

Nelco Limited

November 14, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term bank facilities	144.60 (reduced from 159.60)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short-term bank facilities	60.00 (enhanced from 45.00)	CARE A1 (A One)	Reaffirmed
Long-term / Short-term bank facilities	50.44	CARE A; Stable/CARE A1 (Single A; Outlook: Stable/ A One)	Reaffirmed
Total facilities	255.04 (Rs. Two Hundred Fifty Five Core and Four Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to bank facilities of Nelco Limited factors in the improvement in operational and financial performance in FY19 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 as well as reduction in the losses of Integrated Security & Surveillance Solutions (ISSS) business. The ratings continue to derive strength 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.

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.

Rating Sensitivities

Positive Factors

- Remarkable increase in scale of operations with the improvement in operational and financial risk profile
- Improvement in overall gearing ratio below 1 on sustained basis

Negative Factors

- Any debt funded capex impacting coverage ratios as well as overall gearing
- Deterioration in Total debt to PBILDT ratio above 3 on sustained basis

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 September 30, 2019. Mr. Ratan Tata is Chairman Emeritus in Nelco. Nelco is led by experienced management team which includes Mr. R.R. Bhinge (Chairman) and Mr. P.J. Nath (Managing Director & Chief Executive Officer). Further, by virtue of being part of Tata Group, Nelco enjoys significant financial flexibility.

Strong presence in the niche area of VSAT services: 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 leading service provider to offshore Oil & Gas exploration segment and has a major presence in the BFSI as well as Manufacturing segment. Nelco currently has four satellite gateways in Mahape and one satellite gateway in Dehradun.

Improving operational and financial risk profile in FY19: 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. Nelco's income from operations at

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

consolidated level grew by around 27.92% on y-o-y basis from Rs. 151.59 crore in FY18 to Rs. 193.92 crore in FY19 on account of increase in revenue from network segment. The PBILDT margins have also improved from 17.32x in FY18 to 19.69x in FY19 due to increase in profitability from network business as well as reduction in losses from ISSS business. The overall gearing remained constant at 1.47x as on March 31, 2019 (PY: 1.49X as on March 31, 2018). The debt coverage indicators are however moderated but remained comfortable with total debt of GCA of 3.05 years as on March 31, 2019 (2.27 years as on March 31, 2018) mainly due to increase in debt and interest coverage has improved from of 4.43x in FY18 to 5.17x in FY19. During H1FY20, Nelco (on consolidated level) has reported income from operations of Rs. 103.73 crore, PBILDT of Rs. 22.05 crore and PAT of Rs. 4.91 crore.

Going ahead, any debt funded capex impacting debt coverage indicators as well as gearing levels will be the key rating sensitivities. Further, any deviation in meeting expected revenue as well as profitability from the existing as well as new segments such as Maritime and Aero Communication would be a key monitorable.

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 and 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. 192.92 (in FY19) 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 has opened aero & maritime communication sector to private players. The company believes that the SATCOM (Satellite Communication) industry would double its size in next five years and Nelco shall benefit at large, 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 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.

Liquidity analysis: The liquidity profile of the company remains adequate during the year. The company had cash and cash equivalent of Rs. 5.48 crore as on March 31, 2019 as against Rs. 3.97 crore as on March 31, 2018. The average collection period remained high at 110 days as on March 31, 2019 (PY: 113 days as on March 31, 2018) mainly due to delay in collection of receivable from Govt. organizations. The average utilization of fund based limit remained low at 28.80% while the average utilization of non-fund based limit remained low at 93.57% during the trailing twelve months ended at September 2019. The repayment of scheduled term debt over the next 12 months stands at around Rs.18 crore. The company also enjoys high level of financial flexibility being a part of Tata Group.

Analytical approach: 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. The list of entities whose financials have been combined is mentioned in Annexure-4.

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 TPCL holding 48.64% and combined group holding of 50.09% as on September 30, 2019. Nelco has two business lines namely: 1) Network Systems: VSAT Equipment 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.

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. In the current year FY20, Nelco has sold its investments in Nelito Systems Limited (associate company), which was classified as assets held for sale in FY18.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-4

Following are the brief financials of Nelco (Consolidated):

Brief Financials (Rs. Crore)	FY18 (Audited)	FY19 (Audited)
Income from Continuing Operations	151.59	193.92
PBILDT	26.25	38.18
PAT	12.11	22.29
Overall Gearing	1.48	1.47
Interest coverage (times)	4.43	5.17

The financials have been reclassified as per CARE standard

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Annexure-1: Details of 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	144.60	CARE A; Stable
Fund-based - ST-Term loan	-	-	-	60.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
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 (05-Apr-19)	-	1)CARE A; Stable / CARE A1 (16-Mar-18)	1)CARE A- / CARE A2+ (14-Dec-16)
2.	Fund-based - LT-Term Loan	LT	144.60	CARE A; Stable	1)CARE A; Stable (05-Apr-19)	-	1)CARE A; Stable (16-Mar-18)	1)CARE A- (14-Dec-16)
3.	Fund-based - ST-Term loan	ST	60.00	CARE A1	1)CARE A1 (05-Apr-19)	-	1)CARE A1 (16-Mar-18)	1)CARE A2+ (14-Dec-16)
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 Network	Standalone Network 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: List of subsidiaries, associates and joint ventures of Nelco Limited getting consolidated (list as on September 30, 2019)

Name of companies/ Entities	% of holding
Tatanet Services Limited	100.00%
Nelco Network Product Ltd	100.00%

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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