

Power Financing Catalyst for Energy Transition

October 28, 2025 | Ratings



Synopsis

- India's power sector is undergoing a rapid revolutionary transformation with key focus on clean and renewable energy (RE). Per national electricity plan (NEP), India is projected to reach a capacity of 609 giga watts (GW) by March 31, 2027, and 900 GW by March 31, 2032. NEP projects total capex of ~₹32 lakh crore for capacity addition and transmission infrastructure from FY26-FY32. Apart from capacity expansion and significant ramp up of transmission infrastructure/storage solutions, significant capex is required for upgrading transmission and distribution (T&D) networks and for improvement initiatives under revamped distribution sector scheme (RDSS). The scale of investment augurs' significant debt funding as projects are typically funded in debt equity ratio of 75:25. Hence, the scale of debt funding requirement presents an opportunity for lending institutions, particularly in power infrastructure space to tap into the potential.
- While historically banks have been averse to lending to power companies, the scale of debt requirements presents an opportunity for banks to diversify the risk and support margins. Incremental funding of power projects has traditionally come from power focused infrastructure finance companies (P-IFCs), and hence, banks' share in funding power projects has been reducing gradually. With adequate capitalisation levels and improved gearing considering healthy accruals, opportunity lies with P-IFCs to further leverage their balance sheet and capitalise on growth momentum of power sector in India. The scale of debt potential also allows other IFCs and Infrastructure Debt Fund (IDFs) to tap into potential and scale up their power sector exposure. Although current exposure of these entities is ~4% of the total outstanding power sector debt, their share in the power sector space is expected to increase significantly in the medium term. Despite rising competition in the power financing space, CARE Ratings Limited (CareEdge Ratings) expects P-IFCs to continue to maintain their dominant share and expects share of P-IFCs in incremental funding for power sector to be over ~50%.
- Improving financial risk profile of P-IFCs (Power Finance Corporation Limited (PFC), REC Limited (REC) and Indian Renewable Energy Agency Limited (IREDA); collectively referred to as "P-IFCs" in the report) with enhanced profitability mainly due to stable margins and controlled credit costs provide sufficient cushion to P-IFCs to cater to incremental debt requirements of the power sector. Considering sustained healthy accruals, capitalisation profile of P-IFCs is sufficient to meet incremental growth.

Background

To cater to rising power demand, the country has set an ambitious target of adding another ~450 GW of capacity by FY32. While the initial challenge is to meet the rising demand, the country also intends to reduce its carbon footprint and have net zero emissions by FY70. In this endeavor, generation capacity additions are only the first step as transmission, distribution and storage infrastructure continue to be integral parts of the renewable energy value chain to maintain stable output and reduce grid outages. While major chunk of capex is for capacity addition, transmission and distribution infrastructure shall continue to be crucial elements of power supply value chain and will require further enhancements on a continuous basis. With key schemes such as RDSS in motion, renewable energy capacity addition, storage solutions and distribution sector are expected to drive near-to-medium term fund requirement.

Sources of finance for power sector companies

Exhibit 1: Bank debt for power sector

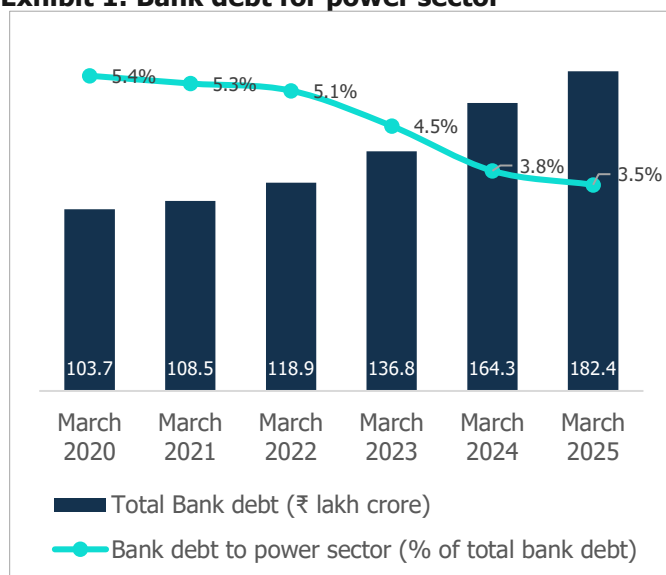
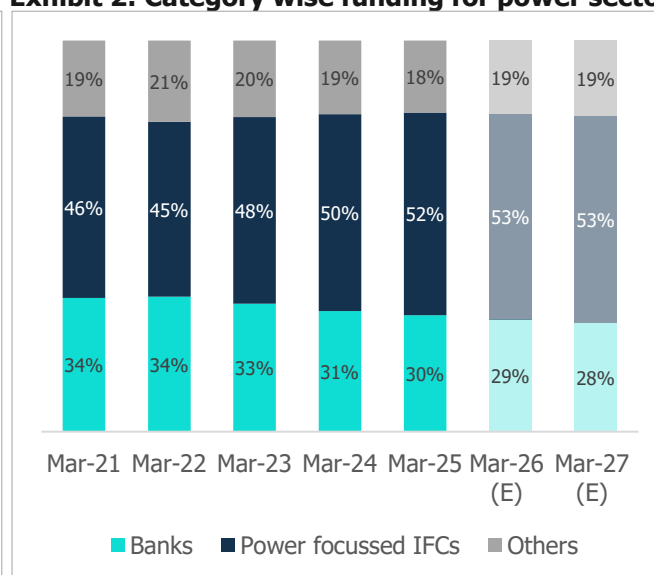


