



REPORT ON POWER SECTOR

Merchant Power - Can It Handle Bouncy Cooling Demand?

July 2025



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EXECUTIVE SUMMARY

Power demand in Q1FY26 mellow in the shadow of early rains... cooling demand swing playing a large role

Energy supplied is down by 1.5% y/y in Q1FY26 – the first decline seen in Q1 since FY16 (barring COVID-19 impacted FY21). This is as 60% of the days in Q1FY26 saw above normal rainfall, dipping the mercury. Conversely, there were only 12 days in which both maximum temperature and humidity were above normal levels. These trends point towards the halo of cooling requirement on power demand, which is only set to grow in the future. *Given the volatile nature of weather driven demand, this could pressure the financials of high-cost players in lean years, with them having to opportunistically play the merchant market during peak times to salvage their RoE*

From energy demand to peak power demand to peak mismatch: evolving power exchange narrative tells a storage story

The highest price on exchange in recent times is no longer during the morning or evening peak, but late in the night, typically between 8 PM – 12 midnight, when the significant ramp down of solar supplies is met with increasing cooling demand. This creates a large mismatch, pushing spot prices towards the ceiling, even as average prices are drifting downwards. *Our study of the RTM market shows that an average day in May'25 saw supply 10% below demand during this time of the day, with the worst-case scenario seeing 90% shortfall. Contrast this to the fact that supply is 2.8x demand during 7:00 AM – 5:00 PM (solar generation hours), the need for storage is amply clear to make best use of existing VRE capacities.*

Capacity additions continue unabated, share of renewables in generation is expected to catch up in the next few years

Additions continue at an annualised pace of ~30 GW, of which a majority is solar. *Utility solar addition pace is expected to saturate at current levels of 25-30 GW/year* since the pace is sufficient to meet the target set, there is an increasing focus on load-oriented tenders (FDRE, RTC etc.) thereby reducing solar tender share to less than 50% in FY25, and ample non-utility capacity is coming up. On the generation front, heavy lifting is needed as share still remains in the low teens. *Share of RE in generation will surge in coming years due to proliferation of higher CUF tracking bifacial modules, resurgence of wind which has higher CUF, and development of storage systems which will use excess solar supply effectively.*

New VGF scheme indicates a coming-of-age, reducing incentive trajectory to not cause tariff upheaval as industry matures

Recognising these realities, the Union unveiled the next phase of its popular VGF scheme for standalone BESS projects. The contours of this 30 GWh scheme remain similar to the first tranche of 13 GWh, with the critical difference of incentive being capped at Rs. 1.8 mn/MWh (earlier lower of 30% of project cost or Rs. 2.7 mn/MWh). Significant tendering is left even in earlier phases, however, the *reduction in VGF is expected to drive up tariffs by ~10%. Given the trajectory of battery prices, this may be comfortably absorbed within the next few months. We believe that incentives will gradually be withdrawn as capex costs reduce to maintain tariffs near current levels as these are competitive with alternates.*

Conclusion of key DISCOM schemes to impact credit growth of key FIs

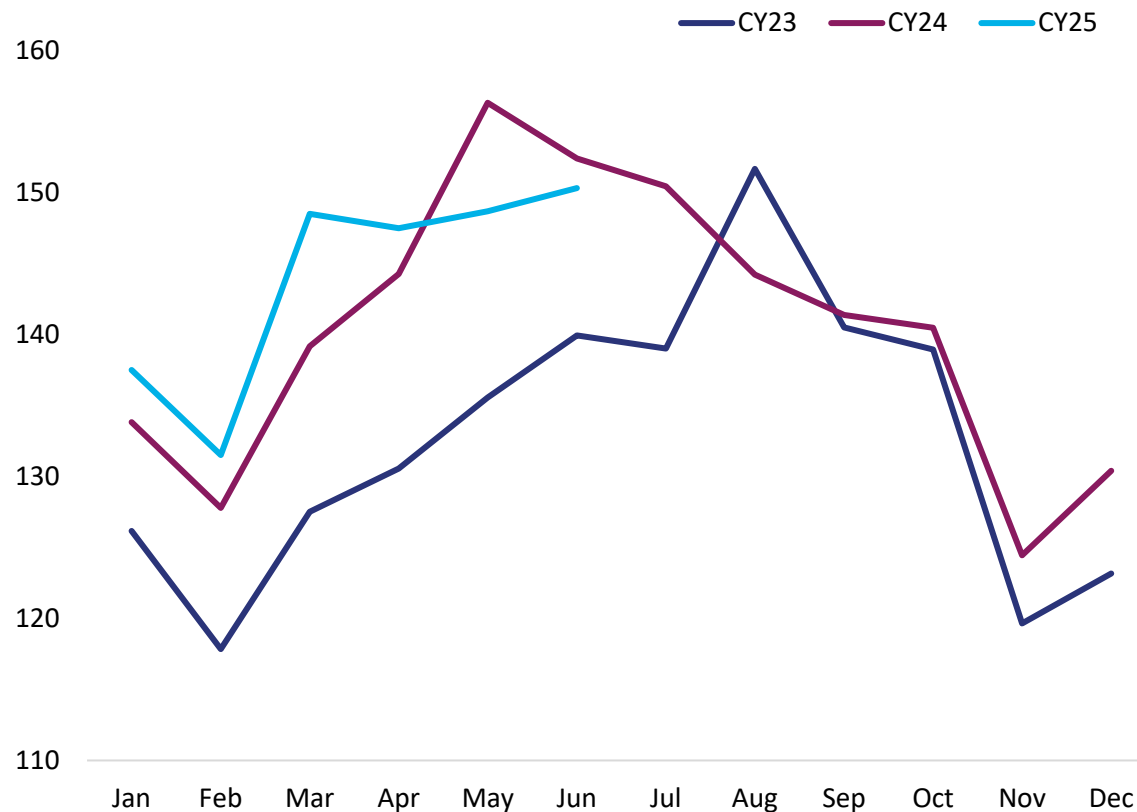
The final piece of the jigsaw which has oft forced the industry to shake up the whole puzzle has always been T&D. Transmission additions need to accelerate significantly to enable renewable tie ups, and we are already seeing several RE projects stranded for lack of connectivity. Some are even exploring doing away with transmission dependence and developing localised grids with storage. On the distribution front, while aggregate statistics of DISCOMs remain middling, some progress has been made through RDSS and LIS/LPS which are reaching their sunset. *Importantly, with RE lending not picking up fast enough to replace the significant DISCOM credit which was being extended in the past few years, major FIs could see slower growth in the medium term.* With various moving parts, the funding ecosystem remains vibrant to support the rapid growth of the sector.

01

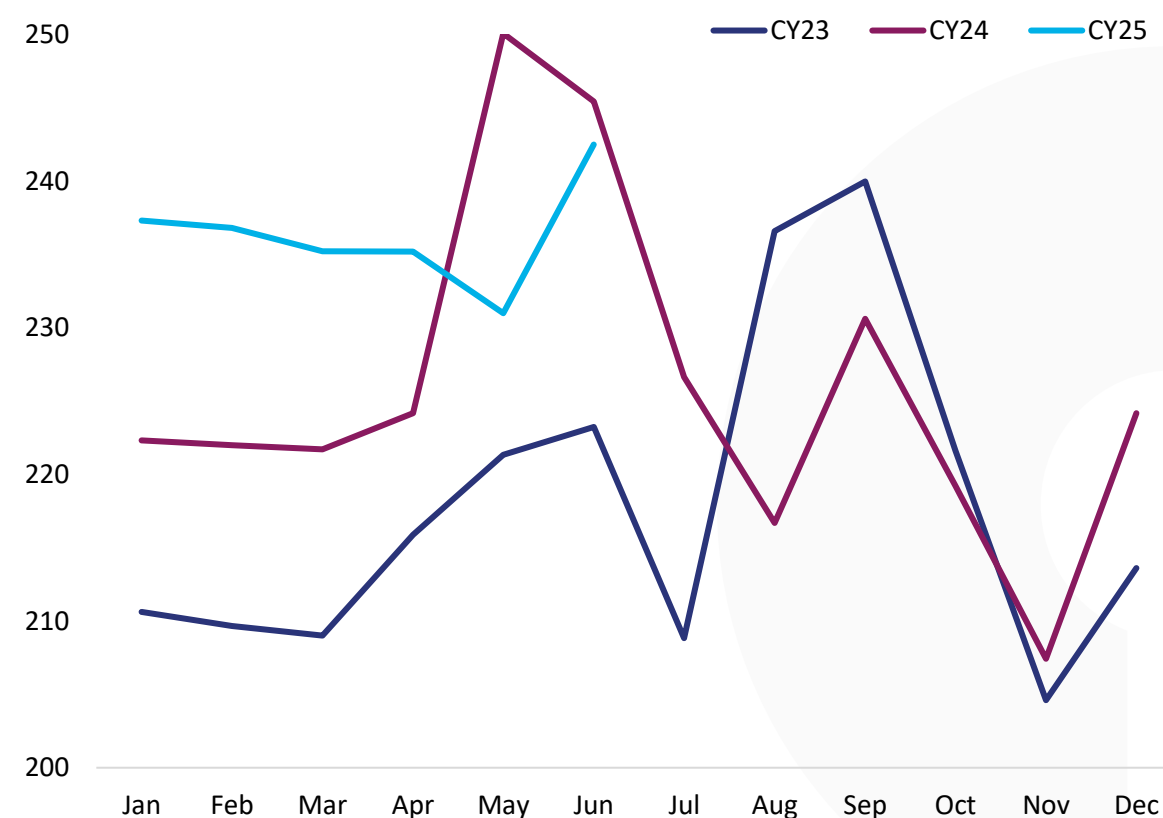
MUGGY DEMAND? - FORM IS TEMPORARY, CLASS IS PERMANENT

EARLY MONSOON DAMPENS POWER DEMAND IN Q1

ENERGY SUPPLY (BU)



