March 13, 2023

HCIL Comtel Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term - Fund-based limits	19.0	24.0	[ICRA]A- (Stable)/[ICRA]A1; reaffirmed
Long term/Short term - Non-fund based limits	165.0	190.0	[ICRA]A- (Stable)/[ICRA]A1; reaffirmed
Long term/Short term - Unallocated	42.0	3.0	[ICRA]A- (Stable)/[ICRA]A1; reaffirmed
Total	**226.00**	**217.00**	

**Instrument details are provided in Annexure-I*

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 action factors in Hughes's market leadership in Very small aperture terminal (VSAT) market with a share of 69%[$] as on September 2022 coupled with healthy growth in Operating Income (OI), its healthy order book position, and zero-debt company as on date (excluding lease liability as per Ind AS and indemnified AGR liability by the parent). Company has also launched its Hughes HTS broadband services in September 2022 with an advantage of reaching remote places, beyond the reach of existing terrestrial networks and the expected incremental revenues is likely to flow in from FY2024 onwards. The rating continues to factor in HCIPL's parentage—Hughes Satellite Systems Corporation—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 last fiscal witnessed a few challenges post the merger of operations with the VSAT division of Bharti Airtel Limited, which took some time to stabilise, resulting in delay in revenue recognition as well as receivable collection. . Further, revenue was also impacted by non-renewal of few large contracts, which along with steady phase out of the revenues from the education segment, resulted in lower revenue generation than anticipated.

The ratings continue to remain 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

[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;withdrawn), primarily engaged in providing services such as international sales and marketing, management services and other logistical support to Hughes Group's Indian entities.
$-as per TRAI

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 and its zero external debt position, resulting in healthy cash flow generation and comfortable credit profile.

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 now enjoys a dominant market position in the Indian VSAT market (around 68.5% as on September 30, 2022), providing a competitive advantage and benefits of economies of scale.

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. 534 crore as on December 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 group's liquidity position is strong on the back of healthy cash flow from operations supported by free cash and bank balance of Rs. 56 crore as on December 2022 and sizeable cushion in working capital limits of Rs. 73 crore as current utilisation is nil. Further, company has healthy cash accruals with are sufficient to meet the capex and working capital requirements as group has no bank debt to be repaid as AGR liability being funded by the parent.

Rating sensitivities

Positive factors – The ratings maybe upgraded if HCIPL demonstrates a sustained improvement in operating income while maintaining its profitability.

Negative factors – A significant deterioration in the operating income and profitability on a sustained basis may result in a downgrade.

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 consolidated financials of HCIPL. As on March 31, 2022, the company had 2 subsidiaries which are mentioned in Annexure-2.

About the company

HCIL Comtel Private Limited (formerly HCIL Comtel Limited) was incorporated in 2007 and is a 100% subsidiary of Hughes Communications India Private Limited (HCIPL). Comtel provides VSAT-based hardware along with maintenance and rental services. Increasingly, for the projects executed by the Group, the revenues are split between HCIPL and Comtel, wherein the bandwidth-related revenues flow to HCIPL and the balance, which include hardware, rentals and maintenance, flow into Comtel.

Key financial indicators (audited)

HCIPL Consolidated	FY2021	FY2022
Operating income	339.4	359.3
PAT	(20.6)	(22.1)
OPBDIT/OI	17.0%	17.4%
PAT/OI	-6.1%	-6.2%
Total outside liabilities/Tangible net worth (times)	(2.3)	1.2
Total debt/OPBDIT (times)	10.4	9.0
Interest coverage (times)	1.1	1.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 13, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
					Mar 13, 2023	Feb 24, 2022	Mar 05, 2021	Jan 08, 2021	Nov 18, 2019	May 13, 2019
1	Fund-based limits	Long term and short term	24.0	-	[ICRA]A-(Stable)/ [ICRA]A1	[ICRA]A-(Stable)/ [ICRA]A1	[ICRA]BBB@ /[ICRA]A2@	[ICRA]BBB@ /[ICRA]A2@	[ICRA]A-& / [ICRA]A1&	[ICRA]A-& / [ICRA]A1&
2	Non-fund based limits	Long term and short term	190.0	-	[ICRA]A-(Stable)/ [ICRA]A1	[ICRA]A-(Stable)/ [ICRA]A1	[ICRA]BBB@ /[ICRA]A2@	[ICRA]BBB@ /[ICRA]A2@	[ICRA]A-& / [ICRA]A1&	[ICRA]A-& / [ICRA]A1&
3.	Unallocated	Long term and short term	3.0	-	[ICRA]A-(Stable)/ [ICRA]A1	[ICRA]A-(Stable)/ [ICRA]A1	[ICRA]BBB@ /[ICRA]A2@	[ICRA]BBB@ /[ICRA]A2@	[ICRA]A-& / [ICRA]A1&	[ICRA]A-& / [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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	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	24.0	[ICRA]A- (Stable)/[ICRA]A1
NA	**Long term/Short term – Non-fund based limits**	NA	NA	NA	190.0	[ICRA]A- (Stable)/[ICRA]A1
NA	**Long term/Short term - Unallocated**	NA	NA	NA	3.0	[ICRA]A- (Stable)/[ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis

HCIPL	HCIPL Ownership	Consolidation Approach
HCIL Comtel Private Limited	100.0%	Full Consolidation
Hughes Global Education India Private	100.0%	Full Consolidation

Source: HCIPL annual report FY2022

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

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