Nelco Ltd.

February 11, 2021

Rating

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long Term / Short Term Bank Facilities	-	-	Reaffirmed and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed and Withdrawn
Total Bank Facilities	**0.00**		

Detailed Rationale and Key Rating Drivers

CARE has reaffirmed the ratings assigned to the bank facilities of Nelco Limited to CARE A/Stable/CARE A1 and has simultaneously withdrawn them, with immediate effect. The rating reaffirmation continues to factor in the improved operational performance during FY20 contributed majorly by Network segment comprising of Satcom Services (Including equipment sale, maintenance and allied services on account of increase in application of Very Small Aperture Terminal (VSAT) services across various segments such as Oil & Gas exploration, Banking & Finance, network services in remote locations. The ratings also factor strength derived from experienced management, the company being part of strong promoter entity i.e. Tata Power Company Limited (TPCL, rated CARE AA, Stable), strong presence in niche area of VSAT services and expected improvement in overall performance with the commissioning of Inflight and Maritime communication services (IFMC services) and Aero-inflight connectivity services during FY20.

The ratings are however tempered by small scale of operations of Nelco in niche VSAT industry, high gearing levels, moderate coverage indicators, working capital intensive operations, regulatory risk as well as technology obsolescence risk.

The rating withdrawal is at the request of the Company (both Nelco Ltd and wholly owned subsidiary Tatanet Services Ltd.) and 'No Objection Certificate'/ No Dues Certificate received from the lenders that have extended the aforementioned facilities, rated by CARE.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and experienced promoters: Nelco is a part of the Tata Group, with the group holding 50.09% [which includes about 48.64% stake owned by The Tata Power Company Limited (TPCL, rated CARE AA; Stable)] as on December 31, 2020 thereby imparting significant financial flexibility. Mr. Ratan Tata continues to be Chairman Emeritus in Nelco as on May 16, 2020 along with experienced management team which includes Mr. R.R. Bhinge (Chairman) and Mr. P.J. Nath (Managing Director & Chief Executive Officer).

Strong presence in the niche area of VSAT services: The Company has apx. 24% share of the total installed base of Satcom terminals in the industry. The VSAT services are offered under license from Department of Telecom (DoT), Govt. of India. The operators need to lease satellite transponder space only from Antrix Corporation Ltd. ("Antrix"), a part of ISRO (a Govt. of India Company under Dept. of Space). The VSAT service caters to Wide Area Networking requirements for B2B customers using satellite as the medium of transmission. The VSAT service in India is still a niche play, mainly used by the business customers for reliable connectivity in the remote areas. TNSL is one of the leading service providers to offshore Oil & Gas exploration segment and has a major presence in the BFSI as well as Manufacturing segment. SatCom service providers with VSAT license are required to set up satellite gateways in India for providing their services. Nelco currently has multiple satellite gateways in Mahape and Dehradun. During the year, post receipt of IFMC licence from Department of telecommunication by TNSL, the Company launched maritime and Aero inflight communication services. The IFMC policy allows voice and Internet services on aircraft while flying over Indian skies and on ships while sailing in Indian waters, through satellite gateways in India. Accordingly, the Company has augmented its infrastructure including additional Satellite transponder capacities for delivering the IFMC services. IFMC services are expected to have huge potential in the country with opportunities to serve markets beyond India.

Strong operational and financial risk profile albeit increased leverage and working capital intensive operations: Network system is the principal business activity contributing major revenue of the Company on consolidated basis. It comprises sale of Very Small Aperture Terminals ("VSAT") hardware and providing allied services consisting of network management, project management, infrastructure services, turnkey solutions for satellite communication systems, and co-location services to customers. Wholly owned subsidiary of Nelco Ltd, TNSL holds the VSAT license and earns the revenue from the sale of VSAT communication services, which is recurring in nature. Almost 80% of operating income in FY20 is from sale of services. The operating revenues have improved by ~14% in FY20 over FY19 with PBILDT margins improving from 19.69% in FY19 to

22.80% in FY20. However, due to increase in total debt, the overall gearing has deteriorated in FY20 to 1.89x as against 1.52x in FY19. The operations of the Company continue to remain working capital intensive with high Gross Current Asset days at 180 days and average receivable days being 107 days in FY20. The operating cycle during the year is partly moderated due to credit period offered by equipment suppliers with avg creditor days at 78 days. With increase in interest cost during the year, PBILDT interest coverage has reduced from 5.17x in FY19 to 3.81x in FY20. However, the total debt has been reduced in H1FY21.

Due to Covid-19, although the Company continued to provide VSAT connectivity and maintenance services and VSAT equipment on lease, however deployment of new VSATs was lower than previous year due to slower economic revival across various sectors and restriction in movement. Further, both maritime and aero sectors have been impacted by Covid-19 and are likely to take atleast 1 year to return back to normalcy. Considering revival of economic activity in the Q3FY21 and improvement in customer order flow, the consolidated operating performance of the Company in 9MFY21 was in line with 9MFY20 at around Rs 160 crore. The PBILDT margin has reduced by 200bps majorly due to higher transponder charges paid during the 9 month period.

