

IPO Report

Choice

“SUBSCRIBE” to

Indian Renewable Energy Development Agency Ltd.

The largest pure-play green financing NBFC in India



Salient features of the IPO:

- **Indian Renewable Energy Development Agency Ltd.** (IREDA) an infrastructure finance company, which provides financial assistance to renewable energy (RE) projects and energy efficiency & conservation (EEC) projects, is coming up with an IPO to raise around Rs. 2,150cr, which opens on 21st Nov. and closes on 23rd Nov. 2023. The price band is Rs. 30 - 32 per share.
- The IPO is a combination of fresh and OFS issue. The company will not receive any funds from the OFS portion. However, the fresh issue net proceeds will be used to augment the capital base of the company.
- Government (its promoter) is participating in the OFS and offloading 26.878cr shares. Post-IPO, the government's stake will decline to 75%, compared to current 100%. Consequently, public stake will increase from nil to 25%.

Key competitive strengths:

- Track record of growth, geared towards high quality assets and diversified asset book and stable profitability
- Strategic role in Government of India's initiatives in the RE sector
- Established & trusted brand name operating in a rapidly expanding sector
- Digitized process for borrower centricity and operational scalability, with presence across India
- Comprehensive data-based credit appraisal process & risk-based pricing, with efficient post-disbursement project monitoring & recovery process
- Access to diversified and cost-effective long-term sources of borrowing with a judicious approach towards asset-liability management
- Experienced senior management with in-depth sector expertise and professionally qualified employee base

Risk and concerns:

- General slowdown in the global economic activities
- Unfavorable government policies & regulations
- Rise/volatility in interest rates
- Unexpected rise in stressed assets
- Difficulty in maintaining the profitability
- Competition

Below are the key highlights of the company:

- Established in 1987, IREDA is the largest pure-play green financing NBFC in India. It was incorporated with an objective to provide innovative financing in RE, EEC and environmental technologies. In the past 36 years, the company has financed projects across multiple RE sectors such as solar power, wind power, hydro power, transmission, biomass including bagasse & industrial co-generation, waste-to-energy, ethanol, compressed biogas, EEC and green-mobility. It also offers financial products and schemes for new and emerging RE technologies such as, biofuel, green hydrogen, battery energy storage systems, fuel cells and hybrid RE projects.
- IREDA is wholly owned Government of India enterprise under the administrative control of the Ministry of New and Renewable Energy (MNRE). It is notified as a "Public Financial Institution" and is registered with the Reserve Bank of India as a systemically important non-deposit-taking NBFC with Infrastructure Finance Company status. In Jun. 2015, the company was conferred with the Mini-Ratna (Category I) status by the government.
- IREDA is a nodal agency for MNRE schemes such as Central Public Sector Undertaking Scheme, Phase-II (Government Producer Scheme); National Bioenergy Program; National Programme on High Efficiency Solar PV Modules under PLI scheme, Tranche-I; and Generation-Based Incentive Scheme.

Issue details

Price band	Rs. 30 - 32 per share
Face value	Rs. 10
Shares for fresh issue	40.316cr shares
Shares for OFS	26.878cr shares
Fresh issue size	Rs. 1,209.5 - 1,290.1cr
OFS issue size	Rs. 806.3 - 860.1cr
Total issue size	67.194cr shares (Rs. 2,015.8 - 2,150.2cr)
Employee reservation	0.188cr shares (Rs. 5.6 - 6cr)
Net issue size	67.007cr shares (Rs. 2,010.2 - 2,144.2cr)
Bidding date	21 st Nov. - 23 rd Nov. 2023
Implied MCAP at higher price band	Rs. 8,601cr
Book running lead manager	IDBI Capital Markets & Securities Ltd., BOB Capital Markets Ltd. and SBI Capital Markets Ltd.
Registrar	Link Intime India Pvt. Ltd.
Sector	Financial Institution
Promoters	The President of India, acting through The Ministry of New and Renewable Energy, Government of India

