March 06, 2023

Indian Renewable Energy Development Agency Limited: Ratings upgraded/reaffirmed to [ICRA]AAA/[ICRA]AA+; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term bonds programme FY2023	14,900	14,900	[ICRA]AAA (Stable); upgraded from [ICRA]AA+; outlook revised to 'Stable' from 'Positive'
Previous year bonds programme	2,806	2,806	[ICRA]AAA (Stable); upgraded from [ICRA]AA+; outlook revised to 'Stable' from 'Positive'
GoI fully-serviced bonds	4,000	4,000	[ICRA]AAA (Stable); reaffirmed
Perpetual bonds	1,500	1,500	[ICRA]AA+ (Stable); upgraded from [ICRA]AA; outlook revised to 'Stable' from 'Positive'
Subordinated debt Tier-II bonds	1,000	1,000	[ICRA]AAA (Stable); upgraded from [ICRA]AA+; outlook revised to 'Stable' from 'Positive'
Total	**24,206**	**24,206**	

**Instrument details are provided in Annexure I*

Rationale

The revision in the ratings factor in the improvement in Indian Renewable Energy Development Agency Limited's (IREDA) credit profile with increased business volumes, improvement in the asset quality indicators supported by lower slippages and recoveries from stressed accounts over the past two years, and the consequent improvement in the earnings profile on a sustained basis. The AUM has grown by a CAGR of ~16% over the past 4 years to Rs. 37,888 crore as on December 31, 2022. The company's reported asset quality continued its improvement trajectory with gross and net stage 3% of 4.2% and 2.0%, respectively, as on December 31, 2022 from 5.2% and 3.1% respectively, on March 31, 2022 (8.8% and 5.6%, respectively, as on March 31, 2021), supported by limited slippages, recoveries from some loan accounts and the growth in the loan book. Consequently, decline in the credit cost due to limited slippages and reduction in operating expenses resulted in improvement in its RoA to 2.1% in H1 FY2023 from 1.8% in FY2022.

Further, ICRA takes note of the improvement in the solvency (13.5% as on December 31, 2022) and capitalisation profile of IREDA supported by the latest capital infusion of Rs. 1,500 crore by the Government of India (GoI) in March 2022, and improvement in the earnings profile. The equity infusion has led to some improvement in IREDA's competitive positioning, in terms of being able to take higher exposures, and hence is likely to support its growth going forward. Moreover, it provides adequate cushion to act as a key mitigant against portfolio vulnerability.

The ratings factor in IREDA's sovereign ownership (100% held by GoI), its strategic importance as the nodal agency for the promotion and implementation of Government policies and initiatives in the renewable energy (RE) sector, and its presence in the RE space. The ratings also consider IREDA's strong liquidity position, supported by a large proportion of significantly long-term borrowings, commensurate 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.

ICRA has taken note of the relatively high portfolio vulnerability, given the wholesale nature of the exposures, which keeps the concentration risk high for the company (the top 20 borrowers accounted for 298% of the net worth as on December 31, 2022 (284% as on March 31, 2022). Portfolio vulnerability, if further augmented by the exposure towards projects with Andhra Pradesh power purchase agreement issues (2.4% of gross loan book), has not been classified as stage 3 despite overdues above 90 days due to judicial dispensation. However, a provision cover of 54% against these assets protects and insulates the balance sheet to some extent. ICRA also notes that by virtue of its mandate, IREDA would continue to have sectoral concentration with the portfolio largely comprising RE exposures, though it is well diversified across sectors such as wind, solar, biofuels, biomass, cogeneration, EVs, RE manufacturing and hydro.

Going forward, IREDA's ability to recover from the legacy-stressed assets, control incremental slippages and grow the loan book profitably would be the key rating monitorable. ICRA believes IREDA will remain important to the GoI and will continue to play a major role in various GoI renewable sector schemes, especially considering the increased importance of RE in the overall global landscape.

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 on 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 (MNRE).

The one notch lower rating assigned to IREDA's perpetual debt programme, compared to the [ICRA]AAA rating for the other long-term debt programmes, reflects the specific features of these instruments wherein debt servicing is additionally linked to meeting the regulatory norms on capitalisation and reported profitability. The domestic regulatory norms for hybrid debt capital instruments include regulatory approvals from the Reserve Bank of India (RBI) for debt servicing (including principal repayments) in case the company reports a loss and is not liable to service the debt if it breaches the minimum regulatory capitalisation norms.

