August 20, 2024

BSE Limited
Corporate Relationship Department
1st Floor, New Trading Ring
Rotunda Bldg., P. J. Towers
Dalal Street, Fort
Mumbai – 400 001.
Scrip Code: **500400**

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot No. C/1, G Block
Bandra-Kurla Complex
Bandra (East)
Mumbai – 400 051.
Symbol**: TATAPOWER**

Dear Sir/Madam,

Intimation of upgrade in rating by S&P Global Ratings

Pursuant to Regulation 30 read with Part A of Schedule III and 51(2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, as amended, we wish to inform you that S&P Global Ratings has upgraded the rating of The Tata Power Company Limited ('Tata Power') to BBB- from BB+. The outlook is positive.

This upgrade is in furtherance to our intimation dated June 14, 2024, whereby, S&P Global Ratings had placed Tata Power on credit watch with positive implications.

The report from S&P Global Ratings providing the upgrade in the rating is enclosed for reference.

This is for your information and records.

Yours Sincerely,
For **The Tata Power Company Limited**

VISPI SAROSH PATEL
Digitally signed by VISPI SAROSH PATEL
Date: 2024.08.20 22:31:25 +05'30'

Vispi S. Patel
Company Secretary
FCS 7021

Encl: As above

Research Update:

Tata Power Co. Ltd. Upgraded To 'BBB-' From 'BB+' On Higher Group Support Assessment; Outlook Positive

August 20, 2024

PRIMARY CREDIT ANALYST

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Rating Action Overview

- We believe the potential for extraordinary support for Tata Power Co. Ltd. from Tata Sons Pte. Ltd. is stronger than we previously anticipated.
- Tata Power's stand-alone credit profile continues to benefit from steady growth in business scale and diversity, with a vast majority of cash flows being predictable, especially with temporary reprieve on the previously loss-making Mundra plant.
- On Aug. 20, 2024, S&P Global Ratings raised its issuer credit ratings on Tata Power to 'BBB-' from 'BB+'. The outlook is positive. We removed the ratings from CreditWatch with positive implications, where they were placed on June 13, 2024.
- The positive outlook reflects the outlook on the sovereign credit rating on India, given that the rating is capped at the level of the sovereign.

Rating Action Rationale

We now assess Tata Power to be strategically important to Tata Sons. The change in assessment reflects the greater operational integration and cohesiveness within the Tata group in recent years (see "Six Tata Group Entities Placed On CreditWatch Positive On Possible Increase In Group Support," published June 13, 2024, on RatingsDirect).

In our view, this greater operational integration increases the longer-term commitment of Tata Sons to group entities as well as the incentive to provide support. Tata Power's integration within the group has strengthened in particular from the execution of energy transition strategies by various group companies and Tata Motors' growth in the electric vehicle (EV) business. These strategies include setting up of solar power plants for Tata Motors, Tata Steel, Tata Electronics, among others. Tata Power also assists with setting up the charging infrastructure to support Tata Motors' EV business and joint bidding with Tata Motors for commercial EV projects.

Tata Power's close linkage to the Tata brand and legacy as a key asset under the group's umbrella underpin our expectation of strong extraordinary support, if needed. This is based on the following considerations:

- Closely linked to the Tata group's reputation: Reputational damage to the Tata brand will be a key driver of support in a hypothetical scenario of liquidity stress at Tata Power. The group has demonstrated such strong support in the past in cases such as Tata Teleservices Ltd., and the Mundra power project under Tata Power and Tata Steel Europe. Tata Sons has also injected equity into Tata Power, when needed, most recently in fiscal year ended March 2021.
- Strategically aligned to the group's strategy: Tata Power is also a key company under Tata Sons' infrastructure vertical even though it represents only about 10% of the consolidated group EBITDA.
- Tata Sons' influence over Tata Power's financial policy and strategy as the latter's largest shareholder with a 46% ownership: We believe Tata Power's focus on reducing debt during 2019-2021, including via sale of non-core assets was driven by Tata Sons, like it did with other group companies. The company's increasing focus on renewable energy is also likely driven by Tata Sons, in our view.
- More entrenched position within the group, particularly in the context of energy transition strategies of the group.

Our assessment does not presume Tata Sons will step in with extraordinary support for deleveraging or rating preservation. But we believe it will provide strong support in the event of credit stress, based on precedents. Tata Power also benefits from being part of the Tata group, particularly via enhanced funding access.

Tata Power's SACP continues to reflect largely predictable nature of cash flows. We estimate that about 85% of the company's EBITDA comes from operations with regulated returns or stable renewable energy contracts. The SACP also reflects the company's more diversified and integrated operations compared with peers having a similar business risk assessment. We believe the company's business profile will strengthen further over the next few years with likely capacity additions of at least 1 gigawatts (GW) of renewable power as well as expansion of its presence in the roof-top solar business and production of solar panels and modules.

