Indian Renewable Energy Development Agency Limited

July 01, 2022

Ratings

S.No.	Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
(i)	Long-term Bank Facilities	4,000.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
	Total bank facilities	**4,000.00 (₹ Four thousand crore only)**		
(ii)	Long-term Bonds: (IREDA Green Bonds)	700.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
(iii)	Long-term Taxable Bonds	5,000.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
(iv)	Long-term-Subordinate Debt-Tier II Bonds	500.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
(v)	Long-term- Perpetual Debt Instruments	500.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
(vi)	Long-term Bonds: GoI Fully serviced Bonds	4,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
(vii)	Long-term Bonds	1,807.65	CARE AAA (CE); Stable [Triple A (Credit Enhancement); Outlook: Stable]	Reaffirmed
	Total Long-term instruments	**12,507.65 (₹ Twelve thousand five hundred seven crore and sixty-five lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation in the rating assigned to the long-term instruments and bank facilities (S.No. (i), (ii), (iii) and (iv)) does not factor in any explicit credit enhancement and are based upon the standalone credit profile of IREDA. The reaffirmation of this rating continues to factor in Government of India (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) & Energy Efficiency (EE) projects in India. The rating also derives strength from IREDA's established track record in renewable energy sector, diversified resource profile, adequate capitalisation levels and growth in loan book. Also, CARE Ratings (CARE Limited) has assigned a rating of CARE AA; Stable to the perpetual debt instruments (Sr. No. (v)) of IREDA.

The reaffirmation of the rating assigned to the long-term bonds (S.No. (vi) in the above table) described as GoI fully-serviced bonds factors in the obligation of the government to repay the principal and the interest amount by making suitable budgetary provisions as per the letter dated October 03, 2016, issued by Department of Economic Affairs, Ministry of Finance, GoI. The rating also takes note of Memorandum of Understanding (MoU) signed between Ministry of New and Renewable Energy (MNRE) and IREDA for raising of GoI fully-serviced bonds through IREDA.

The reaffirmation of the ratings assigned to the instruments (S.No. (vii) in the above table) primarily considers the credit enhancement for the bonds in the form of 'Letter of Comfort' from MNRE, GoI, which states that MNRE will ensure that (IREDA meets its repayment obligation on the above-mentioned bonds in a timely manner.

These rating strengths are, however, offset by the company's moderate profitability metrics, asset quality challenges and increasing 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 loan portfolio with dominant share of renewable energy projects

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

- Any major change in the shareholding pattern and/or expectation of reduced support from the GoI
- Deterioration in 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 with higher share of short-term loans in the overall disbursements

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

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 renewable energy and energy-efficiency projects. As of March 31, 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.

Strategic role in promoting renewable energy sector
IREDA is a strategically important entity for GoI that was promoted by MNRE as a financial institution dedicated to financing of renewable energy and energy-efficiency projects. IREDA provides a comprehensive range of financial products from project conceptualisation to the post-commissioning stage in the renewable energy sector. IREDA provides various fund 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 renewable energy sources, the ministry has formulated various schemes/programs like the Jawaharlal Nehru National Solar Mission, Generation Based Incentive Scheme, Development of Solar Cities Program and Renewable Energy Certificate Mechanism. Furthermore, the GOI has set a target to increase the RE Generation Capacity to 175 GW by FY22, which would further increase to 450 GW by 2030, as against 98 GW installed capacity as on March 31, 2021, 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.

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 renewable energy sector.

Established risk management system and incremental measures taken to improve the asset quality
IREDA has been in lending operations for over three decades. During this period, the company has developed expertise in financing renewable energy and energy-efficiency projects. The company has an established risk management framework for approving and monitoring its portfolio. The company has established in-house technical appraisal team which is looking after the technical viability of the prospective projects, with support from foreign institutions that also act as lenders for the company. Furthermore, for the repayments, IREDA has the policy of creation of an escrow account, i.e., (Trust & Retention Account (TRA) in which all the cash flows related to the projects are deposited.

In line with RBI's norms, the company had a policy of keeping the single borrower exposure at 20% of the net-worth and the group borrower exposure at 35% of the net-worth. However, IREDA has received relaxation in exposure norms up to 35% for single borrowers against loan provided to state-level power distribution companies (DISCOMs). Also, IREDA in a bid to limit its exposure to the weaker segments has tightened its norms limiting its maximum exposure to projects in segments with weaker asset quality profile, i.e., biomass, cogeneration and small hydro projects at 50% of the total project cost.

