

Tata Power Company Limited

July 05, 2019

Ratings

Instrument	Amount (Rs. crore)	Ratings ¹	Remarks
Perpetual Bond	1,500	CARE AA; Stable [Double A; Outlook: Stable]	Reaffirmed
Hybrid Bond	1,500	CARE AA; Stable [Double A; Outlook: Stable]	Reaffirmed
Non-convertible Debentures	2,210	CARE AA; Stable [Double A; Outlook:Stable]	Reaffirmed

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the long-term debt instruments of TPCL continues to derive strength from TCPL's strong market position as an integrated power player company as reflected by its significant presence in the generation, transmission and distribution space, stable cash flows, plans to monetize non-core assets to reduce debt level and high financial flexibility it enjoys by virtue of being a part of the Tata group. TPCL had signed definitive agreement to sell its 30% stake in PT Arutmin Indonesia for USD 401 mn (around Rs.2,800 crore) of which USD 140 mn is already realised and the balance is expected to realise in next two years. Furthermore, the company has investments in certain Tata Group companies that can be sold, if required, to enhance liquidity. Tata Power's ownership interest in Indonesian coal entities provides partial hedge, to an extent, in case of adverse fuel price movement. The expected implementation of High Power Committee (HPC) recommendation for Coastal Gujarat Power Limited (GCPL) is likely to result in improvement in financial risk profile of the company to a certain extent if approved by Central Electricity Regulatory Commission (CERC).

The rating strengths are, however, tempered by Tata Power's moderate financial risk profile as a result of high levels of consolidated debt, moderate debt coverage indicators, stress on financial risk profile on account of continuing losses at CGPL, declining dividends from Indonesian coal investments and increasing regulatory assets.

Any material decline in cash flows from its regulated business impacting financial risk profile, delay in receipt of balance proceeds from sale of PT Arutmin mines, time-bound liquidation of regulatory assets would remain the key rating sensitivities. Further, timely implementation of HPC recommendation as well as monetization of non-core assets will be the key monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Established parentage; strategic importance to the Tata Group: TPCL is one of the largest integrated power players in the country and caters to captive power requirement of other companies within the Tata Group. TPCL is a part of Tata Group with Tata Sons Limited holding 31.05% stake in TPCL as at March 31, 2019. The group comprises over 100 operating companies, in various key business sectors such as steel, auto, communications & information technology, engineering, materials, services, energy, consumer products and chemicals. The group has operations in more than 100 countries across six continents and exports products and services to 150 countries. By virtue of being part of the Tata Group, the company enjoys high level of financial flexibility.

Stable cash flows from the company's core licensed operations: TPCL operates about half of its total generation capacity either under a cost plus regime or on a captive basis with strong counterparties that translates into stable earnings visibility and limits the risk faced by the company due to volatility in fuel prices. A similar assured return on equity model exists in its transmission and distribution business lending stability to the company's cash flows. With the acquisition of Walwhan Renewable Energy Limited's (WREL) assets, the company has steady cash flows from the renewable assets which will add to the diversity of revenues of the company. However, any regulatory delay in receiving tariff orders, disallowance of immediate pass-through of expenses leading to creation of regulatory assets does call for stop gap funding arrangements. Ownership interest in Indonesian coal mines acts as a partial hedge to an extent to counter adverse fuel price movement.

Key Rating Weaknesses

Stressed financial risk profile owing to increasing losses at CGPL: The overall financial risk profile of Tata Power remained stressed on account of continued losses reported in CGPL despite infusion of funds from the parent. The Hon. Supreme Court through its judgement passed in April 2017, set aside the previous favourable order of APTEL and thus disposed off the submission for relief under the force majeure clause and the same has resulted in exerting stress on the financial risk profile

