

NSE ICSA/ BSE 531524
Reuters ICSA.BO / Bloomberg AURFI@IN

Rating Target
BUY 2387

ICSA (India) Ltd

Risk CMP
LOW 1101

13th June 2007

Sector

Software Converts

Market Capitalization

Rs.722.92 Cr

Free Float

31%

52 week H/L

1249 /382

Company
Research



A Monopoly firm riding on growth of Power Sector (T&D)

ICSA offers technology solutions primarily to identify transmission and distribution (T&D) losses and to monitor power consumption from a remote location. With nationwide T&D losses among the world's highest, and on-going reforms in the sector, it seems to have its work cut out. It has grown at a blistering pace and over the past six quarters has posted a triple digit growth in both, top-line as well as in bottom-line. In 2007 it achieved about 300% jump in sales as well as in profits. Its current market price discounts 2008E earnings by some 7 times. Looking at the growth prospects of ICSA, it has to be one of the cheapest available.

Projections

(Rs Crores)

Particulars	2005	2006	2007(Unaudited)	2008 (E)
Sales	21.5	81.14	330.08	577.64
PAT	3.73	15.09	63.66	108.56
EPS (Rs)	6.72	24.68	93.34	159.18

Our Views

- ICSA is the only company providing solution to companies engaged in Power T&D business.
- With huge T&D losses in power sector, ICSA is appropriately placed to take advantage of immense growth potential in Power Transmission & Distribution sector.
- ICSA's product **Automatic Meter Reading Equipments** has immense scope of installation, which can be as high as 13 mn instruments. The company would be generating revenue from the sale of equipments as well as after sales service (AMC contracts).
- As of June 2007, ICSA India order book aggregates a neat Rs.1073 crore which more than 3times of its last year's revenue.
- Rural Electrification to add substantially to topline & bottomline
- ICSA has recently received provisional patent for 2 of its products, which are already in commercial usage. It is also planning to apply for further patent for its products, which will enable it to face competition effectively and help it to attain market leadership (for technology solutions) in power sector.
- ICSA's embedded technology solutions apart from the Power Sector are utilized in a number of other sectors such as Oil, Gas, Mining, Irrigation, Transport and Water Utilities etc, for purpose of remote sensing, meter reading, losses management, anti-theft, disaster management etc.
- We believe that ICSA India Ltd at its current stage of rapid growth stage should trade at a P/E multiple of 15x. Based on our FY08E EPS estimates of INR159 and applying 15x as P/E multiple we arrive at fair value of INR2387

Overview

ICSA is a Hyderabad based technological solutions provider. It has developed technology solutions for the Power Sector to identify Transmission and Distribution (T&D) losses and monitor power consumption using GSM Network. The Remote Switching facility designed by the company fits well with the on going Power Sector reforms. Its solutions help to identify distribution losses, which are a huge burden to power utilities and in the process reduce cost of power. ICSA's remote sensing applications can transfer data from power points to the control room through telephone lines and wireless, including GSM technology.

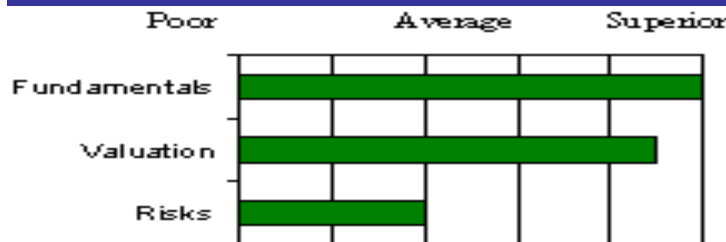
The Company has made commendable progress in the embedded technology segment of the Power Sector. Its Remote Monitoring applications apart from the Power Sector are utilized in a number of other sectors as well, which include, Oil, Gas, Mining, Irrigation, Transport and Water Utilities, etc.

Its growing clientele and repeat orders validate its growing potential.

