



IPO note

**Indian Renewable Energy Development Agency Limited -
"SUBSCRIBE"**

Indian Renewable Energy Development Agency Limited (IREDA) is a wholly owned Government of India ("GoI") enterprise under the administrative control of the Ministry of New and Renewable Energy (the "MNRE"). The Company was notified as a "Public Financial Institution" ("PFI") under Section 4A of the Companies Act, 1956 by the Department of Company Affairs, Ministry of Law, Justice and Company Affairs, Government of India on October 17, 1995 and is registered with the Reserve Bank of India (the "RBI") as a Systemically Important Non-Deposit-taking Non-Banking Finance Company (a "NBFC-ND-SI"), with Infrastructure Finance Company ("IFC") status. In September 2023, the Company has been upgraded from Schedule B to Schedule A in the list of CPSEs by the Department of Public Enterprises ("DPE"). The Company is also conferred with the Mini Ratna (Category I) status in June 2015 by the (DPE).

IREDA is a financial institution with over 36 years of experience in the business of promoting, developing and extending financial assistance for new and renewable energy ("RE") projects, and energy efficiency and conservation ("EEC") projects. IREDA provides a comprehensive range of financial products and related services, from project conceptualisation to post-commissioning, for RE projects and other value chain activities, such as equipment manufacturing and transmission.

IREDA is the largest pure-play green financing NBFC in India with the largest share in credit towards the RE sector other than PFC, providing comprehensive suite of financial products and related services for RE Sector with loan assets of Rs. 47,514.5 Crore as of September, 2023 with Solar Energy having the highest (30%) share of the asset book. Other major sectors include Loan facility to state utilities (19.2%), Wind Power (20.9%), Hydro Power (11.5%), Manufacturing (4.8%), Ethanol (3.2%), Biomass Power and Cogeneration (2.4%), Hybrid Wind and Solar (2.1%), Electric Vehicle (1.0%), Transmission (0.9%) and Others (4.0%). The company has 93.41% secured loan portfolio and 77.75% of portfolio is for projects which are already commissioned as on September, 2023. 62% of the company's outstanding borrowing are fixed rate as on September 30, 2023. The company has financed project across India with Rajasthan (15.5%) being the top state, followed by Karnataka (13.81%) and Andhra Pradesh (13.66%).

The Company's appraisal process assesses key parameters spanning sponsor support, borrower creditworthiness and history, technological specifications/performance of the project, working capital funding arrangement, offtake agreement, and other statutory compliances, among others and each loan proposal under consideration is graded using their proprietary Credit Risk Rating System ("CRRS"), which captures seven types of risks as of September 30, 2023, and multiple risks including permitting risk, execution risk, generation risk, operating risk, off-taker risk, sponsor risk, and project funding and financial risk for comprehensive risk assessment. The applicable interest rate is finalized for a project based on the risk grade assigned by CRRS.

The post-disbursement monitoring mechanism is structured to proactively set off potential default triggers based on regular review of key parameters including balance/transaction review for trust and retention accounts and debt service reserve accounts, plant load factor of projects, validity/coverage of insurance for projects, compliance with security coverage, and any significant changes in the guarantor's net worth. In addition to the multiple levels of checks as part of the appraisal process before sanctioning, site visits are undertaken by company's officers and a lender's independent engineer, who is appointed by the company, to assess on-ground project progress at various stages of implementation of the project.

Investment Rationale and Recommendation:

At the upper price band of Rs. 32 the company is valued at the P/BV multiple of 1.09x at its H1FY24 post IPO book value per equity share of Rs. 29.28 which is at a discount to the other listed peer power finance NBFC having an average P/BV multiple of ~1.3x. We recommend investors to "SUBSCRIBE" to the issue because of the following reasons:

- a) **Company's position as the largest pure-play green financing NBFC in India places them among select players who are well placed to capitalize on the rapid growth in the RE sector as the government**

