

India Ratings Upgrades Tata Power Company & its NCDs to 'IND AA+'/Stable; Affirms CP at 'IND A1+'

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India Ratings and Research (Ind-Ra) has upgraded Tata Power Company Limited's (TPCL) Long-Term Issuer Rating to 'IND AA+' from 'IND AA'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)*	-	-	-	INR66.85 (reduced from INR93.35)	IND AA+/Stable	Upgraded
Commercial paper (CP)	-	-	7-365 days	INR90	IND A1+	Affirmed

*Details in annexure

ANALYTICAL APPROACH: Ind-Ra continues to take a consolidated view of TPCL and its subsidiaries to arrive at the ratings, owing to the strong operational, strategic and legal linkages among them. The agency has also factored in parent-subsidiary linkages between TPCL and its parent, Tata Sons Private Ltd (TPSL; NCDs rated at 'IND AAA'/Stable) to arrive at the ratings.

The upgrade reflects a sustained improvement in TPCL's business and financial performance across segments, leading to a likely improvement in the consolidated EBITDA, while keeping the net leverage (net debt/EBITDA) rangebound at 4.5x-5.0x and operational leverage (net debt on operational assets/EBITDA) at 3.5x-4.0x over the medium term, despite the ongoing capex in the renewable space. Further, TPCL's business is supported by diversified income streams across generation, manufacturing and distribution businesses, as well as the presence of long-term power purchase agreements (PPAs), ensuring improvement in generation business's cash flows during 1HFY24, led by the healthy operating profile and continued operations of the Mundra plant (erstwhile Coastal Gujarat Power Limited) under Section 11 regulations.

Operations in coal special purpose vehicles (SPVs) provides a natural hedge against imported coal prices and aids in additional profitability. Ind-Ra believes cash flow generation from under construction renewable assets will continue to aid EBITDA generation over the medium term. Further, the growth will be directed by large capacity additions in the renewable energy segment aided by i) installation of new 4.3GW of modules and a cell manufacturing line to cater to the inhouse demand of the under construction portfolio; ii) a decline in polysilicon and wafer prices with an inhouse engineering, procurement & construction (EPC) contractor Tata Power Solar Systems Limited (CP rated at 'IND A1+') will enable faster execution of projects with the presence of long-term fixed-price PPA; and iii) capital infusion from Greenforest New Energies Bidco Limited's (GNEBL) deal, along with added profitability from the installed renewable capacity will support the equity requirement for growth over the medium term. Lastly, the generation business benefits from the decline in receivables on account of the implementation of Late Payment Surcharge scheme, leading to freeing up of cash flows.

The distribution business continues to gain from the healthy operating efficiency in Mumbai and Delhi regulated by the cost plus return on equity model, enabling stable EBITDA generation. Furthermore, the healthy progress in reducing aggregate technical & commercial losses (AT&C) in the Odisha distribution business is contributing to the incremental EBITDA generation.

Key Rating Drivers

Continued Healthy Credit Profile: On a consolidated basis, the net adjusted leverage declined further to 3.4x in 1HFY24 (FY23: 3.7x, FY22: 4.87x, FY21: 4.96x) adjusting for profit after tax of the coal mining companies. The reduction in the net leverage was driven by: i) increased power demand leading to a higher plant load factor (PLF) at Mundra power plant to 50.9% in 1HFY24 (1HFY23: 41.7%, FY23: 32% , FY22: 25%) with plant availability factor (PAF) at 64% (83%, 66%, 29%). The plant will continue to operate under Section 11 till June 2024, which allows for a pass-through of coal import costs; ii) Tata Power Renewable Energy Limited's (TPREL; 'IND AA+/Stable) equity raising for funding growth of the renewable business; iii) higher free cash flow due to a decline in receivables from generation business; and iv) incremental EBITDA generation from renewables and distribution utilities businesses. However, the softening of international coal prices in 1HFY24 has led to a reduction in the company's profitability from its coal mining business from FY23 levels and is likely to remain at INR10 billion-12 billion in FY24.

