

Press Release

Indian Renewable Energy Development Agency Limited

March 02, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25920.01	ACUITE AAA Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	25920.01	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE AAA**' (read as **ACUITE triple A**) on the Rs 25,920.01 Cr. bank facilities of INDIAN RENEWABLE ENERGY DEVELOPMENT AGENCY LIMITED (IREDA). The outlook is '**stable**'.

Rating Rationale

The rating factors in Government of India's (GoI) ownership (IREDA is wholly owned by GoI) and the strategic role of IREDA as the nodal agency for promoting, developing and financing renewable energy (RE) and energy-efficiency (EE) projects in India. The role assumes higher significance given India's commitment on the sustainable development goals (SDGs) and the targets set on renewable energy capacities. The rating also derives strength from IREDA's long track record in the RE sector, diversified resource profile, adequate capitalisation levels and a steady growth in the lending portfolio. The company has a well-diversified borrowing profile with access to funding via Bilateral FI's (17.48%), Bonds (37.80%), Domestic Bank (22.38%), Domestic FI (6.62%), Multilateral FI (15.55%) and NCEF (0.18%). The average cost of funds stood at 6.41% as on September-2022, which compares well with other public financial institutions. IREDA's capitalisation profile improved in FY2022 with a gearing of 5.24 times as on March 31, 2022 compared to 8.01 times as on March 31, 2021, supported by the equity infusion of Rs. 1,500 Cr. by GoI in March 2022. These rating strengths are partly offset by the company's moderate albeit improving profitability metrics as well as inherent asset quality challenges characterised by sector-specific and borrower concentration in the loan portfolio.

The asset quality of the company, while improving remains moderate with GNPA and NNPA at 5.06 percent and 2.72 percent as on September 2022. The company has reported further improvement in GNPA and NNPA of 4.24 percent and 2.03 percent as on December-2022. The company reported a ROAA of 2.13 percent as on March 31, 2022 (1.20 percent as on March 31, 2021). The company's continues to face high sector concentration risks with around 44% of its loan portfolio exposed towards wind and solar energy projects as on September 30, 2022.

Going forward, IREDA's ability to control slippages on vulnerable assets and expand its loan book profitably would be key rating sensitivities. Any dilution in GoI's stake or a change in IREDA's strategic role would also be a key rating sensitivity.

About the company

Indian Renewable Energy Development Agency Limited (IREDA) was incorporated on March 11, 1987, under the administrative control of the Ministry of New and Renewable Energy (MNRE) to promote, develop and extend financial assistance for renewable energy and energy efficiency/conservation projects. It is wholly owned by the GoI and has been notified as a public financial institution and registered as a non-banking financial company – asset finance company (NFBC-AFC) with the RBI. IREDA's board of directors comprises two executive directors, two Government nominees from the MNRE, the GoI and five independent directors. The company was also conferred Mini Ratna (Category-I) status in June 2015 by the Department of Public Enterprises.

Standalone (Unsupported) Rating

ACUITE AAA/Stable

Analytical Approach

Acuité has considered the standalone credit profile of IREDA and has duly factored in the strong support provided by Government of India (GoI) to arrive at the rating.

Key Rating Drivers

Strength

Sovereign ownership and strategic importance to GoI

IREDA is a 100% GoI-owned entity and is of strategic importance to the GoI for the promotion and development of the RE sector in India. Thus, the ratings factor in the Sovereign ownership and strategic importance of the company. GoI infused equity of Rs. 1,500 Cr. in March 2022. IREDA is a strategically important entity and was set up by GoI under the administrative control of Ministry of New and Renewable Energy (MNRE) to promote, develop and extend financial assistance for RE and EE projects. IREDA has been instrumental in implementing several schemes of the MNRE. IREDA receives regular support from the government in the form of GoI guarantees for its overseas bond issuances and borrowing from multilateral agencies.

Acuité believes that IREDA will continue to benefit from its established presence in the RE sector and the strategic role it plays as the nodal agency for promoting, developing and financing renewable energy (RE) and energy-efficiency (EE) projects in India

Diversified borrowing profile and comfortable liquidity profile: -

IREDA being a government owned entity has been able to raise funds at competitive costs, both in international and domestic markets. IREDA has been able to raise funds at competitive costs, both in international and domestic markets. The average cost of funds stood at 6.41% as on September-2022, which compares well with other public financial institutions. It has a well-diversified borrowing profile with access to funding via Bilateral FI's (17.48%), Bonds (37.80%), Domestic Bank (22.38%), Domestic FI (6.62%), Multilateral FI (15.55%) and NCEF (0.18%). The foreign currency debt is from multilateral agencies like Japan International Cooperation Agency (JICA), Kreditanstalt fur Weideraufbau (KfW), the Asian Development Bank (ADB), the World Bank, the European Investment Bank (EIB), the Nordic Investment Bank (NIB), etc., and has a fairly long tenure (tenor of 10-40 years), which augurs well for IREDA's liquidity profile.

