

February 24, 2022

Hughes Network Systems India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Short Term	2.0	2.0	[ICRA]A2; reaffirmed
Non-fund Based-Short-Term	9.0	9.0	[ICRA]A2; reaffirmed
Unallocated bank limits-Short-Term	2.5	2.5	[ICRA]A2; reaffirmed
Total	13.5	13.5	

*Instrument details are provided in Annexure-1

Rationale

The rating action factors in Hughes Network Systems India Limited's (HNSI) experienced promoters and its long track record of operations. The rating also factors in the healthy cash balances post the refund from the income tax department of around Rs. 43.0 crore as on September 30, 2021, and Rs. 63.2 crore of loans extended to related parties (mainly Hughes Communication India Private Limited (HCIPL, rated [ICRA]A- (Stable)/[ICRA]A1) and HCIL Comtel Private Limited (Comtel, rated [ICRA]A-(Stable)/[ICRA]A1), indicating adequate liquidity position. A part of the loans extended to Comtel were converted into equity before the merger of Bharti Airtel Services Limited into Comtel. Further, since there is no external debt (apart from the unsecured loan from Goldman Agent Private Limited (GAPL) that was advanced for meeting income tax liability and lease liability), the capital structure is healthy, and the coverage indicators are strong as reflected by adjusted debt/OPBDITA of 0.0 times as on March 31, 2021.

The rating is, however, constrained by the limited business prospects of the company as the existing business has been steadily transferred to a sister concern—Comtel and the stature of HNSI has been reduced to the legal arm of Hughes Network Systems LLC, USA. Currently, HNSI is primarily engaged in providing services such as international sales and marketing, management services and other logistical support to the Hughes Group's Indian entities.

HCIPL had recognised significant provision (Rs. 586.1 crore) in FY2020 pursuant to the Supreme Court judgement pertaining to the dues payable towards license fees on adjusted gross revenues (AGR) as well as spectrum usage charges. The recognition of this liability, payable over a 10-year tenure (post 10% upfront payment till March 31, 2021), would have adversely impacted the credit profile of the HCIPL. However, with the liability being indemnified by the parent HNS India VSAT Inc, no cash outflow from HNSI is expected to support HCIPL.

Moreover, since the business is technology driven and highly regulated, any changes in technology or regulatory environment may have a material impact on the operations. Also, there remains a constant threat from competing technologies like optical fibre network for connectivity business.

Key rating drivers and their description

Credit strengths

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.

Strong cash balances support liquidity position – With the refund of income tax from the tax authorities after the long impending issue, the cash balances have been strong (Rs. 43.0 crore as on September 30, 2021, despite loans extended to Comtel and HCIPL which stood at Rs. 63.2 crore as on September 30, 2021. This, coupled with the absence of long-term debt and no capex requirements, has translated into the company's adequate liquidity position.

Debt coverage indicators remain healthy – With no external debt on the books (only debt is in the form of unsecured loan from Goldman Agent Private Limited and lease liability), the coverage indicators have been healthy as indicated by adjusted debt/OPBDITA of 0.0 times.

Credit challenges

Limited business prospects – With the transfer of hardware and related services business to Comtel, the scale of operations of HNSI has become modest. Currently, HNSI's business is limited to providing support functions to the Group companies.

Technology and regulatory risk – The VSAT business is technology driven and highly regulated. Any material change in technology or regulatory environment can impact the business. Further, there remains a threat from competing technologies.

Liquidity position: Adequate

HNSI's liquidity is **adequate** with cash and cash equivalents of Rs. 43.0 crore as on September 30, 2021 and zero external debt except lease liability, amid low capex requirements. The liquidity would be impacted in case the company is required to refund the unsecured loan back to Goldman Agents Private Limited against the tax dispute.

Rating sensitivities

Positive factors – Since the business has been limited to providing support to the Group companies, a rating upgrade looks unlikely.

Negative factors – The ratings can be downgraded in case the company pays the tax-related unsecured loan to GAPL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of HNSI.

About the company

HNSI was incorporated in 1995 to provide equipment and hardware for satellite-based value-added business communication services in India. HNSI is a 100% subsidiary of Hughes Network Systems LLC, USA (HNS). However, with steady transfer of business to Comtel, the stature of this entity has been reduced to the legal arm of HNS. Currently, HNSI is primarily engaged in providing services such as international sales and marketing, management services and other logistical support to the Hughes Group's Indian entities.

Key financial indicators (audited)

HNSI Standalone	FY2020	FY2021
Operating Income (Rs. crore)	15.7	12.2
PAT (Rs. crore)	4.2	8.1
OPBDIT/OI (%)	3.7%	25.4%
PAT/OI (%)	26.8%	66.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.02	0.63
Total Debt/OPBDIT (times)	70.34	12.86
Interest Coverage (times)	1.6	11.6

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 24-Feb-2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1	Fund-based	Short term	2.0	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	-
2	Non-fund Based	Short term	9.0	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
3	Unallocated bank limits	Short term	2.5	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based-Short Term	Simple
Non-fund Based-Short-Term	Simple
Unallocated bank limits-Short-Term	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
-	Fund-based-Short Term	NA	NA	NA	2.0	[ICRA]A2
-	Non-fund Based-Short-Term	NA	NA	NA	9.0	[ICRA]A2
-	Unallocated bank limits-Short-Term	NA	NA	NA	2.5	[ICRA]A2

Source: Company

Annexure-2: List of entities considered for consolidated analysis-NA

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