June 12, 2023

Indian Renewable Energy Development Agency Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bonds programme FY2024	0	21,500	[ICRA]AAA (Stable); assigned
Subordinated debt Tier-II bonds	0	2,000	[ICRA]AAA (Stable); assigned
Perpetual bonds	0	500	[ICRA]AA+ (Stable); assigned
Commercial paper	0	2,000	[ICRA]A1+; assigned
Long-term bonds programme FY2023	14,900	14,900	[ICRA]AAA (Stable); reaffirmed
Previous years bonds programme	2,806	2,806	[ICRA]AAA (Stable); reaffirmed
GoI fully-serviced bonds	4,000	4,000	[ICRA]AAA (Stable); reaffirmed
Perpetual bonds	1,500	1,500	[ICRA]AA+ (Stable); reaffirmed
Subordinated debt Tier-II bonds	1,000	1,000	[ICRA]AAA (Stable); reaffirmed
Total	**24,206**	**50,206**	

**Instrument details are provided in Annexure I*

Rationale

The ratings continue to draw significant strength from Indian Renewable Energy Development Agency Limited's (IREDA) sovereign ownership {fully 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 factor in IREDA's increased business volumes, improved capitalisation supported by the capital infusion by the GoI in March 2022, and the improvement in the asset quality indicators and solvency profile, supported by lower slippages and recoveries from stressed accounts over the past few years. 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.

Notwithstanding the improvement in the reported asset quality indicators, IREDA's portfolio vulnerability remains moderate, given the wholesale nature of the exposures, which keeps the concentration risk high for the company. The top 20 borrowers accounted for 315% of the net worth as on March 31, 2023 (284% as on March 31, 2022). Further, 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. Also, as on March 31, 2023, 1.9% of IREDA's total loan book consisted of projects which have not been classified as stage 3 despite overdues of more than 90 days due to judicial dispensation. However, the provision cover of 53% against these assets provides comfort.

As for capitalisation, IREDA's external capital requirement remains high, given its significant growth plans. In this regard, ICRA notes that IREDA is planning an initial public offering (IPO) in FY2024 and the timely conclusion of the same would be a key monitorable. Going forward, the company's ability to recover from stressed assets, control slippages on vulnerable assets and grow the loan book profitably would be the key rating monitorable.

The rating for the GoI fully-serviced bonds factors in the GoI's obligation towards the captioned debt programme as per the office memorandums (OMs) 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]AAA 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 for 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 fully owned by the GoI and is of strategic importance to the GoI for the promotion and development of the RE sector in India. The ratings factor in the support from the GoI, which was last 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 (~19% of the total borrowings as on March 31, 2023).

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 change in IREDA's strategic importance to the GoI 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 – Given its sovereign ownership, IREDA has been able to raise funds at competitive costs, both in international and domestic markets. The average cost of funds remained stable at 6.1% in FY2023 (6.1% in FY2022) due to the base effect from the increase in business volumes. However, some uptick in the cost of funds can be expected in the near term. Nonetheless, IREDA has a well-diversified borrowing profile with access to funding via tax-free bonds (7%), taxable bonds (21%), bank/financial institution (FI) loans (47%) and foreign currency loans (26%) as on March 31, 2023. Foreign currency debt is from multilateral agencies like Japan International Cooperation Agency (JICA), Kreditanstalt fur Wiederaufbau (KfW), the Asian Development Bank (ADB), the World Bank, the European Investment Bank (EIB), the Nordic Investment Bank (NIB), etc., with a fairly long tenure (tenor of 10-40 years), which augurs well for IREDA's liquidity profile. Also, ~19% of the total borrowings was guaranteed by the GoI as on March 31, 2023.

Going forward, ICRA believes that IREDA will continue to have good financial flexibility and will be able to mobilise funds at competitive rates. The liquidity profile is strong, supported by the longer-tenure borrowings from multilateral agencies, which match well with the tenure of its advances, further supported by the on-book liquidity and unutilised sanctioned bank lines. Given its good financial flexibility, ICRA expects IREDA's liquidity to remain comfortable going forward as well.

Increase in business volumes and improvement in asset quality – IREDA's portfolio grew by 39% to Rs. 47,076 crore as on March 31, 2023 from Rs. 33,931 crore on March 31, 2022, supported by the growth across the RE segments. While the loan book growth in FY2022 was driven by higher disbursements of short-tenure loans {primarily to state distribution companies (discoms)}, the growth in FY2023 was driven by RE projects. The loan book consists of projects in segments like solar (33% of the loan book as on March 31, 2023), wind (22%), small hydro (12%), cogeneration, biomass, waste-to-energy & energy efficiency (6%) and others (27%).