Our assessment of Tata Power's liquidity remains less than adequate. This is due to the company's relatively large short-term debt as well as its reliance on low-cost commercial paper (CP). Together with long-term debt maturities, the company has more than Indian rupees (INR) 100 billion of debt maturities annually. The amount of commercial paper outstanding has, however, declined to about INR30 billion as of June 2024, from about INR80 billion during fiscal 2022.

However, given the company's strong banking relationships and access to the commercial paper market, its refinancing risk is manageable.

High capital expenditure weighs on Tata Power's financial risk profile. The company continues to invest heavily, mainly to grow its renewable energy business. We estimate capital expenditure to average about INR150 billion over the next two to three years. Although we expect this to increase leverage modestly, it is not likely to weaken Tata Power's credit profile materially. We also believe the company will adjust its investment plans prudently to manage its leverage.

Our rating on Tata Power is capped by the sovereign rating on India (BBB-/Positive/A-3). This is because of the company's high dependence on the domestic economy, which contributes almost all of its cash flows. In a hypothetical sovereign stress scenario, we believe Tata Power's earnings could decline materially. Furthermore, its weaker liquidity position would provide a smaller buffer to withstand a sovereign stress scenario, though limited exposure to foreign currency liabilities limits the impact. Currently, less than 10% of the company's debt is denominated in foreign currencies.

Outlook

The positive outlook reflects the outlook on the sovereign, given that Tata Power's rating is capped by the sovereign rating.

Downside scenario

We may revise the outlook back to stable if we take a similar action on the sovereign rating. In a less likely scenario, we may revise the outlook to stable if the company's leverage increases beyond our base case, such that its ratio of funds from operations (FFO) to debt fell below 10% on a sustainable basis.

Upside scenario

We will raise the rating on Tata Power if we upgrade the sovereign rating to 'BBB', and if the company executes its growth plans such that its FFO-to-debt ratio remains sustainably above 10%.

Company Description

Tata Power is an India-based integrated power company with generation, distribution, and transmission businesses. The company has generation capacity of close to 14.7 GW, with a mix of thermal (including Mundra plant's 4.2 GW coal-fired capacity), hydro, wind, and solar power. It also holds minority stakes in Indonesian coal mines.

Tata Power is part of the diversified Tata group, which is its single largest shareholder with a 46.9% stake as of June 30, 2024.

Our Base-Case Scenario

Assumptions

- India's GDP to grow 6%-7% over fiscal 2025 and 2026. Tata Power's revenue to grow slightly above GDP growth.
- Reported EBITDA margin to be stable at about 20% over fiscal 2025 and 2026.
- Capex of about INR150 billion annually over fiscal 2025 and 2026. Majority of the capex (60%) will be spent toward developing renewable power assets, including the construction of solar module and cell manufacturing facility.

- Dividend distribution of about INR6.5 billion annually.

Based on the following, we arrive at the following key metrics

- FFO-to-debt ratio of about 12.0% over this period compared with 12.4% in fiscal 2024.
- Debt-to-EBITDA ratio to remain largely stable at about 4.5x.

Liquidity

We assess Tata Power's liquidity as less than adequate. Based on our estimates, liquidity sources will be insufficient to cover uses for the 12-month period ending June 30, 2025. This is largely due to the company's large short-term debt of about INR65 billion.

We believe Tata Power will appropriately manage its liquidity, with support from long-standing banking relationships and good access to credit markets as part of the larger Tata group. It has a track record of comfortably rolling over short-term debt and commercial papers.

We have the following estimates for Tata Power's liquidity for the 12 months ending June 30, 2025:

Principal liquidity sources:

- Unrestricted cash and short-term investments of about INR38 billion as of June 30, 2024.
- Long-term undrawn committed facilities of about INR31 billion.
- Cash FFO of about INR80 billion.

Principal liquidity uses:

- Scheduled debt maturities of about INR140 billion (including uncommitted short-term debt facilities of INR32 billion and commercial paper of INR33 billion) as of June 30, 2024.
- Capex of about INR80 billion over the next 12 months.

Ratings Score Snapshot

Issuer Credit Rating	BBB-/Positive/--
Business risk:	Satisfactory
Country risk	Moderately High
Industry risk	Very Low
Competitive position	Satisfactory
Financial risk:	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Less than Adequate (-1 notch)

Issuer Credit Rating	BBB-/Positive/--
Management and governance	Neutral (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile:	bb
Entity status within group	Strategically Important (+2 notches)

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
Tata Power Co. Ltd.		
Issuer Credit Rating	BBB-/Positive/--	BB+/Watch Pos/--