

**IPO Research Report: Max Alert Systems Ltd.
 To be listed on BSE SME Exchange..**

Introduction to SME Exchange....

Small and Medium Enterprises are backbone of India’s economy as it contributes significantly to Gross Domestic Product (GDP) and exports. It constitutes bulk of the industrial base. In India, Micro, Small and Medium Enterprises (MSMEs) contributes 8% of its GDP, 45% of the manufactured output and 40% of exports. MSME sector is the largest generator of employment in the Indian economy. It provides employment to about 70 million people through 30 million enterprises. The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 provided for facilitating the promotion and development and enhancing the competitiveness of MSMEs and for matters connected therewith or incidental thereto.

The Prime Minister’s Task Force (January 2010) has recommended to set-up a dedicated Stock Exchange/Platform for SMEs. SEBI has also laid down the Regulations for the governance of SME exchange/Platform. BSE SME Exchange provides a great opportunity to the entrepreneurs to raise equity capital for the growth and expansion of SMEs. It provides immense opportunity for investors to identify and invest in good SME companies at early stage. It will help unleash the valuation of companies and in the process create wealth for all the stakeholders including investors, besides considerable income tax benefits and facility to exit at any point of time. According to R K Mathur, Secretary in the ministry of micro, small and medium enterprises, the growth in credit to the SME sector is up by 33 per cent at Rs 4 lakh crore in FY12. It needs a whopping Rs 4.7 lakh crore in loans and Rs. 2.5 lakh crore equity. SME exchange would provide the much required platform for raising funds.

In September 2011, the Securities and Exchange Board of India had granted permission to BSE to launch its SME platforms. BSE is the first Stock Exchange in India to receive final approvals from SEBI for launch of the SME Exchange, vide its letter dated OW/MRD/DSA/1650/2011 dated 24th May, 2011. The Bombay Stock Exchange’s (BSE) platform for small and medium enterprises (SMEs) became operational on March 13, 2012 with the listing of BCB Finance.

To increase the liquidity in SME Exchange, concept of Market Maker was introduced. SEBI Issued Guidelines for Market Makers on SME Exchange vide its Circulars, Nos. CIR/MRD/DP/14/2010 dated 26th April, 2010; CIR/MRD/DSA/17/2010 dated 18th May, 2010; CIR/MRD/DSA/SE/43/2010 dated 31st December, 2010 and Chapter XB of ICDR Regulations. Market Making is an activity where the member Brokers registered as market makers will undertake to support the scrip by providing two way quotes. All the market makers in scrip will provide 2-way quotes for 75% of the time during a trading day. The market makers will have to hold 5% of the specified security to be listed at the time of allotment in their inventory to do the market making. In addition, to this, the market makers can also buy from or sell to the nominated investors the required shares for market making. The merchant banker and nominated investor need to enter into an agreement in this regard. Note: Nominated Investors can be Qualified Institutional Buyers (QIBs) and Private Equity (PE) Firms registered with the respective regulators.

Key attributes of SME Exchange

Attributes	Recommended Platform
Membership	All Existing Members
Trading	Hybrid
Auction Market vs. Dealer Market	Dealer Market

Transparency	High
Anonymity	High
Orders	Quotes by market makers and orders by the investors
Order Matching	Automatic/Anonymous order matching
Lot Size	Rs. One Lakh
Settlement	Rolling
Settlement Period	T+2
Demat/Physical	Demat
Listing	Simplified Listing
Listing Compliance	Simplified Compliance
Presence	National
Trading System	BSEs On-Line Trading (BOLT)
Grading of the issue by rating agency	Not mandatory
Filing of offer document	Only with the Exchange (Only the final Prospectus needs to be filed with SEBI)
Limit of Paid up Capital	Post Issue paid up capital should be less than Rs. 25 crores

Source: Bombay Stock Exchange

At present there are two listed companies in the SME Exchange:

- 1) BCB Finance Ltd.
- 2) Monarch Health Services Ltd.

The SME exchange hopes nearly 100 companies on its trading platform in the next 18 months.

In this maiden research report focusing on SME companies in BSE SME Exchange, we have covered the upcoming IPO "Max Alert Systems Ltd."

