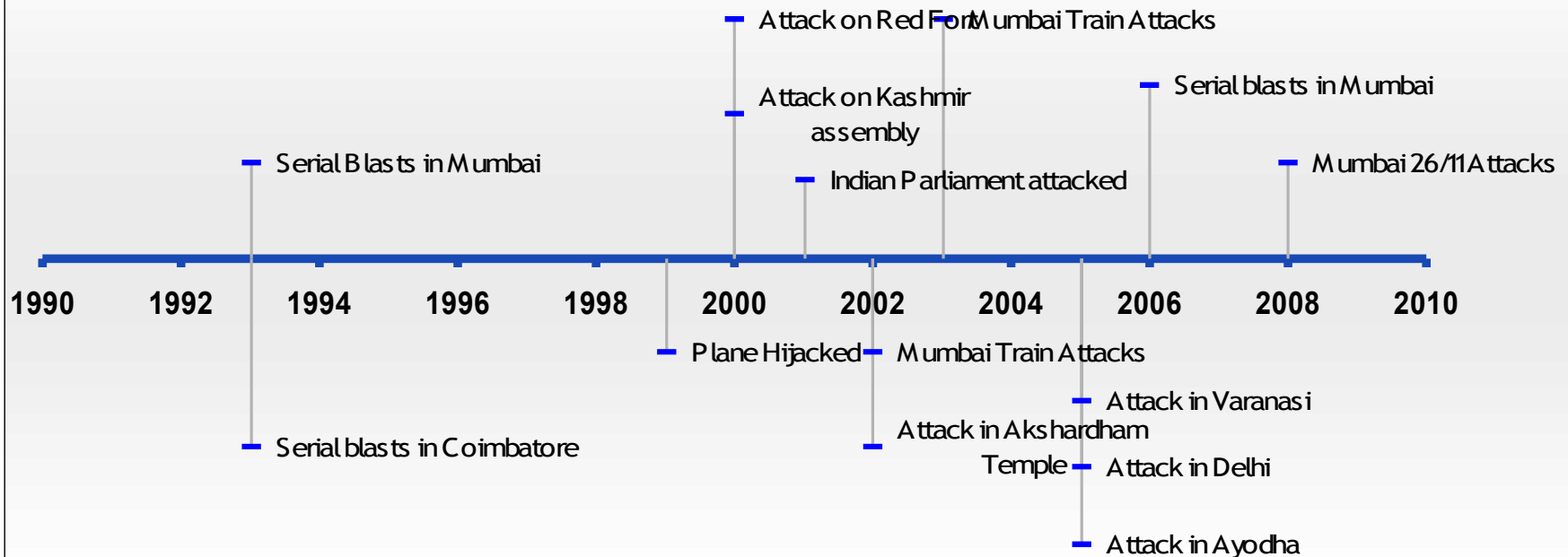


The Indian Security Market

...A Giant in Making

We have had a long history of attacks but yet anything concrete is to be done...

