September 15, 2021

Indian Renewable Energy Development Agency Limited: [ICRA]AA+ (Stable) assigned and earlier ratings reaffirmed

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
GoI fully-serviced bonds	4,000	4,000	[ICRA]AAA (Stable); reaffirmed
Long-term bond programme for FY2022	0	5,000	[ICRA]AA+ (Stable); assigned
Perpetual bonds	0	500	[ICRA]AA (Stable); assigned
Subordinated debt - Tier-II bonds	0	500	[ICRA]AA+ (Stable); assigned
Fund-based bank lines	0	4,000	[ICRA]AA+ (Stable); assigned
Total	**8,000**	**18,000**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings factor in Indian Renewable Energy Development Agency Limited's (IREDA) sovereign ownership (100% by the Government of India - GoI), 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 IREDA'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 ratings also factor in the proposed equity infusion of Rs. 1,500 crore in IREDA in H2 FY2022 by the GoI as announced in the Union Budget for FY2022. This would support IREDA's current modest capitalisation (gearing of 8.0 times[1] as on March 31, 2021 and 7.3 times[1] as on June 30, 2021) and solvency profile, which have been under pressure owing to increased slippages in FY2020. However, lower fresh slippages and higher recoveries in FY2021 resulted in some improvement in the asset quality indicators as on March 31, 2021. The proposed equity infusion would also improve IREDA's competitive positioning 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 also take into consideration the heightened portfolio vulnerability arising from significant exposures to some of the stressed groups. Given the wholesale nature of the loans, the concentration risk remains high for the company, with the top 20 borrowers accounting for 338% of the net worth as on March 31, 2021 (339% as on March 31, 2020). The ratings further factor in IREDA's moderate profitability indicators (return on assets (RoA) of 1.2% in FY2021). ICRA notes that by virtue of its mandate, IREDA would continue to have sectoral concentration with the portfolio entirely consisting of 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 the stressed assets and the timely infusion of the proposed equity by the GoI would be the key rating sensitivities. Also, 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 change.

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[1] *Excluding GoI-fully serviced bonds*

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 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.

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 high likelihood of support from the GoI, which has been demonstrated by the proposed equity infusion of Rs. 1,500 crore into IREDA as announced in the Union Budget for FY2022. This amount is expected to be infused in H2 FY2022.

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 (~36% of the total borrowings as on June 30, 2021). 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 6.7% (excluding GoI fully-serviced bonds) in FY2021 compared to 7.1% in FY2021, supported by the softening of the systemic interest rates.

The company's total borrowings stood at Rs. 23,343 crore (Rs. 24,000 as on March 31, 2021 and growth of 10% in FY2021; excluding GoI fully-serviced bonds of Rs. 1,640 crore) as on June 30, 2021. It has a well-diversified borrowing profile with access to funding via tax-free bonds (12%), taxable bonds (22%), bank/financial institution (FI) loans (14%), masala bonds (8%) and foreign currency loans (44%) as on June 30, 2021. 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, ~36% of the total borrowings were guaranteed by the GoI as on June 30, 2021. 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. 388 crore and unutilised sanctioned lines of credit from foreign and domestic lenders of Rs. 8,338 crore as on July 31, 2021. 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 18% in FY2021 to Rs. 27,854 crore as on March 31, 2021 due to the high disbursements of Rs. 8,827 crore during the period. The loan book consists of projects in segments like solar (32% of the loan as on March 31, 2021), wind (21%), small hydro (10%), cogeneration & EEC (5%), biomass & waste-to-energy (2%) and others (29%). The portfolio declined marginally to Rs. 26,673 crore as on June 30, 2021 due to lower disbursements (Rs. 665 crore) and high prepayments in Q1 FY2022. The company's reported asset quality indicators remain elevated, though improving, with the gross non-performing advances (NPA) percentage decreasing to 8.8% as on March 31, 2021 from 10.1% as on March 31, 2020. This was supported by recoveries from some loan accounts and the portfolio growth (denominator effect). However, the absolute gross NPAs remained high at Rs. 2,442 crore as on March 31, 2021 compared to Rs. 2,373 crore as on March 31, 2020. Fresh slippages in FY2021 were higher in the wind (48%) and solar segments (30%). The gross NPAs declined to Rs. 2,163 crore as on June 30, 2021 supported by recoveries of Rs. 225 crore in Q1 FY2022.

The portfolio vulnerability is also heightened by the sizeable standard restructured assets (Rs. 869 crore as on March 31, 2021) and significant exposure to stressed groups as well as projects where Andhra Pradesh (AP) distribution companies (discoms) are the off-takers. Hence, the receivables have been delayed/or are at lower tariff rates (8.9% of the total portfolio where AP discoms are off-takers as on March 31, 2021). Overall, given the current issues in the renewable sector, particularly in AP, 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 IREDA with the top 20 borrowers accounting for 338% of the net worth as on March 31, 2021 (339% as on March 31, 2020). With a deterioration in the asset quality and moderate profitability, the solvency indicators had worsened significantly to 65.0% as on March 31, 2020 (30.2% as on March 31, 2019). However, the solvency improved to some extent to 50.4% as on March 31, 2021 owing to higher provisioning and higher internal capital generation. With the proposed equity infusion, IREDA's reported solvency indicator is likely to improve significantly provided it is able to control fresh slippages.

