



Stock Details

BSE Code	504112
NSE Code	NELCO
Face Value (Rs)	10.00
52 Wk High (BSE)	130.00
52 Wk Low (BSE)	65.55
BSE Code	504112

Key Statistics

Rs. In mn	1/10/06 to 31/3/07	1/10/05 to 30/9/06
Sales	616.3	1172.8
PAT	14.1	31.1
Equity	228.2	228.2
Mkt Cap.	2487.4	1717.2
Book Value Rs.	10.53	10.53
Sales / Mkt Cap	0.25	0.68
P/B	10.35	7.14
Rs. In mn	1/10/06 to 31/3/07	1/10/05 to 30/9/06
Sales	616.3	1172.8

Company Profile

It is a Tata Group company established in 1940. It's present business activities are focused on system integration and product management for industrial controls, power, electronics, defence electronics, VSAT networks and automation. It aims to be a forefront company in the field of electronic systems, solutions, product and services utilization of innovative technology for meeting the needs of Industrial, Infrastructural and Defence business.

It's manufacturing facilities are located at Mhape, Navi Mumbai wherein it also has an in-house R&D facility. It has its sales and service network spreading across national geographies, which provides proper infrastructure for prompt customer service nationwide.

About the Business

Nelco specializes in the area of security, surveillance for defence and civil applications, Traction, Electronics for Locomotive, Turnkey projects. It caters to the requirements of core industries like defence, railways, steel, cement, automobile, oil & gas etc.

Technology tie-up

Defence Eagle Telonics,US:Galdor Systems;Israel;Thales, France; ASL, Bangalore

SCADA Serck Control, UK; GE Harris, US

VSAT VIASET,US; STM Inc.,US; Navis Llc,US

Drives ABB;GE,Hitachi,Adtranz,Swiss

Year (Rs In Mill)	Sales	EBIDTA	PAT	NPM %	EPS	P/E	Book Value
*1/10/06 to 31/03/07	616.3	82.3	14.1	2.3	0.6	176.4	10.5
1/10/05 to 30/09/06	1172.8	139.4	31.1	2.6	1.5	50.2	10.5
1/10/04 to 30/09/05	1357.1	95.2	2.6	0.2	0.2	196.4	10.5

The company follows Financial Year October to September.

* For the FY2007, figures are available from 1 October 2006 to 31 March 2007.

** PAT calculated above excludes the Exceptional Items.

About the Business

Strategic Electronics Division (SED):

This segment provides strategic electronic solutions to defence, paramilitary organizations for intrusion detection, electronic fencing system and computerized security and building management system. SED offers undermentioned products associated with national and other security to defence / paramilitary organizations.

- Unattended ground sensor system for intrusion detection.
- Electronic Fence System
- Comprehensive computerized security and building management system
- Multisensor for advanced Perimeter intrusion detection system

VSAT Network Division (VND):

This Earlier, this division was set up with a view to ensure that a smooth flow of highly reliable information between various plants and offices of individual companies within the group. It was only after the deregulation of telecom sector that this division ventured into commercial segment. The detail of products are as follows :

Internet over VSAT

Bandwidth on Demand

Interactive Distance Learning / Training solutions

IP Multicast

Digital streaming

VND caters to the manufacturing, distribution segment and several industry sectors, viz : pharma, petroleum, insurance, BFSI, government projects, media, travel & tourism. It has tied up with Viasat Inc and offers services from their two platforms, viz : Linkstar & Skylink.

About the Business

Supervisory control and data Acquisition (SCADA):

Nelco's SCADA software is one of the most advanced master station software embedded with some unique features. The required data is collected through Remote Terminal Units (RTUs), Intelligent Electric Devices (IEDs) and presented to user requirement. The man machine interface (MMI) provides customized data presentation.

A SCADA system caters to the requirements of various industries, viz: electrical utilities, railways, water distribution, steel, oil and gas etc.

Features of SCADA for Oil & Gas Industry :

- Emergency control, of plant shutdown of individual oil platform as well as for all oil platforms in the field.
- Flow monitoring
- Hourly production monitoring and generation of shift reports.
- Ability to communicate with other SCADA systems

The Remote Terminal in the offshore platforms will collect various data and report them to the master station / offshore location via satellite or radio network.

Features of SCADA for Railway :

Major requirement of SCADA system in Railways is met by Nelco. The technological competence of Nelco SCADA Railway System is second to more globally.

- Auto fault isolation
- Under voltage tripping
- Fault localization program
- Maximum demand calculations
- Safety tagging

SCADA for Power :

It provides an ideal software for substation automation parameters viz. breaker status and alarms, transformer winding temperature and tap positions. The measurement of V,I,PF ,active and reactive power and analysis of losses can be done through the systems .This system offers benefits of Improved quality of service, Improved reliability, Reduced operating costs, Maintenance /Expansion of customer base, Ability to defer capacity addition projects, High value service providers, Improved information for engineering decision, value added services, Flexible billing option, Improved customer information access, Reduced system implementation costs and Reduced manpower requirements.

Features of a substation SCADA system are as under :

- Substation parameter monitoring
- Controlling electrical network components remotely
- Safety tagging
- High resolution time stamping
- Sequence of event reporting for post event analysis
- Demand side management
- Volt/VAR control
- Preventive maintenance
- Fault detection isolation and restoration

About the Business

Supervisory control and data Acquisition (SCADA).....

SCADA for Power Network Utility(PNU) :

The basic aim of any PNU is to provide the electrical utility with functions to enhance the operation of the system in a cost effective manner. PNU works on low budgets scenario and it is quiet on arduous task for them to generate and distribute power at low cost.

Nelco's real time SCADA data provides real time technology network component details and user defined strategies to enable PNUs to generate and distribute power at low cost.

Features of Power Network Utilities

- Component Modeling
- State Estimation
- Bad data suppression
- Contingency analysis
- Fault isolation/islanding
- Load shedding
- Volt/Var scheduling
- Dispatcher power flow
- Short circuit analysis
- Network topology processor

SCADA for Energy Management System :

Energy management systems has features that assist utilities in meeting the many complex challenges facing the energy business.EMS is located at the central control facility of the utility where system operators use the system and control the generation and transmission of electricity produced by fossil fuel and hydro power plants.

SCADA for Power Applications :

EMS power applications aid the utility to operate at maximum capacity ,while at the same time reducing fuel costs and provide more reliable services,some of the applications are

- Comprehensive operational planning and control
- Fuel resource scheduling
- Optimum power flow
- Network security
- Economic dispatch
- Generation dispatch control

FUTURE OUTLOOK...

The future outlook for NELCO Ltd; looks bright with a diverse set of products finding use in diverse sectors such as defense , oil and gas , power, telecommunication and Information technology.

Consolidation of Defence biz of Tata Group Co's

Going forward the group aims to further consolidate its defence business into one unit. At present various group companies, viz: Tata Motors, Tata Power (SED), TCS, CMC and Nelco. We believe that it is very likely that all the defence related business managed by different group companies will be merged in Nelco fold.

Further orders in Pipeline

The company is likely to be awarded contacts amounting to Rs 900 mn and Rs 1500 mn from railways and defence department. These orders are likely to give a spectacular boost to the top and bottom line of FY08.

A brief overview of the various sectors is as follows:

DEFENCE SECTOR:

According to Kiran Chadha, head of the defence ministry's Defence Offset Facilitation Agency, India would buy \$100 billion worth of military equipment over the next five years. At current exchange rates, this amounts to Rs 4,30,000 crore for the Eleventh Defence Plan period (2007-2012). According to the amended defence offset policy, every foreign defence contract worth Rs 300 crore or more requires the foreign vendor to plough back 30 per cent of the contract value as offsets, which are co-production or purchase agreements with Indian defence producers. If a conservative 70 per cent of India's \$100 billion is spent on foreign equipment, Indian businessmen will benefit from offset opportunities worth \$21 billion (Rs 90,300 crore). Representing an increasingly confident private sector, active defence cells within industry bodies like the CII are pushing the defence ministry for a greater role. The ministry, realizing that its eight DPSUs and 40 ordnance factories cannot deliver alone, is clearing the decks for the private sector to build up defence capabilities through offset opportunities

For the first time the defence ministry has accepted a major demand from India's growing private defence sector in bidding for offset partnerships with foreign arms vendors, India's private defence manufacturers will hence forth be treated on a par with the eight defence public sector undertakings like Bharat Electronics Ltd (BEL) and Hindustan Aeronautics Ltd (HAL), which have traditionally obtained preferential treatment. Now, foreign vendors can choose Indian private companies as partners for implementing offset obligations. For the majority of projects that are ready for procurement and the 30 per cent offset obligation, it will be the foreign companies that will choose their Indian partner, and they can choose more than one Indian private partner. This will give a boost to the Defence Equipments manufactures like BHEL, HAL, and NELCO in the coming years.

The defence ministry is also guarding against any tendency among foreign vendors to avoid offset obligations — it has mandated that every offset agreement will have to be coterminous with the main contract and directly related to it.

For example, in a transfer of technology deal for manufacturing helicopters in India, the offset deal must involve parts or technology related to that very helicopter and must be completed by the time the last payment is made to the foreign vendor.

DEFENSE SECTOR.....

PRODUCTS OFFERED FOR DEFENSE SECTOR:

1. Unattended ground sensor:
 - Extensively used in border areas remote detection and identification of personnel and vehicles.
 - Used in airfield and Battle field Monitoring.
2. Electric Fence System
 - Used in border areas to demark borders from adjoining countries like Pakistan and China.
3. Advanced Perimeter Intrusion Detection System:
 - Helps in preventing trespassing in and around the border region.
4. VSAT Solutions:
 - Provides Secure and High quality communication system to the defence sector.

OIL & GAS SECTOR

Today oil supplies about 40% of the world's energy and 96% of its transportation energy. Since the shift from coal to oil, the world has consumed over 875 billion barrels. Another 1,000 billion barrels of proved and probable reserves remain to be recovered. From now to 2020, world oil consumption will rise by about 60%. Transportation will be the fastest growing oil-consuming sector. By 2025, the number of cars will increase to well over 1.25 billion from approximately 700 million today and global consumption of petrol could double.

India being one of the fastest growing economies in the world is increasing its need for oil at an alarming pace which is forcing companies like ONGC to explore new reserves and set up new oil wells to keep pace with the ever increasing demand.

This will increase the demand for SCADA (Supervisory control and data Acquisition) systems in future which find wide applications at various oil fields to monitor and control them from remote locations.

(Source: <http://www.iags.org/futureofoil.html>)

POWER SECTOR...

India is still hugely deficient as far as power supply is concerned .This is quite clear from the frequent blackouts and brownouts in the country. To improve the existing scenario the government with the help of Power of Ministry has started a number of new initiatives like Power For All by 2012 and rural initiatives like Rajiv Gandhi Grameen Vidhyutikaran Yojana (RGGVY), Accelerated Power Development and Reforms Programme (APDRP) along with focus on augmenting capacity of existing plants. Also the new Electricity policy was formulated in 2003 according to which a sum of 5 lakh Crores will be spent on the power sector in the next five years. Nelco's SCADA software can help minimize the T&D losses which constitute around 40 % of the electricity generated in certain cases. With the trifurcation of State Electricity Boards (SEB's) there is a greater need for SCADA systems and Energy Network Management by the SEB's with the emphasis on reducing losses, automated billing, network management and power monitoring.

(Source: www.powermin.nic.in)

TELECOM SECTOR ...

The Minister of Communications & IT, Government of India, Mr. Dayanidhi Maran, says, "By 2007, India will have 250 million telephones and the teledensity will be about 22 per cent. By that time, the entire country shall be carpeted by telecom network and all the villages connected by phone." According to Mr. Maran, "Currently, 15 million people in India own PCs and there are 5 million Internet connections in the country. The aim of the Indian Government is to increase the number of people owning PCs to 75 million and the number of Internet connections to 45 million by 2010."

Although the broadband connectivity is at a nascent stage, yet the market grew by 291 per cent, reaching 9 million subscribers in March 2007 expected to reach 20 million by 2010. . The VSAT industry in India is growing at a rate of 22% p.a. and this pace is expected to continue in the coming years The government is also providing incentives to various telecom companies to increase the connectivity across the nation with special focus to the rural India.

Satellite Technology (VSATs) has an inherent advantage and, therefore, it has a special role for Internet and Broadband in the rural India. This is largely due to the fact that rural India is overall marked for low standards of living, low levels of education and a high density of population. In such a scenario, VSAT can meet the requirements of a large section of the population, thereby reducing per unit the cost of broadband access in rural India. Besides, given the socio-economic framework of rural India, operators will not find it commercially viable to set up a DSL/Ethernet-based broadband access network. The ITC eChaupal Project with over 6,000 VSATs deployed in rural areas is a shining example of this.

Under these circumstances it is expected that the VSAT market in the future will grow at a steady pace offering good business to NELCO. (Source: http://www.varindia.com/industry_watch1.asp)

INFORMATION TECHNOLOGY...

In recent times, 'software development and IT enabled services' have emerged as a niche opportunity for India in the global context. The Government of India is taking all necessary steps to make India, a Global Information Technology Superpower and a front-runner in the age of Information Revolution. The Government of India has announced promotion of Information Technology as one of the five top priorities of the country and constituted a National Task Force on Information Technology and Software Development.

India has become one of the most preferred destinations for sourcing software and IT enabled services. In comparison to other low cost locations, India ranks high in several critical parameters, such as, level of government support, quality of the labour pool, English language skills, cost advantage, project management skills, entrepreneurial culture, strong customer relationships and exposure to new technologies. India's strength has been enhanced by the industry's strong focus on quality software and processes.

The software industry in fact has been growing well with a CAGR exceeding 50% over the last five years and contributes about 7 percent to the GDP.

So the sunrise sector will play more important role in the business of NELCO with the consistent increase in demand. (Source: <http://www.indiacore.com/infotech.html>)

RISKS & THREATS...

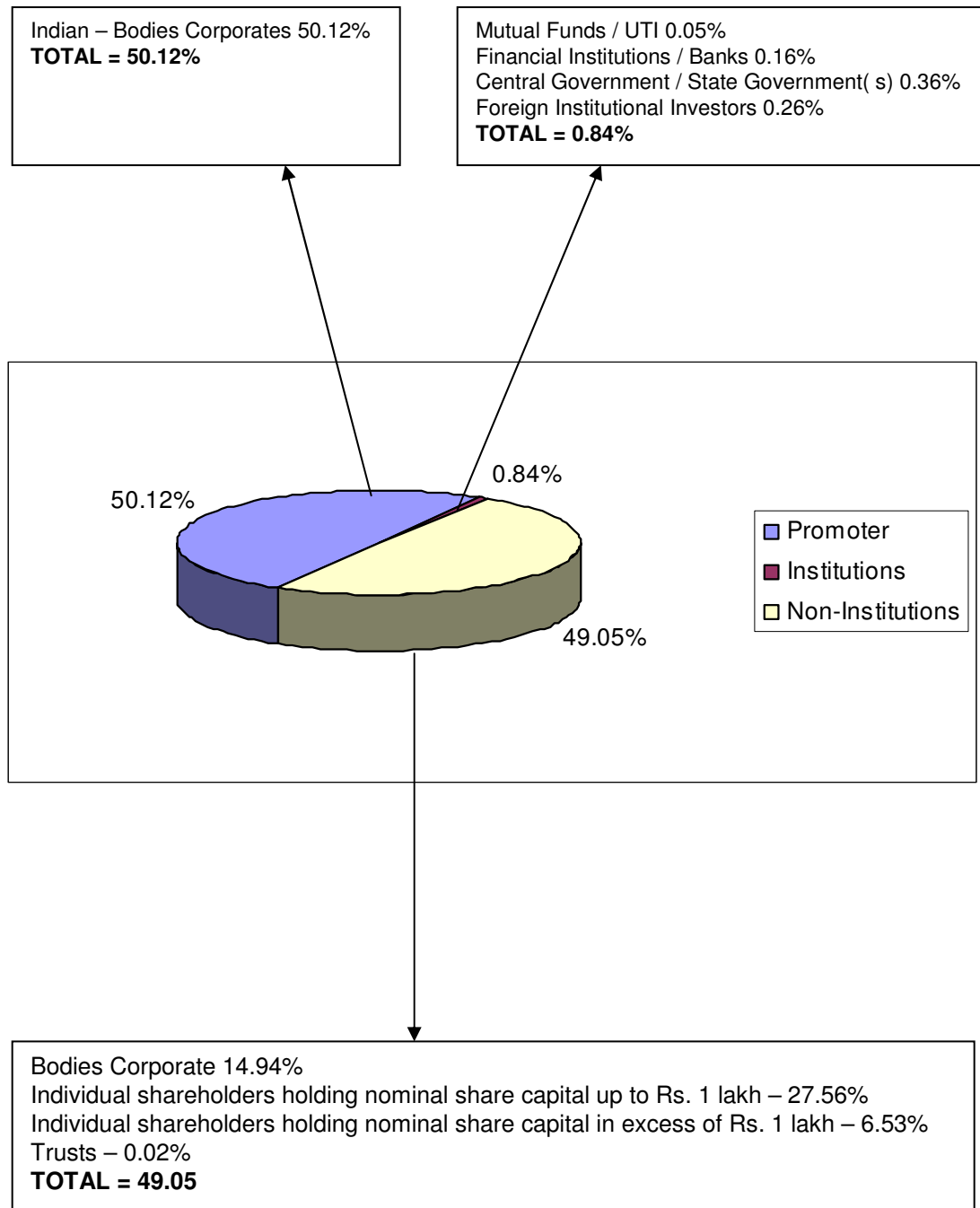
Industrial System Division (ISD)

- Constitutes the SCADA system and Strategic Electronics.
- ISD operating revenue and margins in the years are directly dependent on the market growth, competition and input cost. SE's major business is depended on projects from Government Sectors, which are prone to longer gestation periods and impact of policy changes. In addition, the served industry is cyclic in nature which impacts sustained growth. Growth initiatives to pursue adjacent markets face entry barriers from existing players and require certain gestation period to deliver results.
- There is a threat of rising inflation due to increase in energy and raw material costs. These factors can impact input costs of both products and services.
- Though the Company is making every effort to reduce debt through improved NWC management, the likely rise in interest rate may have adverse impact on profitability.
- ISD has initiated actions to mitigate these risks and threats through improved customer focus, productivity, cost control and overall business process improvements.