In line with expectations, IREDA's asset quality indicators continued to improve in FY2023. The gross and net stage 3% declined to 3.2% and 1.7%, respectively, as on March 31, 2023 from 5.2% and 3.2%, respectively, as on March 31, 2022 supported by limited slippages, recoveries from some loan accounts and portfolio growth. ICRA takes note of the improvement in the solvency to 12.9% as on March 31, 2023 from 19.7% as on March 31, 2022 (50.4% as on March 31, 2021) owing to lower net stage 3 and better capital levels.

Adequate earnings profile – The net interest margins (NIMs) have remained range-bound (2.9-3.4%) over the past four years with a downward bias in FY2023 due to the base effect growth in the book size, especially in Q4 FY2023. The non-interest income also declined during this period. However, lower operating expenses (base effect) and the decline in credit costs due to limited slippages and some recoveries led to IREDA reporting an improvement in its profitability indicators with the return on assets (RoA) and the return on equity (RoE) increasing to 2.0% and 15.4%, respectively, in FY2023 from 1.8% and 15.3%, respectively, in FY2022. 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.

Credit challenges

Modest capitalisation indicators; need for external capital remains high – The capital infusion in FY2022 and good internal accruals resulted in an increase in the net worth to Rs. 5,935 crore as on March 31, 2023 from Rs. 2,995 crore on March 31, 2021. This has improved IREDA's competitive positioning, in terms of being able to take higher exposures, thereby supporting its book growth. The higher business volumes in FY2023 resulted in a moderation in the capitalisation profile with the gearing increasing to 6.8 times as on March 31, 2023 from 5.2 times on March 31, 2022. The reported capital adequacy remained adequate with a capital-to-risk weighted assets ratio (CRAR) of 18.8% (Tier I – 15.7%) as on March 31, 2023, 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 plans. In this regard, ICRA notes that IREDA plans to launch an IPO in FY2024 and the timely execution of the same would be a key monitorable.

Moderate portfolio vulnerability – While the incremental disbursements in FY2023 were towards projects/borrowers with relatively stronger credit profiles, thereby improving the average credit profile of the customers, portfolio vulnerability remains moderate. This is due to the sizeable, albeit declining, share of stage 2 assets (3.4% as on March 31, 2023 compared to 7.9% on March 31, 2022) and the exposure to stressed groups as well as projects where Andhra Pradesh (AP) discoms are the offtakers (Rs. 893 crore assets wherein dispensation was taken for non-classification as stage 3 despite overdues of more than 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 the asset quality. The top 20 borrowers accounted for 315% of the net worth as on March 31, 2023 (284% as on March 31, 2022). Overall, IREDA's ability to recover from the stressed assets and grow the loan book profitably to improve the solvency indicators would be a key monitorable.

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 the maturity buckets. It had a cash and bank balance of Rs. 955 crore as on March 31, 2023 and unutilised sanctioned lines of Rs. 7,391 crore from domestic and foreign banks as on May 31, 2023, providing support to the liquidity profile. As on March 31, 2023, the company expects inflows from advances of Rs. 4,039 crore against debt repayments of Rs. 3,739 crore in the next six months. Given its good financial flexibility, ICRA expects IREDA's liquidity position to remain comfortable going forward as well.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A significant change in the strategic importance of IREDA in the GoI's initiatives for the promotion of the RE sector in the country and/or a significant decline in the GoI's shareholding may warrant a change in the ratings. Deterioration in the solvency level (Net stage 3/Tier I capital), to more than 40% on a sustained basis, will be a negative for the credit profile.

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](#)
Parent/Group support	The ratings derive strength from the GoI's full ownership of the company and IREDA's 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 is 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, and five independent directors. The company was also conferred Mini Ratna (Category-I) status in June 2015 by the Department of Public Enterprises.

In FY2023, IREDA reported a profit after tax (PAT) of Rs. 865 crore on total income of Rs. 3,483 crore against Rs. 634 crore and Rs. 2,874 crore, respectively, in FY2022. As on March 31, 2023, the company reported a CRAR of 18.8% and its gross and net NPA% stood at 3.2% and 1.7%, respectively.