India Terrorist Attacks

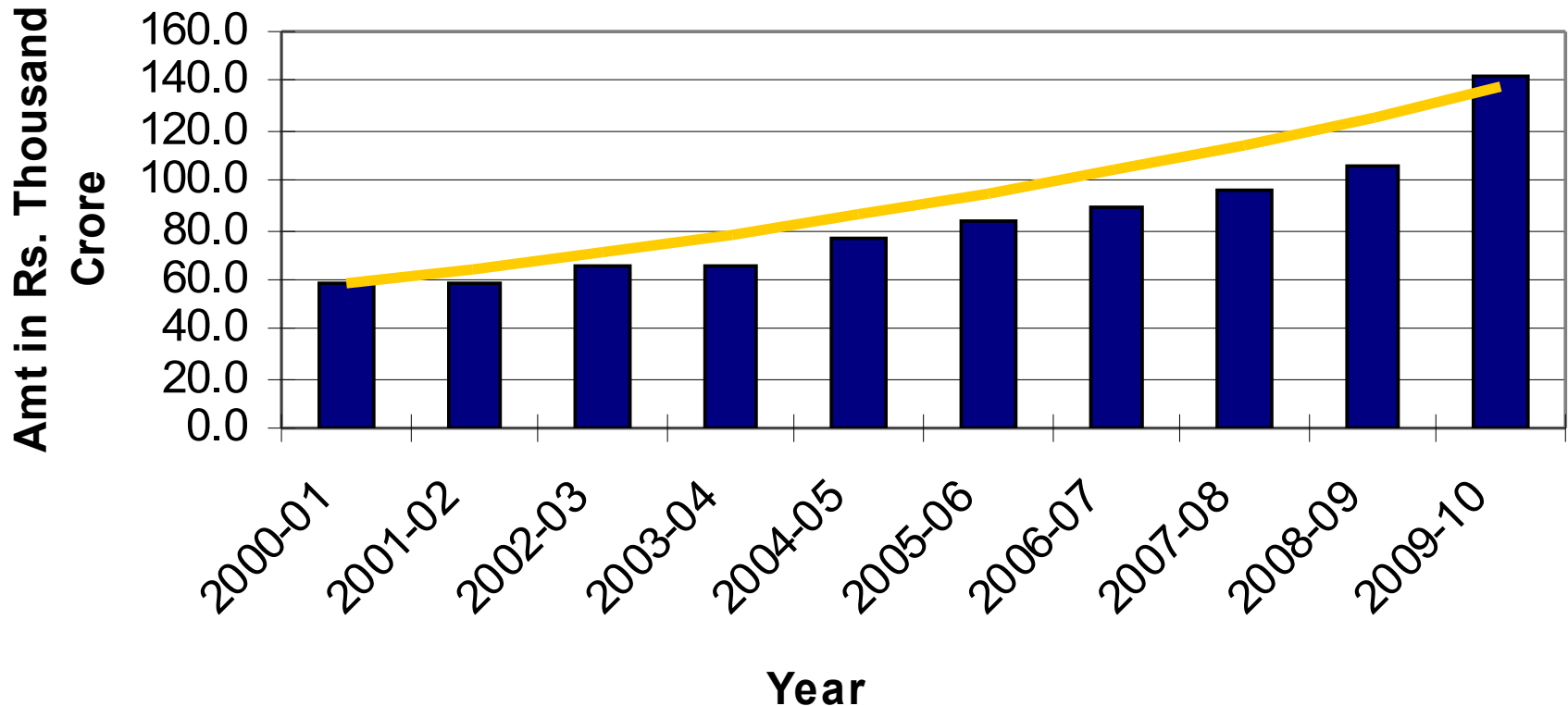


However the government is taking notice...

- In December 2009 India will take center-stage globally, on security issues, with the commencement of the first ever “Global Security Conference” to be held in the country
- “Automated Surveillance” will be launched at IFSEC India 09
- “Gujarat plans 111 (QRT’s) Quick Response Teams to tackle Terror”
- P Chidambaram urges police chiefs to “think-out-of-the-box”
- “Chidambaram to create an IT enabled security system much on the lines of the US to secure the country from terrorist attacks”
- Making crime and criminal Tracking Network and Systems (CCTNS) and the National Intelligence Grid (NATGRID) on the steps of FBI
- “Government plans 20 anti-terror schools”
- As a result of Mumbai terror attacks Home Minister P. Chidambaram announced to set up four hubs of National Security Guards (NSG)
- Delhi Police Commissioner announced a budget of Rs 380 crores for implementing the integrated security systems project for the Commonwealth Games

Budgetary allocation on defence has been on an increase

DEFENCE ALLOCATION



India Inc. taking notice....

- On 1st August 2009 Infosys became the first private firm to receive Central Industrial Security Force (CISF) at a cost of Rs 2.6 cr per year which it will spend just on its Bangalore facility
- R. K. Mishra, Inspector General, CISF, said: “This is the first time since its creation in 1969 that the CISF will be providing security cover to a corporate organisation in India.” The agency is “pleased and proud to be entrusted with the responsibility of security at Infosys.”
- CISF has 79 pending security requests from private establishments. These include: Reliance Jamnagar Refinery, Wipro, Taj Hotel (Mumbai), Trident Hotels (eight locations), Hotel Marriott (Mumbai), Delhi Public School (three branches in Delhi), Jaypee Group of Hotels (eight hotels) and Torrent Powers (Ahmedabad)
- This in itself shows that enough is enough and now India Inc. does means business

