

INDIA –
THE EMERGING
OPPORTUNITY



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THE INDIAN SECURITY INDUSTRY MARKET

The Growing Opportunity

AS PART of a larger on-going pan India survey, SECURITY TODAY recently conducted an online mini survey of the Indian Security Industry and came up with some interesting facts and figures outlining the complexion and dimension of the electronic security systems industry. Although, the industry still has a long way to go to match the standards of the developed world, the electronic security industry, which is largely import based, is fast expanding and is estimated to be close to US \$350 million (Rs.1575 crores). It is expected to grow conservatively by about 26%. The huge private manned guarding sector, estimated to comprise of more than 5,000 guard companies employing more than 1 million people, remains unregulated. However, budgets are being set aside and more emphasis being laid on the provision and up-gradation of the electronic protection measures. The future indeed appears to be rosy!

The New Face of India – Some Facts & Insights

With a Land Area of 3.29 million square kilometers, which is roughly one third the size of United States, India has a population of 1.05 billion (as per the 2003 census), making it the world's second most populous nation. As the largest democracy, it follows a federal system of governance, and comprises of 28 States and 7 Union Territories.

Recent years have seen the country's economy growing at an average growth rate of almost 9%, making it the 4th largest and second fastest growing economy in the world. The "Great Indian Middle Class", which is estimated to be between 200 - 300 million strong, is fast becoming used to the Western lifestyle. In 2005, the per capita Purchasing Power Parity (PPP) adjusted GDP for India was US\$ 3,460 against China's \$6,660. If current trends continue, the Indian per capita PPP will grow to be approximately one third that of the developed world by the middle of the 21st century.

India has the third largest scientific and technical manpower in the world. Developing as one of the largest cost-competitive technical workforce nations, India is already well known for Information technology (IT) and business outsourcing.

In the field of Missile Launch Technology, India is among the top five nations of the world. India is the only Third World Country to develop its own remote-sensing satellite. India's contribution to the professional pool is equally impressive - Almost 60,000 Indian physicians practice in the United States, United Kingdom, Canada, and Australia—a workforce

equal to 10 percent of the physicians in India and the largest émigré physician workforce in the world. “Medical Tourism” is on the rise, Medical Tourism (a.k.a. Health Tourism) is a developing concept whereby people from world over visit India for their medical and relaxation needs.

For those who still think of India as a land of snake charmers, there’s a new think coming! Indian airline companies account for close to half of all the new Airbuses ordered at the Paris air show in 2005. According to the Forbes 2007 rankings, India now leads Asia with 36 billionaires against 24 of Japan, with three Indians ranking amongst the top 20.

Dassault and Bombardier, makers of high-end private jets, have recently felt their strongest presence yet, in India. Dassault sold five business jets last year in India as against 6 over the previous 14 years. Bombardier introduced the Global Express XRS at \$52 million to India and 3 got sold immediately! The barely one-year old Rolls-Royce dealership in Mumbai has already sold 16 Phantoms at an average price of \$ 850,000!

