

Stock Idea

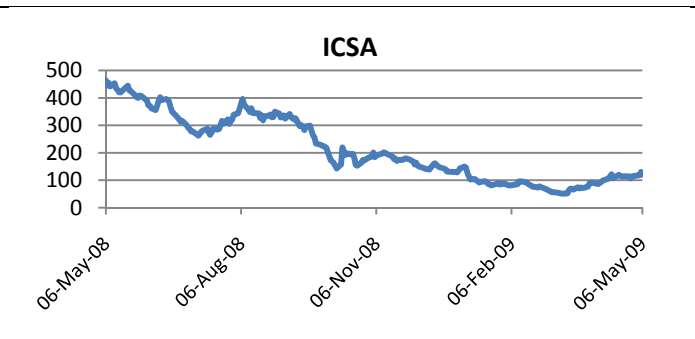
ICSA (India) Ltd.

Recommendation	Not Rated
CMP (13/05/2009)	Rs. 121.60
Sector	IT & Power

Stock Details

BSE Code	531524
NSE Code	ICSA
Market Cap (Rs. cr)	570.30
Free Float (%)	79.32
52- wk HI/Lo	472/48.35
Avg. volume BSE (Quarterly)	706782
Face Value	Rs.2.00
Dividend (FY08)	60%
Shares o/s (No.)	4.69

Relative Performance	1Mth	3Mth	1Yr
ICSA	39.7%	47.7%	-73.9%
Sensex	13.5%	28.5%	-31.2%



Shareholding Pattern as of 31/03/2009

Promoters Holding	20.68%
Institutional (Incl. FII)	43.68%
Corporate Bodies	10.00%
Public & others	25.64%

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Background

ICSA (India) Ltd is in the field of providing T&D infrastructure creation and embedded solutions and services. The company is headquartered in Hyderabad. ICSA is providing technology solutions to the Indian power sector with the objective to identify transmission and distribution losses and monitor power consumption. It also provides technological solutions for distributing oil and gas through pipeline.

ICSA is present in two segments – providing embedded solutions for power and pipeline applications and offering turnkey services for Electrical Infrastructure Projects in Power generation & T&D Sector.

Embedded Solutions:

ICSA provides embedded technologies and software applications for power, oil, gas and water sectors. The company provides real time monitoring of pipeline spread across the country using various control systems. These systems in place helps in identifying corrosion, leaks, pilferage etc in pipeline and helps in proper maintenance. The company also provides versatile data acquisition system using communication media such as GSM, CDMA and RF for power sector. ICSA provides a range of solutions suitable for power utilities in the field of energy management, energy audit and control applications. It offers solutions to identify Transmission and Distribution (T&D) losses and monitor power consumption using GSM network.

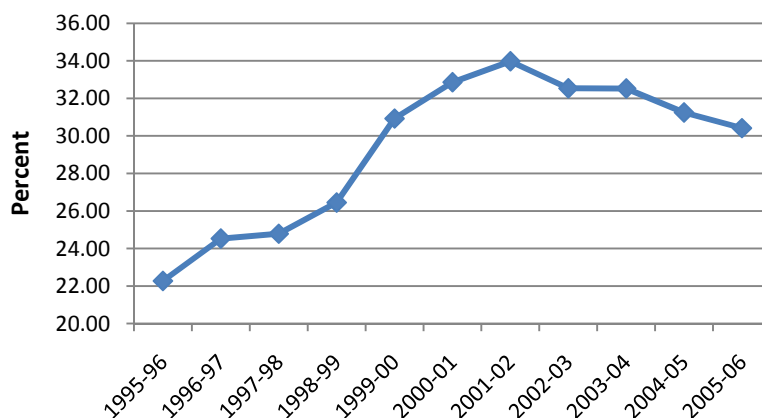
Power Infrastructure:

ICSA offers turnkey services for electrical infrastructure projects in power generation, transmission and distribution sectors besides industrial rural electrification projects. ICSA also provides rural electrification, construction of sub stations and conversion of LT line to HT lines. The company is also executing Transmission projects both in India and abroad on EPC basis and HVDC, Rural Electrification & Industrial Electrification Projects in all parts on India on turnkey basis.

