August 14, 2019

The Tata Power Company Limited: Ratings reaffirmed

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture (NCD) Programme	2688.00	747.00	[ICRA]AA- (Stable); Reaffirmed
Commercial Paper	7000.00	7000.00	[ICRA]A1+; Reaffirmed
Total	**9688.00**	**7747.00**	

*Instrument details are provided in Annexure-1

Rationale

The ratings factor in the stable cash flows from the operations of The Tata Power Company Limited (TPCL) in the Mumbai licence area, supported by the cost-plus rate of return model and the satisfactory operational efficiency. Further, the rating favourably factors in the extension of the power purchase agreement (PPA) for the generation business of TPCL with the Brihanmumbai Electric Supply & Transport Undertaking (BEST) and the distribution arm of TPCL in Mumbai till March 31, 2024, which provides healthy visibility on revenues and profitability at the standalone level. The ratings also factor in the strong financial flexibility arising from the company's association with the Tata Group. Further, the rating draws comfort from the healthy scale of operations of the company with presence across the generation, distribution and transmission businesses, with majority of the generation assets of the TPCL Group having long-term PPAs and limited fuel risks with the presence of fuel supply agreements (FSAs) with Coal India Limited and coal mining companies in Indonesia. Further, ICRA takes note of the ongoing divestment of non-core assets, mainly the strategic engineering division (defence business), international generation assets and TPCL's stake in Tata Projects Limited.

The ratings are, however, constrained by the sizeable financial support extended by TPCL to Coastal Gujarat Power Limited (CGPL; which operates the 4000 MW Mundra Ultra Mega Power Project (UMPP) beyond its equity commitment owing to the loss-making operations of the project due to the under-recovery in fuel costs. The fuel under-recovery per unit for CGPL remained high at 84 paise per unit in FY2019, which is similar to FY2018, due to the elevated international coal prices, leading to continued funding support from TPCL. ICRA notes that the support to CGPL is partly met by the cash flows available to TPCL from its 30% stake in the Indonesian mining assets. Further, the refinancing of the ECB debt on the books of CGPL, with rupee debt along with a reduction in debt using the proceeds from divestment of stake in Tata Communications, is expected to reduce the cash flow shortfall for CGPL in the near to medium term to a certain extent. While the high-powered committee appointed by the Government of Gujarat has recommended a pass-through of variable cost for CGPL, subject to covenants related to sacrifice of 20 paise by lenders, adjustment of profits from mining business, higher normative plant availability and option to extend the PPA beyond 25 years, the company is yet to secure approvals for the PPA amendments from the state governments of Haryana, Punjab, Rajasthan and Maharashtra. Once approved, the under-recovery for CGPL is estimated to reduce to some extent. Further, the rating is constrained by the relatively high leverage level for TPCL at a consolidated level, despite the improvement witnessed in FY2019. Further, TPCL has sizeable debt repayments falling due, including the guaranteed debt in the near to medium term and high dependence on short-term debt. Nonetheless, ICRA takes comfort from the company's past track record of successfully refinancing its loans in a timely manner. Also, proceeds from the divestment of non-core assets is expected to be used to reduce debt dependence, which remains a key rating monitorable for the company.

Outlook: Stable

ICRA believes TPCL will continue to benefit from the presence across generation, distribution and transmission segments of the power sector, with stable operations in the licensee business and long-term power sale arrangements for majority of the generation assets. The outlook may be revised to Positive, if the company is able to reduce its debt level and achieve sustainable resolution measures to reduce the losses at Mundra UMPP. However, the outlook may be revised to Negative, in case of a significant increase in funding requirement to support Mundra UMPP. Further, any large debt funded acquisition may also lead to a revision in outlook to Negative.

Key rating drivers

Credit strengths

Stable cash flows from licence area operations - The cash flows of TPCL from the licence area operations in Mumbai and Delhi continue to remain stable supported by healthy operating efficiency and the cost-plus nature of the business model that allows the company to avail a fixed return on equity (RoE), subject to keeping its costs within the allowed levels.

Healthy scale of operations - The company's scale of operations is supported by the presence across generation, distribution and transmission businesses. The company has an aggregate generation capacity of 10,957 MW across thermal, hydro, wind, solar and waste heat recovery, with majority of the capacity having long-term PPAs. The operating efficiency of these plants remains satisfactory.

PPA extension for generation business in Mumbai - The Maharashtra Electricity Regulatory Commission (MERC) has approved the extension of PPAs for the generation projects in Mumbai with the BEST and the distribution arm of TPCL till March 31, 2024 under cost plus principles, providing healthy visibility for revenues and profitability at the standalone level.

Limited fuel supply risks - TPCL's FSA with Coal India Limited and coal mining companies in Indonesia mitigates the fuel supply risks for its thermal generation projects. The company holds stakes in the coal mining companies in Indonesia – 30% in PT Kaltim Prima Coal, and 26% stake in PT Baramulti Suksessarana Tbk, through offshore SPVs.

Refinancing of ECB debt for CGPL - The refinancing of the ECB debt with rupee debt for CGPL along with a reduction in debt using the proceeds from the divestment of TPCL's stake in Tata Communications is expected to reduce the cash flow shortfall for CGPL in the near to medium term and in turn the support requirement from TPCL, to a certain extent.

Strong financial flexibility arising from being part of Tata Group - TPCL has demonstrated strong ability to raise funds in the debt and equity markets in the past to support its growth.

Credit challenges

Continued support to Mundra UMPP - Mundra UMPP's profitability is exposed to the market price risks for 55% of its coal requirements. Owing to the high international coal prices, compared to the prices prevalent at the time of the bid, Mundra UMPP has been loss-making, post commissioning and has received funding support from TPCL to meet its cash shortfalls. Large support provided by TPCL to Mundra UMPP in the form of equity of Rs. 8593 crore and loans of Rs.6986 crore as on March 31, 2019

Resolution of the tariff issue for CGPL is pending - The Government of Gujarat appointed high-powered committee has recommended the pass-through of the variable cost for CGPL, subject to covenants related to sacrifice of 20 paise by lenders and the adjustment of profits from the mining business along with higher normative plant availability and option to extend the PPA beyond 25 years. Further, the Supreme Court has allowed amendments to the PPA subject to approval from the Central Electricity Regulatory Commission (CERC). While the Government of Gujarat has approved the proposed amendments, the company is yet to secure approvals for the same from the remaining four state governments of Haryana, Punjab, Rajasthan and Maharashtra. Once approved, the under-recovery for CGPL is estimated to reduce to some extent.

Consolidated profitability exposed to coal prices; dividend income lower in FY2019 - On account of its equity stake in the Indonesian mining assets, TPCL's consolidated profits and cash accruals remain exposed to the movement in international coal prices. The profitability from the coal business and in turn dividend inflow for TPCL was affected in FY2019, because of the domestic market obligation in Indonesia and higher operating costs.

Relatively high leverage level and sizeable repayment obligations in near team - The leverage level for the Tata Power Group remains relatively high, despite the improvement witnessed in FY2019. This is because of the continued funding support to meet the obligations of Mundra UMPP along with the debt-funded acquisition of Walwhan Renewables Private Limited. Further, TPCL has sizeable debt repayments falling due, including the guaranteed debt over the near to medium term and high dependence on short-term debt. Nonetheless, ICRA takes comfort from the company's past track record of successfully refinancing its loans in a timely manner. Also, proceeds from the divestment of the stake in the international generation assets, the defence business and Tata Projects Limited is expected to be used to reduce debt dependence.

