July 05, 2022

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Previous year bonds programme	2,806	2,806	[ICRA]AA+ (Positive); reaffirmed and outlook revised to Positive from Stable
Previous year bonds programme^	6,194	0	[ICRA]AA+ (Positive); reaffirmed and withdrawn; outlook revised to Positive from Stable
GoI fully-serviced bonds	4,000	4,000	[ICRA]AAA (Stable); reaffirmed
Perpetual bonds	500	500	[ICRA]AA (Positive); reaffirmed and outlook revised to Positive from Stable
Subordinated debt Tier-II bonds	500	500	[ICRA]AA+ (Positive); reaffirmed and outlook revised to Positive from Stable
Fund-based term loans^	4,000	0	[ICRA]AA+ (Positive); reaffirmed and withdrawn; outlook revised to Positive from Stable
Perpetual bonds	0	1,000	[ICRA]AA (Positive); assigned
Subordinated debt Tier-II bonds	0	500	[ICRA]AA+ (Positive); assigned
Long-term bonds programme FY2023	0	14,900	[ICRA]AA+ (Positive); assigned
Total	**18,000**	**24,206**	

**Instrument details are provided in Annexure I*

^The withdrawal is at the request of the company since the rated instruments were unutilised

Rationale

The revision in the rating outlook factors in the improvement in Indian Renewable Energy Development Agency Limited's (IREDA) credit profile with increased business volumes, moderation in the asset quality indicators supported by lower slippages and recoveries from stressed accounts over the past two years and the expectation of further improvement, and the consequent improvement in the earnings profile on a sustained basis. Further, ICRA takes note of the improvement in the solvency and capitalisation profile supported by the latest capital infusion of Rs. 1,500 crore by the GoI in March 2022. The equity infusion would also improve IREDA's competitive positioning further, in terms of being able to take higher exposures, and hence support its growth going forward. Moreover, it will provide adequate cushion to act as a key mitigant against portfolio vulnerability.

The ratings factor in IREDA's sovereign ownership (100% held by the Government of India - GoI), its strategic importance as the nodal agency for the promotion and implementation of Government policies and initiatives in the renewable energy (RE) sector, and its presence in the RE space. The ratings also consider IREDA's strong liquidity position, supported by a large proportion of significantly long-term borrowings that is commensurate 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 ratings also factor in the high portfolio vulnerability, given the wholesale nature of the exposures, which keeps the concentration risk high for the company. The top 20 borrowers accounted for 296% of the net worth as on March 31, 2022 (352% as on March 31, 2021). ICRA also notes that by virtue of its mandate, IREDA would continue to have sectoral concentration with the portfolio largely comprising RE exposures, though it is well diversified across sectors such as wind, solar, biomass, cogeneration and small hydro.

Going forward, IREDA's ability to recover from stressed assets, control slippages on vulnerable assets and grow the loan book profitably would be the key rating sensitivity. ICRA believes IREDA will remain important to the GoI and will play a major role

in various GoI renewable sector schemes, especially considering the increased importance of RE in the overall global landscape. A 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 change.

The rating for the GoI fully-serviced bonds factors in the GoI'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 on 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 (MNRE).

The one notch lower rating assigned to IREDA's perpetual debt programme compared to the [ICRA]AA+ rating for the other long-term debt programmes reflects the specific features of these instruments wherein debt servicing is additionally linked to meeting the regulatory norms on capitalisation and reported profitability. The domestic regulatory norms for hybrid debt capital instruments include regulatory approvals from the Reserve Bank of India (RBI) for debt servicing (including principal repayments) in case the company reports a loss and is not liable to service the debt if it breaches the minimum regulatory capitalisation norms.