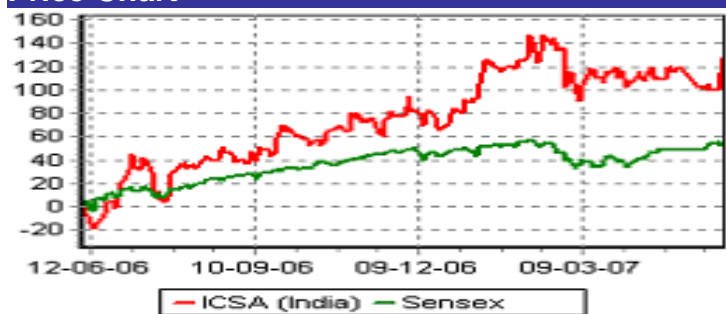
Key Indicators

CAGR sales	143%	NPM	24%
P/E	11	Key Inputs	Technology
Industry P/E	12.3	Critical Factors	Growth in Power Sector

Scorecard



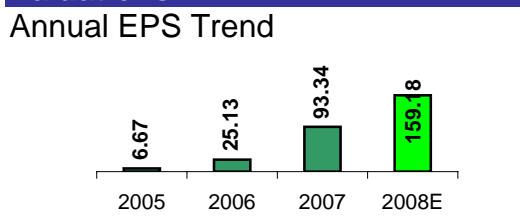
Price Chart



Peer Group Comparison

Company (2006-07)	Market Capitalization (Cr)	Sales (Cr) (Mar - 06)	PAT (Cr)	CAGR-%	OPM-%	NPM-%	RONW-%	Price/BV	P/E
Spanco Tele	505.51	216.16	19.96	59.2	20.2	9.23	20	2.8	14.5
BSEL Infra	408.42	45.96	22	-	40.8	48.2	32.3	3.69	6.55
Mascon Global	371.70	181.75	20.95	-11.8	18.3	11.5	5.2	0.78	25.37
Helios and Mat	329.16	118.33	26.81	52.4	34.5	22.7	48.9	4.94	5.49
Vakrangee	252.59	51.15	10.39	19.4	32.8	20.3	16.3	2	10.34

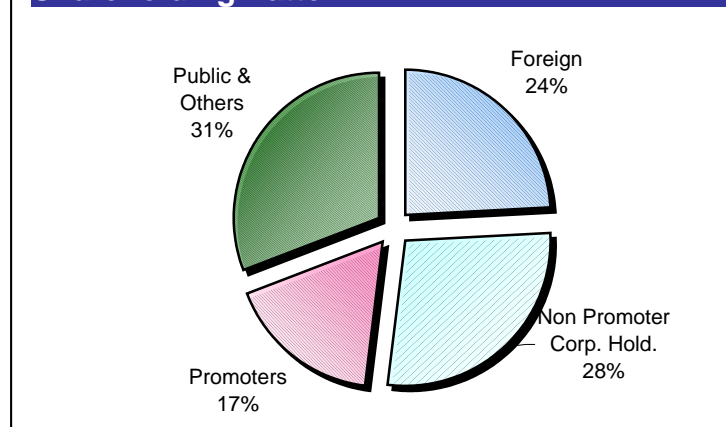
Valuations



P/E Multiples

	2007	2006	2005
Company	11.36	24.46	25.99
Market	15	13	12.5

Shareholding Pattern



Company Background

Origin

The Company was incorporated in 1994 under the Companies Act, 1956 with the corporate name Auriferous Finance and Investment Private Limited. The Company was engaged in the business of finance. The Company floated its public issue in 1995 as a non banking financial company. It was promoted by Mr. Jakka Sridhar Reddy and Associates.

In 1996, Mr. B. Venkat Rao took over the management of the Company, including the majority shareholding from Mr. J. Sridhar Reddy. He changed the name of the Company from Auriferous Finance and Investment Private Limited to Madhupala Credit Capital Ltd.

