

August 13, 2010

# ICSA India Ltd (INNCOM)

Rs 128

## WHAT'S CHANGED...

PRICE TARGET ..... Changed from Rs 190 to Rs 150  
 EPS (FY11E) ..... Changed from Rs 27.0 to Rs 27.9  
 EPS (FY12E) ..... Changed from Rs 43.3 to Rs 33.0  
 RATING..... Changed from Strong Buy to Buy

## Not embedded for profitable growth ...

ICSA India Ltd reported its Q1FY11 numbers, which were better than our expectation. The order book growth was very sluggish at 4.1% QoQ on the back of no new orders in ESS overshadowing the good 9% QoQ growth in the IPS order backlog. The management expects to bag orders related to SCADA under RAPDRP only in Q3FY11 and expects billing of the same to flow through only in FY12. The profitability and revenue outlook for the ESS business is timid as once the supervisory control and data acquisition (SCADA) business dominates the ESS pie, the EBIT margin will dilute to 22-25% from 28% in Q1FY11. Also, the execution cycle may prolong to 18 months from nine to 12 months for ESS as per the new guideline emphasised by the government.

### Result highlights

ICSA reported revenues at Rs 307.2 crore (I-direct estimate: Rs 275 crore) with growth of 0.5% YoY. The revenue mix remained skewed towards IPS at 66% of revenues. The EBIT margin expanded 120 bps to 18.4% on the back of an improvement in the EBIT margin of ESS by 118 bps. Also, the power generation margin moved to 72.6%. The PAT stood at Rs 27.8 crore (I-direct estimate: Rs 24.9 crore). The order book for ESS slipped to Rs 287 crore and increased to Rs 1623 crore for IPS.

## Valuation

IPS continues to dominate the business and is expected to remain the same in FY11. The management is confident of bagging orders to the tune of Rs 500-600 crore related to SCADA in partnership with Dongfang. These orders will be one-time and are expected to flow through only in FY12. Thus, on the back of poor visibility and limited scalability for the ESS business, we value the stock at trailing BVPS of Rs 150 for FY10.

### Exhibit 1: Financial Performance

(Rs Crore)	Q1FY11	Q1FY11E	Q4FY10	Q1FY10	QoQ(Ch %)	YoY(Ch%)
Net Sales	307.2	275.3	300.4	305.7	2.3	0.5
EBITDA Margin (%)	20.1	20.4	19.5	20.3	56 bps up	22 bps dip
Depreciation	5.0	4.1	6.8	4.7	(26.1)	7.2
Interest	18.4	17.9	20.4	10.9	(9.9)	68.7
Other Income	0.9	0.4	7.3	0.0	(87.2)	1,957.8
Reported PAT	27.8	24.9	27.1	34.0	2.5	(18.3)
Diluted EPS (Rs)	5.4	4.9	5.3	6.6	2.5	(18.3)

Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: Buy
Target	: Rs 150
Target Period	: 12 months
Potential Upside	: 17%

Key Financials				
(Rs crore)	FY09	FY10	FY11E	FY12E
Net Sales	1,111.3	1,230.4	1,351.7	1,552.1
EBITDA	267.3	250.8	274.9	314.9
EBITDA margin(%)	24.1	20.4	20.3	20.3
Net Profit	168.3	129.8	132.0	155.8
Diluted EPS(Rs)	37.1	27.5	27.9	33.0

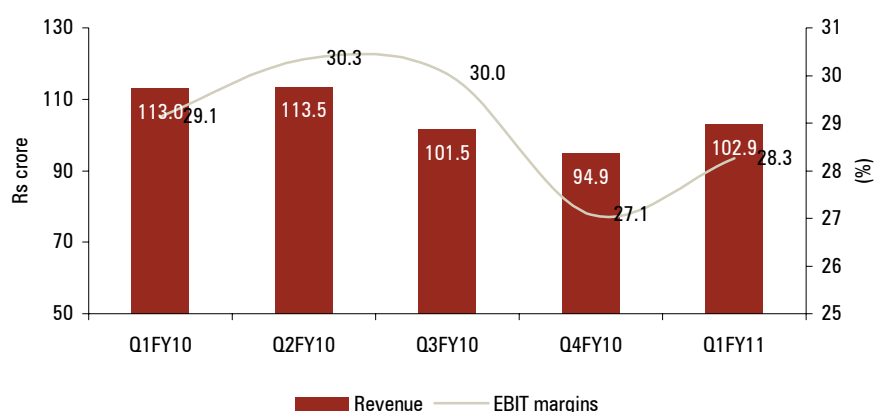
Valuation summary				
	FY09	FY10	FY11E	FY12E
PE (x)	3.4	4.6	4.6	3.9
Target PE (x)	4.0	5.4	5.4	4.6
EV to EBITDA (x)	4.6	4.9	4.4	3.9
Price to book (x)	1.0	0.9	0.7	0.6
RoNW (%)	26.3	18.3	15.8	15.8
RoCE (%)	23.6	17.2	18.3	19.1

