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CREDIT OPINION
8 October 2021

Update

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RATINGS

Indian Renewable Energy Develop. Agency Ltd.

Domicile	India
Long Term CRR	Not Assigned
Long Term Issuer Rating	Baa3
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Indian Renewable Energy Develop. Agency Ltd.

Update following rating affirmation, outlook revised to stable

Summary

On 6 October 2021, we affirmed Indian Renewable Energy Development Agency Ltd.'s (IREDA) Baa3 local- and foreign-currency issuer ratings, and changed outlook to stable from negative.

The Baa3 ratings incorporate IREDA's Baseline Credit Assessment (BCA) of ba3 and our assessment of close links between IREDA and the Government of India (Baa3 stable), which results in three notches of support uplift from its BCA.

IREDA's BCA reflects the company's weak asset quality as a result of high credit concentration, declining earnings because of increasing credit costs and modest capitalization following rapid credit growth.

As a renewables project financing company, IREDA's credit concentration is high. As of the end of March 2021, the company's top 20 borrowers accounted for about 36.3% of gross loans. The company also experienced rapid credit growth in the past five years. While the strong growth occurred from a low base, the company's loan book is unseasoned yet. The company's problem loans ratio moderated to 8.8% as of the end of March 2021 from a peak level of 10.0% a year earlier, but remained elevated.

IREDA's profitability improved in the fiscal year ended March 2021 (fiscal 2021) driven by higher margins and decrease in credit costs. In fiscal 2021, the company's net income/ average managed assets increased to 1.2% from 0.8% a year earlier.

The company's capital also improved because of an exemption from dividend payment for fiscal 2021. Its tangible common equity/total managed assets (TCE/TMA) increased to 9.2% as of the end of March 2021 2021 from 7.4% a year earlier. The company's loan growth remained high at 17.4% in fiscal 2021, which increased from 10.4% in fiscal 2020. In February 2021, the Indian government announced its plan to infuse INR15 billion equity capital into IREDA. Once completed, the equity infusion will increase the company's capitalization by about 500 basis points.

The company relies heavily on market funding because as a finance company it cannot access deposits. Nevertheless, this weakness is mitigated by its diverse funding channels and long tenure borrowings from multilateral agencies that are mostly guaranteed by the government.

We classify IREDA as a government-related issuer and apply the associated methodology to arrive at the ratings. Its BCA is derived on the basis of our Finance Companies rating methodology.

Credit strengths

» Stable liquidity and funding, with long-duration borrowings from bilateral and multilateral agencies that are mostly supported by guarantees from the Indian government

» Government ownership, as well as its role as the key agency to implement the government's renewable energy initiatives, which ensure strong direct and indirect funding support from the government

» Stable profitability as credit costs moderate

Credit challenges

» Moderate capital because of rapid loan growth

» Weak asset quality from legacy loans to the cogeneration, biomass and hydro sectors, which account for most of the company's gross nonperforming assets

» High concentration risks because of its exposure to the renewable energy sector only

» Relatively small capital base, which limits IREDA's strategic importance and its role in financing renewable energy

Outlook

The outlook on IREDA's ratings is stable, in line with the stable outlook on sovereign rating.

Factors that could lead to an upgrade

IREDA's ratings could be upgraded if the sovereign rating is upgraded.

Factors that could lead to a downgrade

IREDA's ratings could be downgraded if the sovereign rating is downgraded, or if there is indication of diminishing government support.

The ratings could also be downgraded if its BCA is downgraded. IREDA's BCA could be downgraded if the government's planned capital infusion is abandoned or the company's asset quality deteriorates significantly, resulting in weakening in its capitalization or profitability.