In 1998, Mr. G. Bala Reddy acquired a majority shareholding in the Company and became the Managing Director. Until 2000, the Company repaid past deposits and loans and became debt free in the year 2000. The name of the company and activities were changed from a non-banking financial company to a technology company and the corporate name was change to ICSA (India) Limited.

Management

Company has pool of experts having over 20 years experience in the industry.

- **Mr. G. BALA REDDY**, 40, the Chairman & Managing Director is a techno- savvy entrepreneur and is heading the Company since 1998. He is very techno savvy, innovative and forward-looking leader who is instrumental in overall development of the company.
- **MR. N. VENKATA REDDY**, Executive Director, is a B.E. (E.E.) with more than 17 years of rich experience in the electrical segment.
- **MR.SURENDRAN NAGILLA**, Head - Business Development is an IIT (Electronic Instrumentation) with over 20 years of experience in the Electronics segment.
- **MR. K. SOMASEKHAR RAO**, Business Unit Head – R & D (Power) is an M.Tech (Advanced Electronics) with 30 years of experience in Electronics segment at senior levels.
- **MR. N.V.R. SRINIVAS**, Head Production is a B.Tech (Electronics & Communications) with 23 years of experience in electrical and instrumentation fields at senior levels.

Businesses/Products

ICSA provides technology-oriented solution in Power T&D industry. Its solution helps T&D companies in bringing down their huge T&D losses, thereby cost per unit. It also brings some transparency into the system. Presently, its business is in three segments namely **Embedded Solutions, Electrical Construction Services and Software Solutions**. The Embedded Solutions and Software Solutions are clubbed under **Software Division** and Electrical Construction Services comes under **Power Division**.

Software Division

- **Embedded technology solutions:** - ICSA provides technology solution to identify transmission and distribution losses, discover faults in transmission line, remote access of data from energy meter, theft detection, identify temper with meter, spot billing machine and determine T&D losses in different segments.

It has successfully deployed products like substation controllers, distribution transformer controllers, theft detection devices, spot billing machines and Intelligent Automatic Meter Reading systems etc. Its Remote Monitoring applications, apart from the power sector, are utilized in a number of other sectors, which include oil, gas, mining, irrigation, transport and water utilities, etc. ICSA has also developed technology solutions to identify transmission and distribution (T&D) losses and monitor power consumption using GSM Network. The Remote Switching facility designed by the company fits well with the ongoing power sector reforms. Its remote sensing applications can transfer data from power points to the control room through telephone lines and wireless including GSM technology.

Company Background

- **Software Solution:** - ICSA provides customized solutions like software application and customer specific solutions for metering, billing and collection on per customer payment basis or variations of the BOOT model.

Power Division

- **Electrical Construction:** - ICSA is one of the leading Indian companies offering Total/Partial turnkey services for electrical infrastructure projects in power generation, transmission and distribution sectors. Turnkey services design, supply, transport, erection, testing & commissioning of 400 KV, 220KV, 132 KV Transmission Lines & Sub Stations on EPC (Engineering, procurement and construction) basis. It has already entered into HVDS distribution works, Rural Electrification works and Industrial Electrification works in most of the States in India thereby emerging as a truly national level power sector company. Besides, the company has forayed into foreign countries also and is also executing a big project in Sudan.

Technology and Tie-ups (optional)

ICSA has developed niche technology to service the power sector. The technology can make use of various communication options. The products communicate using GSM (Data call / SMS / GPRS) / PSTN (Dial up / Leased line) / RF methods. The GSM platform ensures low OPEX and high expandability. Also no additional equipments like telephone lines/towers and big antennas are required. The platform is easily scalable to thousands and lakhs of units, without any major restriction on the available communication network. The technology also involves minimal to no human interaction: only specific and required data is received at the base station as per the pre-programmed intervals.

