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# **India Ratings Upgrades IREDA's Debt Instruments to 'IND AAA'/Stable; Rates FY24 Borrowing Programme**

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India Ratings and Research (Ind-Ra) has taken the following rating actions on Indian Renewable Energy Development Agency Limited's (IREDA) debt instruments:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
GOI fully serviced bonds@#	-	-	-	INR16,400	IND AAA/Stable	Affirmed
Tax-free bonds#	-	-	-	INR20,000	IND AAA/Stable	Upgraded
Taxable bonds#	-	-	-	INR18,030	IND AAA/Stable	Upgraded
Taxable green bonds#	-	-	-	INR15,650	IND AAA/Stable	Upgraded
Taxable unsecured subordinated debt#	-	-	-	INR6,500	IND AAA/Stable	Upgraded
Unsecured taxable bonds#	-	-	-	INR39,694	IND AAA/Stable	Upgraded
FY24 Borrowing programme*#\$	-	-	-	INR215,000	IND AAA/Stable	Assigned
Perpetual bonds (FY24) #\$	-	-	-	INR5,000	IND AA+/Stable	Assigned
Commercial paper (FY24)	-	-	-	INR20,000	IND A1+	Assigned
Subordinated debt (FY24) #\$	-	-	-	INR20,000	IND AAA/Stable	Assigned
Perpetual bonds (FY23) ^	-	-	-	INR10,000	WD	Withdrawn
Sub debt (FY23) ^	-	-	-	INR5,000	WD	Withdrawn

@ The servicing of these bonds is a charged expenditure on the central budget, as clearly articulated in the memorandum of understanding signed between the Ministry of New and Renewable Energy (MNRE) and IREDA.

\*mix of both bonds and bank loans

# Details in annexure

\$ yet to be raised

^ IREDA has not issued these instruments

**Analytical Approach:** Ind-Ra continues to factor in IREDA's strong linkages with the government of India (GoI) and its position as an apex institution for the expansion and financing of renewable energy (RE) projects in India. Based on IREDA's role as a public policy institution, its strategic importance, control and policy direction by the GoI and sovereign support, Ind-Ra classifies IREDA as a dependent public sector entity of the GoI.

The ratings reflect a continuous improvement in IREDA's credit profile in terms of asset quality, provisioning coverage and franchise growth.

For the perpetual bonds, the agency has factored in the loss-absorbing feature of these instruments in the event of an annual loss or the capital adequacy ratio falling below the regulatory norms.

For the Gol fully serviced bonds, the agency has factored in the memorandum of understanding between IREDA and MNRE for the repayment of the principal and the interest payments in respect of the extra budgetary resources raised by IREDA, which is being met by the Gol by making suitable budgetary provisions for the grants demanded by the MNRE.

## Key Rating Drivers

**Improved Asset Quality; Better Provisioning Coverage:** Ind-Ra does not expect IREDA's asset quality to deteriorate significantly from FY23 levels. IREDA's gross non-performing assets fell to INR15.13 billion (3.21%) in FY23 (FY22: INR17.68 billion, 5.21%), backed by lower incremental slippages of INR0.08 billion (INR0.33 billion). The upgradations of INR1.92 billion in FY23 (FY22: INR4.62 billion) and recoveries of INR0.68 billion (INR2.31 billion) have been on a lower side from FY21 and FY22. The provision coverage ratio also increased to 49.3% in FY23 (FY22: 41.4%). The net non-performing assets too declined to 1.66% in FY23 (FY22: 3.12%).

**Public Policy Institution:** Ind-Ra expects IREDA to keep playing a crucial role in reducing emissions as well as developing India's RE sector, particularly to achieve the target of 500GW by 2030. IREDA is the Gol's nodal agency to incentivise specifically the renewable energy sector and attract investments by way of subsidies and low-cost borrowings. It is the sole programme administrator of the MNRE's schemes, such as incentive schemes for wind and solar power projects; the roof-top solar power programme; a capital subsidy scheme for solar water heating systems; and the National Clean Energy Fund. IREDA also plays a crucial role in implementing the Production-linked Incentive scheme where IREDA earns incentive fees as the implementing agency.

The Reserve Bank of India (RBI) has granted an Infrastructure Finance Company (IFC) status to IREDA, with which IREDA will be able to take higher exposure in renewable energy financing.