Economic Reforms

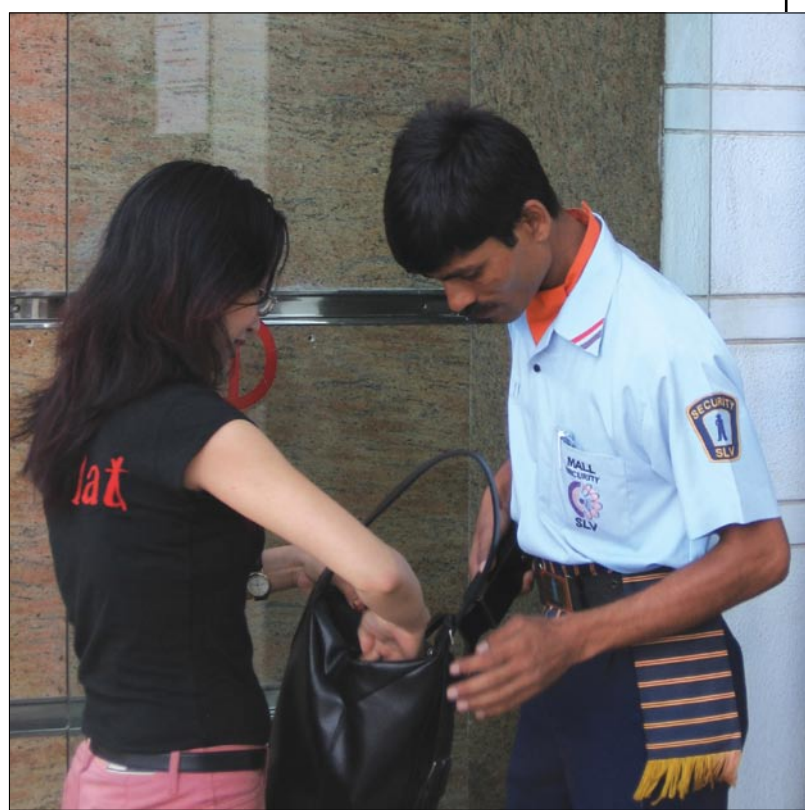
The reforms launched in the early 90’s have made India an attractive place for investment. Custom duties have been lowered, repatriation of profits made liberal and levels of foreign equity raised considerably, (even 100 percent in case of export oriented industries). Emerging as an across the board low cost base, the country has been found to be attractive enough to multinationals to relocate here. More than one hundred of the Fortune 500 companies now have a presence in India.

Guidelines developed by the government in specific sectors such as Telecom, Ports, Airports, Railways, Roads, Energy and Construction Development have been done with a view to improving competitiveness of the Indian economy. A Special Economic Zone (SEZ) Act has also been put in place to facilitate this process.

In 1991, when the reforms were started, India’s Forex reserves were just US\$ 2B. Today they are breaching the US\$ 200B mark. The writing on the wall is very clear - “NOBODY CAN AFFORD NOT TO ENGAGE INDIA!”

The Services Sector

The huge private manned guarding sector, estimated to comprise of more than 5,000 guard companies employing more than 1 Million people, remains unregulated. It by and large dominates the protection industry in India. Born in the 60’s this sector started with a handful of large players. Today, companies like G4S, SIS, Tops, SDB



CISCO, Peregrine, Checkmate, Premier, GI Security and some others operate through their various regional and city offices to offer protection services nationwide.

However, smaller companies dotting the landscape, in a bid to carve out a share of the market, resort to cost-cutting, which in turn brings down the quality of service provided. Large players, on the other hand, provide in-house training facilities, job orientation programs which reflect in the quality of service they provide.

Interestingly, the concept of Central Monitoring Services (CMS) of alarms has not really caught on in India, as the end-user expects a private response rather than a police or a state response. As of now, there are less than 5 companies offering CMS and Response services, the majority of them, including G4S having started such services in the last couple of years. The reason for the poor growth of this sector is not hard to find. As Mr. Suresh Sawhney, the Vice President & Country Head of Ingersoll-Rand International (India) puts it, “Inherently the Indian society is not crime prone. The general population does not perceive this to be a threat area as also the fact that the education level of the decision makers about security systems is low. This would change in the next 5 – 10 years.”

In a bid to regulate the manned guarding sector, the Indian Government recently passed the 2005 Private Security Agencies Regulation Act which, in reality, is yet to take off.

The Systems Sector

The height of terrorism in the 70’s saw the birth of the systems sector with nondescript Bank Alarm manufacturers and installers trying to outdo each other with substandard, locally-assembled alarms.

Import liberalization in the mid 80’s saw the emergence of System Integrators (SI), with rapid acceleration in the 90’s. While most systems worth the name were imported, indigenously assembled systems in those days too were largely import based.

