

January 6, 2016

IREDA Tax Free Bond

Rating matrix

IRRPL rating:	AA+
ICRA rating:	AA+

Issue Details

Cumulative Issue size	₹ 1716 crore
Issue opening date	January 8, 2016
Issue closing date	January 22, 2016
Minimum Application	₹ 5000 (5 bonds)
Face Value	₹ 1000
Coupon Date	Deemed date of allotment
Listing	The bonds will be listed on BSE
Allotment criteria	First come first serve basis
Category of Investor :	
Category I	QIB
Category II	Corporate
Category III	HNI (individuals who apply to bonds aggregating to a value more than ₹ 10 lakh across all series of bonds in this Issue)
Category IV	Retail
Security	The bonds proposed to be issued will be secured by a first pari passu charge on present and future receivables of the Issuer to the extent of the amount mobilized under the Issue and interest thereon

Objects of issue

Issue proceeds are intended to be used for the purpose of financing and re-financing renewable energy and energy efficiency projects and about 25% of the net amount raised to be used for general corporate purposes.

Research Analyst

Sachin Jain
sachin.ja@icicisecurities.com

Isha Bansal
isha.bansal@icicisecurities.com

Attractive coupon...

The Indian Renewable Energy Development Agency (IREDA) has come out with a public issue of tax free bonds to raise up to ₹ 1716 crore. The rate of interest offered by IREDA is the highest being offered by any company in the current financial year. It is the sixth tax free bond issue in the current financial year after NTPC, PFC, REC, IRFC and NHAI. For retail investors, the annualised coupon offered is 7.53%, 7.74% and 7.68% for 10, 15 and 20 years, respectively. Interest received on these bonds is fully exempt from income tax. The pre-tax yield on the bond for the highest tax bracket investors, therefore, works out to 10.90% for 10 years, 11.20% for 15 years and 11.11% for 20 years, significantly higher than 8-9% on bank fixed deposits and other stable fixed income instruments.

IREDA is a public non-banking financial institution engaged in extending financial services to projects and schemes related to renewable energy and energy efficiency. Given that IREDA is a government owned company, credit risk is low. Rating agencies IRPL and Icria have assigned AA+ ratings to the issue. The issue is deemed secured, i.e. in case of any default, the bondholders would have the right to make a claim on certain assets of the company. The increased focus of the government on the renewable space augurs well for the sector and the company, as a whole.

Issue details

The Central government, exercising the powers conferred by Section 10(15)(iv)(h) of Income Tax Act, 1961, has authorised IREDA to issue tax free, secured, redeemable, non-convertible bonds up to ₹ 1716 crore. IREDA is authorised to raise ₹ 2,000 crore from tax free bonds this financial year, out of which the company has already raised ₹ 284 crore by issuing these bonds through a private placement. IREDA tax-free bonds can be subscribed in both physical as well as demat form.

Exhibit 1: Coupon offerings

	For category I,II, III (QIBs, Corporates, HNIs)		
	Series 1A	Series 2A	Series 3A
Interest rate % p.a	7.28	7.49	7.43
	For category IV (Retail Investors)		
	Series 1B	Series 2B	Series 3B
Interest rate % p.a	7.53	7.74	7.68
Frequency and type of interest	Annual, Fixed	Annual, Fixed	Annual, Fixed
Tenor	10 years	15 years	20 years

Source: Company, ICICIdirect.com Research

(*the average of the base yield of G-sec for equivalent maturity prevailing for two weeks ending on the Friday immediately preceding the filing of the final prospectus with the Exchange or Registrar of Companies (RoC)

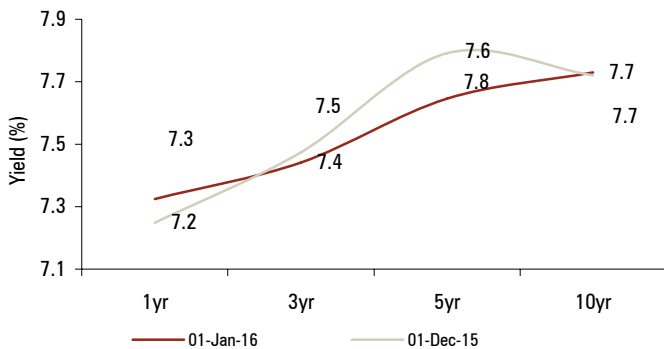
Analysis

As this issue is rated AA+, it can offer interest rates which are 10 basis points (or 0.10%) higher than the rates which a AAA-rated issue could have offered. IREDA tax free bonds will be issued at a coupon rate of 7.53%, 7.74% and 7.68% for 10, 15 and 20 years, respectively, to a retail investor. For other categories that include corporates, HNIs and QIBs, coupons are 7.28%, 7.49 and 7.43% respectively. Also, 40% of the issue i.e. ₹ 686.4 crore has been reserved for allocation to the retail category. The remaining issue will be for non-retail investors including QIB (20%), corporates (20%) and high networth individuals (20%).