The interest coverage (interest expenses/EBITDA) increased to 2.46x in 1HFY24 (FY23: 1.94x, FY22: 1.85x) owing to the increase in the consolidated EBITDA to INR59.1 billion (INR84.9 billion, INR71.3 billion) and a reduction in the overall debt to INR483 billion (INR489 billion, INR477 billion). Moreover, TPREL has taken a three-year capex letter of credit of around INR32 billion outstanding as on 31 December 2023, of which TP Saurya Limited ('IND AA+/Stable) has INR15 billion, TP Kirnali Limited has INR 8.5 billion and Tata Power Green Energy Ltd ('IND AA+/Stable) has INR 8.6 billion for the under construction renewable portfolio, which will be converted into a term loan. Ind-Ra estimates the operational leverage to remain rangebound at 3.5x-4x over the medium term led by incremental capacities on the renewable front, which are inherently highly levered than the existing operational leverage. However, the fund raise of INR40 billion from GNEBL has ensured sufficient availability of equity for growth projects.

Renewable Business to Drive Growth in Medium-to-Long-term: TPCL intends to increase the share of its non-fossil-based capacities in the portfolio to 15GW by 2027 from around 5.5GW (including hydro and waste heat recovery) at 1HFYE24 with clean energy contributing nearly 45% to the overall EBITDA (FY23: 32%) as per the company's strategic intent. Furthermore, TPCL intends to have clean energy constituting 70% of the total installed capacity by 2030. TPCL, as part of its restructuring exercise in 2022, brought the entire renewable business including utility scale projects, rooftop installations, solar EPC and manufacturing, solar pumps and electric vehicle charging, under TPREL. Post the asset transfer, TPREL entered into an agreement with GNEBL in April 2022, through which BlackRock Real Assets along with Mubadala Investment Company have committed a total investment of INR40 billion in TPREL. The first tranche of INR20 billion was received in August 2022, the second tranche of INR20 billion in February 2023, and allotment of compulsory convertible preference shares (CCPS) was made on a preferential basis to GNEBL. Post conversion of CCPS into equity in 3QFY24, GNEBL holds 11.43% stake in TPREL. The investment would aid in scaling up of the renewable business at a faster pace by creating a green energy platform for capital raise. Post the restructuring, Ind-Ra opines TPREL's significance for the group has increased as it has become the growth engine for the group. Additionally, TPREL's presence across the renewable value chain through cell and module manufacturing, and as an in-house EPC and developer, allows for significant business synergies.

Stable Cash Flow from Regulated Business: The credit profile of TPCL, which operates across the power distribution, transmission and generation segments, continues to benefit from its stable cash flows, given the regulated cost-plus nature of its Mumbai and Delhi power distribution business; generation business; and the fixed-price, single-part tariff nature of its renewable portfolio. The credit profile also benefits from the long-term nature of the PPAs and the licence validity for the distribution businesses. The healthy performance of distribution companies (discoms) in Odisha has offered additional support to the entity's regulated business portfolio. On the generation side, TPCL's consolidated capacity of 14.3GW as on September 2023 is diversified across thermal (62%), wind (7%), solar (22%), hydro sources (6%) and waste heat recovery (3%) segments. The regulated and fixed-price businesses

contributed 85%-90% to the overall EBITDA in FY23. At 1HFYE24, TPCL's consolidated regulated equity stood at INR119 billion (FYE23: INR118 billion, FYE22: INR109.6 billion; FYE21: INR98.3 billion).