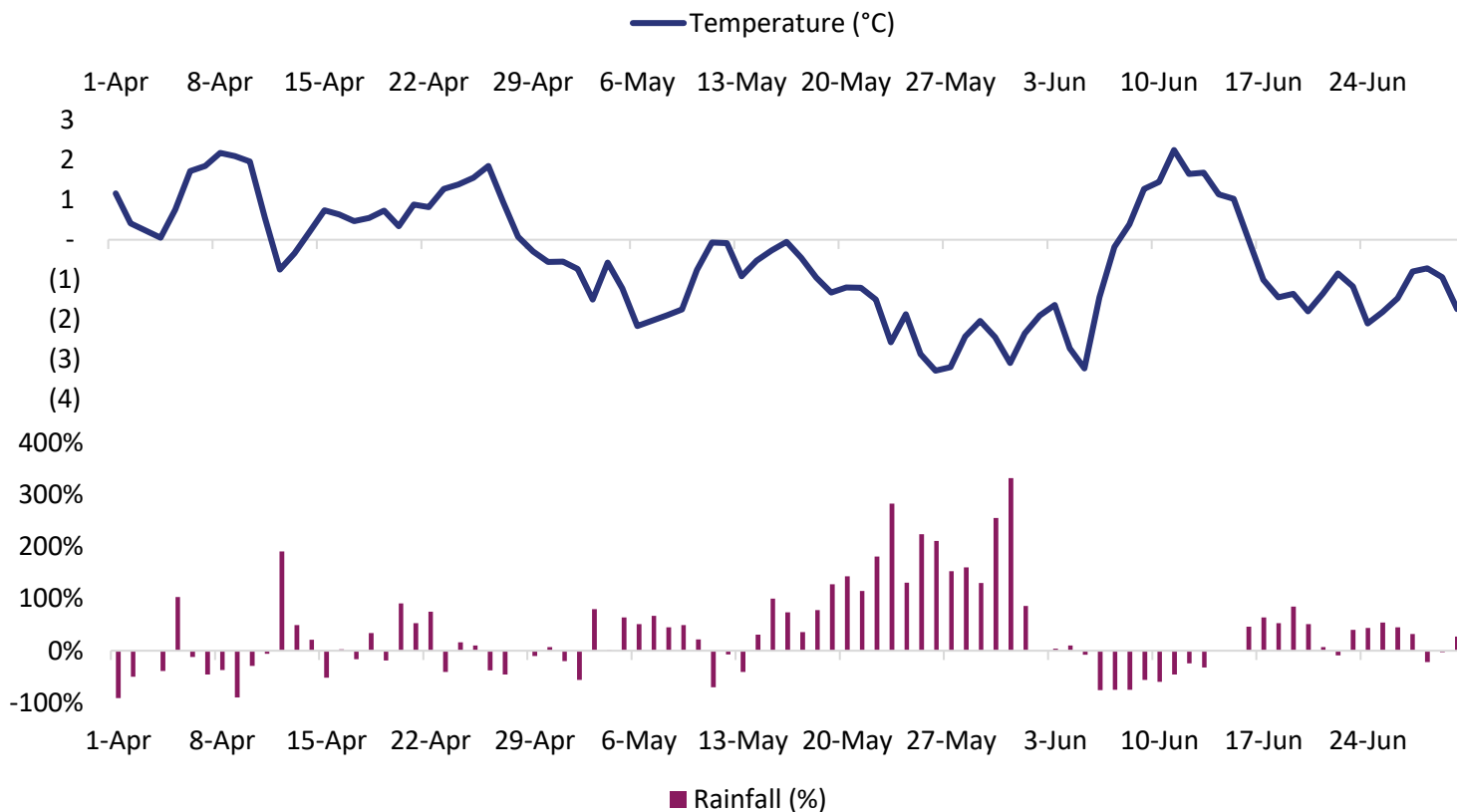
PEAK POWER DEMAND (GW)



- Energy supplied is down by 1.5% y/y in Q1FY26 – the first decline seen in Q1 since FY16 (barring COVID-19 impacted FY21). This comes after FY25 saw moderate growth in energy supply despite having a bright Q1
- Notably, annual peak demand, which had occurred in May'25 in CY24 did not occur this time. Jun'25 saw select days in which rainfall was less seeing high peak demand, notably touching 241 GW

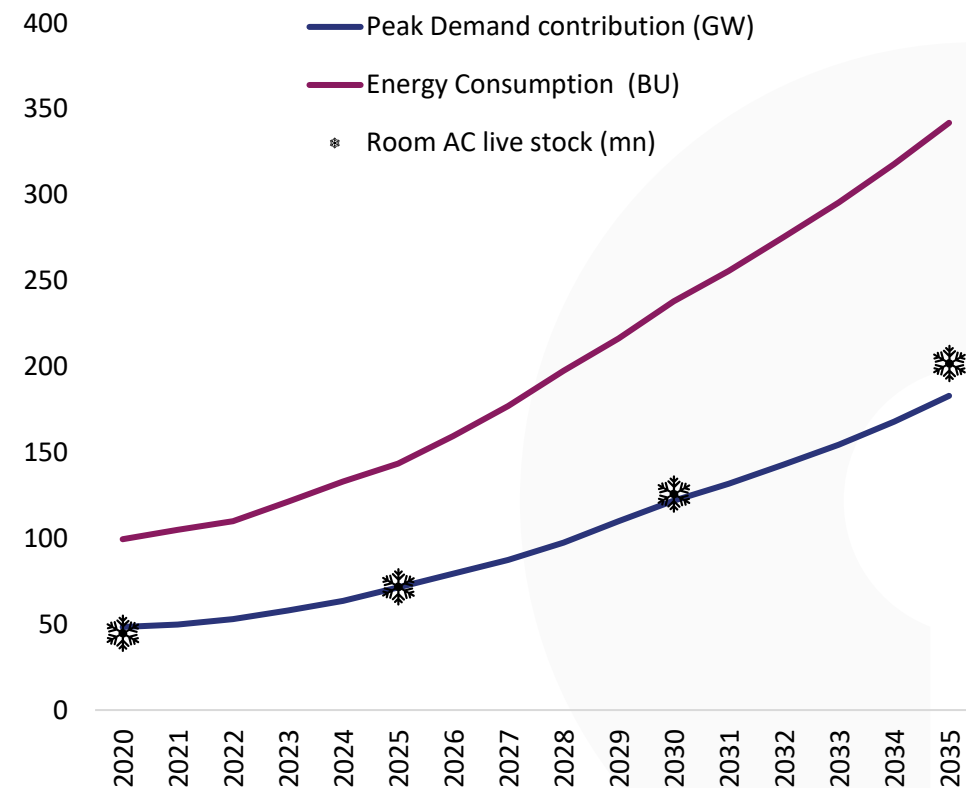
COOLING DEMAND BECOMING THE KEY VARIABLE IN PEAK DEMAND

WEATHER: DEVIATION FROM NORMAL



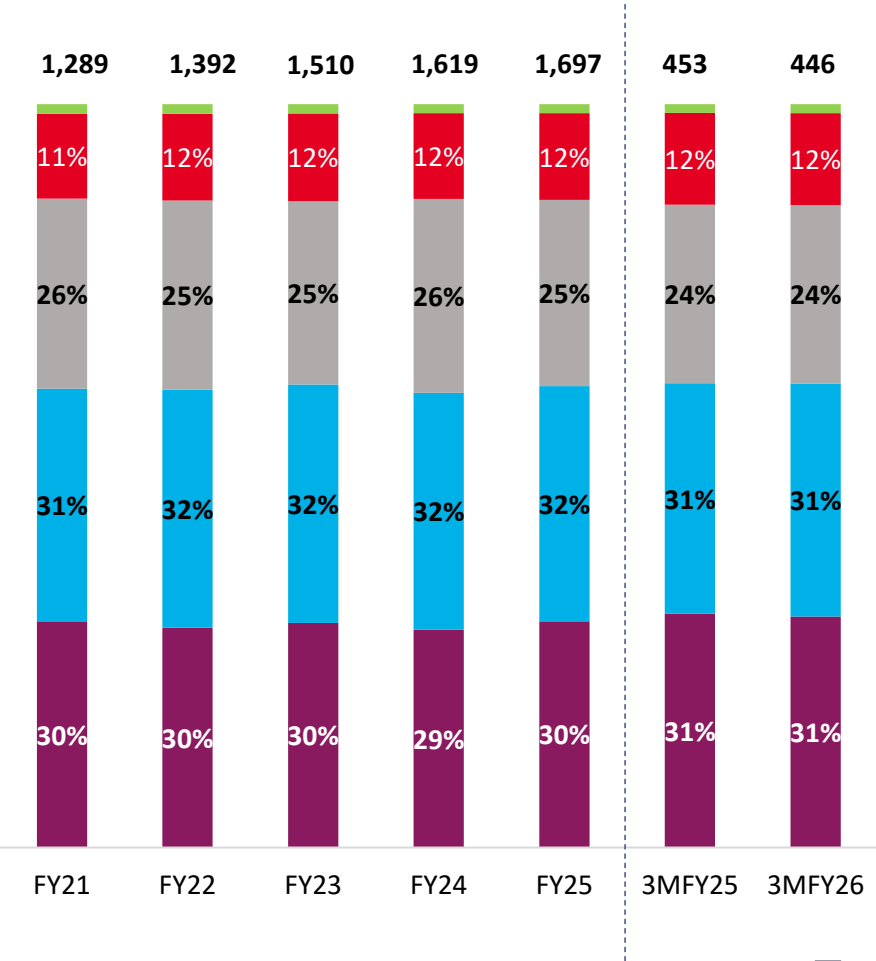
- 60% of the days in Q1FY26 saw above normal rainfall. Conversely, there were only 12 days in which both max. temperature and humidity were above normal. This reflects the power of cooling demand, and with AC ownership in India mirroring the rise seen in China some decades earlier, room ACs could contribute to nearly 25-30% of the total peak demand by 2035
- Importantly, unlike C&I demand which is predictable, changes in weather can impact cooling demand greatly. This means that volatility in power demand is set to increase in the future. This will pose a challenge to both GENCOS and DISCOMS in accurately forecasting the same and ensuring projects remain viable through lean periods

COOLING DEMAND



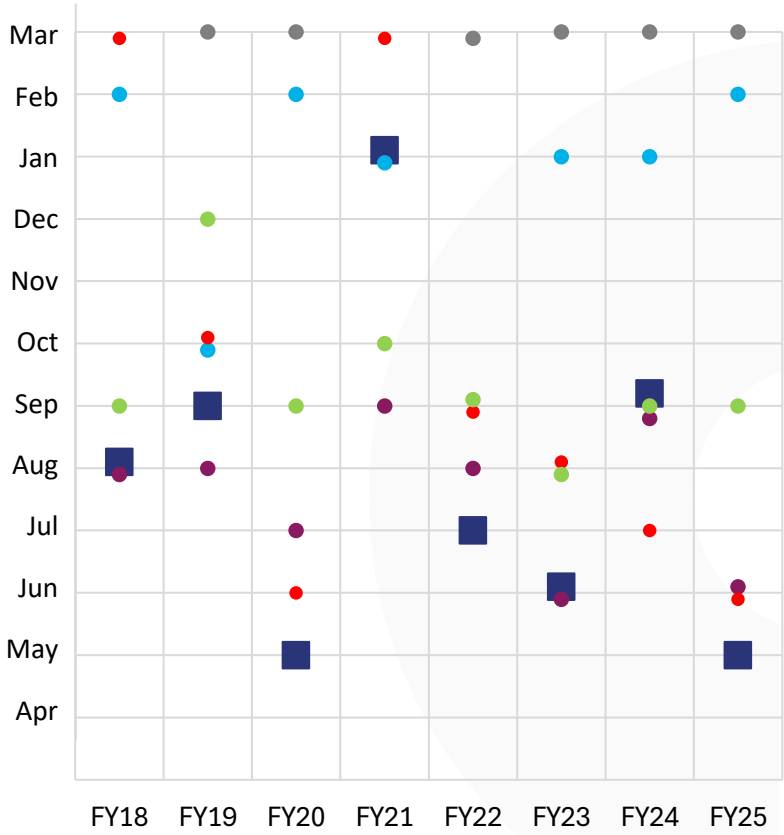
EXCESS RAINFALL DEPRESSES PEAK IN NORTH INDIA

