

February 15, 2021

Indian Renewable Energy Development Agency Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Previous years' bond programme	4,000	4,000	[ICRA]AA+ (Stable); reaffirmed and outlook revised to Stable from Negative
Gol fully-serviced bonds	4,000	4,000	[ICRA]AAA (Stable); reaffirmed
Total	8,000	8,000	

*Instrument details are provided in Annexure-1

Rationale

The ratings factor in the Indian Renewable Energy Development Agency Limited's (IREDA) sovereign ownership (100% by the Government of India - Gol), its strategic importance as the sole nodal agency for the promotion and implementation of Government policies and initiatives in the renewable energy (RE) sector, and its market presence in the RE space. The ratings also factor in the company's strong liquidity position, supported by a large proportion of significantly long-term borrowings that match well 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.

The revision in the rating outlook factors in the proposed capital infusion of Rs. 1500 crore in IREDA by the Gol as announced in the Union Budget for FY2022. This would support IREDA's capitalisation and solvency profile, which have been under pressure owing to increased slippages in FY2020. The proposed capital infusion would also improve IREDA's competitive positioning in terms of being able to take higher exposures and hence support the growth of the company going forward.

The ratings for IREDA also factor in the heightened portfolio vulnerability arising from the increased slippages and significant exposures to stressed groups. Also, given the wholesale nature of the loans, the concentration risk remains high for the company, with the top 20 borrowers accounting for 277% of the net worth as on September 30, 2020 (339% as on March 31, 2020). The ratings further factor in the company's current modest capitalisation indicators (gearing of 8.7 times as on March 31, 2020) and modest profitability indicators (RoA of ~0.8% in FY2020) due to high credit costs, albeit the proposed capital infusion is expected to improve the capitalisation profile. Though there has been some improvement in the asset quality indicators in H1 FY2021 supported by recoveries from some loan accounts, ICRA believes that an adequate capital cushion is a key mitigant against the portfolio vulnerability and the current capitalisation levels have moderated with a delay in equity raising, higher credit costs and weakened profitability. ICRA notes that by virtue of its mandate, IREDA would continue to have 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.

Going forward, the company's ability to recover from the stressed assets and the timely infusion of the proposed capital by the Gol, which would improve the capitalisation and solvency indicators, would be the key rating sensitivities. Also, ICRA believes IREDA will remain important to the Gol and will play a major role in various Gol renewable sector schemes. Any significant dilution in the Gol's stake, a change in IREDA's strategic role or a sustained decline in its profitability and asset quality indicators could warrant a rating change.

The ratings for the Gol fully-serviced bonds factor in the Gol'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 for 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.

Key rating drivers and their description

Credit strengths

Sovereign ownership and strategic importance to Gol - IREDA is a 100% Gol-owned entity and is of strategic importance to the Gol for the promotion and development of the RE sector in India. Thus, the ratings factor in a high likelihood of support from the Gol and this has recently been demonstrated by the proposed capital infusion of Rs. 1500 crore into IREDA as announced in the Union Budget for FY2022. IREDA is the nodal agency for routing the Gol'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) Refinancing Scheme to refinance biomass (up to 10 MW) and small hydro (up to 5 MW) projects. Apart from this, the Gol has provided guarantees for IREDA's borrowings from multilateral and bilateral agencies (~42% of the total borrowings as on March 31, 2020). ICRA believes IREDA will remain important to the Gol and will play a major role in various Gol renewable sector schemes. Any significant dilution in the Gol'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.

Good 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 stood at ~7.0% (excluding Gol fully-serviced bonds) in H1 FY2021 compared to ~7.3% in H1 FY2020, supported by softening of the systemic interest rates.

The company's total borrowings stood at Rs. 21,854 crore (growth of 16.5% in FY2020; excluding Gol fully-serviced bonds of Rs. 1,640 crore) as on March 31, 2020. It has a well-diversified borrowing profile with access to funding via tax-free bonds (13%), taxable bonds (22%), bank/FI loans (8%), masala bonds (9%) and foreign currency loans (49%) as on March 31, 2020. The foreign currency debt is from multilateral agencies like the 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. Also, ~42% of the total borrowings were guaranteed by the Gol as on March 31, 2020. Going forward, ICRA believes that the company will continue to have good financial flexibility and 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. The liquidity is also supported by unencumbered cash and bank balances of Rs. 1,402 crore as on December 31, 2020. 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.

