

February 09, 2010

NEUTRAL

MEDIUM RISK

PRICE Rs.139

POWER ANCILLARY

EARLIER RECO

Buy	
Price	172
Target	288
Date	18 th July 2009

SHARE HOLDING (%)

Promoters	20.6
FII	41.2
FI / MF	3.2
Body Corporates	11.0
Public & Others	24.0

STOCK DATA

Reuters Code	ICSA.BO	
Bloomberg Code	AURFI@IN	
BSE Code	531524	
NSE Symbol	ICSA	
Market Capitalization*	Rs. 7047.3 mn US\$ 151.0 mn	
Shares Outstanding*	50.7 mn	
52 Weeks (H/L)	Rs.230 / 48	
Avg. Daily Volume (6m)	257678 Shares	
Price Performance (%)		
1 M	2M	3M
(23)	(19)	(15)
200 Days EMA: Rs.177		

*On fully diluted equity shares

Part of  Bonanza

ANALYST

Viral Shah | +91 22 4093 5045
viral.shah@sushilfinance.com

SALES:

Devang Shah | +91 22 4093 6060/61
devang.shah@sushilfinance.com

Nishit Shah | +91 22 4093 6074
nishit.shah@sushilfinance.com

ICSA (India) Ltd. (ICSA) has registered a flat growth in its top line and de-growth in its bottom line for the quarter ended 31st Dec 2009. We attended the concall of ICSA. Some of the key points pertaining to results and discussed in the concall are summarized below:

Key Highlights of Q3FY10 & 9MFY10 Results

- During Q3FY10, ICSA's net sales grew by 2.9% to Rs.3131.5 mn, its EBITDA fell by 10.3% YoY to Rs.622.6 mn & its EBITDA margins fell by 292 bps YoY to 19.8%. This was mainly due to higher T&D Revenues & lower share of embedded solutions in the total revenues.
- Its Interest cost increased by 76.4% at Rs. 174.1 mn, due to high debt and depreciation increased by 34.8% YoY to 47.2 mn. Its PBT (including other income) de-grew by 26.5% YoY to Rs. 412.2 mn. APAT stood at Rs. 301.7 mn registering a de-growth of 33.3% YoY.
- During the 9MFY10, ICSA's net sales increased by 12.7% to Rs.9299.6 mn, its EBITDA decreased by 6.1% to Rs.1922.6 mn, whereas its EBITDA margins decreased by 414 bps to 20.7%. Its APAT decreased by 23.5% YoY to Rs.1026.6 mn.

Slow down in Embedded Software Solutions business

- As of Q3FY10, ICSA has an order book of Rs.20 bn, of which orders worth Rs.4.4 bn (22% of the order book) are contributed by Embedded software solutions (ESS) business and orders worth Rs.15.6 bn (78% of the order book) are contributed by EPC projects in T&D sector. This trend has completely reversed from Q2FY09 wherein embedded software solutions business contributed 60% of its order book.
- In order to participate in the R-APDRP scheme, both Dongfang & ICSA have been empanelled as SCADA/DMS Implementation Agency (SIA) by Power Finance Corporation. Through this empanelment, ICSA gets eligibility to participate in SCADA implementation projects in power sector. Currently, 10 states have come up with the bids under R-APDRP scheme and out of these, 3 states have finalized the bids. As per the management, ICSA could see a significant pick up in its ESS business only from Q2FY11. Thus, we believe that the order book of ESS would continue to remain subdued till Q2FY11.

Working Capital Requirement very high

- Currently ICSA has outstanding debtors days of 165 days since most of its clients are government agencies. Further due to increase in the order book from the EPC projects (in T&D sector), its debtors days would continue to remain high, as the T&D business has typically a longer working capital cycle.
- Going forward, as the new orders start flowing in through the R-APDRP scheme (which may take 2-3 quarters), we believe that its working capital cycle would continue to remain high given the long approval process involving the Ministry of Power (MOP), Nodal Agency (PFC), third party independent evaluation agency & state utilities and the process of conversion of loan to grant before realizing of the payment.

OUTLOOK & VALUATION

ICSA's key strength lie in its patented high technology embedded products. However its order book in embedded products has slowed down due to implementation of R-APDRP wherein the states have been promised incentives from the centre in the form of grants against cash loss reduction managed by them annually in their power distribution sector. Further the working capital requirement would continue to remain high as majority of its clients are Government agencies. ICSA's results have not been in line with our expectations and will improve only after it improves its order book from the embedded solution products. At the CMP of Rs.139, the stock is trading at 4.5x its FY11E EPS of Rs.31. Given its disappointing performance, reducing share of business from high margin Embedded products & high working capital requirement, we are changing on the stock our rating to NEUTRAL.

KEY FINANCIALS

Y/E	Revenue (Rs mn)	APAT (Rs mn)	AEPS (Rs)	AEPS (% Ch.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
Mar.								
FY09	11004	1582	34	34	4.1	24	33	1.1
FY10E	12270	1326	28	(17)	4.9	16	20	0.9
FY11E	14110	1581	31	11	4.5	15	19	0.7

Please refer to important disclosures at the end of the reportFor private Circulation Only.

