

# Nitin Fire Protection

## Blazing growth

### Economic revival & infra thrust to drive India business

Nitin Fire Protection (NFPI IN) would be able to leverage the benefits of an economic revival and resurgence in capex in key sectors such as oil & gas, telecom, infra, power and IT sectors. Opportunity in the fire & security market is likely to burgeon going ahead. The domestic fire & security market in India is also likely to be driven by the replacement market and deficiency to be met under the national building code (NBC) of fire & safety. Total infra investment (railways, housing, power & airports) in India is likely to be USD 522bn until 2025, of which the fire & security market can create an opportunity of 4% of the total infra spend. Capex in the oil & gas sector is likely to be USD 30bn over FY15-16E. The replacement with ozone friendly system in the oil & gas sector will serve also a key driver. Capex for the telecom industry is likely to be at USD4-5bn annually. The current order book of India's operations is INR 3.25bn to be executable in the next 18 months. Domestic operations, which contribute ~47% to the consolidated revenue, has grown at a CAGR of ~60% over FY12-14 and it is likely to grow at CAGR of 21% over FY14-16E.

### Middle East operations' to see secular momentum

The Middle East business, ~50% of consolidated sales, has grown at a CAGR of ~42% over FY12-14 and is likely to grow at a CAGR of 22% over FY14-16E. After lower growth over FY12-13 due to the economic slowdown, the Middle East reported 75% YoY growth in FY14, due to the low base effect and revival in the economy. The company has won the bid to host EXPO 2020 in Dubai. This will add further momentum to robust growth in the Middle East operations. The current orderbook of the Middle East is INR 5.5bn to be executable until 2018.

### Valuations

NFPIL is expected to register an earnings CAGR of 35% over FY14-16E. On P/E and EV/EBITDA basis, the stock has historically traded at a three-year average of 17.5x and 14x one-year forward earnings, respectively. In a bull case scenario, the market assigned a higher P/E and EV/EBITDA of 25x and 19x one-year forward earnings, respectively. In a bear case scenario, the market assigned a median P/E and EV/EBITDA of 14x and 11x one-year forward earnings, respectively. We expect the stock to re-rate considering economic revival in India, and, consequently, healthy earnings growth.

## Rating: Not Rated

CMP: INR 63 (as on 1 August 2014)

### Key data\*

Bloomberg /Reuters Code	NFPI IN/ NIFP.BO
Current /Dil. Shares O/S (mn)	219/219
Mkt Cap (INR bn/USD mn)	14/ 226
Daily Vol. (3M NSE Avg.)	1,051,957
Face Value (INR)	2

1 USD = INR 61.1

Note: As on 1 August 2014; Source: Bloomberg

### Price & Volume



— Vol. in mn (RHS)  
— Nitin Fire Protection Industri (LHS)

Source: Bloomberg

Shareholding (%)	Q2FY14	Q3FY14	Q4FY14	Q1FY15
Promoter	71.4	71.7	71.9	71.9
Institutional Investors	13.5	13.9	13.8	16.1
Other Investors	4.2	4.6	4.1	5.2
General Public	10.9	9.8	10.3	6.9

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	13.7	24.2	31.9
Nitin Fire	10.3	8.4	23.5

Source: Bloomberg

### Key Financials

YE March	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY11	4,382	39.4	674	15.4	534	27.6	2.4	25.9	14.8	25.9	22.5
FY12	5,360	22.3	674	12.6	440	(17.5)	2.0	17.8	10.1	31.4	24.5
FY13	7,047	31.5	782	11.1	570	29.5	2.6	19.5	12.7	24.2	21.4
FY14	10,161	44.2	1,088	10.7	665	16.7	3.0	19.3	12.3	20.8	15.6
FY15E	12,666	24.7	1,520	12.0	888	33.4	4.0	21.5	14.3	15.6	11.5
FY16E	15,122	19.4	1,920	12.7	1,204	35.6	5.5	23.5	15.1	11.5	9.3

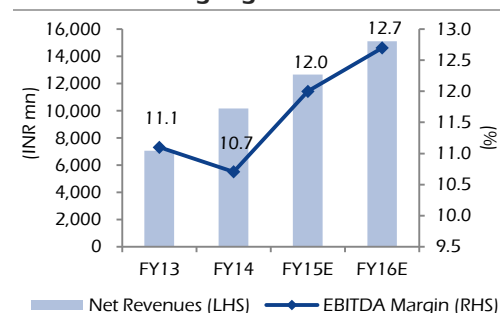
Note: pricing as on 1 August 2014; Source: Company, Elara Securities Estimate

