

India Renewable Energy Term Sheets 2026: Debt Covenants, Pricing and Lender Strategy

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A 2026 guide to RE term sheets in India: covenants, DSCR, pricing, security, CPs and lender strategy for solar, wind, hybrid and storage.

India's renewable-energy financing market in 2026 is no longer just about finding the cheapest debt. For C&I solar portfolios, utility-scale projects, RTC hybrids and standalone storage, the quality of the term sheet now determines whether a project reaches financial close on time, maintains distributions post-COD, and preserves refinancing optionality two to three years later.

Across India, sponsors are negotiating with IREDA, PFC, REC, public-sector banks, private banks, NBFCs, infrastructure debt investors and multilateral-backed pools under tighter credit scrutiny. Lenders are looking beyond tariff and CUF. They are drilling into curtailment history, payment security, change-in-law pass-through, module warranty structures, inverter bankability, land title, evacuation readiness, and the sponsor's willingness to accept lock-in, reserve accounts and cash-sweep mechanics.

That makes term-sheet strategy a front-end value lever, not just a legal step before sanction. A 25 to 40 basis point difference in all-in pricing matters, but so do DSCR definitions, cure rights, prepayment clauses, waterfall restrictions and the conditions precedent attached to first disbursement. In several 2026 transactions, weaker commercial clauses have reduced equity IRR more than the headline coupon.

This article focuses on a topic distinct from refinancing, SLLs, blended finance and generic C&I debt playbooks: how to negotiate and evaluate renewable-energy term sheets in India in 2026. The goal is practical guidance for developers, C&I consumers, lenders, utilities and policymakers working across solar, wind, hybrid and storage transactions.

Why term-sheet quality matters more in 2026

Three market shifts explain why term sheets have become central to bankability.

First, tariffs remain tight. Utility-scale solar tariffs in recent bids have continued to cluster near the low to mid INR 2.4 to 2.8 per kWh range depending on location, ISTS benefit position, bid design and risk allocation. Wind and hybrid tariffs remain sensitive to CUF assumptions, grid availability and payment security. In C&I open-access structures, delivered tariffs often need to stay meaningfully below industrial grid tariffs, which in many states still range around INR 6.5 to 9.5 per kWh after demand and other charges, though state-specific outcomes vary sharply. With spreads compressed, documentation risk directly affects project economics.

Second, lender behaviour has become more segmented. IREDA, PFC and REC continue to be highly relevant for renewable-energy debt, but each lender category evaluates risks differently. Some lenders are comfortable with merchant tails only if contracted cash flows cover most debt life. Others are willing to fund storage-linked projects but insist on more conservative reserve requirements. Private lenders may move faster but ask for stronger sponsor support undertakings or tighter information covenants.

Third, projects themselves are more complex. Standalone battery energy storage systems, FDRE and hybrid portfolios introduce dispatch assumptions, augmentation planning, EMS performance risk and contractual interfaces that were less common in pure solar term debt deals five years ago. The term sheet must now allocate these risks clearly before legal documentation starts.

What a strong RE term sheet should cover

A good term sheet is not a two-page pricing indication. It should clearly lay out commercial, security, technical and documentary principles so both sides know what reaches sanction and definitive documentation.

At a minimum, sponsors should expect clarity on:

- Facility type: construction finance, term loan, lease-rental discounting, working capital sub-limit, debt service reserve support or acquisition finance
- Borrower and obligor structure: SPV-only, holdco support, corporate guarantee, sponsor undertaking
- Loan size and debt-equity ratio: often 70:30 to 80:20 depending on counterparty quality, technology and contracted cash flow visibility
- Tenor and amortisation: door-to-door tenor, post-COD repayment profile, back-ended or sculpted amortisation linked to projected cash flows
- Pricing: benchmark, spread, reset triggers, commitment fees, upfront fees, legal and technical due diligence costs
- DSCR metrics: minimum, average and distribution tests; whether measured on P50, P75 or lender-approved base case
- Security package: charge over project assets, receivables, escrow, DSRA, share pledge, assignment of project documents and insurances
- Conditions precedent: land, permits, grid connectivity, EPC contract, O&M contract, PPA execution, equity infusion and lender due diligence approvals
- Restricted payments and cash waterfall: operating expenses, taxes, debt service, reserve top-up, major maintenance, distribution lock-up and cash sweep
- Prepayment and refinancing clauses: permitted prepayment, break costs, minimum seasoning before refinance
- Events of default and cure rights: payment default, covenant breach, permit expiry, change in control, cross-default and material adverse effect language

Where term sheets are vague, documentation later becomes lender-friendly by default. That usually lengthens the process and reduces sponsor negotiating room.