Issue break-up

Category	Percent of issue (%)	Number of shares
QIB portion	50%	33.503cr shares
Non institutional portion (Big)	10%	6.701cr shares
Non institutional portion (Small)	5%	3.350cr shares
Retail portion	35%	23.452cr shares

Indicative IPO process time line

Finalization of basis of allotment	28 th Nov. 2023
Unblocking of ASBA account	28 th Nov. 2023
Credit to demat accounts	29 th Nov. 2023
Commencement of trading	1 st Dec. 2023

Pre and post - issue shareholding pattern

	Pre-issue	Post-issue
Promoter & promoter group	100.00%	75.00%
Public	0.00%	25.00%
Non-promoter & Non-public	0.00%	0.00%
Total	100.00%	100.00%

Retail application money at higher cut-off price per lot

Number of shares per lot	460
Application money	Rs. 14,720per lot

Key highlights of the company (Contd...):

Company name	Face value (Rs.)	CMP (Rs.)	MCAP (Rs. cr)	Stock return				TTM loan outstanding (Rs. cr)	TTM total operating revenue (Rs. cr)	TTM PAT (Rs. cr)	TTM NIM	TTM PAT margin
				1 M	3 M	6 M	1 Y					
Indian Renewable Energy Development Agency Ltd.	10	32	8,601					47,514	4,226	1,034	3.2%	24.5%
Power Finance Corporation Ltd.	5	824	2,71,829	7.0%	22.5%	92.9%	177.0%	9,23,724	83,142	17,935	3.4%	21.6%
REC Ltd.	10	1,676	4,41,276	8.7%	43.0%	132.5%	205.6%	4,74,275	42,843	12,739	3.4%	29.7%
Average											3.4%	25.7%

Company name	3Y loan outstanding growth (CAGR)	3Y NII growth (CAGR)	3Y top-line growth (CAGR)	3Y PAT growth (CAGR)	Average 3Y PAT margin	5Y capital employed growth (CAGR)	3Y average asset / Equity	3Y average Loan o/s / Asset	3Y average NIM	3Y average gross NPA	3Y average net NPA	3Y average CRAR	3Y average RoA (%)	5Y average RoE
Power Finance Corporation Ltd.	7.3%	0.8%	4.0%	16.1%	24.6%	6.7%	8.2	1.0	3.6%	4.7%	1.6%	22.2%	2.4%	19.2%
REC Ltd.	7.4%	4.3%	5.4%	15.4%	25.8%	7.5%	8.0	1.0	3.7%	4.2%	1.4%	23.0%	2.4%	19.3%
Average	7.3%	2.5%	4.7%	15.8%	25.2%	7.1%	8.1	1.0	3.6%	4.4%	1.5%	22.6%	2.4%	19.3%

Company name	TTM gross NPA	TTM net NPA	CRAR	TTM EPS	TTM BVPS	TTM DPS	TTM RoE	TTM RoA	TTM P / E (x)	TTM P / B (x)
Indian Renewable Energy Development Agency Ltd.	3.1%	1.7%	20.9%	3.8	26.9		14.3%	2.0%	8.3	1.2
Power Finance Corporation Ltd.	3.4%	1.0%	38.6%	54.3	339.3	12.5	16.0%	2.1%	15.2	2.4
REC Ltd.	3.1%	1.0%		48.4	220.7	11.9	21.9%	2.9%	34.6	7.6
Average	3.3%	1.0%	38.6%				12.2	19.0%	24.9	5.0

Note: Financials as of FY23 and TTM (with IPO adjustments); Source: Choice Broking Research

