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IPO Report

18th Nov'23

Snapshot

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. Company provide 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.

VALUATION

Company is bringing the issue at price band of Rs 30-32 per share at p/b multiple of 1.09x on post issue book value basis. Company has track record of growth, geared towards high quality assets, diversified asset book and stable profitability. Company has strategic role in Government of India initiatives in the Renewable Energy sector. Company has established and trusted brand name operating in a rapidly expanding sector. Company's Digitized process for borrower centricity and operational scalability, with presence across India & access to diversified and cost-effective long-term sources of borrowing with a judicious approach towards asset-liability management makes it fundamentally strong counter to deploy the funds in. Hence, looking after all above we recommend "Subscribe" on issue.

Price Band (Rs./Share)	30-32
Opening date of the issue	21st Nov '2023
Closing Date of the issue	23rd Nov '2023
No of shares pre issue	212231034 Eq Shares
Issue Size	Rs 2016-2150 Cr
Fresh issue	403164706 Equity Shares
Offer For Sale	268776471 Eq Shares
Face Value (Rs/ share)	Rs 10/share
Bid Lot	460

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 335032878 Eq Shares)
Non-Institutional	15% of the offer (Approx 100509864 Eq Shares)
Retail	35 % of the offer (Approx 234523015 Eq Shares)
Employee Reservation	18,75,420 Equity Shares
Lead managers	BOB Capital Markets, IDBI Capital, SBI Capital Markets
Registrar to the issue	Link Intime India Pvt Ltd

WHAT WE LIKE

Track record of growth, geared towards high quality assets and diversified asset book and stable profitability

Company have 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, company's Term Loans Outstanding stood at ₹ 470,755.21 million, compared to ₹ 278,539.21 million as on March 31, 2021, increasing at a CAGR of 30.00%.

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

Company have expanded its financing services in line with the RE priorities of the GoI such as solar, wind, hydro power, biomass, co-generation, among others. The GoI has highlighted priority areas for RE generation, including RE component manufacturing (solar modules, hydrogen electrolyzers, battery storage, among others), green energy corridor, green hydrogen production, utility-scale battery storage, pumped storage hydro, ethanol, green mobility and rooftop solar power. Company intend to continue to play a critical role in shaping and implementing key policies and schemes in these areas..

Access to diversified and cost-effective long-term sources of borrowing with a judicious approach towards asset-liability management

Company's cost of borrowings in Fiscal 2021, 2022, 2023 and the six months ended September 30, 2022 and September 30, 2023 was 7.15%, 6.33%, 6.23%, 3.22% and 3.82%, respectively, which company is competitive. Company's debt-to-equity ratio was 6.77 as of March 31, 2023 and 6.06 as of September 30, 2023. Company's classification as a Public Finance Institution and its credit ratings enable company to access diversified funding options. Company's primary sources of borrowings include domestic and foreign currency borrowings.



COMPANY BACKGROUND

Company is wholly owned Government of India (“GoI”) enterprise under the administrative control of the Ministry of New and Renewable Energy (the “MNRE”). Company was notified as a “Public Financial Institution” (“PFI”) under Section 4A of the Companies Act, 1956 by the Department of Company Affairs, Ministry of Law, Justice and Company Affairs, Government of India on October 17, 1995 and is registered with the Reserve Bank of India (the “RBI”) as a Systemically Important Non-Deposit-taking Non-Banking Finance Company (a “NBFCND-SI”), with Infrastructure Finance Company (“IFC”) status. In September 2023, company have been upgraded from Schedule B to Schedule A in the list of CPSEs by the Department of Public Enterprises (“DPE”). Company was also conferred with the Mini Ratna (Category I) status in June 2015 by the DPE. Since Fiscal 2021, company have 221 consistently been rated ‘Excellent’ by the MNRE in course of evaluation of its performance in achieving key targets to its current market position in the automotive components industry.

Company have 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. Company also offer 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.

Company offer a comprehensive suite of financial products and services including various fund-based and non fundbased products. Some of company’s key fund-based products for RE developers are long-term, medium-term and shortterm loans (for projects, manufacturing and equipment financing), top-up loans, bridge loans, takeover financing, and loans against securitization of future cashflows. Company also provide line of credit to other NBFCs for on-lending to RE and EEC projects. In addition, company provide loans to government entities and also provide financing schemes for RE suppliers, manufacturers and contractors. Company’s non fund-based products include letter of comfort, letter of undertaking, payment on order instruments and guarantee assistance schemes. Further, company provide consulting services on techno-commercial issues relating to the RE sector.

