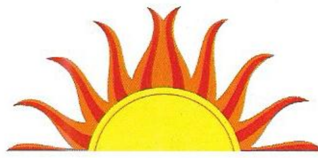

SOLAR POWER DEVELOPERS ASSOCIATION

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SPDA/DG/2020/232 **November 18, 2020**

Sub: Request for support to the renewable energy sector (Renewable Energy vs. EPC companies)

Dear Shri Panda,

Greetings from Solar Power Developers Association (SPDA).

We are an independent industry association committed to promoting the solar sector in India. We provide a neutral platform for policy advocacy, discussions, and examining issues critical to the solar industry's development and well recognized by the Ministry of New and Renewable Energy (GoI). SPDA represents around 50-member companies from the solar sector,assisting in policy evolution and a healthier investment climate for renewable energy projects and services. The member companies of SPDA include all the large players who have actively contributed with more than 75% of total capacity operational in India.

We are writing this letter to seek your attention towardsa particular issue faced by renewable energy developers, having in-house Engineering, Procurement, and Construction (EPC) activity. Most solar power developers develop projects in separate subsidiaries / SPV's, which are held by one holding company. The holding company undertakes the EPC for all projects. SPV mode for developing projects is followed primarily due to the requirement under Power Purchase Agreement (PPA) or for Lenders' benefit to give ring-fencing security of the project.

As mentioned above, the structure is different from pure EPC companies in the sense that pure EPC companies construct projects/plants on behalf of third parties and earn revenue from such EPC activities. They do not hold projects on their balance sheet.

However, some of the banks / financial institutions don't acknowledge the difference and treat loan facilities to holding company (fund based as well as non-fund based)facilities as being utilised for EPC business while the facilities are used for the development business.

Furthermore, since EPC company is also the holding company, it has tocapitalize on the project SPV's / subsidiaries, which is reflected as Investments on the asset side of EPC's company's Balance Sheet. Thus, the holding company's primary source of income is by way of sale of power and reflected in the holding company's consolidated accounts. All private equity investments in the holding company are also made from the point of view of getting returns from the development business and not the EPC business.

The anomaly of treating Solar Power Developers as EPC Companies and stringent guidelines associated with EPC Businessresults in non-compliance of specific terms/covenants which actuallyshould not be applicable on the Solar Power Developers or must be tested on consolidated business. **One such condition/covenant is the applicability of Total Outside Liabilities upon Adjusted Net Worth**(TOL vs.Adj TNW).

Related definitions of the two concepts are as under:

Former
• Deputy National Security Advisor, Govt. of India • Defence Secretary, Govt. of India • Secretary Defence Production, Govt. of India
• Secretary Ministry of Health, Govt. of India • Director General, Sports Authority of India

Total Outside Liabilities (TOL) includes:

1. Debt obligations
2. Other Financial Liabilities
3. Long Term Provisions
4. Current Liabilities including Advances

TotalNet Worth includes:

1. Equity and Quasi-equity
2. Reserves & Surplus

Adjusted Networth is calculated by reducing Total Networth (TNW) by the items mentioned below:

1. Long Term Investments (including investments in subsidiaries)
2. Short term loan receivable (including loans to subsidiaries)

We understand that Adjusted TNW is calculated to assess capital utilized in asset making. The basic premise is to disregard the money used for other things thathaven't resulted in asset creation. As per the standard business model of solar developers, assets are created in project SPV (100% wholly-owned subsidiaries). Accordingly, investment in subsidiaries should not be deducted to arrive at the adjusted total net worth for those groups with in-house EPC, which develop projects in SPV's. The above definition is appropriate in the case of a pure EPC Company, but not in a Solar development Company, where all projects are housed in subsidiary companies due to PPA or Lender's requirement. Therefore, we request to consider a revision in standard definition as under:

1. Total outside liabilities should not include liabilities that are backed by a 100% cash margin.
2. Current liabilities, including advances, should not include advances received from subsidiaries for project development as the same will not be required to pay any third party.
3. Long-term investments should not include investment in subsidiaries as this is the business model of any solar developer as the holding company has to capitalize on the SPV's.
4. Similarly, short term loan receivables should not include loans to subsidiaries.

Alternatively, to keep a tab on overleveraging, which is one of the main objectives of TOL/Adj TNW, banks may keep a check on the companies' overall debt.

The incorrect interpretation or calculation of ratio is resulting in disputes between banks and solar power companies. Therefore, we request you to issue guidelines to banks w.r.t. calculation or interpretation of the ratio/covenant.

We look forward to your kind support in the matter.

With warm regards

Yours Sincerely,

Shekhar Dutt

To,
Shri Debashish Panda
Secretary
Department of Financial Services
Ministry of Finance
North Block, New Delhi