Wind power gets RE policy tailwind

FILLING THE SAILS. Tariff regime change, strong order inflows have been driving stocks in this space

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The inevitable transition to renewable energy, government policy initiatives and strong order flows have been driving the rally in wind energy stocks this year. While Suzlon Energy has trebled, Inox Wind and its operations and maintenance arm Inox Green Energy have risen about 95 per cent and 40 per cent, respectively, so far this year.

To reach the 500 GW non-fossil fuel capacity goal by 2030, the Power Ministry plans to invite bids for 50 GW of renewables each year, including 10 GW for wind. Notably, the tariff regime shift for wind has been a significant catalyst.

TARIFF REGIME CHANGE

Up to fiscal 2017, the government had backed wind energy through feed-in-tariffs (FiT), ensuring fixed payments to producers via long-term contracts, no competitive bidding. Post fiscal 2017, competitive bidding slowed capacity growth. Since then, reverse e-auctions pushed wind power tariffs to ₹3.46 per unit — a 17 per cent drop from the lowest FiT of ₹4.16. From fiscal 2018-22, tariffs averaged ₹2.6-2.9 per unit. Reduced fiscal 2018 depreciation benefit to 40 per cent (from 80 per cent in 2017) and elimination of ₹0.5 per unit generation-based incentive hit investments, impacting companies like Suzlon and Inox Wind. Bloomberg data shows over 40 per cent decline in annual wind energy capacity addition from 2014-17's 3,172 MW to 1,717 MW during 2018-22.

However, the wind energy space is back in focus as the MNRE (Ministry of New and Renewable Energy) has ended competitive bidding and decided to invite closed bids for 10 GW projects annually from January 2023 up to 2030. Because of this, tariffs are expected to rise 20-30 per cent, says Crisil.

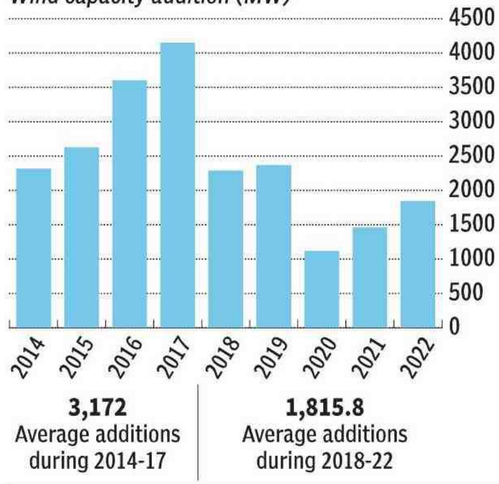
TRICKLE-DOWN EFFECT

Such favourable policy is already beginning to have a trickle-down effect on power generation companies and wind energy-based OEMs.

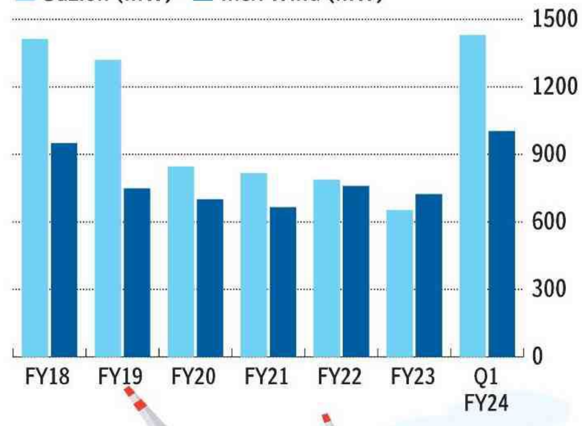
Further, the share of wind energy is on the rise for some power generation companies, too. Tata Power, JSW Energy and Adani Green have big plans for additions on this front (see chart). Though SJVN currently doesn't have much of wind-based capacity, management commentary indicates that the company's long-term renewable plans could include a fair share of wind-based installed capacity.

Capacity additions set to come back

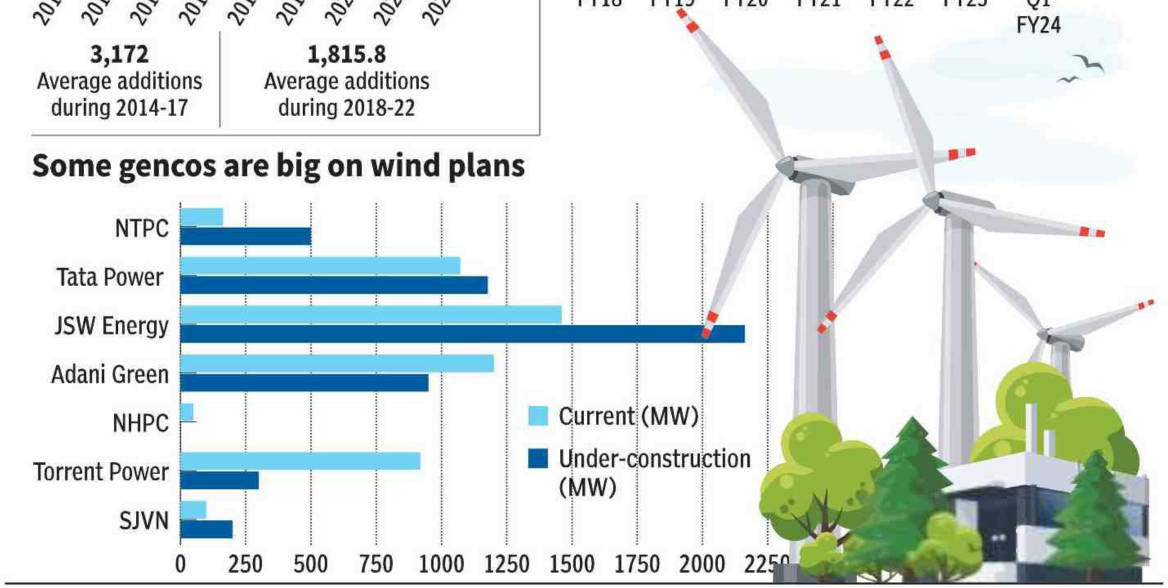
Wind capacity addition (MW)



Order book looking up



Some gencos are big on wind plans



Source: CEA, Company filings, Bloomberg