Acuité believes, going forward, the ability of the company to mobilise additional lower cost funding through debt/ sub debt and its ability to deploy the funds profitably will be a key rating monitorable.

Growth in loan portfolio and disbursements in FY22:

IREDA's loan portfolio increased to Rs. 33,931 Cr. as on March 31, 2022, from Rs 27,853.92 cr. as on March 31, 2021. Improvement in loan portfolio is driven by higher disbursements primarily to state distribution companies (discoms). The company reported disbursements of Rs 16,070.51 Cr. during FY 2021-22 (Rs 10,272.70 Cr. during FY 2020-21). The company reported disbursements

of Rs 4,006.29 Cr. during H1FY23. The loan book as on September 30, 2022 consists of segments like solar (25%), wind (19%), small hydro (15%), cogeneration & EEC (3%), biomass & waste-to-energy (3%) and others (35%). The PAT of the company stood at Rs 410.27 Cr. during H1FY23, Rs 633.53 Cr. during FY2021-22 (Rs 346.40 Cr. during FY 2020-21). The company reported a ROAA of 2.13 percent as on March 31, 2022, 1.89 percent as on March 31, 2022 (1.20 percent as on March 31, 2021).

Acuité believes that going forward the ability of the company to maintain the growth momentum in AUM will be key rating sensitivity.

Adequate Capitalization levels:

The company's networth has improved to Rs 5,268.11 Cr. as on March-2022 from Rs 2,995.59 Cr. as on March 31, 2021. Increase in networth due to equity infusion of Rs 1,500 Cr in March-2022 by and improvement in profitability. The company has reported a PAT of Rs 633.53 Cr. during FY2022 (Rs 346.40 Cr. during FY 2021). The company has reported a PAT of Rs 410.27 Cr. during H1FY2023. The overall Capital adequacy ratio (CAR) and tier-I CAR for IREDA improved to 21.22 percent and 17.06 percent as on March 31, 2022, from 17.12 percent and 12.90 percent, respectively, as on March 31, 2021. The company's networth improved to Rs 5,638.31 Cr. during H1FY23. The overall capital adequacy ratio (CAR) and tier-I CAR is 23.55 percent and 19.83 percent as on September 30, 2022. The overall gearing ratio has improved to 5.24 times as on March 31, 2022 and 8.01 times as on March 31, 2021 due to equity infusion by GOI. The company has reported an overall gearing ratio of 5.36 times as on H1FY23.

Acuité believes the ability of the company to maintain adequate levels of capitalisation remains a key rating monitorable.

Weakness

Moderate profitability, albeit improving in FY22:

The company has reported a PAT of Rs 633.53 Cr. during FY 2022 and Rs 346.40 Cr. during FY 2021. The company has reported Rs 410.27 Cr. during H1FY23. Improvement in profitability despite marginal increase in Interest Income is on account of marginal improvement in interest margins. The company reported a net interest margin (NIM) of 4.19 percent as on March 31, 2022 (4.18 percent as on March 31, 2021). The company reported a NIM of 3.72 percent as on September 30, 2022. Improvement in profitability was also on account of controlled credit costs as it reduced to 0.50 percent (as a percentage of average total assets) in FY 2022, from 1.41 percent as on FY 2022. The company has showcased improvement in ROAA and ROTNW. The company reported an ROAA and ROTNW of 2.13 percent and 15.05 percent respectively as on September 30, 2022. The company reported ROAA and ROTNW 1.89 percent and 15.33 percent respectively as on March 31, 2022 (1.20 percent 12.56 percent as on March 31, 2021).

Moderate Asset quality:

The asset quality of the company, while improving, continues to remain moderate with absolute gross non-performing asset (GNPA) and non-performing asset (NNPA) levels of Rs 1,768.25 Cr and Rs 1,035.39 Cr, respectively, as on March 31, 2022. Moderate asset quality is due to negligible slippages amounting to Rs 33 crore during FY22, clubbed with higher recoveries from stage-three loan accounts and higher growth in the loan book. The company reported a GNPA and NNPA improved to 5.06 percent and 2.72 percent as of September 2022 from 5.27 percent and 3.09 percent from March-2022. The company has reported a GNPA and NNPA of 4.24 percent and 2.03 percent from December-2022. The NPAs in the loan book is majorly in Biomass Power and Cogeneration sector and the small hydro projects and Wind Sector.