Type of Issue	Fresh Issue: Up to 40,31,64,706 equity shares (Rs. 1,290.13 Crore at upper price band) Offer for Sale: Up to 26,87,76,471 equity shares (Rs 860.08 Crore at the upper end of the price band)
Issue size	Rs. 2,150.21 Cr. at the upper end of the price band
IPO date	Nov. 21, 2023 - Nov. 23, 2023
Price Band	Rs.30 - Rs.32 (Face Value Rs 10)
Employee Reservation	18,75,420 Equity shares
Bid lot	460 equity shares and in multiples thereon
Issue structure	QIB: 50%, NIB: 15%, Retail: 35%
Post issue equity shares	2,68,77,64,706
Promoters and Promoter Group Public	Pre IPO: 100% Post IPO: 75% Pre IPO: - Post IPO: 25%
Post issue implied market cap	Rs. 8,600.85 Crore at the upper end of the price band
BRLMS	IDBI Capital Markets & Securities Limited, BOB Capital Markets Limited, SBI Capital Markets Limited
Registrar to the issue	Link Intime India Private Limited

Financial Summary (Restated Standalone)(Rs. in Crore)

Particulars	H1FY24	FY23	FY22	FY21
Gross Loan Portfolio (GLP)	47,514.48	47,075.5	33,930.6	27,853.9
GLP Growth	0.93%	38.74%	21.82%	18.29%
Loans Sanctioned	4744.50	32586.6	23921	11001.3
Loans Disbursed	6273.25	21639.2	16070.8	8828.3
Total Income	2320.458	3483.04	2874.15	2657.74
Total Expenses	1501.024	2343.79	2040.31	2088.22
Net profit for the period	579.31	864.63	633.53	346.38
Net Interest Income	785.42	1323.76	1128.04	992.21
NIM	1.68%*	3.32%	3.75%	3.93%
Spread	1.11%*	2.21%	2.81%	3.26%
Average Yield on Term Loans Outstanding	4.93%*	8.44%	9.14%	10.41%
Average cost of borrowings	3.82%*	6.23%	6.33%	7.15%
Cost to income ratio	64.69%	67.29%	70.99%	78.57%
Operating Margin	35.30%	32.69%	28.66%	21.34%
Net profit Margin	24.97%	24.82%	22.04%	13.03%
Gross NPA	3.13%	3.21%	5.21%	8.77%
Net NPA	1.65%	1.66%	3.12%	5.61%
Provision Coverage Ratio	48.11%	49.25%	41.45%	38.14%
Slippage Ratio	0.10%	0.02%	0.10%	2.09%
Credit Cost Ratio	1.51%	1.84%	2.37%	3.62%
Return on Assets (ROA)	1.14%*	1.98%	1.89%	1.2%
Return on Equity (ROE)	9.26%*	15.44%	15.33%	12.56%
Equity Share Capital	2,284.6	2,284.6	2,284.6	784.6
Net Worth	6,580.61	5,935.17	5,268.11	2,995.60



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targets to achieve 500 GW non-fossil fuel based capacity installation by 2030 and net-zero emissions by 2070.

- b) Established and trusted brand name operating in a rapidly expanding sector.
- c) Track record of growth, geared towards high quality assets, diversified asset book and stable profitability.
- d) Strategic role in Government of India initiatives in the Renewable Energy sector.
- e) 77.75% of the Company's loan portfolio is in RE generation projects which are already commissioned.
- f) IREDA has commenced financing for projects in green mobility, solar rooftop, and green energy corridor sectors and is evaluating proposals across other emerging areas such as green hydrogen and battery energy storage system.
- g) Digitized process for borrower centricity and operational scalability, with presence across India.
- h) Comprehensive data-based credit appraisal process and risk-based pricing, with efficient post-disbursement project monitoring and recovery processes.
- i) Access to diversified and cost-effective long-term sources of borrowing with a judicious approach towards asset-liability management.
- j) Foreign currency borrowings have reduced to 24.31 percent (as a percentage of total borrowings) as on H1FY24 from 42.99 percent (as a percentage of total borrowings) as off/for the year ended March 31 2023. 73.71% of outstanding Foreign borrowings are hedged by availing of derivative products and natural hedging.
- k) The Company plans to enhance presence in consortium financing and has already signed memoranda of understanding ("MoUs") dated September 5, 2023 with Union Bank of India and Bank of Baroda, dated September 4, 2023 with Indian Infrastructure Finance Company Limited, dated August 22, 2022 with Bank of India and dated September 18, 2023 with Bank of Maharashtra for co-origination and co-lending of RE projects.
- l) The Company has maintained strong control over the NPAs led by comprehensive credit appraisal policies and procedures which enables them to effectively appraise and extend financial assistance to various RE projects, including new and emerging RE sectors, while maintaining asset quality.
- m) Faster growth in Gross Loan Portfolio vs. Peers
- n) GNPA ratio and Average Cost of Borrowing is lower as compared to the listed peers as on 31st March, 2023.
- o) India Ratings upgraded the credit ratings to 'IND AAA/Stable' in June 2023 and company has AAA/Stable rating from ICRA.