Credit challenges

Portfolio vulnerability likely to keep the asset quality volatile – IREDA's portfolio grew by ~10% in FY2020 to Rs. 23,548 crore which consists of projects in segments like solar (36%), wind (24%), small hydro (10%), cogeneration & EEC (6%), biomass & waste to energy (WTE, 2%) and others (22%). The company's reported asset quality indicators remain elevated with the gross NPAs increasing significantly to Rs. 2,373 crore (~10.1% of loan book) as on March 31, 2020 from Rs. 1308 crore (~6.1%) as on March 31, 2019. A part of the increase in the NPAs can be attributed to the company's migration to tighter NPA norms, in line with the RBI's circular of May 31, 2018. Additionally, there were significant slippages in the small hydro, biomass and cogeneration segments (~57% of total GNPA's as on March 31, 2020). The company granted a moratorium of 6 months from March 2020 to August 2020 to about 140 borrowers, aggregating to Rs. 16,169 crore. The portfolio vulnerability is also heightened by the sizeable standard restructured assets (Rs. 921 crore as on March 31, 2020) and significant exposure to stressed groups as well as projects where Andhra Pradesh discoms are the off-takers. Hence, the receivables have been delayed/or are at lower tariff rates (~11% of the total portfolio where Andhra discoms are off-takers as on September 30, 2020).

However, in H1 FY2021, the asset quality indicators improved marginally with the GNPA's or gross stage 3 assets reducing to Rs. 2,240 crore (9.0% of loan book) as on September 30, 2020 supported by recoveries from some loan accounts. Overall, given the current issues in the renewable sector, particularly in Andhra Pradesh, the company's asset quality indicators are likely to remain elevated. Its ability to recover from the stressed assets and raise capital to improve the solvency indicators would be a key monitorable.

Also, given the wholesale nature of the loans, the concentration risk remains high for the company with the top 20 borrowers accounting for 277% of the net worth as on September 30, 2020 (339% as on March 31, 2020). With a deterioration in the asset quality and moderate profitability, the solvency indicators also deteriorated significantly to ~65.0% as on March 31, 2020 (30.2% as on March 31, 2019), however, with the proposed capital infusion, the reported solvency indicator for IREDA is likely to dip to reasonable levels.

Modest capitalisation indicators, albeit expected to improve post proposed capital infusion by GoI - The capitalisation profile for IREDA weakened with the gearing increasing to 8.7 times as on March 31, 2020 from 7.2 times as on March 31, 2019 due to modest internal capital generation, a delay in the planned raising of primary capital via an initial public offer (IPO) and the incremental portfolio growth being funded out of fresh borrowings. The last equity infusion by the GoI was in FY2015 before IREDA was conferred the Mini Ratna (Category-I) status in June 2015. However, as a part of the Union Budget for FY2022, the GoI has proposed a Rs. 1500-crore capital infusion in IREDA, which is expected to reduce the gearing to 5-6 times. This would support IREDA's capitalisation and solvency profile, which have been under pressure owing to increased slippages in FY2020. The proposed capital infusion would also improve IREDA's competitive positioning in terms of being able to take higher exposures and hence support the growth of the company going forward. The reported capital adequacy remained adequate with a CRAR of 16.8% (Tier I – 12.5%) as on September 30, 2020, above the minimum regulatory requirement of 10% (Tier I – 7%). In line with the RBI's circular of May 31, 2018, the company has to maintain a minimum CRAR of 12% (Tier I – 8%) as on March 31, 2020, 13% (Tier I – 9%) as on March 31, 2021 and 15% (Tier I – 10%) as on March 31, 2022.

Modest profitability indicators – The average yield on loans for IREDA remained range-bound (~9.6% in FY2020), while the lending spread moderated to ~2.6% in FY2020 from ~2.9% in FY2019 owing to a slight increase in the average cost of funds (excluding GoI fully-serviced bonds) to ~7.1% from ~6.9%. While the operating expense/average assets remained low at 0.4% given the wholesale nature of business, the NIM moderated to 2.9% in FY2020 from 3.2% in FY2019 due to an increase in leverage and a decline in spreads. At the same time, the credit costs, as a percentage of average assets, also increased to 1.9% in FY2020 from 1.6% in FY2019 due to high fresh slippages. This led to a decline in the RoA and the RoE to 0.8% and 8.4%, respectively, in FY2020 from 1.1% and 9.9%, respectively, in FY2019. Though the proposed capital infusion would support IREDA's credit growth, going forward, the profitability is expected to remain modest because of the heightened vulnerability of IREDA's portfolio.

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 positive cumulative mismatches across all maturity buckets. Apart from this, it has liquid cash and bank balances of ~Rs. 1,402 crore as on December 31, 2020 and unutilised sanctioned lines of Rs. 1,636 crore from domestic banks which provide support to the liquidity profile. As on September 30, 2020, the company expects inflows of Rs. 4,289 crore against repayments of Rs. 2,305 crore in the next 12 months.

Rating sensitivities

Positive factors – An improvement in asset quality and solvency levels while maintaining adequate cushion in the capital adequacy over the regulatory requirement on a sustained basis may lead to a revision in the rating.

