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INDIAN RENEWABLE ENERGY DEVELOPMENT AGENCY LIMITED

November 20, 2023

SMC Ranking

★★☆☆☆ (2/5)

Issue Highlights

Industry	NBFC
Offer for sale (Shares)	268,776,471
Fresh Issue (Shares)	403,164,706
Net Offer to the Public	**671,941,177**
Issue Size (Rs. Cr.)	2015-2151
Price Band (Rs.)	30-32
Offer Date	21-Nov-23
Close Date	23-Nov-23
Face Value	10
Lot Size	460

Issue Composition

	In shares
Total Issue for Sale	671,941,177
QIB	335,970,589
NIB	100,791,177
Retail	235,179,412

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	100.00%	75.00%
QIB	0.00%	12.50%
NIB	0.00%	3.75%
Retail	0.00%	8.75%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The Offer comprises the Fresh Issue and the Offer for Sale. The company will not receive any proceeds from the Offer for Sale. Further, the proceeds of the Offer for Sale shall be received by the Promoter Selling Shareholder and will not form part of the Net Proceeds. The company intends to utilize the net proceeds for the following objects:-(i)Augmenting the capital base to meet future capital requirements and onwardlending. (ii)The Company expects to receive the benefits of listing the Equity Shares on the Stock Exchanges, including enhancing the brand image among existing and potential customers and creating a public market for the Equity Shares in India.

Book Running Lead Manager

- IDBI CAPITAL MARKETS & SECURITIES LIMITED
- BOB Capital Markets Limited
- SBI CAPITAL MARKETS LIMITED

Name of the registrar

- Link Intime India Private Limited

About the company

Incorporated in March 1987, Indian Renewable Energy Development Agency Limited is a public limited government company. IREDA is a Mini Ratna (Category - I) government enterprise. It is administratively controlled by the Ministry of New and Renewable Energy (MNRE). IRDEA is an experienced financial institution that has been actively promoting, developing, and extending financial assistance for new and renewable energy projects, as well as energy efficiency and conservation projects for over 36 years. The company offers 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. IRDEA is committed to facilitating the transition towards a greener and more sustainable future, and as a reliable partner, the company ensure that its clients receive the best possible support and guidance throughout their projects.

Strength

Track record of growth, geared towards high quality assets and diversified asset book and stable profitability: IREDA has an established track record of consistent growth in its loan book and stable profitability in the RE financing space in India. As on March 31, 2023, its Term Loans Outstanding stood at Rs. 47075.52 crore, compared to Rs.27853.92 crore as on March 31, 2021, increasing at a CAGR of 30.00%, and as of September 30, 2022 and September 30, 2023, its Term Loans Outstanding were Rs.33783.36 crore and Rs. 47514.48 crore , respectively. Along with this growth, it has maintained a diversified asset book in terms of sectoral split and geography. In terms of geographical diversification of its asset base, it has Term Loans Outstanding across 23 states and five Union Territories in India, as of September 30, 2023.

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

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; (Source: CARE Report)

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. 85.8 crore for self-use or use by Government or Government entities, of both Central and State Governments; (Source: CARE Report)

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. 1214 crore 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; (Source: CARE Report); and

iv National Clean Energy Fund Refinancing Scheme: The company is the Central Nodal Agency for the following specific schemes under the relevant programmes:

i 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 Rs. 600 crore for Phase I; (Source: CARE Report) and

ii 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 Rs. 158 crore. (Source: CARE Report)

Established and trusted brand name operating in a rapidly expanding sector: With the announcement of 500 GW non-fossil fuel based capacity installation by 2030 and net-zero emissions by 2070, India has set itself on one of the most accelerated energy transition trajectories in the world. (Source: CARE Report) Its position as the largest pure-play green financing NBFC in India places its among select players who are well placed to capitalise on the rapid growth in the RE sector. (Source: CARE Report) Its brand is strengthened by its role as the implementation agency for several prominent MNRE schemes and policies. It has focussed on building its reputation in relation to the following:

i Specialized expertise in technical appraisal of RE projects;

ii Innovation in structuring specialised financial products for various RE sectors; and

iii Customer satisfaction and quality of service provided to borrowers.

