

## The Tata Power Company Limited

June 21, 2018

### Summary of rated instruments

| Instrument*                         | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                  |
|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------|
| Non-Convertible Debenture Programme | 5063.00                              | 3188.00                             | [ICRA]AA- (Stable); Reaffirmed |
| Commercial Paper                    | 4000.00                              | 4000.00                             | [ICRA]A1+; Reaffirmed          |
| <b>Total</b>                        | <b>9063.00</b>                       | <b>7188.00</b>                      |                                |

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA- (pronounced ICRA double A minus) for the Rs. 3,188 crore (reduced from Rs. 5,063 crore) non-convertible debenture (NCD) programme and reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 4000 crore commercial paper programme of The Tata Power Company Limited (Tata Power). The outlook on the long-term rating is Stable.

### Rationale

The ratings factor in the stable cash flows from the company's operations in the Mumbai license area, supported by the cost-plus rate of return model and the satisfactory operational efficiency, which led to favourable financial profile on a standalone basis. The ratings also factor in the strong financial flexibility arising from the company's association with the Tata Group. ICRA takes note of the company's comfortable liquidity profile, 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. Further, the ratings draw comfort from the ongoing divestment of non-core assets – the direct and indirect stake in Tata Communications Limited and the strategic engineering division (defence business) - to group companies with expected cash inflow of Rs. 4380 crore in the near to medium term, which will be utilised to reduce debt dependence. The company has already realised Rs. 2150 crore from the sale of stake in Tata Communications Limited.

The ratings are, however, constrained by the sizeable financial support extended by Tata Power to Coastal Gujarat Power Limited (CGPL; which operates the 4000 MW Mundra Ultra Mega Power Project) 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 increased by 40% in FY2018, due to the rising international coal prices, leading to increase in support extended by Tata Power. ICRA notes that the support to CGPL is partly met by the cash flows available to Tata Power from its 30% stake in the Indonesian mining assets. The dividend payout from the coal mining companies to coal special purpose vehicles (SPVs) improved in FY2018 with the increase in coal prices, which has offset the losses in CGPL to some extent. CGPL also remains exposed to the risk of shortfall in recovery of fixed costs given the large portion of foreign currency debt, which is affected by the sharp depreciation of Indian Rupee from bid assumption levels; however, the company hedges its forex obligations for a five-year period to mitigate any further forex risks. The company is currently in the process of refinancing the foreign currency debt of Mundra UMPP with rupee debt to lower the interest costs and extend the repayment tenure. The ratings also factor in the delays in receipt of proceeds pertaining to the sale of stake in one of the Indonesian mining companies - PT Arutmin. Further, ICRA notes that the ability of the company to secure new customers or renew its power purchase agreement (PPA) at cost reflective tariff with Brihanmumbai Electric Supply & Transport Undertaking (BEST), which would expire on March 31, 2019 remains crucial for profitability of the generation assets at a standalone level.

Tata Power has sizeable repayment obligations over the medium term on a standalone basis (including the debt raised for the acquisition of Walwhan Renewable Energy Limited (WREL)) and for its coal SPVs (entirely backed by a corporate guarantee from Tata Power). Nonetheless, ICRA draws comfort from the past track record of the company in refinancing its debt obligations and the expected proceeds from the divestment of the non-core assets. ICRA notes that the reduction in standalone debt and the improvement in the company's gearing level would be a key rating sensitivity.

## Outlook: Stable

ICRA believes Tata Power will continue to benefit from the licensee operations in Mumbai and being part of the Tata Group. The outlook may be revised to Positive, if the company is able to reduce its debt level, as seen prior to the acquisition of WREL and achieve sustainable resolution measures to reduce the losses at Mundra UMPP. However, the outlook may be revised to Negative, in case of significant increase in funding support to Mundra UMPP. Further, any large debt funded acquisition may also lead to revision in outlook to Negative. The ability of the company to tie-up PPA, post expiry of the existing PPA with BEST in March 2019, also remains a key rating sensitivity.

## Key rating drivers

### Credit strengths

**Stable cash flows from license business** - The cash flows of Tata Power from the license area operations 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. It is also able to recover the increase in fuel costs through Fuel Adjustment Charge (FAC) filings.

**Healthy scale of operations** - The company's scale of operations are supported by the large generation asset base, with aggregate generation capacity of 10,757 MW across thermal, hydro, wind, solar and waste heat recovery. The operating efficiency of these plants remains satisfactory.

