

### Stock Review of Techno Funda Research Product - Early Signals

June 04, 2009

Early Signals Call Information Data	Reco. Dt.	Reco. Price	Scrip Code	Grade	Face Value	CMP	Target	Stop Loss
<b>Zicom Electronic Security Systems</b>	06 Jan., 09	112	531404	D	10	95	145	92

#### SHARE HOLDING (%)

Promoters	18.4
FII	5.5
FI / MF	4.1
Body Corporates	24.2
Public & Others	47.8

#### STOCK DATA

Reuters Code	ZICO.BO	
Bloomberg Code	ZSS@IN	
NSE Symbol	ZICOM	
Mkt.Cap.	Rs. 1206 mn	
Shares	12.7 mn	
Outstanding(*)		
52 Weeks (H/L)	Rs.172 /40	
Avg. Daily Volume (6m)	35,017 Shares	
Price Performance (%)		
1M	3M	6M
13	50	84
200 Days EMA Rs.81		

\* fully diluted equity

Y/E Mar	Net Sales (Rs.mn)	APAT (Rs.mn)	APAT (% Chg)	EPS (Rs)	ROE (%)	ROCE (%)	P/E (x)	P/BVPS (x)
FY08	2,902.6	14.5	(81.7)	1.1	1.6	9.1	83.2	1.3
FY09E	3,761.4	132.0	810.6	10.4	12.9	20.1	9.1	1.2
FY10E	4,607.7	167.2	26.6	13.2	14.4	21.7	7.2	1.0

- ▶ Zicom Electronic Security Systems Ltd. (Zicom) is the leading organized Electronic Security Solutions provider in India. The Company offers a wide range of products including Access Control Systems, CCTV Surveillance, Fire Alarm Systems, Smart Cards, Biometrics, Remote Video Surveillance, Perimeter Protection System, Law Enforcement Products, etc.
- ▶ Zicom has got strong software capabilities relating to the security business. It has also integrated all the multiple security applications into one coordinated hardware and software package.
- ▶ The Company has pioneered the concept of Central Monitoring Station in India and it was the first to introduce wireless security systems. It serves the diverse and demanding security needs of private and public sectors. Its customers include several large Indian and multinational companies in the field of IT, telecom, media, banking, finance, industrial, etc. as well as various public sector units.
- ▶ The Company has secured various Government projects including Mumbai City Surveillance, Bangalore City Surveillance, Kolkata Metro, Mumbai Western Railway.
- ▶ Recently, the Company has introduced a revolutionary "First-of-it-Kind" Product i.e. Explosive Trace Detector (ETD) MN1000 nicknamed Mini Nose under an exclusive strategic tie-up with Israel-based Scent Detection Technology. The MN1000 is a portable, highly sensitive, reliable and easy to use ETD.
- ▶ During 9MFY09, the Company has delivered a decent performance. Its consolidated revenues, EBITDA and net profit after minority interest stood at Rs. 2,719.1 mn, Rs. 353 mn & Rs. 134.1 mn respectively. It has posted an EPS of Rs. 10.6 for the period under review.
- ▶ The stock currently trades at 7.2x its FY10E earnings and 1.0x FY10E BV

## INVESTMENT RATIONALE

- ▶ The size of Electronics Security market of India currently stands at Rs. 15 bn. Given that India needs to significantly improve on its security measures and that a number of human lives are lost everyday due to security lapses, the Government is expected to take the security issue very seriously, and huge investments are expected to be made to improve the security system of the Country in the coming years.
- ▶ The Electronic security business is not affected by global slowdown, except the real estate segment where the properties are not selling at the same pace as before. With expected substantial investment in electronic security systems going forward, the industry is expected to grow at a very robust pace.
- ▶ The Government has given emphasis on security in Railway Interim Budget. The Railway has planned the installation of CCTVs and metal detectors on all major stations, also anti-collision and fire-safety devices have to be introduced in all trains.
- ▶ The people have seemingly realized the importance of security and with increased awareness about the security concept, they are willing to spend money on their safety requirements.
- ▶ Zicom's consolidated revenues were Rs. 2,911.6 mn in FY08, registering 87% YoY growth. However, the net profit (after minority interest) stood at Rs. 14.5 mn. The lower net profit can be attributed to the massive advertisement and brand-building expenditure amounting to Rs. 218.4 mn spent for building up new category of security product for SOHO market i.e. Small Office & Home Office. However, during 9MFY09, the Company has delivered decent performance and its consolidated revenues, EBITDA and net profit (after minority interest) stood at Rs. 2,719.1 mn, Rs. 353 mn & Rs. 134.1 mn respectively, while its EPS for the period under review stood at Rs. 10.6.