REGION WISE ENERGY SUPPLY (BU)



- Decrease in energy supply was profound in NR due to unprecedented rainfall. All regions showed decline barring NER
- Regions where domestic consumption dominates (NR, ER) tend to have peaks in H1 of FY, while those where industrial capacities dominate have them in Q4 (WR, SR)
- Due to increasing share of domestic consumption in overall power, NR domestic consumption drives national peak

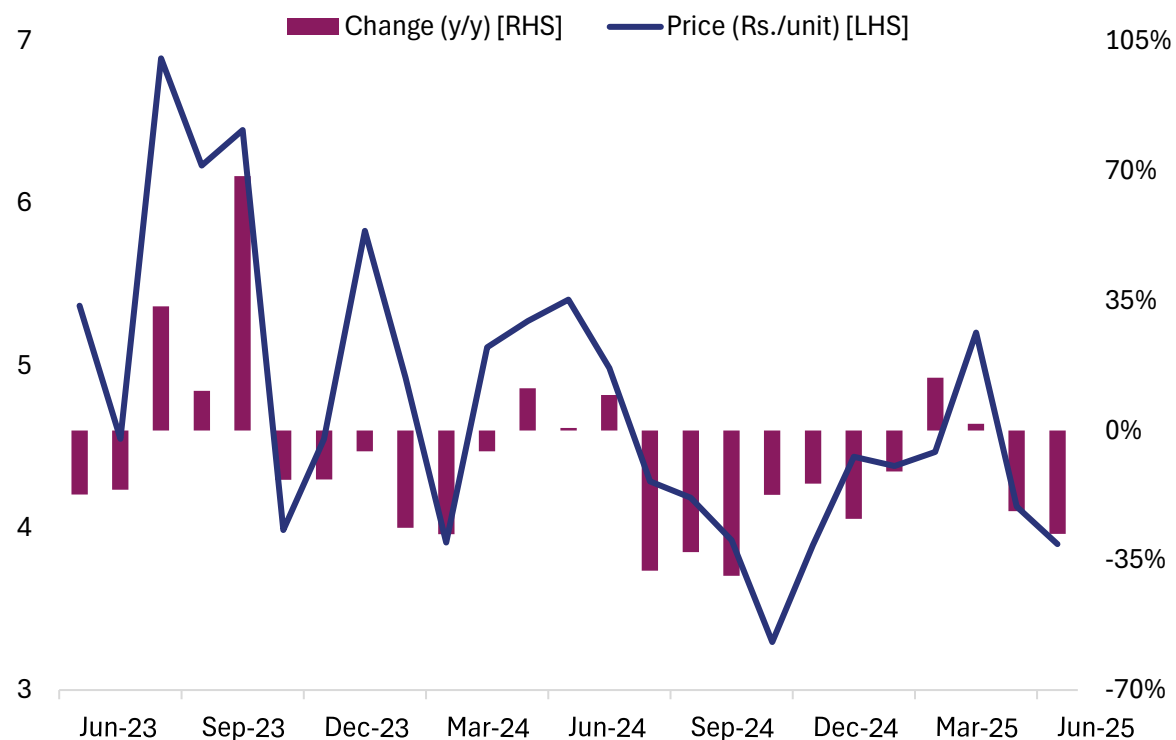
REGION WISE PEAK DEMAND



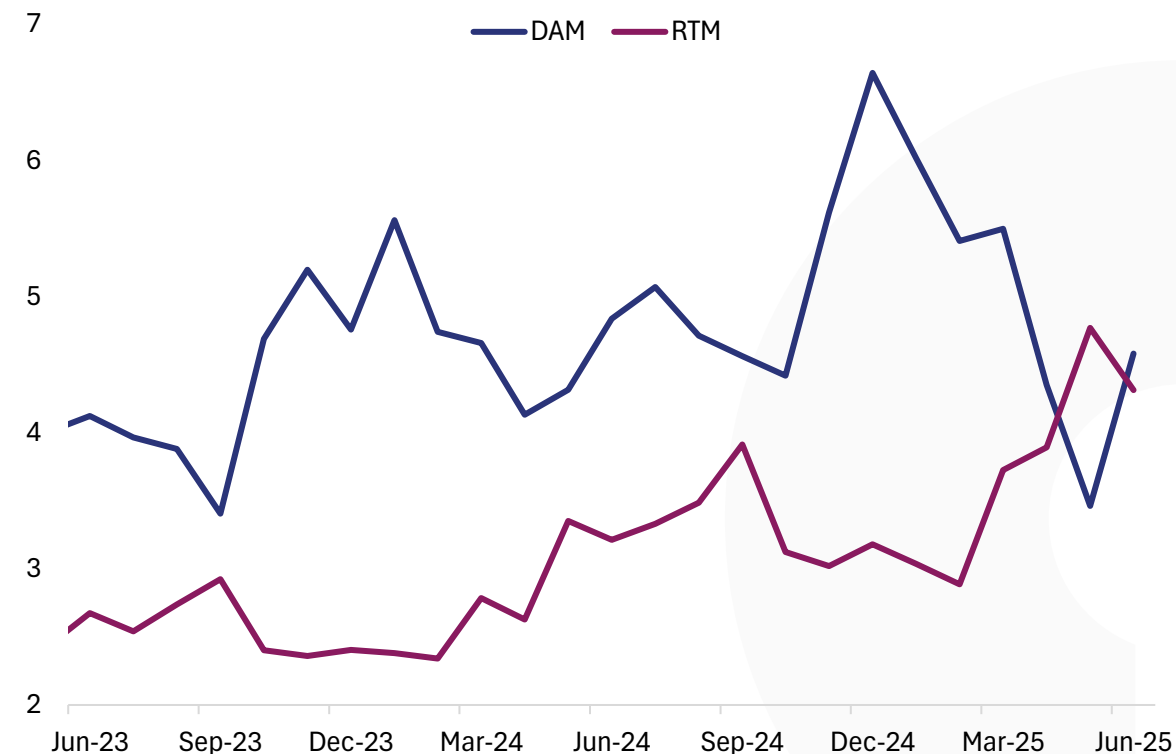
■ All India ● Northern ● Western
● Southern ● Eastern ● North- Eastern

EXCHANGE PRICES DIP TOWARDS NORMALCY

DAM PRICE AND CHANGE



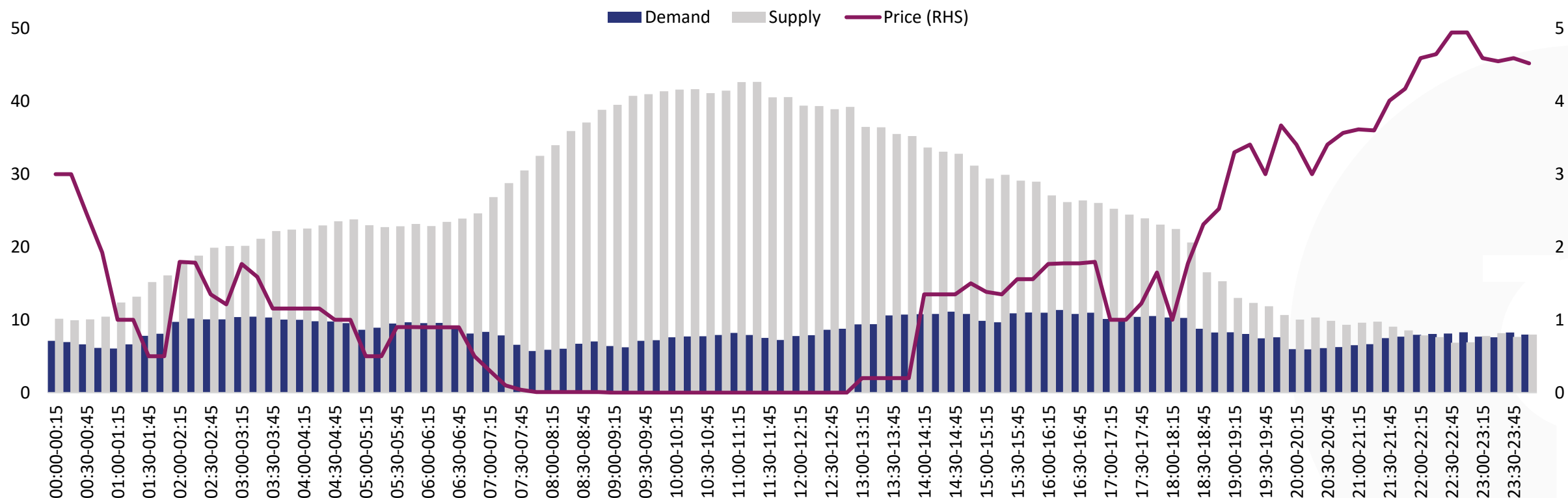
VOLUME IN DAM AND RTM MARKET (BU)



- After close to 3-years at elevated levels, spot prices on exchange are dipping towards the long-term mean of Rs. 3.71/kWh, with 9 of the last 10 months showing degrowth. This is attributable to the following factors:
 - Moderate growth in demand in CY24 and YTD CY25 owing to healthy monsoons dipping temperatures during seasons of maximum cleared volume
 - Fair pace of supply additions. Further, most of the additions have come in renewables which have a lower LCOE vs. thermal, naturally reducing prices
 - Improved liquidity due to generally larger volumes on both supply and demand side on exchanges, along with competition amongst exchanges
- This could put into jeopardy merchant capacities, particularly those operating at higher variable cost. RE players could be most affected

SHARP DIURNAL SPOT PRICE DIFFERENTIALS MAKE A CASE FOR STORAGE

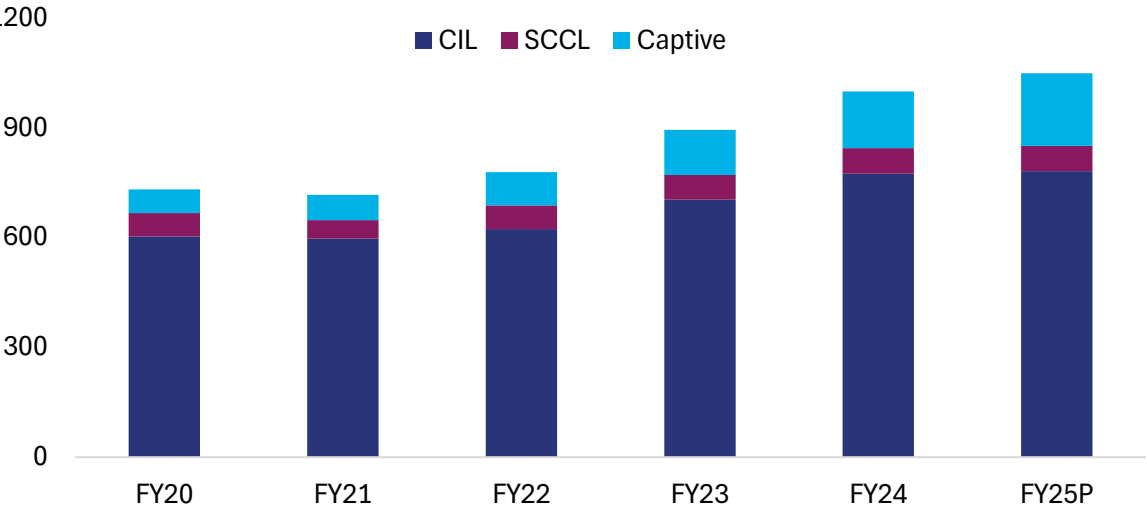
RTM MARKET ON 25 MAY'25 (GW, Rs./unit)



