



IPO NOTE

**Indian Renewable Energy
Development Agency Ltd.**

20th November 2023

Company Overview

Incorporated in 1987, IREDA is an NBFC established with the objective of providing innovative financing in RE and energy efficiency/conservation and environmental technologies. IREDA is the largest pure-play green financing NBFC in India and is a wholly owned Government of India (GoI) enterprise under the administrative control of the Ministry of New and Renewable Energy (MNRE). The company 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. IREDA provides a comprehensive range of financial products and related services from project conceptualisation to the post-commissioning stage in RE projects and equipment manufacturing. It provides financial assistance through fund-based and non-fund-based facilities, including project finance, short-term loans, debt refinancing, performance guarantees and letters of comfort. The company mainly finances projects in the wind, hydro, solar, and bio-energy sectors and emerging areas, such as battery-powered vehicles. They also provide line of credit to other NBFCs for on-lending to RE and EEC projects. In addition, they provide loans to government entities and financing schemes for RE suppliers, manufacturers, and contractors.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- Towards augmenting the company's capital base to meet future capital requirements and onward lending.
- The selling shareholders will receive the offer proceeds.

Investment Rationale

Consistent track record geared towards high-quality assets, diversified asset book and stable profitability

The company has an established track record of consistent growth in the loan book and stable profitability in the RE financing space in India. As on March 31, 2023, its term loans outstanding stood at Rs. 470.8 billion, compared to Rs. 278.5 billion as on March 31, 2021, increasing at a CAGR of 30% during the period. As of September 30, 2022 and September 30, 2023, the term loans outstanding were Rs. 337.8 billion and Rs. 475.1 billion, respectively. It has maintained a diversified asset book spread across sectors and geographies along with this growth. Regarding geographical diversification of the company's asset base, they have term loans outstanding across 23 states and five Union Territories in India as of September 30, 2023. The quality and stability of the loan book are demonstrated through the fact that its loans to RE power-generating projects in some sectors have already been commissioned and started generating operating income. Of the term loans outstanding as of September 30, 2023, 37.9% had a residual maturity profile of less than three years, 26.3% had a maturity profile between three and seven years, and 35.8% had a maturity profile of more than seven years.

Strategic role in the government's initiatives in the renewable energy sector

Since its inception, it has been closely involved in developing and implementing various policies and schemes for structural and procedural reform in the RE sector. IREDA has served as the implementing agency for the following key MNRE policies and schemes: (i) 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 Rs. 45 billion; (ii) 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 Rs. 858 million for self-use or use by Government or Government entities, of both Central and State Governments; (iii) Solar and wind GBI Schemes, with the wind GBI scheme having a total commissioned capacity of 13,624.88 MW and a budget of Rs. 12.14 billion being allocated for FY24, 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; and (iv) National Clean Energy Fund Refinancing Scheme. The company has expanded its financing services in line with the RE priorities of the GoI, such as solar, wind, hydropower, biomass, and co-generation.

Issue Details		
Offer Period	21 st Nov, 2023 - 23 rd Nov, 2023	
Price Band	Rs. 30 to Rs. 32	
Bid Lot	460	
Listing	BSE & NSE	
Issue Size (no. of shares in mn)	672	
Issue Size (Rs. in bn)	21.50	
Face Value (Rs.)	10	
Issue Structure		
QIB	50%	
NIB	15%	
Retail	35%	
BRLM	IDBI Capital Markets & Securities Ltd., BOB Capital Markets Ltd. and SBI Capital Markets Ltd.	
Registrar	Link Intime India Pvt. Ltd.	
Particulars	Pre Issue %	Post Issue %
Promoter	100.00%	75.00%
Public - Others	0.00%	25.00%
Total	100.00	100.00

(Assuming issue subscribed at higher band)

Valuation and Outlook

Power sector financing NBFCs primarily focus on financing power generation, transmission, distribution, and other activities. These NBFCs provide funds for various types of power projects, including thermal power plants, transmission lines and renewable energy projects such as solar power plants, wind farms, hydroelectric projects, bioenergy energy projects and clean energy generation. As of FY23, the outstanding credit of key power financing NBFCs reached around Rs. 9,399 billion, indicating a CAGR of nearly 10% over FY19. In FY24, power-financing NBFCs are expected to continue this growth momentum and is likely to be driven by an increase in power demand, rising population, renewable integration, and the country's sustainability goals. IREDA plans to continue launching financing products to meet the evolving needs of RE developers. Its lower average cost of borrowing enables competitive pricing of the financial products, enabling it to grow business, attract quality borrowers and optimise profitability. The company is India's largest pure-play green financing NBFC and intends to leverage this position to raise green or sustainable bonds in international and domestic markets. As a result of its concerted approach to recovery, they have closed or upgraded net 18 non-performing project loan accounts in FY23, with recovery of Rs. 2,024.3 million. The NBFC has the best asset quality amongst peers, with its GNPA ratio at 3.13% at the end of September 2023 as compared to 3.14% for REC and 3.67% for PFC. As the lender will utilise the net proceeds of the fresh equity shares issue to augment its Tier-I capital base, its capital adequacy will enhance and lead to a stable leverage position. At the current P/BV multiple of 1.2x, we believe the company is attractively valued and advise investors to "Subscribe" from a medium to long-term perspective.