## SUBSIDIARIES AND JOINT VENTURES

- ▶ Zicom ventured in to the promising business of providing Fire Detection and Fire Fighting systems, equipment and services by acquiring 49% stake in Dubai-based Unisafe Fire Protection Specialists LLC, which is one of the reputed fire protection companies in the UAE with its presence in Dubai and Abu Dhabi, operating for almost a decade.
- ▶ Unisafe caters to a large spectrum of clientele from government to corporate, refineries, shopping malls, multi-storied buildings, resorts, etc. and offers a comprehensive range of solutions for all fire protection needs starting from the basic Hydrant and Sprinkler Systems to advance Analogue Addressable Fire Alarm Systems and specialized Gaseous Fire Suppression Systems. During FY08, Unisafe posted significant growth and achieved total income of Rs. 722 mn and a net profit of Rs. 126.2 mn.
- ▶ Zicom had hived off its Consumer Service Group Business (CSG) to its Wholly Owned Subsidiary i.e. Zicom Retail Products Pvt. Ltd. with effect from April 1, 2007. This was initiated to focus on security needs of fastest growing retail and residential segments in the country. The retail business has been divided into separate verticals to focus on specific market/end-user segments with robust distribution network. In FY08, Zicom Retail had recorded Rs. 509 mn total income, while its net loss stood at Rs. 153.8 mn. The loss can be attributed to heavy advertisement and brand building expenditure amounting to Rs. 218.4 mn incurred for building up new category of security product for SOHO market.
- ▶ With a view to promoting international marketing and sales of Zicom branded products and helping the Company to source equipment at the competitive prices, a subsidiary was set up in Hong Kong on April 12, 2007 in the name of Zicom Manufacturing Co. (HK) Ltd., with 76% shareholding. In FY08, the subsidiary has posted Rs. 47.8 mn total income, while its net profit stood at Rs. 4 mn.

## BALANCE SHEET (CONSOLIDATED)

(Rs.mn)

As on 31 <sup>st</sup> March	FY10E	FY09E	FY08	FY07
Share Capital	127.0	127.0	127.0	97.5
Reserves	1031.4	894.0	784.2	538.9
<b>Shareholders Funds</b>	<b>1158.4</b>	<b>1021.0</b>	<b>911.2</b>	<b>636.4</b>
<b>Minority Interest</b>	<b>35.0</b>	<b>31.1</b>	<b>27.1</b>	<b>-</b>
Total Debt	1012.3	854.6	650.1	575.0
<b>Total Liabilities</b>	<b>2205.7</b>	<b>1906.6</b>	<b>1588.4</b>	<b>1211.4</b>
<b>Fixed Assets</b>	<b>763.9</b>	<b>710.8</b>	<b>629.1</b>	<b>346.3</b>
<b>Investments</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Sundry Debtors	1170.2	975.1	780.1	432.6
Cash and Bank	176.8	156.8	108.2	183.7
Loans and Advances	500.3	416.9	333.5	227.9
Inventory	288.2	262.0	238.2	287.2
<b>Current Assets</b>	<b>2135.4</b>	<b>1810.8</b>	<b>1460.0</b>	<b>1131.4</b>
Current Liabilities	718.1	641.1	557.5	207.2
Provisions	18.0	16.4	14.9	17.5
<b>Current Liabilities</b>	<b>736.1</b>	<b>657.5</b>	<b>572.4</b>	<b>224.7</b>
<b>Net Current Assets</b>	<b>1399.3</b>	<b>1153.3</b>	<b>887.6</b>	<b>906.7</b>
Deferred Tax Assets (Net)	47.5	47.5	71.7	(41.6)
Miscellaneous Expenditure	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>2205.7</b>	<b>1906.6</b>	<b>1588.4</b>	<b>1211.4</b>

Source: Company, Sushil Finance Research Estimates

## PROFIT & LOSS (CONSOLIDATED)

(Rs.mn)

Y/E March	FY10E	FY09E	FY08	FY07
<b>Net Sales</b>	<b>4607.7</b>	<b>3761.4</b>	<b>2902.6</b>	<b>1545.8</b>
Expenditure	3997.2	3272.4	2712.3	1380.5
<b>EBITDA</b>	<b>610.5</b>	<b>489.0</b>	<b>190.3</b>	<b>165.3</b>
Interest	191.1	156.0	136.3	43.4
<b>EBDT</b>	<b>419.5</b>	<b>333.0</b>	<b>54.0</b>	<b>121.9</b>
Depreciation	141.9	113.5	60.8	35.7
<b>PBT excl. Other Income</b>	<b>277.6</b>	<b>219.5</b>	<b>(6.8)</b>	<b>86.2</b>
Other Income	9.6	8.0	15.8	37.2
<b>PBT incl. Other Income</b>	<b>287.2</b>	<b>227.5</b>	<b>9.0</b>	<b>123.4</b>
Tax	85.0	64.4	(31.7)	44.1
<b>Net Profit before Min. Int.</b>	<b>202.2</b>	<b>163.1</b>	<b>40.7</b>	<b>79.3</b>
Minority Interest	35.0	31.1	26.2	-
<b>Net Profit after Min Int.</b>	<b>167.2</b>	<b>132.0</b>	<b>14.5</b>	<b>79.3</b>
Extraordinary Items	0.0	0.0	(1.0)	(3.0)
<b>Adjusted Net Profit</b>	<b>167.2</b>	<b>132.0</b>	<b>15.5</b>	<b>82.3</b>
EPS (Rs)	13.2	10.4	1.1	8.1

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