

India RE Project Finance 2026: IREDA, PFC, REC and Capital Stack Strategy

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A 2026 practitioner guide to project finance for India renewable energy: lenders, leverage, pricing, security, timelines and capital stack strategy.

India's renewable-energy financing market in 2026 is no longer defined only by headline capacity targets or a generic search for cheap debt. The real differentiator is capital-stack design: how developers, C&I platform owners, IPPs, utilities and hybrid-project sponsors combine sponsor equity, construction debt, long-tenor project finance, working-capital lines, mezzanine-style capital and strategic equity to produce bankable projects with resilient downside coverage.

For Indian renewable-energy sponsors, the financing discussion now starts much earlier in the development cycle. Lenders are scrutinising land aggregation, transmission certainty, offtaker risk, curtailment exposure, BESS augmentation assumptions, module and inverter warranties, O&M strategies and state-specific payment discipline before they even discuss pricing. In parallel, borrowers are trying to optimise leverage without over-tightening debt-service cover, especially in projects where tariffs are competitive and merchant upside is limited.

This article sets out a practical 2026 project-finance playbook for India's solar, wind, hybrid and storage-linked assets, with specific attention to IREDA, PFC, REC and the broader lender universe. The focus is not term-sheet drafting or refinancing strategy, but the bigger question: how to build a financeable capital stack that survives diligence, reaches financial close on time and remains refinance-ready after commissioning.

Why project finance strategy has changed in 2026

Three market shifts explain why financing strategy needs a reset.

First, tariffs are tighter, but project complexity is higher. Utility-scale solar tariffs in recent central and state tenders have generally remained in a competitive range around Rs 2.45 to Rs 3.10 per kWh depending on location, transmission assumptions, module technology, CUF and bidder strategy. Wind and hybrid structures show wider variation, with hybrid tariffs often clustering in the Rs 3.20 to Rs 4.20 per kWh zone depending on storage, RTC shaping and delivery obligations. In many cases, revenue certainty has improved through stronger offtake design, but engineering and execution risk has also increased.

Second, lenders are more selective on offtaker and state exposure. Central-agency PPAs and stronger C&I contracts continue to attract better debt appetite than weak state-discom payment profiles. Even where lenders are willing to lend into stressed states, they often compensate by lowering leverage, increasing reserve requirements or tightening cash-flow controls.

Third, storage and hybridisation have changed underwriting. Standalone solar and wind were once largely modelled on established assumptions. In 2026, many projects include BESS, firming obligations, peak-supply windows or contractually guaranteed delivery bands. That changes debt sizing, because the lender is underwriting a dispatch obligation, not only gross generation potential.

The 2026 lender universe: where IREDA, PFC and REC fit

India's lender mix for renewables now spans policy-backed institutions, power-sector financiers, banks, NBFCs, AIF-backed private credit and international climate-aligned lenders operating through domestic structures. For most developers, however, the core debt discussion still revolves around IREDA, PFC, REC and large commercial banks.

IREDA remains highly relevant for renewable projects that need a lender comfortable with sector nuances, evolving technologies and policy-linked assets. Borrowers often approach IREDA for utility-scale solar, wind, hybrid, storage-linked projects, C&I platforms and select manufacturing-adjacent energy assets. In 2026, borrowers typically assess IREDA not only on coupon, but on responsiveness, security expectations, drawdown flexibility and comfort with project-specific structures.

PFC and REC continue to be critical in larger power-sector financings, especially where the transaction sits close to utility counterparties, state-sector interfaces, evacuation infrastructure or larger developer portfolios. Their role matters not only because of balance-sheet depth, but because they can be comfortable with power-sector risk that some commercial lenders approach more cautiously.

Commercial banks remain central for plain-vanilla operational assets, stronger C&I portfolios and sponsors with proven track records. For top-tier assets with robust counterparties, all-in rupee debt pricing in 2026 often lands broadly in the high single digits to low double digits, though exact outcomes depend on borrower profile, project stage, tenor, security, sector concentration and perceived policy risk. Construction-stage debt may price wider than operational takeout debt, while smaller or more complex projects can see materially higher spreads.

In practice, borrowers should think in terms of lender fit, not just lender ranking.

