

January 27, 2009

**BUY**

Price **Rs403** Target Price **Rs600**

Sensex **8,674**

**Price Performance**

(%)	1M	3M	6M	12M
Absolute	5	11	(40)	(48)
Rel. to Sensex	16	25	(1)	4

Source: Capitaline

**Stock Details**

Sector	Banks
Reuters	ICRA.BO
Bloomberg	ICRA @IN
Equity Capital (Rs mn)	100
Face Value	10
No of shares o/s (mn)	10
52 Week H/L	963/320
Market Cap	Rs4bn/US\$81mn
Daily Avg Volume (No of shares)	7,727
Daily Avg Turnover (US\$)	0.1mn

**Shareholding Pattern (%)**

	D'08	S'08	J'08
Promoters	28.5	28.5	28.5
FII/NRI	3.3	3.2	1.0
Institutions	43.8	44.0	46.8
Private Corp	7.1	7.2	6.4
Public	17.3	17.2	17.2

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**ICRA**Result  
Update**Results in line with expectations**

ICRA's net profit of Rs91mn for Q3FY09 was in line with our expectations driven by strong growth in revenues and improvement in operating leverage. The robust performance was driven by strong growth in all businesses except consultancy business. Commendably, the outsourcing business has seen sharp growth despite the global turmoil. The performance was also aided by the INR depreciation against USD. The operating revenues have grown by 33.5% yoy to Rs327mn. The operating margins have expanded across the businesses and overall operating margins expanded by 381bps to 40.6%.

We maintain our price target on the stock to Rs600, which values the company at 11.5x FY10E EPS. We maintain our BUY recommendation on the stock.

**Revenue growth led by Rating and outsourcing**

The ICRA's net operating revenue grew by 33.5%yoy to Rs327mn primarily driven by strong growth in rating and BPO business. The rating segment registered a growth of 41.5% to Rs211mn driven by increased demand for bank loan rating. The revenues from the BPO business grew by robust 46.4%yoy to Rs24.8mn. The performance of the outsourcing business was also aided by INR depreciation.

**Revenue break-up**

Rs mn	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
Rating Services Fees	211	149	222	41.5	-5.3
Consulting Fees	50	44	56	12.9	-11.7
Information Services Fees	4	6	8	-30.1	-52.7
KPO/BPO Services Fees	25	17	19	46.4	30.1
Professional Services Fees	38	30	37	28.6	2.9
<b>Total operating revenue</b>	<b>327</b>	<b>245</b>	<b>343</b>	<b>33.5</b>	<b>-4.7</b>

Source: Company, Emkay Research

**Lower Opex helps; boosts profitability**

The operating profit grew by a strong 45.6%yoy to Rs133mn driven by 353bps expansion in margins to 40.6%. The margin expansion was visible across the segments.

Rs mn	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
<b>Segment wise EBIT</b>					
Rating Services Fees	134	97	152	38.3	-12.2
Consulting Fees	5	5	11	-5.5	NA
Information Services Fees	3	-2	-3	NA	NA
KPO/BPO Services Fees	11	3	6	220.0	71.2
Professional Services Fees	-5	1	1	NA	NA
<b>Total</b>	<b>147</b>	<b>104</b>	<b>168</b>	<b>41.5</b>	<b>-12.4</b>
<b>EBIT Margin (%)</b>					
Rating Services Fees	63.4	64.8	68.4	-145	-499
Consulting Fees	9.3	11.1	19.2	-182	-995
Information Services Fees	83.9	-27.6	-31.0	11,156	11,491
KPO/BPO Services Fees	43.6	19.9	33.1	2,365	1,047
Professional Services Fees	-12.7	3.0	3.9	-1,564	-1,658
<b>Total</b>	<b>45.0</b>	<b>42.5</b>	<b>49.0</b>	<b>256</b>	<b>-395</b>

Source: Company, Emkay Research

Note: There has been a change in the expense allocation between the information services and professional services, which has positively impacted EBIT margins for information services and negatively impacted EBIT margins for professional services. However, impact on the overall EBIT margins is NIL.

## Net profit growth lower due to MTM losses

The net profit for the quarter has grown by 34%, slightly lower than the growth in operating profit as the company has provided mark to market losses of Rs52mn during the quarter.

## Valuations

We maintain our price target on the stock to Rs600, which values the company at 11.5x FY10E EPS. We maintain our BUY recommendation on the stock.

### Quarterly Results

Rs mn	M9FY09	M9FY08	% yoy chg	Q3FY09	Q3FY08	Q2FY09	% yoy chg	% qoq chg
Net revenues	925	705	31.3	327	245	343	33.5	-4.7
Personnel Expenses	386	312	23.7	137	108	127	26.5	7.7
<i>As a % to Net revenues</i>	<i>41.7</i>	<i>44.2</i>		<i>41.7</i>	<i>44.0</i>	<i>37.0</i>		
Administrative Expenses	71	60	17.7	23	20	22	18.7	3.5
<i>As a % to Net revenues</i>	<i>7.7</i>	<i>8.6</i>		<i>7.1</i>	<i>8.0</i>	<i>6.5</i>		
Other Expenses	107	87	23.1	35	27	43	26.1	-20.1
<i>As a % to Net revenues</i>	<i>11.5</i>	<i>12.3</i>		<i>10.6</i>	<i>11.2</i>	<i>12.6</i>		
Total expenses	564	459	22.8	195	155	193	25.5	0.9
EBITDA (Core)	361	246	47.0	133	90	151	47.3	-11.8
<i>EBITDA (%)</i>	<i>39.1</i>	<i>34.9</i>		<i>40.6</i>	<i>36.8</i>	<i>43.9</i>		
Other Income	46	55	-15.5	1	18	11	-92.5	-87.5
Depreciation	29	27	7.7	10	10	9	4.9	10.7
EBIT	378	274	38.3	124	98	152	26.1	-18.6
Interest	0	0		0	0	0		
Profit before tax	378	274	38.3	124	98	152	26.1	-18.6
Tax	117	80	45.9	33	30	54	9.3	-38.9
<i>Tax rate (%)</i>	<i>30.9</i>	<i>29.2</i>		<i>26.5</i>	<i>30.6</i>	<i>35.3</i>		
Net profit	262	194	35.1	91	68	98	33.4	-7.5

### Valuation table

Y/E March 31	Net Revenue	Net profit	EPS (Rs)	BV (Rs)	Core RoE (%)	RoE (%)	PE (x)	P/BV (x)
FY2007	706	200	20.0	147.4	21.9	16.6	20.9	2.8
FY2008	995	285	28.5	163.9	24.0	18.3	14.7	2.6
FY2009E	1,361	390	39.0	196.6	27.5	21.6	10.7	2.1
FY2010E	1,850	529	52.9	242.1	27.0	24.1	7.9	1.7

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