Modest capitalisation indicators; expected to improve post proposed equity infusion by GoI – IREDA's capitalisation profile remains modest with a gearing of 8.0 times as on March 31, 2021 (8.7 times as on March 31, 2020). As on June 30, 2021, the gearing stood at 7.3 times, largely due to the higher internal capital generation in Q1 FY2022 and the marginal portfolio degrowth. The modest capitalisation profile is the result of the 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 Mini Ratna (Category-I) status in June 2015. However, as a part of the Union Budget for FY2022, the GoI has proposed a Rs. 1,500-crore equity infusion in IREDA, which is expected to reduce the gearing to 5-6 times in the near term. This would support the company's capitalisation and solvency profile, which have been under pressure owing to elevated slippages. The equity infusion 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 CRAR of 18.2% (Tier I – 14.1%) as on June 30, 2021, above the minimum regulatory requirement of 13% (Tier I – 9%). In line with the RBI's circular of May 31, 2018, the company has to maintain a minimum CRAR of 13% (Tier I – 9%) as on March 31, 2021 and 15% (Tier I – 10%) as on March 31, 2022.

Moderate profitability indicators – The average yield on loans for IREDA remained range-bound (9.7% in FY2021) while the lending spread improved to 3.0% in FY2021 from 2.6% in FY2020. This was on account of the decline in the average cost of funds (excluding GoI fully-serviced bonds) to 6.7% from 7.1% due to the systemic decline in interest rates. While the operating expense in relation to average assets remained low at 0.4%, given the wholesale nature of the business, the net interest margin (NIM) increased to 3.3% in FY2021 from 2.9% in FY2020 due to the decline in the leverage and the higher spread. Moreover, the credit costs, as a percentage of average assets, were lower in FY2021 (1.0% compared to 1.9% in FY2020) due to lower slippages, which led to an improvement in the overall profitability indicators. The company reported an RoA and a return on equity (RoE) of 1.2% and 12.6%, respectively, in FY2021 compared to 0.8% and 8.4%, respectively, in FY2020. Given the proposed equity infusion and the large growth potential of the RE sector in terms of capacity addition, the profitability indicators are expected to witness some improvement over the medium term, provided the company is able to control incremental slippages.

Liquidity position: Strong

IREDA's liquidity profile is strong as a large proportion of its borrowings are very long term in nature with tenures going up to 40 years from multilateral agencies. The company has no negative cumulative mismatches across all maturity buckets as per the asset-liability statement as on June 30, 2021. As on July 31, 2021, IREDA had liquid cash and bank balances of Rs. 388 crore and unutilised sanctioned lines of credit of Rs. 8,338 crore from domestic and foreign lenders, which provide support to the liquidity profile. As on June 30, 2021, the company expects inflows from advances of Rs. 5,039 crore in the next 12 months against debt repayments of Rs. 1,598 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. Also, 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 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 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 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 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 FY2021, IREDA reported a profit after tax (PAT) of Rs. 346 crore on a gross asset base of Rs. 31,228 crore against a PAT of Rs. 215 crore on a gross asset base of Rs. 28,389 crore in FY2020. As on March 31, 2021, the company reported a CRAR of 17.1% (Tier I - 12.9%) and its gross and net NPA% stood at 8.8% and 5.6%, respectively.

In Q1 FY2022, IREDA reported a PAT of Rs. 215 crore on a gross asset base of Rs. 30,773 crore (based on provisional financials). The GNPA% and NNPA% stood at 8.1% and 4.8%, respectively, with a gearing of 7.3 times and a CRAR of 18.2% (Tier I – 14.1%) as on June 30, 2021.

Key financial indicators

IREDA	FY2020	FY2021	Q1 FY2022
	Audited	Audited	Provisional
Total income (Rs. crore)	2,329	2,545	684
Profit after tax (Rs. crore)	215	346	215
Net worth (Rs. crore)	2,521	2,995	3,189
Loan Book (Rs. crore)	23,548	27,854	26,673
Total assets^ (Rs. crore)	28,389	31,228	30,773
CRAR (%)	14.3%	17.1%	18.2%
Gearing (times)*	8.7	8.0	7.3
Return on assets (%)	0.8%	1.2%	2.8%
Return on net worth (%)	8.4%	12.6%	27.8%
Gross NPAs (%)	10.1%	8.8%	8.1%
Net NPAs (%)	7.2%	5.6%	4.8%
Net NPA/Net worth (%)	64.9%	50.4%	38.5%

Source: *IREDA, ICRA Research; All ratios as per ICRA calculations; ^Gross assets (including provisions); *Excluding GoI-fully serviced bonds*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 15, 2021	Feb 15, 2021	Nov 25, 2019	Oct 29, 2018
1	Previous years' bond programme	Long term	4,000	2,700	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Negative)	[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)
3	Long-term bond programme for FY2022	Long term	5,000	0	[ICRA]AA+ (Stable)	-	-	-
4	Perpetual bonds	Long term	500	0	[ICRA]AA (Stable)	-	-	-
5	Subordinated debt – Tier-II bonds	Long term	500	0	[ICRA]AA+ (Stable)	-	-	-
6	Fund-based bank lines	Long term	4,000	0	[ICRA]AA+ (Stable)	-	-	-

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 FY2022	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

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)
NA	Unallocated previous years' bonds programme	NA	NA	NA	1,300.00	[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)
NA	Unallocated GoI FSB	NA	NA	NA	2,360.00	[ICRA]AAA (Stable)
NA	Long-term bond programme for FY2022^	NA	NA	NA	5,000.00	[ICRA]AA+ (Stable)
NA	Perpetual bonds^	NA	NA	NA	500.00	[ICRA]AA (Stable)
NA	Subordinated debt – Tier-II bonds^	NA	NA	NA	500.00	[ICRA]AA+ (Stable)
NA	Fund-based bank lines^	NA	NA	NA	4,000.00	[ICRA]AA+ (Stable)

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

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

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