Company’s non fund-based products include letter of comfort, letter of undertaking, payment on order instruments and guarantee assistance schemes. Further, company provide consulting services on techno-commercial issues relating to the RE sector. Company have been established as an integral part of, and have played a strategic role in the GoI’s initiatives for the promotion and development of the RE sector in India. Company is directly involved in implementing several significant schemes launched by the MNRE. Company was the fund handling agency for the Credit Linked Capital Subsidy Scheme. Further, company have been designated as the Central Nodal Agency for the National Bioenergy Programme (Phase I) for the Scheme to Support Manufacturing of Briquettes and Pellets and Promotion of Biomass (nonbagasse) based co-generation in Industries and the Programme on Energy from Urban, Industrial, Agricultural Waste/ Residues. Company is also the implementing agency for the Central Public Sector Undertaking (Government Producer Scheme) (Phase 2 Tranche III), Generation Based Incentive Scheme as well as the Rooftop, PV and Small Solar Generation Programme and the National Programme on High Efficiency Solar PV Modules under the Production Linked Incentive Scheme (Tranche I).

Company have a secured asset base, and 93.41% of its Term Loans Outstanding as of September 30, 2023, has security cover. Company have been rated highly by credit rating agencies and India Ratings had rated company’s debt instruments AAA (Stable), ICRA has rated its Bonds ICRA AAA (Stable) and Acuite has rated company’s bank loans Acuite AAA Stable. In addition to company’s financial products and services, company also have its own 50 MW Solar Photovoltaic Project at Kasaragod Solar Park in the State of Kerala. The project generates power which is injected into the grid of Kerala State Electricity Board. The project was fully commissioned in September 2017. In Fiscal 2021, 2022, 2023, and the six months ended September 30, 2022 and September 30, 2023 company’s 50 MW Solar Photovoltaic Project generated revenue of ₹ 274.17 million, ₹ 284.90 million, ₹ 269.04 million, ₹ 118.34 million and ₹ 139.80 million, respectively.

In addition to company’s financial products and services, company also have its own 50 MW Solar Photovoltaic Project at Kasaragod Solar Park in the State of Kerala. The project generates power which is injected into the grid of Kerala State Electricity Board. The project was fully commissioned in September 2017. In Fiscal 2021, 2022, 2023, and the six months ended September 30, 2022 and September 30, 2023 company’s 50 MW Solar Photovoltaic Project generated revenue of ₹ 274.17 million, ₹ 284.90 million, ₹ 269.04 million, ₹ 118.34 million and ₹ 139.80 million, respectively.



INVESTMENT RATIONALE

<p><i>Strategic role in Government of India initiatives in the Renewable Energy sector</i></p>	<p>Company is a wholly owned GoI enterprise under the administrative control of the MNRE. Since its inception, company have been closely involved in the development and implementation of various policies and schemes for structural and procedural reform in the RE sector.</p> <p>Company have served as the implementing agency for the following key MNRE policies and schemes:</p> <p>(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 ₹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 ₹ 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 ₹12.14 billion 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; and (iv) National Clean Energy Fund Refinancing Scheme.</p>
<p><i>Digitized process for borrower centricity and operational scalability, with presence across India</i></p>	<p>Company have a robust IT infrastructure with an Enterprise Resource Planning System (“ERP System”) tailored to company’s business requirements. Company’s IT modules extend to various key processes across borrower-facing functions, as well as internal processes, including the following:</p> <ul style="list-style-type: none"> • <i>Online loan application</i> 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, company’s loan applications are filed online and processed digitally. Company have standardized its application mechanism for processing sanction of loans. Company have adopted templates for pre-disbursement and post-disbursement documentation requirements. • <i>Customer portal</i>, which company 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. In addition, company benefit from its integrated ERP comprising business processes such as finance and accounts, payroll, human resource management system, employee self-service, loan origination system and loan management system, liability management system, legal, credit risk rating system, inventory management, and project monitoring and risk management.
<p><i>Comprehensive data-based credit appraisal process and risk-based pricing, with efficient post-disbursement project monitoring and recovery processes</i></p>	<p>Company have comprehensive credit appraisal policies and procedures which enable company to effectively appraise and extend financial assistance to various RE projects, including new and emerging RE sectors, while maintaining asset quality. Company’s 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.</p>
<p><i>Experienced senior management with in-depth sector expertise and professionally qualified employee base</i></p>	<p>Company is led by experienced senior management with an established track record in managing public institutions in India and considerable knowledge of power sector and RE financing in India. The average work experience in banking finance, power and RE of company’s management is between 25 and 30 years. Company’s Board of Directors includes Government Nominee Directors as well as Independent Directors. Their experience, as well as their strong relationships with government agencies and other RE and power sector entities, has enabled company to successfully grow its operations.</p>



OBJECTS OF OFFER

Offer for Sale

The Offer for Sale of up to 268,776,471 Equity Shares by the Promoter Selling Shareholder. Company will not receive any proceeds from the Offer for Sale.