AJMERA

Max Alert Systems Ltd. is engaged in the business of providing solutions for fire fighting, Building Management System (BMS) and other allied activities. The Company's revenues have witnessed a CAGR of 70.9% over the period FY07-FY11. In the same period, PAT has registered a CAGR of 90%. OPM has improved from 7.9% to 8.7% in FY11. 9MFY12 OPM stood at 7.75%. The Company's capital structure position also improved significantly. Debt/Equity ratio improved from 3.5x in FY08 to 1.3 x in FY11. The key return ratios are healthy as well. For FY11, RoNW and RoCE stood at 32.1 percent and 23.4 percent respectively. At the IPO fixed price of Rs. 20, Max Alert Systems is valued at 11x at its annualized 9MFY12 EPS of Rs. 1.37/-. Post Issue Market Capitalization/9MFY12 Annualized Sales stands at 0.44x which seems reasonable. With due consideration to factors like a) Range of product offerings, b) Track record of executing fire fighting contracts including Building Management System (BMS), c) Continuous growth in its bid capacity and pre qualification capability, d) strong financials, we recommend "SUBSCRIBE" to the issue in limited quantity.

Objects of the issue

Particulars	Amount to be utilized (Rs. lacs)
Setting up Crushing Plant	860
Issue Expenses	60
Total	920

Source: DRHP

Means of Finance

Particulars	Amount to be utilized (Rs. lacs)
Initial Public Offering	800
Internal accruals	120
Total	920

Source: DRHP

Financial summary (Rs. lacs)

Y/e 31 Mar (Rs. mn)	9MFY 12	FY11	FY10	FY09	FY08
Total Operating Income	3,131	3,314	2,861	1,998	996
EBITDA Margin (%)	7.7	8.7	9.7	8.2	7.9
Reported PAT	170.6	173	130	146	51
PAT margin (%)	3.03	5.22	4.54	7.31	5.12
Equity Capital	95	95	27	1	1
Networth	710	539	366	211	65
Total Debt	681	699	457	412	229
Debt/Equity (x)	1.0	1.3	1.2	2.0	3.5
RoNW (%)	13.4	32.1	35.4	69	77.2
RoCE (%)	17.3	23.4	33.6	26.4	26.8
Adjusted EPS on Post IPO equity	1.86	1.88	1.41	0.01	0.01
P/E at IPO Fixed Price	11	11	14	-	-

Source: RHP, Ajcon Research *P/E on annualized EPS

Listing	BSE – SME Exchange	
IPO Issue date	June 28 – July 02, 2012	
IPO Issue size	Rs. 80 mn	
FV	Rs. 10	
Fixed Price Issue	Rs. 20 per share	
Fresh Issue	4 mn equity shares	
Issue structure	Market Maker: 15% (0.6 mn shares) Retail: 42.5 % (1.7 mn shares) QIB: 42.5 % (1.7mn shares)	
Equity shares post issue	9.19 mn equity shares	
Promoters	Mr. Anilkumar Chandra: Director Mr. Lenin Chandran : Managing Director	
Post issue market capitalization	Rs.183.8 mn	
Book Running Lead Manager	Comfort Securities Ltd.	
Registrar to the issue	Sharepro Services (India) Private Ltd.	
Shareholding Pattern (%)	Pre Issue	Post Issue
Promoters	99.95	56.48
Promoter group and others	0.05	-
Public	-	43.52
Total	100	100

About the Business

The Company is currently engaged in the business of providing solutions for fire fighting, BMS and other allied activities. The Company was initially engaged in the business of fire fighting services, BMS and other allied activities. Later on the Company diversified into the business of telecom industry i.e. installation of mobile towers. However in the recent past, fire fighting services, BMS and other allied activities comprise the main thrust of its business. Its core competencies are its in-house technical knowledge, skilled workforce, diversified product portfolio which enables the Company to meet varied client requirements.

Existing business operations

From the basic level detection and water based fire protection systems to the sophisticated gas based fire suppression systems, Max Alert Systems provide a complete range of fire protection solutions to its customers substantiated as under:

- a) Consultancy Services
- b) Design
- c) Engineering
- d) Installation, testing and commissioning
- e) Training
- f) Annual maintenance of gas detection systems
- g) Maintenance of fire & gas suppression & security system

The aforesaid services are provided in relation to the following range of products:

Fire detection:

- a) Conventional/microprocessor based automatic fire detection system
- b) Intelligent analog addressable fire detection system
- c) Liner heat sensing cable system
- d) Gas detection system (analog & micro controller based)
- e) Portable explosive meters
- f) Infrared and ultra violet detection systems

Fire suppression:

- a) Dry chemical systems
- b) Wet chemical systems

Gas based automatic fire suppression:

- a) Carbon Di-Oxide flooding systems
- b) FM-200 total flooding systems (replacement for halon)
- c) Argonite total flooding systems
- d) Inergen System

Water based fire fighting:

- a) Hydrant systems
- b) Sprinkler systems
- c) High/medium velocity spray systems
- d) Water mist systems

Security systems:

- a) Stand-alone access control systems
- b) On line access control systems
- c) CCTV surveillance systems
- d) Water leak detection systems
- e) Tele-security systems

Other Services:

- a) Annual preventive/corrective maintenance of all types of fire and gas detection and protection systems
- b) Calibration of explosive meter and gas detection system
- c) Refilling of CO2, Argonite, FM-200 Gas, Etc.