Further trade liberalization resulted in the influx of global players like Honeywell, GE, BOSCH, Tyco, Siemens and HID. Other international companies are making their presence felt by appointing distributors, and more recently, opening their Indian offices and offering sales and after-sales support. Large government and infrastructure security system projects are beginning to happen as end users realize the advantages of electronic protection.

The Indian Electronic Protection Systems Industry

The Indian market for electronic security equipment is categorised into the electronic sector and non-electronic sectors and organized and informal sectors. While the total number of players in the organized electronic sector is around 50, the unorganized sector accounts for about 800 units. Many Indian companies have collaborated with foreign manufacturers and are marketing foreign products in India.

Security equipment is imported mainly from USA, UK, Germany, Singapore, Italy, Hong Kong, Israel, Japan, Korea, China, and Taiwan.

Some Major Brands in India

As far as CCTV equipment is concerned, companies like Bosch, Honeywell, GE, Pelco, Samsung, Yoko, Meritt Lillin, Hanse, Hi Sharp, CBC, Sanyo, American Dynamics, Vicon and more recently Sony, Axis, DVTel, and Verint control the major portion of the market.

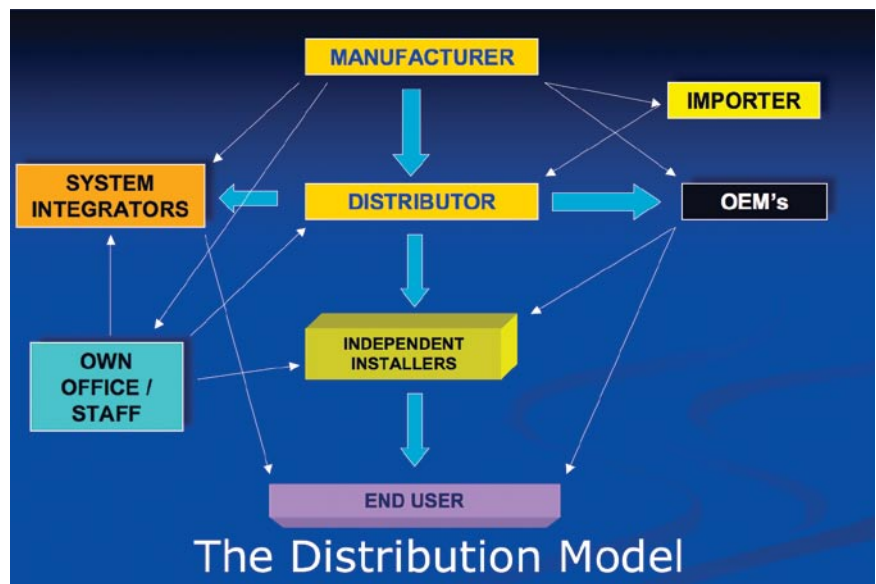
The Access Control market is dominated by players like HID, Europlex, Cardax, GE (Casi Rusco), Lenel, Syris, Poris, Pegasus, Elid, IDTEK, Tyco (Sensormatic), JCI (Card Key) Solus, MBux and Kantech.

The relatively much smaller Intrusion detection systems market is catered to by names like Jablotron, GE (Caddx), Tyco (DSC), Securico, Texecom, Magal, Senstar Stellar and Gallagher.

While this list is purely indicative, there is definitely room for more players to come in.

How business gets transacted?

The manufacturer typically sells to the distributor, who usually is also a system integrator (although recently a few pure distributors such as ADI (Honeywell) have emerged). The distributor markets the products to other SI's, installers and end-users, does sales promotion, renders technical assistance and after sales & warranty services on behalf of the manufacturer. The distributor at times also sells components that are part of an overall security system to Original Equipment Manufacturers who further sell to installers and end-users. Recently some local and off-shore (Hong Kong & Singapore based) traders have entered the scenario. These entities typically source, supply and often finance the



transaction between the manufacturer and the distributor. With the market expanding and looking more promising, a more recent trend has been for manufacturers to establish their wholly owned subsidiary and open local office/s. The staff employed by them does product promotion with the System Integrators, Consultants, Specifiers and End-Users.

