

NELCO Limited

April 05, 2019

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|--|--|--|---------------|
| Long term / Short Term bank facilities | 50.44 (Enhanced from Rs 30.64 crore) | CARE A; Stable/ CARE A1 (Single A; Outlook: Stable/ A One) | Reaffirmed |
| Long term bank facilities | 159.60 (Enhanced from Rs 99.40 crore) | CARE A; Stable (Single A; Outlook : Stable) | Reaffirmed |
| Short Term bank facilities | 45 (Reduced from Rs 65.00 crore) | CARE A1 (A One) | Reaffirmed |
| Total facilities | 255.04 (Rs. Two hundred fifty five crore and Four Lakhs Only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has taken the consolidated approach while analyzing the credit profiles of Nelco Limited (Nelco) and its wholly owned subsidiary Tatanet Services Limited (TNSL) as these companies have strong operational and business linkages, share a common treasury and are under a common management.

The reaffirmation in the ratings on the bank facilities of Nelco factors in the improvement in operation and financial performance on account of increase in application of Very Small Aperture Terminal (VSAT) services across business segments like Oil & Gas exploration and marketing at remote locations thereby providing growth opportunities for Nelco and TNSL coupled with restrained business operations in loss making working capital intensive Integrated Security & Surveillance Solutions (ISSS) business segment. The ratings continue to factor in experienced management, the company being part of strong promoter entity i.e. Tata Power Company Limited (Rated CARE AA, Stable), strong presence of company in niche area of VSAT services and positive industry outlook

The ratings are however constrained by the high gearing levels (albeit materially improved in FY18) and small scale of operations of Nelco in niche VSAT industry.

Continued improvement in business operations and profitability (vis a vis industry growth) is the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters: Nelco is a part of the Tata Group, with the group holding 50.09% as on December 31, 2018. Mr. Ratan Tata is Chairman Emeritus in Nelco. Nelco is led by experienced management team which includes Mr. P.J. Nath and Mr. R.R. Bhinge.

Strong presence in the niche area of VSAT services: The VSAT services are offered under license from Department of Telecom, 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 leading

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

service provider to offshore Oil & Gas exploration segment and has a major presence in the BFSI as well as Manufacturing segment.

Improving financial risk profile: During FY18, Nelco's income from operations increased by around 4% on y-o-y basis. PBILDT margin improved to 17.32% as against 12.98% in FY17. The profitability increased in FY18 mainly on account of 1) increase in profitability from network business, 2) reduction in losses from ISSS business. The overall gearing improved materially in FY18 from 2.59x to 1.48x. The debt coverage indicators are comfortable with interest coverage of 4.42 and total debt/GCA of 2.27 years.

Positive industry Outlook: The VSAT market is at an inflection point in India. The VSATs continue to be the most preferred mode of data communication in the B2B segment in remote and rural locations due to its ability to offer predictable and high availability services at same price points as the metro locations. The growing need for expanding to remote locations for sectors like Banking which needs to reach out to the unbanked locations, Oil & Gas, Renewable Energy, Mining etc. gives the boost to the VSAT business in the country. With Government of India opening up aero & maritime communication sector to private players, the industry is poised to grow significantly in coming years .

Key Rating Weaknesses

Small scale of operations: Nelco is focused to operate in niche VSAT industry where the numbers of players are few. The company has a small scale of operations with revenues of Rs. 152 crore on consolidated basis. However, the Company is market leader in providing VSAT services to Oil & gas exploration sector and also has significant presence in banking and manufacturing sector too.

Technology Risk and Regulatory Risk: The Company 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 could also pose a threat.

Analytical approach

The licenses for VSAT services are in the name of TNSL whereas the equipment is supplied by Nelco. The companies have strong operational and business linkages, share a common treasury and are under a common management. CARE has taken the consolidated approach while analyzing the credit profiles of NELCO and its wholly owned subsidiary TNSL.

Liquidity analysis: The company has cash and bank balances of Rs. 3.97 crore on consolidated basis on March 31, 2018. The fund based utilization level is low at 16.3% while non-fund based utilization level is moderate at ~ 67%.

Applicable Criteria

[Rating Methodology - Infrastructure Sector](#)
[Financial ratios – Non-Financial Sector](#)
[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[Rating Methodology: Factoring Linkages in Ratings](#)

About the Company

Nelco Limited (Nelco) is part of the Tata group with The Tata Power Company Limited (TPCL, rated CARE AA; Stable) holding 48.64% and combined group holding of 50.09%. Nelco has two business lines namely: 1) Network Systems: VSAT Equipments and Bandwidth (satellite bandwidth services are provided through its wholly owned subsidiary, Tatanet Services Limited) and 2) Automation & Control: Integrated Security & Surveillance Solutions (ISSS). The company is amongst the top 3 VSAT service providers in India.

Tatanet Services Limited (TNSL), a wholly owned subsidiary of Nelco Limited provides satellite bandwidth services for VSAT. All the requisite licenses for VSAT services are owned by TNSL whereas the equipment is supplied by Nelco.

The Company is in the process of internal restructuring of its various businesses and its two wholly owned subsidiaries – Tatanet Services Limited (TNSL) and Nelco Network Products Limited (NNPL). under a composite Scheme of Arrangement and Amalgamation (Scheme) which is subject to various Regulatory approvals. Currently TNSL holds the VSAT license and has the revenue from the sale of VSAT communication services, which is recurring in nature. The revenue earned by Nelco comprise mainly of one-time sale of VSAT equipment and recurring revenue from equipment maintenance services.

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. These businesses are (a) ISSS and (b) sale and maintenance of VSAT and related equipment. 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. The VSAT license will be transferred from TNSL to Nelco.

Following are the brief financials of Nelco (Consolidated):

| Brief Financials (Rs. Crore) | FY17 (Audited) | FY18 (Audited) |
|-----------------------------------|----------------|----------------|
| Income from Continuing Operations | 145.63 | 151.59 |
| PBILD | 18.90 | 26.25 |
| PAT | 6.28 | 12.11 |
| Overall Gearing | 2.59 | 1.48 |
| Interest coverage (times) | 2.22 | 4.43 |

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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

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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.

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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 | - | - | - | 50.44 | CARE A; Stable / CARE A1 |
| Fund-based - LT-Term Loan | - | - | April 2023 | 159.60 | CARE A; Stable |
| Fund-based - ST-Term loan | - | - | - | 45.00 | CARE A1 |

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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC | LT/ST | 50.44 | CARE A; Stable / CARE A1 | - | 1)CARE A; Stable / CARE A1 (16-Mar-18) | 1)CARE A- / CARE A2+ (14-Dec-16) | - |
| 2. | Fund-based - LT-Term Loan | LT | 159.60 | CARE A; Stable | - | 1)CARE A; Stable (16-Mar-18) | 1)CARE A- (14-Dec-16) | - |
| 3. | Fund-based - ST-Term loan | ST | 45.00 | CARE A1 | - | 1)CARE A1 (16-Mar-18) | 1)CARE A2+ (14-Dec-16) | - |

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