Management Interaction Note September 16, 2011

HDFCSec Scrip Code & Face Value	Industry	CMP (Rs.)	Recommended Action	Averaging Price Band (Rs.)	Price Target (Rs.)	Time Horizon
NITFIREQNR (FV: Rs. 2]	Fire - Protection Equipment	140.5	Buy at CMP & add on dips	118-126	168	1-2 quarters

Business Profile

Incorporated in 1995, NFPIL is one of the leading and established players in the area of fire protection and fire suppression systems and Building Management systems (end-to-end solutions). The company was promoted 25 years ago by Mr. Nitin Shah and has strong domain expertise in the fire protection business. The company raised Rs 644 mn through an IPO in 2007 (3.39 mn equity shares at Rs. 190).

NFPIL's business activities can be categorized into i) Fire protection & security solutions and ii) High Pressure Seamless Cylinders for CNG & Industrial applications. The fire protection & security solution business accounts for 85% of the total consolidated revenues (in Q1FY12; in FY11: 68%), while the balance 15% revenue (in FY11: 32%) comes from Cylinder business. The fire protection & security solutions include Fire Alarm Systems, Fire Suppression System, Fire Extinguishers and Intelligent Building & Security Management Systems. Project based work contribute ~85%, while fire extinguishers & maintenance work account for ~10% & ~5% respectively of the fire protection revenues. Fire protection equipments are sold under the brand name "NITIE".

NFPIL's product portfolio

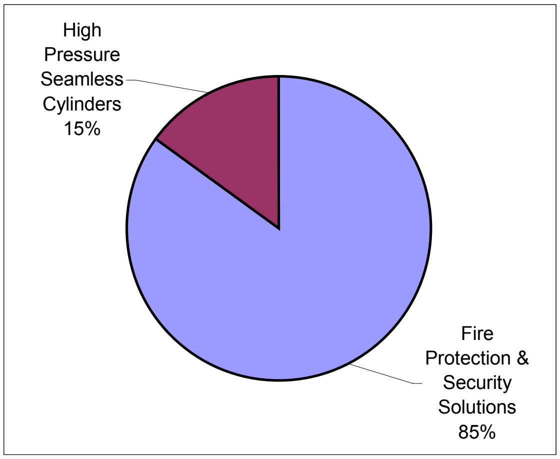
Business Activity	Product Type
Fire Protection & Security Solutions	
Fire Alarm Systems	Conventional & Intelligent Addressable Ionization Smoke Detectors, Optical Smoke Detectors, Optical Beam Detectors, Heat Detectors, Multi sensor Detectors, Flame Detectors, Video smoke Detectors, Carbon Monoxide Detectors, Manual Call Points, Fire Alarm Control Panel
Fire Suppression System	Wet Chemical based, Kitchen Fire Suppression Systems, Water Leak Detection Systems, Gaseous Fire Suppression Systems (HFC 227ea, NOVEC™1230, CO2 and other inert gases), Foam based Fire Suppression Systems, Water based Fire Protection Systems (Hydrant and Sprinkler)
Fire Extinguishers	Ozone Friendly Clean Agent Fire Extinguishers, ISI marked BC - Dry Chemical Powder and ABC Dry Chemical Powder Fire Extinguishers, ISI marked Carbon Dioxide, Extinguishers, Water CO2, Mechanical foam etc
Intelligent Building and Security Management Systems	Access control, CCTV, Perimeter Defense, Barrier controls, Turnstiles
High Pressure Seamless Cylinders	
CNG Cylinders (20-250 litre) (Dia: 200-420mm)	For all kind of light, medium & heavy vehicles such as three wheelers, cars, buses and Trucks
Industrial Cylinders (3-80 litre) (Dia: 108-267 mm)	For industrial gases, fire fighting & beverage application, medical applications etc

NFPIL has facilities located at Navi Mumbai (3 facilities in TTC Industrial Area) and Vishakhapatnam for integration of various fire protection solution including manufacture of fire extinguishers. The Integrated manufacturing facility at Vishakhapatnam SEZ (A.P.) has an installed capacity of 5,00,000 cylinders per annum for CNG application. These cylinders were earlier manufactured by NFPIL's subsidiary, Nitin Cylinders, but now post the 60% stake sale to US based company 'Worthington Industries Inc' in Dec 2010, the manufacturing of the CNG Cylinders has now been transferred to Worthington Industries Inc.

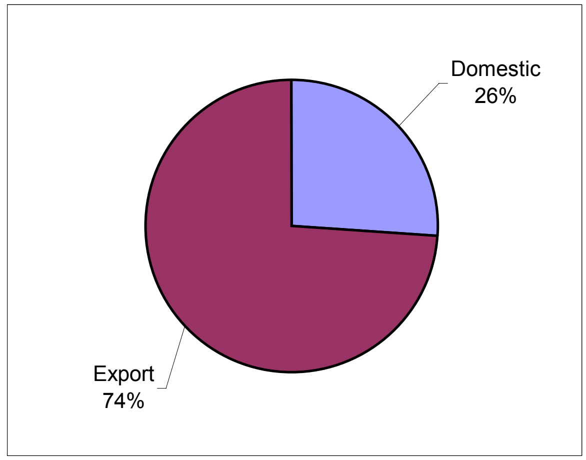
NFPIL generates almost 74% of its revenues from outside India (in Q1FY12; in FY11: 68.9%), while the balance revenue comes domestic market. Overseas, the company has presence across Europe, Middle East, East Africa and South East Asia. Malaysia, Indonesia, Singapore, Pakistan, Afghanistan, UK & UAE are NFPIL's major markets (Singapore, Malaysia, UK & UAE being the major ones). The Gas Supression systems are designed by NFPIL as per customer requirements and exported to contractors in these countries and then the contractors do the assembly, installation & commissioning work for final customers over there. In the domestic market, the company has strong presence spread equally across all the regions except in the northeast, where the company has a small presence. The company has engineers across all the states with offices in Mumbai, Delhi, Chennai & Hyderabad.

Consolidated Revenue Breakup in Q1FY12:

Business-wise



Domestic-Exports



NFPIL has also entered into a production sharing contract for exploration and prospecting of a crude oil block in Rajasthan (NELP VI). NFPIL has 11.11% share in a JV with GSPC, HPCL, BPCL, GAIL and other consortium partners. As on March 31, 2011, Company has invested Rs. 150 mn in this venture.

The company has a good track record of servicing marquee clients in the field of telecom, data centres, refineries, offshore oil platforms and institutions like BSE. The oil & gas and telecom are the two major industries which make up for ~45% of NFPIL's revenues (Oil & Gas: ~20%; Telecom: ~25%)

NFPIL has six subsidiaries (3 domestic & 3 Overseas) namely i) Alert Fire Protection Systems Pvt. Ltd. (India), ii) Eurotech Cylinders Pvt. Ltd. (India), iii) Logicon Building Systems Pvt. Ltd. (India), iv) Nitin Venture FZE (UAE), v) New Age Company LLC (UAE) and vi) Nitin Global Pte Ltd. (Singapore). The table below gives an overview of their businesses & financial performance in FY11.

