Indian Renewable Energy Development Agency Limited

October 29, 2018

Summary of rated instruments

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

**Instrument details are provided in Annexure-1*

Rating action

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

Rationale

The ratings factor in IREDA's sovereign ownership (100% ownership by the Government of India, GoI), its important role as a sole nodal agency for the implementation of Government policy in the renewable sector, its strong market presence in the renewable energy (RE) space, moderate gearing (5.9 times as on March 31, 2018), stable profitability (PAT/ATA of 2.2% in FY2018) and its ability to mobilise funds at competitive rates.

ICRA notes that by virtue of its mandate, IREDA would continue to have a sectoral concentration with the portfolio entirely consisting of RE exposures though the portfolio is well diversified across sectors such as wind, solar, biomass, cogeneration and small hydro. The ratings are, however, constrained by the relatively higher portfolio vulnerability for IREDA due to its legacy portfolio arising out of a weak borrower profile and exposure to sectors such as small hydro, cogeneration and biomass, which face issues such as seasonality, technological constraints, low tariffs and counterparty risks. This is also reflected in the asset quality indicators with IREDA reporting gross NPA of 6.3%, net NPA of 3.7% and standard rescheduled/restructured advances of around 6.4% as on March 31, 2018. ICRA positively notes that IREDA has tightened its credit appraisal processes and the incremental exposure to the relatively riskier segments (biomass, cogeneration and small hydro) is significantly curtailed. Also, the portfolio vulnerability could decline over the medium term given the company's stated policy of lending only to projects with signed power purchase agreements (PPAs) for the entire tenure of the loans, its better borrower selection and increased focus on solar and wind projects. At the same time, migration to tighter NPA recognition norms, in line with the RBI circular, could keep the asset quality indicators and credit costs elevated, though the floating provisions already available on the balance sheet could reduce the overall impact on the profitability indicators going forward.

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Outlook: Stable

ICRA believes IREDA will remain significantly important to the GoI and will play a major role in various GoI renewable sector schemes. The outlook may be revised to Positive if there is a sustained improvement in the earnings profile, capitalisation and asset quality indicators. The outlook may be revised to Negative if there is a significant deterioration in the company's asset quality or solvency profile. Also, any significant dilution in the GoI's stake, a change in IREDA's strategic role or a sustained decline in its profitability and asset quality indicators could warrant a rating/outlook change.

Key rating drivers

Credit strengths

Sovereign ownership and strategic importance to GoI – There is high likelihood of Government support, with IREDA being a 100% GoI-owned entity and being strategically important to the GoI, given the latter's strong focus on development of the RE sector. IREDA is the nodal agency for routing the GoI's various subsidies and grants to the RE sector like incentive schemes for solar and wind power projects, capital subsidy schemes for solar water heaters, the National Clean Energy Fund Refinance Scheme, etc. Apart from this, the GoI has provided guarantees for IREDA's borrowings from multilateral and bilateral agencies (47% of the total borrowings as on March 31, 2018). ICRA expects Government support to continue for IREDA, going forward as well, given its strategic importance for achieving various Government's initiatives.

Good financial flexibility and comfortable liquidity profile – Owing to its sovereign ownership, IREDA has been able to raise funds at low costs, both in the international and the domestic markets. Around 53% of IREDA's outstanding borrowings, as on March 31, 2018, were in the form of foreign currency raised through multilateral and bilateral agencies like the European Investment Bank and the Japan International Cooperation Agency, etc. Further, a significant proportion of its foreign currency borrowings are backed by GoI guarantees (47% of the total borrowings as on March 31, 2018).

The average tenor of project loans given by company is 10-12 years with some loans having a tenor of 15 years. These are well matched with borrowings, which have maturities of 15-20 years, with some loans from multilateral and bilateral agencies having maturities of up to 35 years. Thus, IREDA has a comfortable asset-liability matching profile with no negative cumulative mismatches in the short and medium term. ICRA believes the company's sovereign ownership, good financial flexibility and the availability of unutilised lines from multilateral and bilateral agencies will keep its short-term liquidity comfortable.

