

21st November 2023

Indian Renewable Energy Development Agency – SUBSCRIBE

Investment Thesis

- Indian Renewable Energy Development Agency Ltd. (IREDA) is set to launch its initial public offering (IPO) on November 21, 2023. IREDA plans to raise Rs. 2,150 crs which comprises of a fresh issue amounting to Rs. 1290 crs and an Offer for Sale (OFS) of Rs. 860 crs. IREDA will not receive any proceeds of the OFS and the capital raised via fresh issue is to be utilized for augmenting the capital base to meet future capital requirements and onward lending.
- IREDA is a Public Financial Institution (PFI), wholly owned Government of India (GoI) enterprise under the administrative control of the Ministry of New and Renewable Energy (MNRE). IREDA is registered with 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, IREDA was upgraded from Schedule B to Schedule A in the list of CPSEs by the Department of Public Enterprises (DPE). IREDA was also conferred with the Mini Ratna (Category I) status in June 2015 by the DPE.
- As of September 30, 2023, IREDA has a diversified portfolio of Term Loans Outstanding, amounting to Rs. 46,712.9 crs 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.

Revenue from business Verticals

- The Net Interest Income (NII) of IREDA has grown to Rs. 1,323.8 crs in FY23, from Rs. 992.2 crs in FY21, with the Loan expanding to Rs. 47,075.5 crs from Rs. 27,853.9 during the same period. The Net Interest Margin (NIM) has moderated to 3.3% in FY23 from 3.9% in FY21. There has been a 58% CAGR growth to reach Rs. 864.6 crs in FY23 from Rs. 346.4 crs in FY21.

Particulars	FY21	FY22	FY23	H1FY24
NII (Rs. in crs)	992.2	1,128.0	1,323.8	785.4
NIM (%)	3.9	3.8	3.3	1.7
Loan Book (Rs. in Crs)	27,853.9	33,930.6	47,075.5	47,514.5
PAT (Rs. in Crs)	346.4	633.5	864.6	579.3
RoA (%)	1.2	1.9	2.0	1.1
GNPA (%)	8.8	5.2	3.2	3.1
NNPA (%)	5.6	3.1	1.7	1.7
BVPS	38.2	23.1	26.0	29.3

IPO Details

Issue Open Date	21 November 2023
Issue Close Date	23 November 2023
Price Band (Rs.)	Rs. 30 – Rs. 32
Issue Size*	Rs. 2150 crs
Issue Size (Shares)	67.19 crs
Market Lot	460 Shares
Listing Exchanges	NSE / BSE
Face Value (Rs.)	Rs. 10/-

* At highest price band

Key Details

Fresh Issue*	Rs. 1,290 crs
Issue Type	Book Building
Book Running Lead Manager	BOB Capital IDBI Capital SBI Capital Markets
Issue structure	QIB: 50% Non-Institutional: 15% Retail: 35%
Credit of Shares to Demat Account	1 December 2023
Issue Listing Date	4 December 2023

* At highest price band

- An improving asset quality has been a significant positive, with the GNPA / NNPA dropping to 3.2% / 1.7% in FY23 from 8.8% / 5.6% in FY21. This was possible as IREDA improved the Provision coverage to 49.3% in FY23 from 38.1% in FY21.
- The cost of income ratio has also come down to 67.3% in FY23 from 78.6% in FY21, displayed superior efficiency as its Interest Income growth has outpaced the opex growth.

