

Press Release

Nucleus Satellite Communications (Madras) Private Limited (NSCM)

May 10, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.21.00 Crore.
Long Term Rating	SMERA BB+/ Stable (Assigned)
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB+**' (read as SMERA double B plus) and short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs.21.00 crore bank facilities of Nucleus Satellite Communications (Madras) Private Limited (Nucleus). The outlook is '**Stable**'.

Established in 1995, Nucleus Satellite Communications Madras Private Limited (NSCM) manufactures KU band dish antennas for dish-to-home (DTH) operators. The company is promoted by Mr. V Raman and his brother, Mr. V Lakshmanan. The company has its manufacturing unit at Sri City – Chittoor, Andhra Pradesh before shifting from Kanchipuram, Tamil Nadu. The plant has an installed capacity to manufacture four million units of KU band dish antennas per annum.

Key rating drivers

Strengths

Experienced Management team and improving revenue profile: Nucleus is promoted by Mr. Mr. V Raman and his brother Mr. V Lakshmanan. Mr. Raman is a Chartered Accountant, and worked as Chief Financial Officer in overseas markets of Dubai and UAE. Mr. Lakshmanan is a Mechanical Engineer and has about two decades of experience in fabrication industry before starting Nucleus. Started its operations of DTH business in the year 2003 with first supplies to Dish TV in the year of product launch; over a period, Nucleus became approved vendor to all the six players in India. Nucleus enjoys a market share of about 40 per cent in DTH market in the year 2015, before the same is dropped to about 20 per cent in 2017 (as per TRAI records).

The drop in the market share is attributed to shifting of its manufacturing unit from Kanchipuram (Tamil Nadu) to Sri City (Andhra Pradesh); it was setup at a capital outlay of Rs.34.73 crores in March 2017, with term debt of Rs.13.00 crores, balance from proceeds from sale of land of Rs.17.50 crore (of old factory in Kanchipuram) and out of internal accruals and unsecured loans from promoters. Sri City is an integrated business city located in Andhra Pradesh 55km of Chennai providing locational advantage to Southern states of India.

Nucleus has reported revenues of about Rs.79.7 crores on provisional basis for FY2018; this is a significant improvement post its commencement of operations at its new unit in March 2017. Nucleus reported revenues of Rs.39.3 crores in FY2017, which is a dip from Rs.57.38 crores in FY2016. Revenues for FY 2017 and FY2016 have impacted due to floods in Chennai in November 2015 and Cyclone Vardah in December 2016. Further, the operations got impacted during plant shifting during Jan 2017 – March 2017. Nucleus has surpassed the FY2017 in seven months of its operations in FY2018; for H1FY2018, it has reported revenues of about Rs.31.3 crores and for H2FY2018 it was about Rs.48.5 crores.

Nucleus to diversify itself, started supplying telecommunication antennas to players who are into defence and other segment. Also, the company registered themselves as Tier II Vendor of Samsung India Electronics Pvt. Ltd; it's for supply of metal based powder coated body parts for use in Home Appliances such as air

conditioners and refrigerators.

SMERA believes that Nucleus enjoys the first mover and leading player advantage in DTH market space besides promoters established relations and long association with all the players; further, it is expected to support in diversified revenue profile over the medium term.

Moderate financial risk profile: is marked by moderate net worth, gearing and debt protection metrics. The net worth stands at Rs.15.51 crore as on 31 March, 2017, an increase by Rs.7.40 crores in FY2017; it was mainly pooled out by profit from sale of land at old facility. Gearing is moderate at 1.44 times in FY2018, deteriorated from 1.32 times in FY2016 due to debt funded capex. Net cash accruals stood at Rs 1.93 crore in FY2018 as against maturing debt obligations of Rs.1.00 crore. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCATD) are moderate at 1.69 times and 0.09 times respectively for FY2017. Gearing is expected to remain moderate at below 1.44 times, and ICR and NCA/TD are expected to improve marginally over the medium term in the absence of major debt-funded capex and increasing scale of operations.

Moderate working capital management: Nucleus has moderate working capital operations as evident from gross current assets (GCA) days of 62 as on March 31, 2018 (provisional) as against 97 days as on March 31, 2017. The company's inventory days ranged from 21 days to 34 days and debtor days ranged from 33 days to 68 days during FY15-FY18. The company gives credit of up to a month to its customers. Efficient working capital management helps in managing the business with minimal amount of working capital debt of about Rs.5.5 crores, and the bank lines are utilized at about 93 per cent over six months through March 2018. SMERA believes that the working capital operations of the company will remain moderate as evident from improved collection mechanism and better movement of inventory in the business.

Weaknesses

Low entry barriers and revenue concentration from only one segment: Nucleus is primarily engaged in metal fabrication of KU band antennas, which has low entry barriers with presence of organized and unorganised players. The company faces revenue concentration risk, since it received 93.79 per cent of revenue from DTH business in year 2017; though Nucleus is planning to diversify its business verticals by supplying communication antennas and metal body parts to home appliance manufacturers, SMERA believes that Nucleus's revenues continues to be skewed towards DTH segment only.

Analytical approach: SMERA has considered standalone business and financial risk profiles of Nucleus.

Outlook – Stable

SMERA believes that the outlook on the rated facilities of Nucleus will remain stable over the medium term on account of its experienced management and first mover advantage in the industry. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while improving its profitability, capital structure while diversifying its revenue profile. Conversely, the outlook maybe revised to 'Negative' in case of any stretch in the liquidity owing to increase in receivable position or significant dip in the profitability.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	39.31	57.38	69.83
EBITDA	Rs. Cr.	-4.13	3.43	3.39
PAT	Rs. Cr.	7.39	0.30	1.03
EBITDA Margin	(%)	-10.50	5.97	4.85
PAT Margin	(%)	18.81	0.52	1.47
ROCE	(%)	-17.94	11.77	25.00
Total Debt/Tangible Net Worth	Times	1.32	1.97	1.24
PBDIT/Interest	Times	3.95	1.79	4.16
Total Debt/PBDIT	Times	2.12	5.11	3.01
Gross Current Assets (Days)	Days	97	114	107

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loans	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BB+/Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BB+/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.50	SMERA BB+/Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA A4+

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ABOUT SMERA

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