

November 20, 2007

ICSA (India) Ltd

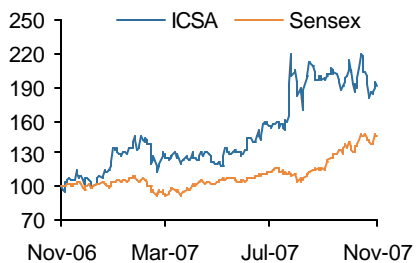
Sector: Power ancillary

Sensex:	19,633
CMP (Rs):	312
Target price (Rs):	451
Upside (%):	44.7
52 Week h/l (Rs):	366/158
Market cap (Rscr) :	1,063
6m Avg vol BSE&NSE ('000Nos):	86
No of o/s shares (mn):	8.1
FV (Rs):	2
Bloomberg code:	AURFI IN
Reuters code:	ICSA.BO
BSE code:	531524
NSE code:	ICSA

Shareholding pattern

September 2007	(%)
Promoters	20.1
Foreign & institution	35.6
Non promoter corp hold	20.7
Public & others	23.6

Share price trend



New product offerings and continuous R&D provides an edge over peers

ICSA, which offers products and solutions for power, oil and gas and the water segment, has developed products and solutions to arrest losses during transmission. Apart from conventional products, it developed Intelligent Cathodic Protection solutions (iCAP), Intelligent Automatic Meter Reading (IAMR), Intelligent Automatic Water Reading solution (IAWR) and street light monitoring control systems. Presence in these segments that are currently witnessing huge spend, with a host of new product offerings for which IPRs have been filed, will help ICSA sustain high growth in future.

Power, oil and gas transmission grid offer opportunities for growth

Since ICSA's products and services are designed to tap transmission and distribution (T&D) losses, it would be a major beneficiary of the spending under the Accelerated Power Development and Reforms Programme (APDRP). The company provides services like energy management, energy audit and control applications, which are tools for arresting losses. Coupled with this, capex announced by oil and gas companies also provides an opportunity for its pipeline management products and services.

Value added products should expand margins

With the introduction of newer and better products, we expect the company's operating margin to expand. This will be supported by patents for three of its products, which could lead to improved realizations. We expect operating margins to sustain at 26%, an improvement of 140 bps by FY09E over FY07.

81.5% profit CAGR over FY07-09E, Recommend BUY

ICSA's revenues and profits have registered high growth of 293.2% and 297.6% CAGR over FY05-07. ICSA is a proxy on the growth opportunities in the power sector. With robust growth outlook over the next five years due to greater focus on implementation of APDRP, we expect ICSA's revenues and profits to witness 75.6% and 81.5% CAGR over FY07-09 respectively. At the current price, the stock trades at 12.5x and 8.3x its FY08E and FY09E EPS of Rs25 and Rs37.6 respectively. We recommend BUY with a one-year price target of Rs451, an upside of 44.7%.

Valuation summary

Mar, (Rs mn)	FY06	FY07	FY08E	FY09E
Revenues	811	3,325	6,260	10,246
yoy growth (%)	277.3	309.8	88.3	63.7
Operating profit	206	817	1,618	2,661
OPM (%)	25.4	24.6	25.9	26.0
PAT	151	589	1,176	1,940
yoy growth (%)	302.1	290.5	99.6	64.9
EPS (Rs)	5.0	17.3	25.0	37.6
P/E (x)	62.0	18.0	12.5	8.3
P/BV (x)	19.8	9.5	4.9	2.8
EV/EBITDA (x)	45.4	13.7	9.1	5.7
ROE (%)	31.9	52.8	39.1	33.3
ROCE (%)	40.8	32.0	34.1	37.1

Source: Company, India Infoline Research

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Investment rationale

New product offerings provide an edge over its peers

ICSA provides embedded technology for power sector and delivers solutions like customized embedded system applications and integrated telemetry applications. These products transmit information via wireless medium thereby assisting in identifying and arresting T&D losses in power, oil, gas and water segments.

It has been undertaking continuous R&D activities thereby enabling it to maintain its technological superiority over its peers. Apart from serving conventional products like monitoring systems, theft detection device and energy audit services it has developed value added products. Some of the new introductions from the company's stable are Intelligent Automatic Meter Reading (IAMR), Intelligent Cathodic Protection solutions (iCAP), Intelligent Automatic Water Reading (IAWR) and street light monitoring control system. These products find application in energy and utilities segments. In order to maintain this edge, ICSA filed for their Intellectual Property Rights (IPR). The products for which it filed IPR are:

- ICSA – DTMS (ICSA – Distribution Transformer Monitoring System)
- ICSA – IAMR (ICSA – Intelligent Automatic Meter Reading System)
- ICSA – ICAP (ICSA – Intelligent Cathodic Protection System)

With APDRP emphasizing on reduction of T&D losses we believe that ICSA will be a major beneficiary. This should enable its revenues to witness a 75.6% CAGR over FY07-09E.