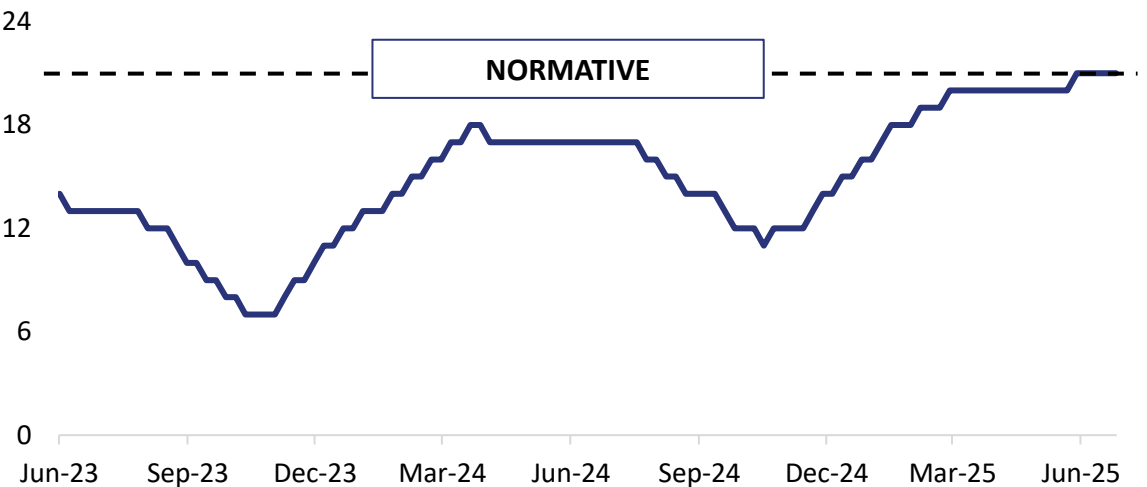
- While average power prices remained in check, the devil lies in the details. Several days saw RTM spot power prices reaching close to Rs. 0/unit, before surging back up towards the ceiling. This is becoming a standard feature of summer months (Apr-Oct) which sees a late peak in prices due to cooling demand
- Winter months (Nov-Mar) see a different price pattern during the day, experiencing two smaller peaks early morning and early evening broadly in line with overall electricity demand peak. Being a tropical country, winter peaks are of less consequence to the power grid
- Notably, the differential in pricing is now on-par with BESS tariffs (without VGF) indicating that storage has become viable and necessary

AMPLE COAL STOCKS BUILD UP ON LOW DEMAND

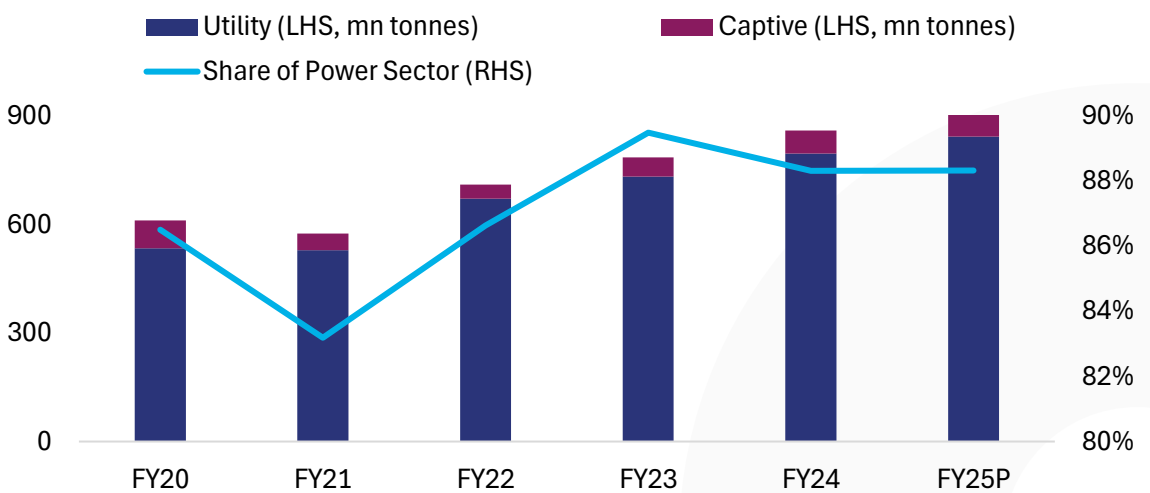
COAL PRODUCTION (mn tonnes)



COAL STOCK AT POWER PLANTS (DAYS)



COAL DESPATCH AND SHARE TO POWER SECTOR

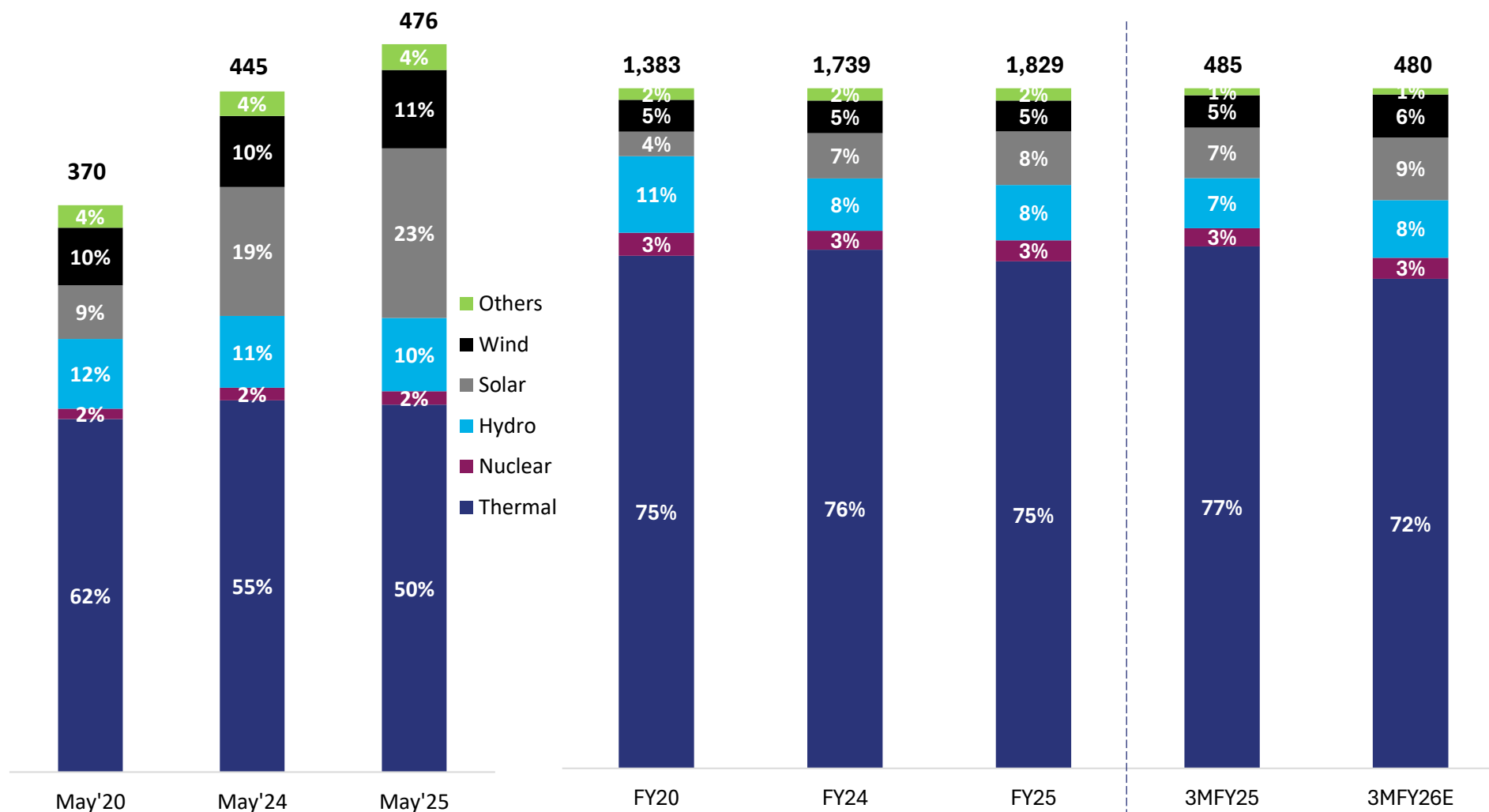


- Coal production cause 1 bn tonnes in FY25 helped by excellent contribution from captives. CIL remains the largest contributor with Rs. 160 bn capex announced for FY26
- Coal imports, which had fallen in FY25, saw a sharp rise in 2MFY26, with May'25 seeing them at an 18-month high. Global coal prices remain down on-year
- Coal stock at power plants has reached normative level (of 21 days) for the first time since Jan'21, after teetering to a low of 4 days during Oct'21

CAPACITY ADDITIONS CONTINUE AT SOLID PACE

INSTALLED CAPACITY (GW)

GENERATION BY SOURCE (BU)