Key indicators

Exhibit 1
Indian Renewable Energy Develop. Agency Ltd. (Consolidated Financials) [1]

	03-21[2]	03-20[2]	03-19[2]	03-18[2]	03-17[2]	CAGR/Avg.[3]
Total managed assets (INR Million)	297,101.0	272,126.7	243,609.6	202,652.7	186,097.5	12.4[4]
Total managed assets (USD Million)	4,063.5	3,597.1	3,516.6	3,107.1	2,865.9	9.1[4]
Net Income / Average Managed Assets (%)	1.2	0.8	1.4	1.9	2.3	1.5[5]
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	9.2	7.4	10.5	12.4	13.5	10.6[5]
Problem Loans / Gross Loans (Finance) (%)	8.8	10.0	6.1	6.3	5.7	7.4[5]
Net Charge-offs / Average Gross Loans and Leases (%)	0.6	0.7	0.6	0.2	--	0.5[5]
Debt Maturities Coverage (%)	12.3	78.9	23.7	510.2	126.5	150.3[5]
Secured Debt / Gross Tangible Assets (%)	34.9	39.8	35.5	29.6	27.2	33.4[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] LOCAL GAAP [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime.
Sources: Moody's Investors Service and company filings

Profile

Indian Renewable Energy Develop. Agency Ltd.'s (IREDA) principal activities involve engaging in promoting, developing and extending financial assistance for setting up projects related to new and renewable sources of energy, energy efficiency or conservation.

IREDA is a public financial institution under section 2(72) of the Companies Act, 2013, and registered as a non-banking financial company with the Reserve Bank of India (RBI). It was established in March 1987 and is wholly owned by the Indian government under the Ministry of New and Renewable Energy (MNRE).

The company is headquartered in New Delhi, with branch offices in Chennai, Hyderabad and Ahmedabad.

Detailed credit considerations

High credit concentration poses downside risks to asset quality

IREDA's asset risk is high because of its credit concentration in a few borrowers and an unseasoned loan book.

As of the end of March 2021, the top 20 borrowers accounted for 36.3% of total loans. High credit concentration in a few borrowers exposes the company to risks because problems in a few accounts can cause a considerable increase in nonperforming loans (NPLs). For example, the top four NPL accounts represented 28.0% of IREDA's total NPLs as of the end of March 2021.

We expect IREDA's credit concentration to remain high because the company continues to have a policy role of providing financing to a small number of renewable energy projects in India. We expect wind and solar projects to represent a significant proportion of IREDA's new disbursements because the company plans to reduce loans to hydropower and biomass projects to avoid asset-quality deterioration. Wind and solar projects currently account for about 75% of its total loans.

IREDA's loan book is also geographically concentrated in certain Indian states. High geographic concentration renders the company vulnerable to any policy changes, particularly around the pricing and purchase of renewable energy from the producers based in that state.

At the same time, the company has grown its loan book significantly in the past five years. Its compound annual growth rate (CAGR) of gross loans between fiscal 2016 and fiscal 2020 was high at 19.4%. While this growth occurred from a small base, a large proportion of its loan book is unseasoned.

IREDA's problem loans/gross loans moderated to 8.8% in fiscal 2021 from 10.0% a year earlier but remains at an elevated level. The company's problem loans are mainly from projects related to small hydro, cogeneration and biomass segments, and we expect the company's asset quality to deteriorate further in these segments. However, the asset-quality performance of wind and solar projects, which is the company's key focus area, remains stable.

However, the low interest rate environment and other government measures will support borrowers' debt-servicing capacity. For example, the liquidity injection to state-owned power distribution companies (DISCOMs) from Power Finance Corporation Limited (Baa3 stable)

and REC Limited (Baa3 stable), following the government announcement on 13 May 2020, will help alleviate near-term credit risks for power sector lenders, including IREDA, as the plan helps reduce the spillover of liquidity shortfalls to power generation companies.

Profitability to remain stable as high credit costs offset improving margins

IREDA's return on average managed assets improved to 1.2% in fiscal 2021 from 0.8% a year earlier. The improvement can be attributed to a higher net interest margin and decrease in loan loss provisions.

NIM recovered to 3.7% in fiscal 2021 from 3.3% a year earlier. The company managed to reduce its funding costs in the low interest rate environment because it heavily relies on borrowings and funding from capital markets.

