

Healthy growth momentum to aid valuation...

About the stock: IREDA is a systemically important non-deposit taking non-banking financial company engaged in financing of renewable sector.

- The company has geographically diversified asset base with term loans outstanding across 23 states and 4 union territories

Q2FY25 performance: IREDA has reported continued strong performance in Q2FY25 delivering 36% YoY growth in AUM at ₹64,564 crore. NII growth came higher at 52% YoY to ₹546.8 crore, led by 16 bps YoY improvement in margins to 3.34%. However, credit cost at 21 bps (annualised) compared to reversal in earlier quarters led earnings growth at 36% YoY to ₹ 388 crore. Asset quality remained steady with GNPA at 2.19%, though NNPA increased 9 bps QoQ at 1.04%.

Investment Rationale

- Government focus on renewables & entry into retail business to aid sustained growth:** Government's focus to increase renewable power capacity from 195 GW (~43% of total installed capacity) in June 2024 to 500 GW by FY30 provides huge opportunity. IREDA being specialised power financiers is expected to play a major role in funding renewable projects. Thus, business growth is expected to remain healthy at ~25-30% CAGR in FY24-30E. Further, foray in retail business (approval received to set up a wholly owned subsidiary) such as PM KUSUM, rooftop solar, EVs, energy storage and efficiency, green technology is seen to aid diversification.
- Capability to borrow at competitive rate remains an advantage:** As of June 2024, major proportion of borrowings at ~84% are sourced from domestic avenues. IREDA has been assigned highest "AAA" rating enabling long term borrowings at competitive cost, thereby supporting margins. Higher proportion of floating rate loans could keep margins volatile, amid anticipated reversal in rate cycle could not be ruled out. However, consistent growth in AUM is seen to aid NII growth at ~25% CAGR in FY24-26E.
- Exposure to retail segment and operating leverage to aid profitability:** Continued healthy growth in AUM (expected at ~28% CAGR in FY25-26E) is expected to aid profitability owing to benefit from operating leverage. Entering in retail segment is expected to result in improved yields, thus partially safeguarding margins against anticipated reversal in rate cycle. Steady opex and credit cost is seen to keep profitability run rate at ~18-20% CAGR. Return on asset is expected to witness marginal pressure in near term, only to revive back at 1.9-2% ahead.

Rating and Target Price

- Continued government's focus on renewable sector and foray in retail segment is seen to aid business growth and margins aiding delivery of steady return ratio on a sustained basis. Capital raising (approval received) of ₹4500 crore, to make balance sheet for future growth and remain book accretive. Factoring scope of relatively strong business growth, we value the stock at ~6.4x FY26 BV (~43x FY26E EPS) assigning a target of ₹ 280. Maintain **Buy** rating on the stock.

Key Financial Summary

₹ crore	FY21	FY22	FY23	FY24	3 year CAGR (FY21-FY24)	FY25E	FY26E	2 year CAGR (FY24-26E)
NII	995	1126	1285	1658	18.6%	7366	9121	134.5%
PPP	921	1014	1206	1618	20.7%	2067	2535	25.2%
PAT	356	634	865	1252	52.0%	1494	1755	18.4%
ABV (₹)	38	19	23	30	-8.0%	35	41	17.7%
P/E	49.3	80.8	59.2	48.1		40.3	34.3	
P/ABV	5.9	12.1	9.9	7.5		6.4	5.4	
RoA	1.3%	1.9%	1.9%	2.1%		2.0%	1.8%	
RoE	11.9%	12.0%	14.6%	14.6%		14.9%	14.9%	

Source: Company, ICICI Direct Research



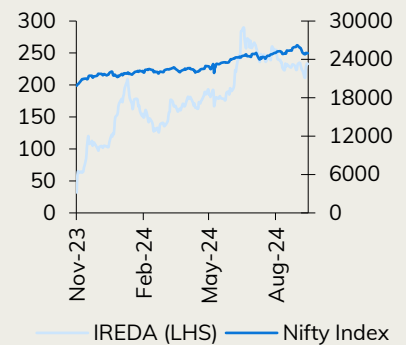
Particulars

	Amount
Market Capitalisation	₹ 61,445 crore
52 week H/L	310 / 50
Net worth	₹ 9,336 Crore
Face Value	10.0

Shareholding pattern

Holding (%)	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	75.0	75.0	75.0	75.0
FII	1.9	1.4	2.7	2.02
DII	4.4	0.9	0.4	0.35
Public	18.8	22.7	21.9	22.6

