



Blended Finance for India RE in 2026: Viability Gap, Debt Leverage and Bankability

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How blended finance can unlock harder Indian RE deals in 2026 through concessional capital, risk sharing, and stronger lender terms.

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India's renewable-energy financing market in 2026 is deeper than it was even two years ago, but capital is still not evenly available across technologies, offtake types and project stages. Utility-scale solar with strong state or central counterparties can still secure senior debt from IREDA, PFC, REC, public-sector banks and select private lenders at relatively competitive spreads. The challenge is elsewhere: storage-led projects, hybrid tenders with dispatch obligations, RTC structures, distributed portfolios, municipal or agricultural demand-linked projects, and emerging industrial decarbonisation assets where lenders remain cautious on revenue certainty, operational history, and downside protection.

That is where blended finance has become commercially relevant in India in 2026.

Blended finance is not cheap money for weak projects. In practice, it is a structuring tool that combines commercial capital with concessional, catalytic or risk-sharing support to make otherwise marginal renewable-energy transactions bankable. The objective is usually one or more of the following:

- improve debt service coverage

n- reduce weighted average cost of capital

- extend tenor where asset cash flows are back-ended
- absorb specific early-stage or technology-linked risks
- crowd in domestic lenders that would otherwise stay out
- support first-of-a-kind or harder-to-finance use cases without distorting long-term market pricing

For Indian developers, C&I consumers, lenders and policymakers, the key question is not whether blended finance sounds attractive. It is whether it can solve a concrete bankability gap better than a tariff increase, sponsor support, restructuring of PPA terms, or plain equity.

This article focuses on that question.

Where blended finance matters in India in 2026

In 2026, mainstream solar and wind assets with long-term contracted cash flows are usually better served by conventional project finance. Blended structures are most useful where credit committees are uncomfortable with one or more variables despite an otherwise sound project.

The most relevant Indian use cases include:

- stand-alone or co-located battery energy storage systems with limited operational history under Indian debt templates
- hybrid and firm renewable projects where scheduling, deviation, degradation and replacement assumptions materially affect base-case DSCR



- distributed solar and open-access C&I portfolios with customer concentration risk or shorter residual PPA tenor than loan tenor
- agricultural feeder solarisation and decentralised projects with payment delay concerns
- municipal waste-to-energy, bioenergy or circular-economy assets with feedstock and offtake variability
- mini-grid and energy-access portfolios in harder geographies where ticket sizes are small and diligence costs are high
- industrial decarbonisation projects where the cash-flow benefit depends on fuel-switch economics rather than a simple fixed tariff

A useful rule of thumb in 2026 is this: if a project can raise plain senior debt at 70:30 or 75:25 with acceptable pricing and no extraordinary sponsor support, it may not need blended finance. If debt sizing drops to 55:45 or 60:40 because lenders haircut cash flows sharply, shorten tenor, demand larger reserves, or insist on completion and liquidity support far beyond normal levels, blended capital may create real value.

The bankability gaps concessional capital actually solves

Developers often describe blended finance too broadly. Lenders do not. They want to see which exact risk is being mitigated.

In Indian renewable transactions, the most common bankability gaps are:

- tenor mismatch: project cash flows are stable over 18-25 years but lenders offer 10-12 year debt, pulling up annual debt service
- ramp-up uncertainty: storage, hybrid dispatch or new business models may need 12-24 months of operating data before lenders underwrite full leverage
- counterparty concern: C&I offtakers, DISCOM-linked payment cycles, municipalities, or pooled portfolios may not support aggressive debt sizing
- technology/performance risk: battery augmentation, round-trip efficiency, degradation curves, or complex EMS-based dispatch assumptions increase lender caution
- transaction-cost inefficiency: smaller portfolios cannot absorb full diligence, security and monitoring costs economically
- currency or refinancing uncertainty in some offshore-linked structures, even where revenues are rupee-based

Concessional or catalytic capital can address these gaps in several ways.

First-loss or junior capital is one route. If a subordinate tranche absorbs initial losses, senior lenders may increase leverage from, for example, 60% of project cost to 70% or even 75%, subject to cash-flow visibility. That difference materially changes equity IRR.

Another route is tenor enhancement. A concessional tranche with a longer maturity or sculpted repayment can smooth blended annual debt service, improving minimum DSCR from, say, 1.12x to 1.20x-1.25x under the lender's downside case.