Subsidiaries	% Holding	Business Profile	FY11 Sales (Rs. In Mn)	FY11 PAT (Rs. In Mn)
Alert Fire Protection Systems Pvt. Ltd. (India)#	100	Purchase and supply of fire alarm & detection equipments, control panels and related components/spare parts, which are mainly sourced from U.K. based Company viz. Apollo Fire Detectors & Fire Fighting Enterprise.	271.1	18.3
Eurotech Cylinders Pvt. Ltd. (India)	100	Purchase (import from China) & supply of high-pressure seamless cylinders & valves (for industrial applications). Products are sold under brand name 'EURO' and basically cater to domestic markets. The company supplies the above products to dealers of industrial / medical gases and fire fighting equipments.	433.7	34.6
Logicon Building Systems Pvt. Ltd. (India)#	100	Setting up of turnkey contracts for intelligent building management systems, clean agent & fire detection alarm systems including water based hydrant systems, CCTV & security systems including designing, integration, installation & maintenance services. Such systems are used for security & building automation of all kinds of buildings like I.T. complexes, shopping malls, industrial plant, hospitals, hotels, banks, data centers etc.	109.0	-5.7
Nitin Venture FZE (UAE)	100	A trading arm (importing from China, US, UK & Germany) of NFPIL set up in the free trade zone at Jebel Ali, Dubai to meet the demands of international customers & provides simple, standalone conventional to intelligent,	963.1	174.5

		integrated fire protection solutions backed by a product portfolio consisting of complete spectrum of fire & safety products with international approvals. The company is strategically placed to be an international one stop source to discerning customers for conventional to intelligent standalone / integrated fire detection systems, water and gas based fire extinguishing systems, gas detection systems, CCTV, access control & intrusion detection systems, high pressure storage cylinders & accessories and integrated building management systems.		
New Age Company LLC (UAE)*	100	Established in 1976, has got offices and representations in Abu Dhabi, Dubai, & Sharjah with experience in installation in all the seven emirates. Has got all government approvals & licenses in protection & security solutions. Providing equipments, fire protection system, fire detection system, emergency lighting system and water mist fire protection systems. Has taken several projects for Municipality, Airport Development Board, Port Authority, Industrial Warehouses, Commercial Warehouses, Electricity Board etc and also other government bodies.	1009.0	157.3
Nitin Global Pte Ltd. (Singapore)	100	Incorporated in July 2009 to meet the demands of South-East Asian markets. The business is the same as that of Nitin Ventures i.e. providing simple, standalone conventional to intelligent, integrated fire protection solutions backed by a product portfolio consisting of complete spectrum of fire and safety products with international approvals.	494.3	15.2

**Controlling Interest through Nitin Ventures FZE subject to payment of 1 mn dirhams p.a. to the minority holders. The company was earlier an associate of NFPIL with 40% stake.*
#Under Amalgamation

NFPIL's previous wholly owned subsidiary Nitin Cylinders has now become its associate with 40% stake w.e.f December 29, 2010. In Q3FY11 NFPIL announced 40:60 JV agreement for Cylinder manufacturing business with US based Worthington Industries Inc, the world's leading global supplier of pressure cylinders. Nitin Cylinders reported sales of Rs. 528.1 mn & a loss of Rs. 3.9 mn in FY10. Further, NFPIL has filed application to the Hon. High Court, Mumbai on May 16, 2011 for amalgamation of Logicon Building Systems Pvt. Ltd and Alert Fire Protection Systems Pvt. Ltd with the Company.

In order to grow inorganically, the company has plans to raise $100 mn through Right Issue / Warrants / QIP / FCCB/ GDR/ Preferential Allotment. Further, the company has declared bonus in the ratio of 5:2 (five shares for every two shares held) and has fixed September 23, 2011 as the record date.

Shareholding Pattern: (As on June 30, 2011)

Particulars	No of Shares (In Mn)	% Holding
Foreign	7.2	11.4
Institution	1.0	1.6
Promoters	44.3	70.3
Corporate	4.7	7.5
Public & Others	5.8	9.2
Total	**63.0**	**100.0**

(Source: Company)

Some of the institutions / FIIs holding more than 1% stake in NFPIL include Orange Mauritius Investments Ltd (4.7%), Swiss Finance Corporation Mauritious Ltd (3%), Kotak Mahindra Investments Ltd (1.8%), Emerging India Focus Funds (1.7%), GIC of India (1.6%) and VCM Ltd Mauritus (1.5%).

Investment Rationale

Leadership in providing end-to-end solutions in Fire Protection, Safety & Security services

NFPIL is one of the leading and established players providing end-to-end solutions in the area of fire protection and fire suppression systems and building management systems. Its strong domain expertise over the years in designing, integration, supply, installations, testing, commissioning and servicing of various types of fire protection systems & solutions has enabled it to continue to win new engagements and grow existing relationships. The company provides a range of products and services right from the basic level fire extinguishers to the sophisticated fire protection & security systems and building management solutions. It provides automated water and gas based fire suppression systems along with fire detection and security systems on turnkey basis. The company is primarily focused on Gas based suppression systems for mission critical areas. The fire alarm system that it provides include smoke detectors, optical smoke detectors, optical beam detectors, heat detectors, multi-sensor detectors, flame detectors, etc. The intelligent building and security management systems include access control, CCTV, perimeter defense, barrier controls and turnstiles. Fire protection equipments sold under the brand name "NITIE".

The fire protection & security solutions business has grown at a CAGR of 53% over FY07-11. As per the management, the fire protection equipment industry, which includes fire suppression, fire depression & fire fighting systems, was estimated to be Rs. 25 bn in 2010. This is expected to reach Rs. 45 bn by 2013, a CAGR of 22%, which is likely to be driven by increasing investments in Data Centers, BPOs, Malls, R&D, Power/Petrochemical, Telecom and IT, rise in the terrorist threats & strict government regulations. Intelligent Building Management industry is becoming an integral part of the modern construction expansion. The Government compulsion for upcoming and existing buildings to have fire protection systems is likely to boost the industry's prospects going forward. With leadership & expertise in the fire protection, safety & security services and robust industry outlook, NFPIL is well placed to leverage its strength & exploit the opportunities available. We expect this business of NFPIL to continue to grow at a robust rate going forward.

Strong execution track record & tie ups, marquee clients and robust order book

NFPIL has a strong track record of executing projects for more than 18 years. The table below gives an overview of past major projects in India & overseas.