Amongst the multinational brands, perhaps Honeywell has the best broad-based and structured set-up in India. It has a software development centre in Bangalore serving its global needs, a systems integration unit (Honeywell Building Solutions) in Pune, a dedicated distribution unit in Gurgaon (selling to big SI's for large and middle level projects), a general distribution unit (ADI), located on Gurgaon, Mumbai & Bangalore, selling to small and medium level independent installers and a manufacturing unit in Gurgaon producing fire alarm systems.

Major Market Areas

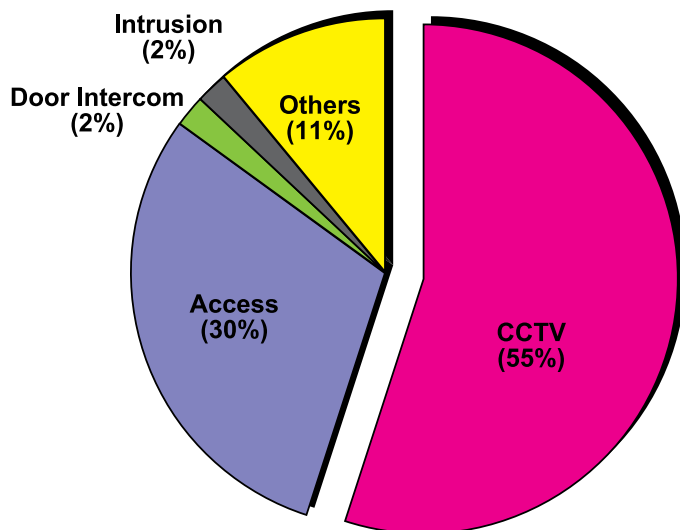
While North India (Delhi, NCR, Haryana, Punjab, part Uttranchal & West UP, NE Rajasthan), have the largest proportion on security installations, the Southern India (Hyderabad, Bangalore, Chennai, Coimbatore, Mangalore, Trivandrum) are a close second. Western parts of the country (East Gujarat, Mumbai, Goa, Maharashtra) follows next with the Eastern part of the country being somewhat deprived of the security cover it demands.



Market Assessments

As no coordinated, structured and research-based assessment has yet been made about the status and the girth of the Indian Protection Systems Industry, the results of a mini-survey conducted recently by SECURITY TODAY give a fairly good indication of the size of the major market areas.

Estimated at USD 350 million, the systems sector in India can broadly be divided into five categories. The largest amongst these is the CCTV segment, commanding some 55 percent of the entire market. With the high-success rate of



CCTV surveillance equipment worldwide, security conscious organisations (both government and non-government) in India are setting aside budgets for implementing CCTV surveillance, reflecting an annual expected growth rate of around 45 percent. The market of fixed Dome type cameras is nearly 4 times that of Box type 'C/CS' mount cameras. Acceptance of Speed Dome cameras is fast increasing as costs get reduced.

Access Control systems account for about 30 percent of the market share. While access regulation is definitely very desirable, the cost factor restricts the installation of good access controls systems to only large organizations.

Unlike the rest of the world, Intrusion Detection Systems have not found a very good market in India, presumably due to lack of awareness as well as education. The majority of installations are purely residential. Mr. Rajeev Bajaj, MD – Alba Control Systems Ltd., attributes the slow growth of this segment to community living, strong family ties and the joint family system. "The market will increase with the increase in nuclear families," he said. "Moreover, with apartment complexes and condominiums being designed as gated complexes, the inmates do not feel the necessity of intrusion alarms," he added. Yet another reason for the non-acceptability of intruder detection systems is the high rate of false alarms caused by environmental conditions.