Fresh Issue

Company proposes to utilise the Net Proceeds from the Fresh Issue towards augmenting its capital base to meet future capital requirements and onward lending.

RISKS

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 company's business, results of operations and financial condition.

Source:RHP

INDUSTRY OVERVIEW

Power focused NBFCs in India

Overview

Power sector financing NBFCs primarily focus on financing of power generation, transmission, distribution and other such 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.

These NBFCs operate within the regulatory framework set by RBI, SEBI and National Housing Bank. NBFCs compliance with the regulation set by these regulatory bodies ensures financial stability, transparency and consumer protection. These NBFCs have a robust risk management framework to mitigate risks such as project feasibility risks, interest rate risk, market risk, regulatory risk, among others. Power financing NBFCs provide funds to meet various requirements of power projects through products including working capital loans, term loans, equipment financing, bridge loans, project financing, refinancing, mezzanine financing and structured debt financing. These NBFCs facilitate access to energy, uptick in power generation capacity and promote sustainable energy activities. Power financing NBFCs significantly contribute to the growth and development of the power sector by providing funding for adoption, expansion and improvement of overall power infrastructure.

Over the years, power financing NBFCs have seen significant traction supported by increase in demand for funds from power sector, and government's push towards growth of power sector. As of Fiscal 2023, the outstanding credit of key power financing NBFCs reached around ₹ 9,399 billion indicating CAGR of nearly 10% over Fiscal 2019. In Fiscal 2024, power-financing NBFCs are expected to continue this growth momentum and this growth is likely to be driven by increase in power demand, rise in population, renewable integration and sustainability goals of the country.

Growth Drivers

Power Supply Position

Over the last decade, there has been significant rise in power demand on the back of growing population, rapid urbanization and ramp-up in economic activity. In Fiscal 2023, country's energy requirement increased to 1,511,847 million units in Fiscal 2023, indicating 4.7% CAGR over Fiscal 2014. NBFCs can play a crucial role in providing funding for development of new power generation projects and expansion of transmission and distribution infrastructure to meet this uptick in power demand.

Enhancement and Development of Infrastructure

The power sector requires continuous development of existing and new power generation, transmission and distribution infrastructures to enhance the efficiency, reliability and capacity of power plants. This upgradation requires a substantial investment, this is where power financing have opportunity to fund these infrastructure projects including the refurbishment or construction of power plants, transmission lines and distribution networks and technology and equipment upgrades.

Expansion of Renewable Energy

In 26th Conference of Parties, or COP26 on climate change, India announced its target to increase its non-fossil energy to 500 GW by 2030. In addition, India announced that it would meet 50% of its energy requirements by 2030 from renewable energy. India is committed towards achieving these targets and increase the contribution of renewable energy in the power generation mix to meet the rapidly growing demand for electricity. CareEdge Research believes that financing requirement for renewable energy sectors such as solar and wind are set to expand prominently in line with the GoI's target of 500 GW installed non-fossil fuel-based power capacity by 2030.


Consolidated Financials

(Rs in Mn)

Financials (Mn)	FY21	FY22	FY23	H1FY24
Total Income	26548.12	28598.99	34819.75	23198.33
Total Expenses	17465.83	18604.17	22772.17	16153.99
Pre Provision Profit	9111.61	10137.38	12058.27	7050.59
Provisions	3416.45	1798.98	665.79	-1143.75
PBT	5695.16	8338.40	11392.48	8194.34
Tax	2231.10	2003.13	2746.21	2401.19
PAT	3464.06	6335.27	8646.27	5793.15
Eq Cap	7846.00	22846.00	22846.00	22846.00
Net Worth	29,956.00	52,681.13	59,351.69	65,806.12
EPS	4.41	8.03	3.78	2.54
Book value	38.18	23.06	25.98	28.80
NIM %	3.93	3.75	3.32	1.68
Cost To Income ratio	7.15	6.33	6.23	3.82
ROE%	12.56	15.33	15.44	9.26
ROA%	1.20	1.89	1.98	1.14
Gearing ratio	8.01	5.24	6.77	6.06

(Source: RHP)

Peer Comparison

Company Name	Face value	EPS	NAV	P/E	P/B	RONW %
<i>Indian Renewable Energy Development Agency Limited</i>	<i>10.00</i>	<i>3.78</i>	<i>25.98</i>			<i>15.43%</i>
Peers						
REC Limited	10.00	42.28	220.72	7.71	1.48	20.41%
Power Finance Corporation	10.00	60.19	424.16	4.79	0.68	20.34%

(Source: RHP)



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