September 22, 2022

Tata Power Renewable Energy Limited: Rating of [ICRA]AA (Stable) reaffirmed for existing limits and assigned for fresh NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	1958.75	1958.75	[ICRA]AA (Stable); reaffirmed
Non-Fund Based Letter of Credit	215.00	215.00	[ICRA]AA (Stable); reaffirmed
Non-Convertible Debentures (NCD)	440.00	440.00	[ICRA]AA (Stable); reaffirmed
Non-Convertible Debentures (NCD)	-	600.00	[ICRA]AA (Stable); assigned
Total	**2,613.75**	**3,213.75**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA's rating for Tata Power Renewable Energy Limited (TPREL) factors in the company's strong financial flexibility from being a part of the Tata Group and the focus of the parent, Tata Power Company Limited (TPCL; rated [ICRA]AA (Stable)), on renewable energy as an area of growth. The rating is based on the consolidated business and financial risk profile of TPREL, which comprises Walwhan Renewable Energy Limited (WREL), Tata Power Solar Systems Limited (TPSSL) and other subsidiaries. The aggregate operating renewable capacity of the Group was 3,858 MW at the end of August 2022.

The rating continues to favourably reflect the strengths arising from the well-diversified renewable power portfolio across 13 states, which reduces the vulnerability of generation to location-specific issues. A diversified customer mix, which partly mitigates the counterparty credit related risks, also favours the rating. Further, the rating draws comfort from the demonstrated operating track record with close to 70% of the portfolio having a track record of at least three years. ICRA takes note of the availability of long-term power purchase agreements (PPAs) for the entire portfolio at fixed tariff rates (except for a small capacity of 21 MW, which has a medium-term PPA) with state distribution utilities (discoms) and central intermediary procurers, with a weighted average balance PPA tenure of ~20 years, providing strong visibility on revenues and cash flows. Further, the robust cash accruals from the operational portfolio and the prudent leveraging policy with cost competitive funding sources for the under-construction projects would support the profitability and coverage metrics of the company, going forward. Also, ICRA takes note of the large order book position of Rs. 14,626 crore for the EPC business under TPSSL as of June 2022.

The Group's entire renewable business, including manufacturing, EPC and O&M services, has been brought under TPREL, with the company receiving the first tranche of Rs. 2,000-crore equity investment from Blackrock Real Assets and Mubadala Investment Company (a sovereign investor of the Government of Abu Dhabi). This is part of the Rs. 4,000-crore investment announced in April 2022 in exchange for a 10.53%[1] stake in TPREL. The capital infusion will enable TPREL to significantly scale up its renewable energy capacity over the next two to three years and fund the expansion of the solar PV cell and module manufacturing capacities. Post the transaction, TPCL will continue to be the majority shareholder in TPREL with a shareholding of 89-90%.

[1] Final shareholding shall be between 9.76% to 11.43%

The rating is, however, constrained by the exposure to the state distribution utilities (discoms), which have weak-to-moderate financial profiles, particularly in Andhra Pradesh, two discoms in Karnataka, Madhya Pradesh, Maharashtra, Rajasthan and Tamil Nadu. This constraint is partly offset by the diversified customer mix, with the presence of creditworthy offtakers such as NTPC Limited, NTPC Vidyut Vyapar Nigam Limited (NVVN), Solar Energy Corporation of India (SECI), Gujarat Urja Vikas Nigam Limited (GUVNL), TPCL, Bangalore Electricity Supply Company Limited (BESCOM) and Mangalore Electricity Supply Company Limited (MESCOM). The receivables at the consolidated level continue to be high because of the large dues from discoms in Andhra Pradesh, Tamil Nadu and two of the Karnataka discoms. ICRA notes that the discoms in Andhra Pradesh have started releasing the overdues through an installment scheme. Some of the other state discoms are expected to follow this mechanism to liquidate the outstanding dues. Going forward, the recovery of the overdues from the discoms and timely payment of ongoing monthly bills remains a key credit monitorable for the company.

ICRA also takes note of the execution challenges in view of the Group's sizeable expansion plans in the renewable energy sector with 1,650 MW under development. As a major portion of this capacity is in the solar power segment, the Group remains exposed to the movement in module prices. Nonetheless, ICRA draws comfort from the strong execution and financing track record of the Tata Power Group. Further, the ratings are constrained by risks typical to all renewable energy projects, including the exposure to the variation in wind power density and solar radiation associated with climatic conditions as the revenues are linked to the actual units generated and exported, given the single-part nature of the tariff under the PPAs. This risk is partly mitigated by the demonstrated track record for majority of the portfolio.

