PRESS RELEASE
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Electricity demand expected to grow by 6.0-6.5% over next five years, driven by electric vehicles, data centres and green hydrogen segments: ICRA

- Thermal PLF estimated at a healthy 70% in FY2026 with demand growth of 5.0-5.5%
- Generation capacity addition projected to reach all time high of 44 GW in FY2026 from 34 GW in FY2024, led by renewable and thermal segments

ICRA projects the full-year demand growth for FY2026 at 5.0-5.5%, lower than its expectation for the GDP growth for this fiscal (6.5%). This is owing to the early onset of the monsoon and expectations of an above average monsoon, which dampens the demand for cooling as well as demand from the agriculture segment. While the demand growth in FY2026 is expected to be higher than the 4.2% reported in FY2025, it is expected to trail the over 8.0% growth seen during FY2022-2024. The rating agency forecasts the all-India thermal plant load factor (PLF) level to remain flat at 70.0% in FY2026 against 69.5% in FY2025, given the healthy growth in generation expected from the **renewable sources** and 9-10 GW capacity addition expected in the **thermal segment** in FY2026.

Commenting on the demand growth outlook, **Vikram V, Vice President & Co-Group Head - Corporate Ratings, ICRA**, said: *"Over the next five years, ICRA expects the electricity demand to achieve a healthy compounded annual growth rate (CAGR) of 6.0-6.5%, higher than the ~5.0% CAGR achieved over the past decade, driven by the demand from rising adoption of electric vehicles (EVs), green hydrogen (GH) and the increase in data centre capacity. These three segments are expected to contribute to 20-25% of the incremental demand over the next five-year period from FY2026 to FY2030. The growth in demand for grid capacity is expected to be offset to some extent, by the rising adoption of rooftop solar and off-grid projects, driven by schemes such as the Pradhan Mantri Surya Ghar Yojana."*

The EV segment is expected to witness an increase in penetration across the segments, with three-wheelers leading the adoption followed by two-wheelers, e-buses and passenger vehicles. With respect to GH, ICRA considered a gradual scale-up in capacity, given the relatively higher cost of GH against grey hydrogen currently. While a major portion of the incremental demand is expected to be met through increase in the renewable energy (RE) capacity, the Central and state governments are encouraging new thermal power projects to ensure sufficient buffer in the installed capacity to meet the growing demand. This is reflected in the new project announcements by public sector undertakings and private power producers as well as long-term power purchase bids called by state distribution utilities after a decade of dormancy.

ICRA expects the generation capacity addition to reach an all-time high of ~44 GW in FY2026, a sharp step up from the previous high of 34 GW in FY2025, with the overall installed power generation capacity reaching close to 520 GW by March 2026. The thermal segment is expected to add 9-10 GW capacity in FY2026, with the balance largely contributed by the RE segment. While RE would remain the key driver of the generation capacity addition, going forward, the thermal segment has seen an increase in under-construction capacity over the past 12 months and currently stands at over 40 GW. Given these factors, ICRA maintains a Stable outlook on the thermal power segment.

The average spot power tariffs in the day ahead market (DAM) of the Indian Energy Exchange moderated to Rs. 4.4 per unit in FY2025 from Rs. 5.2 per unit in FY2024, given the slowdown in demand growth and higher capacity. Also, the coal stock level for the domestic power plants is at a five-year high at ~20 days as on May 21, 2025, following the improved supply and slowdown in thermal generation growth. The contraction in the open market coal prices and the improved coal stock situation are expected to keep the short-term tariffs at a similar level in FY2026.

Discoms' book losses at the all-India level had witnessed a decline in FY2024 over FY2023, led by higher tariff and subsidy along with the revenue grants from the state governments to fund previous year's losses. However, the gap between the cost of supply and tariff realisation persists across most states. Moreover, the gross debt for state-owned discoms' witnessed a sharp increase to Rs. 7.4 trillion as of March 2024 from Rs. 6.6 trillion in March 2024, driven by debt availed to clear the past dues to generators and to fund working capital and capex amid continued losses. Such high debt levels are unsustainable for discoms, given their current revenues and profitability.

Commenting on the distribution segment**, Vikram V** said: *"The tariff orders for FY2026 have been issued in 19 out of the 28 states as of May '25, reflecting a moderate progress in issuance of tariff orders. Despite the loss-making operations of the discoms, the tariff hikes approved for FY2026 remain muted across most states, similar to FY2025. ICRA expects the cash gap*[1] *per unit for the discoms at the all-India level to remain high at 35 paise per unit in FY2026. ICRA's outlook for the power distribution segment remains Negative amid limited tariff hikes and continued loss-making operations. The progress in the smart metering programme along with the timely implementation of fuel & power purchase cost adjustment framework would play an important role in improving the discom finances, going forward."*

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[1] *Cash gap = (PAT + depreciation + UDAY grant/loss funding + regulatory income + Subsidy not realised)/unit sales*

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