Mr. Roop Singh Kuntal of Amron Associates says, "If the government was to make the use of intrusion alarms mandatory in mid and high-end dwelling units, we will see

many more alarms being installed."

While Mr. R S Mann, MD – Blue Beacon Security Systems, thinks that unprofessional promotion and approach is the reason for the slow growth of the Intruder detection systems market, Mr. Avnish Mehrotra, Business Manager for Zicom's Security Solutions Group, attributes it to a lack of public awareness coupled with a lack of proper market coverage.

While Door Intercoms, both Audio as well as video-types are considered desirable, they are used mostly by apartment dwellers. Even here, retro-fitting is not the accepted practice. Thus it is left to the builder to provide dwelling units equipped with door phones. Despite this detrimental factor, this segment controls about 2 percent of the market, with an expected annual growth rate of about 30 percent.

Other equipment like Metal Detectors, X-Ray scanners and baggage scanners command about 11 percent of the market share, with all but the most rudimentary metal detectors being deployed by government and semi-government organizations. With security being beefed up at airports, railway stations, bus and metro stations, this segment is expected to grow by about 30 percent annually.

Product Sector	Proportion	Market Size in US\$ (Millions)	Market Size in INR (Crores)	Expected Annual Growth
CCTV (Commercial & Industrial Cameras, Housings, Monitors, DVR/NVR's)	55%	192.5	866	45%
Access Control (Controllers, Readers, Locking Hardware, Barriers, Cards)	30%	105	473	30%
Intrusion Detection (Perimeter & Building Alarm Controllers & Detectors. Incl. Electric Fences)	2%	7	32	20%
Intercom (Audio & Video Doorphones)	2%	7	32	30%
Others (Metal Detectors, X-Ray etc)	11%	38.5	173	30%
TOTAL	100%	350	1575	26%

Growth Drivers

As mentioned before, economic liberalization and development has been, and continues to be the largest single factor contributing to the growth of the security systems industry, with the falling of prices of electronic systems worldwide coming in a close second.

Compared to the prohibitive 250% Import Customs Duty of the 80's, the current rate of 35% is also be considered as growth driver for the industry.

Rapid growth in sectors such as telecom, ports, airports, aviation, railways, roads, energy, construction and retail, coupled with the influx of multinational companies also contributed to a large extent. Furthermore, increased Government allocations to modernize Police services witnessed the recent setting up of city surveillance projects in almost all the metros.

What is needed?

To ensure a healthy growth, "The security industry must follow some quality certifications. While standards should be formulated for equipment, suppliers and installers should be certified as per their performance and professionalism," says Mr. Mann. "The market is in a mess," says Mr. Sawhney. "If it is to improve to attain an industry status, the crying need is for self-realization and commencement of accreditation programmes sponsored within the industry by brand leaders like Ingersoll-Rand, Honeywell, GE, Tyco, etc., to bring the skills and maturity levels to world standards," he hastens to add.

Future Trends

- Trend towards one-stop shopping in the commercial

and industrial markets as customers seek to decrease their systems integration costs

- Move from Analog to Digital
- IP Based systems gaining ground. Players such as Axis, Sony, Verint, DVTel, Lenel increasing awareness
- Convergence of IT and Physical Security
- Arrival of IT network players such as CISCO and D-Link. into the security systems arena
- Intelligent Facility Management Systems
- Emergence of Security Industry Publications.
- More Exhibitions and Seminars
- Industry Associations getting professionally active

Useful Tips for Overseas Players

- Many find it beneficial to partner with experienced local players. Take time to choose local partners.
- Have LOTS OF PATIENCE
- Be willing to invest in brand development and customer awareness. Being a large country, this takes time in India.
- Have good local technical support and after sales service set-up with warranty repairs workshop.
- Most large companies and government organizations make their purchases of security equipment by inviting tenders or soliciting quotations from supplier companies. Influential local partners come in handy in such cases.