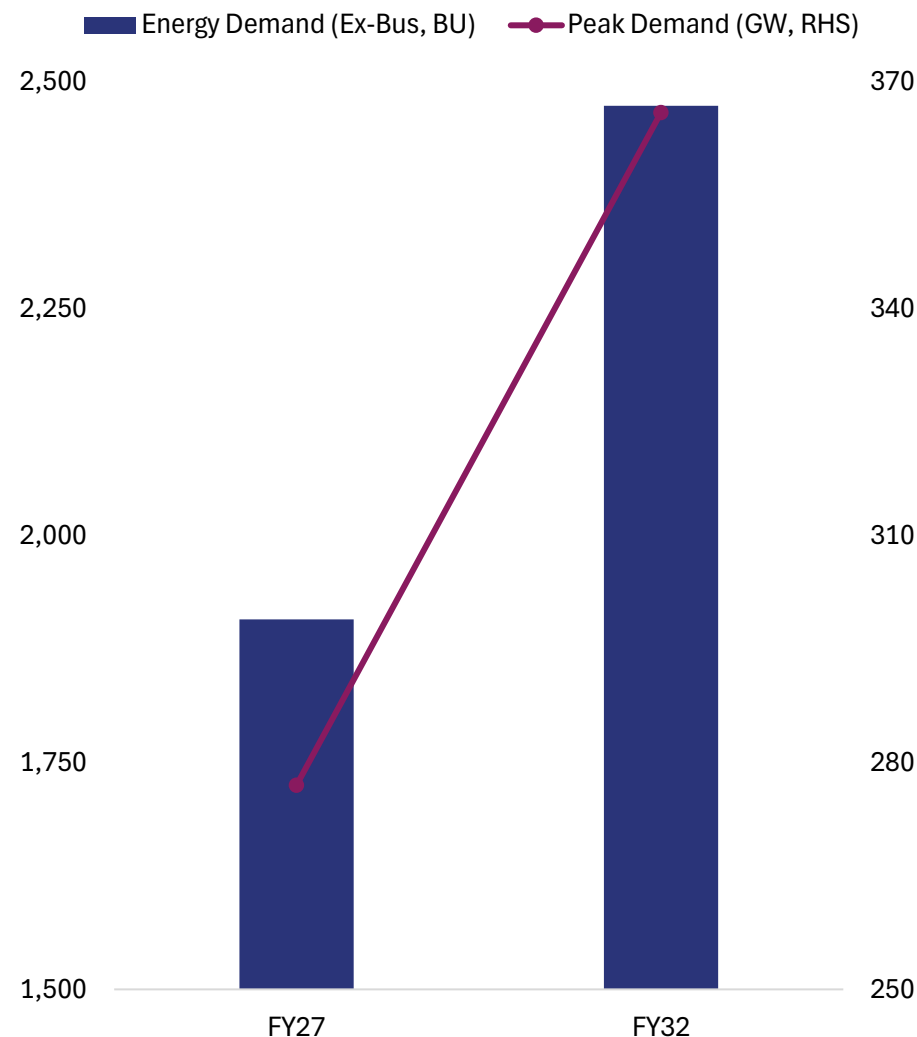
- A lion's share of additions constitute solar. This means share of solar in generation has doubled in 5 fiscals
- Share of renewables in generation is increasing but continues to lag thermal owing to lower CUF

Q2

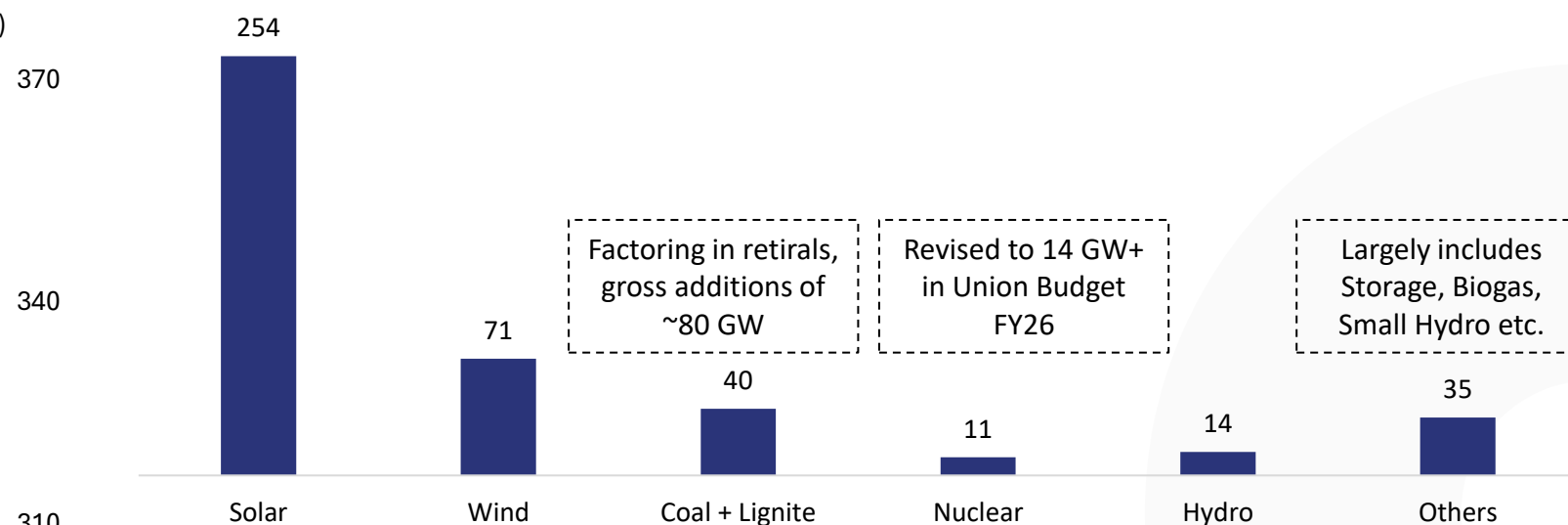
A SIX-YEAR POWERPLAY: CAPACITIES TO COME UP AT HIGH RATE

HOLISTIC CAPACITY ADDITIONS NEEDED FOR A LOAD-CENTRIC POWER SYSTEM

TOTAL DEMAND AND ENERGY SUPPLY



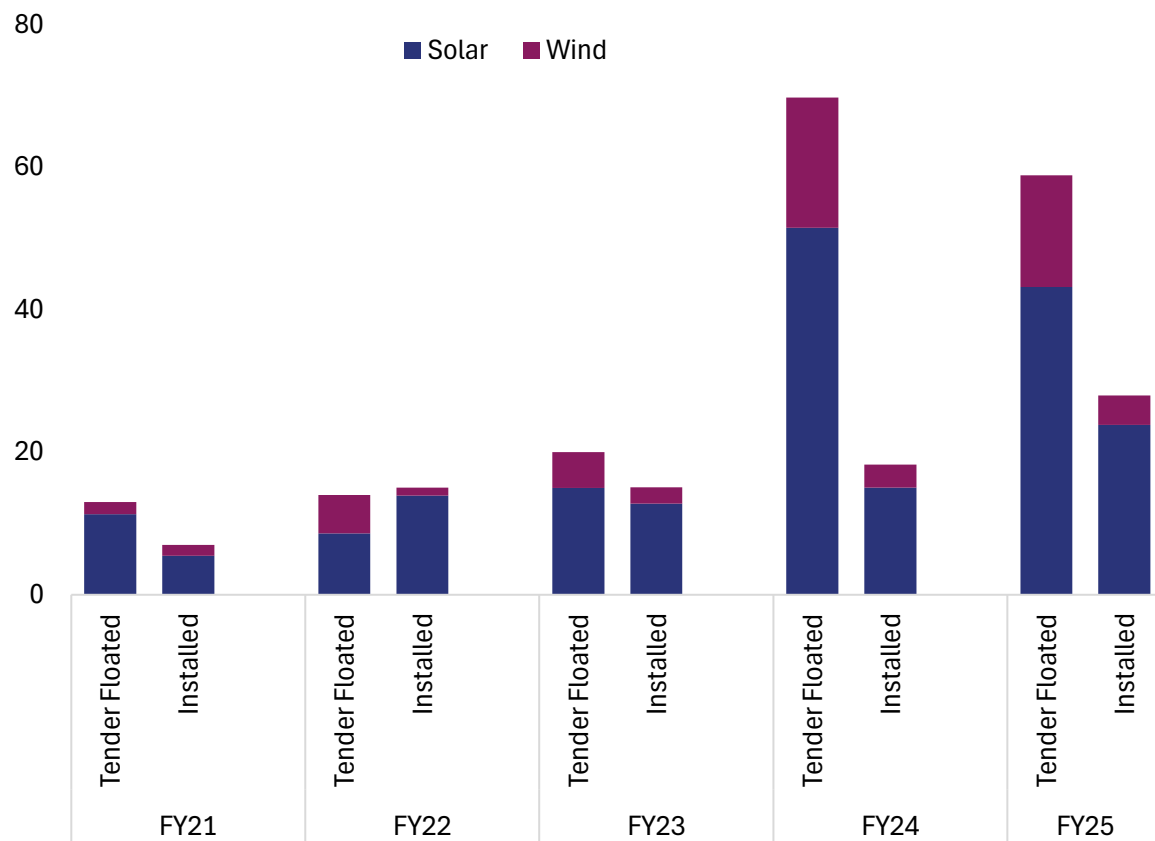
PLANNED NET CAPACITY ADDITIONS TILL MAR'32 (vs. MAY'25) (GW)



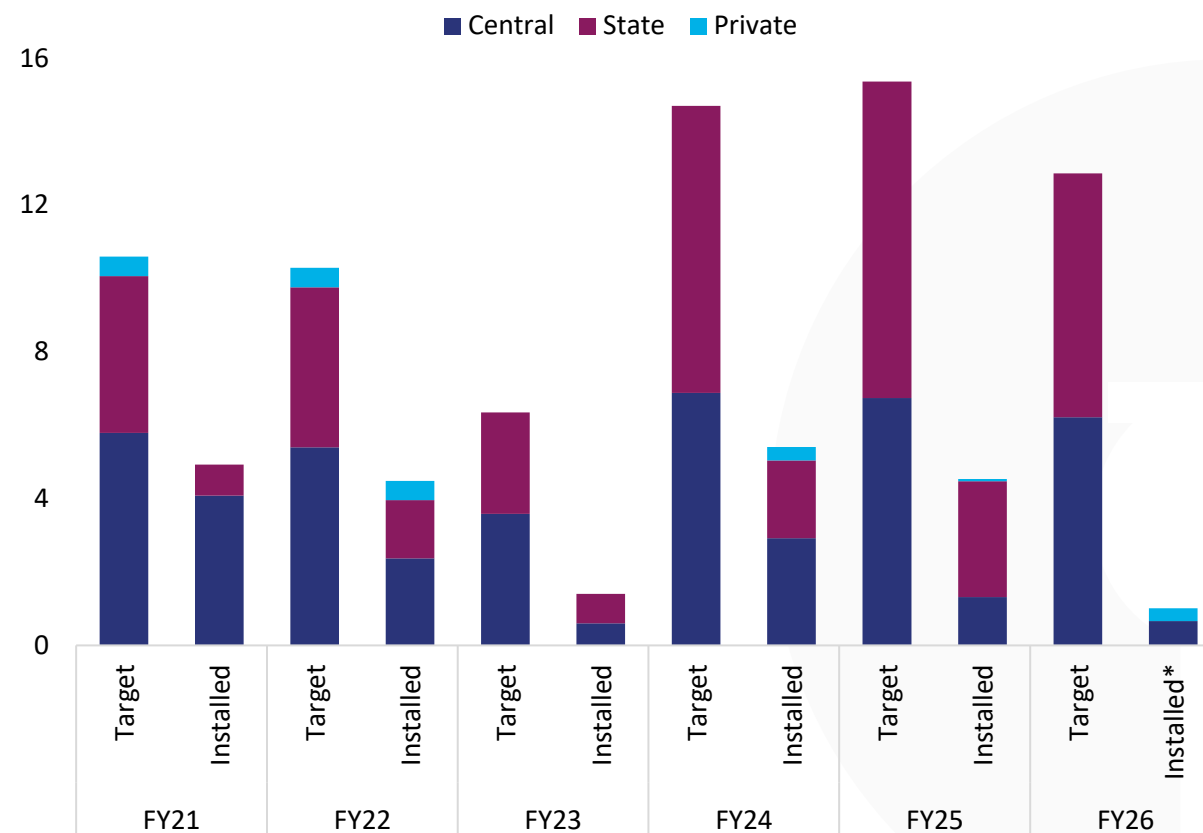
- Peak demand is expected to grow at a faster pace than energy requirement. This means that capacity addition must be focussed on load profile. This has created a renewed emphasis on thermal and nuclear, which have seen upward revisions in targets
- Importance of wind is increasing due to its high oversizing requirement in oversizing projects (typically greater than solar or storage)
- New avenues of demand such as green hydrogen, data centres, EV will become important in the next decade. Presently, additional cooling demand is rapidly growing with announcements that AC temperatures could be limited to 20 °C

RENEWABLES ARE ON TRACK, OTHER SOURCES NEED A PICKUP

RENEWABLE - TENDERS AND GROSS INSTALLATION (GW)



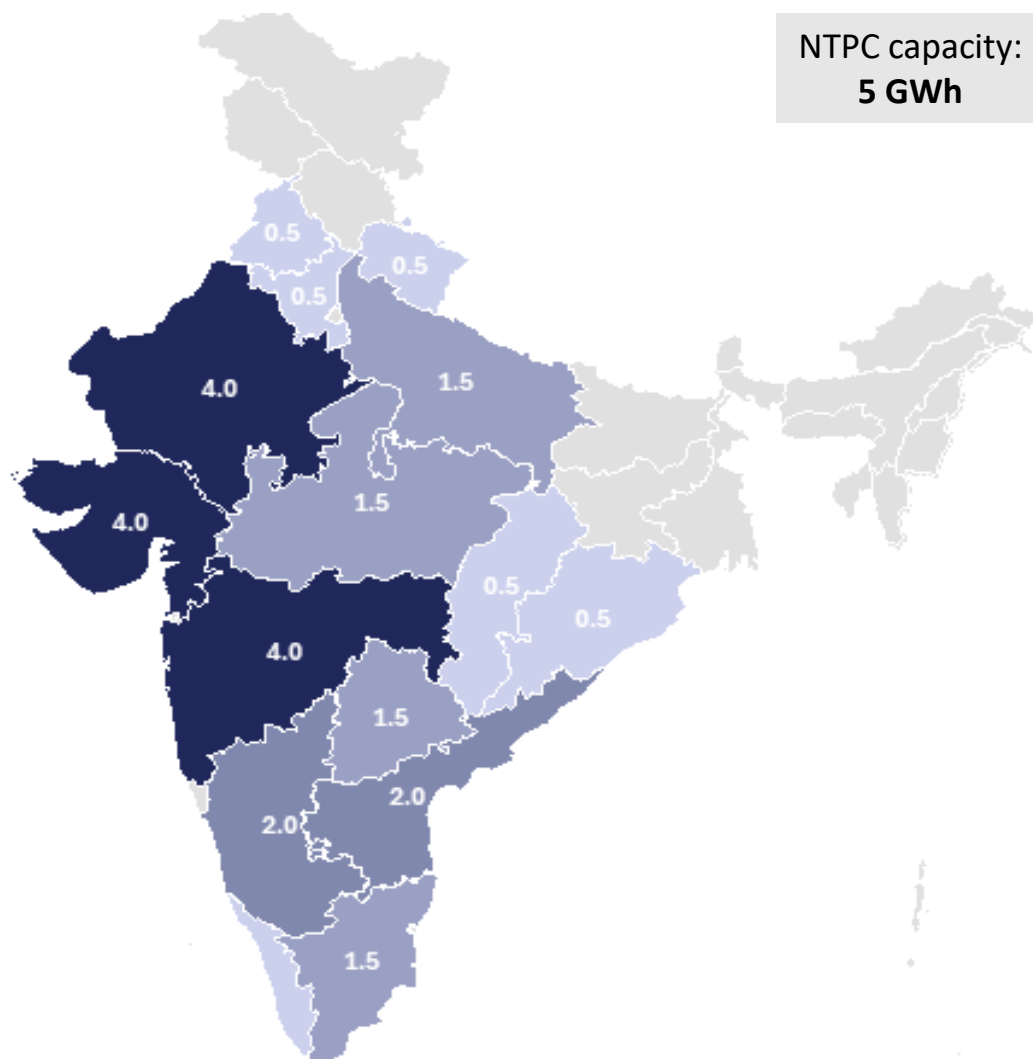
THERMAL GROSS INSTALLATION (GW)



- Renewable tendering continues in full swing, albeit was down on year even as installations picked up. There are some issues regard delays in signing PPAs, land acquisition, and transmission connectivity which is causing issues in certain projects
- Thermal installations have been well below target for multiple years. Key projects expected to come up in FY26 include Units I-IV of Yadadri TPS (3.2 GW) and Units I-II of Patratu STPP (1.6 GW). ~23 GW of projects across the country are in various stages and unlikely to be commissioned

STORAGE ENTERING THE NEXT PHASE OF GROWTH

SPLIT OF VGF 2.0 SCHEME (GWh)



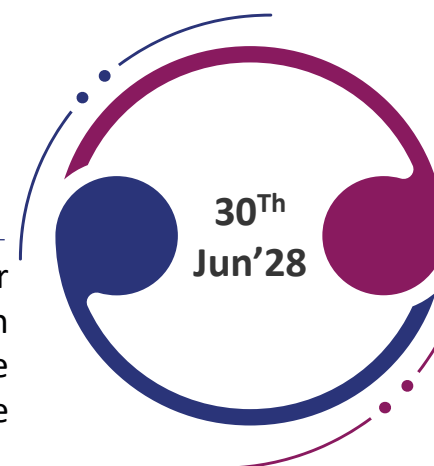
NTPC capacity:
5 GWh

- **BESS VGF Expansion:** New 30 GWh capacity, adding to 13.2 GWh underway from earlier phases
- **VGF Amount:** Reduced to Rs. 1.8 mn/MWh (33% decrease)
- **VGF Structure:** No percentage cap on funding (earlier 30%)
- **Financial Impact:**
 - Scheme Outlay: Rs. 54 bn
 - Expected Investment: Rs. 330 bn
 - Goal: Meet BESS requirement by 2028

EXTENSION OF ISTS WAIVER FOR STORAGE PROJECTS

01 PSP

100% ISTS waiver for PSPs for which construction works were awarded on or before 30th Jun'28