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 rating factors in the support from the GoI, demonstrated in the form of capital support with the most recent one being the equity infusion of Rs. 1,500 crore in March 2022. 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) Refinance Scheme to refinance biomass and small hydro projects and IREDA is the implementing agency for the PLI scheme for 'High Efficiency Solar PV Modules' and Central Public Sector Enterprises (CPSE) Scheme (Government Producer Scheme) of the MNRE, to establish 12,000 MW grid connected solar photovoltaic power projects. Apart from this, the GoI has provided guarantees for IREDA's borrowings from multilateral and bilateral agencies (~24% of the total borrowings/72% of the foreign currency borrowings from multilateral and bilateral agencies as on September 30, 2022). ICRA believes IREDA will remain important to the GoI and will play a major role in various GoI renewable sector schemes. A significant change in IREDA's strategic importance to GoI and/or significant decline in GoI shareholding would warrant a rating/outlook change for IREDA.

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 increased marginally to 6.3% in H1 FY2023 compared to 6.1% in FY2022, albeit lower than the 4-year average of 6.7% (between FY2019 and FY2022). It has a well-diversified borrowing profile with access to funding via tax-free bonds (9%), taxable bonds (22%), bank/financial institution (FI) loans (29%), masala bonds (6%) and foreign currency loans (33%) as on September 30, 2022. 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.

Going forward, ICRA believes that IREDA will continue to have good financial flexibility and will be able mobilise funds at competitive rates. IREDA's liquidity profile is strong, supported by the longer-tenure borrowings from multilateral agencies, which match well with the tenure of its advances, unutilised sanctioned lines of credit from domestic and foreign banks. 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.

Increase in business volumes and improvement in asset quality – IREDA's portfolio grew by 16% in 9M FY2023 to Rs. 37,888 crore as on December 31, 2022 from Rs. 33,931 crore on March 31, 2022 supported by growth across the renewable energy segments. While the 22% loan book growth in FY2022 was driven by higher disbursements of short-tenure loans {primarily to state distribution companies (discoms, transcos and gencos)}, growth in 9M FY2023 was driven by renewable energy projects. The loan book consists of projects in segments like solar (26% of the loan as on December 31, 2022), wind (19%), small hydro (14%), cogeneration, biomass, waste-to-energy & energy efficiency (6%) and others (35%). In line with expectations, the asset quality continued improving in 9M FY2023. The gross and net stage 3% declined to 4.2% and 2.0%, respectively, as on December 31, 2022 from 5.2% and 3.2%, respectively, as on March 31, 2022 (8.8% and 5.6%, respectively, as on March 31, 2021), supported by limited slippages and recoveries from some loan accounts and the portfolio growth. ICRA takes note of the improvement in the solvency to 13.5% as on December 31, 2022 from 19.7% as on March 31, 2022 (50.4% as on March 31, 2021) owing to the capital infusion in March 2022 and good internal capital generation in FY2022 and 9M FY2023.

Adequate earnings profile – The commensurate decline in the average cost of funds compared to the decline in the average yield on loans resulted in stable net interest margins (NIMs) for IREDA in FY2022. The NIMs have remained range-bound (2.9-3.4%) over the past four years. The overall profitability indicators improved with the return on assets (RoA) and the return on equity (RoE) increasing to 1.8% and 15.3%, respectively, in FY2022 from 1.2% and 12.6%, respectively, in FY2021. In H1 FY2023, the cost of funds increased due to rise in systemic rates, while the transmission of rate hikes to the borrowers was staggered, resulting in a moderation in the NIMs to 3.2% in H1 FY2023 from 3.4% in FY2022. Despite the reduction in non-interest income due to lower disbursements in H1 FY2023, reduction in operating expenses (base effect) and decline in credit cost the company reported an improvement in the RoA to 2.1% in H1 FY2023 from 1.8% in FY2022. The RoE remained broadly stable during H1 FY2023 at 15.0% (15.3% in FY2022). Further in Q3 FY2023 the company reported a net profit of Rs. 201 crore. With higher business volumes, the profitability indicators are expected to witness some improvement over the medium term, provided the company can control incremental slippages. Overall, IREDA's ability to sustain the profitability metrics would be imperative for maintaining its credit profile.

