

November 25, 2019

## Indian Renewable Energy Development Agency Limited: Ratings reaffirmed; Outlook revised to Negative from Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Previous year bonds programme	4,000	4,000	[ICRA]AA+ (Negative); reaffirmed, outlook revised to Negative from Stable
<b>GoI fully-serviced bonds</b>	<b>4,000</b>	<b>4,000</b>	[ICRA]AAA (Stable); reaffirmed
Total	8,000	8,000	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings factor in Indian Renewable Energy Development Agency Limited's (IREDA) sovereign ownership (100% ownership by the Government of India; GoI), its strategic importance as the sole nodal agency for the promotion and implementation of Government policies and initiatives in the renewable energy (RE) sector, and its market presence in the RE space. The ratings also factor in the company's strong liquidity position, supported by a large proportion of significantly long-term borrowings that match well with the long-term nature of its assets, and its ability to mobilise funds at competitive rates from diverse sources owing to its sovereign ownership.

The revision in IREDA's outlook factors in the heightened portfolio vulnerability arising from the increased slippages and significant exposures to stressed groups. Also, given the wholesale nature of the loans, the concentration risk remains high for the company, with the top 20 borrowers accounting for 271% of the net worth as on March 31, 2019 (240% as on March 31, 2018). ICRA believes that an adequate capital cushion is a key mitigant against the portfolio vulnerability and the current capitalisation levels have moderated with a delay in equity raising, higher credit costs and weakened profitability. The reported asset quality indicators could worsen further with the company migrating to tighter NPA recognition norms, in line with the Reserve Bank of India's (RBI) circular. ICRA notes that by virtue of its mandate, IREDA would continue to have sectoral concentration with the portfolio entirely consisting of RE exposures, though the portfolio is well diversified across sectors such as wind, solar, biomass, cogeneration and small hydro.

Going forward, the company's ability to recover from the stressed assets and the timely infusion of capital, which would improve the solvency indicators, would be key rating sensitivities. Also, ICRA believes IREDA will remain important to the GoI and will play a major role in various GoI renewable sector schemes. Any significant dilution in the GoI's stake, a change in IREDA's strategic role or a sustained decline in its profitability and asset quality indicators could warrant a rating change.

The rating for the GoI fully-serviced bonds factors in the GoI's obligation towards the captioned debt programme as per office memorandums (OM) dated October 4, 2016 and October 20, 2016 issued by the Budget Division, Department of Economic Affairs, Ministry of Finance, Government of India. As per these OMs, the Government has agreed to pay the principal and interest amounts due for the captioned debt programme through budgetary allocations. The rating for these bonds addresses the servicing of the debt as per the terms of the Memorandum of Understanding (MoU) between IREDA and the Ministry of New and Renewable Energy.

## Key rating drivers and their description

### Credit strengths

**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 a high likelihood of support from the GoI. IREDA is the nodal agency for routing the GoI's various subsidies and grants to the RE sector like generation-based incentive schemes for solar and wind power projects, capital subsidy schemes for solar water heaters, and the IREDA-National Clean Energy Fund (NCEF) Refinancing Scheme to refinance biomass (up to 10 MW) and small hydro (up to 5 MW) projects. Apart from this, the GoI has provided guarantees for IREDA's borrowings from multilateral and bilateral agencies (43% of the total borrowings as on March 31, 2019). ICRA believes IREDA will remain important to the GoI and will play a major role in various GoI renewable sector schemes. Any significant dilution in the GoI's stake, a change in IREDA's strategic role or a sustained decline in its profitability and asset quality indicators could warrant a rating/outlook change.

**Good financial flexibility, diversified borrowing profile and comfortable liquidity profile** – Owing to its sovereign ownership, IREDA has been able to raise funds at competitive costs, both in the international and the domestic markets. The average cost of funds improved to 6.89% in FY2019 from 7.12% in FY2018. As on March 31, 2019, 53% of its borrowings were in the form of foreign currency from multilateral agencies like Japan International Cooperation Agency (JICA), Kreditanstalt für Weideraufbau (KfW), Asian Development Bank (ADB), World Bank, European Investment Bank (EIB), Nordic Investment Bank (NIB) etc., and it raised Rs. 2,256 crore from these agencies in FY2019. These borrowings are significantly long term in nature (tenor of 10-40 years) and 43% of the total borrowings were guaranteed by the GoI as on March 31, 2019.

