

Indian Coast Guard

Surveillance Project – Opportunity Outline

24th February, 2011

aviotech

Surveillance Project: Significant upside potential for bidders

Aerospace & Defense | India

24th February 2011

Aviotech Defense Advisory & Investments

Rahul Gangal +91 (0) 770 233 1818
Director

Aviotech Defense Advisory & Investments
rahul@aviotech.com

Investment Summary

- Indian Coast Guard (ICG) has picked up pace in revamping the physical and intelligence infrastructure over the past one year.
- This uptick in activity is a direct outcome of the events of attack on Mumbai on 26/11/2008 and the serious deficiencies in maritime patrol that showed up in the investigative process that followed the incident.
- The uptick of this activity has resulted in a series of commercially significant contracts that are in the pipeline/have already been awarded. Most of these contracts have balance sheet transforming capability due to their size, importance and possibility of subsequent related orders.
- A note worthy opportunity is the Coastal Surveillance Project and its various sub-components.
- The effective size of the entire programme (with all the components) is USD 3.1 Bn.

Background

- India's 7000km long coast is being strengthened.
- The primary reasons for this strong focus is:
 - Events of 26/11 and issues of monitoring people and material flows with a view towards security.
 - Protection of Exclusive Economic Zone confers its allotted zone of 2,013,410 Sq km and the continental shelf of almost 2.9 million sq. Km.
 - Protection of further sovereign rights and entitlements of its sea- bed resources of 150,000sq km in the high seas.
- India's maritime-littoral borders are porous in many respects. Indian Naval Strategy enunciates three zones of control. These zones are concentric zones that radiate from its core namely are the (a) Zone of Positive Control (ZPC), (b) Zone of Medium Control (ZMC), and (c) Zone of Soft Control (ZSC). These zones indicate range, domain and capability of the Indian to engage a given enemy before it can endanger or damage national assets ranging from national sovereignty to

Programme Facts

Programme Administered by:

- Indian Ministry of Defense
- Indian Ministry of Home Affairs

Applicable Procurement Guidelines:

Defence Procurement Procedures 2008 / 2011

Programme Quantum:

USD 3.1 bn

Programmes covered in this note:

- MDA
- Coastal Surveillance Project

resources at sea. In the Zone of Positive Control (ZPC), the Indian Coast Guard is expected to be fully integrated in the tactical plans

- The challenge that has now arisen in the aftermath of the events of 26 November 2008 in Mumbai demands the critical need for a real-time offshore patrolling capability that would have integrated naval-air intelligence and reconnaissance capability that would interface laterally with various wings of the armed forces and civilian administration.
- Effective 24/7 surveillance of fishing operations, marine activities in the Exclusive Economic Zone, movements and positions of foreign vessels in designated sea-lanes of communication, observation of movements of crafts of opportunity (coop) in seamless coordination with the coastal police, customs and excise, and the Indian Navy are the key objectives of the Indian Coast Guard.
- Key projects that have been initiated over the last one and half year include
 - Fast patrol vessels (14 Nos.)
 - Interceptor Boats (20 Nos.)
 - Offshore Patrol Vessels (7 Nos.)
 - Fast Interceptor Crafts (hiring) (2 Nos.)
 - Coast Guard Maritime Patrol Aircraft (6 Nos.)
 - Procurement of Coastal Surveillance Radars (120 Units)
 - Creation of the National Maritime Domain Awareness Grid (MDA)
 - Procurement of 6 light helicopters for Surveillance and reconnaissance.
 - Sensors for Directorate of Lighthouses and Lightships order for coastal sensors (Awarded to SAAB – November 2010 – USD 11 Mn)

Indian Coast Guard
Strength of the ICG in March 2009:
43 ships
23 boats
45 aircrafts
27 coast guard stations
8 air stations
Approximate personnel Strength : 7500
Additional Sanctions strength of the ICG for addition by2012:
40, ships
20 boats
42 aircrafts
7 offshore patrol vessels
20 fast patrol vessels
12 Dornier aircrafts
131 additional coastal police stations
120 Additional observation posts
Approx Personnel Strength Addition : 5500