As of September 30, 2023, it had 357 RE borrowers across more than 10 RE sectors such as solar, wind, hydro, biomass, co-generation, EV, waste-to-energy, EEC, manufacturing, ethanol, among others.

It has offered the following innovative products:

- Loans against securitization of future cashflows of RE projects.
- Guarantee assistance scheme to RE suppliers, developers, manufacturers and engineering, procurement and construction ("EPC") contractors for bid security.
- Credit enhancement guarantee scheme for raising bonds by its developers against their operating RE assets.
- Special product for funding RE projects through bonds, banks loans and other financial instruments.
- Factoring for purchasing receivables of solar power developers payable by eligible government entities.
- Schemes for biomass-based power co-generation, heat application and ethanol.
- Funding for battery energy storage systems and green hydrogen.
- Financing for e-mobility/ green mobility sector, including fleet financing for EV operators and on-lending for e-mobility/ green mobility financing.

Digitized process for borrower centricity and operational scalability, with presence across India: It has a robust IT infrastructure with an Enterprise Resource Planning System ("ERP System") tailored to its business requirements. Its IT modules extend to various key processes across borrower-facing functions, as well as internal processes, including the following:

- Online loan application for customers to serve as a single point of contact for application filings, documentation uploads and alerts. To provide borrowers with a streamlined and time efficient loan application process, loan applications are filed online and processed digitally. It has standardized its application mechanism for processing sanction of loans. It has adopted templates for pre-disbursement and post-disbursement documentation requirements.
- Customer portal, which it is in the process of developing, by logging onto which, borrowers can track the progress of their application in real time and see any outstanding tasks or next steps.

Comprehensive data-based credit appraisal process and risk-based pricing, with efficient post-disbursement project monitoring and recovery processes: It has comprehensive credit appraisal policies and procedures which enable it to effectively appraise and extend financial assistance to various RE projects, including new and emerging RE sectors, while maintaining asset quality. Its 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.

Access to diversified and cost-effective long-term sources of borrowing with a judicious approach towards asset-liability management: Its average cost of borrowings in Fiscal 2021, 2022 and 2023 was 7.15%, 6.33% and 6.23% respectively, which it believes is competitive. Its debt-to-equity ratio was 6.77 as of March 31, 2023 and 6.06 as of September 30, 2023. It believes that its classification as a Public Finance Institution and its credit ratings enable it to access diversified funding options. Its primary sources of borrowings include domestic and foreign currency borrowings.

Strategy

Maintain leadership in RE sectors such as solar, wind, hydro power and biomass, biofuels and co-generation: The financing requirement for RE sectors such as solar and wind are set to expand prominently in line with the GoI target of 500 GW installed non-fossil fuel based power capacity by 2030. (Source: CARE Report) Compared to the solar potential of 749 GW, India had an installed capacity of only 72 GW as on September 2023. (Source: CARE Report) Hydro power capacity is expected to grow at a CAGR of 6.3% from Fiscal 2023 to Fiscal 2027, reaching 59.8 GW and in Fiscal 2032, the installed capacity is expected to reach 88.8 GW. (Source: CARE Report) The company intends to play a critical role in meeting this financing requirement and enhance its market share in these areas.

Leverage its industry expertise to enhance its presence in new and emerging green technologies: The total potential of renewable power in India is estimated to be 1,639 GW as compared to installed capacity of 179 GW as of September 2023, and the installed capacity of renewable energy has grown by 92 GW over Fiscal 2015 to Fiscal 2023, implying a CAGR of around 10%. (Source: CARE Report) it plans to capitalize on this opportunity by drawing on its extensive industry experience, relationships with existing customers and its brand equity. Further, it anticipates potentially higher yield loan assets in new and emerging spaces, which is likely to benefit its results of operations.

