

January 13, 2025

Mixed quarter, long term growth prospects intact...

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

Q3FY25 performance: IREDA reported mixed performance in Q3FY25. AUM growth remained strong at 36.7% YoY to ₹ 68960 crore. Operational performance remained robust (NII grew 38.9% YoY) driven by strong growth in AUM (36.7% YoY) and ~13 bps YoY increase in margins at in margins at 3.33%. Steady opex and translation gains (vs translation loss QoQ and YoY) led to 51.5% YoY growth in PPOp at ₹ 642 crore. Gross NPA has inched up by ~50 bps QoQ at 2.68% resulting in increase in credit cost (₹ 104 crore in Q3FY25 vs ₹ 34 crore in Q2FY25). Earnings growth came at 27.8% YoY to ₹ 425 crore, on the back of continued strong growth in AUM, though rise in NPA was unanticipated.

Investment Rationale

- Structural long-term growth prospects to aid traction in AUM:** Government's focus to increase renewable power capacity from 206 GW in Nov 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 FY25-30E. Further, foray in retail business (approval received to set up a wholly owned subsidiary) such as PM KUSUM, rooftop solar, EVs, energy storage, green technology is seen to aid diversification.
- Diversified borrowing at competitive cost remains an advantage:** IREDA has been undertaking shift towards domestic borrowing resulting in proportion increasing from 77% in Dec 2023 to 85% in Dec 2024. Diversification and highest credit rating ("AAA") enables long term borrowings at competitive cost, thereby supporting margins. Though, higher proportion of floating rate loans could keep margins volatile, amid anticipated reversal in rate cycle, however, entry in retail segment could act as partial safeguard.
- Exposure to retail segment and operating leverage to aid profitability:** Continued healthy growth in AUM (expected at ~28-29% CAGR in FY25-27E) is expected to aid NII growth at ~25-28% CAGR in FY25-27E. Though, opex is seen to remain steady, credit cost could regain back to normalcy, thus resulting in ~24% CAGR in earnings in FY25-27E. RoA is expected to remain in a broad range at 1.9-2% ahead.

Rating and Target Price

- Long term structural growth story remains intact amid government's focus on renewable sector and foray in retail segment. Operational matrix to remain largely steady with RoA at 1.9-2% ahead. Rolling valuation to FY27E estimates, we value the stock at ~4.7x FY27E BV (~29x FY27E EPS) assigning a target of ₹ 250. Maintain **Buy** rating on the stock.

Key Financial Summary

	FY23	FY24	3 year CAGR (FY21-FY24)	FY25E	FY26E	FY27E	2 year CAGR (FY24-27E)
NII	1285	1658	18.6%	7498	9384	11734	92.0%
PPP	1206	1618	20.7%	2319	2809	3511	29.5%
PAT	865	1252	52.0%	1626	1887	2349	23.3%
ABV (₹)	23	30	-8.0%	34	40	48	17.0%
P/E	53.9	43.8		33.7	29.1	23.3	
P/ABV	9.0	6.9		6.0	5.1	4.3	
RoA	1.9%	2.1%		2.1%	1.9%	1.9%	
RoE	14.6%	14.6%		16.0%	15.6%	16.3%	

Source: Company, ICICI Direct Research



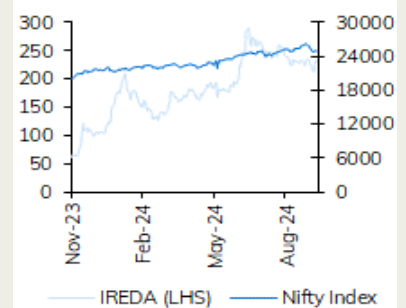
Particulars

Particulars	Amount
Market Capitalisation	₹ 54,817 crore
52 week H/L	310 / 112
Net worth	₹ 9,842 Crore
Face Value	10.0
DII Holding (%)	0.4
FII Holding (%)	2.0

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 affecting business growth

Research Analyst

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Manan Agrawal
Manan.agrawal@icicisecurities.com

