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India Ratings Revises Outlook on IREDA's Debt Instruments to Positive; Affirms 'IND AA+'; Rates FY23 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
FY20 borrowing programme#	-	-	-	INR18,030	IND AA+/ Positive	Affirmed; Outlook revised to Positive from Stable
FY19 borrowing programme#	-	-	-	INR8,650	IND AA+/ Positive	Affirmed; Outlook revised to Positive from Stable
Sub debt#	-	-	-	INR6,500	IND AA+/ Positive	Affirmed; Outlook revised to Positive from Stable
Bonds#	-	-	-	INR7,000	IND AA+/ Positive	Affirmed; Outlook revised to Positive from Stable
Tax-free bonds#	-	-	-	INR20,000	IND AA+/ Positive	Affirmed; Outlook revised to Positive from Stable
Gol fully serviced bonds**#	-	-	-	INR16,400	IND AAA/Stable	Affirmed
Proposed Bank Loans (FY22) ^	-	-	-	INR40,000	WD	Withdrawn
Sub Debt (FY22) ^	-	-	-	INR5,000	WD	Withdrawn
Perpetual Bonds (FY22) ^	-	-	-	INR5,000	WD	Withdrawn
Taxable Bonds (FY22) #	-	-	-	INR1060(reduced from INR50,000)	IND AA+/ Positive	Affirmed; Outlook revised to Positive from Stable
FY23 Borrowing Programme#\$	-	-	-	INR149,000	IND AA+/ Positive	Assigned
Perpetual Bonds (FY23) #\$	-	-	-	INR10,000	IND AA/ Positive	Assigned
Sub Debt (FY23) #\$	-	-	-	INR5,000	IND AA+/ Positive	Assigned

** 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.

Details in Annexure

\$Yet to be raised

^ IREDA has not raised any money through these instruments.

Analytical Approach: Ind-Ra continues to factor in the ratings IREDA's systemic importance to the Gol in view of the need to address the issues related to the financing of renewable energy (RE) projects.

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 the MNRE, for the repayment of the principal and the interest payments in respect of the extra budgetary resources raised by IREDA. The same is being met by the Gol by making suitable budgetary provisions for the grants demanded by the MNRE.

The Outlook revision reflects the overall improvement in IREDA's financial performance, underpinned by improved leverage and asset quality indicators.

Key Rating Drivers

Improved Capitalisation and Leverage: Despite the 21% growth in IREDA's loan book to INR339 billion, its capital adequacy ratio (capital-to-risk weighted assets ratio) improved considerably to 21.22% in FY22 (FY21:17.12%), backed by equity infusion of INR15 billion along with healthy accretion of profits. The same resulted in higher headroom between the actual capitalisation and the minimum requirement (as prescribed by the Reserve Bank of India) to 6.22% (4.17%), thereby improving IREDA's prospects for future growth and increased provisioning. The tier 1 ratio also improved 17.6% in FY22 (FY21: 12.9%).

In line with the overall higher capital base, the leverage (debt/net worth) also improved to 5.24x in FY22 (FY21: 8.01x). The net worth rose significantly to INR52.7 billion in FY22 (FY21: INR29.9 billion), while the growth in the year-end debt was relatively modest and stood at INR276 billion (INR240 billion). Ind-Ra expects the capital-to-risk weighted assets ratio as well the leverage to stay at relatively comfortable levels in the near term.

Improved Asset Quality; Better Provisioning Coverage: In FY22, IREDA's gross non-performing assets (NPAs) fell for the first time since FY13, declining to INR17.68 billion (FY21: INR24.41 billion), backed by lower incremental slippages of INR0.32 billion (INR5.3 billion), higher upgradations of INR4.61billion (INR2.94 billion) and increased recoveries of INR2.31 billion (INR1.67 billion). Nevertheless, a steep increase in standard asset restructuring to INR3.1 billion in FY22 (FY21: INR0.03 billion) limited the incremental NPA build-up.

The gross NPA ratio improved to 5.21% in FY22 (FY21: 8.77%), led by a substantial increase in the loan book coupled with a fall in the total absolute NPA. Furthermore, the net NPA ratio improved to 3.12% in FY22 (FY21: 5.61%), while the provisioning coverage ratio increased to 41.4% (38.1%) during the same year, on the back of reasonable upgradations and recoveries. The net NPA/equity ratio also improved considerably to 25.1% in FY22 (FY21: 54.7%) due to the combined effect of lower net NPA and substantially higher net-worth.

