



Rating Rationale

October 25, 2024 | Mumbai

NELCO Limited

Ratings reaffirmed at 'CRISIL A/Positive/CRISIL A1'

Rating Action

Total Bank Loan Facilities Rated	Rs.218.3 Crore
Long Term Rating	CRISIL A/Positive (Reaffirmed)
Short Term Rating	CRISIL A1 (Reaffirmed)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL A/Positive/CRISIL A1' ratings on the bank loan facilities of Nelco Ltd (Nelco).

The rating reaffirmation reflects the strong market position of the company in the niche very small aperture terminal (VSAT) industry, high revenue visibility and the improving operational and financial risk profile. The ratings also factor in support from the Tata group, from which Nelco derives financial flexibility.

The reaffirmation also reflects expectation of the company to witness improved and healthy revenue growth in FY25, especially with expectation of significant growth in revenue and profitability in second half of the fiscal 2025 as against the first half of current fiscal. Furthermore, the company is expected to maintain a healthy annual growth rate of more than 15% in revenue to support its leading market position and healthy operating profitability over the medium term on a sustained basis. This will be supported by the recurring nature of business, an expected increase in bandwidth revenue and increasing use of VSAT technology. Further, CRISIL Ratings expects the company to utilise operating cash accrual towards its business requirement, which should support sustenance of healthy capital structure. The expected growth in the scale of operations and operating profitability will be a key rating monitorable. Any delay against the same could result in a downward revision of the rating outlook.

Revenue has posted a healthy compound annual growth rate (CAGR) of ~8% over the past 5 years, with healthy operating margin at 18-20% resulting in earnings before interest, taxes, depreciation, and amortisation (EBITDA) increasing to more than Rs 60 crore in fiscal 2024 and 2023, as against Rs 51 crore and Rs 45 crore in fiscals 2022 and 2021, respectively. Additionally, the company utilized its cash accrual towards debt reduction during the last fiscal with outstanding debt falling to Rs 57 crore as on March 31, 2024 from Rs 63 crore a year earlier (Rs 81 crore as on March 31, 2022).

These strengths are partially offset by the working capital-intensive nature of business and inherent regulatory and technological risks. However, receivable days have witnessed improvement from ~100 in fiscal 2021 to 70-75 in fiscal 2024.

Analytical Approach

CRISIL Ratings has combined the business risk profile of its wholly owned subsidiary, Nelco Network Products Ltd (NNPL), while assessing NELCO. For arriving at the ratings, CRISIL Ratings has applied its group notch-up framework to factor in the extent of support available from the Tata group.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Strong market position in niche VSAT industry; well positioned to tap the mobility space:** Nelco is one of the leading players in the niche Rs 1000 crore VSAT industry with about 26% market share (in terms of cumulative VSAT installations) and 34% of revenue share. VSAT licenses in India are offered under license from Department of Telecom, Government of India (DoT). Once the VSAT license is obtained, operators require satellite transponder space, which is provided by New Space India Ltd (NSIL), a part of Indian Space Research Organisation (ISRO; a Government of India company under Department of Space). VSAT scores over terrestrial telecom in applications where connectivity needs to be more reliable or where locations are remote.

Nelco provides B2B VSAT services in banking, oil & gas exploration, renewable energy, telemedicine, mining and construction and rural education. It enjoys strong market share especially in the oil & gas and banking (ATM) segments. Revenue from the Inflight Maritime Communication (IFMC) business increased by ~11% from fiscal 2023 to fiscal 2024 even though its contribution remains more than 25% due to overall increase in revenue base. The air and maritime mobility space is expected to substantially expand the industry size in the medium term along with other upcoming streams such as cellular backhaul. With its partnerships with technology vendors such as Panasonic Avionics Corporation and Intelsat, Nelco is well positioned to benefit from growth in mobility.

