

July 03, 2025

TP Western Odisha Distribution Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous rated amount (Rs. Crore)	Current rated amount (Rs. Crore)	Rating action
Fund based - Cash credit	200.00	200.00	[ICRA]AA (Stable); reaffirmed
Term loans	225.00	699.73	[ICRA]AA (Stable); reaffirmed and assigned for enhanced amount
Proposed term loans	425.00	450.27	[ICRA]AA (Stable); reaffirmed and assigned for enhanced amount
Non-fund based - Letter of credit	275.00	275.00	[ICRA]A1+; reaffirmed
Total	1125.00	1625.00	

*Instrument details are provided in Annexure I

Rationale

The rating action for TP Western Odisha Distribution Limited (TPWODL) factors in its satisfactory operational and financial performance in FY2025 and the strong credit profile of its parent, The Tata Power Company Limited {TPCL; [ICRA]AA+ (Stable)}. TPWODL is a joint venture between TPCL (51%) and the Government of Odisha (49%), responsible for supplying electricity in the western region of Odisha. TPCL had won the distribution licence to supply electricity to 2.1 million consumers in this region through a competitive bidding process. Given the strategic importance of the distribution business for TPCL as a focus area for growth, it is expected to support TPWODL through equity for capex and in the case of any cash flow mismatch. Further, TPCL and its subsidiaries enjoy strong financial flexibility and access to debt funding at highly competitive rates for being a part of the Tata Group.

The ratings factor in the regulated nature of the business for TPWODL, backed by a cost-plus tariff regime with assured return on equity, subject to meeting the prescribed operating efficiency targets. The tariff order for FY2026 was issued by the Odisha Electricity Regulatory Commission (OERC) in March 2025 with an average cost of supply of Rs. 5.83 per unit. The average tariff approved for FY2025 is Rs. 5.85 per unit. Any variation in the cost structure is reviewed by the regulator at the time of true-up and allowed in the ARR, as per the tariff regulations. The company has a regulatory surplus outstanding of Rs. 139 crore as on March 31, 2025, owing to the tariff surplus generated by the company in FY2022 and FY2023. This regulatory surplus is expected to be liquidated in FY2026.

The ratings further take into consideration the company's comfortable capital structure, with the balance sheet transferred to TPWODL having no legacy liabilities at the time of takeover. The company has largely funded its capex over the past three years with a mix of equity, internal accruals and debt. The debt increased as on March 31, 2025, compared to March 31, 2024, owing to capex, thereby increasing the total debt to operating profit ratio to 3.20x in FY2025 compared to 1.95x in FY2024. Nonetheless, the debt coverage metrics are expected to remain adequate with the debt service coverage ratio (DSCR) staying above 2.0x over the near to medium term. ICRA also notes that TPWODL experienced a slight shift in its consumer profile due to the discontinuation of a supply agreement with one large industrial consumer, reducing the sales volume in FY2025 over FY2024. Nonetheless, comfort can be taken from a favourable consumer profile, with the share of industrial and commercial consumers accounting for more than 60% of the sales volume in its licence area in FY2025, which is expected to aid the company in improving the billing and collection efficiency.

ICRA notes that the aggregate technical & commercial (AT&C) losses for TPWODL increased marginally to 16.2% in FY2025 compared to 15.5% in FY2024, 18.3% in FY2023 and 26.8% in FY2022. Nonetheless, the loss levels remain lower than the OERC

approved level of 17.2% for FY2025 and well below the trajectory committed by TPCL for FY2025 under the bid. This is supported by the various steps and investments taken by the company to improve the billing and collection efficiency. These, along with the healthy electricity demand in its licence area, have helped improve the company's revenues and cash accruals. The ability of the company to sustain this improvement and achieve a further reduction, in line with the committed trajectory under the bid, remains important. Herein, ICRA draws comfort from the demonstrated track record of the Group in turning around the distribution business, as seen in Delhi and Ajmer.

