

The Issue	
Type of Issue	Rs. Bn
Fresh Issue	12.9
Offer for Sale	8.6
Total Issue Size	21.5
Post-Issue Market cap*	86.0
Lot size	460 shares

*At Upper Price Band

Issue Break-Up	
Reservation for	% of Issue
QIB	50%
NII	15%
Retail	35%
Total	100%
Indicative Offer Timeline	
Indicative Date	
Bid/Offer Opening Date	21st Nov 23
Bid/Offer Closing Date	23rd Nov 23
Listing Date	29th Nov 23
Use of Proceeds	
Future capital requirements,	
General corporate purposes	
Manager	IDBI Capital, BOB Caps, SBI Caps
Registrar	Link Intime

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Powering the sunrise sector - SUBSCRIBE

Company Overview:

Setup in 1987, Indian Renewable Energy Development Agency (IREDA) is a leading financial institution with ~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. It provides a comprehensive range of financial products and related services, from project conceptualization to post-commissioning, for RE projects and other value chain activities, such as equipment manufacturing and transmission.

IREDA is a wholly owned Government of India (GoI) enterprise under the administrative control of the Ministry of New and Renewable Energy (the MNRE). It was notified as a Public Financial Institution (PFI) and is registered with the Reserve Bank of India (RBI) as a Systemically Important Non-Deposit-taking Non-Banking Finance Company (a NBFC-ND-SI), with Infrastructure Finance Company (IFC) status.

The company has a diversified loan book of Rs. 475bn as on Sep-23 implying a 30% CAGR between FY21-23 backed by robust asset quality. Loans sanctioned have increased from ~Rs 110bn in FY21 to ~Rs 326bn in FY23. Loans disbursed grew to Rs 216bn in FY23 from Rs 88bn in FY21.

Its **GNPA (%)** reduced from **8.77% in Mar-21** to 5.21% as of Mar-22, 5.06% as of Sep-22, 3.21% as of Mar-23, and further to **3.13% as of Sep-23**. Its **NNPAs (%)** reduced from **5.61% as of Mar-21** to 3.12% as of Mar-22, 2.72% as of Sep-22, 1.66% as of Mar-23 and further to **1.65% as of Sep-23**.

The company has financed projects across multiple RE sectors such as solar power, wind power, hydro power, transmission, biomass including bagasse and industrial co-generation, waste-to-energy, ethanol, compressed bio-gas, hybrid RE, EEC and green-mobility. It also offers financial products and schemes for new and emerging RE technologies such as, biofuel, green hydrogen and its derivatives, battery energy storage systems, fuel cells, and hybrid RE projects.

Valuation and view: On post dilutive basis, the IPO is priced at **1.3x/1.2x FY22/FY23 EPS** which is at **~20% discount to REC** and **~50% discount to IRFC**. Renewable energy has been the sunrise sector and has attracted strong investments across the globe. In our view, the RE sector should continue to see strong investment CAGR of 25-30% over FY24-30e as more companies look to scale down their carbon footprints and shift towards sustainable renewable energy. This provides a long runway to IREDA for financing RE based infra projects and the disbursements should grow at strong pace ahead. Given the sector is witnessing strong industry tailwinds backed by Govt. initiatives and attractive valuation, We assign a **SUBSCRIBE** rating to the IPO.

IREDA

IREDA's key financial summary

Financial summary (Rs. mn)	FY21	FY22	FY23	1HFY24E
Income from operations	25,643	27,132	33,738	22,857
Other Income	934	1,609	1,091	348
Total Income	26,578	28,742	34,830	23,205
Interest Expenses	15,703	15,873	20,884	15,569
Other expenses	1,537	2,499	1,652	455
Gross profit	9,338	10,370	12,293	7,181
Depreciation	227	232	235	130
Provisions	3,417	1,799	665	-1,144
PBT	5,695	8,338	11,393	8,194
Provision for tax	2,231	2,003	2,747	2,401
Net profit	3,464	6,335	8,646	5,793
JV profit	0	0	0	0
PAT	3,464	6,335	8,646	5,793
EPS (Rs)	1.3	2.4	3.2	2.2
Post diluted BVPS (Rs)	16	24	27	29
Post diluted P/B (x)	2.0	1.3	1.2	1.1
Post dilutive ROE (%)	8.1%	14.8%	20.2%	13.5%
GNPA (%)	8.77%	5.21%	3.21%	3.13%
NNPA (%)	5.61%	3.12%	1.66%	1.65%
PCR Ratio (%)	38.1%	41.5%	49.3%	48.1%