Sector and borrower concentration:

The company's loan book continues to have sector and borrower-wise concentration with around 44% of its loan portfolio exposed towards wind and solar energy projects end September 2022. This exposure has marginally reduced from 53% of its loan portfolio as on March 31, 2021. Top 20 Exposure is Rs 16,092.07 Cr. as on December 31, 2022, and have 42.47 percentage of total portfolio. The company continues to have sector and borrower-wise

concentration owing to its policy mandate of being the nodal agency for RE development in India.

Acuité believes sector and borrower concentration will continue to weigh on the company's credit profile over the near to medium term.

ESG Factors Relevant for Rating

IREDA belongs to the NBFC sector which complements bank lending in India. Some of the material governance issues for the financial services sector are policies and practices with regard to business ethics, board diversity and independence, compensation structure for board and KMPs, role of the audit committee and shareholders' rights. On the social aspect, some of the critical issues for the sector are the contributions to financial inclusion and social development, responsible financing including environmentally friendly projects and policies around data privacy. The industry, by nature has a low exposure to environmental risks. IREDA was incorporated to promote, develop and extend financial assistance for renewable energy and energy efficiency/conservation projects. IREDA's board of directors comprises two executive directors, two Government nominees from the MNRE, the Gol and five independent directors. The company was also conferred Mini Ratna (Category-I) status in June 2015 by the Department of Public Enterprises.

Rating Sensitivity

- Any unexpected reduction of support from Gol.
- Any significant deterioration in asset quality and profitability
- Changes in the regulatory environment

Material Covenants

IREDA is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality among others.

Liquidity Position

Strong

As per asset-liability management (ALM) statement dated September 30, 2022, there are no negative cumulative mismatches. IREDA's liquidity profile is adequate, supported by the longer-tenure borrowings from multilateral agencies, which match well with the tenure of its advances. Liquidity is also supported by unencumbered cash and bank balances of Rs. 2346.31 Cr. as on September 30, 2022. The company has reported a collection efficiency of 94 percent in FY 2022, 90 percent in FY 2021 and 90 percent in FY 2020.

Outlook:Stable

Acuité believes that IREDA will maintain a 'Stable' outlook over established presence in the RE sector, strategic role of IREDA as the nodal agency for promoting, developing, and financing renewable energy (RE) and energy-efficiency (EE) projects while maintaining growth in loan portfolio and its asset quality. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of significant deterioration in asset quality thereby impacting profitability metrics.

Other Factors affecting Rating

None

Key Financials - Standalone / Originator

Particulars	Unit	FY22 (Actual)	FY21 (Actual)
Total Assets	Rs Cr.	36708.40	30293.38
Total Income*	Rs Cr.	1286.90	1088.37
PAT	Rs Cr.	633.53	346.40

Networth	Rs Cr	5268.11	2995.59
Return on Average Assets (ROAA)	(%)	1.89	1.20
Return on Net Worth (RoNW)	(%)	15.33	12.56
Total Debt/Tangible Net Worth (Gearing)	Times	5.24	8.01

Gross NPA	(%)	5.27	8.99
Net NPA	(%)	3.09	5.56

*Total income equals to Net Interest Income plus other income

Status of non-cooperation with previous CRA (if applicable):

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Non-Banking Financing Entities: <https://www.acuite.in/view-rating-criteria-44.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	7000.01	ACUITE AAA Stable Assigned
Bank of Baroda	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	500.00	ACUITE AAA Stable Assigned
Yes Bank Ltd	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	700.00	ACUITE AAA Stable Assigned
RBL Bank	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	300.00	ACUITE AAA Stable Assigned
Sumitomo Mitsui Banking Corporation	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	350.00	ACUITE AAA Stable Assigned
Bank of India	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	1000.00	ACUITE AAA Stable Assigned

State Bank of India	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	500.00	ACUITE AAA Stable Assigned
HDFC Bank Ltd	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	80.00	ACUITE AAA Stable Assigned
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1000.00	ACUITE AAA Stable Assigned
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	790.00	ACUITE AAA Stable Assigned
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1100.00	ACUITE AAA Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1000.00	ACUITE AAA Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3000.00	ACUITE AAA Stable
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Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	600.00	ACUITE AAA Stable Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1500.00	ACUITE AAA Stable Assigned
Karnataka Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	500.00	ACUITE AAA Stable Assigned
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1000.00	ACUITE AAA Stable Assigned
Central Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2000.00	ACUITE AAA Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2500.00	ACUITE AAA Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	500.00	ACUITE AAA Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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