The ratings factor in the significant capital expenditure plans of TPWODL of ~Rs. 450 crore per annum over the next two years, as committed under the bid. This capex will be incurred towards upgrading the distribution, metering and IT infrastructure. It will be funded in a debt and equity ratio of 70:30, as allowed under the tariff regulations. While this would increase the company's leverage level, ICRA notes that such capital investment would be a pass-through under the tariff through interest, depreciation and return on equity, subject to review by the regulator.

The ratings also take into consideration the risk of delays in approving the tariff orders, including true-up for the previous years, by the state regulator and the inadequate tariffs in relation to the cost structure. Nonetheless, comfort can be drawn from the timely issuance of the tariff orders in the past.

The Stable outlook on the long-term rating assigned to TPWODL considers the strong parentage, the established track record of the Group in the distribution business and the cost-plus operations of the company.

Key rating drivers and their description

Credit strengths

Strong parentage and track record of the Group in distribution business – TPWODL is a 51% owned subsidiary of TPCL, which is a leading company in the power sector with presence across the generation, transmission and distribution businesses. The credit profile of TPCL is supported by the 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 availability of 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. Given the strategic importance of the distribution business to TPCL, the latter is expected to support TPWODL in the form of equity for capex and in case of any cash flow mismatch. Also, the Group has a demonstrated track record of turning around distribution businesses.

Cost-plus tariff regime with assured return on equity – The OERC has approved the regulations for the determination of tariff for distribution utilities on a normative cost-plus basis along with the provision for an annual true-up. The return on equity allowed by the regulator is 16% on the regulated equity. This ensures recovery of costs incurred as per the applicable operating efficiency target, return on equity and opportunity to generate additional income through incentives for TPWODL.

Favourable customer profile and AT&C losses below the OERC approved level – TPWODL experienced a slight shift in its consumer profile in FY2025 due to the discontinuation of a supply agreement with one large industrial consumer. Nonetheless, customer profile remains favourable with industrial and commercial customers accounting for ~62% (PY:73%) of the sales volume in FY2025 and the limited exposure to agriculture consumers. This is an enabling factor for TPWODL to improve its billing and collection efficiency. The AT&C losses for the company increased marginally to 16.2% in FY2025 compared to 15.5% in FY2024, 18.3% in FY2023 and 26.8% in FY2022. Nonetheless, the loss levels remain lower than the OERC approved level of 17.2% for FY2025 and well below the trajectory committed by TPCL for FY2025 under the bid. This has been aided by the steps taken by the company to improve the billing and collection efficiency.

Comfortable debt coverage metrics – As per the terms of the acquisition, the balance sheet transferred to TPWODL at the time of takeover of WESCO's¹ operations was without any legacy liabilities. The licence was acquired with equity infused by the parent, as per the shareholding pattern (51% stake with TPCL and 49% stake with the state government of Odisha). While the debt funding availed for the capex over the past three years increased the company's leverage level, its debt coverage metrics are expected to remain adequate with DSCR above 2.0x over the near to medium term, supported by the cost-plus tariff structure.

Credit challenges

Large capital expenditure plans – TPWODL's capital expenditure plans remain significant at ~Rs. 450 crore per annum for the next two years for upgrading the distribution, metering and IT infrastructure. This will be funded through a mix of equity and debt, as allowed under the tariff regulations. Nonetheless, the capital cost is a pass-through under the tariff through interest, depreciation and return on equity, subject to review by the regulator. While the debt-funded capex would increase the company's debt level, the debt coverage metrics are expected to remain comfortable.

Risk of delays in approving tariff orders and inadequate tariff in relation to cost structure – Historically, the OERC has issued tariff orders in a timely manner, providing a stable regulatory regime. However, the risk of delays in issuing tariff orders or inadequate tariff revision cannot be ruled out. Moreover, the absence of a fuel & power purchase cost adjustment mechanism could result in a lag in recovery of the cost variations from the consumers. Also, any difference in the tariff approved by the OERC and the cost structure may result in under-recovery, impacting the company's financial risk profile.