**Limited fuel supply risks** - Tata Power's fuel supply agreements (FSA) with subsidiaries of Coal India Limited and coal mining companies in Indonesia mitigates the fuel supply risks for its thermal generation projects. The company holds 30% stake in coal mining companies - PT Kaltim Prima Coal and PT Arutmin, and 26% stake in PT Baramulti Suksessarana Tbk, based in Indonesia, through offshore SPVs.

**Favourable financial profile on a standalone basis; ongoing divestment of non-core assets to reduce debt level** - 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 the high non-operating income, mainly in the form of dividend earnings. While the debt funded acquisition of WREL and the continued support to Mundra UMPP have deteriorated the capital structure, the proceeds from the ongoing divestment of non-core assets are expected to lower the debt dependence.

**Strong financial flexibility arising from being part of Tata Group** - Tata Power 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 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 under-recovery in fixed costs** - The profitability of Mundra UMPP is affected 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. However, CGPL has hedged its forex exposure for a five-year period to reduce the impact of any further Rupee depreciation. Moreover, the company is in the process of refinancing the foreign currency debt with rupee loans at a lowest interest cost and longer tenure.

**Consolidated profitability exposed to 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 international coal prices. The profitability from the coal business improved in FY2018, supported by higher coal prices, leading to improvement in dividend inflow to Tata Power. Tata Power has sold its 30% stake in one of the coal mining companies, viz. PT Arutmin, but is yet to receive the entire sale proceeds from the buyer.

**Demand risks arising from expiry of PPA with BEST** – The PPA with BEST accounting for ~50% of generation capacity in the Mumbai distribution license area is scheduled to expire on March 31, 2019. The ability of the company to secure PPAs at cost reflective tariff under the tender invited by BEST or from other customers remains crucial for profitability of the generation assets at standalone level, going forward.

**Sizeable repayment obligations in near term** – Tata Power has sizeable debt repayments falling due, including the debt raised for the acquisition of WREL and the guaranteed debt on the books of Coal SPVs, over the near to medium term. 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 10,757 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 License Area in Mumbai. The company supplies power to BEST. Besides, it also supplies to retail consumers including high-tension (HT) industrial and commercial consumers in Mumbai.

Tata Power operates the 4,000 MW capacity (project commissioned in March 2013) in Mundra, and the 1,050 MW capacity in Maithon (project commissioned in July 2012) through SPVs. The company also acquired a 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 the sale of its stake in PT Arutmin Indonesia. Tata Power enhanced its clean energy portfolio (comprising of hydro, waste gas, solar and wind), which currently stands at 3.5 GW, with the acquisition of Walwhan Renewable Energy Limited (earlier known as Welspun Renewables Energy Private Limited) in 2016 and commissioning of new projects in 2017 and 2018. Tata Power Group is also 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) (standalone)

|                              | FY2017   | FY2018    |
|------------------------------|----------|-----------|
| Operating Income (Rs. crore) | 6,769.16 | 7,300.59  |
| PAT (Rs. crore)              | 397.54   | -3,150.52 |
| OPBDIT/OI (%)                | 30.96%   | 32.30%    |
| RoCE (%)                     | 5.74%    | -5.73%    |
| Total Debt/TNW (times)       | 0.99     | 1.26      |
| Total Debt/OPBDIT (times)    | 8.23     | 7.35      |
| Interest coverage (times)    | 1.46     | 1.53      |

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:

| Chronology of Rating History for the Past 3 Years |                  |                          |                                |   |                         |                     |                     |                         |                      |                         |
|---|------------------|--------------------------|--------------------------------|---|-------------------------|---------------------|---------------------|-------------------------|----------------------|-------------------------|
| Current Rating (FY2019)                           |                  |                          |                                | Chronology of Rating History for the Past 3 Years |                         |                     |                     |                         |                      | Date & Rating in FY2016 |
| Instrument  | Type             | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating June 2018                           | Date & Rating in FY2018 |                     |                     | Date & Rating in FY2017 |                      | April 2015              |
|   |                  |                          |                                | June 2018   | December 2017           | October 2017        | June 2017           | August 2016             | May 2016             | April 2015              |
| 1   | NCD              | 3188.00                  | 3188.00                        | [ICRA] AA- (Stable)                               | [ICRA] AA- (Stable)     | [ICRA] AA- (Stable) | [ICRA] AA- (Stable) | [ICRA] AA (Negative)    | [ICRA] AA (Negative) | [ICRA] AA (Negative)    |
| 2   | Commercial Paper | 4000.00                  | -                              | [ICRA]A 1+  | [ICRA]A 1+              | [ICRA]A 1+          | [ICRA]A 1+          | [ICRA]A 1+              | [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](http://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 |
|--------------|---------------------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| INE245A07119 | Non-Convertible Debenture | 20-Jun-08                   | 10.40%      | 20-Jun-18     | 500.00                   | [ICRA]AA- (Stable)         |
| INE245A07192 | Non-Convertible Debenture | 23-Jul-10                   | 9.15%       | 23-Jul-18     |                          | [ICRA]AA- (Stable)         |
| INE245A07200 | Non-Convertible Debenture | 23-Jul-10                   | 9.15%       | 23-Jul-19     |                          | [ICRA]AA- (Stable)         |
| INE245A07218 | Non-Convertible Debenture | 23-Jul-10                   | 9.15%       | 23-Jul-20     |                          | [ICRA]AA- (Stable)         |
| INE245A07226 | Non-Convertible Debenture | 23-Jul-10                   | 9.15%       | 23-Jul-21     | 175.00                   | [ICRA]AA- (Stable)         |
| INE245A07234 | Non-Convertible Debenture | 23-Jul-10                   | 9.15%       | 23-Jul-22     |                          | [ICRA]AA- (Stable)         |
| INE245A07242 | Non-Convertible Debenture | 23-Jul-10                   | 9.15%       | 23-Jul-23     |                          | [ICRA]AA- (Stable)         |
| INE245A07259 | Non-Convertible Debenture | 23-Jul-10                   | 9.15%       | 23-Jul-24     |                          | [ICRA]AA- (Stable)         |
| INE245A07267 | Non-Convertible Debenture | 23-Jul-10                   | 9.15%       | 23-Jul-25     |                          | [ICRA]AA- (Stable)         |
| INE245A07341 | Non-Convertible Debenture | 17-Sep-10                   | 9.15%       | 17-Sep-18     |                          | [ICRA]AA- (Stable)         |
| INE245A07358 | Non-Convertible Debenture | 17-Sep-10                   | 9.15%       | 17-Sep-19     |                          | [ICRA]AA- (Stable)         |
| INE245A07366 | Non-Convertible Debenture | 17-Sep-10                   | 9.15%       | 17-Sep-20     |                          | [ICRA]AA- (Stable)         |
| INE245A07374 | Non-Convertible Debenture | 17-Sep-10                   | 9.15%       | 17-Sep-21     | 138.00                   | [ICRA]AA- (Stable)         |
| INE245A07382 | Non-Convertible Debenture | 17-Sep-10                   | 9.15%       | 17-Sep-22     |                          | [ICRA]AA- (Stable)         |
| INE245A07390 | Non-Convertible Debenture | 17-Sep-10                   | 9.15%       | 17-Sep-23     |                          | [ICRA]AA- (Stable)         |
| INE245A07408 | Non-Convertible Debenture | 17-Sep-10                   | 9.15%       | 17-Sep-24     |                          | [ICRA]AA- (Stable)         |
| INE245A07416 | Non-Convertible Debenture | 17-Sep-10                   | 9.15%       | 17-Sep-25     |                          | [ICRA]AA- (Stable)         |
| INE245A08067 | Non-Convertible Debenture | 17-Nov-14                   | 9.48%       | 17-Nov-19     | 500.00                   | [ICRA]AA- (Stable)         |
| INE245A08083 | Non-Convertible Debenture | 2-Aug-16                    | 7.70%       | 2-Aug-19      | 1875.00                  | [ICRA]AA- (Stable)         |
| -            | Commercial Paper          |                             |             | 7-365 days    | 4000.00                  | [ICRA]A1+                  |

Source: The Tata Power Company Limited

## ANALYST CONTACTS

**Sabyasachi Majumdar**  
+91 24 4545 304  
[sabyasachi@icraindia.com](mailto:sabyasachi@icraindia.com)

**Girishkumar Kadam**  
+91 22 6114 3441  
[girishkumar@icraindia.com](mailto:girishkumar@icraindia.com)

**Vikram V**  
+91 40 4067 6518  
[vikram.v@icraindia.com](mailto:vikram.v@icraindia.com)

## RELATIONSHIP CONTACT

**L Shiva Kumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://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](mailto:info@icraindia.com)

Website: [www.icra.in](http://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

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents