India Ratings Upgrades Tata Power Renewable Energy and its NCDs to 'IND AA+'/Stable

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India Ratings and Research (Ind-Ra) has upgraded Tata Power Renewable Energy Limited's (TPREL) Long-Term Issuer Rating to 'IND AA+' from 'IND AA'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Term loan	-	-	FY34	INR10	IND AA+/Stable	Upgraded
Non-convertible debentures (NCDs)*	-	-	-	INR13	IND AA+/Stable	Upgraded

*Details in Annexure

Analytical approach: Ind-Ra continues to factor into the ratings the strong operational and strategic linkages between TPREL and its parent TPCL. Ind-Ra continues to take a consolidated view of TPREL and its operating subsidiaries, Walwhan Renewable Energy Limited (WREL; 100% owned) and its operating subsidiaries to review the ratings.

The upgrade reflects a similar rating action on TPREL's parent, The Tata Power Company Limited (TPCL; 'IND AA+'/Stable). Ind-Ra expects TPCL to witness strong growth in the renewable energy platform over the medium term, supported by business synergies stemming from the presence of module & cell manufacturing and engineering, procurement & construction (EPC) business. Additionally, the availability of equity for the growth capital from the stake dilution to Greenforest New Energies Bidco Limited (GNEBL; through which BlackRock Real Assets along with Mubadala Investment Company have invested in TPREL) ensures that the leverage of the renewable platform is maintained below 4.5x over the short-to-medium term. TPREL's contribution is likely to increase in the overall EBITDA generation of TPCL, led by capacity addition in renewables. Moreover, the renewable business benefitted from the sharp reduction in generation receivables in FY23 and 1HFY24, leading to cash flow free up.

Key Rating Drivers

Strong Linkages with Parent: TPREL operates as TPCL's renewable energy vehicle. TPCL intends to grow the share of its non-fossil-based capacities in the portfolio to 15GW by 2027 from around 5.5GW (including hydro and waste heat recovery) at end-September 2023 with a contribution of nearly 45% to the overall EBITDA coming from clean energy as compared to 32% EBITDA in FY23, as per the company's strategic intent. Furthermore, TPCL intends to have clean energy constituting 70% of the total installed capacity by 2030. TPREL has four directors in common with TPCL on its seven-member board and the two entities have a common treasury team. The ratings continue to benefit from TPCL and TPREL being a part of the Tata Group. In the past, TPCL had extended support to TPREL by way of corporate guarantees on commercial papers, NCDs and bill discounting facilities, and provided inter-corporate deposits (ICDs).

Renewable Business to Drive Growth: TPCL, as part of a restructuring exercise in 2022, brought the entire renewable business, including, utility scale projects, rooftop installations, solar EPC and manufacturing, solar pumps and electric vehicle charging, under TPREL. Post the asset transfer, TPREL had entered into an agreement with GNEBL in April 2022 for a total investment of INR40 billion. The first tranche of INR20 billion was received in August 2022, the second tranche of INR20 billion was received in February 2023, and allotment of compulsory convertible preference shares (CCPS) was made on preferential basis to GNEBL. GNEBL holds an 11.43% stake in TPREL post the conversion of CCPS into equity. Post the restructuring, Ind-Ra opines the significance of TPREL for the group has increased as it has become the growth engine for the group. Additionally, TPREL's presence across the renewable value chain through cell and module manufacturing, in-house EPC and as a developer, allows for significant business synergies.

Diversified Portfolio: The consolidated entity had an operational solar and wind portfolio of 4.2GW at end-1HFY24 (FYE23: 3.9GW, FYE22: 3.4GW) under various special purpose vehicles. During FY23, the company increased the capacity by 505MW, mainly led by the commissioning of 220MW capacity under TP Kirnali Ltd, and further 225MW capacity under Tata Power Green Energy Ltd (TPGEL; 'IND AA+'/Stable). Nearly 25% of the portfolio was wind and the rest was solar at end-1HFY24, lowering the generation variability. However, the proportion of wind in the mix is likely to increase as TPREL takes up hybrid projects.

