

September 12, 2024

Tata Power Renewable Energy Limited: Rating assigned for proposed NCD programme and reaffirmed for existing instruments

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Proposed Non-Convertible Debentures (NCD)	0.00	1,000.00	[ICRA]AA+ (Stable); assigned
Non-convertible debentures	1,040.00	1,040.00	[ICRA]AA+ (Stable); reaffirmed
Term loan	1,961.25	1,961.25	[ICRA]AA+ (Stable); reaffirmed
Non-fund based letter of credit	170.00	170.00	[ICRA]AA+ (Stable); reaffirmed
Unallocated limits	442.50	442.50	[ICRA]AA+ (Stable); reaffirmed
Total	3,613.75	4,613.75	

*Instrument details are provided in Annexure-I

Rationale

The rating action for Tata Power Renewable Energy Limited (TPREL) factors in the strong credit profile of its parent company, The Tata Power Company Limited {TPCL; [ICRA]AA+ (Stable)}, along with TPCL's healthy operational and financial performance across its generation and distribution businesses. This performance was driven 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, collections from the state distribution utilities have improved following the implementation of the Electricity (Late Payment Surcharge and Related Matters) Rules, 2022 (LPS). Overall, the strong performance has enabled TPCL to strengthen its financial leverage and debt coverage metrics.

The rating continues to factor in the company's strong financial flexibility as part of the Tata Group, and the parent company's focus on renewable energy as a key growth area. The rating is based on the consolidated business and financial risk profile of TPREL and its subsidiaries. As on June 30, 2024, the Group's aggregate operating renewable capacity stood at 4.8 gigawatt (GW).

The rating also factors in the scale-up in revenues and profitability of TPREL, driven by growth in its operating capacity and improved execution in the solar EPC segment, resulting in comfortable debt coverage metrics. Further, the company's well-diversified renewable power portfolio across multiple states helps reduce generation vulnerability to location-specific issues, while a diversified customer mix partly mitigates the counterparty credit risks. Further, the rating draws comfort from TPREL's demonstrated operating track record, with nearly 60% of its 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 and industrial customers as well as 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 under-construction projects would support the company's profitability and debt coverage metrics going forward. ICRA also notes that TPSSL's large order book position of Rs. 15,640 crore as of June 2024.

ICRA acknowledges that Tata Power Group's entire renewable business, including manufacturing, EPC and O&M services, has been consolidated under TPREL, with Blackrock Real Assets and Mubadala Investment Company (a sovereign investor of the Government of Abu Dhabi) investing Rs. 4,000 crore in FY2023. The capital infusion was used to scale up the renewable energy business and fund a 4.3-GW solar PV cell and module manufacturing facility. The module manufacturing capacity was fully commissioned in FY2024, and the cell manufacturing capacity become operational in September 2024. TPCL will remain 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, discoms have been 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 notes the execution challenges in view of the Group's sizeable expansion plans in the renewable energy sector, with ~5.3 GW under development involving a capex of ~Rs. 33,000 crore over the next three years. The Group remains exposed to fluctuations in solar PV module and wind turbine generator costs. 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 the majority of the portfolio.

Also, the company remains exposed to regulatory challenges related to implementing, scheduling and forecasting frameworks 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 replacing the O&M partners and 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 TPREL's rating reflects the benefits of long-term PPAs at fixed tariff rates, a diversified asset profile and the experience of the company's 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 ~4.8 GW as on June 30, 2024 spread across the solar, wind and hybrid projects. The portfolio is well-diversified, with a 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, a leading company in the power sector with presence across generation, transmission and distribution businesses. The renewable energy segment remains TPCL's focus area of growth. The credit profile of TPCL is supported by its large scale of operations with presence across the power sector

value chain and 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 as 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 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, 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 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 owing to its large expansion plans in the renewable energy sector, with 5.3-GW capacity under development across the solar, hybrid as well as fixed and dispatchable renewable energy (FDRE) segments. This exposes the company to risks associated with land, transmission infrastructure and fluctuations 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 after 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, adverse variations 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 wind power projects and module degradation & inverter issues in a few solar power projects. These issues are addressed by replacing the O&M partners and equipment where necessary. 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 remaining portfolio. Moreover, following the notification of the LPS rules by the Ministry of Power, GoI, in June 2022, the discoms are clearing the bills regularly. 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 enabled the company to scale up its execution. However, its 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 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. 273.61 crore crore as on June 30, 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 TPCL improves.

Negative factors: The rating would be negatively impacted if the credit profile of TPCL 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 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: The 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 4.8 GW across the wind and solar segments in the ratio of 22% and 78%, respectively. In August 2022, the Group’s entire renewable business, including manufacturing, EPC and O&M services, was 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 an 11.43% stake 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	
			Sep 12, 2024	July 4, 2024	Jul 07, 2023	Sep 22, 2022	May 10, 2022	Mar 17, 2022	Jun 30, 2021
Term loan	Long term	1,961.25	[ICRA]AA+ (Stable)	[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+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
Proposed NCD	Long term	1000.00	[ICRA]AA+ (Stable)	-	-	-	-	-	-
NCDs	Long term	1040.00	[ICRA]AA+ (Stable)	[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+ (Stable)	[ICRA]AA (Positive)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCDs	Very simple
Term loan	Simple
Non-fund based	Very simple
Proposed NCD	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: [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)
NA	Proposed NCD	NA	NA	NA	1000.00	[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 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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