Loans to some Andhra Pradesh borrowers that had overdues greater than 90 days, though still classified as standard assets (due to court orders), increased to INR9.18 billion in FY22 (FY21: INR8.32 billion). The matter continues to be subjudice, and any adverse ruling that could lead to non-recovery of dues and reclassification of such assets to NPAs,

would exacerbate the asset quality ratios. Nevertheless, the provisioning done against the said assets at 43% largely mirrors the provisioning done against the actual recognised NPAs. Accordingly, Ind-Ra does not expect the recategorisation of such loans to lead to any steep profitability impairment.

Better Profitability Metrics: IREDA's annualised net interest margin fell marginally to 3.75% in FY22 (FY21: 3.99%) as the decline in yield in a lower interest rate regime (during FY22) was not offset by the similar decline in the cost of funds. Nevertheless, in FY22, the key return indicators, namely return on equity and return on total assets improved to 15.33% (FY21: 12.56%) and 1.89% (1.2%), respectively, as the net income rose by 82% yoy to INR6.33 billion during the year. Although the net interest income rose only by a moderate 14% yoy to INR10.5 billion in FY22, the lower incremental provisioning of INR1.79 billion (FY21: INR3.41 billion) led to an improvement in the post provisioning indicators.

Public Policy Institution: IREDA is the Gol's only nodal agency to incentivise the renewable energy sector and attract investments by way of subsidies and lower 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 productivity-linked incentive scheme announced by the Gol in FY21 where IREDA will get the incentive fees as an implementing agency. Ind-Ra believes IREDA will continue to play a crucial role in reducing emissions as well as in the development of the renewable energy (RE) sector in India, particularly to achieve the target of 450GW by 2030.

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. However, with IREDA being accorded the status of Mini Ratna in June 2015, the government support in the form of equity infusions had stopped. Nevertheless, as per its earlier budgetary announcement, the Gol infused equity funds of INR15 billion in IREDA in FY22, thereby clearly indicating its intent to support and facilitate the growth of the RE sector in India via IREDA.

Liquidity Indicator – Superior: As on 31 March 2022, there was no major asset-liability mismatch in any of IREDA's up to one-year buckets, with the exception of the six-months-to-one-year bucket, wherein the negative mismatch stood at INR26 billion, which on a cumulative basis fell to INR6 billion. This was mainly due to IREDA's focus on borrowings with a fairly long tenor, especially those raised from multilateral agencies.

As on 30 April 2022, IREDA had INR28 billion of unutilised bank limits from domestic banks. The maximum average utilisation of the available limits stood at 9% during the 12 months ended April 2022. Ind-Ra believes IREDA's liquidity will remain superior over FY23-FY24 due to the availability of sufficient long-term banking credit lines and the absence of any major asset-liability mismatch on a cumulative basis in any bucket.

Sectoral Loan Book Concentration: At FYE22, IREDA's loan book was concentrated towards the solar sector at 25.4% (FYE21: 32.1; FYE20: 36.3%) and wind sector at 18.4% (21.6%;24.48%), through both have sequentially improved over the years. Both the sectors would be instrumental in achieving the target of installed capacity of 450GW RE by 2030. During FY22, while the solar sector accounted for 21% of the incremental disbursements, the wind sector accounted for 13% of the same. The disbursement of the 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.

Contingent Liabilities: 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 INR14.5 billion in FY22 (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-FY22. Nevertheless, any future invocation of such guarantees, leading to large cash outflows, could negatively impact IREDA's liquidity.

Auditor Comment: IREDA's statutory auditor in the report for FY22 had noted that IREDA needs to strengthen its internal controls over financial reporting based on the requisite criteria established by the company. IREDA's management has taken cognisance of the same, and has stated that the same would be corrected by the time of the next statutory audit.

Rating Sensitivities

Positive: Demonstrated equity support from the GoI (if and when required) along with sustainable franchise growth and maintaining of modest leverage and stable asset quality would be positive for the ratings

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

- any deterioration in the financial performance, resulting in the tier 1 ratio falling below 16% and net NPA ratio exceeding 6% on a sustained basis
- the weakening of IREDA's operational and managerial linkages with the GoI; and
- inadequate budgetary provisions for servicing the GoI fully-serviced bonds throughout the tenure of the bonds.

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 Reserve Bank of India 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 (INR million)	FY21	FY22
Total assets	302,934	367,083
Net interest income	9,256	10,575
Net income	3,464	6,336
Gross non-performing assets (%)	8.77	5.21
Capital adequacy ratio (%)	17.12	21.22
Source: IREDA, Ind-Ra		

Solicitation Disclosures

Additional information is available at 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	31 August 2021	4 December 2020	1 September 2020	29 April 2020	12 February 2020	4 September 2019
FY20 borrowing programme	Long-term	INR18,030	IND AA+/Positive	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AAA/Negative	IND AAA/Negative	IND AAA/Negative
FY19 borrowing programme	Long-term	INR8,650	IND AA+/Positive	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AAA/Negative	IND AAA/Negative	IND AAA/Negative
Sub debt	Long-term	INR6,500	IND AA+/Positive	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AAA/Negative	IND AAA/Negative	IND AAA/Negative
Bonds	Long-term	INR7,000	IND AA+/Positive	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AAA/Negative	IND AAA/Negative	IND AAA/Negative
Tax-free bonds	Long-term	INR20,000	IND AA+/Positive	IND AA+/Stable	IND AA+/Stable	IND AA+/Stable	IND AAA/Negative	IND AAA/Negative	IND AAA/Negative
GoI fully serviced bonds	Long-term	INR16,400	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Proposed Bank Loans (FY22)	Long-term	INR40,000	WD	IND AA+/Stable	-	-	-	-	-
Sub Debt (FY22)	Long-term	INR5,000	WD	IND AA+/Stable	-	-	-	-	-
Perpetual Bonds (FY22)	Long-term	INR5,000	WD	IND AA/Stable	-	-	-	-	-
Taxable Bonds (FY22)	Long-term	INR1060	IND AA+/Positive	IND AA+/Stable	-	-	-	-	-
FY23 Borrowing Programme	Long-term	INR149,000	IND AA+/Positive	-	-	-	-	-	-
Perpetual Bonds (FY23)	Long-term	INR10,000	IND AA/Positive	-	-	-	-	-	-
Sub Debt (FY23)	Long-term	INR5,000	IND AA+/Positive	-	-	-	-	-	-

Annexure

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
Bonds – taxable	INE202E07245	24 March 2017	8.12	24 March 2027	INR2,000	IND AA+/Positive
Bonds – taxable	INE202E07252	29 March 2017	8.05	29 March 2027	INR5,000	IND AA+/Positive
Tax-free bonds (2015)	INE202E07179	1 October 2015	7.17	1 October 2025	INR2,840	IND AA+/Positive
Tax-free bonds (2016)	INE202E07187	21 January 2016	7.28	21 January 2026	INR1,089	IND AA+/Positive
Tax-free bonds (2016)	INE202E07195	21 January 2016	7.49	21 January 2031	INR8,843	IND AA+/Positive
Tax-free bonds (2016)	INE202E07203	21 January 2016	7.43	21 January 2036	INR364	IND AA+/Positive
Tax-free bonds (2016)	INE202E07211	21 January 2016	7.53	21 January 2026	INR1,279	IND AA+/Positive
Tax-free bonds (2016)	INE202E07229	21 January 2016	7.74	21 January 2031	INR4,835	IND AA+/Positive
Tax-free bonds (2016)	INE202E07237	21 January 2016	7.68	21 January 2036	INR750	IND AA+/Positive
GoI fully-serviced bonds	INE202E08011	6 February 2017	7.22	6 February 2027	INR6,100	IND AAA/Stable
GoI fully-serviced bonds	INE202E08029	23 February 2017	7.6	23 February 2027	INR2,200	IND AAA/Stable
GoI fully-serviced bonds	INE202E08037	6 March 2017	7.85	6 March 2027	INR8,100	IND AAA/Stable
IREDA taxable green bonds	INE202E07260	3 January 2019	8.51	3 January 2029	INR2,750	IND AA+/Positive
IREDA taxable green bonds	INE202E07278	17 January 2019	8.47	17 January 2029	INR5,900	IND AA+/Positive
Sub debt	INE202E08045	22 February 2019	9.23	22 February 2029	INR1,500	IND AA+/Positive
Bonds (FY20)	INE202E07286	24 September 2019	8.00	24 September 2029	INR10,000	IND AA+/Positive
Bonds (FY20)	INE202E07294	3 March 2020	7.40	3 March 2030	INR 8,030	IND AA+/Positive
Sub debt bond	INE202E08060	8 May 2020	7.74	8 May 2030	INR 5,000	IND AA+/Positive
Bonds (FY22)	INE202E08078	2 March 2022	5.98	16 April 2025	INR1060	IND AA+/Positive

Perpetual bonds (FY23)	-	-	-	-	INR10,000	IND AA/Positive
Long Term Borrowing Programme (FY23)	-	-	-	-	INR149,000	IND AA+/Positive
Sub debt (FY23)	-	-	-	-	INR5,000	IND AA+/Positive
Grand Total					INR2,41,640	

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Instrument Description	Complexity Indicator
Bank loan	Bank loan	Low
Bond	Gol-serviced bonds	Low
Bond	Taxable bond	Low
Bond	Tax-free bond	Low
Subordinated debt	Lower tier 2 subordinated debt	Moderate
Bond	Perpetual non-convertible debentures (NCDs)	High

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

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