

Recommendation	Subscribe
Price Band	Rs. 30-32
Bidding Date	21-23 November
Book Running Lead Manager	BOB Capital, IDBI Capital, SBI Capital Markets
Registrar	Link Intime
Sector	NBFC

Minimum Retail Application- Detail At Cut off Price

Number of Shares	460
Minimum Application Money	Rs. 14720
Discount to retail	0
Payment Mode	ASBA

Consolidated Financials (Rs Cr)	FY22	FY23
Total Income	1287	1395
Pre Prov. Profit	1014	1206
Adj PAT	634	865

Valuations (H1FY24 Annualised Post Issue)	Upper Band
Market Cap (Rs Cr)	8601
BVPS	31.2
EPS	4.3
P/B	1.0
P/E	7.4

Post Issue Shareholding Pattern

Promoters	75.0%
Public	25.0%

Offer structure for different categories

QIB (Including Mutual Fund)	50%
Non-Institutional	15%
Retail	35%
Post Issue Equity (Rs. in cr)	2688
Issue Size (Rs in cr)	2144
Face Value (Rs)	10

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BACKGROUND

Incorporated in 1987, IREDA is a Govt. financial institution in the business of extending financial assistance for new and renewable energy (RE) projects. IREDA finances projects across multiple Renewable Energy sectors such as solar power, wind power, hydro power, transmission, biomass including bagasse and industrial co-generation, waste-to-energy, ethanol, compressed biogas, hybrid RE and green-mobility. Its total loan book stands at Rs. 47,514 Cr as on Sep 2023.

Objects and Details of the Issue:

The public issue consists of Offer For Sale of Rs. 860 Cr and Fresh Issue of Rs. 1,290 Cr aggregating to total issue size of Rs. 2,150 Cr. Fresh funds would be used towards augmenting the capital base to meet future capital requirements. CAR as on Sep 2023 stood at 20.9%.

Investment Rationale:

- Pure play proxy on growth in the rapidly expanding Renewable Energy sector
- Track record of strong loan growth; geared towards high quality assets reflected in improving NPA performance
- IREDA intends to leverage its industry expertise to enhance presence in new and emerging green technologies

Valuation and Recommendation:-

IREDA's positioning as the largest pure-play green financing NBFC in India places it among the very few players who are well placed to capitalise on the rapid growth in the RE sector. Over FY21-23, the company's loan book has grown at a CAGR of 30% to Rs. 47,076 Cr, much faster than traditional power financing companies like PFC & REC. Diversification and expansion in emerging green technologies like green hydrogen, pumped hydro storage power plants, battery storage value chain and green energy corridor provides scope for longer term sustainability of high growth of its loan book. On the back of low base, demonstrated track record of high growth, improvement in asset quality and cheap valuations at 1.1x trailing P/B (post issue), we rate the issue as 'Subscribe'.

Financials (Cr)	FY21	FY22	FY23	H1'24 Ann.
Total Income	1,087	1,287	1,395	1,527
Growth		18%	8%	10%
Pre Prov Profit	911	1,014	1,206	1,410
Growth		11%	19%	17%
PAT	346	634	865	1,159
Growth		83%	36%	34%
BVPS (Post IPO)	39.5	23.1	26.0	31.2
EPS (Post IPO)	1.3	2.4	3.2	4.3
ROA	1.2%	1.9%	2.0%	2.3%
ROE	12.6%	15.3%	15.4%	18.5%
P/E (Post IPO)	-	-	9.9	7.4
P/B (Post IPO)	-	-	1.2	1.0

Source: NBRR

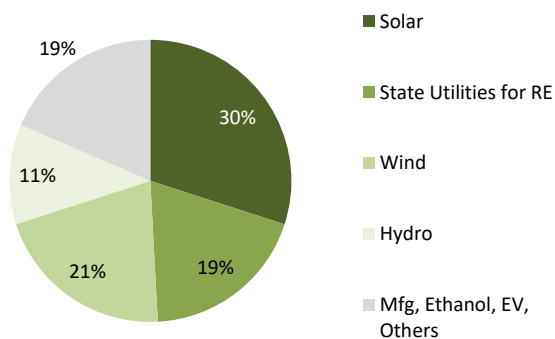
Company Background

IREDA (Indian Renewable Energy Development Agency) is a wholly owned Government of India enterprise under the administrative control of the Ministry of New and Renewable Energy (MNRE). IREDA is a Systemically Important Non-Deposit-taking NBFC, with Infrastructure Finance Company (IFC) status. In September 2023, IREDA has been upgraded from Schedule B to Schedule A in the list of CPSEs by the Department of Public Enterprises. It was also conferred with the Mini Ratna (Category I) status in June 2015.

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. It 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.