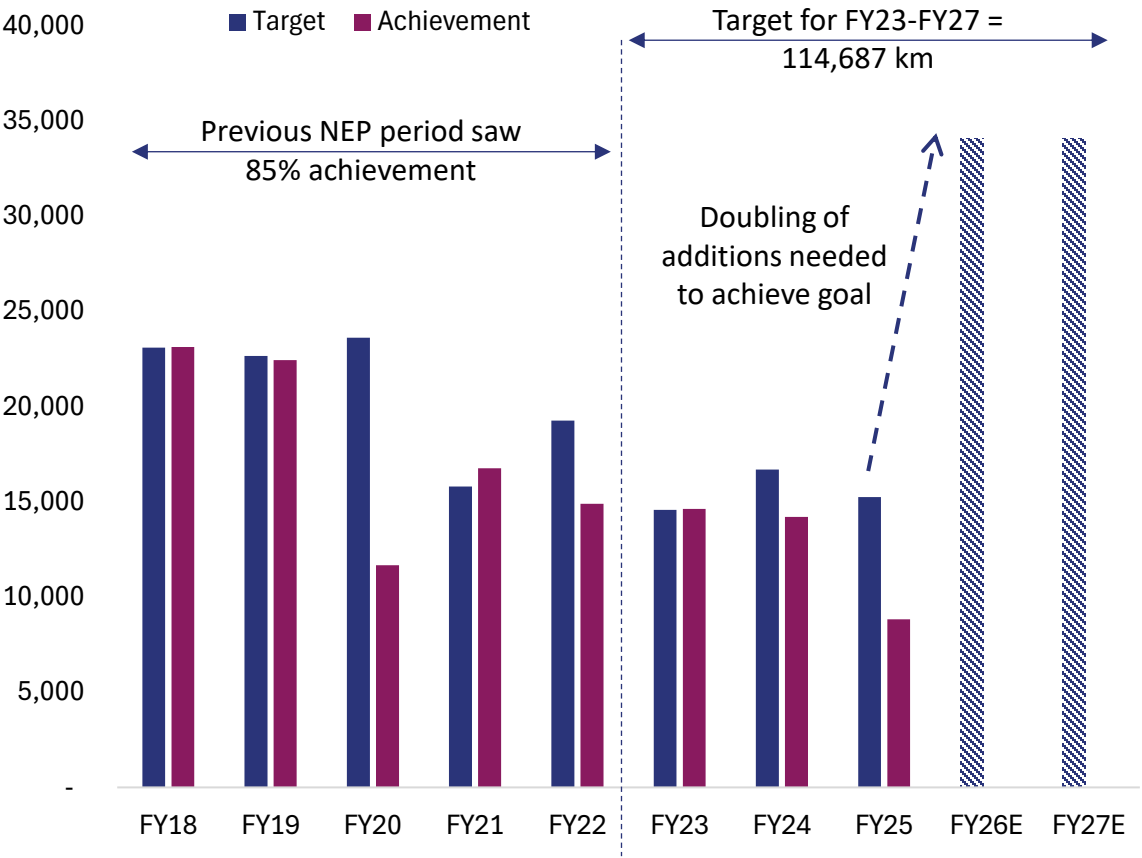


02 BESS

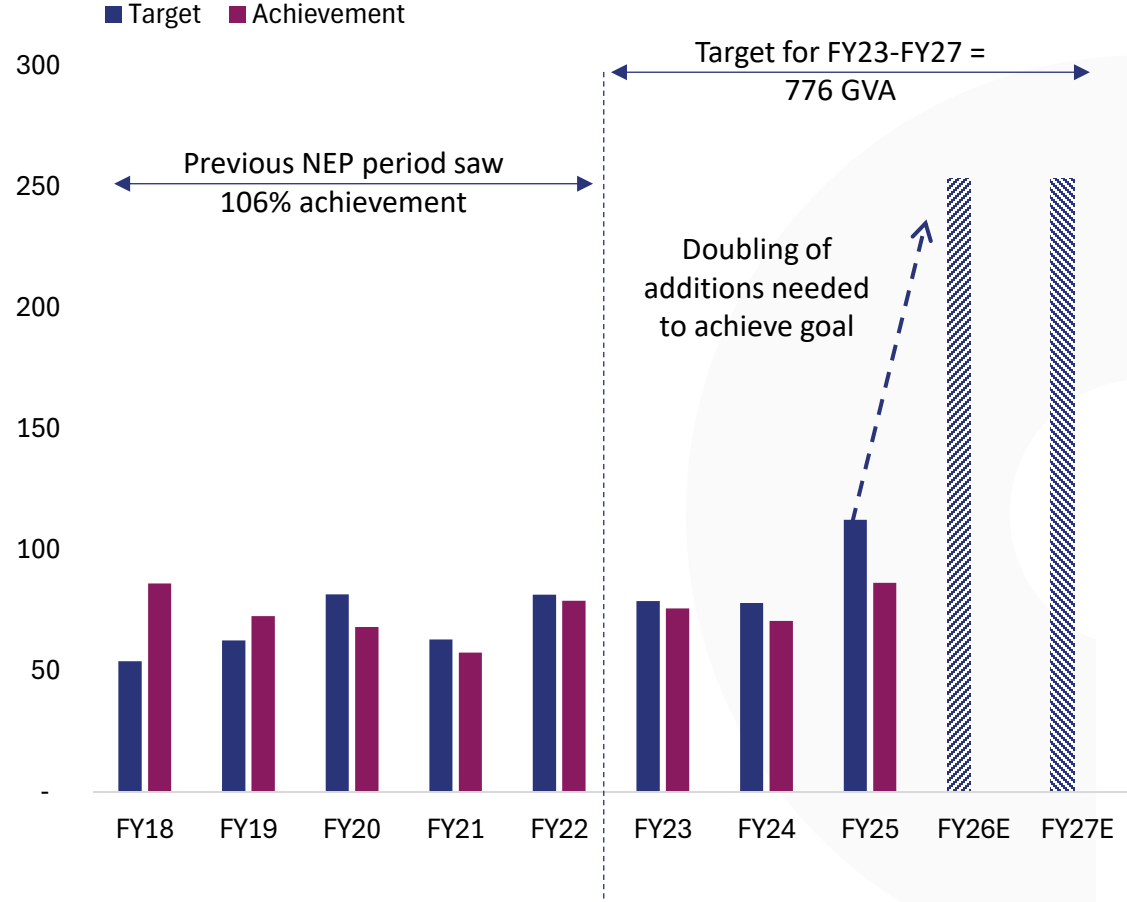
100% ISTS waiver for co-located BESS that will be commissioned on or before 30th Jun'28 and power consumption is outside the state

TRANSMISSION: LINE ADDITIONS NEEDED FOR RENEWABLE CONNECTIVITY

TRANSMISSION LINE LENGTH (ckm)



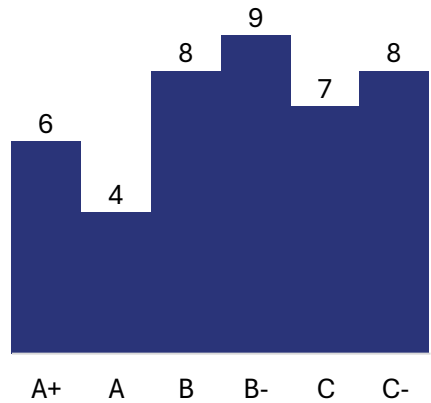
SUBSTATION CAPACITY (GVA)



- To achieve the target set for Mar'27, annual addition pace of both line and substation capacity needs to more than double, and reach levels not seen
- In contrast the pace required to achieve Mar'32 goals (~15,000 ckm/year for lines and ~100,000 MVA for substations) seems reasonable in light of historical trends

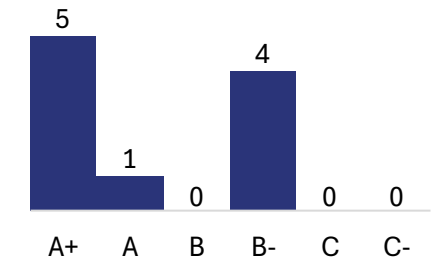
DISTRIBUTION: DISCOM HEALTH IS IMPROVING, ALBEIT SLOWLY

STATE



State DISCOMs typically enjoy a poorer rating profile and suffer more downgrades

DISCOM RATINGS



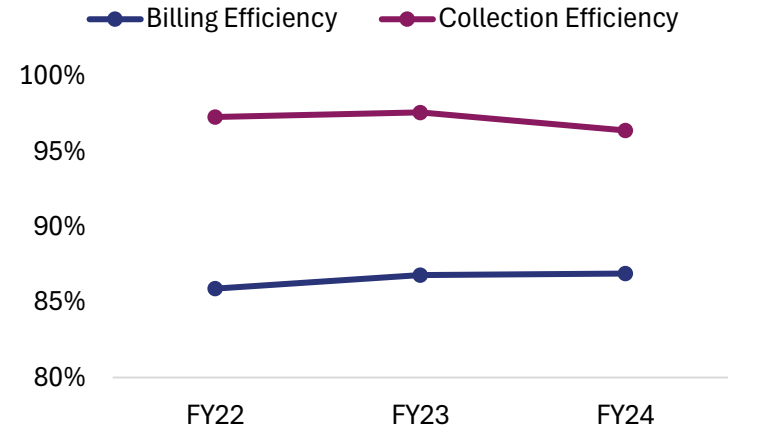
PRIVATE

	FY24						
FY23		A+	A	B	B-	C	C-
	A+	11	0	0	0	0	0
	A	0	1	1	1	1	0
	B	0	2	1	4	0	0
	B-	0	2	4	4	3	0
	C	0	0	2	4	2	3
	C-	0	0	0	0	1	5

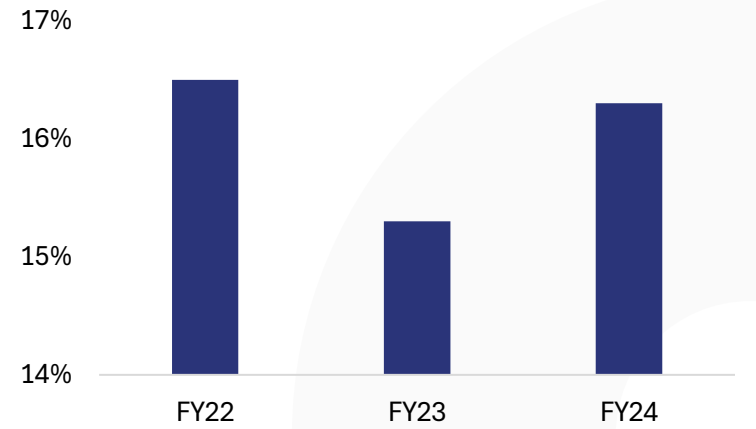
Privatisation has consistently improved operational and financial performance of DISCOMs

VITAL STATISTICS OF DISCOMS

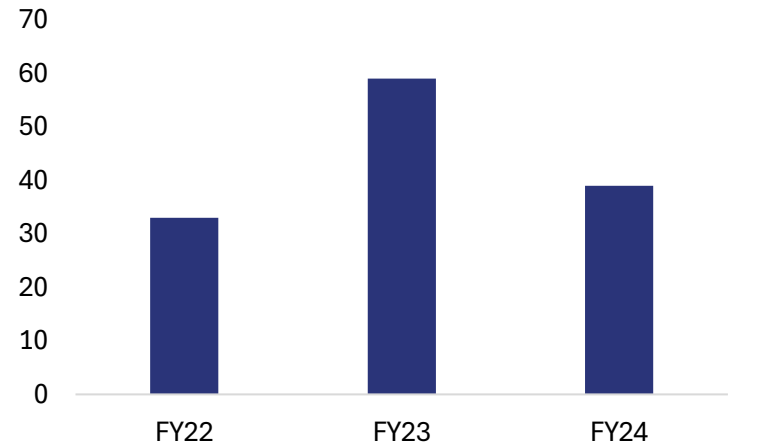
EFFICIENCY



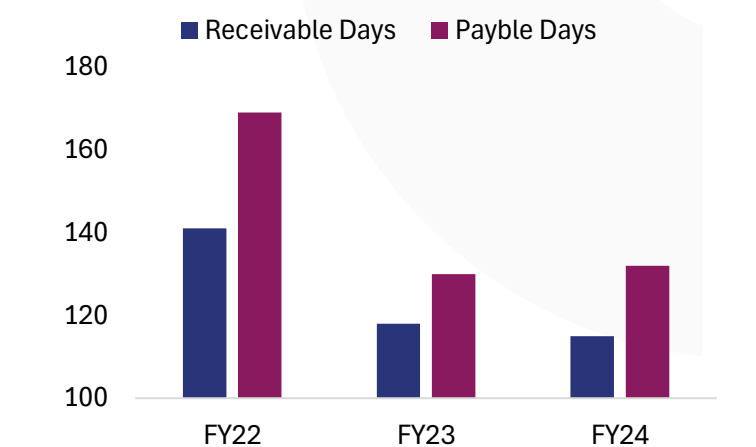
AT&C LOSSES



ACS-ARR GAP (p/kWh)



WORKING CAPITAL

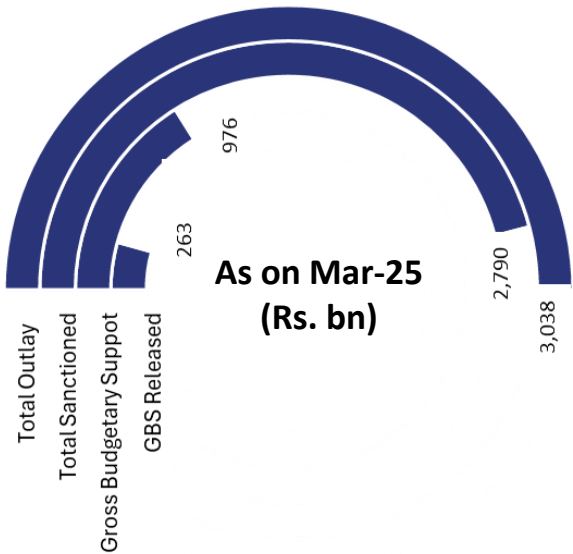


KEY DISTRIBUTION SCHEMES APPROACHING THEIR CONCLUSION

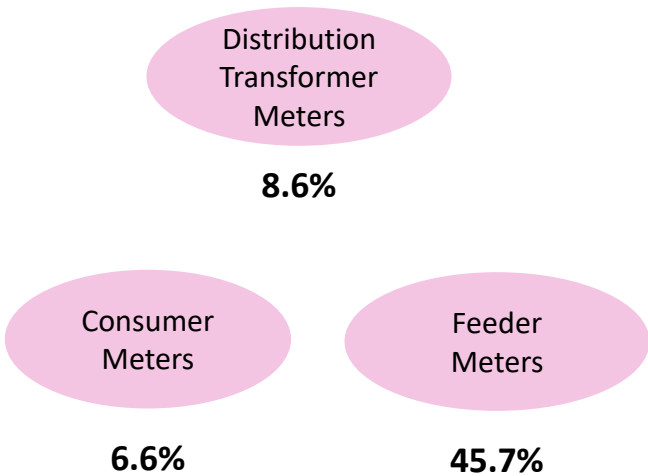
RDSS

- **Objective:** Reach 12-15% AT&C loss and ACS-ARR gap of Rs. 0/unit
- **Components:** Smart metering and distribution infrastructure upgrades
- **Focus:** Reform-based, results-linked financial assistance scheme
- **Implementation:**
 - 5 years from FY22-FY26
 - PFC and REC provide financial assistance
 - Sanctions are at 92%, limited incremental from REC/PFC

Financial Progress

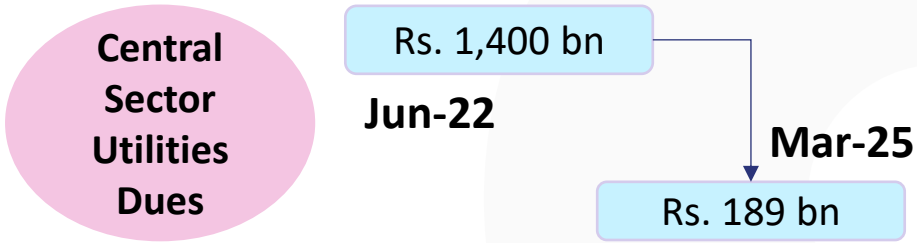


Physical Progress



LPS/LIS

- **Objective:** Provide a clear mechanism for the settlement of outstanding dues owed by DISCOMs. LPS originated from LIS
- **Old Dues Resolution:** All outstanding dues as of 3rd Jun'22 can be paid in up to 48 interest-free EMIs
- **Enforcement:** Non-payment leads to penalties and can trigger regulation of power supply



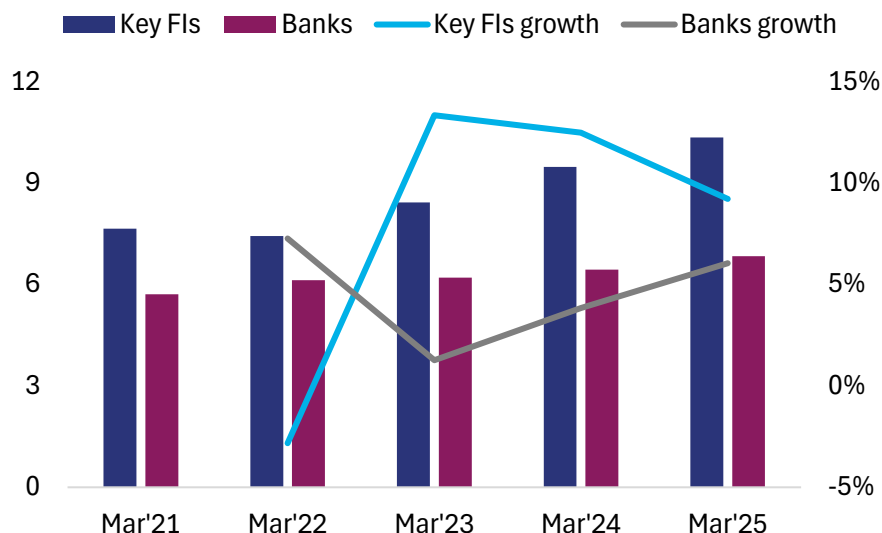
RBPF

- **Objective:** Provide revolving credit in form of working capital loan designed to cover immediate payment obligations
- **Mechanism:** Short tenor loans of upto 12 months with provision for renewal upto 5 years. Helps DISCOMs avoid late payment surcharge
- **Status:** Is an ongoing facility provided by REC and PFC and will continue in the future as well. RBPF o/s continued to grow in FY25

CURATING THE FINANCIAL PITCH: CONTROLLING THE ECONOMY RATE

KEY FI COULD SEE MODERATION IN CREDIT, THOUGH CONTINUE LEADING BANKS

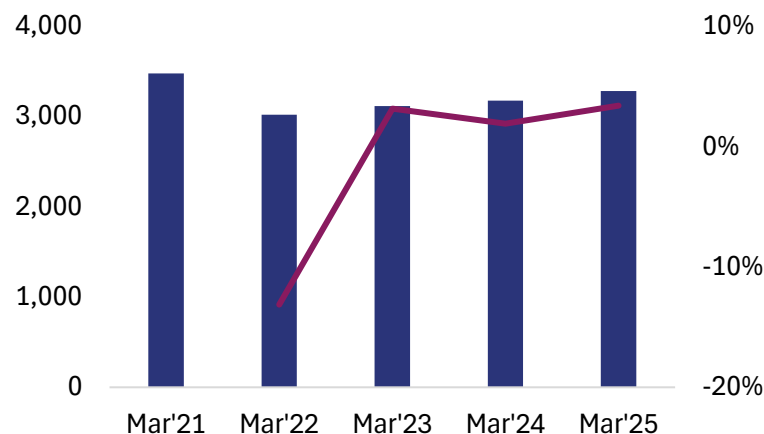
CREDIT OUTSTANDING TO POWER (Rs. trn.)



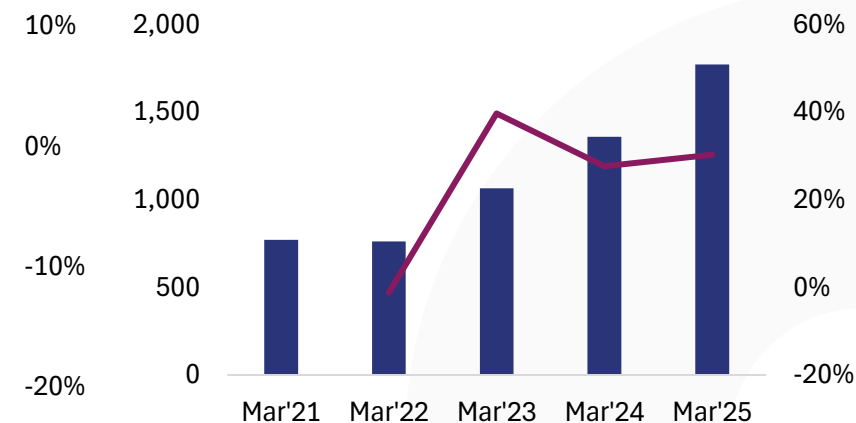
- Power project financing has largely shifted from key FI from banks. Rs. 2.7 trn incremental net loans have been disbursed by them vs. just Rs. 1.1 trn for banks
- Distribution sector was a key driver of growth in loan book for key FIs. However, with conclusion of RDSS and LPS/LIS requirements reducing, further growth may be limited
- Renewables are a huge avenue of growth. However, disbursals are not in line with the lofty targets set out

CREDIT OUTSTANDING (Rs. bn.) AND GROWTH¹ – SEGMENT WISE FOR KEY FIs

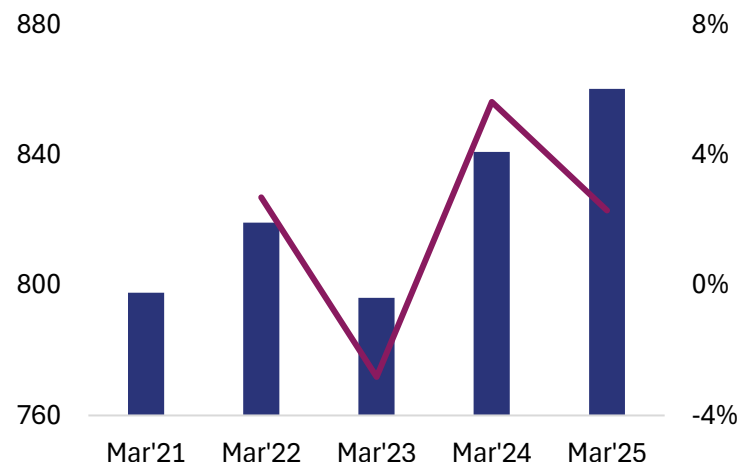
GENERATION - CONVENTIONAL



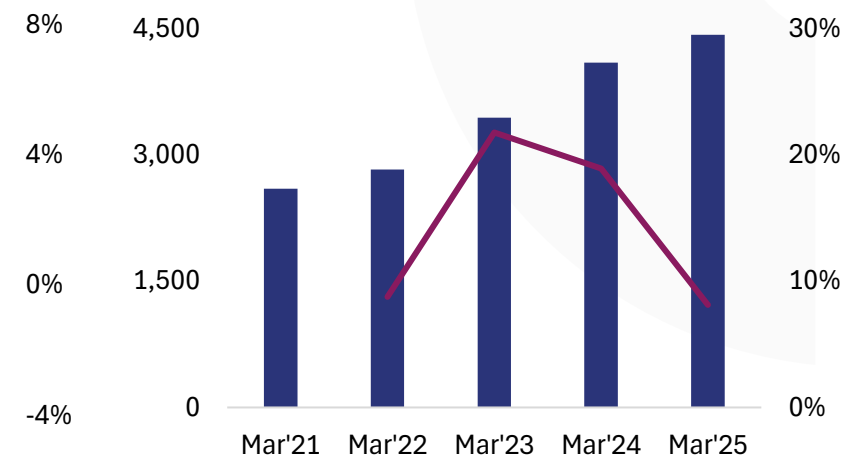
GENERATION - RENEWABLES



TRANSMISSION



DISTRIBUTION



04

ANNEXURE



Item	Explanation
AC	Air Conditioner
ACS	Average Cost of Supply
ARR	Average Revenue Realised
AT&C	Aggregate Technical & Commercial Losses
BESS	Battery Energy Storage System
BU	billion units
CIL	Coal India Limited
cKm	circuit kilometre
CUF	Capacity Utilisation Factor
CY	Calendar Year
DAM	Day Ahead Market
ER	Eastern Region
EV	Electric Vehicles
FI	Financial Institution
FY	Financial Year
GVA	Giga-Volt-Ampere
GW	Giga-Watt
GWh	Giga Watt-hour
H1	First Half
IEX	Indian Energy Exchange
ISTS	Inter-State Transmission System
kWh	kilo Watt-hour
LCOE	Levelised cost of Energy
LHS	Left Hand Side
LIS	Liquidity Infusion Scheme

Item	Explanation
LPS	Late Payment Surcharge
mn	million
MVA	Mega-Volt-Ampere
NEP	National Electricity Plan
NER	North-Eastern Region
NR	Northern Region
PFC	Power Finance Corporation
PPA	Power Purchase Agreement
PSP	Pumped Storage Project
Q	Quarter
RBPF	Revolving Bill Payment Facility
RDSS	Revamped Distribution Sector Scheme
RE	Renewable Energy
REC	Rural Electrification Corporation
RHS	Right Hand Side
RTM	Real Time Market
SCCL	The Singareni Collieries Company Limited
SR	Southern Region
STPP	Super Thermal Power Plant
TPS	Thermal Power Station
trn	trillion
VGF	Viability Gap Funding
WR	Western Region
Y/Y	Year-on-Year
YTD	Year-till-Date

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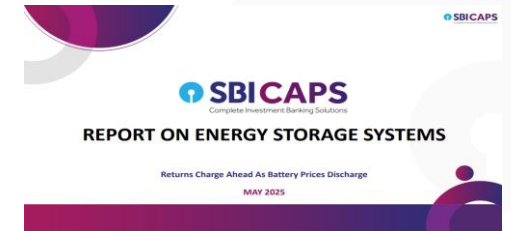
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