Also, the company remains exposed to the regulatory challenges of implementing the scheduling and forecasting framework for wind and solar power projects across states. This apart, for the feed-in tariff based solar power projects in Tamil Nadu, the state regulator has issued an order restraining the operating PLF to a normative level of ~19%. The order is being contested by the company before the Appellate Tribunal for Electricity (APTEL). Further, ICRA notes that the power generation by the portfolio was impacted by the exposure to weak O&M partners for some of the wind power projects and module degradation & inverter issues for some of the solar power projects, which are being resolved by the Group by replacing the O&M partners and the equipment, wherever required. Also, the relatively high PPA tariff rates for the operational capacity (compared to the average power purchase cost of the utilities) expose the company to the risk of grid back-down, as observed in some of the states in the past.

The Stable outlook assigned to the rating reflects the benefits of the long-term PPAs at fixed tariff rates, a diversified asset profile and the experience of the management in developing and operating renewable power assets.

Key rating drivers and their description

Credit strengths

Leading company in renewable energy sector in India with well-diversified portfolio - TPREL is one of the leading players in the renewable energy sector in India, with the Group having an operating capacity of 3,858 MW as of August 2022 spread across solar, wind and hybrid projects. The portfolio is well-diversified, with presence across 13 states, which reduces the vulnerability of generation to location-specific issues. Additionally, the company has a diversified customer mix, which partly mitigates the counterparty credit risk.

Strong credit profile of TPREL's parent, TPCL - TPREL is a wholly owned subsidiary of TPCL, which is a leading company in the power sector with presence across generation, transmission and distribution. The renewable energy segment remains the focus area of growth for TPCL. The credit profile of TPCL remains strong, led by a reduction in the leverage level through monetisation of non-core assets and equity infusion, along with an expected improvement in the share of regulated business with the addition of the Odisha licensee business. While the Mundra UMPP remains a drag on TPCL's profitability, the reduced debt levels and profits from the coal companies in Indonesia in a tax-efficient manner post the merger of the Mundra UMPP with TPCL would mitigate this risk to a large extent. Further, the strong financial flexibility from being a part of the Tata Group is a comforting factor.

Long-term PPAs limit demand and tariff risks - The company has long-term PPAs for the entire portfolio at fixed tariff rates, except for a small capacity of 21 MW, which has a medium-term PPA. The weighted average balance PPA tenure for the portfolio is ~20 years, providing strong visibility on revenues and cash flows and thereby limiting demand and tariff risks.

Established operating track record of portfolio - The portfolio has demonstrated a satisfactory operating track record, despite issues with some of the projects in the portfolio, with close to 70% of the portfolio having a track record of more than three years.

Coverage metrics expected to remain comfortable; capital infusion of Rs 4,000 crore to aid capacity scale up - TPREL's coverage metrics are expected to be comfortable, supported by the robust cash accruals from the operational portfolio having long-term PPAs and cost-competitive funding sources. The capital infusion of Rs. 4,000 crore by the Blackrock-led consortium in the form of equity and convertible securities would help TPREL scale up the capacity over the medium term. The company has received the first tranche of Rs. 2,000-crore equity investment in August 2022.

Credit challenges

Debt metrics sensitive to energy generation because of single-part tariff - TPREL is dependent on power generation from the renewable power portfolio for its revenues and cash accruals, given the single-part tariff. As a result, any adverse variation in wind availability or solar radiation may impact generation and consequently the cash flows. The generation by the wind power portfolio was adversely impacted by a weak wind season in FY2021. Also, the power generation by the portfolio was impacted by the exposure to weak O&M partners for some of the wind power projects and module degradation & inverter issues for some of the solar power projects. These issues are being resolved by replacing the O&M partners and the equipment, wherever required. While the performance of wind assets has improved in FY2022, the generation from solar assets is relatively low due to an extended monsoon and cloud cover in some of the states.

