Indian Renewable Energy Development Agency Limited (Revised)

December 31, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Bonds	500.00	CARE AA+; Positive (Double A Plus; Outlook: Positive)	Revised from CARE AAA (CE); Stable [Triple A (Credit Enhancement); Outlook: Stable]
Bonds	757.65	CARE AA+; Positive (Double A Plus; Outlook: Positive)	Revised from CARE AAA (CE); Stable [Triple A (Credit Enhancement); Outlook: Stable]
Unsecured Redeemable	250.00	CARE AA+; Positive (Double A Plus; Outlook: Positive)	Revised from CARE AAA (CE); Stable [Triple A (Credit Enhancement); Outlook: Stable]
Total Long Term Instruments	**1,507.65 (₹ One Thousand Five Hundred Seven Crore and Sixty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the long-term instruments mentioned in the table above does not factor in any explicit credit enhancement and are now based upon the standalone credit profile of Indian Renewable Energy Development Agency Limited (IREDA). The change is pursuant to the RBI's circular and guidance note dated April 22, 2022 and July 26, 2022, respectively, and SEBI circular dated September 28, 2022. CareEdge Ratings has removed the 'CE' suffix wherever the credit enhancement terms were not fully in compliance with the terms as per the regulatory guidelines.

The rating continues to factor in Government of India's (GoIs) 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 rating also derives strength from IREDA's established track record in the RE sector, diversified resource profile, adequate capitalisation levels and growth in the loan book.

The rating also takes note of the Memorandum of Understanding (MoU) signed between Ministry of New and Renewable Energy (MNRE) and IREDA for raising of GoI fully-serviced bonds through IREDA.

These rating strengths are, however, offset by the company's moderate albeit improving profitability metrics, asset quality challenges and increased share of short-term loan borrowers in the total loan portfolio.

Rating sensitivities

Positive factors – Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Improvement in profitability metrics with return on total assets (RoTA) above 3%.
- Significant scale up in the loan portfolio with dominant share of RE projects.
- Improvement in capitalisation profile supported by equity infusion from GOI and/or timely execution of initial public offering (IPO).

Negative factors – Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Any major change in the shareholding pattern and/or moderation in support from GoI.
- Deterioration in the asset quality and liquidity profile on a sustained basis.
- Gearing going above 10 times and inability to improve capitalisation levels.
- Increased exposure towards power distribution companies (DISCOMs) with higher share of short-term loans in the overall disbursements.

Outlook: Positive

The outlook for IREDA is 'Positive' on account of the expected rise in share of RE loan assets by the company post an increased impetus by its management on boosting the share of renewable sector in the overall loan book, while curtailing disbursements towards state DISCOMs. The rise in the share of RE loan assets is also expected to be aided by the government-approved

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

sanction of ₹24,000 crore towards solar PV module production linked incentive (PLI) scheme, which is expected to result in higher loan demand from the sector for IREDA.
Consequently, with loan book growth expected to remain robust going forward, interest income profile of the company shall improve further in FY24, resulting in rising positive internal accruals.
Furthermore, 'Positive' outlook also reflects expected sequential improvement in asset quality parameters of IREDA, given the trend of higher recoveries and minimal slippages in its stage-three assets.
Outlook for the company may be revised to 'Stable' if there is any material deterioration in the expected loan book growth, capitalisation or asset quality profile.

Detailed description of the key rating drivers

Key rating strengths

Wholly owned by GoI and expectation of consistent support from the Ministry: IREDA is a strategically important entity that was set up by GoI under the administrative control of MNRE to promote, develop and extend financial assistance for RE and EE projects. As on September 30, 2022, GoI held 100% equity shares of IREDA. IREDA has been instrumental in implementing several schemes of the MNRE. IREDA has a track record of receiving regular support from the government in the form of GoI guarantees for its overseas bond issuances and borrowing from multilateral agencies. Under the categorisation of Public Sector Enterprises, IREDA was upgraded from 'Schedule C' to 'Schedule B' by the Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises, GoI with effect from January 4, 2010. Furthermore, IREDA has been awarded "Mini Ratna" (Category -I) status in 2015 by MNRE. Also, in line with the Union Budget for FY21-FY22 (refers to the period April 1 to March 31), IREDA received an equity infusion of ₹1,500 crore from GoI on March 26, 2022.
As on September 30, 2022, IREDA's Board of Directors consisted of four members, including one government nominee director and two independent directors. Government nominee director is Mr. Dinesh Jagdale, Joint Secretary of MNRE.