Power applications

With energy audit becoming mandatory, it provides ICSA a huge opportunity for growth. We believe ICSA will be a major beneficiary of the distribution network development under the rural electrification scheme since its product line focuses on reducing T&D losses.

ICSA has its presence in the niche area of design and development of customized infrastructure solutions, state of the art embedded technologies and software applications for power, oil, gas and water sectors. Following is the list of products and services it offers under the power segment:

Product profile

Product	Application
Distribution transformer monitoring system (DTMR)	Monitor and control distribution transformers, energy management, remote data acquisition, peak load management, energy accounting, transformer health monitoring, remote switching
Theft detection device (TDD)	Identify thefts at LT pillars, continuously monitors energy and sends information about voltage, current, power, etc to base stations. It also detects tamper conditions and sends alerts to base stations and concerned officer.
Intelligent automatic meter reading (IAMR)	Collects data from energy meters and other devices and sends it to the base stations via wire and wireless communication. Has features like automatic monthly billing, detecting tamper conditions, sending alerts to control rooms and collecting instantaneous parameters.
General automatic meter reading (GAMR)	Collects data from electronic energy meters using optical connection, communicates with base stations via GSM modem and prepares energy billing data for all consumers.
Computerized online data logging system	Online monitoring, data logging and management of 11kV feeders in a sub-station. It eliminates manual interference and maintains accurate and timeliness in data gathering.
Energy audit services	Provides details of location, quantity and type of losses in power distribution network. This is achieved by digitization of asset management and consumer details and incorporation of data acquisition and control system at sub-station and DTR level and IAMRs / pole top RTUs at consumer locations.
Pole top RTU	Measures the energy parameters of the connection at the pole. Remote connection/disconnection for supply, monitoring and communicating with the master station is done via GSM network.
Micro remote terminal unit (MRTU)	It monitors and controls sub-station feeders as a part of the SCADA system. It is useful in energy audit, load survey and fault analysis.
Multiplexer unit (MUX Unit)	It collects data from multiple meters at a single location. It communicates with meters that are distributed over an area of 100 meters
Intelligent automatic water reading (IAWR)	Enables in getting consumption data of water delivered on daily/monthly basis at the base station using the GSM network.
Remote street lighting control systems	The switch on/off can be controlled from a central location. Timings can be programmed as per seasonal changes/traffic movements/automatically.

Source: Company

IAWR, is a new product developed by the company, which monitors water flow, water pressure and speed of flow in the pipeline. It can communicate with any type of electronic flow meters through the GSM network. Water utilities like municipal corporations are the end users of these products.

ICSA's latest development is a street lighting control system that can remotely control street lights resulting in power, manpower and operational savings. Any street light junction box can be controlled from the central location. This finds application by the city government bodies where the energy saving program is being carried out.

Pipeline applications

Pipelines are the most cost efficient means of transportation for natural gas, crude oil, petroleum products, water and many other chemicals. Due to continuous transportation of these fluids at high pressure, corrosion is inevitable. ICSA has designed products that help in detecting corrosion thereby avoiding leakages.

For this purpose, it developed iCAP, which helps in detecting corrosion and identifying losses. iCAP is an innovative field compatible product with modular wireless embedded in real time. It monitors pipeline operations and notifies abnormalities on a real time basis. iCAP acquires data from several test lead points spread along the pipelines, processes it on a real time basis and forecasts rate of corrosion and abnormalities due to pilferages. All IPRs for this product are owned by the company.

ICSA recently entered into a strategic tie-up with Oil India Ltd (OIL) for undertaking projects for implementation of iCAP. Currently, they are jointly installing iCAP on the 2,000km pipeline network across Assam, West Bengal and Bihar. Post this order, they plan to undertake project management for oil pipelines in India and elsewhere.