Year	Net Sales	Growth %	EBITDA	Margin %	PAT	EPS	PE	P/BV	ROE %
FY06A	81.14	277.4%	20.14	24.8%	15.09	5.03	24.17	2.23	46.1%
FY07A	332.48	309.8%	80.49	24.2%	59.85	17.55	6.93	0.78	56.1%
FY08A	670.69	101.7%	180.43	26.9%	111.14	25.03	4.86	1.48	30.4%
FY09A	1111.33	65.7%	267.28	24.1%	168.27	35.88	3.39	0.96	28.3%

Since State Power Distribution companies are facing distribution loss of over 30% GOI has come out with Restructured Accelerated Power Development and Reform Programme (rAPDRP) to bring down the losses to 15%.

Power Transmission & Distribution (T&D) losses



*Source-CEA

As rAPDRP has given stress on use of Information Technology for reduction of distribution losses & ICSA is one of the key players in that, it is expected to open up great opportunity for ICSA.

About rAPDRP

The Govt. of India has proposed to continue R-APDRP (Restructured Accelerated Power Development and Reform Programme) during the XI Plan with revised terms and conditions as a Central Sector Scheme. The focus of the programme shall be on actual, demonstrable performance in terms of sustained loss reduction in transmission and distribution of power. For doing the same establishment of reliable and automated systems for sustained collection of accurate base line data, and the adoption of Information Technology in the areas of energy accounting will be essential before taking up the regular distribution strengthening projects.

The scheme covers the renovation and modernization of sub stations, transmission lines, distribution transformers, consumer meters, high voltage distribution system and computerized billing. The scheme is targeting reduction of T&D losses by 15% by the end of the Eleventh Plan.

Rs 51,577 Crs has been allotted by the Central Govt under the rAPDRP Scheme. This amount will be provided as loan by GOI out of which an

estimated amount of Rs 30,000 Crs will be converted into grant.

Projects under the scheme shall be taken up in Two Parts. Part-A shall include the projects for establishment of baseline data and IT applications for energy accounting/auditing & IT based consumer service centres. Part-B shall include regular distribution strengthening projects. Out of the total funds Rs 10,000 Crs is allotted for Part A activities and Rs 40,000 Crs for Part B activities.

- GOI will provide 100% Loan for part A of the R-APDRP schemes which shall include projects for establishing Base Line data and IT applications for energy accounting/ auditing and IT based consumer services etc.
- GOI will provide up to 25% (90% for special category States) Loan for Part B of the R-APDRP schemes which shall include regular distribution strengthening projects.
- Power Finance Corporation will be the Nodal Agency to operationalise the programme under the guidance of Ministry of Power.
- The entire loan from GOI will be routed through PFC/REC (FIs) for the respective schemes funded by them.
- The entire amount of GOI loan (100%) for part A of the project shall be converted into grant after establishment of the required Base-Line data system within a stipulated time frame and duly verified by TPIEA (Third Party Independent Evaluating Agencies).
- Up to 50% (90% for special category States) loan (given by GOI) for Part-B projects shall be converted into grant in five equal tranches on achieving 15% AT&C loss in the project area duly verified by TPIEA on a sustainable basis for a period of five years.
- If the utility fails to achieve or sustain the 15% AT&C (Aggregate transmission & Commercial) loss target in a particular year, that year's tranche of conversion of loan to grant will be reduced in proportion to the shortfall in achieving 15% AT&C loss target from the starting AT&C loss figure.

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ICSA (India) Ltd.
Result Analysis:

Rs. in crores	Q4FY09	Q4FY08	Var	FY09	FY08	Var
Net Sales including operating other Income	286.1	211.78	35.1%	1111.33	670.69	65.7%
Operating Profit	62.54	57.04	9.6%	267.28	180.43	48.1%
Other Income	1.04	0.25		1.77	7.87	
Depreciation	3.51	1.97	78.2%	11.07	3.44	221.8%
EBIT	60.07	55.32	8.6%	257.98	184.86	39.6%
Interest	10.45	5.49	90.3%	33.11	27.12	22.1%
PBT	49.62	49.83	-0.4%	224.87	157.74	42.6%
Tax & Deferred Tax	15.56	9.37		56.6	46.6	
PAT	34.06	40.46	-15.8%	168.27	111.14	51.4%
Adj. PAT	34.06	40.46	-15.8%	168.27	111.14	51.4%
No of shares (in Crs)	4.69	4.44		4.69	4.44	
EPS (Rs.)	7.26	9.11	-20.3%	35.88	25.03	43.3%
Adj. EPS	7.26	9.11	-20.3%	35.88	25.03	43.3%
Ratios						
Operating profit margins (%)	21.86%	26.93%	-507*	24.05%	26.90%	-285*
NP Margin (%)	11.90%	19.10%	-720*	15.14%	16.57%	-273*