Stock data	
Market Capitalisation	Rs 608 crore
Debt (Q1FY11)	Rs 669 crore
Cash (Q1FY11)	Rs 58.8 crore
EV	Rs 1218 crore
52 week H/L	Rs 230/116
Equity capital	Rs 9.5 crore
Face value	Rs. 2
FII Holding (%)	33.0
DII Holding (%)	4.6



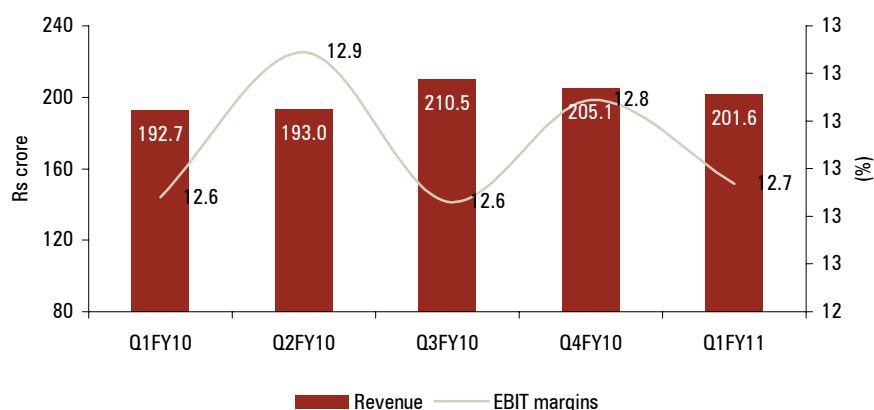
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The embedded solution services (ESS) business has reported an improvement in its EBIT margin by 120 bps to 28.3%. However, the near term outlook for the business is dreary as the company expects orders related to SCADA to come in Q3FY11 and revenues to flow only in FY12

**Exhibit 2: Embedded solution services performance**

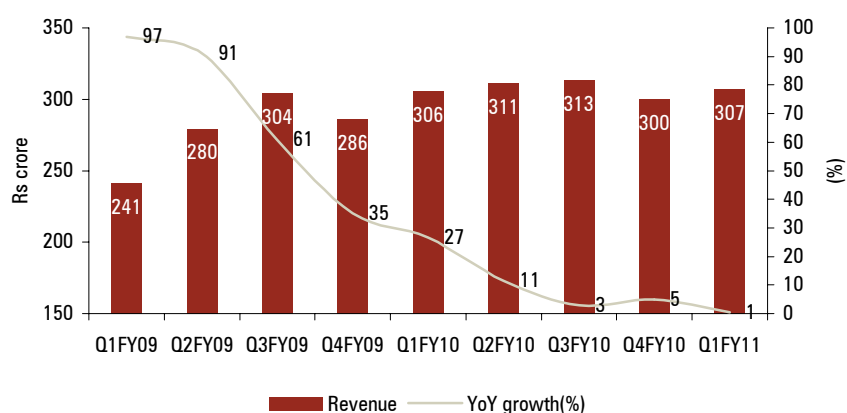
Source: Company, ICICIdirect.com Research

Infrastructure project services (IPS) has proved to be the bread winner for the company and has plugged in revenue slippage from ESS. Also, from the current visible pipeline of Rs 1910 crore, almost Rs 1623 crore (85% of total order book) is for IPS work