Diversified resource profile
IREDA being a key institution for the government to promote and finance renewable energy and energy-efficiency projects, gets the flexibility of raising funds by way of various sources like taxable & 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 March 31, 2022, the total borrowings of ₹29,253 crore (PY: ₹25,640 crore) included tax-free bonds (9.4%), taxable bonds (15.4%), term loans from banks and others (60.3%) which are majorly from foreign multilateral institutions (mostly these loans are guaranteed by GOI), unsecured Masala Bonds (6.7%) and Sub-debt (2.2%). GOI fully serviced bonds (₹1,640 crore) formed 6% of the overall borrowings. Excluding the same, the borrowings of IREDA were ₹27,613 crore as on March 31, 2022.
During FY22, IREDA's borrowings grew by ₹3,613 crore (up 14% Y-o-Y), as it raised ₹2,400 crore term loan from State Bank of India (SBI), coupled with 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), 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.
While the company's capital adequacy levels are well above statutory minimum requirements, the continuous maintenance of the same remains a key rating sensitive especially since the government-owned NBFCs are required to transition to a CAR and Tier-1 CAR of 15% and 10%, respectively, by the end of March 31, 2022.
Consequently, end-March 31, 2022, IREDA's overall gearing (including GOI fully serviced bonds) improved to 5.92 times as against 9.21 times as on March 31, 2021. Gearing levels excluding GOI fully serviced bonds stood at 5.59 times as on March 2022, compared with 8.62 times as on March 31, 2021.

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 disbursements during FY22, coupled with lesser repayments.
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 renewable energy players.

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 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 Reserve Bank of India (RBI). Also, the improvement in net profitability was on account of controlled credit costs as it reduced to 0.54% (as a percentage of 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.
Going forward, 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 GNPA and 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 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 to 8.77% and 5.61%, respectively, as on March 31, 2021.

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 renewable energy development in India, the company continues to face high sector and borrower-wise concentration risks with around 43% of its loan portfolio exposed towards wind and solar energy projects end-FY22. However, this exposure has marginally come down from 61% of its loan portfolio as on March 31, 2020 due to the increased exposure towards short-term loans, which has risen from 17% of the loan portfolio as on March 31, 2019 to 35% as on March 31, 2022. The top 20 borrowers formed 26% of the gross loan portfolio (₹25,640 crore) of the company as on March 31, 2021, down from 34% as on March 31, 2020. The exposure to top 20 borrowers, as on March 31, 2022 formed 214% of the company's tangible net-worth of ₹4,943 crore.

Liquidity: Adequate
As per ALM statement dated March 31, 2022, there are no negative cumulative mismatches because the company had cash and bank balance of ₹527 crore, down from ₹603 crore as on March 31, 2021, clubbed with undrawn sanctioned lines of ₹1,500 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 ₹6,191 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
Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
CARE Methodology for Non-Banking Financial Companies
Financial Sector –Financial Ratios
Factoring Linkages with Government

About the company
Incorporated in 1987, (IREDA is a wholly owned GoI enterprise working under the administrative control of MNRE. IREDA 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 Renewable Energy (RE) & Energy Efficiency (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 vehicles sectors. Of late, wind energy and small- hydro sectors have emerged as the key growth areas on account of incentives offered by the Centre as well as some state governments.
The company besides its own activities implements programs on behalf of Ministry for New and Renewable Energy (MNRE) on the basis of Memorandum of Understanding (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, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	2,372	2,659	2,874
PAT	214	346	634
Overall gearing(including GOI bonds) [in times]	9.88	9.21	5.92
Interest coverage (times)	1.17	1.36	1.53
Total Assets	27,509	30,082	36,383
Gross NPA (%)	10.08	8.77	5.21
NNPA (%)	7.18	5.61	3.12
ROTA (%)	0.82	1.20	1.91

