

ICRA Limited	CMP ` 1,443.9 HOLD Result Update Q2FY11
Anuj Anandwala anuj@ppfas.com	

Good Growth!

Performance Highlights:

Consolidated top line of the rating and consulting major ICRA Ltd increased 33% Y-Y to ` 484Mn for the quarter ended September 2010 as compared to ` 363.5Mn for the quarter ended September 2009. On a sequential basis too, the company's revenues scaled up by 18% as compared to the June 2010 reported numbers.

Rating services reported a growth of 36% Y-Y to ` 335Mn for Sep'10 v/s ` 247Mn for Sep'09. This is attributable to the rise in ratings of debt instruments and expansion of bank loan ratings, which was aptly supported by both corporate and financial sector ratings. The company was also able to add new issuers/borrowers to its list of rating clients during the first half of the current financial year.

Ratings contributed a major 69% of total revenues, consulting services contributed 12% and the rest was a mix of I.T., Outsourced and Professional services fees.

Other income for Q210 had included ` 20Mn, arising from reversal of diminishing in carrying value of investments. In Q211 however, the value stands at a much lower ` 3Mn.

Bottom line for the company has growth in a healthy manner by 35% Y-Y from ` 107Mn in Q210 v/s ` 144Mn for Q211. This was pushed by the effective tax rate moving down by 538 bps to 32.6% in the current reported quarter as against 38% for the corresponding quarter of last year.

Our Call:

We have marginally changed our estimates for FY11E after considering the reported half yearly numbers. At CMP of ` 1,443.9/- ICRA is trading at 23x FY11E earnings of ` 62/- We maintain our HOLD recommendation.

Quarterly Consolidated Financials

Earnings Statement

Particulars (` Mn.)	Q211	Q111	Q-Q(%)	Q210	Y-Y(%)	H1FY11	H1FY10	Y-Y(%)
Net Revenues	484.1	410.4	17.9%	363.5	33.2%	894.5	695.2	28.7%
Total Expenditure	284.4	279.6	1.7%	232.8	22.2%	564.0	474.6	18.8%
Staff Expense	199.2	190.5	4.6%	157.8	26.3%	389.7	319.6	21.9%
Administrative Expense	35.1	31.6	11.1%	30.8	13.9%	66.7	65.6	1.7%
Other Expenditure	50.1	57.5	-12.8%	44.2	13.4%	107.7	89.4	20.4%
Operating Profit	199.7	130.9	52.6%	130.7	52.8%	330.5	220.7	49.8%
Other Income *	25.7	36.7	-30.0%	51.5	-50.1%	62.3	159.9	-61.0%
EBITDA	225.4	167.5	34.5%	182.2	23.7%	392.9	380.6	3.2%
Depreciation	11.6	10.0	17.0%	10.0	16.3%	21.6	19.0	13.9%
EBIT	213.7	157.6	35.6%	172.1	24.1%	371.3	361.6	2.7%
Interest	0.0	0.0	-	0.0	-	0.0	0.0	-
PBT	213.7	157.6	35.6%	172.1	24.2%	371.3	361.6	2.7%
Tax	69.6	51.4	35.3%	65.3	6.6%	121.0	131.1	-7.7%
PAT before MI	144.1	106.1	35.8%	106.8	34.9%	250.3	230.5	8.6%
Minority Interest	0.0	0.0	-	0.0	-	(0.1)	0.0	-
PAT Before EI	144.1	106.1	35.8%	106.8	34.9%	250.3	230.5	8.6%
Extraordinary Items	0.0	0.0	-	0.0	-	0.0	0.0	-
Reported PAT	144.1	106.1	35.8%	106.8	34.9%	250.3	230.5	8.6%
Equity Capital	100.0	100.0	-	100.0	-	100.0	100.0	-
EPS	14.4	10.6	35.8%	10.7	34.9%	25.0	23.0	8.6%

(* includes reversal in diminution of carrying value of investments)

Ratio Analysis

Profitability	Q211	Q111	Q-Q(bps)	Q210	Y-Y(bps)	H1FY11	H1FY10	Y-Y(bps)
OPM (%)	41.2%	31.9%	936.1	36.0%	528.7	37.0%	31.7%	521.3
EBITDA (%)	46.6%	40.8%	573.3	50.1%	(356.4)	43.9%	54.7%	(1,082.2)
EBIT (%)	44.1%	38.4%	575.2	47.4%	(321.4)	41.5%	52.0%	(1,050.8)
PAT (%)	29.8%	25.9%	391.2	29.4%	38.1	28.0%	33.1%	(516.1)

