July 04, 2024

Tata Power Renewable Energy Limited: Rating upgraded and outlook revised to Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	1,040.00	1,040.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Positive); outlook revised to Stable from Positive
Term loan	1,930.00	1,961.25	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Positive); outlook revised to Stable from Positive; assigned for enhanced amount
Non-fund based letter of credit	170.00	170.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Positive); outlook revised to Stable from Positive
Unallocated limits	73.75	442.50	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Positive); outlook revised to Stable from Positive; assigned for enhanced amount
Total	**3,213.75**	**3,613.75**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in 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; upgraded to [ICRA]AA+ (Stable) from [ICRA]AA (Positive)}, led by the improvement in its operating and financial performance across the generation and distribution businesses. The performance was supported by healthy electricity demand growth, improved operating efficiencies in the distribution business, scale-up in the renewable energy capacity, higher execution of the solar engineering, procurement & construction (EPC) business and operating the 4,150-MW Mundra UMPP under Section 11 of the Electricity Act. Also, the collections from the state distribution utilities improved following the implementation of the Electricity (Late Payment Surcharge and Related Matters) Rules, 2022 (LPS). Overall, the improved performance has allowed TPCL to strengthen its financial leverage and debt coverage metrics.

The rating 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 4.5 GW as of March 2024.

The rating upgrade also factors in the scale up in revenues and profitability of TPREL led by the growth in operating capacity as well as improved execution in the solar EPC segment, leading to comfortable debt coverage metrics. Further, the rating continues to favourably reflect the strengths arising from the well-diversified renewable power portfolio across multiple 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 60% 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 portfolio at fixed tariff rates 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 revenues and cash flows. Further, the healthy cash

accruals from the operational portfolio and the availability of cost competitive funding sources for the under-construction projects would support the profitability and debt coverage metrics of the company, going forward. Also, ICRA takes note of the large order book position of Rs. 16,252 crore for TPSSL as of March 2024.
ICRA notes that the Tata Power Group's entire renewable business, including the manufacturing, EPC and O&M services, have 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 was used to scale up its renewable energy business and towards the 4.3-GW solar PV cell and module manufacturing facility. TPCL will continue to be the majority shareholder in TPREL with a shareholding of 88.57%.

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 (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, Government of India, in June 2022, the discoms are clearing the bills in a regular manner. As a result, the receivables at the consolidated level have significantly improved over the past two years. 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 sizeable expansion plans in the renewable energy sector with ~4.9 GW under development involving a capex of Rs. 30,000 crore over the next two to three years. The Group remains exposed to the movement in solar PV module prices as well as the wind turbine generator cost. 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. 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 older 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 long-term rating of TPREL 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 ~4,514 MW as on March 31, 2024 spread across the solar, wind and hybrid projects. The portfolio is well-diversified, with presence across multiple 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 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 its large scale of operations with presence across the power sector value chain and an improved performance in the generation and distribution businesses. While the Mundra UMPP remains a drag on TPCL's profitability, the profits from the coal companies in Indonesia and operating the project under Section 11 of the Electricity Act 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 majority of its portfolio at fixed tariff rates. The weighted average balance PPA tenure for the portfolio is ~19 years, providing strong visibility on revenues and cash flows and thereby limiting the 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 ~60% of the portfolio having a track record of more than three years. The generation performance of the portfolio improved in FY2024 over FY2023, as seen in the higher plant load factor (PLF) achieved for wind and solar power projects.

Debt coverage metrics expected to remain comfortable - TPREL's debt coverage metrics are expected to be comfortable, supported by the healthy cash accruals from the operational portfolio having long-term PPAs and cost-competitive funding sources. Further, the cash flows from the solar EPC business and the commencement of sales from the 4.3-GW module and cell manufacturing line in FY2025 are expected to support the consolidated debt coverage metrics, going forward.

Credit challenges

Execution challenges because of Group's large expansion plans - The execution challenges remain high for the company because of the large expansion plans in the renewable energy sector, with 4.9-GW capacity under development across the solar, hybrid and fixed & dispatchable renewable energy (FDRE) segments. This exposes the company to risks associated with land, transmission infrastructure and the movement in equipment prices. Further, the debt-funded capex would increase the leverage level. Nonetheless, 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.

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 the generation and consequently the cash flows. Also, the power generation by the portfolio was affected 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. The performance of the wind and solar assets improved in FY2024 over FY2023.

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 the 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 (including unbilled revenue) at the consolidated level have improved with the debtor days reducing to 102 days as of March 2024 from over 150 days as of March 2023. A sustained track record of timely payments from the discoms remains a key monitorable for the company.

