MANAGEMENT MEET UPDATE √

ICSA India Ltd (ICSA)

UNRATED

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Embedded to save resources...

ICSA (India) is a Rs 1100-crore company, with embedded products and infrastructure project services as offerings. The company primarily addresses the energy saving needs of Indian power distribution companies (DISCOM) as they face huge aggregate technical and commercial losses. ICSA has unique metering products for the power sector like intelligent automatic meter reading (IAMR), theft detection device (TDD), distribution transformer monitoring system (DTMS), which are patented and others for pipeline application.

Business model

The company has almost 70% of its current order book of Rs 2010 crore from infrastructure project and services while the rest is from embedded solution, which is executable over the next 18 months. Previously, the company used to derive almost 65% of its revenue from embedded products but due to delay in release of funds by the government for Accelerated Power Development and Reforms (APDRP) II scheme and Rajiv Gandhi Grameen Vidyutikaran Yojna scheme (RGVVY), the company's revenue mix has changed completely. The company has a strong in-house built in capabilities with an R&D team of 120 people, who do high value added work, beginning from research, product design, product development, product testing and pilot deployment. Low value services like manufacturing of hardware and deployment is outsourced. Therefore, it has a capital light revenue model for embedded solutions.Therefore, the embedded products business is high margin and is less capital intensive whereas the infrastructure project services are low margin and capital intensive projects. This is the reason that the EBIT margins and return ratios for the company have dipped and will be under stress in the near term.

Going forward

Since we are at the mid way mark of the Eleventh Plan proposed by the government to improve the status of DISCOMs, we believe the funds under APDRP II and RGVVY will start getting released by the end of FY10. This will help he company to get huge incremental orders for its embedded solution. This will once again change their revenue mix to 60:40 for embedded products to infrastructure services from 40:60 today. This will not only bolster its operating margin but also boost revenue growth as well as return ratios.

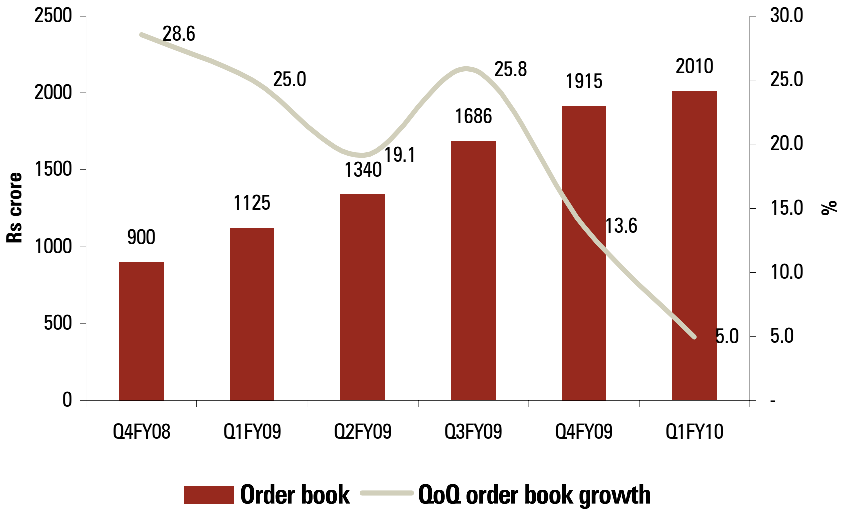
The company is currently trading at more than 48% discount to other midcap IT players in terms of P/E(x) FY11 EPS or EV/EBITDA(x) FY11 EBITDA. It is trading at very attractive valuations given its return ratios and huge order book size.

Exhibit 1: Key Financials (Rs crore)

	FY07	FY08	FY09
Revenue	330.1	669.8	1111.3
EBITDA	85.0	169.4	267.3
EBITDA margin(%)	25.7	25.3	24.1
Depreciation	1.5	3.5	11.1
Interest	1.8	12.4	33.1
Other Income	0.1	7.3	1.8
PBT	81.8	160.7	224.9
Tax	18.2	34.2	56.6
PAT	63.7	126.5	168.3