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

ISIN	Name of Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Rating assigned along with Rating Outlook
INE 202E 07062	IREDA Taxable Bonds	24-Sep-10	9.02%	24-Sep-25	250	CARE AAA(CE); Stable
INE 202E 07070	IREDA Taxable Bonds	4-Jun-12	9.49%	4-Jun-22*	300	CARE AAA(CE); Stable
INE 202E 07088	IREDA Taxable Bonds	10-May-13	8.44%	10-May-23	300	CARE AAA(CE); Stable
INE 202E 07096	IREDA Taxable Bonds	10-May-13	8.49%	10-May-28	200	CARE AAA(CE); Stable
INE 202E 07161	IREDA Tax Free Bonds	27-Mar-14	8.56%	27-Mar-29	36	CARE AAA(CE); Stable
INE202E07104	IREDA Tax Free Bonds	13-Mar-14	8.16%	13-Mar-24	75.76	CARE AAA(CE); Stable
INE202E07120	IREDA Tax Free Bonds	13-Mar-14	8.55%	13-Mar-29	123.08	CARE AAA(CE); Stable
INE202E07146	IREDA Tax Free Bonds	13-Mar-14	8.55%	13-Mar-34	38.81	CARE AAA(CE); Stable
INE202E07112	IREDA Tax Free Bonds	13-Mar-14	8.41%	13-Mar-24	105.29	CARE AAA(CE); Stable
INE202E07138	IREDA Tax Free Bonds	13-Mar-14	8.80%	13-Mar-29	234.55	CARE AAA(CE); Stable
INE202E07153	IREDA Tax Free Bonds	13-Mar-14	8.80%	13-Mar-34	144.16	CARE AAA(CE); Stable
Subtotal (IREDA Tax Free Bonds)					**1807.65**	
INE 202E 08011	GOI Fully Serviced Bonds	6-Feb-17	7.22%	6-Feb-27	610	CARE AAA; Stable
INE 202E 08029	GOI Fully Serviced Bonds	23-Feb-17	7.60%	23-Feb-27	220	CARE AAA; Stable
INE 202E 08037	GOI Fully Serviced Bonds	6-Mar-17	7.85%	6-Mar-27	810	CARE AAA; Stable
Proposed	GOI Fully Serviced Bonds	-	-	-	2360	CARE AAA; Stable
Sub-Total (GOI Fully Serviced Bonds)					**4000**	
INE 202E 07245	IREDA Taxable Green Bonds	24-Mar-17	8.12%	24-Mar-27	200	CARE AA+; Stable
INE 202E 07252	IREDA Taxable Green Bonds	29-Mar-17	8.05%	29-Mar-27	500	CARE AA+; Stable
Sub-Total (IREDA Taxable Green Bonds)					**700**	
INE 202E08078	IREDA Taxable Unsecured Bonds	02-03-2022	5.98%	16-04-2025	106	CARE AA+; Stable
Proposed	Long-term Bonds- FY22 Borrowing Programme	-	-	-	4,894	CARE AA+; Stable
					5,000	
Proposed	Long-term-Bank Facilities-Term Loan-FY22 Borrowing Programme	-	-	-	4,000	CARE AA+; Stable
Proposed	Long-term-Subordinated Debt-FY22 Borrowing Programme	-	-	-	500	CARE AA+; Stable
Proposed	Long-term-Perpetual Debt Instrument- FY22 Borrowing Programme	-	-	-	500	CARE AA; Stable

*redeemed, pending withdrawal

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 AAA (CE);	-	1)CARE AAA (CE); Stable (16-Sep-21)	1)CARE AAA (CE); Stable (21-Dec-20)	1)CARE AAA (CE); Stable (04-Oct-19)

				Stable			2)CARE AAA (CE); Stable (29-Sep-20)	
4	Bonds	LT	300.00	CARE AAA (CE); Stable	-	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 AAA (CE); Stable	-	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 AAA (CE); Stable	-	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+; Stable	-	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 (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	4000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (16-Sep-21)	-	-
10	Bonds	LT	5000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (16-Sep-21)	-	-
11	Bonds-Perpetual Bonds	LT	500.00	CARE AA; Stable	-	1)CARE AA; Stable (16-Sep-21)	-	-
12	Bonds-Subordinated	LT	500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (16-Sep-21)	-	-

*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-Subordinated	Simple
2	Bonds-Unsecured Reedemable	Simple
3	Bonds	Simple
4	Fund-based - LT-Term Loan	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.

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