Profitability of EPC business remains exposed to movement in module prices – The solar EPC business is exposed to module price fluctuations, as seen in FY2023, given the fixed-price contracts signed with the customers. While the prices moderated in FY2024 enabling a scale-up in the company's execution, the profitability would remain exposed to any adverse movement in equipment prices.

Exposure to refinancing and interest rate risk - The company's profitability and debt coverage metrics are exposed to the variation in interest rates because of 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 competitive bid tariff rates. The company has large repayments over the next two years, wherein a part of the repayment will be met through refinancing. Herein, comfort is drawn from the strong financial flexibility enjoyed by the company.

Liquidity position- Adequate

The company's liquidity is expected to remain adequate, supported by healthy cash flows from operations and the availability of unencumbered cash and liquid investments of Rs. 1,229.23 crore as on March 31, 2024 at a consolidated level. The funding for the new projects is expected to be met through a mix of sources, including internal accruals, cash balances, equity and external debt. While the company has large repayments over the next two years, a part of the repayment will be met through refinancing.

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 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 debt coverage metrics of the company. 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 adversely impacting TPREL's liquidity position would be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar Power - Wind
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-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 4.5 GW divided across the wind and the solar segments in the 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 a

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 11.43% in TPREL and the balance is held by TPCL.

Key financial indicators

Consolidated	FY2023 (Audited)	FY2024 (Audited)
Operating income (Rs. crore)	8,196.93	10,175.19
PAT (Rs. crore)	729.91	747.87
OPBDITA/OI (%)	36.55%	31.74%
PAT/OI (%)	8.90%	7.35%
Total outside liabilities/Tangible net worth (times)	1.79	2.23
Total debt/OPBDITA (times)	5.49	7.04
Interest coverage (times)	2.47	2.58

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 (FY2025)			Chronology of rating history for the past 3 years				
	Type	Amount rated (Rs. crore)	Date & rating FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	
			July 4, 2024	Jul 07, 2023	Sep 22, 2022	May 10, 2022	Mar 17, 2022	Jun 30, 2021
Term loan	Long-term	1961.25	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
Non-fund based	Long-term	170.00	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
NCDs	Long-term	1040.00	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
Unallocated	Long-term	442.50	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCDs	Very Simple
Term loan	Simple
Non-fund based	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	**Non-fund based limit**	-	-	-	170.00	[ICRA]AA+ (Stable)
NA	**Term loan**	February 2024	-	March 2033	827.50	[ICRA]AA+ (Stable)
NA	**Term loan**	February 2022	-	March 2040	483.75	[ICRA]AA+ (Stable)
NA	**Term loan**	March 2022	-	December 2039	650.00	[ICRA]AA+ (Stable)
Unallocated	-	-	-	-	442.50	[ICRA]AA+ (Stable)
INE607M07016	**NCD**	27-May-2019	10.12%*	24-May-2029	440.00	[ICRA]AA+ (Stable)
INE607M08055	**NCD**	26-Sep-2022	7.9%	26-Sep-2029	300.00	[ICRA]AA+ (Stable)
INE607M08063	**NCD**	29-Sep-2022	7.9%	28-Sep-2029	300.00	[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 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
TP Alpha Ltd.	74.0	Full Consolidation
TP Varun Ltd.	100.0	Full Consolidation
TP Mercury Ltd.	74.0	Full Consolidation
TP Saturn Ltd.	100.0	Full Consolidation
TP Agastaya Ltd.	74.0	Full Consolidation
TP Samakash Ltd.	74.0	Full Consolidation
TP Surya Ltd.	100.0	Full Consolidation
TP Aboli Ltd.	100.0	Full Consolidation
TP Magnolia Ltd.	100.0	Full Consolidation
TP Gulmohar Ltd.	100.0	Full Consolidation
TP Cypress Ltd.	100.0	Full Consolidation
TP Orchid Ltd.	100.0	Full Consolidation
TP Godavari Solar Ltd.	74.0	Full Consolidation
TP Aakash Ltd.	100.0	Full Consolidation
TP Marigold Ltd.	100.0	Full Consolidation
TP Vikas Ltd.	100.0	Full Consolidation
TP Adarsh Ltd.	100.0	Full Consolidation
TP Parivart Ltd.	100.0	Full Consolidation
TP Paarthav Ltd.	100.0	Full Consolidation
TP Hrihaan Ltd.	100.0	Full Consolidation

**TPREL has 74% 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*

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