### Consolidated Financials (YE March)

Income Statement (INR mn)	FY13	FY14	FY15E	FY16E
Net Revenues (LHS)	7,047	10,161	12,666	15,122
<b>EBITDA</b>	<b>782</b>	<b>1,088</b>	<b>1,520</b>	<b>1,920</b>
Add:- Non operating Income	182	19	20	21
OPBIDTA	964	1,107	1,540	1,941
Less:- Depreciation & Amortization	47	106	109	113
<b>EBIT</b>	<b>917</b>	<b>1,001</b>	<b>1,431</b>	<b>1,829</b>
Less:- Interest Expenses	254	305	445	476
<b>PBT</b>	<b>663</b>	<b>696</b>	<b>986</b>	<b>1,352</b>
Less :- Taxes	49	30	99	149
Add: Share of Loss in Associate	(44)	-	-	-
<b>Reported PAT</b>	<b>570</b>	<b>665</b>	<b>888</b>	<b>1,204</b>
<b>Adjusted PAT (LHS)</b>	<b>570</b>	<b>665</b>	<b>888</b>	<b>1,204</b>
Balance Sheet (INR mn)	FY13	FY14	FY15E	FY16E
Share Capital	441	438	438	438
Reserves	2,734	3,273	4,104	5,245
Borrowings	3,529	3,923	4,940	5,293
Deferred Tax (Net)	2	(0.1)	(0)	(0)
<b>Total Liabilities</b>	<b>6,706</b>	<b>7,634</b>	<b>9,482</b>	<b>10,976</b>
Gross Block	1,789	2,067	2,137	2,207
Less:- Accumulated Depreciation	195	300	409	522
Net Block	1,595	1,767	1,728	1,685
Add:- Capital work in progress	228	228	228	228
Investments	360	359	359	359
Cash & bank balances	576	368	894	899
Net Working Capital	3,948	4,914	6,274	7,805
<b>Total Assets</b>	<b>6,706</b>	<b>7,634</b>	<b>9,482</b>	<b>10,976</b>
Cash Flow Statement (INR mn)	FY13	FY14	FY15E	FY16E
Cash profit adj. for non cash items	870	1,076	1,183	1,470
Add/Less : Working Capital Changes	(468)	(965)	(1,157)	(1,209)
Operating Cash Flow	402	111	26	261
Less:- Capex	(344)	(278)	(70)	(70)
Free Cash Flow	58	(167)	(44)	191
Financing Cash Flow	251	37	515	(186)
Investing Cash Flow	89	1	-	-
<b>Net change in Cash</b>	<b>398</b>	<b>(129)</b>	<b>471</b>	<b>5</b>
Ratio Analysis	FY13	FY14	FY15E	FY16E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	31.5	44.2	24.7	19.4
EBITDA Growth	16.0	39.1	39.7	26.3
PAT Growth	29.5	16.7	33.4	35.6
EBITDA Margin	11.1	10.7	12.0	12.7
Net Margin	8.1	6.5	7.0	8.0
<b>Return &amp; Liquidity Ratios (%)</b>				
Net Debt/Equity (x)	0.9	1.0	0.9	0.8
ROE (%)	19.5	19.3	21.5	23.5
ROCE (%)	12.7	12.3	14.3	15.1
<b>Per Share data &amp; Valuation Ratios</b>				
Diluted EPS (INR)	2.6	3.0	4.0	5.5
EPS Growth (%)	29.5	16.7	33.4	35.6
DPS (INR)	0.2	0.2	0.2	0.2
P/E (x)	24.2	20.8	15.6	11.5
EV/EBITDA (x)	21.4	15.6	11.5	9.3
EV/Sales (x)	2.4	1.7	1.4	1.2
Price/Book (x)	4.3	3.7	3.0	2.4
Dividend Yield (%)	0.3	0.3	0.4	0.4

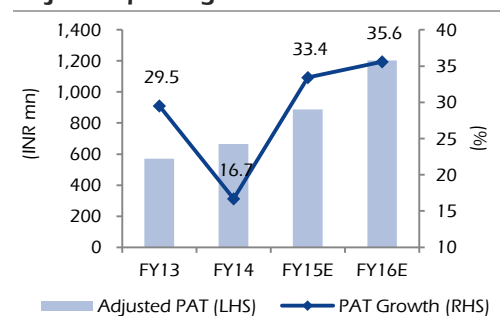
Note: Pricing as on 1 August 2014; Source: Company, Elara Securities Estimates

### Revenue & margin growth trend



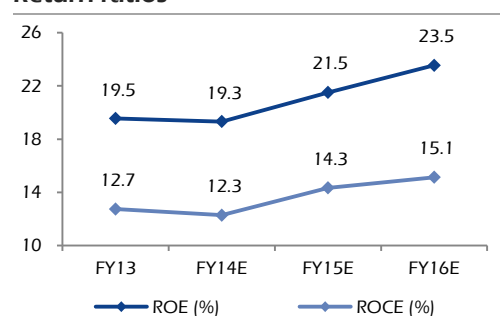
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