The company's total borrowings stood at Rs. 18,746 crore (growth of 25% in FY2019; excluding GoI fully-serviced bonds of Rs. 1,640 crore). It has a well-diversified borrowing profile with access to funding via tax-free bonds (15%), taxable bonds (16%), bank loans (6%), masala bonds (10%) and foreign currency loans (53%) as on March 31, 2019. Going forward, ICRA believes that the company will continue to have good financial flexibility and be able mobilise funds at competitive rates.

IREDA's liquidity profile is strong, supported by longer-tenure borrowings from multilateral agencies (10-40 years), which match well with the tenure of its advances. The liquidity is also supported by unencumbered cash and bank balances of Rs. 621 crore as on August 31, 2019. The company has positive cumulative mismatches across all the maturity buckets in its asset liability maturity profile. Given its good financial flexibility, ICRA expects IREDA's liquidity to remain comfortable going forward as well.

### Credit challenges

**Portfolio vulnerability likely to keep the asset quality volatile** – The company's reported asset quality indicators remain elevated with the gross NPA increasing to Rs. 1,308.47 crore as on March 31, 2019 from Rs. 997.37 crore as on March 31, 2018. A part of the increase in the NPAs can be attributed to the company's migration to tighter NPA norms, in line with the RBI's circular of May 31, 2018. Additionally, there have been slippages in IREDA's legacy portfolio. The portfolio vulnerability is also heightened by the sizeable standard restructured assets (Rs. 865.68 crore as on March 31, 2019) and significant exposure to stressed groups as well as projects where Andhra Pradesh discoms are the off-takers. Hence, the receivables have been delayed/or are at lower tariff rates (~12-13% of the total portfolio as on August 16, 2019).

Also, given the wholesale nature of the loans, the concentration risk remains high for the company with the top 20 borrowers accounting for 271% of the net worth as on March 31, 2019 (240% as on March 31, 2018). With a deterioration in the asset quality and moderate profitability, the solvency indicators also deteriorated to 30.27% as on March 31, 2019 (24.18% as on March 31, 2018). Overall, given the current issues in the renewable sector and the movement to NPA recognition on the basis 90 days past due, the company's asset quality indicators would remain elevated. Its ability to recover from the stressed assets and raise capital to improve the solvency indicators would be a key monitorable.

**Modest capitalisation indicators** – The capitalisation profile has weakened with the gearing increasing to 7.28 times as on March 31, 2019 from 6.13 times as on March 31, 2018 due to modest internal capital generation, higher credit growth and a delay in the planned primary capital raise via an initial public offer (IPO). The last equity infusion by the Government was in FY2015 before IREDA was conferred the Mini Ratna (Category-I) status in June 2015. The reported capital adequacy remained adequate with a CRAR of 16.32% (Tier I – 14.65%) as on March 31, 2019, above the minimum regulatory requirement of 10% (Tier I – 7%). In line with the RBI's circular of May 31, 2018, the company has to maintain a minimum CRAR of 12% (Tier I – 8%) as on March 31, 2020, 13% (Tier I – 9%) as on March 31, 2021 and 15% (Tier I – 10%) as on March 31, 2022. Given the expected deterioration in the asset quality, IREDA would need external capital for growth and to provide for the stressed assets.

**Moderation in profitability** – The average yield on loans declined to 9.84% in FY2019 from 10.66% in FY2018 due to an increase in non-performing loans in addition to increased competitive pressure in the segment, which led to a decline in the lending spread to 2.95% from 3.53% during this period. While the operating expense/average assets remained low at 0.44%, the NIM moderated to 3.10% in FY2019 from 3.29% in FY2018 due to an increase in leverage and a decline in spreads. The credit costs, as a percentage of average assets, also increased to 1.53% in FY2019 from 0.44% in FY2018 due to write-offs, fresh slippages and the transition to 120+ dpd NPA recognition as on March 31, 2019 from 180+ dpd recognition followed earlier. This led to a decline in RoA and RoE to 0.97% and 9.20%, respectively, in FY2019 from 1.96% and 16.64%, respectively, in FY2018. The profitability was also affected by the one-time impact of a 100% provision on one of the company's investments. Going forward, the profitability is expected to remain subdued because of the heightened vulnerability of IREDA's portfolio.

### Liquidity position: Strong

IREDA's liquidity profile is strong as a large proportion of its borrowings from multilateral agencies are significantly long term in nature with the tenures going up to 40 years. Consequently, it has no negative mismatches in any of the maturity buckets as per the ALM as on September 30, 2019. Apart from this, the company had liquid cash and bank balances of Rs. 621 crore as on August 31, 2019 and unutilised sanctioned lines of Rs. 348 crore from domestic banks, which further support its liquidity profile. As on September 30, 2019, the company expects inflows of Rs. 3,448 crore against repayments of Rs. 1,280 crore in the next 12 months.

