

The Tata Power Company Limited

December 29, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture	6,063	5,063	[ICRA]AA- (Stable); Reaffirmed
Commercial Paper Programme	3,500	4,000	[ICRA]A1+; Assigned/Outstanding
Total	9,563	9,063	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) outstanding on the Rs. 5,063 crore¹ (reduced from Rs. 6,063 crore) and assigned the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 4,000 crore (enhanced from Rs. 3,500 crore) commercial paper programme of The Tata Power Company Limited (Tata Power)². The outlook on the long-term rating is Stable.

Rationale

The ratings take 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 sizeable financial support extended by Tata Power to Mundra UMPP beyond its equity commitment owing to the loss-making operations of the project due to the under-recovery in fuel costs. ICRA notes that the financial support required by Mundra UMPP from Tata Power remains sizeable at the current coal price levels, which would be partly met by the cash flows available to Tata Power from its 30% stake in the Indonesian mining assets. 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 also factor in the delays in the receipt of proceeds pertaining to the sale of stake in one of the Indonesian mining companies - PT Arutmin. The refinancing requirements of Tata Power remain high over the medium term, given the sizeable debt obligations on standalone basis and of its Coal SPVs (entirely backed by a corporate guarantee from Tata Power), although ICRA takes comfort from the past track record of the company in meeting its refinancing needs.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer ICRA's website (www.icra.in) or other ICRA Rating Publications

The company's standalone borrowing levels had increased following the acquisition of Welspun Renewable Energy Private Limited (WREPL) in September 2016 for which it raised Rs. 3,500 crore NCDs. The company, however, plans to improve its financial leverage by selling its non-core assets, primarily its 4.5% equity stake in Tata Communications Limited (valued at ~Rs. 940 crore) as well as the additional 13% stake held by its wholly-owned subsidiary in the near term. ICRA notes that the timely sale of the non-core assets and subsequent reduction in debt levels and improvement in the company's gearing levels would be a rating sensitivity.

Key rating drivers

Credit strengths

Stable cash flows from license business: The cash flows of Tata Power from the License Area continue to remain stable owing to the cost-plus nature of the business model that allows the company to avail fixed Return on Equity (RoE) subject to keeping its costs within the allowed levels. In addition to the regulated returns, the company also earns efficiency gains for operating the stations at better than normative operating parameters and PLF-linked incentives for generation above normative levels. It is also able to recover increase in fuel costs through Fuel Adjustment Charge (FAC) filings.

Healthy scale of operations with regular capacity expansions: The company's scale of operations significantly increased with the successful commissioning of its two large projects - the 4,000 MW Mundra UMPP (COD³ of March 2013) and the 1,050 MW Maithon Project (COD of July 2012). The operations of both remain healthy with availability maintained close to the normative requirement of 80% for Mundra UMPP and above the normative requirement for the Maithon Project. In September 2016, Tata Power completed the acquisition of WREPL making it one of the leading domestic companies in the renewable energy space. It continues to further enhance its renewable asset portfolio through capacity expansions.

Limited fuel supply risks: Tata Power has in-place Fuel Supply Agreements (FSA) with subsidiaries of Coal India Limited which mitigates the fuel supply risks. It also acquired 30% stake in coal mining companies (KPC and Arutmin, based in Indonesia) in March 2007, and a 26% stake in PT Baramulti Suksessarana Tbk, Indonesia, in November 2012, through offshore SPVs.

Favourable financial profile on a standalone basis: On a standalone basis, Tata Power's financial profile remains robust supported by the cost-plus-based PPA structures for about 80% of its generating capacity allowing it to earn the regulated Return on Equity. The company's net profits are further supported by high non-operating income, mainly in the form of dividend earnings. The company's term loans from banks largely have long maturity periods, with repayment periods extending from 10 to 13 years, which is a positive from a credit perspective. While the borrowing levels increased following the acquisition of WREPL, Tata Power plans to improve its financial leverage in the near term by sale of its 13.5% stake held in Tata communications Limited (held on its own books and through a wholly-owned subsidiary). The continued support to Mundra UMPP has, however, deteriorated the company's return indicators.

Strong financial flexibility arising from being a part of the Tata Group: Tata Power has demonstrated its ability to raise sizeable funds in the debt and equity markets in the past to support its growth which is a credit positive.

³ COD: Commercial Operation Date

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 Tata Power to meet its cash shortfalls. Tata Power has also provided a Debt Service Reserve Guarantee for the loan facility of Mundra UMPP. Tata Power is currently exploring various measures to reduce the under-recovery in the operations of Mundra UMPP, though would continue to support the UMPP which has impacted its standalone return indicators.

Exposure of Mundra UMPP to risk of shortfall in recovery of fixed costs: The returns earned from Mundra UMPP are further subdued by the sharp depreciation of the Indian Rupee from the bid assumption levels, since the foreign exchange rate variations on loans is not a pass-through. CGPL has, however, currently hedged its forex exposure for a five-year period to reduce the impact of any further Rupee depreciation. CGPL has fully hedged its interest rate risk through interest rate swaps over the long-term.