- The financing requirement for RE sectors such as solar and wind are set to expand prominently in-line with the government's target of 500GW installed non-fossil fuel based power capacity by 2030. Compared to the solar potential of 749GW, India had an installed capacity of only 72GW as of Sept. 2023. Hydro power capacity is expected to grow at 6.3% CAGR over FY23-27E to 89GW. IRDEA is well positioned to play a critical role in meeting this financing requirement and enhance its market share in these areas.
- The company provides a comprehensive range of financial products and services, ranging from project conceptualization to the post-commissioning stage in RE projects and equipment manufacturing. It provides financial assistance through both fund-based and non-fund-based facilities.
- Some of its fund-based products for RE developers are long-term, medium-term and short-term loans (for projects, manufacturing and equipment financing), top-up loans, bridge loans, takeover financing and loans against securitization of future cash flows. IREDA also provides line-of-credit to other NBFCs for on-lending to RE and EEC projects. Further, it provides loans to government entities and also provide financing schemes for RE suppliers, manufacturers and contractors. Its non-fund-based products include letter of comfort, letter of undertaking, payment on order instruments and guarantee assistance schemes. Further, the company also provides consulting services on techno-commercial issues relating to the RE sector.
- Over FY21-23, IREDA's term loan outstanding has increased by 30% CAGR (Rs. 47,075.5cr) and further to Rs. 47,514.5cr by 30th Sept. 2023. Moreover, its 93% of the term loans are secured. As of 30th Sept. 2023, 37.9% of its term loans had a residual maturity profile of less than three years, 26.3% had a maturity profile between 3-7 years and 35.8% had a maturity profile of more than seven years.
- The company's borrowers comprise some of the key RE players in India, such as ReNew Power Pvt. Ltd., Continuum MP Windfarm Development Pvt. Ltd., Ayana Renewable Power Pvt. Ltd., Madhya Bharat Power Corporation Ltd., SJVN Ltd., TruAlt Bioenergy Ltd., Rising Sun Energy (K) Pvt. Ltd., Emvee Photovoltaic Power Pvt. Ltd., Premier Energies Ltd., Rewa Ultra Mega Solar Ltd., Acme Cleantech Solutions Pvt. Ltd., Pioneer Genco Ltd., Pioneer Power Corporation Ltd., Zuari Industries Ltd. and Jindal Urban Waste Management (Visakhapatnam) Ltd.
- IREDA's borrowing has increased by 29.4% CAGR over FY21-23 to Rs. 40,165.3cr. As of 30th Sept. 2023, it borrowed around 45% from domestic banks & financial institutions, 24.3% from international banks & financial institutions, 22.1% through taxable bonds, 6.9% from tax-free bonds, 3.6% through external commercial borrowings and 4.1% from subordinate debt.
- The company has been highly rated by credit rating agencies. India Ratings had rated its debt instruments as AAA (Stable), ICRA has rated its bonds as ICRA AAA (Stable) and Acuite has rated its bank loans as Acuite AAA Stable.
- Gross non-performing assets (NPA) as a percentage of loans outstanding has reduced from 8.8% in FY21 to 3.2% in FY23 and further to 3.1% by 30th Sept. 2023. Its net NPAs as a percentage of loans outstanding reduced from 5.6% in FY21 to 1.7% by FY23 and further to 1.6% by 30th Sept. 2023.
- With its high credit ratings, strong financial performance, high asset quality, sovereign-owned status and diversified source of borrowing, the company is competitive in raising funds. Over FY21-23, IREDA's average cost of borrowings ranged between 6.2-7.2%.

Key highlights of the company (Contd...):

- IREDA has reported a short financial history, characterized with robust business growth and improvement in the asset quality and return ratios. With 30% CAGR growth in the term loans over FY21-23, the company has reported a 14.7% CAGR rise in interest income. Interest expenses increased by 15.3% CAGR, resulting to 61bps contraction in the net interest margin, which stood at 3.3% in FY23. Net interest income (NII) increased by 13.7% CAGR to Rs. 1,285.4cr in FY23. Other operating expenses increased by 3.5% CAGR, consequently, pre-provision operating profit grew by 15% CAGR to Rs. 1,205.8cr. Further with 55.9% CAGR fall in provisions and lower effective tax rates, reported PAT increased by 58% CAGR to Rs. 864.6cr in FY23. Pre-IPO, RoA and RoE expanded by 78bps and 288bps over FY21-23 to 2% and 15.4%, respectively, in FY23.
- Performance during H1 FY24: With 49.1% and 67.9% Y-o-Y increase in interest income and expenses, respectively, the company reported a 20.3% Y-o-Y rise in NII, which stood at Rs. 728.8cr during H1 FY24. Reported PAT increased by 41.2% Y-o-Y to Rs. 579.3cr. On TTM basis, NII and PAT stood at Rs. 1,408.5cr and Rs. 1,033.7cr, respectively. Net interest margin stood at 3.2%, compared to 3.3% in FY23.

