

Cashing in on opportunities

ICSA has transformed into a niche power player

There are only a few companies that can claim to have achieved a compounded annual growth rate (CAGR) of over 50 per cent in the last three years. One of them is ICSA. In June 2007, when *Business India* first wrote about it, its topline for March 2007 was Rs330 crore. From this, it has soared to Rs1,230.37 crore in March 2010. Its net profit, on the other hand, has risen from Rs63.66 crore to Rs129.77 crore in the same period; which is some achievement, given that it has come in a turbulent period for Indian industry.

Three years ago, the company operated with 110 people, 10 products and 82 subcontractors in 10 states at 41 locations across India. By 2009, its operations expanded to 13 states and 79 locations and, now, it is operating with 550 employees and 242 subcontractors on its various projects in India. "Our operations have expanded rapidly in the last three years," avers 43-year-old Bala Reddy, ICSA's CMD.

AFIL, a failed listed finance company, was acquired by Reddy in 1998 and transformed into a niche player in India's power sector. It churned out products that gave it a virtual monopoly in embedded power distribution technology. For example, its three most important products in this business segment, IAMR (intelligent automatic meter reading system), DTMS (distribution transformer monitoring system) and TDD (theft detection device), are all unique.

It has built upon these with several more products across various applications in power distribution. Each of them helps monitor various aspects of power supply in the distribution system from the control rooms of distribution companies (Discoms). For example, ICSA has installed a service interruption monitoring instrument at each of the 28 transformers of Madhya Gujarat Vijij Company in Gujarat. "This has enabled us to monitor service quality to customers from our control



Reddy: expanding operations

room and improve power delivery to them," says Nikhil Kumar Shah, project in-charge of this company.

"We owe our success to R&D," avers P. Kodanda Ramaiah, director, ICSA. The company has several patents; all of them generated by the efforts of its 200-odd research staff. While embedded systems has been its mainstay until recently, the company's business profile has broadened. For example, "In 2008-09, embedded systems had a dominant share in ICSA's total sales. But, in 2009-10, its share fell in the total sales from 60 per cent to 36 per cent and that of infrastructure rose from 40 per cent to 64 per cent," says Alok Agarwal, head research, Mata Securities. This did not go down well with the investors and its share price slipped from the annual high of Rs229 (Rs2 share) to an annual low of Rs112 in the year ended March 2010. But, it has recovered and now quoting at about Rs145.

Nonetheless, some investors still remained wary and there is a reason for that. Currently, the company has two divisions: technology and infra-

structure. The former, as mentioned, consists of embedded products and software services such as SCADA (Supervisory Control & Data Acquisition - a software used for online supervision and control in power transmission and distribution system). The latter, of turnkey contracts such as sub-stations (right up to 400kV) and erection of transmission and distribution (T&D) lines.

In the latter, unlike embedded products, where it has a virtual monopoly, ICSA faces competition from established players like Areva, ABB and the local players, and from KEC in the lines. Margins in this segment are much lower at 5 per cent, but order sizes are large. Inevitably, the rise in share of this segment in the company's topline has had an impact on its net profit, dragging it down from Rs152.86 crore in 2008-09 to Rs129.77 crore in 2009-10. But, for Reddy, this has been a logical move.

Looking ahead

Seeing 'smart grid' as the future of the T&D business, once power ministry's RAPDRP (restructured accelerated power development and reforms programme) begins in earnest, Reddy decided to grow the company's infrastructure business in order to gain the domain experience. Reddy insists, "Gaining knowledge of power infrastructure is paramount to strengthening the portfolio of our technology products and services."

In the Indian context, since T&D losses are high, it is said that one unit of electricity saved is equivalent to two units of electricity generated. RAPDRP is thus a programme to address the losses in India's power delivery system. "The Indian government has therefore provided Rs50,000 crore under this programme, in the 11th Plan, to modernise and improve the efficiency of India's distribution system," says Joe Basker, COO, ICSA. "Going forward, we are eyeing this opportunity for the growth of our technology division," says Reddy.

In order to get into smart meters, rather than start from scratch, Reddy decided to acquire a running business of ECE Industries, a K.K. Birla Company, for Rs8 crore, in Hyderabad. The plant and machinery was later shifted to ICESA's new production facility, built at a cost of Rs23 crore, on the Hyderabad-Mumbai highway, in 2009. While this plant at present operates at a capacity of 150,000 meters per month, this is expected to rise to 200,000 meters soon.