Exhibit 2: Category wise funding for power sector



Source: Sectoral deployment of bank credit (RBI)/DPIIT/CareEdge Ratings analysis; National Electricity Plan/PFC, REC and IREDA corporate announcement/CareEdge Ratings' estimates; E: estimates
 Others include capital market issuances, foreign currency borrowings among others.

Historically, banks have been cautious in lending in infrastructure space mainly because of concerns over asset quality, longer tenor of infrastructure projects and susceptible credit profile of independent power producers (IPPs), and hence, funding for power focused infrastructure projects in India has been led by P-IFCs or capital market instruments. P-IFCs collectively contribute ~52% share in power financing as on March 31, 2025, increase in share of P-IFCs in overall power sector debt in recent years is also attributable to implementation of key distribution sector schemes such as Late payment surcharge scheme (LPS) and Liquidity infusion scheme (LIS). Although overall power sector exposure of banks has reduced, it has been filled by P-IFCs, other Infrastructure focused NBFCs and IDFs. IDFs and non-Power focused IFCs are expected to continue to provide necessary cushion in the power financing space.

Scale and quantum of envisaged capex for the next decade presents an opportunity for banks and IFCs to scale up their portfolio and supplement their yields. Implementation of key schemes such as RDSS, and capex for enhancement and improvement of the distribution sector, will fuel debt requirement for P-IFCs in the near term. Capacity addition targets both in renewable energy and conventional generation are expected to drive incremental

debt requirement over a longer horizon for lending institutions. CareEdge Ratings expects P-IFCs to continue to be key institutions to meet incremental debt requirements while other sources such as banks, capital market issuances and foreign currency borrowings are expected to continue with a similar share. CareEdge Ratings expects no power focused IFCs and IDFs to provide the necessary cushion required to meet the scale of debt requirement, especially in the renewable energy space in the near term.

Performance of power focused infrastructure finance companies (P-IFCs)

Exhibit 3: Growth trend

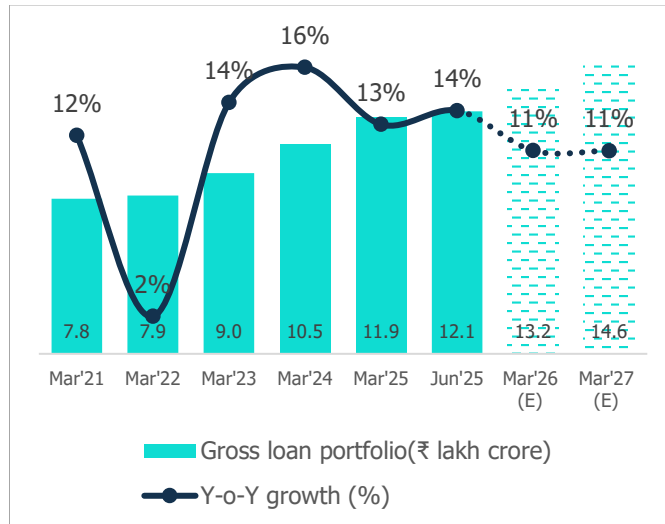
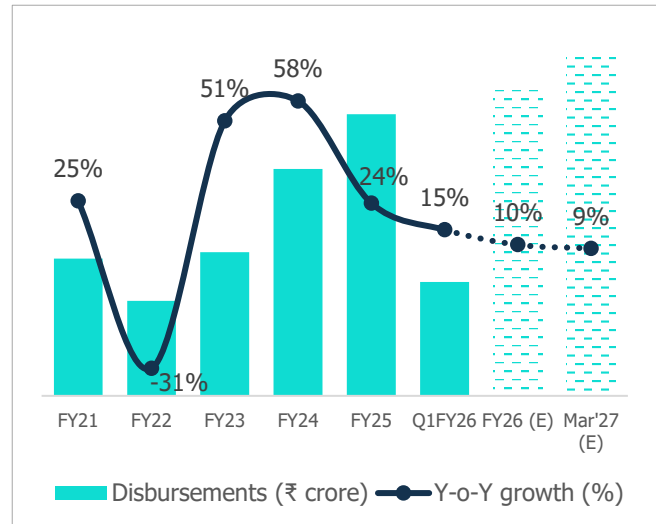