**Sovereign Support:** IREDA is financially independent as it maintains its own accounts, and its debt/borrowings are not consolidated with those of the Gol. IREDA had received regular equity infusions from the Gol until FY15. While the government support in the form of equity infusions has stopped since IREDA has been accorded the status of Mini Ratna in June 2015, the government has also exempt IREDA for paying dividends from FY20. Nevertheless, the Gol in FY22 infused INR15 billion equity in IREDA, thereby clearly indicating its intent to support and facilitate the growth of India's RE sector through IREDA. To augment IREDA's capital base, the Gol had approved the listing of IREDA through the issue of fresh equity shares on 17 March 2023.

**Equity is Key, Proposed IPO to Help in Increasing Capital Base:** Growth capital is important for IREDA. A successful initial public offering (IPO) in FY24, earlier envisaged in 2017, will help in increasing the capital base and provide growth capital for expansion of IREDA's balance sheet. The Cabinet Committee on Economic Affairs on 17 March 2023 has approved listing of IREDA through an initial public offer by part sale of the Gol's stake in it and to raise funds for IREDA through an issue of fresh equity shares. While Ind-Ra believes the Gol would provide growth capital to IREDA as and when required, a failure to increase capital base either through IPO/follow on public offer or government equity infusion will be credit negative for IREDA.

In case of Andhra Pradesh, the state government has sought to revise the terms of the power purchase agreements executed with solar and wind power developers, including for downward revision in tariffs. While the High Court of Andhra Pradesh has already stayed the matter (dated 25 July 2019), payments to all RE developers by discoms/customers may get affected until the matter is resolved. Furthermore, a downward revision in the tariff could materially affect the borrowers' cash flows, leading to increased delinquencies.

As per the statutory auditor report for FY23, six borrowers have obtained an interim order from the Hon'ble High Court of Andhra Pradesh to not to classify the account as non-performing asset even though the overdues are more than three months old. Accordingly, the loans outstanding of the borrower have not been classified as Stage III Assets.

The matter continues to be subjudice, and any adverse ruling that could lead to non-recovery of dues and reclassification of such assets as NPAs, would exacerbate the asset quality ratios. Nevertheless, IREDA has created an adequate provision of INR4.76 billion (loan outstanding at FYE23: INR8.93 billion) in the books of accounts as per expected credit loss. Accordingly, Ind-Ra does not expect the re-categorisation of such loans to lead to any steep profitability impairment.

**Better Profitability Metrics:** Ind-Ra expects IREDA's profitability to remain stable in the medium to long-term. IREDA's annualised net interest margin fell to 3.24% in FY23 (FY22: 3.75%; FY21: 3.99%) as the decline in yield was not offset by the decline in the cost of funds. Nevertheless, the key return indicators namely return on equity as well as return on total assets improved to 15.44% (FY22: 15.33%; FY21: 12.56%) and 1.98% (1.89%; 1.20%), respectively, on the back of an increase in the net income to INR8.65 billion (INR6.34 billion; INR3.46 billion). Although there was only a moderate 14% yoy increase in the net interest income to INR12.85 billion in FY23, lower incremental provisioning of INR0.67 billion (INR1.80 billion) magnified the post provisioning indicators.

**Liquidity Indicator – Superior:** Ind-Ra believes that IREDA's liquidity will remain superior over FY24-FY25 due to the availability of sufficient long-term banking credit lines and the absence of any major asset liability mismatch on cumulative basis in any of the bucket. As on 31 May 2023, IREDA had INR53 billion of unutilised bank limits from domestic banks. As on 31 March 2023, barring the six months to one-year bucket, there was no major asset-liability mismatch in any of IREDA's bucket. The negative mismatch in the six months to one-year bucket was INR13.56 billion which on a cumulative basis was INR8.13 billion. This was mainly due to IREDA's focus on long-tenor borrowings especially the ones raised from multilateral agencies.

IREDA also extends non-fund-based assistance to its borrowers in the form of guarantees and letters of comfort. Such assistance, which is classified as contingent liabilities, increased to INR18.5 billion in FY23 (FY22: INR14.5 billion; FY21: INR10.5 billion). As per IREDA's management, there have not been any outflows of funds against the crystallisation of any such contingent liability over FY20-FY23. Nevertheless, any future invocation of such guarantees, leading to large cash outflows, could negatively impact IREDA's liquidity.

