February 21, 2025

Industrial Energy Limited: [ICRA]AA+ (Stable) assigned

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Long-term fund-based – Term loan	633.74	[ICRA]AA+ (Stable); assigned
Long-term fund-based – Unallocated	16.26	[ICRA]AA+ (Stable); assigned
Total	**650.00**	

**Instrument details are provided in Annexure I*

Rationale

The assigned rating for Industrial Energy Limited (IEL) factors in the strong parentage[1] with The Tata Power Company Limited {TPCL; [ICRA]AA+ (Stable)} holding a 74% stake, resulting in access to strong financial flexibility as well as operating and financial support for the company. The rating favourably factors in the satisfactory operating track record of the 482.5-MW coal-based/co-generation power plants of the company, evident from the healthy plant availability factor (PAF) and plant load factor (PLF) in the past. The rating also takes into account the limited demand and counterparty risks due to the long-term tolling agreements in place for its entire operational and under-construction capacity with a strong counterparty - Tata Steel Limited (TSL; rated [ICRA]A1+) under the captive mode. TSL holds a 26% stake in IEL. The tariff under the tolling agreements is determined on a cost-plus basis, allowing recovery of capital and operating costs incurred by the company along with a fixed return on equity.

The fuel supply risk for the company remains low as the required fuel (coal and waste gas) for the plants is supplied by TSL. The rating also takes comfort from the strategic importance of IEL to TSL as a significant portion of TSL's electricity requirement is supplied by IEL. Further, the cost of electricity supplied by IEL, including the fuel cost incurred by TSL, remains competitive compared to the grid tariff. ICRA further takes note of the healthy financial risk profile of the company, characterised by moderate leverage (total debt to operating profits of 2.3 times in FY2024) and comfortable debt coverage indicators (debt service coverage ratio of 1.5 times in FY2024). While the leverage level is likely to increase over the near term owing to the debt-funded capex, the company's debt coverage metrics are expected to remain comfortable.

The rating is, however, constrained by the company's exposure to execution risks pertaining to the ongoing debt-funded capacity expansion for setting up a 120-MW waste gas-based thermal power plant and a 15-MW solar power plant. IEL is also installing the flue gas desulphurisation (FGD) system at its 120-MW coal-based power plant to meet the revised emission norms. The total capital expenditure for the ongoing projects is ~Rs. 1,145 crore, of which ~45% has been incurred till December 2024. The pending capital expenditure is expected to be funded through sanctioned debt and internal accruals. The ability of the company to commission the projects within the timelines and without any major cost overrun remains important from a credit perspective. Nonetheless, comfort can be drawn from the demonstrated track record of the group and the reasonable progress achieved by the company on these projects. The projects have achieved modest progress in construction and are expected to commission in FY2026. Further, the company's revenues and profitability remain susceptible to the PLF achieved by its plants as the tariff recovery under the tolling agreements is linked to achieving the guaranteed PLF.

[1] *Joint venture under Ind AS*

The Stable outlook reflects ICRA's expectation that IEL will be able to maintain satisfactory PAF and PLF, allowing it to recover the full tariff under the tolling agreements, which along with the timely payments from TSL, would lead to healthy cash flows for the company.

Key rating drivers and their description

Credit strengths

Strong sponsor profile - IEL is a joint venture (JV) between TPCL (74% stake) & TSL (26% stake). TPCL is a leading company in the power sector with presence across the generation, transmission and distribution businesses. Hence, IEL benefits from the in-house technical and operational expertise provided by TPCL, which helps in the operations and maintenance of the plants. Further, ICRA expects TPCL to extend financial support to IEL, should there be a need. ICRA also notes the strategic importance of IEL for TSL as a significant portion of TSL's electricity requirement is supplied by IEL.

Long-term tolling arrangement with strong counterparty for entire capacity - IEL has long-term tolling agreements in place for its entire operational and under-construction capacity with a strong counterparty - TSL. The agreements have been signed on a cost-plus basis which allows normative return on equity and recovery of fixed capacity charges, subject to achieving the guaranteed PLF level. Also, fuel (coal and waste gas) for the plants is supplied by TSL and IEL is paid tolling charges for the generation of electricity from the supplied fuel. Further, if IEL incurs any cost for fuel, it will be reimbursed by TSL. This limits the demand and fuel risk for the company. Also, the collection track record for IEL has been satisfactory, given the strong credit profile of the counterparty.