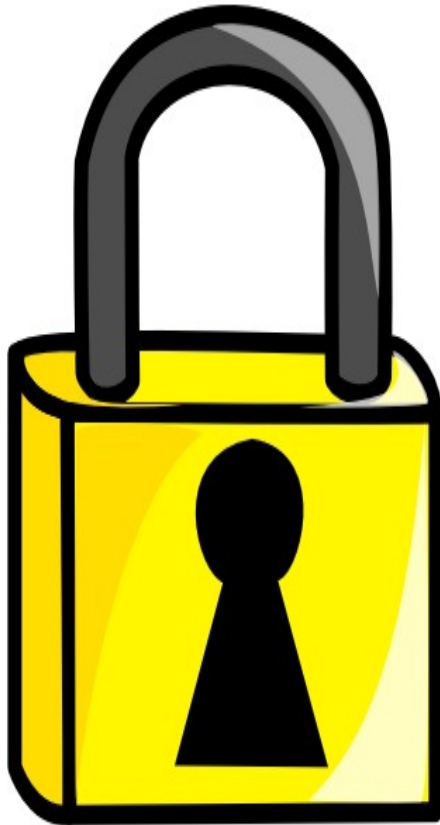
Making sure that we protect growing India...

- The number of airports is expected to jump from the current number of 85 to 400 in the next 10 years as quoted by Praful Patel (Ministry of Civil Aviation)
- India has 6856 railway stations with 8702 passenger trains carrying 14 million passengers
- Under the Federation of Hotel & Restaurant Associations of India there are 2052 hotels and 1016 restaurants
- Hotel industry is also inextricably linked to the tourism industry and its growth has added fillip to the hotel industry. Moreover with Conde Nast Traveller ranking India as the fourth most preferred travel destination and Lonely Planet selecting the country among the top five destinations from 167 countries, India has finally made its mark on the world travel map
- The hospitality sector is expected to rise to US\$ 275 billion in the next 10 years. The domestic hospitality sector is expected to see investments of over US\$ 11 billion in the next two years within 40 international hotel brands making their presence in the country in the next few years
- It shouldn't be hard to realise that the way we perceive security today has to change, as we have to change our mindsets from traditional personnel, to technology enabled security system. Old methods won't stand good in the future because terrorist's and criminal's are changing but are we?

Still increasing crime rates are denting development....

- India as a developing country and when we talk about us getting into the elite league of the developed countries what we talk about is industrial growth, increasing income, improving health standards
- Even the Human Development Index (HDI) does not constitute national security as a component which is shocking considering what is the use of development when we cant offer basic security to the citizens
- It is more an irony that Iceland which ranks 3rd in the world in (HDI) also tops the charts for the highest reported crime rates along with Norway which tops the (HDI) charts also comes fifth in the world when it comes to crimes taking place
- The question then arises that are we actually developing because these reports signify that the faster a country grows the faster grows its crime rates

...because the traditional methods of security are not advanced enough



..and technology scores over manned security because CCTV's don't sleep and nor can they be bribed.....