SWOT Analysis

Strengths

- a) Experienced Promoters and management team
- b) Range of product offerings
- c) Track record of executing fire fighting contracts including BMS

Weaknesses

- a) Dependent upon bid capacity for procuring a tender
- b) Lack of comprehensive value chain in-house

Opportunities

- a) Growing awareness among consumers about fire fighting system
- b) Explore untapped markets and segments
- c) Expand its existing customer base through expansion of its existing product portfolio

Threats

- a) There are no entry barriers in this industry which puts the company to the threat of competition from new entrants
- b) Industry is prone to change in government policies, any material changes in the duty may adversely impact its financials

Industry Overview

Crusher

A crusher is a machine designed to reduce large rocks into smaller rocks, gravel, or rock dust. Crushers may be used to reduce the size, or change the form, of waste materials so they can be more easily disposed of or recycled, or to reduce the size of a solid mix of raw materials (as in rock ore), so that pieces of different composition can be differentiated. Crushing is the process of transferring a force amplified by mechanical advantage through a material made of molecules that bond together more strongly, and resist deformation more, than those in the material being crushed do. Crushing devices hold material between two parallel or tangent solid surfaces, and apply sufficient force to bring the surfaces together to generate enough energy within the material being crushed so that its molecules separate from (fracturing), or change alignment in relation to (deformation), each other. The earliest crushers were hand-held stones, where the weight of the stone provided a boost to muscle power, used against a stone anvil. Querns and mortars are types of these crushing devices.

Industrial use:

In industry, crushers are machines which use a metal surface to break or compress materials. Mining operations use crushers, commonly classified by the degree to which they fragment the starting material, with primary and secondary crushers handling coarse materials, and tertiary and quaternary crushers reducing ore particles to finer gradations. Each crusher is designed to work with a certain maximum size of raw material, and often delivers its output to a screening machine which sorts and directs the product for further processing. Typically, crushing stages are followed by milling stages if the materials need to be further reduced. Additionally rock breakers are typically located next to a crusher to reduce oversize material too large for a crusher. Crushers are used to reduce particle size enough so that the material can be processed into finer particles in a grinder. A typical circuit at a mine might consist of a crusher followed by a SAG mill followed by a ball mill. In this context, the SAG mill and ball mill are considered grinders rather than crushers.

In operation, the raw material (of various sizes) is usually delivered to the primary crusher's hopper by dump trucks, excavators or wheeled front-end loaders. A feeder device such as an apron feeder, conveyor or vibrating grid controls the rate at which this material enters the crusher, and often contains a preliminary screening device which allows smaller material to bypass the crusher itself, thus improving efficiency. Primary crushing reduces the large pieces to a size which can be handled by the downstream machinery. Some crushers are mobile and can crush rocks (as large as 60 inches). Primarily used in-pit at the mine face these units are able to move with the large in-feed machines (mainly shovels) to increase the tonnage produced. In a mobile road operation, these crushed rocks are directly combined with concrete and asphalt which are then deposited on to a road surface. This removes the need for hauling over-sized material to a stationary crusher and then back to the road surface.

(Source: DRHP)

Fire Fighting

Firefighting is the act of extinguishing fires. A firefighter fights fires to prevent loss of life, and/or destruction of property and the environment. Firefighting is a highly technical skill that requires professionals who have spent years training in both general firefighting techniques and specialized areas of expertise.

Fire protection is the study and practice of mitigating the unwanted effects of potentially destructive fires. It involves the study of the behavior, compartmentalisation, suppression and investigation of fire and its related emergencies, as well as the research and development, production, testing and application of mitigating systems. In structures, be they land-based, offshore or even ships, the owners and operators are responsible to maintain their facilities in accordance with a design-basis that is rooted in laws, including the local building code and fire code, which are enforced by the Authority Having Jurisdiction. Buildings must be constructed in accordance with the version of the building code that is in effect when an application for a building permit is made. Building inspectors check on compliance of a building under construction with the building code. Once construction is complete, a building must be maintained in accordance with the current fire code, which is enforced by the fire prevention officers of a local fire department. In the event of fire emergencies, Firefighters, fire investigators, and other fire prevention personnel called to mitigate, investigate and learn from the damage of a fire. Lessons learned from fires are applied to the authoring of both building codes and fire codes.

