ACRA

CORPORATE SECTOR

MACHINERY & EQUIPMENT

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ACRA ASSIGNS A-(RU) TO NEW TECHNOLOGIES LLC, OUTLOOK STABLE

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PRESS RELEASE

The credit rating of New Technologies LLC (hereinafter, NT, or the Company) is based on its very strong business profile and medium market positions, geographic diversification and corporate governance. The financial risk profile assessment reflects the Company's very high profitability, strong coverage, medium assessments of leverage and liquidity, weak cash flow, and small size.

NT specializes in developing, manufacturing, sales, and servicing submersible equipment used in oil production. The Company's manufacturing assets with the monthly capacity of up to 600 electric submersible pumps (ESP) are located in Chistopol and Almetievsk. Maintenance and repair services are provided in five service centers in Russia (Nefteyugansk, Nizhnevartovsk, Gubkinsky, Noyabrsk, Buzuluk) and two service centers abroad (Columbia, Ecuador).

KEY ASSESSMENT FACTORS

Medium market position. The Company is a successful player in the Russian ESP market and one of the three largest Russian ESP manufacturers. Over the past three years, NT's market share has been steadily growing and, according to the Company's estimates, amounted to about 22% in 2022. The NT production line includes a wide list of names and standard sizes of ESPs and ancillary equipment. The Company's products are sold or leased including full technical support and maintenance services.

The strong business profile is based on the consistent contract base, which exceeds the Company's annual revenue and includes contracts for the supply of equipment, lease, maintenance and repair of various support level, as well as a strong production base with a wide range of process operations (foundry, machining, stamping). Some components are purchased from an affiliated company or third-party manufacturers, but the Company retains a high share of its own components in the prime costs of finished products. Stable demand is due to the large number of oil wells operated using ESP systems.

The geographic diversification assessment is medium as it takes into account the low volume of exports (less than 5% of revenue). Delivery destinations include the countries of South America and the CIS. NT plans to further develop and expand its exports aiming to increase the share of export revenue to 15%. In the Russian market, the Company operates mainly in the Khanty-Mansiysk Autonomous Okrug-Ugra and Yamalo-Nenets Autonomous Okrug.

Medium level of corporate governance. The Company has approved a development strategy until 2028, which defines the main directions and targets for the further development and revenue growth, including an increase in the share of contracts that include rental/lease and maintenance services, as well as an increase in the share of export revenue. The risk

management system includes a risk committee, risk management policy, and a map of the key risks that is regularly updated. The currency risk is minimal due to the absence of a currency component in the prime costs and a low share of export sales. There is no board of directors, and NT is managed by the sole executive body. The structure of the group is transparent and simple, as it includes one legal entity that manufactures and sells finished products. At the same time, the Company transacts with affiliated companies, which is economically justified. NT's financial statements are prepared in accordance with the Russian Accounting Standards.

The very high profitability and below-medium size of the Company. Over the past three years, NT has demonstrated stable and high revenue growth rates and very high profitability. In 2022, the Company's revenue amounted to RUB 12.9 bln (an increase of 56.4% against 2021), FFO before net interest and taxes to RUB 2.9 bln, and the FFO before net interest and taxes margin to about 22.5%. In the forecast period, the Agency expects a further smooth increase in FFO before net interest and taxes margin due to the continued increase in the share of lease and maintenance services in the Company's revenue structure. In Q1 2023, the revenue increased by 123.5% y-o-y and amounted to RUB 4.7 bln.

Leverage and coverage assessments. The ratio of total debt to FFO before net interest for 2022 was 2.4x. The Company's debt obligations include various instruments (loans, bond, leases) dominated by bank loans (about 60%) with good diversification by lender. The obligations are fixed-rate and floating-rate instruments denominated in rubles. The coverage (the ratio of FFO before net interest to interest) was about 4.9x in 2022. In the forecast period, the Agency expects the indicator to improve due to the growth of FFO before net interest.

Medium liquidity and weak cash flow. The Company's free cash flow (FCF) in 2020–2022 was negative, as the Company was fast growing and needed to finance working capital and to fund its annual capex. FCF margin in 2022 was -7.8%, and the weighted FCF margin for 2020–2025 is about -3.8%. The Company has a sufficient amount of committed credit lines and may borrow on public markets.

KEY ASSUMPTIONS

- Production volume in line with the Company's business plan.
- No dividend payments.
- Capex in line with the Company's business plan.

POTENTIAL OUTLOOK OR RATING CHANGE FACTORS

The **Stable outlook** assumes that the rating will highly likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- FCF margin exceeding 5%;
- Weighted average ratio of total debt to FFO before net interest falling below 2.0x and weighted average ratio of FFO before net interest to interest exceeding 8.0x and positive FCF margin.

A negative rating action may be prompted by:

- Weighted average ratio of FFO before net interest to interest falling below 5.0x;
- Weighted average ratio of total debt to FFO before net interest exceeding 3.5x;
- Weighted average FFO before interest and taxes margin declining below 15%;

- Declining liquidity;
- Shrinking contract base.

RATING COMPONENTS

Standalone creditworthiness assessment (SCA): **a-**.

Support: none.

ISSUE RATINGS

No outstanding issues have been rated.

REGULATORY DISCLOSURE

The credit rating has been assigned to New Technologies LLC under the national scale for the Russian Federation based on the Methodology for Credit Ratings Assignment to Non-Financial Corporations under the National Scale for the Russian Federation and the Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities.

A credit rating has been assigned to New Technologies LLC for the first time. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The credit rating was assigned based on data provided by New Technologies LLC, information from publicly available sources, and ACRA's own databases. The credit rating is solicited and New Technologies LLC participated in its assignment.

In assigning the credit rating, ACRA used only information, the quality and reliability of which were, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no additional services to New Technologies LLC No conflicts of interest were discovered in the course of credit rating assignment.

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