Total borrowings	39,850.19	40,165.3	27,613.0	24,000
Total Debt to Net Worth	6.06	6.77	5.24	8.01
CRAR	20.92%	18.82%	21.22%	17.12%
Total Debt/Total Assets	0.78	0.8	0.75	0.79
Basic EPS	5.08#	3.78	8.03	4.41
Post IPO EPS	4.31^^	3.18	2.36	1.29

* Figures have not been annualized for the period ended September 30, 2023, # H1FY24 Annualized, ^^ denotes post IPO EPS H1FY24 annualised
Source: Red Herring Prospectus (RHP)

Objects of the issue

A) Offer for Sale: Up to 26,87,76,471 shares (Rs 860.08 Crore at the upper end of the price band)

NAME OF SELLING SHAREHOLDER	TYPE	NUMBER OF SHARES OFFERED / AMOUNT	WEIGHTED AVERAGE COST OF ACQUISITION ON A FULLY DILUTED BASIS (IN Rs. PER EQUITY SHARE)
The President of India, acting through the Ministry of New and Renewable Energy, Government of India	Promoter Selling Shareholder	Up to 26,87,76,471 Equity Shares of face value 10 each aggregating up to Rs. 860.08 Crore at the upper end of the price band.	10.00

B) Fresh Issue: Up to 40,31,64,706 equity shares (Rs. 1,290.13 Crore at the upper end of the price band).

The Company proposes to utilise the Net Proceeds from the Fresh Issue towards augmenting its capital base to meet future capital requirements and onward lending



Augmenting its capital base to meet its future capital requirements and onward lending

IREDA is a financial institution with more than 36 years of experience in the business of promoting, developing and extending financial assistance for new and renewable energy projects, and energy efficiency and conservation projects. IREDA provides a comprehensive range of financial products and related services, from project conceptualisation to post-commissioning, for renewable energy projects and other value chain activities, such as equipment manufacturing and transmission. As an NBFC, it is subject to regulations relating to capital adequacy which determine the minimum amount of capital it must hold as a percentage of the risk-weighted assets on its portfolio and of the risk adjusted value of off-balance sheet items, as applicable. Under RBI prudential norms, IREDA, as a government owned NBFC, are required to maintain capital to risk weighted asset ratio ("CRAR") of 15%.

Shareholding pattern

Particulars	Pre Issue	Post Issue
Promoter The President of India, acting through the Ministry of New and Renewable Energy, Government of India.	100%	75%
Public	-	25%
Total	100%	100%

Source: Red Herring Prospectus (RHP)

Competitive Strengths

1. Strategic role in Government of India initiatives in the Renewable Energy sector.
2. Digitized process for operational scalability and borrower centricity with presence across India.
3. Senior management with in-depth sector expertise and professionally qualified employee base.
4. Established and trusted brand name operating in a rapidly expanding sector.
5. Access to diversified and cost-effective long-term sources of borrowing with a judicious approach towards asset-liability management.