Credit challenges

Modest capitalisation indicators – In line with expectations, IREDA's capitalisation profile improved with a gearing of 5.4 times as on September 30, 2022, 2022 compared to 8.0 times as on March 31, 2021 (5.2 times on March 31, 2022), supported by the equity infusion of Rs. 1,500 crore by the GoI in March 2022 (first time since being conferred Mini Ratna (Category-I) status in June 2015) and improvement in internal capital generation. The increased net worth of Rs. 5,638 crore as on September 30, 2022 (Rs. 2,995 crore on March 31, 2021), would also improve IREDA's competitive positioning in terms of being able to take higher exposures and hence support its growth going forward. The reported capital adequacy remained adequate with a capital-to-risk weighted assets ratio (CRAR) of 21.0% (Tier 1 – 17.6%) as on December 31, 2022, above the minimum regulatory requirement of 15% (Tier I – 10%). Nonetheless, the overall capitalisation profile remains modest and IREDA is likely to need external capital for growth, given its growth plans. In this regard, ICRA notes that IREDA has plans for an initial public offering (IPO) in FY2024 and the timely conclusion of the same would be a key monitorable.

Moderate portfolio vulnerability - ICRA notes that incremental disbursements in H1 FY2023 have been towards projects/borrowers with relatively stronger credit profile, thereby improving the average credit profile of customers. Nevertheless, portfolio vulnerability remains high, given the sizeable, albeit declining share of stage 2 assets (6.6% as on September 30, 2022 compared to 7.9% on March 31, 2022), primarily comprising standard restructured assets (Rs. 804 crore as on September 30, 2022), and exposure to stressed groups as well as projects where AP discoms are the off-takers (Rs. 1,137 crore assets wherein dispensation was taken for non-classification as stage 3 despite overdues above 90 days). The vulnerability is also augmented by the wholesale nature of the loans and hence the high concentration, which exposes the company to the risk of lumpy slippages in asset quality. The top 20 borrowers accounted for 298% of the net worth as on September 30, 2022 (284% as on March 31, 2022). Overall, IREDA's ability to recover from the stressed assets and profitably grow the loan book to improve the solvency indicators would be a key monitorable.

Liquidity position: Strong

IREDA's liquidity profile is strong owing to a large proportion of its borrowings being very long-term in nature with tenures going up to 40 years from multilateral agencies. The company has no negative cumulative mismatches across almost all maturity buckets. As on December 31, 2022, the company had cash and bank balances of Rs. 3,526 crore and unutilised sanctioned lines of Rs. 15,985 crore from domestic and foreign banks, which provide support to the liquidity profile. As on December 31, 2022, the company expects inflows from advances of Rs. 6,024 crore against debt repayments of Rs. 6,477 crore in the next 12 months.

Rating sensitivities

Positive factors – Not Applicable.

Negative factors – Significant change in the strategic importance of IREDA in the GoI's initiatives for the promotion of the RE sector in the country and/or significant decline in government shareholding, may warrant a change in the ratings. A deterioration in the solvency level (Net Stage III/Tier I Capital), to a level above 40% on a sustained basis, will be a negative for the credit profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Rating Approach - Implicit Parent or Group Support
Parent/Group support	The ratings derive strength from IREDA's 100% ownership by the GoI and its important role as a nodal agency for various RE sector schemes of the Government. The GoI's ownership supports IREDA's financial flexibility.
Consolidation/Standalone	Standalone

About the company

The 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. The 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.

In FY2022, IREDA reported a profit after tax (PAT) of Rs. 634 crore on a gross asset base of Rs. 37,447 crore against a PAT of Rs. 346 crore on a gross asset base of Rs. 31,228 crore in FY2021. As on March 31, 2022, the company reported a CRAR of 21.22% (Tier I – 17.60%) and its gross and net non-performing advances (NPA%) stood at 5.2% and 3.2%, respectively.

In 9M FY2023, IREDA reported a PAT of Rs. 611 crore on a total income base of Rs. 2,447 crore as against a PAT of Rs. 407 crore on a total income base of Rs. 2,128 crore in 9M FY2022. As on December 31, 2022, the company reported a CRAR of 20.95% and its gross and net NPA% stood at 4.2% and 2.0%, respectively.

Key financial indicators

IREDA	FY2020	FY2021	FY2022	H1FY2023
	Audited	Audited	Audited	Audited
Total income	2,329	2,545	2,828	1,573
Profit after tax	215	346	634	410
Net worth	2,521	2,995	5,268	5,638
Loan book	23,548	27,854	33,913	33,761
Total assets^	28,389	31,228	37,447	41,297
CRAR	14.3%	17.1%	21.2%	23.6%
Gearing (times)*	8.7	8.0	5.2	5.4
Return on assets	0.8%	1.2%	1.8%	2.1%
Return on net worth	8.4%	12.6%	15.3%	15.0%
Gross NPAs	10.1%	8.8%	5.2%	5.1%
Net NPAs	7.2%	5.6%	3.2%	2.8%
Net NPA/Net worth	64.9%	50.4%	19.7%	15.9%