Key rating drivers and their description

Credit strengths

Sovereign ownership and strategic importance to GoI – IREDA is a 100% GoI-owned entity and is of strategic importance to the GoI for the promotion and development of the RE sector in India. Thus, the ratings factor in the support from the GoI, which was recently demonstrated by the equity infusion of Rs. 1,500 crore in March 2022. IREDA is the nodal agency for routing the GoI'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) Refinance Scheme to refinance biomass (up to 10 MW) and small hydro (up to 5 MW) projects. Apart from this, the GoI has provided guarantees for IREDA's borrowings from multilateral and bilateral agencies (~28% of the total borrowings as on March 31, 2022). ICRA believes IREDA will remain important to the GoI and will play a major role in various GoI renewable sector schemes. A 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.

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 international and domestic markets. The average cost of funds stood at 6.1% in FY2022 compared to 6.7% in FY2021, supported by the softening of the systemic interest rates. It has a well-diversified borrowing profile with access to funding via tax-free bonds (10%), taxable bonds (19%), bank/financial institution (FI) loans (26%), masala bonds (7%) and foreign currency loans (38%) as on March 31, 2022. The foreign currency debt is from multilateral agencies like 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, ~28% of the total borrowings were guaranteed by the GoI as on March 31, 2022.

Going forward, ICRA believes that IREDA will continue to have good financial flexibility and will 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. Liquidity is also supported by unencumbered cash and bank balances of Rs. 135 crore and unutilised sanctioned lines of credit of Rs. 8,975 crore as on March 31, 2022 from foreign and domestic lenders. 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 22% in FY2022 to Rs. 33,931 crore as on March 31, 2022. This was due to the high disbursements of Rs. 16,071 crore during this period, driven by higher disbursements of short-tenure loans {primarily to state distribution companies (discoms)}. The loan book consists of projects in segments like solar (25% of the loan as on March 31, 2022), wind (18%), small hydro (12%), cogeneration & EEC (3%), biomass & waste-to-energy (2%) and others (40%). Despite improving, the company's reported asset quality indicators remain modest. The gross and net stage 3% declined to 5.2% and 3.2%, respectively, as on March 31, 2022 from 8.8% and 5.6%, respectively, as on March 31, 2021, supported by limited slippages and recoveries from some loan accounts and the portfolio growth in FY2022. ICRA takes note of the improvement in the solvency to 19.7% as on March 31, 2022 from 50.4% as on March 31, 2021 owing to the capital infusion in March 2022 and good internal capital generation in FY2022.

Nevertheless, portfolio vulnerability remains high, given the sizeable share of stage 2 assets (7.9% as on March 31, 2022 compared to 5.9% on March 31, 2021), primarily comprising standard restructured assets (Rs. 850 crore as on March 31, 2022), and exposure to stressed groups as well as projects where Andhra Pradesh (AP) discoms are the offtakers (Rs. 919-crore assets wherein dispensation was taken for non-classification as stage 3 despite overdues above 90 days). The vulnerability is also augmented by the wholesale nature of the loans and hence the high concentration, which exposes the company to the risk of lumpy slippages in asset quality. The top 20 borrowers accounted for 296% of the net worth as on March 31, 2022 (352% as on March 31, 2021). Overall, IREDA's ability to recover from the stressed assets and profitably grow the loan book to improve the solvency indicators would be a key monitorable.

Modest capitalisation indicators, though supported by equity infusion by GoI – In line with expectations, IREDA's capitalisation profile improved in FY2022 with a gearing of 5.2 times as on March 31, 2022 compared to 8.0 times as on March 31, 2021, supported by the equity infusion of Rs. 1,500 crore by the GoI in March 2022 (first time since being conferred Mini Ratna (Category-I) status in June 2015). The increased net worth of Rs. 5,268 crore as on March 31, 2022 (Rs. 2,995 crore on March 31, 2021) would also improve IREDA's competitive positioning in terms of being able to take higher exposures and hence support its growth going forward.