The company's loan loss provisions declined to 1.1% of gross loans in fiscal 2021 from the historical high of 2.2% in fiscal 2020 because the firm completed the migration of its NPLs to the 90 days past due category as of the end of fiscal 2020.

However, we expect credit costs to remain relatively high in the next coming few years because of high asset risk given the difficult operating environment. Further asset-quality deterioration would not only require the company to provision against new problem loans but also lead to additional provisions for the existing problem loans. The company's loan loss reserves/problem loans improved to 62.2% as of the end of fiscal 2021 from 49.6% a year earlier.

Capitalization will improve with capital infusion

IREDA's capitalization improved in fiscal 2021 because of exemption from dividend payment while loan growth remained high. The company's TCE/TMA ratio increased to 9.2% as of the end of March 2021 from 7.4% a year earlier. The company dividend payout is normally the higher of 30% of net profits and 5% of net worth.

The company's capital/risk-weighted assets also improved to 17.1% as of the end of March 2021 from 14.3% a year earlier. It remained higher than the regulatory requirement of 12% as prescribed under the RBI norms.

That said, the company's rapid loan growth will weigh on capital. Gross loan growth remained high at 17.4% in fiscal 2021, which increased from 10.4% in fiscal 2020.

In February 2021, the Indian government announced a plan to infuse INR15 billion of capital into IREDA to boost the country's renewable energy sector. The announced capital infusion will improve the company's modest capitalization. We expect its TCE ratio to increase by about 500 basis points to 14.2% from 9.2% as of the end of March 2021.

Funding diversification and long-duration funding mitigate high reliance on market funding

As a non-deposit taking finance company, IREDA has heavy reliance on wholesale funding, such as borrowing from financial institutions and capital markets financing. However, the company benefits from diverse funding channels, with access to borrowings from bilateral and multilateral agencies, domestic debt markets and international debt markets, as well as term loans from banks.

Out of the company's total borrowings as of the end of 31 March 2021, about 43% are from bilateral and multilateral agencies. Masala bonds, taxable bonds and tax-free bonds in the domestic capital market represented 39% of total borrowings during the same period, while the remaining borrowings comprised funding from banks and other financial institutions.

In addition, as of the end of March 2020, about 58% of loans payable had explicit guarantees from the Indian government. IREDA also benefits from long-duration borrowings that help mitigate the risk of short-term volatility in the debt markets. Of the company's total borrowings, 77% will mature in or after March 2024.

Despite the long-term funding, IREDA's 12-month coverage ratio — calculated as cash and other liquid resources/debt maturing in 12 months — has declined since 2019 because the company keeps thin liquidity on its balance sheet. The company's liquid assets comprised of only cash and was less than 1% of total assets as of the end of March 2021. Its 12-month coverage ratio was 12.3% as of the end of fiscal 2021, which indicates that the company could face imminent funding needs because it does not have sufficient liquidity to meet obligations maturing within the year.

IREDA manages the liquidity risk by matching cash inflows from collection of interest and installments with cash outflows. The company also has uncommitted credit lines from financial institutions including multilateral agencies and public-sector commercial banks.

The company's funds from operations as a percentage of total debt, which serves as an indicator of the company's ability to pay interest and meet debt maturities, increased to 3.7% in fiscal 2021 from 2.7% in fiscal 2020 and 2.2% in fiscal 2019, mainly driven by improved profitability.

Its reliance on secured debt has also increased steadily since fiscal 2018 because of an increase in funding from the issuance of domestic bonds, which are secured by its assets. This is credit negative for its liquidity because it reduces the company's financial flexibility to access additional sources of liquidity in times of need. The company's secured debt/gross tangible assets was 34.9% as of the end of March 2021.

Government support, given IREDA's status as a key renewable energy agency

Renewable energy is an important component of India's energy planning process. The MNRE aims to add 175 gigawatts to the country's renewable energy capacity by 2022, with a road map supported by policy and regulatory help for the sector. Furthermore, the RBI has included renewable energy financing in the priority sector lending category.