Past Major Projects - India	Past Major Projects - Outside India
Air India - Boing Hanger Project, Sahar, Mumbai	Abdullah Owais Abdullah, Sharjah
Asian Heart Institute Hospital, Bandra Kurla Complex, Mumbai	Al Futtaim Real Estate, Dubai, UAE
Metro Junction Mall, Kalyan, Maharashtra	Al Reem Plaza, Sharjah
Nirmal Lifestyle, Commercial & Residential, Mulund, Mumbai	Ali Abdul Ali, Dubai, UAE
ONGC - Offshore Platforms	Central Bank, Dubai, UAE
RCom - IDC Data Centre, Mumbai & Bangalore	Galadari Printing Press, Khalij Times Building
Reliance Petroleum Ltd, Jamnagar Refinery Project	Habtoor Tower, Sharjah, UAE

The company has a long standing relationship with its customers and has a good experience of serving marquee clients like Tata, IOC, Vodafone, Aircel, Maruti etc, in the field of telecom, data centres, refineries, offshore oil platforms and institutions like BSE. The broad range of products and services sourced through tie-ups with reputed companies across the globe enables the company to provide comprehensive and value added end-to-end solutions to customers from various industries. Further, its presence in UAE and Singapore through is subsidiaries enables NFPIL to cater to a large base of clients across different geographies. Besides India, the company already has a good presence in Malaysia, Indonesia, Singapore, Pakistan, Afghanistan, UK & UAE are NFPIL's major markets. Its strong & trustworthy relationships with its existing customers and steady acquisition of new customers would certainly help NFPIL in strengthening its path in the emerging APAC markets and the Gulf region.

NFPIL has robust order book of Rs. 1.25 bn to be executable over next 6 months while it has bid for tenders for additional orders worth Rs. 9 bn. NFPIL has strong tie ups with foreign companies, which provides it easy access to advanced fire detection systems. The company has tie-ups with Kidde Fire Protection, UK, a distributor for the Argonite–C60 and NOVEC 1230 fire suppression systems and with DuPont, USA, an original equipment manufacturer (OEM) for HFC 227ea, an ozone friendly gas for fire suppression systems. NFPIL also has a tie up with Apollo Fire Detectors Ltd, UK, as exclusive distributor in India for Apollo's fire detection products and with Beijing Tianhai Industry Co Ltd (BTICL), to manufacture high-pressure seamless cylinders as per BTICL's specifications. These tie-ups ensure access to new technologies.

High entry barrier in fire protection due to requirement of domestic & international approvals and licenses and lasting relationship with clients

Entry barrier in the fire protection industry is very high due to requirement of domestic & international approvals and licenses and lasting relationship with clients. NFPIL is the only Indian Company to have 86 approvals from Underwriters Laboratories Inc., USA; Loss Prevention Certification Board, U.K. and VDS, Germany. The company has 38 domestic approvals. Further, the Government of Maharashtra, Directorate of Maharashtra Fire Services has granted NFPIL the licence under the provisions of SubSection (3) of Section 9 of the Maharashtra Fire Prevention and Life Safety Measures Act, 2006 (Mah. III of 2007) to act as a Licensed Agency for the purposes of Fire Prevention and Life Safety Measure in relation to Fire Fighting System Installation such as hydrants, sprinklers, pumping etc, Detection and Fire Suppression System and Passive Protection such as cable protection, fire doors etc. By end of September 2011, the law of Maharashtra Fire Act 2006 is expected to be gazetted. This would empower NFPIL to carry out inspection & audit of its clients, which could lead to increase in the projects for fire protection solution and also high margin maintenance contracts going forward.

Competitive Edge over its existing peers

In the fire protection industry, NFPIL faces competition from players like Honeywell, Firepro, Siemens, Tyco, Johnson Controls, UTC & Mini Max. However, NFPIL has a competitive edge over its peers due to its past execution track record, domain expertise in providing end-to-end solutions in fire protection & security solutions, competitive pricing, long standing relationship with its clients and with all its required domestic & international approvals in place. The company is the one of the largest players in fire protection systems, which gives it the natural advantage to bid for & win large sized projects in the areas of security systems and building management systems as customers typically want to deal with one vendor for their requirements.

Large presence in Gulf through substantial holding in New Age & Nitin Ventures to provide avenue to participate in opportunity over there

NFPIL has a very large presence in the Gulf through its subsidiaries Nitin Ventures FZE (UAE) & New Age Company LLC (UAE). While Nitin Ventures is a wholly owned subsidiary of NFPIL, the company has 100% controlling interest in New Age Company subject to payment of 1 mn dirham p.a. to the minority holders. Both these subsidiaries together contribute around 65% to the total revenues outside India & 45% to the total revenues of NFPIL (in FY11). Nitin Ventures is a trading arm of NFPIL (imports from China, US, UK & Germany) set up in the free trade zone at Jebel Ali, Dubai to meet the demands of international customers & provides simple, standalone conventional to intelligent, integrated fire protection solutions backed by a product portfolio consisting of complete spectrum of fire & safety products with international approvals. In FY11, the subsidiary reported 8.9% growth in its sales, while its PAT grew by 7.2%.

Earlier, New Age Company was a 40% associate of NFPIL. However, it became its step down subsidiary w.e.f. April 2010. The cost of the additional 60% controlling interest stood at ~Rs. 860 mn payable in three tranches (towards goodwill & management control). The third tranche of ~Rs. 300 mn is payable in FY12. The consideration for 40% stake taken earlier was Rs. 210 mn). The company provides equipments, fire protection system, fire detection system, emergency lighting system and water mist fire protection systems. The company has taken several projects for Municipality, Airport Development Board, Port Authority, Industrial Warehouses, Commercial Warehouses, Electricity Board etc and also other government bodies. The company has got offices and representations in Abu Dhabi, Dubai, & Sharjah with experience in installation in all the seven emirates. Further, it has also got all government approvals & licenses in protection & security solutions. The company has been growing at a very fast rate. As per the management, New Age sales grew by more than 50% in Q1FY12.

As per the management, Dubai is doing well in the oil & gas sector. Further six new refineries are being set up in Abu Dhabi. Also there is a rise in demand for replacement of ozone depleting gas ‘Halon’ with other gases like Novec 1230 and FM 200 (also known as HFC 227ea). Hence, the management expects the oil & gas sector to do well in Gulf. NFPIL’s large presence in gulf through substantial holding in New Age & Nitin Ventures could provide avenue to participate in opportunity over there.

Dealing with competitive scenario in seamless pressure cylinder business by inviting world leader Worthington into a 40:60 JV

In December 2010, NFPIL entered into a 40:60 Joint Venture agreement for its CNG Cylinder manufacturing business carried on in its wholly owned subsidiary Nitin Cylinders (large manufacturer of high pressure Seamless Steel CNG cylinders in India, which sells its cylinders in UAE, Pakistan, Bangladesh, UK and Malaysia and has over 50 national and international approvals and accreditations for its cylinder units) with US based Worthington Industries Inc. Worthington acquired majority shares (60% stake) in Nitin Cylinders with an option of buying the remaining 40% stake after three years. The deal was valued at ~USD21 mn and was funded through a mix of internal accruals & borrowings. With this deal, Nitin Cylinders has now become a 40% associate of NFPIL (w.e.f December 29, 2010) and accordingly the CNG cylinder manufacturing business (at Visakhapatnam - SEZ with capacity of 5 lacs cyliners p.a.) has been transferred to Worthington.

