nelco
unlock potential

A TATA Enterprise

29th July 2023

BSE Limited
Corporate Relationship Dept
1st Floor, New Trading Ring,
Rotunda Building,
P.J. Towers, Fort,
Mumbai – 400 001

National Stock Exchange of India Limited
5th floor, Exchange Plaza, Plot No.C-1
Block "G" Bandra Kurla Complex
Bandra (East)
Mumbai – 400 051

BSE Code : 504112

NSE Code : Nelco EQ

Dear Sirs,

Sub: Intimation for upgrade in Outlook of Nelco Ltd. by CRISIL Ratings

Pursuant to Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, we wish to inform you that CRISIL Ratings vide its letter dated 28th July 2023 has upgraded and reaffirmed its outlook on Nelco Limited (the Company) as under :-

Total Bank Loan Facilities Rated	Rs.218.3 Crore (reduced from Rs 298.44 Crore)
Long Term Rating	CRISIL A/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)
Short Term Rating	CRISIL A1 (Reaffirmed)

Thanking you

Yours faithfully,
NELCO Limited

GIRISH VIJAYANAND KIRKINDE
Digitally signed by GIRISH VIJAYANAND KIRKINDE
Date: 2023.07.29 14:19:52 +05'30'

Girish V. Kirkinde
Company Secretary & Head Legal

Encl: As above.

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CRISIL Ratings

Rating Rationale

July 28, 2023 | Mumbai

NELCO Limited

Rating outlook revised to 'Positive'; Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.218.3 Crore (Reduced from Rs.298.44 Crore)**
Long Term Rating	**CRISIL A/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)**
Short Term Rating	**CRISIL A1 (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term bank facilities of NELCO Limited (Nelco) to **'Positive'** from 'Stable' while reaffirming the rating at '**CRISIL A**'. The short term rating has been reaffirmed at 'CRISIL A1'. CRISIL Ratings has **withdrawn** its ratings on Rs.80.14 crore of bank facilities on receipt of no-dues certificate from the bankers. The withdrawal is in line with CRISIL Ratings policy on withdrawal of bank loan ratings.

The ratings reflect 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.

Revenue has posted a healthy compound annual growth rate (CAGR) of ~10% 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 2023, as against Rs 51 crore and Rs 45 crore in fiscals 2022 and 2021, respectively. Additionally, the company utilised its cash accrual towards debt reduction during the last fiscal with outstanding debt falling to Rs 63 crore as on March 31, 2023 from Rs 81 crore a year earlier (Rs 89 crore as on March 31, 2021).

The revision in outlook reflects expectation of the company continuing to witness healthy revenue growth while maintaining leading market position and healthy operating profitability over the medium term. This will be supported by the recurring nature of business 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.

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 2023.

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 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 ~40% from fiscal 2022 to fiscal 2023 even though its contribution remains ~20% 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 upcoming 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.

Additionally, Nelco has entered into 3-5year non-cancellable lease agreements with oil retailers such as, BPCL, HPCL, which provides stable lease rentals at attractive internal rates of return.

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 ~10% over the past 5 years with revenue augmenting from Rs 260 crore in fiscal 2022 to Rs 314 crore in fiscal 2023. This was largely owing to increase in uptake in VSAT sales complimented by higher bandwidth revenues. The number of VSAT installations for the company has increased from about 48,000 in fiscal 2017 to about 90,000 in March 2023. Operating margin also improved from 13% to about 20%. As revenue and operating cost 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 networth (TOLTNW) ratio and gearing at ~1.5 times and less than 1 time, respectively, as on March 31, 2023 (~2 times and ~1 time, respectively, as on March 31, 2022). This has been supported by improving cash accrual and debt prepayments. The company is expected to incur a capital expenditure (capex) of Rs.50-60 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. Additionally, lease rentals from oil retailers largely cover scheduled long-term repayments, which provides comfort.

Financial flexibility enjoyed by being part of the Tata group
As on March 31, 2023, 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 is 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 136 days as on March 31, 2023 (160 days a year earlier), driven by receivables of 70 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. Nelco is also solely dependent on satellite transponder space from ISRO. Any change in terms with these players poses a risk. 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 16 crore as on March 31, 2023. Cash accrual of Rs 50-55 crore each in fiscals 2024 and 2025 will be sufficient to meet capex of ~Rs. 50-60 crore with a debt-equity mix of 70:30 and debt repayment obligation of Rs 13 crore. Utilisation of the fund-based limit averaged less than 10% in the six months through December 2022. 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 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
- Weaking 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 provides systems and solutions in the areas of VSAT connectivity. The company offers a range of innovative and customised solutions for businesses and government institutions.

Key Financial Indicators- Consolidated

Particulars	Unit	2023	2022
Revenue	Rs crore	314	260
Profit After Tax (PAT)	Rs crore	20	16
PAT Margin	%	6.33	6.18
Adjusted debt by adjusted networth	Times	0.63	0.96
Interest coverage	Times	7.23	7.27.0

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.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Proposed long term bank loan facility	NA	NA	NA	60.0	NA	CRISIL A/Positive
NA	Fund based facilities	NA	NA	NA	40.0	NA	CRISIL A/Positive
NA	Fund based facilities	NA	NA	NA	20.0	NA	CRISIL A1
NA	Overdraft facility	NA	NA	NA	4.0	NA	CRISIL A1
NA	Cash credit	NA	NA	NA	5.0	NA	CRISIL A/Positive
NA	Cash credit	NA	NA	NA	3.14	NA	Withdrawn
NA	Long-term loan	NA	NA	NA	48.0	NA	Withdrawn
NA	Short-term loan	NA	NA	NA	15.0	NA	CRISIL A1
NA	Proposed long-term bank loan facility	NA	NA	NA	29.0	NA	Withdrawn
NA	Bank guarantee	NA	NA	NA	10.0	NA	CRISIL A1
NA	Non-fund based limit	NA	NA	NA	64.3	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

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Fund Based Facilities	LT/ST	224.14	CRISIL A/Positive / CRISIL A1		--	29-04-22	CRISIL A1 / CRISIL A/Stable	02-02-21	CRISIL A1 / CRISIL A/Stable	29-10-20	CRISIL A1 / CRISIL A/Stable	Withdrawn
Non-Fund Based Facilities	ST	74.3	CRISIL A1		--	29-04-22	CRISIL A1	02-02-21	CRISIL A1	29-10-20	CRISIL A1	Withdrawn
Commercial Paper	ST		--		--		--		--		--	Withdrawn

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	3.14	Union Bank of India	Withdrawn
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
Long Term Loan	48	IDFC FIRST Bank Limited	Withdrawn
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
Proposed Long Term Bank Loan Facility	29	Not Applicable	Withdrawn
Short Term Loan	15	Shinhan Bank	CRISIL A1

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing 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

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