

**NELCO Ltd.****₹ 275****VSAT connecting India Digitally...!!! Buy****Company Background**

NELCO was promoted in 1940 by Investment Corporation of India, to manufacture broadcasting equipment. Its present activities are manufacture, trade & sale of consumer electronic products, sale of business systems and office products. It offering solutions in the areas of Integrated Security & Surveillance, VSAT connectivity, Managed Services, Satcom Projects and Meteorological Solutions. To address the needs of customers across industry verticals. It introduced telebanking in the nationalised banks & computerised more than 65 branches of 28 banks all over India. Company also introduced India's first LAN inter-connectivity products. NELCO transferred its business systems division to a new subsidiary- Nelito Systems, formed in association with Itochu Corporation, Japan. It has been selected by Chittaranjan Locomotive Works for power control and auxiliary equipment of 6000 HP AC locomotives. NELCO and GE of USA have signed a co-operation agreement which will enable both to play complementary role in providing state-of-the-art drive and automation systems for the metal industries in India.

**Key Highlights**

- ➔ NELCO has total 3 business lines, VSAT Service is major business line, Integrated Security & Surveillance Solutions (ISSS) and Unattended Ground Sensors are another 2 business lines. For FY 17 its total revenue is ₹ 981.8 mn of which VSAT Service has contributed 97.26%.
- ➔ Banking industry continues to use VSATs for expanding their ATM services across the country. Currently there are about 1,10,000 ATMs connected on VSATs, which is likely to grow to around 2,00,000 in next 4 years.
- ➔ It estimates VSAT industry in India to more than double in 2-3 years once the license for offering the Maritime & Aero Communication services are granted.
- ➔ Company plans to set up one more Ku band VSAT hub in FY 18 to further increase the satellite bandwidth capacities.
- ➔ High Throughput Satellites & other developments in equipment technology, can give boost to the VSAT industry. This would be available for commercial use in India within the next 2 years on Indian as well as foreign satellites.

**Key Financials**

Year Ended 31 <sup>st</sup>	Sep 14	Mar 16	Mar 17
Revenue (INR mn)	1,080.4	1,377.5	981.8
Rev. growth (%)	(3.22)	27.50	(28.73)
EBITDA (INR mn)	126.1	199.8	186.3
Net profit (INR mn)	12.9	13.3	66.7
Shares outstanding (mn)	22.8	22.8	22.8
EPS (INR)	0.6	0.4	2.9
EPS growth (%)	0.00	(30.36)	648.72
P/E (x)	156.43	228.97	26.97
RONW (%)	(20.87)	(0.71)	14.92
ROCE (%)	2.78	7.41	11.78



Gateway to Prosperity

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**Info Codes**

Reuters	: NELC.BO
Bloomberg	: NELCO IN
NSE	: NELCO
BSE	: 504112

**Market Data**

52 Wk Range (₹)	: 78/290
Shares in Issue (mn)	: 22.8
Market. Cap ( bn)	: 6.26
BSE 2 Wk Avg Vol	: 41000

**Share Holding Pattern (%)**

Promoters Holding	: 50.09
Public & Others	: 45.07
Corporate Holding	: 00.00
Foreign Institution	: 00.06
Institutions	: 04.47
Government	: 00.31

**Investment Theme**

VSAT is a communication system that is operated through the satellite. The growth will be driven by new applications like distance education, Internet, rural connectivity, banking and finance, and gaming. Global maritime VSAT market to grow at a CAGR of 13.74 % during the period 2017-2021. VSAT services help in maritime surveillance, commodity tracking, identifying illegal fishing, improving maritime domain awareness, search and rescue operations & anti-piracy. VSAT industry is fastly expanding globally due to advancement in technology and open up many growth sectors. By this growth forecast NELCO is going to introduce two services such as Aero & Maritime Communication in the country. Government agencies & oil and gas companies are the major customers. It taken decision to divest UGS business.

***It connects your Business...!!!***

## Financial Statements

### Income Statement

(₹ mn)

Year end	Sep 14	Mar 16	% Chg	Mar 17	% Chg
Net Sales	917.3	1,332.1	45.2	893.9	(32.9)
Other Income	156.2	45.4	(70.9)	87.9	93.6
Change in Stocks	(47.2)	(0.8)	(98.3)	10.1	(1,362.5)
Raw Material Con.	332.9	420.6	26.3	264.0	(37.2)
Employee Exp.	178.2	279.4	56.8	211.8	(24.2)
Indirect Taxes	6.9	0.0	(100.0)	0.0	0.0
Other Exp.	382.2	476.9	24.8	329.8	(30.8)
Operating Exp.	900.2	1,176.9	30.7	805.6	(31.5)
Operating Profit	126.1	199.8	58.4	186.3	(6.8)
Total Interest	61.9	115.8	87.1	73.2	(36.8)
Gross Profit	64.2	84.0	30.8	113.1	34.6
Net Dep.	51.3	70.7	37.8	46.4	(34.4)
Total Taxation	0.0	0.0	0.0	0.0	0.0
Net Profit/Loss	12.9	13.3	3.1	66.7	401.5