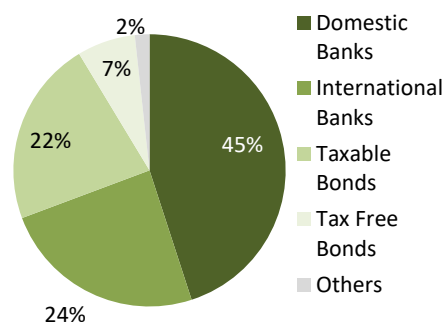
IREDA has financed projects across multiple RE sectors such as solar power, wind power, hydro power, transmission, biomass including bagasse and industrial co-generation, waste-to-energy, ethanol, compressed biogas, hybrid RE, EEC and green-mobility. It also offers financial products and schemes for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

AUM Mix as on Sep 2023



Source: Company, NBRR

Borrowing Mix as on Sep 2023



Source: Company, NBRR

Investment Rationale

Pure play proxy on growth in the rapidly expanding Renewable Energy 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. IREDA's position as the largest pure-play green financing NBFC in India places it among the very few players who are well placed to capitalise on the rapid growth in the RE sector.

IREDA has been established as an integral part of, and has played a strategic role in the GoI's initiatives for the promotion and development of the RE sector in India. IREDA is directly involved in implementing several significant schemes launched by the MNRE. IREDA has served as the implementing agency for the following key MNRE policies and schemes:

- 1) 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.
- 2) Central Public Sector Undertaking Scheme Phase-II for setting up 12,000 MW grid-connected solar PV power projects with Viability Gap Funding support for self-use or use by Government.
- 3) Solar and wind GBI (Generation Based Incentive) Schemes.
- 4) National Clean Energy Fund Refinancing Scheme.

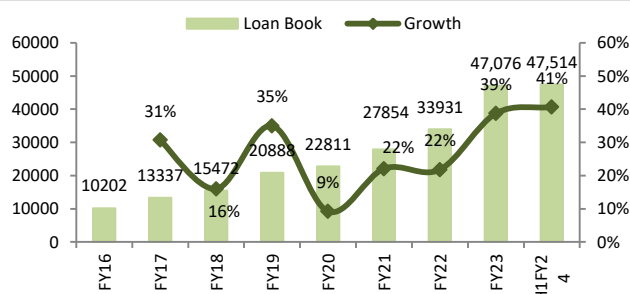
IREDA is also the Central Nodal Agency for the following specific schemes under the relevant programmes:

- 1) Programme on Energy from Urban, Industrial and Agricultural Wastes/ Residues, as part of the National Bioenergy Programme (Phase I) launched in November 2022.
- 2) 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).

Track record of strong loan growth; geared towards high quality assets reflected in improving NPA performance

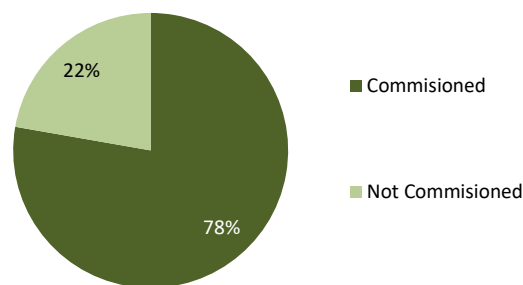
IREDA has an established track record of consistent growth in its loan book. Over FY21-23, the company's loan book has grown at a CAGR of 30% to Rs. 47,076 Cr. The quality and stability of its loan book is demonstrated through the fact that as of September 30, 2023, 78% of its loans to RE power generating projects have already been commissioned, and have therefore started generating operating income.

Loan book performance



Source: Company, NBRR

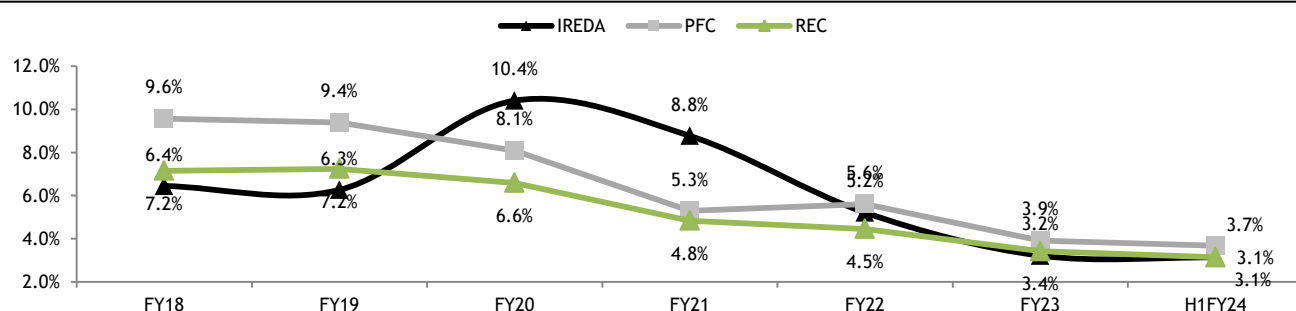
Mix of projects commissioned / not commissioned



Source: Company, NBRR

IREDA's asset quality performance has improved over the last few years and has been in line with that of its larger power financing peers catering mainly to conventional energy financing.