Peer comparison and valuation: With loan assets of around Rs. 47,075cr, IREDA is the largest pure-play green financing NBFC in India. To meet the net-zero emission target, the government has set a humongous target for RE installations by 2030. Considering its nodal agency status and varied financial products, IREDA is well placed to capitalize the growth in the RE sector.

At higher price band, IREDA is demanding a TTM P/B multiple of 1.2x, which is at discount to the peer average. Thus, we assign a **"SUBSCRIBE"** rating for the issue.

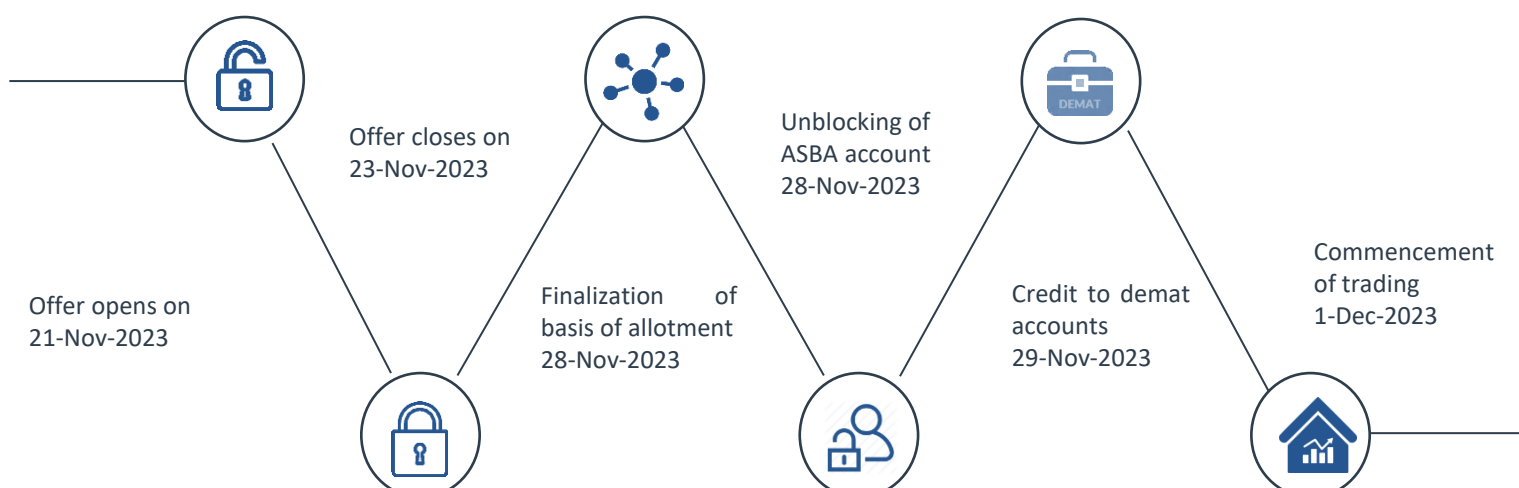
About the issue:

- IREDA is coming up with an IPO with 67.194cr shares (fresh issue: 40.316cr shares; OFS shares: 26.878cr shares) in offering. This offer represents 25.0% of the post-issue paid-up equity shares of the company. Total IPO size is Rs. 2,015.8 - 2,150.2cr.
- The issue is through book building process with a price band of Rs. 30 - 32 per share.
- Lot size comprises of 460 equity shares and in multiple of 460 shares thereafter.
- The issue will open on 21st Nov. 2023 and close on 23rd Nov. 2023.
- The IPO is a combination of fresh and OFS issue. The company will not receive any funds from the OFS portion. However, the fresh issue net proceeds will be used to augment the capital base of the company.
- 50% of the net issue is reserved for qualified institutional buyers, while 15% and 35% of the net issue is reserved for non-institutional bidders and retail investors, respectively.
- Government (its promoter) is participating in the OFS and offloading 26.878cr shares. Post-IPO, the government's stake will decline to 75%, compared to current 100%. Consequently, public stake will increase from nil to 25%.

