

**Tata Power Company Limited**

August 21, 2020

**TATA POWER COMPANY LIMITED (TPCL) ANNOUNCES MERGER OF WHOLLY OWNED SUBSIDIARIES, COASTAL GUJARAT POWER LIMITED (CGPL), TATA POWER SOLAR SYSTEMS LIMITED (TPSSL) AND AF-TAB INVESTMENT COMPANY LIMITED (ATCL) WITH ITSELF.**

The company has announced merger of Coastal Gujarat Power Limited (CGPL), Tata Power Solar Systems Limited (TPSSL) AND Af-Tab Investment Company Limited (ATCL) with itself. The scheme of arrangement is subject to approvals from shareholders, National Company Law Tribunal (NCLT) and other regulatory authorities and the transaction is expected to be completed by April 01, 2021.

The merger has been announced with an objective to streamline and simplify Tata power group structure, reduce the cost of borrowing in the respective SPV's, achieve operational synergies and bring in more benefits on consolidation in terms administrative, governance, financial profile and also tax benefits since CGPL is loss making.

However since CARE has adopted consolidated approach for the credit risk assessment of TPCL wherein financials of all entities under TPCL has been considered for analysis on account of operational and financial linkages. Therefore the credit profile of TPCL remains unchanged due to the internal restructuring.

The ratings of Tata Power Company Limited (TPCL) continues to factor in the stable cash flows from core licensed area operations during FY20, TPCL's strategic importance to Tata Group and its strong market position as an integrated power player company as reflected by its significant and diversified presence in the generation, transmission, distribution and renewable space, presence of long-term Power Purchase Agreement (PPA) providing revenue visibility for operational capacities under renewable power segment, ownership interest in Indonesian coal mines acts as a partial hedge to an extent to counter adverse fuel price movement. The ratings also factor in the TPCL's announcement regarding raising equity of Rs.2,600 crore through preferential issuance from its promoter i.e. Tata Sons Private Limited in Q2FY21 as well as its plan to set-up Infrastructure Investment Trust (InvIT) for its renewable assets which are likely to improve capital structure. The ratings continue to be supported by strong parentage and high financial flexibility enjoyed by the company by virtue of being a part of the Tata Group, adequate liquidity position as well as company's plans to monetize non-core assets in the near term to reduce debt level.

The rating strengths are, however, tempered by TPCL's highly leveraged capital structure and stressed financial risk profile as a result of high level of consolidated debt, moderate debt coverage indicators, stress on profitability margins on account of continuing losses at CGPL coupled with expected financial support to be provided by TPCL (though reduced during FY20 on account of softening of coal prices) on account of lower fuel cost under-recovery, declining dividends from Indonesian coal investments, regulatory risk, increasing regulatory assets, counterparty risk due to weak financial risk profile of Discoms and Coronavirus outbreak (COVID-19) resulting in consequent slowdown in collections from distribution segment. The proposed and on-going capital expenditure plans under distribution business, generation business, renewable business, Solar EPC business are likely keep the TPCL's overall debt level elevated in near term.

**Link to previous press release of Tata Power Company Limited:**

<https://www.careratings.com/upload/CompanyFiles/PR/Tata%20Power%20Company%20Limited-07-07-2020.pdf>

**Applicable Criteria**

[Criteria on assigning rating outlook and credit watch](#)

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

[Criteria for Short Term Instruments](#)

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

[Criteria for Credit Enhanced Debt](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

[Rating Methodology – private power producers](#)

[Rating Methodology- Solar Power Projects](#)

[Rating Methodology- Wind Power Projects](#)

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

**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 June 30, 2020, the company had an installed generation capacity of 10,762 MW (excluding 1980 MW capacity of Prayagraj Power (joint

venture)) [10,957 MW as at March 31, 2019] based on various fuel sources: thermal (7,215 MW), hydroelectric power (871 MW), Diesel based DG Set (40 MW) and other renewable energy (2,636 MW). TPCL is also in the business of power distribution in Mumbai, Delhi [through Tata Power Delhi Distribution Company Limited (TPDDL), in which TPCL holds 51%], Odisha [through TP Central Odisha Distribution Limited (TPCODL), in which TPCL holds 51%], Ajmer [Tata Power Ajmer Distribution Limited (TPADL), in which TPCL holds 100%]. Furthermore, the company has a presence in power transmission in Mumbai with about 1188 Ckm (circuit km) of transmission lines. It is also involved in power transmission in other regions through a Joint venture, Powerlinks Transmission Limited. In addition, TPCL also has a strategic investment in coal assets through a 30% stake in 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.

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