Source: Company, Elara Securities Estimate

### Return ratios



Source: Company, Elara Securities Estimate

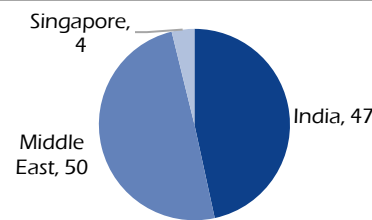
**Among the top 5 fire protection companies in India**

Nitin Fire Protection (NFPIL) is among the top five fire protection companies engaged in providing fire protection systems in India. The company has diversified its product portfolio with international approvals. Products include detectors & control panels, highly sensitive aspirating smoke detectors and linear heat-sensing detectors, automatic self-seeking fire extinguishers, simple self-activating systems, ABC fire extinguishers, and an array of corrosion-resistant and dependable brass accessories, and large fire extinguishers. It has two manufacturing-cum-warehousing units at Vashi and Taloja near Mumbai. The company commenced production at the third plant at Vishakhapatnam SEZ (VSEZ), a tax-free zone in 2008.

The company not only supplies a range of products but also customizes fire protection solutions to match the requirements of customers. This encompasses designing & engineering, supply, installation, testing, commissioning and maintenance. It provides end-to-end solutions in fire protection and solutions in India as well as in the UAE. The company has been in the fire protection space since 1984 and expanded foothold not only in India but also in the UAE, South Asia and Europe.

The company registered a revenue CAGR of ~33% over FY09-14, driven by capex in oil & gas, telecom and IT sectors in India and the Middle East. As India's economy is on the verge of taking off on a higher growth trajectory, the company would leverage the benefits of revival in capex in the key sectors like oil & gas, telecom, infra, power and IT sectors. India's operations, ~47% to consolidated revenue, has grown at a CAGR of ~60% over FY12-14. It is likely to grow at a revenue CAGR of 21% over FY14-16E. The Middle East business, which contributes ~50% to consolidated sales, has grown at a CAGR of ~42% over FY12-14, and it is likely to grow at a CAGR of 22% over FY14-16E.

**Exhibit 1: Revenue mix for FY14 (%)**



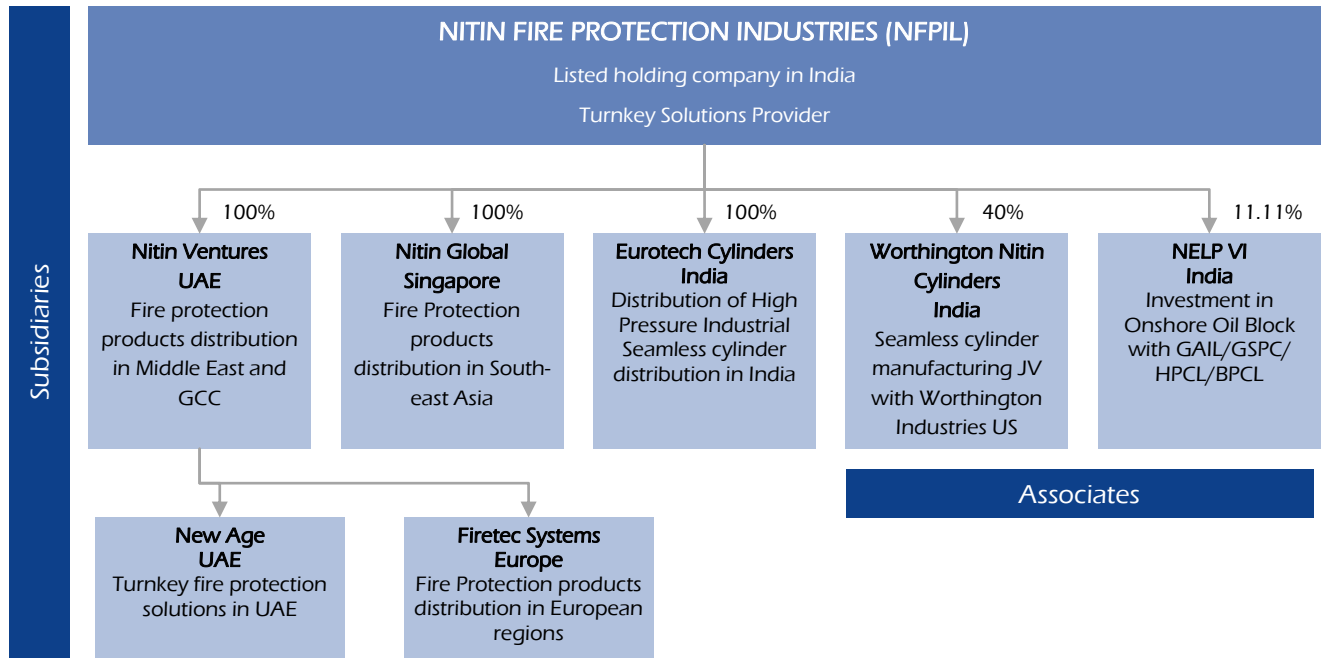
Source: Company, Elara Securities Research

