

JULY 06, 2016

CARE REVISES THE RATINGS ASSIGNED TO THE BANK FACILITIES OF ZICOM ELECTRONIC SECURITY SYSTEM LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long Term Bank Facilities	127.25	CARE BB+ (Double 'B' Plus)	Revised from CARE BBB+ (Triple 'B' Plus)
Short Term Bank Facilities	20.00	CARE A4+ ('A' Four Plus)	Revised from CARE A3+ ('A' Three Plus)
Total Facilities	147.25 (Rupees One Hundred Forty Seven Crore and Twenty Five Lakhs Only)		

Rating Rationale

The rating downgrade reflects significant deterioration in the credit profile of Zicom in the last quarter of 2015-16 (refers to financial year, April 1 to March 31). The company has posted losses at the net level of Rs. 44.05 crore during Q4FY16 as against net profit of Rs.33.69 crore during first nine months of the financial year. The continuing slowdown in the business activity in the Middle East market on account of sharp decline in crude oil prices has adversely affected the collection period of its overseas subsidiaries which are involved in installation of fire detection systems. The company has written-down debtors of about Rs. 12.60 crore in Q4FY16 related to that business. Further, the company has re-valued its inventory in the Indian books, which has resulted into inventory write-off of about Rs.12 crore in Q4FY16. The initiative of the Government to remove the customs duty on the import of CCTV equipment in the budget of 2016-17 has impacted the valuation of the inventory held by the company and necessitated inventory adjustment. Liquidity position has further deteriorated with average collection period increasing from 134 days in FY15 to 166 days in FY16. The total debt on consolidated level has increased from Rs. 556 crore at end FY15 to Rs. 650 crore at end FY16 in spite of muted growth in sales.

The ratings are also constrained by high working capital intensity of business, partial exposure to volatility in exchange rates, inherent risk of technological obsolescence in the electronic security industry and highly competitive nature of the industry.

The ratings also considers the long track record of the Zicom group and experience of its promoters in the electronic security systems and fire protection industry and positive long-term growth prospects for electronic security sector in India.

The ability to improve its profitability margins, capital structure and effectively manage its working capital requirements are the key rating sensitivities.

Analytical Approach

ZESSL has been analyzed on a consolidated basis as ZESSL has provided corporate guarantee amounting to Rs 460 crore for the bank facilities availed by its subsidiaries.

Background

Promoted by Mr. Manohar Bidaye and Mr. Pramoud Rao in 1994, Zicom is engaged in the business of electronic security systems in India and fire protection business in Gulf Nations through its subsidiaries. In the Indian market, the company offers customized solutions to meet security needs of the customers in the application areas such as intrusion and burglar alarm, access control, fire detection, CCTV surveillance, electronic article surveillance, remote video surveillance, integrated building management, car park management and smart card solutions. The company also provides managed

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

security and surveillance services on a recurring basis to retail customers, banks, retail chains and small businesses through its wholly owned subsidiary Zicom SaaS Private Limited (Zicom Saas).

In the Middle East market, the company is involved in implementation of fire protection systems in buildings (both residential, corporates and public establishments) through its two subsidiaries Unisafe Fire Protection Specialists LLC, Dubai (Unisafe Dubai) and Phoenix International WLL, Qatar (Phoenix, Qatar). The international business has contributed around 62% of the total revenue (PY: 62%) on a consolidated level during FY16.

During FY16, (Provisional results), Zicom on consolidated basis recorded a total operating income of Rs. 1117.87 crore (PY Rs. 1109.12 crore) and posted a loss at the net level of Rs. 10.35 crore (PY PAT of Rs. 53.52 crore).

Analyst Contact

Name: Mr. Arunava Paul

Tel: 022 6754 3667

Email: arunava.paul@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

CONTACT**Head Office Mumbai****Mr. Saikat Roy**

Mobile: + 919820998779

E-mail: saikat.roy@careratings.com

Mr. Amod Khanorkar

Mobile: + 91 9819084000

E-mail: amod.khanorkar@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD**Mr. Mehul Pandya**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-98242 56265

Tel: +91-79-4026 5656

E-mail: mehul.pandya@careratings.com

BENGALURU**Mr. Deepak Prajapati**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com**CHANDIGARH****Mr. Sajan Goyal**2nd Floor, S.C.O. 196-197, Sector 34-A,
Chandigarh - 160 022.

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@careratings.com

CHENNAI**Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com

COIMBATORE**Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com

HYDERABAD**Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 - 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com

NEW DELHI**Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com

PUNE**Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

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