The Tata Power Company Limited

Instrument	Amount	Rating Action
NCD Programme	Rs. 3,100 crore	[ICRA]AA (negative) reaffirmed
Term Loans	Rs. 1,340 crore	[ICRA]AA (negative) reaffirmed
Short Term Debt / CP Programme	Rs. 2,000 crore	[ICRA]A1+ reaffirmed
NCD Programme	Rs. 1,000 crore	[ICRA]AA (negative) Withdrawn

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A) outstanding on the Rs. 1,340 crore[1] term loans and Rs. 3,100 crore Non-Convertible Debenture Programme of The Tata Power Company Limited (Tata Power)[2]. The outlook on the long-term rating is Negative. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 2,000 crore Commercial Paper/Short Term Debt Programme of Tata Power. ICRA has withdrawn the rating of [ICRA]AA (negative) outstanding on the Rs. 1,000 crore Non-Convertible Debenture Programme of Tata Power as the company has fully redeemed the instrument on maturity.

The reaffirmation of ratings takes into account the favourable financial profile of Tata Power on a standalone basis which is aided by the stable cash flows generated from the company's operations in the Mumbai License Area arising from the cost-plus rate of return model and superior operational efficiency. The ratings also factor in the strong financial flexibility arising from the company's association with the Tata Group. ICRA further considers the comfortable liquidity profile of the company characterised by largely unutilised working capital fund based limits and its ability to raise adequate funds in a timely manner through equity and debt instruments as seen in the past.

The ratings are however constrained by the continued loss-making operations of Mundra UMPP[3] which has led to sizeable financial support being extended by Tata Power. Mundra UMPP also remains exposed to the risk of shortfall in recovery of fixed costs given the large portion of foreign currency debt which has been impacted by the sharp depreciation of Indian Rupee from bid assumption levels; the company however currently hedges its forex obligations for a five-year period to mitigate any further forex risks. The ratings are further constrained by the subdued profitability in the company's coal business owing to the depressed international coal prices which has reduced the dividend income earned from the Indonesian coal mining companies[4] in FY2016. The refinancing requirements of the company would be high over the medium term given the sizeable debt obligations of Tata Power on standalone basis and of its Coal SPVs (entirely backed by a corporate guarantee from Tata Power), though ICRA takes comfort from the past track record of the company in meeting its refinancing needs.

The 'Negative' outlook reflects the uncertainties over the additional compensation sought for Mundra UMPP owing to the change in the Indonesian mining laws. The recent order of ATE (dated April 7, 2016) directed Central Electricity Regulatory Commission (CERC) to assess the extent of impact of force majeure event on the project and provide such relief as may be available under the Power Purchase Agreement (PPA) within a period of three months from the date of ATE's order. While the order is a positive, the benefits flowing to Tata Power cannot be ascertained at the moment given that CERC would have to determine the mechanism for calculating the tariff compensation to be paid. Delays in payment of the same cannot be ruled out, given the possibility of further appeal by impacted off-takers. Until then Tata Power is likely to continue to fund the cash flow mismatches of Mundra UMPP though the same are going to be lower for the next three-four year period due to the successful refinancing of the Rupee term loans of Mundra UMPP in a ballooning manner.

[1] 100 lakh = 1 crore = 10 million
[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications
[3] Ultra Mega Power Project
[4] Tata Power has 30% stake through offshore SPVs ("Coal SPVs") in the Indonesian coal mining companies

Company Profile
The Tata Power Company Limited (Tata Power), a Tata Group company, is involved in the business of generation, distribution and transmission of power. It has a license for bulk supply of electricity in the city of Mumbai. Tata Power Group currently has a total generation capacity of 9,183 MW on its own books as well as its subsidiaries. Of the same, 2,027 MW capacity is utilised to meet the power demands in the License Area in Mumbai. The company supplies power to Bombay Electric Supply & Transport Undertaking (BEST). Besides, it also supplies to the Railways and other industrial and High-Tension consumers in Mumbai apart from direct sales to retail consumers in the License Area.

Tata Power operates the 4,000 MW capacity as part of its Ultra Mega Power Project (UMPP) at Mundra (project commissioned in March 2013), and the 1,050 MW capacity in Maithon (project commissioned in July 2012) through Special Purpose Vehicles (SPVs). The company also acquired 30% stake in coal mining companies (KPC and Arutmin, based in Indonesia) in March 2007 and 26% stake in PT Baramulti Suksessarana Tbk (BSSR), Indonesia, in November 2012, through offshore SPVs ("Coal SPVs"). In January 2014, the company however announced it had signed an agreement for sale of its stake in PT Arutmin Indonesia. Tata Power has been enhancing its clean energy portfolio which currently stands at 1,674 MW and includes more than 600 MW of operational wind projects in the states of Gujarat, Maharashtra, Tamil Nadu, Rajasthan and Karnataka, apart from solar projects (60 MW) and hydro projects.

Tata Power Group is also into the business of distribution in Mumbai and in Delhi through its subsidiary, Tata Power Delhi Distribution Ltd (TPDDL). It has won the distribution franchisee for Jamshedpur. Further, the company has a presence in power transmission in Mumbai with over 1,110 Ckm (circuit km) of transmission lines. It is also involved in power transmission in other regions through a subsidiary, namely Powerlinks Transmission Limited which commenced operations in September 2006.

On standalone basis, for FY2015, Tata Power reported Profit after Tax (PAT) of Rs. 1,010.3 crore on an operating income of Rs. 8,648.2 crore. For 9M FY2016, Tata Power reported PAT of Rs. 719.9 crore on an operating income of Rs. 6,394.2 crore (unaudited).

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