Goals:

Fire protection has three major goals:

Continuity of operations - on a public scale, this is intended to prevent the interruption of critical services necessary for the public welfare.

Property protection - on a public scale, this is intended to prevent area wide conflagrations. At an individual building level, this is typically an insurance consideration or a regulatory requirement.

Life safety - the minimum standard used in fire and building codes.

(Source: DRHP)

Building Management System

A Building Management System (BMS) is a computer-based control system installed in buildings that controls and monitors the building's mechanical and electrical equipment such as ventilation, lighting, power systems, fire systems, and security systems. A BMS consists of software and hardware; the software program, usually configured in a hierarchical manner, can be proprietary, using such protocols as C-bus, Profibus, and so on.

Characteristics

A BMS is most common in a large building. Its core function is to manage the environment within the building and may control temperature, carbon dioxide levels and humidity within a building. As a core function in most BMS systems, it controls heating and cooling, manages the systems that distribute this air throughout the building (for example by operating fans or opening/closing dampers), and then locally controls the mixture of heating and cooling to achieve the desired room temperature. A secondary function sometimes is to monitor the level of human-generated CO₂, mixing in outside air with waste air to increase the amount of oxygen while also minimising heat/cooling losses.

Functions of Building Management Systems

The three basic functions of a central, computer-controlled BMS are:

- a) controlling
- b) monitoring
- c) optimizing

The building's facilities, mechanical, and electrical equipment for comfort, safety, and efficiency.

A BMS normally comprises

- a) Power systems
- b) Illumination system
- c) Electric power control system
- d) Heating, Ventilation and Air-conditioning HVAC System
- e) Security and observation system
- f) Magnetic card and access system
- g) Fire alarm system
- h) Lifts, elevators etc.
- i) Plumbing system
- j) Burglar alarms
- k) Trace Heating
- l) Other engineering systems
- m) Home Automation System

Benefits of BMS

Building tenant/occupants

- a) Good control of internal comfort conditions
- b) Possibility of individual room control
- c) Increased staff productivity
- d) Effective monitoring and targeting of energy consumption
- e) Improved plant reliability and life
- f) Effective response to HVAC-related complaints
- g) Save time and money during the maintenance
- h) Control of building

Building owner

- a) Higher rental value
- b) Flexibility on change of building use
- c) Individual tenant billing for services facilities manager
- d) Central or remote control and monitoring of building
- e) Increased level of comfort and time saving
- f) Remote Monitoring of the plants (such as AHU's, Fire pumps, plumbing pumps, Electrical supply, STP, WTP etc.)

Maintenance Companies

- a) Ease of information availability problem
- b) Computerized maintenance scheduling
- c) Effective use of maintenance staff
- d) Early detection of problems
- e) More satisfied occupants

Key Strengths

Leveraging the experience of its Promoters

The Company's Promoters Mr. Anilkumar Chandra and Mr. Lenin Chandran have an experience in fire fighting, BMS, telecom and infrastructure activities for over seven years and during this tenure they have developed good client base, technical capability & contributed in the growth of its Company.

Experienced management team and a motivated and efficient work force

The Company is managed by a team of experienced and professional personnel having knowledge of all aspects of material, marketing and finance. The faith of the management in the staff and their performance has enabled us to build up capabilities to expand its business.

Range of product offerings

The Company has a diversified portfolio of products catering to fire fighting, BMS and other allied activities. Current business mix is not dependent on one single segment. This facilitates the Company in mitigating the risk of downturn in any particular area.

Continuous growth in its bid capacity and pre qualification capability

The Company's business and growth are dependent on its ability to bid and secure large and varied projects. Bidding is dependent on various criteria, including, bid capacity and pre qualification capability. Bid capacity represents the aggregate value of the contracts that can be awarded to the Company, and is computed based on predefined criteria of various authorities. Pre qualification capability includes various factors such as the technical capability, financial capability and past experience in similar projects. The Company has focused on increasing these parameters and continuously increase its bid capacity.

Key Concerns

The Registered Office of Max Alert Systems is not owned by the Company.

The Registered Office of the Company situated at Gama House, Gaodevi Road, Bhandup (West), Mumbai-400078, has been subleased from its group Company Delta Infra Limited for a monthly rent of Rs. 70,000/-. The property is owned by Ace Electronics and its Group Company, Delta Infra Limited has taken it on lease basis.

The Branch Office of the Company is not owned by Max Alert Systems.

The Branch Office of the Company is situated at House No.1170, 1st Floor, Near Canara Bank, Segundo Bairro, Santacruz ilhas, Panaji Goa, which is owned by Mr. Nicolus Dias, who has permitted the Company to use his premises as its branch office for monthly rent of Rs. 4000/-.

Higher debtor's position may deter financials

The total debtors of the Company as on 31st December, 2011 are Rs. 964.40 Lacs and the debtors outstanding for more than six months constitute Rs. 96.46 Lacs which consists of 10.00 % of total ndebtors. Though the Company percept all its debtors are recoverable, however if the Company is not able to recover its debtors, it would impact its Cash flow position.

Proceeds of the issue to be deployed in Crusher plant for mining where there is no significant track record

Negative Cash Flows in the past

The detailed break up of cash flows is summarized in below mentioned table and the Company has reported negative cash flow in certain financial years and which could affect its business and growth:

(Rs. in mn)

Particulars	Dec 2011	FY11	FY10	FY09	FY08	FY07
Net Cash Flow from Operative activities	5.31	(5.45)	14.54	(8.36)	(4.63)	(8.45)
Net Cash Flow from Investing activities	(1.07)	(4.52)	(12.07)	(2.68)	(5.36)	(0.23)
Net Cash Flow from Financing activities	(10.75)	15.69	(1.96)	13.14	11.47	10.55
Net Cash Flow for the Year	(6.52)	5.72	0.5	2.09	1.48	1.87



Financials (Rs. in lacs)

Income Statement

Y/e 31 Mar	FY08	FY09	FY10	FY11	9MFY12
Total Operating income	996	1,998	2,861	3,314	3,131
Operating profit	79	165	277	289	241
Depreciation	(3)	(4)	(15)	(18)	(13)
Interest expense	(14)	(52)	(65)	(85)	(89)
Other income	1	58	8	21	0
Profit before tax	63	167	205	208	139
Taxes	(12)	(21)	(76)	(35)	(44)
Minorities and other	0	0	0	0	0
Adj. profit	51	146	130	173	95
Exceptional items	0	0	0	0	0
Net profit	51	146	130	173	95

Source: Company, Ajcon Research

Balance Sheet

Y/e 31 Mar	FY08	FY09	FY10	FY11	9MFY12
Equity capital	1	1	27	95	95
Share Application Money	26	26	0	0	0
Reserves	64	210	339	445	615
Net worth	65	211	366	539	710
Debt	229	412	457	699	681
Deferred tax liab (net)	1	2	8	2	2
Total liabilities	321	651	832	1,240	1,393
Fixed assets	52	74	180	169	156
CWIP		0	0	0	0
Intangible assets	0	0	0	0	0
Investments	1	1	1	39	50
Net working capital	235	522	592	915	1,136
Inventories	5	123	329	347	506
Sundry debtors	300	557	509	790	964
Loans and advances		112	215	276	307
Other current assets	50	0	0	0	0
Current liabilities	(108)	(239)	(360)	(355)	(456)
Provisions	(11)	(32)	(101)	(143)	(185)
Cash	34	54	59	117	52
Total assets	321	651	832	1,240	1,393

Source: Company, Ajcon Research

Ratio Analysis

Y/e 31 Mar	FY08	FY09	FY10	FY11	9MFY12
Profitability ratios (%)					

OPM	7.9	8.2	9.7	8.7	7.7
EBIT margin	7.7	11.0	9.4	8.8	7.3
Net profit margin	5.1	7.3	4.5	5.2	3.0
RoCE	26.8	26.4	33.6	23.4	17.3
RoNW	77.2	69.0	35.4	32.1	13.4
RoA	22.9	23.3	13.7	13.6	6.0
Liquidity ratios					
Debtor days	110	102	65	87	112
Inventory days	2	23	42	38	59
Creditor days	40	44	46	39	53
Leverage ratios					
Interest coverage	5.6	4.2	4.2	3.5	2.6
Net debt / equity	3.0	1.7	1.1	1.1	0.9
Net debt / op. profit	2.5	2.2	1.4	2.0	2.6

Source: Company, Ajcon Research

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