May 25, 2023

To,
Corporate Relationship Department
BSE Limited,
14th Floor, P. J. Towers,
Dalal Street, Fort,
Mumbai-400001
**SCRIP CODE: 532779**

To,
Listing Department
National Stock Exchange of India Limited
"Exchange Plaza", C – 1, Block G
Bandra- Kurla Complex, Bandra (East),
Mumbai-400051
**SYMBOL: TORNTPOWER**

Dear Sir / Madam,

**Sub: Intimation of Credit Rating**

**Ref: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

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With reference to the above, we hereby inform that India Ratings and Research vide its letter dated May 24, 2023 has assigned the long term credit rating of proposed non-convertible debentures of amounting to ₹ 600 Crore to **"IND AA+/Stable"** and reaffirmed its rating on the short-term commercial paper programme at "**IND A1+**". Additionally, the Company is also rated by Crisil wherein long-term facilities have been rated "**CRISIL AA+/Stable**" and short-term facilities have been rated as **"CRISIL A1+"**.

The Rationale for the same as given by India Ratings and Research is attached herewith.

You are requested to take the same on records.

Thanking you.

Yours faithfully,
**For Torrent Power Limited**

RAHUL CHAITANYA BHAI SHAH
Digitally signed by RAHUL CHAITANYABHAI SHAH
Date: 2023.05.25 13:26:15 +05'30'

**Rahul Shah**
**Company Secretary & Compliance Officer**
Encl: As above

Login

# India Ratings Assigns Torrent Power NCDs 'IND AA+'/Stable; Affirms CPs at 'IND A1+'

May 24, 2023 | Integrated Power Utilities

India Ratings and Research (Ind-Ra) has taken the following rating actions on Torrent Power Limited's (TPL) debt instruments:

| Instrument Type | Date of Issuance | Coupon Rate | Maturity Date | Size of Issue (billion) | Rating/Outlook | Rating Action |
|---|---|---|---|---|---|---|
| NCDs# | | | | INR6.0 | IND AA+/Stable | Assigned |
| CP* | - | - | 7-365 days | INR11.5 | IND A1+ | Affirmed |
| CP | - | - | 7-365 days | INR5 | IND A1+ | Affirmed |

*Carved out of fund-based limits

#Yet to be issued

**Analytical approach:** Ind-Ra continues to take a consolidated view of TPL and its subsidiaries while assigning the ratings as all the entities operate in the same line of business, have strong operational and strategic linkages among them and a common management. Till FY22, the subsidiaries did not have significant operations of their own.

## Key Rating Drivers

**Healthy EBITDA supported by Regulated Nature of Operations:** TPL's operating profitability is supported by the regulated cost-plus model of its distribution licensee business and generation assets, including Amgen and Sugen (around 79% of the net capacity), and Unosugen (around 75% of the net capacity). About 60**%** of TPL's EBITDA comes from the regulated business segments, which have largely remained stable, backed by the regulated nature of operations. Furthermore, TPL's renewable capacity of 1,068MW as on 31 December 2022 (FY22: 1,018MW; FY21: 787MW), which includes 842MW (611MW) under feed in the tariff regime and the rest 226MW competitively-bid tariff, does not face any tariff risk. The regulated business, along with the fixed tariff renewables, contribute 80% to TPL's EBITDA, indicating a strong profitability visibility for the long term. Moreover, the rating benefits from the stable, timely and cost-reflective tariff orders issued by the Gujarat Electricity Regulatory Commission (GERC), leading to the timely true-up of costs, ensuring the absence of any major regulatory asset creation.

On 1 April 2022, TPL was handed over the operations of Dadra and Nagar Haveli and Daman and Diu Distribution Company Ltd (DNHDD), which holds the distribution license for the union territory. This business is under the regulated cost-plus model. Ind-Ra expects the EBITDA from DNHDD to increase substantially over the long term as the company improves operations and efficiency. This would further aid in the overall regulated EBITDA of TPL. The area has a customer base of around 0.15 million, with annual sales of around 9 billion units.

During 9MFY23, TPL's EBITDA improved to INR36.6 billion (9MFY22: INR26.0 billion; FY22: INR36 billion; FY21: INR34.6 billion), supported by an improved profitability from the distribution franchise and renewables segment and the EBITDA earned from the gas trading (9MFY23: INR6.41 billion; 9MFY22: INR1.1 billion).

**Stable EBITDA Generation from Renewables:** TPL's operational renewable capacity increased to 1,068MW during 9MFY23 (FY22: 1,018MW; FY21: 787MW). 100% renewable capacity is tied up with an average tariff of INR7.46/kwh for solar assets and INR3.96/kwh for wind assets. Furthermore, TPL has 736MW of projects under development, of which 415MW is likely to become operational during FY24. The balance 300MW is mainly wind capacity, which was won by TPL through competitive bidding; the scheduled commissioning of the plant is March 2025. TPL intends to continue bidding in renewables in the near-to-medium term, and the segment would be the main focus area for the company to increase its overall generation capacity. TPL has not planned any annual capacity addition in renewables; however, any such expansion would be subject to meeting the internal return expectations.