Clients

ICSA has diverse clientele from start-ups to Fortune 500 and has been adding on to it consistently. The Company provides embedded solutions, which are gaining recognition due to wide applications. It services most of the SEBs and premier private power distribution companies in India. The Company has also been adding foreign clients at a brisk pace.

Some of the major clients of ICSA are:

- CESCO
- SOUTHCO
- Eastern Power Distribution Company of Andhra Pradesh Ltd (APEPDCL)
- APSPDCL
- AP Transco
- Reliance Energy Limited
- U.P Rajkiya Nirman Nigam Ltd (UPRNNL)
- Nile Energy Engineering Projects (P) Ltd (NEEL)
- Transmission Corporation of Andhra Pradesh Ltd (TCAPL) - AP TRANSCO
- AVVNL
- Elmarc Limited
- NELCO
- MSEB

Industry Outlook

A. Current Scenario

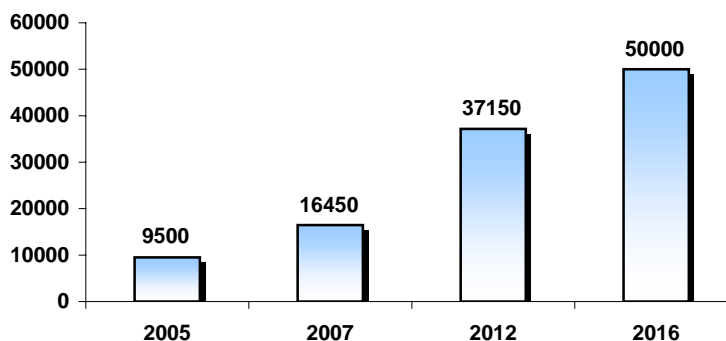
T&D losses in India are much higher than any developed country. These losses are as high as 20% to 30%. Out of these losses, the losses in the distribution sector alone are quite large. The situation is further compounded by power thefts and poor state of infrastructure. Out of the energy generated by the power sector only 55% (Rs.620 bn) is billed and only 44% (Rs.460 bn) is realized. Combined total losses of SEB's are equal to 1.5% GDP. Ministry of power, Government of India has made it mandatory for all the state Electricity Boards & Discos to reduce these losses.

The T&D losses comprises of two parts, namely technical and commercial losses. The technical losses comprises of energy remaining unaccounted and due to losses in the process of transfer of energy from one location to another, poor metering & theft. The commercial losses are due to inability to collect the billed amount and erroneous billing. The solution lies in proper energy audit and implementing accountability in Discos.

B. Growth Potential

Transmission is receiving greater focus than ever before, rightly so, as this sector has traditionally lagged behind the Generation sector. Government of India is pursuing open access policy in the Transmission Sector. In this endeavour, it has decided to facilitate development of secure and economic National and Regional Grids, and also build in redundancy levels and margins, based on international standards and practices. This in turn has lead to initiation of massive capital spending by Power Grid Corporation of India Limited. The existing inter-regional power transfer capacity is 9,500 MW, which will now be enhanced to 37,150 MW by 2012 through creation of "Transmission Super Highways". Rajiv Gandhi Gramin Vidyutikaran Yojana, a Rural Electrification Programme targets to provide electricity to 40,000 villages by FY'07 as per the latest budget.