Operational Parameters

Particulars	Q211	Q111	Q-Q(bps)	Q210	Y-Y(bps)	H1FY11	H1FY10	Y-Y(bps)
Staff Expense	54.8%	52.4%	240.1	43.4%	1,139.7	43.6%	46.0%	(241.3)
Administrative Expense	9.7%	8.7%	96.5	8.5%	117.7	7.5%	9.4%	(197.9)
Other Expenditure	13.8%	15.8%	(203.0)	12.2%	163.5	12.0%	12.9%	(82.1)
Effective Tax Rate	32.6%	32.6%	(8.1)	37.9%	(538.3)	32.6%	36.3%	(367.6)

Quarterly Consolidated Segmental Analysis

Segment Revenues	Jun 10	Mar 10	Q-Q(%)	Jun 09	Y-Y(%)	H1FY11	H1FY10	Y-Y(%)
Rating Services	335.2	270.8	23.8%	247.3	35.6%	606.0	456.4	32.8%
Consulting Services	56.8	51.2	11.0%	37.4	52.0%	108.0	76.9	40.4%
Information Services	5.8	7.0	-17.4%	10.0	-41.9%	12.8	16.4	-22.1%
Outsourced Services	29.9	31.0	-3.6%	25.6	17.0%	61.0	52.9	15.3%
I.T. Services	56.4	50.5	11.7%	43.3	30.1%	106.8	92.7	15.3%
Total	484.1	410.4	17.9%	363.5	33.2%	894.5	695.2	28.7%

Segment Revenue Mix	Jun 10	Mar 10	Q-Q(bps)	Jun 09	Y-Y(bps)	H1FY11	H1FY10	Y-Y(bps)
Rating Services	69.2%	66.0%	328.1	68.0%	121.9	67.7%	65.6%	210.3
Consulting Services	11.7%	12.5%	(73.2)	10.3%	145.3	12.1%	11.1%	100.5
Information Services	1.2%	1.7%	(51.1)	2.7%	(154.5)	1.4%	2.4%	(93.1)
Outsourced Services	6.2%	7.6%	(138.4)	7.0%	(85.6)	6.8%	7.6%	(79.0)
I.T. Services	11.6%	12.3%	(65.4)	11.9%	(27.2)	11.9%	13.3%	(138.7)
Total	100.0%	100.0%	0.0	100.0%	0.0	100.0%	100.0%	0.0

Segment Profits	Jun 10	Mar 10	Q-Q(%)	Jun 09	Y-Y(%)	H1FY11	H1FY10	Y-Y(%)
Rating Services	216.0	149.7	44.3%	147.3	46.7%	365.7	263.8	38.6%
Consulting Services	10.3	0.2	-5301.0%	(5.9)	-	10.5	(13.6)	-177.1%
Information Services	(3.7)	(2.6)	-244.2%	0.1	-3629.5%	(6.3)	(5.1)	23.5%
Outsourced Services	3.1	6.0	-48.0%	7.4	-58.1%	9.1	17.5	-48.3%
I.T. Services	2.6	(2.5)	-	0.5	-	0.2	(3.4)	-
Total	228.3	150.8	51.4%	149.4	52.8%	379.2	259.2	46.3%

Segment Profit Mix	Jun 10	Mar 10	Q-Q(bps)	Jun 09	Y-Y(bps)	H1FY11	H1FY10	Y-Y(bps)
Rating Services	94.6%	99.2%	(463.4)	98.6%	(394.3)	96.5%	101.8%	(531.0)
Consulting Services	4.5%	0.1%	437.9	-3.9%	-	2.8%	-5.2%	-
Information Services	-1.6%	-1.7%	-	0.1%	-	-1.7%	-2.0%	-
Outsourced Services	1.4%	4.0%	(259.6)	4.9%	(359.1)	2.4%	6.8%	(436.6)
I.T. Services	1.1%	-1.6%	-	0.3%	79.5	0.0%	-1.3%	-
Total	100.0%	100.0%	0.0	100.0%	0.0	100.0%	100.0%	0.0

