

August 13, 2010

## REDUCE

Price	Target Price
<b>Rs1,219</b>	<b>Rs1,200</b>
<b>Sensex</b>	<b>18,074</b>

### Price Performance

(%)	1M	3M	6M	12M
Absolute	3	25	46	49
Rel. to Sensex	2	19	31	24

Source: Bloomberg

### Stock Details

Sector	Financial Services
Reuters	ICRA.BC
Bloomberg	ICRA@IN
Equity Capital (Rs mn)	100
Face Value(Rs)	10
No of shares o/s (mn)	10
52 Week H/L	1,278/728
Market Cap (Rs bn/USD mn)	12/258
Daily Avg Volume (No of sh)	17694
Daily Avg Turnover (US\$m)	0.4

### Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	28.5	28.5	28.5
FII/NRI	6.5	5.9	5.0
Institutions	44.4	44.1	44.1
Private Corp	3.2	3.0	3.3
Public	17.4	18.5	19.1

Source: Capitaline

### Kashyap Jhaveri

kashyap.jhaveri@emkayglobal.com  
+91 22 6612 1249

### Pradeep Agrawal

pradeep.agrawal@emkayglobal.com  
+91 22 6612 1340

## Results inline with expectations; valuations stretched

- ICRA's Q1FY11 operating revenues at Rs410mn, up 23.7% yoy and PAT at Rs104mn, up 30% yoy were in line with our expectations
- The revenue growth was driven by rating segment which grew by a healthy 30%yoy to Rs271mn
- OPMs expanded by 475bps yoy to 31.9%, albeit down 914bps sequentially. The margin expansion was as expected driven by strong revenue growth and favourable base effect
- We expect the 22% CAGR in core earnings over FY10-12E. Maintain REDUCE with TP of Rs1,200 (16x FY12E core EPS)

### Revenues growth inline with expectations

ICRA's revenues for the quarter grew by 23.7%yoy to Rs410bn inline with expectation. The growth mainly came from rating segment which reported growth of 30% yoy.

### Income from operations

%	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (bps)	QoQ (bps)
Rating Services Fees	209	247	274	331	271	29.5	-18.3
Consulting Fees	40	37	62	78	51	29.3	-34.4
Information Services Fees	6	10	10	15	7	8.5	-52.4
KPO/BPO Services Fees	27	26	24	49	31	13.7	-36.8
Professional Services Fees	49	43	52	34	50	2.2	48.8
<b>Total operating revenues</b>	<b>332</b>	<b>363</b>	<b>421</b>	<b>507</b>	<b>410</b>	<b>23.7</b>	<b>-19.1</b>

Source: Company, Emkay Research

### Margins booking in consulting business drives margins

With a 475bps expansion in operating margins, the operating profit grew by a higher 45.4% yoy. We believe that the expansion in the OPMs was driven by the lumpiness in the consulting business as the better revenues got booked this quarter whereas, the costs for the same would have been accounted in the preceding quarters.

However, the rating business still continued to be dominant contributor to the EBIT with almost 99% of total EBIT.

### Valuation table

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
FY09	1,358	559	41.2	411	41.1	52	24.2	30.4	-	6.9
FY10	1,623	607	37.4	552	55.2	34	28.0	22.6	-	5.9
FY11E	1,944	732	37.7	557	55.7	1	23.2	22.4	-	4.7
FY12E	2,319	874	37.7	666	66.6	19	22.5	18.8	-	3.8

Source: Company, Emkay Research

## Key financials – Quarterly

Rs mn	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
<b>Revenue</b>	332	363	421	507	410	23.7	-19.1
<b>Expenditure</b>	242	233	242	299	280	15.6	-6.5
as % of sales	73	64	58	59	68	-475	914
Rent	161	158	160	205	190	18.1	-7.0
as % of sales	48.6	47.7	48.3	61.7	57.4	878	-430
Employee Cost	36	30	29	30	32	-11.7	5.4
as % of sales	10.8	9.0	8.9	9.0	9.5	-127	49
Other expenditure	45	30	29	30	32	-29.3	5.4
as % of sales	13.5	9.0	8.9	9.0	9.5	-394	49
<b>EBITDA</b>	90	131	178	208	131	45.4	-37.1
Depreciation	9.0	10.0	10.5	12.0	10.0	11.2	-16.9
<b>EBIT</b>	81	121	168	196	121	49.2	-38.3
Other Income	42.1	31.5	33.9	34.3	34.1	-19.1	-0.7
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	123	152	202	230	155	25.8	-32.7
Total Tax	66	65	59	67	51	-21.9	-23.8
<b>Adjusted PAT</b>	80	95	144	162	104	30.0	-35.4
(Profit)/loss from JV's/Ass/MI	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>APAT after MI</b>	80	95	144	162	104	30.0	-35.4
<b>Extra ordinary items</b>	43	12	2	-3	2		
<b>Reported PAT</b>	124	107	146	159	106	-14.1	-33.0
<b>Reported EPS</b>	12	11	15	16	11	-14.1	-33.0
<b>Margins (%)</b>							
EBIDTA	27.1	36.0	42.4	41.0	31.9	475	-914
EBIT	24.4	33.2	39.9	38.7	29.5	503	-920
EBT	37.1	41.9	48.0	45.4	37.8	64	-768
PAT	24.2	26.0	34.1	31.9	25.4	123	-642
Effective Tax rate	53.5	42.9	29.3	29.3	33.2	-2028	389

