Login

India Ratings Rates Tata Power Company's Additional NCDs 'IND AA'/Stable; Affirms Other Ratings

Jun 21, 2023 | Power Generation

India Ratings and Research (Ind-Ra) has taken the following rating actions on Tata Power Company Limited (TPCL):

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Long-Term Issuer Rating	-	-	-	-	IND AA/Stable	Affirmed
Non-convertible debentures (NCDs)*	-	-	-	INR20.00	IND AA/Stable	Assigned
NCDs*	-	-	-	INR73.35 (reduced from INR81.05)	IND AA/Stable	Affirmed
Commercial paper (CP)	-	-	7-365 days	INR90.00	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 operational, strategic and legal linkages among them.

Key Rating Drivers

Healthy Credit Profile: TPCL's net adjusted leverage (net debt/EBIDTA) declined to 3.69x in FY23 (FY22: 4.87x; FY21: 4.96x) adjusting for the profit after tax (PAT) of the coal mining companies as part of the EBITDA. The reduction in the net leverage was driven by: i) Tata Power Renewable Energy Limited's (TPREL; 'IND AA'/Stable) equity raising for funding the growth of the renewable business; ii) an increase in the PAT of coal companies toINR33 billion (FY22: INR18 billion), due to high plant availability factor (PAF) and plant load factor (PLF) at 66% and 32% in FY23 (FY22: 29% and 25%) at Mundra power plant and running of the plant under Section 11, which allows for pass-through of coal import costs adjusted for mining profitability and supplying to Gujarat Urja Vikas Nigam Limited and Maharashtra State Electricity Distribution Company Limited on an ad-hoc tariff arrangement; iii) incremental EBITDA generation from renewables and the distribution utilities.

TPCL's non-adjusted consolidated net leverage (net debt/EBITDA) decreased to 5.14x in FY23 (FY22: 6.1x; FY21: 5.3x), while the interest coverage (interest expenses/EBITDA) increased to 1.94x (1.85x, 1.9x,). The consolidated EBITDA increased to INR84.9 billion in FY23 (FY22: INR71.3 billion; FY21: INR75.4 billion). The overall debt increased to INR489 billion in FY23 (FY22: INR477 billion; FY21: INR436 billion), on account of an increase in its debt availed for the company's under-construction renewable portfolio. With the international coal prices softening in 4QFY23 and the similar trend likely for FY24, Ind-Ra expects the company's profitability from its coal mining business to reduce to INR15 billion-18 billion in FY24, while driving growth from the other businesses.

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 power purchase agreements 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 14.1GW is diversified across thermal (63%), wind (7%), solar (21%), hydro sources (6%) and waste heat recovery (3%). The regulated and fixed price businesses contributed 90%-95% to the overall EBITDA in FY23. At FYE23, TPCL's consolidated regulated equity stood at INR118.01 billion (FYE22: INR109.6 billion; FYE21: INR98.3 billion).

Reduction in Aggregate Technical & Commercial (AT&C) Losses at Odisha Discoms: TPCL acquired its Odisha discoms in 2021, which contributed 12% to the company's overall EBITDA in FY23 (FY22: 10%). 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; (18% from 28%), TP Northern Odisha Distribution Limited (11% from 23%), and TP Southern Odisha Distribution Limited ('IND AA-'/Stable; 23% from 33%). The four discoms' licences are based on the regulated cost-plus return model, with the base regulated equity of INR18.3 billion at FYE23 (FYE22: INR14 billion; FYE21: INR10.5 billion). Furthermore, these discoms entail a minimum capex outlay of INR60 billion over the next five years, and 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 to calculate the annual revenue requirement over the next 12 months, thus benefiting the company. Ind-Ra draws comfort from TPCL's strong track record of loss reduction in other operating circles.

Renewable Business Under Single Platform: TPCL, as part of its restructuring exercise in 2022, has brought the entire renewable business, including utility scale projects, rooftop installations, solar EPC and manufacturing, solar pumps and EV charging, under TPREL. Post the asset transfer, TPREL had entered into an agreement with Greenforest New Energies Bidco Limited (GNEBL, through which BlackRock Real Assets along with Mubadala Investment Company invested in TPREL) in April 2022 for a total investment of INR40 billion. The company paid the first tranche of INR20 billion in August 2022, the second tranche of INR20 billion in February 2023, and the allotment of compulsory convertible preference shares (CCPS) made on a preferential basis to GNEBL. GNEBL holds a 6.06% stake in TPREL, and on conversion of the CCPS, the entity will hold 9.76%-11.43% stake in TPREL, subject to the equity valuation on the final conversion. The investment would aid in scaling up the renewable business at a faster pace by creating a green energy platform for capital raise. Post-restructuring, Ind-Ra opines the significance of TPREL for the group has increased as it has become the growth engine for the group, given the group target to increase its renewable portfolio (operational + under construction) to 20GW by 2027 (April 2023: 5.2GW) of. Additionally, TPREL's presence across the renewable value chain through cell and module manufacturing, in-house engineering, procurement and construction and as a developer, provides it significant business synergies. Given the stake sale in TPREL, the proceeds would support the equity requirement of its renewable projects, whereas the cashflows from operational projects would be utilised for debt reduction.

