

REMOVAL OF PRIORITY-SECTOR LENDING CAP – SOLAR INDUSTRY REACTION

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Removal of priority-sector lending cap – solar industry reaction

The power minister's proposal would be a step in the right direction towards meeting the 40 GW rooftop solar target, as it removes a financing hurdle for small and medium enterprises.







JUNE 14, 2019 UMA GUPTA

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Financing is the key to scaling up SME rooftop solar in India, according to Deloitte.

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Businesses in the micro, small and medium enterprise sector are expected to make a significant contribution to India's rooftop PV target of 40 GW of installed generation capacity by 2022. However, a scarcity of low-cost financing must be addressed to enable rooftop installation, according to a report by Deloitte and the World Bank's Climate Investment Funds (CIF).

In response to that finding, Indian Power Minister RK Singh has proposed removing a Rs150 million limit on bank lending to SMEs for renewable energy purposes imposed under the priority sector lending rules. Under the system, Indian banks must prioritize lending to certain sectors but limits are also applied.

Removal of the cap on renewables lending to SMEs – plus an end to a similar limit on such loans to larger retail consumers – will give businesses access to cheap financing for solar rooftops under the Capex model, according to Jignasa Jani Visaria, head of corporate development for rooftop solar engineering, procurement and construction (EPC) company Fourth Partner Energy.

"Banks have to lend as high as 40% of their net bank credit to priority sectors," said Jani Visaria. "The current cap on renewable energy under PSL [priority-sector lending] is Rs150 million for SMEs and Rs1 million for retail consumers. SMEs comprise 45% of the industrial output. Many of them in the manufacturing sectors with huge power costs, however, cannot avail competitive opex [operating expenditure] tariffs due to their low credit rating. Also, getting bank funding for solar projects is not easy considering the renewable energy sector is getting clubbed under infrastructure lending.