreign Independent Power Producers (IPPs) amounts to about 13% (based on 100% equity). The return expectations of high yield energy infrastructure funds lies above that, probably in a range between 15-20%, simply because such funds are used to significantly leverage their equity with project debt financing. Interest rates of commercial project debt financing are still at 10-12%, but have decreased from 14-15% rates in 2014.

To attract pension funds, which are looking for low yield but guaranteed returns in the range of 4-6%, Indian government might consider to guarantee minimum return rates for a predefines number of years and until low yield funds have entered the scene. Hedging the Indian exchange risk is not really an option for such funds as the hedging costs would eat up the desired returns (as obviously 10 years government bonds are higher than the usual return expectations of pension funds). Providing a minimum return would come at low risk for the government as the different projects in different technologies and country states would allow a risk diversification for the respective government body, but would give comfort to low yield funds and trigger their engagement in the market.

I believe that India is at the kicking point of attracting foreign capital in energy infrastructure. As investors are "gregarious animals" the government support of foreign early movers could trigger an investment boom to India.

Shantanu Jaiswal: What according to you are some of the red flags in the Indian Renewables industry that you would like to highlight?

Günter Maier:

I would not call it red flags but certainly some points to be monitored and managed by the Indian government institutions. As Dr. Tripathi (Shri. Upendra Tripathi, IAS, Secretary, Ministry of New and Renewable Energy MNRE, Government of India) pointed out in his speech yesterday "Investments needs stable production and revenues". Some critical points to be managed are therefore:

- In the near past, IPPs and renewable electricity producers faced delays in payments of electricity revenues from distribution companies. It is important to mitigate such situations as payment delays qualify as breach of contract under power purchase agreements (PPAs). Such breach shakes the trust of investors in the stability and security of law and has significant negative impact on the willingness to invest; as already experienced in other markets, including some European countries.
- Any foreign investor expects to receive dividends, maybe not in the short but at least in the mid-term. Restrictions to pay out dividends from Indian subsidiaries to foreign investors need to be removed or at least reduced further.
- The frequency losses caused by grid instability could causes up to 20% production losses in e.g. wind power plants in certain regions. IPPs and renewable electricity producers need support in assessing and considering such losses in annual production to avoid negative surprises and distressed assets.

Shantanu Jaiswal: Technical solutions on improving bankability and investability of solar projects?

Günter Maier:

The guideline stated by Dr. Tripathi that "India needs speed, scale and skill" to achieve its solar capacity target of 100 GW by 2022, underlines the importance of using foreign knowhow to achieve best industry practice and to secure international quality standards. At this conference I have heard that "India started late in solar", as a concern. I think it is rather a good thing, as India is now in the position to avoid mistakes which other solar frontrunner countries have made, can leverage the available solar expertise others countries have built and can scale up fast while securing best practice in the first run.

I suggest that India uses knowhow build up in many countries and does not have to invent many new standards and procedures. When talking about bankability, I recommend the guideline jointly developed in the EU funded Solar Bankability project (www.solarbankability.eu), where our company Alternative Energy Solutions (AES) has contributed. When managing our PV plants as AES, we are using the advanced data analysis and performance improvement tools (namely the AES PIT) developed by our own for the optimization of the assets. AES is providing AES PIT to numerous third party customers in Europe and Asia.

Shantanu Jaiswal: Views on how can low and sometimes negative interests in the global markets affect availability of financing in India?

Günter Maier: The 10 year government bonds of Germany and Japan for instance, show negative returns. Not only based on that but also by the stagnation of economic and electricity demand growth and the expiration of feed-in tariffs and incentives in mature markets, investors has to look for new growth markets to achieve acceptable returns. When artificially attractive markets dry out, investors are forced to move to markets where the return attractiveness is purely build on the fundamental conditions of natural resources, market size, demand and growth potential. I hardly see any countries where these fundamentals could be stronger than in India.

As said at the beginning: India is at the kicking point and investors are "gregarious animals". When the first invest and make money, the others will follow at big scale.