Source: Company, Emkay Research

## Segmental results (reported)

	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (bps)	QoQ (bps)
<b>EBIT (Rs mn)</b>							
Rating Services Fees	115	149	159	214	150	30.4	-30.0
Consulting Fees	-8	-6	17	17	0	-102.6	-98.9
Information Services Fees	-4	-1	7	3	-3	-28.4	-180.8
KPO/BPO Services Fees	12	6	11	16	6	-48.6	-61.6
Professional Services Fees	-7	2	0	-14	-2	-63.3	-83.1
<b>Total</b>	<b>108</b>	<b>149</b>	<b>194</b>	<b>235</b>	<b>151</b>	<b>39.1</b>	<b>-35.9</b>
<b>EBIDTA margins (%)</b>							
Rating Services Fees	54.9	60.3	58.0	64.5	55.3	37	-922
Consulting Fees	-19.6	-15.7	28.0	22.2	0.4	1996	-2181
Information Services Fees	-55.7	-15.0	72.1	21.6	-36.7	1894	-5837
KPO/BPO Services Fees	42.5	23.1	44.7	31.6	19.2	-2329	-1237
Professional Services Fees	-13.5	4.3	0.1	-42.7	-4.9	866	3782
<b>Total</b>	<b>32.7</b>	<b>41.1</b>	<b>46.1</b>	<b>46.4</b>	<b>36.7</b>	<b>407</b>	<b>-965</b>

Source: Company, Emkay Research

**Adjusted net profit grows by 30% in line with revenues**

The reported net profit declined by a 14.1% yoy to Rs106mn. However, adjusted for reversal in diminution in value of investment in Q1FY10, the net profit would have grown by a higher 30%yoy to Rs104mn. The reversal in diminution in value of investment during Q1FY0 stood at Rs66.3mn.

**Valuation and view**

We expect ICRA's revenue growth to gain pace going forward benefiting from base rate implementation and pick up in the debt raising activity. At the current market price, the stock is quoting at 21.5x FY11E/17.4x FY12E PE. We maintain our REDUCE rating on the stock with target price of Rs1200, valuing at 16x FY12E core EPS and cash and cash equivalent of Rs243/share.

## Key Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>1,358</b>	<b>1,623</b>	<b>2,014</b>	<b>2,403</b>
Growth (%)	36.6	19.5	24.0	19.4
<b>Expenditure</b>	<b>799</b>	<b>1,009</b>	<b>1,253</b>	<b>1,494</b>
Employee Cost	554	685	850	1,014
Employee Cost	94	125	155	185
Other Exp	152	200	248	296
<b>EBITDA</b>	<b>559</b>	<b>614</b>	<b>761</b>	<b>909</b>
Growth (%)	52.3	9.8	23.9	19.5
<b>EBITDA margin (%)</b>	<b>41.2</b>	<b>37.8</b>	<b>37.8</b>	<b>37.8</b>
Depreciation	36	41	45	50
<b>EBIT</b>	<b>600</b>	<b>706</b>	<b>855</b>	<b>1,022</b>
<b>EBIT margin (%)</b>	<b>44.2</b>	<b>43.5</b>	<b>42.5</b>	<b>42.5</b>
Other Income	77	134	139	163
Interest expenses	0	0	0	0
<b>PBT</b>	<b>569</b>	<b>793</b>	<b>855</b>	<b>1,197</b>
<b>Tax</b>	<b>179</b>	<b>258</b>	<b>278</b>	<b>389</b>
Effective tax rate (%)	31.5	32.5	32.5	32.5
<b>Adjusted PAT</b>	<b>411</b>	<b>477</b>	<b>577</b>	<b>690</b>
Growth (%)	52.4	16.0	21.1	19.5
<b>Net Margin (%)</b>	<b>30.3</b>	<b>29.4</b>	<b>28.7</b>	<b>28.7</b>
(Profit)/loss from JVs/Ass/MI	-	-	-	-
<b>Adjusted PAT After JVs/Ass/MI</b>	<b>411</b>	<b>477</b>	<b>577</b>	<b>690</b>
E/O items	-31	86	0	175
<b>Reported PAT</b>	<b>390</b>	<b>535</b>	<b>577</b>	<b>808</b>
Growth (%)	36.8	37.1	7.9	40.0