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Sep 13	Sep 14	Mar 16	Mar 17
<b>SOURCES OF FUNDS</b>	<b>932.3</b>	<b>791.0</b>	<b>926.7</b>	<b>685.9</b>
Equity Share capital	228.2	228.2	228.2	228.2
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	(137.4)	(124.5)	(143.2)	(79.0)
Secured Loans	27.0	34.6	64.7	87.0
Unsecured Loans	814.5	652.7	777.0	449.7
<b>USES OF FUNDS</b>	<b>932.3</b>	<b>791.0</b>	<b>926.7</b>	<b>685.9</b>
Gross Block	750.5	813.1	220.2	302.6
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	525.4	581.9	70.7	117.1
Net Block	225.1	231.2	149.5	185.5
Capital Work in Progress	5.7	1.8	5.2	28.5
Investments	19.9	21.2	70.4	61.8
Current Assets	930.3	712.9	778.5	556.7
Less : Current Liabilities	531.7	436.2	363.9	357.1
Total Net Current Assets	398.6	276.7	414.6	199.6
Misc. Expenses not writtenoff	283.0	260.1	287.0	210.5
<b>NOTE</b>				
Book Value of Unquoted Investments	19.9	21.2	70.4	61.8
Market Value of Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	239.2	331.5	429.3	422.5
Dividend (%)	0.0	0.0	0.0	0.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 17	Sep 17	Dec 17	Mar 18
Net Sales	78.1	80.2	79.7	81.0
Cost Of Sales	74.5	75.7	76.0	80.2
Operating Profit	3.6	4.5	3.7	0.8
Other Income	26.3	33.6	36.8	42.3
Adjusted PBDIT	29.9	38.1	40.5	43.1
Financial Expenses	13.2	12.6	12.2	9.8
Depreciation	0.6	0.6	0.5	4.4
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	16.1	24.9	27.8	28.9
Tax Charges	0.0	0.0	0.0	0.0
Reported Profit	16.1	24.9	27.8	28.9
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	16.1	24.9	27.8	28.9

52 Week Index Relative Percentage Appreciation



NELCO vs SENSEX

Risks Associated

➔ Company is dependent on limited technologies for hardware, if there is any technology obsolescence, creates risk for the operations. But there is option to migrate the services to an alternate technology with an investment.

Scope of Growth

- ➔ Potentiality for VSATs in Government sector is large due to thrust on panchayat connectivity, public distribution system, education, health & water management. Overall potentiality is more than 1,00,000 VSATs, time frame for implementation is uncertain.
- ➔ VSAT industry is expanding fastly over globally due to advancement in technology, which has opened up many new growth sectors like mobility services, mainly for Aero & Maritime Communication. Advancement in antenna technology is further revolutionizing this industry.
- ➔ Company has provided UGS systems to Indian Defence, which is deployed in the Northern Border of the country for detecting intrusion across the border. As a part of the agreement with Ministry of Defence, It had a long term obligation to provide spares support to the defence.
- ➔ The VSAT operators are required to lease satellite transponder space only from Antrix Corporation Ltd. Antrix arranges for the Transponder space in satellites belonging to ISRO or foreign satellite operators. The industry has been growing at around 8% p a, there are 5 main operators for this business in the country.
- ➔ Company had more than 45% market share of the incremental VSAT deployment in off-site ATMs during the year.
- ➔ Company has making continuous investment in increasing its infrastructure for providing VSAT services. During the year it has set up a new extended-C VSAT Hub in Mahape. These infrastructure investments would help NELCO in meeting the needs of the market.

**In a Nutshell**

NELCO manufactures, trade and sale of consumer electronic products, sale of business systems and office products. It has 3 business segments like; VSAT service, Integrated Security & Surveillance Solutions (ISSS) and Unattended Ground Sensors (UGS). Out of all VSAT is a major business. It is one of the major VSAT service providers in India and is amongst the top three. VSAT industry in India will grow to more than double in 2-3 years time once the license grant for offering the Maritime and Aero Communication services. Company plans to set up one more Ku band VSAT hub in FY18 to further increase the satellite bandwidth capacities. Banking industry continues to use VSATs for expanding their ATMs across the country. Currently there are about 1,10,000 ATMs connected on VSATs, which is likely to grow to around 2,00,000 in the next 4 years. Company is investing regularly on technology to improve the services. During the year company has installed 9,053 VSATs to its base as against 15,803 VSATs during the 18 month period in the previous year. On 31st March, 2017 it had VSAT installation base was more than 50,000 which was nearly 19 % of the industry installations. For the ATMs it was added 6,998 VSATs for various banks. It has strengthened its presence in the Financial and offshore Oil & Gas exploration segments. It is providing ISSS applications mainly to the Defense customers. UGS systems is provided to Indian Defense, which is deployed in the Northern Border of the country for detecting intrusion across the border. Company introduced telebanking in the 28 nationalised banks all over India. It is seeking for the permissions from Government of India to offer Aero & Maritime Communication services in the country, the permission would be given in the future.

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**Rating Interpretation**

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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