Product profile

Product	Application
Intelligent cathodic protection system (iCAP)	It comprises intelligent telemetric unit, automatic transformer rectifier, off PSP loggers, permanent reference cells, corrosion probes, etc. and continuously monitors pipeline operations and notifies any abnormalities. It finds applications in oil, gas and water segments.
Intelligent telemetric unit	These are standalone modules, acquire data from sensors and transmit to the central monitoring station. It transmits data in GSM, CDMA, RF, optical and satellite.
Off PSP logger	These are standalone modules and help in conducting cost effective Off PSP survey. It facilitates better GPS synchronization and has unique features like programmable data acquisition and data transmission to central station through GSM.

Source: Company

iCAP solutions are also used to monitor and control corrosion in storage tanks, underground vessel, pontoons and foundation rebars for oil and gas sector. ICSA is working on newer areas of down-hole corrosion, drilling automation, oil wells automation and exploration of oil and gas sector and plans to venture into mining automation.

Power infrastructure

ICSA also offers turnkey services for electrical infrastructure projects in power generation, transmission and distribution segments, besides industrial electrification projects. It undertakes transmission projects both in India and abroad on EPC basis and HVDS, rural electrification and industrial electrification projects on turnkey basis.

EPC basis:

The company has capabilities in design, supply, transport, erection, testing and commissioning of:

- 400kV transmission lines and sub-stations
- 220kV/132kV transmission lines and sub-stations
- Outdoor and GIS sub-stations

Turnkey basis:

The company offers the following turnkey/partial turnkey basis:

- HVDS distribution work
- Rural electrification work
- Industrial electrification work
- Construction of 33kV/11kV indoor and outdoor sub-stations

Joint ventures

ICSA has entered into a joint venture with a Malaysian company picking up 30% stake. The joint venture will focus on marketing, distributing, licensing and providing solutions in the field of telemetry for power, utilities, oil and gas and SAP compliance using proprietary solutions developed by ICSA. This venture will focus on South East Asian countries excluding Singapore. For Singapore, it has set up a subsidiary under the name ICSA International PTE Ltd which will undertake R&D and application projects in Singapore. It plans to acquire companies in RFID, embedded technology and allied services.

Clientele

UP Rajkiya Nirman Nigam Ltd	Nile Energy Engineering Projects Ltd
Eastern Power Distribution Company of Andhra Pradesh Ltd	Transmission Corporation of Andhra Pradesh Ltd
APSPDCL	Reliance Energy Ltd
Kerala State Electricity Board	SOUTHCO
CESCO	Oil India Ltd
Madhya Pradesh Paschim Kshetra Vidyut Vitran Company Ltd	Ajmer Vidyut Vitran Nigam Ltd
Maharashtra State Electricity Distribution Company Ltd	Elmarc Ltd

Source: Company

APDRP – packed with opportunity

Investments of Rs14.5tn are expected to be made in the power sector over the next five years. This will be towards enhancing generation capacity and upgrading transmission and distribution infrastructure in the country. Apart from enhancing generating capacity the centre has also laid emphasis on rural electrification and reduction of T&D losses. T&D losses in the country have soared to ~35% from ~21% in FY95. The ministry launched APDRP with a motive of reducing losses and improving the quality of power. The additional assistance to states by the center stands at Rs400bn. Under the investment component of the program, funds will be provided to the state utilities for projects relating to upgradation and strengthening of sub-transmission and distribution network for improving technical and commercial efficiencies of utilities.

The programs objectives:

- Reduce aggregate technical and commercial losses.
- Improve financial viability of state power utilities.
- Reduce outages and interruptions.
- To improve customer satisfaction.

Interventions as per the program

Commercial intervention

- Energy meters on DT & at consumers' end
- Energy audit and accounting at all levels
- Energy on feeders

Technical interventions

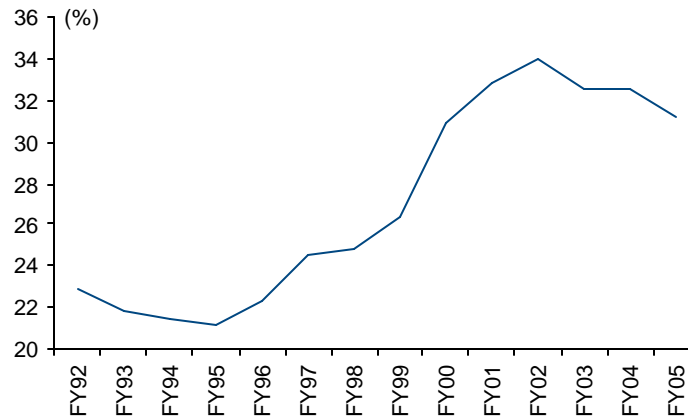
- 100% metering (Tamper proof)
- Installation of capacitor at all levels
- Computerization of billing

Administrative intervention

- 1,100 feeder as profit center

Source: Company

T&D losses in the country

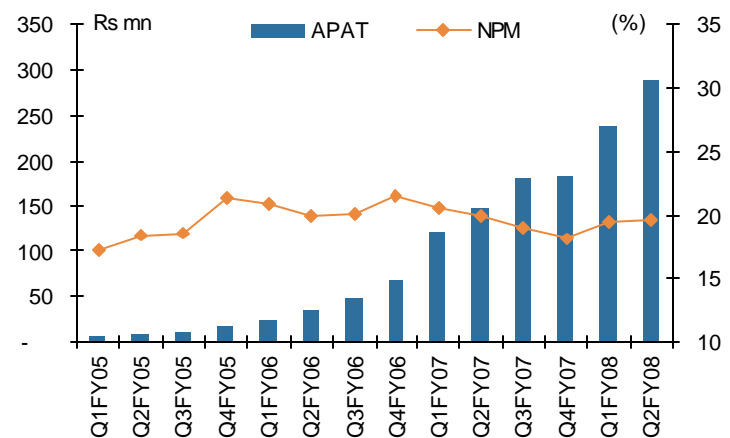
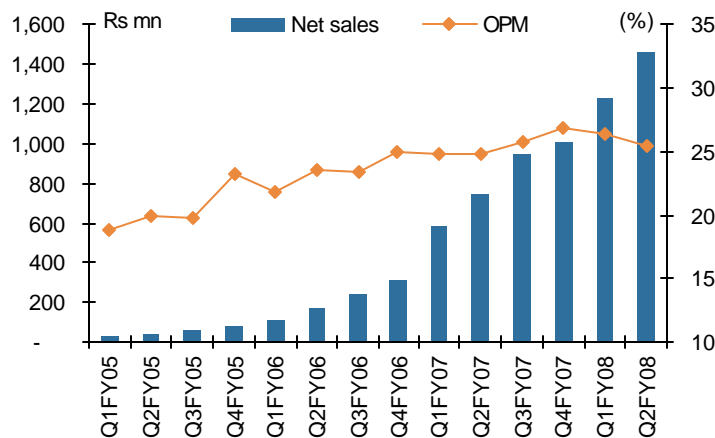


Source: CEA

Cross country pipeline also an opportunity for ICSA's products

Massive investments in the oil and gas sector will require setting up of pipelines for the transportation of the commodity. Rising prices of crude and geographical disparity encourages greater usage of pipelines as the medium of transportation as it is ~50% cheaper than road or rail. Pipeline and Gas Journal estimates ~100,000 miles of pipeline projects are being planned, up from the earlier ~50,000 miles. Water management is yet another field which will drive demand for pipes, implying higher requirement for ICSA's products. As per World Bank estimates ~US\$5.2bn worth of projects are either under way or in pipeline for the water segment. This also provides huge opportunity for ICSA's pipeline applications.

Revenues, profits and margins trend over the past 14 quarters

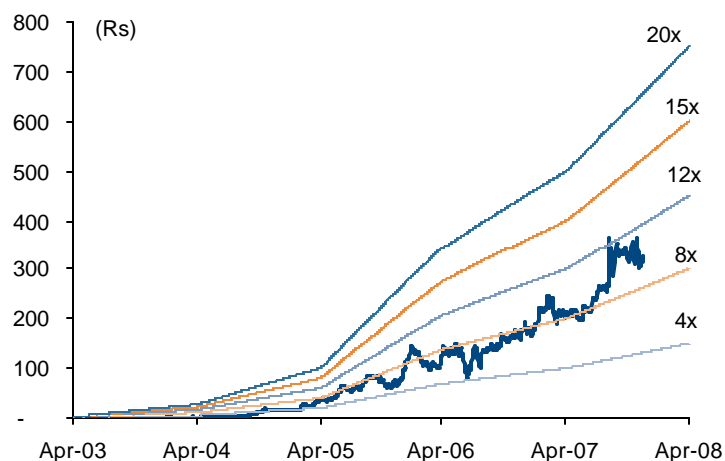


Source: Company

High growth available at 8.3x FY09E EPS, BUY with a target price of Rs451

Robust growth opportunity available in the power sector encourages us to believe that ICSA is poised to witness huge growth over the next couple of years. Newer products adding to the pack will enable ICSA to witness improving realizations, which should lead to expansion in operating margin. Over the past 14 quarters the company has been posting over 100% yoy growth in revenues (except in Q2FY08) and profit (except for Q1 and Q2FY08). We believe that the company will post revenue and profit CAGR of 75.6% and 81.6% respectively over FY07-09. At the current price, it trades at 12.5x and 8.3x its FY08E and FY09E EPS of Rs25 and Rs37.6 respectively. We recommend BUY with a one year price target of Rs451, an upside of 44.7%.

1-year forward rolling P/E band

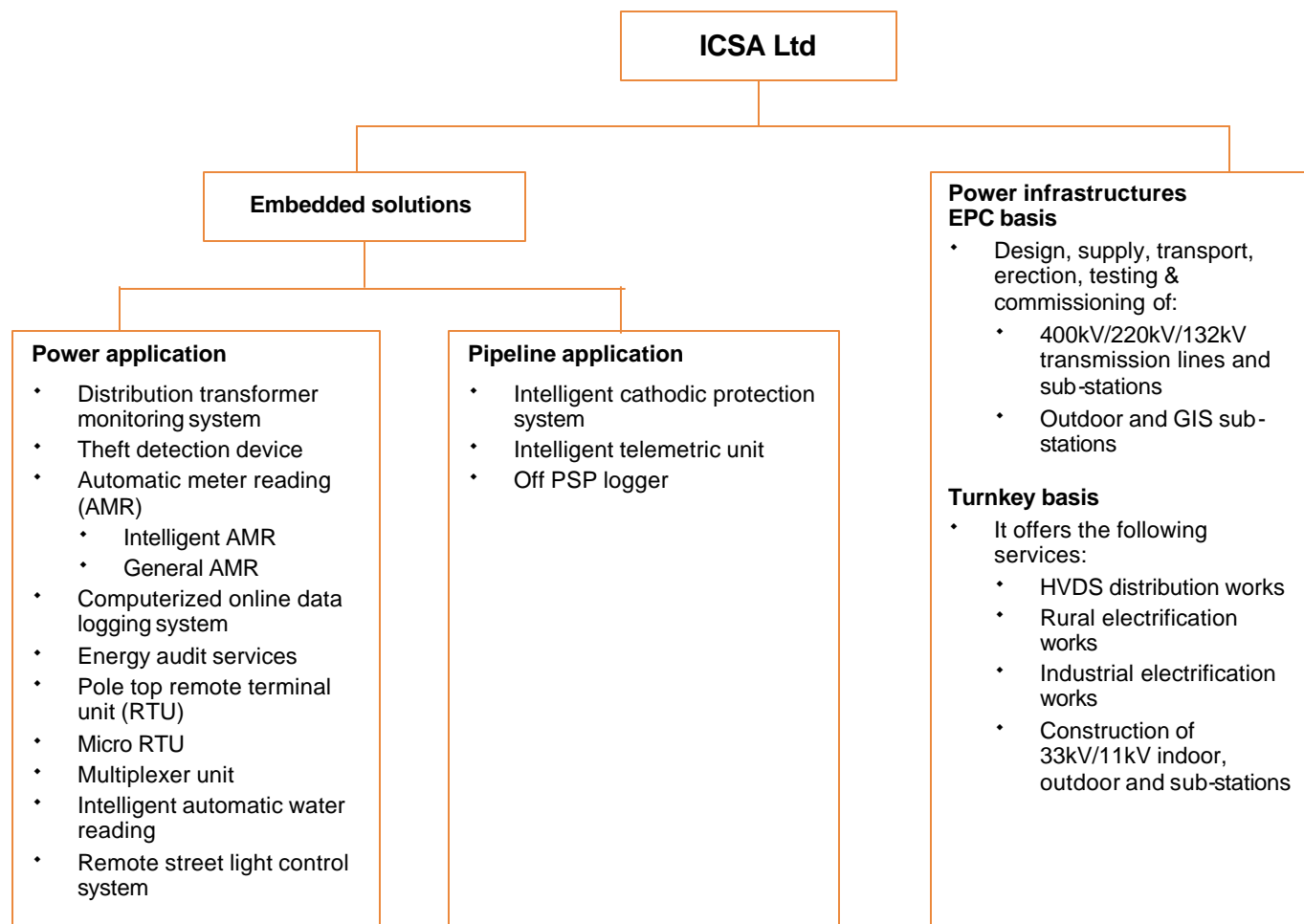


Source: Bloomberg, India Infoline Research

Company background

ICSA Ltd is the pioneer in adopting advanced technologies with a suite of embedded solutions customized for specific requirements of players in the energy sector. It developed innovative products for power utilities for undertaking energy audits, energy management and control applications. It enables data acquisition using GSM, CDMA, satellite, optical fiber and radio frequency as the communication medium. ICSA provides technology solutions to identify T&D losses and also monitors power consumption. Coupled with this, it also provides customized technology solutions to the oil and gas sector.

Business model



Source: Company, India Infoline Research

Top management

Name	Designation
G Bala Reddy	Chairman & Managing Director
G Lalitha	Director
M S Reddy	Director
N Venkata Reddy	Executive Director
S S Dua	Director
Y V Ramana Reddy	Director
V Shyam Sunder Reddy	Director
Carlos Moslaries	Director

Source: Company

Key concerns

The company's growth is dependent on the implementation of the APDRP program by the government. Any delays in implementation of these reforms could derail our estimates.

The company's future growth depends upon its R&D activities to maintain its leadership in technology. Hence, its products stand a risk of obsolescence. Since it caters to government bodies, there will be complete pass through of raw material prices, insulating margins to that extent.

Since the management is conservative and does not interact with the analyst fraternity, the estimates showcased are based on our assumptions.

Financials

Income statement

Period to (Rs mn)	FY06 (12)	FY07 (12)	FY08E (12)	FY09E (12)
Net Sales	811	3,325	6,260	10,246
Operating expenses	(605)	(2,508)	(4,642)	(7,585)
Operating profit	206	817	1,618	2,661
Other income	2	8	75	62
EBIDT	209	825	1,693	2,723
Interest	(1)	(59)	(86)	(103)
Depreciation	(9)	(17)	(19)	(25)
Amortization	(5)	(12)	(60)	(75)
Profit before tax (PBT)	194	737	1,528	2,520
Tax	(43)	(148)	(352)	(580)
Profit after tax (PAT)	151	589	1,176	1,940

Balance sheet

Period to (Rs mn)	FY06 (12)	FY07 (12)	FY08E (12)	FY09E (12)
Sources				
Share capital	60	68	94	103
Share warrants	146	50	-	-
ESOP application money	-	1	-	-
Reserves	267	998	2,913	5,717
Net worth	473	1,117	3,007	5,820
Loan funds	38	1,460	1,956	1,528
Def tax liability	20	29	35	42
Minority interest	-	1	2	5
Total	531	2,606	5,001	7,396
Uses				
Gross block	79	139	159	209
Accd depreciation	(15)	(32)	(51)	(76)
Net block	63	107	108	133
Total current assets	568	3,225	6,231	9,488
Total current liabilities	(145)	(899)	(1,638)	(2,625)
Net working capital	423	2,326	4,593	6,863
Miscellaneous expenditure	45	174	300	400
Total	531	2,606	5,001	7,396

Key ratios

Period to	FY06 (12)	FY07 (12)	FY08E (12)	FY09E (12)
Per share ratios (Rs)				
EPS	5.0	17.3	25.0	37.6
Div per share	0.7	0.9	1.5	2.3
Book value per share	15.8	32.7	63.8	112.7
Valuation ratios (x)				
P/E	62.0	18.0	12.5	8.3
P/BV	19.8	9.5	4.9	2.8
EV/sales	11.6	3.4	2.4	1.5
EV/EBIDTA	45.4	13.7	9.1	5.7
Profitability ratios (%)				
OPM	25.4	24.6	25.9	26.0
PAT	18.6	17.7	18.8	18.9
ROCE	40.8	32.0	34.1	37.1
ROE	31.9	52.8	39.1	33.3
Liquidity ratios				
Current ratio	3.9	3.6	3.8	3.6
Debtors days	207.0	191.0	188.0	188.0
Inventory days	15.0	32.0	32.0	32.0
Creditors days	44.0	65.0	61.0	59.0
Leverage ratios				
Debt / Total equity	0.1	1.3	0.7	0.3

Cash flow statement

Period to (Rs m)	FY06 (12)	FY07 (12)	FY08E (12)	FY09E (12)
Operating cash flow	148	553	1,152	1,995
Add/less wking cap changes	(293)	(779)	(1,010)	(1,416)
Net operating cash flow	(145)	(226)	143	579
Investing cash flow	(39)	(69)	(11)	(71)
Financing cash flow	187	1,166	856	(34)
Net increase in cash	2	871	988	475
Cash at start of the year	0	3	874	1,862
Cash at end of the year	3	874	1,862	2,336

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