- **High revenue visibility:** Nelco has two key revenue streams: (a) VSAT hardware sales, which pertains to one-time hardware installations, and (b) bandwidth and service usage, which is largely recurring revenue. About 75-80% of the revenue is from bandwidth and service usage with repeat customer profile (churn rate of 3-5%). This ensures high revenue visibility for the company. The terms with its customers are largely contractual in nature, with contract lengths varying from 1 to 3 years.

With de-regularisation in the space sector and pacing up implementation of the New Space Policy 2023, new streams of VSAT usage will be coming up, which shall further support growth in revenue. Further, with evolution in technology, bandwidth fees are also expected to reduce, which is likely to result in making VSAT technology more competitive and could support increasing the consumer base.

- **Improving operational and financial profile, though moderately high leverage:** The operating and financial profile has been improving, due to the shift in focus on its VSAT services from automation and controls segment. The automation and controls segment, which contributed about 25% revenue in 2014, has been discontinued since 2017.

The operating income of the company has increased steadily at a CAGR of ~8% over the past 5 years. Revenue growth remained subdued during the fiscal year 2024 reaching Rs. 320 crores compared to Rs. 314 crores in fiscal 2023. This was primarily due to the deferment of customer orders. The number of VSAT installations for the company was stable, ranging between 65,000 and 75,000 during fiscal 2023 and fiscal 2024. As revenue and operating costs are largely recurring and contractual in nature, operating margin is expected to remain stable going forward.

Further, the financial risk profile has improved over the past few years with total outside liabilities to tangible network (TOLTNW) ratio and gearing at ~1.2 times and 0.57, respectively, as on March 31, 2024 (~1.5 times and less than 1 time, respectively, as on March 31, 2023). This has been supported by improving cash accrual and debt prepayments. The company is expected to incur a capital expenditure (capex) of Rs.90-100 crore annually over the medium term, which is to be funded through a mix of internal accrual and external debt. However, CRISIL Ratings expects financial risk profile to remain healthy going forward, basis expectation of revenue growth with stable margins, supporting robust cash accrual.

- **Financial flexibility enjoyed by being part of the Tata group:** As on March 31, 2024, the Tata group through Tata Power and its subsidiaries, held 50.09% equity stake in Nelco. The company has board representatives from Tata Power. Mr. Ratan Tata was Chairman Emeritus in Nelco. As part of Tata group, the company will continue to enjoy financial flexibility.

Weaknesses:

- **Working capital intensive business:** Gross current assets (GCA) were sizeable at 158 days as on March 31, 2024 (136 days a year earlier), driven by receivables of 75 days. Clients are majorly billed on quarterly basis. However, this is partly offset by credit period provided by suppliers (hardware providers) of 6-9 months. Though, a nominal cost is paid by the company for credit period over and above 3 months.
- **Technology and regulatory risk:** Nelco is dependent on technologies for VSAT hardware from other third-party global players such as VT iDirect and Gilat Satellite Networks, with proprietary technologies. Further, VSAT services are regulated by DoT. Any major change in policy pertaining to VSAT remains a key risk factor. Nelco also faces competition from terrestrial telecom providers which are cheaper and are increasing their connectivity to remote locations over time. The expected de-regularisation in this space with the execution of New Space Policy 2023 should reduce regulatory risk, however, due to constant technological advancements, threat from alternative sources will remain.

Liquidity: Strong

Liquidity is strong, marked by cash and equivalents of about ~Rs 22 crore as on March 31, 2024. Expected cash accruals in fiscal 2025 and 2026 are ~Rs 50-55 crore on yearly basis.

Further, the company expects to incur capex of ~Rs. 90-100 crore (with a debt-equity mix of 70:30) and debt repayment obligation of ~Rs 33 crore. Utilisation of the fund-based limit averaged less than 10% in the six months through April 2024. The company also enjoys financial flexibility being a part of Tata group.

Outlook: Positive

CRISIL Ratings believes Nelco will benefit from the steady growth in revenue while maintaining a healthy operating margin. It is also expected to retain healthy debt metrics with prudent capital allocation towards capex.