Reduction in AT&C Losses at Odisha Discoms: TPCL acquired four Odisha discoms in 2021, which contributed 12% to the company's overall EBITDA in 1HFY24 (FY23: 9%, FY22: 8%). TPCL was able to reduce the actual AT&C losses in FY23 for TP Central Odisha Distribution Limited to 21% (FY22: 27%), TP Western Odisha Distribution Limited ('IND AA-/Stable) to 18% (28%), TP Northern Odisha Distribution Limited to 11% (23%) and TP Southern Odisha Distribution Limited ('IND AA-/Stable) to 23% (33%). The licence of the four discoms is based on the regulated cost-plus return model, with the base regulated equity of INR18.3 billion at 1HFYE24 (FYE23: INR18.3 billion, FYE22: INR14 billion; FYE21: INR10.5 billion). Furthermore, these discoms entail a minimum capex outlay of around INR60 billion by FY26; hence, the company would see a substantial increase in its profitability over this period, given the regulated nature of the business.

Furthermore, the losses in these circles have been narrowed down and brought closer to the AT&C loss for tariff determination. TPCL expects AT&C losses to be lower than those used for calculating the annual revenue requirement over the next 12 months, thus benefiting the company. Ind-Ra also draws comfort from TPCL's strong track record of loss reduction in other operating circles.

Part of Tata Group: The ratings continue to benefit from TPCL being a part of the Tata group. TSPL, which holds 45.21% stake in TPCL as on 30 September 2023, has been supporting the company with fund infusions. The last infusion was through a preferential rights issue of INR26 billion in FY21. Moreover, TSPL has demonstrated its ability and willingness to continue to support TPCL, which is the fifth-largest investment in the books of TSPL after Tata Steel Limited ('IND AA+/Positive), Tata Teleservices Limited, Tata Motors Limited and Tata Capital Limited (debt rated at 'IND AAA/Stable).

Liquidity Indicator - Adequate: At 1HFYE24, the company had outstanding free cash balances of around INR41 billion (FY23: INR53 billion, FY22: INR34 billion). The company's liquidity would be supported by dividends from coal mines, and fund-based working capital limits at TPCL and various subsidiaries. On a standalone basis, TPCL's average utilisation of the fund-based working capital limits of INR25 billion was around 53% over the 12 months ended November 2023. TPCL has annual debt repayments of INR66 billion in FY25 and INR80 billion in FY26, which it plans to refinance into long-term loans. The company plans annual capex of around INR200 billion over FY25-FY27, of which around 45% is planned for renewable energy capacity expansion, around 30% for transmission & distribution projects, and around 15% for pumped hydro storage facility, which would be funded largely through fresh borrowings, and partly through annual free cash flow of INR70 billion-80 billion and pending divestment proceeds. Furthermore, TPCL, being a part of the Tata group, has financial flexibility regarding accessing financial institutions and banks for timely refinancing.

TPCL's standalone liquidity continues to be moderate on account of its high debt-servicing requirement of INR63 billion in FY24 (INR32 billion of repayments). Also, on a standalone basis, TPCL had outstanding CPs worth INR34 billion at FYE23 (FYE22: INR13.9 billion; FYE21: INR35 billion). TPCL intends to normalise the borrowings at the standalone level over the next few years post the impending resolution of Mundra plant, receipt of proceeds from divestments and healthy EBITDA generation from the renewable portfolio.

Pending Resolution for Mundra Plant: The company's Mundra plant remains exposed to coal price volatility in the absence of Section 11 regulations, unless any settlement is agreed with the discoms for fuel cost pass-through. Though the coal mine profitability acts as a hedge to the profitability of the Mundra plant, any unfavourable changes in the regulations in Indonesia for the sale of coal and mines by TPCL will increase the risk of the combined portfolio. However, the management expects the hedge to continue to protect TPCL from any large deviation in profitability for the combined portfolio. Post the implementation of Section 11, the Mundra plant has been operating at a higher PLF, similar to High Powered Committee's recommendations for signing supplemental PPAs. If TPCL is able to sign the PPAs, the operating profile could witness an improvement. Ind-Ra expects the power demand to grow 6%-8% yoy in FY25-FY26, enabling the extension of section 11 for the period in case of an inability to finalise a sustainable solution for the asset.