* **Basis Points**

- ◆ The company reported Net Sales including operating other income of Rs 286.1 Crs in Q4 FY 09 as against Rs 211.78 Crs in Q4 FY 08 an increase of 35.1% on YoY basis and Rs 1111.33 Crs in FY 09 as against Rs 670.69 Crs in FY 08 an increase of 65.7%.
- ◆ The company reported an EBIDTA of Rs 62.54 Crs in Q4 FY09 as against Rs 57.04 Crs in Q4 FY08 an increase of 9.6 % YoY basis and Rs 267.28 Crs in FY09 as against Rs 180.43 Crs in FY 08 an increase of 48.1%.
- ◆ The company reported an EBIDTA margin of 21.86 % in Q4 FY 09 as against 26.93 % in Q4 FY 08 a decline of 507 bps YoY basis and 24.05 % in FY 09 as against 26.90 % in FY 08 a decline of 285 bps. The decline in margin was mainly due to the change in revenue mix. The company is encountering a slowdown in order booking of embedded systems segment mainly due to the election process. Business Mix was dominated by Infrastructure which has a comparatively low margin of around 12-15%. The new order inflow in embedded system will still take another 2 quarters till then margin will continue to remain under pressure.

- ◆ The Interest was up by 90.3% on YoY basis.
- ◆ The depreciation was up 78.2% on YoY basis.
- ◆ The company reported a PAT of Rs 34.06 Crs in Q4 FY 09 as against Rs 40.46 Crs in Q4 FY 08 a decline of 15.8% and Rs 168.27 Crs in FY 09 as against Rs 111.14 Crs in FY 08 an increase of 51.4%.
- ◆ The company reported a PAT margin of 11.90 % in Q4 FY09 as against 19.10 % in Q4 FY08 a decline of 720 bps YoY basis.
- ◆ The company reported an EPS of Rs 7.26 for Q4 FY 09 as against Rs 9.11 in Q4 FY 08 a decline of 20.3% YoY basis.
- ◆ The company has cash and cash equivalents of over Rs 18 Crs.
- ◆ The company's total debt outstanding is Rs 390 Crs.
- ◆ The order book position as on 31st Mar 2009 is Rs 1915 Crs. Of this order book around Rs 650 Crs is from technological segment and Rs 1265 Crs from the Infrastructure segment. The total execution period for this order book is 18 months. The company also has an order pipeline of Rs 700 Crs.
- ◆ ICSA has given a guideline of 30% growth of topline for FY 10. The business scheme will be dominated by infrastructure with 55-60% of the revenue coming from the same and accordingly the margins will reflect the business mix.

Positives

- According to guidelines laid down by rAPDRP Scheme out of Rs 50,000 Crs allotted for it around Rs 10,000 Crs will be spent on IT and IT related projects for the power sector. This money needs to be spent by the end of the Eleventh Plan. This will provide a huge opportunity for ICSA which derives around 40-45% of its revenue from embedded systems.
- ICSA has projected a growth of around 30% of Net sales for FY 10.

Negatives

- The company has high debtors' day of around 160 days.
- As of 31st Mar 2009 the company has an order book of Rs 1915 Crs. Of this order book Rs 650 Crs is from Embedded Systems Segment and Rs 1265 Crs from Power Infrastructure segment. The Embedded System Segment has experienced a slowdown due to the elections and also due to confusion regarding the allocation of funds as per prescribed in APDRP. This scenario will continue till the end of H1FY10 and the company is not expecting any substantial order in this segment till then.
- The promoter holding in the company is very low at 20.68%.

Conclusion

ICSA has a unique business mix of embedded system and providing power infrastructure. The Embedded system segment is facing a slowdown and as such the revenue mix is expected to go more in favour of low margin power infrastructure segment. This segment is also highly working capital intensive.

The benefits from the rAPDRP scheme are still away till the new government settles down and takes charge (1-2 quarters).

The stock is trading at P/E 3.4x, P/BV of 0.96x, EV/Sales of 0.86, EV/EBIDTA of 3.59. The ROE is 28%, ROCE is 33.2% and Debt/Equity is 0.65:1 at the end of FY09.

NOTE

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