

Nelco Limited

March 16, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term / Short Term bank facilities	30.64	CARE A; Stable/ CARE A1 (Single A; Outlook: Stable/ A One)	Revised from CARE A- / CARE A2+ (Single A Minus/ A Two Plus)
Long term Term bank facilities	99.40	CARE A; Stable (Single A; Outlook : Stable)	Revised from CARE A- (Single A Minus)
Short Term bank facilities	65.00	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total facilities	195.04 (Rs. One Hundred Ninety-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 revision in the ratings on the bank facilities of Nelco and TNSL factors in the improvement in operation and financial performance on account of restrained business operations in loss making working capital intensive Integrated Security & Surveillance Solutions (ISSS) business segment and increase in application of VSAT services across business segments like Oil & Gas exploration and marketing at remote locations thereby providing growth opportunities for Nelco and TNSL.

The company's PBILDT margins improved to 14.52% for the 12 months period as on March 31, 2017 from 12.48% for the 18 months period ending March 31, 2016. Furthermore, the company reported PBILDT margin of 18.31% as on Dec 31, 2017 as against 16.11% as on December 31, 2016.

The ratings continue to factor in the strong parentage of The Tata Power Company Limited (TPCL, rated CARE AA; Stable), and the financial flexibility available to Nelco by virtue of being a Tata group company as reflected in the financial support it receives in the form of Inter Company Deposits (ICDs) from other group companies of the group.

The ratings are however constrained by the high gearing levels and small scale of operations of Nelco in niche VSAT industry.

Continued parentage and support from the Tata Group and continued improvement in business operations and profitability are the key rating sensitivities.

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, 2017. 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.

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

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 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: Nelco had increased its focus in Network segment (VSAT and Satcom business) and restrained its operations in ISSS business segment which led to improved profitability as the ISSS business was a drag on its profitability and operating cycle.

Following table shows the financial performance of Nelco:

(Rs. Crore)

Particulars	FY16 (18 months)	FY16 (annualized)	FY17	9MFY18
Income from operations	202.62	135.08	146.86	114.88
PBILDT	24.41	16.27	21.32	21.04
PAT	1.89	1.26	6.02	7.89
Gross Cash Accruals	12.8	8.53	14.04	14.92
Total Debt	84.99	56.66	56.59	49.51
Key Ratios				
PBILDT Margin	12.05%	12.05%	14.52%	21.19%
PBILDT Interest Coverage	1.86	1.86	2.51	4.93
PAT Margin	0.93%	0.93%	4.10%	8.37%
Total Debt/GCA	6.64	6.64	4.03	2.29 [^]
Overall gearing	5.54	-	2.73	1.64 [^]

[^]PBILDT and GCA Annualized

During FY17, Nelco's income from operations increased by around 9% on y-o-y basis and PBILDT margin improved to 14.52% as against 12.05% in FY16. The overall gearing though improved in FY17 continues to be on higher side. However, the debt coverage indicators are moderate with comfortable interest coverage of 2.51 and moderate total debt/GCA of 4.03 years. Also, during 9MFY18, Nelco had reported income from operations of around Rs.115 crore and PBILDT margin of 21.19%

Positive industry Outlook: VSATs are primarily used to transmit [narrowband](#) data (e.g., [point-of-sale](#) transactions using credit cards, polling or [RFID](#) data, or [SCADA](#)). The VSAT technology is best suited for low bandwidth, remote connectivity, very high reliability applications like ATMs, remotely located offices / factories / mines, maritime applications (including oil rigs), Airlines (high altitude) etc.

Such technology is essential for critical, real time data wherever they are located, even in remotest part of India, where terrestrial connectivity is either not available or if available, not reliable. There are multiple Enterprise segments which need reliable data connectivity services in remote locations due to their business critical needs thereby providing business opportunities for critical operations.

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. 147 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. Government of India is yet to open aero & maritime communication sector to private players. Once these sectors are opened for private players, the industry may significantly increase in its size and Nelco shall also benefit due to its expertise and present clientele.

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 3G and 4G services could also pose a threat if the services are rolled out across the country to cover the remote locations with high availability services; although this may not be very pronounced in the medium term considering high capex investment required for the same.

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.

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 had restricted its operations in the ISSS business. The Company refrained from addressing any new requirements in the market for ISSS business. It has focused in only fulfilling its obligations towards its existing customers, mainly in terms of warranty and AMC services. The decision to refrain from bidding for new projects was due to continued challenges of low margins, poor payment terms and delayed decision making by the customers.

The company has changed its accounting year to year ending March 31, 2016 and has reported its account for period of 18 months from October 01, 2014 to March 31, 2016. Earlier company had accounting cycle of October to September.

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.

Following are the brief financials of Nelco (Consolidated):

Brief Financials (Rs. Crore)	FY16 (18 months Audited)	FY17 (12 months; Audited)
Income from Continuing Operations	202.62	146.86
PBILDT	24.41	21.32
PAT	1.89	6.02
Overall Gearing	5.54	2.73
Interest coverage (times)	1.86	2.51

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	30.64	CARE A; Stable / CARE A1
Fund-based - LT-Term Loan	-	-	November 1, 2019	89.40	CARE A; Stable
Fund-based - ST-Term loan	-	-	-	65.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE A; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	30.64	CARE A; Stable / CARE A1	-	1)CARE A- / CARE A2+ (14-Dec-16)	-	-
2.	Fund-based - LT-Term Loan	LT	89.40	CARE A; Stable	-	1)CARE A- (14-Dec-16)	-	-
3.	Fund-based - ST-Term loan	ST	65.00	CARE A1	-	1)CARE A2+ (14-Dec-16)	-	-
4.	Fund-based - LT-Cash Credit	LT	10.00	CARE A; Stable	-	-	-	-

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