**Exhibit 2: World class fire protection solutions**

		Revenue Contribution	EBITDA Margin
Fire Protection	Turnkey Solutions	~60%	~22%
	Detection Systems	Manual/Automatic Fire/Flame/Smoke alarm systems of conventional as well as intelligent type	
	Gas Suppression Systems	Gas based systems used for protection of high value equipment and critical assets, server rooms, control rooms, data centers etc using hydrocarbon and inert gases	
	Protection Systems	Hydrant/ Sprinkler systems, Deluge valve and spray nozzle Water, Water & Foam Based Fire protection systems	
Products	Fire detectors and control panels, Portable fire extinguishers	Water & foam monitors, Accessories of Fire Fighting Systems	
AMC Services	After sales support & maintenance of fire protection systems, Refilling of fire suppression agent	~10%	~27%

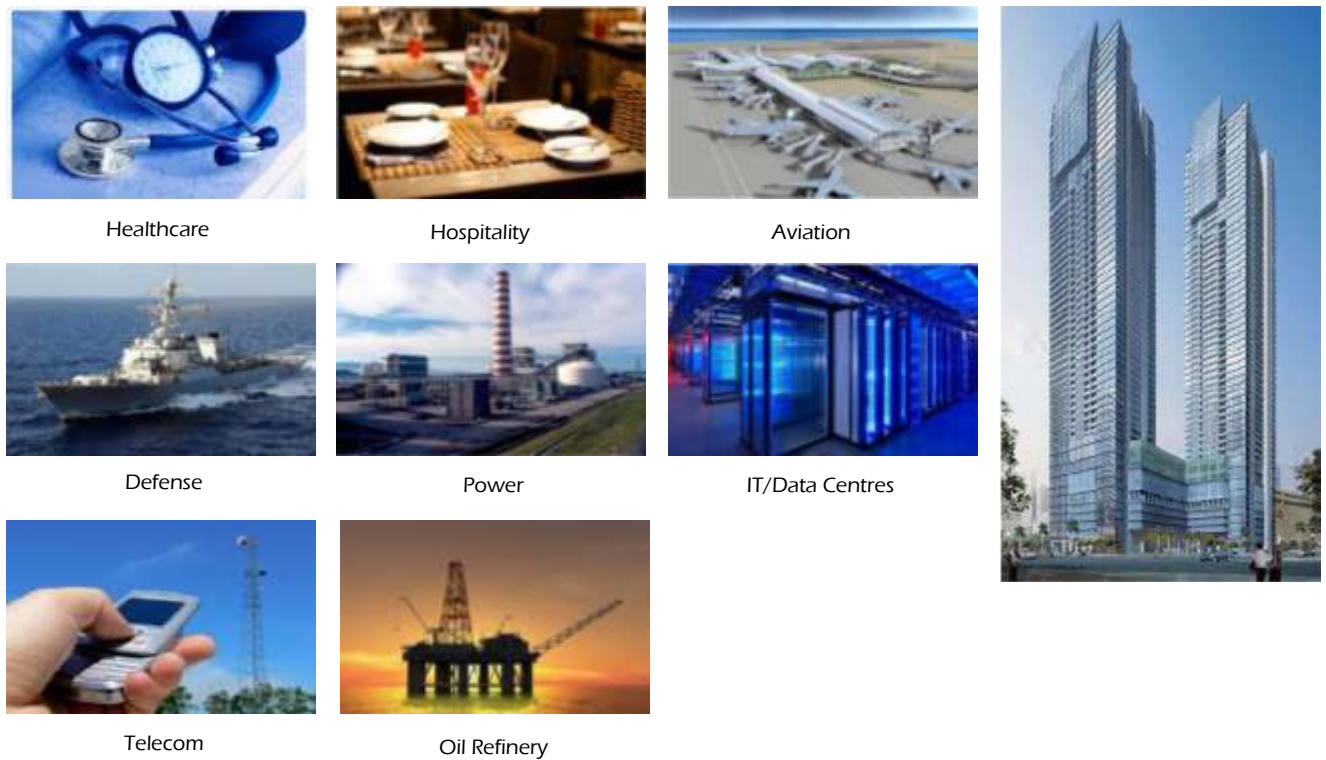
Source: Company, Elara Securities Research

