

April 14, 2021

## 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
Fund based working capital facilities	31.50	31.50	[ICRA]A+ (Stable); reaffirmed
Short Term: Non-Fund Based limits	419.50	410.00	[ICRA]A1; reaffirmed
Short Term: Unallocated	-	9.50	[ICRA]A1; reaffirmed
<b>Total</b>	<b>451.00</b>	<b>451.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of the ratings factors in NTPC GE Power Services Private Limited's (NGSL) established execution track record in the industry, and its strong parentage – NTPC Limited (NTPC<sup>1</sup>) and GE Power Systems GmbH (subsidiary of General Electric Company; GE<sup>2</sup>). ICRA has taken positive note of the improvement in order inflow in FY21 on account of one large order amounting to Rs 1070 crores from Bharat Aluminium Company Ltd (BALCO) which has resulted in a sizeable unexecuted order book of ~Rs. 1166 crore as on March 31, 2021, providing revenue visibility for the medium term. Moreover, the demand outlook for the industry is likely to remain stable, driven by significant potential for rehabilitation, renovation and modernisation of coal-based power plants, and increasing focus on environmental control systems.

The ratings, however, are constrained by NGSL's moderate scale of operations with volatility in revenues; and modest profit margins driven by the nature of operations, limited pricing flexibility owing to competitive pressures and inability to pass on cost escalations for some projects. Moreover, NGSL's existing order book is primarily concentrated to a few clients, i.e. NTPC (for multiple projects), and a single project from BALCO accounting for a sizeable part of the unexecuted order book. However, the strong counterparty profile largely alleviates concerns on credit risk.

Also, the funding requirements of the business have increased on the back of higher project execution and a rise in debtor levels (largely due to build-up of retention money). However, funding support from high creditor levels and customer advances have continued to result in a comfortable capital structure for NGSL with nil debt levels. Nevertheless, the future funding mix will be driven by the new orders secured by the company, given that it has started bidding for orders in new segments as well.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that NGSL will continue to benefit from its strong parentage and its unexecuted order book provides revenue visibility. NGSL has remained debt free in the recent years with comfortable debt protection metrics. However, with a change in order mix, the level of funding requirements will drive the future debt levels and liquidity position.

<sup>1</sup> rated [ICRA]AAA(Stable)/[ICRA]A1+

<sup>2</sup> Rated Baa1(negative) by Moody's Investors Service. Further the shareholding from GE GmbH will be transferred to GE Power India Limited (rated[ICRA]A+(Stable)/[ICRA]A1) subject to procedural compliances.

## Key rating drivers

### Credit strengths

**Established operational track record and long experience of the management/parent companies in the 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 operation and maintenance services, largely to thermal power plants.

**NSGL benefits from its strong parentage** – NGSL benefits from its strong parentage – NTPC and GE Power Systems GmbH both of which are well-established players in the power industry.

**Debt free company with limited funding requirements for capex**- Due to services nature of the business and working capital requirements supported by back to back contracts with customers and contractors, the funding requirements in the past have remained very low.

**Order inflow** – There is potential for growth in the long term, stemming from rehabilitation, renovation and modernization of power plants in India . Moreover, the company will also be bidding for projects in different segments which will add to the orderbook potential.

### Credit challenges

**Relatively moderate scale of operations with volatility in revenues** – The company is a relatively moderate-sized player and has witnessed volatility in revenues in the past, owing to variability in the level of order inflows as well as dependence of order execution on the shutdown schedule of power plants.

**Thin profit margins owing to nature of operations and vulnerability to escalation in execution cost** – NGSL's profit margins remain susceptible to challenges in timely execution of projects and volatility in prices of key raw materials and bought out components. This coupled with the nature of operations and intense competition has continued to result in thin profit margins for the company.

**Customer concentration**- NTPC and BALCO accounts for majority of the order book; however, both the entities being strong counterparties, partly mitigates the credit risk.

**High debtors**- The debtor days for the company remains high as a large part remains as retention money, but the same is largely supported by back to back creditors.

### Liquidity position : Adequate

The company's liquidity is **adequate**, supported by free cash balances (Rs. 4.9 crore as on January 2021), no debt repayments liability and funding support from high creditor levels and customer advances. So far, NGSL has largely remained debt free with utilisation of mainly non-fund based limits, primarily in the form of BGs. However, with a change in the order mix in the future, the funding requirements are likely to increase, which could result in some reliance on external debt. The level of funding support available in the form of mobilisation advances and credit from vendors will drive the liquidity position.

### Rating sensitivities

**Positive factors** – The ratings can be upgraded if there is a material change in business mix that can result in significant increase in scale and profit margins, 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 inflow, or reduction in profit margins and cash flow generation. Moreover, increase in working capital intensity with a change in future order mix, leading to significant reliance on external debt and material deterioration of debt protection metrics could also lead to a ratings downgrade.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	Ultimate Parent/Parent Companies: GE & NTPC Ratings are based on implicit support from ultimate parents, primarily in the form of operational and financial synergies
Consolidation/Standalone	Standalone.

### About the company

NGSL is a joint venture (JV) of two leading power sector players, namely NTPC and GE, 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 is involved in providing rehabilitation, R&M services and related operation 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 operations and maintenance of power plants and will be further expanding into FGD, waste to energy plant projects and EPC for solar power plants.

In FY2020, the company reported a net profit of Rs. 0.01 crore on an operating income (OI) of Rs. 102.9 crore, as compared to a net profit of Rs. 2.9 crore on an OI of Rs. 231.8 crore in the previous year.

### Key financial indicators (audited)

NGSL	FY2019	FY2020
Operating Income (Rs. crore)	231.8	102.9
PAT (Rs. crore)	2.9	0.01
OPBDIT/OI (%)	2.1%	1.6%
PAT/OI (%)	46.8%	6.6%
Total Outside Liabilities/Tangible Net Worth (times)	10.4	10.7
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	5.1	1.8

Source: Company, ICRA Research; All ratios as per ICRA calculations; 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 (FY2022)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2021	FY2020		FY2019
					14-April- 2021	-	6-Feb-2020	25- Nov-2019	12-Oct-2018
1	Fund based working capital facilities	Long Term	31.50	-	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non Fund based	Short Term	410.00	-	[ICRA]A1	-	[ICRA]A1	[ICRA]A1	[ICRA]A1
3	Unallocated	Short Term	9.50	-	[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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based working capital limits	-	-	NA	31.50	[ICRA]A+ (Stable)
NA	Non fund based LC/BG	-	-	NA	410.00	[ICRA]A1
NA	Unallocated short term		-	NA	9.50	[ICRA]A1

Source: Company

### Annexure-2: List of entities considered for consolidated analysis

Company name	Ownership	Consolidation Approach
-	-	-

## ANALYST CONTACTS

**Sabyasachi Majumdar**

+91 124 4545304

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

**Manish Ballabh**

+91 124 4545 812

[manish.ballabh@icraindia.com](mailto:manish.ballabh@icraindia.com)

**Girishkumar Kadam**

+912261143441

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

**Vipin Jindal**

+91 124 4545 355

[vipin.jindal@icraindia.com](mailto:vipin.jindal@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6169 3300

[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

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

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

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## ICRA Limited



### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50



### Branches



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