QUARTERLY STATEMENT

Rs.mn

Y/E March	9MFY09	9MFY10	Q3FY09	Q3FY10
Total Revenues	9300	8252	3042	3132
Growth %		(11)	61	3
Total Expenditure	7377	6205	2349	2509
PBIDT	1923	2048	694	623
Growth %		6	52	(10)
Margin %	21	25	23	20
Interest	421	227	99	174
Depreciation	141	75	35	47
Other Income	41	7	1	11
PBT incl OI	1401	1753	561	412
Margin %	15	21	18	13
Tax	375	410	109	111
Rate %	27	23	19	27
APAT	1027	1342	452	302
Margin %	11	16	15	10
Extraordinary Items	-	-	-	-
RPAT	1027	1342	452	302
Margin %	11	16	15	10

PROFIT & LOSS STATEMENT

Rs.mn

Y/E March	FY08	FY09	FY10E	FY11E
Total Sales	6707	11004	12270	14110
Raw material	4417	5414	6258	7267
SG&A	141	2440	2797	2963
Staff costs	150	233	347	433
Other Expenditure	193	260	352	475
PBIDT	1806	2657	2516	2972
Interest	224	439	571	657
Depreciation	83	169	195	224
Other Income	79	18	53	59
PBT incl OI	1577	2066	1804	2151
Tax	466	484	478	570
APAT	1111	1582	1326	1581
Extraordinary items	22	53	-	-
RPAT	1089	1529	1326	1581

BALANCE SHEET STATEMENT

Rs.mn

As on 31 st March	FY08	FY09	FY10E	FY11E
Share Capital	88	94	94	101
Reserves & Surplus	3567	5877	7215	9432
Warrants app money	85	-	-	-
ESOP app. money	1	1	-	-
Net Worth	3741	5972	7309	9533
Secured Loans	1099	3001	4802	5042
Unsecured Loans	915	915	0	0
Deferred tax liability	168	143	179	226
Capital Employed	5923	10031	12290	14801
Net Block	917	1737	1642	1718
Cap. WIP	-	-	-	-
Investments	26	26	26	26
Sundry Debtors	3190	5095	5547	6572
Cash & Bank Bal	585	217	131	1070
Loans & Advances	1588	3115	4294	4939
Inventories	649	827	1595	1834
Curr Liab & Prov	1371	1421	1548	1857
Net Current Assets	4642	7833	10019	12558
Miscellaneous Exp	338	436	603	499
Total Assets	5923	10031	12290	14801

KEY RATIOS STATEMENT

Y/E March	FY08	FY09	FY10E	FY11E
Growth (%)				
Net Sales	102	64	12	15
APAT	86	42	(16)	19
EBITDA	119	47	(5)	18
Profitability (%)				
EBITDA Margin	27	24	21	21
Adj. PAT Margin	17	14	11	11
ROCE	30	24	16	15
ROE	46	33	20	19
Per Share Data (Rs.)				
Adj. EPS	25	34	28	31
Adj. CEPS	30	36	33	37
BVPS	85	127	155	188
Valuations (X)				
PER	5.5	4.1	4.9	4.5
PEG	0.1	0.1	(0.3)	0.4
P/BV	1.6	1.1	0.9	0.7
EV / EBITDA	4.2	3.8	4.5	3.7
EV / Net sales	1.1	0.9	0.9	0.8
Dividend Yield (%)	0.9	1.0	1.0	1.1
Turnover Days				
Debtors days	174	169	165	170
Creditors days	87	68	60	60
Gearing Ratio				
Total Debt to Equity	0.5	0.7	0.7	0.5

Source : Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Equity Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).

** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.

"Desk Research Call" is based on the publicly available information on the companies we find interesting and are quoting at attractive valuations. While we do not claim that we have compiled information based on our meeting with the management, we have taken enough care to ensure that the content of the report is reliable. Although we have christened the report as "Desk Research Calls" (DRC), we intend to release regular updates on the company as is done in our other rated calls.

Additional information with respect to any securities referred to herein will be available upon request.

This report is prepared for the exclusive use of Sushil Group clients only and should not be reproduced, re-circulated, published in any media, website or otherwise, in any form or manner, in part or as a whole, without the express consent in writing of Sushil Financial Services Private Limited. Any unauthorized use, disclosure or public dissemination of information contained herein is prohibited. This report is to be used only by the original recipient to whom it is sent.

This is for private circulation only and the said document does not constitute an offer to buy or sell any securities mentioned herein. While utmost care has been taken in preparing the above, we claim no responsibility for its accuracy. We shall not be liable for any direct or indirect losses arising from the use thereof and the investors are requested to use the information contained herein at their own risk.

This report has been prepared for information purposes only and is not a solicitation, or an offer, to buy or sell any security. It does not purport to be a complete description of the securities, markets or developments referred to in the material. The information, on which the report is based, has been obtained from sources, which we believe to be reliable, but we have not independently verified such information and we do not guarantee that it is accurate or complete. All expressions of opinion are subject to change without notice.

Sushil Financial Services Private Limited and its connected companies, and their respective directors, officers and employees (to be collectively known as SFSPL), may, from time to time, have a long or short position in the securities mentioned and may sell or buy such securities. SFSPL may act upon or make use of information contained herein prior to the publication thereof.