Exhibit 3: Corporate structure



Source: Company, Elara Securities Research

Exhibit 4: Provide comprehensive solutions across various sectors



Source: Company, Elara Securities Research

**Exhibit 5: Key projects executed in the UAE**

▪ JAFZA –Warehouse	▪ Madina Police Station
▪ Ajman Free Zone Warehouses	▪ UAE Model School
▪ Al Fola Mall	▪ Ramee Hyper Market
▪ Mission Hospital	▪ Autozone
▪ LULU Hyper Market	▪ DEWA Distribution Warehouse.
▪ Federal Food Warehouse	▪ Mid Field Terminal Building ADNOC
▪ Bloom Academy	▪ Sharjah Military Hospital
▪ Director General, Civil Defence, Fujirah	▪ Takreer -Abu Dhabi
▪ Shobha Sapphire	▪ American -School Dubai
▪ Dubai Medical College	▪ Airports
▪ Madina Mall	▪ Refinery

Source: Company, Elara Securities Research

**Exhibit 6: Intermediaries & contractors in India**



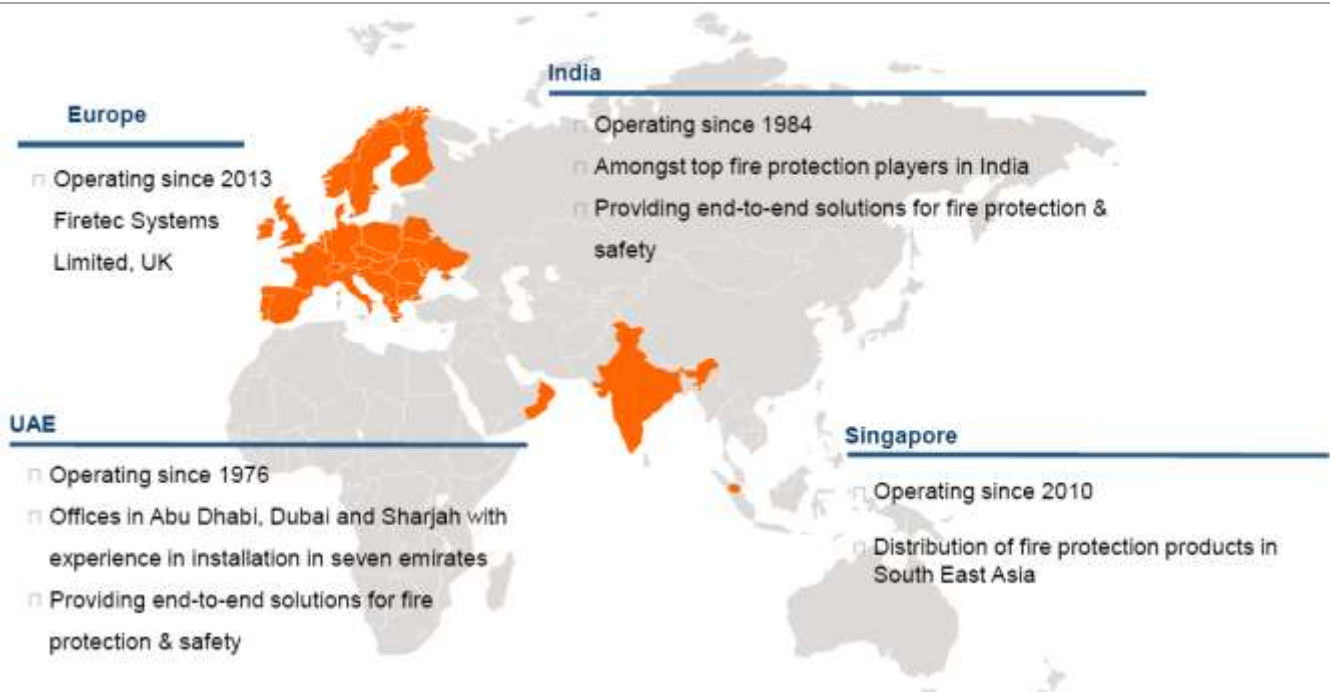
Source: Company, Elara Securities Research

**Exhibit 7: Marquee clients in India**



Source: Company, Elara Securities Research

**Exhibit 8: Global presence**



Source: Company, Elara Securities Research

# Nitin Fire Protection

## Economic revival, infra thrust to drive India business

The fire & security market is likely to see great opportunities from huge investments in infrastructure in India post the infra thrust of the new government. The total infra investment (railways, housing, power & airports - refer to Exhibit 9) in India is likely to be USD 522bn until 2025. The fire & security market can create opportunity of 4% of total infra investment. Capex in the oil & gas sector is likely to be USD 30bn over FY15-16. The replacement with ozone-friendly systems in the oil & gas sector will also serve as a key driver. Capex for the telecom industry is likely to be in the range of USD 4-5bn annually. The fire & security market in India is also likely to be driven by the replacement market, deficiency under the national building code (NBC) code of fire & safety and capex from the oil & gas, telecom and the IT sectors are largely driving growth. These three sectors have contributed 60-65% of consolidated sales. The deficiency of current orderbook of India's operations is INR 3.25bn to be executable in the next 18 months.