Consolidated profitability exposed to movement in coal prices – On account of its 30% equity stake in the Indonesian mining assets, Tata Power's consolidated profits and cash accruals remain exposed to the movement in the international coal prices. The increase in coal prices over the last one year has, however, led to healthy profitability in the coal business which should get translated into higher quantum of dividend income for Tata Power. The company has sold its 30% stake in one of the coal mining companies, viz. PT Arutmin, but is yet receive the sale proceeds from the buyer.

Large refinancing requirements - Given the sizeable debt repayments falling due for Tata Power (including the debt raised for the acquisition of WREPL) and Coal SPVs (guaranteed by Tata Power) over the near to medium term, the refinancing requirements remain high. Nonetheless, ICRA takes comfort from the company's past track record of successfully refinancing its loans in a timely manner.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Thermal Power Producers](#)

[Power Distribution Utilities](#)

About the company:

The Tata Power Company Limited (Tata Power), a Tata Group company, is involved in the 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 10,649 MW on its own books as well as its subsidiaries. Of the same, 2,027 MW capacity is utilised to meet the power demands of 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 (HT) 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 a 26% stake in PT Baramulti Suksessarana Tbk (BSSR), Indonesia, in November 2012, through offshore SPVs ("Coal SPVs"). In January 2014, the company announced it had signed an agreement for sale of its stake in PT Arutmin Indonesia. Tata Power has been enhancing its clean energy portfolio (comprising of hydro,

waste gas, solar and wind), which currently stands at 3,310 MW, following the acquisition of Welspun Renewables Energy Private Limited (WREPL) in September 2016. Tata Power Group is also involved in power distribution in Mumbai and Delhi. It has recently entered into a distribution franchisee agreement for electricity distribution in Ajmer. Furthermore, 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, Powerlinks Transmission Limited, which commenced operations from September 2006.

Key financial indicators (audited)

	FY 2016	FY 2017	H1 FY2018 (P)
Operating Income (Rs. crore)	8,690	7,202	3,750
PAT (Rs. crore)	1,355	283	267
OPBDIT/ OI (%)	34.1%	29.3%	32.6%
RoCE (%)	10.0%	5.7%	
Total Debt/ TNW (times)	0.7	1.1	1.1
Total Debt/ OPBDIT (times)	4.1	8.2	7.3
Interest coverage (times)	2.6	1.6	1.6
NWC/ OI (%)	36%	44%	

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital; Note: 50% equity credit has been assigned to perpetual debentures of Rs. 1,500 crore raised by Tata Power

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2018)						Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating		Date & Rating in FY2017 May 2016	Date & Rating in FY2016 April 2015	Date & Rating in FY2015 April 2014	
Instrument	Type			Dec 2017	June 2017				
1	Non-Convertible Debenture	Long term	5,053	5,053	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)
2	Commercial Paper	Short term	4,000		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Term Loans	Long term	Nil		--	[ICRA]AA-(Stable)/Withdrawn	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE245A07101	NCD	25-Apr-08	10.10%	25-Apr-18	500	[ICRA]AA-(Stable)
INE245A07119	NCD	20-Jun-08	10.40%	20-Jun-18	500	[ICRA]AA-(Stable)
INE245A07192	NCD	23-Jul-10	9.15%	23-Jul-18	175	[ICRA]AA-(Stable)
INE245A07200	NCD	23-Jul-10	9.15%	23-Jul-19		[ICRA]AA-(Stable)
INE245A07218	NCD	23-Jul-10	9.15%	23-Jul-20		[ICRA]AA-(Stable)
INE245A07226	NCD	23-Jul-10	9.15%	23-Jul-21		[ICRA]AA-(Stable)
INE245A07234	NCD	23-Jul-10	9.15%	23-Jul-22		[ICRA]AA-(Stable)
INE245A07242	NCD	23-Jul-10	9.15%	23-Jul-23		[ICRA]AA-(Stable)
INE245A07259	NCD	23-Jul-10	9.15%	23-Jul-24		[ICRA]AA-(Stable)
INE245A07267	NCD	23-Jul-10	9.15%	23-Jul-25		[ICRA]AA-(Stable)
INE245A07341	NCD	17-Sep-10	9.15%	17-Sep-18	138	[ICRA]AA-(Stable)
INE245A07358	NCD	17-Sep-10	9.15%	17-Sep-19		[ICRA]AA-(Stable)
INE245A07366	NCD	17-Sep-10	9.15%	17-Sep-20		[ICRA]AA-(Stable)
INE245A07374	NCD	17-Sep-10	9.15%	17-Sep-21		[ICRA]AA-(Stable)
INE245A07382	NCD	17-Sep-10	9.15%	17-Sep-22		[ICRA]AA-(Stable)
INE245A07390	NCD	17-Sep-10	9.15%	17-Sep-23		[ICRA]AA-

						(Stable)
INE245A07408	NCD	17-Sep-10	9.15%	17-Sep-24		[ICRA]AA-(Stable)
INE245A07416	NCD	17-Sep-10	9.15%	17-Sep-25		[ICRA]AA-(Stable)
INE245A08067	NCD	17-Nov-14	9.48%	17-Nov-19	500	[ICRA]AA-(Stable)
INE245A08083	NCD	2-Aug-16	7.70%	2-Aug-19	3,250	[ICRA]AA-(Stable)
--	Commercial Paper			7-365 days	4,000	[ICRA]A1+

Source: The Tata Power Company Limited

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