IREDA is the nodal agency to route the government's various subsidies and grants to the renewable energy sector. The company is also the program administrator for MNRE schemes, such as the generation-based incentive scheme for wind and solar power projects, a rooftop solar power program and a capital subsidy scheme for solar water heating systems.

Because of this role, IREDA will likely continue to benefit from government support. This support was in the form of regular equity infusions until fiscal 2015, as well as guarantees for around 40% of the company's borrowings from multilateral agencies as of 30 March 2020 and access to tax-free bonds (a low-cost funding source).

Furthermore, the government allocated INR3 billion to IREDA from the National Clean Energy Fund for on-lending to banks and financial institutions in the renewable energy sector. IREDA was also mandated by the government in 2016 to raise INR40 billion in bonds, fully serviced by the Indian government to support various MNRE schemes, of which a total of INR16.4 billion was raised as of 31 March 2019.

Operating environment

We assign a Ba2 score to IREDA's Operating Environment, based wholly on the industry risk of Indian power sector lenders. (India's Macro Profile reflected in the Baa2 Macro-Level Indicator score does not have any weighting in the scorecard because this score is higher than the Industry Risk score.)

The Operating Environment score has no impact on IREDA's financial profile and results in a Ba3 adjusted financial profile, in line with the Ba3 score before the consideration of the operating environment.

Macro-level indicator

IREDA's revenue is generated in India. The Baa2 Macro-Level Indicator score reflects a score of a2 for Economic Strength, ba1 for Institutional Strength and ba for Susceptibility to Event Risk.

Industry risk

We assign a Ba Industry Risk score for Indian power sector lenders. Lending to this sector is largely concentrated with banks and a few non-bank financial institutions. The technical nature of lending, big ticket size and underdeveloped bond market for lending to projects that are in the construction phase have led to the concentration of exposures with a few companies.

Given the significant stress in the Indian power sector, lenders are selective in their lending decisions and command some pricing power because a large number of companies have pulled back from the sector.

Lending to the power sector follows domestic economic cycles. Furthermore, there are significant differences in the quality of the industry participants in terms of project planning and implementation. This, combined with limited backup liquidity for many industry companies, tends to extend downturns because confidence-sensitive funding can be slow to return to the sector. The weak credit quality of power DISCOMs is another key challenge.

In line with the commitments under the Paris Agreement, India plans to increase the share of green energy in the total energy mix. Furthermore, technological improvements have made the pricing of renewable energy comparable with conventional energy. In line with these developments, renewable energy accounts for a greater share of new projects under implementation compared with

conventional energy sources. Based on the government's stated capacity addition targets by 2022, renewable energy will account for only about 20% of the country's power generation and the remaining will be produced from conventional sources.

Lending to the power sector is fairly niche; however, companies in this segment have a long track record, given the fact that they have existed for a long time. Indian power sector lenders have a stable product offering, because the electrification of the country is a key policy agenda of the Indian government.

Business profile and financial policy

We make no Business Profile and Financial policy adjustments to IREDA's scorecard.

Support and structural considerations

IREDA's Baa3 issuer rating is three notches above its BCA of ba3 and reflects our assessment of strong links between IREDA and the Indian government. The support assumption is based on our Government-Related Issuers methodology.

Methodology and scorecard

About Moody's Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in Rating Committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology

The methodologies used in this rating were the Finance Companies Methodology, published in November 2019, and the Government-Related Issuers Methodology, published in February 2020.

Ratings

Exhibit 2

Category	Moody's Rating
INDIAN RENEWABLE ENERGY DEVELOP. AGENCY LTD.	
Outlook	Stable
Issuer Rating	Baa3
Senior Unsecured -Dom Curr	Baa3
Other Short Term	(P)P-3

Source: Moody's Investors Service

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Asia Pacific	852-3551-3077
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