¹ Complete definition of the ratings assigned is available at www.careratings.com and other CARE publications

of the company. In order to address the situation and to reduce losses, the company is adopting measures like reduction in Operations & Maintenance (O&M) expenses, sale of power in the open market beyond 80% PLF levels, re-financing the existing high cost forex debt, blending of coal by sourcing coal from other geographies including Russia. Further, In October 2018, HPC recommended sharing the losses incurred in CGPL between consumers, lenders, and developers. The HPC's key recommendations include a) pass-through of fuel costs subject to a cap of USD110 per tonne; (b) lenders sacrifice a fixed deduction of 20 paisa/kilowatt hour (p/kWh); (c) Tata Power share 100% of profits from Indonesian mines subject to a floor of 15p/kWh; and; (d) increase the normative plant availability factor to 90% (from the current 80%) for the same capacity charges. After the HPC recommendation, in January 2019, Supreme Court ruled that power purchase agreements (PPAs) could be amended with distribution companies (Discoms) subject to CERC's approval. The expected successful implementation of HPC recommendation for GCPL is likely to result in improvement in financial risk profile of the company to a certain extent. Further, TPCL has acquired a long-term coal mining license for the Krutogorovskya coal deposit located in the Sobolevo District, Kamchatka of the Russian Federation under competitive bidding, to explore cheaper and sustainable coal supply for its subsidiary CGPL. This will also help the company to reduce operating expense under CGPL to some extent.

Highly leveraged capital structure: The total consolidated debt of the company stood at Rs.48,506.04 crore as at March 31, 2019 (PY: Rs.48,589.32 crore). The overall gearing ratio marginally improved but remained high at 2.82x as on March 31, 2019 (PY: 3.20x) mainly on account of accretion of profits to net worth. The capital structure of TPCL is highly leveraged on account of acquisition of debt as well as incremental debt taken at the time of the acquisition of WREL. However, the capital structure is expected to stabilise with receipt of the balanced proceeds from the sale of stake in Indonesian Coal mines as well as from the expected realisation from the sale of non-core assets. TPCL has already realised USD 140 mn from the sale of stake in Indonesian mine and the balance is expected to be received in monthly instalment in the next two years. The company has already sold off investments in Tata Communications, Pantone Finvest and Tata Teleservices Limited (TTSL) while Tata Projects and Strategic Engineering Division (SED) are in the process of being divested. The proceeds from sale of aforementioned investments have been used to pare debt at CGPL. Liquidation of accumulated regulatory assets, monetization of non-core assets as well as timely realisation of balance proceeds from sale of stake in Indonesian mine would be crucial for Tata Power to improve the leverage position of the company.

Liquidity: On a consolidated level, the liquidity position of the company remains adequate as evinced by current investments of Rs.166.98 crore and free cash balance of Rs. 645.45 crore as on March 31, 2019. The utilization of fund based limits and commercial paper also remained low at the standalone level as on May 31, 2019. TPCL's cash accruals as well as cash and cash equivalent are adequate to meet debt obligations as well as part capex requirement under various subsidiaries. Also, the unutilized working capital limits also provides cushion to meet any contingencies. Moreover, being part of Tata group, TPCL enjoys significant financial flexibility.

Analytical approach: CARE has adopted a consolidated approach on account of operational and financial linkages among entities. The list of entities whose financials have been combined is mentioned in Annexure 3.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Private Power Producers](#)

About the Company

Incorporated in 1919, TPCL is an integrated power utility company and one of the major companies of the Tata group. TPCL is one of the largest private integrated power companies in India with presence across the entire power value chain – covering power generation, transmission, distribution and trading and fuel and logistics. On a consolidated basis, as at March 31, 2019, the company had an installed generation capacity of 10,957 MW (up from 10,757 MW as at March 31, 2018) based on various fuel sources: thermal, hydroelectric power and other renewable energy. TPCL also has businesses of power transmission and power distribution in Mumbai and power distribution in Delhi {through Tata Power Delhi Distribution Company Limited (TPDDL, in which TPCL holds 51%)}

In addition, TPCL also has a strategic investment in coal assets through a 30% stake in Indonesian thermal coal companies – PT Kaltim Prima Coal (KPC) and 26% stake in PT Baramulti Suksessarana Tbk (BSSR). The investment is part of TPCL's strategy to ensure fuel security for its thermal power projects.

Brief Financials (Rs. crore)-Consolidated	FY18 (A)	FY19 (A)
Total operating income	28,383.98	31,105.60
PBILDT	7,836.43	7,983.20
PAT	2,610.85	2,440.41
Overall gearing (times)	3.20	2.82
Interest coverage (times)	2.08	1.91

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2.

