

Indian Renewable Energy Development Agency Limited

	Amount (Rs. Crore)	Rating September 2016
Long Term Taxable Bonds Programme	2,000	[ICRA]AA+ (Stable); Assigned

ICRA has assigned [ICRA]AA+ (pronounced ICRA double A plus) rating with 'Stable' outlook to the long-term taxable bonds programme of Indian Renewable Energy Development Agency Limited (IREDA)¹. ICRA also has an outstanding rating of [ICRA]AA+ (Stable) on Rs. 2000 crore long term tax free bonds programme of IREDA.

IREDA's rating are supported by its sovereign ownership (100% owned by Government of India or GoI) and its strategic importance for GoI given latter's strong focus on development of renewable energy (RE) sector. The strategic importance is reflected in IREDA being nodal agency for routing GoI's various subsidies and grants to the RE sector, infusion of Rs. 195 crore in the form of equity over FY12-FY15, allocation of Rs 300 crore (Rs. 100 crore in FY14 and Rs. 200 crore in FY15) to IREDA by GoI from National Clean Energy Fund for onlending to banks/FIs in RE sector, GoI guarantee for IREDA's borrowings from multilateral agencies (these borrowings accounted for around 52% of IREDA's total borrowings as on March 31, 2016) and providing access to low cost tax-free bonds (IREDA raised tax-free bonds of Rs 2,000 crore in FY16).

ICRA has taken note of the change in status of IREDA to Mini Ratna and hence it would no longer get equity support from GoI. Nevertheless, ICRA expects the support from GoI to continue given the importance of IREDA in the development of RE sector. IREDA's rating is also supported by its comfortable capitalisation profile (CRAR of 19.9% as on March 31, 2016), diversified funding profile, long tenure borrowings which leading to comfortable liquidity profile and moderate profitability profile.

The rating for IREDA is however constrained by it's single sector exposure, pressure on asset quality indicators (Gross NPAs of 5.7%/Net NPA of 4.1% as on March 2016 and standard rescheduled/restructured advances of around 4.5%), different restructuring/reschedule norms vs. banks/NBFCs and higher portfolio vulnerability arising in exposure to small hydro, cogeneration and biomass segment. Further, IREDA's ability to take large exposures to established players in renewable energy (RE) space may remain limited owing to its relatively small net worth (Rs. 2,296 crore as on March 2016) as compared with other large power sector lenders active in the RE spac. Further, given the nature of its business, concentration risk is likely to remain moderate for IREDA, until it reaches to significant level of total asset base.

IREDA's credit portfolio expanded at moderate pace of 16% CAGR during FY13-FY16; IREDA registered portfolio growth of 18% in FY16 on the back of increased disbursements in Solar Sector as well as IREDA entering into Short Term & Long Term refinance business. IREDA's capitalisation profile is comfortable for its current scale of operations as reflected in capital adequacy ratio of 19.9% and gearing (total debt/ net worth) of 4.4 times as on March 31,2016. However, IREDA would need to raise sizeable capital to maintain comfortable capitalisation in light of its high growth plans and moderate level of internal capital generation.

IREDA has reported moderate profitability profile as reflected in Return on Assets (PAT/Average Total Assets) of ~2.5% and PAT/ Average Net Worth of ~12-13% during FY16; IREDA's profitability is supported by adequate lending spreads (2.5-3%) and lower operating expenses. However, IREDA's credit cost which was about 0.3% of ATA in FY16, could witness pressure in light of net NPAs of 4.1% and vulnerability arising from exposure to small hydro, cogen, biomass and other activities. However, on an overall basis, supported by IREDA's adequate NIMs, IREDA is expected to maintain its moderate profitability profile. Overall ability of IREDA to grow business volumes while maintaining adequate profitability and asset quality would be key rating sensitivities.

About of Indian Renewable Energy Development Agency Ltd

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 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"

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



under section 4 'A' of the Companies Act, 1956 and registered as Non-Banking Finance Company with Reserve Bank of India (RBI). IREDA is wholly owned by GoI; Its Board of Directors comprised two executive directors, two government nominee from MNRE, GoI and one independent director.

As on March 2016, IREDA's loan book was Rs 10,387 crore which comprised loan to wind power projects (32% of loan book), small hydro (16%), cogen (13%), solar (21%), refinance (11%) and balance being biomass, energy efficiency and other activities.

During FY16, IREDA reported a PAT of Rs. 298.0 crore on an asset base of Rs.13,339 crore as against PAT of Rs. 271.9 crore on an asset base of Rs.10,778 crore for the previous financial year. As on March 31, 2016, the company reported CRAR of 19.9%. IREDA's Gross and net NPAs were 5.7% and 4.1% respectively as on March 2016.

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For further details please contact:

Analyst Contacts:

Mr. Rohit Inamdar (Tel. No. +91-124-4545847)
rohit.inamdar@icraindia.com

Manushree Saggur (+91-124-4545316)
manushrees@icraindia.com

Gaurav Khandelwal (+91-124-4545309)
gaurav.khandelwal@icraindia.com

Relationship Contacts:

Mr. L. Shivakumar, (Tel. No. +91 22 6114 3406)
shivakumar@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500