ICRA

INDIAN POWER SECTOR

Demand growth in FY2026 likely to mirror FY2025 levels; FY2026 tariff hike remain modest for discoms

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Executive Summary

Executive summary - I

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Demand growth for FY2026 estimated at 4.0-4.5%, moderating from earlier expectation of 5-5.5% due to early onset of the Southwest Monsoons.

Gross addition in installed power capacity to rise to all-time high of about 40 GW in FY2026 from 34 GW in FY2025, led by the renewables and thermal capacities.

- **All-India electricity demand decreased by 0.5% in 4M FY2026 on a year-on-year (YoY) basis**, slowing down from 9.9% growth in 4M FY2025 due to early onset of the Southwest Monsoons, unfavourable base and slowdown in economic activity. The demand growth estimates have been revised to 4.0-4.5% from earlier estimates of 5.0-5.5% in FY2026, impacted by an early onset of the monsoon as well as expectations of above average rainfall. The demand growth is trailing ICRA's GDP growth expectation of 6.0% for FY2026.
- **The all-India average thermal plant load factor (PLF) remained flat at 69.5% in FY2025 over 69.1% in FY2024,** amid slowdown in demand growth and pick-up in generation from non-thermal sources. The thermal PLF is likely to remain at 69.2% in FY2026, given the demand has been lower in Q1FY2026 and a healthy growth in generation is expected from renewable energy (RE) sources owing to the large scale-up in RE capacity and estimated rise in thermal power capacity.
- **Gross capacity addition stood at 34.1 GW and 14.3 GW in FY2025 and Q1 FY2026, respectively, primarily driven by the RE segment,** higher than the nearly 24 GW added in FY2024. Moreover, the capacity addition is expected at 40 GW (net off decommissioned capacity of about 4 GW) in FY2026 led by the scale-up in RE capacity addition as well as higher capacity addition in the thermal segment wherein several Central and state PSU projects are in their last leg of completion.
- **Coal stock at power plants continues to remain at five year high at 20.9 days as on June 30, 2025**, reversing the declining trend of H1 FY2025 owing to the moderate growth in thermal generation and pick-up in coal supply. Coal imports by power utilities declined by 6% and 21.6% on a YoY basis in FY2025 and Q1 FY2026, respectively, driven by the rise in domestic coal supply. The share of coal imports in coal consumption by the power sector is estimated to decline by 4-5% in FY2026.
- **Average spot power tariffs in the day-ahead market (DAM) of the Indian Energy Exchange (IEX) declined to Rs. 4.4 per unit in 5M FY2026** 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 likely to remain at Rs. 4.00-4.50 per unit in FY2026, with demand growth to remain around 4.5%.

Executive summary - II

Tariff hike for FY2026 remains modest with a hike of 1.9% across 23 discoms of the 28 states that have issued final tariff orders so far.

Although, the transmission line and substation capacity addition in 4M FY2026 remains above target, significant scale up is required to meet the growing share of installed renewable capacity.

- **Expectations of healthy demand growth is driving increased activity in awarding long-term power purchase agreements (PPAs) by state discoms** after a lull of 9-10 years**.** Discoms in Maharashtra, Bihar, Uttar Pradesh and West Bengal awarded projects through long-term PPA bids aggregating to 7.2 GW. The tariffs discovered in these bids remain well above Rs. 5.0 per unit, owing to upward pressure on the capital cost of new coal-based power projects, which stands at over Rs. 10-12 crore/MW.
- **Capacity addition in the power transmission segment picked up in 4M FY2026,** with the enhancement in transmission lines remaining close to the targets and that for substation capacity climbing higher. There have been delay in addition in the past was owing to right of way (RoW) issues, delays in forest clearances, 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 state distribution utilities (discoms) in FY2026 remains moderate** with only 23 of 28 states issuing them as of August 2025 against the requirement of issuing the orders by all states by March 2025. The median tariff hike for FY2026 remains modest at 1.9%, lower than 2.1% in FY2025, based on orders issued as of August 2025 owing to several states not approving any hike or very low hikes, despite the persistent gap between tariffs and cost of supply.
- **State-owned discoms continued to book losses at Rs. 256 billion in FY2024,** though the extent of losses moderated from Rs. 572 billion in FY2023. This was due to the rise in tariffs including subsidy and revenue grants from states to fund past losses. **The gross debt for state-owned discoms at the all-India level rose to Rs. 7.4 trillion as of March 2024 from Rs. 6.6 trillion in March 2023,** owing to the debt availed to clear dues to generators and fund working capital and capex amid continued losses. Such high debt is unsustainable for discoms, given their current revenues and profitability.
- **The upgrades continue to outpace the downgrades in the sector led by the renewable segment, with 20 upgrades and 14 downgrades in 4M FY2026.** The upgrades were led by improved generation and financials 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 owing to a commercial dispute, flood related issues and increase in leverage level.

ICRA Analytical Contact Details

Name	Designation	Email	Contact Number
Girishkumar Kadam	Senior Vice-President & Group Head	girishkumar@icraindia.com	022 – 6114 3441
Vikram V	Vice-President & Co-Group Head	vikram.v@icraindia.com	040 – 6939 6410
Asmita Pant	Assistant Vice-President	asmita.pant@icraindia.com	0124 – 4545 856
Venkatesh Joshi	Senior Analyst	venkatesh.joshi@icraindia.com	022 – 6169 3353
Rohit Shahu	Senior Analyst	rohit.shahu@icraindia.com	022 – 6169 3300
Soumya Satapathy	Analyst	soumya.satapathy@icraindia.com	033 – 7150 1100

ICRA Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Sai Krishna	Head - Research Sales and Investor Connect	sai.krishna1@icraindia.com	9840774883
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – East	vinita.baid@icraindia.com	033-65216801
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	shivam.bhatia@icraindia.com	0124-4545803
Sanket Kulkarni	Head Business Development – Corporate Sector – West	sanket.kulkarni@icraindia.com	022-6169 3365
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

Thank You!