Liquidity position

The company's liquidity profile is supported by the availability of cash and liquid investments of Rs. 954.43 crore as on March 31, 2019 at a consolidated level. Further, the presence of working capital facilities of Rs. 2555 crore with limited utilisation and superior financial flexibility as is evident from the ability to access commercial paper market, provides liquidity support. The company is expected to meet its repayment obligations from the cash accruals, available cash balances and debt refinancing.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Thermal Power Producers](#) [Power Distribution Utilities](#)
Parent/Group Support	Parent Company: Tata Sons Private Limited; ICRA expects Tata Sons (rated [ICRA]AAA (Stable) / [ICRA]A1+) to be willing to extend financial support to TPCL, should there be a need. TPCL and Tata Sons share a common name, which in ICRA's opinion would persuade Tata Sons to provide financial support to TPCL to protect its reputation from the consequences of a Group entity's distress
Consolidation/Standalone	The rating is based on the consolidated financial profile of the company. As on March 31, 2019, the company had 52 subsidiaries and stepdown subsidiaries and 42 joint venture and associate companies, that are enlisted in Annexure-2.

About the company

The Tata Power Company Limited, a Tata Group company, is involved in the generation, distribution and transmission of power. It has a licence for bulk supply of electricity in the city of Mumbai. Tata Power Group currently has a total generation capacity of 10,957 MW on its own books as well as its subsidiaries. Of the same, 1,877 MW capacity is utilised to meet the power demands of the licence area in Mumbai. The company supplies power to BEST in the Mumbai licence area. Besides, it also supplies to retail consumers including high-tension (HT) industrial and commercial consumers in Mumbai. Further, Tata Power operates the 4,000 MW capacity (project commissioned in March 2013) in Mundra under CGPL, and the 1,050 MW capacity in Maithon (project commissioned in July 2012) under Maithon Power Limited (MPL). The company acquired a 30% stake in Indonesia-based coal mining companies (KPC and Arutmin, based in Indonesia) in March 2007, and a 26% stake in PT Baramulti Suksessarana Tbk (BSSR) in November 2012, through offshore SPVs ("Coal SPVs") for meeting the coal requirement of Mundra UMPP. In January 2014, the company announced that it had signed an agreement for the sale of its stake in PT Arutmin Indonesia. Out of US$ 401 million proceeds from the stake sale, the company has so far realised US$ 172 million.

Tata Power enhanced its domestic renewable energy portfolio, to 2.4 GW, with the acquisition of Walwhan Renewable Energy Limited (earlier known as Welspun Renewables Energy Private Limited) in 2016 and commissioning of new projects over the past three years. In addition, the company has stake in the 230 MW wind power projects in South Africa, the 126 MW hydro power project in Zambia, the 120 MW hydro power project in Bhutan and the 186 MW under-construction hydro power project in Georgia. Further, the company has 375 MW waste heat recovery-based power generation capacity. Tata Power Group is involved in power distribution in Mumbai and Delhi. It is also involved as a distribution franchisee for electricity distribution in Ajmer. Furthermore, the company has a presence in power transmission in Mumbai with about 1200 Ckm (circuit km) of transmission lines. It is also involved in power transmission in other regions through a subsidiary, Powerlinks Transmission Limited, which commenced operations from September 2006.

Key financial indicators (audited) (Consolidated)

	FY2018	FY2019
Operating Income (Rs. crore)	26,430.42	29,492.71
PAT (Rs. crore)	1,056.94	1,153.39
OPBDIT/OI (%)	22.18%	21.55%
RoCE (%)	7.68%	8.90%
Total Debt/TNW (times)*	2.79	2.51
Total Debt/OPBDIT (times)*	8.42	7.75
Interest Coverage (times)	1.51	1.48

Note: 50% equity credit has been assigned to perpetual debentures of Rs. 1,500 crore raised by TPCL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

			Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years						
						Date & Rating in FY2019		Date & Rating in FY2018			Date & Rating in FY2017	
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating August 2019	July 2018	June 2018	December 2017	October 2017	June 2017	August 2016	May 2016
1	NCD	Long Term	747.00	747.00	[ICRA] AA- (Stable)	[ICRA]AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA (Negative)	[ICRA] AA (Negative)
2	Commercial Paper	Short Term	7000.00	-	[ICRA] A1+	[ICRA]A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE245A07218	NCD	23-Jul-10	9.15%	23-Jul-20	25.00	[ICRA]AA- (Stable)
INE245A07226	NCD	23-Jul-10	9.15%	23-Jul-21	20.00	[ICRA]AA- (Stable)
INE245A07234	NCD	23-Jul-10	9.15%	23-Jul-22	20.00	[ICRA]AA- (Stable)
INE245A07242	NCD	23-Jul-10	9.15%	23-Jul-23	20.00	[ICRA]AA- (Stable)
INE245A07259	NCD	23-Jul-10	9.15%	23-Jul-24	20.00	[ICRA]AA- (Stable)
INE245A07267	NCD	23-Jul-10	9.15%	23-Jul-25	20.00	[ICRA]AA- (Stable)
INE245A07358	NCD	17-Sep-10	9.15%	17-Sep-19	16.00	[ICRA]AA- (Stable)
INE245A07366	NCD	17-Sep-10	9.15%	17-Sep-20	16.00	[ICRA]AA- (Stable)
INE245A07374	NCD	17-Sep-10	9.15%	17-Sep-21	16.00	[ICRA]AA- (Stable)
INE245A07382	NCD	17-Sep-10	9.15%	17-Sep-22	16.00	[ICRA]AA- (Stable)
INE245A07390	NCD	17-Sep-10	9.15%	17-Sep-23	16.00	[ICRA]AA- (Stable)
INE245A07408	NCD	17-Sep-10	9.15%	17-Sep-24	16.00	[ICRA]AA- (Stable)
INE245A07416	NCD	17-Sep-10	9.15%	17-Sep-25	26.00	[ICRA]AA- (Stable)
INE245A08067	NCD	17-Nov-14	9.48%	17-Nov-19	500.00	[ICRA]AA- (Stable)
-	Commercial Paper			7-365 days	7000.00	[ICRA]A1+

Source: The Tata Power Company Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Coastal Gujarat Power Ltd	100%	Full Consolidation
Maithon Power Ltd	74%	Full Consolidation
Tata Power Renewable Energy Ltd	100%	Full Consolidation
Walwhan Renewables Energy Ltd	100%	Full Consolidation
Tata Power Trading Co Ltd	100%	Full Consolidation
Tata Power Solar Systems Ltd	100%	Full Consolidation
Tata Power Delhi Distribution Ltd	51%	Full Consolidation
Trust Energy Resources Pte Ltd	100%	Full Consolidation
Industrial Power Utility Ltd	100%	Full Consolidation
Tata Power Jamshedpur Distribution Ltd	100%	Full Consolidation
TP Ajmer Distribution Ltd	100%	Full Consolidation
NELCO Ltd	50.04%	Full Consolidation
PT Sumber Energi Andalan Tbk	92.50%	Full Consolidation
Far Eastern Natural Resources LLC	100%	Full Consolidation
Bhira Investments Ltd	100%	Full Consolidation
Kholpoli Investments Ltd	100%	Full Consolidation
Bhivpuri Investments Ltd	100%	Full Consolidation
Tata Power International Pte Ltd	100%	Full Consolidation
Supa Windfarm Ltd	100%	Full Consolidation

