February 06, 2020

NTPC GE Power Services Private Limited (erstwhile NTPC ALSTOM Power Services Private Limited): [ICRA]A+(Stable)/[ICRA]A1 assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Working Capital Facilities	1.50	31.50	[ICRA]A+ (Stable); assigned/outstanding
Non-fund based - LC/BG	149.50	419.50	[ICRA]A1; assigned/outstanding
Total	**151.00**	**451.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in NTPC GE Power Services Private Limited's (NGSL) established execution track record in the industry, and its strong parentage – NTPC Limited (NTPC[1]) and GE Power Systems Gmbh (subsidiary of General Electric Company; GE[2]). Additionally, improved order inflow in the current fiscal has resulted in a sizeable unexecuted order book of ~Rs. 277 crore as on December 2019, which provides revenue visibility for the medium term. Moreover, 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 single client, i.e. NTPC (for multiple projects), and a single project 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 remained debt free in the recent years with comfortable debt protection metrics. However, with a change in order mix, if any, the level of funding requirements will drive the future debt levels and liquidity position.

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[1] *rated [ICRA]AAA(Stable)/[ICRA]A1+*

[2] *rated Baa1 (Stable) by Moody's Investors Service*

Key rating drivers

Credit strengths

Established operational track record – 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.

Strong parentage – NGSL benefits from its strong parentage – NTPC and GE (through GE Power Systems Gmbh) – both of which are well-established players in the power industry.

Sizeable unexecuted order book provides revenue visibility – NGSL's sizeable pending order book of around ~Rs. 277 crore as on December 2019, provides revenue visibility for the medium term. The clientele includes reputed Central and state level government sector undertakings.

Comfortable capital structure – Funding support from high creditors levels, customer advances and no debt-funded capex in the past 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 mix of new orders secured by the company, given that it has started bidding for orders in new segments as well.

Steady demand outlook – The industry demand outlook is likely to remain stable owing to significant potential for rehabilitation, renovation and modernisation of coal-based power plants as well increasing focus on stringent emission norms. Moreover, the company has now also started bidding for projects in new segments – flue gas desulfurisation, waste to energy, solar power, etc., which is also likely to support future order inflow

Credit challenges

Moderate scale of operations with volatility in revenues – The company is a relatively moderate-sized player and has witnessed volatility in revenues, owing to variability in the level of order inflow as well as dependence of order execution on the shutdown schedule of power plants. Some revenue growth moderation for NGSL is likely in the current fiscal, after the healthy revenue growth in FY2019.

Low profit margins – 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.

Elevated funding requirements due to high receivable levels – The funding requirements of the business have increased because of higher project execution and an increase in debtor levels (largely due to build-up of retention money). However, the same is largely being funded through high creditor levels. Moreover, recovery of retention money is anticipated over the medium term with completion of some ongoing projects that are nearing completion.

Order book concentration – NGSL's existing order book is primarily concentrated with a single client – NTPC (for multiple projects) and a single project accounting for ~67% and ~60% of the unexecuted order book, respectively. However, the strong counterparty profile largely alleviates concerns on credit risk. Moreover, in the current fiscal, the company has secured new orders from other clients, reducing the concentration to some extent. Going forward, the order mix will drive the order book concentration.

Liquidity position

The company's liquidity is **adequate**, supported by free cash balances (Rs. 10.4 crore as on December 31, 2019), 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 mobalisation advances and credit from vendors will drive the liquidity position.

Rating sensitivities

Positive triggers – With the current scale of operations, volatile and modest operating margin and modest net worth base, an upgrade in ratings is unlikely. However, any material change in business mix that can result in a significant increase in scale and profit margin, without any major increase in debt levels on a sustained basis, and diversification of the client base can trigger a rating improvement.

Negative triggers – NGSL's ratings could be downgraded if there is a considerable decline in 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 the 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	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating
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 and 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.

In FY2019, the company reported a net profit of Rs. 2.9 crore on an operating income (OI) of Rs. 231.8 crore compared to a net loss of Rs. 14.4 crore on an OI of Rs. 62.8 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	62.8	231.8
PAT (Rs. crore)	-14.4	2.9
OPBDIT/ OI (%)	-28.9%	2.1%
RoCE (%)	-78.5%	46.8%
Total Outside Liabilities/Tangible Net Worth (times)	14.8	10.4
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	- 5.4	5.1
DSCR	- 3.8	4.9

Source: *Company*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)					Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Rating		FY2019	FY2018	FY2017
	Instrument				6-Feb-2020	25-Nov-2019	12-Oct-2018	30-Jan-2018	3-Oct-2016
1	Fund based-Working Capital Facilities	Long Term	31.50	-	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Negative)	[ICRA]A+(Stable)
2	Non-fund based – LC/BG	Short Term	419.50	-	[ICRA]A1	[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

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	-	-	-	31.50	[ICRA]A+(Stable)
NA	Non-fund based – LC/BG	-	-	-	419.50	[ICRA]A1

Source: NTPC GE Power Services Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
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About ICRA Limited:

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