Disinvestment Proceeds likely in Near to Medium Term: TPCL expects to realise INR20 billion-25 billion over the near-to-medium term through the receipt of pending consideration of about USD40 million from the sale of its Arutmin mines in Indonesia (received USD110 million in FY23), hydro assets in Zambia, and Baramulti Sukses Sarana coal mine in Indonesia. TPCL would also receive an additional INR12 billion from the sale of the strategic engineering division's assets on achieving certain milestones over FY24-FY26.

Part of Tata Group: The ratings continue to benefit from TPCL being a part of the Tata group. Tata Sons Private Ltd (TSPL; ‘IND AAA’/Stable), which held a 45.21% stake in TPCL as on 31 March 2023, has been supporting the company with infusions of funds. 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 (‘IND AAA ‘/Stable).

Liquidity Indicator- Adequate: Ind-Ra expects TPCL’s cash flow from operations along with the outstanding free cash balances of around INR53 billion on 31 March 2023 to remain insufficient to meet the scheduled debt repayments of about INR90 billion and interest repayment of around INR40 billion in FY24. However, the company’s liquidity would be supported by the dividends from coal mines, and the fund-based working capital limits at TPCL and its various subsidiaries. TPCL’s average utilisation of its standalone fund-based working capital limits of INR25 billion was around 25% over the 12 months ended May 2023. Furthermore, TPCL, being a part of the Tata group, has financial flexibility regarding accessing financial institutions and banks for timely refinancing. TPCL plans capex of around INR120 billion annually in FY24 mostly to add its renewable energy capacity, which would be funded largely through fresh borrowings and partly through internal accruals.

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 (erstwhile Coastal Gujarat Power Limited, receipt of money from divestments and the reorganisation of its renewable portfolio.

Pending Resolution for Mundra Plant: Its Mundra plant still remains exposed to coal price volatility in the absence of the 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 higher plant load factor, similar to high powered committee's recommendations were for signing supplemental power purchase agreements. If TPCL is able to sign them, the operating profile could see an improvement.

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 and the consolidated net adjusted leverage reducing below 3.0x, on a sustained basis, 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 Mundra plant and coal SPVs, leading to the consolidated net adjusted leverage remaining above 5.5x, 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 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 a presence across the entire value chain. It has also a presence in generation (10.8GW), transmission (Mumbai transmission with 1,100Ckm of 220KV/110kV lines and powerlink transmission connecting West Bengal to Uttar Pradesh with 1,166km of 400kV double circuit) and distribution (Mumbai distribution with 0.6 million customers and Delhi distribution with 1.3 million customers 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 engineering, procurement and construction services.

FINANCIAL SUMMARY

Particulars	FY23	FY22
Revenue (INR billion)	559.2	424.4
Operating EBITDA (INR billion)	85.0	71.3
EBITDA margin (%)	15.4	16.7
Total debt (INR billion)	489.7	477.6
Interest coverage (x)	1.94	1.85
Source: TPCL, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Rating Type	Rated Limits (billion)	Current Ratings/ Outlook	Historical Rating/Outlook						
				20 December 2022	27 May 2022	16 February 2022	17 February 2021	17 June 2020	13 May 2020	23 April 2020
Issuer rating	Long-term		IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
CP	Short-term	INR90.00	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+
NCDs	Long-term	INR93.35	IND AA/Stable	IND AA/Stable	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 November2017	7.99	16 November 2023	INR3	IND AA/Stable
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	INE245A08166	21 November 2019	8.84	21 February 2023	INR7.5	WD (Paid in full)
NCDs	INE245A07432	14 November 2019	KOTAK 6M MCLR+0.35%	31 March 2028	INR1.65	IND AA/Stable
NCDs	INE245A08174	29 April 2020	Repo Rate + 3.6%	28 April 2023	INR10	WD (Paid in full)
NCDs	INE245A08182	4 June 2020	8.21%	31 August 2023	INR3	IND AA/Stable
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	IND AA/Stable
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	IND AA/Stable
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*					INR20.0	IND AA/Stable
Total					INR93.35	

*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.

Contact

Primary Analyst
Rachit Gupta
Analyst
India Ratings and Research Pvt Ltd
DLF Epitome, Level 16, Building No. 5, Tower B DLF Cyber City, Gurugram Haryana - 122002

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Paras Pal
Senior Analyst
124 6687241

Chairperson
Vivek Jain
Director
+91 124 6687249

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

The Rating Process

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology