July 07, 2023 (Revised)

Tata Power Renewable Energy Limited: Rating reaffirmed and outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	1040.00	1040.00	[ICRA]AA (Positive); reaffirmed with revision in outlook to Positive from Stable
Term loan	1958.75	1930.00	[ICRA]AA (Positive); reaffirmed with revision in outlook to Positive from Stable
Non-fund based letter of credit	215.00	170.00	[ICRA]AA (Positive); reaffirmed with revision in outlook to Positive from Stable
Unallocated limits	0.00	73.75	[ICRA]AA (Positive); reaffirmed with revision in outlook to Positive from Stable
Total	**3,213.75**	**3,213.75**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook to Positive on the long-term rating assigned to Tata Power Renewable Energy Limited (TPREL) factors in the improvement in the credit profile of its parent, The Tata Power Company Limited (TPCL; rated [ICRA]AA (Positive)) led by the improvement in its operating and financial performance across the generation and distribution businesses. This was supported by recovery in electricity demand growth, improved operating efficiencies in the distribution business, scale up in renewable capacity, operating 4150-MW Mundra UMPP under Section 11 of the Electricity Act and improved collections from the state distribution utilities following implementation of the Electricity (Late Payment Surcharge and Related Matters) Rules, 2022 (LPS). Overall, the improved performance has allowed TPCL to improve its financial leverage and debt coverage metrics.

The rating assigned to TRPEL continues to factor in the company's strong financial flexibility from being a part of the Tata Group and the focus of the parent, TPCL, 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 ~4,047 MW as on June 05, 2023.

The rating continues to favourably reflect the strengths arising from the well-diversified renewable power portfolio across 11 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 68% of the portfolio being operational for 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), commercial & industrial customers and central intermediary procurers, with a weighted average balance PPA tenure of ~19 years, providing strong visibility on the 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 company's profitability and debt coverage metrics, going forward. Also, ICRA takes note of the large order book position of Rs. 19,368 crore for the EPC business under TPSSL as of March 2023.

ICRA notes that the Tata Power Group's entire renewable business, including manufacturing and EPC and O&M services, has been brought under TPREL, wherein Blackrock Real Assets and Mubadala Investment Company (a sovereign investor of the Government of Abu Dhabi) invested Rs 4,000 crore in FY2023. The capital infusion will enable the Group to significantly scale up its renewable energy business over the next two to three years and set up a 4,000-MW solar PV cell and module manufacturing facility. TPCL will continue to be the majority shareholder in TPREL with a shareholding of 89-90%.

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, few 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 (Mumbai), Tata Power Delhi Distribution Limited (TPDDL) and Mangalore Electricity Supply Company Limited (MESCOM). Moreover, following the notification of the LPS rules by the Ministry of Power, GoI, in June 2022, the discoms are clearing the bills in a regular manner. As a result, the receivables at the consolidated level have improved with debtor days reducing to 151 days as of March 2023 from 236 days as of March 2022. A sustained track record of timely payments from the discoms remains a key monitorable for the company.

ICRA also takes note of the execution challenges in view of the Group's large expansion plans in the renewable energy sector with ~3.6 GW under development and a 4,000-MW module/cell manufacturing plant under construction. 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 rating is 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. However, these issues were 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.

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 ~4,047 MW as on June 15, 2023 spread across solar, wind and hybrid projects. The portfolio is well-diversified, with presence across 11 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 is supported by the large scale of operations with presence across the power sector value chain, reduction in leverage level and an improved performance across the generation and distribution businesses. The coverage metrics have also improved over the past few years, led by monetisation of non-core assets and equity infusion. While the Mundra UMPP remains a drag on TPCL's profitability, the availability of profits from the coal companies in Indonesia in a tax-efficient manner post the merger of the Mundra UMPP with TPCL 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 ~19 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 ~68% 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 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.

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. In FY2021, the power generation by the portfolio was impacted by the exposure to weak O&M partners for some wind power projects and module degradation & inverter issues for some solar power projects. These issues are being resolved by replacing the O&M partners and the equipment, wherever required. The performance of the wind and solar assets remained stable in FY2023 with the portfolio PLF remaining largely similar to FY2022.

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, a few discoms in Karnataka, Kerala, Madhya Pradesh, Maharashtra, Rajasthan and Tamil Nadu. This is partly offset by a diversified customer mix, with the presence of creditworthy offtakers for the balance portfolio. Moreover, following the notification of the LPS rules by the Ministry of Power, GoI, in June 2022, the discoms are clearing the bills in a regular manner. As a result, the receivables at the consolidated level have improved with debtor days reducing to 151 days as of March 2023 from 236 days as of March 2022. A sustained track record of timely payments from the discoms remains a key 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 ~3.6 GW capacity under development and a 4,000-MW module/ cell manufacturing plant under construction. As a major portion of this capacity is in the solar power segment, the Group remains exposed to the movement in module prices. 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.

Interest rate risk and regulatory risks - The company's profitability and debt coverage metrics are exposed to variation 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. Also, the company remains exposed to the regulatory challenges of implementing the scheduling and forecasting framework for wind and solar power projects, given the variable and intermittent nature of their generation.

Liquidity position - Adequate

The company's liquidity is expected to remain adequate, supported by healthy cash flows from operations and availability of large cash and liquid investments of Rs. 4515.38 crore as on March 31, 2023 at a consolidated level. This apart, the company has an undrawn working capital line of Rs. 104 crore at a standalone level. 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, cash balances and external debt.

Rating sensitivities

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

Negative factors: The rating would be negatively impacted 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 company's debt coverage metrics. Also, a large debt-funded capital expansion without a commensurate increase in revenues and cash flows, or a significant deterioration in the payment cycle from offtakers that has an adversely impact on TPREL's 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
Parent/Group support	Parent Company: Tata Power Company Limited ICRA expects TPCL (rated [ICRA]AA (Positive)) 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-II.

About the company

TPREL, set up in 2007, is a 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 in India stands at 4.05 GW, divided across the wind and the solar segments in a ratio of 23% and 77%, respectively. In August 2022, the Group's entire renewable business, including manufacturing, EPC and O&M services, has been brought under TPREL, with the company receiving Rs. 4,000-crore investment from GreenForest New Energies Bidco, an investment platform jointly run by US asset management fund, BlackRock Real Assets, and Abu Dhabi sovereign wealth fund, Mubadala Investment Company. The deal was completed in two stages by raising equity and compulsory convertible preference shares (CCPS) equivalent to Rs. 2,000 crore each in August 2022 and March 2023. At present, GreenForest New Energies Bidco holds 6.06% in TPREL. The final shareholding will range from ~9.76% to ~11.43% at the time of final conversion into equity shares.

Key financial indicators

Consolidated	FY2022 (Audited)	FY2023 (Audited)
Operating Income (Rs. crore)	7,526.62	8,196.93
PAT (Rs. crore)	685.30	729.91
OPBDITA/OI (%)	37.86%	36.55%
PAT/OI (%)	9.11%	8.90%
Total Outside Liabilities/Tangible Net Worth (times)	3.65	1.79
Total Debt/OPBDITA (times)	5.42	5.49
Interest Coverage (times)	2.81	2.47

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation
Source: Company data, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2023 (Rs. crore)	Date & Rating	Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021	
					Jul 07, 2023	Sep 22, 2022	May 10, 2022	Mar 17, 2022	Jun 30, 2021	Jun 19, 2020	May 12, 2020
1	Term loan	Long-term	1930.00	1930.00	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Non-fund Based	Long-term	170.00	--	[ICRA]AA (Positive)	[ICRA]AA (Sable)	[ICRA]AA (Sable)	[ICRA]AA (Sable)	[ICRA]AA (Sable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
4	NCDs	Long-term	1040.00	1040.00	[ICRA]AA (Positive)	[ICRA]AA (Sable)	[ICRA]AA (Sable)	[ICRA]AA (Sable)	[ICRA]AA (Sable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
5	Unallocated	Long-term	73.75	-	[ICRA]AA (Positive)	-	-	-	-	-	[ICRA]AA- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCDs	Simple
Term loan	Simple
Non-fund based, letter of credit	Very Simple
Unallocated	Not applicable

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Letter of credit	-	-	-	170.00	[ICRA]AA (Positive)
NA	Term loan	February 2019	-	March 2031	430.00	[ICRA]AA (Positive)
NA	Term loan	February 2022	-	March 2040	500.00	[ICRA]AA (Positive)
NA	Term loan	March 2022	-	December 2039	1000.00	[ICRA]AA (Positive)
Unallocated	-	-	-	-	73.75	[ICRA]AA (Positive)
INE607M07016	NCD	27-May-2019	8.57%*	24-May-2029	440.00	[ICRA]AA (Positive)
INE607M08055	NCD	26-Sep-2022	7.9%	26-Sep-2029	300.00	[ICRA]AA (Positive)
INE607M08063	NCD	29-Sep-2022	7.9%	28-Sep-2029	300.00	[ICRA]AA (Positive)