However, ICESA is not the only one in smart meters. L&T and Spanco also have their own brand of smart meters. Nonetheless, "Our aim is to integrate our own solutions and create a proprietary product," says Reddy. One of the major features of ICESA's meters is that different types of modems (GSM/GPRS) are built into it to bypass the legacy issues.

At a generic level, smart meters enable Discoms to remotely monitor the entire network online at their control rooms. For example, they can read consumer meters directly from their control rooms and bill them online; they can disconnect and reconnect defaulting consumers; and they can monitor thefts, power quality and several such things online and take appropriate measures.

Notwithstanding competition, margins at 15 per cent are high in this segment and unlikely to diminish with ICESA's entry, as the scope for switching over to these meters from digital meters is also high. At present, wherever legacy meters are in use, ICESA supplies IAMRS as an add-on, but it cannot supplement all the features that smart meters provide. Though, like others, ICESA continues to supply digital meters, it sees smart meters as the core of an intelligent distribution system; and, therefore, a big opportunity.

In fact, Reddy has been planning an offer to replace old meters with smart meters, on a BOOT basis, to Discoms. N.K. Chaturvedi, CEO technical, ICESA, says, "Savings are so attractive that payback from switching to smart meters is only a year." This is because switching helps in saving costs of inspectors who physically go to read the meters at consumer sites, reduces incidence of power theft and reduces payment default. Moreover, with the Union government's growing emphasis on curbing profligate use of power in all consumer segments, this would be a promising move.

Being empanelled

The remote terminal units (RTUS) in the T&D system are a major component of SCADA and the company manufactures several versions of it. Reddy saw the opportunity under RAPDRP and got ICESA empanelled as the system integrator to implement this software, with the Power Finance Corporation. "The ministry has earmarked Rs2,500 crore for this alone in the 11th Plan," says P.S. Younus, executive vice-president for SCADA, ICESA.

However, before empanelling, since the company lacked the requisite experience to qualify as a SCADA vendor, it entered into a partnership with Donefeng Electric of China, to implement this system in India. Under the arrangement, 70 per cent of the scope for implementation of this software lies with ICESA and the balance with the Chinese. "We are already reaping the synergy," says Reddy; "as SCADA goes wherever we build the sub-stations." This of course is a "welcome addition to the company's revenue and margin, but the

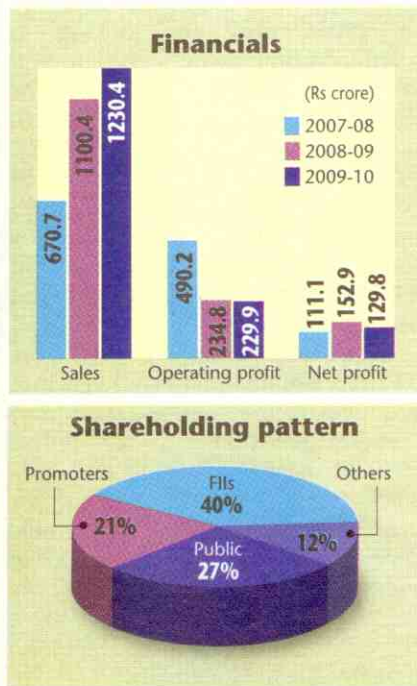


Moving to smart meters: sensible step

real benefit will start flowing when execution of RAPDRP programmes is in full swing," says Agarwal.

This is still a few months away, but the company is now well poised to cash in on the opportunities that RAPDRP will throw up in the remaining three years of the current Five Year Plan. Meanwhile, ICESA's infrastructure business will continue to dominate its topline in the current financial year, as evident from its order book. On 31 March 2010, the company's order book was Rs1,835 crore, with turnkey infrastructure projects constituting Rs1,483 crore of this total and the technology business, the balance Rs350 crore.

Though this may not inspire all, FITs like Goldman Sachs, the government of Singapore, Fidelity, Franklin Templeton and several others seem to be holding firm (see chart). Clearly, they are banking on the company's prospects under RAPDRP. On the other hand, Saurabh Rana, assistant vp, research, SMC Global, is optimistic even with the present composition of the company's order book. He says, "With a bullish outlook on the power sector and sound order book of ICESA, we see it clocking an EPS of Rs33 in March 2011." He adds, "Since the company is quoting only a P/E of 4.5, against the industry's ratio of 25 (Areva, ABB, etc), we see it catching up with the rest, going forward. It will be interesting to watch how things unfold for the company in the future.



*All other domestic bodies, corporates, etc. As on 31/3/2010

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