



## ICRA

### IPO Fact Sheet

#### Issue details

Issue opens:	March 20, 2007
Issue closes:	March 23, 2007
Offer size:	2,581,100 equity shares
Issue size:	Rs71-85 crore
Price band:	Rs275 to Rs330 per equity share of face value of Rs10
Offer for sale by the selling shareholders:	IFCI Limited, Administrator of the Specified Undertaking of the Unit Trust of India (SUUTI) and State Bank of India (SBI).
QIBs:	Up to 1,290,550 equity shares
Non-institutional:	At least 387,165 equity shares
Retail individual:	At least 903,385 equity shares

Some existing shareholders like IFCI and SUUTI have decided to completely exit from ICRA while large financial institutions like SBI, LIC and a host of other public sector banks have restructured their holdings to aid in forming the ESOP programme through the Employee Welfare Trust.

#### Preferential allotment to promoters & employee trust

After the exit of IFCI, Moody's India (MI)—a part of the Moody's group—will be the promoter of the company. ICRA would issue 288,900 shares to MI and 906,000 shares to the Employee Welfare Trust at the offer price to be decided as a preferential allotment.

#### Background and business operations

ICRA is one amongst the four credit rating agencies in India, and was established in 1991 by IFCI and other financial institutions, commercial banks and financial services companies.

The company is engaged in the business of providing rating services with three wholly-owned subsidiaries, namely, ICRA Management Consultancy Services (IMaCS), ICRA Techno Analytics (ICTEAS) and ICRA online. IMaCS provides

#### Objects of the issue

The issue is an offer for sale (OFS) by existing shareholders and no fresh equity is being raised. Hence the company will not receive any proceeds raised from the offer. The listing is expected to further enhance the brand name of the company and provide liquidity to its existing shareholders and employees who would be allotted equity shares under its ESOP scheme.

#### Shareholding pattern

Sr No	Shareholders	Pre-offer and preferential allotment	Post-preferential allotment but prior to transfer under the offer	Post-preferential allotment and transfer under the offer
<b>% of Equity Share Capital</b>				
1	Promoters - Moody's Investment Company India Ltd	29.1	28.5	28.5
2	IFCI Limited	21.1	18.6	Nil
3	State Bank of India	11.6	10.2	9.9
4	Life Insurance Corporation of India	8.7	7.7	7.7
5	Administrator of the Specified Undertaking of Unit Trust of India (SUUTI)	8.0	7.0	Nil
6	Punjab National Bank	6.0	5.3	5.3
7	General Insurance Corporation of India	5.8	5.1	5.1
8	Other public sector banks	9.8	8.6	8.6
9	Employee Welfare Trust	Nil	9.1	9.1
10	Other public shareholders	Nil	Nil	25.8
	<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

management consulting services to clients based in India and abroad. ICTEAS is engaged in the business of providing business solutions and computer aided engineering services. ICRA Online provides mutual fund based information services and outsourcing services. ICRA Online, to complement its information services business, also provides technology solutions targeted at distributors of third party financial products, insurance brokers and stock broking houses.

### Operations and financial performance

The total revenue of ICRA has increased from Rs33.4 crore in fiscal 2003 to Rs55.9 crore in fiscal 2006, at a compounded annual growth rate (CAGR) of 18.7%. During the same period, the profit after tax has increased from Rs9.7 crore to Rs14.2 crore, at a CAGR of 13.5%.

### Investment positives

#### Demonstrated track record of ratings business

ICRA is among the four credit rating agencies in India and has a demonstrated track record of providing reliable and stable ratings, which should help its performance going forward in the ratings business. It enjoys a strong market position for credit ratings in the financial sector and structured finance. The Basel II implementation for banks, huge infrastructure funding (public and private) prospects and possibilities of providing greater impetus to the corporate bond market should augur well for the ratings business going forward.

#### Development of corporate debt market

India's corporate bond market is relatively small at 5.3% of the gross domestic product (GDP) vis-à-vis the other international markets. There have been talks to develop a vibrant Indian corporate debt market and any development on that front would be a significant positive for ICRA.

The rating industry in India has registered a 27% CAGR over the period FY2004-06. The traditional rated instruments like commercial papers and corporate bonds have seen a CAGR of 49% and 23% respectively. The number of cumulative outstanding issuers have also gone up from 1,199 in FY2005 to 1,237 in FY2006. The strong economic growth of the country would continue to provide opportunities for ICRA in the ratings and consultancy businesses going forward.

Country	% of GDP
China	10.1
Thailand	17.8
Malaysia	51.9
Korea	58.4
Brazil	12.5
Mexico	3.5

Instrument	FY04	FY05	FY06	CAGR (%)
CP	7739	11652	17170	49.0
CB	50348	57869	76463	23.2
Total	58087	69521	93633	27.0

CP: commercial paper; CB: corporate bond

(Figures in Rs cr)

Source: prospectus

### Benefits from the association with Moody's

Moody's Investor Services (MIS) is an international credit rating agency. ICRA receives technical services from MIS and provides other outsourcing services to it. This association should do well for ICRA going forward as Moody's India continues to hold 28.5% in ICRA post the OFS. Any move in the future by Moody's to hike its stake in the company could be a further trigger.