Exhibit 4: Disbursement trend



Source: P-IFCs corporate announcement/CareEdge Ratings analysis

Barring a partial offset in COVID-19, loan book for P-IFCs have increased significantly in the last five fiscals with compound average growth rate (CAGR) of ~11.5% from March 2020 to March 2025. The major contributing factor for this growth has been enhanced pace of capacity addition, especially in renewable energy and distribution sector schemes such as LPS scheme and LIS. Share of renewable energy has grown from ~10% of total loan books as on March 31, 2020, to ~17% of total gross loan book as on March 31, 2025. Growth momentum continued in Q1FY26 with ~14% Y-o-Y growth. With disbursements for key schemes such as LPS culminating in FY26, disbursements through RDSS and renewable energy are expected to drive growth for P-IFCs in the near-to-medium term.

Exhibit 5: Trend in product mix of P-IFCs

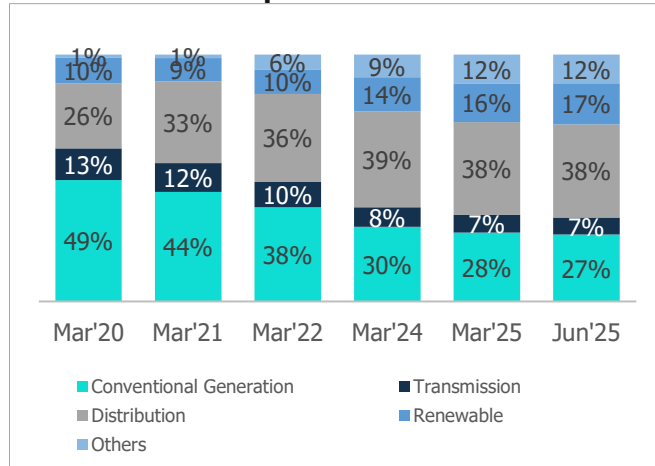
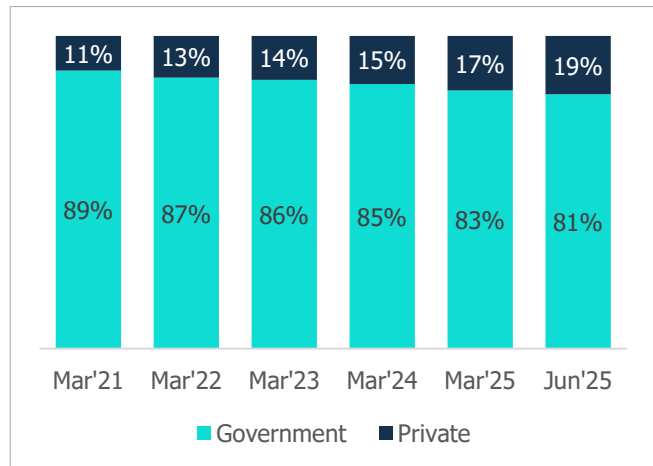


Exhibit 6: Bi furcation of loan assets



Source: PFC, REC and IREDA corporate announcement/CareEdge Ratings analysis

Apart from renewable capacity expansion, implementation of distribution schemes has also boosted growth for P-IFCs, primary PFC and REC. With the implementation of the first phase of RDSS picking up space, the distribution sector is a crucial driver for near-term growth of P-IFCs. CareEdge Ratings expects loan book of P-IFCs to grow by ~11% in the next two financial years (on a consolidated basis). Share of renewable energy and distribution segment (collectively) has increased from ~36% as on March 31, 2020, to ~54% as on March 31, 2025. CareEdge expects a similar trajectory in growing share of renewable energy to continue in the near-to-medium term. With growing share of renewable energy, private sector exposure of P-IFCs is also expected to gradually increase and hence poses a challenge for P-IFCs to maintain strong asset quality with dilution of state backed loans.