NFPIL’s idea behind selling stake in Nitin Cylinders was to defocus on the CNG business, which has not been performing well over the last one to two years due to increasing competition. The business operates on very thin operating margins (~2-3%). In FY10, Nitin Cylinders had a loss of Rs. 3.9 mn. Even in FY11, the company was into losses and post the acquisition of part stake by Worthington, the share of loss of NFPIL in Q4FY11 in the JV Worthington Nitin Cylinders (shown under Profit / Loss in Associates) stood at Rs. 34.2 mn (to the extent of 40% share) due to stricter inventory valuation norms adopted (the company had to implement US GAAP post JV agreement). In Q1FY12, the share in loss of JV stood at Rs. 5.6 mn.

As per IANGV (International Association for Natural Gas Vehicles), the total number of CNG vehicles, including new vehicles and replacements are expected to reach 50 mn in 2020 as compared to 8.5 mn in 2007-08, a CAGR of 16%. This would be driven by incentives provided by governments of various countries including India for conversion to and use of CNG vehicles and also due to increased environmental awareness and global warming concerns leading to a move towards more eco-friendly CNG powered vehicles. Thus while the sales volumes of CNG Cylinders business of Worthington Nitin Cylinders could rise at a robust rate going forward, oversupply due to additional capacities being set up by other organised local & global CNG cylinder manufacturers & intensifying competition from local players like Everest Kanto & Rama Cylinders and from global players like Luxfer (UK, USA, Australia), Faber (Italy), NK (Korea), Dynetek (Canada), Beijing Tianhai Industry Company (China), Mannesman Cylinder Systems Ltd (Germany), Argentoil (Argentina), Cilbras (Brazil), etc could mar the prospects of CNG business further in terms of pricing & profitability.

It seems that NFPIL has dealt well with competitive scenario in seamless pressure cylinder business by inviting Worthington. Worthington Industries is a diversified metals manufacturing company with annual sales of $1.9 bn (in 2010). The company manufactures pressure cylinders, light gauge steel framing for commercial and residential constructions among others. Worthington employs ~6,500 people and operates 65 facilities in 11 countries. This joint venture would help Nitin Cylinders benefit from the global experience and technical capabilities of Worthington and help the business grow for CNG and industrial cylinders both international and domestic markets. The stake sale could lead to Visakhapatnam (SEZ) facility becoming an outsourcing hub going forward.

However, the company would continue to stay in the Industrial Cylinder business through its wholly owned Indian subsidiary Eurotech Cylinders Pvt. Ltd., which is a trading arm of NFPIL (importing from China & selling in India), entirely into industrial cylinders. The subsidiary reported a decline of 29.1% & 41.3% in its sales & PAT respectively in FY11. However, the management expects the demand for industrial cylinders to gradually pick up as it expects the demand for industrial gases to grow by 5-6% Y-o-Y during FY06-12.

Looking for further inorganic ways to grow abroad (in similar business) & locally (in ancillary business)

The company is also looking for further inorganic ways to grow abroad into similar business & locally into ancillary business (like valves). For that it is planning to raise $100 mn through GDR / ADRs / preferential issue etc over the next few months. Successful acquisitions (in India or abroad) could boost the consolidated performance of the company going forward.

Oil Exploration business to generate robust cash flows from FY13 onwards

NFPIL has entered into a production-sharing contract (over seven years) for exploration and prospecting of a crude oil block in Rajasthan (NELP VI) admeasuring a contract area of 4613 sq km. NFPIL has 11.11% share in a JV with GSPC, HPCL, BPCL, GAIL and other consortium partners. GAIL and GSPC are the main operators for the block. As per recent estimates this block (which has seven wells) has a potential of 32.3 mn barrels of oil reserve from four wells (Source: GSPC DRHP). As regards the remaining three wells, the work is at the initial stage.

The management expects the commercial crude oil production of this block (of four wells) to commence by April 2012. As on date, the company has made an investment of Rs. 180 mn in this business in a Non-Integrated Un-incorporated JV created for the Crude Oil Block. This has increased from Rs. 150 mn as on March 31, 2011. The management expects to make a total investment of Rs. 250 mn in this business by FY12.

This business is likely to generate robust and growing cash flows from FY13 onwards and boost NFPIL’s profits significantly going forward. Of the 32.3 mn barrels, government’s share would be 50%. Of the remaining, NFPIL’s share of 11.11% would be ~1.8 mn barrels over 7 years, which works out to ~0.26 mn barrels p.a. We have conservatively assumed that the production would commence from October 2012 and would be small initially (around 36000 barrels over six months) since it is the first year of commencement. Even after being so conservative, NFPIL is expected to earn net profit (after deducting the yearly amortization of the investments made in this venture) of ~Rs. 60 mn from this venture in FY13. From FY14 onwards, we expect the profits to increase significantly.

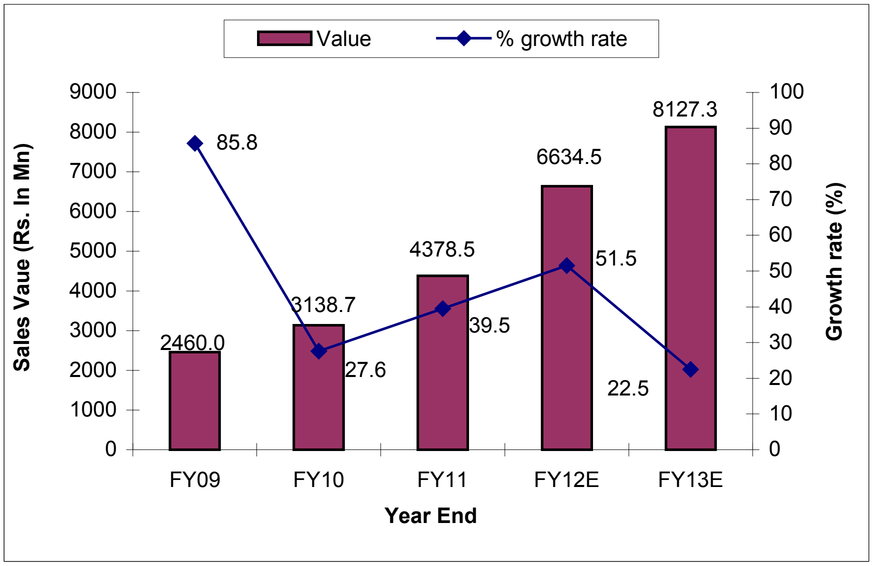
Consolidated Revenues to grow at a CAGR of 36.2% over FY11-13, margins to improve over FY11

We expect NFPIL’s consolidated revenues to grow at a CAGR of 36.2% over FY11-13, which would mainly be driven by fire protection & security solutions business. The segment’s contribution, which currently stands at ~85% (in Q1FY12) is likely to increase going forward, since the company is de-focusing its CNG Cylinder business. The company’s Q1FY12 results have been impressive with its consolidated sales & PAT having increased by 79.9% & 145.5% respectively, despite excluding the revenues of Nitin Cylinders, which has now become an associate of NFPIL w.e.f. December 29, 2010. Nitin Cylinders revenues for FY10 stood at Rs. 528.1 mn. The management expects the remaining quarters to be equally good.

