February 24, 2022

Hughes Communications India Private Limited: Ratings upgraded; Rating watch with negative implications removed and Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term/Short Term -Fund Based Limits	45.0	45.0	[ICRA]A- (Stable)/[ICRA]A1; upgraded from [ICRA]BBB@/[ICRA]A2@; Rating watch with negative implications removed and stable outlook assigned
Long Term/Short Term -Non Fund Based Limits	140.5	140.5	[ICRA]A- (Stable)/[ICRA]A1; upgraded from [ICRA]BBB@/[ICRA]A2@; Rating watch with negative implications removed and stable outlook assigned
Long Term/Short Term- Unallocated	13.5	13.5	[ICRA]A- (Stable)/[ICRA]A1; upgraded from [ICRA]BBB@/[ICRA]A2@; Rating watch with negative implications removed and stable outlook assigned
Total	**199.0**	**199.0**	

**Instrument details are provided in Annexure-1; @Rating on Watch with Negative implications*

Rationale

While assigning the ratings, ICRA has taken a consolidated view of the financial and operational profile of Hughes Communications India Private Limited (HCIPL)[1] and its wholly-owned subsidiaries—HCIL Comtel Private Limited (Comtel; rated [ICRA]A- (Stable)/[ICRA]A1) and Hughes Global Education India Private Limited (HGEIL). These are together referred to as the Group/Hughes.

The rating upgrade factors in the alleviation of the risks pertaining to the AGR related dues as well as completion of the merger of very small aperture terminal (VSAT) business of Bharti Airtel Limited (BAL) and Hughes Group. HCIPL's liability related to the payment of the licence fee on Adjusted Gross Revenue (AGR) and spectrum usage charges have been indemnified by the parent HNS India VSAT Inc, as per the agreement amongst shareholders of the merged entity. As a result, HCIPL's networth, which had turned negative in FY2020 owing to a large provision (Rs. 586.1 crore) made towards this liability, has been restored and the concerns related to the entity continuing as a going concern has been resolved. HCIPL's liability towards AGR will be funded by the parent going forward i.e. both principle and interest payments and HCIPL will not bear any cash outflow related to the same leading to significant improvement in the credit profile of the company. HCIPL and Comtel also completed the merger of BAL's VSAT business and Bharti Airtel Services Limited (BASL) respectively in January 2022 with BAL holding 33.33% in HCIPL. The combined entity will hold nearly 60% plus market share in the VSAT market in India and the performance of the combined entity is expected to witness improvement due to synergies in the businesses and economies of scale.

[1] HCIPL holds the very small aperture terminal common user group (VSAT CUG) license from the Department of Telecommunications (DoT) and satellite lease from New Space India Limited (NSIL; a commercial arm of Indian Space Research Organisation - ISRO) and provides bandwidth services for all the contracts in the Group. Comtel executes all the equipment supply and system integration contracts in the Group. HGEIL is involved in providing distant learning programmes. Another entity belonging to the Hughes India operations is Hughes Network Systems India Private Limited (rated [ICRA]A2), primarily engaged in providing services such as international sales and marketing, management services and other logistical support to Hughes Group's Indian entities.

The rating continues to factor in HCIPL's parentage—Hughes Satellite Systems Corporation (HSSC; rated Ba3 (stable) by Moody's Investor Services)—a dominant player in VSAT-based communication services in developed markets with its own satellites, technology development and solutions to corporate as well as retail consumers. The Group derives operational synergies from its parent. Moreover, the ratings continue to draw comfort from the Group's long track record of operations, its strong market position in the VSAT industry, its diversified revenue streams, wide customer base, and its established relationship with a reputed clientele. Further, the Group's products find applications in a wide range of industries such as banking, telecom, oil marketing, education, retail-facing entities, etc. This is reflected in Hughes' healthy order book position, indicating adequate revenue visibility going forward.