Pre and post-issue shareholding pattern (%)		
	Pre-issue	Post-issue (at higher price band)
Promoter & promoter group	100.00%	75.00%
Public	0.00%	25.00%
Non-promoter & Non-public	0.00%	0.00%

Source: Choice Equity Broking

Indicative IPO process time line:



Pre-issue financial performance:

Performance over FY21-23: IREDA has reported a short financial history, characterized with robust business growth and improvement in the asset quality and return ratios.

With 30% CAGR growth in the term loans over FY21-23, the company has reported a 14.7% CAGR rise in interest income. Interest expenses increased by 15.3% CAGR, resulting to 61bps contraction in the net interest margin, which stood at 3.3% in FY23. Net interest income (NII) increased by 13.7% CAGR to Rs. 1,285.4cr in FY23.

Other operating expenses increased by 3.5% CAGR, consequently, pre-provision operating profit grew by 15% CAGR to Rs. 1,205.8cr. Further with 55.9% CAGR fall in provisions and lower effective tax rates, reported PAT increased by 58% CAGR to Rs. 864.6cr in FY23. Pre-IPO, RoA and RoE expanded by 78bps and 288bps over FY21-23 to 2% and 15.4%, respectively, in FY23.

Performance during H1 FY24: With 49.1% and 67.9% Y-o-Y increase in interest income and expenses, respectively, the company reported a 20.3% Y-o-Y rise in NII, which stood at Rs. 728.8cr during H1 FY24. Reported PAT increased by 41.2% Y-o-Y to Rs. 579.3cr.

On TTM basis, NII and PAT stood at Rs. 1,408.5cr and Rs. 1,033.7cr, respectively. Net interest margin stood at 3.2%, compared to 3.3% in FY23.

Pre-issue consolidated financial snapshot (Rs. cr)	FY21	FY22	FY23	H1 FY23	H1 FY24	TTM	CAGR over FY21-23	Y-o-Y (FY23 annual)
Interest income	2,564.3	2,713.2	3,373.8	1,532.9	2,285.7	4,126.6	14.7%	24.3%
Interest expenses	(1,570.3)	(1,587.3)	(2,088.4)	(927.2)	(1,556.9)	(2,718.1)	15.3%	31.6%
Net interest income	994.1	1,126.0	1,285.4	605.7	728.8	1,408.5	13.7%	14.2%
Total income	2,657.7	2,874.2	3,483.0	1,577.8	2,320.5	4,225.8	14.5%	21.2%
Pre-provision operating profit	911.1	1,013.7	1,205.8	583.3	705.1	1,327.6	15.0%	18.9%
Reported PAT	346.4	633.5	864.6	410.3	579.3	1,033.7	58.0%	36.5%
Restated reported EPS	1.3	2.4	3.2	1.5	2.2	3.8	58.0%	36.5%
Network	2,995.6	5,268.1	5,935.2	5,638.3	6,580.6	6,580.6	40.8%	12.7%
Term loans outstanding	27,853.9	33,930.6	47,075.5	33,783.4	47,514.5	47,514.5	30.0%	38.7%
Total borrowings	24,000.0	27,613.1	40,165.3	30,230.4	39,850.2	39,850.2	29.4%	45.5%
Assets / Equity	10.1	7.0	8.5	7.2	7.8	7.8	-8.3%	22.0%
AUM / Assets	91.9%	92.4%	93.3%	83.5%	92.7%	92.7%	137 bps	88 bps
Spread	3.3%	2.8%	2.2%	1.4%	1.1%		(105) bps	(60) bps
Net interest margin	3.9%	3.8%	3.3%	1.8%	1.7%	3.2%	(61) bps	(43) bps
Average cost of borrowings	7.2%	6.3%	6.2%	3.2%	3.8%		(92) bps	(10) bps
Cost to income ratio	78.6%	71.0%	67.3%	60.9%	64.7%	68.2%	(1,128) bps	(370) bps
RoA	1.2%	1.9%	2.0%	1.1%	1.1%	2.0%	78 bps	9 bps
RoE	12.6%	15.3%	15.4%	7.5%	9.3%	15.7%	288 bps	11 bps
CRAR	17.1%	21.2%	18.8%	23.6%	20.9%	20.9%	170 bps	(240) bps
Provision coverage ratio	38.1%	41.5%	49.3%	47.6%	48.1%		1,111 bps	780 bps
Gross NPA	8.8%	5.2%	3.2%	5.1%	3.1%		(556) bps	(200) bps
Net NPA	5.6%	3.1%	1.7%	2.7%	1.7%		(395) bps	(146) bps