Strategic role in promoting RE sector: IREDA is a strategically important entity for GoI that was promoted by MNRE as a financial institution dedicated to financing of RE and EE projects. IREDA provides a comprehensive range of financial products from project conceptualisation to the post-commissioning stage in the RE sector. IREDA provides various fund-based and non-fund-based facilities, including project finance, short-terms loans, debt refinancing, performance guarantee and letters of comfort.
IREDA has also been instrumental in implementing several schemes of the MNRE as the ministry provides budgetary support for research and facilitates development through various institutions, promotes private investment through fiscal incentives, tax holidays, depreciation allowance and remunerative returns for power fed into the grid. To boost the generation and distribution of electricity through RE sources, the ministry has formulated various schemes/programmes like the Jawaharlal Nehru National Solar Mission, Generation-based Incentive Scheme, development of Solar Cities Programme and Renewable Energy Certificate Mechanism. Furthermore, the GOI has set a target to increase the RE generation capacity to 500 GW by 2030, as against 160-GW installed capacity as on May 31, 2022, and with IREDA being the nodal agency, it is expected to play a pivotal role in the growth of the RE sector through funding as well as distribution of incentives.
As a result, going forward, IREDA's ability to leverage the same and increase the share of RE loan assets in its overall loan book remains a key rating sensitivity.

IREDA enters into memorandum of understanding (MoU) with the MNRE on annual basis. Pursuant to the MoU, the annual targets are set with respect to loan sanctions, disbursements, profitability and other dynamic parameters. Furthermore, IREDA has also been a catalyst in encouraging other financial institutions to finance the RE sector.

Diversified resource profile: IREDA being a key institution for the government to promote and finance RE and EE projects, gets the flexibility of raising funds by way of various sources like taxable and tax-free bonds, loans from banks and borrowing from various overseas agencies. As on March 31, 2022, 30% of the total borrowings (including GOI fully-serviced bonds) were supported by GoI in the form of guarantees and letter of comfort.
As on September 30, 2022, the total borrowings of ₹31,871 crore included tax-free bonds (8.6%), taxable bonds (19%), term loans from banks and others (59%) which are majorly from foreign multilateral institutions (mostly these loans are guaranteed by GOI), unsecured Masala Bonds (6.1%) and sub-debt (2%). GOI fully-serviced bonds (₹1,640 crore) formed 5.1% of the overall borrowings. Excluding the same, the borrowings of IREDA were ₹30,231 crore as on September 30, 2022.
IREDA's borrowings grew by ₹2,618 crore (9%) in H1FY23 from March 31, 2022, due to additional loans from various domestic and foreign banks/institutions.

Capital adequacy, though weakening over last few years, remains above the regulatory requirement: End-fiscal 2022, with an equity infusion of ₹1,500 from GOI coupled with sequential rise in profitable surplus to ₹634 crore (up 83% Y-o-

Y), the tangible net-worth position of the company improved to ₹4,943 crore (PY: ₹2,784 crore). As a result, the overall capital adequacy ratio (CAR) and tier-I CAR for IREDA improved to 21.22% and 17.60%, respectively, as on March 31, 2022, from the earlier 17.12% and 12.90%, respectively, as on March 31, 2021. In H1FY22, net worth further improved to ₹5,303 crore and overall capital adequacy ratio (CAR) and tier-I CAR for IREDA improved to 23.55% and 19.83%.
As on September 30, 2022, IREDA's overall gearing (including GOI fully-serviced bonds) slightly deteriorated to 6x as against 5.92x as on March 31, 2022. Gearing levels excluding GOI fully-serviced bonds stood at 5.7x as on September 30 2022, compared with 5.59x as on March 31, 2022.
Going forward, IREDA plans to shore up its capital position by listing on market bourses via initial public offer (IPO) route, as expectations of any further near-term equity infusion from GOI looks bleak. Consequently, the ability of the company to maintain adequate levels of capitalisation whilst ensuring timely execution of IPO, remains a key rating monitorable.