Segment Margins	Jun 10	Mar 10	Q-Q(bps)	Jun 09	Y-Y(bps)	H1FY11	H1FY10	Y-Y(bps)
Rating Services	64.4%	55.3%	916.7	59.6%	488.5	60.3%	57.8%	254.0
Consulting Services	18.1%	0.4%	1,774.0	-15.7%	-	9.7%	-17.7%	-
Information Services	-64.1%	-36.7%	-	1.1%	-	-49.1%	-31.0%	-
Outsourced Services	10.4%	19.2%	(884.4)	28.9%	(1,855.8)	14.9%	33.1%	(1,826.3)
I.T. Services	4.6%	-4.9%	-	1.2%	343.1	0.2%	-3.7%	-
Total	47.2%	36.7%	1,042.6	41.1%	605.7	42.4%	37.3%	509.7

Consolidated Financials

Earnings Statement					Balance Sheet				
Particulars (` Mn.)	FY08	FY09	FY10	FY11E	Particulars (` Mn.)	FY08	FY09	FY10	FY11E
Total Revenues	994.5	1,358.2	1,623.2	1,907.3	Equity Capital	100.0	100.0	100.0	100.0
- Growth (%)	40.9%	36.6%	19.5%	17.5%	Reserves	1,538.6	1,787.1	2,117.2	2,535.9
Total Expenditure	631.1	892.4	1,015.8	1,192.1	Shareholders Funds	1,638.6	1,887.1	2,217.2	2,635.9
Operating Profit	363.4	465.8	607.4	715.2	Minority Interest	0.0	0.0	0.1	0.1
- Growth (%)	50.8%	28.2%	30.4%	17.8%	Borrowed Funds	0.0	0.0	0.0	0.0
Other Income	78.8	140.0	226.7	238.0	Deferred Tax Liability	2.8	(29.7)	(9.6)	(9.6)
EBITDA	442.2	605.7	834.1	953.3	Total Liabilities	1,641.3	1,857.4	2,207.7	2,626.4
- Growth (%)	46.9%	37.0%	8.3%	14.3%	Fixed Assets	237.2	241.0	241.6	226.5
Depreciation	38.0	36.5	792.7	908.4	Goodwill On Consolidation	51.5	71.0	95.7	95.7
EBIT	404.2	569.3	792.7	908.4	Investments	901.9	299.2	746.0	846.0
Interest	0.0	0.2	0.0	0.0	Current Assets				
PBT	404.1	569.1	792.6	908.3	Sundry Debtors	217.4	281.6	366.1	487.4
Tax	119.0	176.7	534.8	617.6	Loans & Advances	494.8	579.5	598.6	911.3
PAT Before MI	285.1	392.4	534.8	617.6	Cash & Bank Balance	255.4	1,126.3	1,164.9	1,217.1
Minority Interest	0.0	0.0	0.0	0.0	Other Current Assets	5.5	31.1	24.2	24.2
PAT Before EI	285.1	392.4	534.7	617.6	Current Liabilities				
- Growth (%)	42.6%	37.6%	36.3%	15.5%	Liabilities	239.4	367.5	537.8	609.3
Extraordinary Items	(0.3)	(3.5)	0.0	0.0	Provisions	282.9	404.9	491.7	557.1
Reported PAT	284.8	388.9	534.7	617.6	Net Current Assets	450.8	1,246.2	1,124.4	1,473.7
					Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0
					Total Assets	1,641.3	1,857.4	2,207.7	2,641.9

Ratio Analysis				
Particulars	FY08	FY09	FY10	FY11E
OPM (%)	36.5%	34.3%	37.4%	37.5%
EBITDA (%)	44.5%	44.6%	51.4%	50.0%
PAT (%)	28.7%	28.9%	32.9%	32.4%
Interest Cover (x)	44,906.4	3,348.6	16,513.5	22,709.2
EPS (Rs.)	28.5	38.9	53.5	61.8
P/E (x)	50.7	37.1	27.0	23.4
P/BV (x)	8.8	7.7	5.5	5.5
BVPS (Rs.)	163.9	188.7	263.6	263.6
Market Cap (Rs. Mn.)	4,385.5	8,281.0	9,717.0	14,438.5
M Cap/Sales (x)	4.4	6.1	6.0	7.6
EV (Rs. Mn.)	4,130.1	7,154.7	8,499.9	13,221.4
EV/EBITDA (x)	9.3	11.8	10.2	13.9
EV/Sales (x)	4.2	5.3	5.2	6.9
ROCE (%)	24.6%	30.6%	30.2%	34.6%
RONW (%)	17.4%	20.8%	20.3%	23.4%
Debt/Equity Ratio (x)	0.0	0.0	0.0	0.0
Inventory T/o Days	0.0	0.0	0.0	0.0
Debtors T/o Days	78.7	74.7	108.1	92.0
Advances T/o Days	179.1	153.6	202.1	172.0
Creditors T/o Days	86.7	97.4	135.1	115.0
Wrkg Cap T/o Days (Ex.Cash)	70.7	31.8	56.9	48.4
Fixed Assets T/o (Gross)	2.5	3.2	3.2	3.7
DPS (Rs.)	10.3	12.0	17.0	17.0
Dividend Payout (%)	36.0%	30.9%	31.8%	27.5%
Dividend Yield (%)	0.7%	0.8%	1.2%	1.2%