Pricing benchmarks and covenant trends in 2026

In 2026, pricing remains highly transaction-specific, but several broad ranges are visible in the market.

For top-tier operational renewable projects with stable counterparties and strong payment track records, rupee term debt may price in the high single digits to low double digits depending on tenor, leverage and lender type. Construction-stage assets, state-discom exposure, curtailment-prone projects, or assets with unresolved change-in-law claims typically attract higher spreads. Storage and hybrid assets can price above plain-vanilla solar because of technology-performance assumptions, dispatch complexity and shorter operating history.

Sponsors should watch four covenant areas closely.

- DSCR thresholds
- Base-case minimum DSCR expectations often land around 1.15x to 1.25x for stronger contracted portfolios, but lenders may demand higher cushions for merchant exposure, storage or weak offtakers.

- Average DSCR tests can be as important as minimum DSCR. A project that passes minimum DSCR but fails average DSCR may still face distribution lock-up.
- DSRA structure
- Many lenders continue to seek a DSRA equivalent to 3 to 6 months of debt service.
- Negotiation points include whether DSRA is funded fully at COD, built over time from project cash flows, or backed temporarily by a bank guarantee.
- Cash sweep and distribution lock-up
- Cash sweeps in the 30% to 70% range of surplus cash are becoming more common when leverage is high or merchant tail assumptions are material.
- Distribution is frequently blocked if DSCR falls below a stated threshold, if reserves are not funded, or if key project agreements are under dispute.
- Information and technical covenants
- Quarterly performance reporting, inverter availability, module degradation tracking, insurance compliance, O&M KPI reporting and claim status on curtailment or change in law are increasingly standard.

The practical point is simple: a slightly higher coupon with looser sweep mechanics or better prepayment flexibility can outperform a cheaper facility with tight distribution controls.

IREDA, PFC, REC and private lenders: how term-sheet expectations differ

Indian renewable-energy sponsors often approach multiple lender classes in parallel, but term-sheet comparison must go beyond the headline rate.

IREDA remains a major institution in renewable-energy financing and is often attractive for sector familiarity, especially where project structures fit its credit appetite. PFC and REC retain importance, particularly where grid-linked infrastructure, state-sector interfaces or larger utility-style projects are involved. Public-sector banks can be competitive on large operating portfolios but may have more conservative documentation and CP frameworks. Private banks and NBFCs can offer speed and structuring flexibility, though often with tighter monitoring or support undertakings.

Key differences sponsors typically encounter include:

- Construction-risk appetite
- Some lenders are comfortable disbursing against EPC milestones once land, permits and evacuation are in place.
- Others insist on near-complete CP satisfaction before meaningful drawdown, which can create equity bridge pressure.
- Counterparty tolerance
- Central-agency backed PPAs and stronger C&I offtakers usually receive better treatment than weaker state-discom exposure.
- Certain lenders apply explicit internal haircuts to receivable assumptions where payment delays are common.
- Security perfection requirements
- Some lenders move to sanction quickly but take a stricter line on charge creation, account control and assignment perfection before first disbursement.

- Timing these steps matters for COD-linked project schedules.
- Technical assumptions
- Wind, storage and hybrid term sheets often reveal the lender's comfort level through CUF haircuts, augmentation assumptions, warranty requirements and reserve tests.

For sponsors, the right strategy in 2026 is usually to compare 3 to 4 actionable term sheets using a weighted matrix rather than picking the lowest nominal coupon. Weight pricing, DSCR methodology, security burden, CPs, permitted indebtedness, cure rights, and refinance flexibility.

The most negotiated clauses in Indian RE debt deals

In live mandates, a handful of clauses repeatedly drive the commercial outcome.

DSCR definition

This is frequently underappreciated. Sponsors should test whether cash available for debt service excludes certain receipts, how working-capital timing is treated, whether GST refunds are counted, and whether extraordinary curtailment compensation or change-in-law recovery can be included. Tiny wording changes can alter covenant headroom significantly.

Conditions precedent to disbursement

If the term sheet says all material project documents must be "in form and substance satisfactory to the lender," that sounds standard but can create endless redrafting. It is better to define the document set precisely and agree material commercial parameters upfront: EPC LD caps, performance guarantees, O&M scope, spare-part obligations, land tenure evidence and interconnection milestones.

Change in project cost and contingency

In 2026, lenders are particularly alert to cost overrun risk from module price shifts, transformer supply timing, evacuation works, land compensation disputes and storage-system import dependencies. The term sheet should define who funds overruns, whether contingency is debt-funded, and when additional equity is mandatory.