Note: Pre-IPO financial and ratios; Source: Choice Equity Broking

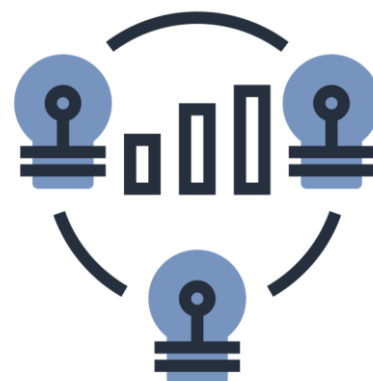


Competitive strengths:

- Track record of growth, geared towards high quality assets and diversified asset book and stable profitability
- Strategic role in Government of India's initiatives in the RE sector
- Established and trusted brand name operating in a rapidly expanding sector
- Digitized process for borrower centricity and operational scalability, with presence across India
- Comprehensive data-based credit appraisal process and risk-based pricing, with efficient post-disbursement project monitoring and recovery processes
- Access to diversified and cost-effective long-term sources of borrowing with a judicious approach towards asset-liability management
- Experienced senior management with in-depth sector expertise and professionally qualified employee base

Business strategy:

- Maintain leadership in RE sectors such as solar, wind, hydro power and biomass, biofuels and cogeneration
- Leverage sector expertise to enhance presence in new and emerging green technologies
- Optimize borrowing costs to enhance competitiveness and profitability
- Streamline operating model to continue to support non-linear growth
- Continue to focus on the environmental and social management system



Risk and concerns:

- General slowdown in the global economic activities
- Unfavorable government policies & regulations
- Rise/volatility in interest rates
- Unexpected rise in stressed assets
- Difficulty in maintaining the profitability
- Competition

Financial statements:

Consolidated profit and loss statement (Rs. cr)								
	FY21	FY22	FY23	H1 FY23	H1 FY24	TTM	CAGR over FY21 - 23	Annual growth over FY22
Interest income	2,564.3	2,713.2	3,373.8	1,532.9	2,285.7	4,126.6	14.7%	24.3%
Interest expenses	(1,570.3)	(1,587.3)	(2,088.4)	(927.2)	(1,556.9)	(2,718.1)	15.3%	31.6%
Net interest income	994.1	1,126.0	1,285.4	605.7	728.8	1,408.5	13.7%	14.2%
Other income	93.4	160.9	109.2	44.8	34.8	99.2	8.1%	-32.1%
Total income	2,657.7	2,874.2	3,483.0	1,577.8	2,320.5	4,225.8	14.5%	21.2%
Operating and other expenses	(176.3)	(273.2)	(188.8)	(67.2)	(58.5)	(180.1)	3.5%	-30.9%
Pre-provision operating profit	911.1	1,013.7	1,205.8	583.3	705.1	1,327.6	15.0%	18.9%
Impairment on financial instruments	(341.6)	(179.9)	(66.6)	32.9	114.4	14.9	-55.9%	-63.0%
PBT	569.5	833.8	1,139.2	616.2	819.4	1,342.5	41.4%	36.6%
Tax expenses	(223.1)	(200.3)	(274.6)	(205.9)	(240.1)	(308.8)	10.9%	37.1%
Reported PAT	346.4	633.5	864.6	410.3	579.3	1,033.7	58.0%	36.5%