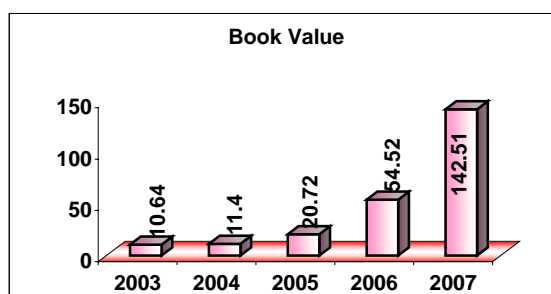
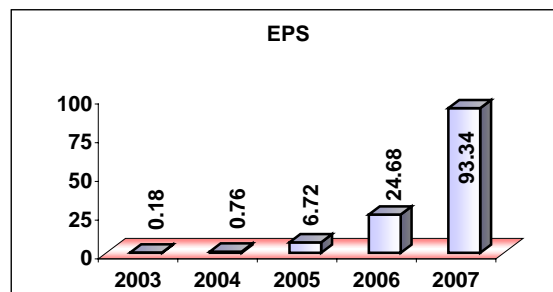
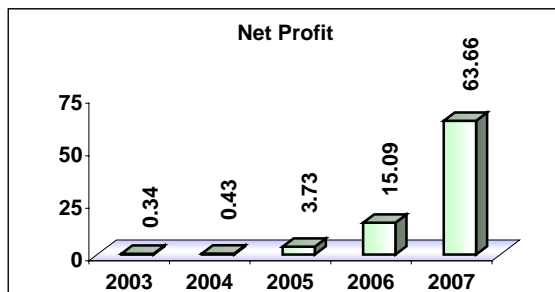
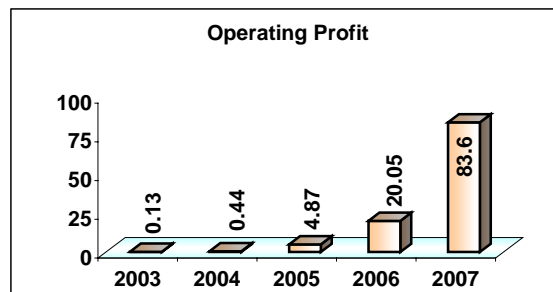
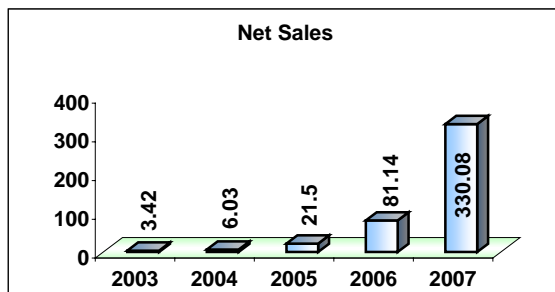
Transmission-Growth Plan



Fundamental Analysis

Past Trend

Over the years, the company has been able to recorded vigorous growth in every front. For the full year, net profit rose by 321.87% to Rs.63.66 crore in the year ended March 2007 as against Rs.15.09 crore during the previous year ended March 2006. Sales rose 306.80% to Rs.330.08 crore in the year ended March 2007 as against Rs.81.14 crore during the previous year ended March 2006. EPS rose by 278.20% to Rs.93.34 from Rs.24.68 during the previous year ended March 2007.