GNPA performance



Source: Company, NBRR

IREDA intends to leverage its industry expertise to enhance presence in new and emerging green technologies

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

- 1) 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. 190 billion to help achieve an annual production target of 5 MMT by 2030 for facilitating the net-zero target.
- 2) 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.
- 3) Battery storage value chain (including manufacturing, storage, recycling): NITI Aayog estimates the market size of battery sector to be around Rs. 163.8 billion in FY22 and in the accelerated case scenario, the market size for stationery and mobile batteries could surpass Rs. 491.4 billion by 2026 and Rs. 1,228 billion by 2030.
- 4) 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.
- 5) 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.
- 6) 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.
- 7) 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. Sales across each EV segment is expected to clock strong growth going forward owing to the government's push towards green mobility.

IREDA has established a dedicated team for business development and appraisal of projects in new and emerging RE sectors and launched products for these sectors. It 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.

Key Risks

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

IREDA's NPAs may increase due to inability of borrowers to repay its loans due to factors such as delay in payment from state DISCOMs, tariff and regulatory related issues, 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.

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

Such instances have happened in the past in the state of Andhra Pradesh wherein Andhra Pradesh Distribution Company ordered the developers to reduce the quoted tariff and threatened termination of the PPA in case of refusal of the developers to accede to such reduction. Such disputes for IREDA's borrowers could result in deterioration in their receivables under the PPAs. As of September 30, 2023, IREDA had Term Loans Outstanding of Rs 20,812 Cr, amounting to approximately 43.8% of its Term Loans Outstanding, to borrowers who have signed PPAs with DISCOMs. If the borrowers do not receive payments as provided under their PPAs, they may not have sufficient cash flows to meet their repayment obligations which may affect IREDA's financials.

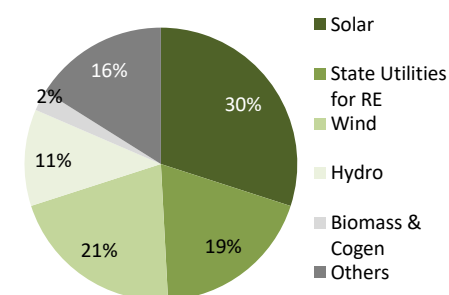
IREDA's credit ratings have been downgraded in the past

On September 1, 2020, India Ratings downgraded IREDA's bonds and subordinated debt to "IND AA+/Stable" from "AAA/Negative". The ratings have subsequently been upgraded. Any future reduction in, or withdrawal of ratings may affect the company's ability to raise borrowings at an attractive pricing in international markets, increase its borrowing costs and limit its access to equity and debt capital markets.

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

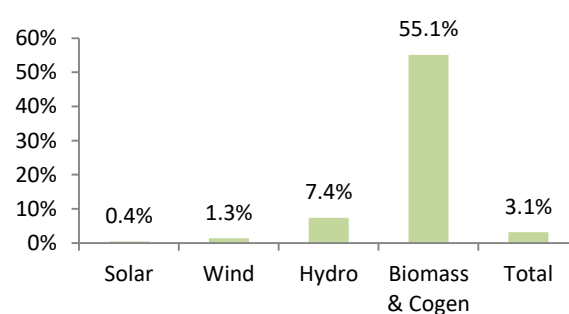
Of the RE sectors to which the company extends loans, two sectors - hydro power (11% of loans) and biomass power / cogeneration (2% of loans) contribute 70% of the GNPA's as of September 30, 2023.

Sector wise loan mix



Source: Company, NBRR

Sector wise GNPA



Source: Company, NBRR

Valuation and Recommendation

IREDA's positioning as the largest pure-play green financing NBFC in India places it among the very few players who are well placed to capitalise on the rapid growth in the RE sector. Over FY21-23, the company's loan book has grown at a CAGR of 30% to Rs. 47,076 Cr; much faster than traditional power financing companies like PFC & REC. Diversification and expansion in emerging green technologies like green hydrogen, pumped hydro storage power plants, battery storage value chain and green energy corridor provides scope for longer term sustainability of high growth of its loan book. IREDA's asset quality performance has improved over the last few years and has been in line with that of its larger power financing peers. On the back of low base, demonstrated track record of high growth, improvement in asset quality and cheap valuations at 1.1x trailing P/B (post issue), we rate the issue as 'Subscribe'.

Listed players in Power Financing

As on FY 23	REC	PFC	Average	IREDA
Loan book (Rs Cr)	4,35,012	4,22,498	4,28,755	47,076
FY21-23 AUM CAGR	7%	7%	7%	30%
YoY Growth (Q2FY24)	20%	19%	20%	41%
<u>Business Mix</u>				
Renewable	7%	12%	10%	100%
Conventional Generation	39%	42%	41%	0%
T&D	48%	45%	0%	0%
Infra & Others	6%	1%	0%	0%
<u>Key Ratios</u>				
Yield	9.7%	10.0%	9.9%	8.6%
COF	7.3%	7.5%	7.4%	6.2%
Spreads	2.5%	2.5%	2.5%	2.4%
NIM	3.4%	3.4%	3.4%	3.3%
GNPA as on Q2FY24	3.1%	3.7%	3.4%	3.2%
NNPA as on Q2FY24	1.0%	1.0%	1.0%	1.7%
ROA	2.4%	2.8%	2.6%	2.0%
ROE	20.4%	21.0%	20.7%	15.4%
Trailing P/E (x) (Post IPC	6.9	7.6	7.3	8.3
Trailing P/B (x) (Post IPC	1.4	1.4	1.4	1.1

Source: NBRR

Financials

P&L (Rs. Crs)	FY21	FY22	FY23	H1'24	H1'24 Ann.
Interest earned	2,564	2,713	3,374	2,286	4,571
Interest expend	1,570	1,587	2,088	1,557	3,114
NII	994	1,126	1,285	729	1,458
Non interest inc	93	161	109	35	70
Total income	1,087	1,287	1,395	764	1,527
<i>Growth</i>		18%	8%		10%
Total Op. exper	176	273	189	59	117
<i>Growth</i>		55%	-31%		-38%
<i>Staff costs</i>	<i>47</i>	<i>59</i>	<i>63</i>	<i>33</i>	<i>66</i>
<i>Other Op Exp</i>	<i>129</i>	<i>214</i>	<i>126</i>	<i>26</i>	<i>51</i>
Profit before p	911	1,014	1,206	705	1,410
<i>Growth</i>		11%	19%		17%
Provisions	342	180	67	-114	-229
Profit before ta	570	834	1,139	819	1,639
Taxes	223	200	275	240	480
Net profit	346	634	865	579	1,159
<i>Growth</i>		83%	36%		34%

Per Share Data	FY21	FY22	FY23	H1'24	H1'24 Ann.
EPS (Diluted)	1.3	2.4	3.2	2.2	4.3
BVPS	39.5	23.1	26.0	28.8	31.1
BVPS (Post IPO)	39.5	23.1	26.0	29.3	31.2

Valuation Ratio	FY21	FY22	FY23	H1'24	H1'24 Ann.
P/E	24.8	13.6	9.9	-	7.4
P/BV	0.8	1.4	1.2	-	1.0
P/BV (Post IPO)	0.8	1.4	1.2	-	1.0

Source: Company data, NBRR

Bal. Sheet (Rs. Crs)	FY21	FY22	FY23	H1'24
Equity capital	749	2,285	2,285	2,285
Reserves & surplus	2,211	2,984	3,651	4,296
Net worth	2,960	5,268	5,935	6,581
Borrowings	24,000	27,613	40,165	39,850
Other liab and prov	3,334	3,827	4,347	4,826
Total liab and equ	30,293	36,708	50,447	51,256
Cash & Bank Balanc	603	527	955	1,463
Investments	1,769	1,741	1,738	1,800
Loans	27,854	33,931	47,076	47,514
<i>Growth</i>	<i>22%</i>	<i>22%</i>	<i>39%</i>	<i>41%</i>
Other assets	67	510	679	479
Total assets	30,293	36,708	50,447	51,256
Asset Quality	FY21	FY22	FY23	H1'24
GNPA ratio	8.8%	5.2%	3.2%	3.1%
NNPA ratio	5.6%	3.1%	1.7%	1.7%
Credit Cost	1.3%	0.6%	0.2%	-0.2%
Other Parameters	FY21	FY22	FY23	H1'24
Loan Book	27,854	33,931	47,076	47,514
YoY		22%	39%	41%
Yield on Advances	10.4%	9.2%	8.6%	9.9%
Cost of Borrowings	7.2%	6.3%	6.2%	7.6%
Spread	3.3%	2.8%	2.4%	2.3%
NIM	3.9%	3.8%	3.3%	3.4%
CRAR	17.1%	21.2%	18.8%	20.9%
Cost / Income Ratio	16.2%	21.2%	13.5%	7.7%
ROA	1.2%	1.9%	2.0%	2.3%
ROE	12.6%	15.3%	15.4%	18.5%

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