Growth in loan portfolio during FY22: End-fiscal March 31, 2022, IREDA's gross loan book increased by 22% Y-o-Y to ₹33,913 crore (PY: ₹27,840 crore), as against a 17% growth last year, due to significant growth in the disbursements during FY22, coupled with lesser repayments. In H1FY23, loan book slightly reduced to ₹33,783.36 crore.
IREDA disbursed loans amounting to ₹16,072 crore, up 82% Y-o-Y in FY22, on the back of rise in demand for loans from state DISCOMs, as well as RE players. In H1FY23, total loan amount disbursed was ₹4,006.31 crore.

Key rating weaknesses

Moderate profitability metrics, albeit improving in FY22: End fiscal March 31, 2022, the company reported a 83% Y-o-Y jump in its profit after tax (PAT) to ₹634 crore on a total income of ₹2,874 crore (up 8% Y-o-Y). The purported growth in PAT despite a marginal uptick in top-line is on account of marginal improvement in interest margins as IREDA's net interest margin (NIM) improved by 9 bps Y-o-Y to 3.87% on the back of lower interest costs incurred during the year. The interest margins of the company may come under pressure going forward on account of additional funds being availed at a comparatively higher cost owing to hike in repo rate announced by RBI. Also, the improvement in net profitability was on account of controlled credit costs as it reduced to 0.54% (as a percentage of the total assets) in FY22, from the earlier 1.19% in FY21.
As a result, IREDA's return ratios improved with its return on total assets (RoTA) and return on net-worth (RoNW) improving to 1.91% and 16.4%, respectively, as on March 31, 2022, as compared with 1.20% and 13.42%, respectively, as on March 31, 2021. For H1FY23, IREDA reported a PAT of ₹410 crore which led to ROTA of 2.13% and RONW of 16% on annualized basis.
Going forward, the ability of the company to sustain the current improvement in profitability metrics whilst increasing its top-line growth remains a key rating monitorable.

Moderate asset quality: The asset quality of the company, while improving, continues to be stressed with absolute gross non-performing asset (GNPA) and non-performing asset (NNPA) levels of ₹1,768 crore (down 28% Y-o-Y) and ₹1,035 crore (down 31% Y-o-Y), respectively, as on March 31, 2022, due to negligible slippages worth ₹33 crore during FY22, clubbed with higher recoveries from stage-three loan accounts and higher growth in the loan book. Consequently, on a percentage basis, GNPA and NNPA levels of the company improved to 5.21% and 3.12%, respectively, as on March 31, 2022, compared with 8.77% and 5.61%, respectively, as on March 31, 2021.
In H1FY23, asset quality improved due to recoveries. Absolute gross non performing asset (GNPA) and non-performing asset (NNPA) came down to ₹1,709 crore and ₹896 crore respectively. Consequently, on a percentage basis, GNPA and NNPA levels of the company improved to 5.06% and 2.72%, respectively.
The majority of these NPAs so far have been in the small hydro projects, biomass power and cogeneration sector. IREDA had been reducing their share in these segments given the asset quality concern.

Sector and borrower concentration: Owing to its policy mandate of being the nodal agency for RE development in India, the company continues to face high sector and borrower-wise concentration risks with around 47% of its loan portfolio exposed towards wind and solar energy projects end September, 2022. this exposure has marginally risen from 43% of its loan portfolio as on March 31, 2022. The top 20 borrowers formed 33% of the gross loan portfolio of the company as on September 30, 2022, up from 26% as on March 31, 2022. The exposure to top 20 borrowers, as on September 30, 2022, formed 206% of the company's tangible net-worth of ₹5,303 crore.

Liquidity: Adequate

As per asset-liability management (ALM) statement dated September 30, 2022, there are no negative cumulative mismatches because the company had cash and bank balance of ₹1,415 crore, up from ₹527 crore as on March 31, 2022, clubbed with undrawn sanctioned lines of ₹7,640 crore, against which the company had debt repayments of ₹6,624 crore for the next 12 months. Also, the company expects inflows from advances worth ₹6,023.69 crore for the next one year, which compared to the debt obligations and foreign currency liabilities, should be sufficient enough to take care of the company's liquidity profile.