The reported capital adequacy remained adequate with a capital-to-risk weighted assets ratio (CRAR) of 21.2% (Tier I – 17.6%) as on March 31, 2022, above the minimum regulatory requirement of 15% (Tier I – 10%). Nonetheless, the overall capitalisation profile remains modest and IREDA would need external capital for growth, given its growth plans. In this regard, ICRA notes that IREDA has plans for an initial public offering (IPO) in the current fiscal and the timely execution of the same would be a key monitorable.

Moderate, albeit improving, profitability indicators – The commensurate decline in the average cost of funds compared to the decline in the average yield on loans resulted in stable net interest margins (NIMs) for IREDA in FY2022. The NIMs have remained range-bound (2.9-3.3%) over the past four years. The overall profitability indicators improved with the return on assets (RoA) and the return on equity (RoE) increasing to 1.8% and 15.3%, respectively, in FY2022 from 1.2% and 12.6%, respectively, in FY2021. The improvement was driven by stable NIMs and lower credit costs (0.5% of average assets in FY2022 compared to 1.0% in FY2021), due to limited slippages and recoveries from some delinquent accounts, despite the modest increase in the operating expenses (0.7% of average assets in FY2022 compared to 0.4% in FY2021). With higher business volumes, the profitability indicators are expected to witness some improvement over the medium term, provided the company is able to control incremental slippages. Overall, IREDA's ability to sustain the profitability metrics would be imperative for maintaining its credit profile.

Liquidity position: Strong

IREDA's liquidity profile is strong as a large proportion of its borrowings from multilateral agencies is very long term in nature with the tenures going up to 40 years. The company has no negative cumulative mismatches across almost all maturity buckets. As on March 31, 2022, it had free cash and bank balances of Rs. 135 crore and unutilised sanctioned lines of Rs. 8,975 crore

from domestic and foreign banks, which provide support to the liquidity profile. As on March 31, 2022, IREDA expects inflows from advances of Rs. 6,191 crore in the next 12 months against debt repayments of Rs. 6,628 crore during this period.

Rating sensitivities

Positive factors – An improvement in the 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 ratings.

Negative factors – A significant dilution in the GoI's stake or a decline in the strategic importance of IREDA in the GoI's initiatives for the promotion of the RE sector in the country may warrant a change in the ratings. Further pressure on the asset quality, leading to a deterioration in the solvency level to more than 50%, along with the inability to maintain a 1% buffer in the Tier I capital over the regulatory requirement on a sustained basis would be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies Rating Approach - Implicit Parent or Group Support Policy on Withdrawal of Credit Ratings
Parent/Group support	The ratings derive strength from IREDA's 100% ownership by the GoI and its important role as a nodal agency for various RE sector schemes of the Government. The GoI'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 GoI and has been notified as a public financial institution and registered as a non-banking financial 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 GoI and five independent directors. The company was also conferred Mini Ratna (Category-I) status in June 2015 by the Department of Public Enterprises.

In FY2022, IREDA reported a profit after tax (PAT) of Rs. 634 crore on a gross asset base of Rs. 37,447 crore against a PAT of Rs. 346 crore on a gross asset base of Rs. 31,228 crore in FY2021. As on March 31, 2022, the company reported a CRAR of 21.22% (Tier I – 17.60%) and its gross and net non-performing advances (NPA%) stood at 5.2% and 3.2%, respectively.

Key financial indicators

IREDA	FY2020	FY2021	FY2022
	Audited	Audited	Audited
Total income	2,329	2,545	2,828
Profit after tax	215	346	634
Net worth	2,521	2,995	5,268
Loan book	23,548	27,854	33,913
Total assets^	28,389	31,228	37,447
CRAR	14.3%	17.1%	21.2%
Gearing (times)*	8.7	8.0	5.2
Return on assets	0.8%	1.2%	1.8%
Return on net worth	8.4%	12.6%	15.3%
Gross NPAs	10.1%	8.8%	5.2%
Net NPAs	7.2%	5.6%	3.2%
Net NPA/Net worth	64.9%	50.4%	19.7%