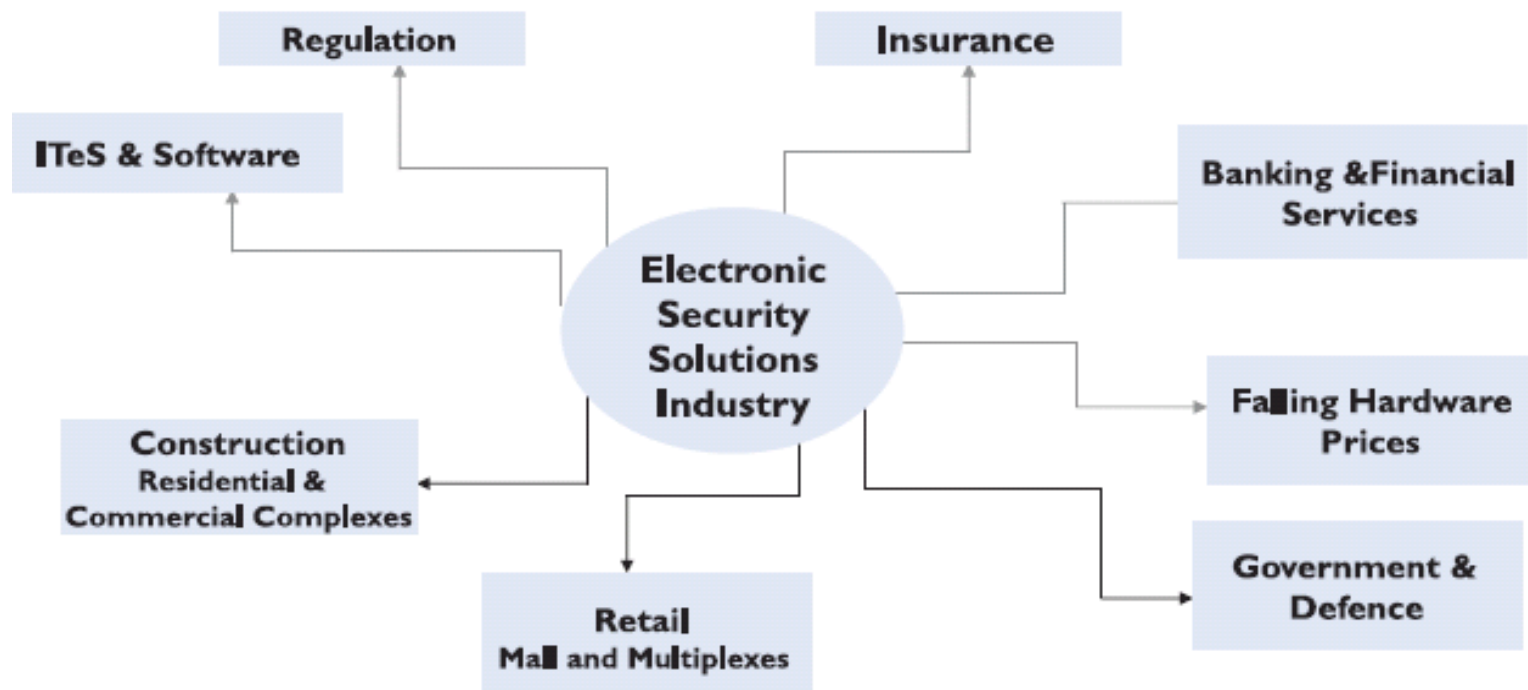


....thus the demand for advanced security products is on a rise..

- With the introduction of technology every field has changed and so has the way we perceive security.
- Guards have been replaced by CCTV's, motion sensors and new age devices which have taken over from traditional methods of security
- Now we see cameras installed at every strategic locations in the country
- The corporates are taking their own measures in adopting technologically advanced methods of security
- Technological breakthrough has made it possible to decrease costs which have led to an increase in demand for these products
- Price sensitivity has been an issue which has been addressed as security is now a key cause of concern



..because all the companies need security so we are investing in a recession proof industry



Thus we can see that this industry will never cease to exist....

- Over the last 60 years of independence, sharing borders with countries that give birth to and nurture terrorism, countless reports of insurgencies, shortfall of manpower has made it inevitable that these activities would not subside in the future.
- Terrorist attacks, be it in whatever form or even technological hazards not only results in catastrophic losses in terms of human casualties, property destruction, and economic effects, but also results in profound damage to public morale and confidence.
- Security concerns have risen to alarming levels as terrorism and unseen dangers lurking around cause huge damage to human life and intellectual property. To safeguard against these hi-tech attacks and intrusions we need equally sophisticated security device
- Technology over the years has revolutionized the way people generally perceive security. The only hurdle in the deployment of these seemingly fool-proof security measures is people's acceptance
- Compared to the prohibitive 250% Import Customs Duty of the 80's, the current rate of 35% is also be considered as growth driver for the industry

... and has a bright future ahead

- Indian security market is estimated at around US \$ 1 billion for 2009 and the major sector will be airports, mass transport and maritime. The market is estimated to be US \$9.7 billion by 2016
- The Indian electronic security market is growing at 23 percent CAGR with potential to grow at 40%
- According to Nigel Luke Brown, project director of United Business Media, growth of security products in India has boosted in wake of the upcoming Commonwealth Games, surge in the retail and hotel segments, the growing infrastructure and a remarkable growth in metros
- Organized players comprise only 20 per cent of the market but account for 80 per cent of the revenue, shows that a large part of the market is still untapped by the organized lot and which shows the potential the market can generate
- Today our country is on a road to development and that means starting of many critical energy ventures which will go a long way into developing our national security
- The present security situation portrays a grim picture and these assets need to be de-risked and safe guarded if our future needs to be secured
- Thus we believe that companies in this segment will go a long way because of ever increasing opportunities in the sector

Companies Section

Zicom : : Buy

Honeywell Automation India Limited : Hold



Honeywell

Given the fact that because of the rise in global equity markets the prices of the mentioned stocks have already gone up by an average of 150% in last 6 months, one can make an initial small investment and then add on dips. The SIP form of investment is also a feasible form of investment

Investment Rationale:

- Zicom has acquired 49% stake in Unisafe, one of the most reputed Fire Protection Companies in UAE and has set up a subsidiary in Hong Kong, which will promote international marketing & sale of Zicom branded products and mark its foray into the international market and help it in using the opportunities abroad
- The company has got extremely strong clientele base which includes organizations like Mumbai airport, Jet airways, ABN Amro Bank, Hdfc bank Ltd, Standard Chartered Bank, Consulate General of Netherlands, Kolkata Metro rail, Western Railway to name a few
- The company has witnessed its sales increasing with a CAGR of 71% over the last 3 years
- The company being in a high growth segment is trading at a TTM P/E multiple of 5.58 and P/BV of 0.97 of which is low considered its peer Honeywell trades at a P/E of over 20 and P/BV of almost 6
- **Risks:**
 - The company being a leader and the first entrant in retail business from an organized sector, it needs to bear the brunt of creating awareness by spending on advertisements and sales promotions
 - The fact that the promoter group have a holding of only 18.38% of which almost 50% of the shares are pledged is a matter of concern for the company

Zicom Ltd. (2/3)

OVERVIEW

Business Description

- Zicom electronic security system which provides both home security and external electronic security systems is a pioneer in this sector in India.
- Since its inception in 1995, Zicom has established itself as an integrated electronic security solutions provider in the governmental, industrial and retail segments in India through its comprehensive product and solution portfolio.

Key Metrics as on 18th November, 2009

Listing	NSE/BSE
Current Price (Rs)	102.3
Market Cap (Rs Cr)	123.12
Free Float (%)	81.65 %
52-WEEK HIGH (Rs)	118.30
52-WEEK LOW (Rs)	43.35
BETA	.58
P/B (x)	1.02
Current P/E (x)	6.62
PEG Ratio	0.02
Dividend Yield (%)	.72

Key Products

- Home Alert System
- i-Alert Service
- Video Door Phones
- CCTV Surveillance
- Fingerprint Locks
- i-Safe Products

Shareholder Pattern (%) as on 30th June, 2009

PROMOTER	18.35
FII	4.73
DII	9.44
Corporate Bodies	
Public	39.7
Others	27.78

Price Performance(%) as on 18th November 2009

Period	Stock	S&P CNX NIFTY
1 M	-2.11%	-1.69
3 M	16.58%	15.2%
1 Year	83.53%	80.5%

Key Management

- Manohar Bidaye (Chairman)
- Pramod Rao (Managing Director)
- Dimple Mehta (Company Secretary)
- Mukul Desai (Director)
- Hemendra Paliwal (CFO)

Zicom Ltd. (3/3)

Financials (Annual):

Key Ratios (%)	2006	2007	2008	2009
Sales	75.08	154.58	290.26	375.75
Growth (%)	-	105.89	87.77	29.45
EBIDTA	10.11	15.95	17.35	50.53
EBIDTA Margins (%)	13.47	10.32	5.98	13.45
Net Profit	6.18	7.39	1.49	19.60
Net Profit Margin (%)	8.05	4.67	0.56	5.25
EPS	6.20	7.4	1.42	15.43
BVPS	41.86	63.76	96.34	99.81
ROE (%)	29.64	13.73	1.95	17.20
ROCE (%)	6.8	6.2	31.6	12.7
Debt-Equity	1.45	0.90	0.6	1.31
Interest Coverage	6.14	11.15	1.01	2.43

Financials (Quarterly):

Key Ratios (%)	Dec-08	Mar-09	Jun-09	Sep-09
Sales Growth (y-o-y)	138.43	110.54	26.21	45.51
Net Profit Margin	8.87	5.95	4.17	5.76
EBITDA Margin	15.93	14.64	14.32	13.56
EPS	3.15	4.87	3.45	5.85

Financial Analysis:

- The company posted sales of Rs 375.75 cr up 29.45% over the previous year. Sales witnessed a CAGR of almost 71% over the last 3 years
- EBITDA of the company increased by 194% over the previous year and stood at Rs 50.53 cr in FY09
- EBITDA margins increased by 747 bps in FY09 standing at 13.45% in FY09 while PAT margins increased by 475 bps standing at 5.25% in FY09
- ROCE in FY09 stands at 12.7 deteriorating over the previous year figure of 31.6 because of significant increase in capital employed which has not generated returns as anticipated
- The ROE has decreased over the years signifying lower returns being generated by the company for its equity shareholders because of equity dilution
- The company has added to its debt component significantly and its debt equity ratio stands at 1.31 in FY09 which has led to a poor interest coverage ratio of 2.43 in

Honeywell Automation India Ltd. (1/3)



Investment Rationale:

- The Company has a well-diversified clientele base, catering to HPCL, IOCL, BPCL, L&T, Tata Power, ACC, JSW Steel, ONGC, Hindustan Zinc, ITC, TCS and Tech Mahindra and along with it the company has won major contracts at Delhi Airport, Hyderabad Airport, Delhi Metro Ventilation Control
- The company has a current order book of Rs 680 cr as on Q1FY09 with over 35% market share
- The company has maintained ROCE in excess of 25% over the last 3 years and with a debt equity ratio of .02 it has a strong balance sheet with the potential of leveraging it in future

■ Risks:

- The company trades at a PE multiple of 21.56 which makes the stock expensive to enter into the current market situation
- The company has not generated much return for its shareholders and it being a subsidiary of a foreign company raises issue of creating value for its shareholders

Honeywell Automation India Ltd. (2/3)

OVERVIEW

Business Description

• Honeywell Automation India Ltd. (HAIL) is a leading provider of integrated automation and software solutions that improve productivity, enhancing comfort and ensuring the safety and security of your homes and business premises

• HAIL is headquartered in Pune with 8 offices all over India. HAIL is a listed company on the Indian Stock Exchange and is part of Honeywell Inc. the technology leader with 120000 employees across 100 countries world wide.

• Set up in 1987 as a joint venture between TATA group and Honeywell the joint venture ended, with Honeywell buying out the entire TATA stake in 2004

Key Metrics as on 18th November, 2009

Listing	NSE/BSE
Current Price (Rs)	2084
Market Cap (Rs Cr)	1842.57
Free Float (%)	18.76 %
52-WEEK HIGH (Rs)	2150
52-WEEK LOW (Rs)	652
BETA	0.37
P/B (x)	5.82
Current P/E (x)	22.51
PEG Ratio	0.63
Dividend Yield (%)	-

Price Performance(%) as on 18th November 2009

Period	Stock	S&P CNX NIFTY
1 M	9.6%	-1.69
3 M	36.14%	15.2%
1 Year	161.24%	80.5%

Shareholder Pattern (%) as on 30th June, 2009

PROMOTER	81.24
FII	0.17
DII	4.1
Corporate Bodies	1.53
Public	11.64
Others	2.84

Key Products

- Automation & Control Solutions
- Security Solutions
- Thermostats & Solar water heaters

Key Management

- Mr. M N Bhagwat (Chairman & Independent Director)
- Mr. S S Tedjarati (Director)
- Mr. N. L. Gilsdorf (Director)
- Mr. G. F. Willis (Director)
- Mr. S. L. Rao (Independent Director)
- Mr. V. M. Kapur (Managing Director)
- Ms. Sneha Padve (Company Secretary)

Honeywell Automation India Ltd. (3/3)

Financials (Annual):

Key Ratios (%)	2005	2006	2007	2008
Sales	493	643.95	868.36	962.55
Growth (%)	82.67	30.62	34.84	10.85
EBIDTA	50.5	85.84	101.1	115.09
EBIDTA Margins (%)	10.26	13.33	11.65	11.96
Net Profit	34.08	58.01	65.08	81.85
Net Profit Margin (%)	6.89	8.95	7.47	8.40
EPS	38.55	65.61	73.62	92.58
BV	149.29	217.68	265.05	357.63
ROE (%)	19.84	23.71	19.18	15.76
ROCE (%)	20.81	28.46	27.40	24.60
OCF Growth	352.91	41.9	17.54	1.89
Debt-Equity	0.21	0.05	0.03	0.02
Interest Coverage	11.28	34.87	42.06	148.01

Financials (Quarterly):

Key Ratios (%)	Dec-08	Mar-09	Jun-09	Sep-09
EBIT Margin	12	16	16	17
Net Profit Margin	7.43	8.89	9.22	11.47
Sales Growth (y-o-y)	-5.27	3.15	-1.05	16.57
Profit Growth (y-o-y)	41.52	173.5	79.1	24.84

Financial Analysis:

- The company posted sales of Rs 962.55 cr up 10.85% over the previous year. Sales witnessed a CAGR of almost 25% over the last 3 years
- The company has maintained its EBITDA margins over the last years and in FY08 it stood at 11.95%
- PAT margins have also remained at the same level registering a 100bps increase in FY08 and stood at 8.4%
- The ROCE of the company shows that it provides significant value to its shareholders over its capital employed.
- The ROE has decreased over the years signifying lower returns being generated by the company for its equity shareholders
- The solvency ratio remains very good signifying that the company is in a good financial position
- The company witnessed a decrease in cash levels and that money was blocked in inventory thus generating poor returns

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