IREDA has identified the following key areas for diversification and expansion which are in line with the focus areas of the Government of India: (Source: CARE Report)

(i) **Green hydrogen and its derivatives (including manufacturing):** The GoI has announced the National Green Hydrogen Mission with an objective to make India a global hub for production, usage and export of green hydrogen and its derivatives and approved an outlay of Rs. 19000 crore to help achieve an annual production target of 5 MMT by 2030 for facilitating the net-zero target; (Source: CARE Report)

(ii) **Pumped hydro storage power plants:** Pumped hydro storage, where water is pumped uphill into a reservoir and released to power turbines when needed, has been identified to have a potential of 96,529 MW in India as per the Central Electricity Authority. (Source: CARE Report)

(iii) **Battery storage value chain (including manufacturing, storage, recycling):** NITI Aayog estimates the market size of battery sector to be around Rs. 16380 crore in Fiscal 2022 and in the accelerated case scenario, the market size for stationery and mobile batteries could surpass Rs. 49140 crore by 2026 and Rs. 122800 crore by 2030. An investment of Rs.349.30 crore will be required between Fiscal 2024 and Fiscal 2032 to achieve the above battery storage requirement; (Source: CARE Report)

(iv) **Offshore wind:** The MNRE has set a target of 30 GW by 2030 for offshore wind energy, which is intended to provide confidence to project developers in India; (Source: CARE Report)

(v) **Green energy corridor:** The green energy corridor scheme was launched in 2015 for setting up of transmission and evacuation infrastructure to facilitate evacuation of electricity from renewable energy projects and the intra-state transmission system projects has been sanctioned to eight renewable energy states for evacuation of over 20,000 MW of renewable energy; (Source: CARE Report)

(vi) **Rooftop solar power:** Phase-I of this initiative offered incentives and subsidies for the residential, institutional, and social sectors, while achievement-based incentives were also offered for the government sector. Phase-II began in February 2019 with the goal of reaching a total capacity of 40,000 MW by 2022 with approximately 3.7 GW of capacity built so far, with another 2.6 GW under construction in the residential market. Central Financial Assistance is provided at 40% for systems up to 3 kW capacity and 20% for systems with capacities more than 3 kW; (Source: CARE Report) and

(vii) **Green mobility value chain (fuel cells, charging infrastructure):** The GoI has set a target to achieve 100% electric mobility for public transport and 40% electrification of private vehicles by 2030. The current market size of electric two-wheelers, electric three-wheelers and electric four-wheelers is estimated to be approximately Rs. 9000 crore, Rs.10000 crore and Rs.8500 crore, respectively. Sales across each EV segment is expected to clock strong growth going forward owing to the government's push towards green mobility. (Source: CARE Report)

Optimize borrowing costs to enhance competitiveness and profitability: Its average cost of borrowings enables competitive pricing of its financial products, which in turn enables it to grow its business, attract quality borrowers and optimize profitability. Its average cost of borrowings in Fiscal 2021, 2022 and 2023 was 7.15%, 6.33% and 6.23% respectively. Its cost of funds is due to several factors, primarily its credit ratings, strong financial performance, high asset quality and sovereign-owned status, as well as its success in diversifying its sources of borrowing. It will continue to focus on identifying new sources of funding and enhancing limits for existing competitively priced sources to further lower borrowing costs and meet the long tenor requirements of its asset base. It will leverage its credit reputation to negotiate lower cost of term loans from bank and lower realization on its medium-term and long-term capital market issuances.

Streamline operating model to continue to support non-linear growth: The company has initiated a digital transformation process in order to streamline operations, it intends to continue investing in digital offerings that are scalable, improve the customer experience and improve its profitability. Its digital strategy has many facets, including further scaling up its automation and analytics capabilities and incentivizing the use of digital channels through the life cycle of a loan. It plans to ensure that its information technology systems continue to help it with several functions, including loan origination, credit underwriting, collections and customer service. It intends to build on system-driven credit appraisal models for new and emerging areas in line with existing models. Further, a key focus area will be to increase data-driven analytics to further automate early risk identification in projects. As it scale up its operations, it intends to be dynamic in its interactions with technology, and increase its ease of doing business by adopting digitization through processes such as automated case allocation and management mechanisms, autofill options for smoother customer onboarding, among others.

