November 03, 2017

Indian Renewable Energy Development Agency Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Tax-free bonds	2,000	[ICRA]AA+ (Stable); Reaffirmed
Taxable bonds	2,000	[ICRA]AA+ (Stable); Reaffirmed
GoI fully serviced bonds	4,000	[ICRA]AAA (Stable); Reaffirmed
Total	**8,000**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the rating of [ICRA]AA+ (pronounced ICRA double A plus) assigned earlier to the Rs. 2,000 crore long-term tax free bonds and Rs. 2,000 crore long-term taxable green bonds programmes of Indian Renewable Energy Development Agency Limited (IREDA)[1]. ICRA has also reaffirmed the rating of [ICRA]AAA (pronounced ICRA triple A) assigned earlier to the GoI fully serviced bonds of Rs. 4,000 crore. The outlook on the long-term ratings is Stable.

Rationale

The ratings factor in IREDA's sovereign ownership (100% equity with the Government of India, GoI), its important role as a sole nodal agency for implementation of Government policy in the renewable sector, strong market presence in the renewable energy (RE) space, its ability to mobilise funds at competitive rates, moderate gearing (5.2 times as on March 31, 2017) and stable profitability levels (PAT/ATA[2] of 2.4% in FY2017). ICRA has also taken note of the proposed Initial Public Offer (IPO) for IREDA which will strengthen the capitalisation and solvency profile for the entity.

ICRA notes that by virtue of its mandate, IREDA would continue to have a sectoral concentration with portfolio entirely consisting of RE exposures; however within the RE space, the portfolio is well diversified across sectors such as wind, solar, biomass, cogeneration (cogen) and small hydro. The ratings are however constraint by the relatively higher portfolio vulnerability for IREDA on account of its legacy portfolio arising out of a weaker borrower profile and exposure to sectors such as small hydro, cogeneration and biomass segment, which faced issues such as seasonality, technological constraints, low tariffs and counter-party risks. This is also reflected in the asset quality indicators with IREDA reporting Gross NPA%[3] of 6.1%, net NPAs of 3.9% and standard rescheduled/restructured advances of around 5.8% as on March 2017. ICRA positively notes that IREDA has tightened its credit appraisal processes and the incremental exposure to the relatively riskier segments (biomass, cogen and small hydro) is significantly curtailed. Also, with the stated policy of lending only to projects with signed PPAs for the entire tenure of the loans and better borrower selection, increased focus to solar and wind projects, the portfolio vulnerability could decline over the medium term. This coupled with expected recoveries from the legacy accounts could lead to some improvement in the asset quality indicators over the medium term. At the same time transition to tighter NPA recognition norms could keep the credit costs elevated, though the floating provisions already available on the balance sheet could reduce the overall impact on the profitability indicators going forward.

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[1] *For complete rating scale and definition, please refer to ICRA website (www.icra.in) or any of the ICRA rating publications*

[2] *Profit After Tax/Average Total Assets*

[3] *IREDA recognises NPA on 180+ DPD basis*

Key rating drivers

Credit strengths

- **Sovereign support to continue for policy institution:** High likelihood of Government support with IREDA being a 100% GoI-owned entity and its strategic importance for the GoI, given the latter's strong focus on development of the renewable energy (RE) sector. IREDA is the nodal agency for routing the GoI's various subsidies and grants to the RE sector allocation of Rs 200 crore to IREDA by the GoI from National Clean Energy Fund for on-lending to banks/FIs in RE sector, the GoI guarantee for IREDA's borrowings from multilateral agencies (these borrowings accounted for around 54% of IREDA's total borrowings as on March 31, 2017). ICRA has taken note of the proposed IPO for IREDA, post which the GoI shareholding is likely to reduce. Nevertheless, ICRA expects the Government support to continue for IREDA going forward as well given its role as a policy institution.
- **Strong financial flexibility and comfortable liquidity profile:** Owing to its sovereign ownership, IREDA has the ability to raise funds at low cost, both in the international and the domestic markets. Around 59% of IREDA's outstanding borrowings as on March 31, 2017 were in the form of foreign currency raised through multilateral agencies like the European Investment Bank and the Japan International Cooperation Agency etc. Further, a significant proportion of IREDA's borrowings are backed by the GoI guarantee.

  IREDA provides loans for a maximum tenure of 15 years; however, a large proportion of its borrowings are very long-term in nature, mainly loans from multilateral agencies where the tenor is as long as 35 years. Thus, IREDA has a comfortable asset-liability matching profile with no negative cumulative mismatches.
- **Stable profitability profile:** IREDA's profitability profile is comfortable, as reflected by its return on assets (PAT/ATA) of 2.4% and return on equity (PAT/ net worth) of 14.5% during FY2017, supported by adequate lending spreads (~4.9% in FY2017) and low operating expenses (0.37% of ATA). Over the medium term, ICRA expects the profitability indicators for IREDA to moderate owing to pressure on margins and higher credit costs, following the transition to tighter NPA recognition and restructuring norms though overall the profitability is expected to remain adequate.
- **Moderate capitalisation profile; IPO likely in future:** IREDA's capitalisation profile is moderate with a gearing of 5.2 times and CRAR of 19.17% as on March 31, 2017. The company's capitalisation is expected to improve over the short and medium term, given that it is planning to come out with an initial public offer in February 2018.

Credit weaknesses

- **Portfolio vulnerability likely to keep asset quality volatile:** The company's asset quality deteriorated in FY2017 following fresh slippage in cogeneration and small hydro projects with gross NPAs at 6.1% as on March 31, 2017 (5.7% as on March 31, 2017). Small hydro, biomass and cogeneration projects constitute around 78% of the total NPA, though they constitute only 25% of the total portfolio as on March 31, 2017. Also, with large portion of portfolio being generated in the last couple of years, the seasoning is limited. IREDA is not fully aligned with the Reserve Bank of India (RBI) norms for restructuring and NPA recognition for non banking finance companies (NBFCs). In ICRA's opinion, the asset quality will remain under pressure in the medium term as it transitions to align itself with the RBI prescribed norms though the floating provisions already made will provide some cushion on the profitability matrices.
- **High concentration risk:** The company is exposed to a single sector (i.e. renewable energy sector) given its mandate. With the tightening of credit appraisal norms and increased focus on solar and wind power projects, the proportion of riskier segments is likely to reduce over the medium term. While declining tariffs and revision in PPAs are areas of concern for the wind and the solar segment, however the risk is somewhat mitigated by the fact that IREDA does not lend to projects where PPAs are not signed for the entire tenure of the loan. Also, prudent internal caps on maximum exposures to single borrower would help the company in keeping the concentration risk contained. All these measures are likely to lead to reduce the portfolio vulnerability for IREDA over the medium term.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
[ICRA's Credit Rating Methodology for Non-Banking Finance Companies]

About the company:
Indian Renewable Energy Development Agency (IREDA) was incorporated as a Public Limited Government Company on March 11, 1987, under the Companies Act 1956 and within 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. IREDA has been notified as a "Public Financial Institution" under Section 4 'A' of the Companies Act, 1956 and registered as a Non-Banking Finance Company with the Reserve Bank of India (RBI). IREDA is wholly-owned by the GoI. Its Board of Directors comprised two executive directors, two Government nominee from MNRE, the GoI and one independent director.

As on March 2017, IREDA's loan book was Rs 13,511 crore which comprised loans to wind power projects (32% of loan book), small hydro (14%), cogen (10%), solar (25%), refinance (15%) and balance being biomass, energy efficiency and other activities. During FY2017, IREDA reported a PAT of Rs. 365 crore on an asset base of Rs.17,056 crore as against a PAT of Rs. 298 crore on an asset base of Rs.13,340 crore for the previous financial year.

Key financial indicators (Audited)

	FY2016	FY2017
Total income	1,172	1,481
PAT	298	365
Net worth	2,296	2,510
Net advances	10,387	13,511
Total assets	13,340	17,056
Return on assets	2.47	2.40
Return on equity	12.98	14.54
Gearing (times)	4.36	5.20
Gross NPA (%)	5.7	6.1
Net NPA (%)	4.1	3.9
Net NPA/ Net worth (%)	18	20
CRAR (%)	19.99	19.17

Amount in Rs. crore
Source: IREDA, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	**Instrument**	**Current Rating (FY2018)**			**Chronology of Rating History for the past 3 years**			
		Type	**Amount Rated (Rs. crore)**	**FY2018**	**FY2017**		**FY2016**	**FY2015**
				Nov-17	**Dec-16**	**Sept-16**	**Sept-15**	**-**
1	GoI fully serviced bonds	Long Term	4,000	[ICRA]AAA(Stable)	[ICRA]AAA(Stable)	-	-	-
2	Taxable bonds	Long Term	2,000	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-
3	Tax-free bonds	Long Term	2,000	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

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Annexure-1

Instrument Details

ISIN No	Instrument	Amount Rated (Rs. crore)	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Current Rating and Outlook
INE202E07245	NCD	200	24-Mar-17	8.12	24-Mar-27	[ICRA]AA+ (Stable)
INE202E07252	NCD	500	29-Mar-17	8.05	29-Mar-27	[ICRA]AA+ (Stable)
INE202E07179	NCD	284	1-Oct-15	7.17	1-Oct-25	[ICRA]AA+ (Stable)
INE202E07187	NCD	108.9	21-Jan-16	7.28	21-Jan-26	[ICRA]AA+ (Stable)
INE202E07195	NCD	884.3	21-Jan-16	7.49	21-Jan-31	[ICRA]AA+ (Stable)
INE202E07203	NCD	36.4	21-Jan-16	7.43	21-Jan-36	[ICRA]AA+ (Stable)
INE202E07211	NCD	127.9	21-Jan-16	7.53	21-Jan-26	[ICRA]AA+ (Stable)
INE202E07229	NCD	483.5	21-Jan-16	7.74	21-Jan-31	[ICRA]AA+ (Stable)
INE202E07237	NCD	75	21-Jan-16	7.68	21-Jan-36	[ICRA]AA+ (Stable)
INE202E08011	NCD	610	6-Feb-17	7.22	6-Feb-2027	[ICRA]AAA (Stable)
INE202E08029	NCD	220	23-Feb-17	7.6	23-Feb-2027	[ICRA]AAA (Stable)
INE202E08037	NCD	810	6-Mar-17	7.85	6-Mar-2027	[ICRA]AAA (Stable)
	GoI fully-serviced bonds	2,360	Yet to be placed	NA	NA	[ICRA]AAA (Stable)
	Taxable bonds	1,300	Yet to be placed	NA	NA	[ICRA]AA+ (Stable)

Source: IREDA; details as on October 25, 2017

ICRA

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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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