Improving asset quality

Exhibit 7: Trend in asset quality metrics of P-IFCs

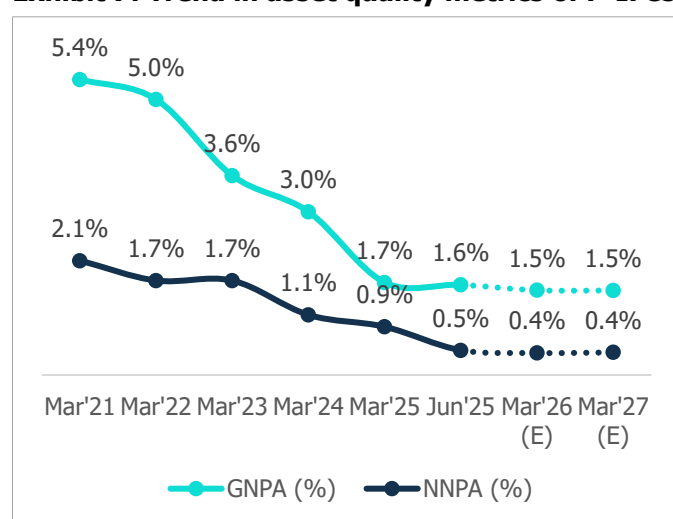
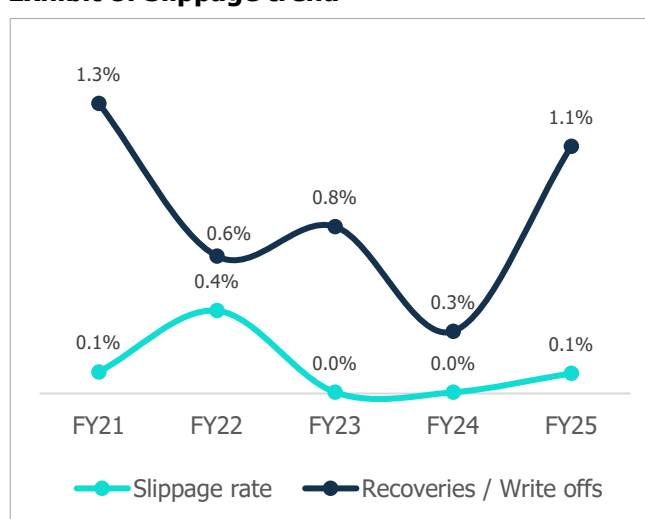


Exhibit 8: Slippage trend

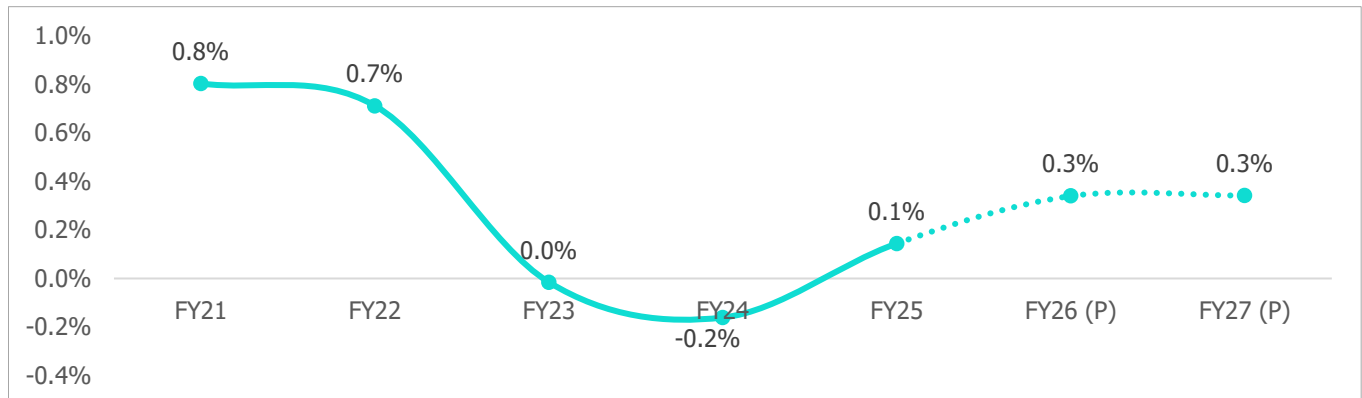


Source: PFC, REC and IREDA corporate announcement/CareEdge Ratings analysis || Slippage rate / Recovery/Write off calculated on closing loan book