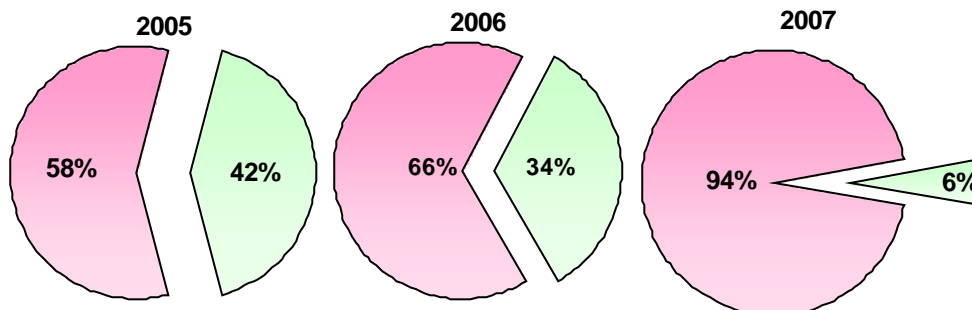
Fundamental Analysis

Sales & Expenditure Analysis

▪ **Revenue from Software and Power Division**

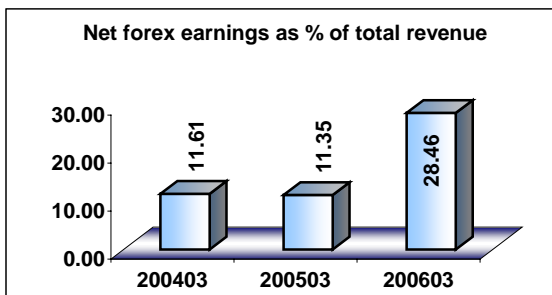
With government initiative towards development of power sector and greater thrust for reduction in T&D losses, the company is increasingly getting revenues from power related softwares. The share of software division in the revenues of the company has been increasing. From 58% in 2005, presently 94% of the revenues of the company accrue from the software segment.

■ Software Division ■ Power Division



▪ **Forex Earnings**

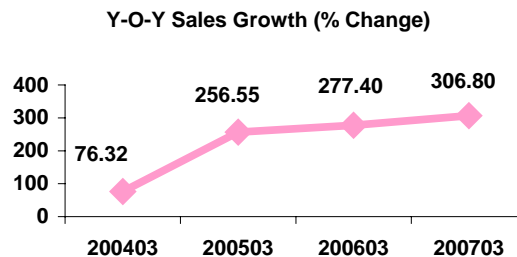
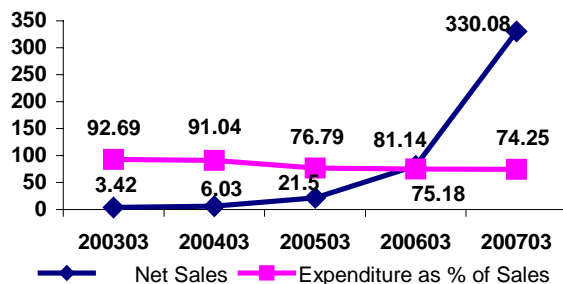
Last year company got an order from National Electricity Corporation (NEC), Republic of Sudan for an aggregate value of USD 139.95 million, this resulted in increased forex earnings in FY2007.



▪ **Expenditure as % of sales & Y-o-Y Sales Growth rate**

ICSA has been able to continuously reduce its expenditure as percentage of sales. From as much as high 92.69 in 2003, company has reduced its expenditure to 74.25% of sales.

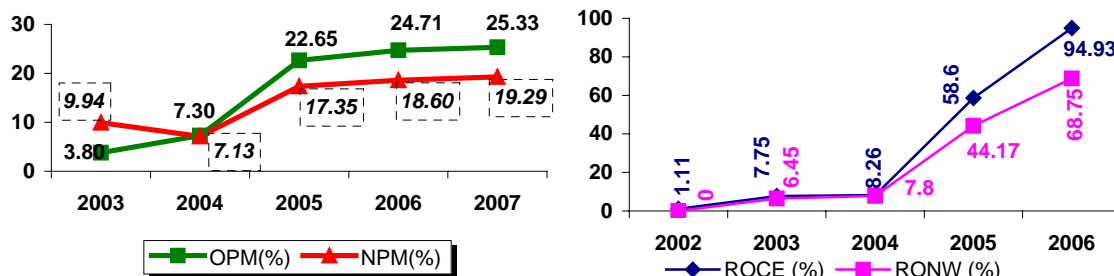
Looking at the sales growth rate, it could be inferred that Y-o-Y growth rate is zooming and sales is making higher & higher skyscrapers year by year.



Fundamental Analysis

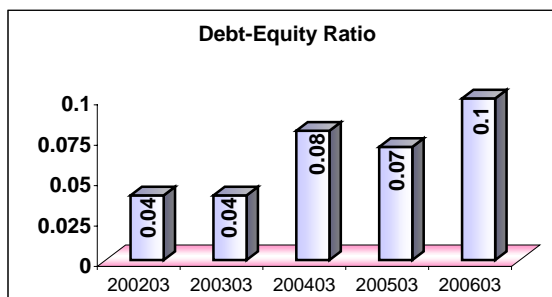
Profitability

Although the percentage increase in OPM and NPM in the last three years is meager, ICSA has been able to uphold high margins on sale. On returns front the company is doing extremely well, ROCE and RONW is rising rapidly.