The portfolio is well diversified geographically across 14 states with the top five states forming 72% of the installed capacity base at 1HFYE24 with Gujarat, Maharashtra and Karnataka at 17%, 16% and 14%, respectively. Similarly, the portfolio is well diversified across counterparties with nearly 50% of operational capacity at end-1HFY24 with strong counterparties such as Gujarat Urja Vikas Nigam Limited (GUVNL), Solar Energy Corporation of India Limited (SECI), National Thermal Power Corporation Limited ('IND AAA'/Stable) and Tata Power distribution business, along with group captive projects. GUVNL, Tata Power distribution business and Karnataka discoms constituted 20%, 14% and 10%, respectively, of the capacity base at end-1HFY24. All its operational projects have tied-up power purchase agreements (PPAs); over 95% of the operational portfolio has 25-year PPAs, with more than 15 years of average PPA life remaining, thereby providing revenue visibility. The weighted average tariff of the operational projects at end-September 2023 was INR4.30/kWh. TPREL's standalone portfolio average tariff was lower at INR3.35/kWh while WREL's average tariff was significantly higher at INR7.27/kWh. Ind-Ra believes the combined weighted average tariff shall decline with new capacity addition at a lower tariff rate of INR2.5-2.75/kWh for large utilities and INR3.5-4/kWh for group captive projects. The higher tariff for WREL could pose a risk in a scenario wherein new project tariffs would continue to decline, according to Ind-Ra.

Profitability to Increase in FY24: In 1HFY24**,** the consolidated revenue increased to INR42.3 billion (FY23: INR81.9 billion, FY22: INR75.2 billion) and EBITDA to INR15.9 billion (INR29.1 billion, INR27.8 billion), due to an increase in the installed capacity in FY23 and 1HFY24, contributing incremental EBITDA. The solar plant load factor (PLF) increased to 22.9% in 1HFY24 (1HFY23: 22%, FY23: 22.6%, FY22: 21.9%) and the wind PLF to 27.8% (26.8%, 19.1%, 19.5%), contributing to the additional profitability. Of this, the EBITDA of INR15.2 billion came from the generation business and the remaining from the solar EPC business. Ind-Ra expects an EBITDA generation of INR30 billion-32 billion in FY24.

Liquidity Indicator – Adequate; Support from TPCL: At end-1HFY24, TPREL's unrestricted cash and cash equivalent stood healthy at INR27 billion (FY23: INR45 billion, FY22: INR4.1 billion). At 1HFY24, TPREL had a consolidated external debt of INR163 billion (FY23: INR162 billion, FY22: INR152 billion, FY21: INR120 billion) with repayments of around INR10 billion in FY24 and INR15 billion in FY25.Moreover, TPREL has taken a three-year capex letter of credit of around INR32 billion outstanding as on 31 December 2023, of which TP Saurya Limited ('IND AA+'/Stable) has INR15 billion, TP Kirnali Limited has INR 8.5 billion and TPGEL has INR 8.6 billion for the under construction renewable portfolio, which will be converted into a term loan.. The debt at end-1HFY24 comprised external long-term loan borrowings of INR141 billion (FY23: INR139 billion) and short-term borrowings of INR21 billion (FY23: INR22 billion). Moreover, TPREL has financial flexibility in the capital markets on account of it being a part of the Tata Group. Given the changing liquidity scenario, the company is looking at lowering the commercial paper exposure through increasing the use of long-term funds. TPREL's utilisation of its fund-based limits/non-fund-based limits for the 12 months ended December 2023 was at 46% and 77%, respectively.

Receivables Position Improved due to Late Payment Surcharge (LPS) Scheme: TPREL's generation receivables declined to INR6.4 billion at end-1HFY24 (FYE23: INR10.7 billion, FYE22: INR15.7 billion) due to healthy collections across discoms with the recovery of the past dues in instalments owing to the LPS rules notified by the Ministry of Power on 3 June 2022. Of the total receivables, those worth INR0.6 billion (FY23: INR1.7 billion, FY22: INR 1.1 billion) are disputed and worth INR1.54 billion are overdue for more than 90 days. Also, TPREL's under-construction portfolio (UCP) consist of capacity of 33% from group captive projects and 19% and 16% of the capacity with Tata group companies and SECI, respectively, which have better payment terms than state discoms'. This should aid in improving the counterparty profile as the projects get commissioned. The company also does bill discounting of receivables, the interest on which is borne by the discom.