The coupon on the bond issued under the tax exempt clause is related to prevailing government securities rates. The ceiling in the coupon rate for an AAA rated issuer has been fixed at 55 basis points (bps) below the reference G-sec rate for the retail investor.

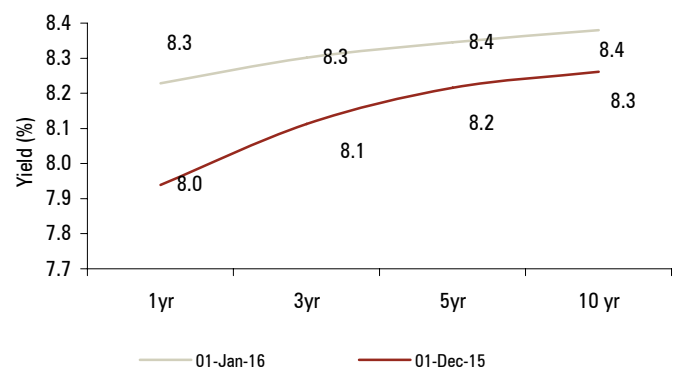
The interest rate outlook over the next year or two remains extremely promising with expectations of a downward shift in system interest rates and the yield curve across duration. The RBI's 5% CPI inflation target by end of FY17, a progressive reform oriented government, an extremely benign global interest rate environment, a global commodity slowdown and stable currency are expected to eventually lead to the RBI resorting to multiple rate cuts over the next year or two. With expectations of a softening in interest rates, going forward, there may be a capital appreciation opportunity on tax free bonds as well.

Exhibit 2: G-sec yield curve



Source: Company, ICICIdirect.com Research

Exhibit 3: Corporate bond curve



Source: Company, ICICIdirect.com Research

Icra and India Ratings have assigned 'AA+' rating to the issue, thus suggesting that these bonds carry very low credit risk and high degree of safety regarding timely payment of financial obligations. As all previous issues were rated 'AAA', this is the first issue this financial year, which is rated AA+. For this fiscal year, seven companies have been allotted a total limit of ₹ 40,000 crore to be raised through tax-free bonds.

Yields on government securities (G-sec) have been sticky at around current levels since the start of the year. G-sec yields are currently trading at around 7.7% despite the RBI cutting repo rates by 125 bps in the calendar year 2015. The domestic macroeconomic environment, however, continues to remain buoyant on the back of a structural improvement in fiscal deficit, trade balance and inflation along with the government's policy reform measures. Bond yields are likely to soften on improved domestic fundamentals. Therefore, tax free bonds from IREDA are an excellent opportunity for fixed income investors to lock in the higher coupon.

Company highlights

IREDA is a non-banking financial institution registered with RBI under the RBI Act, 1934 engaged in extending financing services to projects and schemes related to renewable energy and energy efficiency. The company is primarily engaged in providing finance/ re-finance to specific projects and schemes related to renewable energy and energy efficiency. The company provides financial assistance to the following renewable and energy efficiency projects:

- Wind power
- Hydro power
- Biomass power co-generation
- Energy efficiency & conservation
- Solar Energy
- Waste to energy & miscellaneous

The Government of India has been regularly providing financial support in the form of guaranteed loans raised from international agencies. In Union Budget 2013-14, the Government of India announced allocation of funds from the National Clean Energy Fund to the company for five years, for on-lending to viable renewable energy projects by way of refinancing part of the loan at concessional rate of interest.

Operational strengths

- During the FY16, the company was awarded 'Mini Ratna Category-I CPSE' by the Government of India viz. Ministry of New and Renewable Energy
- The company has entered into an MoU with Solar Energy Corporation of India, a CPSE in FY15 for setting a 50 MW solar power project for generation of electricity
- The company's outstanding loan portfolio has grown at a CAGR of 15.52% from ₹ 6674.9 crore as of March 31, 2013 to ₹ 8908.2 crore as of March 31, 2015
- Similarly, its profit after tax has grown at a CAGR of 15.84% over a period of three years from ₹ 202.6 crore for FY13 to ₹ 271.9 crore for FY15
- The company gets funds at competitive costs due to support from the Government of India. The company also has well established relations with multilateral and bilateral financial institutions, domestic financial institutions as well as scheduled commercial banks

Benefits of IREDA tax free bonds

- Interest Income from these bonds is completely tax free and would be payable annually
- These bonds are rated 'AA+' denoting the high degree of safety regarding timely servicing of financial obligations
- These bonds will be listed on BSE and hence provide liquidity for bond holders
- You could hold these bonds in both Demat as well as in Physical form. Customers who do not hold any Demat account can also apply for this bond

Disclaimer

ANALYST CERTIFICATION

We I, *Sachin Jain, CA and Isha Bansal, MBA (Fin)* research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a Sebi registered Research Analyst having registration no. INH000000990. ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, *inter alia*, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that , *Sachin Jain, CA and Isha Bansal, MBA (Fin)* , research analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that , *Sachin Jain, CA and Isha Bansal, MBA (Fin)*, research analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.