Majority of the revenues would come from outside India (mainly from major markets like UAE, Singapore, Malaysia & UK). Company’s Dubai operations are expected to do well. In Q1FY12, the company derived 74% of its revenues from outside India. Even the domestic business is expected to do well. Once the law of Maharashtra Fire Act 2006 is gazetted (expected by

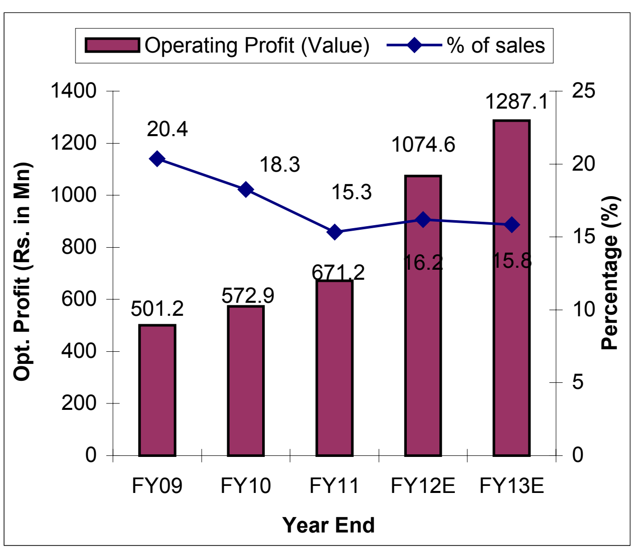
September end 2011), the management expects an increase in the maintenance contracts, which currently contribute around 7-8% of the total turnover. NFPIL would be empowered to carry out inspection & audit of its clients, which could lead to increase in the projects for fire protection solution and maintenance contracts going forward.

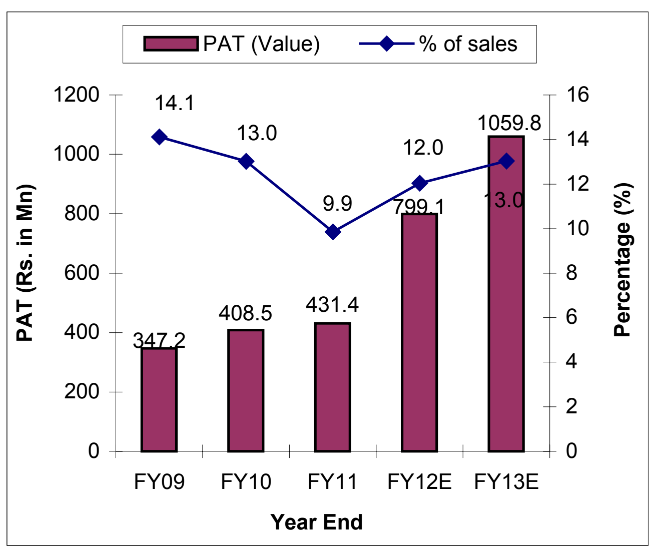
The chart below gives an overview of NFPIL's revenues since FY09 along with our projections for FY12 & FY13:



Increasing focus on high margin fire protection solutions business and gradual move out from low margin CNG Cylinder business, expected increase in the maintenance contracts, which fetch high margins and cost rationalization could lead to margin expansion going forward. We expect NFPIL's consolidated operating profit & PAT to grow at a CAGR of 38.5% & 56.7% over FY11-13. We expect NFPIL's operating margins to improve to 15.9% by FY13 from 15.3% in FY11. PAT margins are expected to increase significantly to 13% in FY13 from 9.9% in FY11, which would partly be contributed by profits from the oil & gas business in FY13, which would fetch substantially higher margins even in the first year of operations. Also the growth in the interest cost is likely to moderate over the next two years, since the company expects to repay a part of its borrowings through strong cash flows expected to be generated from its core business as well as from the oil & gas business. The company would continue to pay low tax due to NIL tax from its SEZ facility at Visakhapatnam & no tax payable on profits from Dubai operations. We have conservatively factored in higher effective tax rate at 12% in our FY12 & FY13 projections as compared to 7.7% tax rate in FY11.

The chart below gives an overview of NFPIL's operating profit & PAT (consolidated) since FY09, along with our projections for FY12 & FY13:





Risks and concerns

- NFPIL derives almost 74% of its revenues from outside India, with exports from India accounting for 20-22%. This exposes the company to forex fluctuations and translation losses. However, this risk is partly mitigated due to NFPIL's natural hedge in terms of imports, which account for 25.7% to the total turnover.
- Slowdown in the global economic growth (including India) could lead to a downturn in NFPIL's major user industries like Oil & Gas, Telecom & IT etc, which could in turn impact the demand for company's products, thus hampering the growth in terms of revenue & profits.
- Recurrence of slowdown in the Gulf (especially in oil & gas sector) could impact the overseas operations significantly. Out of 3 overseas subsidiaries, 2 are based in UAE (Nitin Venture & New Age), which contribute around 65% to the total revenues outside India. Further the ongoing slowdown in US & UK could also impact NFPIL's international operations.
- The company has very high debtor collection & inventory holding period at around 202 days & 76 days (in FY11) respectively calculated on closing basis and 147 days & 81 days calculated on average debtors & inventories. The company expects the debtor days to improve in FY12. If this does not happen, then it could put a strain on working capital cycle going forward.
- While NFPIL is gradually exiting the low margin CNG cylinder business with 60% stake sale to US based Worthington industries, it still holds 40% stake through Nitin Cylinders. This business has not been doing well on the profitability front and the prospects could deteriorate further due to oversupply & intensifying competition.
- Seamless Tubes, Gases (for CNG, industrial & medical operations), components like valves, brass etc are NFPIL's key inputs. Any sharp rise in these materials could put pressure on the company's margins in case of its inability to pass on the input cost increase fully to its customers.
- Delay in the commencement of commercial production of crude oil in Rajasthan block could delay the company's share of profits and could lead to the revision in our FY13 profit estimates. While the management expects the production to commence by April 2012, we have conservatively assumed that the production would commence from Oct 2012 onwards.
- Consequent to part sale of equity stake in Worthington Nitin Cylinders Ltd, in December 2010, the company has taken over an outstanding claim of a derivative contract amounting to Rs. 50.1 mn (excluding interest). Based on the legal opinion, the company has filed a petition in the Hon'ble Court of Bombay challenging the legality of the contract. Pending decision, no provision has been made in the books of accounts for this claim. In case this case is ultimately decided against the company, it would impact its cash flow and profitability in that year.