Large Under-construction Portfolio: The company has a large UCP of 3.7GW which would entail a total project cost of around INR200 billion, to be funded in a debt-equity ratio of 75:25 with an average tariff of INR2.7/kWh. Around 66% of the total UCP is for large utility projects and 33% for group captive. The company is also setting up 4.3GW solar cells and module manufacturing line in Tamil Nadu, likely to be commissioned in 1HFY25 at a capital cost of INR42 billion. Moreover, TPREL plans to add 2-3GW annually, split between conventional solar and hybrid/RTC capacity. The raised equity of INR40 billion and annual operating cashflows of INR30 billion-35 billion would comfortably meet the equity requirements over the medium term, according to Ind-Ra. TPREL is unlikely to leverage assets beyond a debt-equity ratio of 3:1. Although the debt-funded capex is likely to increase the leverage ratio and expose TPREL to execution risk, the strong execution track record of the group, ability to finance and the presence of long-term PPAs provide adequate visibility and mitigate the risk.

Declining Module & Cells Prices to boost TPSSL's Performance in FY24: TPSSL's performance is likely to improve during FY24, on account of declining module prices and the fixed price nature of the contracts. TPSSL had a healthy order book of INR158 billion for 3,688MW of projects at 1HFY24 (over 50% as third-party order book; FY23: INR174 billion, FYE22: INR72 billion). In FY25, the company is likely to see benefits on the existing fixed-price order book with the declining module and cells prices. In FY23, the execution of the order book remained low at 1.3GW (FY22: 1.5GW), leading to a decline in TPSSL's revenue to INR68 billion in FY23 (FY22: INR85 billion); however, the EBITDA increased to INR4.7 billion (INR3.6 billion) due to declining module prices. Also, post the start of the 4.3GW module and the cell manufacturing line in FY25, Ind-Ra expects a higher level of integration and the increased ability of the company to sustain its margins.

Moderate Credit Profile: Ind-Ra expects the consolidated credit metrics to improve gradually as the UCP becomes operational and its proportion in the operational portfolio increases. The consolidated net leverage (net debt/EBITDA) declined to 4x in FY23 (FY22: 5.37x) given the high cash balance received from GNEBL. TPREL's gross leverage remained 5.5x in FY23 (FY22: 5.5x) given the limited debt taken for the capex and healthy EBITDA generation. Ind-Ra expects TPREL's overall net leverage to stay between 4x and 5x over the medium term.

Rating Sensitivities

Positive: An improvement in the parent's credit profile, along with TPREL maintaining strong linkages with the parent**.** A sustained improvement in TPREL's business profile as reflected in a higher mix of strong counterparties, scaling up of capacity, maintaining healthy liquidity, and calibrated growth without impacting the leverage profile, all on a sustained basis, will be positive for the ratings.

Negative: A weakening of the linkages with the parent and/or a downgrade on TPCL. Additionally, a decline in the liquidity position of the company, elongated receivables, significant capacity additions to weak counterparties or PPA renegotiations or any significant debt-led expansion/acquisition leading to a higher-than-Ind-Ra-expected leverage over 5.0x, all on a sustained basis, will be negative for the ratings.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on TPREL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

Incorporated in 2007, TPREL is a subsidiary of TPCL, engaged in the generation and sale of renewable energy. Post the restructuring in 2022, TPREL is now the holding company for the group's investment in the renewable business.

FINANCIAL SUMMARY

Particulars (INR billion)	**1HFY24**	**FY23**	**FY22**
Revenue	42.34	81.9	75.2
Operating EBITDA	15.96	29.1	27.8
EBITDA margin (%)	38	35	37
Debt	163.2	161	153
Net leverage (x)	4.26	4	5.37
Interest coverage (x)	2.43	2.41	2.74
Source: TPREL, Ind-Ra			

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

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APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Corporate Rating Methodology

The Rating Process

Rating History

Instrument Type	Rating Type	Rated Limits (billion)	Current Ratings	Historical Rating/Outlook				
				23 May 2023	24 March 2023	21 September 2022	27 December 2021	8 Decembe 2020
Issuer Rating	Long-term	-	IND AA+/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
NCD	Long-term	INR13	IND AA+/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	-	-
Term loan	Long-term	INR10	IND AA+/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable	-

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
NCDs	INE607M08055	26 September 2022	7.90	26 September 2029	INR3	IND AA+/Stable
NCDs	INE607M08063	29 September 2022	7.90	28 September 2029	INR3	IND AA+/Stable
NCDs	INE607M08071	30 May 2023	7.75	30 May 2030	INR7	IND AA+/Stable
Total					INR13	

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loan	Low
NCDs	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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