Counterparty credit risk due to exposure to state discoms with weak-to-moderate financial profiles - The company remains exposed to high counterparty credit risks, given the long-term PPAs with state discoms that have weak-to-moderate financial profiles such as Andhra Pradesh, two discoms in Karnataka, Madhya Pradesh, Maharashtra, Rajasthan and Tamil Nadu. The receivable position continues to be high at 264 days as of March 2022 because of the tariff issue in Andhra Pradesh, continued delays from the Tamil Nadu utility and sizeable dues from two Karnataka discoms. Nonetheless, this is partly mitigated by the relatively better payment profile for the balance portfolio. Also, the company has discounted the dues from the Rajasthan, Tamil Nadu and Maharashtra discoms on a few occasions, with the interest cost funded by the discoms, which has supported its cash flows. ICRA notes that the discoms in Andhra Pradesh have started releasing the overdues through an installment scheme. Some of the other state discoms are expected to follow this mechanism to liquidate the dues. Going forward, the recovery of the overdues from the discoms and timely payment of ongoing monthly bills remains a key credit monitorable for the company.

Execution and funding challenges because of Group's large expansion plans - The company's execution and funding challenges remain high because of the Group's large expansion plans in the renewable energy sector. The Group has 1,650 MW capacity under development, entailing an aggregate capex of over Rs. 8,200 crore, funded through debt and equity of 75:25. While the debt-funded capex would increase the leverage level and expose the Group to execution risks, comfort can be drawn from the strong execution and financing track record of the Tata Power Group and the long-term PPAs for these assets, enabling adequate cash flow generation post commissioning. Also, the Group remains exposed to the movement in key input costs, mainly module prices, given the large capacity under development.

Exposure to interest rate risk; availability of cost-competitive funding crucial for returns on upcoming capacity - The company's profitability and debt coverage metrics are exposed to the movements in interest rates, given the sizeable debt funding in the capital mix and the fixed tariff rates for the renewable energy projects. Further, the returns from the upcoming capacity remain dependent on the achievement of the design PLF levels and the availability of debt funding at a cost-competitive rate, especially in view of the very fine bid tariff rates.

Challenges of implementing forecasting and scheduling regulations - The company remains exposed to the regulatory challenges of implementing the scheduling and forecasting framework for wind and solar power projects across the states. This is mainly because of the variable nature of wind and solar power generation.

Liquidity position: Adequate

The company's liquidity is expected to remain adequate, supported by healthy cash flows from operations, cash and liquid investments of Rs. 1,964 crore as on August 31, 2022 and an undrawn working capital line of Rs. 486 crore. The access to the commercial paper (CP) market provides additional aid to the liquidity. The funding for the new projects is expected to be met through a mix of sources, including internal accruals, equity raised from the investors recently and external debt.

Rating sensitivities

Positive factors: The rating for TPREL could be upgraded if the credit profile of Tata Power Company Limited improves.

Negative factors: The rating could be downgraded if the credit profile of Tata Power Company Limited deteriorates. Further, the rating can be downgraded in case of a sharp deterioration in the generation performance, adversely impacting the debt coverage metrics. Also, a large debt-funded capital expansion without a commensurate increase in cash accruals or a significant deterioration in the payment cycle from offtakers will adversely impact the liquidity position and would be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Wind Power Producers Rating Methodology for Solar Power Producers Rating Approach – Implicit Parent or Group Support
Parent/Group Support	Parent Company: Tata Power Company Limited ICRA expects TPCL (rated [ICRA]AA (Stable)) to be willing to extend financial support to TPREL, should there be a need as TPREL is a wholly-owned subsidiary of TPCL and the renewable energy segment remains the focus area of growth for TPCL.
Consolidation/Standalone	The rating is based on the consolidated business and financial profile of TPREL. The entities considered for consolidation are enlisted in Annexure-2.

