

INDIAN POWER SECTOR

**Muted electricity demand growth
and limited tariff hike across state
discoms for FY2026**

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Executive Summary



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Electricity demand growth slowed sharply to 0.02% in 7M FY2026, leading to revised FY2026 growth estimates of 1.5–2.0%. Thermal PLF also dropped to 65.7% in H1 FY2026 and is expected at 66.5% for the year amid rising renewable generation.

Capacity addition surged, led by renewables—30.2 GW in H1 FY2026 and expected 46.7 GW for FY2026.



- **All-India electricity demand dropped slightly by 0.02% YoY in 7M FY2026**, slowing down from 4.5% growth in 7M FY2025 due to prolonged Southwest Monsoons led by heavy rainfall in several regions of the country and an unfavourable base of last year. Considering the slowdown in demand, the growth estimates have been revised to 1.5-2.0% from earlier estimates of 4.0-4.5% for FY2026, despite projections of some seasonal recovery in winter. Demand growth is significantly trailing ICRA's GDP growth expectation of 6.8% for FY2026.



- **The all-India average thermal plant load factor (PLF) stood at 65.7% in H1 FY2026, reflecting subdued demand growth and rising generation from non-thermal sources.** For the full year FY2026, PLF is expected to moderate further to 66.5%, driven by continued softness in demand and a strong ramp-up in renewable energy (RE) generation supported by large-scale capacity additions. This outlook contrasts with FY2025, when PLF remained broadly stable at 69.5% over 69.1% in FY2024, as thermal generation was held up despite early signs of demand slowdown and incremental RE penetration.



- **Gross capacity addition stood at 34.1 GW and 30.2 GW in FY2025 and H1 FY2026, respectively, primarily driven by RE**, higher than the nearly 24 GW added in FY2024. Moreover, the capacity addition is likely to be 46.7 GW (net off decommissioned capacity and capacity under outage of about 6.5 GW) in FY2026 led by the scale-up in RE capacity addition as well as higher thermal capacity addition, wherein several Central and state public sector undertakings (PSUs) projects have either achieved commissioning by H1 FY2026 or are in their last leg of completion.



- **Coal stock at power plants remains robust at 15.5 days as on November 10, 2025**, reversing the declining trend of H1 FY2025 owing to the moderation in thermal generation and pick-up in coal supply. Coal imports by power utilities declined by 27.1% YoY H1 FY2026, driven by the rise in domestic coal supply and subdued demand. The share of coal imports in coal consumption by the power sector is estimated to be 5% in FY2026.



- **Average spot power tariffs in the day-ahead market (DAM) of the Indian Energy Exchange (IEX) moderated to Rs. 3.9 per unit in 7M FY2026** from Rs. 4.4 per unit and Rs. 5.2 per unit in FY2025 and FY2024, respectively, 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. 3.5-4.0 per unit in FY2026, with demand growth remaining at 1.5-1.0%.

Tariff hikes remain minimal at 1.8% in FY2026 across 26 discoms of the 28 states as per the tariff orders filed so far.

Transmission line and substation capacity addition in 7M FY2026 remains below the target level owing to RoW issues and prolonged monsoons. Significant scale up is required for integrating the growing share of renewable capacity.



- **Expectations of healthy demand growth is driving activity in awarding long-term power purchase agreements (PPAs) by state distribution companies (discoms) after a lull of 9-10 years.** Many state discoms have awarded projects through long-term PPA bids aggregating to 14.4 GW. The tariffs discovered in these bids remain close to Rs. 6.0 per unit, owing to upward pressure on the capital cost of new coal-based power projects, which stands at over Rs. 12 crore/MW.
- **Capacity addition in power transmission has remained slow in 7M FY2026 and below the target for the period.** There have been delays in transmission line addition owing to right of way (RoW) issues and prolonged monsoons. The sector has faced delays owing to RoW issues, delays in getting key clearances, equipment supply related issues, contractual delays and weather-related challenges. A pick-up in execution in the transmission sector remains important to integrate the growing share of renewables with the grid.
- **The median tariff hikes across 26 of the 28 state discoms in FY2026 remains minimal at 1.8%, lower than 2.1% in FY2025, based on orders issued as of November 2025** owing to several states not approving any hike, reduction in tariff or very low hikes, despite the persistent gap between tariffs and cost of supply. Also, as on November 21, 2025, none of the state discoms have filed annual tariff petitions for FY2027 against the requirement of filing the petition by all states by November 2025.
- **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 for generators, working capital funds and capex amid continued losses. Such high debt is unsustainable for discoms, given their current revenues and profitability.
- **Upgrades continue to outpace the downgrades in the sector led by the RE segment, with 60 upgrades and 14 downgrades in H1 FY2026.** Upgrades were driven by successful commissioning and strong performance in RE independent power producers (IPPs), equity infusion, and favourable ownership changes; thermal and transmission segments improved due to operational stability, financial strength, and debt reduction, while Gujarat discoms benefited from sustained operational gains. Conversely, H1 FY2026 recorded 14 downgrades, mainly due to weak generation, higher leverage (including at holding company level), and flood-related disruptions at a hydro plant.



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