

June 28, 2022

NTPC GE Power Services Private Limited (erstwhile NTPC ALSTOM Power Services Private Limited): Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – working capital facilities	31.50	40.50	[ICRA]A+(Stable); reaffirmed
Short-term – non-fund based limits	410.00	359.50	[ICRA]A1; reaffirmed
Short term: Unallocated	9.50	51.00	[ICRA]A1; reaffirmed
Total	451.00	451.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the strong revenue growth registered by NTPC GE Power Services Private Limited (NGSL) on the back of high order inflow from two large operations & maintenance (O&M) contracts for Bharat Aluminium Company Ltd. (BALCO) and Vedanta Aluminium Limited. These contracts provide healthy revenue visibility for the next 4-5 years with an expected improvement in profitability. Moreover, the order book position has improved with recent award of balance of plant (BoP) supply and O&M of 325 MW solar project from NTPC Renewable Energy Limited (NTPCREL). Significant potential for rehabilitation, renovation and modernisation of coal-based power plants, and increasing focus on environmental control systems augur well for NGSL's future order intake as well. The ratings also factor in NGSL's established execution track record in the industry, and its strong parents – NTPC Limited (NTPC¹) and General Electric Company; GE² (through GE Power India Limited).

The ratings, however, are constrained by NGSL's moderate scale of operations, fluctuating profit margins witnessed in the past, limited pricing flexibility owing to competitive pressures and inability to pass on cost escalations for some projects. NGSL's order book is highly concentrated with ~95% value of the order book as on March 31, 2022 concentrated on majorly two clients, BALCO and Vedanta. The funding requirements of the business have increased on the back of higher project execution and high outstanding receivables (largely due to build-up of retention money). With the company experiencing a transition in its product/business mix, increased reliance on external debt is expected going forward even as the coverage metrics are expected to remain comfortable.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that NGSL will continue to benefit from its strong parentage, revenue visibility and profit stability expected from the execution of large-sized O&M orders.

¹ rated [ICRA]AAA(Stable)/[ICRA]A1+

² Rated Baa1(negative) by Moody's Investors Service. Further the shareholding was transferred to GE Power India Limited (rated [ICRA]A(Negative)/[ICRA]A2+) from GE GmbH in April 2021.

Key rating drivers and their description

Credit strengths

Established track record and long experience of the management/parent companies in power sector– NGSL has an established operational track record with extensive experience of the management in providing rehabilitation, renovation and modernisation (R&M) services and related operations and maintenance services, largely to thermal power plants.

NSGL benefits from its strong parents – NGSL benefits from its strong parents – NTPC Limited and GE (through GE Power India Limited) - both of which are well-established players in the power industry. The board of NGSL has deputed senior personnel from both NTPC and GE. NTPC has also extended support to NGSL by deputing its team of experienced senior employees for the smooth execution of projects.

Sizeable O&M orders provide revenue visibility for the medium term – The sizeable orders for plant O&M for BALCO (total 1,740 MW Korba sub-critical power plant) and Vedanta (total 1,215 MW, Jharsuguda power plant) provide stable revenue visibility for the next 4-5 years. Apart from this, order inflow from NTPCREL for the balance of plant (BoP) supply and O&M for the 325-MW solar project will boost the revenues. NGSL is also exploring opportunities in the renewable space in export markets for which it has signed a tripartite memorandum of engagement (MoE) with The Lake Region Economic Bloc (LREB), Kenya and Procorp Enertech Private Limited (PEPL) where the three entities will cooperate for the development of solar power projects in Africa. There is potential for growth in the long term, stemming from the existing O&M projects and other segments like solar EPC, waste-to-energy, FGD etc.

Credit challenges

Relatively small scale of operations; expected to improve – The company is a relatively moderate-sized player and has witnessed volatility in revenues in the past owing to the variability in the level of order inflows and dependence of order execution on the shutdown schedule of power plants. However, with large O&M orders in place, the scale of operations is expected to increase along with stable operating margins from these contracts.

