

# INDIAN POWER SECTOR

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**Demand growth expected to recover in FY2026; improved visibility on new PPAs for thermal assets**

**FEBRUARY 2025**



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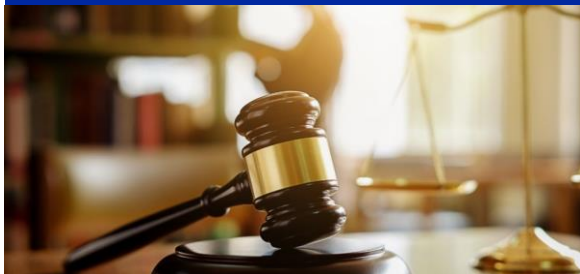
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# Executive Summary

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*Demand growth estimate for FY2026 estimated at 5.5-6.0%. Growth for FY2025 revised to 4.5-5.0%.*

*Gross addition in installed power capacity to improve to over 40 GW in FY2026 from the estimated level of 35 GW in FY2025, led by the RE segment.*



- **All-India electricity demand increased by 4.2% in the first ten months of FY2025 on a year-on-year (YoY) basis**, slowing down from 9.9% in the first four months due to excess rains, an unfavourable base and slowdown in economic activity. The full-year demand growth for FY2025 is estimated at 4.5-5.0% with recovery in growth in Feb '25 and Mar '25. The demand growth is expected to recover to 5.5% - 6.0% in FY2026, trailing ICRA's GDP growth expectation of 6.5%.



- **The all-India average thermal plant load factor (PLF) witnessed a mild improvement to 68.8% in 10M FY2025 from 68.2% in 10M FY2024**, amid slowdown in demand growth and pick-up in generation from non-thermal sources. The full-year thermal PLF is likely to remain at about 69.5% in FY2025 and this is likely to see a marginal improvement to 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.



- **The gross capacity addition stood at 24.4 GW in 10M FY2025, primarily driven by the RE segment**, higher than the 13.4 GW added in 10M FY2024. The full-year capacity addition in FY2025 is estimated at 35 GW against 25 GW in FY2024, mainly led by the RE capacity. Moreover, the capacity addition is likely to cross 40 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 Central and state PSUs are in the last leg of completion.



- **The coal stock level at power plants improved to 19.0 days as on February 25, 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 have shown a mild increase by 3.6% on a YoY basis in 9M FY2025, primarily driven by the imported coal-based projects operating under Section 11 directive, amid moderate international coal prices.



- **Average spot power tariffs in the day-ahead market (DAM) of the Indian Energy Exchange (IEX) declined to Rs. 4.4 per unit in 11M 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. 4.5 to 5.0 per unit in FY2026, with the recovery in demand growth to 5.5-6.0%.

*New long-term PPA bids of 4.5 GW have been awarded by discoms in Maharashtra, Madhya Pradesh and West Bengal for coal-based projects.*

*Progress in the filing of tariff petitions for FY2026 remains moderate with only discoms in 13 out of the 28 states filing petitions so far.*



- **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, Madhya Pradesh and West Bengal awarded projects through long-term PPA bids aggregating to 4.5 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 National Electricity Plan (NEP), notified by the Government of India (GoI) for the power transmission segment**, proposes to raise the transmission line length from 486 [1000 circuit kilo metres (ckm)] as of March 2024 to 648 (1000 ckm) by March 2032, and the substation capacity from 1,218 GVA as of March 2024 to 2,345 GVA by March 2032. The inter-regional transmission capacity is expected to rise to 168 GW by March 2032 from 119 GW as of March 2024. This expansion will integrate over 600 GW of RE capacity by 2032.
- **ICRA expects the transmission line length to increase to 600 (1000 ckm) by March 2030, entailing an annual addition of 19,000-20,000 ckm.** Also, the substation capacity is projected to increase to 1,850 GVA as of March 2030, necessitating an annual addition of 100 GVA against average addition of ~70 GVA over the past few years. Investments of Rs. 4.5 trillion are required to achieve the target over FY2025-FY2030. Such scale-up in capacity addition requires the need to address challenges related to right of way and clearances.
- **The progress in filing of tariff petitions by the state distribution utilities (discoms) for FY2026 remains moderate** with only 13 out of 28 states filing the tariff petitions as of February 14, 2025 following the requirement of filing the petition by November 30, 2024 by all discoms. Moreover, nine out of 13 states, wherein discoms have filed petition so far, have not proposed any tariff hikes despite the gap between the tariffs realised and the cost of supply.
- **The upgrades continue to outpace the downgrades in the sector led by the renewable segment, with 30 upgrades and eight downgrades in 10M 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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# Analytical Contact Details

Name	Designation	Email	Contact Number
Girishkumar Kadam	Senior Vice-President & Group Head	<a href="mailto:girishkumar@icraindia.com">girishkumar@icraindia.com</a>	022 – 6114 3441
Vikram V	Vice-President & Co-Group Head	<a href="mailto:vikram.v@icraindia.com">vikram.v@icraindia.com</a>	040 – 6939 6410
Asmita Pant	Assistant Vice-President	<a href="mailto:asmita.pant@icraindia.com">asmita.pant@icraindia.com</a>	0124 – 4545 856
Soumya Satapathy	Analyst	<a href="mailto:soumya.satapathy@icraindia.com">soumya.satapathy@icraindia.com</a>	033 – 7150 1100





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# Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	<a href="mailto:shivakumar@icraindia.com">shivakumar@icraindia.com</a>	022-61693304
Neha Agarwal	Head – Research Sales	<a href="mailto:neha.agarwal@icraindia.com">neha.agarwal@icraindia.com</a>	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	<a href="mailto:rohitg@icraindia.com">rohitg@icraindia.com</a>	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	<a href="mailto:vivek.bhalla@icraindia.com">vivek.bhalla@icraindia.com</a>	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	<a href="mailto:vinita.baid@icraindia.com">vinita.baid@icraindia.com</a>	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	<a href="mailto:shivam.bhatia@icraindia.com">shivam.bhatia@icraindia.com</a>	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	<a href="mailto:communications@icraindia.com">communications@icraindia.com</a>	0124-4545860







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