Key Risks:

NPAs may rise in future if IREDA is unable to manage the quality of its loan portfolio

Significant portion of GNPA's are concentrated in loans to sectors such as biomass power / cogeneration and hydro power

Certain DISCOMs that purchase electricity from its borrowers have sought downward revision in the terms of their existing Power Purchasing Agreements

Pre-issue and post-issue holding structure

	Pre-issue	Post-issue*
Shareholding pattern	Holding (%)	Holding (%)
Promoter	100%	75%
Public	0%	25%
Total	100%	100%

Term Loans Outstanding based on sectors

Segment	FY21	FY22	FY23	Q1FY24
<i>Solar energy</i>	28.2%	25.1%	30.5%	30.0%
<i>Loan Facility to State Utilities</i>	25.6%	32.9%	24.1%	19.2%
<i>Wind Power</i>	21.8%	18.3%	18.9%	20.9%
<i>Hydro Power</i>	10.3%	11.6%	11.6%	11.5%
<i>Manufacturing</i>	1.6%	1.8%	3.2%	4.8%
<i>Ethanol</i>	0.7%	1.2%	2.3%	3.2%
<i>Biomass</i>	4.8%	3.4%	2.3%	2.4%
<i>Hybrid Wind and Solar</i>	0.2%	0.0%	2.1%	2.1%
<i>Short Term Loans to Private Entities</i>	3.7%	2.1%	2.0%	2.1%
<i>Waste-to-energy</i>	1.4%	1.4%	1.0%	1.0%
<i>Electric vehicle (EV)</i>	0.0%	0.1%	0.8%	1.0%
<i>Guaranteed Emergency Credit Line</i>	0.5%	1.2%	0.6%	0.6%
<i>Transmission</i>	0.7%	0.5%	0.4%	0.9%
<i>EEC</i>	0.2%	0.4%	0.2%	0.2%
<i>Biomass</i>	0.0%	0.0%	0.1%	0.1%
<i>National Clean and Energy Fund</i>	0.0%	0.0%	0.0%	0.0%
<i>Bridge Loan</i>	0.2%	0.1%	-	-

Strategic role in Government of India initiatives in the Renewable Energy sector:

The company is a wholly owned GoI enterprise under the administrative control of the MNRE. Since its inception, it has been closely involved in the development and implementation of various policies and schemes for structural and procedural reform in the RE sector.

It has served as the implementing agency for the following key MNRE policies and schemes:

- National Programme on High Efficiency Solar PV Modules under the Production Linked Incentive Scheme (Tranche I), for which the financial outlay over a five-year period is ₹45 billion
- Central Public Sector Undertaking (“CPSU”) Scheme Phase-II for setting up 12,000 MW grid-connected solar PV power projects with Viability Gap Funding (“VGF”) support of ₹ 858 million for self-use or use by Government or Government entities, of both Central and State Governments
- Solar and wind GBI Schemes, with the wind GBI scheme having a total commissioned capacity of 13,624.88 MW and a budget of ₹12.14 billion being allocated for Fiscal 2024, and the solar GBI scheme, under which 72 solar projects with total capacity of 91.8 MW were set up across 13 states, as of March 31, 2023
- National Clean Energy Fund Refinancing Scheme.