Having faced asset quality issues pre-COVID, the gross non-performing assets (NPA) of P-IFCs have steadily declined, supported by recoveries and growing loan book. As on March 31, 2025, P-IFCs' average gross NPA stood at 1.7% with net NPA of 0.9%, down from 7.4% and 4.0%, respectively, in March 2020. CareEdge Ratings expects gross NPA numbers of P-IFCs to maintain similar trajectory of improvement in FY26 and stabilise in FY27 and remain in a comfortable range. P-IFCs are expected to carry adequate provision cover on their stress assets.

..... leading to an improvement in credit cost

Exhibit 9: Trend in credit cost (in relation to average total assets [ATA]) of P-IFCs

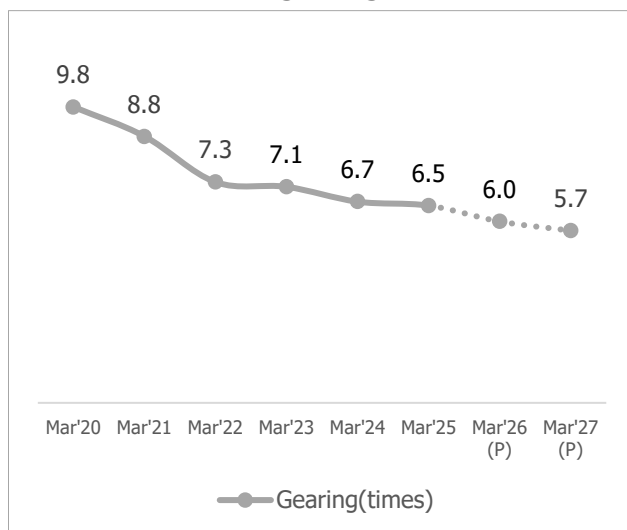


Source: PFC, REC, IREDA financials and investor presentation

Supported by improving asset quality, P-IFCs witnessed an improvement in their credit cost. For FY25, their credit cost stood at 0.1% in relation to ATA, down from a peak of 0.8% in FY21. Although with some key assets at advanced stages of resolution, credit cost for the company is expected to moderate with standard provisioning requirement for incremental loans and incremental provisioning requirement for delayed under construction projects per Project Financing Norms of RBI, CareEdge Ratings expects P-IFCs' credit costs to increase marginally for the next two fiscals.

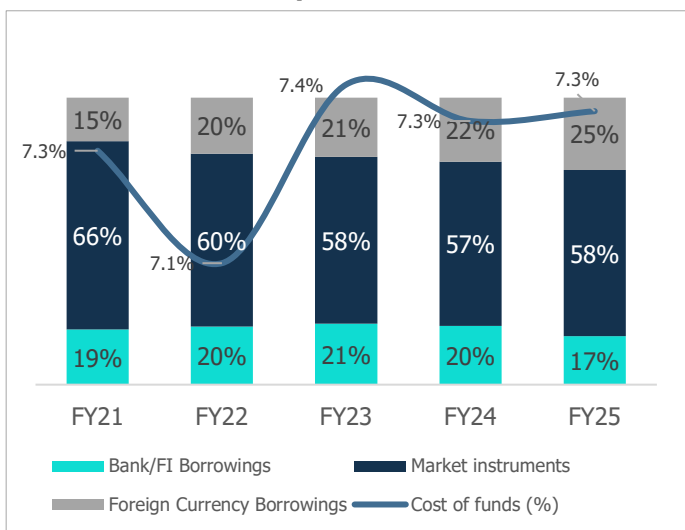
Resource profile of P-IFCs remain dominated by capital market borrowings

