MoU Activity

Develop solar specific financial products that are competitive and distinctive compared to other products in the market

Background

The Jawaharlal Nehru National Solar Mission was launched on the 11^{th} January, 2010. Mission has set the ambitious target of deploying 20,000 MW of grid connected solar power by 2022 and is aimed at reducing the cost of solar power generation to achieve grid tariff parity by 2022. Mission will create an enabling policy framework to achieve this objective and make India a global leader in solar energy. To incentivize setting up of a large number of Solar Power Projects and minimizing the impact of tariff on the distribution companies, various alternatives have been considered viz. (i) Bundling Scheme (ii) Viability Gap Funding (VGF) Scheme and (iii) Generation Based Incentive (GBI) Scheme. Phase-I was largely based on the option of Bundling Scheme and on GBI option to some extent. In Phase-II Batch-I of JNNSM, the option of "Viability Gap Funding" Scheme has been selected. The same is being implemented by the Solar Energy Corporation of India (SECI).

Short Term Bridge Loan against Viability Gap Funding

Under the VGF, the tariff to be paid to the developer has been fixed at Rs.5.45/kWh for 25 years. In case benefit of accelerated depreciation is availed for a project, the tariff will get reduced to Rs.4.75 per kWh. The developer is being provided a VGF based on his bid. The upper limit for VGF is 30% of the project cost or Rs.2.5 Cr./MW, whichever is lower. The developer has to put his own equity of at least Rs.1.5 Cr./MW. The remaining amount can be raised as loan from any source by the developer. The VGF will be released in six tranches as follows: 50% on successful commissioning of the full capacity of the project and balance 50% progressively over next 5 years (10% each year for next 5 years) subject to the project meeting generation requirements.

VGF scheme has been structured in a way to provide back ended payment of VGF after commissioning of the projects. Sponsors are required to meet the capital expenditures for project construction other than infusion of equity and standard debt of 70% of project cost. Additional short term funds are required by the projects promoters over and above regular 70:30 Debt Equity ratio depending upon viability assessments. In view of the above, IREDA introduced new scheme called a bridge loan against VGF to bridge the gap for short term fund requirements in line with repayment schedule for VGF securitization agreement. Accordingly, IREDA has provided short term funds against VGF repayments depending upon viability at little higher interest rate. Under the arrangement, projects with stronger viability projections applied for lower equity contribution within the limits of SECI requirements and IREDA provided additional bridge loan. Such loan is to be repaid within the tenor in line with repayment of VGF securitization agreement.

This arrangement facilitated availability of funds to sponsors for improving financial indicators with suitable structured loan such that VGF tranches are used either for offsetting bridge loan or senior debt depending on requirement of project. IREDA charged 1% additional interest towards bridge loan assistance provided.

Initially, Banks were hesitant to fund projects under VGF Scheme as there was lack of clarity on the same. IREDA took an initiative and sanctioned the first project under the scheme. Later on, Banks also followed. IREDA provided term loan to 8 projects under VGF scheme totaling to 200 MW.