Source: Company, ICICIdirect.com Research

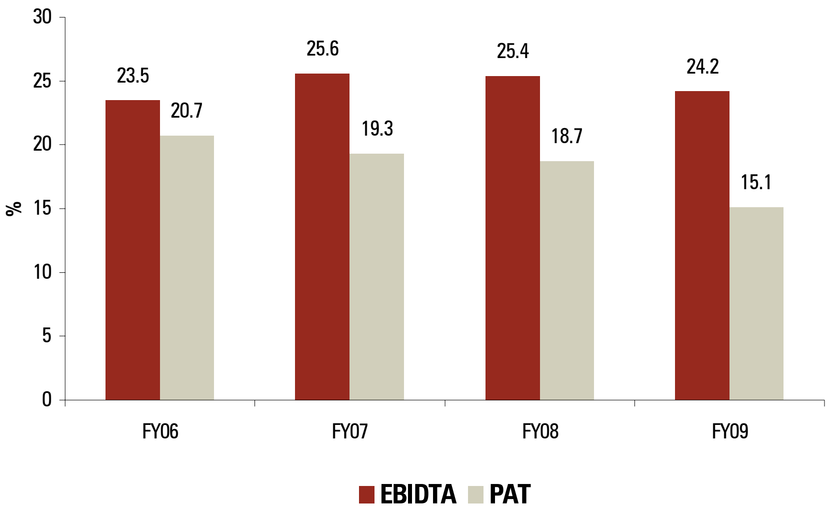
Exhibit 2: Order book status



Source: Company, ICICIdirect.com Research

The company currently has an order book of Rs 2010 crore, which is 1.8x FY09A revenues. This gives high revenue visibility for FY10

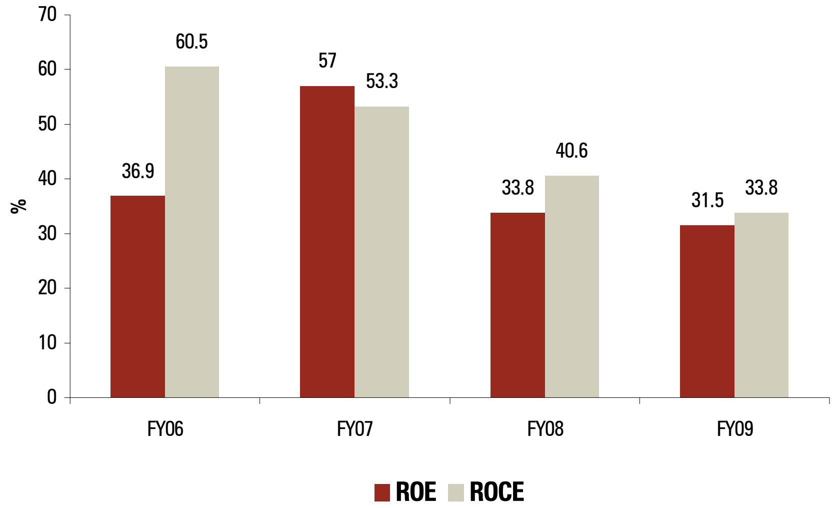
Exhibit 3: Margins



Source: Company, ICICIdirect.com Research

Due to change in business mix (now more of infrastructure work), margins have dipped in FY09 and will be under pressure in FY10

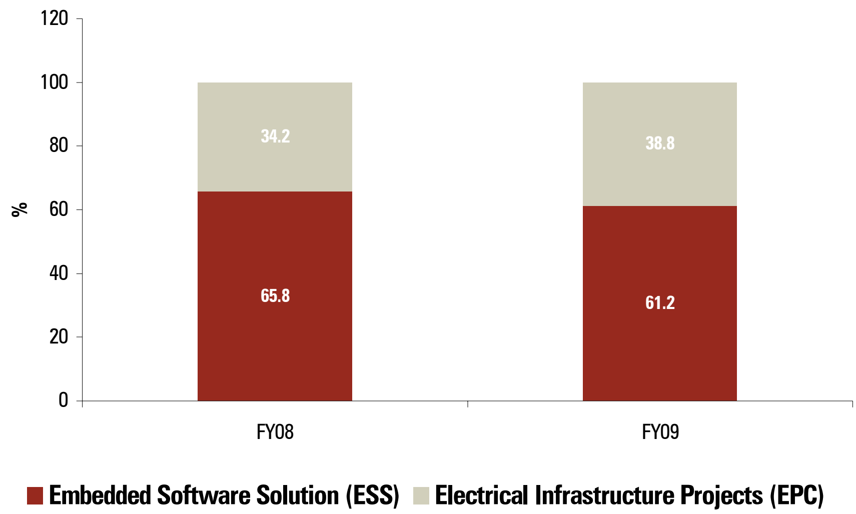
Exhibit 4: Return ratios



Source: Company, ICICIdirect.com Research

The company has high return ratios on the back of capital light revenue model related to embedded solution. However, with almost 70% of order book now from EPC business, return ratios will drop in the near term

Exhibit 5: Revenue mix by segment



Source: Company, ICICIdirect.com Research

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