Key Business Highlights

- Pure Play on green financing:** IREDA is the country's largest pure-play NBFC that specializes in green financing. As of Sept - 23, IREDA's loan book stands at Rs. 47,514.5 crs. In line with the Government of India's target of installing 500 GW of non-fossil fuel-based power capacity by 2030 and net-zero emissions by 2070, India has set itself on one of the most accelerated energy transition trajectories in the world, there is an increasing need for financing renewable energy sectors such as solar and wind. IREDA is poised to play a critical role in this endeavor by promoting and developing the renewable energy sector in India.
- Track record of High Growth with a strong market position:** Over FY21 - 23, the loan book has grown to Rs. 47,075.5 crs from Rs. 27,853.9, which implies a 30% CAGR during this period. This has led it to outperform its peers, PFC and REC. Additionally, IREDA has a 31% market share in the Credit towards Renewable sector ahead of REC at 19% and close to PFC at 32%. Therefore, with the push of Gol to increase usage of green energy, IREDA is expected to gain market share and sustain this growth momentum.
- Asset quality clean-up:** The power financing sector witnessed a concern regarding asset quality during the period between FY19 and FY21, which was reflected in the numbers of IREDA as well, having a GNPA / NNPA of 8.8% / 5.6% in FY21. However, the management of IREDA took proactive measures to improve this situation, resulting in a reduction of the GNPA / NNPA to 3.2% and 1.7%, respectively, in FY23. These ratios are now in line with those of larger power financing peers, who mainly cater to conventional energy financing.
- Leverage industry expertise to enhance presence in new and emerging green technologies:** IREDA has identified various strategic areas that align with the focus of the Gol. These areas include the production of green hydrogen and manufacturing of its derivatives and the value chain for battery storage, which encompasses manufacturing, storage, and recycling. Additionally, IREDA plans to focus on financing offshore wind, rooftop solar power, and the value chain for green mobility, which includes fuel cells and charging infrastructure. By emphasizing on these areas for diversification and expansion, IREDA slated to make significant strides in enhancing its growth prospects.

Valuation

At the upper price band, IREDA is priced at 1.1x trailing PB post-IPO completion. The listed peers in this category, PFC and REC, are currently available at trailing PB of 1.2x and 1.4x, respectively. This represents a reasonable pricing. Moreover, IREDA is growing much faster than PFC and REC, that can push the valuation higher.

Considering IREDA's improved asset quality, strong prospects in an emerging sector, healthy financials, and promising industry outlook, we are assigning a "SUBSCRIBE" rating to the IPO of IREDA. Investors with a medium to long-term horizon are encouraged to subscribe to the IPO.

Risk & Concern

- DISCOMs that purchase electricity from borrowers want to reduce existing PPA terms.
- Increase in NPAs.

Graphs & Charts

Figure 1: NII & NIM trend (FY23)

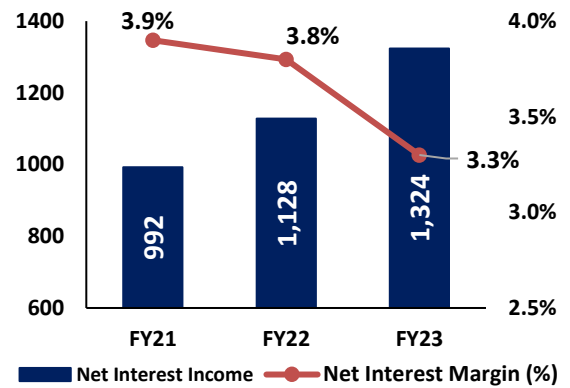


Figure 2: Loan Book Growth (FY23)

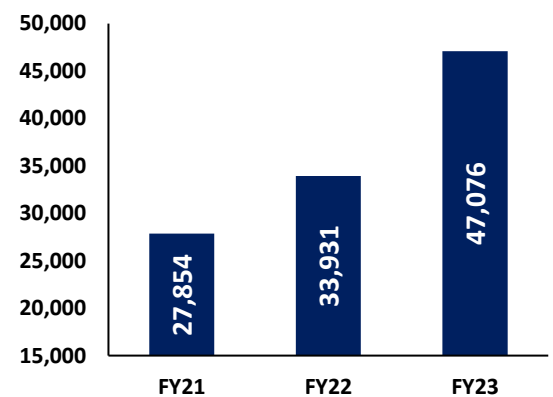
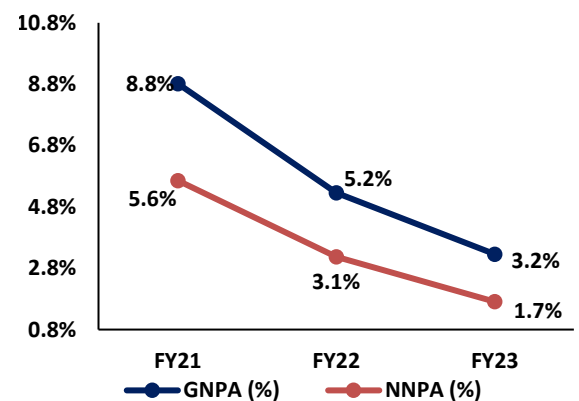


Figure 3: GNPA and NNPA Trend (FY23)



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