Rating Sensitivities

Positive: A significant improvement in the business risk profile, along with a significant increase in the proportion of cash flows from non-conventional businesses and/or long-term sustainable resolution of the Mundra plant, leading to a reduction in volatility in the profitability would lead to a positive rating action.

Negative: Any significant debt-funded capex without equity infusion, and/or any further purely debt-funded acquisition and/or any significant decline in the combined profitability of the Mundra plant and coal SPVs, leading to the consolidated net adjusted leverage for operational projects increasing above 4.0x, would lead to a negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on TPCL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

Company Profile

Formed in 1915, TPCL is one of the largest private sector companies in the domestic power sector, with presence across the entire value chain. It has presence in generation, transmission (Mumbai Transmission with 1,100km of 220kV/110kV lines and Powerlink transmission connecting West Bengal to Uttar Pradesh with 1,166km of 400kV double circuit) and distribution (Mumbai distribution and Delhi distribution through a 51:49 joint venture with the government of Delhi).

TPCL is also engaged in power trading, coal mining, logistics, solar module manufacturing, and EPC services.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	1HFY24	FY23	FY22
Revenue (INR billion)	304.7	559.2	424.4
Operating EBITDA (INR billion)	59.2	85.0	71.3
EBITDA margin (%)	15.4	15.4	16.7
Total debt (INR billion)	483.6	489.7	477.6
Interest coverage (x)	2.46	1.94	1.85
Net adjusted leverage	3.39	3.72	4.87
Source: TPCL, Ind-Ra			

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

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APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

Rating History

Instrument Type	Rating Type	Rated Limits (billion)	Current Rating/Outlook	Historical Rating/Outlook				
				21 June 2023	20 December 2022	27 May 2022	16 February 2022	17 February 2021
Issuer rating	Long-term	-	IND AA+/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
CP	Short-term	INR90	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+
NCDs	Long-term	INR66.85	IND AA+/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/ Outlook
NCDs	INE245A08125	16 November 2017	7.99	16 November 2023	INR3	WD (paid in full)
NCDs	INE245A08133	16 November 2017	7.99	15 November 2024	INR3	IND AA+/Stable
NCDs	INE245A08141	21 November 2019	9	21 February 2025	INR2.5	IND AA+/Stable
NCDs	INE245A07432	14 November 2019	KOTAK 6M MCLR+0.35%	31 March 2028	INR1.65	IND AA+/Stable
NCDs	INE245A08182	4 June 2020	8.21	31 August 2023	INR3	WD (paid in full)
NCDs	INE245A08208	23 February 2021	6.18	23 February 2024	INR4	IND AA+/Stable
NCDs	INE245A08216	23 February 2021	7.05	23 February 2026	INR5	IND AA+/Stable
NCDs	INE245A08224	24 March 2021	7.77	22 March 2030	INR1.5	IND AA+/Stable
NCDs	INE245A08232	24 March 2021	7.77	23 March 2029	INR1.5	IND AA+/Stable
NCDs	INE245A08240	24 March 2021	7.77	24 March 2031	INR 2	IND AA+/Stable
NCDs	INE295J08014	27 August 2018	9.7	27 August 2023	INR17	WD (paid in full)

NCDs	INE295J08022	27 August 2018	9.9	27 August 2028	INR10	IND AA+/Stable
NCDs	INE295J08063	20 July 2020	8.55	20 July 2023	INR3.5	WD (paid in full)
NCDs	INE295J08071	10 June 2021	5.7	10 June 2024	INR5.7	IND AA+/Stable
NCDs	INE245A08257	29 December 2022	7.75	8 January 2030	INR5.0	IND AA+/Stable
NCDs	INE245A08265	29 December 2022	7.75	29 December 2032	INR5.0	IND AA+/Stable
NCDs	INE245A08273	28 September 2023	7.72	28 September 2032	INR10.0	IND AA+/Stable
NCDs*	-	-	-	-	INR10.0	IND AA+/Stable
Total					INR66.850	

*Yet to be issued

Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCDs	Low
CP	Low

For details on the complexity level of the instrument, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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