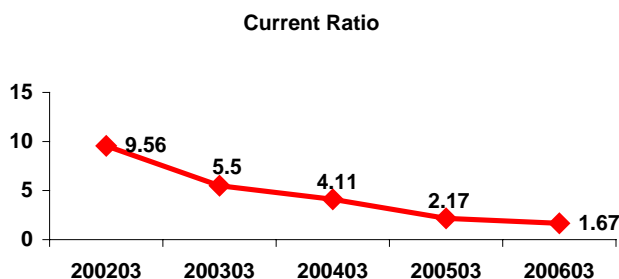
Leverage

Looking at the capital structure we can say that ICSA is a less risky firm with such low level of debts. However, as debt funds are cheap source of finance, company has failed to avail the benefit of cheap finance.



Liquidity

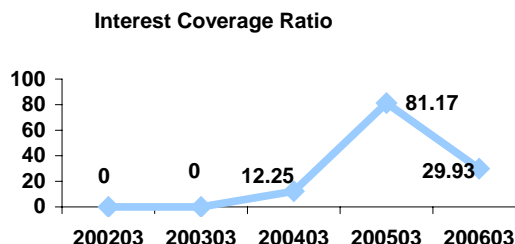
On the liquidity front the company is maintaining much of margin to meet its short-term obligations, however, they still have higher current assets as compared to current liabilities.



Fundamental Analysis

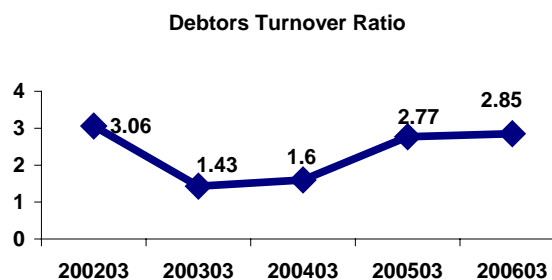
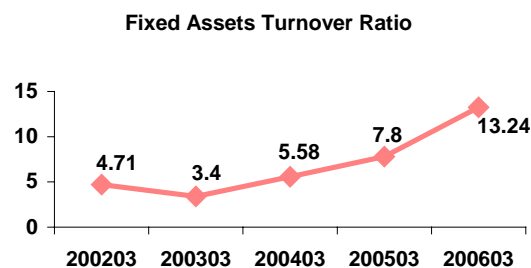
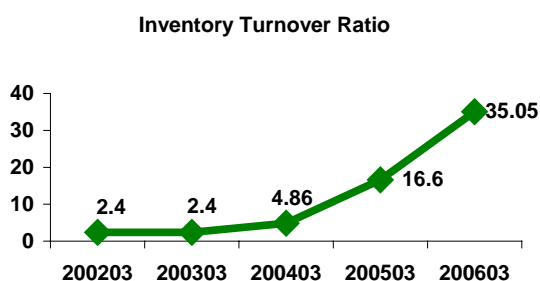
Debt Service Capability

Over the years, ICSA has been able to maintain high PBIT which being reflected by high Interest Coverage Ratio. In 2006 company's total secured surged to Rs.3.76cr from Rs.0.42cr in 2005, which resulted in sharp decline in ICR.



Operational Efficiency

ICSA has been an extremely efficient company. From a meager 2.4times inventory turnover in 2002, company has been able to achieve an inventory turnover of over 35times. Similarly company has been able to improve its FTR but on debtor management front company was doing a better job in 2002 as compared to 2006.



Fundamental Analysis

B. Future Plans

The Company proposes to spend a major part of its expansion budget on R&D initiatives and building necessary infrastructure support for developing new products and services. Major R&D initiatives envisaged are:

- Embedding / integrating the intelligence portion into Modem Engine for the products
- ICAP Product commercialization.
- End-to-end solution for entire distribution requirements like SAP interface, customer complaints management, new connections tracking, energy auditing, DTMS, IAMRs, SS controls, etc.
- Intelligent gas distribution monitoring system
- Water distribution measurement and control equipment
- Integrated energy meter with IAMR
- Distribution management system using SAP for utility management
- Defense sector products

C. SWOT

Strengths

- Company with its strong research skills is now poised to take full advantage of the attractive growth in utility segment by making proper-engineered cost effective applications.
- ICSA operates in a domain where it faces almost no competition in end-to-end solutions in Power sector.

Weakness

- Order Fulfillment – Firm may face shortage of skilled manpower to execute its orders timely.

Opportunities

- ICSA makes such health monitoring and audit systems, which are needed for efficient T&D in all the Utilities segments like Gas, Oil, Water, etc.
- Shift in Government's focus towards improved infrastructure.
- APDRP (Accelerated Power Development and Reforms Programme) – offers a huge opportunity considering the funds allocated towards control of T&D losses.
- Potential in export market.

Threats

- Any technology-oriented companies can develop embedded solutions and compete with the Company's concentrated segments.
- Low promoter holding, a possible takeover target
- Slowdown in power sector reforms.
- Slowdown in economy resulting in lower/ sluggish CAPEX requirement in the industry.

D. Cautions

- The Company receives a portion of its revenues in US dollars or other foreign currencies and incurs a part of its expenses in US dollars or other foreign currencies. The fluctuation of the Rupee, particularly with respect to the US dollar could impact the income of the Company.
- A significant portion of the Company's revenues is derived from sales to the SEBs that are in a weak financial position.

Valuation

We believe that ICSA India Ltd at its current stage of rapid growth stage should trade at a P/E multiple of 15x. Based on our FY08E EPS estimates of INR159.18 and applying 15x as P/E multiple we arrive at fair value of INR2387.70

Projected Profit & Loss Account

	2003	2004	2005	2006	2007	2008E
Revenues						
Gross Sales	3.42	6.03	21.5	81.14	330.08	577.64
Less Excise Duty	-	-	-	-	-	-
Net Sales	3.42	6.03	21.5	81.14	330.08	577.64
Other Income	0.01	0.02	0.02	0.22	0.1	0
Stock Adjustment	0	0.06	0.11	1.93	15.98	9.90
Total Income	3.43	6.11	21.6	83.3	346.2	587.54
Expenditures						
Operating Expenses	2.32	4.68	14.65	56.03	246.96	411.28
Employee Costs	0.19	0.39	1.01	2.77	6.64	11.06
Power/Electricity Charges	0.05	0	0.01	0.02	-	-
Selling & Administration Expenses	0.29	0.4	0.76	3.02	7.47	12.44
Miscellaneous Expenses	0.32	0.07	0.18	0.53	-	-
Total Expenditure	3.17	5.54	16.6	62.4	261.1	434.78
PBDIT	0.26	0.57	5.02	20.9	85.09	152.76
Depreciation	0.13	0.13	0.15	0.87	1.49	2.94
PBIT	0.13	0.44	4.87	20.1	83.6	149.82
Interest		0.04	0.06	0.67	1.78	5.34
PBT	0.13	0.4	4.81	19.4	81.82	144.48
Provision for Income Tax	0.02	0.03	0.59	2.94	18.16	35.92
Deferred Income Tax	0.02	-0.01	0.49	1.35		
PAT	0.09	0.38	3.73	15.1	63.66	108.56
Adjustment below net profit	0.01	0	-0.13	-0.01	-	-
Profit for Equity Shareholders	0.1	0.38	3.6	15.08	63.66	108.56
No. of Equity Shares	0.5	0.5	0.54	0.6	0.682	0.682
EPS	0.20	0.76	6.67	25.13	93.34	159.18

Valuation

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