**Sectoral Loan Book Concentration:** Ind-Ra expects IREDA's loan book to have a higher proportion of solar and wind power projects in the near to medium term, compared to pre-FY22. At FYE23, IREDA's loan book was concentrated towards the solar sector at 30.72% (FYE22: 23.55%; FYE21: 32.1%) and wind sectors at 21.04% (18.4%; 21.6%). Both the sectors would be instrumental in achieving the target of installed capacity of 500GW RE by 2030. During FY23, while the solar sector accounted for 36% of the incremental disbursements, the wind sector accounted for 23% of the same. The disbursement of short-term loans of up to three years, mainly to the state government owned distribution and transmission companies, has helped in lowering the direct sectoral concentration. Ind-Ra expects the dominance of the solar and wind sector in IREDA's total loan book to continue in the near-to-medium term. Small hydro, biomass, electric vehicle manufacturing, waste-to-energy loans occupied the remaining part of the loan book at FYE23.

**Fall in Capitalisation:** Ind-Ra expects growth in the loan book to cause a decline in the capitalisation level from FY23 levels. However, it expects the capital buffers to be higher than the RBI mandated level of 15%. IREDA has strong franchise growth in FY22 and FY23, where the loan book (gross) grew 39% yoy to INR471 billion in FY23 (FY21: INR293 billion). However, its capital adequacy ratio (capital-to-risk weighted assets ratio; CRAR) declined to 18.82% in FY23 (FY22: 21.22%), reducing the gap between the actual capitalisation and the minimum requirement (as prescribed by RBI) to 3.82% (6.22%).

In line with the overall lower capital base, the leverage (debt/net worth) has increased to 6.77x in FY23 (FY22: 5.24x). While the net worth improved to INR59.3 billion in FY23 (FY22: INR52.7 billion; FY21: INR29.9 billion), the growth in the year-end debt was higher to INR402 billion (INR276 billion; INR240 billion).

## Rating Sensitivities

**Negative:** Future developments that could, individually or collectively on sustained basis, lead to a negative rating action include:

- inadequate financial and non-financial support from the GoI which may lead to dilution in IREDA's role as the sole institution for administering the objective of MNRE;
- a weakening of IREDA's operational and managerial linkages with the GoI;
- inadequate budgetary provisions for servicing the GoI fully-serviced bonds throughout the tenure of the bonds;
- the leverage exceeding and sustaining above 8x;
- the lack of adequate provisioning against delinquent assets (below 45%); and
- the CRAR falling below 16% on a sustained basis.

## ESG Issues

**ESG Factors Minimally Relevant to Rating:** Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on IREDA, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

## Company Profile

IREDA was incorporated under Section 4A of the Companies Act, 1956, on 11 March 1987 under the aegis of the MNRE. IREDA is a GoI-owned public financial institution and has been registered with the RBI since February 1998. The entity was set up with an objective of promoting, developing and extending financial assistance to techno-commercially viable RE and energy efficiency projects.

### FINANCIAL SUMMARY

Particulars	FY22	FY23
Total assets (INR billion)	367.08	504.47
Net interest income (INR billion)	11.26	12.85
Net income (INR billion)	6.34	8.65
Gross non-performing assets (%)	5.21	3.21
Capital adequacy ratio (%)	21.22	18.82
Source: IREDA, Ind-Ra		

## Non-Cooperation with previous rating agency

Not applicable

## Solicitation Disclosures

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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## Rating History

Instrument Type	Current Rating/Outlook	Historical Rating/Outlook				
	Rating Type	Rated Limits (million)	Rating	8 July 2022	31 August 2021	4 December 2020
Gol fully serviced bonds	Long-Term	INR16,400	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Tax-free bonds	Long-Term	INR20,000	IND AAA/Stable	IND AA+/Positive	IND AA+/Stable	IND AA+/Stable
Taxable bonds	Long-Term	INR18,030	IND AAA/Stable	IND AA+/Positive	IND AA+/Stable	IND AA+/Stable
Taxable green bonds	Long-Term	INR15,650	IND AAA/Stable	IND AA+/Positive	IND AA+/Stable	IND AA+/Stable
Taxable unsecured subordinated debt	Long-Term	INR6,500	IND AAA/Stable	IND AA+/Positive	IND AA+/Stable	IND AA+/Stable
Unsecured taxable bonds	Long-Term	INR39,694	IND AAA/Stable	IND AA+/Positive	IND AA+/Stable	IND AA+/Stable
FY 24 Borrowing programme	Long-Term	INR215,000	IND AAA/Stable	-	-	-
Perpetual Bonds (FY24)	Long-Term	INR5,000	IND AA+/Stable	-	-	-
Commercial paper (FY24)	Short-Term	INR20,000	IND A1+	-	-	-
Subordinated debt (FY24)	Long-Term	INR20,000	IND AAA/Stable	-	-	-
Perpetual bonds (FY23)	Long-Term	INR10,000	WD	IND AA/Positive	-	-
Sub-debt (FY23)	Long-Term	INR5,000	WD	IND AA+/Positive	-	-