Source: Red Herring Prospectus (RHP)

Peer Comparison (Rs. in Crore)

Particulars	Indian Renewable Energy Development Agency Limited (IREDA)		REC Limited		Power Finance Corporation Limited	
	H1FY24	FY23	H1FY24	FY23	H1FY24	FY23
Gross Loan Portfolio	47,514.5	47,075.5	4,74,274.9	4,35,011.8	9,23,723.6	8,57,500
NIM (%)	1.68*	3.32	1.66*	3.41	1.70*	3.27
Average yield on advances (%)	4.93*	8.44	4.86*	9.47	4.82*	9.47
Average cost of borrowings (%)	3.82*	6.23	3.63*	6.96	3.55*	7.10
Gross NPA (%)	3.13	3.21	3.14	3.42	3.40	3.66
Provision Coverage Ratio (%)	48.11	49.25	69.37	70.64	71.18	71.73
Credit cost (%)	1.51	1.84	2.27	2.56	2.51	2.79
CRAR (%)	20.92	18.82	28.53	25.78	24.86	24.37
RoE (%)	9.26*	15.44	11.11*	20.41	10.70*	20.34
RoA (%)	1.14*	1.98	1.38*	2.55	1.35*	2.51

Source: Red Herring Prospectus (RHP), * denotes not annualised

Key Risks

1. The company's business is entirely concentrated in, and dependent on, the Indian RE sector, which in general has many challenges and effective addressing of these risks are key to the growth of the sector. Even within the Indian RE sector, 81.49% of company's Term Loans Outstanding as of September 30, 2023 were concentrated within four sectors. If risks in the RE sector generally and these four sectors there under are not managed effectively, business and operations will be adversely affected.
2. Volatility in interest rates could adversely affect the business, hedging instruments, net interest income and net interest margin, which in turn would adversely affect the business, results of operations and financial condition.
3. The company's borrowers could be negatively affected if DISCOMS or state governments, for any reason, become unable or unwilling to fulfil their related contractual obligations under their PPAs with company's borrowers, refuse to accept delivery of power delivered under PPAs with



the borrowers or otherwise terminate such PPAs prior to the expiration thereof. If such events occur, the cash flow and financial condition of such borrowers may be adversely affected and may impact their capability to repay the loans availed from the company.

4. Company's business is subject to periodic inspections by the RBI, and non-compliance with observations made by the RBI during these inspections, or significant lapses identified by the RBI in course of inspections, could expose the company to penalties and restrictions. The inspection report for Fiscal 2022 identified certain deficiencies and non-compliances in the business operations including (i) organizational setup; (ii) review of performance of directors; (iii) senior management effectiveness; (iv) coverage of internal audit; and (v) role/oversight of Audit Committee; and certain governance and oversight risks associated with business, credit, market, liquidity, and operations of the Company. IREDA has responded to the observations made in the inspection report on September 14, 2023. Further, no action/penalty has been imposed on company by RBI during the last three Fiscals.
5. The company has witnessed downgrade of credit ratings in the past. For instance, on September 1, 2020, India Ratings downgraded bonds and subordinated debt to "IND AA+/Stable" from "AAA/Negative" which were subsequently upgraded. While its ratings have subsequently been upgraded, there can be no assurance that we will be able to maintain its ratings or that they will not be downgraded in future. In August 2023, Brickworks migrated company's rating to 'Issuer Not Cooperating'. This was on account of an ongoing challenge to Brickwork's license, owing to which IREDA sought information on the validity of the license before providing data. As of the date of this Red Herring Prospectus, company continues to retain the 'Issuer Not Cooperating' status from Brickworks, in addition to the BWR AAA Stable rating.
6. The company's Statutory Auditor has included observations and certain emphasis of matters in the audit reports on the audited consolidated financial statements of the Company as at and for the year ended March 31, 2021 and on the audited standalone financial statements of Company as at and for the years ended March 31, 2022 and 2023 and for the six months ended September 30, 2022 and September 30, 2023. Further, they have included certain remarks in connection with the Companies (Auditor's Report) Order, 2020/ Companies (Auditor's Report) Order, 2016.

Source: Red Herring Prospectus (RHP)


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