Key Risks

- The NPAs may increase due to inability of borrowers to repay loans due to factors such as delay in payment from state electricity distribution companies (DISCOMs), tariff and regulatory related issues, force majeure events (drought, flood, diversion of water of river/canal), delay in project implementation and commissioning, generation related issues, rise in raw material prices (biomass/municipal solid waste/gas) and financial stress due to other factors including macroeconomic conditions.
- Volatility in interest rates could adversely affect net interest income and net interest margin, adversely affecting the business, operations results, and financial condition.
- Projects and schemes for generating electricity and energy through renewable sources like solar, wind, hydro, biomass, waste-to-energy and new and emerging technologies have inherent risks and, to the extent they materialize, could adversely affect its business, results of operations and financial condition.

Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23
I Revenue from Operations			
i) Interest Income	25,643	27,132	33,738
ii) Fees and Commission Income	338	1,064	373
iii) Net gain/(loss) on fair value changes on derivatives	-125	-15	124
iv) Other Operating Income	692	418	584
Total Revenue from operations (I)	26,548	28,599	34,820
II Other Income	29	143	11
III Total Income (I+II)	26,577	28,742	34,830
IV Expenses			
i) Finance Cost	15,703	15,873	20,884
ii) Net translation/ transaction exchange loss	698	459	240
iii) Impairment on financial instruments	3,416	1,799	666
iv) Employee Benefits Expenses	474	588	631
v) Depreciation, amortization and impairment	227	232	235
vi) Others expenses	200	1,357	712
vii) Corporate Social Responsibility Expenses	164	95	70
Total Expenses (IV)	20,882	20,403	23,438
Profit/(loss) before exceptional items and tax (III-IV) (V)	5,695	8,338	11,392
VI Exceptional Items	0	0	0
VII Profit/(loss) before tax (V-VI)	5,695	8,338	11,392
Tax expense VII			
(i) Income tax	2,916	3,112	2,532
(ii) Deferred tax	-685	-1,109	214
IX Share of Profit/(Loss) in Associate	0	0	0
Profit/(loss) for the period from continuing operations (VII-VIII+IX) X	3,464	6,335	8,646
XI Profit/(loss) for the period	3,464	6,335	8,646
XII Other Comprehensive Income			
(A) (i) Items that will not be reclassified to profit or loss benefit plans	-14	-7	-16
(ii) Income tax relating to items that will not be reclassified to profit or loss	-2	2	4
Subtotal (A)	-16	-5	-12
(B) (i) Items that will be classified to profit or loss:			
Effective portion of gain /(loss) on hedging instrument in cash flow hedge reserve	-3,283	-1,032	-502
(ii) Income tax relating to items that will be reclassified to profit or loss	826	260	126
Subtotal (B)	-2,457	-773	-376
Other Comprehensive Income (A+B)	-2,472	-778	-387
Total Comprehensive Income for the period (XI+XII) (Comprising Profit (Loss) and other Comprehensive Income for the period)	991	5,557	8,259
Earning per equity share (For continuing operations)			
Basic	4.41	8.03	3.78
Diluted	4.41	8.03	3.78

Source: RHP, BP Equities Research

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23
I ASSETS			
A Financial Assets			
(a) Cash and cash equivalents	2,210	1,312	1,385
(b) Bank Balance other than (a) above	3,823	3,955	8,162
(c) Derivative financial instruments	4,031	3,983	5,741
(d) Receivables	0	0	0
(l) Trade Receivables	30	45	49
(e) Loans	2,69,056	3,31,744	4,62,269
(f) Investments	-	993	993
(g) Other financial assets	228	318	318
Total (A)	2,79,378	3,42,351	4,78,918
B Non-financial Assets			
(a) Current Tax Assets (Net)	1,085	1,298	1,439
(b) Deferred Tax Assets (Net)	2,110	3,221	3,010
(c) Investment Property	0	0	0
(d) Property, Plant and Equipment	2,464	2,301	2,128
(e) Capital Work-in-progress	0	1,283	1,393
(f) Right of use asset	196	177	159
(g) Intangible assets under development	-	31	49
(h) Intangible assets	1	0	0
(i) Other non-financial assets	17,694	16,421	17,374
(j) Investment accounted using Equity Method	5	0	0
Total (B)	23,556	24,733	25,552
Total Assets (A+B)	3,02,934	3,67,084	5,04,470
II. LIABILITIES AND EQUITY			
B LIABILITIES			
Financial Liabilities			
(a) Derivative financial instruments	918	1,826	1,515
(b) Payables	0	0	0
(l) Trade Payables	0	0	0
(i) total outstanding dues of micro enterprises and small enterprises	4.4	6.2	2.5
(ii) total outstanding dues of creditors other than micro enterprises and small enterprises	217	41	42
(c) Debt Securities	91,203	92,291	1,08,433
(d) Borrowings (Other than Debt Securities)	1,42,306	1,77,347	2,86,727
(e) Subordinated Liabilities	6,492	6,493	6,493
(f) Other financial liabilities	8,630	8,360	13,354
Total (A)	2,49,770	2,86,364	4,16,567
B Non-Financial Liabilities			
(a) Provisions	6,025	10,560	11,182
(b) Other non-financial liabilities	17,184	17,479	17,370
Total (B)	23,208	28,039	28,551

Source: RHP,StoxBox

Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23
Cash Flow from operating activities	-32,591	-52,541	-1,23,431
Cash flow from investing activities	-21	-1,071	-172
Cash flow from financing activities	24,412	52,714	1,23,676
Net increase/(decrease) in cash and cash equivalents	-8,201	-899	74
Cash and cash equivalents at the beginning of the period	10,411	2,210	1,312
Cash and cash equivalents at the end of the period	2,210	1,312	1,385

Source: RHP, StoxBox

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification :

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