Exhibit 10: Trend in gearing



Source: PFC, REC, IREDA financials and investor presentation

Exhibit 11: Resource profile



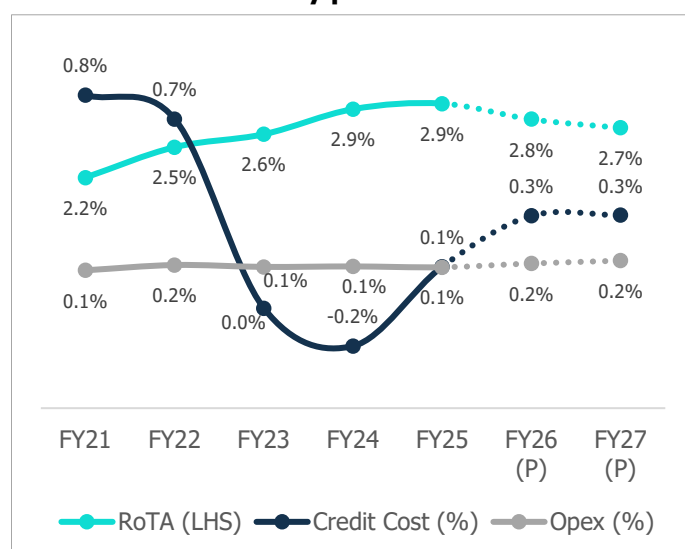
The resource profile of the P-IFCs remains fairly diversified with primary reliance on market instruments, with increase in the share of foreign currency debt in the last four years. Foreign currency borrowings have increased from ~16% as on March 31, 2020, to ~25% as on March 31, 2025. While there haven't been significant foreign exchange losses in recent years considering over 90% hedging on these instruments, ability of P-IFCs to curtail such events while maintaining competitive cost of borrowings will be crucial for maintaining stable net income

margins (NIMs). With policy rate cuts in recent months, CareEdge expects share of domestic borrowings to increase in the near term, with lenders transitioning into lower interest rates.

Capitalisation profile of P-IFCs improved gradually supported by internal capital accretion. Their on-book gearing has improved significantly in the last five financial years, reducing from 9.8x as on March 31, 2020, to 6.5x as on March 31, 2025. Leverage profile of P-IFCs is expected to remain adequate in the medium term with expected healthy accruals and further equity raising exercises.

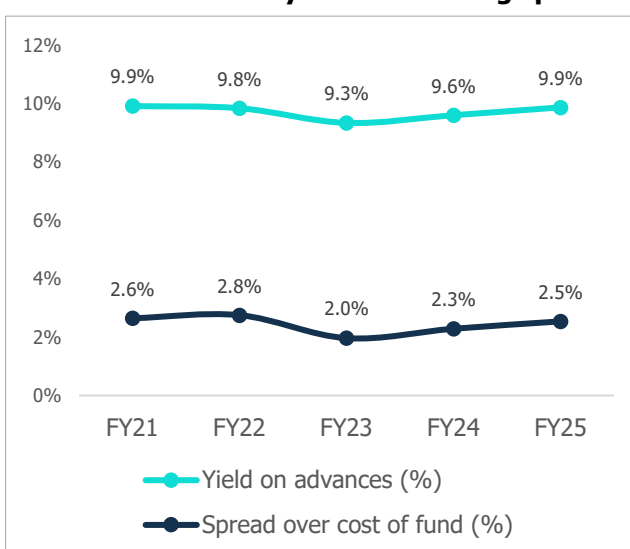
Profitability likely to remain healthy

Exhibit 12: Profitability profile of P-IFCs



Source: PFC, REC, IREDA financials and investor presentation

Exhibit 13: Trend in yield and lending spread



Financial performance of P-IFCs in recent years has been improving with return on total assets (RoTA) ranging between 2.0% and 3.0% in the last few fiscals. Improvement in profitability has been primarily driven by stable margins and reduced credit costs considering significant recoveries. Due to large scale of operations, which are mainly centralised with high-ticket sized loans, the opex for P-IFCs continues to remain low and provides competitive edge over other non-banking financial companies (NBFCs). CareEdge Ratings expects profitability momentum for P-IFCs to continue with RoTA to remain in a stable range of 2.7% to 2.9% going forward. Given the high-ticket sizes, even a few slippages could result in a high NPA value, hence, asset quality and credit cost will remain key monitorable and a crucial parameter for sustenance of profitability and growth. RBI's draft guidelines capital charge for credit risk – standardised approach is expected to benefit P-IFCs as once implemented will lead to lower risk weights for mature assets leading to improved capitalisation levels.

CareEdge Ratings' View

After having hiccups in their asset quality metrics pre-Covid, the performance of P-IFCs has improved and is expected to remain comfortable in the near term. Given the growing focus on power generation capacity addition to meet energy requirements of the country, P-IFCs are expected to maintain healthy growth and earnings momentum in the near-to-medium term. With an improved financial risk profile and adequate capitalisation levels, the P-IFCs are expected to be key lending institutions to meet growing financing requirements in the sector. CareEdge Ratings also expects relevance of non-power-focused IFCs in power financing space to grow with multifold increase in their power sector exposure in the near-to-medium term.

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