Price Chart



Key risks

- Substantial exposure to private sector poses risk of NPA
- Adverse change in regulation

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Exhibit 1: Variance Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
NII	547	360	52.0	508	7.7	Driven by strong YoY growth of 36% in AUM
NIM %	3.3%	3.2%	18 bps	3.3%	5 bps	
Other Income	53	24	122.3	28	90.8	
Total Income	600	384	56.4	536	12.0	
Staff cost	21	21	-0.8	20	5.1	
Other opex	86	0	NA	70	21.8	
PPoP	494	363	36.0	446	10.8	Steady operational performance
Provision costs	34	-17	NA	-30	NA	Credit cost turned into positive number
PBT	460	380	21.1	476	-3.3	
Provision for Tax	72	95	-24.2	92	-21.6	
PAT	388	285	36.2	384	1.1	Continued AUM growth & lower tax outgo aided earnings
Key Metrics						
GNPA	1395	1462	-4.6	1385	0.8	
NNPA	663	771	-14.0	593	11.7	NNPA ratio increased by 9 bps QoQ at 1.04%
Total loan book	64565	47514	35.9	63206	2.2	In-line with management target of 30%
Borrowings	53989	39201	37.7	53095	1.7	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Interest Earned	3,374	4,822	6,218	7,812
Interest Expended	2,088	3,164	4,110	5,221
Net Interest Income	1,285	1,658	2,109	2,591
% growth	14.2	29.0	27.2	22.9
Non Interest Income	109	143	184	235
Net Income	1,395	1,801	2,293	2,826
Total operating expense	189	183	226	291
PPoP	1,206	1,618	2,067	2,535
Provisions	67	(67)	75	194
PBT	1,139	1,685	1,992	2,341
Taxes	275	433	498	585
Net Profit	865	1,252	1,494	1,755
% growth	36.5	44.8	19.3	17.5

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Valuation					
No. of Equity Shares	228.5	268.8	268.8	268.8	
EPS (₹)	3.8	4.7	5.6	6.5	
BV (₹)	26.0	31.8	37.4	43.9	
ABV (₹)	22.6	29.7	34.9	41.1	
P/E	59.2	48.1	40.3	34.3	
P/BV	8.6	7.0	6.0	5.1	
P/adj.BV	9.9	7.5	6.4	5.4	
Yield on AUM	7.3%	8.2%	8.2%	8.0%	
Cost of funds	5.2%	6.4%	6.1%	5.9%	
Net Interest Margins	2.8%	2.8%	2.8%	2.7%	
Spreads	2.1%	1.8%	2.1%	2.1%	
Quality and Efficiency					
Cost / Total net income	13.5%	10.2%	9.8%	10.3%	
GNPA%	3.2%	2.4%	2.2%	2.0%	
NNPA%	1.7%	1.0%	0.9%	0.8%	
RoE (%)	14.6%	14.6%	14.9%	14.9%	
RoA (%)	1.9%	2.1%	2.0%	1.8%	

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Sources of Funds				
Capital	2,285	2,688	2,688	2,688
Reserves and Surplus	3,651	5,872	7,366	9,121
Networth	5,935	8,560	10,054	11,809
Borrowings	40,165	49,687	67,172	88,227
Other Liabilities & Provisi	4,356	4,368	2,757	2,222
Total	50,456	62,615	79,983	1,02,257
	115%	118%	112%	110%
Applications of Funds				
Investments	99	99	599	599
Advances	46,227	58,775	75,232	97,049
Other Assets	4,130	3,740	4,151	4,609
Total	50,456	62,615	79,983	1,02,257

Source: Company, ICICI Direct Research

Exhibit 5: Growth				(%)
(Year-end March)	FY23	FY24	FY25E	FY26E
Total assets	37.4%	24.1%	27.7%	27.8%
Advances	39.3%	27.1%	28.0%	29.0%
Borrowings	45.5%	23.7%	35.2%	31.3%
Net income	8.4%	29.2%	27.3%	23.3%
Net interest income	14.2%	29.0%	27.2%	22.9%
Total operating expense	-30.9%	-3.0%	23.2%	29.0%
PPoP	18.9%	34.2%	27.7%	22.6%
Net profit	36.5%	44.8%	19.3%	17.5%
Book value	12.7%	22.6%	17.4%	17.5%
EPS	36.5%	23.1%	19.3%	17.5%

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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