Q1FY12 Results: (Consolidated)

Quarterly

Y-o-Y:

- NFPIL's results were impressive on Y-o-Y basis. Net Sales increased by 79.9% to Rs. 1614.5 mn [Q1FY11: Rs. 897.2 mn]. The fire protection solutions business accounted for ~85% of the total sales, while the cylinders contributed the balance ~15%. The revenues from outside India rose significantly by 106.1% Y-o-Y to Rs. 1193.8 mn [Q1FY11: Rs. 579.1 mn], thus contributing 74% to the total sales. This could possibly be due to strong performance by Dubai operations (especially in the oil & gas sector). The revenues from within India grew by 32.3% Y-o-Y to Rs. 420.7 mn [Q1FY11: Rs. 318.1 mn), thus accounting for 26% of the total sales.
- The operating profit grew by 108.2% to Rs. 268.1 mn [Q1FY11: Rs. 128.8 mn], while the OPM improved by 225 bps Y-o-Y to 16.6%, supported by decline in the other expenses (down 21.2% Y-o-Y) and relatively lower growth (as compared to sales growth) in the employee cost (up 69.7% Y-o-Y). However, relatively higher material cost (up 84.1% Y-o-Y) restricted further margin expansion.
- Decline in the depreciation & interest cost (down 49.6% & 27.2% Y-o-Y respectively) and decline in the effective tax rate (down 355 bps Y-o-Y to 7.9%) boosted the PAT, which rose 145.5 Y-o-Y to Rs. 236.4 mn [Q1FY11: Rs. 96.3 mn]. PAT margins improved by 391 bps Y-o-Y to 14.6%. EPS for the quarter stood at Rs. 3.8 vs. Rs. 1.5 in Q1FY11.

Q-o-Q:

- Sequentially, the results were good. Net Sales rose 93.2%, while operating profit & PAT increased by 42.5% & 122.6% respectively.
- OPM declined by 590 bps Q-o-Q from 22.5% in Q4FY11 largely due to substantially higher material cost (up 137.3% Q-o-Q). However marginal rise in the employee cost (up 2.3% Q-o-Q) and decline in the other expenses (down 44.1% Q-o-Q) restricted further margin contraction.
- However, PAT margins increased by 193 bps Q-o-Q, supported by higher other income in Q1FY12 (loss of Rs. 29.7 mn in Q4FY11) and lower depreciation & interest cost (down 5.8% & 7.5% Q-o-Q respectively).

Conclusion & Recommendation:

We expect NFPIL's revenues & PAT to grow at a CAGR of 36.2% & 56.7% over FY11-13, which would mainly be driven by fire protection & security solutions business. The segment's contribution, which currently stands at ~85% (in Q1FY12) is likely to increase going forward, since the company is de-focusing its CNG Cylinder business. Majority of the revenues would come from outside India (mainly from major markets like UAE, Singapore, Malaysia & UK). Company's Dubai operations are expected to do well. Even the domestic business is expected to do well.

NFPIL has a competitive edge over its peers due to its past execution track record, domain expertise in providing end-to-end solutions in fire protection & security solutions, competitive pricing, long standing relationship with its clients and with all its required domestic & international approvals in place. The company is the one of the largest players in Intelligent Building & Security Management Systems, which gives it the natural advantage to bid for & win large sized projects in this business. Once the law of Maharashtra Fire Act 2006 is gazatted (expected by September end 2011), the management expects an increase in the maintenance contracts, which currently contribute around 7-8% of the total turnover. NFPIL would be empowered to carry out inspection & audit of its clients, which could lead to increase in the projects for fire protection solution and maintenance contracts going forward. Large presence in gulf through substantial holding in New Age & Nitin Ventures to provide avenue to participate in opportunity over there. As per the management, Dubai is doing well in the oil & gas sector. Further six new refineries are being set up in Abu Dhabi. Also there is a rise in demand for replacement of ozone depleting gas 'Halon' with other gases like NOVEC 1230 and FM 200 (also known as HFC 227ea).

NFPIL has dealt well with competitive scenario in seamless pressure cylinder business by inviting Worthington into a 40:60 JV, which would benefit Nitin Cylinders (earlier 100% subsidiary of NFPIL, now 40% associate) from the global experience and technical capabilities of Worthington and help the business grow for CNG and industrial cylinders both international and domestic markets.

NFPIL is looking for further inorganic ways to grow abroad in similar business of fire protection & security solution & locally in ancillary business. Successful acquisitions (in India or abroad) could boost the consolidated performance of the company going forward. The company has targeted revenues of Rs. 35 bn by FY15-16, which would be driven both organically & inorganically.

Increasing focus on high margin fire protection solutions business and gradual move out from low margin CNG Cylinder business, expected increase in the maintenance contracts, which fetch high margins and cost rationalization could lead to margin expansion going forward. Further timely commencement of oil & gas production from Rajasthan block, lower tax rates (due to no tax on profits from SEZ facility in Visakhapatnam & from Dubai operations) & expected moderation in the interest cost over the next two years is likely to boost the profits.

At CMP, NFPIL trades at 11.1xFY12E EPS & 8.4xFY13E EPS. Offlate, global buyout funds, including Apax Partners and few more major strategic global players are looking at investing around $200 mn to wrest control of Bangalore-based FirePro Systems, one of the competitors of NFPIL in fire protection equipments. During late 2009, Standard Chartered Private Equity had invested Rs 1.50 bn. This shows the renewed interest of the funds in the fire protection equipment industry. Once this $200 mn deal materializes, then it could beneficially impact NFPIL's valuations. With substantial holdings in New Age, NFPIL's revenues from the trading business has come down. Further, its trading business is complementary to its core business. Bringing down debtor days and better working capital management could be key issue to monitor going forward.

We feel that the stock has the potential to trade at 10xFY13E EPS, which gives a price target of Rs. 168. Hence we feel investors can buy this scrip at current levels and average it on dips in the price band of Rs. 118-126 (7x-7.5xFY13E EPS) for the mentioned target over the next 1-2 quarters. Pre bonus (5:2; Record Date September 23, 2011) buying could provide momentum to the stock price in the near term.