Rating sensitivity factors

Upward factors:

- Substantial increase in scale of operations, leading to improvement in operating risk profile
- Substantial reduction in TOL, leading to material reduction in TOL/TNW to below 1.5-2x on sustainable basis

Downward factors:

- Slower than expected growth in operating income (expected to be at or above Rs.380-400 crores) or operating profitability

- Weakening of operational metrics with lower-than-expected cash accruals leading to higher-than-expected debt funded capex resulting in gearing sustaining above 1.5-2x
- Change in ownership or support philosophy from Tata Group

About the Company

Nelco, established in 1940, is a subsidiary of Tata Power. The Company is in the business of providing domestic satellite communication services to close user group (CUG) networks via Satellite System on non-exclusive basis within the territorial boundary of India under the VSAT, ISP and other Licenses and authorisation granted by Department of Telecommunications (D.O.T.), Government of India.

Key Financial Indicators- Consolidated

Particulars	Unit	2024	2023
Revenue	Rs crore	320	314
Profit after tax (PAT)	Rs crore	24	20
PAT margin	%	7.4	6.33
Adjusted debt by adjusted network	Times	0.28	0.63
Interest coverage	Times	8.45	7.23

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	10	NA	CRISIL A1
NA	Cash Credit	NA	NA	NA	5	NA	CRISIL A/Positive
NA	Fund-Based Facilities	NA	NA	NA	20	NA	CRISIL A1
NA	Fund-Based Facilities	NA	NA	NA	40	NA	CRISIL A/Positive
NA	Non-Fund Based Limit	NA	NA	NA	64.3	NA	CRISIL A1
NA	Overdraft Facility	NA	NA	NA	4	NA	CRISIL A1
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	60	NA	CRISIL A/Positive
NA	Short Term Loan	NA	NA	NA	15	NA	CRISIL A1

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Nelco Network Products Ltd (NNPL)	Full	100% ownership and strong operational and financial linkages

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2024 (History)		2023		2022		2021		Start of 2021
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	144.0	CRISIL A/Positive / CRISIL A1		--	28-07-23	CRISIL A/Positive / CRISIL A1	29-04-22	CRISIL A1 / CRISIL A/Stable	02-02-21	CRISIL A1 / CRISIL A/Stable	CRISIL A1 / CRISIL A/Stable
Non-Fund Based Facilities	ST	74.3	CRISIL A1		--	28-07-23	CRISIL A1	29-04-22	CRISIL A1	02-02-21	CRISIL A1	CRISIL A1

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	10	Mizuho Bank Limited	CRISIL A1
Cash Credit	5	Bank of India	CRISIL A/Positive
Fund-Based Facilities	20	ICICI Bank Limited	CRISIL A1
Fund-Based Facilities	15	Mizuho Bank Limited	CRISIL A/Positive
Fund-Based Facilities	25	Bajaj Finance Limited	CRISIL A/Positive
Non-Fund Based Limit	5.3	Union Bank of India	CRISIL A1
Non-Fund Based Limit	10	Bank of India	CRISIL A1
Non-Fund Based Limit	15	ICICI Bank Limited	CRISIL A1
Non-Fund Based Limit	34	Axis Bank Limited	CRISIL A1
Overdraft Facility	4	Axis Bank Limited	CRISIL A1
Proposed Long Term Bank Loan Facility	60	Not Applicable	CRISIL A/Positive
Short Term Loan	15	Shinhan Bank	CRISIL A1

Criteria Details

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[CRISILs Criteria for rating short term debt](#)

[CRISILs Criteria for Consolidation](#)[Criteria for Notching up Stand Alone Ratings of Companies based on Group Support](#)

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com</p> <p>Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com</p>	<p>Manish Kumar Gupta Senior Director CRISIL Ratings Limited B:+91 124 672 2000 manish.gupta@crisil.com</p> <p>Ankit Hakhu Director CRISIL Ratings Limited B:+91 124 672 2000 ankit.hakhu@crisil.com</p> <p>Saikrishna Sawale Senior Rating Analyst CRISIL Ratings Limited B:+91 22 3342 3000 Saikrishna.Sawale1@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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