Analytical approach: Standalone, factoring 100% ownership by Government of India.

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Notching by factoring linkages with government
Rating Outlook and Credit Watch
Non Banking Financial Companies
Policy on Withdrawal of Ratings

About the company

Incorporated in 1987, IREDA is a wholly-owned GoI enterprise working under the administrative control of MNRE and has been awarded "Mini Ratna" (Category -I) status in 2015 by MNRE. IREDA has been notified as a "Public Financial Institution" under the Companies Act, 1956 and registered as NBFC with RBI, formed for the purpose of promoting, developing and financing RE and EE projects in India.

IREDA is a strategically important entity for GoI that mainly finances projects in the wind, hydro, solar, bio-energy sectors as well as emerging areas, such as battery-powered vehicle sectors. Of late, wind energy and small-hydro sectors have emerged as the key growth areas on account of the incentives offered by the centre as well as some state governments.
The company, besides its own activities, implements programmes on behalf of MNRE on the basis of the MoU entered into with the said Ministry. Pursuant to the MoU, the annual targets are set with respect to loan sanctions, disbursements, profitability and other dynamic parameters. Also, IREDA is a Fund Administrator on behalf of MNRE for distribution of generation-based incentive and capital subsidy for wind and solar sectors. Under these schemes, specific fund amount is provided by MNRE to IREDA for the purpose of disbursement of the same to the GBI claimants as per the scheme of MNRE. Therefore, essentially, the activity is receipt and utilisation of funds.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23
Total operating income	2,659	2,874	1,578
PAT	346	634	410
Interest coverage (times)	1.36	1.53	1.67
Total Assets	30,082	36,383	40,477
Net NPA (%)	5.61	3.12	2.72
ROTA (%)	1.20	1.91	2.13

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
IREDA Taxable Bonds	INE 202E 07062	24-Sep-10	9.02%	24-Sep-25	250.00	CARE AA+; Positive
IREDA Taxable Bonds	INE 202E 07088	10-May-13	8.44%	10-May-23	300.00	CARE AA+; Positive
IREDA Taxable Bonds	INE 202E 07096	10-May-13	8.49%	10-May-28	200.00	CARE AA+; Positive
IREDA Tax Free Bonds	INE 202E 07161	27-Mar-14	8.56%	27-Mar-29	36.00	CARE AA+; Positive
IREDA Tax Free Bonds	INE202E07104	13-Mar-14	8.16%	13-Mar-24	75.76	CARE AA+; Positive
IREDA Tax Free Bonds	INE202E07120	13-Mar-14	8.55%	13-Mar-29	123.08	CARE AA+; Positive
IREDA Tax Free Bonds	INE202E07146	13-Mar-14	8.55%	13-Mar-34	38.81	CARE AA+; Positive
IREDA Tax Free Bonds	INE202E07112	13-Mar-14	8.41%	13-Mar-24	105.29	CARE AA+; Positive
IREDA Tax Free Bonds	INE202E07138	13-Mar-14	8.80%	13-Mar-29	234.55	CARE AA+; Positive
IREDA Tax Free Bonds	INE202E07153	13-Mar-14	8.80%	13-Mar-34	144.16	CARE AA+; Positive
Subtotal (IREDA Tax-free and Taxable Bonds)					**1,507.65**	
Un Supported Rating	-	-	-	-	-	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Bonds-Unsecured Reedemable	LT	-	-	-	-	-	1)Withdrawn (04-Oct-19)
2	Bonds-Unsecured Reedemable	LT	-	-	-	-	1)Withdrawn (29-Sep-20)	1)CARE AAA (CE); Stable (04-Oct-19)
3	Bonds-Unsecured Reedemable	LT	250.00	CARE AA+; Positive	1)CARE AAA (CE); Stable (25-Jul-22) 2)CARE AAA (CE); Stable (01-Jul-22)	1)CARE AAA (CE); Stable (16-Sep-21)	1)CARE AAA (CE); Stable (21-Dec-20) 2)CARE AAA (CE); Stable (29-Sep-20)	1)CARE AAA (CE); Stable (04-Oct-19)