Poolavadi Windfarm Ltd	100%	Full Consolidation
Nivade Windfarm Limited	100%	Full Consolidation
Indo Rama Renewables Jath Ltd	100%	Full Consolidation
Vagarai Windfarm Ltd	72%	Full Consolidation
Clean Sustainable Solar Energy Pvt Ltd	99.99%	Full Consolidation
Dreisatz Mysolar24 Pvt Ltd	100%	Full Consolidation
MI Mysolar24 Pvt Ltd	100%	Full Consolidation
Solarsys Renewable Energy Pvt Ltd	100%	Full Consolidation
Walwhan Solar Energy GJ Ltd	100%	Full Consolidation
Walwhan Solar Raj Ltd	100%	Full Consolidation
Walwhan Solar BH Ltd	100%	Full Consolidation
Walwhan Solar MH Ltd	100%	Full Consolidation
Walwhan Solar RJ Ltd	100%	Full Consolidation
Walwhan Wind RJ Ltd	100%	Full Consolidation
Walwhan Solar AP Ltd	100%	Full Consolidation
Walwhan Solar KA Ltd	100%	Full Consolidation
Walwhan Solar MP Ltd	100%	Full Consolidation
Walwhan Solar PB Ltd	100%	Full Consolidation
Walwhan Energy RJ Ltd	100%	Full Consolidation
Walwhan Solar TN Ltd	100%	Full Consolidation
Walwhan Urja Anjar Ltd	100%	Full Consolidation
Walwhan Urja India Ltd	100%	Full Consolidation
Northwest Energy Pvt Ltd	100%	Full Consolidation
Af-Taab Investments Co Ltd	100%	Full Consolidation
Tatanet Services Ltd	100%	Full Consolidation
Nelco Network Products Ltd	50.04%	Full Consolidation
NDPL Infra Ltd	51%	Full Consolidation
Tata Power Green Energy Ltd	100%	Full Consolidation
Chirasthaayee Saurya Ltd	100%	Full Consolidation
Tata Ceramics Ltd	57.07%	Full Consolidation
Energy Eastern Pte Ltd	100%	Full Consolidation
Industrial Energy Ltd	74%	Equity method
Powerlinks Transmission Ltd	51%	Equity method
Dugar Hydro Power Ltd	50.00%	Equity method
Tata Projects Ltd	47.78%	Equity method
Solace Land Holdings Ltd	33.33%	Equity method
Gamma Land Holdings Ltd	33.33%	Equity method
Beta Land Holdings Ltd	33.33%	Equity method
Ginger Land Holdings Ltd	33.33%	Equity method
Yashmun Engineers Ltd	27.27%	Equity method

The Associate Building Co Ltd	33.14%	Equity method
Birhat Trading Pvt Ltd	33.21%	Equity method
Nelito Systems Ltd	28.15%	Equity method
Cennergi Pty Ltd	50%	Equity method
Tsitsikamma Community Wind Farm (Pty) Ltd	50%	Equity method
Amakhala Emoyeni RE Project 1 (Pty) Ltd	50%	Equity method
PT Mitratama Perkasa	28.38%	Equity method
PT Mitratama Usaha	28.38%	Equity method
Indocoal Resources (Cayman) Ltd	30%	Equity method
Indocoal KPC Resources (Cayman) Ltd	30%	Equity method
PT Indocoal Kalsel Resources	30%	Equity method
PT Indocoal Kaltim Resources	30%	Equity method
Dagachhu Hydro Power Corporation Ltd	26%	Equity method
Candice Investments Pte Ltd	30%	Equity method
PT Nusa Tambang Pratama	30%	Equity method
PT Marvel Capital Indonesia	30%	Equity method
PT Dwikarya Prima Abadi	30%	Equity method
PT Kalimantan Prima Power	30%	Equity method
PT Guruh Agung	30%	Equity method
PT Citra Prima Buana	30%	Equity method
PT Citra Kusuma Perdana	30%	Equity method
PT Antang Gunung Meratus	26%	Equity method
Adjaristsqali Netherlands B V	40%	Equity method
Adjaristsqali Georgia LLC	40%	Equity method
Itezhi Tezhi Power Corporation Ltd.	50%	Equity method
Resurgent Power Ventures Pte Ltd	26%	Equity method
LTH Milcom Pvt Ltd	33.33%	Equity method
Renascent Power Ventures Pvt Ltd	26%	Equity method
Koromkheti Netherlands B V	40%	Equity method
Koromkheti Georgia LLC	40%	Equity method
Tubed Coal Mines Ltd	40%	Equity method
Mandakini Coal Company Ltd	33%	Equity method
PT Kaltim Prima Coal	30%	Equity method
PT Arutmin Indonesia	30%	Equity method
PT Baramulti Suksessarana Tbk	26%	Equity method

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 40 40676518
vikram.v@icraindia.com

RELATIONSHIP CONTACT

L Shiva Kumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
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