Major maintenance and augmentation

For storage and some hybrid assets, lenders increasingly require explicit reserves or approved augmentation plans. If augmentation is essential to maintain contracted output, the facility terms should address whether this can be funded from operating cash, sponsor support or a future permitted debt basket.

Prepayment and refinance restrictions

Some lenders permit prepayment with limited notice and minimal penalty after a lock-in period; others impose break costs or refinancing constraints that reduce strategic flexibility. Given India's evolving debt market, preserving refinance optionality is valuable.

Cure rights and equity support

A term sheet should clearly state whether shareholders can cure DSCR breaches, reserve shortfalls or technical covenant breaches through subordinated support and on what terms such support can be repaid. Ambiguity here can block distributions long after performance normalises.

Project-specific term-sheet strategy for solar, wind, hybrid and storage

A single negotiation template does not work across technologies.

For utility-scale solar, focus on irradiation studies, module and inverter bankability, deemed generation treatment, payment security, and land-evacuation alignment. Curtailment data by substation or state should be presented early if relevant. If the project depends on change-in-law recoveries, lenders will want realism on claim timing.

For C&I open-access solar and hybrid deals, offtaker concentration and state-regulatory risk are critical. Lenders will examine open-access charges, banking assumptions, CSS/AS treatment, scheduling risk and the enforceability of the offtake contract. In states where open-access rule changes have been frequent, term-sheet cushions often appear in DSCR assumptions and reserve requirements.

For wind, the lender will test micrositing quality, turbine OEM support, long-term O&M assumptions, evacuation readiness and historical site performance. CUF downside sensitivity matters more than sponsors often expect. Conservative P75-based structuring is still common.

For hybrid and FDRE projects, the term sheet needs clean treatment of forecasting, scheduling penalties, storage dispatch, augmentation and inter-creditor issues if multiple facilities coexist. A weakly drafted interface between generation assets and storage can create confusion on cash waterfall and default triggers.

For standalone storage, the most important issue is revenue certainty. If revenue depends on ancillary services, peak-shaving contracts or utility procurement structures, lenders will require careful contract review, technology warranties, replacement assumptions and reserve policy. India's storage market is growing, but debt underwriting remains more conservative than for plain solar.

A practical checklist before you sign a financing term sheet

Before accepting any lender term sheet, sponsors should run a disciplined review.

- Rebuild the lender base case and compare it with the sponsor model
- Check whether tariff, CUF, degradation, O&M escalation and receivable days match the commercial case
- Verify DSCR on a quarterly basis, not just annual averages
- Stress-test payment delays from discoms or large C&I offtakers
- Model curtailment and generation downside scenarios
- Quantify the true cost of DSRA, cash sweep and distribution lock-up
- Review all fees, including legal, technical, processing, agency and security trustee costs
- Confirm drawdown conditions align with EPC and procurement schedule
- Assess whether change in law, insurance proceeds and claim recoveries are usable within the cash waterfall
- Negotiate prepayment flexibility early, before sanction momentum reduces leverage
- Ensure intercreditor principles are addressed if there is mezzanine, working capital or future augmentation debt
- Map all CPs to a realistic project timeline with responsibility allocated across lender, sponsor, counsel, LTA and EPC parties

In many Indian RE deals, financial close delays are caused less by credit rejection and more by unresolved CPs, inconsistent technical assumptions and late-stage negotiation over standard-form clauses that should have been identified at term-sheet stage.

What policymakers and lenders should note in 2026

A more mature renewable-energy debt market needs more standardisation without sacrificing project-level risk discipline. Policymakers, DFIs and sector lenders can support faster capital deployment by encouraging clearer term-sheet formats, consistent renewable-energy covenant definitions, and better recognition of operational data for solar, wind and storage assets.

For lenders, efficient underwriting is increasingly a competitive edge. Sponsors value institutions that can evaluate curtailment evidence, state-regulatory risk, storage augmentation plans and C&I payment patterns with sector-specific realism rather than generic infrastructure templates. For policymakers, timely payment security, enforceable PPAs, predictable open-access frameworks and efficient transmission readiness still have a direct effect on debt pricing and leverage.

In 2026, India has the project pipeline, lender pool and demand profile to scale renewable-energy deployment materially. But capital efficiency will depend on getting term sheets right at the start. Projects with disciplined covenant negotiation, realistic CP planning and technology-specific risk allocation will close faster, preserve sponsor returns and remain refinanceable as the market deepens.

If you are evaluating debt for a solar, wind, hybrid or storage project, contact Growthifye's advisory desk for lender outreach, term-sheet negotiation, financial modelling and end-to-end financing support.

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