The company is the Central Nodal Agency for the following specific schemes under the relevant programmes:

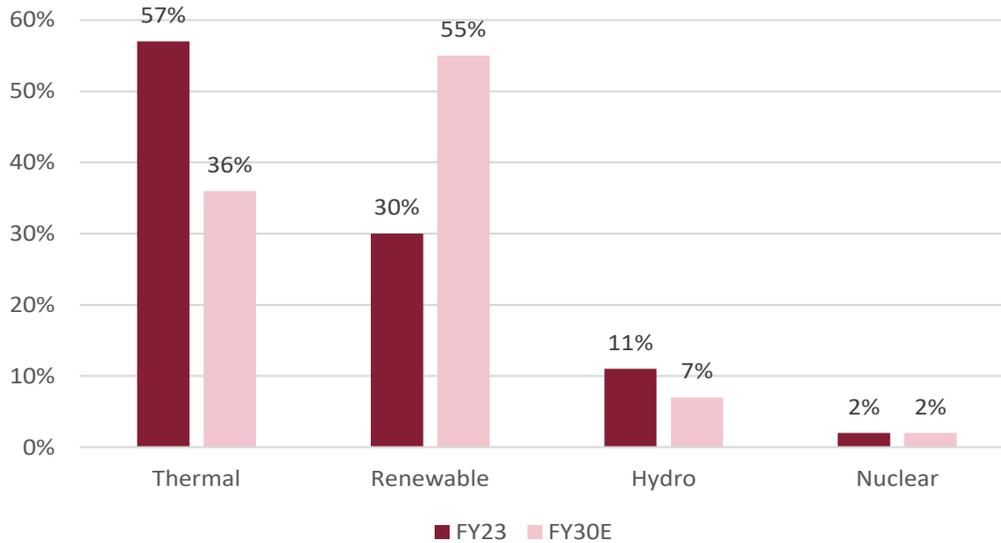
- Programme on Energy from Urban, Industrial and Agricultural Wastes/ Residues, as part of the National Bioenergy Programme (Phase I) launched in November 2022. The Programme on Energy from Urban, Industrial and Agricultural Wastes/ Residues has a total outlay of ₹ 6 billion for Phase I and
- Scheme to Support Manufacturing of Briquettes and Pellets and Promotion of Biomass (non-bagasse) based co-generation in Industries under the National Bioenergy Programme (Phase I). The Scheme to Support Manufacturing of Briquettes and Pellets and Promotion of Biomass (non-bagasse) based co-generation in Industries has a budget of ₹ 1.58 billion.

The company is also the fund handling agency for the Solar Water Heating System Capital Subsidy Scheme

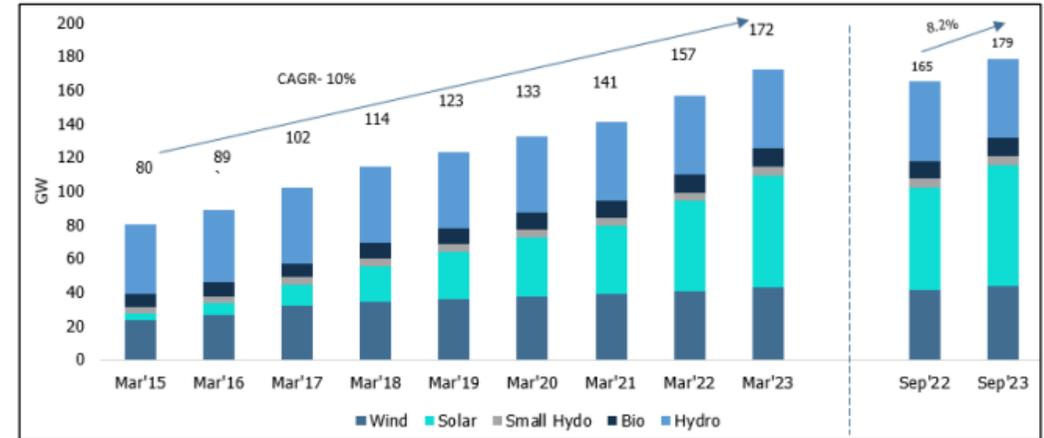
It has expanded its financing services in line with the RE priorities of the GoI such as solar, wind, hydro power, biomass, co-generation, among others. The GoI has highlighted priority areas for RE generation, including RE component manufacturing (solar modules, hydrogen electrolyzers, battery storage, among others), green energy corridor, green hydrogen production, utility-scale battery storage, pumped storage hydro, ethanol, green mobility and rooftop solar power. It intends to continue to play a critical role in shaping and implementing key policies and schemes in these areas.