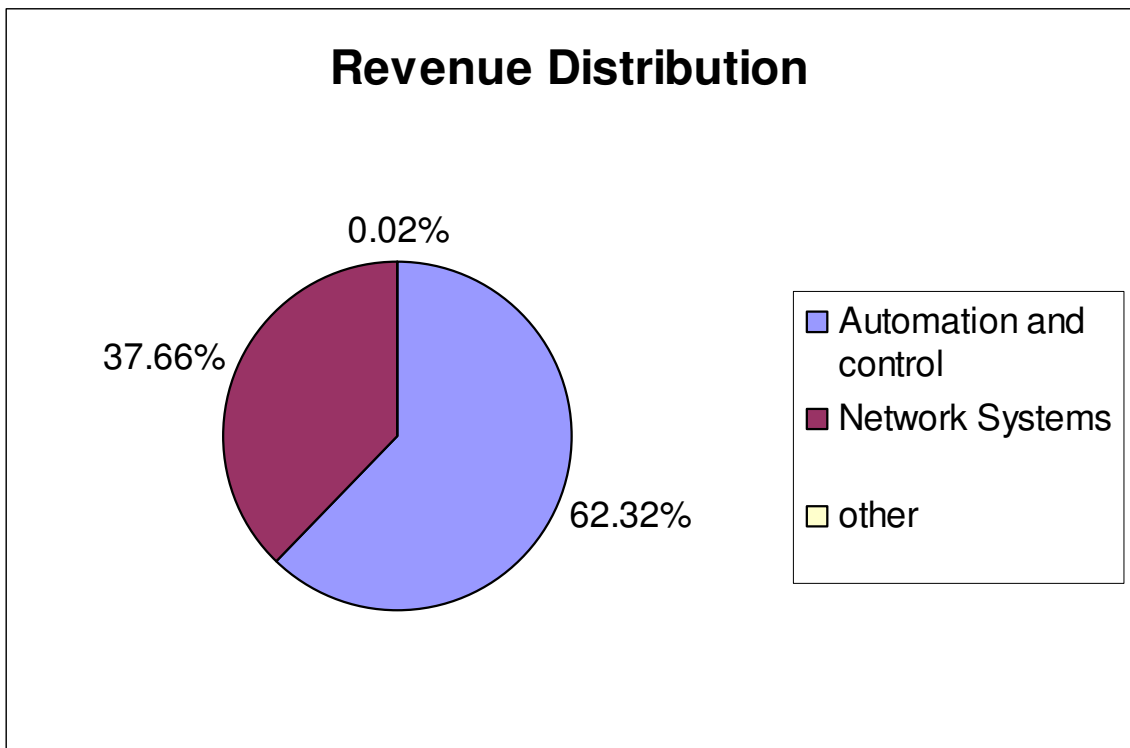
VSAT Division

- In the Telecom Industry, margins continue to be under pressure due to reactive pricing by competition and overall decline of tariff. The increasing penetration of networking services based on competing technologies can also pose a threat to our current offerings.
- Tatanet continues to address such pressures by enlarging its subscription base and launching several new innovative product propositions. The division has completed a study of modeling solutions to some new target segments in un-served and under-served areas.

SHAREHOLDING PATTERN



Income Statement	HY 07	FY 08	FY 09	FY 10 (Rs. Mn.)
Date Begin	1/10/2006	1/10/2007	1/10/2008	1/10/2009
Date End	31/03/2007	30/09/2008	30/09/2009	30/09/2010
Sales	616.30	1900.00	2850.00	3250.00
Expenditure	534.00	1664.40	2451.00	2746.25
EBIDTA	82.30	235.60	399.00	503.75
Interest	44.90	102.00	125.00	155.00
Depreciation	20.20	70.00	85.00	95.00
Other Income	3.10	25.00	30.00	38.00
PBT	20.30	88.60	219.00	291.75
TAX	6.20	29.68	72.27	97.01
PAT	14.10	58.92	146.73	194.74
Equity	228.20	228.20	228.20	228.20
Reserves	12.20	42.00	137.00	254.00
EPS	0.61	2.58	6.43	8.53



Financial Ratios			
	1/10/2006	1/10/2005	1/10/2004
	31/3/07	30/9/2006	30/9/2005
Operating Profit Margin/PBDIT (excl. O.I.)	13.35	11.89	7.01
Operating Profit Margin/PBDIT (incl. O.I.)	13.79	12.83	9.82
PBT Margin	3.28	3.26	0.39
NPM (%)	2.28	2.62	0.19
ROE	5.87	12.94	1.08
Interest / Sales	7.29	6.76	6.93
Tax/PBT	30.54	19.43	51.85
Book Value (Rs.)	10.53	10.53	10.53
Eps	0.617879	1.5	0.21
Market Price - (Rs.)	107.7	75.25	41.25
Price / Earnings Ratio - (x)	174.31	50.17	196.43
Market Cap. (Rs. Mn.)	2457.71	1717.21	941.33
Market Capitalisation to Sales (x)	3.99	1.46	0.69
Market Price to Book Value (x)	10.22	7.14	3.92
Dividend Yield (%)	0	0	0

Disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients and Associates of arm research. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither arm research, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without arm research's prior written consent.