Healthy performance of all operational units – The PAF and PLF of all the operational facilities has remained healthy in the last three years. The weighted average PAF remained at ~92% and the PLF at ~73% in FY2024. Also, the operating plants have been able to meet all the parameters mentioned in the agreement, resulting in full recovery of the capacity charges and stable revenues for IEL.

Healthy financial risk profile – The company's financial risk profile is characterised by low leverage and healthy debt coverage metrics. The leverage (total debt to operating profits) was 2.3 times and the debt service coverage ratio (DSCR) was 1.5 times in FY2024. While the leverage level is expected to increase in the near term owing to the debt-funded capex, the debt coverage metrics are expected to remain comfortable.

Credit challenges

Exposure to risk related to under-construction projects – IEL is exposed to execution risks pertaining to the ongoing debt-funded capacity expansion for a 120-MW gas based thermal power plant at Jamshedpur and a 15-MW solar power plant at Domjuri, both in Jharkhand. It is also installing the FGD system at its operating 120-MW coal-based power plant in Jojobera, near Jamshedpur. The ability of the company to commission the projects within the timelines and without any major cost overrun remains important from a credit perspective. Nonetheless, comfort can be drawn from the demonstrated track record of the group and the reasonable progress achieved by the company on these projects, with commissioning expected in FY2026.

Sensitivity of profitability to PLF - As per the tolling agreements, the tariff recovery for IEL is linked to achieving the guaranteed PLF by the power plants. Hence, if IEL is not able to maintain the guaranteed PLF, the recovery of the tariff would be proportionately adjusted with respect to the shortfall in generation against the guaranteed PLF. This exposes the company's revenues and profitability to the PLF level achieved by its thermal plants.

Liquidity position: Adequate

IEL's liquidity is expected to remain adequate with the company being able to meet the debt repayment obligations and the equity requirement of the ongoing projects from its cash flow from operations and the available liquidity. Further, ICRA expects

TPCL to extend financial support to IEL, should there be a need. As on January 31, 2025, the company had free cash & cash equivalents of Rs. 31.0 crore and a DSRA of Rs. 25.0 crores after a dividend payout of Rs. 250.0 crore in H1 FY2025. ICRA expects the excess liquidity after meeting the debt repayments and equity requirements for the ongoing projects to be paid out in the form of dividends to the JV partners.

Rating sensitivities

Positive factors – IEL's rating could be upgraded if the credit profile of TPCL improves and if it able to maintain a healthy operating performance and strong debt coverage metrics.

Negative factors – The rating would be impacted if the credit profile of TPCL or TSL deteriorates. Further, any deterioration in the operating parameters impacting the company's ability to bill the full capacity charges would weigh on the rating. Significant delays in payments from the counterparty affecting its liquidity and debt coverage metrics and pulling down the cumulative DSCR below 1.40 times on a sustained basis could also warrant a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power - Solar Power - Thermal
Parent/Group support	Majority Shareholder: The Tata Power Company Limited ICRA expects TPCL to be willing to extend financial support to IEL, should there be a need. TPCL hold a 74% stake in the company and the balance 26% is held by TSL
Consolidation/Standalone	The rating is based on the standalone financials of the company.

About the company

IEL is a JV between TPCL and TSL, with TPCL holding a 74% stake and TSL a 26% stake. IEL is engaged in power generation to meet the captive energy requirements of TSL. It currently operates 482.5 MW of coal based/co-generation power plants in Jamshedpur, Jharkhand and Kalinganagar, Odisha. Further, it has an under-construction capacity of 135 MW, which includes a 120-MW thermal power plant and a 15-MW solar power plant in Jharkhand. IEL is also installing the FGD system at its operating 120-MW coal-based power plant in Jojobera, near Jamshedpur.

Key financial indicators:

IEL Standalone (Audited)	FY2023	FY2024
Operating income (Rs. crore)	338.6	336.1
PAT (Rs. crore)	115.9	119.9
OPBDIT/OI (%)	61.4%	55.5%
PAT/OI (%)	34.2%	35.7%
Total outside liabilities/Tangible net worth (times)	0.9	0.7
Total debt/OPBDIT (times)	2.3	2.3
Interest coverage (times)	5.2	4.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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 in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Feb 21, 2025	-	-	-
1	Term loan	Long term	633.74	[ICRA]AA+ (Stable)	-	-	-
2	Unallocated	Long term	16.26	[ICRA]AA+ (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Proposed term loan	Simple
Long-term fund-based – Unallocated	NA

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	**Term loan**	Sep 2024	-	FY2049	633.74	[ICRA]AA+ (Stable)
NA	**Unallocated**	-	-	-	16.26	[ICRA]AA+ (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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