A third route is targeted risk sharing. Partial guarantees or structured liquidity support can reduce the impact of payment delays, construction delays or early operating underperformance. This is often more efficient than blanket subsidy, because it addresses the exact issue constraining debt committee approval.

Finally, project-preparation support matters more than many sponsors admit. Smaller developers lose months because financial models, technical assumptions, PPA risk allocation and lender information packs



are not investment-grade. In 2026, many catalytic facilities are willing to support transaction preparation only when sponsors present lender-ready data, robust sensitivity analysis and credible governance.

That is where Lender-grade financial modelling and [Impact quantification & MRV](/coreservices/greenfinancing/impactquantificationandmrv) become practical enablers rather than presentation language.

Typical blended-finance structures seen in renewable deals

India's market has moved beyond generic "soft loan" thinking. The blended structures now being discussed or implemented are more specific.

One structure is concessional subordinated debt sitting below senior project debt. For example:

- senior debt: 55-65% of project cost from IREDA, PFC, REC, banks or NBFCs
- concessional junior debt: 10-15%
- sponsor equity: 20-30%

This can be useful where lenders are willing to participate but not at required leverage. The junior tranche may have a longer grace period, cash-pay restrictions in weak periods, or repayment after senior coverage tests are met.

A second structure is a first-loss facility at portfolio level. This works particularly well for distributed solar, rooftop aggregation, MSME C&I portfolios and mini-grid assets where project-level exposure is small but default correlation is uncertain. A 5-10% first-loss layer can sometimes unlock materially larger senior pools because lenders underwrite portfolio volatility differently once early losses are ring-fenced.

A third structure is viability-gap-style support for public-interest projects. This is relevant where tariffs are politically or socially constrained, but the system benefit is clear, such as feeder solarisation, storage for grid support, or decentralised access assets. Here, a grant or output-based incentive reduces the capital that must be serviced through operating cash flows.

A fourth structure is construction-risk de-risking followed by refinancing. A catalytic facility may support early-stage deployment of a new asset class, with the clear intention that once 12-18 months of operational data are available, the project refinances into mainstream debt. For battery storage and complex hybrids, this can be more realistic than expecting full conventional leverage on day one.

A fifth structure is blended platform finance for aggregators. Instead of financing each site individually, capital is deployed through a platform with common underwriting, monitoring and reserve rules. This reduces transaction friction and is especially relevant for behind-the-meter, rooftop, and distributed energy portfolios.

In all these structures, two tests matter:

- does the concessional element crowd in more commercial capital than it displaces?
- can the project ultimately transition toward market-based financing without permanent subsidy dependence?

If the answer to both is yes, the structure is probably worth serious attention.

Economics: what changes in debt sizing, pricing and equity returns

Blended finance only matters if the numbers move enough to justify the complexity.



Consider a simplified 100 MW renewable-plus-storage project in 2026 with a total project cost of Rs 650 crore. Assume contracted revenues are credible but lenders remain cautious on dispatch and augmentation assumptions.

Under plain commercial structuring:

- senior debt: 60% or Rs 390 crore
- equity: 40% or Rs 260 crore
- all-in senior cost: 10.25%-11.25%, depending on lender and security package
- tenor: 12-14 years including construction
- minimum downside DSCR: 1.12x-1.15x

Now assume a concessional junior tranche of Rs 65 crore, priced below commercial mezz levels, with back-ended amortisation and subordination to senior debt.

The revised structure may become:

- senior debt: Rs 420-455 crore
- concessional junior debt: Rs 65 crore
- sponsor equity: Rs 130-165 crore

Even if blended all-in financing cost is not dramatically lower, the reduction in upfront equity and the improved sculpting of repayments can significantly improve project viability. For many developers, moving equity from 40% to 25% is the difference between doing one project and doing three.

For distributed solar portfolios, the impact is often less about interest rate and more about debt advance rate. If a lender would otherwise fund only 55-60% against a pool because of churn and collection concerns, a catalytic risk-sharing layer may support a 70-75% advance rate. That sharply changes portfolio scale economics.

But sponsors should be realistic. Blended finance does not rescue weak tariffs. If your C&I tariff leaves negligible savings after open-access charges, banking restrictions, and wheeling losses, concessional capital may improve the headline IRR without solving the core commercial problem. Likewise, if state payment delays are structurally outside acceptable thresholds, no elegant capital stack can fully substitute for counterparty discipline.

What lenders and DFIs will scrutinise in 2026

Catalytic capital providers are often perceived as more flexible than domestic lenders. On documentation and governance, that is frequently wrong. In 2026, blended structures usually require more diligence, not less.

Expect scrutiny on:

- base-case and downside revenue modelling, especially curtailment, scheduling penalties, degradation and replacement cycles
- counterparty concentration and payment history
- tariff change protections, pass-through provisions and termination payment mechanics
- EPC interface risk, O&M capability and technology warranties
- reserve policy, cash waterfall and permitted distributions
- environmental and social compliance, land status and permitting



- measurable development impact beyond generic emissions claims

For this reason, sponsors should prepare for dual-track diligence: commercial lenders focus on repayment certainty, while catalytic pools also assess additionality and impact integrity. If the project claims development benefits such as emissions reduction, improved access, resilience or affordability, those claims must be measurable and auditable.

This is where Growthifye's [Green financing frameworks][coreservices/greenfinancing/greenfinancingframeworks) and [Blended & concessional finance][coreservices/greenfinancing/blendedandconcessionalfinance) capabilities become relevant. In practice, the differentiator is not simply identifying a concessional pool. It is converting a difficult project into a structure that both domestic lenders and catalytic participants can actually underwrite.

Policy and market implications for developers, C&I buyers and policymakers

For developers, the takeaway is straightforward: use blended finance selectively. It is best deployed where a project is fundamentally sound but blocked by identifiable market failures or early-stage risk perception. It should not be the first solution for poor contracting, aggressive capex assumptions or weak sponsor discipline.

For C&I consumers, blended finance can help scale harder assets that support decarbonisation beyond plain solar procurement. Storage-backed supply, flexible clean power and distributed energy systems often need better financing architecture before they become competitive at scale. If structured well, concessional support can reduce the premium such buyers would otherwise pay for reliability and flexibility.

For lenders, blended structures create a pathway to enter newer segments without taking unpriced first-mover risk. A well-designed junior tranche, guarantee, or platform-level risk-sharing mechanism can allow banks and NBFCs to build sector exposure while protecting base-case credit quality.

For policymakers, the lesson is that scarce concessional capital should be precise. The most effective interventions are not broad interest subsidies. They are targeted tools that solve defined financing constraints in priority segments, such as:

- storage and flexibility infrastructure
- distributed energy for MSMEs and agriculture
- early deployment of hybrid or dispatchable renewable formats
- decentralised assets with high system benefit but weak conventional bankability

The policy design should also encourage graduation. If every project in a segment depends permanently on concessional support, the intervention has not built a market. It has replaced one.

How to decide if a project needs blended finance

Before pursuing catalytic capital, sponsors should ask five practical questions:

- Is the project commercially viable before financing, or is the tariff/business model itself broken?
- What exact risk is preventing normal debt sizing: tenor, counterparty, construction, performance, or portfolio volatility?
- Can the same issue be solved more simply through PPA restructuring, sponsor support, security enhancement or phased rollout?



- Will concessional support crowd in meaningful additional senior debt or reduce equity enough to justify transaction complexity?
- Is there a credible path to refinancing or conventional financing once the asset class matures or operating data becomes available?

If these questions are answered rigorously, blended finance becomes a strategic tool rather than a vague label.

In India's 2026 renewable market, that distinction matters. Capital is available, but it is selective. Projects that sit just outside standard risk appetite can still get built if developers structure the right blend of commercial debt, catalytic support and disciplined equity. The winners will be those who understand not only where to find capital, but how to align each tranche with a specific risk and a measurable financing outcome.

If you are assessing whether a solar, storage, hybrid or distributed-energy project needs concessional support, contact Growthifye's advisory desk. We help sponsors and capital providers structure bankable transactions through Green financing frameworks, Blended & concessional finance, and lender-ready financial strategy.

Explore Growthifye's related capabilities

This analysis connects directly to our advisory practice: [Green financing frameworks](/coreservices/greenfinancing/greenfinancingframeworks) · [Sustainability-linked loans](/coreservices/greenfinancing/sustainabilitylinkedloans) · [Blended & concessional finance](/coreservices/greenfinancing/blendedandconcessionalfinance) · [Impact quantification & MRV](/coreservices/greenfinancing/impactquantificationandmrv).

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