Cash Flow				
Particulars (` Mn.)	FY08	FY09	FY10	FY11E
Opening Cash & Bank	28,352.0	255.4	1,126.3	1,164.9
Profit After Tax	284.8	388.9	534.7	617.6
Investment Income	(78.8)	(140.0)	(226.7)	(238.0)
Interest Paid	0.0	0.2	0.0	0.0
Miscellaneous Exp W/Off	0.2	0.0	0.0	0.0
Depreciation	38.0	36.5	41.4	44.9
Deferred Taxation	(4.7)	(32.6)	0.0	0.0
Others	(7.2)	(8.2)	13.9	22.5
Change in Working Cap	(28,032.4)	75.6	160.4	(297.1)
CF - Operating Activities	(27,800.0)	320.3	523.8	149.9
Change in Fixed Assets	(39.0)	(32.0)	(35.9)	(36.8)
Change in Goodwill	0.0	(19.5)	(24.7)	0.0
Change in Investments	(216.1)	602.6	(446.8)	(100.0)
Investment Income	78.8	140.0	226.7	238.0
CF - Investing Activities	(176.3)	691.1	(280.7)	101.2
Increase in Equity	0.0	0.4	(5.7)	0.0
Mino	0.0	0.0	0.1	0.0
Changes in Borrowings	(0.3)	0.0	0.0	0.0
Interest Paid	(0.0)	(0.2)	(0.0)	(0.0)
Dividend Paid	(120.1)	(140.7)	(198.9)	(198.9)
CF - Financing Activities	(120.4)	(140.4)	(204.6)	(198.9)
Net Change in Cash	(28,096.7)	870.9	38.6	52.2
Closing Cash & Bank Bal	255.4	1,126.3	1,164.9	1,217.1

Disclaimer

Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

ICRA

NO

NO

YES

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Parag Parikh Financial Services Ltd. (PPFAS). PPFAS is disseminated and available primarily electronically, and, in some cases, in printed form. Additional information on recommended securities is available on request.

PPFAS is a Stock Broker registered with Securities and Exchange Board of India Limited (SEBI) and so it is regulated by SEBI. This report is not and should not be construed as an investment advice to any client to acquire, subscribe, purchase, sell, dispose of, retain any securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.

If 'Buy', 'Sell', or 'Hold' recommendation is made in this report such recommendation or view or opinion expressed on investments in this report is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this report are those of the analyst which are subject to change and do not represent to be an authority on the subject. PPFAS may or may not subscribe to any and/ or all the views expressed herein.

PPFAS makes best endeavour to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources, which the analyst(s) believes to be reliable. However, such information has not been independently verified by PPFAS or the analyst(s).

The information, opinions and views contained within this report are based upon publicly available information and rates of taxation at the time of publication, which are subject to change from time to time without any prior notice. reports may be updated anytime without any prior notice to any and/ or all client(s).

PPFAS makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or currentness of the information in this report.

Please note that past performance is not necessarily a guide to evaluate future performance.

PPFAS and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).

This report should be read and relied upon at the sole discretion and risk of the client.

The value of any investment made at your discretion based on this report or income therefrom may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors.

This report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other countries or to any resident thereof. The distribution of this report in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.

Neither PPFAS nor its affiliates or their directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the report or inability to use or access our service or this report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this report or inability to use or access our service or this report.

Contact

Anuj Anandwala

Analyst - Investment Research

anuj@ppfas.com

91 22 2284 6555 Extn 320

Now access PPFAS Reports on Bloomberg

<PPFS> <Go>

Parag Parikh Financial Advisory Services Limited

130/132, Great Western Building, 1st Floor, S. B. Marg, Near Lion Gate, Fort, Mumbai - 400 001.

Tel : 91-22-2284 6555 Fax : 91-22-2284 6553, e-mail : researchcall@ppfas.com

www.ppfas.com