### Second listed player in the ratings business

Among the four credit rating agencies operating in India, CRISIL tops the chart in the ratings business, closely followed by ICRA. Apart from CRISIL, ICRA is the only other scrip that would be available to investors who would like to invest in the ratings and consulting business domain.

### Investment concerns

The return on equity of the company is low at 12.8%, as investments comprise of 45% of the total assets of the company on which the yields are very low, which acts as a drag on the overall return on equity. Around 80% of the investments are locked up in liquid mutual fund schemes, which yield a low return. A clear road map is lacking to make efficient utilisation of this surplus cash.

### Calculation of cash & its equivalent per share for ICRA

Since the company has significant investments in liquid mutual funds, we have calculated the per share value of cash and its equivalent for ICRA. The current issue is an offer for sale and hence the company would receive no proceeds. But Rs17.7 crore of cash inflow is expected in FY2008 due to the preferential allotment given to its promoters (assumed at the upper end of the price band of Rs330) and the 40% vesting of the first tranche options by employees at Rs300 (assumed 10% lower than the upper end of the band). It has around Rs43.7 crore of mutual fund investments and Rs11.7 crore of cash. All these add up to Rs73.1 crore, which translates into Rs73.1 per share as the post-issue capital of the company stands at Rs10 crore.

Cash per share	(Rs)
MF as on Dec-2006	43.7
Cash as on Dec-2006	11.7
From pref allotment	17.7
Total	73.1

## Valuation and view

We have presented a comparative valuation of ICRA and CRISIL since there is only one listed player in its peer group. At a price band of Rs275-330, the stock is offered at 15.2x-18.2x FY2007 annualised fully diluted earnings per share (EPS). The valuation looks attractive compared to CRISIL, which trades at 24x CY2006 earnings. The cash and its equivalent per share for ICRA works out to Rs73. Excluding that from the upper end of the price band of Rs330 the stock is offered at 16.2x, which looks a very attractive multiple to be paid for the businesses that currently ICRA and its subsidiaries are executing. The valuation gap with its peer CRISIL is expected to narrow and if the CRISIL stock gets delisted in the future then ICRA would be the

only listed player in this domain attracting further investor interest. Overall we feel the stock is attractively priced at the offer price band.

### Key valuation parameters for ICRA and CRISIL

Particulars	CRISIL (Dec06-12M)	ICRA (Mar05-12M)	ICRA (Dec06-9M)
PAT	61.43	14.2	13.6
OPM (%)	28.0	32.2	33.4
NPM (%)	20.9	25.4	26.5
EPS	90.9	14.2	18.1*
BV	285.9	93.2	106.5
RoE	31.8	15.2	12.8

\* for ICRA we have annualised M9FY07 consolidated earnings.

\*\* includes research and information services for CRISIL while for ICRA it includes IT and outsourcing services.

## Financials

### Profit and loss account (Consolidated)

Particulars	FY2003	FY2004	FY2005	FY2006	Dec 06 (9M)
Total income	30.8	32.9	37.2	54.3	49.5
- Rating services fees	24.4	24.5	25.6	30.3	28.5
- Consulting services fees	5.6	7.2	9.5	12.1	8.8
Total expenditure	21.1	23.2	28.1	37	33
- Personnel expenses	11.3	13.2	16.9	23.8	21.4
- Administrative expenses	4.6	4.6	5.4	5.9	5.3
- Other expenses	5.2	5.3	5.8	7.2	6.2
Operating profit	9.7	9.7	9	17.3	16.5
Other income	2.6	2.1	1.1	1.6	1.7
PBITDA	12.3	11.8	10.1	18.9	18.2
Interest	0	0	0	0.1	0
PBDT	12.3	11.8	10.1	18.8	18.2
Depreciation	1.5	1.4	1.4	2.3	2
Net profit before tax and extraordinary items	10.8	10.4	8.7	16.5	16.2
Provision for taxation	3.7	3.7	3.2	5.6	4.8
Profit after tax	7.2	6.7	5.5	10.9	11.3
Extraordinary items (net)	2.5	4.4	2.6	3.3	2.2
Minority interest	0	0	0	0	0
Profit for the year	9.7	11.1	8.1	14.2	13.6

Rs (cr)

### Balance sheet

Particulars	FY2003	FY2004	FY2005	FY2006	Dec 06 (9M)
Goodwill on consolidation	0.0	0.0	0.0	5.2	5.2
Net block	14.2	13.8	18.6	19.7	22.1
Investments	51.2	64.4	59.6	59.0	55.5
Current assets, loans and advances	19.2	16.8	19.6	28.4	40.3
<b>Total assets</b>	<b>84.6</b>	<b>95</b>	<b>97.9</b>	<b>113.4</b>	<b>123.5</b>
Share capital	8.8	8.8	8.8	8.8	8.8
Reserves & surplus	64.3	70.4	75.0	84.8	98.0
Net worth	73.0	79.2	83.7	94.3	106.5
Liabilities & provisions	11.6	15.8	14.2	19.2	17.0
<b>Total liabilities</b>	<b>84.6</b>	<b>95</b>	<b>97.9</b>	<b>113.4</b>	<b>123.5</b>

Rs (cr)

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