Negative factors – Further pressure on the asset quality, leading to a deterioration of solvency level to above 60% along with its inability to maintain a 1% buffer in Tier I over the regulatory requirement on a sustained basis would lead to a revision in credit ratings. The inability to raise fresh capital for growth and a significant dilution in stake by the GoI or a decline in the

strategic importance of IREDA in the Gol's initiatives for promotion of the renewable energy sector in the country may also warrant a change in the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	The ratings derive strength from IREDA's 100% ownership by the Gol and its important role as a nodal agency for various RE sector schemes of the Government. The Gol's ownership supports IREDA's financial flexibility.
Consolidation/Standalone	Standalone

About the company

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 Gol and has been notified as a Public Financial Institution and registered as a non-banking finance company – asset finance company (NFBC-AFC) with the RBI. IREDA's board of directors comprises two executive directors, two Government nominees from the MNRE, the Gol and five independent directors. The company was also conferred the Mini Ratna (Category-I) status in June 2015 by the Department of Public Enterprises.

In FY2020, IREDA reported a PAT of Rs. 214.6 crore on an asset base of Rs. 28,388.6 crore as against a PAT of Rs. 249.9 crore on an asset base of Rs. 25,018.9 crore in FY2019. As on March 31, 2020, the company reported a CRAR of 14.34% and its gross and net NPA% stood at 10.08% and 7.18%, respectively, as on March 31, 2020.

In H1 FY2021, the company reported a PAT of Rs. 276.6 crore on a total asset base of Rs. 30,053 crore against a PAT of Rs. 163.3 crore on a total asset base of Rs. 27,351.4 crore in H1 FY2020. The GNPA% and NNPA% stood at 8.97% and 5.80%, respectively, with a gearing of 8.3 times as on September 30, 2020.

Key financial indicators (audited)

IREDA	FY2019	FY2020	H1 FY2021*
Total income (Rs. crore)	1,962	2,329	1,234
Profit after tax (Rs. crore)	250	215	277
Net worth (Rs. crore)	2,584	2,521	2,745
Loan Book (Rs. crore)	21,389	23,548	24,980
Total assets^ (Rs. crore)	25,019	28,389	30,053
CRAR (%)	16.32%	14.34%	16.85%
Gearing (times)	7.26	8.67	8.34
Return on assets (%)	1.07%	0.80%	1.89%
Return on net worth (%)	9.94%	8.41%	21.01%
Gross NPAs (%)	6.12%	10.08%	8.97%
Net NPAs (%)	3.74%	7.18%	5.80%
Net NPA/Net worth (%)	30.18%	64.94%	50.96%

Source: IREDA, ICRA Research; * Provisional numbers. All ratios as per ICRA calculations; ^Gross assets

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 15, 2021	Nov 25, 2019	Oct 29, 2018	Nov 03, 2017
1	Previous years' bond programme	Long-term	4,000	2,700	[ICRA]AA+(Stable)	[ICRA]AA+(Negative)	[ICRA]AA+(Stable)	[ICRA]AA+(Stable)
2	GoI fully-serviced bonds	Long-term	4,000	1,640	[ICRA]AAA(Stable)	[ICRA]AAA(Stable)	[ICRA]AAA(Stable)	[ICRA]AAA(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 [click here](#)

Annexure-1: Instrument details

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]AA+ (Stable)
INE202E07252	NCD	Mar 29, 2017	8.05	Mar 29, 2027	500.00	[ICRA]AA+ (Stable)
INE202E07179	NCD	Oct 01, 2015	7.17	Oct 01, 2025	284.00	[ICRA]AA+ (Stable)
INE202E07187	NCD	Jan 21, 2016	7.28	Jan 21, 2026	108.90	[ICRA]AA+ (Stable)
INE202E07195	NCD	Jan 21, 2016	7.49	Jan 21, 2031	884.30	[ICRA]AA+ (Stable)
INE202E07203	NCD	Jan 21, 2016	7.43	Jan 21, 2036	36.40	[ICRA]AA+ (Stable)
INE202E07211	NCD	Jan 21, 2016	7.53	Jan 21, 2026	127.90	[ICRA]AA+ (Stable)
INE202E07229	NCD	Jan 21, 2016	7.74	Jan 21, 2031	483.50	[ICRA]AA+ (Stable)
INE202E07237	NCD	Jan 21, 2016	7.68	Jan 21, 2036	75.00	[ICRA]AA+ (Stable)
Unallocated previous years' bonds programme	NA	NA	NA	NA	1300.00	[ICRA]AA+ (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)
Unallocated*	NA	NA	NA	NA	2360.00	[ICRA]AAA (Stable)

Source: IREDA; *Gov fully-serviced bonds

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