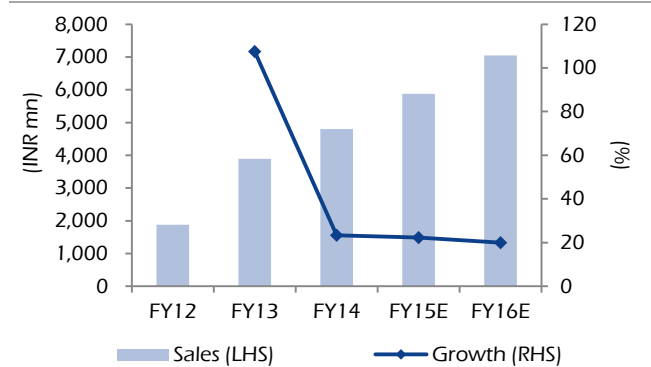
The standalone business, which contributes ~47% to consolidated revenue, reported CAGR of 60% over FY12-14. The turnkey projects contributed ~55% of the standalone business in FY14. The company has taken up turnkey projects across India in oil & gas projects in Northeast India and Chennai Metro in South India. Exports from the domestic business grew 27% to ~INR 1,800mn, which includes actual exports to Southeast Asia and deemed exports.

### Exhibit 9: Envisage infrastructure investment until 2025

	Segment	Sub-segment	Capex (USD bn)
	Railways	Indian Railways	126
		Mass rapid transit	135
	<b>Total</b>		<b>261</b>
	Housing	Affordable housing	116
	Power	Transmission	63
		Industrial corridors	54
	Ports	Maritime Agenda 2020	23
	Airport	Airport	5
	<b>Total</b>		<b>261</b>
	<b>Grand Total</b>		<b>522</b>

Source: Elara Securities Estimate

### Exhibit 10: India operations - sales trend

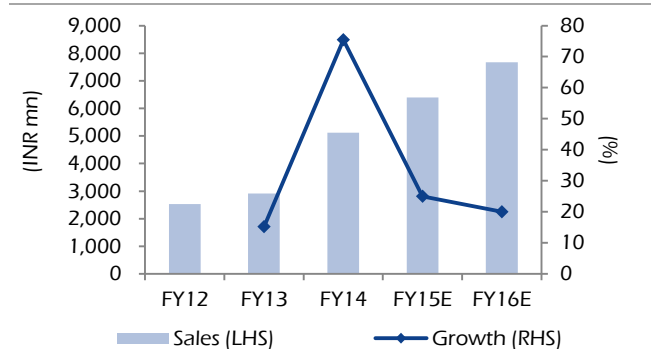


Source: Company, Elara Securities Estimate

### Middle East operations' to see secular momentum

The Middle East business, which contributes ~50% to consolidated sales, has grown at a CAGR of ~42% over FY12-14, and it is likely to grow at a CAGR of 22% over FY14-16E. After lower growth over FY12-13 due to the economic slowdown, the Middle East reported 75% YoY growth in FY14, due to the low base effect and revival in the economy. The company has won the bid to host EXPO 2020 in Dubai. This will add further momentum to robust growth in the Middle East operations. The current orderbook of the Middle East is INR 5.5bn to be executable until 2018.

### Exhibit 11: Middle East business - sales trend



Source: Company, Elara Securities Estimate

### Margin expansion on shift in business mix

Consolidated EBITDA margin declined 187bp to 10.7% in FY14 over FY12, due to the impact in margin of domestic operations. Standalone margin fell ~633bp in FY14 to 7.4% over FY12, due to aggressive expansion at the cost of margin and also on account of compiling standalone financials to AS-7 in respect of revenue recognition of composite contracts. The rupee depreciation also lowered margin as imports contributed ~50% of standalone sales. EBITDA margin of the Middle East fell by 127bp to 13.5% in FY14 over FY12. The change in business mix towards turnkey projects, favorable currency and increasing revenue contribution of the Middle East are likely to expand EBITDA margin by ~200bp to 12.7% in FY16E.

