

## NTPC GE Power Services Private Limited (erstwhile NTPC ALSTOM Power Services Private Limited)

October 12, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Working Capital Facilities	1.50	1.50	[ICRA]A+ (Stable); reaffirmed and outlook revised from Negative
Non-fund based - LC/BG/STL	149.50	149.50	[ICRA]A1; reaffirmed
<b>Total</b>	<b>151.00</b>	<b>151.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating at [ICRA]A+ (pronounced ICRA A plus) for Rs. 1.50-crore fund-based facilities and short-term rating at [ICRA]A1 (pronounced ICRA A one) for Rs. 149.50-crore non-fund based facilities of NTPC GE Power Services Private Limited (erstwhile NTPC ALSTOM Power Services Private Limited; NGSL). The outlook on the long-term rating has also been revised from Negative to Stable.

### Rationale

The revision in outlook factors in the improvement in NGSL's revenues and profitability in the current fiscal, driven by higher execution of the order book, after the decline in FY2018. NGSL has a sizeable order backlog of ~Rs. 390 crore as on August 2018 (including orders from NTPC Limited and other major state electricity boards), which provides revenue visibility over the medium term. Moreover, the ratings continue to positively factor in NGSL's established execution track record and its strong parentage – NTPC Limited (rated [ICRA]AAA(Stable)/[ICRA]A1+) and GE Power Systems Gmbh (subsidiary of General Electric Company; rated Moodys A2(Negative)/P-1). NGSL remains a debt-free company with free cash balances, albeit reduced due to losses incurred in FY2018. This, coupled with funding support, largely from GE-backed creditors and customer advances, no term loan repayment liability, and no capex plans, support the company's liquidity profile. Further, the demand outlook for the industry is likely to remain favourable driven by significant potential for rehabilitation, renovation and modernisation of coal-based power stations including electrostatic precipitators and increasing focus on stringent emission norms.

However, the ratings are constrained by the volatility in the company's revenues and profitability in the recent years because of delay in execution of some contracts due to deferment of maintenance shutdown schedule by the clients, inability to completely pass on cost escalations, and limited pricing flexibility owing to competitive pressures. This was evident from the sizeable decline in the company's revenues and losses in FY2018. Additionally, the existing order book is primarily concentrated to a single large project (accounting for ~80% of the total order backlog), delay in execution of which can result in revenue moderation and generation, and exert pressure on the company's profitability. Thus far, NGSL has secured fresh orders worth ~Rs. 20 crore in the current fiscal. Its ability to secure incremental orders for the remainder of the year will be crucial for maintaining the orderbook level. Nevertheless, the profitability of the contracts remains inherently thin.

Going forward, the addition of new projects and steady execution of the pending order book, enhancement of the scale of operations, and sustenance of the profit margins amid competitive pressures will remain the key rating sensitivities.

## Outlook: Stable

ICRA believes that the NGSL will continue to benefit from its established operational track record in the industry and sizeable order backlog, which provides revenue visibility. The outlook may be revised to Positive in case of substantial growth in revenues and profitability, and sizeable fresh order inflow. The outlook may be revised to Negative if cash accrual is lower than expected, there are pressures on fresh order inflow and profitability, or stretch in the working capital cycle weakens liquidity.

## Key rating drivers

### Credit strengths

**Established operational track record** – NGSL has an established operational track record with extensive experience of the management/guidance from parent companies in the power sector.

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

**Sizeable order backlog provides revenue visibility** – NGSL's sizeable pending order book of around Rs. 390 crore as on August 2018, provides revenue visibility for the medium term. The clientele includes reputed Central and state level Government sector undertakings.

**Comfortable capital structure and liquidity position** – The company's liquidity is supported by sizeable cash balances, no debt repayment liability and low working capital intensity. It does not have any major debt-funded capex plans over the medium term. NGSL remains a debt-free company.

**Stable demand outlook** – The demand outlook for the industry is likely to remain favourable owing to significant potential for rehabilitation, renovation and modernisation of coal-based power stations as well increasing focus on stringent emission norms.

### Credit challenges

**Moderate scale of operations** – The company is a relatively moderate-sized player, with focus on the lower segment of the power sector value chain. This is reflected by volatility in revenues owing to dependence of order execution on shutdown schedule of power plants. However, the company has a sizeable order backlog and has bid for large projects, which is likely to support future revenue growth.

**Low profit margins** – The profit margins remain thin, given the nature of operations, intense competition and inability to fully pass on cost escalations to the client. This, coupled with revenue growth moderation, resulted in sizeable losses for the company in FY2018.

**Intense competition limits pricing flexibility** – Considering the nature of business, the company faces stiff competition, which limits its pricing flexibility.

**Order book concentration** – The existing order book is highly concentrated on a single large project, which accounts for ~80% of the total order backlog. Any delay in execution can result in revenue moderation and exert pressure on the company's profitability.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

**About the company**

NGSL (erstwhile NTPC - ALSTOM Power Services Private Limited) is a joint venture (JV) of two leading power sector players, namely NTPC Ltd., India and ALSTOM Power Systems GmbH. In 2015, the power business of the ALSTOM Group was taken over by General Electric Company (GE) and consequently the shareholding of ALSTOM Group in the JV was transferred to GE and the name of the company was changed in February 2017. Both the JV partners hold a 50% stake each in the company. NGSL was incorporated in September 1999 and commenced operations in April 2000 and is involved in providing rehabilitation, renovation and modernisation (R&M) services and related operation and maintenance services to power plants in India as well as other SAARC (South Asian Association for Regional Cooperation) countries. 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.

In FY2018, the company reported a net loss of Rs. 14.4 crore on an operating income (OI) of Rs. 62.8 crore compared with a net profit of Rs. 0.9 crore on an OI of Rs. 243.7 crore in the previous year.

**Key financial indicators (audited)**

	FY2017	FY2018
Operating Income (Rs. crore)	243.7	62.8
PAT (Rs. crore)	0.9	-14.4
OPBDIT/ OI (%)	Negative	Negative
RoCE (%)	17.5%	Negative
Total Debt/ TNW (times)	-	-
Total Debt/ OPBDIT (times)	-	-
Interest Coverage (times)	Negative	Negative

Source: *Company*

**Status of non-cooperation with previous CRA: Not applicable**
**Any other information: None**

## Rating history for last three years

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating October 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					Jan 2018	Oct 2016	Sep 2015
1 Fund based- Working Capital Facilities	Long Term	1.50	-	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2 Non-fund based – LC/BG/STL	Short Term	149.50	-	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based- Working Capital Facilities	-	-	-	1.50	[ICRA]A+(Stable)
NA	Non-fund based – LC/BG/STL	-	-	-	149.50	[ICRA]A1

Source: NTPC GE Power Services Private Limited

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