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INDIAN POWER SECTOR

Moderate progress in issuance of tariff orders for FY2026; discom debt on the rise amid continued losses

MAY 2025

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Executive Summary

Executive summary - I

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Demand growth for FY2026 estimated at 5.0-5.5%.

Gross addition in installed power capacity to rise to all-time high of ~44 GW in FY2026 from 34 GW in FY2025, led by the renewables and thermal capacities.

- **All-India electricity demand increased by 4.2% in the FY2025 on a year-on-year (YoY) basis**, slowing down from 9.9% in the first four months due to excess rains, unfavourable base and slowdown in economic activity. The demand growth in FY2026 is expected at 5.0-5.5% in FY2026, partly impacted by the early onset of the monsoons as well as expectations of above average monsoons. The demand growth is trailing ICRA's GDP growth expectations of 6.5% for FY2026.
- **The all-India average thermal plant load factor (PLF) remained flat at 69.5% in FY2025 compared to 69.1% in FY2024,** amid slowdown in demand growth and pick-up in generation from non-thermal sources. The thermal PLF is expected to remain at a similar level of 70.0% in FY2026, given the healthy growth in generation expected from renewable energy (RE) sources, owing to the large scale-up in RE capacity and the expected rise in thermal power capacity.
- **The gross capacity addition stood at 34.1 GW in FY2025, primarily driven by the RE segment,** higher than the ~24 GW added in FY2024. Moreover, the capacity addition is expected at 44 GW in FY2026, led by the scale-up in RE capacity addition as well as higher capacity addition in the thermal segment wherein several projects by the Central and the state PSUs are in the last leg of completion.
- **The coal stock level at power plants improved to 19.8 days as on May 18, 2025, from 12.2 days as on September 30, 2024**, reversing the declining trend seen in H1 FY2025 owing to the moderation of the growth in thermal generation and pick-up in coal supply. The coal imports by power utilities reported a decline by 2.7% on a YoY basis in 11M FY2025, driven by the increase in domestic coal supply. The share of coal imports in coal consumption by power sector is expected to decline to 6.0% in FY2026 from ~7.0% in FY2025.
- **Average spot power tariffs in the day-ahead market (DAM) of the Indian Energy Exchange (IEX) declined to Rs. 4.4 per unit in FY2025** from Rs. 5.2 per unit in FY2024, following moderation in demand growth, decline in open market coal prices and improved supply from non-thermal sources. Nonetheless, the prices remain higher than the long-term average. The spot power tariffs are expected to remain in the range of Rs. 4.00 to 4.50 per unit in FY2026, with the recovery in demand growth to 5.0-5.5%.

Executive summary - II

Progress in the issuance of tariff order for FY2026 remains moderate with discoms in only 19 out of the 28 states issuing final tariff orders so far.

State-owned discom debt at all-India level increased to Rs. 7.4 trillion as of March 2024 from Rs. 6.6 trillion as of March 2023, owing to the debt availed to clear past dues to generators as well as to fund working capital and capex amid continued losses. Such high debt level remains unsustainable for the discoms.

- **The expectations of the healthy demand growth going forward is driving an increased activity in awarding long-term power purchase agreements (PPAs) by state discoms** after a long lull of 9-10 years**.** Discoms in the states of Maharashtra, Uttar Pradesh and West Bengal awarded projects through long-term PPA bids aggregating to 4.8 GW. The tariffs discovered in these bids remain well above Rs. 5.0 per unit, owing to the upward pressure on capital cost of new coal-based power projects, which stands at over Rs. 10-12 crore/MW.
- **The power transmission segment witnessed a slowdown in capacity addition in FY2025,** with the addition in transmission line remaining lower than the target for the year as well as lower than the line addition in FY2024**.** This was owing to right of way (RoW) issues, delays in forest clearances, delayed equipment supply, contractual delays and weather conditions. A pick-up in execution in the power transmission segment remains important to integrate the growing share of renewables with the grid.
- **The progress in issuance of tariff orders for the state distribution utilities (discoms) for FY2026 remains moderate** with only 19 out of 28 states issuing the tariff orders as of May 2025 against the requirement of issuing orders by March 2025 for all states. The median tariff hike for FY2026 remains modest at 1.5%, lower than 2.1% in FY2025, based on orders issued as of May 2025 as several states did not approve any hikes or with very low hike in tariffs, despite the persistent gap between tariffs and cost of supply.
- **The state-owned discoms' continued to report book losses at Rs. 256 billion in FY2024,** though the extent of losses moderated from Rs. 572 billion in FY2023. This is due to the increase in tariffs, including subsidy and revenue grants from state to fund past losses. **The gross debt for state-owned discoms at the all-India level increased to Rs. 7.4 trillion as of March 2024 from Rs. 6.6 trillion in March 2023,** owing to the debt availed to clear 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.
- **The upgrades continue to outpace downgrades in the sector led by the renewable segment, with 36 upgrades and 10 downgrades in FY2025.** The upgrade was led by project commissioning, improved generation performance, change in ownership, reduction in receivable position and tie-up of new PPAs. The downgrades were due to weaker-than-expected generation performance, delays in project execution, payment delays from the customer arising from a commercial dispute and increase in leverage level.

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Thank You!