**Multiple strategic moves to drive growth**

Strengthening technological leadership by accelerating technology advancements, broadening footprints in the global markets and vertical market-specific skills & solutions are likely to give edge to competitors and grab impending opportunities in the fire & safety space. NFPIIL is targeting to achieve 1% of the global industry business to achieve a goal of more than USD 1bn in revenue by 2020. The company is focusing on the following strategies to drive long-term growth:

- Accelerated growth by entering into a growing market
- Develop and promote technologically superior products
- Look for inorganic opportunities
- Introduce and penetrate the largest market like North America for fire protection
- Expand in manufacturing and R&D programs
- Set up fully integrated services backed by experienced industry veterans
- Work towards setting up newer guidelines for effective fire safety solutions for end-users

**Key growth strategy**

- Accelerate organic growth through the introduction of new technology and product development
- Expansion in new territories
- Focus on core business
- Inorganic opportunities
- Environmentally clean, ozone-friendly gas suppression system using clean inert gases

**Organic growth strategy**

- Leverage existing customer base for growth with a newer range of products
- Improve customer service through end-to-end solution offerings
- Differentiate offerings through innovation
- Expand portfolio and product offerings
- Local presence to drive growth within each region
- Local market-driven R&D supported by global technology and resources
- Investing in local sales and marketing capabilities

**Inorganic opportunities**

- Currently operating in four countries with annual sales of USD 130mn
- Focus on M&A to drive higher growth, especially in North America, the largest market of fire protection services
- Disciplined bolt-on acquisitions and divestment of non-core businesses
- Acquired New Age, LLC during 2010
- The global giants have seen growth through inorganic routes
- The consolidation of activities through disciplined acquisitions is the core of the industry

**Exhibit 12: Recent transactions in the industry**

Date	Target	Type	Buyer	Size
Jul-13	Angus Fire	M&A	Lloyds Banking Group	GBP 62mn
May-12	Firepro Systems	M&A	Anchor Electricals (Panasonic Corp)	-
Oct-11	Agnice Fire Protection	M&A	United Technologies	INR 3.5bn
Mar-10	Zicom Electronic Security Systems	M&A	Schneider Electric India	INR 2.25bn

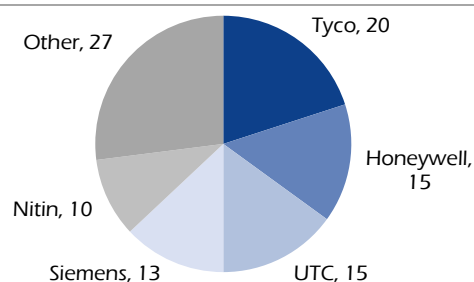
Source: Company, Elara Securities Research

**Market globally to grow at 10% CAGR**

The global fire & security market is estimated to be USD 100bn and expected to grow at a CAGR of 10%. The industry is currently led by US based TYCO with a 12% market share along with UTC, Honeywell and Siemens. The market is highly fragmented, with the top five firms accounting for less than a 20% share. Nitin Fire currently enjoys a 0.1% share of the global fire & safety industry. There is strong demand for fire protection products worldwide, with newer products under development. Innovation and product development are critical aspects of success in the industry.

The domestic fire & security market is estimated to be at USD 1.5bn. The industry is currently led by TYCO with a 20% market share along with UTC, Honeywell and Siemens. Nitin Fire is among the top five companies in India and currently holds a 10% share here.

**Exhibit 13: Domestic fire & security market share of organized companies (2013)**



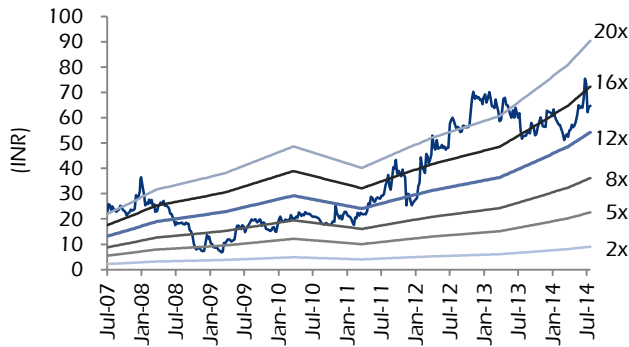
Source: Company, Elara Securities Research

# Nitin Fire Protection

## Valuations

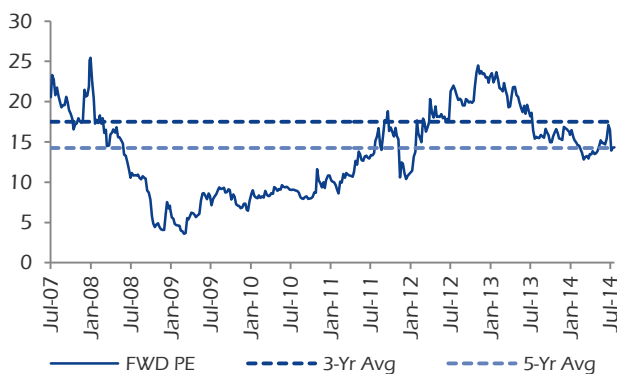
NFPIL is expected to register an earnings CAGR of 35% CAGR over FY14-16E. At current price it is trading at P/E of 11.5x and EV/EBITDA of 9.3x on FY16E. On P/E and EV/EBITDA basis, the stock has historically traded at a three-year average of 17.5x and 14x one-year forward earnings, respectively. In a bull case scenario, the market assigned a higher P/E and EV/EBITDA of 25x and 19x one-year forward earnings, respectively. In a bear case scenario, the market assigned a median P/E and EV/EBITDA of 14x and 11x one-year forward earnings, respectively. We expect the stock to re-rate considering economic revival in India, and, consequently, healthy earnings growth.