**Healthy Demand Growth in Distribution Business:** The sales volumes of TPL's distribution licensee (DL) and distribution franchise (DF) businesses continued improving in 9MFY23; the volume sold during 9MFY23 increased to 21.9 billion units(including 7.3 billion units from DNH&DD (FY22: 17.0 billion units; FY21: 14.5 billion units; FY20: 16.6 billion units). TPL's DL business's transmission and distribution (T&D) losses for Ahmedabad, Dahej and Surat improved to 2.6% during 9MFY23 (FY22: 3.7%; FY21: 5.3%, FY20: 4.4%). The T&D losses also improved in TPL's DF areas (9MFY23: 12.8%; FY22: 15.2%; FY21: 18.9%). The improved demand and operational performance led to an improvement in the financial performance. The EBITDA from the company's DL business improved to INR11.7 billion during 9MFY23 (9MFY22: INR10.31 billion; FY22: INR14.4 billion; FY21: INR12.6 billion) and the EBITDA from its DF business increased to INR7.9 billion (INR5.94 billion; INR7.5 billion; INR5.2billion).

**Franchise Business Profitability Restored:** The improvement in TPL's DF business was led by demand growth and a reduction in the transmission and distribution losses (T&D) in across all DF areas viz (i) Bhiwandi (9MFY23: 10.6%; FY22: 11.6%, FY21:16.2%); (ii) Agra (9.43%; FY22: 12.1%, FY21: 13.5%) and (iii) Shil, Mumbra and Kalwa (SMK; 34.03%; 40.5%; 44.9%) . Furthermore, collection efficiencies across all the DF areas were almost 100% during 9MFY23. Furthermore, the losses in the SMK DF business, which started operations in FY21, further narrowed further in during 9MFY23 on the back of improved AT&C losses. Given the continued improvement in the AT&C loss reduction over the last five years in its Bhiwandi and Agra circles, Ind-Ra expects TPL's profitability in the franchise business to remain healthy. The scope of improvement in TPL's AT&C losses in the SMK region further provides headroom for EBITDA growth from the DF business.

**Gas-based Plants' PLF Fall on High Gas Cost:** TPL's generation portfolio includes gas-based power plants (Sugen/Unosugen/Dgen) and a coal-based plant (Amgen). Excluding Dgen, all the plants are tied up with TPL's distribution business, which usually supply 65%-70% of TPL's own requirement. The PLFs of Sugen and Unosugen plants decreased during 9MFY23 on account of an increase in the natural gas prices and the corresponding lower demand from the offtaker. Sugen's PLF was 13.4% in 9MFY23 (FY22: 44.31%; FY21: 59.89%) and Unosugen's PLF was 1.7% (41.1%; 57.8%). TPL's existing long-term gas supply agreements are sufficient to meet around 30% of the gas requirement for its obligations towards long-term power purchase agreements (PPAs). With the spot gas prices remaining high for the most part of FY23, the variable cost too remained high, which led to lower demand from the long-term off-takers and correspondingly lower PLFs of the plants during 9MFY23. Under the cost-plus equity model, for the Sugen plant, the fuel cost remains a pass-through and the fixed cost remains recoverable based on the plant availability. However, for the Unosugen plant, the landed price of the power purchase cost, including fixed charges from the plant, should not be more than the prevailing landed market price for medium-term power purchase. Given the increase in fuel costs, Unosugen plant's PLF remained low during 9MFY23. However, since the availability of the plant was maintained, it allowed the company to recover the fixed costs recovery of the Unosugen plant in FY23 as well, thereby protecting the returns. During FY22, the company had taken an additional impairment of INR13.0 billion for its Dgen gas power plant. Dgen has been operating only intermittently due to unavailability of gas arrangement and power selling arrangement.

The PLFs of the Amgen plant continued to be healthy at 87.2% in 9MFY23 (FY22: 76.9%; FY21: 44.3%), Ind-Ra expects the PLFs to have remained healthy in FY23 and to continue to do so in FY24, given the healthy demand in TPL's distribution areas. TPL's Amgen, Sugen and Unosugen plants reported a higher-than-normative plant availability factor of

92%, 99% and 100% in 9MFY23 (FY22: 92%, 93% and 91%), leading to a full fixed-cost recovery, as allowed by the regulator.