Consolidated balance sheet statement (Rs. cr)								
	FY21	FY22	FY23	H1 FY23	H1 FY24	TTM	CAGR over FY21 - 23	Annual growth over FY22
Equity share capital	784.6	2,284.6	2,284.6	2,284.6	2,284.6	2,284.6	70.6%	0.0%
Other equity	2,211.0	2,983.5	3,650.6	3,353.7	4,296.0	4,296.0	28.5%	22.4%
Provisions	602.5	1,056.0	1,118.2	944.0	1,039.7	1,039.7	36.2%	5.9%
Other non-financial liabilities	1,718.4	1,747.9	1,737.0	1,752.2	1,799.0	1,799.0	0.5%	-0.6%
Borrowings	24,000.0	27,613.1	40,165.3	30,230.4	39,850.2	39,850.2	29.4%	45.5%
Other financial liabilities	977.0	1,023.3	1,491.4	1,912.5	1,987.0	1,987.0	23.6%	45.7%
Total liabilities	30,293.4	36,708.4	50,447.0	40,477.4	51,256.5	51,256.5	29.0%	37.4%
Net fixed assets	266.1	379.3	372.8	370.0	365.1	365.1	18.4%	-1.7%
Other non-financial assets	2,089.5	2,094.1	2,182.4	2,187.6	2,129.6	2,129.6	2.2%	4.2%
Cash & cash equivalents	603.3	526.7	954.8	4,391.3	1,462.9	1,462.9	25.8%	81.3%
Loans	26,905.6	33,174.4	46,226.9	32,941.8	46,712.9	46,712.9	31.1%	39.3%
Other financial assets	428.9	533.9	710.1	586.8	586.1	586.1	28.7%	33.0%
Total assets	30,293.4	36,708.4	50,447.0	40,477.4	51,256.5	51,256.5	29.0%	37.4%

Consolidated financial ratios							
Particulars	FY21	FY22	FY23	H1 FY23	H1 FY24	TTM	
Business ratio							
Networth	2,995.6	5,268.1	5,935.2	5,638.3	6,580.6	6,580.6	
Term loans outstanding	27,853.9	33,930.6	47,075.5	33,783.4	47,514.5	47,514.5	
Total borrowings	24,000.0	27,613.1	40,165.3	30,230.4	39,850.2	39,850.2	
Assets / Equity	10.1	7.0	8.5	7.2	7.8	7.8	
AUM / Assets	91.9%	92.4%	93.3%	83.5%	92.7%	92.7%	
Growth ratios							
AUM		21.8%	38.7%		40.6%		
NII		13.3%	14.2%		20.3%		
PAT		82.9%	36.5%		41.2%		
Return / Profitability ratios							
Spread	3.3%	2.8%	2.2%	1.4%	1.1%		
Net interest margin	3.9%	3.8%	3.3%	1.8%	1.7%	3.2%	
Average cost of borrowings	7.2%	6.3%	6.2%	3.2%	3.8%		
Cost to income ratio	78.6%	71.0%	67.3%	60.9%	64.7%	68.2%	
Reported diluted EPS	4.4	8.0	3.8	1.8	2.5	4.5	
RoA	1.2%	1.9%	2.0%	1.1%	1.1%	2.0%	
RoE	12.6%	15.3%	15.4%	7.5%	9.3%	15.7%	
Regulatory capital / Asset quality ratios							
CRAR	17.1%	21.2%	18.8%	23.6%	20.9%	20.9%	
Provision coverage ratio	38.1%	41.5%	49.3%	47.6%	48.1%		
Gross NPA	8.8%	5.2%	3.2%	5.1%	3.1%		
Net NPA	5.6%	3.1%	1.7%	2.7%	1.7%		

Note: Pre-IPO financials; Source: Choice Equity Broking

IPO rating rationale

Subscribe: An IPO with strong growth prospects and valuation comfort.

Subscribe with Caution: Relatively better growth prospects but with valuation discomfort.

Avoid: Concerns on both fundamentals and demanded valuation.

Research disclaimer & disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

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