*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 II: List of entities considered for consolidated analysis

Company Name	Ownership (%)	Consolidation Approach
Poolavadi Windfarm Ltd.*	74.0	Full Consolidation
Nivade Windfarm Ltd.	74.0	Full Consolidation
TP Wind Power Ltd.	100.0	Full Consolidation
TP Solapur Ltd.	100.0	Full Consolidation
TP Kirnali Ltd.	100.0	Full Consolidation
Walwhan Renewable Energy Ltd.	100.0	Full Consolidation
Clean Sustainable Solar Energy Pvt. Ltd.	100.0	Full Consolidation
Dreisatz Mysolar24 Pvt. Ltd.	100.0	Full Consolidation
MI Mysolar24 Pvt. Ltd.	100.0	Full Consolidation
Northwest Energy Pvt. Ltd.	100.0	Full Consolidation
Solarsys Renewable Energy Pvt. Ltd.	100.0	Full Consolidation
Walwhan Solar Energy GJ Ltd.	100.0	Full Consolidation
Walwhan Solar Raj Ltd.	100.0	Full Consolidation
Walwhan Solar BH Ltd.	100.0	Full Consolidation
Walwhan Solar MH Ltd.	100.0	Full Consolidation
Walwhan Wind RJ Ltd.	100.0	Full Consolidation
Walwhan Solar AP Ltd.	100.0	Full Consolidation
Walwhan Solar KA Ltd.	100.0	Full Consolidation
Walwhan Solar MP Ltd.	100.0	Full Consolidation
Walwhan Solar PB Ltd.	100.0	Full Consolidation
Walwhan Energy RJ Ltd.	100.0	Full Consolidation
Walwhan Solar TN Ltd.	100.0	Full Consolidation
Walwhan Solar RJ Ltd.	100.0	Full Consolidation
Walwhan Urja Anjar Ltd.	100.0	Full Consolidation
Walwhan Urja India Ltd.	100.0	Full Consolidation
Chirasthayee Saurya Ltd.	100.0	Full Consolidation
Tata Power Solar Systems Ltd.	100.0	Full Consolidation
Tata Power Green Energy Ltd.	100.0	Full Consolidation
Supa Windfarm Ltd.	100.0	Full Consolidation

TP Kirnali Solar Ltd.	74.00	Full Consolidation
TP Solapur Solar Ltd.	74.00	Full Consolidation
TP Saurya Ltd.	100.0	Full Consolidation
TP Akkalkot Renewable Ltd.	74.00	Full Consolidation
TP Roofurja Renewable Ltd.	100.0	Full Consolidation
TP Solapur Saurya Ltd.	100.0	Full Consolidation
TP Solar Ltd.	74.0	Full Consolidation
TP Nanded Ltd.	74.0	Full Consolidation
TP Green Nature Ltd.	100.0	Full Consolidation
TP Adhrit Solar Ltd.	100.0	Full Consolidation
TP Arya Saurya Ltd.	100.0	Full Consolidation
TP Saurya Bandita Ltd.	100.0	Full Consolidation
TP Ekadash Ltd.	100.0	Full Consolidation
TP Govardhan Creatives Ltd.	100.0	Full Consolidation
TP Narmada Solar Ltd.	100.0	Full Consolidation
TP Bhaskar Renewables Ltd.	100.0	Full Consolidation
TP Atharva Solar Ltd.	100.0	Full Consolidation
TP Vivagreen Ltd.	100.0	Full Consolidation
TP Vardhaman Surya Ltd	100.0	Full Consolidation
TP Kaunteya Saurya Ltd.	100.0	Full Consolidation
Vagarai Windfarm Ltd.**	68.0	Full Consolidation

**TPREL 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 68% 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.*

Corrigendum

The rationale document dated July 7, 2023 has been corrected with revision as detailed below:

There is a correction in the rating history table in the rationale; rating for unallocated limits has been added (it was missing earlier) in the column wherein details for the facilities as per rationale dated May 12, 2020 are mentioned. There are also corrections in the table capturing complexity indicators on page no. 6; the complexity indicator for Non-fund based Letter of Credit has been corrected to Very Simple from Simple and complexity indicator details have been captured for unallocated limits (Not applicable).

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