Opportunity: Coastal Surveillance Radars & National Maritime Domain Awareness Grid (MDA)

- There are multiple opportunities that are in the pipeline on this activity.
- The first phase of the Coastal Surveillance Project involves an indigenously built system by [BHARAT ELECTRONICS LIMITED](#) to be deployed in 46 strategic western and eastern locations. This system includes radars and electro-optic and meteorological sensors and would be mounted on light-houses or towers on location for an operational picture of the sea in range of 20 km from shore. The project was to commence deployment in November though operational deployment is slated for December, 2010. The system has already been demonstrated at two locations and the trial phase had been completed.
- BEL is now anticipating a follow-on order – approx USD 120 Mn for maintenance of these stations.
- Key opportunity on this system is the sub-contracting work from BEL units at Bangalore and Ghaziabad. Additionally there is also the opportunity to support the development of a nodal information gathering and processing centre to be set up in New Delhi.
- The second phase of the project involves setting up of 120 multi-modal coastal surveillance radars by BEL.
- [TERMA](#) has been subcontracted a part of the work on this project. A Canadian company OBZERVE has been awarded the sub-contract for supply of optronic pedestals.
- Other key players competing in this segment for significant work share are [Cobham](#), [Thales](#) & [Elta](#) .
- As of end December, 2010 the trials were complete and the Indian Coast Guard had expressed its satisfaction at the system proposed by BEL. The sub-contracting opportunities emanating from BEL are now expected to become significant commercial top and bottom line impact on the awardees of the work.
- A large opportunity also exists in the setting-up of the National Maritime Domain Awareness (MDA) Grid – which is expected to link up all intelligence agencies, Indian navy units, coastal police units, Ministry of Agriculture, Ministry of Shipping, Ports and Departments of Customs and Revenue. This ambitious project has been earmarked with funds in the range of USD 300 Mn with a timeline of 2012-13 for award and commencement of project.

Performance of some of the companies mentioned in this report

Source: Bloomberg

Thales SA

NYSE Euronext Paris, [HO] EUR 24th February 2011

Bid/Ask	26.50/26.50	Market Cap	5,293.04M	Relative P/E	N.A.
52 Wk High/Low	30.29/24.99	P/E (TTM)	N.A.	Earnings	-1.03

Cobham

London Stock Exchange, [COB] GBX 24th February 2011

Bid/Ask	217.50/217.90	Market Cap	£2514.59M	Relative P/E	1.02
52 Wk High/Low	278.60/188.60	P/E (TTM)	16.08	Earnings	0.16

Bharat Electronics

Bombay Stock Exchange, [BEL] INR 24th February 2011

Bid/Ask	1670.00/1680.00	Market Cap	13,4480M	Relative P/E	N.A.
52 Wk High/Low	2252.00/1610.10	P/E (TTM)	24.19	Earnings	92.16

DISCLAIMER

DISCLAIMER: This note has been prepared by Aviotech Defense Advisory Investments on the basis of publicly available information, information provided by various sources, neither which have been independently verified by Aviotech. Aviotech or its employees shall in no circumstances whatsoever be liable or responsible for any inaccuracies, omissions, mistakes or errors in this paper and for any economic or any other loss or damage, incurred or suffered by the reader/ user or any other person, arising (whether directly or indirectly) out of or in connection with such information. This note has been prepared without prejudice. Any and all information contained herein is based on good faith assumptions and is provided for general information purposes only. This information does not constitute an offer, promise, warranty, or guarantee of performance. This document should not be used or relied upon for any purpose other than as intended by Aviotech. Opinions expressed herein are subject to change without notice. Aviotech undertakes no obligation to provide the recipient with access to any further information or to correct any inaccuracies or omissions which may become apparent.

Aviotech Defense Advisory Investments does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision

Aviotech Defense Advisory and Investments

India

202-206 Sewa Corporate Tower, Sector 25, MG Road, Gurgaon 122002

UK

31A, St. James Square, London SW1 YJR

www.aviotech.com