## Annexure

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)
IREDA taxable green bonds	INE202E07245	24 March 2017	8.12	24 March 2027	INR2,000.00

IREDA taxable green bonds	INE202E 07252	29 March 2017	8.05	29 March 2027	INR5,000.00
IREDA taxable green bonds	INE202E 07260	3 January 2019	8.51	3 January 2029	INR2,750.00
IREDA taxable green bonds	INE202E 07278	17 January 2019	8.47	17 January 2029	INR5,900.00
IREDA taxable unsecured subordinated tier-II bond	INE202E 08045	22 February 2019	9.23	22 February 2029	INR1,500.00
IREDA taxable bonds	INE202E 07286	24 September 2019	8.00	24 September 2029	INR10,000.00
IREDA taxable bonds	INE202E 07294	3 March 2020	7.40	3 March 2030	INR8,030.00
IREDA taxable unsecured subordinated tier-II bond	INE202E 08060	8 May 2020	7.74	8 May 2030	INR5,000.00
IREDA unsecured taxable bonds	INE202E 08078	2 February 2022	5.98	16 April 2025	INR1,060.00
IREDA unsecured taxable bonds	INE202E 08086	2 August 2022	7.46	12 August 2025	INR6,484.00
IREDA unsecured taxable bonds	INE202E 08086	27 September 2022	7.85	12 October 2032	INR12,000.00
IREDA unsecured taxable bonds	INE202E 08102	7 December 2022	7.79	7 December 2032	INR5,150.00
IREDA unsecured taxable bonds	INE202E 08110	27 January 2023	7.94	27 January 2033	INR15,000.00
IREDA tax-free bonds	INE202E07187	21 January 2016	7.28	21 January 2026	INR1,088.91
IREDA tax-free bonds	INE202E07195	21 January 2016	7.49	21 January 2031	INR8,842.65
IREDA tax-free bonds	INE202E07203	21 January 2016	7.43	21 January 2036	INR364.44
IREDA tax-free bonds	INE202E07211	21 January 2016	7.53	21 January 2026	INR1,278.86
IREDA tax-free bonds	INE202E07229	21 January 2016	7.74	21 January 2031	INR4,835.15
IREDA tax-free bonds	INE202E07237	21 January 2016	7.68	21 January 2036	INR749.99
IREDA tax-free bonds	INE202E 07179	1 October 2015	7.17	1 October 2025	INR2,840.00
Gol fully serviced bonds	INE202E 08011	6 February 2017	7.22	6 February 2027	INR6,100.00
Gol fully serviced bonds	INE202E 08029	23 February 2017	7.60	23 February 2027	INR2,200.00
Gol fully serviced bonds	INE202E 08037	6 March 2017	7.85	6 March 2027	INR8,100.00
Long-term borrow ing programme (FY24)	-	-	-	-	INR215,000.00

Perpetual bonds (FY24)	-	-	-	-	INR5,000.00
Commercial paper (FY24)	-	-	-	-	INR20,000.00
Subordinated debt (FY24)	-	-	-	-	INR20,000.00
Grand total					<b>INR376,274.00</b>

## Complexity Level of Instruments

Instrument Type	Instrument Description	Complexity Indicator
Bank loan	Bank loan	Low
Bond	GoI-serviced bonds	Low
Bond	Taxable bond*	Low
Bond	Tax-free bond	Low
Subordinated debt	Subordinated debt	Moderate
Bond	Perpetual non-convertible debentures	High
Commercial Paper	Commercial paper	Moderate

\*also applicable for taxable green bonds and unsecured taxable bonds

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

## Contact

### Primary Analyst

Monika Bishnoi

Analyst

India Ratings and Research Pvt Ltd

DLF Eptome, Level 16, Building No. 5, Tower B DLF Cyber City, Gurugram Haryana - 122002

For queries, please contact: [infogrp@indiaratings.co.in](mailto:infogrp@indiaratings.co.in)

### Secondary Analyst

Bijoy Thomas

Senior Analyst

0124 6687247

### Chairperson

Dr Devendra Pant

Chief Economist and Head Public Finance

0124 6687251

### Media Relation

Ameya Bodkhe

Marketing Manager

+91 22 40356121



## **APPLICABLE CRITERIA**

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**Rating of Public Sector Entities**

**Rating of Financial Institutions Legacy Hybrids and Sub-Debt**

**Evaluating Corporate Governance**

**The Rating Process**

**Short-Term Ratings Criteria for Non-Financial Corporates**

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