4	Bonds	LT	-	-	1)Withdrawn (25-Jul-22) 2)CARE AAA (CE); Stable (01-Jul-22)	1)CARE AAA (CE); Stable (16-Sep-21)	1)CARE AAA (CE); Stable (21-Dec-20) 2)CARE AAA (CE); Stable (29-Sep-20)	1)CARE AAA (CE); Stable (04-Oct-19)
5	Bonds	LT	500.00	CARE AA+; Positive	1)CARE AAA (CE); Stable (25-Jul-22) 2)CARE AAA (CE); Stable (01-Jul-22)	1)CARE AAA (CE); Stable (16-Sep-21)	1)CARE AAA (CE); Stable (21-Dec-20) 2)CARE AAA (CE); Stable (29-Sep-20)	1)CARE AAA (CE); Stable (04-Oct-19)
6	Bonds	LT	757.65	CARE AA+; Positive	1)CARE AAA (CE); Stable (25-Jul-22) 2)CARE AAA (CE); Stable (01-Jul-22)	1)CARE AAA (CE); Stable (16-Sep-21)	1)CARE AAA (CE); Stable (21-Dec-20) 2)CARE AAA (CE); Stable (29-Sep-20)	1)CARE AAA (CE); Stable (04-Oct-19)
7	Bonds	LT	700.00	CARE AA+; Positive	1)CARE AA+; Positive (25-Jul-22) 2)CARE AA+; Stable (01-Jul-22)	1)CARE AA+; Stable (16-Sep-21)	1)CARE AA+; Stable (21-Dec-20) 2)CARE AA+; Stable (29-Sep-20)	1)CARE AA+; Stable (04-Oct-19)
8	Bonds	LT	4000.00	CARE AAA; Stable	1)CARE AAA; Stable (25-Jul-22) 2)CARE AAA; Stable (01-Jul-22)	1)CARE AAA; Stable (16-Sep-21)	1)CARE AAA; Stable (21-Dec-20) 2)CARE AAA; Stable (29-Sep-20)	1)CARE AAA; Stable (04-Oct-19)
9	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (25-Jul-22) 2)CARE AA+; Stable (01-Jul-22)	1)CARE AA+; Stable (16-Sep-21)	-	-
10	Bonds	LT	106.00	CARE AA+; Positive	1)CARE AA+; Positive (25-Jul-22) 2)CARE AA+; Stable (01-Jul-22)	1)CARE AA+; Stable (16-Sep-21)	-	-
11	Bonds-Perpetual Bonds	LT	-	-	1)Withdrawn (25-Jul-22) 2)CARE AA; Stable (01-Jul-22)	1)CARE AA; Stable (16-Sep-21)	-	-
12	Bonds-Subordinated	LT	-	-	1)Withdrawn (25-Jul-22) 2)CARE AA+; Stable (01-Jul-22)	1)CARE AA+; Stable (16-Sep-21)	-	-
13	Borrowings-Market Borrowing Programme	LT	14900.00	CARE AA+; Positive	1)CARE AA+; Positive (25-Jul-22)	-	-	-

14	Bonds-Subordinated	LT	500.00	CARE AA+; Positive	1)CARE AA+; Positive (25-Jul-22)	-	-	-
15	Bonds-Perpetual Bonds	LT	1000.00	CARE AA; Positive	1)CARE AA; Positive (25-Jul-22)	-	-	-
16	Un Supported Rating	LT	-	-	1)CARE AA+ (25-Jul-22)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Bonds-Perpetual Bonds	Simple
2	Bonds-Subordinated	Simple
3	Bonds-Subordinated	Simple
4	Bonds-Unsecured Redeemable	Simple
5	Bonds	Simple
6	Fund-based - LT-Term Loan	Simple
7	Un Supported Rating	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Gaurav Dixit
Phone- +91-11-4533 3235
E-mail: Gaurav.Dixit@careedge.in

Name: Neha Kadiyan
Phone: +91-11-4533 3200
E-mail: Neha.Kadiyan@careedge.in

Name: Anubhav Khatri
E-mail: anubhav.khatri@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in