Adequate capitalisation – IREDA's capitalisation profile is moderate with a gearing of 5.9 times and CRAR of 18.05% as on March 31, 2018. The company will require capital infusion in the medium term to maintain a prudent capital structure. Given the gearing of 5.9 times and the high borrowing target for FY2019, IREDA would need to raise capital either through an initial public offer or from the Government to maintain a prudent capital structure.

Adequate profitability profile – IREDA's yield on loans declined to 10.85% in FY2018 from 11.24% in FY2017 on account of a decline in systemic interest rates. At the same time, the cost of funds increased to 7.20% in FY2018 from 6.19% in FY2017 as a large part of the borrowings for FY2017 were done in the latter part of the year, leading to a decline in spreads and, hence, net interest margins (NIMs), which stood at 3.68% in FY2018 compared to 4.45% in FY2017. The company's credit cost moderated to 0.55% in FY2018 from 1.07% in FY2017. Overall, IREDA's profitability remained comfortable with return on average assets of 2.20% and return on average net worth of 15.58% during FY2018. Going forward, IREDA is expected to maintain a lending spread of 2-2.5%. However, its credit costs could increase going forward on account of a transition to tighter NPA recognition norms and fresh slippages from stressed assets, thus adversely impacting its overall profitability indicators.

Credit challenges

Portfolio vulnerability likely to keep asset quality volatile – The company's asset quality moderated in FY2018 following fresh slippage with gross NPAs at 6.3% as on March 31, 2018 (6.1% as on March 31, 2017). Small hydro, biomass and cogeneration projects constituted around 76% of the total NPA, though they comprised only 24% of the total portfolio as on March 31, 2018. Also, with a large portion of the portfolio being generated in the last couple of years, the seasoning is limited. IREDA is not fully aligned with the Reserve Bank of India's (RBI) norms for restructuring and NPA recognition for non-banking finance companies (NBFCs). The company currently recognises NPAs on a 180+ dpd basis and will move to 120+ dpd from March 2019. In ICRA's opinion, the asset quality could deteriorate from current levels as IREDA transitions to the RBI prescribed norms though the floating provisions, that have been made, will provide some cushion to the profitability matrices.

High concentration risk - The company is exposed to a single sector (i.e. the 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 solar segments, 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 exposure to single borrowers would help the company in keeping the concentration risk contained. All these measures are likely to lead to a reduction in 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 Limited (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 to renewable energy and energy efficiency/conservation projects. IREDA has been notified as a "public financial institution" under Section 4A of the Companies Act, 1956 and is registered as a non-banking finance company with the RBI. It is wholly-owned by the GoI and its board of directors comprises three executive directors, two Government nominees from the MNRE, GoI, and five independent directors.

In FY2018, IREDA reported a profit after tax (PAT) of Rs. 393 crore on an asset base of Rs. 18,625 crore against PAT of Rs. 365 crore on an asset base of Rs. 17,056 crore in FY2017. As on March 31, 2018, IREDA's reported capital adequacy was 18.05%.

Key financial indicators (audited)

	FY2017	FY2018
Total income	1,481	1,780
Profit after tax	365	393
Net worth	2,510	2,537
Total assets^	17,056	18,625
CRAR	19.17%	18.05%
Gearing (times)	5.20	5.90
Return on net worth (%)	15.16%	15.58%
Gross NPAs (%)	6.1%	6.3%
Net NPAs (%)	3.9%	3.7%
Net NPA/Net worth	20%	23%

^ Excluding GoI fully-serviced bonds
Source: IREDA, ICRA research; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Oct 2018	Date & Rating in FY2018 Nov 2017	Date & Rating in FY2017 Dec 2016	Date & Rating in FY2016 Sept 2015
1	GoI fully-serviced bonds	Long Term	4,000	1,640	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-
2	Taxable bonds	Long Term	2,000	700	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-
3	Tax-free bonds	Long Term	2,000	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

Annexure-1: Instrument Details

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

Source: IREDA

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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.

For more information, visit www.icra.in

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