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Indian Renewable Energy Sector

RE capacity addition to cross 35 GW in FY2026; bidding activity however slowed down amid delays in signing of PPAs/PSAs

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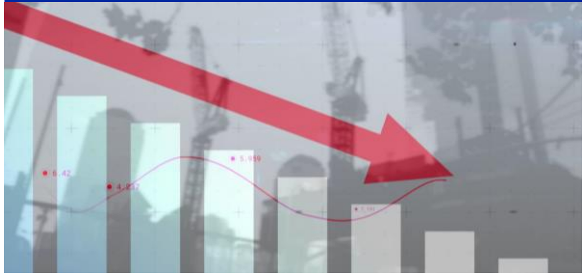

12 Rating Trends in Renewable Energy Sector

Highlights

Highlights – I

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RE capacity addition improved to 20.1 GW in 5M FY2026 from 9.0 GW in 5M FY2025 driven by a large project pipeline and expiry of waiver on inter-state transmission charges. The capacity addition is likely to further scale-up to over 35.0 GW in FY2026, driven by growing demand for electricity in the country.

While the project pipeline remains strong, there is a delay in signing PPAs/PSAs by bidding agencies, which in turn has slowed down the bidding process over the past few months.

- **ICRA's outlook for the renewable energy (RE) sector remains Stable**, led by strong policy support, superior tariff competitiveness and sustainability initiatives by large commercial and industrial (C&I) customers. However, challenges remain on the execution front, including land and transmission infrastructure, delays in signing power purchase agreements (PPAs), exposure to equipment prices and distribution utility finances.
- **The sector saw a capacity addition of 20.1 GW in 5M FY2026,** which was higher by 123% compared to the 9.0-GW added in the corresponding period of previous year. Earlier in FY2025, the capacity addition increased to 28.7 GW compared to 18.5-GW added in FY2024 driven by a large project pipeline. This was supported by favourable solar photovoltaic (PV) cell and module prices and the expiry of waiver on inter-state transmission charges with effect from June 30, 2025.
- **The tendering pipeline in the RE sector remains large** with 40.2 GW capacity auctioned in FY2025, following 47 GW auctioned in FY2024. **However, there has been a slowdown in bidding activity over the past few months with 3.4 GW auctioned in H1 FY2026** amid concerns over delays in signing power sale agreements (PSAs) by the bidding agencies with state distribution utilities, thus delaying the signing of PPAs with the winning developers.
- **RE capacity addition momentum is expected to continue with over 35 GW addition in FY2026,** supported by the large project pipeline of 142.8 GW, as per the latest status report from the Central Electricity Authority (CEA), along with favourable module pricing and healthy outlook on electricity demand growth. The timely signing of PPAs and PSAs along with the augmenting of transmission infrastructure remains key to sustain the scale-up in capacity addition.
- **Prices of imported N type modules remained low at about 8-9 cents/watt in August 2025**. While prices in the Indian market remain high at 15-17 cents/watt owing to the imposition of the Approved List of Modules and Manufacturers (ALMM), they remain attractive for solar power developers based on prevailing bid tariffs. Given the imposition of ALMM on cells from June 2026, the module prices are likely to increase in FY2027 and must be factored in by the developers in the upcoming bids.

Highlights – II

The recent imposition of 50% tariffs by the US on India would adversely affect the competitiveness of Indian OEMs and in turn our export volumes.

The reduction of GST rates for solar PV modules and wind turbine generators to 5% from 12% is expected to reduce the capital cost for solar and wind power projects by about 5%.

- With the reinstatement of the ALMM order for solar PV modules from April 1, 2024, **the import of solar modules declined, while imports of solar cells increased in 4M FY2026 due to significant domestic module capacity addition and stockpiling by developers before the issuance of ALMM List-II for solar cells**. **Solar cell and module exports rose by 21% YoY in 4M FY2026** due to imposition of higher US tariffs on South Asian countries over India during this period. However, the recent imposition of 50% tariffs by the US on India would adversely affect the competitiveness of Indian manufactures and in turn our export volumes.
- **Quoted bid tariffs for battery energy storage systems (BESS) declined significantly,** with the cost reducing from Rs. 10.84 lakh/MW/month in the first SECI tender in August 2022 to Rs. 2.2-2.5 lakh/MW/month (with viability gap funding) in the recent months. The decline in battery prices improved the cost economics for BESS projects. **ICRA expects the energy storage capacity requirement to reach 50 GW by 2030** with 5-6 hours of storage, which will be met through a mix of BESS and pumped storage hydro projects (PSP).
- **The demand outlook for RE capacity in the C&I segment remains highly favourable**, underpinned by competitive tariffs, large sustainability commitments and supportive Government policies on moving towards net zero by 2070. **With the C&I segment comprising nearly 45-50% of India's electricity demand, achieving 20% RE penetration over the next five years would necessitate about 100 GW of RE capacity** implying a CAGR of almost 30%.
- The **rationalisation of GST rates** for solar PV modules and wind turbine generators is expected to reduce the **capital cost for solar and wind power projects by about 5%.** This is likely to **reduce the cost of generation for solar power projects by 10 paise per unit and by 15-17 paise per unit for wind power projects**. This would reduce the capital cost for under-implementation projects and may reflect in upcoming bids.
- **The ratio of upgrades to downgrades remains high** in the RE sector led by solar power producers. In **5M FY2026, the sector saw 15 upgrades and 13 downgrades.** The upgrades were driven by successful project commissioning along with satisfactory generation performance, and favourable change in ownership.

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Thank You!