*Source: IREDA, ICRA Research; All ratios as per ICRA's calculations; ^Gross assets (including provisions); *Excluding GoI-fully serviced bonds*
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Mar 06, 2023	Jul 05, 2022	Sep 15, 2021	Feb 15, 2021	Nov 25, 2019
1	Previous years' bond programme	Long term	2,806	2,806	[ICRA]AAA (Stable)	[ICRA]AA+ (Positive)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Negative)
2	GoI fully-serviced bonds	Long term	4,000	1,640	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Long-term bond programme for FY2023	Long term	14,900	3,863	[ICRA]AAA (Stable)	[ICRA]AA+ (Positive)	-	-	-
4	Perpetual bonds	Long term	1,500	0	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	-	-
5	Subordinated debt – Tier-II bonds	Long term	1,000	0	[ICRA]AAA (Stable)	[ICRA]AA+ (Positive)	[ICRA]AA+ (Stable)	-	-
6	Fund-based bank lines*	Long term	-	-	-	[ICRA]AA+ (Positive)	[ICRA]AA+ (Stable)	-	-

Withdrawn

Complexity level of the rated instrument

Instrument	Complexity Indicator
Previous years' bond programme	Simple
GoI fully-serviced bonds	Simple
Long-term bond programme for FY2023	Simple
Perpetual bonds	Moderately Complex
Subordinated debt – Tier-II bonds	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I : Instrument details as on February 28, 2023

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate (%)	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE202E07245	**NCD**	Mar 24, 2017	8.12	Mar 24, 2027	200.00	[ICRA]AAA (Stable)
INE202E07252	**NCD**	Mar 29, 2017	8.05	Mar 29, 2027	500.00	[ICRA]AAA (Stable)
INE202E07179	**NCD**	Oct 01, 2015	7.17	Oct 01, 2025	284.00	[ICRA]AAA (Stable)
INE202E07187	**NCD**	Jan 21, 2016	7.28	Jan 21, 2026	108.90	[ICRA]AAA (Stable)
INE202E07195	**NCD**	Jan 21, 2016	7.49	Jan 21, 2031	884.30	[ICRA]AAA (Stable)
INE202E07203	**NCD**	Jan 21, 2016	7.43	Jan 21, 2036	36.40	[ICRA]AAA (Stable)
INE202E07211	**NCD**	Jan 21, 2016	7.53	Jan 21, 2026	127.90	[ICRA]AAA (Stable)
INE202E07229	**NCD**	Jan 21, 2016	7.74	Jan 21, 2031	483.50	[ICRA]AAA (Stable)
INE202E07237	**NCD**	Jan 21, 2016	7.68	Jan 21, 2036	75.00	[ICRA]AAA (Stable)
INE202E08078	**NCD**	Mar 2, 2022	5.98	Apr 16, 2025	106.00	[ICRA]AAA (Stable)
INE202E08011*	**NCD**	Feb 06, 2017	7.22	Feb 06, 2027	610.00	[ICRA]AAA (Stable)
INE202E08029*	**NCD**	Feb 23, 2017	7.6	Feb 23, 2027	220.00	[ICRA]AAA (Stable)
INE202E08037*	**NCD**	Mar 06, 2017	7.85	Mar 06, 2027	810.00	[ICRA]AAA (Stable)
INE202E08086	**NCD**	Aug 02, 2022	7.46	Aug 12, 2025	648.00	[ICRA]AAA (Stable)
INE202E08094	**NCD**	Sep 27, 2022	7.85	Oct 12, 2032	1,200.00	[ICRA]AAA (Stable)
INE202E08102	**NCD**	Dec 07, 2022	7.79	Dec 07, 2032	515.00	[ICRA]AAA (Stable)
INE202E08110	**NCD**	Jan 27, 2023	7.94	Jan 27, 2033	1,500.00	[ICRA]AAA (Stable)
NA	**Unallocated GoI FSB**	NA	NA	NA	2,360.00	[ICRA]AAA (Stable)
NA	**Long -term bonds programme FY2023^**	NA	NA	NA	11,037.00	[ICRA]AAA (Stable)
NA	**Perpetual bonds^**	NA	NA	NA	1,500.00	[ICRA]AA+ (Stable)
NA	**Subordinated debt – Tier-II bonds^**	NA	NA	NA	1,000.00	[ICRA]AAA (Stable)

*Source: IREDA; *GoI fully-serviced bonds; ^Yet to be placed*

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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