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	<b>568</b>	<b>706</b>	<b>855</b>	<b>1022</b>
Depreciation	36	41	45	50
Interest Provided	-47	0	0	0
Other Non-Cash items	-17	87	57	181
Chg in working cap	-800	-66	-304	-427
Tax paid	-194	-258	-278	-389
<b>Operating Cashflow</b>	<b>-453</b>	<b>511</b>	<b>375</b>	<b>437</b>
Capital expenditure	-45	-36	-41	-45
<b>Free Cash Flow</b>	<b>-498</b>	<b>475</b>	<b>333</b>	<b>393</b>
Other income	86	0	0	0
Investments	566	-447	-37	0
<b>Investing Cashflow</b>	<b>607</b>	<b>-483</b>	<b>-78</b>	<b>-45</b>
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	-	-	-	-
Interest Paid	-0.2	-	-	-
Dividend paid (incl tax)	-120	-125	-149	-199
Income from investments				
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>-120</b>	<b>-125</b>	<b>-149</b>	<b>-199</b>
<b>Net chg in cash</b>	<b>34</b>	<b>-96</b>	<b>147</b>	<b>193</b>
Opening cash position	35	69	-27	120
<b>Closing cash position</b>	<b>69</b>	<b>-27</b>	<b>120</b>	<b>313</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	100	100	100	100
Reserves & surplus	1,716	2,022	2,388	2,915
<b>Net worth</b>	<b>1,816</b>	<b>2,122</b>	<b>2,488</b>	<b>3,015</b>
<b>Minority Interest</b>				
Secured Loans	0	0	0	0
Unsecured Loans	0	0	0	0
<b>Loan Funds</b>				
Net deferred tax liability	-30	-10	-10	-10
<b>Total Liabilities</b>	<b>1,786</b>	<b>2,112</b>	<b>2,478</b>	<b>3,005</b>
Gross Block	438	473	515	560
Less: Depreciation	197	232	277	327
<b>Net block</b>	<b>241</b>	<b>242</b>	<b>238</b>	<b>233</b>
Capital work in progress	-	-	-	-
<b>Investment</b>	<b>299</b>	<b>746</b>	<b>783</b>	<b>783</b>
<b>Current Assets</b>	<b>2,019</b>	<b>2,154</b>	<b>2,485</b>	<b>3,123</b>
Inventories	-	-	-	-
Sundry debtors	282	366	454	542
Cash & bank balance	51	109	120	313
Loans & advances	545	557	572	589
Other current assets	1,141	1,122	1,339	1,678
<b>Current lia &amp; Prov</b>	<b>772</b>	<b>1,029</b>	<b>1,095</b>	<b>1,285</b>
Current liabilities	368	538	547	555
Provisions	405	492	548	730
<b>Net current assets</b>	<b>1,246</b>	<b>1,124</b>	<b>1,390</b>	<b>1,837</b>
Misc. exp	0	0	0	0
<b>Total Assets</b>	<b>1,786</b>	<b>2,112</b>	<b>2,478</b>	<b>3,005</b>

## Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	41.2	37.4	37.7	37.7
Net Margin	30.3	34.0	28.7	28.7
ROCE	35.5	40.7	34.5	34.6
ROE	24.2	28.0	23.2	22.5
RoIC				
<b>Per Share Data (Rs)</b>				
EPS	41.1	55.2	55.7	66.6
CEPS	44.3	58.9	60.1	71.6
BVPS	181.6	212.2	267.4	325.1
DPS	1.2	1.5	1.8	1.8
<b>Valuations (x)</b>				
PER	30.4	22.6	22.4	18.8
P/CEPS	28	21	21	17
P/BV	6.9	5.9	4.7	3.8
EV / Sales	-	-	-	-
EV / EBITDA				
Dividend Yield (%)	1.0	1.2	1.4	1.4
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	-	-	-	-
Net Debt/EBITDA	-	-	-	-
Working Cap Cycle (days)	-	-	-	-

**Recommendation History: ICRA – ICRA IN**

Date	Reports	Reco	CMP	Target
19.05.2010	<a href="#">ICRA Q4FY10 Result Update</a>	Reduce	967	800
21.01.2010	<a href="#">ICRA Q3FY10 Result Update</a>	Reduce	851	800
04.11.2009	<a href="#">ICRA Q2FY10 Result Update</a>	Reduce	760	700
27.07.2009	<a href="#">ICRA Q1FY10 Result Update</a>	Reduce	878	820

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
02.08.2010	<a href="#">Bank of India Q1FY11 Result Update</a>	Reduce	410	350
29.07.2010	<a href="#">Corporation Bank Q1FY11 Result Update</a>	Accumulate	565	600
27.07.2010	<a href="#">Union Bank of India Q1FY11 Result Update</a>	Reduce	321	300
23.07.2010	<a href="#">Allahabad Bank Q1FY11 Result Update</a>	Accumulate	185	220

**Emkay Global Financial Services Ltd.**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.