Annexure-1: Details of Instruments

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Perpetual Bonds	June 02, 2011	11.50%	Perpetual	1500.00	CARE AA; Stable
Debentures-Non Convertible Debentures	August 21, 2012	11.40%	August 21, 2072	1500.00	CARE AA; Stable
Debentures-Non Convertible Debentures	December 28, 2012	9.40%	December 28, 2022	210.00	CARE AA; Stable
Debentures-Non Convertible Debentures	November 17, 2014	9.48%	November 11, 2019	500.00	CARE AA; Stable
Debentures-Non Convertible Debentures	November 16, 2017	7.99%	November, 2020 to November 2024	1500.00	CARE AA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds-Perpetual Bonds	LT	1500.00	CARE AA; Stable	-	1)CARE AA; Stable (08-Oct-18)	1)CARE AA; Stable (11-Sep-17)	1)CARE AA; Stable (03-Feb-17) 2)CARE AA (14-Jul-16)
2.	Debentures-Non Convertible Debentures	LT	1500.00	CARE AA; Stable	-	1)CARE AA; Stable (08-Oct-18)	1)CARE AA; Stable (11-Sep-17)	1)CARE AA; Stable (03-Feb-17) 2)CARE AA (14-Jul-16)
3.	Debentures-Non Convertible Debentures	LT	210.00	CARE AA; Stable	-	1)CARE AA; Stable (08-Oct-18)	1)CARE AA; Stable (11-Sep-17)	1)CARE AA; Stable (03-Feb-17) 2)CARE AA (14-Jul-16)
4.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA; Stable	-	1)CARE AA; Stable (08-Oct-18)	1)CARE AA; Stable (11-Sep-17)	1)CARE AA; Stable (03-Feb-17) 2)CARE AA (14-Jul-16)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (08-Oct-18)	1)CARE AA; Stable (11-Sep-17)	1)CARE AA; Stable (03-Feb-17)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
								2)CARE AA (14-Jul-16)
6.	Debentures-Non Convertible Debentures	LT	1500.00	CARE AA; Stable	-	1)CARE AA; Stable (08-Oct-18)	1)CARE AA; Stable (08-Nov-17)	-

Annexure- 3 List of subsidiaries, associates and joint ventures of TPCL getting consolidated (list as on March 31, 2019)