Customer concentration risk – NGSL is mainly dependent on two customers for its revenue and current order book. The O&M revenues from BALCO and Vedanta accounted for around 90% of the total revenue in FY2022. As on March 31, 2022, the company derives 95% value of the pending order book from these two customers. However, both the entities are strong counterparties, partly mitigating the credit risk. Moreover, with the addition of new orders (Solar BoP order secured in Q1 FY2023), the customer base should get diversified.

Stretched receivables - The company's debtor days remain high as a large part remains as retention money, but the same is largely supported by back-to-back creditors. Going forward, the release of retention money with the completion of existing contracts and a shorter payment cycle of 45-60 days for the new O&M contracts are expected to improve NGSL's receivable cycle.

Liquidity position: Adequate

The company's liquidity is adequate, supported by free cash balance of ~Rs. 11.3 crore as on March 31, 2022 and unutilised working capital limits of Rs. 11.8 crore as on March 31, 2022. With a change in order mix, the working capital requirements are expected to increase. However, nil long-term debt repayments liability, funding support from customer advances and significant creditor balance support the liquidity. Additionally, the release of retention money from existing contracts and a shorter payment cycle for new O&M contracts will support the liquidity going forward.

Rating Sensitivities

Positive factors – The ratings can be upgraded if there is a significant increase in scale and profit margins on a sustained basis, without any major increase in debt levels.

Negative factors – NGSL’s ratings could be downgraded if there is a significant decline in the company’s revenues on a sustained basis due to lower order book execution and decline in fresh order inflows, or reduction in profit margins and cash flow generation. Moreover, an increase in the working capital intensity with a change in order mix, leading to significant reliance on external debt, and a material deterioration of the debt protection metrics could also lead to a ratings downgrade. A deterioration in the credit profile of parent companies could also lead to a rating downgrade.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer’s Credit Rating
Parent/Group support	Ultimate Parent Company: NTPC Limited & General Electric Company (through GE Power India Limited) Ratings are based on implicit support from ultimate parents, primarily in the form of technological and financial support.
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the Company

NGSL is a joint venture (JV) of two leading power sector players, namely NTPC and GE (through GE Power India Limited), with both the JV partners holding a 50% stake each in the company. NGSL was incorporated in September 1999 and commenced operations in April 2000. It provides rehabilitation, R&M services and related operations and maintenance services to thermal power plants, primarily in India. The company also provides related services such as residual life assessment (RLA), plant life extension studies, performance improvement and upgrading studies, steam path audit (SPA), etc. The company has also expanded its operations into the operations and maintenance of power plants and will be further expanding into FGD, waste-to-energy plant projects and EPC for solar power plants.

Key financial indicators (audited)

NGSL	FY2021	FY2022 (Prov)
Operating income (Rs. crore)	125.71	270.11
PAT (Rs. crore)	(2.7)	4.4
OPBDIT/OI	-3.3%	3.1%
PAT/OI	-2.2%	1.6%
Total outside liabilities/Tangible net worth (times)	9.1	16.9
Total debt/OPBDIT (times)	(0.1)	1.1
Interest coverage (times)	(2.4)	3.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Rating history for the past 3 years				
		Type	Amount rated	Amount outstanding	Date & rating	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020		Date & rating in FY2019
					28-Jun-22	14-Apr-21	-	06-Feb-20	25-Nov-19	12-Oct-18
1	Fund based working capital facilities	Long Term	40.50	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non Fund based	Short Term	359.50	-	[ICRA]A1	[ICRA]A1	-	[ICRA]A1	[ICRA]A1	[ICRA]A1
3	Unallocated	Short Term	51.00	-	[ICRA]A1	[ICRA]A1	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term-Fund based working capital limit	Simple
Short-term – Non-fund based	Very Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based – Working capital facilities	NA	NA	NA	40.50	[ICRA]A+(Stable)
NA	Short-term – non-fund based limits	NA	NA	NA	359.50	[ICRA]A1
NA	Short term: Unallocated	NA	NA	NA	51.00	[ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Siddhartha Kaushik
+91 124 4545323
siddhartha.kaushik@icraindia.com

Parag Somani
+91 124 4545319
parag.somani@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 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 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.