- IREDA may be attractive where sector familiarity and renewable-specific underwriting are valuable.
- PFC or REC may be strong options where project scale, utility interfaces or broader power-sector context matter.
- Banks may be most competitive for low-risk operational assets or top-quality C&I portfolios.
- Private credit may fill speed, leverage or structuring gaps, but usually at a higher cost.

How capital stacks are being structured in Indian RE projects

The strongest 2026 financings are designed backward from lender concerns. Instead of asking, "How much debt can the asset theoretically support?", sponsors ask, "What structure closes on schedule and remains stable under downside scenarios?"

For utility-scale solar and wind, senior project debt still commonly funds the majority of capex, with sponsor equity covering the balance. In many transactions, senior debt may broadly range around 70:30 to 80:20 debt-equity on a base-case basis, though actual leverage can fall if land, transmission, counterparty or technology risk is elevated. A central-agency solar project with clean land, secured evacuation and a strong sponsor may sustain the upper end of leverage. A state-discom exposure, hybrid dispatch obligation or first-time sponsor profile may pull leverage lower.

For C&I open-access portfolios, lenders increasingly size debt based not just on headline EBITDA but on contract durability. If a portfolio has 12- to 18-year PPAs with diversified investment-grade customers, annual escalators and manageable open-access charges, debt appetite improves materially. If customer concentration is high or contract substitution risk is significant, lenders may insist on lower leverage, tighter DSRA structures and stricter distribution tests.

Hybrid and storage-linked projects often require more nuanced layering.

- Senior debt may fund core generation and storage systems, but only after lenders are comfortable with degradation, augmentation planning and dispatch assumptions.
- Sponsor equity often needs to be higher upfront because storage economics are more sensitive to operating assumptions.
- Contingency lines and cost-overrun support become more important than in plain-vanilla solar.
- Working-capital buffers may be needed where receivable cycles are uncertain or contract settlement is complex.

Some borrowers also use phased capital deployment. For example, they may infuse development equity during land and permitting, bring in construction debt at notice to proceed, and raise strategic equity at or before COD once valuation improves. This sequencing can reduce the weighted cost of capital if executed well, but it requires clean diligence, disciplined milestone management and a realistic timetable.

What lenders underwrite now: more than tariff and DSCR

In 2026, a project-finance memo for Indian RE has become much more detailed than a generation model plus PPA summary. Lenders increasingly test six underwriting pillars.

1) Revenue quality

Lenders differentiate sharply between central-agency PPAs, strong state offtakers, C&I contracts and partially merchant structures.

- Central-agency backed PPAs usually receive stronger comfort on payment security.
- State discom deals are assessed state by state, with payment cycles, curtailment history and change-in-law implementation closely reviewed.
- C&I portfolios are judged on customer diversification, sector concentration, replacement economics and enforceability of contract exits.
- Merchant exposure generally attracts either lower leverage or a requirement for conservative downside cases.

2) Evacuation and transmission certainty

A low tariff does not compensate for weak grid connectivity. Lenders now spend significant time on bay allocation, pooling-substation readiness, transmission-line progress, ISTS assumptions and schedule alignment between generation EPC and evacuation infrastructure. Delayed connectivity can erode IDC, trigger damages and compress post-COD cash flows.

3) Technology and yield assumptions

Module efficiency claims, inverter architecture, wind-turbine OEM support, BESS cycle assumptions and augmentation plans are tested carefully. Solar CUF assumptions, for example, are being benchmarked more rigorously by irradiation zone, DC-AC ratio, degradation, clipping and seasonal pattern. Wind assessments are under pressure where wake losses or long-term wind variability may be understated. Storage projects face questions around round-trip efficiency, usable capacity over time and augmentation funding responsibility.

4) Construction and interface risk

Even with tier-1 EPC counterparties, interface risk remains one of the biggest hidden causes of financing stress. Land handover, transmission readiness, OEM delivery schedules, customs timing, module

supply-chain exposure and monsoon construction windows can all affect disbursement schedules and COD certainty. Lenders prefer projects where contingency planning is visible and liquidated-damages regimes are credible.

5) Security package and cash-flow controls

Security in Indian RE project finance commonly includes charge over project assets, escrow of project revenues, share pledge, assignment of material project documents, lender control over reserve accounts and restrictions on upstreaming until covenant tests are met. Borrowers often focus on coupon and overlook how cash traps, distribution lock-ups and reserve requirements affect equity IRR. A slightly cheaper headline loan can be economically inferior if cash-flow flexibility is too constrained.

6) Sponsor capability

A good sponsor can rescue a stressed execution schedule; a weak sponsor can damage even a good asset. Lenders look at track record, equity support capacity, prior covenant performance, claims management capability, relationship with EPC and O&M counterparties, and ability to manage state-level regulatory friction.

Capital-stack strategy by project type

Project-finance strategy should be tailored to the asset and offtake model.

Utility-scale solar

These projects remain the most financeable, especially where land title, change-of-land-use approvals, connectivity and PPA quality are clear. Typical optimisation levers in 2026 include module technology selection, DC oversizing discipline, lower construction-period slippage and strong insurance design. Sponsors should avoid over-aggressive generation assumptions merely to maximise leverage; lenders usually haircut them anyway.

Wind projects

Wind financing remains highly site-sensitive. OEM bankability, long-term service support, wake-loss modelling and grid availability matter disproportionately. Debt structures may need more conservative base-case assumptions than sponsor models, particularly in complex terrain or less-seasoned wind corridors.

Solar-wind hybrid

Hybrids can improve offtake value and diversify output, but they create interface complexity. Debt discussions must reconcile multiple EPC scopes, shared evacuation assets, dispatch obligations and potentially different degradation curves. Financial models need robust scenario analysis for seasonal mismatch and curtailment.

C&I open access

The key issue is not only generation, but customer stickiness. Lenders want evidence that delivered power remains competitive versus grid tariff after open-access charges, CSS, AS, wheeling and banking realities. In many industrial states, delivered open-access solar or hybrid power can still provide meaningful savings against grid tariffs that often range around Rs 6.5 to Rs 9.5 per kWh for commercial and industrial users, though exact economics vary materially by state and consumer category.

Storage-linked and peak power assets

These assets attract interest because of grid need, but financing remains documentation-heavy. Lenders want clarity on charging source, dispatch logic, augmentation budget, degradation reserves and performance guarantees. Where storage is paired with firm-supply obligations, debt sizing may be driven more by contracted delivery compliance than by installed MWh alone.

A practical process to reach financial close faster

Many projects lose months not because lenders reject them, but because the financing process is started too late or with incomplete materials. A more effective 2026 process looks like this.

- Stage 1: Establish bankability before bid or before finalising offtake structure.
- Stage 2: Build a lender-ready data room with land, permits, grid, EPC, O&M, insurance, resource studies and financial model assumptions aligned.
- Stage 3: Test debt capacity under base, downside and delay cases before approaching lenders.
- Stage 4: Match the project to likely lenders based on risk profile, tenor need and execution urgency.
- Stage 5: Negotiate commercial terms together with covenant flexibility, security scope, DSRA mechanics and cure rights.
- Stage 6: Manage CP closure actively with a transaction tracker covering legal, technical, insurance and account-opening dependencies.

Sponsors that treat project finance as a transaction-management exercise, not merely a fundraising exercise, usually reach disbursement faster and preserve more negotiating leverage.

Key mistakes borrowers should avoid in 2026

Several recurring errors continue to weaken financings.

- Chasing maximum leverage at the cost of covenant stress.
- Underestimating state-level regulatory and payment risk in C&I structures.
- Approaching lenders before land, evacuation and permit positions are sufficiently mature.
- Accepting weak EPC risk allocation that later creates drawdown disputes.
- Using unrealistic COD schedules that inflate IDC and strain equity commitments.
- Ignoring the impact of reserve accounts and cash traps on sponsor distributions.
- Running parallel debt and equity processes without consistent assumptions.

The best financing outcomes in India's renewable market are increasingly won by sponsors that combine technical discipline, legal preparedness and lender-specific strategy. In 2026, debt is available for well-structured projects, but it is not forgiving of execution gaps.

For developers, C&I platform owners, utilities and investors, the lesson is simple: project finance is now part of project design. The capital stack, lender mix, security package and diligence strategy should be engineered alongside the asset itself, not after the project is nearly built.

If you are evaluating project finance, lender engagement, capital-stack optimisation or equity raising for an India renewable-energy project, contact Growthifye's advisory desk for transaction-focused support across structuring, lender strategy, diligence preparation and financial close.

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