The ratings are constrained by the high working capital intensity of operations owing to elevated receivable levels, albeit partly offset by the strong profile of the counterparties and the credit period extended by the parent on hardware purchases. Further, the ratings are constrained by the asset-intensive nature of certain contracts, which require sizeable upfront capex for revenue generation over the years. In addition, the project-driven nature of hardware/system integration work results in inherent lumpiness in revenue generation. Since the business is technology driven and regulated, any changes in technology or regulatory environment can have a material impact on the operations as well.

The Stable outlook on the long-term rating reflects ICRA's opinion that HCIPL will continue to benefit from its established position in the domestic VSAT industry.

Key rating drivers and their description

Credit strengths

Alleviation of risks pertaining to large repayments for AGR penalty- With HCIPL's existing liability towards AGR being funded by the parent going forward, HCIPL's networth has been restored and the company will not be required to pay for these liabilities now. As a result, a key risk pertaining to the ability of the company to function as a going concern has been resolved and the credit profile is expected to strengthen going forward.

Completion of merger with VSAT division of BAL to strengthen the market leadership position of the merged entity– The company has a healthy market position in the Indian VSAT market (around 46% as on September 30, 2021). Moreover, with the completion of the merger of BAL's VSAT business with HCIPL, the merged entity is expected to control more than ~60% plus of the total VSAT market in India, providing a competitive advantage and benefits of economies of scale. The merged entity is likely to report turnover of around Rs. 500 crores for FY2023 (first full year of operations for the merged entity).

Diversified revenue stream and strong client profile – The revenue streams of the Group are diversified with the presence of bandwidth services, installation services, maintenance and rental services. Further, the Group provides these services to a large bouquet of clients, including major banks along with Public Sector Undertaking (PSU) in the Oil & Gas sector among others. Moreover, with the merger of the VSAT business of Airtel with Hughes, the Group will get access to new clients, thereby further diversifying the client base.

Healthy order book position – The order book position of Hughes is healthy at around Rs. 500 crore as on January 31, 2022 for HCIPL and Comtel, which points to healthy revenue visibility going forward. The order book comprises of orders from banking sector, Oil Marketing PSUs, telecom operators etc.

Extensive experience of promoters in VSAT industry – Hughes India Group is a part of Echostar, which is a US-based provider of satellite communications. Echostar owns a fleet of satellite, which it uses for communication, and has extensive experience in the business. The Indian operations started in 1992 with incorporation of HCIPL, which now has a track record of over 25 years of operations in the VSAT industry. This has enabled the Group to establish strong relationships with reputed customers, including nationalised banks, Government agencies and reputed private parties.

Credit challenges

Working capital intensity of business remains high – With high receivable levels and high current assets owing to the sizeable amount of tax recoverable, the overall working capital intensity is expected to remain high. However, high receivable levels are to some extent mitigated by the high payable period that the Group enjoys, especially on hardware purchased from the foreign parent.

Capex-intensive contracts may lead to cash flow mismatches – The projects that are based on rental model require upfront capex from the Group. All the rental orders, like the one for the oil marketing companies, require the Group to purchase the equipment upfront, install at the sites and then recover the cash flows over the tenure of the project. A high degree of upfront capex can lead to a situation of cash flow mismatch. Moreover, the project-driven business can lead to lumpiness in revenue generation.

Technology and regulatory risk – The VSAT business is technology driven and highly regulated. HCIPL has a license from DoT for providing bandwidth services, while it has to purchase capacities from NSIL for satellite communication. Thus, the business is dependent on the regulations of DoT and ISRO. Any material change in technology or regulatory environment can impact the business. However, the Group has entered into agreement with OneWeb to provide services using low earth orbit satellites to provide efficient and economical services.

Liquidity position: Strong

The liquidity of the group is expected to remain strong going forward with the AGR liability being funded by the parent and no external debt on books. With the merger of BAL's VSAT business with the group, the overall cash generation is expected to improve which should lead to further improvement in the profitability and liquidity position. As on end of January 2022, the group had ~Rs. 59.0 crore of cash and no bank debt to be repaid.

Rating sensitivities

Positive factors – The rating maybe upgraded in a scenario of material and sustained improvement in operating income and profitability.

Negative factors –Any pressure of repayment of AGR liability on the company, or any upstreaming of funds to the shareholders deteriorating the liquidity position can result in rating downgrade. Significant deterioration in the profitability on a sustained basis characterized by a RoCE of less than 14% on a sustained basis and/or Any weakening of linkages or deterioration in credit profile of HSSC/Echostar may also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Telecom Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HCIPL. As on March 31, 2021, the company had 2 subsidiaries which are mentioned in Annexure-2.

About the company

HCIPL was incorporated in March 1992 as Hughes Escorts Communications Limited, a joint venture between Hughes Network Systems Incorporated, USA and the Escorts Group to provide satellite-based value-added business communication services in

India. However, in FY2006, post the decline in shareholding of the Escorts Group, the name of the company was changed to Hughes Communications India Limited. Further, in FY2020, it was converted into a private limited company and named as Hughes Communications India Private Limited. The company provides VSAT-based communication services and is among the leading players in the industry. Along with its subsidiaries—Comtel and HGEIL—the company provides complete solutions on connectivity using satellite-based communications. For this, HCIPL has a license from the DoT, on which it pays a license fee on a quarterly basis.

Key financial indicators (audited)

HCIPL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	356.1	339.4
PAT (Rs. crore)	(579.4)	(20.6)
OPBDIT/OI (%)	16.6%	17.0%
PAT/OI (%)	-162.7%	-6.1%
Total Outside Liabilities/Tangible Net Worth (times)	(2.4)	(2.3)
Total Debt/OPBDIT (times)	10.5	11.1
Interest Coverage (times)	7.2	1.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019
					24-Feb-2022	5-Mar-21	8-Jan-21	18-Nov-19	13-May-19	3-Oct-18
1	Fund Based Limits	Long Term/ Short term	45	-	[ICRA]A- (Stable)/ [ICRA]A1	[ICRA]BBB@ /[ICRA]A2@	[ICRA]BBB@ /[ICRA]A2@	[ICRA]A-& / [ICRA]A1&	[ICRA]A-& / [ICRA]A1&	[ICRA]A- (Stable)/ [ICRA]A1
2	Non Fund Based Limits	Long Term/ Short term	140.5	-	[ICRA]A- (Stable)/ [ICRA]A1	[ICRA]BBB@ /[ICRA]A2@	[ICRA]BBB@ /[ICRA]A2@	[ICRA]A-& / [ICRA]A1&	[ICRA]A-& / [ICRA]A1&	[ICRA]A- (Stable)/ [ICRA]A1
3	Unallocated	Long Term/ Short term	13.5	-	[ICRA]A- (Stable)/ [ICRA]A1	[ICRA]BBB@ /[ICRA]A2@	[ICRA]BBB@ /[ICRA]A2@	[ICRA]A-& / [ICRA]A1&	[ICRA]A-& / [ICRA]A1&	[ICRA]A- (Stable)/ [ICRA]A1

@= Under watch with negative implications, &= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Short Term -Fund Based Limits	Simple

Long Term/Short Term -Non Fund Based Limits	Simple
Long Term/Short Term-Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long Term/Short Term -Fund Based Limits	NA	NA	NA	45.0	[ICRA]A- (Stable)/[ICRA]A1
NA	Long Term/Short Term -Non Fund Based Limits	NA	NA	NA	140.5	[ICRA]A- (Stable)/[ICRA]A1
NA	Long Term/Short Term-Unallocated	NA	NA	NA	13.5	[ICRA]A- (Stable)/[ICRA]A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	HCIPL's Ownership	Consolidation Approach
Hughes Communication India Private Limited	Parent Entity	Full Consolidation
HCIL Comtel Private Limited	100.0%	Full Consolidation
Hughes Global Education India Private	100.0%	Full Consolidation

Source: *HCIPL annual report FY2021*

Note: *ICRA has taken a consolidated view of the parent HCIPL and its subsidiaries*

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About ICRA Limited:

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