**Exhibit 14: The stock trades in a P/E range of 14-25x**



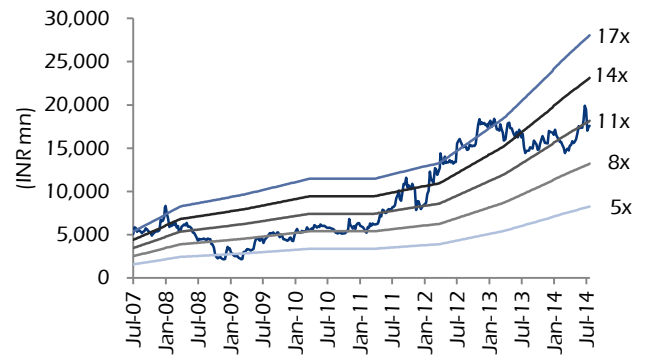
Source: Company, Capitalline, Elara Securities Estimate

**Exhibit 15: NFPIL historically traded at an average one-year forward P/E of 17.5x**



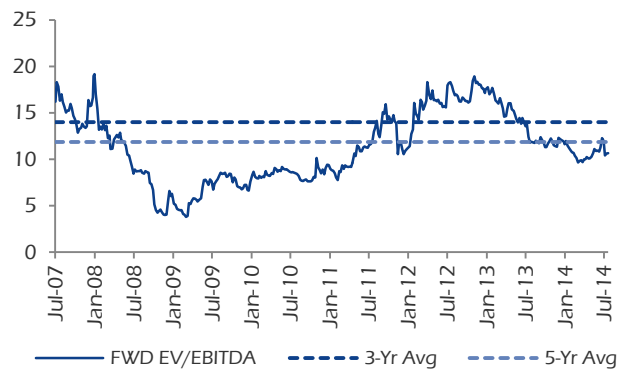
Source: Company, Capitalline, Elara Securities Estimate

**Exhibit 16: The stock trades in an EV/EBITDA range of 11-19x**



Source: Company, Capitalline, Elara Securities Estimate

**Exhibit 17: NFPIL historically traded at an average one-year forward EV/EBITDA of 14x**



Source: Company, Capitalline, Elara Securities Estimate



## Board of Directors & Management

### **Nitin M Shah, Chairman & Managing Director**

Nitin Shah is the Managing Director of the company and one of its promoters with 4,50,89,126 shares (20.44%) in equity share capital. Nitin, age 56, is the founder of the firm and has a diploma in mechanical engineering. After completing his diploma in 1975, he joined his family's business, Zenith Fire Services, which was into manufacturing fire extinguishers. Subsequently, Nitin did his training in BRK Electronics, US, which is one of the largest manufacturers of smoke detectors. He set up Nitin Fire in 1995.

### **Rahul N Shah, Executive Director**

Rahul Shah is the Executive Director of the company, and one of its promoters with 1,41,23,500 shares (6.40%) in equity share capital. Rahul is the son of founder, Nitin Shah. Aged 35, he is a commerce graduate and holds a diploma in business management. Rahul gained experience in the commissioning and installation of fire detection and alarm systems as well as gas suppression systems. In 1998, he took the training of HFC 227EA gas suppression systems at Fike South-east Asia Singapore, and in 1999, trained in addressable fire alarm systems from Apollo Fire Detectors, in the UK, to improve the quality of the fire alarm systems. All import transactions and dealings are done under his supervision. He is also responsible for materials management.

### **Kailat H Vaidyanathan, Non-Executive Director**

Kailat H Vaidyanathan is a graduate in mechanical engineering with post graduate studies in industrial engineering. He has more than 41 years of experience in various engineering fields, including about 28 years in the area of high pressure seamless cylinders and allied equipment. He has handled many projects and his latest assignment was working with Everest Kanto Cylinders. Kailat has been instrumental in implementing the project of Nitin Cylinders and all matters related to cylinder applications. He is responsible for all technical negotiations with cylinder suppliers as well as customers for cylinders and allied items.

### **Ramakant M Nayak, Non-Executive Director**

Ramakant Nayak has degrees in science and law and a diploma in marketing & advertising. He is also a certified associate of the Indian Institute of Banking. Ramakant has an experience of 46 years in the area of investment advisory and banking industry. He has been associated with various banking and advisory companies, such as Sun Global Investments, Sun Capital Advisory, Lord Krishna Bank (now merged with HDFC Bank) and Lakshmi Vilas Bank through which he contributed in the areas of banking, finance, economy, human resources, risk management and business strategy.

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