**Exhibit 3: Infrastructure project services performance**

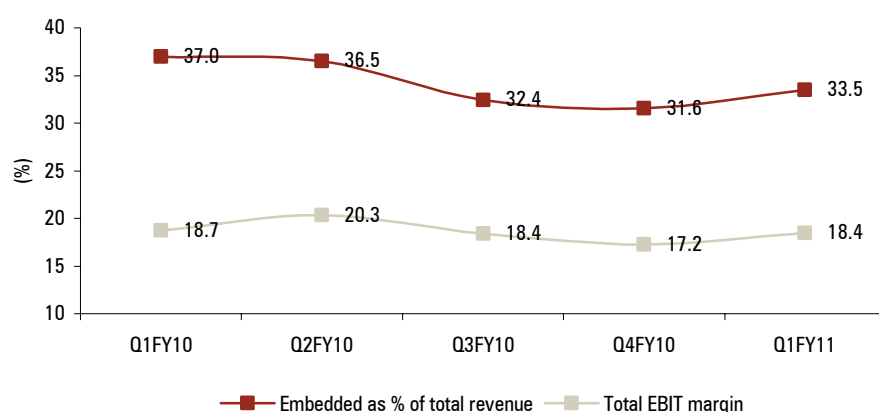
Source: Company, ICICIdirect.com Research

The company's revenue growth has slumped to lower single digit of 1% YoY in Q1FY11 as compared to high double digit growth of 97% YoY in Q1FY09 and 27% YoY in Q1FY10

**Exhibit 4: Quarterly revenue with YoY growth**

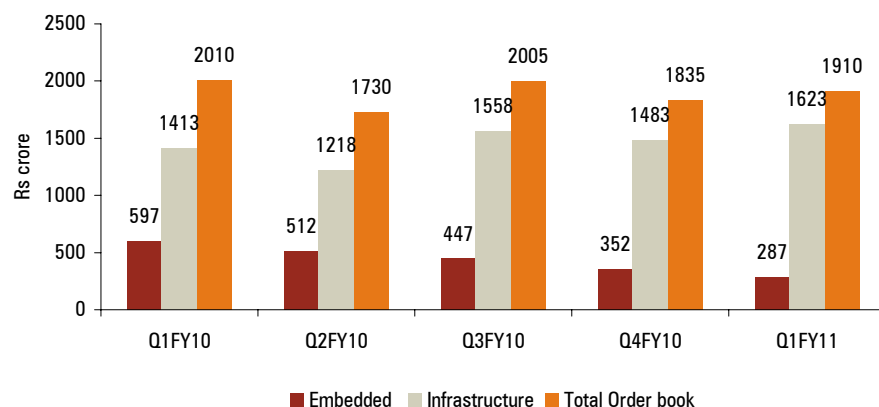
Source: Company, ICICIdirect.com Research

The company is experiencing pressure in its overall EBITDA margin on account of a paradigm shift towards lower margin and long-term ROI business i.e. IPS dominating the share with 66% contribution

**Exhibit 5: Trend in EBIT margin with changing business mix**


Source: Company, ICICIdirect.com Research

Order book growth was driven primarily by EPC work awarded in the IPS business. Growth in the ESS order book has remained a laggard for the last four quarters

**Exhibit 6: Order book status (segment wise)**


Source: Company, ICICIdirect.com Research

The quarterly order bill to book ratio gained momentum in the last two quarters and came at 35.9% for ESS. This is because almost no new orders were gained in this segment and the company is executing the previous orders. This ratio decreased for IPS to 12.4%. Thus, the overall percentage declined from 25% in YTD09 to 16.7% in Q1FY11

**Exhibit 7: Order bill to book ratio (segment wise)**

Bill to book (%)	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11
<b>Embedded</b>	17.4	19.0	19.8	26.9	35.9
<b>Infrastructure</b>	15.2	13.7	17.3	13.8	12.4
<b>Total</b>	16.0	15.5	18.1	15.0	16.7