Sr.No.	Name of the company	% shareholding of TPCL	Sr.No.	Name of the company	% shareholding of TPCL
1	Af-Taab Investment Co. Ltd.	100.00%	48	Khopoli Investments Ltd.	100.00%
2	Tata Power Trading Co. Ltd.	100.00%	49	Trust Energy Resources Pte. Ltd.	100.00%
3	Powerlinks Transmission Ltd.#	51.00%	50	Energy Eastern Pte. Ltd.	100.00%
4	Maithon Power Ltd.	74.00%	51	Tata Power International Pte. Ltd.	100.00%
5	NELCO Ltd.	50.04%	52	Far Eastern Natural Resources LLC	100.00%
6	Tatanet Services Ltd.	50.04%	53	PT Sumber Energi Andalan Tbk.	92.50%
7	Nelco Network Products Ltd.	50.04%	54	Tubed Coal Mines Ltd.	40.00%
8	Industrial Energy Ltd.#	74.00%	55	Mandakini Coal Company Ltd.	33.33%
9	Industrial Power Utility Ltd.	100.00%	56	Solace Land Holding Ltd.	33.33%
10	Tata Power Delhi Distribution Ltd.	51.00%	57	Gamma Land Holding Ltd.	33.33%
11	NDPL Infra Ltd	51.00%	58	Beta Land Holding Ltd.	33.33%
12	Coastal Gujarat Power Ltd.	100.00%	59	Ginger Land Holding Ltd.	33.33%
13	Tata Power Renewable Energy Ltd.	100.00%	60	Yashmun Engineers Ltd.	27.27%
14	Tata Power Green Energy Ltd.	100.00%	61	Tata Projects Ltd.	47.78%
15	Supa Windfarm Ltd.	100.00%	62	The Associated Building Co. Ltd.	33.14%
16	Nivade Windfarm Ltd.	100.00%	63	Brihat Trading Pvt. Ltd.	33.21%
17	Poolavadi Windfarm Ltd.	100.00%	64	Nelito Systems Ltd	28.15%
18	Indo Rama Renewables Jath Ltd.	100.00%	65	Cennergi Pty. Ltd.	50.00%
19	Vagarai Windfarms Ltd.	72.00%	66	Tsitsikamma Community Wind Farms (Pty.) Ltd.	50.00%
20	Walwhan Renewable Energy Ltd.	100.00%	67	Amakhala Emoyeni RE Project 1 (Pty.) Ltd.	50.00%
21	Clean Sustainable Solar Energy Pvt. Ltd.	99.99%	68	PT Mitratama Perkasa	28.38%
22	Dreisatz Mysolar24 Pvt. Ltd.	100.00%	69	PT Mitratama Usaha	28.38%
23	MI Mysolar24 Pvt. Ltd.	100.00%	70	PT Arutmin Indonesia	30.00%
24	Northwest Energy Pvt. Ltd.	100.00%	71	PT Kaltim Prima Coal	30.00%
25	Solarsys Renewable Energy Pvt. Ltd.	100.00%	72	Indocoal Resources (Cayman) Ltd.	30.00%
26	Walwhan Solar Energy GJ Ltd.	100.00%	73	Indocoal KPC Resources (Cayman) Ltd.	30.00%
27	Walwhan Solar Raj Ltd.	100.00%	74	PT Indocoal Kassel Resources	30.00%
28	Walwhan Solar BH Ltd.	100.00%	75	PT Indocoal Kaltim Resources	30.00%
29	Walwhan Solar MH Ltd.	100.00%	76	Dagachhu Hydro Power Corporation Ltd.	26.00%
30	Walwhan Wind RJ Ltd.	100.00%	77	Candice Investments Pte. Ltd	30.00%
31	Walwhan Solar AP Ltd.	100.00%	78	PT Nusa Tambang Pratama	30.00%
32	Walwhan Solar KA Ltd.	100.00%	79	PT Marvel Capital Indonesia	30.00%
33	Walwhan Solar MP Ltd.	100.00%	80	PT Dwikarya Prima Abadi	30.00%

Sr.N o.	Name of the company	% shareholding of TPCL	Sr.N o.	Name of the company	% shareholding of TPCL
34	Walwhan Solar PB Ltd.	100.00%	81	PT Kalimantan Prima Power	30.00%
35	Walwhan Energy RJ Ltd.	100.00%	82	PT Guruh Agung	30.00%
36	Walwhan Energy TN Ltd.	100.00%	83	PT Citra Prima Buana	30.00%
37	Walwhan Solar RJ Ltd.	100.00%	84	PT Citra Kusuma Perdana	30.00%
38	Walwhan Urja Anjar Ltd.	100.00%	85	PT Baramulti Sukessarana Tbk	26.00%
39	Walwhan Urja India Ltd.	100.00%	86	PT Antang Gunung Meratus	26.00%
40	Dugar Hydro Power Ltd.#	50.00%	87	Adjaristsqali Netherlands B.V.	40.00%
41	Tata Power Solar Systems Ltd.	100.00%	88	Adjaristsqali Georgia LLC	40.00%
42	Chirasthaayee Saurya Ltd.	100.00%	89	Koromkheti Netherlands B.V.	40.00%
43	Tata Power Jamshedpur Distribution Ltd.	100.00%	90	Koromkheti Georgia LLC	40.00%
44	Tata Ceramics Ltd.	57.07%	91	Itezhi Tezhi Power Corporation Ltd.	50.00%
45	TP Ajmer Distribution Ltd.	100.00%	92	Resurgent Power Ventures Pte. Ltd.	26.00%
46	Bhira Investments Ltd.	100.00%	93	LTH Milcom Pvt. Ltd.	33.33%
47	Bhivpuri Investments Ltd.	100.00%	94	Renascent Power Ventures Pvt Ltd.	26.00%

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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