Continue to focus on the Environmental and Social Management System: As a key player in the RE sector and as a responsible financial institution, it has adopted a comprehensive Environmental and Social Management System ("ESMS") to identify and mitigate the impacts, if any, of the projects funded by the company on the environment and society at large. The company endeavours to be compliant with global standards for its ESMS, as sustainability is at the core of operations. It carries out environment and social screening of eligible projects and categorize these based on severity of impact envisaged in parallel with its loan appraisal process. In Fiscal 2023 and in the six months ended September 30, 2023, it has carried out environment and social screening and categorization of about 85 and 39 projects, respectively. In Fiscal 2023, it has updated the 'Environmental and Social Management Framework – RE Parks' under the World Bank Line of Credit under the Shared Infrastructure for Solar Parks Project, which aims to increase RE generation capacity by setting up large-scale RE parks.

Risk factor

- The company may be unable to secure borrowings on commercially acceptable terms and at competitive rates, which could adversely affect its business.
- The company had negative cash flows from operations in the past.
- The company credit ratings have been downgraded in the past. Any future downgrade in its credit ratings could adversely affect its business.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Power Fin.Corpn.	83141.90	17946.36	54.38	5.71	1.10	282.70	10	310.40	102435.16
REC Ltd	42843.13	12738.65	48.38	6.87	1.38	241.46	10	332.50	87554.70
Indian Renewable Energy Development Agency Limited **	4224.54	1033.67	3.85	8.32	1.09	29.28	10	32.00	8600.85

***Peer companies financials are TTM based.**
****Financial are TTM based**

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.32, the stock is priced at pre issue P/E of 7.07x on TTM EPS of Rs.4.52. Post issue, the stock is priced at a P/E of 8.32x on its EPS of Rs.3.85. Looking at the P/B ratio at Rs.32, pre issue, book value of Rs. 28.80 of P/Bvx 1.11x. Post issue, book value of Rs. 29.28 of P/Bvx 1.09x.

Considering the P/E valuation, on the lower end of the price band of Rs.30, the stock is priced at pre issue P/E of 6.63x on TTM EPS of Rs.4.52. Post issue, the stock is priced at a P/E of 7.80x on its EPS of Rs.3.85. Looking at the P/B ratio at Rs.30, pre issue, book value of Rs. 28.80of P/Bvx 1.04x. Post issue, book value of Rs. 29.28 of P/Bvx 1.02x.

Industry Outlook

In Fiscal 2023, the outstanding credit of key power financing Non-Banking Financial Companies (“NBFCs”) reached approximately ₹9,399 billion, at a CAGR of approximately 10% since Fiscal 2019. In Fiscal 2024, power financing NBFCs are expected to continue this growth momentum, driven by increase in power demand, rise in population, renewable integration and sustainability goals of India. Financing requirement for renewable energy sectors such as solar and wind are set to expand prominently in line with the Government’s target of 500 GW installed non-fossil fuel-based power capacity by 2030.

Outlook

IRDEA, a Mini Ratna (Category I) Government enterprise is an 36 years experienced financial institution which is actively promoting, developing, and extending financial assistance for new and renewable energy projects, as well as energy efficiency and conservation projects. Company has strong track record of growth, geared towards high quality assets and diversified asset book and stable profitability. Govt of India initiatives towards Renewable Energy Projects is expected to boost company growth. On the other side, the company could suffer if they are unable to maintain and effectively manage the quality of growing asset portfolio and NPAs. The OFS portion of the IPO goes to Govt of India and company would not get any thing.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	22-November-23
BID/ISSUE CLOSES ON	24-November-23
Finalisation of Basis of Allotment with the Designated Stock Exchange	30-November-23
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	01-December-23
Credit of Equity Shares to demat accounts of Allottees	04-December-23
Commencement of trading of the Equity Shares on the Stock Exchanges	05-December-23