Exhibit 1: Variance Analysis

	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Comments
NII	622	448	38.9	547	13.8	Driven by strong YoY growth of 36% in AUM
NIM %	3.3%	3.2%	13 bps	3.3%	-1 bps	
Other Income	44	45	-1.6	53	-16.8	
Total Income	667	493	35.2	600	11.1	
Staff cost	20	19	0.9	21	-6.5	
Other opex	5	50	-89.8	86	-94.0	Translation gains led to lower other opex
PPoP	642	424	51.5	494	30.0	PPoP aided steady operations and translation gains
Provision costs	104	38	175.7	34	207.1	Sequential uptick in GNPA led to higher credit cost
PBT	538	386	39.3	460	17.0	
Provision for Tax	113	53	111.7	72	56.4	
PAT	425	333	27.8	388	9.7	Continued AUM growth and traslation gains aid earnings
Key Metrics						
GNPA	1824	1465	24.5	1395	30.7	~50 bps sequential uptick in GNPA ratio
NNPA	1021	756	34.9	663	54.0	
Total loan book	68960	50581	36.3	64565	6.8	In-line with management target of 30%+
Borrowings	57931	41701	38.9	53989	7.3	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Interest Earned	3,374	4,822	6,433	8,033	10,028
Interest Expended	2,088	3,164	4,034	5,168	6,442
Net Interest Income	1,285	1,658	2,399	2,865	3,586
% growth	14.2	29.0	44.7	19.4	25.2
Non Interest Income	109	143	186	237	304
Net Income	1,395	1,801	2,585	3,102	3,890
Total operating expense	189	183	265	293	379
PPoP	1,206	1,618	2,319	2,809	3,511
Provisions	67	(67)	152	293	379
PBT	1,139	1,685	2,168	2,515	3,133
Taxes	275	433	542	629	783
Net Profit	865	1,252	1,626	1,887	2,349
% growth	36.5	44.8	29.8	16.0	24.5

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Valuation					
No. of Equity Shares	228.5	268.8	268.8	268.8	268.8
EPS (₹)	3.8	4.7	6.0	7.0	8.7
BV (₹)	26.0	31.8	37.9	44.9	53.7
ABV (₹)	22.6	29.7	33.9	40.1	47.5
P/E	53.9	43.8	33.7	29.1	23.3
P/BV	7.9	6.4	5.4	4.5	3.8
P/adj.BV	9.0	6.9	6.0	5.1	4.3
Yield on AUM	7.3%	8.2%	8.4%	8.2%	7.9%
Cost of funds	5.2%	6.4%	6.1%	5.9%	5.7%
Net Interest Margins	2.8%	2.8%	3.2%	2.9%	2.8%
Spreads	2.1%	1.8%	2.3%	2.2%	2.2%
Quality and Efficiency					
Cost / Total net income	13.5%	10.2%	10.3%	9.5%	9.7%
GNPA%	3.2%	2.4%	2.5%	2.4%	2.4%
NNPA%	1.7%	1.0%	1.4%	1.3%	1.3%
RoE (%)	14.6%	14.6%	16.0%	15.6%	16.3%
RoA (%)	1.9%	2.1%	2.1%	1.9%	1.9%

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Capital	2,285	2,688	2,688	2,688	2,688
Reserves and Surplus	3,651	5,872	7,498	9,384	11,734
Networth	5,935	8,560	10,186	12,072	14,422
Borrowings	40,165	49,687	65,930	87,328	1,12,653
Other Liabilities & Provisi	4,356	4,368	4,614	3,775	4,974
Total	50,456	62,615	80,730	1,03,175	1,32,049
	115%	118%	115%	112%	112%
Applications of Funds					
Investments	99	99	759	759	759
Advances	46,227	58,775	75,820	97,808	1,26,172
Other Assets	4,130	3,740	4,151	4,609	5,118
Total	50,456	62,615	80,730	1,03,175	1,32,049

Source: Company, ICICI Direct Research

Exhibit 5: Growth					(%)
(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Total assets	37.4%	24.1%	28.9%	27.8%	28.0%
Advances	39.3%	27.1%	29.0%	29.0%	29.0%
Borrowings	45.5%	23.7%	32.7%	32.5%	29.0%
Net income	8.4%	29.2%	43.5%	20.0%	25.4%
Net interest income	14.2%	29.0%	44.7%	19.4%	25.2%
Total operating expense	-30.9%	-3.0%	44.9%	10.6%	29.0%
PPoP	18.9%	34.2%	43.3%	21.1%	25.0%
Net profit	36.5%	44.8%	29.8%	16.0%	24.5%
Book value	12.7%	22.6%	19.0%	18.5%	19.5%
EPS	36.5%	23.1%	29.8%	16.0%	24.5%

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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