**Liquidity Indicator - Adequate:** TPL's liquidity is supported by the healthy cash and cash equivalents of INR10.2 billion at end-1HFY23 (FYE22: INR8.8 billion; FYE21: INR9.2 billion, FYE20: INR10.6 billion) along with fund-based working capital limits of INR11.5 billion. The average utilisation of the company's fund-based limits, including the CP, remained low at 21% over the 12 months ended March 2023. During 1HFY23, the cash flow from operations decreased to INR7.6 billion (1HFY22: INR17.8 billion; FY22: INR31.7 billion) mainly on account of an increased working capital due to increases in the power purchase cost. However, Ind-Ra expects the cash flow from operations to be sufficient for debt repayment of INR15.9 billion and INR16.6 billion forFY24 and FY25, respectively. TPL incurred capex of INR14.8 billion during 1HFY23 (1HFY22: INR7.7 billion; FY22: INR18 billion). TPL has planned an annual capex of about INR20 billion for FY24 for the distribution business, which would be funded through a mix of debt and internal accruals. Furthermore, TPL will continue to undertake capex and acquisitions in the renewables segment, subject to the investments meeting the internal return expectations, according to the management.

**Credit Profile to Remain Stable in FY24:** TPL's net leverage (net debt/EBITDA) was stable at 2.3x for 1HFY23 (FY22: 2.3x; FY21: 1.98x, FY20: 2.1x). The total debt increased to INR104 billion during 1HFY23 (FY22: INR91 billion; FY21: INR77.8 billion) on account of an increase in debt for the under-construction solar project and other distribution-led capex incurred during 1HFY23. Despite the existing planned capex on DL, DF and renewables and the increased cash use in working capital, Ind-Ra estimates the free cash flow to remain positive in FY23. This, along with the EBITDA accretion with the acquired assets, is likely to have kept TPL's net leverage below 2.5x in FY23 and will help it remain largely stable during FY24. However, the net leverage remains contingent on the potential growth opportunities in new renewable and transmission projects and distribution circles. The interest coverage (EBITDA/interest expenses) increased to 5.8x in 9MFY23 (FY22: 5.7x; FY21: 4.5x) due to a reduction in interest expenses and is estimated to have remained healthy in FY23.

**Regulatory Gap Widens on High Power Purchase Cost:** TPL's RA, including unbilled revenue towards fuel price adjustment billing, increased to INR30 billion at end-9MFY23 (including around INR 4 billion of DNHDD taken over from 1 April 2022; FYE22: INR19.2 billion; FYE21: INR16.8 billion). This rise was mainly led by a higher power purchase cost due to an increase in the fuel/power cost in general during 9MFY23 and the deferred recovery allowed by the regulator to avoid tariff shock to the consumers. However, all such deferrals are compensated by the allowance of carrying cost as per the applicable tariff regulations. Ind-Ra expects the revenue gap to have reduced during 4QFY23 and to continue to do so in FY24, due to an increase in the base fuel & power purchase price adjustment (FPPPA) for FY24 (base FPPA increased to INR2.74/unit for FY24 from INR2.02/unit for FY23), the additional FPPPA allowed during FY23 by the regulator and the over-recovery of fixed cost due to the higher-than-expected sales volumes. During 9MFY23, TPL's dependence on power procurement from untied sources was higher due to favourable cost economics compared to gas-based power (FY22: 20%-25%).

## Rating Sensitivities

**Negative:** Deterioration in the operating performance on a sustained basis in TPL's existing regulated and franchise businesses, leading to a sustained decline in its EBITDA, along with a weakening of the counterparty profile in renewable projects, resulting in an increase in the cash flow volatility and/or higher-than-Ind-Ra-expected debt-led capex will lead to a negative rating action.

## 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 TPL, either due to 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

TPL is an integrated power utility and is one of the largest private sector players in India having interests in power generation, transmission, distribution and the manufacturing and supply of power cables.

| Particulars | 9MFY23 | 1HFY23 | FY22 | FY21 |
|---|---|---|---|---|
| Revenues (INR billion) | 196.6 | 131.1 | 142.6 | 121.7 |
| EBITDA (INR billion) | 36.6 | 22.2 | 35.9 | 34.6 |
| Debt (INR billion) | - | 103.9 | 91.0 | 77.8 |
| EBITDA margins (%) | 18.6 | 16.8 | 25.2 | 28.5 |
| Net leverage (x) | - | 2.3 | 2.2 | 1.9 |
| Interest coverage (x) | 5.8 | 5.5 | 5.7 | 4.4 |
| Source: TPL. Ind-Ra | | | | |

## Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

## Rating History

| Instrument Type | Rating Type | Rated Limits (billion) | Current Ratings | Historical Rating/Outlook | | |
|---|---|---|---|---|---|---|
| | | | | 14 June 2022 | 17 June 2021 | 18 June 2020 |
| Commercial Paper | Short-term | INR16.5 | IND A1+ | IND A1+ | IND A1+ | IND A1+ |
| NCDs | Long-term | INR6 | IND AA+/Stable | | | |

## Complexity Level of Instruments

| Instrument Type | Complexity Indicator |
|---|---|
| CP | Low |
| NCD | Low |

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

## Contact

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## APPLICABLE CRITERIA

Evaluating Corporate Governance

The Rating Process

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology