India's Climate Capital Moment: A Mid-Market Private Equity Opportunity

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Global Momentum, and the Turning Point for India

China, the world's largest energy consumer and emitter, has become a climate frontrunner on scale. In 2024, it surpassed 1,000 gigawatts of installed solar photovoltaic (PV) capacity—more than the rest of the world combined. In the first five months of 2025 alone, it added nearly 200 GW of new solar and over 45 GW of new wind power, and, for the first time, China's renewable electricity generation briefly outpaced its coal and gas combined.

The European Union too has accelerated its clean transition, with renewables crossing 47% of its electricity mix in 2024. In the United States, however, progress has been uneven. While the Inflation Reduction Act initially catalysed a wave of private investment into green industries, the Trump administration has reversed course, repealing federal climate incentives and weakening the environmental regulatory apparatus. Despite these policy headwinds, global capital continues to chase clean energy. Investors, sensing an irreversible shift in industrial strategy, are reallocating portfolios toward decarbonisation. Amid this reshuffling of global priorities, India's macroeconomic momentum, demographic dynamism, and policy ambition offer a fertile frontier for green growth.

India's Macro Foundations: the Five Ds

India's trajectory rests on five foundational pillars, the "Five Ds": Demography, Domestic demand, Democracy, Digitalisation, and Development. These pillars do not merely constitute macroeconomic advantages; they shape the very structure of India's investment landscape. With the world's youngest major population, an expanding middle class, and a digital infrastructure scaled to address the needs of well over a billion citizens, India is on course to become the world's third-largest economy this decade. At the same time, it is also the third-largest emitter of greenhouse gases. The central question, then, is not whether India will grow—but how. And it is this intersection - between growth and sustainability - that defines the country's next great inflection point, and arguably, the world's.

India's Climate Profile

India is today the third-largest global greenhouse gas emitter, though its per-capita emissions remain among the world's lowest. Nearly 78% of India's electricity is still derived from fossil fuels, primarily coal. Recognising this, the government has articulated clear targets: reducing emissions intensity by 45% from 2005 levels by 2030, achieving 50% cumulative non-fossil capacity by 2030, and net-zero emissions by 2070. Progress is evident. India's renewable energy capacity has crossed 200 GW and is slated to reach 500 GW by 2030. Electric vehicle adoption, aided by the Faster Adoption and Manufacturing of (Hybrid and) Electric vehicles (FAME) program and Production-Linked Incentive (PLI) schemes, is growing steadily, while green hydrogen is being positioned as a strategic export sector through a $2.4 billion National Hydrogen Mission. Policy, scale and timing now align in favor of a green future for India.

The Missing Middle and Growth Capital Gap

India's mid-sized enterprises - those with annual revenues typically ranging between ₹100 crore and ₹1,000 crore - form the vital bridge between micro-businesses and large conglomerates. These mid-sized enterprises - part of the broader MSME sector contributing 30 % of India's GDP - collectively employ over 110 million people in formal roles. Yet, despite their scale and systemic importance, they remain profoundly undercapitalised.

This segment suffers from what economists term the "missing middle" - too large for microfinance and venture capital, yet too small or illiquid for large-cap private equity or public markets. Many are founder-led, family-owned businesses with solid unit economics, proven products, and latent potential, but lack access to the capital and expertise required to professionalise operations or pivot toward sustainable practices. The International Finance Corporation (IFC) estimates that India's MSME sector faces a credit gap of over US$400 billion, with mid-sized businesses representing the hardest-hit segment.

The implications for climate transition are sobering. These are the very firms that operate industrial plants, logistics fleets, and local supply chains - often using dated technology, inefficient energy systems, and carbon-intensive practices. Without access to timely, patient capital and strategic guidance, these companies risk being locked out of India's green transformation.

More critically, India risks falling short of its own climate ambitions and net-zero targets - not due to lack of intent, but due to a failure in capital delivery at the scale and tier where transformation must occur. This is not a marginal concern. According to joint analysis by McKinsey & Company and the International Energy Agency (IEA), India will require over US$10.1 trillion in cumulative investment to reach net-zero by 2070, including more than US$1.5 trillion by 2030 to stay on track with near-term decarbonisation and adaptation goals. In this context, bridging the mid-market financing gap is not merely a development priority, it is a climate imperative.

Therein lies the opportunity. With the right capital and capability infusion, India's mid-market firms could leapfrog into the clean economy - modernising operations and lowering emissions in a global economy now shaped by sustainability benchmarks.

Private Equity as Catalyst for Alpha

Private Equity (PE), especially at the growth stage, is uniquely positioned to unlock this opportunity. More than just capital providers, PE funds bring operational expertise, disciplined governance, and long-term alignment - precisely the tools required to engineer a "grey to green" transformation across India's industrial and services sectors.

Where conventional lenders evaluate risk, PE funds seek upside through transformation. A climate-aware PE investor might help a packaging company electrify its production line, support a regional logistics firm in transitioning to an EV fleet, or invest in a green cement manufacturer looking to scale production. These interventions are not peripheral - they lie at the heart of how value is created in a decarbonising world.

The financial upside is tangible. Bain & Company notes that nearly 80% of Indian consumers express concern about climate change, and over 20% are willing to pay a premium for sustainable alternatives. As global supply chains decarbonise, firms that can meet climate and emissions standards will enjoy preferential access to international markets and procurement contracts. In sectors such as chemicals, automotive components, packaging, and energy-intensive manufacturing, climate performance is fast becoming a gating criterion, not just a differentiator.

Operationally, companies adopting clean technologies often report significant EBITDA improvements over a three-to-five year horizon, driven by energy savings, process efficiency improvements, and resource optimisation. In valuation terms, green-certified companies are beginning to command premiums in both public and private markets. PE firms that embed sustainability into their diligence and post-investment playbook are not engaging in philanthropy - they are engineering alpha.

Furthermore, climate-focused PE enables portfolio-level impact. Unlike single-project infrastructure finance, PE investors can institutionalise sustainability across diverse sectors - driving systemic shifts in areas like construction, mobility, manufacturing and energy use. This aligns well with India's broader development goals, including job creation, energy security and reducing urban pollution.

Ultimately, India's climate transition will happen in factories, warehouses, cold chains, ports and plants - many of which are mid-sized, undercapitalised, and waiting to be transformed. Private equity has the mandate, tools, and opportunity to be the engine of that transformation.

Conclusion: India's Climate Investment Moment

India's climate moment mirrors its 1991 economic reforms. This is a pivotal decade for scaling clean growth. Policymakers have laid the groundwork through ambitious targets and market-linked incentives. Now, private capital - particularly through patient, growth-oriented equity - must step in to deliver. By investing in climate-enabling businesses, investors can generate differentiated returns while supporting the nation's transition that may well also determine the fate of global climate goals.