Liquidity position: Adequate

The company's liquidity is expected to remain adequate, supported by healthy cash flow from operations and availability of unencumbered cash and liquid investments of ~Rs. 876 crore as on March 31, 2025. The repayment obligation for the company remains low at Rs. 39.74 crore in FY2026. The company has a capex requirement of around ~Rs. 450 crore per annum for the next two years, which is expected to be funded by equity infusion from promoters, debt and internal accruals. Also, there is a build-up of regulatory liability on the books of TPWODL, as the revenues achieved by the company for FY2022 and FY2023 were significantly higher than the same approved in the tariff order owing to a sharp increase in electricity demand in its licence area. A significant portion of the liability has been liquidated in FY2024 and FY2025, with the balance expected to be liquidated over FY2026 based on the true-up orders from the OERC.

Rating sensitivities

Positive factors – ICRA could upgrade TPWODL's rating if there is an improvement in the credit profile of its parent, TPCL. Further, a sustained reduction in the AT&C loss level at a rate higher than the trajectory committed in the bid, resulting in healthy profitability metrics on a sustained basis, could lead to an upgrade.

Negative factors – The ratings could face pressure in case of a deterioration in the credit profile of TPCL, or weakening of the linkages with TPCL, or a change in the support philosophy of the parent towards TPWODL. Also, under-performance against the committed AT&C loss or lack of adequate tariff revisions to pass on the cost variations, adversely impacting the company's profitability and liquidity on a sustained basis, could be the other triggers for a downgrade.

¹Western Electricity Supply Company of Odisha (WESCO) - Erstwhile distribution utility in the western region of Odisha

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Power- Distribution
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 TPWODL, should there be a need, as it is a subsidiary of TPCL, and the distribution segment remains the focus area of growth for TPCL
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

TPWODL, incorporated in December 2020, is a joint venture between TPCL and the Government of Odisha with majority stake being held by TPCL (51%). The distribution licence was awarded by the Government of Odisha and OERC through a competitive bidding process with equity value of the new licensee being the bid parameter. TPCL had emerged as the winning bidder for owning a 51% stake by quoting an equity value of Rs. 500 crore for a 100% stake in the company and based on the trajectory provided to reduce the AT&C losses. Thereafter, TPCL acquired a 51% stake in TPWODL from GRIDCO Limited (company owned by Government of Odisha) on January 1, 2021, at a consideration of Rs. 255 crore. The distribution licence was offered for a period of 25 years from the date of issue of the vesting order (December 28, 2020). The company took over the distribution operations from January 2021. TPWODL has a customer base of 2.1 million and a distribution area in the western part of Odisha covering 48,373 sq. km in the Rourkela, Sambalpur, Bargarh, Bolangir and Bhawanipatna circles across nine districts of western Odisha.

Key financial indicators (audited)

Audited	FY2024	FY2025
Operating income	7085.38	6829.35
PAT	74.78	72.74
OPBDIT/OI	2.96%	5.00%
PAT/OI	1.06%	1.07%
Total outside liabilities/Tangible net worth (times)	2.07	1.59
Total debt/OPBDIT (times)	1.95	3.20
Interest coverage (times)	2.11	2.43

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDITA: 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