Industry Outlook: Though fresh SatCom deployments have been impacted due to COVID-19 crisis, the fundamentals of many of the sectors like ATM, Renewable Energy, Oil Retail, Education, etc. seem to be intact. The Company believes that the adoption of services by the Indian aviation sector is likely to get subdued in the next one year due to the current headwinds faced by the sector, though the long-term potential in this sector remains high considering that India has one of the fastest growing markets in the world. The impact of the pandemic on the operations of this sector will however need to be watched.

Key Rating Weaknesses

Technology Risk and Regulatory Risk: Nelco is dependent on limited technologies for hardware. Any obsolescence of technology poses a risk for the operations. The VSAT services are regulated by DoT and the licenses are given for shared hub services based on the SATCOM policy of the country. Any major change in the Govt. regulations pertaining to SATCOM policy and/or VSAT services also pose a threat to the sector. However, company has adequate technological tie-ups with various global companies which partially offsets this risk.

Liquidity: Adequate

The cash and cash equivalent position of Nelco Limited on a consolidated basis as on September 30, 2020 stood at Rs 9.88 crore.

Analytical approach: Consolidated

CARE has adopted a consolidated approach while analyzing the credit profiles of NELCO and its wholly owned subsidiaries TNSL on account of strong operational and business linkages among entities. The licenses for VSAT services are in the name of Tatanet Services Limited whereas the equipment is supplied by Nelco. These entities also share a common treasury and are under a common management.

Applicable Criteria

Policy on Withdrawal of ratings
Criteria on assigning Outlook and credit watch to Credit Rating
Criteria for Short Term Instruments
CARE's default recognition policy
Financial ratios - Non Financial Sector
Rating Methodology - Infrastructure Sector
Rating methodology- Factoring Linkages

About the company

Nelco Limited (Nelco) is part of the Tata group with TPCL holding 48.64% and combined group holding of 50.09% as on December 31, 2020. The company is one of the leading VSAT service providers in India and offers satellite communication services to both government and enterprise customers across different industry segments. All the requisite licenses for VSAT services are owned by wholly owned subsidiary of Nelco Limited, Tatanet Services Ltd (TNSL), whereas the equipment is supplied by Nelco. Post receipt of Inflight and Maritime Communication license from DOT, the Company has launched maritime communication services and aero in-flight connectivity services in FY20.

The Company is in the process of internal restructuring of its various businesses and its two wholly owned subsidiaries –TNSL and Nelco Network Products Limited (NNPL) under a composite Scheme of Arrangement and Amalgamation (Scheme) which is subject to various regulatory approvals which are still awaited. In the first phase of the Scheme Nelco will transfer its two businesses to NNPL on a going concern basis by way of slump sale. In the second phase, TNSL will amalgamate with Nelco.

Post the said restructuring, the VSAT Communication service business will be in Nelco, which is the listed parent entity and the related equipment business will be in NNPL.
During FY20, Nelco sold its investments in Nelito Systems Limited (associate company), which was classified as assets held for sale in FY18.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	FY20 (A)
Total Operating Income	151.59	193.92	221.33
PBILDT	26.25	38.18	50.47
PAT	12.11	22.29	14.38*
Overall Gearing (times)	1.48	1.47	1.89
Interest coverage (times)	4.43	5.17	3.81

A: Audited; The financials have been reclassified as per CARE's internal standard
**including exception gain amounting to Rs 1.15 crore on sale of an associate Company (Nelito Systems Ltd.) during the year.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - ST-Term loan	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	-	-	-	1)CARE A; Stable / CARE A1 (14-Nov-19) 2)CARE A; Stable / CARE A1 (05-Apr-19)	-	1)CARE A; Stable / CARE A1 (16-Mar-18)
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A; Stable (14-Nov-19) 2)CARE A; Stable (05-Apr-19)	-	1)CARE A; Stable (16-Mar-18)
3.	Fund-based - ST-Term loan	ST	-	-	-	1)CARE A1 (14-Nov-19) 2)CARE A1 (05-Apr-19)	-	1)CARE A1 (16-Mar-18)
4.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (05-Apr-19)	-	1)CARE A; Stable (16-Mar-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Fixed Asset Coverage ratio	Fixed Asset Coverage ratio to remain at 1.17x
Ii Net Debt/EBITDA	Consolidated Net Debt to EBITDA to remain <4.0 upto FY20 and 3.0x after FY20
Iii DSCR	Consolidated DSCR to remain >1.1x
Iv Networth	Standalone Networth to remain positive at all point in time
B. Non-financial covenants	
I Minimum shareholding	Tata Power Company Ltd to hold minimum shareholding of 45% and overall Tata group shareholding should not be less than 50%

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - ST-Term loan	Simple
3.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6754 3573
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Rajashree Murkute
Group Head Contact no.- 022-6837 4474
Group Head Email ID- rajashree.murkute@careratings.com

Relationship Contact
Name: Saikat Roy
Contact no. : +91-22-6754 3404
Email ID : saikat.roy@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**