

Continued robust growth momentum aids 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 5 union territories

Q1FY25 performance: IREDA has reported strong quarter delivering a 34% YoY and 6% QoQ growth in AUM. Resultantly, NII grew 38% YoY and 5% QoQ and PAT increased 30% YoY & 13.6% sequentially. Operational performance remained steady with PPOp increasing 30% YoY, aided by steady margins at 3.74%, healthy fee income and partially offset by YoY rise in operating expense. Asset quality improved with 17 bps QoQ decline in GNPA at 2.19% & 4 bps QoQ decline in NNPA at 0.95%.

Investment Rationale

- Vast opportunity and government focus to aid sustained growth:** India is the third-largest producer and second-largest consumer of energy globally. India's total installed power generation capacity stood at 428 GW (December 2023), with renewable sources contributing ~40% (~172 GW). With focus to increase renewable capacity, government aims to achieve a target of 500 GW by FY30, necessitating an investment of ₹24.43 trillion. 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.
- 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. Given higher proportion of floating rate loans, impact on margins in medium term could not be ruled out. However, consistent growth in AUM is seen to aid NII growth at 26% CAGR in FY24-26E.
- Operating leverage to aid profitability with business growth:** Continued healthy growth in AUM (expected at ~30% CAGR in FY25-26E) is expected to aid profitability owing to benefit from operating leverage. Though, margins could remain under pressure in the near term, benefit on opex and steady credit cost is seen to keep profitability run rate at ~20% CAGR ahead. 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

- Given government's focus on renewable sector, we remain **positive** on long term growth prospects which will aid long term sustained growth in AUM. Thus, we value the stock at ~49x FY26E EPS assigning a target of ₹ 330. Maintain **Buy** rating on the stock.



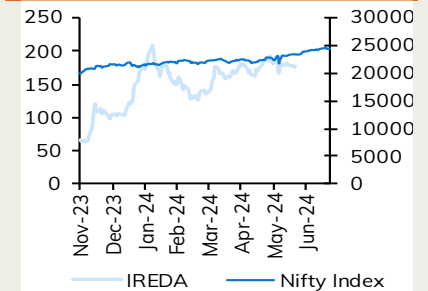
Particulars

Particulars	Amount
Market Capitalisation	₹ 73,443 crore
52 week H/L	310 / 50
Net worth	₹ 9110 Crore
Face Value	10.0

Shareholding pattern

Holding (%)	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	100.0	75.0	75.0	75.0
FII	0.0	1.9	1.4	2.7
DII	0.0	4.4	0.9	0.4
Public	0.0	18.8	22.7	21.9

Price Chart



Key risks

- Substantial exposure to private sector poses risk of NPA
- Adverse change in regulation
- Unseasoned book remains watchful for any asset quality

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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%	2984	5872	88.2%
PPP	921	1014	1206	1618	20.7%	2603	2603	26.8%
PAT	356	634	865	1252	52.0%	1803	1803	20.0%
ABV (₹)	38	19	23	30	-8.0%	41	41	17.8%
P/E	60.1	98.4	72.1	58.6		40.7	40.7	
P/ABV	7.2	14.7	12.1	9.2		6.6	6.6	
RoA	1.3%	1.9%	1.9%	2.1%		1.8%	1.8%	
RoE	11.9%	12.0%	14.6%	14.6%		15.2%	15.2%	

Exhibit 1: Variance Analysis

NII	508	369	37.6	481	5.5	Driven by strong YoY growth of 34% in AUM
Reported NIM (%)	3.3%	3.2%	6 bps	2.9%	44 bps	
Other Income	28	11	154.4	63	-56.4	
Total Income	535	380	41.0	544	-1.7	
Staff cost	20	12	66.3	19	4.2	
Other Operating Expenses	70	26	172.9	36	93.9	
PPP	445	342	30.1	489	-9.0	Steady operational performance with sequential volatility
Provision	-30	-97	-69.2	9	-418.0	
PBT	475	440	8.1	480	-0.9	Optically low due to lower provision write-back
Tax Outgo	92	145	-36.5	142	-35.3	
PAT	383	295	30.1	337	13.6	Lower tax outgo aided earnings
Key Metrics						
GNPA	1385	1430	-3.1	1411	-1.8	
NNPA	593	747	-20.6	581	2.1	
Loan Book	63206	47207	33.9	59698	5.9	In-line with management target of 30%
Borrowings	46519	39942	16.5	44926	3.5	

Financial Summary

Exhibit 2: Profit and loss statement				₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E
Interest Earned	3,374	4,822	6,197	7,954
Interest Expended	2,088	3,164	4,098	5,293
Net Interest Income	1,285	1,658	2,099	2,661
% growth	14.2	29.0	26.6	26.8
Non Interest Income	109	143	186	239
Net Income	1,395	1,801	2,284	2,901
Total operating expense	189	183	229	298
PPoP	1,206	1,618	2,055	2,603
Provisions	67	(67)	76	199
PBT	1,139	1,685	1,979	2,404
Taxes	275	433	495	601
Net Profit	865	1,252	1,484	1,803
% growth	36.5	44.8	18.5	21.5

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	5.5	6.7	
BV (₹)	26.0	31.8	37.4	44.1	
ABV (₹)	22.6	29.7	34.9	41.2	
P/E	72.1	58.6	49.4	40.7	
P/BV	10.5	8.6	7.3	6.2	
P/adj.BV	12.1	9.2	7.8	6.6	
Yield on AUM	7.3%	8.2%	8.1%	8.0%	
Cost of funds	5.2%	6.4%	6.2%	6.0%	
Net Interest Margins	2.8%	2.8%	2.7%	2.7%	
Spreads	2.1%	1.8%	1.9%	2.0%	
Quality and Efficiency					
Cost / Total net income	13.5%	10.2%	10.0%	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%	14.8%	15.2%	
RoA (%)	1.9%	2.1%	1.9%	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	7,356	9,159
Networth	5,935	8,560	10,044	11,847
Borrowings	40,165	49,687	66,441	88,687
Other Liabilities & Provisit	4,356	4,368	4,173	3,503
Total	50,456	62,615	80,658	1,04,038
Applications of Funds				
Investments	99	99	99	99
Advances	46,227	58,775	76,408	99,330
Other Assets	4,130	3,740	4,151	4,609
Total	50,456	62,615	80,658	1,04,038

Source: Company, ICICI Direct Research

Exhibit 5: Growth				(%)
(Year-end March)	FY23	FY24	FY25E	FY26E
Total assets	37.4%	24.1%	28.8%	29.0%
Advances	39.3%	27.1%	30.0%	30.0%
Borrowings	45.5%	23.7%	33.7%	33.5%
Net income	8.4%	29.2%	26.8%	27.0%
Net interest income	14.2%	29.0%	26.6%	26.8%
Total operating expense	-30.9%	-3.0%	25.1%	30.0%
PPoP	18.9%	34.2%	27.0%	26.6%
Net profit	36.5%	44.8%	18.5%	21.5%
Book value	12.7%	22.6%	17.3%	18.0%
EPS	36.5%	23.1%	18.5%	21.5%

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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