### Rating sensitivities

**Positive triggers** – An improvement in the asset quality, while the solvency level is kept below 40% and the gearing remains at the current or a lower level on a sustained basis, may lead to a revision in the rating outlook. However, given the Negative outlook, a credit rating upgrade is unlikely in the near term.

**Negative triggers** – Further pressure on the asset quality, leading to the solvency level being weaker than 60%, and/or a reduction in the capital buffer to 1% over the Tier I regulatory requirement on a sustained basis would lead to a revision in the credit ratings. The inability to raise fresh capital for growth and a significant dilution in the GoI's stake or a decline

in the strategic importance of IREDA in the Gol's initiatives for the promotion of the RE sector in the country may also warrant a change in the ratings.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">ICRA's Credit Rating Methodology for Non-Banking Finance Companies</a>
Parent/Group Support	The ratings derive strength from IREDA's 100% ownership by the Gol and its important role as a nodal agency for various RE sector schemes of the Government. The Gol's ownership supports IREDA's financial flexibility.
Consolidation/Standalone	Standalone

## 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 Gol and has been notified as a Public Financial Institution and registered as a non-banking finance company – asset finance company (NFBC-AFC) with the RBI. IREDA's board of directors comprises two executive directors, two Government nominees from the MNRE, Gol and five independent directors. The company was also conferred the Mini Ratna (Category-I) status in June 2015 by the Department of Public Enterprises.

In FY2019, IREDA reported a PAT of Rs. 231.09 crore on an asset base of Rs. 26,026 crore against PAT of Rs. 405.36 crore on an asset base of Rs. 21,577 crore in FY2018. As on March 31, 2019, the company reported a CRAR of 16.32%. IREDA's gross and net NPAs stood at 6.12% and 3.74%, respectively, as on March 31, 2019. Its portfolio grew by 35% in FY2019 to Rs. 21,389 crore as on March 31, 2019 from Rs. 15,820 crore as on March 31, 2018.

## Key financial indicators (audited<sup>^</sup>)

	FY2018	FY2019
Total income	1,747	1,973
Profit after tax	405	231
Net worth	2,446	2,576
Total assets*	21,577	26,026
CRAR	18.05%	16.32%
Gearing (times)	6.13	7.28
Return on average net worth (%)	16.64%	9.20%
Gross NPAs (%)	6.30%	6.12%
Net NPAs (%)	3.70%	3.74%
Net NPA/Net worth	24.18%	30.27%

Source: IREDA, ICRA research; Amount in Rs. crore

\*Gross value

<sup>^</sup>Based on restated financials in DRHP dated July 29, 2019

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years**

Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
1 Gol fully-serviced bonds	Long Term	4,000	1,640	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
2 Previous year bonds programme	Long Term	4,000	2,700	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	

Source: ICRA research, IREDA

**Complexity level of the rated instrument**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate (%)	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE202E07245	NCD	24-03-2017	8.12	24-03-2027	200.00	[ICRA]AA+ (Negative)
INE202E07252	NCD	29-03-2017	8.05	29-03-2027	500.00	[ICRA]AA+ (Negative)
INE202E07179	NCD	01-10-2015	7.17	01-10-2025	284.00	[ICRA]AA+ (Negative)
INE202E07187	NCD	21-01-2016	7.28	21-01-2026	108.90	[ICRA]AA+ (Negative)
INE202E07195	NCD	21-01-2016	7.49	21-01-1931	884.30	[ICRA]AA+ (Negative)
INE202E07203	NCD	21-01-2016	7.43	21-01-1936	36.40	[ICRA]AA+ (Negative)
INE202E07211	NCD	21-01-2016	7.53	21-01-2026	127.90	[ICRA]AA+ (Negative)
INE202E07229	NCD	21-01-2016	7.74	21-01-1931	483.50	[ICRA]AA+ (Negative)
INE202E07237	NCD	21-01-2016	7.68	21-01-1936	75.00	[ICRA]AA+ (Negative)
INE202E08011*	NCD	06-02-2017	7.22	06-02-2027	610.00	[ICRA]AAA (Stable)
INE202E08029*	NCD	23-02-2017	7.60	23-02-2027	220.00	[ICRA]AAA (Stable)
INE202E08037*	NCD	06-03-2017	7.85	06-03-2027	810.00	[ICRA]AAA (Stable)

Source: IREDA

\* Govt fully-serviced bonds

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