Industry Outlook

Share of Renewable energy in installed capacity to go up sharply

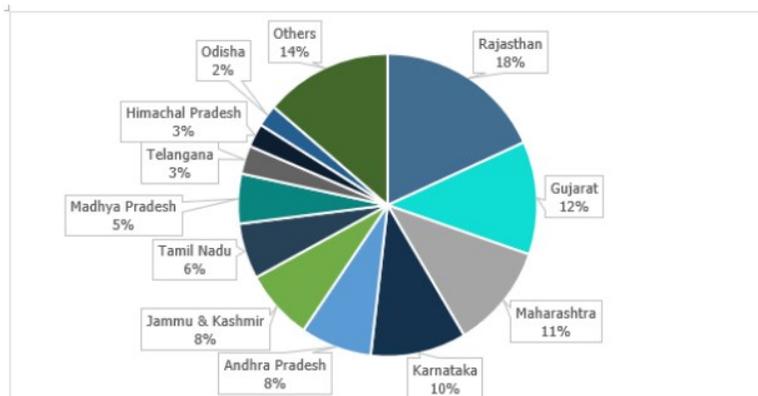


Renewable Energy – Trend in Installed Capacity



Note: Small Hydro denotes projects up to 25 MW, Hydro Power Plants denotes projects more than 25 MW
Source: CEA, CareEdge Research

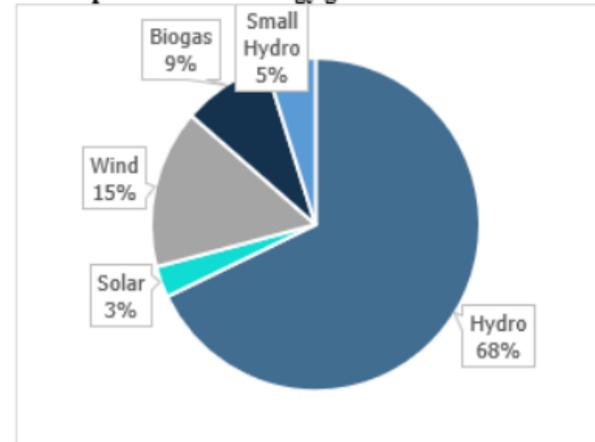
State-wise estimated potential renewable power in India



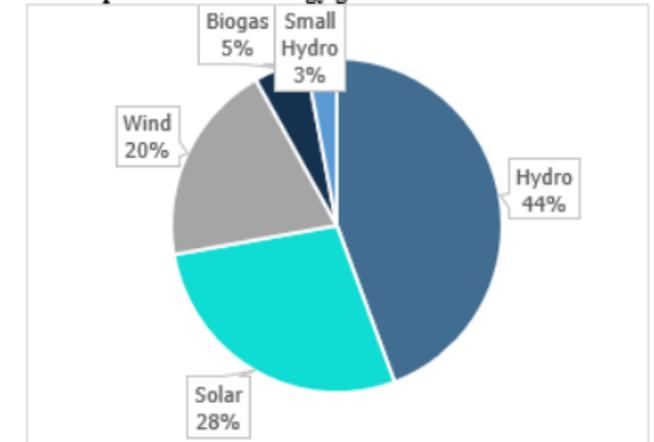
*Excluding Hydro power; Source: Energy Statistics India 2023, CareEdge Research

Renewable energy FY15 v/s FY23

Breakup of renewable energy generation FY15



Breakup of renewable energy generation FY23



Source: CEA, CareEdge Research

INDSEC Rating Distribution

BUY : Expected total return of over 15% within the next 12-18 months.

HOLD : Expected total return between 0% to 15% within the next 12-18 months.

SELL : Expected total return is negative within the next 12-18 months.

NEUTRAL: No investment opinion, stock under review.

Note: Considering the current pandemic situation, the duration for the price target may vary depending on how the macro scenario plays out. Therefore, the duration which has been mentioned as a period of 12-18 months for upside/downside target may be higher for certain companies.

DISCLOSURE

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