

Proposed new tariffs on import of solar cells, modules a positive for the sector: **Brickwork Ratings**

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The Finance Ministry proposal to issue an order to impose a basic 40 per cent customs duty on modules and 25 per cent on solar cells as a part of Aatmanirbhar Bharat is seen as a positive step aiding the domestic manufacturers who have been making out a case for this from some time.

According to Brickwork Ratings, the customs duty will replace the current 15 per cent safeguard duty imposed on imports from China and Malaysia. India plans to impose the new tariffs on of solar cell and module imports from April 1, 2022.

Vipula Sharma, Director, Ratings, Brickwork Ratings, in a statement said, "The proposed custom duty is expected to create a conducive environment for the domestic manufacturers of solar cells and panels as they become more competitive in the wake of imports becoming expensive and will lead to increased investments in this space. However, the cost of new solar projects post the new custom duty regime is expected to go up in the medium term, resulting in increased energy tariff rates from the current levels."

The effective date for the duty has been kept on April 1, 2022 in order to ensure that solar projects that plan to sign Power Purchase Agreements (PPAs) before the effective date with imported modules take this factor into their cost calculation and not pass the burden of the custom duty on to end consumers by invoking the change in law clause. In addition, projects with imported modules for which PPAs have already been signed have adequate time to complete their projects before the new duty comes into force, and the end consumer will not be burdened.

With India falling 60-62 GW short of the targeted 100 GW of solar power generation by 2022, there is considerable demand for polysilicon, wafers, cells and modules, some of which could be met by local manufacturing. Presently, Chinese modules are 10-20 per cent cheaper, and solar cells are 30-40 per cent cheaper than those made in India. The proposed custom duty will help in bridging this gap to a certain extent and create a conducive environment for domestic manufacturers to scale up their capacity.

To meet India's solar targets, 30 GW capacity of module and cell manufacturing is required, which is much higher than the current module manufacturing capacity of 9-10 GW and solar cell manufacturing capacity of 3 GW.

By end-September 2020, the power ministry had received expressions of intent to set-up 20 GW more of domestic solar module and cell manufacturing capacity in the country.

Post the new custom duty regime, the cost of new solar projects is expected to go up, resulting in increased energy tariffs in the medium term.