Current (FY2026)			Chronology of rating history for the past 3 years						
FY2026			FY2025		FY2024		FY2023		
Instrument	Type	Amount rated (Rs. crore)	July 03, 2025	Date	Rating	Date	Rating	Date	Rating
Fund-based limits – Cash credit	Long term	200.00	[ICRA]AA (Stable)	23-Aug-2024 4-Jul-2024	[ICRA]AA (Stable)	11-Jul-2023	[ICRA]AA- (Positive)	30-Dec-2022	[ICRA]AA- (Stable)
Term loans	Long term	699.73	[ICRA]AA (Stable)	23-Aug-2024	[ICRA]AA (Stable)	-	-	-	-
Proposed term loans	Long term	450.27	[ICRA]AA (Stable)	23-Aug-2024	[ICRA]AA (Stable)	-	-	-	-
Non-fund based - Letter of credit	Short term	275.00	[ICRA]A1+	23-Aug-2024 4-Jul-2024	[ICRA]A1+	11-Jul-2023	[ICRA]A1+	30-Dec-2022	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term fund based – Cash credit	Simple
Proposed term loans	Simple
Term loans	Simple
Short term – Non-fund based – Letter of credit	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
-	Cash credit	NA	NA	NA	200.00	[ICRA]AA (Stable)
-	Term loan-I	Q1FY2025	NA	FY2033	75.00	[ICRA]AA (Stable)
-	Term loan-II	Q1FY2025	NA	FY2039	225.00	[ICRA]AA (Stable)
-	Term loan-III	Q4FY2025	NA	FY2040	399.73	[ICRA]AA (Stable)
-	Proposed term loans	NA	NA	NA	450.27	[ICRA]AA (Stable)
-	Letter of credit	NA	NA	NA	275.00	[ICRA]A1+

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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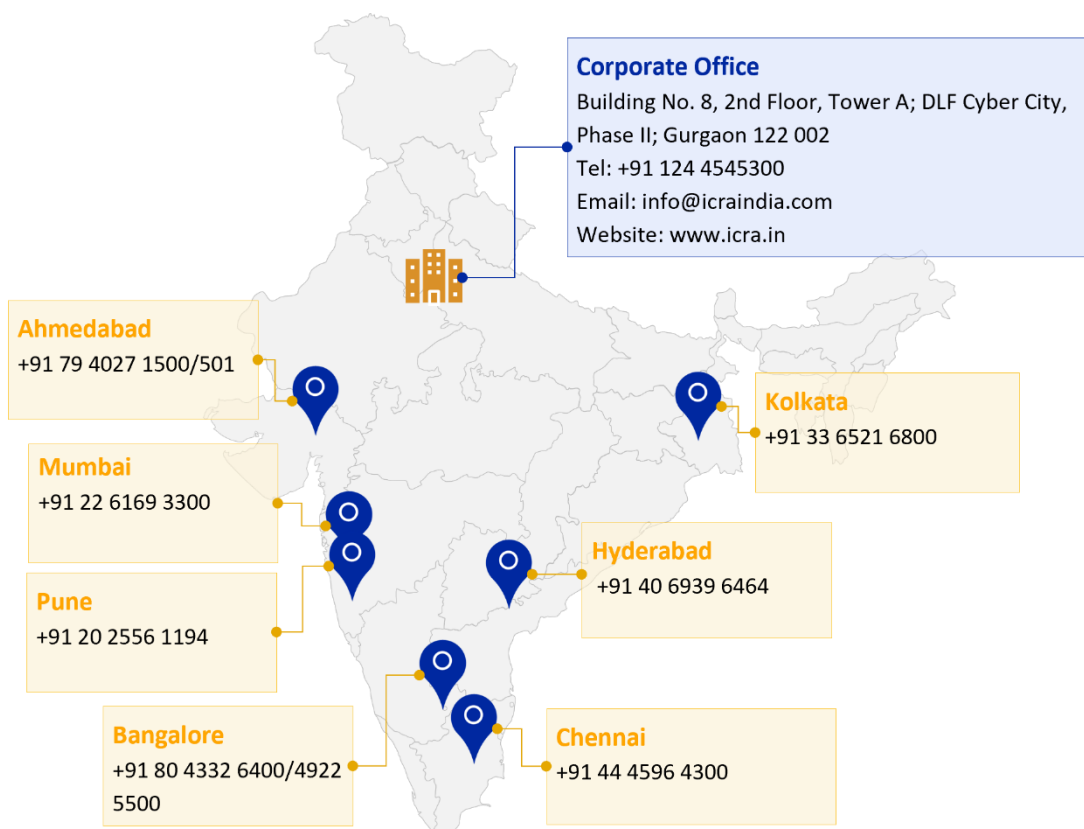
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