Company Profile

TPREL, set up in 2007, is a wholly-owned subsidiary of TPCL. It is the primary investment vehicle for the Tata Power Group's clean and renewable energy-based power generation capacity. The overall renewable portfolio of the Tata Power Group (including capacity on the books of TPCL and its subsidiaries) in India stands is 3,858 MW, comprising 2,049 MW on the books of TPREL, 1,010 MW of WREL, 55.96 MW of TPCL and 743 MW on the books of subsidiaries of TPCL and TPREL. This apart, the Group's under-development capacity of 1,650 MW of solar and hybrid projects.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income (Rs. crore)	2,211.6	2769.0
PAT (Rs. crore)	287.5	601.6
OPBDIT/OI (%)	85.7%	86.1%
PAT/OI (%)	13.0%	21.7%
Total outside liabilities/Tangible net worth (times)	2.2	2.4
Total debt/OPBDIT (times)	5.7	5.6
Interest coverage (times)	2.2	2.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: Company data, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on June 30, 2022 (Rs. crore)	Date & Rating		Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020		
					September 22, 2022	May 10, 2022	Mar 17, 2022	Jun 30, 2021	Jun 19, 2020	May 12, 2020	May 17, 2019	May 02, 2019	Apr 2, 2019
1	Term loan	Long-term	1958.75	1958.75	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
3	Non-fund Based	Long-term	215.00	-	[ICRA]AA (Sable)	[ICRA]AA (Sable)	[ICRA]AA (Sable)	[ICRA]AA (Sable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
4	NCDs	Long-term	440.00	440.00	[ICRA]AA (Sable)	[ICRA]AA (Sable)	[ICRA]AA (Sable)	[ICRA]AA (Sable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-
5	NCDs*	Long-term	600.00	-	[ICRA]AA (Sable)	-	-	-	-	-	-	-	-

**To be issued*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loan	Simple
Non-fund based, Letter of Credit	Simple
NCDs	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Letter of Credit	-	-	-	215.00	[ICRA]AA (Stable)
NA	Term loan	February 2019	-	March 2031	458.75	[ICRA]AA (Stable)
NA	Term loan	February 2022	-	March 2040	500.00	[ICRA]AA (Stable)
NA	Term loan	March 2022	-	December 2039	1000.00	[ICRA]AA (Stable)
INE607M07016	NCD	May-2019	8.57%*	May 2029	440.00	[ICRA]AA (Stable)
To be issued	NCD	-	-	-	600.00	[ICRA]AA (Stable)

Source: *Company;* *Linked to one-year MCLR of Kotak Mahindra Bank

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Walwhan Renewable Energy Limited	100.00%	Full Consolidation
Poolavadi Windfarm Limited*	74.00%	Full Consolidation
Nivade Windfarm Limited	100.00%	Full Consolidation
Indo Rama Renewables Jath Limited	100.00%	Full Consolidation
TP Kirnali Limited	100.00%	Full Consolidation
TP Solar Limited	100.00%	Full Consolidation
Vagarai Windfarm Limited**	72.00%	Full Consolidation
Clean Sustainable Solar Energy Private Limited	99.99%	Full Consolidation
Dreisatz Mysolar24 Private Limited	100.00%	Full Consolidation
MI Mysolar24 Private Limited	100.00%	Full Consolidation
Solarsys Renewable Energy Private Limited	100.00%	Full Consolidation
Walwhan Solar Energy GJ Limited	100.00%	Full Consolidation
Walwhan Solar Raj Limited	100.00%	Full Consolidation
Walwhan Solar BH Limited	100.00%	Full Consolidation
Walwhan Solar MH Limited	100.00%	Full Consolidation
Walwhan Solar RJ Limited	100.00%	Full Consolidation
Walwhan Solar AP Limited	100.00%	Full Consolidation
Walwhan Solar KA Limited	100.00%	Full Consolidation
Walwhan Solar MP Limited	100.00%	Full Consolidation
Walwhan Solar PB Limited	100.00%	Full Consolidation
Walwhan Energy RJ Limited	100.00%	Full Consolidation
Walwhan Solar TN Limited	100.00%	Full Consolidation
Walwhan Solar RJ Limited	100.00%	Full Consolidation
Walwhan Urja Anjan Limited	100.00%	Full Consolidation
Walwhan Urja India Limited	100.00%	Full Consolidation
Northwest Energy Private Limited	100.00%	Full Consolidation
Tata Power Solar Systems Limited	100.00%	Full Consolidation

**TPRRL has 74% of shareholding and voting power in Poolawadi Windfarm Limited. However, as per the shareholder agreement, TPREL has a call option to buy shares from the captive consumers at the face value or book value of the shares whichever is less*

***TPREL has 72% of shareholding and voting power in Vagarai Windfarm Limited. However, as per the shareholder agreement, TPREL has a call option to buy shares from the captive consumers at the face value of the shares. Accordingly, non-controlling interest has not been considered for the purpose of consolidation.*

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