Quarterly Financial Performance: (Standalone)

(Rs. In Million)

Particulars	Q1FY12	Q1FY11	VAR [%]	Q4FY11	VAR [%]	Q3FY11	Q2FY11
Net Sales	293.3	271.0	8.2	525.4	-44.2	180.6	488.0
Other Operating Income	1.5	0.7	114.3	10.1	-85.1	1.0	0.0
Total Operating Income	294.8	271.7	8.5	535.5	-44.9	181.6	488.0
Total Expenditure	241.6	222.8	8.4	437.2	-44.7	157.4	463.0
Material Cost	210.2	199.2	5.5	382.7	-45.1	137.3	438.8
Employee Expenses	13.2	8.7	51.7	13.6	-2.9	11.4	9.2
Other Expenses	18.2	14.9	22.1	40.9	-55.5	8.7	15.0
Operating Profit	53.2	48.9	8.8	98.3	-45.9	24.2	25.0
Other Income	1.2	0.0	-	1.1	9.1	115.9	35.0

PBIDT	54.4	48.9	11.2	99.4	-45.3	140.1	60.0
Interest	13.8	12.4	11.3	14.6	-5.5	11.1	12.7
PBDT	40.6	36.5	11.2	84.8	-52.1	129.0	47.3
Depreciation	0.8	0.5	60.0	0.9	-11.1	1.0	0.5
PBT	39.8	36.0	10.6	83.9	-52.6	128.0	46.8
Tax (including DT & FBT)	6.4	3.1	106.5	22.6	-71.7	16.7	3.1
Reported Profit After Tax	33.4	32.9	1.5	61.3	-45.5	111.3	43.7
Extra-ordinary Items	0	0.0	-	0.0	-	102.2	0.0
Adjusted PAT	33.4	32.9	1.5	61.3	-45.5	9.1	43.7
EPS (Rs.)	0.5	0.5	1.5	1.0	-45.5	0.1	0.7
Equity	126	126	0.0	126	0.0	126.0	126.0
Face Value	2	2		2		2.0	2.0
OPM (%)	18.1	18.0		18.7		13.4	5.1
PATM (%)	11.4	12.1		11.7		5.0	9.0

(Source: Company, HDFC Sec)

Quarterly Financial Performance: (Consolidated)

(Rs. In Million)

Particulars	Q1FY12	Q1FY11	VAR [%]	Q4FY11	VAR [%]	Q3FY11	Q2FY11
Net Sales	1614.5	897.2	79.9	835.7	93.2	1090.1	1555.5
Other Operating Income	1.6	0.7	128.6	11.1	-85.6	11.4	2.4
Total Operating Income	1616.1	897.9	80.0	846.8	90.8	1101.5	1557.9
Total Expenditure	1348	769.1	75.3	658.7	104.6	960.5	1345.2
Raw Material Consumed	1196.8	256.9	365.9	558.7	114.2	811.6	998.6
Stock Adjustment	-143	10.4	-1475.0	-29.6	383.1	-3.6	22.8
Purchase of Finished Goods	201.7	414.5	-51.3	0	-	0	111.9
Employee Expenses	44.3	26.1	69.7	43.3	2.3	57.4	80
Other Expenses	48.2	61.2	-21.2	86.3	-44.1	95.1	131.9
Operating Profit	268.1	128.8	108.2	188.1	42.5	141	212.7
Other Income	27.7	25.3	9.5	-29.7	-193.3	144.3	-10.3
PBIDT	295.8	154.1	92.0	158.4	86.7	285.3	202.4
Interest	23.6	32.4	-27.2	25.5	-7.5	32.4	27.7
PBDT	272.2	121.7	123.7	132.9	104.8	252.9	174.7
Depreciation	6.5	12.9	-49.6	6.9	-5.8	16.7	16.9
PBT	265.7	108.8	144.2	126	110.9	236.2	157.8
Tax (including DT & FBT)	21.1	12.5	68.8	-17.5	-220.6	39.7	14.1
Reported Profit After Tax	244.6	96.3	154.0	143.5	70.5	196.5	143.7
Min. Interest & Profit / Loss in Associates	8.2	0	-	37.3	-78.0	3.1	6.1
PAT (net of Minority Interest, profit / loss in associates)	236.4	96.3	145.5	106.2	122.6	193.4	137.6
Extra-ordinary Items	0	0	-	0	-	102.2	0
Adjusted PAT	236.4	96.3	145.5	106.2	122.6	91.2	137.6
EPS (Rs..)	3.8	1.5	145.5	1.7	122.6	1.4	2.2
Equity	126	126	0.0	126	0.0	126	126
FV	2	2	0.0	2	0.0	2	2
OPM (%)	16.6	14.4	15.7	22.5	-26.2	12.9	13.7
PATM (%)	14.6	10.7	36.4	12.7	15.2	8.4	8.8

(Source: Company, HDFC Sec)

Yearly Financial Performance: (Standalone)

(Rs. In Million)

Particulars	FY09	FY10	FY11
Net Sales	1833.5	2199.8	2913.5
Other Operating Income	5.0	1.3	13.9
Total Operating Income	1838.5	2201.1	2927.4
Total Expenditure	1487.9	1800.0	2446.1
Material Cost	1240.9	1592.2	2012.4
Employee Expenses	65.8	64.9	163.9
Other Expenses	181.2	142.9	269.8
Operating Profit	350.6	401.1	481.3
Other Income	11.6	67.2	-17.0
PBIDT	362.2	468.3	464.3
Interest	57.1	69.1	67.6
PBDT	305.1	399.2	396.7
Depreciation	28.8	36.7	50.6
PBT	276.3	362.5	346.1
Tax (including DT & FBT)	69.3	61.9	3.2
Profit After Tax	207.0	300.6	342.9
Extra-ordinary Items	0.0	9.6	0.0
Adjusted PAT	207.0	291.0	342.9
EPS (Rs.)	3.3	4.6	4.7
OPM (%)	19.1	18.2	16.5
PATM (%)	11.3	13.2	11.8

(Source: Company, HDFC Sec)

Financial Estimations: (Consolidated)

Profit & Loss A/c

(Rs. In Million)

YE March	FY09	FY10	FY11	FY12E	FY13E
Net Sales	**2460**	**3139**	**4379**	**6635**	**8127**
Other Operating Income	6	5	26	6	7
Total Operating Income	2466	3144	4404	6641	8134
Material Cost	1613	2253	3171	5142	6339
Employee Cost	96	101	207	192	244
Other Expenditure	256	216	355	232	264
Total Operating Expenses	1965	2571	3733	5566	6847
Operating Profit	**501**	**573**	**671**	**1075**	**1287**
Other Income	49	67	129	90	189
EBITDA	550	640	800	1165	1476
Interest	72	92	118	130	124
Depreciation	34	42	53	86	134
PBT	445	507	629	949	1218
Tax (including FBT & DT)	97	89	49	114	146
PAT (before minority interest & profit / loss in associate)	347	418	580	835	1072
Minority Interest and Profit / Loss in Associate	0	0	47	36	12
Reported PAT	347	418	534	799	1060
Extra Ordinary Items	0	10	102	0	0
Adjusted PAT	**347**	**409**	**431**	**799**	**1060**

