

March 30, 2023

## NTPC GE Power Services Private Limited (erstwhile NTPC ALSTOM Power Services Private Limited): Ratings reaffirmed; Rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – working capital facilities	40.50	45.50	[ICRA]A+ (Stable); reaffirmed/assigned
Short-term – non-fund based limits	359.50	454.50	[ICRA]A1 reaffirmed/assigned
Short Term-Unallocated	51.00	1.00	[ICRA]A1 reaffirmed
<b>Total</b>	<b>451.00</b>	<b>501.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation factors in healthy revenue visibility for the company driven by the ongoing Operations & Maintenance (O&M) contracts being executed for Bharat Aluminum Company Limited (BALCO, rated [ICRA]AA+ (Stable)/[ICRA]A1+) and Vedanta Limited's Jharsuguda plant along with the receipt of the Balance of Plant (BoP) supply and O&M contract for 325 MW Shajapur plant of 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 (NTPC<sup>1</sup>) and General Electric Company (GE<sup>2</sup>, through GE Power India Limited<sup>3</sup>). ICRA factors in the support from NTPC Limited as has been indicated by the parent in terms of managerial as well as financial support even in a scenario of absence of support from the Joint Venture partner.

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 ~98% value of the order book as on December 31, 2022, concentrated on top three clients i.e. BALCO, Vedanta and NTPC Limited including its group companies. The funding requirements of the business have increased on the back of higher project execution and high outstanding receivables, although the same has improved to some extent with the release of the 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. ICRA also notes that a part of the company's billing towards O&M contracts is being held back against the Liquidated Damages (LD) charges due to inability to meet the agreed Key Performance Indicators (KPIs). While in case of BALCO, there has been reversal of the LD charges to a large extent, the levy of LD charges in case of Vedanta is expected to result in moderation in the profitability in FY2023. The company remains in discussion with the customers for the renegotiation of the KPIs as the same as per the initial agreement remain too stringent. While the profitability from the O&M contracts is expected to be lower than the earlier expectations, the execution of the BoP contract will support cash generation and profitability going forward.

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

<sup>2</sup> rated by Moody's Investor Services Baa1 (Negative),

<sup>3</sup> rated [ICRA]A- (Negative)/[ICRA]A2+

The Stable outlook on the long-term rating reflects ICRA's opinion that NGSL will continue to benefit from its strong parentage and revenue visibility from the current order book.

## Key rating drivers and their description

### 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 operations and maintenance services, largely to thermal power plants.

**NGSL benefits from its strong parentage** - 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. ICRA factors in the support from NTPC Limited as has been indicated by the parent in terms of managerial as well as financial support even in a scenario of absence of support from the Joint Venture partner.

**Major O&M orders (to be executed over the next 4-5 years) provide revenue visibility in 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 increase the revenues materially in FY2024. 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, although the same is expected to fructify over a longer term. 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 in the near term** - 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 with top three customers constituting ~98% of outstanding order book:** NGSL's current order book comprises of orders from three customers only to the extent of 98%. The entities include BALCO, Vedanta and NTPC Renewable Energy Limited. The company derived ~95% of its revenue from the O&M contracts with BALCO and Vedanta in 9M FY2023. While the order book remains concentrated amongst few customers, the strong counterparty credit profile partly mitigates the risks associated with the same.

**Elongated receivable cycle although witnessing improvement slowly** - 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, with 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. 20 crores as on December 31, 2022, and largely unutilized fund-based limits of Rs. 45.5 crore as on December 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 the expectation of a shorter payment cycle from the O&M contracts will support the liquidity position of the company.

## 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 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 inflow, or reduction in profit margins and cash flow generation. Moreover, increase in working capital intensity with a change in order mix, leading to significant reliance on external debt and material deterioration of debt protection metrics could also lead to a ratings downgrade. Deterioration in the credit profile of NTPC and/or weakening of the linkages with NTPC could also lead to a rating 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 Company: NTPC Limited & General Electric Company (thorough GE Power India Limited) Ratings are based on implicit support from NTPC Limited, primarily in the form of technological and financial support given the close involvement of NTPC Limited in management and the intent indicated to support the entity. The support is expected to manifest even in case of the support not coming in from the JV partner.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of NGSL

## 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 Standalone	FY2021	FY2022
Operating income	125.7	269.8
PAT	(2.7)	4.0
OPBDIT/OI	-3.3%	3.8%
PAT/OI	-2.2%	1.5%
Total outside liabilities/Tangible net worth (times)	9.1	12.3
Total debt/OPBDIT (times)	(0.1)	0.1
Interest coverage (times)	(2.4)	3.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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	
					30-Mar-23	28-Jun-22	14-Apr-21	-	6-Feb-20	25-Nov-19
1	Fund based working capital facilities	Long Term	45.50	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non Fund based	Short Term	454.50	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	[ICRA]A1	[ICRA]A1
3	Unallocated	Short Term	1.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based working capital facilities	Simple
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: [Click Here](#)

#### 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	45.50	[ICRA]A+(Stable)
NA	Short-term – non-fund based limits	NA	NA	NA	454.50	[ICRA]A1
NA	Short term-Unallocated	NA	NA	NA	1.00	[ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

#### Annexure II: List of entities considered for consolidated analysis-NA

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### Branches



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