*Source: IREDA, ICRA Research; All ratios as per ICRA's calculations; ^Gross assets (including provisions); *Excluding GoI-fully serviced bonds*
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					July 05, 2022	Sep 15, 2021	Feb 15, 2021	Nov 25, 2019
1	Previous years' bond programme	Long term	2,806	2,806	[ICRA]AA+ (Positive)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Negative)
2	Previous years' bond programme*	Long term	6,194	0	[ICRA]AA+ (Positive); Withdrawn	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Negative)
3	GoI fully-serviced bonds	Long term	4,000	1,640	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	Long-term bond programme for FY2023	Long term	14,900	0	[ICRA]AA+ (Positive)	-	-	-
5	Perpetual bonds	Long term	500	0	[ICRA]AA (Positive)	[ICRA]AA (Stable)	-	-
6	Perpetual bonds	Long term	1,000	0	[ICRA]AA (Positive)	-	-	-
7	Subordinated debt – Tier-II bonds	Long term	500	0	[ICRA]AA+ (Positive)	[ICRA]AA+ (Stable)	-	-
8	Subordinated debt – Tier-II bonds	Long term	500	0	[ICRA]AA+ (Positive)	-	-	-
9	Fund-based bank lines*	Long term	4,000	0	[ICRA]AA+ (Positive); Withdrawn	[ICRA]AA+ (Stable)	-	-

**Withdrawn*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Previous years' bond programme	Very Simple
GoI fully-serviced bonds	Very Simple
Long-term bond programme for FY2023	Very Simple
Perpetual bonds	Moderately Complex
Subordinated debt – Tier-II bonds	Moderately Complex
Fund-based bank lines	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details as on March 31, 2022

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+ (Positive)
INE202E07252	NCD	Mar 29, 2017	8.05	Mar 29, 2027	500.00	[ICRA]AA+ (Positive)
INE202E07179	NCD	Oct 01, 2015	7.17	Oct 01, 2025	284.00	[ICRA]AA+ (Positive)
INE202E07187	NCD	Jan 21, 2016	7.28	Jan 21, 2026	108.90	[ICRA]AA+ (Positive)
INE202E07195	NCD	Jan 21, 2016	7.49	Jan 21, 2031	884.30	[ICRA]AA+ (Positive)
INE202E07203	NCD	Jan 21, 2016	7.43	Jan 21, 2036	36.40	[ICRA]AA+ (Positive)
INE202E07211	NCD	Jan 21, 2016	7.53	Jan 21, 2026	127.90	[ICRA]AA+ (Positive)
INE202E07229	NCD	Jan 21, 2016	7.74	Jan 21, 2031	483.50	[ICRA]AA+ (Positive)
INE202E07237	NCD	Jan 21, 2016	7.68	Jan 21, 2036	75.00	[ICRA]AA+ (Positive)
INE202E08078	NCD	Mar 2, 2022	5.98	Apr 16, 2022	106.00	[ICRA]AA+ (Positive)
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)
NA	Unallocated GoI FSB	NA	NA	NA	2,360.00	[ICRA]AAA (Stable)
NA	Perpetual bonds^	NA	NA	NA	500.00	[ICRA]AA (Positive)
NA	Subordinated debt – Tier-II bonds^	NA	NA	NA	500.00	[ICRA]AA+ (Positive)
NA	Long -term bonds programme FY2023^	NA	NA	NA	14,900.00	[ICRA]AA+ (Positive)
NA	Perpetual bonds^	NA	NA	NA	1,000.00	[ICRA]AA (Positive)
NA	Subordinated debt – Tier-II bonds^	NA	NA	NA	500.00	[ICRA]AA+ (Positive)
NA	Previous years bond programme#	NA	NA	NA	6,194.00	[ICRA]AA+ (Positive); withdrawn
NA	Fund-based bank lines#	NA	NA	NA	4,000.00	[ICRA]AA+ (Positive); withdrawn

*Source: IREDA; *GoI fully-serviced bonds; ^Yet to be placed; #Withdrawn*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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