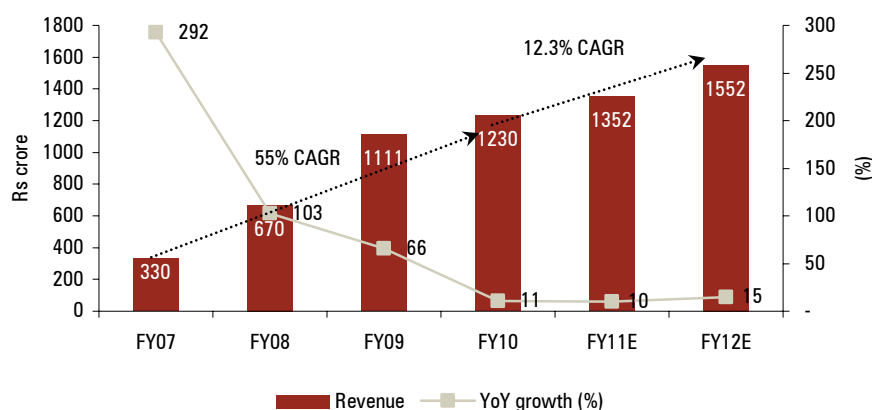
Source: Company, ICICIdirect.com Research

## Valuation

On the basis of the current order book position and nature of orders, we have scaled down our revenue expectation and earnings estimate steeply. The ESS business is expected to clock in orders related to SCADA in Q3FY11 to the tune of Rs 500-600 crore with a likely execution period of 18 months. These will be one-time orders followed by maintenance work, which will be of a small size. Thus, even if these orders come in, it will aid the revenues only in FY12. Post that, the company will again derive business only for its metering and automation

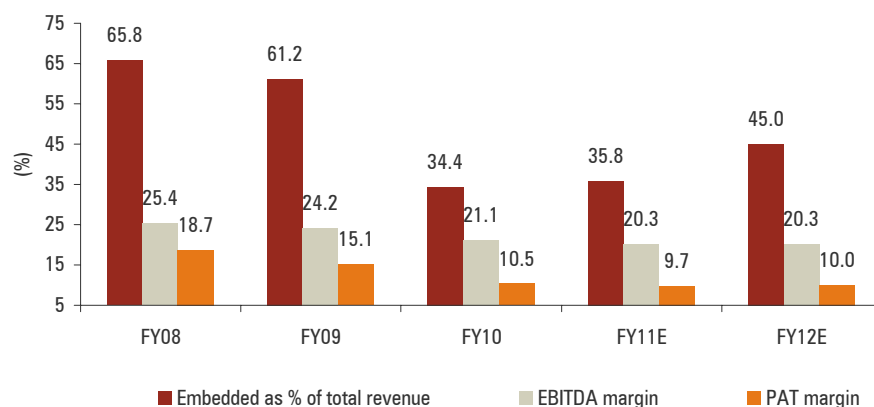
business. The smart metering facility with monthly capacity of 1,50,000 meters is now operating at 1,00,000 to 1,20,000 meters per month. The company expects it to reach 100% utilisation by the end of FY11 contributing revenues to the tune of Rs 90-120 crore annually. Thus, on a long-term basis, the company's growth driver will be IPS only. We expect the revenues to grow at 10% and 15% in FY11 and FY12, respectively. Also, the SCADA business will dilute its ESS margin to 22-25% from 28% in Q1FY11. Thus, though the business mix will improve in FY12, the ESS business mix will change towards SCADA. Overall, we expect the EBIT margins to remain tightly held at 18.8% for FY11 and FY12.

A delay in award of funds under RAPDRP has hampered the growth for the ESS segment extensively. Also, since almost 85% of the pending order book of Rs 1910 crore is for infrastructure services the execution period has stretched beyond 18 months. Thus, CAGR of 55% from FY07 to FY10 has been scaled down to 12.3% from FY10-FY12E according to our expectations

**Exhibit 8: Revenue growth expectation**


Source: Company, ICICIdirect.com Research

The business mix has become diametrically opposite from 66% from ESS in FY08 to 34% in FY10. This change in business mix has led the EBITDA margin to drop to 20.3% in FY10 from 25.4% in FY08. On the basis of the fact that funds under RAPDRP have to start flowing in Q3FY11, we expect the business mix to start moving towards more on the ESS side beyond FY12

**Exhibit 9: Margin expectation**


Source: Company, ICICIdirect.com Research

Since the earnings for the company is volatile, we have valued the company on the basis of trailing BVPS of Rs 150 i.e. 1x FY10. Since the stock has corrected significantly due to the laggard performance and liquidity concerns, it is currently trading at dirt cheap valuations i.e. 4.6x FY11E EPS and 3.9x FY12E EPS, which limits the downside. Thus, we have rated the stock as **BUY** with a target price of Rs 150 per share.