Key financial indicators

IREDA	FY2020	FY2021	FY2022	FY2023
	Audited	Audited	Audited	Audited
Total income	2,329	2,545	2,828	3,459
Profit after tax	215	346	634	865
Net worth	2,521	2,995	5,268	5,935
Loan book	23,548	27,854	33,913	46,982
Total assets^	28,389	31,228	37,447	51,202
CRAR	14.3%	17.1%	21.2%	18.8%
Gearing (times)*	8.7	8.0	5.2	6.8
Return on assets	0.8%	1.2%	1.8%	2.0%
Return on net worth	8.4%	12.6%	15.3%	15.4%
Gross stage 3	10.1%	8.8%	5.2%	3.2%
Net stage 3	7.2%	5.6%	3.2%	1.7%
Net stage 3/Net worth	64.9%	50.4%	19.7%	12.9%

*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 (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
					Jun 12, 2023	Mar 06, 2023	Jul 05, 2022	Sep 15, 2021	Feb 15, 2021
1	Previous years' bond programme	Long term	2,806	2,806	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Positive)	[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)	[ICRA]AAA (Stable)
3	Long-term bond programme for FY2023	Long term	14,900	3,863	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Positive)	-	-
4	Perpetual bonds	Long term	1,500	0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	-
5	Subordinated debt – Tier-II bonds	Long term	1,000	0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Positive)	[ICRA]AA+ (Stable)	-
6	Bonds programme FY2024	Long term	21,500	0	[ICRA]AAA (Stable)	-	-	-	-
7	Subordinated debt Tier-II bonds	Long term	2,000	0	[ICRA]AAA (Stable)	-	-	-	-
8	Perpetual bonds	Long term	500	0	[ICRA]AA+ (Stable)	-	-	-	-
9	Commercial paper	Short term	2,000	0	[ICRA]A1+ (Stable)	-	-	-	-
10	Fund-based bank lines*	Long term	-	-	-	-	[ICRA]AA+ (Positive)	[ICRA]AA+ (Stable)	-

**Withdrawn*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Previous years' bond programme	Simple
GoI fully-serviced bonds	Simple
Long-term bond programme for FY2023	Simple
Perpetual bonds	Moderately Complex
Subordinated debt – Tier-II bonds	Simple
Commercial paper	Very 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: Click Here

Annexure I: Instrument details as on March 31, 2023

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]AAA (Stable)
INE202E07252	**NCD**	Mar 29, 2017	8.05	Mar 29, 2027	500.00	[ICRA]AAA (Stable)
INE202E07179	**NCD**	Oct 01, 2015	7.17	Oct 01, 2025	284.00	[ICRA]AAA (Stable)
INE202E07187	**NCD**	Jan 21, 2016	7.28	Jan 21, 2026	108.90	[ICRA]AAA (Stable)
INE202E07195	**NCD**	Jan 21, 2016	7.49	Jan 21, 2031	884.30	[ICRA]AAA (Stable)
INE202E07203	**NCD**	Jan 21, 2016	7.43	Jan 21, 2036	36.40	[ICRA]AAA (Stable)
INE202E07211	**NCD**	Jan 21, 2016	7.53	Jan 21, 2026	127.90	[ICRA]AAA (Stable)
INE202E07229	**NCD**	Jan 21, 2016	7.74	Jan 21, 2031	483.50	[ICRA]AAA (Stable)
INE202E07237	**NCD**	Jan 21, 2016	7.68	Jan 21, 2036	75.00	[ICRA]AAA (Stable)
INE202E08078	**NCD**	Mar 2, 2022	5.98	Apr 16, 2025	106.00	[ICRA]AAA (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)
INE202E08086	**NCD**	Aug 02, 2022	7.46	Aug 12, 2025	648.00	[ICRA]AAA (Stable)
INE202E08094	**NCD**	Sep 27, 2022	7.85	Oct 12, 2032	1,200.00	[ICRA]AAA (Stable)
INE202E08102	**NCD**	Dec 07, 2022	7.79	Dec 07, 2032	515.00	[ICRA]AAA (Stable)
INE202E08110	**NCD**	Jan 27, 2023	7.94	Jan 27, 2033	1,500.00	[ICRA]AAA (Stable)
NA^	**Bonds programme FY2024**	NA	NA	NA	21,500	[ICRA]AAA (Stable)
NA^	**Perpetual bonds**	NA	NA	NA	500	[ICRA]AA+ (Stable)
NA^	**Subordinated debt – Tier-II bonds**	NA	NA	NA	2,000	[ICRA]AAA (Stable)
NA^	**Commercial paper**	NA	NA	NA	2,000	[ICRA]A1+
NA^	**Unallocated GoI FSB**	NA	NA	NA	2,360.00	[ICRA]AAA (Stable)
NA^	**Long-term bonds programme FY2023**	NA	NA	NA	11,037.00	[ICRA]AAA (Stable)
NA^	**Perpetual bonds**	NA	NA	NA	1,500.00	[ICRA]AA+ (Stable)
NA^	**Subordinated debt – Tier-II bonds**	NA	NA	NA	1,000.00	[ICRA]AAA (Stable)

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

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

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