(Source: Company, HDFC Sec Estimates)

Balance Sheet

(Rs. In Million)

YE March	FY09	FY10	FY11	FY12E	FY13E
Share Capital	126	126	126	126	126
Equity Warrants	0.0	0.0	0.0	0.0	0.0
Reserves & Surplus	1331	1697	2176	2864	3777
Shareholders Funds	1457	1823	2302	2990	3903
Minority Interest	0	0	20	32	44
Secured Loans	688	1041	734	984	885
Unsecured Loans	2	253	722	542	487
Loan Funds	690	1294	1456	1525	1373
Deferred Tax Liability	12	26	4	2	1
Capital Employed	**2158**	**3143**	**3781**	**4549**	**5321**
Gross Block	624	984	297	562	745
Less: Depreciation	77	112	124	157	239
Net Block	547	872	173	405	506
CWIP	351	77	165	83	74
Net Intangible Assets	5	0	1043	991	939
Investments	334	395	607	727	712
Inventories	660	896	752	1128	1353
Sundry Debtors	729	1109	2419	2600	2990
Cash & Bank	37	198	120	261	372
Loans & Adv. & other current assets	216	433	964	1832	2565
Total Current Assets	1642	2636	4255	5821	7281
Current Liabilities & Provisions	721	836	2463	3478	4191
Working Capital	921	1800	1792	2343	3090
Miscellaneous Expenditure not written off	0	0	0	0	0
Capital Deployed	**2158**	**3143**	**3781**	**4549**	**5321**

(Source: Company, HDFC Sec Estimates)

Key Ratios

YE March	FY09	FY10	FY11	FY12E	FY13E
FD EPS (Rs.)	**5.5**	**6.5**	**6.8**	**12.7**	**16.8**
PE (x)	**25.5**	**21.7**	**20.5**	**11.1**	**8.4**
Book Value (Rs.)	23.1	28.9	36.5	47.5	61.9
P/BV (x)	6.1	4.9	3.8	3.0	2.3
OPM (%)	20.4	18.3	15.3	16.2	15.8
PBT (%)	18.1	16.1	14.4	14.3	15.0
NPM (%)	14.1	13.0	9.9	12.0	13.0
ROCE (%)	24.1	19.2	19.8	23.7	25.2
RONW (%)	23.8	22.9	23.2	26.7	27.2
Debt-Equity (x)	0.5	0.7	0.6	0.5	0.4
Current Ratio (x)	2.3	3.2	1.7	1.7	1.7
Mkt. Cap/Sales (x)	3.6	2.8	2.0	1.3	1.1
EV/EBITDA (x)	18.9	16.9	14.0	8.9	7.2

(Source: Company, HDFC Sec Estimates)

Cash Flow Statement

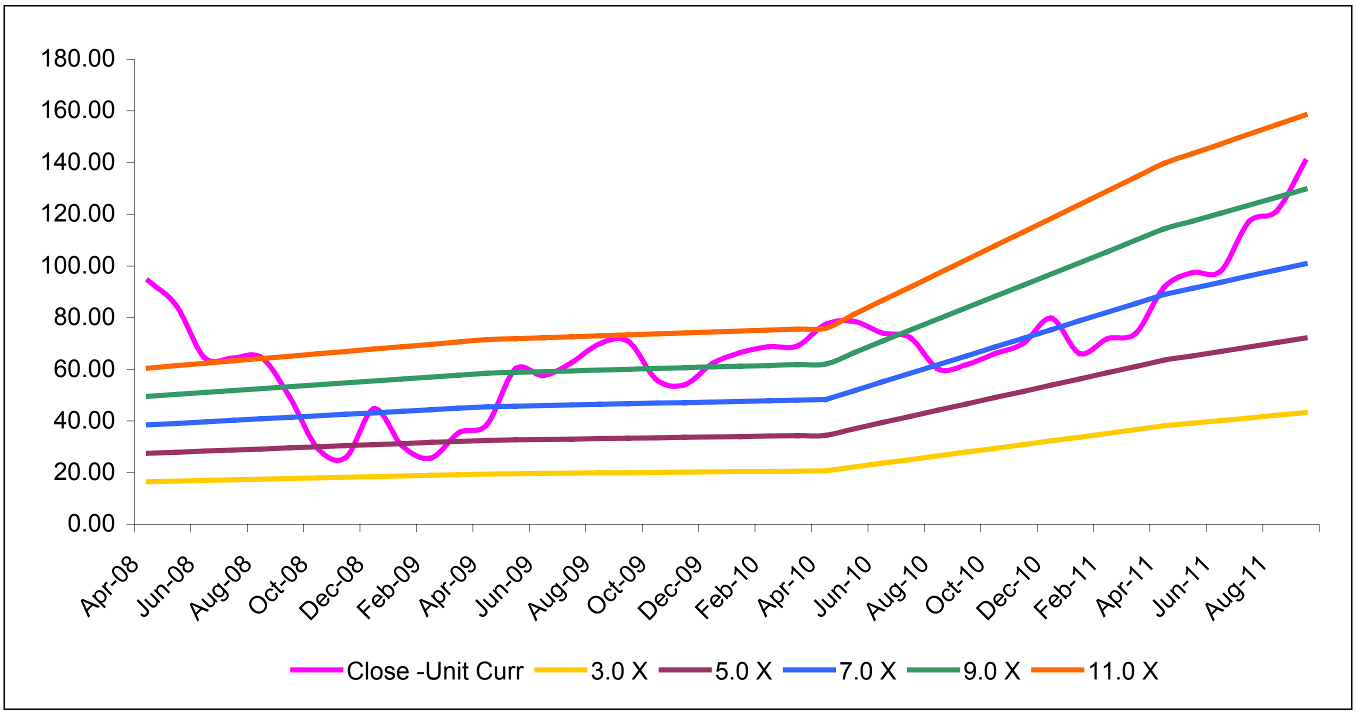
(Rs. In Million)

YE March	FY09	FY10	FY11	FY12E	FY13E
Profit Before Tax	445	507	629	949	1218
Net Opt Cash Flow	52	-173	-146	639	693
Net Cash from Investing Activities	-507	-202	13	-303	-159
Net Cash from Financing Activities	280	543	-3	-195	-423
Cash & Cash Equivalents*	37	198	120	261	372
Net Inc/(Dec) in Cash	-175	168	-137	141	111

(Source: Company, HDFC Sec Estimates)

*Diff in the cash & cash equivalents in the cash flow statement and the cash & bank balance as per the balance sheet in FY09, FY10 & FY11 is due to adjustment towards fixed deposit pledged, cash & bank balance taken over on acquisition of step down subsidiary and cash & bank balance on de-subsidarisation of a subsidiary

NFPIL's Price Chart with 1 year forward PE



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