## ICICIdirect.com Coverage Universe

Infosys				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	INFTEC	CMP(Rs)	2773.0 FY09	21693.5	104.6	26.5	19.8	32.8	37.9
		Target(Rs)	3144.0 FY10	22742.1	109.5	25.3	18.1	26.9	34.2
Mcap(crore)	158338.3	Upside(%)	13.4 FY11E	26502.5	116.6	23.8	16.3	21.0	29.5
			FY12E	31968.5	143.0	19.4	13.7	22.4	31.3
TCS				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	TCS	CMP(Rs)	853.5 FY09	27813.3	26.4	32.3	22.0	33.2	39.6
		Target(Rs)	960.0 FY10	30027.9	35.1	24.3	18.2	37.4	42.2
Mcap(crore)	167047.0	% Upside	12.5 FY11E	34915.2	40.4	21.1	15.6	33.2	38.2
			FY12E	41641.7	46.0	18.6	13.4	30.0	35.3
HCL Technologies				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	HCLTEC	CMP(Rs)	401.4 FY09	10630.5	19.0	21.1	11.7	22.5	14.9
		Target(Rs)	445.0 FY10	12564.5	18.9	21.2	10.7	20.2	15.6
Mcap(crore)	27243.0	Upside(%)	10.9 FY11E	15075.3	24.8	16.2	9.7	22.5	14.9
			FY12E	17487.6	31.8	12.6	8.0	23.7	16.6
Tech Mahindra				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	TECHM	CMP(Rs)	710.1 FY09	4464.8	77.4	9.2	8.3	52.2	65.6
		Target(Rs)	735 FY10	4625.4	53.6	13.2	8.9	25.3	27.3
Mcap(crore)	8805.2	Upside(%)	3.5 FY11E	4605.5	50.1	14.2	11.7	21.4	19.7
			FY12E	5087.1	48.7	14.6	10.7	17.5	19.7
Wipro				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	WIPRO	CMP(Rs)	411.7 FY09	25699.5	15.9	25.8	19.5	28.6	23.3
		Target(Rs)	474.0 FY10	27141.3	18.9	21.8	16.5	26.5	22.4
Mcap(crore)	100837.7	Upside(%)	15.1 FY11E	31400.6	21.9	18.8	14.3	24.8	21.4
			FY12E	36691.8	24.9	16.5	12.4	23.0	21.7
Patni Computers				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	PATCOM	CMP(Rs)	477.0 CY09	3146.1	45.0	10.6	6.4	16.5	13.4
		Target(Rs)	516.0 CY10E	3170.9	40.3	11.8	6.4	13.6	12.5
Mcap(crore)	6153.3	Upside(%)	8.2 CY11E	3559.1	39.0	12.2	5.8	11.8	12.2
			CY12E	3971.6	42.6	11.2	5.2	11.5	12.1
Rolta				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	ROLIND	CMP(Rs)	170.0 FY09	1372.8	18.2	9.3	8.4	22.7	15.7
		Target(Rs)	209.0 FY10	1532.7	15.9	10.7	6.7	17.0	12.9
Mcap(crore)	2740.4	Upside(%)	22.9 FY11E	1743.0	18.3	9.3	5.6	17.7	14.5
			FY12E	2042.1	23.2	7.3	4.8	19.0	16.6
Mastek				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	MASTEK	CMP(Rs)	258.0 FY09	942.6	52.5	4.9	3.4	31.3	24.4
		Target(Rs)	231.0 FY10	713.8	25.2	10.2	6.2	12.8	10.4
Mcap(crore)	695.1	Upside(%)	(10.5) FY11E	684.7	14.5	17.8	8.4	6.9	6.9
			FY12E	750.7	20.3			9.1	9.9
NIIT				Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW(%)	RoCE(%)
Idirect Code	NIIT	CMP(Rs)	67.1 FY09	1168.5	4.2	15.8	11.7	15.8	16.5
		Target(Rs)	77 FY10	1199.3	4.3	15.7	8.9	14.2	18.0
Mcap(crore)	1107.8	Upside(%)	14.2 FY11E	1262.8	5.2	13.0	8.0	15.8	18.4
			FY12E	1419.0	6.6	10.2	6.6	18.1	20.6

Source: Company, ICICIdirect.com Research

## RATING RATIONALE

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 Add: Up to 10%;  
 Reduce: Up to -10%  
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