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-23 (6 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Interest income	2285.69	3373.83	2713.22
Interest expenses	1556.90	2088.44	1587.25
Net Interest Income	**728.79**	**1285.39**	**1125.97**
Other Operating Income	34.15	108.15	146.68
Operating Profit	**762.94**	**1393.54**	**1272.65**
Other Income	0.63	1.07	14.26
Total Net Income	**763.56**	**1394.61**	**1286.90**
Other Expenses (includes Exchange Loss/Profit)	**-68.89**	**231.86**	**429.82**
PBDT	**832.45**	**1162.75**	**857.08**
Depreciation	13.02	23.50	23.24
PBT	819.43	1139.25	833.84
Tax	240.12	274.62	200.31
PAT	**579.32**	**864.63**	**633.53**

Note -

Net interest margin	Average cost of Borrowings	ROE	Gross NPAs (%)
2021 - 3.93%	2021 - 7.15%	2021 - 12.56%	2021 - 8.77%
2022 - 3.75%	2022 - 6.33%	2022 - 15.33%	2022 - 5.21%
2023 - 3.32%	2023 - 6.23%	2023 - 15.44%	2023 - 3.21%
Total Debt to net worth	**Cost to income ratio**	**CRAR**	**Net NPAs (%)**
2021 - 8.01	2021- 78.57%	2021 - 17.12%	2021 - 5.61%
2022 - 5.24	2022- 70.99%	2022 - 21.22%	2022 - 3.12%
2023 - 6.77	2023 - 67.29%	2023 - 18.82%	2023 - 1.66%
Average yield on average interest earning assets	**ROA**	**Provision coverage ratio**	
2021 - 10.44%	2021 - 1.2%	2021 - 38.14%	
2022 - 9.17%	2022 - 1.89%	2022 - 41.45%	
2023 - 8.63%	2023 - 1.98%	2023 - 49.25%	

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-23	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	204.66	212.84	230.11
Capital work-in-progress	12.49	139.26	128.33
Intangible assets	0.01	0.01	0.05
Right -Of- Use Assets	143.05	15.86	17.65
Other Non- Financial Assets	1700.67	1737.42	1642.13
Current Tax Assets (Net)	164.85	143.92	129.85
Deferred Tax Assets (Net)	264.00	301.00	322.06
Investment Property	0.03	0.03	0.04
Intangible Under Development	4.86	4.86	3.11
Financial Assets			
Investments	99.32	99.30	99.27
Loans	46712.88	46226.92	33174.45
Other Fnancial assest	31.13	31.81	31.82
Derivative financial instruments	451.64	574.05	398.33
Total non-current assets	**49789.59**	**49487.30**	**36177.18**
Current assets			
Trade Receivables	3.98	4.91	4.53
Cash and Cash Equivalents	360.24	138.53	131.18
Bank Balances other than (ii) above	1102.69	816.24	395.52
Total current assets	**1466.90**	**959.68**	**531.22**
Total Assets	**51256.49**	**50446.98**	**36708.41**
Non-current liabilities			
Financial liabilities			
Debt securitites	11542.70	10843.28	9229.14
Provisions	1039.71	1118.16	1055.97
Other non financial Liabilities	1798.98	1736.99	1747.91
Total non-current liabilities	**14381.39**	**13698.43**	**12033.01**
Current liabilities			
Financial Liabilities			
Borrowings	27658.12	28672.66	17734.67
Trades Payable - MSME	0.20	0.25	0.62
Trade Payables - other than MSME	34.12	4.23	4.14
Other financial Liabilities	1779.31	1335.43	836.00
subordinate liabilites	649.37	649.37	649.26
Derivative financial liabilities	173.38	151.47	182.58
Total current liabilities	**30294.49**	**30813.43**	**19407.28**
Total	**44675.88**	**44511.86**	**31440.29**
Net worth represented by:			
Equity Share Capital	2284.60	2284.60	2284.60
Other Equity	4296.01	3650.57	2983.51
Net Worth	**6580.61**	**5935.17**	**5268.11**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★ ★
FAIR	★ ★ ★
GOOD	★ ★ ★ ★
EXCELLENT	★ ★ ★ ★ ★

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